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Revenue Management Webinar Series

The Pricing Puzzle: Putting the Pieces Together
June 4, 2013

This webinar series is brought to you by HSMAI University, HotelNewsNow, and STR

Overview of Format and Topic

Fran Brasseux
Executive Vice President, HSMAI
POLL QUESTION #1
How many people are participating in this webinar at your location today?

- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8 or more

Panel Moderator:

Patrick Mayock
Editor-in-Chief of HotelNewsNow.com
Today’s Presenters:
Panel Moderator: Patrick Mayock, Editor-in-Chief, HotelNewsNow.com

Panelists:

Chris Crenshaw, CRME
Vice President,
Strategic Development
STR

Jon Eliot,
Vice President,
Revenue Management
Premier Hospitality
Management

Jim Rozell,
Founder & CEO
Hotel Compete

Marco Benvenuti,
Cofounder, Chief Analytics
and Product Officer
Duetto Research

U.S. Hotel
Industry Performance
April YTD
Chris Crenshaw
Vice President, Strategic
Development
ccrenshaw@str.com
Agenda

• Total US Review
• Top 25 ADR Recovery
• Segmentation
• Pipeline
• 2013 / 2014 Forecast

Total US Review
April YTD 2013: Highest RevPAR Ever (First 4 Months)

% Change

- Room Supply* 581 mm 0.7%
- Room Demand* 344 mm 3.0%
- Occupancy 59.2% 2.2%
- A.D.R. $109 4.4%
- RevPAR* $64 6.7%
- Room Revenue* $37 bn 7.5%

April YTD 2013, Total US Results
* All Time High

April YTD 2013 ADR & OCC Change For 163 Markets:
Mostly Increases

<table>
<thead>
<tr>
<th>ADR</th>
<th>Decrease</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decrease</td>
<td>1%</td>
<td>3%</td>
</tr>
<tr>
<td>Increase</td>
<td>71%</td>
<td>25%</td>
</tr>
</tbody>
</table>
Favorable Supply / Demand Fundamentals for 2013

Supply  Demand

-0.9%  -4.7%  8.0%
-6.9%  2.9%

Total U.S., Supply & Demand % Change, 12 MMA 1/1990 – 4/2013

ADR Growth Stalls. Smooth Sailing From Here?

Demand  ADR

-4.5%  6.8%  7.5%  4.2%
-8.7%

Total U.S., ADR & Demand % Change, 12 MMA 1/1990 – 4/2013
Positive RevPAR Growth: Three More Years (?)

Total U.S., RevPAR % Change, 12 MMA 1/1990 – 4/2013

ADR Recovery: Top 25 Markets
Wide Discrepancy In Absolute $ ADR Recovery

* Top 25 Markets, ADR $ Change From Prior Trough, as of Apr 2013

Peak ADRs Still Off Peak By Over $5 for 10 Of Top Markets

* Top 25 Markets, ADR $ Change From Prior Peak, as of Apr 2013
Peak ADRs Still Elusive For Most Top 25 MSAs

7 have made the recovery, St. Louis and Anaheim knocking at the door

Prior 3 Months gains toward peak: Wide range of success

* Top 25 Markets, ADR % Change From Prior Peak, as of Apr 2013

* Top 25 Markets, % Change From Prior Peak, for the months of Feb, Mar and Apr 2013
Top 25 Markets, $ Change From Prior Peak, for the months of Feb, Mar and Apr 2013

Prior 3 Months Gains Toward Peak

Inflation Adjusted ADRs Still Not Reached – Yet

Total U.S., ADR $ and Inflation Adjusted ADR $, 2000 – 2014F
Segmentation

The New Normal?

Rooms sold by segment

<table>
<thead>
<tr>
<th></th>
<th>Prior Peak</th>
<th>April ’13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transient</td>
<td>164.3 (March ’08)</td>
<td>197.2</td>
</tr>
<tr>
<td>Group</td>
<td>109.3 (March ’07)</td>
<td>106.7</td>
</tr>
</tbody>
</table>

Rooms sold, in Millions, on a rolling annual basis. Represents Luxury, Upper-up and Upper Tier Independent.
US Occupancy by Segment

- Group OCC
- Trans OCC
- Total OCC

Rooms sold, in Millions, on a rolling annual basis. Represents Luxury, Upper-up and Upper Tier Independent

