HSMAI FOUNDATION SPECIAL REPORT 2ND EDITION

The Evolving Dynamics of Revenue Management:

A COMPREHENSIVE REVENUE OPTIMIZATION ROAD MAP FOR HOTEL OWNERS, OPERATORS AND PRACTITIONERS

By Kathleen Cullen, CRME

Published by:

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INSIGHTS • RESEARCH • SCHOLARSHIP

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Printed in the United States of America

Dear Hospitality Colleagues:

As the leading authority on global hotel industry performance trends, STR is proud to sponsor the 2nd edition of *The Evolving Dynamics of Revenue Management*. Serving as a testament to the mission of the HSMAI Foundation, the publication continues to cultivate knowledge, provide insight into the future of our business, and inspire revenue management and marketing professionals worldwide.

Like the HSMAI Foundation, STR understands that the hospitality industry plays a vital role in the global economy. In 2008, STR created London-based STR Global in an effort to enhance the capabilities of revenue managers throughout the world. Today, STR and STR Global partner with over 50,000 hotels in 165 countries to provide the industry with the largest global sample in the world – over 6.5 million rooms worldwide.

Throughout STR's 30-year history, we have been a collaborative partner in the evolution and success of the revenue management discipline through thought leadership, dedicated service and product development. Continuing in that tradition, we remain committed to our company's foundation and legacy of providing the industry with dependable, confidential and accurate data and data-driven services.

On behalf of all STR affiliates, employees and partners, we thank the HSMAI Foundation for the opportunity to sponsor this significant contribution to the advancement of the global hospitality industry. As a global partner to the industry, STR offers a growing network of representatives throughout the world who not only understand the needs of their region, but are also invested in its success. To learn more about our global network and services visit www.str.com.

Amanda Hite

Amanda Hite
President and COO, STR
Chairman of the Board, STR Global

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Dear Hospitality Sales & Marketing Colleagues:

The HSMAI Foundation is very proud to publish the 2nd Edition of this special report, *The Evolving Dynamics of Revenue Management: A Comprehensive Revenue Optimization Road Map for Hotel Owners, Operators and Practitioners,* by Kathleen Cullen.

Revenue Management is continuing to evolve rapidly, especially in the hospitality industry. This 2nd Edition of *The Evolving Dynamics of Revenue Management: A Comprehensive Revenue Optimization Road Map for Hotel Owners, Operators and Practitioners* brings critical updates to the industry and continues to fulfill the dual purposes of providing an in-depth analysis and guidance at these crucial times and, additionally, serving as the comprehensive study guide for the HSMAI certification, the Certified Revenue Management Executive (CRME).

The HSMAI Foundation, established in 1983, is the research and educational arm of the Hospitality Sales and Marketing Association International. The HSMAI Foundation's mission is to develop knowledge and insights for the future to fuel sales, inspire marketing and optimize revenue.

This report was made possible by the generous support, scholarship and vital leadership from the HSMAI Revenue Management Advisory Board, as well as our publishing partner STR and sponsors Best Western, Commune Hotels & Resorts, Destination Hotels, Duetto, FRHI Hotels & Resorts, Hilton Worldwide, IHG, IDeaS, Rainmaker, RateGain, Wyndham Hotel Group. We would like to extend our deepest thanks to all. We'd also like to thank the author, Kathleen Cullen, and Juli Jones, HSMAI VP and Manager, HSMAI Revenue Management Advisory Board.

Sincerely,

John Fareed
Principal
John Fareed Hospitality
Consulting

Fran Brasseux
Executive Director
HSMAI Foundation

Dear Colleagues,

In our work to provide hospitality professionals with the most up-to-date and forward-looking information on revenue management principles, practices, and strategies, we are proud to deliver this industry-leading book. It has been made possible in terms of content and production by many industry professionals, business partners, and HSMAI's global Revenue Management Advisory Boards who have contributed their best thinking and experience.

We would especially like to recognize the following individuals who contributed countless hours to make this edition possible:

- Veronica Andrews, Director of Active Data, STR
- Kathleen Cullen, CRME, Senior Vice President Revenue & Distribution, Commune Hotels & Resorts
- Linda Gulrajani, CRME, Vice President, Revenue Strategy & Distribution, Marcus Hotels & Resorts
- Tim Wiersma, Vice President, Revenue Management, Red Roof Inns, Inc.
- Nicole Young, CRME, VP, Revenue Management & Sales, SBE

HSMAI's Revenue Management Advisory Boards are advancing the revenue management discipline by providing leading education, a best practices exchange, thought leadership and networking for revenue management professionals, other sales and marketing professionals, and senior management in the hospitality industry.

We believe this book not only delivers great revenue management educational content, but industry leading content. With practical and relevant revenue management strategies and best practices along with a comprehensive roadmap for hotel owners and operators to establish and enhance revenue management at their properties, we hope you see this book as a strong step toward meeting our mission. We promise to continue to provide resources and information that will help you and your company increase your performance.

This book is the study guide for the Certified Revenue Management Executive (CRME) industry certification. At the end of each chapter, review questions will help you study for the certification examination. We hope you will learn more about the CRME and what it can bring to you and your organization.

As you read and use this book, you will understand why every hotel professional needs a copy of it!

Please see next page for our Advisory Board members

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INTRODUCTION

HSMAI and its Revenue Management Advisory Boards are excited to deliver to the hotel industry the second edition of this valuable and informative publication. It describes a holistic approach to revenue management including a focus on revenue optimization, and offers examples of revenue management concepts in practice.

Objectives

This publication will provide the reader with an introduction to the high level components of revenue management, describe the basic concept of each component and give a more detailed explanation of each. The reader will gain an in-depth understanding of revenue management and how to apply it to best suit the needs of an independent hotel or a specific hotel company. Additionally, this document will drive home the fact that revenue management is important at all levels of the organization.

However, it must be understood that the examples and tools herein are not the ideal solution for everyone and may not work for every hotel or company. It is up to the reader to determine what is best for their hotel or company and apply or use what works best for their specific situation.

Who Should Read This

Hotel owners and operations executives can gain a high-level understanding of revenue management by reading only the "Components of Revenue Management" section of this document. However, senior executives are encouraged to read the entire publication as it will provide them with a thorough understanding of revenue management. Implementing revenue management often requires a culture change within a hotel or company. Having a full understanding of revenue management will provide executives with the foundation from which they can more effectively initiate these changes.

Operational managers such as revenue directors will also gain a detailed understanding of revenue management and how to apply the information by reading the entire publication. Each section provides key learning objectives and discussion questions to further enhance the education received through studying this publication.

Take-Away Tools

Included as one part of this publication are reference tools such as job descriptions and revenue meeting agenda items. All are available to assist the reader in setting up new processes or enhancing existing processes.

THE HSMAI FOUNDATION

The HSMAI Foundation was established in 1983 to serve as the research and educational arm of the Hospitality Sales and Marketing Association International. The HSMAI Foundation's mission is to develop knowledge and insights for the future to fuel sales, inspire marketing and optimize revenue.

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EXECUTIVE SUMMARY

Over the past several years, revenue management has evolved to include a focus on progression, strategies, forward thinking, and profitability. Today, most hoteliers strive to hire revenue professionals that have strong leadership and solid communication skills, as well as those that have a proven track record of positive results. Revenue directors are now involved in strategy setting for all areas of the hotel and are a vital part of the overall hotel's success and profitability. Hotel executives have realized the importance of this position and the need to hire someone who has the ability to bring the hotel to the next level and truly focus on strategies and long-term gain versus data collection and short-term gain. There has been a significant shift in the approach to revenue management. It is now more about looking into the future and staying focused on strategy and optimizing profitability. Today's focus includes revenue optimization for the entire hotel and all revenue streams versus a singular focus on rooms.

The industry has come a long way in recognizing the importance and the needs of revenue management in order to be successful. This elevation and recognition means that the discipline has become even more complicated and requires sophistication in its resources such as revenue management technology and automation.

In an industry like hospitality, where perishable goods and services are involved, revenue management often provides a significant competitive advantage to companies that practice it effectively. Revenue management is a discipline that is used in many industries, but the application and implementation can vary greatly from sector to sector.

There are many variations on the definition of revenue management. One of the definitions is more technical and is very broad in scope:

> *Revenue management is the art and science of predicting real-time customer demand at the micro market level and optimizing the price and availability of products to match that demand.*

Another definition is more specific and simple:

> *Revenue management is offering room rates and inventory controls that are most appropriate for the anticipated demand.*

In hotel revenue management, a manager's goal is to obtain the best possible Revenue Per Available Room (RevPAR) by determining the optimal price for a room after taking into consideration the following items (at a minimum) :

- Supply and demand
- Historical data
- Market position
- Competitor pricing
- Booking window
- Booking pace
- Forecasted occupancy
- Unconstrained demand
- Demand indicators such as special events or citywide conferences

On the most fundamental level, the basis for success is to have the right revenue management organization in place to support the revenue strategy. It is necessary to have a solid understanding of both the science and the art of revenue management throughout the organization — from the top all the way down to the bottom.

It is vital that owners and operators understand what revenue management can do for their bottom line. The executive level management within a hotel or company must understand the importance of applying revenue management strategy and tactics to achieve optimal profitability. The entire management of an organization must be unified around profitability goals. And the team directly managing the revenue management practice at a hotel must understand economics, forecasting, pricing, distribution and strategy in order to maximize the hotel's revenue potential.

Additionally, it is imperative that a hotel creates and executes the right strategy while remaining nimble enough to respond quickly to a changing marketplace. The strategy must consider macro- and micro-economics, market conditions, appropriate product placement, the power of one-to-one revenue management, and value-added pricing.

Robert Cross is known as the guru of revenue management. The principles he described are timeless and are repeated here: *"The application of revenue management principles is limitless and the potential in terms of revenue return is impressive. Firms employing revenue management techniques have seen revenues increase between 3% and 7% without significant capital expenditures, resulting in a 50% to 100% increase in profits!"* (R. G. Cross 1997)

Bill Marriott, Jr. was quoted in Cross's book, stating, *"Revenue management has contributed millions to the bottom line, and it has educated our people to manage their business more effectively. When you focus on the bottom line, your company grows."* (R. G. Cross 1997)

Revenue management is a discipline that continues to expand and grow in sophistication as the practice matures. Additionally, as business changes and includes new entrants like social networking, revenue management must evolve and expand both management's knowledge and their resources to increase the ability to positively impact the bottom line and move ahead in the practice of one-to-one marketing and pricing.

Revenue management must have some input in and responsibility for many of the new opportunities to reach customers, but hoteliers must use caution and not simply add to the revenue director's responsibilities. Instead, a more practical approach is to identify the most appropriate areas for the revenue director's input.

One of the biggest challenges the hotel industry faces is a lack of experienced talent who can create and execute a revenue strategy for a hotel or company. HSMAI's goal is to help the industry build bench strength with greater understanding of revenue management. This publication and an updated revenue management certification are part of that effort.

Hotel executives will get the most out of revenue management within their organizations if they:

- Create an optimal organization for revenue management success including having appropriate resources and executive alignment;
- Ensure they have adequate support and the resources needed to execute the revenue strategies;
- Commit to staying focused on long-term strategies, employ tactical short-term solutions only when necessary and be sure that the short-term solutions do not conflict with the long-term strategies;
- Commit to understanding the difference between a budget and a revenue forecast and be willing to work with both. Contrary to popular opinion, a revenue forecast should not be created to meet or exceed the budget. Instead, it should be created based on market conditions;
- Embrace change and be proactive to stay ahead of the curve and competitors;
- Embrace revenue management automation which can lead to optimal revenue potential. Revenue management automation will become a necessity at some point in the near future because revenue management is becoming more and more granular and will soon require a micro-level approach to analysis.

Those hotel companies that embrace the requirements of revenue management, structure their organization appropriately, and provide the support required, will find they receive the highest benefits and realize the highest potential revenues. Hoteliers who make these commitments and follow through will find they are positioned to be leaders in their marketplace instead of followers. Those commitments will provide hoteliers with the right information, confidence, and tools to price according to the customer's willingness to pay.

If all hoteliers would set themselves up for success it would alleviate many of the pitfalls experienced when applying tactical approaches that go against the overall strategy and often cause the all too famous, but losing battle of price wars.

The hotel industry must take control of its own revenue management strategies and stay focused on its plans. This takes a strong commitment and confidence in the creation of the right structure and the hiring of the right resources. If all hoteliers can do this, the industry will reap the benefits in revenue and profit optimization.

CHAPTER 1

COMPONENTS OF REVENUE MANAGEMENT

KEY LEARNING OBJECTIVES:
To outline the high-level components of revenue management;
To understand the key points for each revenue management component.

In order to properly understand and practice revenue management it is essential to have a solid understanding of the fundamental concepts and components behind it.

This section provides a high-level overview and the key points for each revenue management component. Later sections will provide more specifics and detailed comprehensive content for each of these topics.

Departmental Organization

Revenue management is not an independent business process or system. It is a concept that delivers the most value if it is fully integrated in the organization, the business processes, and the mind-set of employees. It requires strong communication and teamwork among the appropriate departments. Revenue management must be incorporated into the culture of a hotel or company.

Revenue Management Culture

Building a revenue management culture within an organization has been an ongoing challenge since the inception of revenue management. While the industry has come a long way in this regard, there have been varying levels of success in implementing revenue management successfully.

One of the key points to ensuring a successful revenue management culture is strong leadership at the top of the organization. It must begin with a belief in the results that excellent revenue management can provide. This needs to come from ownership and senior management. Having this buy-in ensures the investments needed to implement and maintain a successful revenue management strategy will remain a priority.

Another key point to implementing a successful revenue management culture is goal alignment. It is imperative to align specific goals and departmental goals with the overall revenue goals for the entire hotel or company. Everyone should be incentivized to work toward the same goals. Too many companies create individual goals in a silo, which ultimately creates a culture of individuals focusing on what is best for them versus what is best for the overall hotel or company.

This is true for independent hotels and brands but also for management companies and ownership groups that may have a portfolio of competing brands. Many times owners are focused on what is best for their own revenue needs and not on the overall brand strategy.

Integral to the overall financial success of a hotel or hotel company — be it a management company or ownership group — is the alignment of the goals of all departments toward the overall revenue objectives. Without this alignment, a hotel or company cannot achieve its maximum revenue potential.

Integrating Revenue Management into an Organization

Revenue management is a practice that should be integrated throughout an organization in order to ensure its success. It is not an activity but rather an approach to conducting business. Hotel companies must ensure they have a collaborative approach to revenue management and not practice it as a stand-alone discipline.

