



NATIONAL COUNCIL FOR HOTEL MANAGEMENT & CATERING TECHNOLOGY



SEMESTER 1



Topics covered:

Guest Cycle

And

Rooms

- Basis of charging
- Meal Plan



I. Preamble

1.1	Course Title	Foundation course in Front Office
1.2	Course Code	
1.3	Credits (Weightage)	
1.4	Prerequisites	
1.5	Number of Groups	
1.5	Number of Hours per Group	30 class hours
1.6	Module Leader	
1.7	Last Update	

II. Course Description

Front office is not just a department but it is a way of thinking and a deeply embedded attitude towards hospitality. This is a field for all those who love to interact with people, who are presentable with a disarming smile and who believe that hospitality & professionalism is second nature to them.

The Front Office is one of the key areas of any hotel; the student should therefore be well versed of all the functions carried out in the department.

The course seeks to introduce to the students all the aspects of Guest Relationship, Reservation, Arrival, Selling and guest contact during stay. In addition the student is also given inputs relating to Guest Rooms, Front Office Organization and Hotel Classification.



III. Learning Objectives

By the end of the course, learners will be able to

Knowledge

1. Illustrate the Organization structure of Front office department.
2. Classify the hotels on the basis of specific parameters.
3. Clarify basis of charging room tariff and different meal plans.
4. Describe and demonstrate the procedure of reservation and guest registration.
5. Explore the emerging trends in front office operations

Competencies

1. Create organizational charts depicting the lines of responsibility among positions, departments and divisions.
2. Apply Room selling techniques
3. Exhibit professionalism and etiquettes required of a front office personnel

Mindset

1. Appreciate the role of front office in generating revenue.
2. Advocate the need to create guest delight.
3. Appreciate the need for identifying guest expectations and meeting those.

1. CHRONOLOGY TABLE



NATIONAL COUNCIL FOR HOTEL MANAGEMENT & CATERING TECHNOLOGY

121 THEORY			
WEEK	LESSON No. (Session 1hr each)	FACILITATOR CENTERED	LEARNER CENTERED
1	1 a	Soft Skills and Service Culture	Inaugural quiz
	1 b	Characteristics of service product	
2	2a	Guest Cycle	
3	3a	Rooms <ul style="list-style-type: none"> • Basis of charging • Meal Plan 	
	3b	<ul style="list-style-type: none"> • Types of Room rates and taxes • Tariff card • Ancillary services 	Designing a tariff card after market survey
4	4a	Staff Organisation <ul style="list-style-type: none"> • Large and small hotels 	
	4b	<ul style="list-style-type: none"> • Job description and person specification 	PMGR on Job description and specification of front office staff
5	5a	Guest Cycle- An overview	
	5b	<ul style="list-style-type: none"> • Stages of guest cycle 	
6	6 a	Reservation <ul style="list-style-type: none"> • Importance and types • Forms and formats 	
	6b	<ul style="list-style-type: none"> • Reservation Procedure 	
7	7a	Reservation Sources <ul style="list-style-type: none"> • Self and corporate • Travel agents • Tour operators • CRS 	



NATIONAL COUNCIL FOR HOTEL MANAGEMENT & CATERING TECHNOLOGY

	7b	<ul style="list-style-type: none"> • GDS • Internet and online portals 	Individual assignment on online portals
8	8a	Arrival- Bell Desk <ul style="list-style-type: none"> • Functions 	Allocation of group project on preparing the formats used in bell desk operations
	8b	<ul style="list-style-type: none"> • Tools and formats used at bell desk 	Group Project submission and presentation
9	9 a	Arrival - Registration <ul style="list-style-type: none"> • Importance • Types • Preparation for room arrival • Registration Procedure 	
	9b	<ul style="list-style-type: none"> • FIT,FFIT & Walk in • Escorting and room orientation 	
10	10	Room selling techniques <ul style="list-style-type: none"> • Up-selling • Upgrading 	Group Exercise
	11	Guest History <ul style="list-style-type: none"> • Importance and Marketing follow-through 	
11	12 a	During the stay <ul style="list-style-type: none"> • Concierge • Information • Special requestes 	
	12b	Situation handling <ul style="list-style-type: none"> • Complaint handling and service recovery • Handling guests with special needs 	Group exercise
12	13a	Groups <ul style="list-style-type: none"> • Reservation • Baggage Handling 	
	13b	<ul style="list-style-type: none"> • Registration • Escorting and Rooming 	