US Occupancy Mix

- Group mix
- Trans mix

Rooms sold, in Millions, on a rolling annual basis. Represents Luxury, Upper-up and Upper Tier Independent
### US Pipeline: Construction Accelerates

<table>
<thead>
<tr>
<th>Phase</th>
<th>2013</th>
<th>2012</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>In Construction</td>
<td>73</td>
<td>61</td>
<td>18%</td>
</tr>
<tr>
<td>Final Planning</td>
<td>101</td>
<td>114</td>
<td>-11%</td>
</tr>
<tr>
<td>Planning</td>
<td>146</td>
<td>118</td>
<td>24%</td>
</tr>
<tr>
<td><strong>Active Pipeline</strong></td>
<td><strong>319</strong></td>
<td><strong>293</strong></td>
<td><strong>9%</strong></td>
</tr>
</tbody>
</table>

*Total US Pipeline, by Phase, ‘000s Rooms, April 2013 and 2012
Under Construction Rooms Mostly In Middle Segments

- **Luxury**
  - Rooms: 4.7
- **Upper Upscale**
  - Rooms: 7.0
- **Upscale**
  - Rooms: 25.4
- **Upper Midscale**
  - Rooms: 20.8
- **Midscale**
  - Rooms: 3.6
- **Economy**
  - Rooms: 1.2
- **Unaffiliated**
  - Rooms: 9.9

*US Pipeline, Rooms Under Construction, ’000s Rooms, by Scale, March 2013

Some Markets Are “Hot”

<table>
<thead>
<tr>
<th>Market</th>
<th>Rooms UC</th>
<th>% Of Existing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Las Vegas, NV</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>Norfolk-VA Beach, VA</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>Oahu Island, HI</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>Mine-St Paul, MN-WI</td>
<td>94</td>
<td>0.2%</td>
</tr>
<tr>
<td>San Fran-San Mateo, CA</td>
<td>174</td>
<td>0.3%</td>
</tr>
<tr>
<td>Dallas, TX</td>
<td>598</td>
<td>0.8%</td>
</tr>
<tr>
<td>Phoenix, AZ</td>
<td>564</td>
<td>0.9%</td>
</tr>
<tr>
<td>Seattle, WA</td>
<td>444</td>
<td>1.1%</td>
</tr>
<tr>
<td>Houston, TX</td>
<td>856</td>
<td>1.1%</td>
</tr>
<tr>
<td>Atlanta, GA</td>
<td>1,095</td>
<td>1.2%</td>
</tr>
<tr>
<td>Tampa-St Pete, FL</td>
<td>523</td>
<td>1.2%</td>
</tr>
<tr>
<td>Anaheim-Santa Ana, CA</td>
<td>733</td>
<td>1.4%</td>
</tr>
<tr>
<td>San Diego, CA</td>
<td>805</td>
<td>1.4%</td>
</tr>
<tr>
<td>Boston, MA</td>
<td>713</td>
<td>1.4%</td>
</tr>
<tr>
<td>New Orleans, LA</td>
<td>536</td>
<td>1.4%</td>
</tr>
<tr>
<td>St Louis, MO-IL</td>
<td>585</td>
<td>1.5%</td>
</tr>
<tr>
<td>Detroit, MI</td>
<td>718</td>
<td>1.7%</td>
</tr>
<tr>
<td>Philadelphia, PA-NJ</td>
<td>894</td>
<td>2.0%</td>
</tr>
<tr>
<td>LA-Long Beach, CA</td>
<td>2,092</td>
<td>2.2%</td>
</tr>
<tr>
<td>Chicago, IL</td>
<td>2,322</td>
<td>2.3%</td>
</tr>
<tr>
<td>Orlando, FL</td>
<td>2,968</td>
<td>2.5%</td>
</tr>
<tr>
<td>Miami-Hialeah, FL</td>
<td>1,246</td>
<td>2.6%</td>
</tr>
<tr>
<td>Washington, DC-MD-VA</td>
<td>3,302</td>
<td>3.1%</td>
</tr>
<tr>
<td>Denver, CO</td>
<td>1,434</td>
<td>3.5%</td>
</tr>
<tr>
<td>Nashville, TN</td>
<td>1,963</td>
<td>4.4%</td>
</tr>
<tr>
<td>New York, NY</td>
<td>9,694</td>
<td>9.2%</td>
</tr>
</tbody>
</table>

*US Pipeline, Top 26 Markets, Rooms Under Construction, April 2013
### Total United States
**Key Performance Indicator Outlook (% Change vs. Prior Year)**

