

# The Rate Cut Trap

*What Hotel Owners Get Wrong About Rate Discounting — And What to Fix Before You Touch Your Rate*

## The Tuesday Trap.

Your hotel feels slow. Tuesday pickup is weak. You check the comp set — one competitor dropped \$10. You drop \$15. By Thursday you are sold out. It feels like it worked.

Here is what actually happened to your revenue, your profit, and your rate positioning — and why the move that felt right may have cost you more than it produced.

## What This Guide Covers:

- Section 1 — The Revenue Break-Even Math: How many rooms does a discount actually require?
- Section 2 — The Full Cost Reality: Variable cost per room plus what OTA commissions do to a discounted rate
- Section 3 — The OTA Compounding Trap: The combined damage of discounting AND paying 20% commission on 70% of your rooms
- Section 4 — The Visibility Diagnosis: What to fix before you touch your rate
- Back Page — The Owner Rate Decision Worksheet: Run your own numbers before you decide

## About Derek Lasiter

Derek Lasiter has 20 years of hands-on hotel operations experience across California — managing revenue, running sales, and rebuilding rate strategies at independent hotels. He founded Lasiter Edge to deliver those systems remotely to independent hotels that deserve them. This guide reflects what he learned by running hotel revenue from the inside — not from a textbook.

01

The Revenue Break-Even Math — How Many Rooms Does a Discount Actually Require?

Most hotel owners treat a rate cut as a simple trade: lower price, more rooms sold. The math they are running in their head is: if I drop \$10, I will fill a few more rooms and come out ahead. That mental model is almost always wrong — and the break-even table below shows exactly why.

The correct question is not whether occupancy increases. The correct question is: how many more rooms must I sell at the lower rate just to equal the same room revenue I would have made at my original rate?

The Break-Even Formula

Rooms needed at discounted rate = Original room revenue ÷ Discounted ADR Example: 50 rooms at \$120 = \$6,000 in room revenue. At \$100 you need 60 rooms just to match that same \$6,000.

Break-Even Room Count — Based on 50 Rooms at \$120 ADR (\$6,000 Revenue)

Rate Drop	New ADR	Revenue Lost Per Room	Rooms Needed to Break Even	Extra Rooms Required	% More Rooms Needed
\$5	\$115	\$5	52.2 (53)	3 extra	4.3% more
\$10	\$110	\$10	54.5 (55)	5 extra	9.1% more
<b>\$20</b>	<b>\$100</b>	<b>\$20</b>	<b>60.0 (60)</b>	<b>10 extra</b>	<b>20.0% more</b>

Red row = danger zone. A \$20 rate drop requires 20% more occupied rooms just to match original revenue — before any operating cost is considered.

Extended Break-Even Table — Multiple Room Counts

Rooms Sold at \$120	Revenue at \$120	Rooms Needed at \$115	Rooms Needed at \$110	Rooms Needed at \$100
20 rooms	\$2,400	21 rooms	22 rooms	24 rooms
30 rooms	\$3,600	32 rooms	33 rooms	36 rooms
40 rooms	\$4,800	42 rooms	44 rooms	48 rooms
50 rooms	\$6,000	53 rooms	55 rooms	60 rooms
75 rooms	\$9,000	79 rooms	82 rooms	90 rooms
100 rooms	\$12,000	105 rooms	110 rooms	120 rooms

**RATE DISCIPLINE RULE:** Do not drop rate just because the hotel feels slow. First ask: what exact number of additional rooms must this discount produce, and is that demand real or just a hope? If the answer is vague, the discount is not a strategy. It is panic pricing.

## 02 The Full Cost Reality — Variable Cost Per Room Changes Everything

Section 1 showed revenue break-even. This section shows the harder truth — profit break-even. Every occupied room costs money to service. When you cut rate and fill more rooms to compensate, you are not just replacing lost revenue. You are replacing lost revenue AND covering the added cost of servicing those extra rooms.

The break-even point on profit is always worse than the break-even point on revenue. Most hotel owners never run this calculation before they discount.

**Variable cost per occupied room includes:** housekeeping labor and time, laundry (linen, towels, chemicals, water, gas), breakfast if included in rate, guest supplies and amenities, utility consumption, maintenance wear on HVAC / plumbing / furniture, payment processing fees, and service recovery risk. **Conservative estimate used in this guide: \$18 per occupied room.** Many properties will be higher — especially those offering breakfast or operating with union housekeeping labor.

