Hospitality Review

Volume 24
Issue 2 *Hospitality Review Volume 24/Issue 2* Article 6

January 2006

Empowering Catering Sales Managers with Pricing Authority

Vincent P. Magnini
Longwood University, null@longwood.edu

John N. Gaskins
Longwood University

Empowering Catering Sales Managers with Pricing Authority

Abstract
In the hotel business, catering sales managers often encounter potential clients who expect to negotiate for items such as room rental fees, audiovisual charges, and bartending fees. This article addresses both the advantages and disadvantages of empowering sales managers with the authority to reduce or waive these charges. Thus, hoteliers are advised to extend a structured yield management mindset into the hotel's function-space area.

Empowering Catering Sales Managers with Pricing Authority

By Vincent P. Magnini and John N. Gaskins

In the hotel business, catering sales managers often encounter potential clients who expect to negotiate for items such as room rental fees, audiovisual charges, and bartending fees. This article addresses both the advantages and disadvantages of empowering sales managers with the authority to reduce or waive these charges. Thus, hoteliers are advised to extend a structured yield management mindset into the hotel's function-space area.

Introduction

There exists at least one truism in the hotel industry: the food and beverage business is competitive. Often when a full-service hotel's restaurant outlets are struggling to break-even, (Brennan, 2000; Whitford, 1999) it is the catering revenues from meeting areas that are relied upon to drive the food and beverage department's bottom line. Nevertheless, the catering sales managers who book this space, continuously encounter customers who expect to negotiate. In the circumstance of business meetings, for example, clients often ask if room rental charges can be reduced, if set-up fees can be waived, or if the use AV equipment can be made complimentary. In the case of an emotionally-laden social event, such as a wedding, customers regularly ask if the bartending fee can be forgone, the champagne toast included, or the cake cutting fee waived.

The question that this article addresses is: Should individual catering sales managers be empowered to make these pricing decisions; or should they be required to obtain permission from the Director of Sales and/or the Director of Food and Beverage before reducing or exonerating a particular fee? This topic has never been explicitly examined in the hospitality literature, but it is a question which begs to be addressed. The issue is managerially relevant because not empowering the catering sales manager with pricing authority may add unnecessary red-tape to the negotiating process; conversely, granting pricing permission may result in sub-optimal revenue generation. Therefore, the purpose of this article is to provide hoteliers with essential guidance in this empowerment decision. To accomplish this purpose, this article first outlines arguments in favor of granting sales managers pricing authority. Second, arguments against delegating pricing authority are detailed. Lastly, in the final sections, hoteliers are encouraged to develop a yield management strategy for hotel meeting and catering space.

Arguments in Favor of the Delegation of Pricing Authority

First, selected research supports delegating pricing authority because of the salesperson's proximity to the customer. (Lal, 1986; Joseph, 2001; Weinberg, 1975) After all, it is the salesperson that has the most direct contact with the potential catering client. This line of reasoning sustains the notion that the catering sales manager is in the best position to assess the customer's desired benefits and perceived value. In fact, most human communication is non-verbal, (Preston, 2005) and it is the catering sales manager who has the face-to-face interaction with the potential client. For example, the catering sales manager can assess the customer's willingness to buy, in part, through the customer's tone of voice, speed, volume, and inflection. Moreover, the catering sales manager can read the body language in the negotiation process. Table 1 outlines receptive and non-receptive body language in the part of the potential buyer in the negotiating process. As a result of both verbal and non-verbal communication, the catering salesperson can deduce the customer's level of need and willingness to pay. Hence, in a nutshell, because the sales manager has the most contact with the client then some would argue that s/he should be authorized to adjust prices.