<table>
<thead>
<tr>
<th></th>
<th>2013 Forecast</th>
<th>2014 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Supply</strong></td>
<td>1.0%</td>
<td>1.6%</td>
</tr>
<tr>
<td><strong>Demand</strong></td>
<td>2.1%</td>
<td>2.5%</td>
</tr>
<tr>
<td><strong>Occupancy</strong></td>
<td>1.1%</td>
<td>0.9%</td>
</tr>
<tr>
<td><strong>ADR</strong></td>
<td>4.7%</td>
<td>4.8%</td>
</tr>
<tr>
<td><strong>RevPAR</strong></td>
<td><strong>5.8%</strong></td>
<td><strong>5.8%</strong></td>
</tr>
</tbody>
</table>
## Total United States

### Chain Scale Key Performance Indicator Outlook

#### 2013F by Chain Scale

<table>
<thead>
<tr>
<th>Chain Scale</th>
<th>Occupancy (% chg)</th>
<th>ADR (% chg)</th>
<th>RevPAR (%chg)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Luxury</td>
<td>2.7%</td>
<td>5.9%</td>
<td>8.8%</td>
</tr>
<tr>
<td>Upper Upscale</td>
<td>0.3%</td>
<td>4.5%</td>
<td>4.8%</td>
</tr>
<tr>
<td>Upscale</td>
<td>1.2%</td>
<td>4.9%</td>
<td>6.2%</td>
</tr>
<tr>
<td>Upper Midscale</td>
<td>0.6%</td>
<td>4.2%</td>
<td>4.8%</td>
</tr>
<tr>
<td>Midscale</td>
<td>0.1%</td>
<td>2.7%</td>
<td>2.7%</td>
</tr>
<tr>
<td>Economy</td>
<td>1.8%</td>
<td>3.4%</td>
<td>5.3%</td>
</tr>
<tr>
<td>Independent</td>
<td>1.3%</td>
<td>5.1%</td>
<td>6.4%</td>
</tr>
<tr>
<td><strong>Total United States</strong></td>
<td><strong>1.1%</strong></td>
<td><strong>4.7%</strong></td>
<td><strong>5.8%</strong></td>
</tr>
</tbody>
</table>

#### 2014F by Chain Scale

<table>
<thead>
<tr>
<th>Chain Scale</th>
<th>Occupancy (% chg)</th>
<th>ADR (% chg)</th>
<th>RevPAR (%chg)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Luxury</td>
<td>0.5%</td>
<td>5.5%</td>
<td>6.1%</td>
</tr>
<tr>
<td>Upper Upscale</td>
<td>0.1%</td>
<td>4.3%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Upscale</td>
<td>1.3%</td>
<td>4.7%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Upper Midscale</td>
<td>0.0%</td>
<td>3.1%</td>
<td>3.1%</td>
</tr>
<tr>
<td>Midscale</td>
<td>1.2%</td>
<td>3.1%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Economy</td>
<td>1.5%</td>
<td>4.0%</td>
<td>5.6%</td>
</tr>
<tr>
<td>Independent</td>
<td>0.9%</td>
<td>6.0%</td>
<td>7.0%</td>
</tr>
<tr>
<td><strong>Total United States</strong></td>
<td><strong>0.9%</strong></td>
<td><strong>4.8%</strong></td>
<td><strong>5.8%</strong></td>
</tr>
</tbody>
</table>
To Do:

- **Supply** Growth: Understand your market
- **Demand** Growth: Take a long term look at segmentation. Pay attention to booking windows
- **ADR** Growth: Price Points, Segment Mix, Channel Mix
- **Outlook**: Growth will remain, but YOY comps are getting tough. How do you steal share to continue YOUR growth?

Questions?

To view this presentation, go to HotelNewsNow.com and click on “Industry Analysis” then “Hotel data presentations”
Internal Pricing Considerations

Jon Eliot, 
Vice President, Revenue Management 
Premier Hospitality Management

Factors Affecting Pricing Decisions

- Internal factors
- Competitive factors
- Guest factors
Internal Factors

- Supply
- Demand
- Segmentation
- Booking Windows
- Arrival/Departure Patterns
- Average Length of Stay

Supply

- Traditionally
  - Less supply = higher rates
  - More supply = lower rates
Adding Demand to the Equation

Demand

- Understanding demand will help inform pricing decisions
- Understanding demand by segment will enhance your decision making
Segmentation

