

TARIFF STRUCTURE

Basis of Charging Room Rent

Check-in Time: This is the time when a guest arrives in a hotel for the purpose of stay only.

Check-out Time: The time when a guest leaves or vacates his room is called check-out time. There are three ways or basis of charging room rents.

1. **24 Hour Basis:** The guideline under this basis for the purpose of calculating the room rent is the check-in time. A guest has to pay for one day or 24 hours calculated from the check-in time. Under this basis and other basis as well, whether the guest stays for a full period or a part of it; the minimum charge will be for a day. Usually this basis is being adopted by Resort Hotels.
2. **Night Spent Basis or Night Basis:** Under this basis the guideline for the purpose of calculating room rent is the number of night spent by the guest. This basis is usually adopted by Motels. The time of night is specified in such a case. In fact only the numbers of nights are taken into consideration with respect to the check-in time. Even if a guest does not spend a night, but stays during the day time, then also he has to pay one day's room rent.
3. **Check-Out Time Basis (COT Basis):** This is the most popular basis mainly adopted by Commercial Hotel, Transit Hotels and sometimes Resort Hotels. Under this basis the guideline for the purpose of calculating the room rent is the check-out time, which is fixed by the hotel, by which time a guest will have to vacate the rooms or else he is charged for another day. Under

this basis guests are allowed to stay during the hotel day only. Hotel day is a cycle of 24 hours that starts from the check-out time.

The selection of check-out time depends on the time when maximum number of flights, long distance trains and busses arrive. It is popular because both guests and hotel are benefited. It is beneficial for a walk-in guest as he can expect a vacant room at the check-out time. Adopting this basis, a hotel can deploy rooms to more number of guests and plan its schedule.

As per this system, a particular time of the day is fixed as the check-out time. The most common is a 12 noon check-in / check-out system. According to this, the day starts at 12 noon daily and ends at 12 noon the next day, immaterial of the time at which the guest checks-in. If the guest has checked-in in the morning before 12 noon and intends to stay overnight, then from the point of his check-in, till 1200 hrs. That day makes one day and from 1200 hrs. till the next day, becomes another day. As a result, when the guest stays sometimes for 24 hours or lesser, he could be charged for more than a day. In other words, the same room may be sold twice in the same day.

Since it is not practical for any guest to check in at exactly 1200 hrs. most hotels permit a grace period (of about 2 hours), before and after checkout time. Though the system is good for the hotelier, many guests may think of this system as unreasonable.

Day Use Basis: This is also known as Day Basis. This is not an independent basis of charging room rent. This basis is adopted by hotels in combination with some other basis of charging room rent. Under this basis, guests are allowed to use rooms during the day time only and maximum for a period of six hours. Day use basis is adopted by Transit

Hotels and Commercial Hotels along with check-out time basis generally, during lean season. Under this basis, guests are offered a maximum discount of 50%.

Food Plans

Food Plan is a scheme or package through which we offer accommodation as well as food to the guest against a fixed rate. Following are the food plans commonly available in hotels.

1. European Plan (EP): Under this plan, guest is offered only accommodation. Early Morning Tea (EMT) is optional.
2. Continental Plan (CP): Under this plan, guest is offered with accommodation and Continental Breakfast. Early Morning Tea (EMT) is optional. All additional charges are considered extra.

Continental Breakfast

Fruit Juice

(fresh / canned)

Bread / Toast

(served with butter & preserves)

Tea / Coffee

3. Bermuda Plan (BP): Under this plan, guest is offered with accommodation and American Breakfast. Early Morning Tea (EMT) is optional. Also known as B & B plan. All additional charges are considered extra.

American Breakfast

Fruit Juice

(fresh / canned)

----- Cereals

(served with hot or cold milk)

Eggs to Order

----- Bread / Toast

(served with butter & preserves)

Tea / Coffee

4. American Plan (AP): Under this plan, guest is offered with accommodation along with two major meals and two minor meals. Early Morning Tea (EMT) is optional. This plan is also known as 'all inclusive plan' or 'full board' or 'en pension'

5. Modified American Plan (MAP): Under this plan, guest is offered with accommodation along with one major meal and one minor meal. Early Morning Tea (EMT) is optional. . It is also called as 'demi pension' or 'half board'. This facilitates the guests to eat out for one meal. It is usually used for groups where meal coupons are provided to the guests (coupon is valid only for a day) and the coupon cost is included in the room rent.