Table 1: Negotiating Body Language*

Receptive Body Language:
- "Yes" motion with the head
- Cocking the head to one side
- Touching the forehead
- Touching the chin
- Uncrossing the legs
- Unbuttoning the suit coat
- Leaning forward
- Moving to the edge of the chair

Non-receptive Body Language:
- Clutching the back of the neck
- Nervous fidgeting
- Placing a hand over one's mouth
- Locking ankles
- Gripping one's wrist
- Crossing arms on chest
- Making a fist
- Point feet toward the door

* ***Note:*** The information in this table is drawn from the following sources: N.M. Henley, ***Body Politics*** (New York: Simon and Schuster, Inc, 1977); G.I. Nierenberg, ***Fundamentals of Negotiating*** (New York: Hawthorne Books, Inc, 1973); and M.F. Vargas, ***Louder than Words*** (Iowa: The Iowa State University Press, 1986).

Second, some experts contend that the salesperson should be granted pricing authority when compensation can be structured that aligns the goals of the firm and the salesperson. (Farley, 1964; Farley and Weinberg, 1975; Lal, 1986; Joseph, 2001; Weinberg, 1975) In other words, the salesperson should be authorized to set prices as long as compensation is based upon the gross margin of the hotel's food and beverage department. According to this reasoning, if the catering sales salesperson's commission is based upon gross margin, then s/he would only lower the price when necessary to win the sale. Often hotels will achieve this objective by aligning the managerial bonus criteria of the catering sales managers and the food and beverage managers.

Third, some argue that delegating pricing authority reduces bureaucracy and expedites the transaction process because the salesperson can decide immediately whether to accept an offer. (Dolan and Simon, 1996) After all, what are the odds that the hotel's Director of Sales or Director of Food and Beverage will be available at the given moment to make a judgment regarding a buyer's offer? Therefore, the enhanced efficiency and transaction speed that can be obtained through pricing empowerment can potentially have two positive effects: 1) the catering salesperson can meet with more clients, and hopefully close more deals; and 2) the speed in closing deals should minimize the time in which customers can change their minds or search for other meeting or catering venues.

Fourth, empowering sales staff with the authority to adjust prices may enhance their job satisfaction. That is, selected studies indicate that employee empowerment is positively correlated with job satisfaction. (Gill, 2001; Nelson, 2003) Likewise, the job satisfaction of the Director of Sales and/or the Director of Food and Beverage may be bolstered through delegating price authority as well. Specifically stated, it is unlikely that either individual would take pleasure in micro-managing the negotiations between each salesperson and client. The

Director of Sales and the Director of Food and Beverage are usually considered members of the hotel's executive committee and their time is typically reserved for higher-order tasks, such as budgeting and forecasting.

Arguments Against the Delegation of Pricing Authority

Yet, it is important to note that the previous points in favor of price empowerment are arguable and possess limitations. First, it is not always possible to design a compensation plan that justifies price delegation. (Stephenson, Cron and Fraizer, 1979) This is because salesperson motivation encompasses a complex web of financial and non-monetary factors that vary among individuals. (Brooks, 1989) When catering sales managers are motivated by forces like personal acceptance of the customer or time-off to spend with the family, price delegation can backfire. For example, consider a case in which the catering sales manager wanted to agree upon a contract with a client so that s/he could leave for a weekend vacation. Perhaps the sales manager would be apt to close the deal prematurely in order to commence his/her vacation.

The second contention against empowering sales personnel with pricing authority is that the capability may make the salesperson too compliant when negotiation scenarios surface. (Joseph, 2001; Dolan and Simon, 1996) In other words, the salesperson may feel compelled, either consciously or subconsciously, to reduce price as a safety measure to ensure that the sale is closed. This can result in "sub-optimal tradeoffs between price and effort". (Joseph, 2001) Stated differently, maybe the client would have been wiling to pay the full room rental charge or a cake cutting fee? In the hotel business, discounts often give customers a reduced price for services that they were going to purchase anyway. (Quain, 2003) Furthermore, if the client knows that the salesperson has pricing authority, the client may demand a price reduction. In sum, entrusting a catering sales manager in pricing decisions assumes that s/he is a better negotiator than the potential buyer.