- Know what has booked
- Gauge what is expected to book
When will your Demand Materialize – Booking Windows

- How far out you change prices can affect your ability to capture demand, and your ability to optimize your revenue
- Different segments have different booking windows
Arrival/Departure Patterns and Length of Stay

- Prices may vary by day of week and/or length of stay
- Understand if you will be under or over pricing based on stay patterns
- Protect your high demand days

Review

- Changing prices based on available supply alone is not always effective
- Understand your demand – by segment
- Be aware of lead time and booking windows – by segment
- Know your typical stay patterns and length of stay
- Set reasonable expectations so you can gauge the effectiveness of your decisions
- We don’t operate in a vacuum
Why Think Differently About Competitor Selection?

- Compsets in the Hospitality Industry have many purposes:
  - Historic Performance / Measurement Trending
  - Market Share Positioning
  - Financial measurement and valuation

- ...they are generally derived by a variety of sources:
  - General Managers
  - Asset Management groups
  - Brands
  - Ownership groups/interests

- ...none of these parties or interests are booking your hotels or have recently been involved in comparing your hotel to the competition
Different Perspectives = Different Results

The comparison of the “revenue manager” competitors to the “general manager” competitors illustrates the differences in thinking.

Key Causes of Differences
- Need for Weekend/Weekday Competitors Sets
- Nearly 43% were affected by limitations on brand and available hotels in their competitor selection
- Differentiation in “who we should be” competing against vs. “who we really are” competing against

Direct Comparison of Competitors

<table>
<thead>
<tr>
<th></th>
<th>GM Competitors</th>
<th>Common</th>
<th>Rev Man Competitors</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of Days</td>
<td>32%</td>
<td>30%</td>
<td>38%</td>
</tr>
</tbody>
</table>

Deeper Dive ➔ Rate Comparisons

Rate strategies appear to be very different

<table>
<thead>
<tr>
<th>Compset Type</th>
<th>Property Avg Rate</th>
<th>Avg Gap In Pub Rate</th>
<th>% of Days Matching Comp</th>
<th>% of Days with 10% of Comp</th>
</tr>
</thead>
<tbody>
<tr>
<td>Week Days</td>
<td>$136.31</td>
<td>$22.51</td>
<td>3.5%</td>
<td>20.5%</td>
</tr>
<tr>
<td>Weekends</td>
<td>$122.44</td>
<td>$19.65</td>
<td>5.1%</td>
<td>21.6%</td>
</tr>
</tbody>
</table>

Rate strategies have greater convergence

<table>
<thead>
<tr>
<th>Compset Type</th>
<th>Reference Property Avg Rate</th>
<th>Avg Gap in Pub Rate</th>
<th>% of Days Matching Competitor</th>
<th>% of Days with 10% of Competitor Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Week Days</td>
<td>$141.22</td>
<td>$2.53</td>
<td>9.1%</td>
<td>56.3%</td>
</tr>
<tr>
<td>Weekends</td>
<td>$125.50</td>
<td>$0.12</td>
<td>11.2%</td>
<td>57.3%</td>
</tr>
</tbody>
</table>

This case study illustrates just how different the thinking about competition can affect performance metrics at the hotel — and ultimately profitability.
### Additional Rationality ➔ More Aligned Weightings

Many revenue management tools require “weightings” to provide rate recommendations. Proper competitor selection is critical for this activity:

<table>
<thead>
<tr>
<th>Competitor Weighting</th>
<th>% of GM Competitors</th>
<th>% RM Competitors</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 10%</td>
<td>13%</td>
<td>3%</td>
</tr>
<tr>
<td>10% to 15%</td>
<td>9%</td>
<td>9%</td>
</tr>
<tr>
<td>16% to 20%</td>
<td>17%</td>
<td>11%</td>
</tr>
<tr>
<td>21% to 24.9%</td>
<td>--</td>
<td>9%</td>
</tr>
<tr>
<td>Equal Weighting</td>
<td>23%</td>
<td>49%</td>
</tr>
<tr>
<td>25.1% to 30%</td>
<td>16%</td>
<td>12%</td>
</tr>
<tr>
<td>31% to 40%</td>
<td>17%</td>
<td>5%</td>
</tr>
<tr>
<td>&gt; 40%</td>
<td>5%</td>
<td>2%</td>
</tr>
</tbody>
</table>

**Better weightings can improve the quality of pricing recommendations – and hence the likely compliance with Price Optimization Tools**

**Other notes**
- Maximum Competitor Weightings:
  - GM 70%
  - RM 50%
- Equal Weighting includes any compset that distributes the weightings equally across the entire set (i.e., 3 Competitors @33%, 4@ 25%, 5@20%, etc.)

