Optimizing Revenue Performance
A Guide to Advancing Your Revenue Management Strategy
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Major theme park operators, including Disney and Universal Studios, are beginning to adopt automated demand-based pricing techniques for ticket sales, which can cost up to 20 percent more during peak periods than during slower periods. Movie theaters and sports teams are following suit, experimenting with similar pricing approaches.

As with airlines and hotels, which pioneered the science of revenue management and continue to play an instrumental role in its evolution, these different businesses have two important things in common. First, the product or service in demand is fixed in capacity. Secondly, the product or service is perishable, meaning it has a set expiration date. The key concept to keep in mind is the price elasticity of demand. Demand is sensitive to changes in price and price is sensitive to changes in demand.

The goal is to sell the right space at the right price at the right time to the right customer. With hotels, resorts and other lodging properties, space has generally referred to guest rooms — although other parts of the property also represent a large opportunity in terms of higher revenue potential. Traditionally, price has referred to the room rate, which is influenced by time (e.g., how far in advance a reservation is made), market conditions (e.g., how much competitors are charging), and a number of other factors. Managing pricing in a way that responds dynamically to changes in demand, and optimizes profitability based on a deep understanding of elasticity, is the essence of revenue management.
With the advent of next-generation technology capabilities, revenue management is becoming increasingly sophisticated, effective and automated. The development of these capabilities is fueled by the rapid growth of big data processing, advanced analytics, demand forecasting and pricing optimization models.

The combined capabilities and technologies sitting at the heart of next-generation revenue management now make it possible to automate pricing recommendations and decision-making processes across the board, in a real-time fashion and with ever-increasing accuracy. The results include better inventory management, increased room occupancy and higher revenues and profitability across all areas of the property.

Thanks to these advances, revenue management has gone from being an undertaking with uncertain financial upside potential to a strategic imperative with highly predictable revenue outcomes. It’s no wonder so many hotel operators are jumping on the bandwagon. Implementing next-generation revenue management not only means utilizing the right technology (since not all platform capabilities are the same), but also implementing the right organizational resources, culture and business processes.

Research findings are derived from the Q4 2015 survey on Hospitality Revenue Management.
“How would you rate your company’s success in utilizing hotel revenue management to improve financial performance?”

**Midsize and Limited Service Hotels**
- Utilized revenue management for 8.5 years, on average
- Increased RevPAR by 7 percent on average
- 25 percent have one or more revenue managers

**Large and Full-Service Hotels**
- Utilized revenue management for 10-plus years, on average
- Increased RevPAR by 9 percent on average
- 75 percent have one or more revenue managers

Research findings are derived from the Q4 2015 survey on Hospitality Revenue Management.
Embracing the Notion of “Ideal Pricing”

Key Points

• Price room types analytically as opposed to using manual rule-based differentials
• “Ideal pricing” provides several strategic pricing options to optimize revenue outcomes
• Hotels need different pricing options to maximize revenue for transient and group business
Analytical capabilities, including forecasting and optimization technology, are the foundation for next-generation revenue management. These capabilities have advanced rapidly in recent years with access to ever-growing volumes of data, increases in processing power and breakthrough research into price optimization algorithms.

At the heart of next-generation revenue management is the notion of “ideal pricing.” As the term suggests, ideal pricing seeks to provide hotel operators with flexibility and control to select the pricing methodology that best fits their specific business objectives and maximizes revenue outcomes. By utilizing a best-of-breed revenue management system built on this approach, hotel operators can generate demand- and market-relevant rates, and automatically and analytically determine differential price points across room types, rather than relying on manually-defined rules.

No two hotels are identical, and a one-size-fits-all pricing approach will invariably come up short in driving optimal revenue performance for every hotel. There is a big advantage in configuring a pricing methodology based on each individual property. Hotel operators may need to accommodate entering a new market, parity commitments or are simply looking for an approach that brings better revenue results than their existing one.

Ideal pricing gives hoteliers multiple pricing strategies with the option to configure rate levels or deploy continuous rates analytically optimized within a defined range. This choice can be made by the hotel or through a combination of approaches across a property, depending on business practices and selling systems.
Strategic ideal pricing approaches for transient business include the following:

**Daily Pricing.** With Daily Pricing, often called “Daily BAR” or “BAR by Day,” a different rate is charged for each night of a guest's stay. Each night is priced independently of any others, which may result in different rates over longer lengths of stay.