Economics and its Role in Revenue Management

Understanding the fundamentals and components of economics is an underlying key concept to understanding the philosophy of revenue management. The economic environment has a direct relationship with revenue management and hotel strategies. Understanding supply and demand and the price elasticity of demand are all vital to gaining an understanding of revenue management.

Understanding the Market

One of the key components to a successful revenue plan is to understand the market. Understanding the market includes knowing the hotel's competitive set, market share, and position in the market, and their market's direction and trends.

Identifying these components can best be achieved through the use of business intelligence reports that are available to hoteliers. There are a variety of companies that provide this information. A listing of these companies can be found at the end of this publication.

Understanding the market also requires knowing the economics of the marketplace and how both external and internal influencers will impact the local marketplace and the hotel's position within it. Pricing trends and consumer trends are important factors to identify and assess as well.

Researching and analyzing all of these factors will prepare hoteliers for completing proper and accurate benchmarking, as well as a thorough and honest SWOT analysis. Hoteliers must understand the difference between their desired role and the hotel's actual role in the market. They must be honest about the hotel's position and the role the hotel will play within its competitive set. Will the hotel be a price leader? Will the hotel be a trend leader? In part, it is what it is; but hoteliers must be realistic about it.

All of this will play an important role in determining the most appropriate pricing for the hotel.

Market Segmentation

Proper market segmentation allows a hotel to price and apply inventory controls in order to maximize revenue from various lines of business. In order to be as successful as possible, hotel management must ensure that they use the most logical method possible for tracking their business.

Forecasting

Forecasting truly represents the science portion of revenue management and is one of the most difficult aspects of implementing a revenue management strategy successfully. Hotels must manage multiple types of forecasting in order to achieve their maximum potential in the marketplace. They must utilize demand, strategic, revenue, and operational forecasts. Each type of forecast has a different objective and a different approach and each impacts a different aspect of overall revenue maximization.

The forecast is an important factor in successfully executing the revenue strategy and tactics for a hotel.

Revenue Strategy

While it is important to have a clear strategy and direction for revenue management, equally important is how the revenue director articulates the goals and manages the strategy throughout the organization. A successful strategy will incorporate the perspective of every department of the hotel or company. When developing a strategy it is important to consider all feedback — from line level employees to executive-level managers. This will help maintain existing revenue sources and drive incremental revenue. Additionally, some hotel companies are even including their clients in their strategy-creating process, allowing them to provide objective input into the hotel's revenue strategy.

The revenue strategy should permeate the entire organization. It should be clear, actionable, and measurable. Each department should be held accountable, as well as be rewarded for the success of their piece of the strategy.

Pricing

Revenue management can be a powerful tool in establishing pricing for hotels. There is definitely a science to implementing correct pricing, but there is an art to applying the appropriate principles in order to price the right product for the right customer at exactly the right time. When an appropriate pricing opportunity is missed, there is often a lost revenue opportunity from both transient and group business.

When revenue management principles are not applied appropriately, downturns in business can cause a panic reaction that sends prices spiraling. The recovery from this type of knee-jerk reaction can take months or even years.

A good example of this is the "Great Recession" and the impact it had on hotel ADRs. Hotels dropped prices during the downturn and struggled to recover as quickly as demand was driving occupancies.

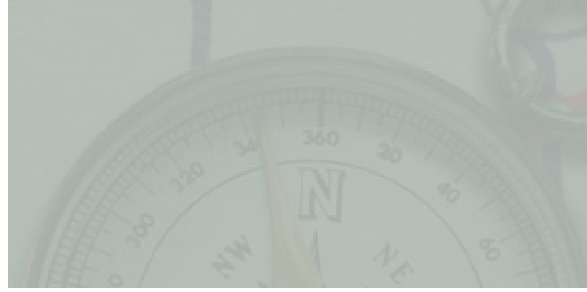
It is critical for hotels to remain true to revenue management best practices even when they find they are on course to miss their budgeted revenues. Employing congruent, sensible, and practical revenue management practices is essential to successful long-term revenue management.

Another area that impacts pricing is social media and customer reviews. How a hotel ranks on TripAdvisor and other social sites has a direct correlation to the price a hotel can charge. Generally speaking, higher ranking equals higher prices.

Digital Marketing

Digital marketing emerged in response to significant online advertising opportunities. One definition for digital marketing is the practice of promoting products and services using digital distribution channels to reach consumers in a timely, relevant, personal and cost-effective manner.

While digital marketing and revenue management are independent business processes, there has been a collision between both disciplines over the years because of their cross-purpose and shared focus on generating



Digital marketing is the practice of promoting products and services using digital distribution channels to reach consumers in a timely, relevant, personal and cost-effective manner.

greater profits at a strategic level. However, the tactical definitions of success can be very different.

For a full explanation of digital marketing and what it means for hospitality as a whole, it is recommended to read HSMAI's CHDM (Certified Hospitality Digital Marketer) study guide which can be found on www.hsmai.org.

Inventory Control Strategies

In addition to pricing, inventory decisions can significantly impact a hotel's revenue maximization. Having the "right product available to the right person at the right price at the right time" is integral to success. It is also important that inventory strategies are managed effectively across all channels, not just with preferred accounts.

For example, when a hotel has a large group in house, if lower rates are available through public channels, there will be a negative impact on group pickup because the group's guests will book outside the group block. Strategies should be established which consider the impact that inventory dedicated to publicly available discounts has on the inventory dedicated to groups and preferred accounts. It is important to employ appropriate fences and inventory controls in order to maximize revenue on each given night for each available room.

Cost per channel is another critical area on which revenue management should be focused. Because of the varying costs per channel, consideration must be given to the impact inventory controls have on a hotel's profitability.

Performance Analysis

"What gets measured gets done." This phrase is often repeated in many industries and hotels are no different. It is important to establish goals and implement reports to measure actual results against the appropriate key performance indicators. Creating incentives for individuals who impact revenue is equally as important to ensure they stay focused on the goals. When accountability throughout an organization is centered around profitability, and incentives are created to reward individuals, everyone in the hotel is focused on profit optimization and total hotel revenue performance.

Total Hotel Revenue Management

In today's fast-paced and multi-faceted world, it is no longer enough to just manage revenue for guestrooms. It is vitally important that hotels begin to employ total hotel revenue management, which includes food and beverage revenues, ancillary revenues from outlets such as spa and golf, as well as a market segment's propensity to spend on incidentals while at the hotel. Hotels must consider the total potential value of each customer. Technology is being created and implemented that facilitates this process for hotels. But technology alone is not enough. Goals need to be aligned around total customer value and the profitability of a customer not just around the room rate garnered from a stay. The culture of hotel revenue management must shift to include a focus on a holistic revenue management approach. The entire organization must be centered around profit optimization goals and work in a unified fashion to execute the revenue strategy.

Revenue Management Meets Social Media and Customer Reviews

Since the last edition of this book was published in 2010, there has been significant growth in social networking and consumer review sites. In 2010, hoteliers were still trying to understand how these sites would impact various aspects of a hotel. It was predicted that there would be a larger impact on revenue management and that the use of these sites would grow. This has proven to be true. Much has been written about the social world and its impact on hospitality and, more specifically, revenue management.

The industry has now embraced these sites into its revenue management strategies. This is in addition to marketing, sales, and operations.

Additional Considerations

The following sections are important components to understand in relation to the context of revenue management. They do not, however, have their own dedicated chapter as do the other components; instead they are a fiber thread throughout the publication.

Uniform System of Accounts for the Lodging Industry (USALI)

USALI is the guide for hotel owners, managers, and other parties for reporting and presenting hotel financial statements. The resulting standardization established by the USALI permits internal and external users of financial statements to compare the financial position and operational performance of a specific hotel with similar types of hotels in the lodging industry.

Due to the standardization provided by USALI, most loan agreements and hotel management contracts contain specific provisions that require hotel owners and operators to prepare their financial statements in conformity with the Uniform System. Changes required by the Uniform System may also affect the basis for management incentive compensation amounts which are based on departmental results. Therefore, it is important that hoteliers remain knowledgeable of the standards and any changes made to these standards.

The Uniform System does impact the way hoteliers track and report revenues. Therefore, it is important the person in charge of revenue management for a hotel or organization understands the impact and sets up tracking and reporting accordingly.

Chapter 5 of this publication addresses market segmentation for hotels and the importance to the practice of revenue management. It outlines the traditional market segmentation and its purpose, but also provides a high level explanation of the most recent updates to the USALI that are impacting revenue management.

Distribution

Distribution for hotels has long been a critical component of revenue management. There is a lot of grey area about what it means and who owns it. However, at its most basic level, the following is a simple definition.

Distribution for hotels can be defined as all the possible ways or connection points in which inventory, rates, and products can be sold to the consumer. It also includes the process through which hotels provide their rates, inventory, and products for sale to consumers. This generally means the way in which the rates, inventory, and products are set up and "connected" in the various connectivity points.

Some examples of distribution channels include: GDSs (Global Distribution Systems); OTAs (Online Travel Agencies); voice (call centers or calls to hotels); and brand websites.

In addition to the channels, the function of distribution now also includes the connectivity between systems. For example, because of the proliferation of websites available to sell products, it has become necessary for hoteliers to find more efficient ways to manage their inventory, rates, and availability. A result of this has been the development of companies offering connection points that allow transfer of information between systems. This means that hoteliers can manage their inventory, rates, and availability from one system and it will automatically transfer out to all the "connected" systems or sites. Of course, there are many variations of how this works.

The management or set up of all the distribution systems and sites will vary by company. Some companies have a distribution expert or team of experts. This discipline typically handles all the connection points, the structure and information, as well as troubleshooting of any challenges. They may also manage the relationships with each distribution partner.

Some companies split up the management or "ownership" of the sites or systems. For example, marketing, or ecommerce, or distribution, may have full responsibility for the website and booking engine. Some companies have a revenue expert that leads these areas.

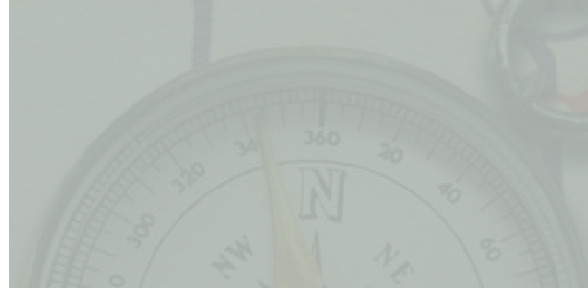
There are so many ways to slice the responsibilities that it is not possible to list every scenario. It all completely depends on the structure of the hotel company, the departments, and expertise in-house. The key take-away to understand is regardless of who is responsible for what, it is important for revenue management to have a solid understanding of how all of this works. Without a solid understanding and strong controls, it will be easy for revenue opportunities to be missed.

For a more in-depth understanding of distribution and all that it entails, it is recommended to read the HSMAI Foundation publication *Distribution Channel Analysis: A Guide for Hotels*. It can be found on www.hsmai.org.

Cost of Acquisition

The cost of customer acquisition is quickly becoming a very large focus for the industry. With the proliferation of websites and apps claiming to drive business to a hotel, for a fee, the profits for hoteliers are quickly fading.

Hoteliers need to have a serious focus in this area and understand the true "costs" of driving business to a hotel. It is important to understand how all of the online and offline opportunities impact the bottom line. While the



issue itself is not new, it is now being recognized as a major problem that needs to be better understood quickly.

Summary

We have now introduced each of the components of revenue management. The goal of this section was to highlight key aspects of each component. To gain a more comprehensive understanding of them, read through its detailed sections, if not the publication in its entirety. More details are explored and specific recommendations are included based on what has proven to be successful for hotels and hotel companies compared to what has proven not to be successful. As a result, the following sections not only explain the theory of each component but they also provide practical application advice for hoteliers to help them establish each of the components at their hotel or hotel company.

KEY REVIEW QUESTION:
What are the key components of revenue management?

CHAPTER 2

DEPARTMENTAL ORGANIZATION

KEY LEARNING OBJECTIVES:

To understand the importance of the revenue professional role;

To understand the importance of a revenue management culture;

To understand the different types of structures and the benefits and challenges of each;

To understand the key elements required to integrate revenue management into an organization;

To help identify a revenue management career path in your organization.

Organizational Structures

The hotel industry does not have one organizational structure that can work in all environments, cultures or companies. The organizational structure that works best for each hotel or company will depend on these four key elements:

1. The company's overall organization
2. The company's culture
3. The talents in existing leadership
4. The company's goals

It is important to take all of these elements into consideration prior to determining the best structure for an organization.

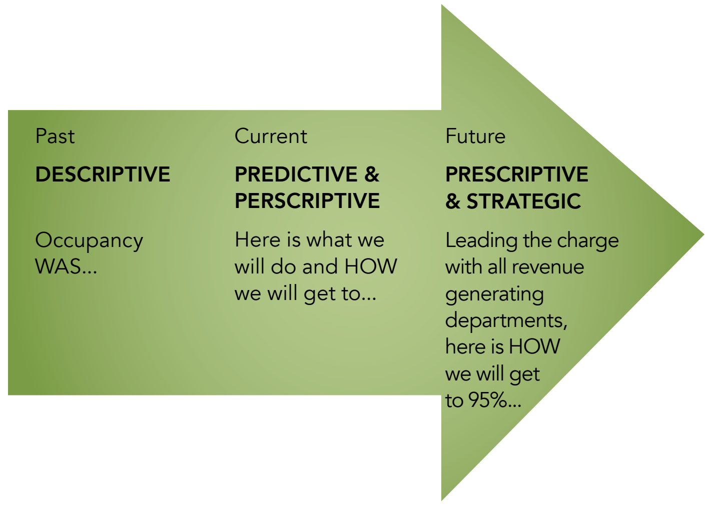
The various structures, along with their benefits and challenges, are explored later in this chapter. First however, it is important to understand the role of the revenue director.

The Role of the Revenue Director

Revenue management is no longer just about managing demand to ensure an optimal mix. It has moved to a whole new level. Today, it is much more strategic and has a focus on the bigger picture to include both top-line revenues and profitability. The revenue professional is now a leader within many organizations.

Revenue directors have asked for a "seat at the table" for quite some time now and, for the most part, that request has been granted. Now that the revenue director has largely been accepted as a member of the hotel's management team, revenue professionals can exert their influence in all revenue-related areas.

