SHA509: Introduction to Restaurant Revenue Management
This course includes

- Two self-check quizzes
- Two discussions
- Two Ask the Expert interactives
- One final action plan assignment
- One video transcript file

Completing all of the coursework should take about five to seven hours.

What You'll Learn

- Describe the benefits of restaurant revenue management
- Develop detailed recommendations for improving revenue using restaurant revenue management
- Implement and evaluate the effectiveness of strategies to increase revenue during hot, warm, and cold periods
- Analyze the potential return on investment associated with implementing restaurant revenue management strategies
- Measure the improvement associated with implementing restaurant revenue management strategies

Course Description

In this course, you'll learn how to assess a restaurant's revenue capability and how to maximize its profitability. With the Restaurant Revenue Management (RRM) system, you can create conditions and manipulate factors such as meal duration and price to bring in more revenue. Learn key the concepts of Restaurant Revenue Management, examine methods of measuring revenue-management success, compare those measures to traditional indicators of success, and learn the five-step approach to establishing a revenue-management system.
You can determine a restaurant’s revenue capability by calculating its "revenue per available seat hour", and discover the value of identifying and modifying business practices to accommodate hot, warm, and cold revenue periods. You will learn the five steps of the revenue management process and examine the conditions necessary for proper implementation. You'll also review case studies of restaurants around the world that have used the RRM system and have seen two to five percent revenue increases.

Sheryl Kimes
Professor of Operations Management, School of Hotel Administration, Cornell University

Sheryl E. Kimes is a professor of operations management at the School of Hotel Administration. From 2005-2006, she served as interim dean of the School and from 2001-2005, she served as the school's director of graduate studies. Kimes teaches restaurant revenue management, yield management and food and beverage management. She has been named the school's graduate teacher of the year three times. Her research interests include revenue management and forecasting in the restaurant, hotel and golf industries. She has published over 50 articles in leading journals such as Interfaces, Journal of Operations Management, Journal of Service Research, Decision Sciences, and the Cornell Hospitality Quarterly. She has served as a consultant to many hospitality enterprises around the world, including Chevy's FreshMex Restaurants, Walt Disney World Resorts, Ruby's Diners, Starwood Asia-Pacific and Troon Golf. Kimes earned her doctorate in Operations Management in 1987 from the University of Texas at Austin.
Module Introduction: Restaurant Revenue Management

This module introduces you to the process of implementing revenue management in restaurants. This will hopefully provoke you to shift your thinking about restaurant revenue management from a focus on average check, labor, and food-cost percentages to a focus on revenue per available seat-hour or RevPASH.

Throughout the course, you will analyze data relating to arrivals, occupancy, meal duration, and revenue to develop a baseline understanding of the several factors as they relate to a particular restaurant.

After completing this module, you should be able to:

- Identify the things restaurants can use to measure the success or failure of revenue management
- Describe the benefits of implementing a systematic revenue-management process
- Describe what revenue management might look like in a restaurant
- Explain what revenue management is
- List the necessary conditions for revenue management
- Define RevPASH
- Identify opportunities for revenue management
Restaurant revenue management (RRM) can be defined as selling the right seat to the right customer at the right price and for the right duration. The goal of RRM is to maximize revenue per available seat hour (RevPASH) by manipulating price and meal duration.

The determination of "right" entails achieving both the most revenue possible for the restaurant and also delivering the greatest value or utility to the customer. Revenue management, or yield management, is commonly practiced in the airline and hotel industries, and -to a somewhat lesser degree -the lodging industry. Companies implementing revenue management report increases in revenue of two to five percent over the results of prior procedures.

The following pages introduce you to the concept of RevPASH, outlines the conditions necessary for the successful implementation of revenue management, and introduces the five steps in the revenue management process.
Activity: Which Restaurant Would You Rather Manage?

Imagine you were in the enviable position of being able to choose which among four restaurants you’d like to manage. The only caveat is that you must base your decision solely on your analysis of data related to seat occupancy and average check per person. All other factors, such as operating costs, are assumed to be equal.

This exercise presents just such an opportunity. Test your instincts by deciding, on the basis of data for seat occupancy rate and average check, which restaurant is likely to generate the most revenue.

Examine the data for seat occupancy rate and average check for each of the four restaurants (A, B, C, and D) as captured in the table below. On the basis of your analysis, click the restaurant you think is likely to generate the most revenue, and therefore represents the most desirable management opportunity.

(Note: This exercise does not take into account factors such as operating costs that would normally play a critical role in your decision. Assume average check corresponds to average check per person.)
Watch: Introduction to RevPASH

The revenue management approach most common to hotels and airlines requires a focus on revenue per available time-based inventory unit. Hotels, for example, measure revenue per available room-night (commonly referred to as RevPAR). Airlines measure revenue per available seat-mile (RPSM). Cruise lines measure revenue per available cabin. What about restaurants?

