

Revenue Management - Everything You Need to Know

. . . and the best ways to make it really work for your hotel!

Part 1

Here's a bold statement . . .

Increase your revenue *and* your profit without needing any additional room bookings!

Sound too good to be true? Well it isn't. This is the basic principle behind the much talked about Revenue Management concept. It is something we all think we know about, but if you were asked to stand up in front of an audience and explain it to a room full of people . . . could you?

Here at Hotel Perfect we care about improving the industry as a whole so we decided to put together this FREE report not only to explain just what Revenue Management is, but also to show you just how it can make a difference to your hotel AND to give you the best ways you can start to apply Revenue Management in your Hotel TODAY! Plus to give you some instant value we are also including our top 5 tips for getting people to book at YOUR Hotel today.

So what exactly is Revenue Management?

There are a number of definitions and it does vary slightly from industry to industry, but with respect to hotels the function of revenue management is to anticipate the demand for sales so that pricing and inventory management techniques can be applied to maximise yield.

Huh?

That definition might be fine if you are a dictionary, however we are not interested in vague management speak here, so what does this really mean. Well, revenue management basically aims to maximise your revenue by "*selling the right product (hotel room), at the right time, at the right price to the right guest.*" Essentially making sure you price your hotel rooms at just the right price to give you the maximum revenue per room whilst also aiming for maximum occupancy levels.

Where did Revenue Management come from?

The Airline Industry is most often credited with the popularisation of Revenue Management, although it has been studied by economics professors in universities the world over for many years in various forms.

We are all aware that you can book the same ticket on the same airline flight with the same company, but pay vastly different amounts of money depending on the time of day, day of the week and time of year of that flight as well as when you make the booking. This is not just random chance. The Airline Industry has carefully worked out at what price different segments of people (corporate travellers, families, students etc) will pay for their flight and what that demand will look like at different times of the day and days of the year and it makes sure that each plane is as full as it can be with people paying at each pricing level.

Revenue management is still fairly new in the hospitality industry and has only risen to prominence in the last 10 years. However, its rise to acceptance has been phenomenal, now with many medium to large hotels having a dedicated Revenue Manager in place which is considered a senior management role.

During the mid-2000's the hospitality industry globally reported some pretty spectacular gains in Revenue per Available Room (RevPAR - more on this later). Much of this success had to do with a favourable economic situation - everyone felt like they had lots of money - but a great deal of this also had to do with the fact that this period saw the introduction of revenue management to the hospitality sector.

Ironically, from 2008 when things went globally and spectacularly wrong economically speaking, it was the revenue management practices developed in this period to which many industries turned to save them from ruin. When the number of people visiting your hotel suddenly and dramatically drops you had better make sure that you are making the most of the ones who are still coming!

Basic Revenue Management

That's enough of the history lesson. Hopefully we have now given you a hint of an understanding of the concept of Revenue Management and as we are all about giving you value and not just a history lesson, here are some simplistic revenue management strategies. Bear in mind that these are the most simple strategies, this is where you should start if you are not doing any form or revenue management at all, but do not dismiss this section of the article if you are already familiar with revenue management. We want to start at the beginning for those that are new to all this, but things are going to get a lot more interesting as we delve a little deeper.

Dynamic Pricing

The most basic form of revenue management deals with *price* and *volume*. You have a fixed number of hotel rooms that you can sell at any one time (*volume*). You yourself can not easily increase the real demand for hotel rooms in your area, but we all know there is a relationship between the level of demand and the price of something (if something is cheaper you are more likely to buy) so you can artificially boost the demand for your hotel rooms by selling at a more attractive price. The key here is to make sure that you only sell those rooms at a lower price to those people that wouldn't normally have booked at your hotel otherwise. Remember that there will always be people prepared to pay your standard rate and others who will be prepared to pay a premium rate, the whole idea of revenue management here is that you only sell the cheaper rooms to those people that would not have otherwise booked. Then to sell those rooms to the people willing to pay normal price at that normal price while also still selling the rooms at a premium to those who are happy to pay more.

The most simple way to do this is to link your rates (prices) to the occupancy level (volume) of your hotel at any one time.