"We're kind of getting what we asked for," said Nicole Young, VP of Sales and Revenue Management at sbe. "There is a lot of recognition," Young continued.

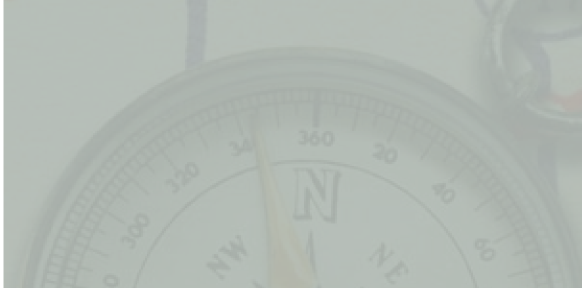


Today revenue professionals focus on managing the demand, and, in some cases, creating the demand, as well as optimizing the revenues and the profits. They are experts in the ever-changing distribution and digital marketing landscapes, have a solid understanding of the technology involved, and ensure successful execution of the revenue strategies using all of the tools available to them.

Revenue directors are expected to interact and influence colleagues at various levels and in multiple key areas such as strategy, tactics, profitability, revenue-related processes, technology, and much more. They also have to be able to fill in the knowledge gap at the most senior level of an organization. It is not unreasonable for the revenue director to question senior members of an organization on revenue related components and strategies.

There are a lot of players in the game that work toward the goals and make it all happen. But typically the revenue director is the one who interacts with and touches the majority of the processes and players that are impacting the strategy. They have insight into most of the elements and key drivers needed to achieve the goals. They are also the ones that will likely see when the team is firing on all cylinders or if a revenue-related process is not working optimally. Many different targets and elements fall within the revenue scope of work. It is important that the revenue director shares the goals and ensures that everyone is working toward the same goal. It's equally important that they speak up when they see misalignments.

Trust amongst the team is critical. And this trust goes both ways. There will be times when the team disagrees and hard



decisions must be made. The revenue director may have to push back on the general manager. For hotel companies, the person in charge of revenue for the company may have to push back on the COO or CEO. This must be done with a level of trust on both ends. The general manager or CEO needs to understand the goal of the revenue director is to act in the company's best interest, and that person must be comfortable that they have the room to push back, and even make mistakes, without negative consequences. All of this, of course, must be done in a respectful way.

Risk taking is a big part of the revenue director's role. Trust will go a long way in allowing calculated risks to be taken. It is important to push outside of the norm to see what works and what does not work. The revenue director must be confident that they have the support for reasonable calculated risk taking.

The understanding of and involvement in revenue management by owners has significantly changed...and has gone to a much more granular level than ever before. Today, most owners and asset managers have a direct line to the revenue leader for their hotel portfolio.

If the revenue director is working in a highly manual environment — extracting data, putting together spreadsheets, updating inventory and rates in multiple systems and extranets — then it is nearly impossible for them to get out of the "weeds" and focus on strategy.

There are many automated solutions to help in the tasks that will allow the revenue director to be more strategic. Systems such as an automated revenue management solution can collect data, analyze the data, and make recommendations using sophisticated algorithms (rate recommendations, forecasting, displacement analysis, etc.). Channel management tools are another key tool to consider. They allow for management of rates and inventory through one system versus having to manually update multiple systems. And probably one of the most critical tools that more revenue professionals are diving into provide business intelligence.

There are a variety of industry specific tools to review. An appendix of tools and companies providing these solutions can be found in the back of this publication.

Revenue Team Members and Meetings

In addition to having the right person (who has a dedicated focus on revenue management) in the position it is also important to understand the roles of others within the organization with respect to revenue management. The responsibility of revenue management does not fall on one person alone. Every hotel needs to have a revenue team.

It cannot be stressed enough that the success of a sound revenue strategy will only be as good as the people involved. It is not enough to have the revenue director focused on the strategies. It requires a team approach to not only be involved but also to truly understand the impact of decisions being made.

As mentioned, the revenue director is the champion of revenue management and is responsible for overseeing the entire revenue process. The revenue team must work to support the revenue director by participating in regular revenue meetings, providing the necessary information and feedback, and helping in the decision making.

The teamwork and consistent participation among the committee members will ensure ongoing success for the hotel. The success of the hotel will be measured by the results at the end of the day. Achieving optimal results requires not only strategies and implementation of the strategies, but also revenue management education and buy-in throughout all revenue impacting departments. This will ensure an "enculturation" of revenue management.

As with organizational structures and the role of the revenue director, the make-up of the revenue team members and their titles will vary by company. However, following is a list of members and titles that are common to many revenue teams.

See page 15 for detailed information on each team member's rold in revenue meetings.

Revenue Director (chairperson)
General Manager
Director of Sales and/or Marketing
Front Office Manager
Director of Operations
Business Transient Sales Manager, Wholesale Sales, Group Sales
Reservations Manager
Director of Finance
Director of Catering / Convention Services / Banquets / Events
E-Commerce Representative

Revenue team meetings must be held on a regular basis. This will help ensure good communication, buy-in and consistency. Again, depending on the company and the needs, as well as the time of year, the frequency with which the team meets will vary. Most hotels need to meet at least once a week while some need more frequent meetings. This will depend heavily on the type of hotel and the need to update the strategies. For those in a fast-paced, dynamic market that finds the business pace changes frequently, the meetings should take place more often. For those in a market that has a steady pace, then the meetings can take place less frequently. The key to this is consistent participation by all.

Revenue meetings are the forum in which the revenue director provides updates to the entire revenue team on booking pace, unexpected changes in the market, current strategies, and recommended strategy changes. At this meeting the entire team reviews the hotel's strategies, reviews everything impacting those strategies, and discusses the plan for moving forward.

A standard agenda should be prepared that includes items to be covered in every meeting to which additional items may be added when applicable and appropriate. These one-off discussion items will allow for delving more deeply into specific areas, for additional brainstorming sessions, and/or proactive and creative ideas. It is important to ensure these new idea discussions take place as a part of the hotel's meetings. This is part of the evolution of revenue management.

Google is an example of a company that does a good job in this area. The company gives its employees a guideline of spending 80% of their time and focus on existing business, and 20% of their time and focus on brainstorming and discussing new ideas to keep the company moving forward. If hoteliers were to take the same approach, they would stand to gain a great deal.

A sample revenue meeting agenda is provided below. However, it is important to realize this is just a sample agenda. Each hotel or company should customize the agenda items to meet their specific needs. A copy of this agenda is also on the HSMAI website and is available to members to download for free.

In addition to the sample agenda, the following table provides some guidance in terms of what each position's role is during the meeting. What should each department or individual be getting out of the revenue meetings? What is their role and what input is needed from them?

ATTENDEES:

- Director of Revenue Management — Chairperson
- General Manager
- Director of Sales and Marketing and/or Director of Sales
- Front Office Manager and/or Director of Room Operations
- Director of Events/Catering and/or Convention Services Manager
- Business Transient Sales Manager
- E-Commerce
- Finance
- Reservations Manager
- Members of other disciplines are welcome to attend and provide input

PURPOSE:

The Revenue Strategy team will meet weekly to review the next full 1 — 3 months in detail with regards to group, transient, and catering pricing. Focus should be placed on maximizing revenues over high demand periods and maximizing occupancy over low demand periods over the course of a one-year booking horizon. Team should assume additional projects thatspeak to the overall revenue strategy of the hotel within all outlets.

HISTORICAL:

- Follow up items and minutes from previous week's meeting.
- Review prior week's strategy and critique opportunities in all sales and operational areas.
- Cumulative assessment of how the hotel is performing thus far vs. last year, budget, and projection predicting how hotel will finish the month.

FUTURE:

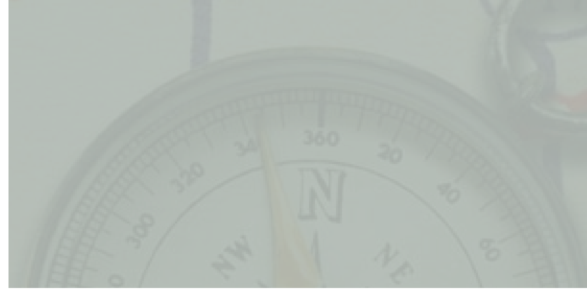
- Review future group sales strategies and tools to ensure consistent rate quoting for overall revenue strategy.
- Competition update to include: transient call around, reader boards, competitors' large future groups, automated shopping service results.
- Review transient and group restrictions for next 3 months with focus on next 30 days. Make changes to restrictions as needed. Discuss need times and overbooking philosophies.
- Review high demand dates to ensure appropriate strategy exists across all distribution channels.
- Key pivotal factors (What if's); e.g., if IBM group goes definite it will impact our strategy this way.
- Special promotions tracking: wins/losses.
- Examination of demand indicators — web traffic, reservation conversion, call volume, turn-aways, city-wide bookings.

LONG RANGE:

- STAR report review (if applicable)
- Proactive pricing philosophies for next quarter (seasonal pricing, special events, promotions)
- Trend analysis: mix shifts, STAR data trends, segmentation changes
- Review forward looking market intelligence data to understand market or comp set trends
- Review catering free sell dates
- Review YTD weekday/weekend P&L by segment

MISC:

- Weekly training topic
- YTD Recap
- Issues from: Front Office, Sales, Catering/Events, Reservations



Revenue Team Member's Roles in Revenue Meetings

POSITION / DEPARTMENT	ROLE IN REVENUE MEETINGS
Revenue Director	The revenue director is the "chair" of the meeting. They will provide the data such as pace, pick up, variances to budget for same time last year, forecasting, rates, promotions and so on. It is their role to lead the meeting to ensure communication of all strategies, what is working, or what is not working. Bring recommendations on rate changes, promotions, and any information needed from other departments.
General Manager	The general manager needs to have a solid understanding of the hotel's strategy including what is working, what is not working, and what may be needed from other departments to help boost revenues, and ensure that everyone is on the same page and doing their part. Also the GM should ensure that the revenue director is receiving the proper support from all positions/departments needed to do their job. This person is the "tie breaker" when the revenue director and director of sales are unable to agree. The general manager has the ultimate authority on the direction and is likely the one communicating to owners and the corporate office.
Director of Sales	The director of sales is responsible for group forecasting and providing detailed input to the revenue director. This position has solid insight into what is happening in the group world that may impact pace and strategies. They also need to fully understand and be part of the strategic direction of the hotel. Inventory controls, rates, and revenue strategies significantly impact the sales world. Support and communication of the strategy and direction to the entire sales team is needed.
Front Office Manager	It is important for this department to have a solid understanding of the revenue strategies so that they buy into and support them. Front office team members have significant impact on a daily basis on a hotel's revenue success. They need to understand how they impact it from all customer contacts — upselling, closing the sale, and holistic customer experience and communication. Additionally, the front office team has tremendous input on the revenue strategies from a tactical point of view. They have a lot to offer on what is working and what is not working. • Suite pricing; suite sales • Price differentials between room types — they know if there is room to increase or need to decrease based on the customer feedback • Challenges customers may have with the overall booking experience • Customer feedback direct from customers daily such as hotel amenities, hotel product, competitive set experiences including service, amenities and product. • Local offerings that may be an opportunity for partnerships to drive more business
Director of Operations	This position needs to understand the strategies as they will need to support the surrounding decisions that impact them or may be impacted by them. Front desk and reservations are good examples. Additionally, the Director of Operations will have solid input towards the strategies as they interact directly with the guests, as well as all the surrounding departments.
Business Transient Sales Manager Wholesale Sales Manager Group Sales Manager (depends on the hotel and positions)	This position will need to understand the need to yield out the corporate negotiated accounts during specific demand periods and/or specific days of week. This position will have good input into feedback from the clients, as well as should have a solid understanding of what may be needed or not needed for the following year's negotiations.
Reservations	It is important for this department to have a solid understanding of the revenue strategies for all the same reasons as the front desk. Reservations will also have important information to share during the meetings.
Director of Finance	The Director of Finance often sees the end result. So including them in on the meetings can ensure their understanding of the "whys" behind all the decisions. Additionally, they will have important input on how some of the strategies can potentially impact cash flow.
Director of Catering / Convention Services / Banquets / Events	It is important for this discipline to know how the hotel's strategies, and high- and low-demand periods, may impact their events and the needs of the events.
ECommerce	This discipline has critical information to share about online trends and customer data. Additionally, understanding the strategies including need periods, special offers and so on, will help them optimize their online strategies to support the overall revenue needs.

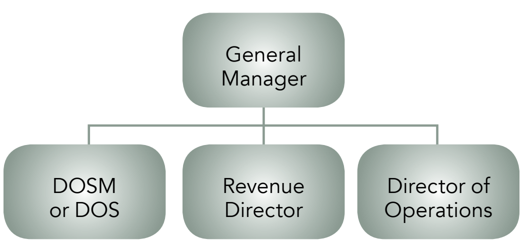
On-Property Revenue Management

Traditionally, especially for full-service hotels, revenue management has resided at each property. Since revenue management is an integral part of the executive committee at a hotel, this approach has been the most logical for the majority of hotels. Since the intent for most hoteliers today is to drive total hotel revenue rather than to focus only on rooms revenue, the exposure to conversations in all areas is absolutely critical for the revenue director. Successful revenue management requires a collaborative approach.

Structure

The structure of on-property revenue management varies from property to property. Historically, some hotel companies have placed revenue management under sales and marketing. However, in today's environment many hotel companies see the benefits of having this position equal to a director of sales, reporting directly to the general manager and part of the executive committee. Additionally, some have a corporate structure that includes a dotted reporting line to a regional director of revenue for accountability and mentoring.

The opinion heard most often from revenue directors and successful revenue management-driven hotel companies is that the on-property revenue director performs best when they are part of the executive committee of the hotel and can counterbalance both operations and sales with a revenue-driven approach.



Benefits

There are many benefits of having a revenue director on-site. Probably the biggest benefit is the daily interaction with the different departments within the hotel and with daily operations. This results in trust that is built through regular face-to-face communication.

Another benefit is the ability to consistently communicate with on-site departments that may otherwise be overlooked. A good example of this is the front desk personnel. Not only is it important to educate them on revenue management strategies and provide support in the execution and challenges it may cause, but also to recruit their feedback and information that will assist in revenue strategy and decision making. Additionally, it is beneficial for sales to have someone on-site to speak with when making difficult decisions about group pricing, inclusions, and total group value.

Finally, having a champion located on property helps to position revenue management at the forefront of the strategy process as opposed to potentially being "out of site, out of mind."