An illustrated presentation with audio appears below. Use this resource to build your knowledge about revenue per available seat-hour (RevPASH).
Read: Necessary Conditions for Restaurant Revenue Management

The application of revenue management has been most effective when it is applied to operations that have the following characteristics. Click each to learn more about it.
Watch: The Revenue Management Process

When developing an RRM system, a restaurant operator must first understand current conditions and performance. Following this, the operator must evaluate the possible causes of that performance. This understanding will help managers accomplish the next two steps in the process: develop and implement strategies to improve RevPASH statistics. Finally, the manager must monitor the impact of implemented changes on revenue performance.

An illustrated presentation with audio appears below. Use this resource to build your knowledge about the five steps in the revenue management process.
Imagine you manage a very busy restaurant. Most nights, the dining room is full and there is usually a line of people waiting for a table. You might ask yourself, "Why would I need to implement a restaurant revenue management program when I seem to be doing everything right?"

Ironically, it is precisely because your restaurant is so busy that you need a revenue management program. All the tables in the restaurant may be occupied during peak dining hours, but are all the seats at those tables occupied? After parties are seated, how long are they waiting for their server to arrive? Are there measures you can implement to reduce the total dining time, enabling you to serve more people during the same number of dining hours?

The following pages provide an in-depth look at how the Chevys Fresh Mex restaurant in Arrowhead, Arizona implemented a restaurant revenue management program and how it enabled the restaurant to serve more people more efficiently and thereby increase overall revenues. Chevys Fresh Mex restaurant in Arrowhead, Arizona will often be referred to as simply Chevys Arrowhead. This case study data is based on real experiences from this restaurant.

When you have finished reviewing the case study, you will take the required assessment to test your understanding of the information in this module. You must get a score of 100% on all required evaluations to pass this course.
"The proof is in the pudding" is an old saying attesting to the fact that the surest way to prove the value of a process is to see it in action. In this case, the pudding is Chevys Fresh Mex™ restaurant in Arrowhead, Arizona. In the fall of 2001, the restaurant undertook a revenue management initiative to enable it to serve more patrons more efficiently and thereby increase revenue. How did they do it? And what exactly were the results? Explore this presentation to find out.
Ask The Expert: The Need for Revenue Management

Janell Bozoian
Former General Manager
Chevy's Fresh Mex
Glendale, AZ

What led Chevys Arrowhead to implement revenue management?

- Certain locations in the company were not maximizing their seating capacity.
- Goal was to fill the empty seats, reduce the wait times on our busy shifts, and increase table turns and profits.

Were you surprised by the results of the initiative?

- Assumed the restaurant was operating at maximum capacity. Surprised to learn we weren't fully utilizing our seating capacity.
- Surprised to learn we could do more sales in less time without the restaurant feeling busier.

How long did it take before you and your staff were comfortable with the program?

- It took eight weeks for our staff to feel comfortable with the new program.
- Needed to retrain our staff to move more quickly and more safely.
- Staff needed to break old habits and adopt new routines.

Have you completed the process, or is the program ongoing?

- Program currently fully in place and everyone is comfortable.
- New procedures have become habitual.
- Expect to have to perfect a little bit more.
About the Expert

Janell Bozoian was the General Manager of Chevys Fresh Mex™ restaurant in Glendale, Arizona, for seven years. She has over 17 years of restaurant business experience; the last nine of these were with Chevys Fresh Mex.

Chevys is a growing nationwide restaurant chain with 173 locations and over 10,000 employees. Chevys is known for its Tex-Mex cuisine, and a no cans in the kitchen approach to freshness. They pay a great deal of attention to their menus, and have developed different menus for their east and west coast customers. They constantly experiment with new items to keep their restaurant concept evolving. In this presentation, Janell talks about the need for Restaurant Revenue Management.
Module Introduction: The Revenue Management Approach for Restaurants

This module will provide you with in-depth coverage of topics on the development and implementation of revenue management strategies. You will play the role of a manager of a one-hundred-seat restaurant, Cactus Café. Top-level management has asked that you develop and implement restaurant revenue management strategies in order to increase revenue. Using baseline data gathered recently for this purpose, you will analyze arrivals, occupancy, meal duration, and revenue in order to identify appropriate revenue management strategies for your operation. Then you'll evaluate potential strategies using revenue increase calculations and a return on investment analysis, to determine how to proceed.

After completing this module, you should be able to:

- Describe Cactus Café
- Discuss baseline data and its underlying drivers in the context of this restaurant
- Define the hot/warm/cold approach to restaurant revenue management
- Use RevPASH or seat occupancy to identify hot, warm, and cold periods
- Identify opportunities for revenue management
Read: Revenue Problems at Cactus Café

Cactus Café is a very busy restaurant! Many nights, the dining room is full and often there is a line of people waiting for a table. If this is true, then why is a restaurant revenue management program needed?