Third, delegating pricing authority to sales personnel may result in inconsistent behavior across customers or segments. (Dolan and Simon, 1996) For example, a sizable portion of social catering is won through word-of-mouth. Perhaps, therefore, if the catering sales manager were to waive a fee for one client, another client may demand the same consideration. Also, if clients were to discover price discrepancies after the fact, this may result in feelings of dissatisfaction or resentment. Consumers are generally accepting of paying disparate pricing for sleeping rooms because they have come to realize that yield management systems operate upon the premise of supply and demand. (Kimes, 2002b) Conversely, entrusting individual catering sales managers with ad-hoc pricing authority is quite different than employing highly evolved yield management systems.

The value that a client sees in a catering or meeting operation is based largely on the perceptions of the client. Often in the hospitality industry, consumers use price as an indicator of quality. (Lewis and Shoemaker, 1997) Therefore, the value of a hospitality offering is based largely upon the buyer's mental reference price. The term *reference price* is the standard price against which consumers evaluate the actual prices of the services they are considering. Specifically, the practice of individual sales reps adjusting prices could be detrimental to the firm because it could result in lower reference prices and ultimately reduce the perceived value of catering experience.

Since an integral part of any business negotiation is to create perceived value in the eyes of the potential buyer, (McRae, 1998) the catering sales manager should understand how to do so. One strategy involves checking with an authority figure before granting a price discount. In other words, perhaps a price discount might be perceived as "special" if the client knows that it required the approval of the salesperson's boss. Again, successful negotiating revolves around creating perceived value and, consequently, some buyers may only feel as if they are getting a good deal if the discount has been granted by a higher-up. Hence, this line of reasoning is an argument against empowering the catering sales rep with the ultimate authority in pricing decisions.

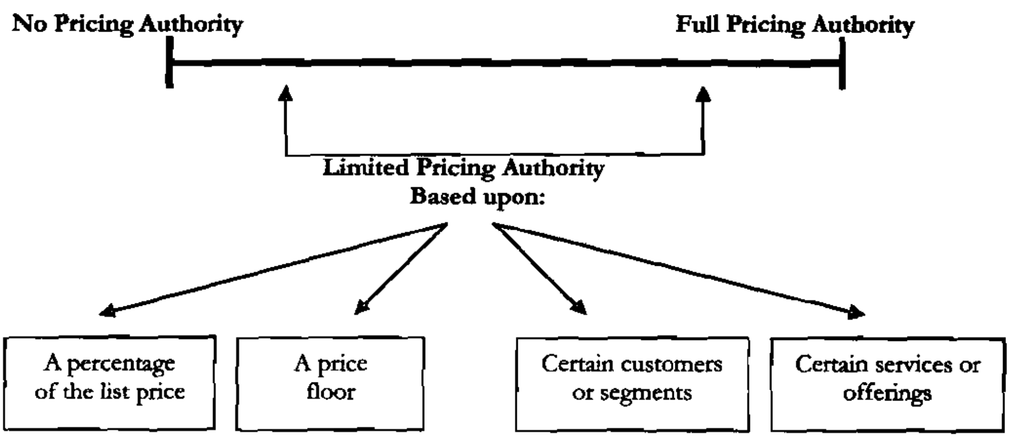
Also, delegating pricing authority to the sales force may be unwise because the setting of an optimal price requires analysis of factors unfamiliar to the sales force. (Dolan and Simon, 1996) That is, meeting and catering services have unique cost structures that involve numerous variables [for example: cost of food, production labor, and set-up costs]. It is not realistic to expect the sales force to be completely familiar with such complex and variable cost structures. For example, it is not possible for the catering sales manager to stay up-to-date with the fluctuating beef, seafood, or produce prices that the food and beverage department is receiving from its vendors. Nevertheless, without this knowledge, it can be argued that when a salesperson adjusts a price, it is being done without vital information.

A final argument against delegating pricing authority is that price empowerment could impact the prospecting activities of the salesperson. Along these lines, a recent study found that increasing pricing authority often decreases a sale rep's prospecting efforts. This diminished prospecting is a result of the fact that full pricing authority leads to a disproportionate focus on high-valuation customers. (Joseph, 2001) This lopsided prospecting pattern can be harmful to food and beverage department because, although high profit customers are advantageous, the hotel's meeting space is perishable and needs to be occupied on slow days by less-profitable groups (e.g. religious organizations on Sundays).

