Hotel Revenue Management Incentives Practice Research –Summary

April 17th, 2015

This report is solely for the use of all direct recipients. No part of it may be circulated, quoted or reproduced for distribution to any third party without prior written approval of ZS Associates and The Hospitality Sales & Marketing Association International (HSMAI) Foundation.

ZS: Toronto | +1 416 777 5100
HSMAI: McLean, VA | +1 703 506 3280
Introduction

ZS Associates and The Hospitality Sales & Marketing Association International (HSMAI) Foundation are pleased to present this summary of the inaugural edition of the Revenue Management Incentives Practice Research for the hotel industry. This is the first data-validated compensation design survey for the hotel industry.

Our goal in undertaking this project is to provide information to sales leaders interested in understanding best practices in incentive planning. We hope this study helps you understand compensation trends to provide guidance for your 2016 planning.

If you have any questions or comments, please contact Tony Yeung <tony.yeung@zsassociates.com> or Juli Jones <jjones@hsmai.org>.

Best Regards,
Contents

- Methodology .............................................................. 4
- Executive Summary .................................................. 7
Methodology

Invitations to participate in the survey were sent to selected revenue management contacts in the hotel industry in the HSMAI members database in the US and Canada. Invitations were also sent to hotel executives and general managers to forward to the appropriate resources working in revenue management capacity for participation. These efforts drew participants from a wide range of hotel sizes, market classes, and geographies.

Participants each completed an online survey that was live from August through October 2014. They supplied detailed information on the incentive plan structure, administration and general satisfaction levels of resources in revenue management capacity across hotels in US and Canada.

The survey was divided into the following sections:

I. General respondent and property information

II. Incentive plan structure

III. Plan administration and sales and crediting

IV. Satisfaction and turnover

Note: n-sizes throughout the survey represent the number of valid responses for a particular question, unless otherwise stated. Low sample size designation: n-sizes less than 15 are designated with a hyphen (-) (data is not displayed); n-sizes from 15-29 are designated with an asterisk (*) (data is displayed, but use with caution).
Results are compiled with inputs from 322 experienced revenue managers

<table>
<thead>
<tr>
<th>Respondent Job Title</th>
<th>Description</th>
<th>Sample Size</th>
<th>Current Position</th>
<th>Current Hotel</th>
<th>Overall Hotel Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Analyst</td>
<td>Assists the leader of revenue management as directed</td>
<td>3</td>
<td>2.7</td>
<td>3.3</td>
<td>9.4</td>
</tr>
<tr>
<td>Revenue Manager</td>
<td>Assists the leader of revenue management as directed</td>
<td>49</td>
<td>4.3</td>
<td>7.3</td>
<td>13.6</td>
</tr>
<tr>
<td>Area Revenue Manager</td>
<td>Leads all revenue management activities at multiple properties (typically 2-3 properties)</td>
<td>18</td>
<td>3.5</td>
<td>6.0</td>
<td>14.7</td>
</tr>
<tr>
<td>Regional Revenue Manager</td>
<td>Leads all revenue management activities at multiple properties (typically 4 or more properties)</td>
<td>40</td>
<td>3.8</td>
<td>5.4</td>
<td>16.5</td>
</tr>
<tr>
<td>Director of Revenue Management</td>
<td>Leads all revenue management activities at property/properties</td>
<td>133</td>
<td>4.5</td>
<td>5.7</td>
<td>17.1</td>
</tr>
<tr>
<td>Centralized/Cluster/Portfolio Revenue Manager</td>
<td>Conducts revenue management activities in a centralized capacity (typically for multiple properties); may specialize in certain tasks or conduct general activities</td>
<td>24</td>
<td>4.0</td>
<td>6.8</td>
<td>17.6</td>
</tr>
<tr>
<td>Other</td>
<td>Responses include: Dual Revenue Manager, Corporate Revenue Director, Asst. DRM, Corporate Director of Revenue, Regional DRM, Asst. DRM, Exec DRM, Vice President</td>
<td>55</td>
<td>5.0</td>
<td>7.7</td>
<td>19.9</td>
</tr>
<tr>
<td>Total Respondents</td>
<td></td>
<td>322</td>
<td>4.0</td>
<td>6.0</td>
<td>15.5</td>
</tr>
</tbody>
</table>

Q1. Please enter your approximate years of professional experience.
Q2. What is your current job title? Please choose the title that most closely fits your primary job function.
Revenue managers were categorized into 6 segments based on their job title, pay level, and specific responsibilities.