Here is an example:-

Let's say that in three months time you notice that you only have a few bookings in your hotel constituting approximately 15% occupancy. Now, you know that over the next few months you are sure to get some bookings that come in, but you want to make sure that as many of those people looking for accommodation in your area come to your hotel. So you implement a pricing system whereby you reduce your room prices by 15% until your hotel for that period reaches 30% occupancy. Then you only reduce your standard rates by 10% until you reach 40% occupancy. Your rates then revert to normal until you hit 70% occupancy and then your rates actually increase by 10% until you hit 90% occupancy. Any bookings over that level incur a 20% premium over your standard pricing.

By doing this you are ensuring, all be it not very scientifically, that initially bookings are coming to you because you are offering a price incentive. Then as the level of occupancy increases that price incentive reduces. Up to the point where your highest demand clients (i.e. late bookers and

those that would be willing to pay whatever price) pay a premium to secure one of the last rooms available.

If you are wondering which would make you better off, leaving your prices fixed versus flexing them as in the example above, well assuming in both situations that your hotel becomes fully booked then you are marginally better off with the above Flexible Pricing example. However, the point here is that you are attracting the right people at the right price at each pricing level, thus maximising your occupancy levels all the while maximising the rate that each person is willing to pay.

Now this is a simple example and each hotel is going to be slightly different in terms of the point at which the prices should “flex” but this should give you a simple idea of what you can do.

But . . . we are just getting started!

We have lots more to cover on the subject of Revenue Management and it only gets more interesting from here. However, we decided to break this information down over 4 separate articles to make it easier to digest and in each article, as well as covering everything about Revenue Management we also wanted to give you some additional, practical advice that you can use today to increase the number of people who book at your hotel rather than your competitors.

Our Top 5 Tips for getting people to book at YOUR hotel!

These tips are designed for anywhere that people can find information about your hotel on line, but they still apply to wherever people can find information about your hotel, be that in magazines, leaflets or adverts.

1. **Keep It Simple** - Try not to have more than 5 Room Types available to your clients. Too much of a selection actually reduces the ability for people to make a decision. Equally people do not want just one option. Research has shown that 3 options is the optimal offering, but between 2 and 5 is reasonable.
2. **Have a “Superior” Room option** - Did you know that rooms with the word “Superior” in their name are the best selling rooms in the world! The great thing is that “superior” is subjective so it can apply to any premium offering. People will select it first and/or pay a premium for any room with “Superior” in the name so make sure you have one if you don’t already.
3. **Practice Rate Parity** - People get confused when there are multiple rates on offer across multiple platforms. People do like to think they have “bagged a bargain” but too many price variations will actually put people off as they perceive the product at a lower value. Have the same price for the same room across all of your sales platforms so you don’t confuse people.*
4. **Paint a Picture** - Make sure your room descriptions are concise, informative, specific but most of all experiential. Use words carefully to create a mental picture of what it would be like to stay in that room. An actual picture of the room, as long as it is favourable, goes a long way too.
5. **Corporate Speak** - Ensure you have a “Public Corporate Rate” among your offerings. Many Travel Agencies or Web Search portals look specifically for “corporate” rate codes when searching for their business clients. If you do not have one (even if it is simply the same as your Rack Rate or Best Available Rate) then you will not be included in these searches and could miss out on valuable business.

In the next part of our 4 part series we cover the full process of Revenue Management in more detail and look at some more advanced strategies for using revenue management in your hotel. Don't be put off, we will make sure to explain everything along the way.

Hotel Perfect is a leading provider of hotel and hospitality management software throughout the UK. We are the preferred choice for hundreds of hotels throughout the UK ranging geographically from the Isles of Scilly to the Highlands of Scotland.

Our software systems are designed, developed and supported here in the UK by our highly skilled support and software development teams based in Cornwall.

The latest generation of our popular Hotel Management Software can help you with your Revenue Management. Our NEW Dynamic Pricing capabilities combined with our Channel Management solutions and our own On Line Bookings engine give you the best platform to start implementing revenue management in your hotel today!

Feature Highlight: Dynamic Pricing*

Our Dynamic Pricing feature allows you to “Flex” your rates automatically depending on your occupancy levels. This is all managed for you by the software and you can set this up as far in advance as you like. You can set variations to cover particular date ranges, such as local events and combined with our powerful internet channel management solutions not only update on line booking channels such as bookings.com and laterooms.com with your occupancy levels, but also with the dynamic price changes without you having to do a thing! No more daily updating of the websites your work with!

If you would like to know more about what Hotel Perfect software can do for your hotel please contact info@hotelperfect.co.uk or call us on 0843 309 1601.