

ROYALE SUITES

"It's a great day for sitting high above the inner harbor eating crab cakes." Bill Abbott and his New Property Planning Team were enjoying a lunch break on a sunny day in November 1998. After lunch they would return to developing a marketing plan for the new Royale Suites Baltimore Hotel. The 267-room hotel, opening in 12 months, was located within blocks of the financial district and Inner Harbor tourist sites in a 35-story office building. Although only a few rooms would have an Inner Harbor view, they expected to capitalize on the already successful Royale Suites concept. "Considering our opening target of early 2001, we've only got two days to bring our plan together before we present it to Corporate Planning. Where do we stand now?"

THE ROYALE SUITES CONCEPT

Royale Suites was one of the early entries into the all suite hotel segment. Recognizing the increasing demand by business people to conduct small meetings in their hotel rooms and families' desires for larger and more private hotel rooms, Royale Suites opened their first property in the early 1980's. Additional units had been opened in most of the largest cities in the U.S. Baltimore was one of the few prime locations remaining to Royale Suites. Royale Suites Real Estate staff had been fortunate to locate and acquire an outstanding site.

The typical Royale Suite property is from 8 to 12 stories high, including from 225 to 350 two room suites. A typical floor plan is shown in Figure 1. Kitchen facilities are not included since they are believed to be of little interest to business people and created significant additional equipment and cleaning costs.

Interior decorations are adapted to specific markets and local, classical themes were encouraged. The Baltimore Royale Suite would have two meeting rooms seating 60 persons in each. They could be combined into a larger room seating 100 and used for meals.

THE NEW PROPERTIES PLANNING TEAM

Royale Suites uses a New Properties Planning Team to plan the opening of all new properties. This team consisted of planning managers for each of the major departments in the hotel (Figure 2). Often those on the planning team continue on as the operating managers for the site.

The team was headquartered in a building overlooking Baltimore's Inner Harbor. They were charged with developing the marketing plan for the hotel opening and the first year of service.

COMPETITION

A small percent of downtown hotel rooms were suites. These were either in local hotels or included as part of the room inventory of national chains (Table 3). As a result suites in Baltimore have received little promotion both locally and nationally. This was a relatively untapped product in the downtown market area.

Serving as mainly upscale rooms within non-suite hotels, suites were generally priced higher than standard rooms in these hotels. Although the occupancy rate for suites was not known, the planning team estimated that downtown occupancy rates averaged 60 percent for the past two years.

CONSUMER BEHAVIOR

Ann Young noted that reservations were made in several ways:

- **Pure Transient:** Tourist or business travelers who either dropped in or made reservations direct to the Baltimore site. This group paid the rack rate (published rate charge.)
- **Computer Reservations:** Customers who made reservations through Royale Suites national toll-free number.
- **Government:** Government employees on relatively low per diem.
- **Bus Tours:** Contracts with travel agents for tour groups at negotiated rates.
- **Corporate Groups:** Corporation and association meetings. These consisted of very small groups that could meet in the suites and larger groups that attended meetings in the Convention Center or in other hotels.
- **Airlines:** Contracts with airlines as a part of a vacation plan and also with flight crews.
- **Weekend Packages:** Two-night weekend plans including some special services to make them attractive.

A customer survey was available to the planning team that suggested parity between major all-suite hotels (Table 1). However, this data did not break down quality perceptions for specific market segments. It was not clear what attributes were most important to these segments and how the chains compared in the minds of these segments.

A second survey provided some overall insights into service attributes that were important to business people (Table 2). Ann felt that this might provide some guidance in positioning Royale Suites.

THE MARKETING MIX

Product

The physical product was fixed by corporate architectural and planning standards as adapted to the specific Baltimore site. There were a number of possible services that could be offered.

Although most Royale Suites offered free breakfasts and happy hours, this was no longer a standard corporate policy or included in corporate advertising. Diane Brown estimated the cost of breakfast to average \$5.00 per occupied room and a happy hour at \$2.00 per occupied room.

Diane favored these services. "Although happy hours and breakfasts have become pretty standard through the all-suite industry, this is not yet the standard in Baltimore. If we introduce this as a standard feature we can be a pace setter here and avoid playing catch-up if others introduce these later."

