

Room upgrade programs can increase hotel profits up to 35 percent

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With travelers spending more than \$278 billion on accommodations in the U.S. last year, hotel chains that explore creative new ways to engage customers have the potential to significantly increase their profits. Standby upgrade programs are an innovative way for hotels to increase annual revenue by as much as 35 percent while also filling frequently unused premium rooms, creating awareness for unique room features, and improving guest satisfaction and loyalty. However, new research in an upcoming edition of the INFORMS journal *Manufacturing & Service Operations Management* finds that the success of a standby upgrade program is directly tied to the type of guests who frequent the hotel, and the types and quantity of rooms available.

By analyzing 54 U.S. [hotel](#) properties, the study's authors, Ovünç Yilmaz, Pelin Pekgün, and Mark Ferguson, from the Moore School of Business at the University of South Carolina, found that standby upgrades are especially lucrative when the hotel has higher ratio of premium-to-standard rooms and guests are myopic (i.e., non-repeat guests who may not be able to predict the chances of being awarded a standby upgrade), and can lead to a 30-35 percent revenue increase. In addition, the authors found that upscale hotels whose rooms have unique features (e.g., city vs. ocean views) can benefit more from standby upgrades than upscale hotels with mostly standard rooms when facing myopic guests. The same benefit applies for midmarket hotels with a higher ratio of premium rooms.

In contrast, upscale airport or business-oriented hotels with a large

number of premium rooms and a variety of features may actually decrease the attractiveness of standby upgrades, resulting in a revenue increase of less than 5 percent. The customer base for these hotels is more likely to consist of repeat guests, who recognize the higher likelihood of being awarded a standby upgrade and thus act strategically, resulting in the cannibalization of direct sales of the premium rooms.

While hotels may be tempted by the potential for a significant revenue increase, an understanding of the hotel's customer base, combined with the right ratio of standard and premium rooms, is the key to successfully integrating a standby upgrade program.

More information: Yılmaz, Ö., Pekgün, P. and Ferguson, M. (2017) "Would You Like to Upgrade to a Premium Room? Evaluating the Benefit of Offering Standby Upgrades" *Manufacturing & Service Operations Management*, Forthcoming.

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