



# TARIFF STRUCTURE

**TARIFF:** It is the published room rate.

**TARIFF CARD:** Hotels display their room rent on tariff card, which provide information about the room rate for different types of rooms available in the hotel.

## **A) BASIS OF CHARGING:**

### Room Tariff Fixation

#### **COST BASED PRICING**

RULE OF THUMB      HUBBART  
APPROACH            FORMULA

#### **MARKET BASED PRICING**

- AS PER COMPETITION
- RATE CUTTING
- MARKET TOLERANCE
- GUEST REQUIREMENTS
- INCLUSIVE AND NON INCLUSIVE RATES

## **1) MARKET BASED PRICING**

It is setting a price based on value of the product in the perception of the customer.

**A) Competition:** Rate must be competitive (at the same time it should be able to produce adequate revenue to meet fixed obligation) with other hotels of the same standards and providing almost similar services and facilities as provided by other hotels situated in the same vicinity of the city.

**B) Rate Cutting:** lowering of rates to increase occupancy level, especially during off season also at a time of the year or day of the week when you need business.

**C) Guest Requirements:** Various room tariffs as per guest requirements e.g.: early check -in on CP basis or late check out on MAP basis. Various amenities the hotels is going to provide to the guest such as air conditioning in all rooms , carpeting ,provision of swimming pool, tennis court equipment, arrangement for conferences halls , lobbies, lawns ,parking spaces ,special aspect of Continental & Indian cuisine, cutlery and crockery, modern equipments and machinery.

**D) Market Tolerance:** Checking competing hotels best available rates for a room. These rates can be found out by hotels by calling up the competing hotels without disclosing their identity.

**E) Inclusive and Non Inclusive Rates:** Charging room rates on the basis of meals provided on a CP/MAP/AP basis.

## **OTHERS ARE:**

- **Customer Profile:** Category of customer coming to your hotel .The social status and financial status i.e. Paying Capacity, should be kept in mind.
- **Locality:** Locality where hotel is situated whether posh area-Shopping & other facilities.
- **Room Location:** Front room and rooms opening to better view would cost more than dark rooms, corner rooms.

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- **Publicity:** The amount of publicity done by hotel. The type of expense has to be adjusted somehow as it has no source of return but is a must in popularizing the various service of a hotel.
- **Standard Of service:** More amenities, higher the standard and so also higher the room rate.

**Tariff fixation is also done on following basis:**

1) **12 Noon Check in and Check Out Basis:** It is most common way of fixation of tariff .The hotel fixes a specific time usually 12:00 noon as check out time which means guest charging cycle begins from 1200 noon and finishes at 12:00 noon on the next day.

E.g. Rita arrives into hotel at 5:00am (16<sup>th</sup> July) and after a day rest , she has to catch a train at 11:00pm (16<sup>th</sup> July).She checks out the hotel at 10:00pm (16<sup>th</sup> July).Rita has to pay 2nights room charges i.e. 15<sup>th</sup> July (12:00pm )to 16<sup>th</sup> July (12:00)pm and 16<sup>th</sup> July 12:00pm to 17 July 12:00pm.

2) **Twenty Four Hours Basis:** In this system the charges of room starts from the time when the guest checks in and he has to pay one day up to 24hrs from the time of arrival.

3) **Night Basis:** In this system the guest is charged on the basis of number of nights that he spends in the hotel irrespective of time of arrival. If a guest does not stay at night a half day rent is charged from him.

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2) **COST BASED PRICING:**

a) **Rule Of Thumb Approach:** Room rent is fixed at the rate of Rs 1 for each Rs 1000 spent on construction and furnishing of the room. This is also called as 'cost rate formula.'

E.g. assume that the average construction cost of a hotel room is \$80000.Using the \$ 1per \$1000approach results in an average selling price of \$80per room.

B) **Hubbart Formula:** It is the old tradition way of determining the room rent of a hotel. Developed by ROY HUBBART in America in the 1940's , keeping in consideration operating expenses, room sales, and pre-desired return on investment.

**STEPS:**

- 1) Total Investment = Owners Capital +Loans  
Return on investment (ROI) = Total investment X Return Percentage
- 2) Total Expenses = Operating expenses( Include expenses directly associated with selling and cleaning rooms and providing food services)  
+ Taxes and insurance  
+ Interest paid on loans  
+ Depreciation on book value
- 3) Gross Operating Revenue = Total Expenses+ROI

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4) Calculate non-rooms income : Hotel can make profit from food & beverage dept. or from telephone toll charges or laundry.

5) Revenue to be generated by room =Gross Operating Revenue –Revenue generated from other sources (e.g. food & beverage sales, laundry, rent and lease of the hotel area, fitness centre etc)

6) Calculate total no of room available during the year=Total no of room in the hotel x No of days in the year  
\*Make the provision for expected average vacancy that is expected during the year. This step will provide total no of rooms with the no of days in the year.

7) Average daily rate=Revenue generation from room/total no of rooms.

**Hubbart formula is useful because**

- It provides an adequate return to the hotel's owner.
- Covers the hotel's fixed cost.
- Considered the hotels operating cost
- Accounts for all the hotel's non -room income
- Result in a definite and justifiable rate goal.

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**DIFFIRENT TYPES OF TARIFFS**

**ROOM RATES**

-Rack Rate

-Seasonal Rate

-Week Day/Weekend Rates

-Group Rate

-Travel Agent Rate

-Airline Crew Rate

-Educational Rate

-Introductory Rate

**-Package Rate**

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- Corporate Rate

-Advance Purchase Rate

-Day/Half day Rate

-Tour Group Whole Sale Rate

-Company Volume Guaranteed Rate

-Government Rate

-Membership Rate

-Complimentary rate

-Crib Rate

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 Meeting    Meal    Marriage    Holiday  
 Package    Package    Package    Package



- 1) **Rack Rate:** Standard rate for each of the category of rooms offered for accommodation to guest. The standard rate of a particular type of room before any discount is called rack rate. Usually given to walk-in guest.