Ann Young replied, "it's a great marketing feature, however, will it lead to us charging non-competitive room rates? Our consumers are sensitive about prices and there are plenty of alternatives for breakfast and booze downtown. I'm also concerned about our restaurant, its services may be very important to our customers."

Restaurant Policy

Royale Suites had a flexible policy on restaurants. Throughout the chain they were both owned and leased. "We have built a reputation for having restaurants with a little local flair. We don't just 'cookie-cut' our food services, they are adapted to each site either by opening our own facility or leasing our space to a local restaurant with a good reputation." Diane Brown felt that the contribution to profits would be about the same either owning or leasing the restaurant and the primary concern must be to design food services that enhanced the image of the Baltimore Royale Suite with its customers. Brown also believed that although hotel restaurants traditionally were mainly used by guests, careful design and positioning had increased their potential to attract customers from outside the hotel.

Prices

"We pay 0.9 percent of room revenues into the corporate computer system," Steve commented. "This would seem to be a lot just to book rooms, however, it provides us an opportunity. As you know we can implement a yield management pricing system using the corporate computer (See Appendix A for a description of Yield Management). The information system permits us to do much more than we could last year. We can develop a set of pricing rules and update them in just a minute or

two. If we make all our advance, group, and transient booking through corporate's computer we can fully implement a yield management pricing program."

"Let me give you some background on this. When we opened our first units we stressed a single price policy nationwide. This made a lot of sense to the consumer and it made a lot of sense to us. However, as competition got tougher we all learned that each city is a unique, local market with different costs and competition. Market pricing became a necessity. This made accountants into marketers and marketers into accountants - probably a good idea. Our computer has turned us into an airline in a pricing sense. If we were clever enough every room would be booked and profits would be maximized. Of course, every room might have a different price. We have to start somewhere so let's develop a fairly simple set of pricing rules.

"To simplify this let's develop rules that give us average prices and occupancy rates for Monday to Thursday, Friday, Saturday, and Sunday. These can be used in our pro-forma. We can make use of competitor's prices (Table 3) and some of our historic prices and occupancy rates (Table 4). Let me propose a starting point. There are 52 Sundays with 13,884 rooms available. Perhaps 25 percent of these will be sold at rack rate. How do we price and sell the remaining rooms?"

Advertising, Sales, and Public Relations

Corporate charged each Royale Suite 1.2 percent of room revenues for national advertising. This was used to position Royale Suites, provide information about its features and locations, and promote the toll-free reservations number. Media includes national TV, consumer and business magazines, airline flight magazines, and travel trade publications.

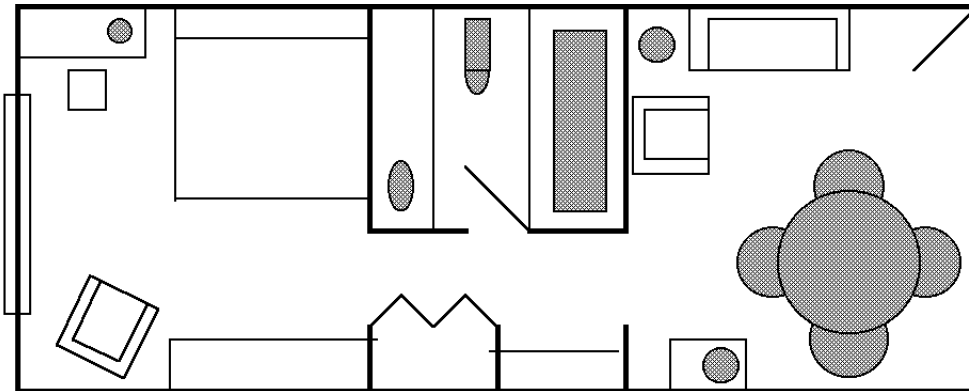
Each Royale Suite location was responsible for any national or local advertising featuring its specific property. Media rates for magazines and newspapers under consideration are given in Table 5. Ann addressed her concerns about advertising, "We have to develop a plan that creates a favorable awareness in the minds of our target market segments. An opening kick-off is a must and then we must sustain interest and expand awareness through the rest of the year. Our budget is limited so we should be very creative with our public relations for the opening. It's important that we're noticed among all the other attractions here.

