Revenue Management Reality

Principles for Today's Hoteliers

IDeaS™
A sas COMPANY

REVENUE MANAGERS WEAR A LOT OF HATS THESE DAYS – often defining themselves as "forecaster, analyst, strategist, system designer, marketing guru, talent manager, social media expert, data miner, sales support, and channel manager." With this many labels, it can be challenging for revenue managers to navigate the revenue management arena and decipher the best use of their time and energy. On top of this, faced with a seemingly endless amount of data to collect and analyze, it can also be easy to overlook the big picture, which is developing comprehensive, innovative revenue strategies that maximize profitability.

To help revenue managers stay on track and better position their organizations (and themselves) for long-term success, IDeaS created this eBook to provide tips and best practices for raising the bottom line.

Equipped with the right tools and data, revenue managers can take the science and art of revenue management to new heights within their organizations, serve as strategic partners to the executive suite, and drive up the bottom line through enhanced customer intelligence processes and a greater culture of revenue management.

Table of Contents

IDeaS
A SAS COMPANY

Part 1

Revenue Management Impacts – How Do You Measure Them?

It's important to identify a way to measure the impact of revenue management and articulate its success to senior management.

Although revenue managers devote significant effort towards advancing strategies and tactics that optimize revenue, many revenue managers still lag when it comes to establishing and measuring agreed upon success criteria.

In order to provide key stakeholders a compelling value proposition, revenue management professionals should spend considerable time identifying the methods they can use to measure the impact of revenue management on their hotel. In addition, they need to understand that devising, implementing and agreeing on "what success looks like," in many cases, is as important as the activities themselves and ultimately goes a long way towards supporting their success story.

There are however, key challenges that all revenue managers face when looking to measure their success. These challenges include information overload, over analyzing data and unclear or conflicting objectives.

Information Overload

Gone are the days when a business manager had to scramble to get their hands on data.

THE REALITY TODAY is that data is often too easy to obtain and the difficulty lies in trying to see through the deluge of data, to be able to translate it into information, then transform that information into measurable strategies. With the ever increasing amount of data available, a revenue manager can easily become overwhelmed and unfocused when looking at what to measure and – more importantly – what not to measure.

With huge amounts of information easily available – and with revenue managers being naturally inclined to love charts and tables – too many revenue managers attempt to understand, analyze and measure every bit of data available and, in the process, lose focus on the critical success factors for the business. "Analysis Paralysis" often results, with a revenue manager rattling off an overwhelming amount of data, tables, and charts to a non-data driven and potentially tuned out audience.

WHILE MANY SOPHISTICATED HOTELIERS set clear objectives and critical success criteria, a surprisingly large number of businesses measure success based on criteria which are unclear, or, in the worst case, conflicting across different business lines. A typical example is the desire by a hotel to drive performance as measured in revenue per available room (RevPAR) or profitability; while at the same time setting corporate sales objectives, which are purely focused on volume and do not take into account profitability and displacement. Often a big (room night) volume account is considered a "good" account, even though it might not be the optimal business to ultimately support the overall goals of the hotel.

To help offset the challenges that revenue managers face when looking to measure their impact across the hotel business, it is important that agreed-upon goals are in place, as this makes it easy to define and measure what constitutes success and failure for everyone involved. Of course, there are always reasons for over performance and excuses for under performance against a particular performance goal. However, sound measurement criteria – agreed upon by everyone at the outset– make it easier to identify any potential shortcomings early enough in the cycle so that they can be rectified before it is too late.

IN A HOTEL ENVIRONMENT, there are a number of key performance indicators which are critical in measuring and evaluating the impact of revenue management.

