The Evolving Dynamics of Revenue Management:

A COMPREHENSIVE REVENUE OPTIMIZATION ROAD MAP FOR HOTEL OWNERS, OPERATORS AND PRACTITIONERS

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INTRODUCTION

HSMAI and inspire resources are excited to deliver to the hotel industry this valuable and informative publication “Evolving Dynamics of Revenue Management: A Comprehensive Road Map for Hotel Owners, Operators and Practitioners”.

Four years after “Defining Revenue Management: Top Line to Bottom Line” was published, HSMAI’s Revenue Management Advisory Board commissioned inspire resources to author an even more comprehensive document than the first. It describes a holistic approach to revenue management and provides more advanced content including a focus on revenue optimization. This publication also includes case studies that offer real examples provided by hoteliers and industry vendors.

Objectives
This publication will provide the reader with an introduction to the high level components of revenue management, describe the basic concept of each component and give a more detailed explanation of each. Case studies and take-away tools are also provided. The reader will gain an in-depth understanding of revenue management and how to apply it to best suit the needs of an independent hotel or a specific hotel company. Additionally, this document will drive home the fact that revenue management is important at all levels of the organization.

Powerful fact-based case studies have been prepared by hoteliers and selected vendors. These case studies outline factual situations and challenges, identify the methodologies used and show specific results achieved. In addition to the case studies, tools have also been provided to support the educational aspect of this publication. However, it must be understood that the examples and tools herein are not the ideal solution for everyone and may not work for every hotel or company. It is up to the reader to determine what is best for their hotel or company and apply or use what works best for their specific situation.

Who Should Read This
Hotel owners and operations executives can gain a high-level understanding of revenue management by reading only the “Components of Revenue Management” section of this document. However, senior executives are encouraged to read the entire publication as it will provide them with a thorough understanding of revenue management. Implementing revenue management often requires a culture change within a hotel or company. Having a full understanding of revenue management will provide executives with the foundation from which they can more effectively initiate these changes.

Operational managers such as revenue directors will also gain a detailed understanding of revenue management and how to apply the information by reading the entire publication. Each section provides key learning objectives and discussion questions to further enhance the education received through studying this publication.

Take-Away Tools
Included as one part of this publication are reference tools such as job descriptions and revenue meeting agenda items. All are available to assist the reader in setting up new processes or enhancing existing processes.
The Evolving Dynamics of Revenue Management

**Over the past** several years, revenue management has evolved to include a focus on progression, strategies, forward thinking and profitability. Today, most hoteliers strive to hire revenue directors that encompass strong leadership and solid communication skills. Revenue directors are now involved in strategy setting for all areas of the hotel and are a vital part of the overall hotel’s success and profitability. Hotel executives have realized the importance of this position and the need to hire someone who has the ability to bring the hotel to the next level and truly focus on strategies and long term gain versus data collection and short term gain. There has been a significant shift in the approach to revenue management. It is now more about looking into the future and staying focused on strategy and optimizing profitability. Today’s focus includes revenue optimization for the entire hotel and all revenue streams versus a singular focus on rooms.

The industry has come a long way in recognizing the importance and the needs of revenue management in order to be successful. This elevation and recognition means that the discipline has become even more complicated and requires sophistication in its resources such as revenue management technology and automation.

In an industry such as hospitality where perishable goods and services are involved, revenue management often provides a significant competitive advantage to companies that practice it effectively. Revenue management is a discipline that is used in many industries, but the application and implementation can vary greatly from sector to sector.

This publication will provide hoteliers with a guide they can use to develop and implement a revenue management foundation specific to their unique needs. Hotel owners, operators and mid-level management will benefit the most from this document.