It allows a dedicated focus on the hotel's specific and potentially unique needs and circumstances. Many general managers also see this as being the most beneficial because they still feel that they have control in this type of environment.

That being said, talent trumps location. More and more hotels are willing to support offsite or remote offices for revenue directors in order to secure the right talent.

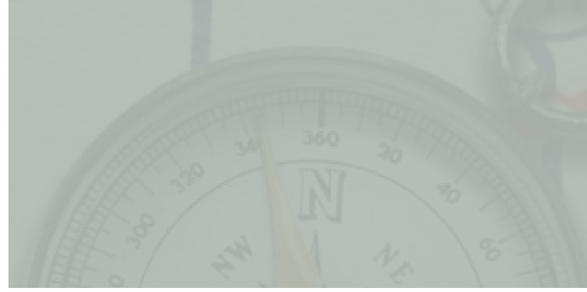
Challenges

Along with the benefits of having a dedicated on-site revenue management leader come some challenges.

One of the biggest challenges of having on-site revenue management is the need to hire an extraordinarily talented individual who can negotiate with the team, stand their ground when necessary, and make the right decisions at the right time to maximize revenue. Many hotels struggle to find the best revenue talent and are in constant competition for them. As the distribution landscape continues to evolve along with consumer buying behaviors, more and more key stakeholders (e.g., owners and asset managers) recognize the importance of this role and have their own opinions on who the "right" person is.

Added to that is the challenge that many seasoned revenue directors are looking to broaden their portfolio of expertise by managing multiple hotels versus a single property.

From a hotel company perspective, when there are many revenue directors located at different properties, all having varying skill levels and expertise, it can be difficult to provide consistency in deploying a system-wide revenue strategy. For some, ensuring that the field of revenue directors has the proper training, education, support, and tools is a big challenge. Typically, revenue directors in this culture use their own home-grown tools — all with varying levels of sophistication — and apply



their own knowledge and experience — again all with varying levels of sophistication — resulting in a broad mix of methods being used even within one company.

On the other hand, there are hotel companies that offer very structured brand training, education, support, and tools within their culture. In this type of environment, everything is provided for the revenue director with "how tos" and step-by-step instructions. This ensures that all hotels are operating under the same guidelines. The challenge in this environment is that the revenue directors do not necessarily learn how to strategize; instead they become skilled at number crunching and understand how to do things as a result of using the tools and knowledge provided by the hotel company. Additionally, these environments are often proprietary; therefore, it is hard for the revenue professional to "jump" from one brand to another or from a brand to an independent. (This of course does not apply to every revenue director. There are many who are able to rise above this challenge and become a very talented and valuable revenue director in other environments.) A good comparison is the Director of Finance position — they use an agreed upon Uniform System of Accounts as the standard system. There is no agreed upon universal standard for revenue management.

Finally, the most obvious challenge to having an on-site resource is the cost associated with a full-time dedicated revenue director. Despite the clear return on investment (ROI), it is not possible for every hotel to support this from a cost standpoint. The good news is that today there are other options available to hoteliers. These options are explored in the following sections.

Centralizing Revenue Management

Centralizing revenue management has been a discussion among hotel companies for quite some time. Many have made the decision to centralize or regionalize revenue management. Often they will have a regional revenue director who covers cities or regions and makes revenue decisions on behalf of a cluster of hotels.

Structure

Centralizing revenue management for a company is basically restructuring the use of the company's resources. This approach typically has revenue coordinators or managers who work in a team and report to a regional or corporate revenue director or vice president. This high-level person has superior revenue management skills and can be called upon to deploy a strategy quickly, successfully, and consistently across large groups of hotels.

There are varying approaches for implementing a centralized structure. Some companies prefer to segment the resources by brand, by type of market, by type of hotel or even by geographic location. How a hotel company decides to set up its structure will depend upon many factors.

For hotel companies that may be considering centralizing or regionalizing their revenue management structure, the following are various types of portfolio structures to consider. Each structure is listed with a corresponding scenario that might be appropriate for it. In each of these scenarios, the revenue director would oversee the hotel's revenue management efforts. Their level of responsibility would have to be determined by several factors including:

- Number of hotels: Knowing that the ideal solution is to have one person dedicated to revenue management, it is important to understand that with every additional hotel for which one person is responsible, their ability to have a micro-focus decreases significantly. Therefore, the level of responsibility must be adjusted accordingly. Perhaps they could provide a high level macro-focus to determine strategies, but someone at the property could be responsible for all of the data gathering, implementation, and execution.
- Geographic location of the hotels: One person cannot be a market expert for all areas of the country. Therefore, depending on the number of hotels and variety of locations, one person who would be responsible for understanding and communicating all local market trends and challenges may need to be located on-site.
- Type of hotel: Hotels can differ in many ways, e.g., full versus limited service hotels. They can have different customer segmentation, different products and services such as golf, spas, casinos and/or a different focus such as having a business as opposed to a convention focus. Knowing the mix of hotels for which the revenue director will be responsible is an important factor in determining their level of responsibility.

Depending upon the setup, the level of responsibility, the number of hotels and the revenue manager's focus, there may be a need for someone located on property to work with the regional revenue director or have some type of

revenue responsibility. It may be an additional resource or someone who is already part of the hotel's structure who is assigned to be the point person as a market expert or operational expert. Overall, it is important to be sure that the revenue director's responsibilities are reasonable and allow for proper focus.

Benefits

One benefit of a centralized approach is the ability to recruit talent with a higher level of expertise. These people are often at a higher pay scale which makes it easier to attract talented individuals. A hotel company can have a "brain trust" of regional people who strive to take the entire company to the next level of profitability.

A centralized approach also provides a greater level of consistency and ease of standards adoption across multiple properties. It is much easier and more effective to standardize 10 regional revenue offices than 100 individual hotels.

In most scenarios, there is typically a cost savings in a centralized approach as well, without sacrificing the quality of the end product.

Challenges

Though there are many benefits to centralization, there are also inherent challenges that must be addressed. Often in a centralized environment, there can be a greater lack of camaraderie, trust, and teamwork. The revenue executive does not see the staff at the property level as often and therefore does not typically build as strong a working relationship with them as an on-site revenue director does. However, this can be overcome if all team members are committed to making it work. Regularly scheduled visits and regular calls will go a long way in advancing the relationship.

Additionally, if the goals are not aligned so that the revenue director and hotel executives are all working toward the same objectives friction is created and ultimately the approach will not work. Everyone must be working toward the same goals and end result. Determining and understanding accountability is also important. It must be clearly understood with whom the final responsibility resides and that person must be held accountable for the final results and decisions.

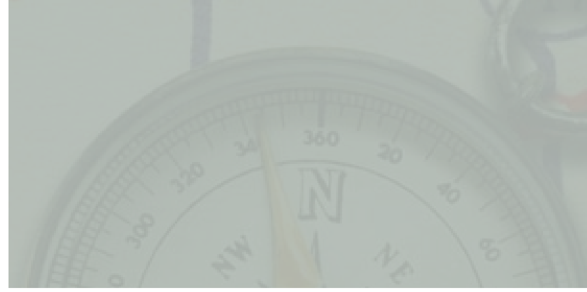
There can also be conflict among the various hotels, especially for the time and attention of the regional person, and even over revenue and pricing decisions. If one hotel is especially demanding, the hotel that is not as vocal may feel ignored.

Each hotel falling within the centralized environment of one revenue director's responsibility will most certainly not reap the benefits they would if they had a dedicated resource. This may not apply to hotels that are smaller and have limited services as they may not require a full time resource. However, it most definitely applies to those large properties that offer more services and require more overall attention.

If the regional center is not located in the city in which a hotel is, there can also be nuances of the market that a regional director could miss simply by being isolated from the daily activity.

One final point that is critical to the success of a centralized environment is the ability for the regional

POSSIBLE SCENARIOS		CLUSTER OR AREA	CORPORATE OR REGIONAL	BY BRAND OR BY LOCATION	BY LOCATION OR TYPE OF HOTEL
PORTFOLIO TYPE	Multiple hotels located in one geographic location such as in the same city or on one coast	X			
	Multiple brands in various locations		X	X	
	Different types of hotels such as transient or business hotels (as opposed to casino)		X		X
	Hotels in various locations but all have similar target market segments such as resort		X		X



revenue director to have proper access to all appropriate technology. In today's environment it is possible to set up the technology so the revenue director will have the proper access. However, it can be a challenge as an investment in time, resources, and potentially enhanced technology may be required.

Outsourced (Third-Party) Revenue Management

A few years ago, outsourced revenue management was a relatively new concept for the hotel industry. It was thought at the time that this structure was going to become a widely used and popular option for hotels. While it is in place for some, as of today this solution has not become as widespread as was once thought it would be.

From a structural perspective it is similar to centralizing or regionalizing revenue management. The difference is that outsourced revenue management means a hotel decides to engage a third-party provider who provides a consultancy type approach to revenue management. This is an optional fee-based service to which hoteliers can subscribe.

Most hotel executives agree that regardless of the type of hotel or the location of a hotel, all hotels can benefit from having a solid revenue management practice. However, not all hotels can afford the resources and investment required to achieve this.

Bonnie Buckhiester of Buckhiester Management Ltd. offered her perspective. "I would argue that hoteliers cannot afford to go without expert revenue management. We are at a point in the evolution of the discipline where as industry advocates and specialists in the discipline we should not be suggesting that hotels can survive without some measure of revenue expertise. Consumer buying behavior, even for limited service and economy properties, is changing all the time and a 'mom and pop' approach to distribution is no longer sufficient."

There are alternatives that are now available to the industry that allow hoteliers to tap into revenue resources without having to make significant investments in human resources. Some hoteliers are opting for a shared resource. A shared resource means that hotels can share a revenue professional with other hotels without having to be part of a hotel company.

Structure

There are some companies catering to the hotel industry that provide hotels with a virtual revenue manager they share with other hotels. For those hotels that cannot justify a full-time dedicated person, this is an excellent alternative.

When a hotel has a shared resource, the revenue manager's location is not determined by each hotel's location. Instead, they operate virtually and visit the hotels on a predetermined schedule. This allows each hotel to pay for the type and amount of revenue services they require.

Benefits

Many believe the most obvious benefit to this is the cost savings. And it is true, this scenario has a big cost savings. However, the biggest benefit to this structure applies to the hotels that would not otherwise be able to afford any type of revenue management service or resource. By taking advantage of this shared resource option they are now able to capitalize on having a revenue expert provide recommendations and strategies without incurring the significant expense of hiring someone full time.

Another benefit is that, when companies subscribe to an external service, the outsourced companies typically have more motivation to prove the value and ROI they bring to ensure they are making a difference, and that they remain hired. The shared resource can also bring more benefits such as best practices from across hotels and markets.

Challenges

As with everything else, the outsourced structure comes with some challenges. Not all hoteliers will want to share resources with others. Some may fear their strategies may be shared with competitors; some may not trust that they are actually getting the time investment for which they are paying. It is important to ensure that the shared resource is not being shared with a direct competitor.

There are other challenges which are completely the opposite of those that are benefits for hotels with dedicated resources. These include not being able to effectively build camaraderie with the on-site team members. When a resource works off-site and less than full time it can be challenging to build up trust and be able to fully understand what that person is doing for the hotel.

These are very real challenges but nothing that cannot be overcome with the right guidelines, rules, checks and balances, and, most importantly, the right people and attitudes in place.

Revenue Career Growth

Revenue management continues to be one of the most rapidly growing and progressing disciplines in the hospitality industry. A decade ago, most hotel groups had only a handful of individuals dedicated to revenue management. Now leading hotel chains have hundreds of staff members devoted to revenue management strategy, technology, support, and execution.

The career paths for revenue professionals are often left up in the air. There is not a direct or clear track that is recognized for this discipline. Many executives ask the questions, “What is a good or reasonable career path for my revenue director?” and “Where should this person be in five years?”

Conversely revenue professionals ask the questions, “Where can this position lead me in the future?” and “Where can I expect to be in five years?” So, what is considered to be a successful career path for revenue professionals? How can hoteliers guide and develop their revenue team? Further, what is the best way to identify a solid revenue professional candidate?

Consider the following guidance for identifying and developing a successful revenue professional.

Growth Opportunities

The revenue management discipline has grown from a reservations and inventory focus to a role that encompasses much more. Revenue management has evolved to include expertise in marketing, sales, channel strategy, profit optimization, and leading business intelligence needs and assessments.

Today revenue management has continued to progress and is starting to be included in, or in some cases leading, areas such as asset valuation and acquisition, asset management, development, proformas, cost of acquisition, and leadership in ownership-revenue managing management companies.

This has given rise to a new focus on growing revenue professionals’ ability to influence strategy and lead teams with oversight in multiple departments.

A revenue professional deals with almost every aspect of the hotel and its operations; the revenue director has solid exposure to each department and its needs. In addition to hotel operations, revenue professionals also interact with senior management including ownership and corporate office representatives. This provides them with the ability to gain a solid understanding of the hotel’s overall strategies and plans. In fact, if they are part of the executive committee they are directly involved in the creation of the plans and strategies. Therefore, the revenue professional truly gains a very well rounded understanding of the overall hotel.

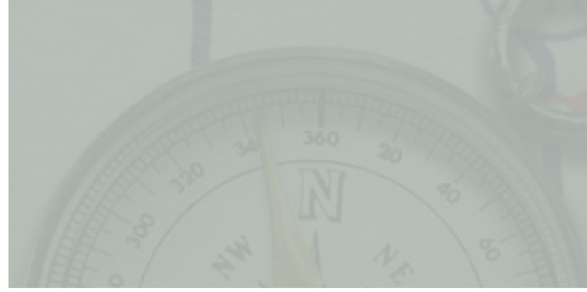
With this type of knowledge and interaction, it is unmistakable that the revenue professional has growth opportunities available to him/her in most any area of the hotel — be it operations, senior management or a corporate position. Where one aims their career path really depends on their individual strengths and desires.

Some professionals may prefer to stay focused in revenue management and enhance their portfolio experience by taking positions of increasing responsibility at larger or more diversified properties or take on regional responsibilities.

Today, many revenue professionals are focused on growing their portfolio to increase the number of hotels for which they are responsible. It is tough to find a strong revenue director for one hotel. Instead, most are interested in multi-property experience and see this as a stepping stone towards regional responsibilities and, if desired, towards a corporate office position.

Additionally, an experienced revenue director prefers to be focused on the strategy and team collaboration versus having to be the one to pull the triggers for execution. Again, this will depend on the individual and their specific talents and desires.