RevPAR Index Performance and Efficiency Indicators

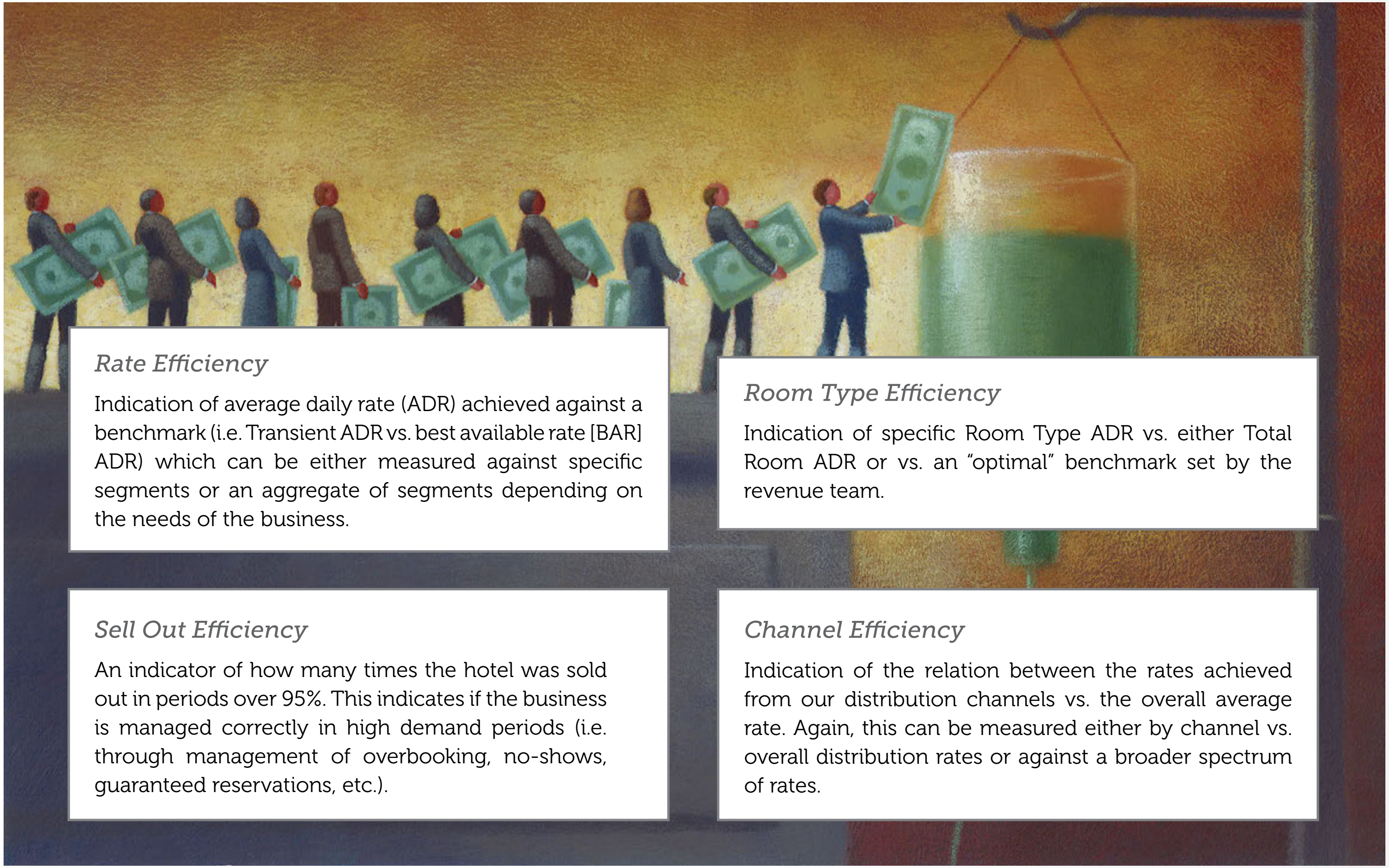
At the minimum and highest level, every hotel should at least look at RevPAR Index Performance, which in many cases is still the best indication of how a hotel is performing against its competitive set.

ALTHOUGH WIDELY USED IN THE INDUSTRY,

many revenue management professionals fall short by not drilling deep enough to fully understand what good (100 and more) or bad (below 100) signifies. Some of the questions sophisticated revenue managers should ask are: what are the trends (by day of week and segment); what are the reasons (rate or occupancy driven); what is the change vs. my competitive set over time in index or rank - even if the index is above 100, if everyone improves their revenue generation index and our hotel doesn't, we should still be worried.

LOOKING AT THE REVPAR INDEX

is always a good starting point before delving down deeper to get a more detailed picture about where opportunities for improvement might lie. To perform a more sophisticated and micro view of the business, efficiency indicators are often very useful to measure how well individual parts of the business are performing. Each indicator provides a point of comparison for performance to be assessed against either an actual or optimal benchmark. The most commonly used are rate, room type, sell out, and channel efficiency.