The Pricing Authority Continuum

When examining the issue of sales force price empowerment, most early studies took positions either in favor of, (Farley, 1964; Farley and Weinberg, 1975; Weinberg, 1975) or against, (Stephenson and Frazier, 1979) the delegation of pricing authority. However, more recent studies support flexible stances based upon the particular situation. (Joseph, 2001) Stated differently, delegating pricing authority to the catering sales staff is not a binary decision that involves two opposing choices, but rather it is a choice that involves a continuum of alternatives. The continuum ranges from no pricing authority to complete pricing authority, with a spectrum of limited authority scenarios lying in between.

Figure 1: Pricing Delegation Continuum



As presented in Figure 1, one limited authority scenario is to base the level of delegation upon the characteristics of the customer or segment. For example, perhaps a catering sales rep should be granted full pricing authority when negotiating with customers about whom s/he has superior information over that of the Director of Sales and Marketing. (Lal, 1986) Conversely, maybe this authority could be reduced when negotiating with a client about whom the catering sales manager and the Director of Marketing have identical information. Also depicted in Figure 1, other limited authority options may include allowing the sales manager to only reduce certain offerings; or to establish a price floor to which a sales manager must adhere. While these examples of limited pricing authority are more advantageous than unchecked empowerment, or no authority, the next section of this article states that pricing options made available to the sales managers should be founded upon the principles of supply and demand.

Developing a Meeting and Catering Space Yield Management Strategy

The solution to the debate surrounding whether or not to allow catering sales managers to have pricing authority lies in extending yield management practices to catering and meeting space. Yield management pricing is defined as the charging of different prices to maximize revenue for a set capacity at any given time. (Kerin, Hartley, Berkowitz and Rubelius, 2006) In other words, yield management provides a mechanism for securing higher revenues from a fixed capacity. (Berman, 2005) Yield management pricing is standard practice for lodging rooms and hotel patrons have generally grown accustomed to and accepting of its use. (Kimes, 2002a) In fact, yield management systems are now ubiquitous on the "rooms side" and have been refined continuously throughout the past decade. Such systems should now be utilized to guide catering pricing decisions. That is, hotel properties should employ systems that allow individual catering and sales managers to adjust prices and fees based upon up-to-date supply and demand information.

Yield management practices should be applied to function-space for myriad reasons. First, yield management practices utilize differential pricing to bolster demand during off-peak periods. (Kimes, 2000) Second, yield management policies maintain appropriate prices during busy periods. (Kimes, 2002a) Third, not using yield management and instead using discounting practices that are unstructured and informal encourage haggling. (Hanks, Cross and Noland, 2002) Fourth, allowing only certain catering sales managers to have price empowerment due to individual-level characteristics (e.g. their personality type or negotiating skills) may spur dissension and de-motivation among the sales staff. Lastly, identifiable and explainable pricing practices (based on supply and demand) are perceived as fairer than unstructured rate policies. (Kimes and Wirtz, 2002b) Figure 2, depicts various demand scenarios relative to meeting space capacity, and will be used in this section to demonstrate how yield management can be applied to catering space.[1]