### Contribution Margin — What Each Room Actually Contributes After Variable Cost

Rate	Variable Cost Per Room	Contribution Per Room	Rooms Needed to Match \$5,100 Contribution	Extra Rooms Vs \$120 Rate
\$120 (original)	\$18	\$102	50 rooms (baseline)	—
\$115	\$18	\$97	52.6 (53 rooms)	3 extra
\$110	\$18	\$92	55.4 (56 rooms)	6 extra
<b>\$100</b>	<b>\$18</b>	<b>\$82</b>	<b>62.2 (63 rooms)</b>	<b>13 extra</b>

### The Hidden Costs Most Owners Miss When They Discount

**Housekeeping** More rooms means more cleaning time, more room turns, more linen cycles, and higher risk of rushed quality that shows up in reviews.

**Laundry** More occupied rooms push linen volume, chemical use, water and gas consumption, and equipment wear.

**Breakfast** If breakfast is included in your rate, a discounted room still consumes the exact same breakfast cost as a full-rate room.

**Front desk pressure** More arrivals mean more check-ins, more calls, more service requests, and more folios — often without additional staffing.

**Maintenance wear** More usage accelerates wear on HVAC, plumbing, mattresses, furniture, locks, and guestroom assets.

**Review risk**

Operational pressure from high occupancy at low rates can cause service to slip — which damages future rate power when reviews decline.

**Owner Decision Rules Before Discounting:** → Drop \$5: Use only when the drop can realistically add 3-4 occupied rooms without hurting future rate perception. Not a reflex for one slow pickup day. → Drop \$10: Use only when the drop can realistically add 6-7 profitable rooms and will not displace higher-rated demand still coming. → Drop \$20: Use only when the drop can realistically add about 13-14 profitable rooms. Do not use as a panic button when the real issue is weak visibility, poor positioning, or untrained front desk conversion.

03

The OTA Compounding Trap — Discounting + Commission = Double Damage

Sections 1 and 2 assumed every room was a direct booking. Most independent hotels are not close to that reality. If 70 percent of your business comes through OTAs at a 20 percent commission rate — and then you drop your rate on top of that — the combined damage to your actual retained revenue is severe.

This is the trap most owners never calculate. They think about the rate cut in isolation. They do not run the combined math of: discounted rate minus OTA commission minus variable cost. That combined number is often alarming.

Scenario: 50 Rooms, 70% OTA Mix, 20% Commission, \$18 Variable Cost

Room Type	ADR	OTA Commission	Net Rate After Commission	Variable Cost	Actual Contribution
Direct (30%) 15 rooms	\$120	None	\$120.00	\$18	\$102.00
OTA (70%) 35 rooms	\$120	\$24.00	\$96.00	\$18	\$78.00
<b>Blended average</b>	<b>\$120</b>	<b>\$16.80 blended</b>	<b>\$103.20</b>	<b>\$18</b>	<b>\$85.20 per room</b>

Now Add a \$15 Rate Cut — The Compounding Effect

Room Type	New ADR	OTA Commission	Net Rate After Commission	Variable Cost	Actual Contribution	Loss vs \$120 Direct
Direct (30%) 15 rooms	\$105	None	\$105.00	\$18	\$87.00	-\$15.00
OTA (70%) 35 rooms	\$105	\$21.00	\$84.00	\$18	\$66.00	-\$12.00
<b>Blended average</b>	<b>\$105</b>	<b>\$14.70 blended</b>	<b>\$90.30</b>	<b>\$18</b>	<b>\$72.30</b>	<b>-\$12.90/room</b>

### The Combined Damage on 50 Rooms:

At \$120 with 70% OTA mix: Blended contribution =  $\$85.20/\text{room} \times 50 \text{ rooms} = \mathbf{\$4,260 \text{ total contribution}}$

At \$105 with 70% OTA mix: Blended contribution =  $\$72.30/\text{room} \times 50 \text{ rooms} = \mathbf{\$3,615 \text{ total contribution}}$

**A \$15 rate cut on a 70% OTA-dependent hotel costs \$645 per night in contribution — not \$750 in revenue.**

And to recover that contribution loss, the hotel needs to fill approximately **9 additional profitable rooms**.

Occupancy is not the win. Profitable occupancy is the win. A full hotel at a weak ADR with a heavy OTA mix is one of the most common vanity metrics in independent hotel management.

### Hotel A vs Hotel B — The 70% Occupancy Lie

	Hotel A	Hotel B
Rooms Sold	60 rooms	70 rooms
ADR	\$120	\$110
OTA Mix	20%	70%
Avg OTA Commission	\$24 on OTA rooms	\$22 on OTA rooms
Gross Room Revenue	\$7,200	\$7,700
OTA Commission Paid	\$288	\$1,078
Net Room Revenue	\$6,912	\$6,622
Variable Cost (xrooms)	\$1,080	\$1,260
<b>Net Contribution</b>	<b>\$5,832</b>	<b>\$5,362</b>

*Hotel B looks better — 10 more rooms sold, higher gross revenue. Hotel B keeps \$470 less after commissions and variable cost. Higher occupancy. Lower profit. This is the 70% occupancy lie.*

## 04 The Visibility Diagnosis — Fix This Before You Touch Your Rate

Before any rate cut, an independent hotel owner should ask one honest question: Is my revenue problem actually a pricing problem — or is it a visibility, perception, or conversion problem that I am trying to solve with a price reduction?