NATIONAL COUNCIL FOR HOTEL MANAGEMENT & CATERING TECHNOLOGY

13	14a	Classification of Hotel <ul style="list-style-type: none"> • Location, Clientele and facilities 	Activity : List the facilities offered by hotels on the basis of their respective location
	14b	<ul style="list-style-type: none"> • Size • Levels of service • Ownership 	
14	14c	<ul style="list-style-type: none"> • Star classification 	Visit to a star category hotel
	15a	Emerging trends <ul style="list-style-type: none"> • Use of Technology • Product innovation 	Group assignment changing trends and technological innovations in hospitality industry with specific reference to room product and front office operations
15	15b	Emerging trends <ul style="list-style-type: none"> • Use of Technology • Product innovation 	Presentation and discussion on the project
	15c	Emerging trends <ul style="list-style-type: none"> • Use of Technology • Product innovation 	Presentation and discussion on the project

1. Learning Methodologies

5.1 Real class time breakdown

Learning Methodologies	Hours
○ Lecture – Discussion	20
○ Exercises--- Individual	4
○ Exercises – Group	6
Total	30 hours

5.2 Outside class time breakdown

Learning Methodologies	Hours
------------------------	-------

6



NATIONAL COUNCIL FOR HOTEL MANAGEMENT & CATERING TECHNOLOGY

○ Tutorials	8
○ Group Presentation Preparation	12
○ Reading	10
○ Self – Study	10

6. Course Evaluation

6.1 Course Assessment

Assignments	Weightage / %
Mid term exam	30
Term end exam	70
Total	100%

7. Course Text

- Supplement handouts on the Intra Net/ Internet

8. Bibliography and Webliography

8.1 Bibliography

Woods, Ninemeier, Hayes, Austin (2008) *Professional Front Office Management*, Pearson Education ISBN 978-81-317-1748-6

Jatashankar r. Tewari (2013) *Hotel Front Office- Operations and Management*, Oxford Higher Education ISBN 0-19-569919-X

Sudhir Andrews (2008) *Front Office Management and Operations* Tata Mcgraw Hill

Webliography

- <http://www.ahla.com>
- <http://www.hospitalitynet.org>
- <http://www.hotelmotel.com>
- <http://www.ehoteler.com>
- <http://www.hotel-online.com>

Chapter – 2 : Guest Cycle

Learning objectives

By the end of this session students will be able to

- Explain Guest cycle
- List stages of guest cycle
- Identify activities associated with different stages of guest cycle
- Draw guest cycle with illustration of different stages

Contents:

- 1.1 Introduction
- 1.2 Reservation Stage
- 1.3 Pre-registration stage
- 1.4 Post-registration stage
- 1.5 During the stay activities
- 1.6 Departure stage
- 1.7 Post –departure stage
- 1.8 Summary
- 1.9 Practical activity

1.1. Introduction

Inquiry for a room is usually the first point of contact between a hotel and a guest. This may be in the form of a query for the types of room, availability of accommodation for certain duration and the best available rate for the period. This is usually followed by the reservation of room, which is a process of advance booking of room. Reservation is considered as the starting point of what is referred as a guest cycle. The guest cycle

passes through many other stages during the course of arrival, stay and departure of a guest. These stages are known as reservation stage, pre-registration stage, registration stage, post-registration stage, departure stage and post departure stage. Each stage is characterized by a set of activities which fulfil the requirement of a guest's overall satisfactory stay and are also necessary to comply with the hotel's own



procedural requirements and the requirements mandated by the law of the state. Different stages of guest cycle and the processes therein are illustrated as below:

ASSESSMENT:

Answer in brief:

Q.1 Which is the first point of contact between a hotel and guest

Q.2 List the different stages of guest-cycle

1.2. Reservation Stage



This stage, as mentioned earlier, is the first point of contact between the hotel and the guest. Usually guest himself or his representative approaches the hotel for advance booking of accommodation. This stage typically includes the following:

- (a) Query about the types of rooms in the hotel
- (b) Availability check for the desired type of room for the given duration
- (c) Negotiation on the best possible rate for the period. Booking of the room by the guest.
- (d) Payment guarantee or an advance deposit may be requested by the hotel and a cut-off date may be given to the guest to make the deposit.

Reservation may be given weeks or months in advance of a guest's arrival. Travel agents and corporate are a major source of reservation for most hotels in addition to the FITs.

ASSESSMENT:

Fill in the blanks:

- (1) Reservation stage begins with query about _____ in the hotel.
- (2) Guest and hotel negotiates about the best possible _____ for the period.
- (3) Hotel generally wants a _____ guarantee before confirming the room.
- (4) Travel agents and _____ are a major source of reservations.

1.3. Pre-registration stage



This is also known as the pre-arrival stage. Activities done on the day of arrival or the previous night come under this category. All these are preparatory activities before the physical arrival of the guest in the hotel. This helps in efficient and quick check-in when a guest physically arrives in the hotel.

- (a) **Blocking of the room:** clean and vacant room of the desired type is blocked in advance. Requests of a guest such as non-smoking room, a particular view, away from or near the elevators, lower floor or higher floor are considered by the receptionist while blocking the room for the guest.

- (b) **Printing of the guest registration card:** Guest registration card or GRC is filled and signed by the guest at the time of his arrival in the hotel. Receptionist takes a print-out of the GRC, in advance, with all available details such as name of the guest, date of arrival, departure, type of room, room number, billing instructions etc. printed on it.
- (c) **Preparing room keys and meal coupons:** Room keys and the meal coupons are kept in a tray along with the GRC so that they are handed over to the guest without any time lapse. Meal coupons are required if guest has taken a plan in which some or all the meals are included in his room tariff.
- (d) **Instructions to concerned departments:** Many a times some special arrangements are required for guest before his arrival. This may be in the form of an airport pick-up, preparing for a traditional welcome, placing special amenities in the room. The front office department will inform all concerned departments about such requirements so that the appropriate action is taken well advance.



ASSESSMENT:

State true or false :

- (1) Meal coupons are given to the guests if they are on a plan in which meals are included in the room tariff.
- (2) GRC stands for guest reservation card
- (3) Departments are never informed about an arrival till the time guest is physically in the hotel.
- (4) Clean and occupied rooms are blocked in advance for a guest's arrival

1.4. Registration stage

These activities are carried out at a time when guest physically arrives in the hotel. This is a very important stage as it creates a first and lasting impression about the efficiency and services of the hotel. During this phase guest is welcomed by a formal greeting and his requirement is identified. The signing of GRC by the guest is known as registration of the guest. Registration of guest is a mandatory process and it is considered to be a legally binding contract between the hotel and the guest. Registration process involves the following:



- (a) Welcome of the guest through a formal greeting, welcome drink and sometimes a traditional welcome by Aarti, Tilak and Garland.
- (b) Identifying the requirement of the guest and ascertaining his reservation status.
- (c) Registration of the guest by taking his signatures and other details in a register or in a card.
- (d) Establishing the creditability of the guest or taking an advance payment from him
- (e) Handing over the room key to the guest.
- (f) Luggage handling of the guest by the bell desk and escorting the guest to his room.