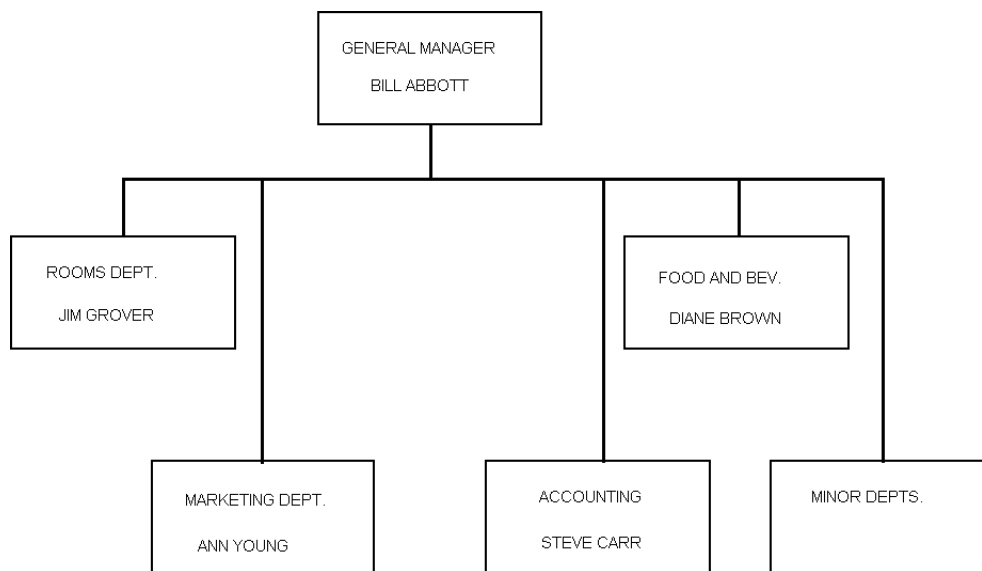
"I'm also concerned about our sales effort. Salary and expenses will average \$60,000 per salesperson. This includes a car and quite a bit of travel. We should be able to trade some travel with the airlines. However, we must be much more specific about our target market segments before we allocate our budget between advertising and salespersons. Are we a business hotel or are we aggressively going after other segments? Help me to define the targets and I'll define the promotional plan."

FINANCIAL ANALYSIS AND FINAL MARKETING PLAN

Steve had produced a first-cut at an income statement based on these initial ideas of the market situation and marketing mix (Table 6). "This just isn't good enough. Most other units are averaging eight to ten percent profits as a percent of revenues and several are at 12 percent. I've used the room prices proposed by corporate headquarters. We have the authority to change these to meet local conditions. I've estimated the effects of price changes on our occupancy rates and included these in the pro forma"

Bill concurred, "I know we've done a lot of work on this project and now we have to concentrate and focus our efforts on a specific marketing plan that provides a realistic, reasonable return to Royale Suites. This is a good location and I know we can build a top performer. Let's see how we can improve this."





OVERALL SATISFACTION	RESIDENCE INNS	EMBASSY SUITES	ROYALE SUITES
COMPLETELY SATISFIED (5)	42%	40%	38%
VERY SATISFIED (4) OR SATISFIED (3)	53%	56%	57%
DISSATISFIED (2) OR COMPLETELY DISSATISFIED (1)	5%	4%	5%
SPECIFIC ATTRIBUTES (5 = COMP. SAT. 1 = COMP DISSAT.)	RESIDENCE INNS	EMBASSY SUITES	ROYALE SUITES

STAFF	4.1	3.2	4.5
FOOD	N/A	2.9	3.3
ROOM QUALITY			
CLEANLINESS	4.2	3.8	4.1
SIZE	4.8	4.7	4.6
BED COMFORT	2.9	3.1	2.9
CLIMATE	3.1	2.8	3.2
NOISE	3.3	3.4	3.1
AMENITIES	2.8	3.1	2.8
SAMPLE SIZE	209	243	256