### Objective Ways to Generate Competitor Sets

- Compare attributes for “likeliness” to reference property.
  - Location
  - Proximity to landmarks
  - Proximity to major demand drivers
  - Proximity to competing hotels
  - Current Rate Position
    - Avg rate over 90 day period
    - # of days with comparable rates
  - Hotel Category/Class/Level
  - Group/Meeting Capabilities
  - Brand Recognition
  - Guest Review Scores
  - Hotel Amenities
  - Hotel Size (rooms/floors/towers)
  - Specialty attributes (waterparks, etc.)

**Automated tools can simulate the “bookers” hotel selection process and thus generate a competitor set that resembles the buying process and utilizes “value proposition”**
## 5 Major Components of Competitor Selection

<table>
<thead>
<tr>
<th>Component</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product Quality</td>
<td>How does the hotel’s amenities, services, etc compare to competitors?</td>
</tr>
<tr>
<td>Brand Presence</td>
<td>Which hotel has the strongest brand/sub-brand nationally/locally?</td>
</tr>
<tr>
<td>Web Search Strength</td>
<td>Which hotels are the easiest/hardest to find via web searches?</td>
</tr>
<tr>
<td>Rate Comparison</td>
<td>Whose rate strategy is most like the subject property’s strategy?</td>
</tr>
<tr>
<td>User Generated Reviews</td>
<td>How do hotels’ scores on TripAdvisor, OTAs, etc compare?</td>
</tr>
</tbody>
</table>

By comparing hotels in the way that bookers do, you can evaluate hotels’ position and identify performance opportunities!

### Why Think Differently About Competitor Selection?

- Customers have more information available to them than they did in the past. They do research well beyond the rates offered:
  - They evaluate what they are getting for the difference in rate
  - They evaluate the costs of location vs. rate savings
  - They compare what previous guests say about your hotel and specifically the value they received for their dollars
  - They have no regard for your aspirations as a hotel and who you want to compare yourself to for performance purposes
- Use tools and services to help you derive more effective competitor selection sets
  - KNOW WHAT YOUR POTENTIAL GUESTS KNOW
  - Have segmented competitor sets if that serves your needs
- Review your competition often – monthly if needed
  - As things change in the market your competitor sets will change right along with them
Marco Benvenuti,  
Cofounder, Chief Analytics and Product Officer  
Duetto Research

Understanding Guest Factors

- Perceptions of rate fences
- Understanding the purpose of their trip
- Channel & booking choices
- Willingness to pay
- Experimentation
Rate Fences

• Do you have rate fences?
• Are they perceived as fair?
• Can the guests understand them?

Purpose of trip

• Infer the purpose of the trip by
  – Asking (call center)
  – Monitoring the shopping behavior
  – Creating different web paths for different trips
  – Understanding which channels your guests and why
Channels & Booking Choices

• The guest does not want to be penalized for booking on different channels
• Guests paying the same rate tend to behave the same regardless of the channel they came from
• Understand how to improve booking via your own channels

Willingness to Pay

• Capture lost business with all attributes attached (check in, check out, room type, rate)
• Test willingness to pay by creating a reference price on your website and on phone calls
Experimentation

- When demand is low you should not automatically offer the lowest rate possible
- Set experiments on similar low demand days with different rates
- Slightly less occupancy can lead to more revenue and more profit!

Questions?
Panel Moderator: Patrick Mayock, Editor-in-Chief, HotelNewsNow.com

Panelists:
- Chris Crenshaw, CRAE, Vice President, Strategic Development, STR
- Jon Eliot, Vice President, Revenue Management, Premier Hospitality Management
- Jim Rozell, Founder & CEO, Hotel Compete
- Marco Benvenuti, Cofounder, Chief Analytics and Product Officer, Duetto Research
Upcoming Webinars:

Next Revenue Management Webinar:
#5: Testing v. Shooting in the Dark
July 30, 2013 ♦ 2:00-3:30 pm EDT

Next Digital Marketing Webinar:
#3: Leveraging the Digital Tool Box to Optimize Your Transient Leisure Business
July 9, 2013 ♦ 2:00 - 3:00 pm EDT

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