<table>
<thead>
<tr>
<th>Segment name</th>
<th>n-size</th>
<th>Average # of properties responsible for</th>
<th>Average # of direct reports</th>
<th>Segment description by job titles and # of properties</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Manager Single-property</td>
<td>34</td>
<td>1.0</td>
<td>2.8</td>
<td>All Revenue managers (1 property only)</td>
</tr>
<tr>
<td>Revenue Manager Multi-property</td>
<td>71</td>
<td>8.4</td>
<td>4.0</td>
<td>Revenue Managers, Area and Regional Revenue Managers (2+ properties)</td>
</tr>
<tr>
<td>DRM Single-property</td>
<td>91</td>
<td>1.0</td>
<td>4.1</td>
<td>Directors of Revenue Management (1 property only)</td>
</tr>
<tr>
<td>DRM Multi-property</td>
<td>42</td>
<td>12.2</td>
<td>5.7</td>
<td>Directors of Revenue Management (2+ properties)</td>
</tr>
<tr>
<td>Centralized Revenue Manager</td>
<td>24</td>
<td>14.3</td>
<td>2.8</td>
<td>Centralized/Cluster/Portfolio Revenue Managers (2+ properties)</td>
</tr>
<tr>
<td>Regional/ Corporate DRM</td>
<td>20</td>
<td>16.1</td>
<td>9.0</td>
<td>Regional and Corporate Directors of Revenue Management</td>
</tr>
<tr>
<td>Total Segmented Respondents</td>
<td>282</td>
<td>6.7</td>
<td>4.4</td>
<td></td>
</tr>
</tbody>
</table>

Q3. For how many total properties do you have direct revenue management responsibilities? Q15. How many direct reports do you have in the following departments? Q18. During the 2013 fiscal year, what was your gross base annual salary in USD? Q19a. If you achieve 100% of your performance goal(s), how much of your compensation is planned variable pay, expressed as a percentage of your base pay?
Executive Summary
The Hotel Incentives Practices Study suggests some important opportunities for hotel leaders and revenue managers

Key Findings

The Hotel Incentives Practices Study provides a clear picture of:
- Incentive plan design
- Plan administration practices
- Perceived issues and opportunities

The majority of RM plans are remarkably similar to each other, particularly for overall plan structure, performance metrics and payout schedules

Overall, revenue managers have low satisfaction with current incentive compensations practices. In particular, RMs feel that effectiveness can be improved in providing:
- Competitive pay levels
- Effective goal setting (most fall short of achieving target payout)
- Differential earning for top performers
- Valued employee development
- Recognition programs

Opportunities for the Hotel Industry

1. Increase pay-for-performance, to reward top performers
   - Create plan upside and downside risk and set payout levels whereby the true stars consistently earn more than the lower performers

2. Improve goal-setting effectiveness, to better reflect performance expectations

3. Ensure opportunities for career growth of high performers within the company, to retain top talent

4. Improve formal performance reporting, to increase plan motivational impact
   - More frequent and transparent formal communication to solidify revenue manager’s understanding of their plan’s expectations

5. Benchmark pay levels on an ongoing basis, to ensure market-appropriate pay levels
Revenue manager incentive plans are typically goal-based with revenue targets and have a payout cap

Plan Structure

- Most revenue managers’ incentive plans are goal-based and determined by 3 or fewer metrics
  - RevPAR* Index and Room Night Revenue are the main performance metrics
- High performers only earn ~1.5x higher incentive pay than average performers, whereas other industries typically pay a difference of 3x or more
- Almost two thirds of plans place a cap on potential incentive earnings, typically set from 35% to 60% of base pay
- ~80% of plans also have at least one minimum performance threshold or “gatekeeper” metric which must be met to receive payout

Plan Administration

- Most revenue managers’ incentive plans are designed by the hotel corporation and administered similarly
- Performance is typically measured over annual or quarterly periods and payouts are made 6-7 weeks after the end of the performance period
- However, several concerns regarding the communication of incentive plan structure and administration were identified:
  - Communication of new plans often happens after a new performance period has already started (More than 35% of incentive plans change yearly)
  - For almost 1/3 of revenue managers, no follow-up communication occurs to ensure that they understand their plans
  - Although formal performance reports are often distributed monthly, almost half of revenue managers calculate their payouts manually

*RevPAR: revenue per available room
Overall satisfaction with incentive plans is low, but key opportunities have been identified to improve satisfaction

**Plan Satisfaction**

- **Most revenue managers are not satisfied with their current incentive plan**
  - Average Net Promoter Score* was -21.7, indicating that most respondents are unlikely to recommend their current plan to others

- **Most revenue managers are not convinced that their employers are effective at providing several aspects that they consider to be highly important for job satisfaction**