Rate Efficiency

Indication of average daily rate (ADR) achieved against a benchmark (i.e. Transient ADR vs. best available rate [BAR] ADR) which can be either measured against specific segments or an aggregate of segments depending on the needs of the business.

Room Type Efficiency

Indication of specific Room Type ADR vs. either Total Room ADR or vs. an “optimal” benchmark set by the revenue team.

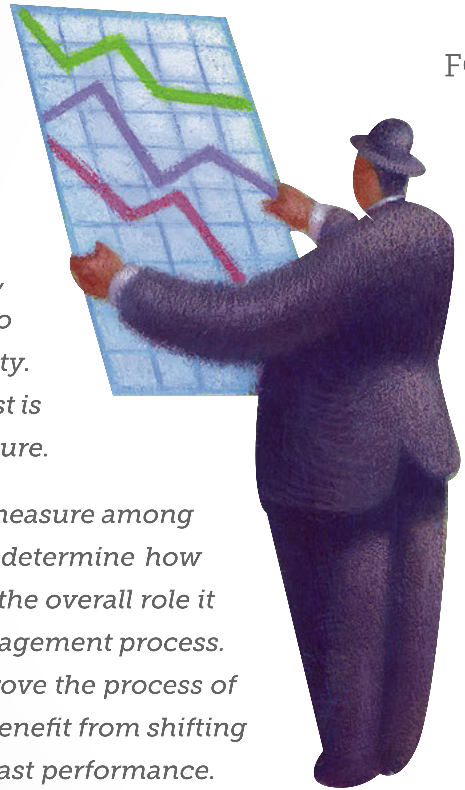
Sell Out Efficiency

An indicator of how many times the hotel was sold out in periods over 95%. This indicates if the business is managed correctly in high demand periods (i.e. through management of overbooking, no-shows, guaranteed reservations, etc.).

Channel Efficiency

Indication of the relation between the rates achieved from our distribution channels vs. the overall average rate. Again, this can be measured either by channel vs. overall distribution rates or against a broader spectrum of rates.

Forecast Accuracy vs. Forecast Performance



A robust and reliable forecasting process lies at the heart of every successful hotel revenue management operation. Regardless of the economic climate, certain portions of hotel demand will always be more volatile than others, and the forecasting process needs to anticipate and account for this volatility. While measuring the accuracy of a forecast is valuable, it is purely a retrospective measure.

FORECAST ACCURACY *is only one measure among many that can be employed in order to determine how well the forecast performed in respect to the overall role it plays in the forecasting and revenue management process. In order to drive better revenue and improve the process of forecasting, hotels have the potential to benefit from shifting the focus from forecast accuracy to forecast performance.*

FORECAST PERFORMANCE *brings together a number of different measures which are made against the inputs and outputs in order to reveal how well the forecasting process is working as a whole. This approach also considers the conditions under which the hotel forecast process is operating. A variety of measures that are taken individually, and then combined, will allow the revenue manager to achieve a more holistic and ongoing evaluation of the overall performance of the hotel.*

Creating a "Business Scorecard"

GIVEN THAT MANY HOTELS have too much information located in many different places, a key challenge around measuring impact for revenue managers centers on how to best bring critical information together. To synthesize important information into one place and build a performance measurement culture, at the least, every hotel should have an over-arching "Business Scorecard" – a visual indication of the key success criteria that are important for the business on a single page or slide. In its simplest format, the scorecard can be a simple 4-box model, with each box representing one business indicator that is considered the most relevant for the business. Within each box, absolute numbers for each key performance indicator (KPI) (i.e. for the month or year-to-date) and trend (improvement, decline vs. previous period, performance vs. budget) should be clearly indicated. For revenue management related areas, KPIs might include:

RevPAR, change vs. previous period or vs. goal	*RGI, rank or change of rank vs. previous periods (i.e. last year or month)*	*Distribution Channel Performance vs. previous periods and/or goals*	*Profitability (as % margin, per available room or similar)*	*Or simply any other area that is deemed to be of critical importance for the business at that time*

THE SCORECARD should be freely shared with everyone in the organization to provide a cohesive, summarized view of business performance. While simple in design, this will go a long way towards establishing the necessary alignment, focus, and transparency across the various stakeholders who are responsible for managing and improving performance.