**Length of Stay Pricing.** Commonly referred to as “BAR by LOS,” Length of Stay Pricing offers one optimal rate based on the number of stayed nights. One rate is calculated and offered to the guest by evaluating all of the desired nights in conjunction with one another.

**Continuous Pricing.** Continuous Pricing allows hotels to identify their minimum and maximum public thresholds, and rates are produced through analytical, continuous optimization within that range.

Percentage of hotel operators who cite “inaccurate pricing decisions” as one of the biggest challenges of effective revenue management

Research findings are derived from the Q4 2015 survey on Hospitality Revenue Management.
Another hallmark of a best-of-breed system is the ability to analytically derive pricing decisions by room type. This is fundamentally different than pricing only at the total hotel level and applying rules to supplement the different room types. Optimizing results means understanding the true demand for each room type — by length of stay — and being able to price accordingly.

**Group Business Evaluation.** Group business management and its pricing is another pivotal area of revenue management. With corporate and leisure group business on the rise, hotels are increasingly looking for advanced technology that can help them quickly and intelligently evaluate their group requests.

Today's technology helps hotels forecast a potential group's impact and displacement of transient guests, while identifying ideal group rates and dates for the sales team to offer. These advanced capabilities even allow sales managers to provide rates by room type to maximize hotel inventory or at the hotel level to create a blended price quotation to provide meeting planners.

Another advanced capability in becoming more profitable is evaluating and offering alternate dates for flexible groups. The best next-generation group pricing technology allows simultaneous evaluation of multiple properties within the estate to identify which property stands to make the most profit. These advanced capabilities are huge benefits to all hotels — especially those managing multiple properties.
Integrating Data Sources (Not All of Them)

Key Points

• Hotels need to identify which data sources are valuable and which ones to avoid
• Maximizing revenue performance means optimizing both pricing and availability
• Analytics play a major role in maximizing revenue and should be examined closely
• Hotels should optimize not only guest room profitability but also function space profitability
Producing optimal results also means incorporating all of the right data sources — and, preferably, none of the wrong or questionable ones. Needless to say, hotels and resorts have access to an enormous wealth of data, with new data sources emerging on an ongoing basis. These data sources include social media, reputation management engines, web traffic sources, weather and airline data.

The challenge for today’s hotel operators is determining which data sources are valuable and positively impact revenue outcomes, and which data sources are likely to only complicate matters, muddy the waters and reduce forecast accuracy.

Some revenue management systems incorporate “regrets and denials” or lost business data. But research suggests that this data source can end up “over-unconstraining” demand, which can lead to over-protecting inventory and reducing occupancy. Incorporating this data source from direct websites generally means capturing only partial regrets and denials data for unqualified transient demand.

Using only unqualified transient demand ignores the demand for different market segments and additional channel behaviors. This may prove to be detrimental to the forecasting model because unconstraining should include demand from each — and all — of wholesale, group, corporate negotiated and unqualified transient demand. There is also the potential for questionable data quality due to coding and multiple same-person inquiries on multiple devices, and a high look-to-book ratio next to generally flat booking volumes.

Additionally, hotels should consider the fact that some reputation management providers attribute upwards of 30 percent of lost business to guests’ easy online access to hotel reputations. This means business is lost for more reasons than price alone, which makes building a pricing strategy around this data source even more problematic.
In short, there is a great deal of unreliability with regrets and denials data. With forecast accuracy imperative to building an optimal revenue strategy, it becomes prudent to question the data jeopardizing its accuracy.

There also remains some debate in the industry about whether weather and airline data can be used reliably as an input to improve forecast performance. There is a growing consensus this data may improve the short term demand fit, but only if the data's immediate impact can be assigned to a particular market segment or property.

While weather and airline data may at times impact travel patterns on a large scale, the relationship to business or leisure bookings in a particular location is generally only loosely coupled. This type of data is also forecasted itself, potentially introducing an additional source of error to the demand forecast.

Percentage of hotel operators who “agree” or “strongly agree” that they are currently incorporating all of the right data into their revenue models.

Research findings are derived from the Q4 2015 survey on Hospitality Revenue Management.
A more valuable data source may be user-generated content in social media, which is reshaping hotel revenue management strategies in multiple ways. Gaining access to this data has become easier for hotel operators. Displaying reputation and rates in relation to competitors in a dashboard format can be useful in providing decision support. The results become far more effective when the data is automatically incorporated into the demand modeling and optimization processes, as a best-of-breed revenue management system makes it possible to do.