The following section outlines talents that need to be identified when recruiting and hiring strong revenue candidates.



IS YOUR REVENUE MANAGER A FIRST, SECOND OR THIRD GENERATION RM PROFESSIONAL?

By Bonnie Buckhiester, President & CEO, Buckhiester Management Ltd.

What seems like a billion years ago…we created the first generation of revenue managers. These individuals were often reservation supervisors or managers, artificially extracted from their reservation environments (or simply handed the additional workload) and given the title of Revenue Manager. Some succeeded, many did not. We learned over time that the traits of a good reservations manager were not the needed traits of a good revenue manager. At the risk of oversimplifying things, the customer-service focus of a good reservations manager often lacked the analytical, number crunching zeal required at the time of a good revenue manager. Hence…the first generation of revenue managers was born.

As the revenue management discipline evolved so did what I'll call the second generation of talent. Many of these individuals even today continue to bring number-crunching to a whole new level spurred by what appears to be an insatiable appetite by senior management, asset managers and owners for boat loads of data…the more slicing and dicing the better…or so it seems. In many cases…not all to be sure…these individuals have often been given the unceremonious moniker of "number-nerds", unable to communicate successfully with the operation; appearing to guard their precious inventory with the zest of a pit-bull; and unwilling to compromise with the lowly sales and marketing folks. (Note: by the way at this very moment I'm getting nasty emails from my fellow members of the HSMAI Revenue Management Advisory Board). Hence…the second generation of revenue managers is born and with little exception, still presides over the revenue management function today.

However, what's becoming clearer and clearer is the need for a third generation of revenue managers to step up to the plate. And who might these professionals be? What traits must they possess? These are tough questions and with difficult answers. What the revenue management discipline needs today is a hybrid version of the first and second generations, combined with extraordinary leadership skills, a genuine thirst for new knowledge and ample interest in digital marketing trends, results and consumer buying behavior. Now that kind of talent is not easy to find and certainly the manner in which the discipline is evolving bears that out.

Consider this…as digital marketing gets closer and closer to the property level, revenue management appears to be moving farther away. While Internet marketers focus on regional and local marketing initiatives, hospitality organizations are taking great pains to centralize the RM function. Why? Largely three reasons: 1) a dearth of talent; 2) the desire to manage costs; and 3) the expansion and evolution of the revenue management role.

The shortage of talent is driven by many factors, but certainly the ongoing extension of revenue management into mid-scale and even economy product means more hotels want to have access to RM expertise. As well, the cost management factor is ever present. In a Hotel Industry Overview presentation from Smith Travel Research (December 2012), it was indeed sobering (although not surprising) to see the facts about average rates. It was reported that "rates still have a ways to go to keep pace with inflation." This data compared the actual average daily rate with an inflation adjusted average rate for the period from 2000 to a forecasted 2013. Had rates kept up with inflation they would be at the $120 range vs. a projected average daily rate for 2013 of $111. While rates remain stale, costs continue to increase, squeezing margins endlessly.

At the same time, consumer-buying behavior is evolving rapidly, making the revenue manager's job more complex and difficult. Hence, the need for a third generation of revenue managers…able and willing to converge their efforts with the digital marketers and fully able to take advantage of all levels of demand from all channels (online and offline) and all market segments. As rising costs squeeze margins the only option in a high fixed cost, low variable cost industry is to drive revenues. We all know this. Yet the industry is more apt to go into cost containment mode than a stiletto focus on finding, hiring, and training third generation revenue managers.

My guess is that many second-generation revenue managers will not make the leap to third generation, not unlike the demise of the first generation. But for owners, operators, asset managers, and senior level corporate RM professionals, my advice is to focus your efforts on finding the third generation revenue management professional, engage this talent before your competitors and never look back.

Talents Required and Skills Desired

The overall role of the revenue director is to be the champion of revenue management for the hotel. This includes big-picture thinking, continual analysis, decision making skills, expert presentation skills, the ability to translate data and analysis visually, the ability to manage relationships, and effective channel management. The revenue director must be able to consistently educate the hotel's management team on revenue management as a whole, as well as have the ability to convey or convince the team to take the risk of changing strategies when it is appropriate. They must also be comfortable standing strong to support a revenue decision even when others do not agree. This means working productively through disagreements with members of the sales team, front desk members, and even other executive committee members such as a director of sales while maintaining a solid professional and positive working relationship.

For a revenue professional to be successful in their role they must have specific talents and skill sets. However, it is first important to understand the difference between a talent and a skill.

For the purposes of this publication, 'talent' is defined as an individual's natural ability to do something very well. This means something the individual is naturally capable of handling and they excel in this area. For example, someone might relate well with others and easily understand other's needs and challenges.

A 'skill' is defined as a learned activity, like knowing how to use Microsoft Excel or a specific property management system (PMS).

Understanding the difference between talent and skill can mean the difference between hiring an individual who can make a big impact for a hotel and hiring someone who will not.

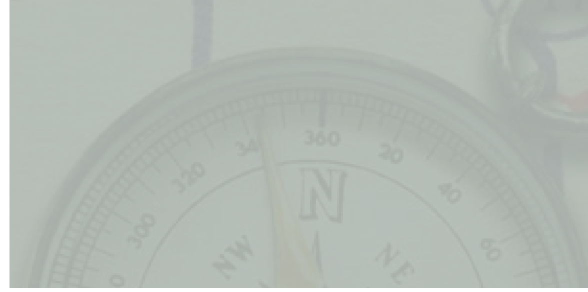
If someone is hired for their talents, they can often learn the necessary skills. Conversely, if someone is hired for their skills, the hotel may miss out on having someone who has the ability to see the big picture or someone who is analytical. For example, if a hotel hires someone who is great with an Excel spreadsheet or knows the hotel's PMS, then they have hired a person that can use that technology well, but may not have the talent necessary to analyze the reports from them. This can be compared to keeping an eye on a long-term gain versus a short-term gain. Focusing on the long-term gain will get hotels much further and allow them more success in the long run.

Following is a list of the talents required and skills desired for a successful revenue director.

Talents Required

It is important to identify the following talents in individuals who are being considered for a revenue director position.

Comfortable having a large sphere of influence on the way business is run	Problem resolution
Strong leadership qualities	Methodical
Ability to make decisions	Ability to think strategically
Ability to see big picture	Persuasive
Analytical	Ability to not take things personally
Ability to tell a story with data; turning data into visuals and presenting to stakeholders	Ability to manage relationships
Ability to relate to all levels	Ability to turn data into actions
Business acumen	Goal oriented
Ability to work independently	Proactive
Entrepreneurial	Detail oriented
Creative	Passionate
Innovative	Ability to positively influence



Skills Desired

The following skills are "nice to haves" but should not be requirements. For example, if a candidate has experience with the PMS specific to your hotel company, that is a huge benefit. However it should not be a requirement. Most qualified candidates will have experience with one or several different PMSs and central reservation systems (CRS)s. The basic concept of these systems is the same and a talented candidate will be able to apply their knowledge and experience to a variety of systems. Furthermore, they can be trained by an expert should there be a need. The skills listed should not be the reasons for which a candidate is hired, as skills and not talents are the reasons for which a hire will be most successful:

- Previous experience with PMSs, CRSs, revenue management systems (RMS), third party sites, rate shopping tools, channel management tools, web booking engines, mobility, reputation dashboards
- Advanced Excel experience
- Extremely strong forecasting experience
- Prospecting
- Sales skills
- Reporting tools
- Online research
- Problem solving
- Written & verbal communication

While not a skill, one additional point to be addressed is hiring someone for their ability to start immediately. Hiring someone just because they are able to start immediately may have a negative impact on the hotel if the employee winds up not having the right talents. A good revenue director will most likely have commitments to honor with a current employer and may need time to complete those before moving to a different property or company. A bad hire is worse than no hire.

Qualifying Candidates

Once the appropriate talents are identified and understood, the next step is to know how to qualify the candidates and understand if they have these talents.

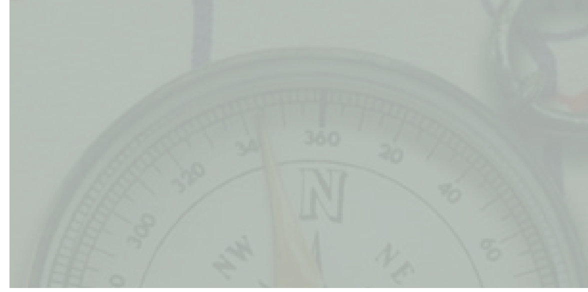
To help with this process the following questions can be used during interviews with potential candidates.

INTERVIEW QUESTION	WHAT IT MAY TELL YOU
What is your biggest accomplishment and why?	May offer insight into the type of person they are and what they see as an accomplishment. Keep in mind at what point in their life or career the selected accomplishment occurred before making a judgment.
What has been one of your biggest challenges and why? How did you overcome this challenge?	May offer insight into the type of person they are, what they see as a challenge, and how they handle and overcome challenges. May help to determine if this person is a problem-solution type person or if they offer problems only. It may also indicate whether or not the candidate is creative, based upon how they overcame the challenge.
How did you make an impact in your last revenue position? What was the goal? What was the approach? What were the results?	This can tell you if the person is goal oriented and focused on results. It will also tell a lot about their approach and if they are methodical by nature.
Should you be hired and accept this position, what would your approach be upon starting at our hotel? What would you do first?	This will tell you how the person prioritizes and how they approach new things. What would their priorities be? Again, a methodical nature is needed for this position. It will also tell you how much thought they have given to the position.
Provide some basic data about your hotel to a qualified candidate and ask them to prepare an analysis with some recommendations.	The results of their methodology, format and actual analysis can tell you a lot about their talents and skills.
What do you think your biggest challenge in this position would be? How would you overcome this challenge?	This will tell you what they see as a challenge and whether or not it lines up with your thoughts. Based on their answer, you can determine whether or not you believe they can overcome challenges.
Why do you like revenue management?	Depending on how they respond, it MAY tell you what they like best and therefore, on what they focus their efforts.
What factors do you believe are most important about the revenue director role?	This should be in line with the hotel's philosophy.
As a revenue director during the economic downturn, what was your response and approach? How did you handle revenue management at your hotel?	As you carefully listen to their response you will be able to tell whether they handled themselves in a reactive or proactive way. Were they are leader in the market or a follower? Was their approach a methodical well thought out approach?

Also consider:

- Overall, how are they able to articulate themselves? Based on your interaction and listening to their explanations, are they good communicators?
- Do they know their own hotels well? If they do not know their own hotels inside and out, they are not your next hire.
- Within the answers they provide, are they thinking big-picture or are they more focused on tactical items? Ideally, they should have an appropriate balance of the two — meaning more big-picture but perhaps need to do some tactical research before they can begin focusing on strategic or big-picture areas.
- If they quote a lot of meaningful statistics during the meeting, chances of their having a focus on goals and measurements are high.

For those hotels that are able to identify candidates with the talents required rather than the skills desired, they



will find themselves in a much better position to move their hotels forward in the area of revenue management. They will be positioned to elevate their approach to include a more strategic focus and a proactive approach. These are the companies that will find they are able to be a leader in the revenue management area and will make a difference. For those who have these competencies, when revenue management automation comes into play, the hotels will find they can embrace the technology much easier and continue to elevate their revenue management sophistication.

Job Description Example

As with every position, it is very important that the revenue director has a job description. This ensures that everyone has the same understanding of what the responsibilities are as well as the evaluation metrics.

Hotel executives are still often uncomfortable creating an appropriate job description for a revenue director. They also often lack an understanding of how to evaluate a revenue director's success.

Following is an example of a revenue director job description that can be used to assist in the development of a job description as needed.

Revenue Director — Sample Job Description
Reports to: General Manager

RESPONSIBILITIES

- Maximize the hotel's revenue on a daily basis.
- Accurately forecast the hotel's future business by day-of-week and by market segment.
- Forecast demand/understand demand time periods.
- Develop and implement effective transient & group pricing and selling strategies.
- Facilitate communication among all revenue team members to ensure all perspectives are considered and strategies understood.
- Ensure all relevant hotel departments and members of the sales team are adhering to all standard work
- Contribute to and support all strategic business planning and related hotel concerns.
- Lead the charge to ensure a focus on total hotel revenue management.
- Optimize and expand distribution partnerships.

MEASUREMENT

- RevPAR, and non-room revenue actuals versus forecast and budget.
- Actual to Forecast variance of no more than +/-4%.
- Alignment of transient & group rates; market share index.
- All team members have the same understanding of revenue philosophies and strategies.
- Ensure data quality, accurate tracking, accuracy of rate loading and respective validity dates, accuracy of group block maintenance, and utilization of group analysis procedures.
- CRS, PMS and Internet sites are running properly and matching the hotel's strategies on a daily basis.
- Participating member of the hotel's Executive Committee.

TASKS & ACCOUNTABILITY (PRIMARY, CONTRIBUTORY, OR SHARED)

- Utilize all tools available to assist with optimizing the hotel's yield such as subscription-based marketing intelligence reports. (Shared with DOSM)
- Utilize all tools available to evaluate the hotel's position with respect to competition. (Shared with DOSM)
- Complete a 30-60-90 day-by-day forecast each month. (Primary)
- Consistently evaluate revenue management tools and processes for accuracy and appropriate parameters in the following areas: inventory, rates, transient demand, group forecast, and group potential. (Primary)
- Control room inventory management according to strategy (single image, packaging, etc.) in all systems to maximize potential for each room type. (Primary)
- Anticipate the need for, and utilize, promotions during "need" periods. (Contributory to DOSM & Marketing Manager)
- Educate all staff members on revenue management philosophy. (Primary)
- Provide monthly reporting on historical activity, as well as future data to be used for strategic decisions. (Primary)
- Chair weekly Revenue meetings (ensure conversation revolves around maximizing all revenues). (Primary)
- Attend weekly Sales meetings. (Contributory to Sales Team)
- Participate in company's Revenue conference calls/meetings. (Primary)
- Continuous open communication with Reservations department. (Primary)
- Conduct regular communication with Corporate Director, Revenue. (Shared with Corporate Director, Revenue Management)

Revenue Management Education and Certification

Revenue directors are charged with making strategic and proactive decisions to increase total revenue for their hotels or group of hotels. As mentioned earlier, one of the biggest challenges for hotel executives is identifying the right candidate and knowing if they have the talents needed to be successful in the position.

Once the right person has been identified, it is critically important to ramp them up quickly so they will perform effectively and consistently in a rapidly evolving environment.