AS HOTELS INCREASINGLY EMBRACE total hotel revenue management and revenue managers expand into more profitability-related areas, it is crucial that new success criteria, like gross operating profit per available room (GOPPAR), are developed and implemented so that they become mainstream. No matter how many measurements of success a hotel has, it is important to remember that the value of any success criteria does not come from the absolute number alone, but from the underlying factors and longtime trends which are impacting upon the final number (index, score). By understanding what drives the end result, short and long term trends, how to positively impact the KPIs and clearly communicate results to key stakeholders, revenue managers will be well on track to increase their value to the business, whilst simultaneously generating higher levels of support and buy in from the business.

IDeaS™
A SAS COMPANY

Part 2

Five Things Every Revenue Manager Should Be Doing

The following are five actions revenue managers should strive for in order to quickly and intelligently react to market conditions, capitalize on emerging opportunities, and enhance their organization's culture of revenue management.

#1 Collect the Right Data

Amid today's high-speed, interconnected nature of business, one of the most important things revenue managers should be doing is collecting and analyzing the right data—particularly data that is both historical and futuristic.

For example, from a historical perspective, data should be collected on booking patterns for various market segments, market conditions, room types, and more. Revenue managers can then look at this information and use it to forecast future booking pace—typically about 90 days ahead. By doing this consistently, revenue managers can more easily compare current and predicted activity levels to the historical data and make adjustments to pricing strategies as needed.

However, collecting all of this data manually takes a significant amount of time and energy. Among a flurry of flash sales, mobile marketing, and online travel agencies (OTAs), it can be tough for revenue managers to quickly recognize changes in demand and react in time to make a profit. In order to remain competitive, many hoteliers turn to revenue management software, which automatically provides executives with the data they need when they need it—often cutting their daily workload in half. Through a series of high-speed, complex algorithms, revenue management software automatically assesses hotel performance on a daily, weekly, monthly, and annual basis, allowing revenue managers to quickly compare rooms sold and revenue against data at the market segment and total hotel level. Automated revenue management systems also free up revenue managers' time for making more strategic, proactive decisions for their hotels.

#2 Deepen Customer Intelligence Processes

A key part of collecting the right data also includes customer intelligence.

Hal Rosenbluth, former president of Walgreens Health and Wellness, once said about business, "There is only one boss – the customer. And he can fire everybody in the company, from the chairman on down, simply by spending his money somewhere else." As Rosenbluth points out, catering to the customer is critical to staying in business, and it isn't just for marketers and customer-facing staff. In order to truly optimize revenue amid today's uncertain and competitive economy, revenue management professionals must take the time to understand their organizations' customers in order to keep them.

One way revenue managers can do this and acquire increased customer intelligence is by working closely with their organization's marketing team. According to a white paper from SAS, "Competing on Customer Intelligence," marketing has historically been guided by the four P's: product, price, promotion, and placement—and in that order.[1] However, SAS states, "this product-centric business model reflects a company that is inwardly focused on what it wants to sell, rather than outwardly focused on what customers want to buy."

By paying more attention to the wealth of data marketers collect on customer demographics, segmentation, and preferences, revenue managers can use it to predict future consumer behavior and put together better packages and prices that will attract people to the hotel. In doing so, revenue managers transform choreographed customer data into insights that lead to better, more informed decision-making and profits for the hotel.

[1] http://viewer.media.bitpipe.com/983172546_992/1251134702_859/CompetingonCustomerIntelligence.pdf