ASSESSMENT:

Match the following:

- | | | |
|------------------------|---|-----------|
| 1. Traditional welcome | : | Bell Desk |
| 2. Luggage | : | Signature |
| 3. Registration | : | Advance |
| 4. Creditability | : | Garland |





1.5. Post – registration stage

The guest proceeds for his room immediately after the registration formalities are over. However, the reception's job in his registration process is not complete till the time certain post-registration activities are completed. The post registration activities are listed as below:

- (a) **Check-in of the guest in the PMS** or computer system. This enables all other departments to know about the check-in of a guest, his credit status and also to activate all guest services for his benefit. In a manual system this objective is achieved by sending arrival notification slips to different departments of the hotel. The departments where arrival is notified are housekeeping, Laundry, Food and Beverage service, Telephone operator, Cashier, Information and Bell desk.
- (b) **Opening of guest folio:** The guest folio is opened by the front office cashier. Any advance received from the guest is considered as the opening balance of the folio.
- (c) **Preparing the arrival errand card :** Bell desk prepares an arrival errand card which has the details of luggage sent to the guest room.
- (d) **Updating the guest profile:** The guest profile in the computer is updated on the basis of any information given by the guest in the registration card. The update may include guest address, passport details, credit card number, and date of birth etc. for future usage.
- (e) **Updating the A & D register:** Arrival and Departure register is updated for every arrival and departure in a hotel. Therefore, as part of post-registration activity the arrival side of A&D register is updated by the receptionist.
- (f) **Preparing 'C' form:** The C- form is a mandatory document which is prepared for all foreigner guests and sent to FRRO (Foreigners regional registration office) or Police commissioner's office within 24 hours of a guest's check-in.

ASSESSMENT:

Q.1 List all the activities of post-registration stage

Q.2 State True or False

- (a) 'C' Form is prepared for all guests in a hotel
- (b) A & D register is updated by the bell captain.
- (c) Guest folio is opened by front office cashier

1.6. During the stay activities

During this stage guest gets a firsthand experience of the facilities and services offered by the hotel. The front office themselves provide many of the services during a guest's stay and they are an interface in the services provided by some other departments of the hotel to the guest.

The functions of the front office during the stay of a guest include:

- (a) **Handling guest accounts:** Front office cashier handles posting of charges and maintenance of guest account. This also includes credit monitoring of the guest. All high balance accounts are requested for a part or full settlement to extend further credit facility during the stay of the guest.



- (b) **Mail and message handling:** All incoming and outgoing mail and messages are handled by front office department. Ensuring the timely delivery of messages is a critical component of guest services in a hotel.

- (c) **Guest Paging:** Locating a guest in a specific area of a hotel to deliver a message, etc is a part of front office job profile and is known as paging a guest.

- (d) **Safe deposit locker:** Front office department provides locker facility to guests to keep their valuables. Now-a-days, many hotels have started offering electronic lockers in guest rooms as well.



- (e) **Handling guest queries and complaints:** Front office is not considered just the face of the hotel but is also the heart of the hotel. All queries and complaints are received by the front office. They handle these issues to maximize guest's comfort and to keep a positive image of the hotel so that they get good word of mouth publicity from the guest.

- (f) **Other guest services:** Other services like wake-up call, travel desk, business center, valet services etc are either directly provided by front office or coordinated by this department.



ASSESSMENT:

State True or false :

- (a) Giving wake up call to the guest is known as paging
- (b) It is important to ensure timely delivery of guest messages

Fill in the blanks :

- (a) Cashier handles posting of charges and _____ of guest account
- (b) Front office is not only the _____ of the hotel but also the _____.

1.7. Departure stage

During the departure stage, guest settles their account by making payment through a pre-established mode (like cash/card/travelers cheque/voucher etc). The hotel should take great care to present all unpaid bills for payment and carry out the whole procedure efficiently.