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- 2) **Corporate Rate:** It is a promotional rate to attract the corporate market segment .It is generally 10 to 20% lower than the rack rate.
- 3) **Seasonal Rate:** Season and resort hotels which usually have fluctuating demand change their rate usually as per the seasonality and offer different rated for one season and off season.
- 4) **Advance Purchase Rate:** Though popular in the airline industry, the advance purchase rate is a relatively new concept in the hospitality industry. It entails heavy discount on room rates when room booking are done in advance .For e.g. a hotel may give more discounts to a booking which is done one month before as compared to a booking which may be only one week in advance.
- 5) **Week Day /Weekend Rate :** Some hotels observe a fluctuation in their occupancy level with regard to the days of the week .The demand for rooms in a hotel may be more on certain days in a week .In vacation / resort hotels the weekend rate would be higher than week day rate as the demand for room is higher on weekends. It would be reverse in the case of a commercial hotel.
- 6) **Day And Half Day Rate:** The day rate charged from guest not staying overnight at a hotel, is lower than the rack rate for e.g. if the checks in at 10am and checks out the same evening at a t around 5pm he may be charged the day rate .Sometimes a guest may wish to stay for a very short duration of the time, not exceeding five hours. This is called Half Day Rate.
- 7) **Group Rate:** As a large group (More than 15 Persons) provides bulk business to a hotel, hotels offers discounted rates to groups. The group rate depends upon the no. Of persons in the group and the frequency of their visits .The rate are negotiated by the sales team of the hotel and representative of the groups.
- 8) **Tour Group:** These are heavily discounted rates for a wholesaler who operates a series of tours groups arriving and departing together.  
E.g. A tour operator may conduct a week's tour of the Golden Triangle (Delhi-Agra-Jaipur) on the 2<sup>nd</sup>, 12<sup>th</sup> and 22<sup>nd</sup> of every month for groups of 20 persons. He guarantees the hotel that it would provide this series of business every month for a period of 1year.
- 9) **Travel Agent Rate:** Travel agent rate sell travel products like hotel rooms, airline booking Etc. on a commission basis to the end users (guest) they provide a substantial volume of Business to hotels offers them special discount and commission .e.g. are Cox & Kings, Thomas Cook.
- 10) **Company Volume Guaranteed Rate:** Hotel may offer a special rate (lower than the rack rate) in order to attract high volume of business from special market segment. It is given when a guaranteed number of room nights within a specific time frame are required. It is important that the company ensures that the room night production is maintained.



- 11) **Airline Crew Rate:** It is special discounted rate for the crew of one or more airline that offer a certain volume of business throughout the year on a consistent and continuous basis.
- 12) **Government rate:** Usually government employees are given per day allowance for their travelling and accommodation and food by their office and some hotels offer them a rate which give them room and accommodation with in that price.  

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- 13) **Educational Rate:** Educational rates are special rates by hotels to students and educationists who have a limited travel budget. They are significant sources of business because of their large number and frequency of visits.
- 14) **Membership Rate:** Membership rates are offered to guest who are member of influential organisation that provide volume of business to hotels .The membership rates are much lower than the rack rates and may also include discount on food & beverage .Special discount rates are given to FHRAI member, UN employees, travel writers etc.
- 15) **Introductory Rate:** It is offered by a hotel on the opening of a new property in town. The introductory rate is generally offered till the hotel is established or it may be revoked at the wish of the management.
- 16) **Complimentary Rate:** When a hotel does not charge the room rent from a guest, it is known as complimentary rate. Given to the tour operators, travel agencies. Also along with the marriage package and bulk booking.
- 17) **Crib Rate:** This is the rate charged for children above five years and below age of 12 years, who are accompanying their parents.
- 18) **Package Rate:** A package offered by the hotel of a combination of one or more hotel of a combination of one or more hotel product or services. Also called bundling. Package rate may include room rent, meals, special arrangement and may also include products and services offered by other service providers like transportation (rail, road and air) sightseeing's and so on. The hotel may offer the following package. **MEETING PACKAGE, MEAL PACKAGE, MARRAIGE PACKAGE, HOLIDAY PACKAGE.**

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### **MEAL PLAN:**

- **European plan:** European plan (EP) consist of room rate only and the meals are charged separately as per actual.
- **Continental Plan:** Continental plan (CP) consist of room rate and continental breakfast. {**Continental Breakfast include** sliced bread with butter ,jam ,honey, cheese, Croissants and Danish pastries, rolls, fruit juice and coffee /tea/hot chocolate /milk.)
- **American plan:** American plan (AP) also known as en pension (full board).It includes room rent and all meals (i.e. breakfast, lunch and dinner.)
- **Modified American Plan:** Modified American plan is also known demi-pension (Half Board).The tariff consist of room rent ,breakfast an one major meal(either lunch or dinner).
- **Bed & Breakfast (B&B) or Bermuda plan:** B&B plan consists of room rent and American breakfast.  
**American breakfast includes:**



- Two Eggs(Fried or poached)
- Sliced bacon or sausages,
- Sliced bread or toast with Jam/jelly/Butter
- Pan Cakes with Syrup
- Cornflakes or other cereal
- Coffee/tea/orange/grape fruit juice

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