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The great revenue-management debate

20 January 2010 9:33 AM

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As rates continued their downward plunge during the middle of last year, market share versus profit quickly became a hot topic of debate. Is it better to sacrifice average daily rate in exchange for heads in beds (a premise many would argue is fundamentally flawed in the first place) or maintain some semblance of pricing integrity with an eye firmly fixated on guest profitability?

Many pundits and publications (HotelNewsNow.com included), analyzed the discussion as a case of one or the other. But as the din eased and the often soft-spoken voices of reason emerged, it became clear that it's not so much a matter of either/or, but rather what amount of this tactic should be balanced with what amount of that?



Bonnie Buckhiester

HotelNewsNow.com columnist Bonnie Buckhiester—a revenue-management specialist who has always exuded an air of practicality while others have shouted their opinions around her—tackles the issue in her [most recent posting](#) on our site.

In dissecting the market share versus profit debate, she says:

Every hotel has to determine what the optimal balance is between its occupancy and rate indexes. Unless a hotel is a hugely dominant player in the marketplace, the variance should be no greater than 10 points over the course of a year. This level of balance is proof that the hotel drove rate when it could and volume when it had to.

She then explains that while finding this balance is crucial, it's not the end-all in the debate. Profitability should be based on the entire asset, she says, while advising careful consideration of gross operating profit per available room and gross operating profit per occupied room.

Bonnie's column delves into the issue with greater detail and insight than I could ever hope to achieve here, so I strongly recommend you read it in full.

But Bonnie's isn't the only viewpoint I respect on the subject. I asked Carlson's Jim Rozell, an RM wunderkind of sorts, for his opinion as well.

While Jim said he's all for growing profits, he, too, supports a more blended approach that stresses market segmentation. Under this methodology, he targets certain traveler groups assuming researched revenue expectations.

For example, while he might "sacrifice" rate at New York hotel with a leisure family travel promotion, he only does so knowing that a leisure family, while likely paying less for each room night, is more likely to buy a number of hotel breakfasts, pay to park their car on site, and drive significantly more revenue to the bottom line than perhaps a guest from another market segment on a given day under given circumstances.

"Getting them into the hotel is a price battle," he said. "I'm willing to sell that share in order to put some money on the bottom line on the other end."

So where do you stand on the subject? Have you found success on either end of the market share versus profit debate? With more and more revenue managers and consultants hovering near central ground, I'd be curious to hear a strong argument from either extreme.