Revenue Management - Everything You Need to Know

. . . and the best ways to make it really work for your hotel!   Part 3

In the previous article in this series we briefly covered the first three stages of the revenue management process, these stages we are referring to as the *Understanding* phase. Just to recap, the Understanding phase consists of:-

- Performance Measurement
- Business Intelligence
- Rate Structures & Pricing

The analysis of these three areas helps to get you ready for the 2nd phase of the revenue management process . . . that of *Action*.

If you missed part 1 or 2 of this series and you would like to download them as a handy ebook along with parts 3 and 4 just click here.

Phase 2: Action

Stage 4: Forecasting

No it is not time to break out the crystal balls and tarot cards, forecasting is much more straightforward than people think. We can not actually predict the future, all we can do is use the information that we do have to make our most educated predictions.

Your forecast is the basis of all your yielding and pricing strategies, it should be a physical document that everyone in your business can refer to and one that should be created with care and reviewed on a regular basis, at least weekly.

Think of your forecast like the SatNav in your car. The business terrain is constantly changing and the successful hotels will be the ones that can adapt quickly. If you don't update your forecast regularly using the latest data, just like your SatNav you will not know that some roads are now closed or new roads or opportunities have opened up. You might quickly find yourself in trouble . . . or a river!

The starting point for your forecasting plan should be the information you collected in the *Performance Management* and *Business Intelligence* stages of this process (*see previous article*). Hopefully you have been able to go back at least a year to generate occupancy levels and RevPAR figures to base this coming years forecast on. Ideally you would have been able to go back more than just one year and have been able to gain an average Occupancy and RevPAR for each Day, Week, Month of the year as this will give you even more stable information on which to base your forecast.

Create yourself a Calendar (*click here to download an example*) and mark on the calendar daily your predicted demand band from *Stage 3: Rate Structures* to give a prediction based on your previous occupancy levels. Ideally you would do this daily to give a very specific plan, but weekly should be good enough as a start.

Next, consider any external factors that may have an effect. These could be any recent trends, local events, holidays, national or international events, general trading conditions or competitor activity. Make any adjustments to your forecasting calendar based on these external factors that you think will have an effect on your level of demand, either to increase demand or to reduce it.

Don't forget to review your forecast, I have mentioned this already, but I want to state it again. The successful hotel is the proactive and agile one. You can not simply create your forecast at the beginning of the year and then leave it alone . . . you must review it to make sure your predictions are still accurate. You might not notice that general economic improvements have meant that your booking rates are higher than you think across the board. Account for this and adjust your forecast.

Best practice would suggest that a good review and adjustment strategy would be weekly for the current quarter, twice monthly for the next quarter and a monthly review for the following 2 quarters.

Advanced Forecasting: If you really want to get deep in to the forecasting stage you could try to break down your information even further. Consider breaking down your forecasting by Individual, Corporate, Group and other booking segments to see how changes in demand affect each one. How do all the external factors affect these groups? Are they affected in the same way and by the same amounts? Can you adjust your forecast to take advantage of specific periods of higher or lower demand for each category?

Stage 5: Yield Management

This is the aspect of the whole revenue management process that most people associate with and what most presume revenue management is all about. It is also commonly believed that yield management is simply lowering prices when demand is forecast to be weak and raising prices when it is forecast stronger. While this is one way to go, the net effect of this could be minimal overall and we would suggest some other options are available to you.

1. **Marketing** - Not necessarily a form of yield management in itself, but you now have a forecast calendar based on some real data and analysis from your Understanding phase. You can now see where historically your demand levels are low. If you have done this correctly you should also know where the bookings at those times are coming from, who is making them and how. Simply by adjusting your marketing efforts to target these or other areas specifically at these times could have a significant effect on your bookings without touching your price at all.

2. **Closing Out Certain Channels** - Some bookings cost you more money to secure than others. For example bookings that come to you through the on line channels such as booking.com or LateRooms.com can cost you up to 20% in commission. If you reduce supply to these channels or close them out completely when you are certain you are going to have periods of high demand you could increase the revenue you make on each booking. However, use caution here. Check where your bookings were coming from during those periods of high demand. If they were coming from these channels then make sure people will still be able to find your hotel and book otherwise you might shut off any bookings entirely!

3. **Length of Stay Controls** - Probably the most frequently used non-price based form of yield management. The idea here is that where you have forecast areas of high demand you put in place restrictions on the minimum number of nights a guest can stay to encourage your customers to stay longer than they may have originally planned and meaning you require fewer bookings to achieve maximum occupancy over the period.