Most independent hotels that discount too early are misdiagnosing their revenue problem. The property is not underpriced. It is underseen, under-trusted, or under-converting. Dropping rate does not fix any of those three problems. It simply makes the same invisible, untrusted, unconverted inquiry slightly cheaper.

### The Pre-Rate-Cut Checklist — Answer These Before You Discount

If your profile is incomplete, inactive, or outranked by a competitor with a weaker property — your revenue problem is visibility, not price. Fix the profile before you reduce the rate.

#### 2. Are your reviews current, strong, and responded to?

Travelers read your most recent reviews before booking. A 4.0 profile with recent responses outperforms a 4.2 profile that went silent six months ago. Review recency and response rate affect booking intent more than most owners realize.

#### 3. Does your Google profile look worth the rate you are trying to charge?

Outdated photos, a thin description, and an empty Q&A; section make a \$120 hotel look like a \$89 hotel before anyone calls. If your profile visually undersells the property — rate resistance is a perception problem, not a pricing problem.

#### 4. Is your front desk converting the inquiries that are already coming in?

A hotel converting 35% of phone inquiries has a conversion problem. Dropping rate brings in cheaper guests at lower margin while the conversion problem remains unsolved. Train the front desk before you reduce the rate.

#### 5. Are you using a structured rate ladder or reacting to day-by-day pickup?

Rate strategy built on demand signals, booking window, competitor positioning, and event compression is different from rate strategy built on fear. If you cannot answer what the specific demand signal is that justifies a rate cut — the cut is not a strategy.

#### 6. Are you reducing OTA dependency or increasing it?

Every rate cut at the same OTA commission level reduces your retained revenue by more than the rate cut itself. If your OTA mix is above 50% — reducing that dependency through GBP optimization and direct booking conversion is worth more than any rate adjustment.

## **Lasiter Edge Position:**

Fix visibility, perception, and conversion before using rate cuts as a revenue lever. Price should be a strategy — not a surrender. The \$97 Hotel Visibility Checkup audits your Google Business Profile across 6 areas and tells you in 2 business days whether your revenue problem is a visibility problem. That answer is worth more than any rate cut made in the dark.



**Owner Rate Decision Worksheet — Run Your Numbers Before You Decide**

Fill in your actual numbers. This worksheet takes less than 3 minutes and gives you the exact break-even room count before you touch your rate.

**Step 1 — Enter Your Baseline**

<b>Your current ADR</b>	\$ _____
<b>Rooms you expect to sell at that rate</b>	_____ rooms
<b>Your baseline room revenue (ADR x rooms)</b>	\$ _____
<b>Estimated variable cost per occupied room</b>	\$ _____ (use \$18 if unsure)
<b>Your OTA mix (% of bookings through OTAs)</b>	_____ %
<b>Your OTA commission rate</b>	_____ % (use 20% if unsure)

**Step 2 — Calculate Your Break-Even for Each Discount**

<b>Rate Cut You Are Considering</b>	<b>New ADR</b>	<b>Rooms Needed (Revenue Only)</b>	<b>Rooms Needed (After Variable Cost)</b>	<b>Rooms Needed (After OTA Commission)</b>	<b>Is This Realistic?</b>
\$5 drop	\$ _____	_____	_____	_____	Yes / No
\$10 drop	\$ _____	_____	_____	_____	Yes / No
\$15 drop	\$ _____	_____	_____	_____	Yes / No
\$20 drop	\$ _____	_____	_____	_____	Yes / No

**Step 3 — The Visibility Check Before You Decide**

1. Is my GBP profile complete, active, and posting at least weekly?	<b>Yes / No / Not Sure</b>
2. Are my reviews current (last 30 days) and fully responded to?	<b>Yes / No / Not Sure</b>
3. Does my profile visually justify the rate I am trying to hold?	<b>Yes / No / Not Sure</b>
4. Is my front desk converting more than 50% of phone inquiries?	<b>Yes / No / Not Sure</b>
5. Do I have a demand signal that justifies this rate cut — or is it a feeling?	<b>Demand Signal / Feeling</b>

**Decision Rule:** If you answered No or Not Sure to any of the three visibility questions above — fix those first. The revenue problem may not be a rate problem at all. **If the demand signal is a feeling rather than a data point** — keep the rate and work the visibility system.

### Not sure whether your revenue problem is a visibility problem?

The \$97 Hotel Visibility Checkup audits your Google Business Profile across 6 areas and delivers a one-page findings report in 2 business days — showing exactly where your profile has gaps and what those gaps are costing you in missed bookings.

Fix the visibility problem first. Then decide on rate.

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