The activities at the time of departure may be listed as below:

- (a) Taking the room key from the guest
- (b) Presenting a copy of the folio to the guest for verification and approval by the guest.
This copy is known as information printout of the folio.
- (c) Checking for mini bar consumption or any last minute charges.
- (d) Processing the guest payment as per the mode of settlement desired by him.
- (e) Handing over the settlement folio, known as zero balance folio, to the guest along with vouchers and payment receipt or credit card charge slip.
- (f) Requesting the guest for a filling up feedback-form/guest comment card for the hotel to review its performance.
- (g) Luggage handling activity by bell desk



ASSESSMENT

Match the following

- | | |
|-----------------|-------------------------|
| 1. Verification | : Charge slip |
| 2. Settlement | : Information print out |
| 3. Performance | : Zero balance folio |
| 4 Credit card | : Feedback form |

1.8. Post – Departure stage

Even after the departure of the guest there are still some activities remain to complete the guest cycle process. These activities come under post departure stage.

- (a) **Departure notification slips:** In a computerized system room is released after the folio settlement and departments are informed automatically about the changed status of the room from occupied to vacant. However, in a manual system departure notification slips are prepared and sent to all relevant departments for the purpose of information about a room departure and for relevant action.
- (b) **Updating A & D Register:** Departure side of Arrival and Departure register is updated by the cashier for all departures in his shift.
- (c) **Departure errand card:** Bell desk prepares departure errand card and files it for the record purpose. Any record of left luggage is also handled by them separately.

ASSESSMENT

- Q. List the three activities under post departure stage.
- Q. What is the purpose of sending departure notification slips



1.9. Summary

All the above stages together are known as guest cycle. Guest cycle starts with hotel's first contact with guest that is at the stage of reservation and other stages include pre-registration, registration, post-registration, during the stay activities, departure and post departure. Guest cycle provides a comprehensive view of the guest's stay in the hotel right from the time of his first contact till the time he leaves the hotel. It may be noted that front office department play an important part in creating an overall positive impression on the guest about the hotel services. In all stages of a guest's interaction with the hotel this department has a pivotal role to play.

PRACTICAL ACTIVITY

Prepare a chart illustrating stages of guest cycle with the help of different coloured sketch pens and display it in your practical lab.

Lesson – 3 A : ROOM TARIFF



1. Meal Plan
2. Basis of Charging

Learning Objectives :

By the end of this session student will be able to

- List Meal plans
- Recommend the type of meal plan for a particular type of hotel
- List different basis of charging room tariff
- Differentiate among the various basis of charging room tariff followed by hotels

Contents :

3A.1 Meal Plans

3A.2 Comparing the meal plans

3A.3 Uses of Meal Plans

3A.4 Basis of Charging Room Tariff

3A.5 Fixation of Room Tariff

Meal Plans and Basis of Charging



Introduction

When you visit a hotel and ask for the room tariff, you may get a reply like it is Rs. 2000/-. What do you understand by this information?

Actually nothing!

This information is incomplete till the time you know about the meals that are included in Rs.2000/- , the duration for which Rs. 2000/- will be charged, the type of room provided in this amount, whether the amount is inclusive of taxes or exclusive of it.

The requisite information mentioned above is recorded in a document known as 'Hotel Tariff Card' which tells us about the type of rooms, tariff, meal plan, basis of charging and tax structure.

3A.1 Meal Plans:

The room tariff of a hotel may be based on the choice meal plans offered to guests. Depending on the needs of their target audience, hotels offer a variety of meal plans, they are:

(a) European Plan (E.P.):

This plan includes only the room rent and anything that is taken from restaurant or the room service is charged to the guest.

(b) Continental Plan (C.P.):

This plan includes continental breakfast along with the room rent. Anything extra that is taken is charged to the guest.

(c) Bermuda Plan (B.P.):

This plan includes American breakfast along with the room rent.

(d) Modified American plan (M.A.P.):



This plan includes room rent along with breakfast and one of the major meals i.e. Lunch or Dinner. The guest has to specify his preference at the time of arrival. This plan is also known as half board plan or Demi Pension.