The use of these plans:

Commercial hotels prefer EP/ CP/ BP because:

1. Commercial hotels are situated in the urban areas, there are bound to be numerous restaurants in the vicinity. Hence the guest will 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.
2. On the other hand hotel being situated in an urban area would get plenty of chance guests in their restaurants. Thus their F&B income is not restricted to only hotel residents. They do offer meal inclusive plans but only to groups sent by travel agents and company bookings for conventions, seminars, etc.

Resort hotels prefer AP/ MAP because

1. They may be situated in an isolated area with hardly any restaurant in the vicinity. Guests therefore prefer to have meals in the hotel. For the tourists wishing to go sight-seeing during the day, an MAP will be more appropriate.
2. The hotel itself benefits from this plan since the hotel relies only on the resident guests for their food and beverage income.

EP, CP, BP are the popular plans adopted in Commercial and Transit Hotels. They mostly get businessmen as clients, who normally have their major meals in independent restaurants. The Commercial hotels also get plenty of walk-in guests.

Go Plan: This is not a food plan in true sense, but is a kind of service provided by chain hotels. In this plan a guest is provided with temporary credit facility and they can settle their bills at their last unit (stay) of their

tour program. Guests who come through Travel Agents attached to that hotel and Regular guests can avail this facility.

It is an adjustment made in the settlement of accounts.

If a guest stays in different hotels of the same chain in the course of his tour, his bills will be forwarded to his next destination every time he changes the place of stay. The guest can make the payment at the last hotel he visits belonging to the same chain.

FACTORS EFFECTING ROOM TARIFF:

- **COST**- the total expenditure that is incurred in providing service and product to the ultimate consumer of the hotel service is the cost. The higher the investment that has been made in a hotel property, the higher would be the room rent.
- **LEVEL OF SERVICE**- a hotel offering the best services or more services like spa, gymnasium, banquet, specialty restaurant, etc. will charge a higher room rent in comparison to other hotel offering limited services.
- **AMENITIES**- hotel providing more amenities in room will charge higher price for their rooms.
- **FOOD**- what all meals are provided in room package (food plan) will also affect room prices.
- **COMPETITION**-the higher the competition in the market lower the prices.

- **TARGET MARKET**- the target market governs the rack rate of a hotel. Hotels are priced on the basis of the spending power of the target guest
- **LOCATION**- location of the hotel effect the room tariff e.g. downtown hotels or hotels near tourist destinations or sea facing are more expensive than other hotels.

Room Tariff

Room rates of hotels are technically known as Tariff. It is statutory on the part of the hotel to display its tariff to the guests. There are two ways to display a tariff structure:

1. Through Tariff Card
2. Through Tariff Board

A tariff card is used in large and medium sized hotels. They use the tariff card with details of their rooms. These are available at the Reception Desk and also in each and every guest room. A tariff board on the other hand is used in small sized hotels. The board is placed behind the Reception Counter where it will be visible all the guests.

Following are the information obtained through a Tariff Card:

1. Room Rates against each plan
2. Government Taxes as applicable, e.g. Expenditure Tax, Entertainment Tax etc.
3. Other charges levied by the management of the hotel, e.g. Service Charge.
4. Basis of charging Room Rates.
5. Brief description of the facilities available in the hotel.

The various taxes applicable, varies from place to place depending on Government policies.



