Revenue Management - Everything You Need to Know

. . . and the best ways to make it really work for your hotel!   Part 2

In the previous article in this series we briefly covered the basics of what revenue management is and where it came from. We also went through a simplified example of how revenue management could be used. In this article we go more in to detail about how to apply revenue management in your hotel. We look at whether you *really* are using revenue management already and how to ensure that you are doing it correctly.

Before we get started we should point out that whole university courses, books and careers are dedicated to the subject of Revenue Management. Although we are covering the topic in some detail here and we aim to give you the main points to work with, there is obviously much more to learn. We hope to leave you better informed and able to properly begin to implement revenue management in your hotel, but of course you may wish to learn more.

Used correctly Revenue Management has 6 stages, broken down in to 2 phases. We like to call these phases, **Understanding** and **Action** for reasons that will become clear. There is a lot to cover here, even in this simplified format so we will cover the first 3 stages in this article and the following 3 stages in the next article. I should warn you first that the *Understanding* section is the more difficult (and therefore possibly more dull) of the two phases, but just like anything that is worthwhile you need to go through some pain before you get the rewards.

Phase 1: Understanding

Stage 1: Performance Measurement

In order to improve anything, which is the ultimate goal of revenue management, you first need to be able to measure the thing it is you are attempting to improve. How will you know you have made a difference otherwise? So the first step in the revenue management process is to define your indicators so you can measure your impact.

The two classic indicators here are:-

Occupancy Level and Average Room Rate (ARR)

These should be pretty familiar to you and do not need explaining here, however it is worth defining these very specifically within your hotel so that everyone knows exactly what these measure.

What we mean here is that some hotels would include "complimentary rooms" or "in-house use"

rooms in their occupancy figure and average room rate calculations and some would not. It doesn't really matter whether you do or do not include these. However, it is imperative that everyone in your hotel is either including or excluding them all the time otherwise your measurement is going to be different depending on who calculates it.

One weakness of Occupancy and ARR is that these two measurements only include information about the rooms that you were able to sell.

A better single measurement would be Revenue Per Available Room or RevPAR for short. This combines the other two measurements and crucially gives information about all available rooms and not just the ones that you were able to sell.

$$RevPAR = \frac{\textit{Total Rooms Revenue}}{\textit{Total Rooms in the Hotel}}$$

Total Rooms Revenue
(excluding all Taxes, Service Charges, Levies and Add Ons)

Total Rooms in the Hotel
(whether sold or not)

RevPAR can be calculated for a Day, a Week, a Month or a Year and will always give you a single figure for comparison purposes. It goes without saying that the goal of revenue management would be to increase your RevPAR figure so it is a great indicator to use.

Stage 2: Business Intelligence

In order to make the best business decisions we need to know what is selling well and what is not selling quite so well. We need to understand as much as we can about who is buying, when they buy, where they buy and how they find you? There are literally hundreds of things you could measure here, but similar to Performance Measurement above, we can focus on the most relevant data and measure it consistently.

You could argue over the order of importance of these indicators, however these are in our opinion the key items, in no particular order.

1. **Geographic Origin** - If you track each reservation/booking with a geographic code you can learn from where people are visiting your hotel and the value of different geographic markets. If most of your business comes from around the UK then you might want to track this by county. For your overseas guests tracking simply the country might be sufficient. This is where having a quality hotel property management system (*Hotel PMS*) is going to start to come in very handy.

2. **Market Segmentation** - You can segment a market by any number of methods, but here you should stick to the reason for travel. Why is this guest travelling? Examples could be as simple as Business or Leisure and we would always advise to keep this simple. Although if you have particular events locally that draws in significant levels of business this might be worth tracking as a separate segment. We can use this information to better understand who your hotel appeals to and why they choose to book with you.

3. **Channel of Distribution** - This is all about how each reservation/booking was made. Again keep this as simple as possible. For example, Direct (*e.g Telephone*), Your own Website, Another Website, Travel Agent etc. This information gives us insights in to where to best focus any marketing efforts.

4. **Originating Source** - This is similar, but slightly more specific than Channel of Distribution. This deals with the "who" of booking. Was the booking made by the guest, by a travel agent (if so which one) or a tourism office, booking partner or by a corporate booking agent? Again this helps to provide information for future marketing campaigns.

5. **Room Types** - Understanding which types of rooms sell first or last is fundamental to the next phase of this process, *Pricing*. This information combined with the information from Market Segmentation specifically can yield some very interesting results.

Collecting this data is difficult. You only really get two chances to obtain this data from your clients. The first is at the point of booking and the second is when the client checks in. To manually collect and compile this data is extremely difficult and more than likely will not get done. However, your property management software should be able to help you here. Even so this task is often left to more junior employees who have little use for it; which can lead to shortcuts or inaccuracies and ultimately a lack of quality information. It is important that all employes understand the value of this

data as it will guide your future marketing initiatives and contribute to the effectiveness of your revenue management activities.