#3 Think Creatively

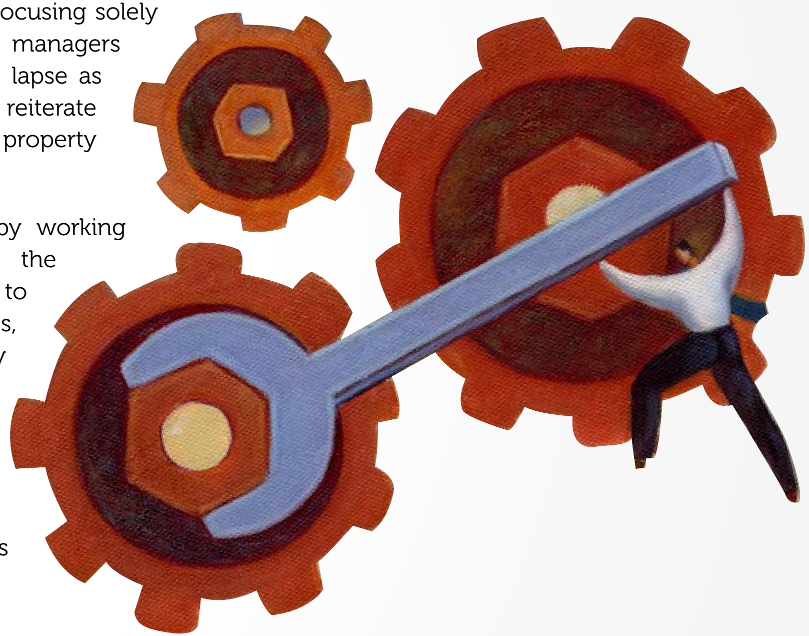
As pointed out on the previous page, the line is blurring between revenue managers and marketers.

Increased transparency in business today—including unbiased customer reviews and prices displayed on internet websites—requires that revenue managers exercise creativity and innovative thinking to get ahead.

For example, many revenue managers panic during times of weaker bookings and start slashing rates in the hope that it will drive up demand. However, research has proven (over and over) that this technique rarely works. In fact, one of the worst things a hotel can do is offer a discount to beat out a competitor and then reduce one of their services to help accommodate for the price reduction—something that may differentiate the hotel from the competition in the first place.

To overcome periods of weaker bookings instead of focusing solely on price, revenue managers should approach the lapse as an opportunity to reiterate what makes their property stand out for guests.

This can be done by working closely with the marketing team to offer room upgrades, complimentary services—such as a spa treatment, an exclusive gift, or free Wi-Fi in rooms—or another package that attracts customers.



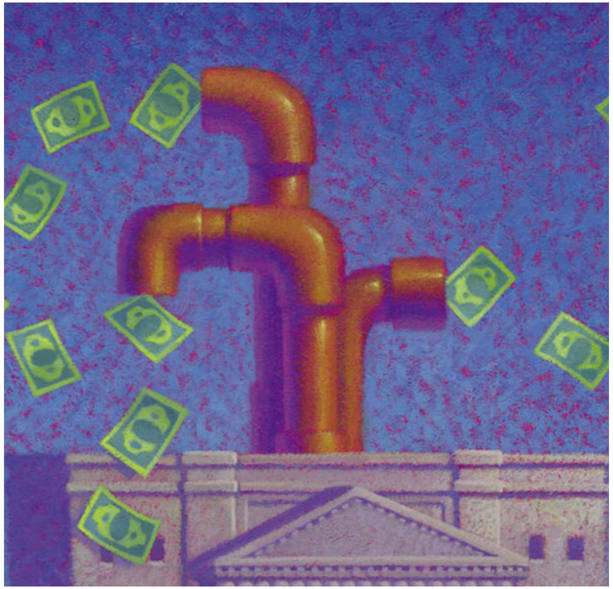
#4 Start Learning 'Total' Revenue Management

There is little doubt about it—the future of revenue management is 'total' revenue management—optimizing revenue from all of a hotel's available revenue streams (including rooms, food and beverage, spa, golf, retail, etc.).

Although it's not a new concept, hotels and resorts are spending more time and energy today refining their tools and processes in order to optimize total guest spend. And because it won't be long before technology evolves to accommodate this new approach, it's a good idea for revenue managers to begin familiarizing themselves with 'total' revenue management and communicating its importance to senior leaders.

A good place to start is moving away from a "room-centric" approach and tracking revenue contribution by market segments.

In an article titled "Optimizing Total Revenue Management," Bonnie Buckhiester notes that "hoteliers believe they know instinctively what segments produce better flow-through, but often this information is anecdotal in nature and, at best, is confined to the rooms and/or food and beverage divisions, not ancillary revenues."[2]



She notes that by tracking profits on a segment basis and really drilling down to understand each segment's revenue contribution, hoteliers can then better manipulate their business mix to drive profitability.