(e) American plan (A.P.):

This plan contains room rent and all the major meals i.e. breakfast, lunch and dinner. It is also known as all inclusive plan and in French it is known as En Pension.

European plan

In this case only the lodging i.e. bed is offered. Thus the charges are made for lodging only. The client is free to take or not to take teas, breakfast, and meals in the hotel. He has a choice of eating at any other good restaurant. The guest is booked to pay for lodging only and is charged separately for all other things or services he enjoys or consumes. This system is generally followed by youth hostels or hotels which are situated in metropolitan cities. European plan hotels fix the prices of rooms separately so that guest may either have their meals in the hotel dining at its regular prices or go to the other restaurant. In India most of the hotels are being run on European Plan. Almost all the public sector hotels are run on this basis.

Continental plan

In the case of continental plan bed and breakfast are included in the charges. Thus bed is offered along with breakfast and the client is, however, free to take his meal and tea as he likes. Thus the guest tariff includes lodging and breakfast and for other he is separately billed.

American plan

Hotel where American plan is prevalent, board lodging is provided in the charge. The tariff fixed includes board and lodging. It is an all inclusive full board tariff. Accommodation and three meals daily are included in the price of the room. It includes bed, breakfast and two principal meals and evening tea. It does not include EMT nor coffee after lunch, or dinner. It is also known as 'En pension' or full board plan.

This means that guest's day ends about 24 hours after his arrival that is; the guest arriving between lunch and dinner is entitled to retain his room until the next afternoon



and to have dinner the first night and breakfast and lunch the following day for the fixed rate.

Modified American plan

The tourists mostly prefer this plan, as it is comparatively flexible. It is offered in most of the good hotels and is normally by arrangement. It includes hotel accommodation, breakfast and either lunch or dinner in the price of the room. Thus, in this type of accommodation bed and breakfast and along with it one principal meal, lunch or dinner, at the discretion of the client is also included. It generally includes continental breakfast and either lunch or dinner in the room rates. It is also known as ' demi-pension '.

3A.2 Comparing the meal plans



NATIONAL COUNCIL FOR HOTEL MANAGEMENT & CATERING TECHNOLOGY

Meal Plan	Other Name	Inclusions	Preferred by
European Plan	Room only Plan	Room only	Business Hotels, Transit Hotels, Motels
Continental Plan	Bed & Breakfast Plan	Room + Continental Breakfast	Business Hotels
Bermuda Plan	Bed & Break fast Plan	Room + American Breakfast	Hotels with lot of sight seeing around such as historical/heritage destinations
American Plan	Full Board / En Pension	Room + Continental Breakfast+ Lunch+ Dinner	Resorts
Modified American Plan	Half Board/ Demi-Pension	Room + Continental Breakfast+ Lunch/ Dinner	Resorts

3A.3 Uses of Meal Plans

Commercial hotels prefer E.P. because:-



- 1) Since the commercial hotels are situated in urban areas, there are bound to be numerous restaurants in the vicinity. Hence the guest would prefer to keep his option open as far as meals are concerned. Moreover, the hotel may not have a particular cuisine, which the guest likes. Secondly, the business traveler does not want to get tied up to meal timings because of his day round business activities.
- 2) On the other hand the hotel being situated in an urban area would get a plenty of chance guests in their restaurants. Thus their food and beverage income is not restricted to only hotel residents. They do offer meal inclusive plans but only to groups sent by Travelers Agents and company bookings for conventions, seminars etc.

Resort Hotels prefer MAP/AP because:

- 1) These may be situated in an isolated place with hardly any restaurants in the vicinity. Guests, therefore, would prefer to have meals in the hotels. For tourist wishing to go site seeing during the day, MAP would be more appropriate.
- 2) The hotel itself benefit from this plan since it relies only on resident guests for their food and beverage income. The continental Plan lies between the A.P. and E.P. thus, it may be offered by commercial hotels as well as resort hotels as an alternative to the E.P. and M.A.P.