TABLE 1: RELATIVE QUALITY EVALUATIONS - LAST YEAR

HOTEL SERVICE ATTRIBUTE	IMPORTANCE TO CUSTOMER [PERCENT WHO ANSWER 8, 9, OR 10 ON A 1 TO 10 SCALE]	CUSTOMER BELIEF OF ACTUAL PERFORMANCE [PERCENT WHO ANSWER 8, 9, OR 10 ON A 1 TO 10 SCALE]
BILLING ACCURACY	91%	83%
EFFICIENT CHECK-IN	80	55
RELIABLE MESSAGE AND WAKE-UP SERVICE	79	76
CARES ABOUT THE CONSUMER	77	54
COMPETITIVE ROOM RATES	72	52
REASONABLE CHARGE FOR IN-ROOM PHONE	72	37
EXPRESS CHECKOUTS	68	63
ATTRACTIVE AND GENEROUSLY SIZED ROOMS	59	55

FAST BREAKFAST SERVICE	54	48
WELL-LIGHTED AND AMPLE WORK SPACE	48	51
AVAILABILITY OF NO-SMOKING ROOMS	47	49
QUALITY FREQUENT-TRAVELER PROGRAM	41	34
MULTIPLE DINING AND LOUNGE FACILITIES	36	54
LATE EVENING ROOM SERVICE	24	38

TABLE 2: HOTEL SERVICE ATTRIBUTES - IMPORTANCE AND PERCEIVED PERFORMANCE - INCLUDES MANAGERS AND EXECUTIVES ONLY [SOURCE: OPINION RESEARCH CORPORATION EXECUTIVE TRAVEL TRACKING SERVICE, 1990]

MAJOR DOWNTOWN HOTELS IN BALTIMORE	NUMBER OF EMPLOYEES	NUMBER OF ROOMS	NUMBER OF SUITES	LOW SINGLE ROOM RATE	HIGH SINGLE ROOM RATE
OMNI	500	707	17	\$129	\$219
RENISSANCE	620	622	46	190	220
MARRIOTT	400	525	12	129	195
HYATT	500	486	26	179	254
HILTON	200	430	28	119	169
HOLIDAY INN	140	337	2	99	139
SHERATON	275	339	20	170	235
TREMONT PLAZA [LOCAL]	150	290	290	135	155
DAYS INN	100	250	8	70	139
HARBOR COURT	300	178	25	195	210

TREMONT HOTEL [LOCAL]	50	60	60	119	155
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ALL SUITE OUTSIDE BALTIMORE	NUMBER OF EMPLOYEES	NUMBER OF ROOMS	NUMBER OF SUITES	LOW SINGLE ROOM RATE	HIGH SINGLE ROOM RATE
DOUBLETREE GUEST SUITES BWI	153	251	251	\$126	\$199
EMBASSY SUITES HUNT VALLEY	120	223	223	109	139

TABLE 3: COMPETITOR RATES NOVEMBER 1998 (PRICE INCREASES OF 5 PERCENT PER YEAR ARE EXPECTED.)

		AUG.	AUG.	SEPT.	SEPT.	ANNUAL	ANNUAL
CITY	ROOM RATE	M-R	F-S	M-R	F-S	M-R	F-S
CHICAGO	\$189.00	56.1	51.1	63.4	61.7	62.3	56.8
CLEVELAND	\$169.00	55.5	57.4	63.2	58.7	60.2	58.1
ATLANTA	\$179.00	61.5	57.4	67.8	59.2	63.5	58.8
INDIANAPOLIS	\$189.00	68.4	61.5	70.2	60.2	69.3	61.4
NEW ORLEANS	\$235.00	68.4	56.4	71.4	62.4	70.4	58.8
PHOENIX	\$159.00	68.4	47.7	73.2	51.4	71.2	49.2
SAN FRANCISCO	\$159.00	75.2	76.0	80.2	73.5	78.2	75.5
AVERAGE		64.8	58.2	69.9	61.0	67.9	59.8
WEEKLY AVE - 7 SITES			62.9		67.4		65.6

WEEKLY AVE - ALL SITES			61.5		64.7		63.7
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TABLE 4: OCCUPANCY RATES - ROYALE SUITES 1998 - SELECTED SITES (Room rate increases of about 5 percent per year are expected.)