In terms of how many options to have in each category, well that's a tricky one. You need to have enough categories so that the information is useful, but not so many that they become confused and overlap. Our advice would be in each group try to have between 4 and 7 options with 10 as an absolute maximum

You should ensure regular checks are made to ensure the quality and accuracy of this data. Nightly checks are quick to do once they become part of your daily activities and are considered a best practice procedure. Check to make sure that the information is being captured, that it is being captured accurately and recorded in the correct format.

Stage 3: Rate Structure and Price

In todays world of information overload it is more important than ever to keep your product offering simple. Too many rates and options can confuse guests and reservations staff alike, making the purchase decision more difficult. You want as few barriers to making that decision to book a room at your hotel as possible so help your potential client with a clear, concise rate structure that keeps your offering simple yet flexible.

The price level of your rooms is potentially the most important factor that influences the success of room sales. Your location, number of rooms, standard of rooms and so on are pretty much fixed, your location certainly is, but your price is the one thing you have control over. Getting that price exactly right is extremely difficult . . . mainly due to the fact that what is the "right" price today may not be the right price tomorrow, next week or next year. Pricing needs to change in response to demand in the market place and therefore the ability to react quickly and make regular, quick and simple changes to pricing is key.

Rate Structure Vs. Price

Your Rate Structure generally refers to the collection of rate "products" that you have on offer. We are all familiar with the traditional Rack rate which is typically your maximum rate. However, more savvy customers these days perceive the rack rate as some mythical inflated price that is rarely actually charged charged and certainly should never be paid. Over 70% of individual hotel bookers would not pay rack rate at a hotel as they would presume there is always a better deal out there somewhere.*(source: expedia.com)*

These days the concept of the Best Available Rate (BAR) is becoming more popular. This public rate is generally the rate that is adjusted according to demand and is usually a room only rate although this depends on the hotel type and location. The concept behind the BAR is that each day in the calendar has a different demand level and the price is potentially adjusted every day to reflect the level of demand. Each rate product you offer should be derived from this BAR and as such making adjustments to the BAR should affect the level of pricing of each rate product you offer.

Again the rule of simplicity here is paramount. Have enough rate products to cater for all markets, but only offer the rates to each market or segment that they apply to. Don't confuse your customers with too many rate products.

Demand Bands

Identify a number of demand bands to help you work out your pricing structure levels for your projected BAR.

Here is an Example:-

Demand Band	Example Standard Room £	Example Superior Room £
Very Busy (expected to be fully booked / Sold Out)	155	185
High (traditionally high occupancy rates)	145	165
Average (moderate occupancy levels)	135	155
Quiet (expected lower occupancy levels)	125	145
Lowest Demand (very low demand, accept lowest rates possible)	115	135

Setting Your Price Points

We wish we could tell you exactly where to set your price points, but that is going to depend on a number of factors that would take several books to go through thoroughly. The key here, as we are still in the Understanding phase, is testing.

Test what happens not only to the level of demand (*the number of bookings*), but also the speed of booking uptake as you amend your prices. As you lower the price of your rooms you artificially increase the demand. This is good because you are funneling extremely price conscious bookers who might not otherwise have made bookings at your hotel to book with you. However if you notice a sudden surge in the rate of bookings, then you have almost certainly set your pricing too low and although you are getting lots of bookings, some of these people would be willing to pay a little more. In this case you are doing yourself out of revenue; if this happens start to raise your prices again.

Your ability to respond quickly to these demand fluctuations is essential to ensure you are selling at the right price.

That brings us to the end of the Understanding section of this closer look in to revenue management. I hope we made this painless enough that you have continued to read to this point. If you have then you will be pleased to know that the rewards come next. Armed with the consistent Performance Measurements and the Business Intelligence information plus a simple but responsive Rate Structure in place, you are now poised to take Action. The next step is to use this detail to now create and implement your revenue management plans. We will cover all this in the next article.

If you can't wait and you want the full detail of this series in a handy downloadable eBook now just click here!

Before the next article in this series arrives why not spend some time looking at your existing business. What is your RevPAR for yesterday, last week, last month and the year to date? What

business intelligence information do you have, does this need an overhaul? Finally, are your price structures clear and concise? Do they all make sense and not seek to confuse your clients?

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: Reporting and Analysis

This article focuses on the ability to Understand your hotel business. If you were to manually calculate Hotel Occupancy, Average Room Rage and RevPAR for each day over the last year this would take you a very long time . . . more than likely you just would not do it. Even some other property management systems might struggle to calculate this easily.

Using the suite of reports built in to Hotel Perfect as standard you can easily calculate many metrics including occupancy levels, average room rates and RevPAR. You can use the powerful analysis tools to record segmentation information quickly and easily at the point of booking and also at the point of check in. You can then use the client focused reporting tools to be able to produce detailed information to learn just where your bookings are coming from, how they are being booked, who is booking and which room types are more popular than others.

The Performance Measurements and Business Intelligence aspect of the revenue management becomes a breeze and we can even help you to analyse the effect on bookings of changes in price.

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.