

Seven Core Concepts for Revenue Management

The art and science of Revenue Management (RM) has made major contributions to the airline, hotel and restaurant industries. Some of its concepts are obvious, some are not. Robert G. Croos in his book, Revenue Management: Hard-Core Tactics for Market Domination lists seven core concepts.

1. Focus on price rather than costs when balancing supply and demand.
2. Replace cost-based pricing with market-based pricing.
3. Sell to segmented micromarkets, not to mass markets.
4. Save your products for your most valuable customers.
5. Make decisions based on knowledge, not supposition.
6. Exploit each product's value cycle.
7. Continually reevaluate your revenue opportunities

Here are the first two concepts. Watch for additional concepts in the near future.

CONCEPT #1: FOCUS ON PRICE RATHER THAN COST WHEN BALANCING SUPPLY AND DEMAND.

The supply of rooms at any given property is, for all intents and purposes, fixed. Adding more rooms is not an option most of the time. When occupancy is down, hotels can close off certain floors or wings. A better option is to fill all the rooms at the best price.

In general, the lower the price of a product the more products will be sold. However simply lowering the price to beat the competition is not the answer. Dropping the price diminishes the value of your hotel in the minds of your customers and makes it doubly hard to increase prices when demand increases.

Let's take the example of the Hammerman Arms hotel. It has 200 rooms in a seaside resort. On February 1, 100 rooms were occupied at an average rate of \$100 yielding total revenue of \$10,000. If price were the only consideration in determining occupancy, then 49 of the guests would have been willing to pay more than \$100. On the other hand it is reasonable to assume that there were many potential guests that could not afford the average rate but might have taken a room for \$75 or \$50 or \$25.

Your hotel can use the data in your PMS to gauge the "rent up" demand for future dates. If the demand seems low, create and market products that would appeal to the price-conscious guest such as a free breakfast or a bottle of wine. If your property caters to business travelers, offer specials for locals on the weekend. Most PMS systems (including HOST) have a way of tracking denials. Use this data to contact potential guests who gave price as a reason for not making a reservation.

CONCEPT #2: REPLACE COST-BASED PRICING WITH MARKET-BASED PRICING

Hotels and resorts are in the unfortunate position that most of their costs are fixed costs. The cost of capital used to build the facility dwarfs most of the operating costs. While housekeeping and food-service staff can be shed during low-demand periods, the rooms must still be maintained, the insurance paid, and the electric bill paid. Seasonal hotels can close during the off season to reduce cost. However it is simply wrong to base your nightly rate on the cost of providing the room. As is true for most commodities, the hotel consumer is not interested in your cost of providing the service. He is willing to pay for perceived value delivered in the manner he prefers when he wants it. And, as discussed in concept #1, he may be willing to trade off some of his wants for price consideration.

The most obvious way to respond to the market is to change the price of a room with the season. You already know which weeks are your high, low and shoulder seasons. Don't be afraid to further analyze your historical demand to create additional seasons. HOST and other PMS seasons allow you to create an infinite number of rates. Take advantage of it.

Stay aware of special events that might affect demand. In the days leading up to the presidential inauguration in January, 2009 hotel rooms up to 150 miles away were sold out to satisfy the demand. Sporting events, conventions, fraternal group events as well as national and local holidays all contribute to demand. You can focus your marketing to that demand.

Another way to provide market-based pricing is to adjust your policies. For example, rather than exclude all pets from your hotel, allow pets but charge an extra fee. Become known as a "pet-friendly" hotel and provide the pet with a pet-oriented welcome basket. Mature, rational dog owners have been known to open their wallets wide when someone makes a fuss about their pet. By opening this market you increase occupancy without decreasing rates.

A similar case can be made for guests that prefer hypo-allergenic pillows, free internet connection, and other amenities. Most can be provided at little or known cost.

In a competitive market you can always increase occupancy by reducing rates. However, doing this without careful analysis may result in the same or less revenue and more wear and tear on your property.

A better way is to look for markets that are not being served, and serve them.

YOUR DATABASE IS YOUR FIEND

Your best source of future customers is your past customers. Your PMS database can be used in a number of ways to enhance your marketing efforts:

You can mine the data to create postal and email mailing lists.

You can discover micro markets by looking at groups of guests with the same characteristics, and market to those characteristics.

You can analyze the reasons why prospects did not make a reservation.

WHAT DO YOU DO NOW?

HOST users can find reports that address many of these concepts already created for you. You need to run these reports on a regular basis and integrate the results into your marketing and rate plans. Many HOST users have found that the reports do not completely apply to their property. Others have found that they had to copy information from many reports into an Excel spreadsheet in order to obtain meaningful results. This is where knowledge of R&R Report Writer can help. Using this tool you can manipulate the data in HOST to produce the results you want. Over the past eight years Hammerman Associates, Inc. has worked with HOST properties to create customized reports to address these needs.

If your property is using another PMS you will find that Crystal Reports is the best tool to use in order to create customized reports. We have assisted properties with MICROS, Fidelio, and other PMS systems.