Hotel Revenue-Management Experts Question the Value of Group Travel

There's Still Runway for Leisure Demand but Patterns Are Unpredictable

Group travel demand has been steadily recovering from the beginning of the pandemic, but high costs are putting a strain on margins. (Getty Images)

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NASHVILLE, Tennessee — Group travel demand has been on a steady path toward recovery over the past few years, but hotel revenue-management experts are starting to see some softness in performance, leading to some concerns about the future of the segment.

In a roundtable hosted by Hotel News Now at the 2023 Hotel Data Conference, Linda Gulrajani, vice president of revenue strategy and distribution at Marcus Hotels & Resorts, said there's been more negotiating for group travel even with its rates not growing at the same pace as transient.

With wage and food-and-beverage costs increasing, along with marginal growth in rates, Gulrajani said there needs to be a discussion about whether pursuing group travel makes sense today from a profitability standpoint.

“It’s not a popular conversation in the hotels to talk about getting rid of group, but is it reality? Right now, when we are so uncertain about the future mix of business, do you not take group because you’re hoping transient comes back or sticks, or do you take group at a lower rate with not huge profitability with food and beverage?” she said. “It depends on the hotel … when you start looking at group versus transient, it’s a real conversation.”

From left: Marcus Hotels & Resort's Linda Gulrajani, McNeill Hospitality's Jennifer Driscoll and First Hospitality's Jenna Fishel speak during a Hotel News Now roundtable at the 2023 Hotel Data Conference. (CoStar)

Jennifer Driscoll, vice president of revenue management at McNeill Hotel Company, said there have been fewer group booking leads recently, and to make matters even more strenuous for hotels, the expectations are rising.

“They’re starting to get much more aggressive with their asks. The rebates, the commissions, the concessions — all that kind of stuff is getting back to pre-pandemic, which then doesn’t help the bottom line,” she said. “You get a little bit of softness in the group leads that are coming, but now it’s going to be more costly for you to bring that business into the hotel.”

Group booking windows remain much shorter than they used to be. Driscoll said in some smaller markets, the group booking window is between 14 to 30 days.

The reason behind this tightening can be attributed to a drop-off in transient demand, leading to availability up until the last second. Receiving last-minute bookings to fill open spots isn’t something that revenue managers will complain about, but it’s difficult to plan for it, Driscoll said.

“That’s been a big shift,” she said. “It just shows that the transient side is not strong enough because in the past, people knew they had to look further out because of availability. There’s still availability issues.”

There’s still some optimism in the segment, though. Ankur Randev, principal and chief commercial officer at Highgate, said overall, he believes that group business will make a robust return across his portfolio. Plus, some major companies have provided positive outlooks on groups recently.

“I think it’s a very bullish group market. If you look at the brands’ earnings, they’re talking all about it — Marriott, Hilton — and how their trajectory looks on group,” he said. “I mean, Blackstone paid $4.5 billion for Cvent. That’s a good endorsement of where this is heading.”

Status of Leisure Travel

There’s been a deceleration in U.S. leisure demand year over year this summer, but it was to be expected since it was the first segment to fully recover to 2019 levels and international travel opened up, Randev said. Despite the downward trend, demand is still higher than pre-pandemic levels.

Secondary and tertiary markets in drive-to locations saw a huge increase over the past few years, but it’s urban and destination markets that are positioned the best moving forward.

“People are still going to take their destination trips, but then maybe it’s their small drive markets, those small trips, that’s where they start to lean back,” said Jenna Fishel, senior vice president of commercial strategy for First Hospitality.

Highgate's Ankur Randev speaks during a Hotel News Now roundtable at the 2023 Hotel Data Conference. (CoStar)

Leisure demand has a runway to more growth moving forward. Travel from China and Japan remains largely muted, most affecting West Coast markets such as Los Angeles and Hawaii, Randev said.

“That’s largely anybody’s guess on pieces of what’s going on in China for instance; it is a visa issue? Is it a passport issue?” he said. “That demand has abated, but we think it will come. Japan hasn’t fully opened, too, and that’s one of the biggest feeder markets to Hawaii. We haven’t seen that recover.”

The effect of inflation and high leisure rates is also starting to rear its head. Gulrajani said “staycations” seem to be gone due to high prices.

Marcus Hotels’ properties didn’t sell out for Milwaukee’s annual Summerfest music festival this year when it used to be “slam-dunk sellouts,” Gulrajani said.

“They weren’t this year because there’s a lot of people local or within an hour that chose to drive home instead of spending $500 or $600 to stay in a hotel,” she said. “We’ve just outpriced ourselves for some of that business.”

Silvia Camarota, senior director of North America Market Management and Lodging at Expedia Group, said Expedia’s annual travel value index showed that travelers have been weighing price points and getting their money’s worth more than in the past.

“One thing that we have found is that the price and value play a bigger decision in today’s travelers than before,” she said. “It’s really about the experience … this could be indicative of the inflation, the rising costs everywhere, but they are being smart about their decisions right now.”