4. **Alternate Cancellation Policies** - This is not a common practice, but one that is growing in popularity again thanks to the airline industry. The idea here is that you impose more strict cancellation policies during periods of high demand making it more difficult for bookings to be cancelled and/or giving you more time to replace a booking should you receive a cancellation. You can also use special cancellation policies in periods of low demand too. You can offer a discounted overnight rate (*room only*) with a very strict cancellation policy to capture those people who are looking for a bargain, but otherwise would not have booked. These are your opportunistic bookers or maybe corporate bookers with a tighter budget happy to trade flexibility for a lower price.

5. **Room Type Yielding Methods** - This is a little bit more complicated, but basically here you are aiming to sell your premium room types during your stronger demand periods first reserving your lower priced rooms to sell later. The idea being that these lower priced rooms will be booked anyway. You can also combine length of stay controls with room type yielding to allow more relaxed stay controls on your higher priced rooms. The message here is that you are willing to allow shorter stays during periods of high demand, but the client is going to have to pay the premium for a higher yielding room for that privilege.

Yield tactics can be complex to manage, especially if you are engaged in 2 or more of the above strategies. Our advice would always be to start off small, use just one or two of the above methods until you are comfortable with them. Don't dive in and start using all of the methods at once otherwise you will simply confuse everyone. It is also extremely important to monitor the yield tactics you are using. Compare them constantly using RevPAR to make sure they are having a positive effect overall. If they aren't . . . change them!

Stage 6: Distribution

So you have done all this work . . . . you have performed analysis so you U*nderstand* your levels of demand and where that demand is coming from. You have made sure your rate structure works and is clear and concise. You have taken *Action* and created a forecasting calendar and decided on which yield tactics to use at which times and you have scheduled regular reviews of both the forecast and the yield tactics you have put in place. Now it is time to get this information out there!

The first place to start is your own reservations team. Although we haven't said it so far, it would make sense to involve your reservations team in the revenue management process. However, not all members may have been involved so make sure that the plans are made clear to all members of the team. If you have a marketing and sales or events team get them involved at this stage too.

> **Note:** *If you are a small hotel and <u>you </u>are the reservations, sales and marketing departments rolled in to one, then don't dismiss this process. Go through your calculations, findings, forecasts and plans with someone else in your business or even a friend. See below to find out why?*

This is not only important because they will need to understand the plans to be able to communicate them to your customers, but it also provides a great opportunity for a fresh set of eyes to see the plans and potentially point out any issues. Remember that things need to be simple to understand otherwise you are only going to prevent people making that decision to book and choosing your hotel.

Get the prices out to any third party companies you work with. Again make sure everything is clear and simple to understand, not just the pricing, but particularly any times when length of stay controls are in place or more strict cancellation policies.

The Internet

More and more bookings today are coming from the internet, both from bookings channels or through your own website. Make sure your prices are kept up to date on all channels that you sell though on line. Depending on your systems this might be a manual daily process so make sure this is assigned to someone as a critical task with backups in place should that person not be working on any particular day.

It is even more important that you are very clear about any special restrictions (length of stay or cancellations) that apply when people are booking on line. Revenue management works very well when people know exactly what they are getting, but if you don't tell someone about a change to

cancellation periods you can create a very unhappy guest very quickly! No one likes to think they have been duped, even if it was not intentional. Don't run that risk!

In the next and final article in this series we focus on maximising your impact online to combine with your revenue management practices so that any bookings you do receive through the internet, either through booking channels or your own website, come to you first and at the highest revenue level possible.

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: On Line Channel Management

This article focuses on the ability to take Action and to quickly be able to respond to changes. Hotel Perfect have developed an advanced Channel Management feature to allow your PMS to simplify this process for you.

Our Channel Management solution allows you to distribute inventory to as many channels as you like; examples such as Booking.com, Laterooms.com, Hotels.de or to Global Distribution Systems (GDS) such as Synxis and iHotelier.

Hotel Perfect PMS automatically feeds rates and availability to these channels. It's as simple as that! If you decide you want to stop or restrict selling rooms through channels for a period of time, you can do this very simply within Hotel Perfect PMS itself.

Forget logging onto individual web portals or having to manually update your rates; Hotel Perfect's Channel Manager does everything for you and saves you time!

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.