MAGAZINE	RATE	CIRCULATION	CMP [COST PER 1,000 CIRCULATION]
Time - National	\$162,000	4,000,000	\$40.50
Time - National Business	101,000	1,635,000	61.77
Newsweek - National	154,750	3,100,000	49.92
Newsweek - Business	77,450	1,000,000	77.54
Newsweek - Women	38,275	700,000	54.68
Business Week - National	81,000	875,000	92.57
Business Week - Northeast	29,400	180,000	163.33
Business Week - Mid Atlantic	19,400	120,000	161.67
Fortune - National	83,000	870,000	95.40
Fortune - Northeast	26,700	181,000	147.51
Fortune - Mid Atlantic	13,900	94,000	147.87
Forbes	61,890	765,000	80.90
Baltimore Magazine	4,760	55,442	86.55
Wall Street Journal [B&W]	148,864	1,895,700	78.53
Baltimore Sun [B&W]	11,241	238,533	39.72

TABLE 5: MEDIA RATES AND CIRCULATION [COLOR, FULL PAGE ADS, ONE INSERTION]

Sources for media rates and circulation [All accessed 19 January 1999]:

<http://www.adinfo.businessweek.com/rates.htm#northam>

<http://www.magazinedata.com/time.html#rate>

<http://www.magazinedata.com/forbes.html#rate>

<http://www.magazinedata.com/fortune.html#rate>

<http://www.magazinedata.com/money.html#rate>

<http://www.mediabuzz.com/media/media.htm> [Newsweek]

<http://adsales.wsj.com/mspubs/rep/p220.html>

	SUMMARY					
	AVERAGE DAILY RATE =		\$161.48	< --CALCULATED		
	PRE TAX INCOME =		\$733,623	< --CALCULATED		
	% OF REVENUES =		4.5%	< --CALCULATED		
	OCCUPANCY RATE =		59.9%	< --CALCULATED		
	NUMBER OF ROOMS	267				
		MON-THR	FRI	SAT	SUN	AVERAGE
1 - >	AVERAGE DAILY RATE	\$180.00	\$140.00	\$140.00	\$130.00	\$161.48
2 - >	% CHANGE OCC. PER \$1 PRICE	0.50%	1.10%	1.10%	1.10%	
	OCCUPANCY RATE (EST.)	66.0%	48.0%	48.0%	59.0%	59.86%
	DAYS	209	52	52	52	365
	VARIABLE COSTS					
	HOUSEKEEPING	\$35.00	PER ROOM PER DAY			
3 - >	BREAKFAST	\$5.00	PER ROOM PER DAY			
4 - >	HAPPY HOUR	\$2.00	PER ROOM PER DAY			
	ADVERTISING CHARGE	2.0%	OF ROOM REVENUES			
	COMPUTER CHARGE	1.5%	OF ROOM REVENUES			
		PERCENT	ANNUAL			
	REVENUES	OF REVENUE	TOTAL			
	ROOMS	58.7%	\$9,558,731			

	FOOD	25.0%	\$4,071,010			
	BEVERAGES	10.0%	\$1,628,404			
	OTHER	6.3%	\$1,025,894	TELEPHONE, GIFTS, NEWSPAPERS, ETC.		
	TOTAL	100.0%		\$16,284,039		
	EXPENSES	PERCENT				
		OF REVENUE				
	ROOMS					
	VARIABLE COSTS					
	HOUSEKEEPING	12.5%	\$2,041,914			
	ADVERTISING CHARGE	1.2%	\$191,175			
	COMPUTER CHARGE	0.9%	\$143,381			
	FOOD & BEV.					
	FIXED COSTS	18.4%	\$3,000,000			
	VARIABLE COSTS	9.0%	\$1,465,563	VARIES DIRECTLY AS % OF TOTAL REVENUE		
	BREAKF. AND/OR HAPPY HOUR	2.5%	\$408,383			
	UNDISTRIBUTED EXPENSES					
	ADMINISTRATION	11.1%	\$1,800,000			
5 -	MARKETING	3.1%	\$500,000	DO NOT SET LESS THAN \$200,000		
>						
	OPERATIONS/MAINT.	12.3%	\$2,000,000			
	OTHER	9.2%	\$1,500,000	TELEPHONE, PROPERTY TAX, ETC.		
	DEPRECIATION	15.4%	\$2,500,000			
	TOTAL	95.5%		\$15,550,416		
	INCOME BEFORE TAXES	4.5%		\$733,623		
	NOTES: THOSE ROWS NUMBERED 1 THROUGH 5 ON THE LEFT CAN BE REVISED.					
	1	Average Daily Rates and Occupancy rates are weighted average of all available rates.				
	2	PRICE ELASTICITY: For M-R as rates change by \$1 occupancy rate				