In fact, it's precisely because Cactus Café is so busy that it is potentially a good candidate for a restaurant revenue management program. To determine if revenue management is a good fit, you'll want to look at restaurant data to answer questions like:

- When all the tables in the restaurant are occupied, are all the seats at those tables occupied? What percentage of the seats are occupied?
- After parties are seated, how long do they wait for their server to arrive? Can you reduce the total dining time, enabling you to serve more people during the same number of dining hours?
- Are you using a one-price approach or have you found ways to make prices variable using, for instance, demand-based pricing?
Watch: Cactus Café

You're the general manager of Cactus Café, a successful Mexican-American restaurant located in the suburb of a large city. In the last few years, this restaurant has grown from a small eatery catering to a narrow clientele to a regional destination attracting a broad cross section of the population. There are signs, in fact, that the restaurant is enjoying more success than it can handle. Customers complain about waiting in long lines (especially on weekend nights), waiting to be seated, waiting for the food to be delivered to the table, and waiting for the check to be delivered. It's time to take a good long look at the restaurant's operation and figure out what can be done to serve more people more efficiently.

This presentation introduces you to the Cactus Café.
Watch: The Numbers Behind the Scenes

To get a clearer idea of the challenges facing Cactus Café, let's take a look at the baseline data. The baseline data presented here is the key to your analysis of revenue management potential at Cactus Café. Remember, this data must indicate that customers do wait for tables at your establishment - at least at times - in order for revenue management to make an impact. If your measurements show that meal duration is highly variable and possibly too long, there is probably a way to improve the service cycle, reduce wait times, and increase revenue. In this presentation, take a close look at baseline data.
Read: The Hot/Warm/Cold Approach to Restaurant Revenue Management

Customers arrive at all times of the afternoon and evening at Cactus Café, and the number of arrivals per hour can really vary! The length of time that customers remain in the restaurant also varies somewhat, as does the amount of money they spend. Depending on the number of customers who come and go and the amount they spend, the restaurant experiences hot periods (busy times) and cold periods (not-busy times).

Restaurant managers cannot rigidly control when customers arrive, when they leave, or how much they spend. However, they can develop and use strategies for maximizing revenue in hot and cold situations. In the following pages, find out more about hot, cold, and warm periods and their associated strategies. Also, learn about RevPASH and how to calculate it.
Activity: Managing Hot/Warm/Cold

For the Cactus Café to implement restaurant revenue management, you'll need to know appropriate strategies for hot and cold hours at the restaurant. Hot strategies will increase volume at a maximum price. Cold strategies will increase the number of customers and/or the average check. To help you complete this activity, learn more in Hot/Cold Strategies, located later in this course.
Revenue per available seat-hour, or RevPASH, is one way of looking at the flow of revenue into the restaurant. This view puts the focus on the time each customer spends in the seat (that is, dining), making seat-hour the inventory unit for sale. Similar views are taken by hotels, airlines, and cruise lines, which measure revenue per available room-night, revenue per available seat-mile, and revenue per available cabin, respectively.
Ask The Expert: Hot Warm Cold!

In this resource, Professor Sherri Kimes explains how the concept of hot, warm, and cold hours can be helpful in increasing revenue. Learn what is meant by hot, warm, and cold. Find out if cold hours are beyond the control of management, and why hot hours should be managed at all.

Dr. Sheryl E. Kimes

Singapore Tourism Board
Distinguished Professor in Asian Hospitality Management
School of Hotel Administration, Cornell University

What is meant by "hot, warm, and cold" in the context of restaurant management?

Isn't the fact that there are cold hours really beyond my control as a manager?

Hot hours are great! Why would I change anything about how I manage those times?
Watch: **Hot/Cold Strategies**

A restaurant normally cycles through busy and quiet hours that is, hot and cold hours. The challenge is to manage these hours as effectively as possible to maximize revenues. In Hot/Cold Strategies, learn about hot strategies for hot hours and cold strategies for cold hours. Find out how to maximize revenue in either situation!
Read: Thank You and Farewell

Hello! This is Sherri Kimes again. Congratulations on completing the first course in the restaurant revenue-management series, *Introduction to Restaurant Revenue Management*. I hope you've enjoyed the course and now have a much better understanding of how implementing restaurant revenue management can benefit any restaurant. If you are interested in learning about the remaining steps in the process, consider signing up for the second course in the series, *Managing Revenue with Service Cycle*. This course covers how to manage revenue by collecting and analyzing data that affect the service cycle. I hope you join us in this next intellectual pursuit.
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Additional Resources

The Center for Hospitality Research provides focused whitepapers and reports based on cutting-edge research.