3A.4 Basis of Charging of Room Tariff

There are different basis of charging room tariff which decide the duration for which a guest can stay in his room by paying one unit of the charge. Different basis of charging commonly followed are listed as below:

(I) Fixed Check Out Time Basis:

In this system a particular time of the day is fixed as check in/out time. It may be either 10.00 hrs or 12 noon. Mostly the hotels follow 1200 hours check in/out time. It is the most commonly followed basis of charging as it gives them a control of their check-in and check-out time and thereby enabling them to accept advance bookings for their rooms. This is advantage to our hotels as it earns more revenue for the hotel.

It has a major disadvantage of losing its goodwill as the customers are not satisfied with the billing. For example suppose a guest checks in at 10.00 hrs of 17th.



November and checks out at 1400 hrs of 18th November and the check-out time is 12 Noon, then he will be charged for 3 days. Thus we see that even though he is staying for just one day and 4 hours but he is charged for 3 days.

(II) Twenty Four Hours Check out Time Basis:

In this system the guest is charged according to the time of arrival that means that one day is calculated from the time he arrives in hotel till the same time next day. This is advantageous to the guest but earns less revenue to the hotel, for example let us consider same example as given above through this system he will be charged only for 2 days. In this basis hotels find it difficult to take advance bookings as they don't know what time of the day their rooms will be available for the next guest.

(III) Night Basis:

In this system guest is charged according to the number of nights he spent in the hotel. This system is usually found in resort hotels. In order to calculate night basis charges the guest should have stayed for a minimum period of nights. For example suppose a guest checks in 10.00 hrs on 17th November and checks out at 14.00 hrs on 25th Nov. then he will be charged for 8 nights.

(IV) Day Rate Or Day Used Rate Basis: It is another form evolved from night basis and room rent is charged for maximum 6 hours including in the stay which is never overnight.

3A.5 Fixation of room tariff

Price is one of the major elements involved in the marketing and positioning of a product or service. The price of goods and services of a hotel should cover the cost of production and overheads, and include a fair amount of profit, so that the hotel business remains sustainable and profitable. The room of a hotel generates the maximum revenue, so an



accurate and competitive room rent is one of the prerequisites for running a successful hospitality business.

Commonly considered factors while deciding room tariff are as follows:

Competition – rates must be competitive with other hotels in the same vicinity who are providing almost the similar services and facilities.

Customer's profile- social status and financial status, i.e, paying capacity, should be kept in mind.

Standards of services- standards of services provided by the hotel are important while fixing room tariff.

Locality – the locality in which the hotel is situated gains prominence while fixing the room rate.

The surroundings, cost of land and building architecture also needs a great deal of consideration because the hotel proprietor spends crores of rupees in building, decor and furnishing and thus needs a fair and equitable return on his investment.

Amenities- various amenities the hotel provides to the guests do count when the room rate is considered.

Room location- the location of the room also matters a lot. Front room and rooms facing better views would cost more than dark rooms, corner rooms or rooms away far away from the elevators.

Brand name- All business establishments charge a premium for their brand value and hotel industry in no exception to it.

Three common approaches to deciding room tariff are given as below:

1. Market Based Pricing:

Market based pricing is setting a price based on the value of the product in the perception of the customer. The concept is based on an idea of what the ultimate consumer of goods and services, i.e the guest is willing to pay and then use this as a starting point. In this case, the hotel works backwards as it first makes an accommodation product available at



a price that a guest is willing to pay rather than first readying the product and then deciding its tariff on the basis of costs involved.

This approach is common sense approach. Management looks at comparable hotels in the geographical market and sees what they are charging for the same product. The thought behind this is that the hotel can charge only what the market will accept, and this is usually dictated by the competition.

