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TIERED PRICING AND YIELD – KEY DRIVERS OF EXTENDED STAY SUCCESS

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Tiered Pricing and Yield – Key Drivers of Extended Stay Success

Extended-stay hotels began evolving in the 1970s to serve business travelers, vacationers and families seeking a home-like atmosphere. They differ from traditional hotels in terms of room types, amenities and particularly, pricing.

The Residence Inn by Marriott first launched in Wichita, Kansas in 1976 is credited with initiating the extended-stay concept. Currently, most major hotel franchise organizations offer at least one extended-stay product under their umbrella of brand offerings. The extended-stay concept is comprised of several unique design, operational, and pricing strategies that all contribute to its success. As an example, the Residence Inn by Marriott operating model has evolved from its inception through "generations" of design concepts beginning with the initial "Generation 1" that has evolved into the current design concept of "Generation 8" as new designs and concepts evolve to keep pace with the ever-changing needs of the guest. The current design model of this brand consists of three room types: studios, 1-bedroom units, and 2-bedroom units. All units are equipped with full kitchenettes and offer complimentary wired and wireless Internet access. Additionally, the hotels provide a free full-breakfast, a fitness center, an afternoon offering of complimentary light snacks and beverages, as well as a Manager's Reception. The studio units comprise the largest percentage of available rooms, followed by 1-bedroom and 2-bedroom units – with the mix of room type influenced by local market conditions. Most extended-stay concepts offer these (or a variation of these) general design and operational concepts.

TIERED PRICING STRATEGIES

Two of the key drivers of the success of the extended-stay concept are the ability to offer different room sizes; coupled with pricing strategies that are driven by varying lengths of stay. For example, the Residence Inn by Marriott concept offers rate tiers based on length of stay – with four tiers generally the most prevalent. The optimum blend of all rate categories driven by length of stay is key to maximizing RevPAR, and profitability. An example of rate tier pricing is shown below.

1-4 nights   5-11 nights   12-29 nights   30+nights

The longer the length of stay, naturally, the lower the daily rate becomes. As an example, Chart 1 depicts a range of negotiated corporate rates for key accounts for four different lengths of stay. Rate tiers are negotiated based on each corporate account's needs and production of room nights. Importantly, to maintain the integrity of the extended stay concept, some of the major brands actually monitor the length of stay in each category on a period basis, and provide a report to the franchisee at the end of every operating period indicating how the individual asset is performing against the benchmarks established. For example, Marriott considers a long-term room night as "extended stay" when it falls into one of the more than 4 nights categories.

CHART 1: EXAMPLE OF NEGOTIATED CORPORATE RATES FOR KEY ACCOUNTS BASED ON LENGTHS OF STAY

	1-4 nights	5-11 nights	12-29 nights	30+ nights
Company A	$194	$189	$179	$135
Company B	$215	$199	$183	$141
Company C	$205	$189	$169	$139

YIELD MANAGEMENT AND RATE MONITORING

To allow management to continually monitor and evaluate the efficacy of the extended stay operating model, the daily operating report generated at the property level (Chart 2, below) contains data that are used by management to monitor the complexion and makeup of the length of stay characteristics on a daily basis – for one day and period-to-date, to enable management to continually maximize yield.

CHART 2: EXAMPLE OF DAILY LODGING REPORT GENERATED AT THE PROPERTY LEVEL

Occupied Revenue Rooms		
1 - 4 Nights	52	974
5 - 11 Nights	15	469
12 - 29 Nights	5	211
30 + Nights	24	591
Occupied Revenue Rooms	96	2245
Comp Rooms	0	35
Total Occupied Rooms	96	2280
# of Guests	120	2854
Gross Occupancy %	61.54%	71.96%
Net Occupancy %	64.86%	73.70%
Ext. Stay % - Occ. Rooms	45.83%	56.61%
Ext. Stay % - Avail. Rooms	29.73%	41.73%
Average Daily Rate	$154.22	$179.18
RevPAR	$94.90	$128.93

BRAND SUPPORT AND OVERSIGHT

Marriott has established acceptable ranges of extended stay utilization, and diligent, aggressive yield management is obviously key to maximizing RevPAR in a traditional hotel, and doubly so in an extended-stay business model. As noted, any room stay longer than 4 room nights is considered "extended stay" for the purposes of this measurement and monitoring and the following chart is an example of the report the franchisee receives. It contains data regarding how the subject property is performing on a period and year-to-date basis against the established benchmarks.

CHART 3: EXAMPLE OF FRANCHISEE REPORT

Pd. 10 Act	Pd. 11 Act	Pd. 12 Act	Ytd. Act.	LY Ytd. Act.	LY Pts B/(W)
43.00%	44.00%	42.40%	50.20%	54.30%	-4.1

Residence Inn Extended Stay Occupancy Legend	
Green	43.0% or more
Clear	between 38.0 - 42.9%
Yellow	between 33.0 - 37.9%
Red	less than 32.9%

*The color grade is based upon year-to-date Extended Stay Occupancy % and forecast as of January 2011.

Green: Hotel has achieved stretch goal or higher.

Clear: Hotel has achieved brand forecast but is still below stretch goal.

Yellow: Below brand forecast by up to 5% points.

Red: Below brand forecast by 5% points or more.

In conclusion, the extended-stay concept has proven to be highly successful and it represents a significant percentage of available room inventory serving a targeted audience. It is through on-going, diligent yield and rate management practices that the integrity and success of the concept is preserved and financial performance is maximized.

About HVS

HVS is the world's leading consulting and services organization focused on the hotel, restaurant, shared ownership, gaming, and leisure industries. Established in 1980, the company performs more than 2,000 assignments per year for virtually every major industry participant. HVS principals are regarded as the leading professionals in their respective regions of the globe. Through a worldwide network of 30 offices staffed by 400 seasoned industry professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. For further information regarding our expertise and specifics about our services, please visit **www.hvs.com**.

About the Author

Based in San Francisco, **Mark C. Lynn** oversees the wide range of hotel asset management, strategic planning, development and operational consulting services provided by the firm. Mr. Lynn has more than 30 years of hotel industry experience and has been involved in the development and management of more than 100 hotel projects with an asset value exceeding $2 billion. Mr. Lynn holds a BSBA degree from Xavier University in Cincinnati, Ohio and is a member of HAMA (Hospitality Asset Managers Association).

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