



Leadership Insights

**2016 HSMAI CHIEF REVENUE OFFICER
EXECUTIVE ROUNDTABLE**



2016 HSMAI REVENUE MANAGEMENT EXECUTIVE ROUNDTABLE

On June 23, more than 35 Revenue Management Executives of Management Companies from across the U.S. participated in HSMAI's annual Revenue Management Executive Roundtable meeting. During this invitation-only gathering, HSMAI provided a forum for candid, peer-to-peer conversations about the unique challenges facing these senior revenue management professionals, their companies, and the hotels in their portfolios. Attendees were challenged to think radically as they compared their experiences, reviewed challenges, and strategized how to change the paradigm in a disruptive world. With a diversity of backgrounds and perspectives, attendees participated in a series of robust group and breakout discussions.

Since anonymity was promised to all attendees to promote this valuable exchange, this report does not include quotes or specific practices employed by attendees. HSMAI provides this report as an overview that offers some insight into issues addressed, ways Chief Revenue Officers (CROs) are innovating, and how radical thinking is necessary to compete and advance in today's market.

To get the conversation started, the group reviewed the HSMAI Chief Revenue Officers Survey, which polled 139 revenue management executives about critical elements of their job. The quantitative data as well as a list of common themes gleaned from this survey data helped the roundtable participants focus on the five critical issues included in this report.

ISSUE 1: Distribution – Data Acquisition & Analysis

The group kicked off with a discussion about data acquisition. Access to good data and the ability to analyze it effectively are vital to the success of revenue management. Roundtable participants expressed frustration about how to “own” the guest in order to fully access data and assess revenue. Although hotel owners and managers believe they own the guest, their CROs often hit roadblocks in getting the data from the brands and online travel agencies (OTAs).

Good data comes at a price. The group discussed how some brands have good data, and some do not. Some brands required the hotels to subscribe to expensive

platforms. While OTAs can have rich data, there were also unique challenges in getting the data from OTAs. A recommendation was for CROs to invest in a third-party digital vendor that extracts customer data and then provides in useful formats for better analysis of patterns and distribution.

There was also discussion about the need for industry standards for reporting. Channel distribution reporting requirements tied to GAAP would ensure consistent use and understanding of data and customer spending. In addition, a full CRM platform to better capture data as well as enhanced digital training would also help reach these goals.

ISSUE 2: Finding and Developing the Right Talent

One topic that was continued from last year’s roundtable was that talent is hard to recruit and retain. There is not enough talent in the industry, and the talent we have gets recycled. How do we get new talent and a “deeper bench?”

The roundtable attendees looked to high-caliber business schools. They noted that top-rated Wharton Business School graduates do not become Revenue Managers – they go to the ownership track. Would a title that is

not specific to the hotel industry (e.g., Director of Business Strategy) attract more top talent? Would a career path that emphasizes strategy over analysis appeal to business school graduates? What if incentive pay were no longer tied to revenue, but to the more familiar metric of profitability? The group reimaged the Revenue Management staffing structure as a high-level Strategist in charge of overall profitability supported by a Revenue Analyst.

Hiring talent from other industries requires solid planning and focused training. Professionals with education and experience in engineering, statistics, analysis, and systems have the aptitude for revenue management. They can be taught the hotel side of the business. An effective training program, relying heavily on the CRME, has proven successful for several roundtable participants.

Another opportunity is to develop talent from the ground up. This can take a long time, and it requires a commitment from the CRO. One attendee described how his Revenue Analyst developed a program to groom students from a local college. She created a revenue management desk, where students could intern part time. This created the pipeline of talent and development path so that a student could intern, move to an analyst job, then advance to Revenue Manager. The student developed the skills and learned the hotel industry. An important part of this training was ensuring the trainees were willing to relocate as their career advanced.

Human Resources departments also have recruitment processes and programs that CROs should access. Road shows, posting notices on properties, and attending job fairs are all existing methods that can be used to recruit and vet the next generation of revenue management professionals.

ISSUE 3: Managing Owner Expectations

The CRO's relationship with the owner is critical to the success of the revenue management program. The CRO must establish processes, manage expectations, and communicate

effectively to gain the owner's confidence and prevent micromanagement. Education and trust are the cornerstones of a productive partnership between CRO and owner.

A standard starting point is a clearly defined Hotel Management Agreement (HNA). Out the outset of the business partnership, this document should be reviewed with and signed by the owner so everyone understands the expectations.

