# School of Hospitality

Course Code : BSCH3003

Course Name: Front Office Management

# Method of Fixing tariff

GALGOTIAS UNIVERSITY

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Program Name: BSChm/BHM

# The Two Major Methods

- Cost- based

Setting price of the room by first adding all the costs of production and sales, and adding a desired profit %. (Mark-up)

This method makes sure that hotel does not run in loss.

- Market- based

Setting price of the room by first looking at the price being charged by competing hotels.

Then, the hotel also tries to make the price look attractive to a buyer.

# Cost-based methods

1. **Rule of Thumb**
   Approximate

2. **Hubbart's Formula**
   Accurate & Scientific

# Market-based Pricing

- Competition based
- Market Tolerance
- Rate Cutting
- Inclusive & Non-inclusive rates
- Guest Requirements based

# Rule of Thumb Method

- The English phrase **rule of thumb** refers to a principle with broad application, that is not supposed to be strictly accurate or reliable, for every situation.
- It refers to an easily learned and easily applied procedure or standard, based on practical experience rather than theory.

# Rule-of-Thumb for Hotel Rates

If a hotel has spent ₹ 1000/- for making one room, it should charge ₹ 1/- for tariff per day. (in the year 1960, it was ₹ 1/-. Now it should be ₹ 2/-)

This is an experience-based calculation.

Since this rate never changes, with change in time, this number may not be useful any more.

# Hubbart's Formula

- A gentleman named Mr Roy Hubbart in 1940s created this idea.

$$\frac{(\text{operating expenses} + \text{desired ROI}) - \text{other income}}{\text{projected room nights}} = \text{room rate}$$

# Inverted P&L Statement= Hubbart's Formula

That is why the Hubbart's Formula is also called as "Bottom-Up approach". It starts with Net Profit, adds all expenses, interests, insurance, depreciation and tax. This is the revenue a hotel has to earn in 1 year if it wishes to achieve its profit goals.

This total revenue is divided by total number of rooms the hotel expects to sell in 1 year.

The result is net revenue per room per day.

# Hubbart's Formula Demonstration

**In the following slides, Hubbart's Formula is explained step-by-step.**

| | |
|---|---|
| 1 | Owner's Investment |
| | + Loan from bank & others |
| | = Total Investment |

| | |
|---|---|
| 2 | Return on Investment (ROI) per year |
| | = Total Investment |
| | X Fair rate of return (15% to 20%) |

| | |
|---|---|
| 3 | Return on Investment |
| | + Tax |
| | = Profit before Tax |

| | |
|---|---|
| 6 | Total Number of Rooms in hotel |
| | X Expected Occupancy % (70-75%) |
| | = Rooms sold per day |

| | |
|---|---|
| 7 | Rooms sold in 1 day |
| | X 365 |
| | = Total rooms sold in 1 year |

| | |
|---|---|
| 8 | Total Revenue needed in 1 year |
| | (Divided by) Total Rooms sold in 1 year |
| | = Average Rate per room per day |

References:

- Oxford Book

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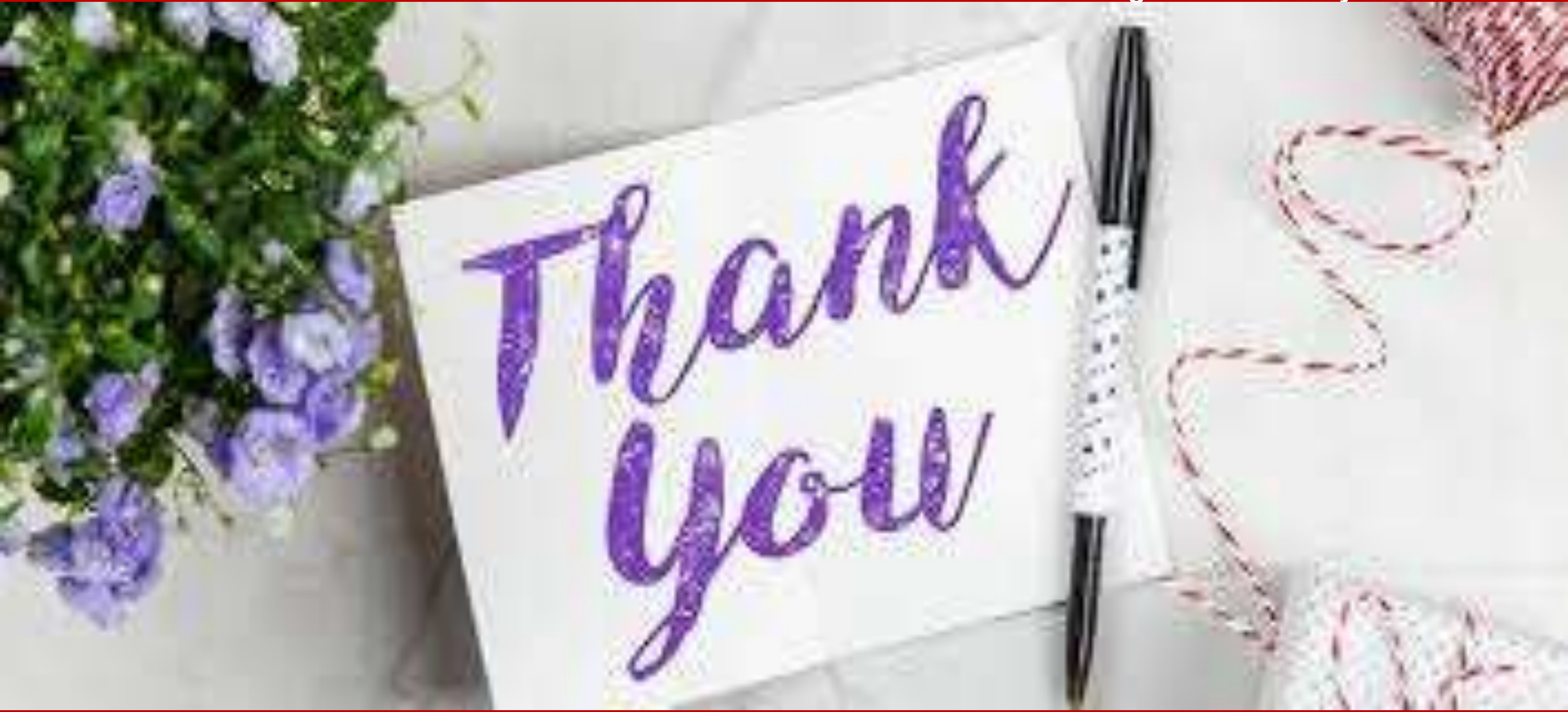
**Course Code : BSCH3003** **Course Name: Introduction To Augmented Reality And Virtual**

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