With Great Rates Come Great Guest Expectations

Even in the back half of 2023, every hotel is still contending with inflation in some way or another, likely passing these costs onto the customer. Thus far, from what the aggregated travel numbers for this year indicate, guests have been fine with the increased rates.

But does that mean that your current guests – in what can ostensibly still be described as a rebound year from the pandemic – are happy guests that are ready to come back within a reasonable timeframe? Would they recommend you to others, either by word of mouth or by word of mouse?

While the apt adage for right now is to make hay while the sun shines, it’s nevertheless critical to evaluate how guest expectations increase as you yield rates, oftentimes with the two not linearly correlated. From this, we ponder whether there’s a long-term risk to your loyalty and, broader, whether we are collectively creating a more mercenary-like disposition amongst travellers when selecting hotel brands.

Price Influences Guest Expectations

Take this basic scenario for instance. A guest checks into a $199 room. Their expectations are humble – a quiet night's sleep, controllable air conditioning, a comfortable bed and a clean bathroom. The price is reasonable based on the rates in the guest's near-past set of hotel experiences. They understand that they have opted for a relatively modest-priced room and have adjusted their standards accordingly. They may even give the room a high rating on TripAdvisor because it offered good perceived value.

Now take this same room and increase the rate to $349, a 75% increase. What are the guest's expectations at this higher rate? Will the same loud-cycling air conditioner, starchy bedsheets, polyester blanket and minimal amenities suffice? Will they be more sensitive to perceived slights by the front-of-house team?

In these cases, the guest's standards may have risen in direct proportion to the new price point. That same guest who might have given a five-star review might now rate give two or three stars, wherein it's important to note that guest reviews are emotionally driven and independent of a solid knowledge base of the comp set or brand standards checklist. Nothing has changed insofar as what the operations team delivered. Rather, the guest expects and, really, deserves more at the higher price.

The reality facing today's hotel guests are prices significantly higher than pre-pandemic rates. Many hotels are enjoying RevPAR levels that were unattainable four years ago. Operators are basking in EBITDA percentages that they have never previously experienced. Ownership is encouraged, eagerly recouping losses incurred during the lockdown era. High fives everywhere! But be wary; guests aren't dumb!

The Never-Content Couple

Consider this anecdotal experience we witnessed firsthand from a recent consulting assignment with an upscale, independent small resort within driving distance from our hometown of Toronto.

In 2019, nightly rates for this property were in the range of $189 to $229 (Canadian) per night. Now, however, we had a couple book with the hotel, and their price for a three-night, double occupancy, standard king room was $389 per night, roughly an 85% increase above where this guestroom would be priced pre-pandemic.

This couple rejected the first three rooms that were offered, as apparently the rooms either smelled of smoke (it was a non-smoking hotel), had mould in the bathrooms or had views of exhaust stacks from the kitchen. On the fourth try, they were satisfied. Still, the couple noted that the room had a chipped tub and a loose sink. There were also insufficient bathroom amenities requiring a late-evening request to the front desk for additional supplies.

Then came the proverbial straw that broke the housekeeper's back. Coming home in the evening after a day's outing, the couple arrived to find their room just as they left it – uncleaned. When they called the front desk, they were advised (for the first time) that rooms were only cleaned every second day. Demanding a clean room, they were moved again to the ‘last clean room available’.

While on paper, the $389 price tag looks good. But are hotels accounting for these hidden costs associated with the burden of moving guests around so haphazardly? Moreover, is there an even-more-hidden effect on the team’s morale when such events occur?

Now in your opinion from this story, did the fact that the room was now $389 versus $199 raise the bar? Would these guests have been so nitpicky at the previous, lower rate, or would they be more forgiving? Yes, this is a bit counterfactual, but nonetheless a consideration.

Expectations Versus Chargebacks

Alas, the tale of the never-content couple doesn’t end there. Post-stay, their solution was not to write a negative review on TripAdvisor. Rather, they took a more aggressive course of action: they called Mastercard and enacted chargeback protocols.

In chargeback situations, all credit card customers are immediately given priority over merchants – that’s how these payment networks were first built and continue to build trust, after all. Fighting a chargeback is both time-consuming and with middling success. Moreover, with too many chargebacks, your merchant account is flagged and higher processing fees may be applied.

While this is arguably a case of friendly fraud, it’s still a burden that hotels must devote resources towards. And ultimately, if the chargeback is won by the couple, it may get boiled down and buried within a tabulation on the income statement, often represented by the ‘negative review’ or ‘bad debt’ line item and without anyone at corporate having the necessary information to ask what can be done to prevent future incidents.

Chargebacks vary by region and by hotel, but there are lessons to be learned from each one that transpires, both in terms of what types of guests are acting malevolently as well as what the hotel can do to better prevent guests from using the chargeback mechanism as a retaliatory action due to the property not meeting their newly elevated expectations.

These are but a few cautions to consider when raising rates or keeping them at 2023 levels as you start to devise your rate strategy for 2024 and beyond.