IHM NOTES

<p><i>Hotel IHM</i></p> <p>A super deluxe hotel set amidst lush green landscaped lawns, in the heart of the city.</p> <p>The hotel has 350 rooms and suites, centrally air-conditioned, direct dial telephone, mini bar and internet, in all rooms. It has five restaurants serving Indian, Oriental and European cuisines and two Bars.</p> <p>Other facilities provided are Swimming Pool, Secretarial Service, Health Club, Travel Desk, CarRental, Bank, Chemist, and 24 hours Business Centre.</p> <p>Arrangements can be made for Golf, Tennis, Surfing, Horse Riding and City Tour.</p>	<p>Accommodation</p> <table border="0"> <tbody> <tr> <td><i>Single Occupancy</i></td><td>Rs. 4000.00 Rs. 5000.00</td></tr> <tr> <td>EP</td><td>Rs. 8000.00</td></tr> <tr> <td>CP</td><td>Rs. 6500.00</td></tr> <tr> <td>AP</td><td></td></tr> <tr> <td>MAP</td><td></td></tr> <tr> <td><i>Double Occupancy</i></td><td>Rs. 7000.00 Rs. 8500.00</td></tr> <tr> <td>EP</td><td>Rs. 10000.00</td></tr> <tr> <td>CP</td><td>Rs. 9500.00</td></tr> <tr> <td>AP</td><td></td></tr> <tr> <td>MAP</td><td></td></tr> <tr> <td><i>Suites</i></td><td>Rs. 12000.00 Rs. 14000.00</td></tr> <tr> <td>EP</td><td>Rs. 18000.00</td></tr> <tr> <td>CP</td><td>Rs. 16500.00</td></tr> <tr> <td>AP</td><td></td></tr> <tr> <td>MAP</td><td></td></tr> </tbody> </table>	<i>Single Occupancy</i>	Rs. 4000.00 Rs. 5000.00	EP	Rs. 8000.00	CP	Rs. 6500.00	AP		MAP		<i>Double Occupancy</i>	Rs. 7000.00 Rs. 8500.00	EP	Rs. 10000.00	CP	Rs. 9500.00	AP		MAP		<i>Suites</i>	Rs. 12000.00 Rs. 14000.00	EP	Rs. 18000.00	CP	Rs. 16500.00	AP		MAP	
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	<p>(Above rates are excluding taxes)</p> <p>Luxury Tax - 10%</p> <p>Expenditure Tax - 10%</p> <p>For Group Booking please contact the Front Desk</p>																														

Front Side

Back Side

Note: Packages, plans and discounted rates can be negotiated at the time of reservation.

Each hotel has different room rate categories based on roomsize, location, view, furnishing and amenities. Each category is assigned a rack rate based on the number of pax occupying the room.

RACK RATE: is the standard price determined by the management. hotel design a standard rate for each category of rooms offered to the guest. These are the highest possible rate for each category of rooms.

Special Rates: There are certain circumstances when special reduced rates or discounts may be offered on rack rates during the low occupancy period. The special rates are:

The room rate which is printed on the tariff card / board is called the **Rack Rate** and is the highest quoted rates offered generally.

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Special Rates

There are certain circumstances when special reduced rates or discounts may be offered on rack rates. The special rates are:

Corporate rates: these are the promotional rates to attract the corporate market segments. These are generally 10 to 20 % below the rack rate.

Package Rates: It covers all expenses of accommodation, food, transportation, sight-seeing, entertainment, etc. These are normally for a fixed period of time, e.g. 4 days and 3 nights. These can be meeting, marriage or holiday's package.

Seasonal rate: depending on the desirability of a location at a particular time of the year, destination may have a high or a low season and rate also change accordingly.

Advance purchase rate: it is a new concept; heavy discounts are given on room booking done in advance. Discounts depend upon advance period and number of rooms booked.

Week day and week end rates: hotel occupancy change with regard to the days of the week and rate goes low with decrease in occupancy and goes up with increase in occupancy, e.g. down town hotels are busy on week day whereas resorts are busy on weekends.

Day and half day rate: rates offered to guest using room for few hours.