For those who have identified an internal candidate with strong potential, what is the best way to provide the right type of education for this person?

Since 2006, HSMAI has offered a prestigious certification in revenue management — the Certified Revenue Management Executive (CRME). This publication is the study guide for that certification.

A CRME certification denotes that the individual is:

- A professional in the field of revenue management and clearly conversant with its intricacies and importance;
- Competent to develop an infrastructure to support revenue management within the framework of an organization;
- Able to maximize revenue opportunities and optimize profits by managing revenue;
- Capable of making informed decisions to accept or reject pieces of business to meet overall organizational goals; and
- Proficient at the art and science of revenue management.

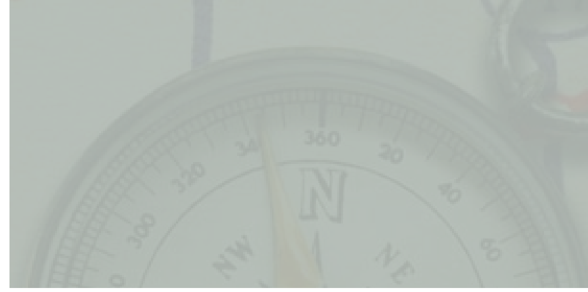
For more information, please go to www.hsmai.org.

Benefits to the Individual

The certification program provides recognition and demonstrates that the individual is a professional in the field of revenue management and understands the importance and intricacies that come with this responsibility. It certifies that the individual has mastered the basics of revenue management and has proven their proficiency in strategy and management skills.

Benefits to the Company

For companies that support their revenue professionals through the certification process, they will reap the benefits of having an employee with an enhanced level of understanding, knowledge and capabilities in revenue management. For those who hire someone with the certification, they can be sure the individual is an expert in the area and who will clearly bring significant benefit to their position with the company.



Additional Resources & Education from HSMAI

HSMAI, with its advisory boards, provides leading education, a best practices exchange, thought leadership, and networking for revenue management professionals, other sales and marketing professionals, and senior management in the hospitality industry. Learn more about these and other resources and educational opportunities at www.hsmai.org:

Revenue Management Conferences — In all regions where HSMAI operates, these annual gatherings of revenue management professionals address the most critical trends affecting revenue management in hotels today.

Certified Revenue Management Executive (CRME) — This certification offers revenue professionals the opportunity to confirm your knowledge, experience, and capabilities in the field of revenue management. This publication is the study guide for the certification.

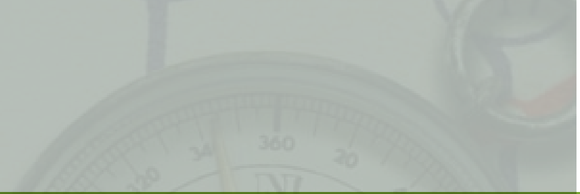
CRME Review Course — This one-day event is designed to assist those taking the CRME exam with their final preparations. It is typically offered in conjunction with each revenue management conference, and periodically in local markets.

Knowledge Center — HSMAI members can access tools and templates (like a forecasting tool, and sample job descriptions), insightful articles and research, webinar recordings, and much more.

RO2Win — This on-demand, online program is designed for those who need to understand the fundamentals of revenue management but are not revenue managers. It is extremely useful for helping all members of the revenue team focus on working together on Revenue Optimization.

KEY REVIEW QUESTIONS:

1. Which revenue management organizational structure is said to bring the most value to an organization?
2. What are some of the most important responsibilities of a revenue director?
3. What are some of the most important talents for a revenue director to have?
4. Who are the common members of a revenue management committee?
5. What is the difference between centralized and outsourced revenue management?



CHAPTER 3

ECONOMICS AND ITS ROLE IN REVENUE MANAGEMENT

KEY LEARNING OBJECTIVES:

To understand the relationship economics has with the practice of revenue management;

To comprehend how supply and demand impact a hotel's revenue strategy;

To understand the difference between macro and micro economics and how each can impact a hotel's performance.

None of us can have as much as we want of all the things we want.

Justice Oliver Wendell Holmes

Economics 101

The main premise of economics is simple enough: You cannot have everything you want. But who gets what? Why? And is it the best we can do? And on a larger scale, how does our global economy work?

Virtually everyone agrees on the importance of economics, but there is far less agreement on just what economics is. Among the many misconceptions is that economics is something that tells you how to make money or to run a business or to predict the ups and downs of the stock market. Economics is not personal finance or business administration. Predicting the ups and downs of the stock market has yet to be reduced to a set of dependable principles.

There is no one universally accepted answer to the question "What is economics?"

Definitions range from a more technical explanation:

> *"The study of the production, distribution and consumption of wealth in human society."*

To a more simple definition:

> *"Economics is the study of making choices."*

Economics may appear to be the study of complicated tables and charts, statistics and numbers, but it really is the study of rational human behavior in the endeavor to fulfill wants and needs.

As an individual, you face the problem of having limited resources with which to fulfill what you want and need. As a result, you must make certain choices with your money. You will most likely spend part of your money on rent or mortgage, electricity, and food. Then you might use the rest to go to the movies and/or buy a new pair of jeans.

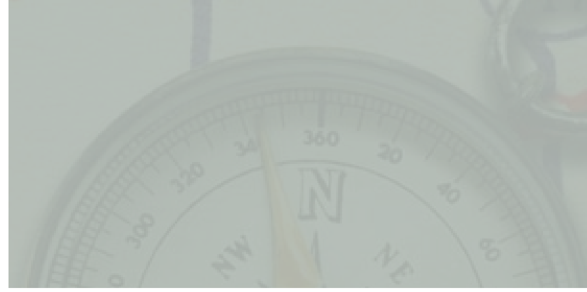
Economics as a discipline includes some basic principles:

Scarcity	Scarcity can be defined as the situation when needs or wants exceed means. Economists study the choices people make in these situations.
Rationality	Rationality is when people systematically gauge the pros (benefit or "utility") and cons ("cost") of all alternatives or options they are facing when deciding. It is assumed that rationality guides people's choices or decisions.
Preferences	People are equipped with fixed and given preferences that allow them to assign a utility value to each option they have, and to choose the option that maximizes net utility.
Restrictions	People face constraints that they cannot change themselves, and thus have to take as given (such as budgets, input cost, etc.). Maximization is always constrained by restrictions.

Source: http://www.slembeck.ch, Principles of Economics, October 2006

So what does all of this mean as it relates to revenue management and the hotel industry?

Revenue management is what we do to optimize the revenue earned from a fixed, perishable resource. Scarcity, rationality, preferences, and restrictions are all evident in the options and issues faced by a revenue director. Remember, the revenue director's challenge is to sell the right resources to the right customer at the right time and for the right amount to maximize revenue for the hotel.



Macroeconomics

Macroeconomics examines the economy as a whole and answers questions such as:

- "What causes the economy to grow over time?"
- "What causes short-run fluctuations in the economy?"
- "What influences the values of various economic indicators and how do those influences affect economic performance?"

This section reviews on a macro level, the factors that influence the economics of the hotel industry.

GDP and its Relationship with Hotel Performance

What is Gross Domestic Product (GDP) and how does it impact hotel performance? GDP is simply the sum of all goods and services produced in an economy. It measures the market value of all final goods and services produced by a nation, and it is a fundamental indicator of an economy's performance. It is highly correlated with personal income and standard of living. GDP can be viewed as a true measure of the value of an economy.

The calculation of GDP boils down to the sum of the following four items:

Personal consumption

\+

Public or government spending

\+

Total personal and business investments

\+

Net exports (exports — imports)

=

GDP

Thus, GDP is a measure of what is consumed today (consumption) plus what is put aside for tomorrow (investment) plus our net sales to others around the world. That combined figure in turn roughly represents the income a nation produces from all of those activities.

GDP is the broadest measure of a country's overall economic health, and it defines the economic "pie" of which everyone ultimately enjoys a slice. If it is healthy and growing, times are good. If it is stagnant or declining, it will most likely sooner or later affect your standard of living.

So what does this mean for the hotel industry? All the way back to the 1920s, there has been an approximate 1:1 relationship between GDP and hotel room demand. The long-term trend line for GDP and hotel industry has been parallel.

Market Performance Resources

Understanding how a hotel is performing within a market is an important piece of information for all hoteliers. There are several measurements one can use to review and assess this.

First there was occupancy percentage, and then came average daily rate (ADR). These were initially the main measurements of success. Eventually, when RevPAR was introduced, most people understood the importance of using RevPAR as the primary measurement. In addition market share and market penetration can be used to measure success.

Understanding and identifying these measurements are explored in more detail throughout this publication.

Microeconomics

Microeconomics is economic decisions made at a low, or micro, level. It studies individual consumers, groups of consumers, and firms. It is the analysis of the decisions made by individuals and groups, the factors that affect those decisions, and how those decisions affect others.

How does the change or the price of goods influence purchasing decisions? For an individual, when wages increase, a direct result of this may be that their desire or willingness to work more hours may increase.

Supply and Demand

Supply and demand is perhaps one of the most fundamental concepts of economics and it is the backbone of a market economy.

Demand refers to how much (quantity) of a product or service is desired by buyers. The quantity demanded is the amount of a product or service people are willing to buy at a certain price. The relationship between price and quantity demanded is known as the demand relationship.

Supply represents how much the market can offer. The quantity supplied is the amount of a certain good or service that producers are willing to provide when receiving a certain price. The correlation between price and how much of a good or service is supplied to the market is known as the supply relationship.

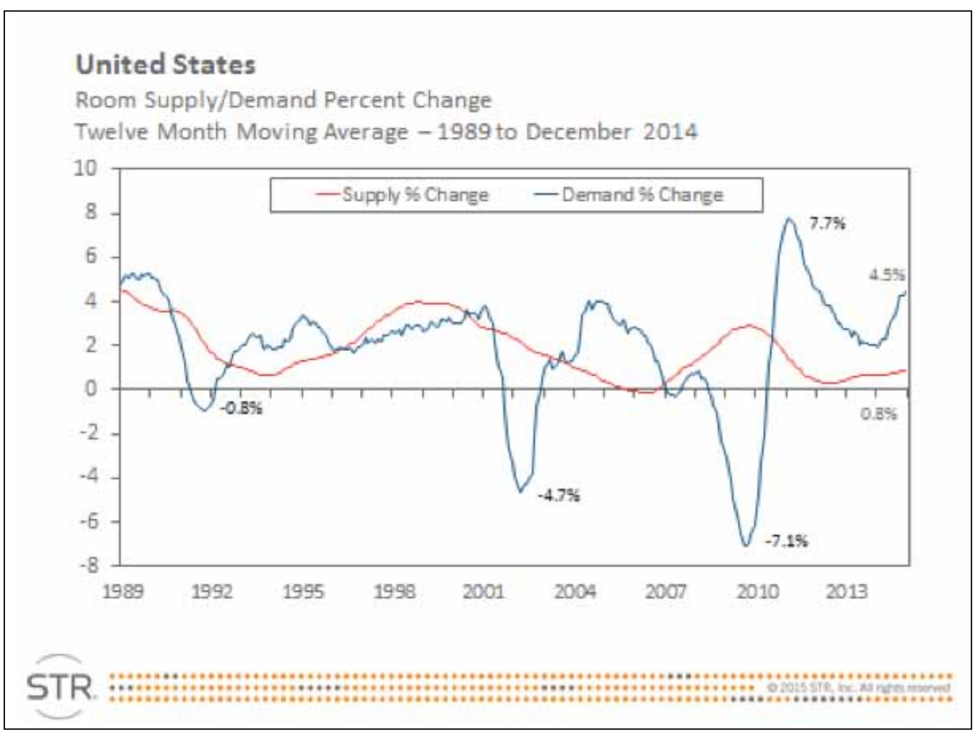
Since price is in the definition of both the demand relationship and the supply relationship, it is fair to say that price is a reflection of supply and demand. Revenue management implements the basic principles of supply and demand economics in a tactical way to generate incremental revenues. There are three essential conditions for revenue management to be applicable.

1. There must be a fixed amount of resources available for sale.
2. The resources sold must be perishable. This means there is a time limit to selling the resources, after which they cease to be of value.
3. There must be different customers who are willing to pay different prices for the same amount of resources.

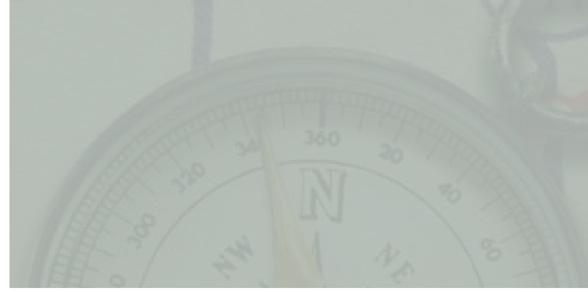
The fortunes of the hotel industry are driven by basic supply and demand. Over the past decades, the industry has sometimes created an oversupply of new hotels. This excess has often caused hotel occupancy to drop, and created price wars which have depressed the ADR on the already reduced number of occupied rooms.

The increased supply is only part of the equation however. Demand plays just as big a role. A large enough increase in demand for hotel rooms could offset the increased supply, and a decrease in demand could aggravate the problems caused by oversupply.

The following chart illustrates what has been happening with hotel supply and demand over the past 25 years in the U.S. The chart shows that other than the significant



Source: 2010 Smith Travel Research, Inc./STR Global Limited



dips in demand, both supply and demand changes track pretty closely with one another.

Revenue management allows hoteliers to strive to achieve the right balance between maximum occupancy with the highest possible room rate.