There are many versions to the definition of revenue management. One of the definitions is a more technical one and is very broad in scope:

*Revenue management is the art and science of predicting real-time customer demand at the micro market level and optimizing the price and availability of products to match that demand.*

Another definition that is more specific and simple:

*Revenue management is offering room rates and inventory controls that are most appropriate for the anticipated demand.*

In hotel revenue management, managers have as their goal to obtain the best possible Revenue per Available Room (RevPAR) by determining the optimal price for a room after taking into consideration the following items (at a minimum):

- Supply and demand
- Historical data
- Market position
- Competitor’s pricing
- Booking window
- Booking pace
- Forecasted occupancy
- Unconstrained demand
- Demand indicators such as special events or city wide conferences

On the most fundamental level, the basis for success is having the right revenue management organization in place to support the revenue strategy. It is necessary to have a solid understanding of both the science and the art of revenue management throughout the organization—from the top all the way down to the bottom.

It is vital that owners and operators understand what revenue management can do for their bottom line. The executive level management within a hotel or company must understand the importance of applying revenue management strategy and tactics to achieve optimal profitability. The entire management of an organization must be unified around profitability goals. And the team directly managing the revenue management practice at a hotel must understand economics, forecasting, pricing, distribution and strategy in order to maximize the hotel’s revenue potential.

Additionally, it is imperative that a hotel creates and executes the right strategy while remaining nimble enough to respond quickly to a changing marketplace. The strategy must consider macro and micro economics, market conditions, appropriate product placement, the power of one-to-one revenue management, capabilities and value-added pricing.

Robert Cross is known as the guru of revenue management. Though he was quoted in "Defining Revenue Management: Top Line to Bottom Line", the principles described are
timeless and his quotes are repeated here: “The application of revenue management principles is limitless and the potential in terms of revenue return is impressive. Firms employing revenue management techniques have seen revenues increase between 3% and 7% without significant capital expenditures, resulting in a 50% to 100% increase in profits!” (R. G. Cross 1997)

Bill Marriott Jr. was also quoted in Cross’s book, stating, “Revenue management has contributed millions to the bottom line, and it has educated our people to manage their business more effectively. When you focus on the bottom line, your company grows.” (R. G. Cross 1997)

Revenue management is a discipline that continues to expand and grow in sophistication as the practice matures. Additionally, as business changes to expand and include new areas such as social networking and the power of recommendation, revenue management must evolve and expand both management’s knowledge and their resources to increase the ability to positively impact the bottom line and move ahead in the practice of one-to-one marketing and pricing.

Revenue management must have some input in and responsibility for many of the new opportunities but hoteliers must use caution and not simply add to the revenue director’s responsibilities. Instead, a more practical approach would be to identify the most appropriate department for each new responsibility and include the revenue director in the suitable areas for input.

One of the biggest challenges the hotel industry faces is a lack of expert resources who can create and execute a revenue strategy for a hotel or company. HSMAI’s goal is to help the industry have a greater understanding of revenue management through this publication and an updated revenue management certification process.

Hotel executives will get the most out of revenue management within their organization if they:

- Commit to staying focused on long term strategies, employ tactical short term solutions only when necessary and be sure that the short term solutions do not conflict with the long term strategies;
- Commit to understanding the difference between a budget and a revenue forecast and be willing to work with both (Contrary to popular opinion, a revenue forecast should not be created to meet or exceed the budget. Instead, it should be created based on market conditions);
- Embrace change and be proactive to stay ahead of the curve and competitors;
- Embrace revenue management automation like revenue management systems, as automated technology that will provide them with optimal revenue potential. Revenue management automation will become a necessity at some point in the near future because revenue management is becoming more and more granular and will soon require a micro-level approach to analysis.

Those hotel companies that embrace the requirements of revenue management, structure their organization, and provide the support required, will find they receive the highest benefits and realize the highest potential revenues. Hoteliers who make these commitments and follow through will find they are positioned to be leaders in their marketplace instead of followers. Those commitments will provide hoteliers with the right information, confidence, and tools to price according to the customer’s willingness to pay.

If all hoteliers would set themselves up for success it would alleviate many of the dangers experienced when applying tactical approaches that go against the overall strategy and often cause the all too famous, but losing battle of price-wars.

The hotel industry must take control of its own revenue management strategies and stay focused on its plans. This takes a strong commitment and confidence in the creation of the right structure and the hiring of the right resources. If all hoteliers can do this, the industry will reap the benefits in revenue and profit optimization.
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