Group Rate: Groups (G.I.T - Guest in Transit) are given special rates due to the number of rooms taken by them at a time. A group under standard stipulation comprises of 15 guests or more. Based on the discretion of the Management, the group leader may be given a complimentary room for a minimum of 15 paying customers. Guests who do not come into any of the above groups are called as 'F.I.Ts' or Free Individual Travellers. i.e., they are not part of any group or company enjoying special rates. When these are Indians or Domestic clientele, they are referred to as 'D.F.I.T'. or 'Domestic Free Individual Traveller'. Similarly, if the guest is not a domestic traveller i.e., if he is a foreigner, then he is called as 'F.F.I.T'. or 'Foreign Free Individual Traveller'.

Tour rates: these are special discounts that are given to wholesalers who operate series of tours for groups arriving and departing together.

Company Guaranteed Rates (CGR): Companies which give regular guaranteed business to the hotel are given discounts.

Company volume guaranteed rate (CVGR)-Based on the room night potential of different companies, certain hotels give a special rate to those companies which contribute a large volume of room nights. This special rate offered came to be called as the 'Company Volume Guaranteed Rate' (C.V.G.R) or 'Company Guaranteed Rate' (C.G.R.). The higher the volume of business, the higher was the percentage of discount given. For this purpose, all those companies which offer a large quantum of business could be 'A' rated. As the contribution figure dipped, the company rating would also drop to 'B' or even 'C' for those with a relatively poor volume of business.

Many hotels today, in order to accommodate all categories of employees from one particular organisation, have gone ahead and offered very low rates to the lower down officers, and higher rates to the top brass of the company, based on their entitlements and expenditure capabilities. A record of the room night contribution (R.N.C.) of individual companies is maintained either on a computerized system or manually by an alphabetically indented register. Periodically, the companies are informed of their volume contribution. If the expected room night contribution was not maintained by any one company, they would fall to a lower rating or even be left out of the C.G.R. list after the total period of assessment

Employee rate- Employees of major hotel chains have a special employee rate for all employees at their member hotels within the chain. This is however based on the availability of space and policy of the individual hotel.

Travel agent rate: travel agents provide substantial volume of business to hotels; hence hotels offer them special discounts and commissions.

Government rates: these are the discounts given to the government official travel for official purpose.

Educational rate: these are the special rates offered by hotels to students and educationists who have a limited travel budget. They provide a large chunk of repeat business to hotels.

Membership rate: rates offered to the guests who are the member of influential organization or memberships offered by hotel that provide volumes of business to hotels.

Introductory rate: rates offered by new hotels or hotels providing new services to the market.

Complimentary rates: these are rates where hotel does not charge the room rent from a guest, these are provided to tour or group leaders, tour operators, travel agencies, local dignitaries, and media personnel's.

Promotional Rates: For publicity and promotion special discounted rates are offered to CIP's. These discounts are authorized by senior staff members.

Off Season Rates: Resorts usually have separate tariff for peak season and off season, the off season rate being much lower.

Staff Discount: In chain hotels, employees may be given discounts on room rates for hotels belonging to that chain. This is given on space available basis.

Airline/Crew Discount: For their crew members, airlines are given a fixed discounted rate. Most airlines enter into a contract with hotels in different cities where its flights commute, wherein staff of the airline (crew) is given a very special rate for a fixed period. Their duration of stay may be a few hours up to a maximum of 24 hours. There is also another special rate negotiated for the lay-over passengers. The food-plan applied would be based on the requirement, but the food element computed is also on a discounted basis.

Crib Rate: Reduced rates are applicable for children below five years.

Extra Bed: A fixed charge generally one fourth of the room rate. As most five star hotels today do not have single rooms, but have only double rooms which could accommodate a minimum of two guests, a third person if present, is given an extra bed and charged. This charge is in most hotels levied even if an extra bed is not given. The rate charged could be approximately 20 to 25% of the room rate.

F.H.R.A.I. DISCOUNT: The Federation of Hotel and Restaurants Association of India (F.H.R.A.I) is a major association of hotels and restaurants in India. As a gesture of goodwill for members of the same fraternity, the association issues membership cards to the Proprietor / Partners / Chairman / M.Ds of these establishments, which entitles them to a special discount(presently 30% on room rent, food and beverage (excluding liquor), if paid by cash and 25% if settled through a credit card. The percentage of discount and other conditions are subject to change).