Ultimately, by taking steps now to prepare for this shift in revenue management mindset, revenue managers can better ensure that their organizations will remain competitive later on.

[2] http://www.hotelnewsnow.com/Articles.aspx/8251/Optimizing-total-revenue-management

#5 Serve as a Revenue Management Ambassador

In addition, as the industry shifts towards total revenue management, it's important that revenue management professionals be not only skilled mathematicians, but also effective communicators for their field.

Although many general managers and senior leaders understand the importance of having a formalized revenue management process and culture in place within their organizations, still many others do not. And as revenue management continues its domain at the corporate and individual property level, revenue managers must work closely with the executive suite to build and instill a strong culture of revenue management to drive profitability.

In addition, in order to practice 'total' revenue management and optimize profits from all hotel assets, revenue managers must obtain executive buy-in across multiple departments; including sales, catering, spa, food and beverage, and more. To do so, they must not only accurately forecast and analyze data, but also effectively communicate revenue management strategies and principles to senior leaders.

THE NEW FACE OF REVENUE MANAGEMENT

The revenue management industry is rapidly evolving, and revenue managers that are strategic, forward-thinking and entrepreneurially-minded can take the science and art of revenue management to new heights within their organizations. In addition, equipped with the right tools and data, revenue managers can serve as strategic partners to their organizations—driving up the bottom line through enhanced customer intelligence processes and a greater culture of revenue management.

Part 3

Sync or Sink: Automating Revenue Management Processes to Stay Competitive

The face of the hotel revenue manager is changing rapidly.

Five years ago, the job consisted of collecting and compiling data into Excel spreadsheets, analyzing the data to identify trends and making a decision about hotel rates. Now it's an incredibly complex process that involves online travel agencies (OTAs), mobile marketing, hyper-interactive consumers, and direct competitors who consistently undercut their prices.

With the added pressures placed upon revenue managers today, hoteliers are finding it necessary to invest in technologies that increase their chances of capitalizing on consumer behavior in order to optimize revenue and remain competitive. One solution is revenue management software, which automatically calculates, monitors, and analyzes market data, freeing up a revenue manager's time to make smarter, more strategic revenue decisions for the hotel.

But while many hotels realize significant return on investments upon deploying revenue management systems, others are opposed to the idea of letting a computer run their financial operations. Many hoteliers don't trust technology and believe they can accomplish equally sound revenue management practices by attracting and retaining intelligent and strategic revenue management professionals.

However, if hoteliers want to remain competitive amid today's fast-paced, inter-connected environment, it's vital to automate the revenue management process. Although seasoned revenue management professionals are—and will remain—valuable assets to a hotel, they simply cannot emit the high-speed, complex algorithms of revenue management software. By automating the revenue management process, hoteliers can free up revenue managers' time to react more strategically to opportunities in the market and further boost the bottom line.

LET'S TAKE A CLOSER LOOK...

Increased Efficiency

Historically, revenue management has been defined as using a hotel's booking history and current activity levels to forecast demand as accurately as possible. During periods of high demand, revenue managers increase rates. When demand is low, they discount them, thereby maximizing revenue under both scenarios. However, forecasting and pricing decisions are rarely this simple.

Amid heavy reliance on OTAs, flash sales and mobile marketing, it's almost impossible to look at a hotel's booking history and identify trends because the booking patterns are changing constantly, making it hard for revenue managers to recognize changes in demand and react in time to make a profit.

In such a high-speed environment, manually collecting, evaluating and calculating data via Excel spreadsheets is not only a tedious process, it's slow and highly susceptible to error and missed opportunities. For example, a revenue manager could forget a zero and type in an $18 rate instead of $180, resulting in a significant loss of revenue for the hotel.

This is where revenue management software can make a huge difference. Through a series of complex, specialized algorithms and countless calculations, revenue management systems automatically assess hotel performance on a daily, weekly, monthly, and annual basis, allowing revenue managers to quickly compare rooms sold and revenue against data at the market segment and total hotel level.

