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Buckhiester: Total revenue management and the downturn

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In the past eight weeks, I've spoken at three different conferences as well as a widely broadcasted Webinar. At every event, I've been asked: as a revenue management consultant what would I recommend to deal with the current economic downturn? Certainly, my first advice is to hold rates—price-cutting does not create volume as much it decreases revenues. But I'm quick to add that the adoption of a Total Revenue Management approach is equally important.


Bonnie Buckhiester

The concept of Total RM is not new; hotels have always endeavored to choose the best pieces of business. The difference today is the desire to make this profit maximization approach more sophisticated and move beyond a rooms-centric revenue management effort. Simply put, Total RM is about finding the most profitable guest, about optimizing revenues and profits from all revenue streams (rooms, food and beverage, parking, spa, golf, retail, entertainment, et cetera).

The trends driving this transition to Total RM are many, but perhaps the most obvious is the pressure to preserve asset value and to increase (or at least stabilize) profitability overall. Other trends include the evolution of the Internet (particularly Travel 2.0) and the convergence of technologies. Research indicates that one billion mobile devices were shipped worldwide in 2006 alone, and so the manner in which consumers research and purchase hotel stays is changing rapidly. The availability of extreme amounts of market intelligence data is also affecting the move toward Total RM—we are able to "slice and dice" data a thousand different ways.

So what are some of the characteristics that define the Total RM phenomena?

- Tracking contribution (profitability) by segment from a "total spend" perspective and including these metrics in the P&L.
- Identifying the "net-net" rate level by extracting associated costs unique to that rate. These costs are typically divided into two categories—internal and external. An example of an external cost would be GDS fees and travel agent commissions. An example of an internal cost would be F&B expenses associated with a package offering or a "concierge floor" room. The obvious advantage of knowing the "net-net" rate is being able to identify the most profitable rates as well as the most profitable market segments, room types, et cetera.
- Tracking revenue per available room by room type by month to more clearly identify sub-optimal value propositions.
- Greater reliance on detailed, drill-down displacement analysis to strategically select or deny business, including calculations on spend by revenue center.
- Tracking upgrades methodically so that lost revenue opportunities are identified, monitored and mitigated.
- Establishing a dynamic transient baseline that's constantly updated. Many hotels use static and/or straight-lined baselines whereas a dynamic baseline approach is much more effective in optimizing demand. Updating the sales/catering system on a daily basis for close-in dates and weekly basis for medium and longer terms dates is easy to do.
- Dynamic pricing of catering menus based on demand. This is a trend I'm seeing more and more and goes way beyond "holiday" pricing concepts. Soon static, printed banquet menus will be a thing of the past.
- Forecasting catering demand in an unconstrained manner—this is based on tracking booking pace and turndowns to determine total demand in as detailed a manner as is done for rooms (based on availability, space not released, minimums not met, price resistance, et cetera).
- Advanced menu engineering where price elasticity is frequently tested menu item by menu item.
- Additional focus on F&B/catering metrics such as:
    - -ROGR (catering Revenue per Occupied Group Room)
    - -RevPSF (Revenue per Square Foot),
    - -ProPSF (Profit per Square Foot)
    - -RevPASH (Revenue per Available Seat Hour)
- Increased participation in F&B benchmark reports—although occupancy, average daily rate and RevPAR are the primary metrics tracked in benchmark reports, F&B statistics are getting more attention. This trend may be driven faster than expected due to the impact of Asia-Pacific hotels where F&B revenue and profit levels can exceed rooms' division performance.

This certainly is not a definitive list of the elements driving the Total RM trend. Suffice to say that if hotels are going to raise the bar in their RM efforts, it's these types of initiatives that must be considered. And a Total RM approach is one of the best strategies to compete intelligently and create a competitive advantage in these fiercely competitive markets.