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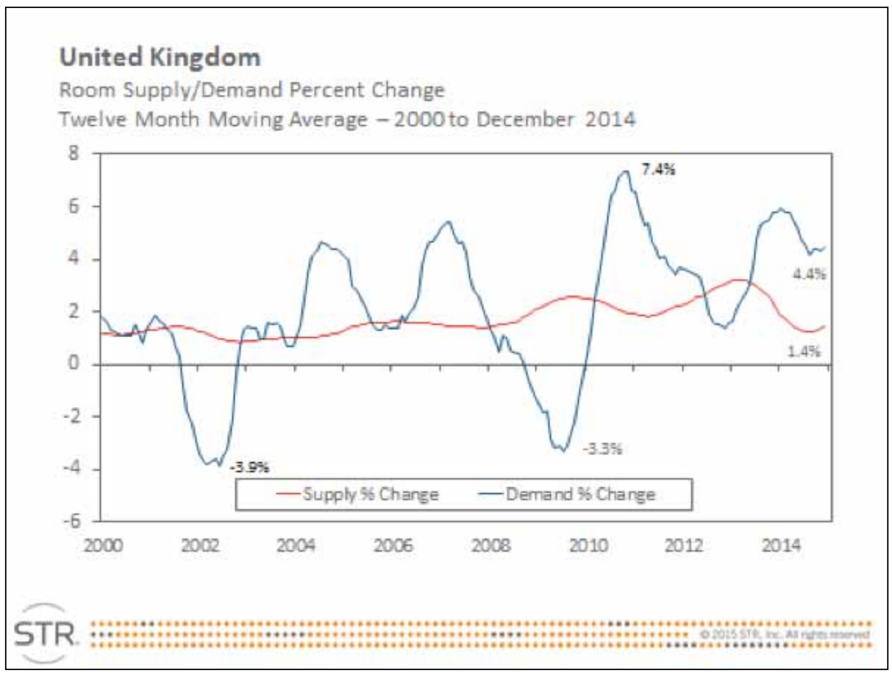
The increased supply is only part of the equation however. Demand plays just as big a role. A large enough increase in demand for hotel rooms could offset the increased supply, and a decrease in demand could aggravate the problems caused by oversupply.

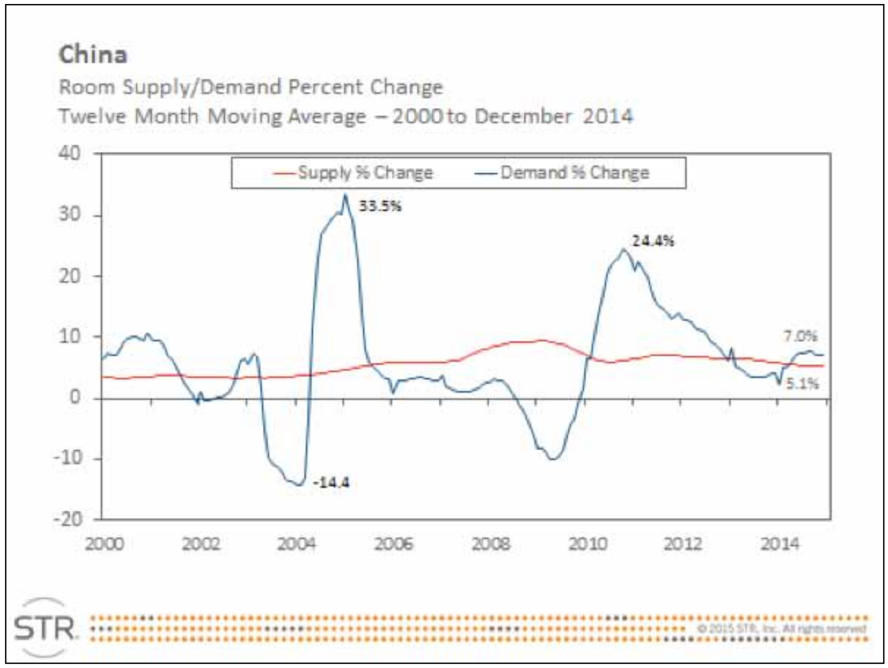
The following chart illustrates what has been happening with hotel supply and demand over the past two decades in the U.S. The chart shows that other than the significant dips in demand, both supply and demand changes track pretty closely with one another.

The chart to the right illustrates what has been happening with hotel supply and demand over the past fifteen years in the U.K. The U.K. market is different from the U.S. market in that supply remains somewhat steady.

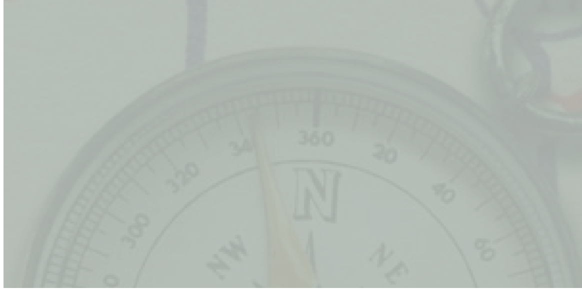


Source: 2010 Smith Travel Research, Inc./STR Global Limited

The chart to the right illustrates what has been happening with hotel supply and demand over the past fifteen years in China. China's market shows that the supply remains fairly steady in comparison to the demand changes.



Source: 2010 Smith Travel Research, Inc./STR Global Limited



Unconstrained Demand

Supply and demand cannot be addressed without reviewing constrained and unconstrained demand.

A very important part of revenue management is to determine how much demand a hotel would enjoy in the absence of any pricing and inventory constraints. One of the most critical elements to the success of hotel revenue management is the ability to accurately forecast future unconstrained demand based on historical and current booking activity.

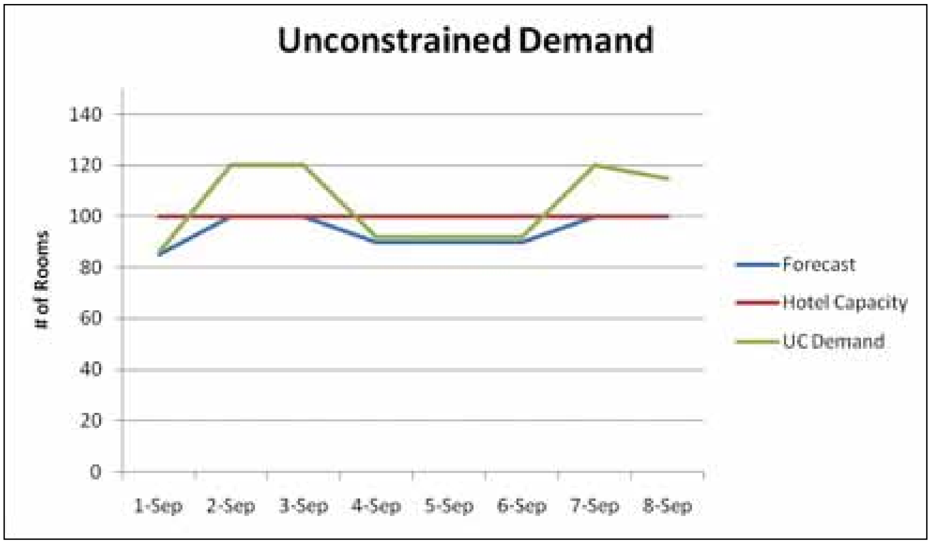
True unconstrained demand for a hotel is determined by tracking the true demand for the hotel regardless of any space capacity limitations. In other words, if one room could be built for each additional request for a room, the total would be the unconstrained demand for that hotel.

The following graphic is simple but a good visual of unconstrained demand. In this example, it shows the hotel's capacity is 100 rooms. The unconstrained demand — demand minus any constraints — is clearly more than the hotel's capacity on several dates.

The green line represents the unconstrained demand and shows that if the hotel did not have any type of constraints such as number of rooms, rate restrictions or length of stay restrictions, they could sell 120 rooms on September 2, 3, 7 and 115 rooms on September 8.

Obviously, the hotel cannot change the total number of rooms, which in this example is capped at 100. However, the hotel can impact the other restrictions such as rates, length of stay, and inventory controls. Therefore, the forecast for the hotel represents what they believe will actualize after the constraints are applied.

The use and application of unconstrained demand for hotels will be explored in the demand forecasting section later in this publication.



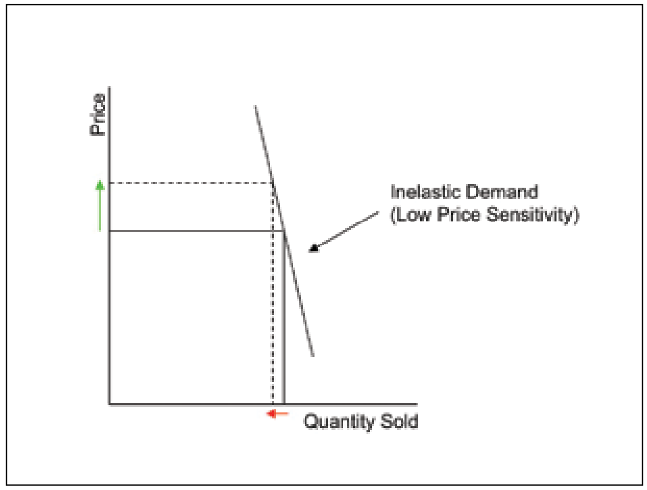
Price Elasticity of Demand (A Customer's Willingness to Pay)

Many businesses charge different prices to different groups of consumers for what are more or less the same products or services. This is called price discrimination and it has become widespread in nearly every market and industry. When the amount demanded changes based on the price charged, the product or service is considered to be price elastic.

Prices are not simply numbers plucked out of the air. While hoteliers may put whatever price they wish on an available room, that price will become an economic reality only if customers are willing to pay it. This depends not on whatever price the hotelier has chosen but on what prices the competition is charging for the same type of room with the same type of services and what customers are willing to pay. Because hotel room prices are essentially transparent, meaning that all customers can see all hotel rates, hotels need to consider customer price elasticity when pricing their rooms and not simply match their competitor's prices.

What this means is that hotels charge different prices to different customers. For example, the customer who is price sensitive and time conscious (books far in advance) generally pays a lower price for the same type of room booked by another customer who books the room only one or two days prior to their stay and is willing to pay a higher price. Therefore, we can see that price elasticity varies by customer segment.

See the two charts to the right which offer a visual to allow for a better understanding. The theory and explanations are from *Basic Economics* by Thomas Sowell. (Sowell 2007)



The following chart shows an example of elastic demand — a one unit increase on price has a large decrease effect on quantity sold.

In addition to offering pricing by customer segment, pricing has a strong relationship to supply and demand. When supply is low and demand is high, hoteliers can charge higher prices. Conversely, when supply is high but demand is low, prices come down.

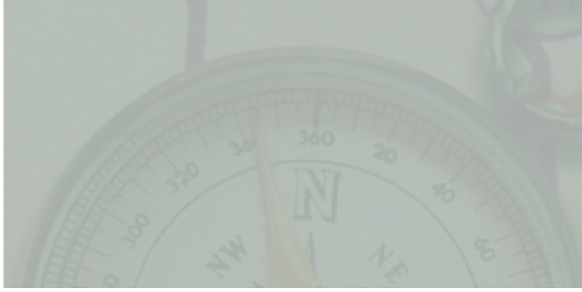


Figure 1 below is a traditional graph showing the supply and demand relationship while Figure 2 shows what happens to price as the supply line shifts to the right indicating an increase in supply.

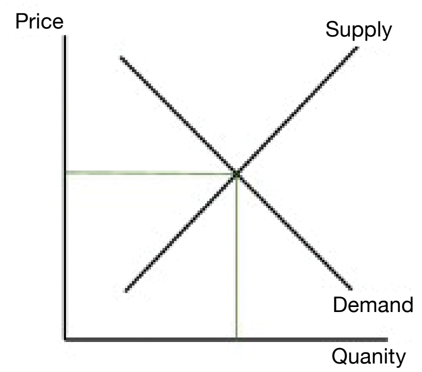


Figure 1.

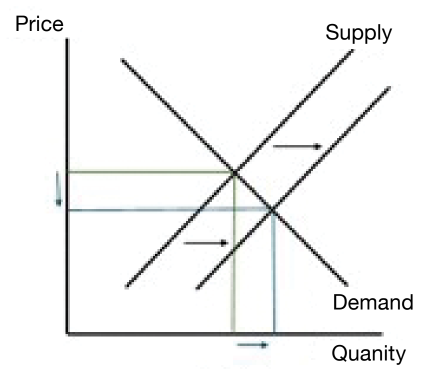


Figure 2.

KEY LEARNING QUESTIONS
How can economics impact a hotel's revenue management decisions?
How does supply and demand impact a hotel's overall revenue strategy?
How is a hotel's pricing impacted by market conditions?
What is unconstrained demand and why is it important?

CHAPTER 4

UNDERSTANDING THE MARKET

KEY LEARNING OBJECTIVES:

To understand how external and internal influencers, market trends, product positioning, demand indicators, and competition influence the revenue management strategy and plan;

To enhance the ability to identify various types of benchmarks and why they are important;

To understand how to create a benchmarking tool for your hotel;

To understand how to complete a valuable S.W.O.T. analysis;

To understand how a hotel's market position relates to right pricing.

Understanding the basics of economics and how it applies to revenue management in the hotel industry is a prerequisite to learning about the marketplace and how it impacts a hotel's revenue strategy. Understanding the marketplace is the basic starting point for any revenue management effort and is always a very important part of a hotel's business plan.

This section explores the factors that influence market conditions and what every hotelier needs to know in order to properly understand their marketplace.

External and Internal Influencers

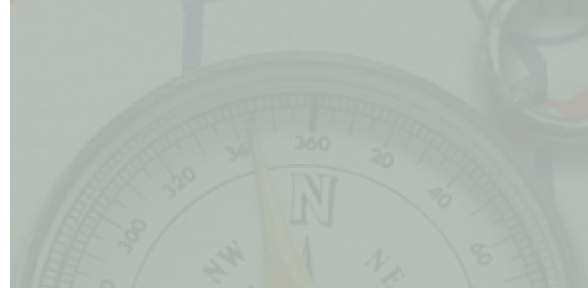
Every hotel should undertake both an external and an internal analysis on an annual basis.

An external analysis provides hoteliers with a view of what is happening within the marketplace. This includes consumer trends (demand) and competitors (supply). By understanding the behaviors of both consumers and competitors, a hotel or hotel company can better position themselves to be prepared to meet the needs of, and overcome the challenges specific to, their marketplace.

Some useful resources to help with this include PKF Hotel Horizons forecasts; STR trend reports; Forrester Research; and, local CVBs for city specific information such as pace and events. Local realtors are also a great resource to gain insight from their experiences and information on hand such as relocation packets. Commercial business intelligence tools are also available (see Appendix X for specifics).