Other rates: Besides the above, special rates may also be given to a hoard of other category of people based on the discounting policies of the management. Some of these might be commercially important persons (C.I.Ps) for publicity and promotion purposes, influential persons like company directors, decision makers, top executives, travel writers, etc. Such discounts have to be authorised by a senior member of the Management.

ROOM TARIFF FIXATION:

A hotel fixes the room tariff on the following two bases:

COST BASED: cost based pricing is a room rent determination technique that covers the basic cost of operations at a given level of service, plus the pre-determined % of return on investment.

Cost + fixed profit % = selling price

Rule of thumb: this is also known as **cost rate formula or 1:1000 ratios**. This is the oldest method of determining the room rent of any hotel. According to this approach, the room rent should be fixed at the rate of Rs. 1 for each Rs. 1000 spent on the construction and furnishing of the room (cost per room or room cost), assuming that the average occupancy is 70% for the year.

Cost per room or room cost = cost of (land+construction+fixture+fitting)

Total number of rooms

Drawbacks associated with rule of thumb approach:

- Consider only cost incurred in constructing rooms but does not consider other factors like inflation, competition, fixed expenses

- Does not consider return on investment (ROI).
- Consider average occupancy at 70% which is not always achievable.
- Does not consider depreciation of fixed asset and elevation of land cost.
- Approach fails to consider unexpected expenses, and contribution of other department.
- If the property is new, construction cost will be high in comparison to other hotels, that will effect profitability.
- Approach does not take care value of property into consideration, if the property is new, amenities are new.
- Local market and competition rules your rates

Hubbart formula: Also known as **bottom up** approach. This is a scientific way and most recent approach, of determining the room rent, was developed by Roy Hubbart in America in the 1940s. It resolve all the problems of the rule of thumb approach. To determine the **average selling price** per room, the approach consider operating cost, desired profit and expected number of the rooms sold.

8 steps of Hubbart formula approach

Calculate the hotel's desired profit by multiplying the desired rate of return by owners' investment.

Calculate pre-tax profit by dividing desired profit (step1) by 1 minus the hotel tax rate. iii. Calculate fixed charges and management fee. The calculation includes estimating depreciation, interest expenses, property tax, insurance, amortization, building mortgage, land, and rent and management fee.

Calculate undistributed operating expenses. The calculation include estimated administrative and general, data processing, HR, transportation, marketing, property operation and maintenance and energy cost.

Estimate non room operated department income and loss, that F&B, and other departments income or loss.

Calculate the required rooms' department income. The sum of pre-tax profit (step2), fixed charges and management fee (step3), undistributed operating expenses (step 4), and other operated department income less other operated department income (step 5) equals the required room department income.

Determine the room department revenue. The required rooms department income (step6) plus room department expenses of payroll and related expenses, plus other direct operating expenses, equals the required room department revenue.

Calculate the average room rate by dividing room department revenue (step7) by the expected number of rooms to be sold.

Doubles sold daily = double occupancy rate * total number of rooms * occupancy %

Singles sold daily = rooms sold daily – number of double rooms sold daily

Singles sold daily * x + doubles sold daily * (x + y) = (average room rate) * (total number of rooms sold daily)

Where: x = price of singles; y = price differential between singles and doubles;
x + y = price of doubles.

MARKET BASED: market based pricing is setting a price based on the value of the product in the perception of the customer. 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, and then it tries to cut down on the cost to achieve a reasonable rate of return on that basis.

Some common methods of market based pricing are:

As per Competition: in this approach market looks at comparable hotels in the geographical market and sees what they are charging for the same product.

Market tolerance: checking competing hotels' best available rates for a room, by calling up the competitive hotel without disclosing your identity.

Rate cutting: lowering of rates to increase occupancy levels, especially during off season.

Inclusive and non-inclusive rate: charging rates on the basis of meals provided.

Guest requirement: varying room tariff as per guest requirement, e.g. early check in on CO basis or late check out on MAP basis.

Prestige pricing : product and prices are fixed much higher than other hotels , it works on the mentality that if it is expensive it must be good.