There are many problems with this approach, although it is used very often. First, if the property is new, construction costs will most likely be higher than those of the competition. Therefore the hotel cannot be as profitable as the competition initially. Second, with the property being new and having newer amenities, the value of property to guests can be greater. The market condition approach is really a marketing approach that allows the local market to determine the rate. It may not take fully into account what a strong sales effort may accomplish.

Close observation of market trend approach further divides it into four types:

- Competitive Pricing : Charge what the competition charges
- Follow the leader Pricing : Charge what the dominant hotel in the area charges
- Prestige Pricing : Charge the highest rate in the area and justify it with better product, better service levels, etc
- Discount pricing : Reduce rates below that of the likely competitors without considering operating costs

2. The rule of Thumb:

The rule of thumb approach sets the rate of a room at Rs. 1 for each Rs. 1000 spent on the project cost per room, assuming 70 % occupancy. In case the occupancy percentage is expected to be more than 70% then the rate of a room can be less than Rs. 1 and on the contrary if the occupancy is expected to be less than 70 % then the rate can be more than Rs. 1. For example, assume that the average construction and furnishing cost of a hotel room is Rs. 30,00,000/- the average rack rate of hotel room in this hotel using thumb rule will be Rs. 3000, as illustrated below.

1000:	1
30, 00,000:	3000



The inflation cost is kept in mind while fixing the rack rate. For example if a hotel was built 50 years ago at the cost of Rs. 50,000/- per room than as per the rule of thumb the rack rate per room will be Rs. 50/- only which is not a financially viable rate option. To find out the current rack rate either the present asset value is evaluated or the net present value of Rs. Invested 50 years ago is calculated, keeping in view the inflation and the resultant devaluation of currency.

The rule of thumb approach to pricing rooms also fails to consider the contribution of other facilities and services provided by the hotel in generating revenue. As hotel generates revenue from sources like food and beverage, conference, laundry, telephone etc so it must be a part of calculation while deciding room tariff for the hotel.

3. The Hubbart formula :

The Hubbart formula, which is a scientific way of determining the room rent , was developed by Roy Hubbart in America in the 1940s. It resolves all the problems of the rule of thumb approach.

$$\frac{\text{ROI} + \text{Operating expenses} - \text{Non room revenue}}{\text{Projected rooms sold per day} \times 365}$$

Projected rooms sold per day X 365

The following steps are involved in calculating the room rent according to Hubbart formula :

- Calculate the desired Return on Investment by multiplying the desired rate of return by the capital investment.
- Calculate the desired profit after deducting the income tax.
- Calculate fixed expenses and undistributed operating expenses including depreciation, interest, insurance, Human resources, marketing, maintenance, electricity, general expenses etc
- Estimate non room revenue. Non room revenue department includes Food and beverage, conferences, health club, laundry etc



- Give average projected room occupancy for a day and multiply it by 365 to find the projected number of rooms sold per year.
- Calculate the average room rate by solving the equation of the formula.

Illustration:

Hotel 'XYZ' having 40 rooms is constructed at a project cost of Rs 10 crores. The owner's capital is Rs. 6 crores on which he is expecting 20 % ROI while the remaining capital is arranged through a bank loan at an interest rate of 15% per annum. The income tax rate is 30 % and the hotel is expected to make 60% occupancy. The operating expenses are estimated to be Rs. 2 crores while the hotel is expecting Rs. 1 crore as non room revenue in the first year of its operation. Calculate Average rack rate with the use of Hubbart formula

Solution: Desired ROI- Rs. 60000000 x 20 % = 12000000

Total room nights = 40 x 365 = 14600

Total expenses = Rs. 20000000 + 6000000 (bank interest) = 26000000

Non room revenue = Rs. 10000000

Pre- tax income - $\frac{30 \times 12000000}{70}$ = 5143857

5143857 + 12000000 = 17143857 /-

$\frac{17143857 + 26000000 - 10000000}{14600}$

= **Rs. 3783 /-** is estimated as average rack rate for the hotel as per Hubbart formula.