Publicly available rate information related to competitors is a key data source to incorporate into any revenue management system. Most systems display competitive rates for users to visualize and determine the optimal course of action. Advanced systems fold rate shopping data into the analytics to understand demand at other hotels and the effect of those rates on the hotel’s demand.

Some advanced systems also include adjustable controls on how to position a hotel in relation to its competitors, if warranted by the business practices.

Research findings are derived from the Q4 2015 survey on Hospitality Revenue Management.
Be Sure to Look Under the Hood

If the analytical capabilities of a revenue management system are lacking, then the pricing decisions will also be sub-optimal. Traditionally, most systems use only one or two forecasting methods, taking a general approach to analyzing data. But producing optimal results means using an advanced best-of-breed solution with analytics utilizing hundreds of forecasting models to solve specific business challenges facing hotels.

Advanced analytics make it possible to understand the relationships that exist between the different types of business, so that hotel operators can separate and optimize the segments by room types accordingly.

Pricing only publicly available rates without considering the relationships between segments and business types (e.g., groups, corporate, wholesale, air crews, loyalty, promotions, packages, meetings and events, etc.), and which rates should be available and when, will not produce pricing and inventory control decisions that maximize revenue performance and is not sufficient for managing peak night occupancy while also increasing shoulder night performance. Hotels that optimize both pricing and availability will outperform hotels restricting themselves to managing pricing alone.

To capture the most profitable mix of demand and optimize length-of-stay patterns, hotels need to optimize price in conjunction with inventory. While next-generation systems use a variety of methods to optimize and price business, those that use powerful controls to accept the most valuable business — rather than accepting all business on a first-come first-serve basis — rank as top-performing solutions.
Thinking Globally, Across All Areas of the Property

Until recently, most revenue optimization algorithms managed guest room price and nothing else. But next-generation revenue management means taking into account the ancillary spending in all areas of the hotel, including hotel restaurants, conference centers, banquet rooms, golf courses, etc. For large upscale hotels and resorts, these revenue sources typically account for one-quarter of total company revenue. In the case of some properties, the meetings and events business can represent up to 60 percent of the overall revenue.

Thinking in terms of total revenue performance (not just revenue management, which generally pertains only to guest rooms) and applying revenue management principles to function space, in particular, can mean leaving less money on the table and significantly boosting revenue and profitability.

A best-of-breed revenue management system includes capabilities specifically focused on optimizing function space revenue and driving profitability. This allows revenue managers to optimize profits across multiple revenue streams from guest rooms and meeting spaces to food and beverage, catering, A/V equipment rental, ancillary spend and more. Its profit-based price evaluation capabilities enable sales teams to understand unsold and undersold function space, as well as less-than-optimal displacement for group business.
The Future of Forecasting Demand

Key Points

• Hotels benefit by utilizing time-saving powerful controls
• Hotels become more strategic by managing by exception
"Prediction is very difficult, especially if it's about the future" is a famous remark attributed to the physicist Nils Bohr. The remark certainly applies to forecasting future demand for available guest rooms. Or it did, at least, until recently. Predicting the future has become substantially less difficult with the advent of next-generation revenue management capabilities.

Forecasting demand for available rooms — and dynamically pricing room rates based on demand and capacity — needs to happen in a near real-time manner. At the same time, hotel operators need to be able to answer key questions, such as: What is the optimal price to charge to maximize revenue, accounting for the fact that demand will change as the price changes? What is the best possible rate the hotel can get for a guest room, taking into account the type of room as well as the length of stay? How can a hotel ensure discounted price promotions won't dilute revenue and profits in the long run?

Next-generation revenue management systems address these questions by analyzing demand forecasts, competitor rates, price sensitivities and various other inputs and factors, including demand drivers like seasonality, day-of-week differences and market dynamics. The best of these systems do this automatically by producing automated decisions.

Users of decision systems still interact with system inputs by sharing business insights, ensuring the solution uses the best information available to produce the most beneficial mix of automated decisions that drive profitable business performance. Time-sensitive controls are promptly and routinely distributed to the hotel's booking channels. A best-of-breed system automatically learns from the impacts of these decisions in the market, enabling it to continually adapt, improve and produce even more accurate forecasts.
Some hotel operators still make the mistake of focusing their promotional efforts solely on increasing room occupancy, regardless that higher occupancy can, in some cases, actually lead to lower profits. These hotels need to shift their focus from occupancy to RevPAR, the combination of occupancy and average daily rate (ADR) into a single metric that has become the industry standard.