The system provides updated reports every evening; some systems can even pull data every hour. This gives revenue managers and hoteliers a clear vision of their data, bringing more accuracy and consistency—versus gut instinct—to the forecasting and reporting process. The increased business intelligence makes it easier for revenue managers to determine correct pricing, optimize demand, and increase revenue across their property or portfolio of properties.

Less "Number Crunching"— More Strategizing

The sheer amount of time it takes a revenue manager to collect and evaluate data via Excel spreadsheets is enormous—easily four to five hours a day. With a revenue management system in place, revenue managers can cut their workload in half, freeing up their time to analyze data and make better, more strategic

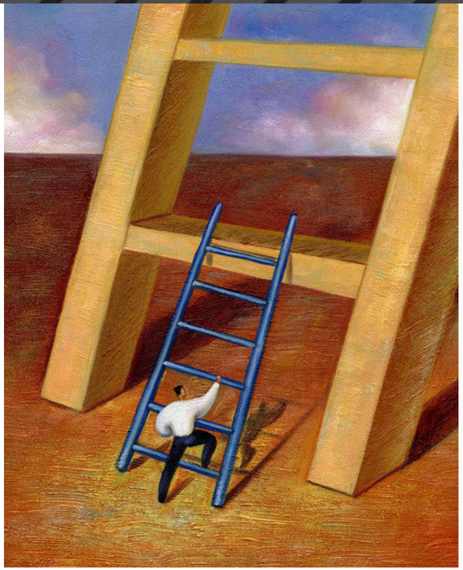
decisions for the hotel. By automatically cranking out reports and recommendations in real-time, the system ensures that revenue managers remain in control—able to act proactively, instead of reactively, to changes in the market.

For example, in a manual environment, revenue managers generally identify a booking pattern and then take action, such as raising the price of rooms. Under this scenario, hoteliers often cannot identify patterns and opportunities until nearly 80 percent of their business is on the books. They end up only yielding the last 20 percent. But with an automated revenue management system in place, hoteliers can invert that. Imagine if trends and revenue opportunities were seen with only 20 percent of the business on the books. The hotel is now yielding 80 percent of the business. Because the system enables revenue managers to see trends much more quickly than they would otherwise, they can yield a much larger share of the business that's yet to come.

Greater Culture of Revenue Management

Perhaps one of the most significant benefits hotels have reported seeing as a result of having an automated system is a more defined and enhanced culture of revenue management. No longer faced with a mountain of work on Excel spreadsheets, revenue managers have time to conduct more in-depth analysis of the data now readily available to them. Rather than labor over creating reports and constantly changing prices, revenue managers can focus on exceptions to the forecast, such as a special event in town that may fall outside of the system's parameters.

In addition, the reduced workload frees up revenue managers' time to meet with the sales and marketing teams to align strategies and ensure that the overall marketing direction is consistent with the hotel's goals and objectives. Because revenue managers are experts in pricing, they can give marketers the pricing information they need to create offers and promotions that generate revenue. In return, marketers can clue revenue managers in about when they place offers into the marketplace so that revenue managers can create better, more accurate forecasts in relation to demand.



However, these aren't the only teams who benefit as a result of a revenue management system. As the forecast becomes more accurate and consistent, senior executives in other departments—such as catering, front office, reservations, food and beverage, and housekeeping—will become more confident in the reports and more familiar with the language and basic principles of revenue management, which serves to maximize revenue from several different angles.

Improved Bottom Line

Ultimately, hotels with an automated revenue management system in place will be far more competitive than properties without an automated system. The sheer time it saves revenue mangers alone can escalate their role from "number crunchers" to strategic partners—serious contenders for a position in the C-suite. By automating a huge chunk of their workload, revenue managers can more easily keep up with today's fast-moving and rapidly evolving nature of business to anticipate and capitalize upon consumer behavior. In addition, by working more closely with other departments, particularly sales and marketing, revenue managers can instill their discipline throughout the organization, resulting in increased business and revenue for the hotel.

DRIVING BETTER REVENUE

A new revenue management reality exists for today's hoteliers, and this eBook is designed to provide both insights and a thought-provoking review of basic revenue management principles. Whether your properties are large or small, new to revenue management practices or industry veterans, we aim to inspire you and your employees to realize the full potential of a thriving revenue management practice.