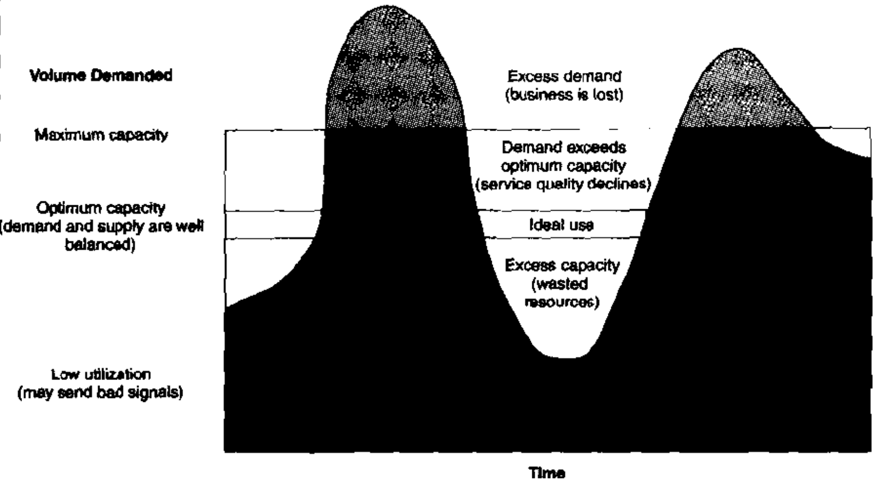
ZONE 1: Excess Capacity

In the circumstance of excess capacity (the dip near the bottom center in Figure 2), catering sales managers should be instructed to be more liberal in allowing discounts in order to fill empty space. This process can only be achieved if the sales manager is well informed as to when to expect excess capacity. For example, a catering sales manager could be permitted to discount prices on Mondays because sales history might indicate that few meetings are held on Mondays. Therefore, if a negotiating mood strikes a client, the sales manager could tell the client that in order to realize a monetary savings the client's corporate meeting should be shifted from a Tuesday to a Monday. Also, since catering sales revenues are typically cyclical with the busiest periods being the fall, spring, and December similar savings can be realized by clients if meetings are shifted from busy to slow months. Hence, rather than the sales manager having the

[1] Please note that the specific pricing options listed in this section are intended to be suggestive rather than exhaustive. Further, not all are applicable to every type of hotel property. It would be prudent for sales managers to tailor specific strategies for their given properties.

makeshift authority to discount a meeting contract, instead the sales manager could be versed in the options that could result in a reduced catering check when in excess capacity anticipated (ZONE 1).

Figure 2: Variation in Demand Relative to Capacity*



* This figure has been adapted directly from the following source: C. Lovelock, Getting the Most Out of Your Productive Capacity," in *Product Plus* (Boston: McGraw Hill, 1994, p.241).

Also, when excess capacity is expected (ZONE 1), and price discounting permitted, sales managers can utilize this pricing authority to amend their prospecting strategies. For instance, perhaps a salesperson is aware of certain price sensitive market segments that can now be approached. Moreover, excess function-space creates an opportunity for "second-chance selling" which entails extracting additional profits from booked business. (Quain, LeBruto and French 1994) For example, there could be a business traveler staying in the hotel who would be willing to rent a break-out room in which to conduct interviews, deliver a sales presentation, or to negotiate on a neutral turf.

ZONE 2: Ideal Use

Like the yield management practices for lodging rooms, during ideal use (the narrow band near the center of Figure 2) price discounts are uncommon. Nevertheless, if a potential customer insists upon negotiating the catering sales manager should have several options from which to select. One suggestion may be to instruct the client that if her group could pick-up a certain number of sleeping rooms then the catering space can be discounted. Another option would be for the client to give the chef the ability to pick between two or three menu items and as the event approaches. Consequently, the chef can opt for the best deals in terms of food cost as the market conditions become salient. This same concept could also apply to the selection of wine or beer. Another viable option when demand is not below capacity (ZONE 2), would be to tell the buyer that a price discount could be granted on the current meeting if s/he agrees to booking a second future meeting in a low demand timeframe. The basic premise of these options in ZONE 2 is to empower the sales manager with the capability to negotiate, but also to maintain the integrity of the supply versus demand situation.

ZONE 3: Demand Exceeds Optimum Capacity

As seen in Figure 2, when demand exceeds optimum capacity service quality is likely to decline. Therefore, in this high demand scenario (ZONE 3), catering sales managers should retain the authority to reduce fees, but reductions should be tailored to remove over-strain on food and beverage staff. For instance, if a client demands a discount, the sales manager can instruct the individual that a discount can be granted if she selects the same catering menu as another meeting group in the facility on the same day. This tactic would relieve stress not only on the kitchen staff, but also the purchasing department. In a similar vein, if a client insists upon a discount in a busy time period, the sales manager could permit a discount if the client selects the same meeting room set-up (i.e. table and chair configuration) as the previous room user. Again, negotiating guidelines such as these would afford the sales manager the ability to negotiate, but discounting options are based upon a yield management (i.e. supply and demand) mentality.

