FEATURE

REVENUE MANAGEMENT,
A Business Process Approach

by Victoria Edwards

As hoteliers, we all practice some form of revenue management on a daily basis. We know that in our business of high fixed costs and low variable costs, the key to profit optimization is leveraging revenue opportunities at all levels of demand.

If asked by an outsider exactly what revenue management is, we would likely parrot the tried and true explanation that revenue management is about "selling the right room, to the right person, at the right rate, and the optimal length of stay".

From a more academic perspective, Robert Cross defines the discipline as "the art and science of predicting real-time customer demand at the micro-market level and optimizing the price and availability of products". So the real question for all general managers is, "How do we become better artists and scientists?"

What makes for a Leonardo da Vinci or a Louis Pasteur of revenue management?

The answer can be found in simply looking at revenue management from a business process perspective. In my experience in both managing and consulting with hotel companies, most yield teams fail to look at both the strategic and tactical aspects of what is essentially a very dynamic process.

This process entails a number of different stages, all with highly actionable and measurable steps. The different stages are all interdependent and it is an ongoing process. As conditions within your marketplace change, it may be necessary to revisit both strategies and tactics at each stage of the process and adjust accordingly.

Once any hotel has mastered the simple steps in the process, executing strategies and measuring results become second nature. A process approach answers all the "W" questions: What steps should I take? When do I do deploy certain tactics? What do I measure? etc.

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I have found the following process map to be invaluable to revenue teams when developing their revenue management core competencies.

As a general manager, ask yourself how your team can properly benchmark the competition if the product has not been properly defined. How can pricing be strategically deployed and optimized if the correct competitive set is not being tracked? Can you accurately forecast demand if your yield team does not properly segment demand and measure demand influencers?

Looking at one of the steps in the process may help better illustrate this point. Let's look at competitive benchmarking. Most hotel properties define their competitive set and rarely, if ever, make changes to this set regardless of changes in the marketplace. Additionally, competitive sets are often defined in terms of an owner's needs and wants rather than who the property competes with. Rate and occupancy indexes are the best barometer in this case. If there is a significant imbalance between your occupancy and rate indexes this may point to the fact that you have one or more hotels in your set that need to be revisited.

The steps in a good benchmarking process should include:

1. Supply review
2. Set definition
3. Product analysis
4. Quality/Rate position charting
5. Positioning plan by segment

This process should be reviewed each year as part of a standard business plan activity or whenever significant changes occur in your market. Changes such as reflagging, renovations, hotel closures, and changes to overall supply can cause a shift in your competitive set that may require an adjustment to your positioning in one or more of your market segments.

Tracking your results against the competition is a critical part of market intelligence. It gives you an objective external measurement that allows you to see how well your hotel is performing relative to the competition. But more than this, fluctuations in competitive benchmarks should lead your yield team to ask pointed questions about what the competition is doing both strategically and tactically to steal market or revenue share in certain segments.

Using this type of competitive intelligence to track performance and reposition rate strategies means that it is essential that you are in the correct set. Another way to determine whether your competitive set is correct is to undertake a comprehensive product analysis of your current set.

This type of analysis should involve all of your yield team and requires thorough, detailed site inspections, using some form of standardized scoring. Typically this scoring involves both and quality and competitive advantage variables.

A quality variable includes factors such as staffing levels, cleanliness, friendliness/professionalism of staff, etc. A competitive advantage variable

is something that gives that competition an advantage over your hotel. An example of this might be a strong international brand versus your independent property. A strong brand would provide the competition with a national sales team and significant brand equity.

Below is a small sample of how one might score some of these variables.

HOW COMPETITIVE BENCHMARKING WORKS

	Your Hotel	Comp #1	Comp #2	Comp #3
Quality of F&B	0	1	-2	1
Quality of Service	0	-2	0	2
Curb Appeal	0	2	1	2
Total Score	0	1	-1	5

You will note that "Your Hotel" is always at zero. This is because you are using your hotel as a frame of reference and scoring your competition as being either better (+1, +2, +3) or worse than your hotel (-1, -2, -3) on a number of variables. Once you have scored a comprehensive number of variables, each hotel will have a total score.

If a property scores significantly higher than your property on most variables and ends up with a high total score, and their ADR is much higher than yours on a monthly basis, then you likely do not truly compete with this hotel. Keeping a property like this in your competitive set is going to significantly skew your monthly indexes and may lead to critical pricing errors that in turn compromise your long-term RevPAR.

Consider the following examples:

Property	RevPAR	Benchmarking Score
Your hotel	87.90	0
Comp Hotel A	132.20	22
Comp Hotel B	65.34	-7
Comp Hotel C	77.39	2
Comp Hotel D	73.92	-1

It would appear that given the rate and quality score of Hotel A, it does not belong in the competitive set. Given these actual numbers (based on the total share achieved by each hotel) the benchmark indicated the following:

Your Hotel	87.90
Comp RevPAR	95.99
RevPAR Index	84.60
RevPAR Index without Hotel A	117. 20

Clearly there is a materially significant difference between the two indexes. If you were to have your yield team make decisions based on the inclusion of Hotel A your indexes would suggest you are under performing to the market and not getting your fair revenue share. This may in turn lead your team to the decision that their selling strategies should include higher tiered rates.

This would be a critical error as your true guest would likely not pay the increase in price. The result would most likely yield an increase in reservation turndowns and downward pressure on the monthly RevPAR.

The case above is meant to illustrate the problems that ensue when care has not been taken to ensure a systematic, disciplined approach to competitive benchmarking. The same can be said for any of the stages in the revenue management business process.

Looking at revenue management from a process approach provides your property with a number of positive outcomes. It provides a comprehensive, systematic way of dealing with all aspects of revenue management. It provides a context within which to discuss profit optimization from both a tactical and strategic perspective. It helps to recognize the subject matter expertise of all the yield team members. Finally, it necessitates a collaborative approach to decision making in the area of profit optimization.

As the lines of market segmentation continue to blur, the online environment continues to evolve at breakneck speed, and hotel supply growth appears unabated in the short-term, a structured approach to the discipline of revenue management has become an absolute necessity for all hotels.

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