		moves in the opposite direction by the % shown. For Fri, Sat, and Sun		
		a change in price of \$1 results in an opposite change in occupancy rate		
		as given. Elasticities are expected to hold within a \$40 range.		
		Price elasticities can be changed if services offered are either		
		decreased or increased.		
	3 & 4	Breakfast and Happy Hour costs must include all expected costs.		
		These rows can also be used to include any other variable costs		
		in your market plan. Specify these to the right of your cost.		
	5	Includes all advertising and sales force costs.		
		This row can also be used to include any other fixed costs		
		in your market plan. Specify these to the right of the cost.		
		Occupancy rate will change as marketing costs change.		
		This will produce a change in profits.		
		<i>DO NOT SET MARKETING UNDER \$200,000.</i>		

TABLE 6: PRO FORMA INCOME STATEMENT FOR NEW ROYALE SUITE HOTEL

APPENDIX A: YIELD MANAGEMENT PRICING

Airline deregulation, coupled with large computer reservations systems, encouraged the development of the first computerized yield management systems. The principle of yield management is recognition of the price sensitivities of specific market segments. Ideally as many full fare seats as possible are sold and then unfilled seats are sold at decreasingly lower prices until occupancy approaches 100 percent and profits are maximized. Competition assures that full fares will seldom be achieved for 100 percent of capacity. Therefore a block of lower fare seats can be made available for advance purchase. Seat inventory is monitored to expand or reduce this block of seats before the advance reservations deadline or to open them again closer to flight time. This requires computers to manage the seat as a perishable commodity. Some large airlines make over 30,000 fare changes daily.

The yield management system must have specific rules to match prices to the demands of different segments. These can include services provided, time of day for the flight, day of week, length of stay, how far in advance the ticket is purchased,

and other factors. Penalties are often required to minimize high price segments use of low price tickets. These are generally advance payment and loss of all or part of the fare when canceling.

Airlines, like many services, have low variable costs. Any seat priced above variable costs contributes to fixed costs or profits. Empty seats are lost contribution. Low variable costs permit significant added contribution even from deeply discounted seats. Frequent flyer awards only cost an airline the variable cost of the seat provided the awards do not displace a paying fare. Thus travel restrictions are placed on free seat awards.

Communications companies, banks, car rental companies, hotels, and other service firms have adopted yield management pricing.

Hotel Room Yield Management

Relihan (1989) describes yield management applied to hotel rooms. Hotel guests can be grouped into a wide variety of market segments. At the most general level business and leisure segments must be served. The leisure segments tend to plan ahead, booking earlier than the business segment, and are more price sensitive. Business consumers often are unable to book ahead and are more concerned with availability of a room than price. The hotel must accurately forecast demand to maximize the contribution produced by these segments. The basis for this is accurate reservations history information.

Reservations history can provide the occupancy rate as a function of the average room rate for the total property and for specific market segments. An example of occupancy rate as a function of average room rate is given in Exhibit 1. Occupancy rates and average room rates can be entered into an income statement to estimate the expected total contribution as shown in Exhibit 1. In this example contribution is maximized at an average room rate of \$120 with an expected occupancy rate of 65%. Break-even occurs at any rate between \$100 and \$140, however, profits are very sensitive to room rates at this hotel and decline rapidly at rates other than \$120. Lower rates produce low unit contribution margins and higher rates drive away too many consumers.

REFERENCE

Relihan, Walter J. (1989) "The Yield-Management Approach to Hotel-Room Pricing," *The Cornell Hotel and Restaurant Administration Quarterly*, May, pp. 40-45.

REVENUES AND OCCUPANCY