ZONE 4: Excess Demand

Lastly, the top zone in Figure 2 (ZONE 4) represents the situation in which there is excess demand and business is lost. In this situation of excess demand, the pricing options detailed in ZONE 3 can be made available, but only to the hotel's premier customers. Identifying the premier customers involves computing a customer's lifetime value (CLV). CLV (Berger and Nasir, 1998) is an estimate of (1) how much revenue the service provider expects to gain from the relationship with a consumer and (2) the anticipated cost of maintaining the relationship. Inputs into a CLV equation can include such variables as: quantity of the customer's past purchases; probability of additional purchases over time; and the estimated cost to the firm of serving the customer. While CLV calculations cannot reflect all factors (for example: word-of-mouth behavior is difficult to quantify), they can provide managerial guidance with pricing decisions in ZONE 4.

Managerial Implications

Since meeting space inventory is, like hotel rooms, a perishable commodity, the need to adjust prices is inescapable. However, this article tells hoteliers that they should not permit sales managers to adjust prices on an ad-hoc basis. Instead, hoteliers should apply yield management practices to catering and meeting pricing. That is, granting individual sales managers with impromptu discretion over pricing decisions has many disadvantages including unwanted and unexplainable price discrepancies between customer groups. Conversely, not empowering catering sales managers with pricing authority has a number of drawbacks such as slowing the transaction process. To this end, what is needed is a structured framework (based upon supply and demand information) that can guide catering sales managers in making pricing decisions.

Yield management computer software systems for catering space do exist. For example, some software systems monitor "contribution per available space" for a given time (ConPAST). (Kimes, 2001) In a nutshell, such systems manage supply relative to demand. It is important to note, however, that this article is not suggesting that hotel properties must purchase and install new computer systems for catering managers. While these systems, (if used properly and to their full potential) can be quite effective, purchasing and training costs are sometimes prohibitive.

As a feasible alternative to installing new computer systems, yield management frameworks can be communicated by making notations in existing meeting planning software. For example, in existing meeting planning software, scenarios can be labeled as ZONE 1-4 and individual sales managers can be versed in the pricing options that they have in these zones. In addition, when sales managers attend their regular sales meetings, supply and demand information can be communicated in order for them to ascertain their pricing options. When employing these procedures, it is vital to note that capacity information must be updated regularly and that new information must be systematically communicated across the sales staff. For instance, a particular date in January may no longer fall into ZONE 1 if business has been booked for a portion of the hotel's meeting capacity. Conversely, a prime catering date in April may not necessarily be categorized in ZONE 4 if the date approaches with no apparent booking interest.

The logic contained in this article must be tempered with a limitation. It is difficult to measure the monetary benefits of yield management through the use of empirical data. Since the shift from standard to yield management pricing is typically not a single transition, before-and-after profit and revenue comparisons are usually not available. In addition, external factors, such as the economy, changes in schedule, and competition can also make it arduous to make comparisons based on rate efficiency or capacity utilization. (See Berman, 2005)

To reiterate, the question that this article addresses is: Should individual catering and sales managers be empowered to make these pricing decisions; or should they be required to obtain permission from the Director of Sales and/or the Director of Food and Beverage before reducing or exonerating a particular fee? Upon detailing both sides to the empowerment issue, this article advances the contention that sales managers should be permitted to adjust prices, but only from within an orchestrated framework based on supply and demand (A.K.A. yield management). To this end, hotel properties can either install catering yield management software systems or can utilize the ZONE 1-4 framework presented in Figure 2.

References:

Berger and Nasr, "Customer Lifetime Value: Marketing Models and Applications," *Journal of Interactive Marketing*, 12, no. 1 (1998): 17-30.