The successful CRO employs many additional strategies from the outset of the partnership to establish his or her credibility and manage owner expectations. Communication is key. Roundtable participants discussed the CRO leading a retreat with the owner, so that the partnership begins with social interaction as well as planning sessions. Whether in a retreat setting or in the office, senior leaders should discuss reporting requirements and goals, so that the CRO can review what types of reporting are possible and if additional data and resources would be needed in order to meet the owner's requirements. Another strategy the CROs use to establish their credibility is to provide regular communications, often emails, detailing the revenue management team's activities, progress, and plans.

It is also important to set expectations of how the owner will communicate with

the revenue management team. One roundtable attendee emphasized that the CRO needs to step up and have the 'give-us-space conversations' with the owner. The CRO needs to gain the trust of the owner and clearly communicate the team's strategy, so that the owners can give the strategy the necessary time to work before he starts questioning. The revenue management team needs to be able to focus on proactive revenue management and reporting rather than reacting to a deluge of "minutia questions" posed via email and phone from the owner.

When establishing the relationship and determining roles, the CRO should emphasize the importance of access and resources. How can the CRO get a seat at the table, so that he or she is involved in management decisions and has knowledge of what takes place in related divisions, such as Business Development? The revenue management function should have the same caliber of strategists and analysts that other departments do. For example, time and motion studies, used in other areas of hotel management, could be applied to revenue management.

ISSUE 4: Total Revenue Management & Profitability Management

While CROs take a wide view of revenue, there are still many factors to consider when determining how much money you make off each customer. The group discussed how to expand the revenue management culture to become bottom-line profitability management.

Revenue goes far beyond room nights. CROs can apply their analysis to other areas, everything from food purchase to spa use to parking fees. One participant noted that he generated a significant increase in revenue by expanding the hours the hotel offered a specific service. This required a “deep dive” into the service, asking lots of questions, and looking at all available data and metrics, including service scores, hours open, and demand time.

The group discussed their proposed business rule that if a product or service touches the customer, then the CRO should be in charge of it. When someone stays in our hotel, how much does it cost them? The CRO should determine a customer’s total trip cost, which is a more useful metric.

To get the full picture, CROs need to think beyond total revenue to profitability. By factoring costs associated with revenue, the true picture of how much money you are making emerges. The groups discussed how important it is to really dig into your Profit & Loss Reports to understand all your costs. Calculate the profitability of every stream by finding all costs associated with each revenue stream and also allocating backend expenses you may not see on the P&L, such as salary and benefits. As part of this research and analysis, meet with each section director to see how they run their operations, since you may learn even more about expenses, timing, and allocation than is included in the regular reports and P&L.

CROs should work with their Controller and Director of Finance to make better decisions based on profit, not solely revenue. By working with the Finance department, you gain access to and understanding of many of the intricacies of how the business is run and reported. It also helps you understand, and hopefully impact, the resources and technology used to report and manage revenue and profitability.

ISSUE 5: Expanding the Revenue Management Culture

The day's session concluded with a discussion of the need to expand the revenue management culture. Many of the discussion items, themes, and suggestions from the day were reiterated during this closing conversation.

One suggestion was to get rid of the Director of Revenue Management title. By adopting language that is not specific to the hotel industry, such as Director of Business Strategy, you can attract more candidates out of business school or with transferrable business experience outside of the industry. A Director of Business Strategy title also positions the professional be in charge of everything that generates revenue so she manages total revenue, associated expenses, and ultimately profitability. The focus on profitability can also inform a new incentive model.

This impacts the business's reporting structure. The Director of Business Strategy should be focused on sales and strategy, not day to day operations. This position oversees the sales team and digital strategy team. The group also discussed adding the front desk staff to

the Business Strategy team, and training them as sales people so they are better prepared to upsell hotel services to the hotel guests.

As the revenue management culture expands to encompass profitability, the Director of Business Strategy will need access to more resources. Access to data, investment in analytical tools and reports, recruitment and training of talent, and a "seat at the table" when strategic decisions are made all contribute to the success of the evolution from revenue management to a business strategy function.

The group acknowledged that seismic shifts, cultural changes, and structural reorganization need to start at the top. The value of evolving from the current Revenue Management model to a profit-focused Business Strategy model requires the buy in and long-term support of owners and top management. The group acknowledged that ideas born out of radical thinking do not turn to reality quickly, but this is an important and exciting way to accelerate change in the revenue management profession.



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