Revenue generating index (RGI), also known as RevPAR index (RPI), looks at relative hotel revenue performance by measuring the extent to which a hotel is achieving its “fair share” of revenue in comparison to a defined group of competing hotels. Similarly, average rate index (ARI) measures the extent to which the hotel is achieving its “fair share” of ADR. Yet, while RevPAR provides a far more accurate picture of a hotel’s overall performance, it fails to measure actual productivity. This is because RevPAR doesn’t take into account costs per occupied room (CPOR).

Without knowing the operating costs, it’s not possible to calculate the actual profit margin or, for that matter, determine target optimal occupancy. Hence the emergence of gross operating profit per available room (GopPAR), which takes into account not only the amount of revenue generated, but also the actual operational costs. However, neither RevPAR nor GopPAR look at non-room revenue streams such as function space, restaurants, parking, spas, golf courses, etc. This shortcoming helps explain the advent of additional metrics designed to measure economic performance in a more comprehensive manner like total revenue per occupied room (TRevPOR).
The Benefits of Advisory Services

The challenges with improving revenue management lie not only in the software but also in the “peopleware.” Expert advisors can help create organizational alignment to ensure everyone is focused on revenue performance, as well as establish more effective rate alignment and competitive pricing for guestrooms, meetings and function space. Advisory services can also develop fencing strategies for capturing the right demand volume at the right price for each segment or product. Once a hotel embarks on its automated revenue management journey, it’s important that the experience consist of personalized implementation, training and ongoing support delivered by experienced professionals to help ensure long-term success.

Research findings are derived from the Q4 2015 survey on Hospitality Revenue Management.
Rocketing to Revenue Success

Key Points
• Create cognitive alignment; everyone needs to understand the vision
• Create a plan to achieve revenue goals
• Automate the process with technology that can meet the challenges
All hoteliers face the challenges of forecasting occupancy, setting associated pricing strategies, determining overbooking levels, distributing pricing across various channels and reporting on the results. These challenges can be greatly alleviated with a revenue management system that reduces the time spent reviewing and implementing system recommendations so users can focus instead on developing strategic programs to drive more business. Getting from here to there requires a strategic revenue management vision and the ability to bring that vision to fruition. The following are a few recommended steps in the process:

- As a first step, make sure that the upper management team and owners understand the vision for revenue management. Talking in their language with terms that resonate, such as “metrics,” “return on investment” and “profitability,” will go a long way to achieving executive buy-in, which is necessary to ensure full support by all reporting teams.

Percent of respondents who say that one of the biggest benefits to be gained from next-generation revenue management is a reduction in time associated with traditional pricing tactics and getting pricing recommendations faster.

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• Next, create the plan that achieves the hotel’s revenue goals and objectives. The plan should include key milestones and measurable metrics. A solid plan will serve as a roadmap for teams to commit to and follow.

• After that, the key is to make sure all team members are properly educated on revenue management and their role. Training sessions by department or workgroup can be helpful to properly establish the right culture throughout the organization.

• As hotels progress in their journey, they should become familiar with the data that is available to them. Big data provides a wealth of data points to analyze and optimize. It also provides a means to create meaningful reports and key performance indicators.

• Once a process and culture is in place to manage room revenue, consider expanding the scope to include one of the most profitable areas of many hotels: the meetings and events space. The same principles should be followed as when guestroom revenue was initially developed.

• Finally, automate processes with technology that can meet the challenges of understanding demand, price changes and inventory optimization. A next-generation revenue management solution will be an integral part of the revenue plan, keeping teams aligned while they work towards the common goal of driving more revenue and increased profitability for the business.

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About IDeaS

With more than one million rooms priced daily on its advanced systems, IDeaS Revenue Solutions leads the industry with the latest revenue management software solutions and advisory services. Powered by SAS® and more than 25 years of experience, IDeaS proudly supports more than 7,000 clients in 94 countries and is relentless about providing hoteliers more insightful ways to manage the data behind hotel pricing. IDeaS empowers its clients to build and maintain revenue management cultures—from single entities to world-renowned estates—by focusing on a simple promise: Driving Better Revenue. IDeaS has the knowledge, expertise and maturity to build upon proven revenue management principles with next-generation analytics for more user-friendly, insightful and profitable revenue opportunities—not just for rooms, but across the entire hotel enterprise.

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