Berman, "Applying Yield Management Pricing to Your Service Business," Business Horizons 48, no. 2 (March/April 2005): 169-179.

Brennan, "How To Get Guests Hungry for the Hotel Restaurant," *Lodging Hospitality* 56, no. 13 (September 15, 2000): 56-58.

Brooks, "Strategic Issues for Financial Service Marketing," *Journal of Services Marketing*, 3, no. 1 (1989): 1-20.

Dolan and Simon, *Power Pricing*, (New York: The Free Press, 1996).

Farley and Weinberg "Inferential Organization: An Algorithm for Determining Optimal Sales Commissions in Multi-product Sales Forces," *Operational Research Quarterly*, 25 (May-June, 1975): 413-418.

Farley, "An Optimal Plan of Salesman Compensation," *Journal of Marketing Research*, 1, no. 2 (1964): 39-43.

Gill, "Change Management – Or Change Leadership," *Journal of Change Management* 3, no. 4: 307-316.

Hanks, Cross, and Noland, "Discounting in the Hotel Industry: A New Approach," *Cornell Hotel and Restaurant Administration Quarterly* 43, no. 4 (August 2002): 94-103.

Joseph "On the Optimality of Delegating Pricing Authority to the Sales Force," *Journal of Marketing*, 65, no. 1 (2001): 62-70.

Kerin, Hartley, Berkowitz, and Rudelius, *Marketing 8th edition* (Boston: McGraw Hill Irwin, 2006).

Kimes and Wirtz, "Perceived Fairness of Demand-Based Pricing for Restaurants," *Cornell Hotel and Restaurant Administration Quarterly* 43, no. 1 (February 2002b): 31-37.

Kimes, "Function-Space Revenue Management: A Case Study of Singapore," *Cornell Hotel and Restaurant Administration Quarterly* 42, no. 6 (December 2001): 33-46.

Kimes, "Perceived Fairness of Yield Management," *Cornell Hotel and Restaurant Administration Quarterly* 43, no. 1(February 2002a): 21-30.

Kimes, "Revenue Management on the Links: Applying Yield Management to the Golf-Course Industry," *Cornell Hotel and Restaurant Administration Quarterly* 41, no. 1 (February 2000): 120-127.

Lal, "Delegating Pricing Authority to the Salesforce," *Marketing Science*, 5, no. 2 (1986): 159-168.

Lewis and Shoemaker (1997), "Price-Sensitivity Measurement: A Tool for the Hospitality Industry," *Cornell Hotel and Restaurant Administration Quarterly* 38, no. 2 (April 1997): 44-54.

McRae, *Negotiating and Influencing Skills* (London: Sage Publications, 1998).

Nelson, "The Top Ten Ways to Motivate Your Employees," *ABA Bank Marketing* 35, no. 1 (January- February 2003): 10.

Preston, "Nonverbal Communication: Do You Really Say What You Mean," Journal of Healthcare Management 50, no. 2 (March / April 2005): 83-86.

Quain, "No One Ever Made Money By Discouraging Their Customers From Spending It," *Cornell Hotel and Restaurant Administration Quarterly* 44, no. 5-6 (December, 2003), 166-172.

Rajendran and Tellis, "Contextual and Temporal Components of Reference Price," *Journal of Marketing*, 58, no. 1 (1994): 22-34.

Stephenson, Cron, and Frazier, "Delegating Pricing Authority to the Salesforce: The Effects on Sales and Profit Performance," *Journal of Marketing*, 43 no. 2 (1979): 21-28.

Weinberg, "An Optimal Commission Plan for Salesmen's Control over Price," *Management Science*, 21, no. 2 (1975): 937-943.

Whitford, "Limited-Service Trend Crimps Food-and Beverage Profits," Hotel and Motel Management 214, no. 2 (February 1, 1999): 19

About the Authors: Vincent P. Magnini, Ph.D., and John N. Gaskins, Ph.D. are Assistant Professors of Marketing at the College of Business and Economics, Longwood University, Farmville, Virginia 23909