- **However, key opportunity areas have been identified for aspects that significantly drive incentive plan satisfaction but are rated as low on companies’ current level of effectiveness:**
  - **Widen differential-earning:** Set payout levels for highly motivating and equitable incentive plans whereby the true stars consistently earn more than the lower performers
  - **Adopt recognition programs:** Establish credible and motivating recognition programs that acknowledge the strongest contributors
  - **Set effective goals:** Ensure that quotas are set to be realistic, accurate and achievable for most of the revenue management team
  - **Create career opportunities:** Publish career ladder options that are available in line with aspirations for DRMs looking to advance their career

*Net Promoter Score is calculated by [\% of total Promoters - \% of total Detractors]*

Q34. Pretend that you are giving a recommendation to a friend of a colleague who is managing a hotel similar to your own, how likely are you to recommend that your company’s incentive plan be used at their property? Assume there are no competitive considerations. (0 = Not at all likely, 10 = Extremely likely)
Slight differences were observed between the respondents’ plans’ metrics and structure as well as their payouts achieved.

<table>
<thead>
<tr>
<th>Dominant Plan Components*</th>
<th>Revenue Manager</th>
<th>Director of Revenue Management</th>
<th>Centralized Revenue Manager / Regional/ Corporate DRM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goal-based (80%) MBO** (Management by Objectives) (19%)</td>
<td>Goal-based (89%) MBO** (27%)</td>
<td>Goal-based (66%) MBO** (39%)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Primary Performance Metrics*</th>
<th>Revenue Manager</th>
<th>Director of Revenue Management</th>
<th>Centralized Revenue Manager / Regional/ Corporate DRM</th>
</tr>
</thead>
<tbody>
<tr>
<td>RevPAR Index (30%)</td>
<td>RevPAR Index (27%)</td>
<td>RevPAR Index (32%)</td>
<td></td>
</tr>
<tr>
<td>Room Night Revenue (30%)</td>
<td>Room Night Revenue (25%)</td>
<td>Room Night Revenue (21%)</td>
<td></td>
</tr>
<tr>
<td>Total Hotel Revenue (13%)</td>
<td>Total Hotel Revenue (13%)</td>
<td>Gross Operating Profit (12%)</td>
<td></td>
</tr>
</tbody>
</table>

| % of plans that use minimum thresholds | 45% | 42% | 53% |
| % of plans that use caps or decelerators | 61% | 66% | 57% |
| Target Incentive (% of Base Pay) | 19% | 21% | 21% |
| Actual Incentive (% of Base Pay) | 12% | 14% | 20% |
| Top-to-average performer incentive pay ratio | 1.5x | 1.8x | 1.4x |
| % strong incentive compensation plan recommendation | 13% | 20% | 25% |

*Note: Some metric values do not sum to 100%; respondents can choose all that apply

** MBO: Management by Objectives (based on qualitative goals that are periodically evaluated for completion)
There is dissatisfaction with current incentive practices, with total compensation levels stated as the biggest driver.

Executive Summary

Net Promoter Score (NPS)*: - 21.7%

- NPS: The likelihood that someone would recommend their current plan
  
  % of total Promoters (17.7%)
  – % of total Detractors (39.4%)
  Net Promoter Score (-21.7%)

- Respondents receiving a higher level of compensation are more likely to recommend their plans

- Monetary concerns were identified as the most challenging RM incentive plan issues:
  – Competitiveness of pay
  – Adequate upside opportunity

- However, several non-compensation issues were also listed as challenges for many properties:
  – Goal-setting fairness
  – Goal forecast accuracy
  – Effective administration

Likelihood to Recommend Incentive Plan

Q37. Pretend that you are giving a recommendation to a friend of a colleague who is managing a hotel similar to your own, how likely are you to recommend that your company’s incentive plan be used at their property? Assume there are no competitive considerations. (0 = Not at all likely, 10 = Extremely likely)

*Net Promoter Score is calculated by [% of total Promoters - % of total Detractors]
However, differential earning, recognition programs, effective goals and career opportunities are key opportunity areas to increase plan satisfaction.

Derived Drivers of Satisfaction vs. Improvement Opportunities

- **Effective Goals**
- **Recognition Programs**
- **Career Opportunities**
- **Competitive Pay**
- **Differential Earning**
- **Work/Life Balance**
- **Learning and Development**
- **Hotel Leadership Position**
- **Leadership Team**
- **Executive**
- **Communication of Strategy**

Areas of significant drivers of incentive plan satisfaction as well as areas that can be most improved compared to firms’ current level of effectiveness.

Q37. Pretend that you are giving a recommendation to a friend of a colleague who is managing a hotel similar to your own, how likely are you to recommend that your company’s incentive plan be used at their property? Assume there are no competitive considerations.

Q39. Revenue manager satisfaction: How effective do you believe your company is at doing this?