Questions to ask during an external analysis include:

1. Is there any new product that has entered the market since the last analysis that can be considered competition?
2. When was each competitor's most recent renovation?
3. Is there construction nearby any of my competitors?
4. Have any of my competitors switched flags or management companies since the last analysis?
5. What benefits have been added or lost with this change such as distribution partners, group sales resources, and central reservation contribution?
6. Have any of my competitors implemented revenue management systems or changed distribution partners since the last analysis?
7. What are the reviews my competitors are receiving on social media sites?
8. Are there any significant citywide events that are driving demand? If so, what is the volume of this demand and what dates may be impacted?
9. Have any large corporations moved into or out of our market during the past year? For example, what office sites may now be vacant or are newly occupied? What future economic developments or redevelopments are planned? What is their timing?
10. Have any large companies in the market been acquired recently?
11. Have any of your primary accounts changed their travel procurement procedures?
12. Is there any significant change to how consumers are traveling to the market this year such as driving versus flying?
13. How is the booking process on the competitor sites?
14. What are the market's booking policies including cancellation periods?
15. Does the market offer channel-specific booking or cancellation policies?
16. What is the landscape of the airlift coming into your destination?



An internal analysis provides hoteliers with an understanding of what is happening within their own hotel or company that can influence their position within the marketplace. This means taking a close realistic look at what is happening within the hotel such as understanding service standards and the quality of the product.

Questions to ask on an internal analysis include:

1. When was the hotel's most recent renovation?
2. Is the product in need of improvement? If so, in what areas?
3. Is our service in need of improvement? If so, in what areas?
4. Are any significant closures occurring this year, e.g., pool, restaurant, etc.?
5. Is there construction nearby?
6. Do we have adequate meeting space to attract the right groups?
7. Do we have enough sleeping rooms to accompany our meeting space?

Market Trends

After completing an analysis of both external and internal influencers, the revenue director should turn to identifying the market trends for their specific market. This requires taking a look at consumer behaviors, booking trends, competitive trends, pricing trends, segmentation trends, and distribution trends not only within their specific market but also throughout the industry in general and in other markets.

For example, if the economy is struggling, corporations often tend to stay closer to home for conferences and meetings. Therefore, a hotel may have to make a shift in their sales efforts to focus on different organizations than they have in the past in order to achieve their group and transient corporate sales goals. Additionally, other markets may become competition because they have recently added a new attraction, convention center or high tech conference center.

Understanding the segmentation strategies amongst the competitors is critical to knowing how the hotel will compete in the marketplace for the same or similar customers. Knowing if the competitive set sells to corporate customers based on LRA versus LTRA and if they offer static or dynamic pricing will help to determine the appetite for the contracts.

What is the market experiencing with consumer booking trends? How is the market driving or impacting these trends? Knowing what the competitors are doing with their same-day pricing through mobile sites can have a big impact on a hotel's pricing and channel strategy. Has the customer been trained to wait for the same-day discount to be offered through a mobile app? (More about pricing factors will be explored in the chapter specific to pricing.)

New entrants in the distribution space (e.g., Amazon, TripAdvisor, Google) will also have an impact on the market, as well as consumer behaviors. Identifying and understanding new entrants will be a key factor in staying in tune with the market.

For example, Airbnb in some ways changed the rules for the hotel industry. It can be argued that Airbnb may or may not have significant financial impact to hotels today and even over time. However, the point is that hoteliers must understand the impact to the market and consumers in order to properly set themselves up to compete where it makes sense. Otherwise, they will lose out on opportunities and further changes.

There are many companies that offer business intelligence reports that assist hoteliers in understanding what is happening in the market. For a listing of companies that provide such information and reports refer to the Tools and Resources appendix.

Demand Indicators

Once market trends have been identified, demand indicators need to be considered. Demand indicators are factors such as behaviors or events that will have a direct impact — both positive and negative — on the demand in a marketplace and/or for a hotel. Understanding demand indicators, such as consumer confidence, will greatly impact a hotel's revenue management success.

Every marketplace has demand generators that are applicable to many or all markets, as well as ones which are unique to that market. It is important to understand both.

There can be date-specific demand generators that will create demand only for a set of specific dates. An example of this is a citywide convention. There can also be an ongoing attraction that drives business to one hotel such as a state-of-the-art luxury spa at a four star property, or a large convention center located next door to a hotel.

An example of a demand generator that is applicable to multiple markets is the work of Brand USA, the United States' global marketing effort to promote the country

as a premier travel destination and to communicate U.S. entry/exit policies and procedures to worldwide travelers.

Conversely it is necessary to know the generators that may cause demand to be low such as cultural, regional, or religious holidays and their impact on normal business patterns. These types of events often change their dates from year to year and can have a negative impact on demand. Thus, each year the hotel must be aware of the dates of these events and must adjust the demand forecast accordingly.

Another influencer on demand is the use of flash sales. Hotelier opinions about flash sales vary greatly depending on the hotel, the market, and the way they are used. If used appropriately they can alleviate depressed demand or even create artificial demand for a specific time period. They can help fill rooms that would otherwise sit empty. It can also be argued that they help in creating awareness for a hotel.

Conversely, they can be very challenging as they typically require a deep discount of the room product plus a hefty commission. This has led to debates in the hotel industry regarding the long-term impact these discounts may have on rates and overall hotel performance. Specifically this could impact the hotel's disintegrating bottom line, rate of return, brand equity and value, attracting the right customer mix, rate recovery efforts, and pricing strategies. More will be explored on its impact on pricing in the Pricing Strategies chapter.

Regardless of whether a demand generator is negative or positive, it is important for hotel revenue executives to know and understand the potential impact of the demand generators for their market, their specific hotel, and for their competition.

Competition

Identifying the appropriate competitive set applies to all companies throughout all industries. For some it is easier to identify who their competitors are and for others it can be a bit more complicated.

Hoteliers have the challenge of identifying the most appropriate competition that is the best fit based on the location, brand, products, services and customer desires and needs. Identifying the right competitive set is an important part of the overall revenue management process. It is also integral to identifying the hotel's market position. Those who misalign themselves will find ongoing challenges throughout their revenue management process — especially with the price-value relationship in the eyes of the consumer, as well as the results achieved in comparison to the competitive set selected. This will show in all benchmarking data such as RevPAR Index and RevPAR Index Growth results.

A competitive set is typically defined by the hotel ownership and/or management company. Competitive set selections should be reviewed on a continuous basis to ensure their relevance, as markets are continuously in flux due to many factors, some of which include changes in the market supply, changes in brand affiliations, and changes in requirements of surrounding hotel demand generators. Fundamentally, a competitive set with the most accurate depiction of a subject hotel's competitiveness can drive and impact actual results.

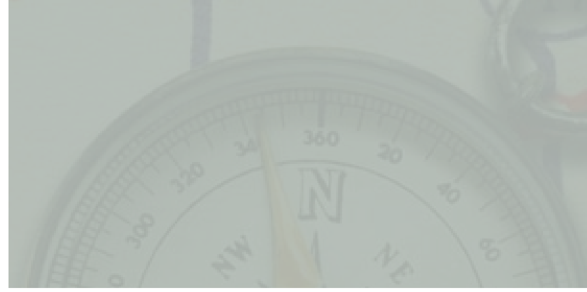
Proper benchmarking is necessary to define the competitive landscape.

Competitive Benchmarking

Competitive benchmarking is an objective comparison of one hotel to others. This helps hoteliers identify potential strategies to implement in order to improve or maintain their competitive positioning.

There are three types of benchmarking that hotels need to consider. They must be completed in the order listed below:

1.	Strategic Benchmarking — Strengths, Weaknesses, Opportunities, and Threats (S.W.O.T)	This includes a thorough product analysis of the subject hotel and its competitors.
2.	Process Benchmarking	This includes an understanding of the processes and participation of both the subject hotel and its competitors. Examples: • With which 3rd party sites do competitors participate? • Does the competitor have on-site reservations or are they centralized?
3.	Rate-Value Benchmarking	This includes an analysis of rate structure for the subject hotel and its competitors. This can only be done after the Strategic Benchmarking analysis has taken place so there is a good understanding of the product offerings.



An example of each one, along with specific instructions is provided below to assist with the process of completing the task of competitive benchmarking.

Strategic Benchmarking

This is the first of the three benchmarks that must be created for each hotel.

A Strategic or S.W.O.T. analysis is a tool used to evaluate the hotel's Strengths, Weaknesses, Opportunities, and Threats. In a S.W.O.T. analysis the strengths and weaknesses of a hotel are compared to those of its competitive set. Opportunities and threats are the external factors that may influence the hotel's business.

A S.W.O.T analysis can be organized in several ways but one easy form is a simple comparison chart. This chart can simply contain columns for the subject hotel and for each hotel in its competitive set. Initially, the information included is general information about the hotel: the year it was built, number of rooms and suites, number and type of restaurants, total number and size of meeting rooms, exercise facilities, availability of business center and other services, and shops on premises. The rows below the general information section are for the strengths, weaknesses, opportunities, and threats.

Use this example for ideas to create a strategic benchmark for the subject hotel. Fill in the hotel's name in the first column (i.e.: replace "Hotel A") and then do the same for each of its competitors. Columns and rows can be added as needed. Adjust each of the attributes according to what is relevant for the area and the hotel.

First, complete the general information for all hotels. This information should be easily available through competitors' websites, TripAdvisor, Yelp, brochures, meeting planner kits, or by simply calling the hotels directly.

Next, compile a list of strengths and weaknesses of the subject hotel. Over the past several years, gathering this information has become easier in that the information is more transparent than ever before. With the proliferation of consumer reviews, it is easier to collect.

It is still recommended to conduct brainstorming sessions with teams comprised of employees from all levels and departments. Any employee who receives input from guests about their likes and dislikes of the hotel can make a valuable contribution to this list. Today, with resources such as TripAdvisor, Yelp, and OTA reviews, it is much easier to find out what consumers are saying about you.

The result of the brainstorming sessions and collection of user reviews will likely be a long list that contains some vague items. Avoiding any gray areas, condense it into a short list of more specific and realistic strengths and weaknesses, and put those on the comparison chart.

Completing the chart with the competitors' strengths and weaknesses will be the next step. Start by comparing the strengths and weaknesses of the competitor hotels. Always analyze competitive hotels in relation to one another so if one of a competitor's strengths is cited as a new guest room product due to a recent complete room renovation, make sure the year and scope of the most recent renovation at competitive hotels is listed as well. If poor visibility of the subject hotel from street level is one of its weaknesses, ensure that the visibility of the other hotels is evaluated as well.

Opportunities and threats are mostly external factors that will affect business at the subject hotel. They can be local, only affecting one city, or regional, national, or global factors. Often they will affect all hotels in the same way. If a city raises its tax on hotel stays all hotels in the city may lose some competitive edge to hotels in other cities.

Sometimes opportunities and threats will affect hotels differently. If the subject hotel gets a much larger share of visitors from one specific geographic region than its competitors do, any positive economic development in that region could be a better opportunity for that hotel than its competitive set.

Other opportunities could be:

- New market entrants such as geographical additions or a new type of industry (e.g.: pharmaceutical);
- New alliances or mergers;
- Markets lost by weak hotels, those that closed or were converted to another use;
- Shifting market share from a less to a more profitable segment;
- New business or industry trends.

Other examples of threats are:

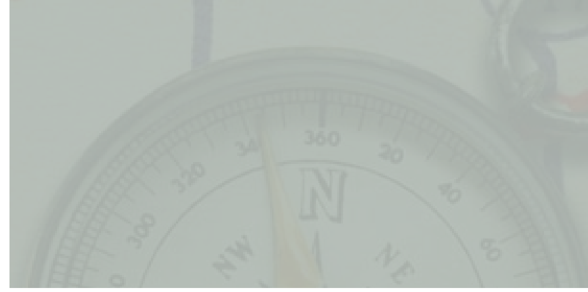
- A new hotel opening or one that greatly improved its product;
- Price wars with competing hotels;
- A competitor offering a new or greatly superior service or product;
- A competitor gaining better access to a distribution channel through a new alliance or brand affiliation;
- Technological innovation by a competitor;
- Access by consumers to a supply of condo hotels, time shares and home rentals;

- Alternatives for leisure dollar spending, such as cruises and adventure vacations;
- Competitor providing more state-of-the-art meeting space.

Depending on the strengths and weaknesses identified, any change in external business conditions has the potential to turn into an opportunity or a threat. The following is an example of a S.W.O.T. analysis.

S.W.O.T Example

CATEGORY	HOTEL A	HOTEL B	HOTEL C
Year hotel built / last full room renovation	1972 / 2002	2003/ n/a	1984 / 2005
Number of rooms/suites	315	403	298
Number of meeting rooms	14/11 (flexible)	12	10
Meeting room square footage	21,000 / Ballroom 5,000	17,000 / Grand Ballroom 6,000	12,000 / Palace Room 3,000
Restaurants and capacity	Prince of Wales / 100 / breakfast, lunch & dinner	Oak Terrace / 130 / breakfast, lunch	Avenue One / 90 / breakfast, lunch, dinner
	Limehouse Pub / 50 / bar, dinner	The Camelia House / 60 / fine dining	The Lantern Room / 30 / bar, appetizers in the evening
	24 hour room service	24 hour room service	24 hour room service
Other facilities	Exercise room, small business center	Spa with pool and fitness room, business center	Exercise room, discounted access to spa next door, business center
Parking	Valet parking in nearby garages	Valet parking in own garage	Valet parking in nearby garages
STRENGTHS	High name recognition within the city	Chain affiliation with access to largest loyalty reward program	New product, state-of-the-art equipment in both guest rooms and meeting space
	Most flexible meeting space large guestrooms / bathrooms / unobstructed views	Very popular bar	Next door access to spa
	Good location for leisure guests	Parking in own garage	Largest guest rooms/bathrooms
	Experienced banquet and sales team	Spa with pool	Good location for both leisure and business
	Only guest rooms with lake view	Fine dining restaurant	
	Easy access from street, lobby/bar visible from outside	24h business center	
WEAKNESSES	Guest rooms need renovation	Confusing meeting room setup on 3 different levels	Chain / brand name still not well known in U.S.
	Small bathrooms	Change of ownership last year resulted in high staff turnover, especially in sales	Obstructed views on 3 sides
	Lack of brand affiliation / name recognition outside of the city	Low visibility from street level due to side entrance	Inexperienced staff
	Valet parking in nearby garages often causes long waits	Perceived as too expensive, especially for meetings	Limited meeting space
	No spa or pool	Location not ideal for both leisure and business	Lobby / front desk not on street level
OPPORTUNITIES	Decision to drastically raise prices for SMERF segment lowered group base and should open up more opportunities to take high rated business over high demand dates and city wide conventions	Expected increase in international travel will favor hotels with international presence / brand recognition	If merger talks with a large U.S. chain succeed it would give them a much larger guest base and better name recognition and distribution channels
	New two way interface between PMS and CRS should greatly increase guest satisfaction, decrease reservation labor costs	Newly installed CRM system is now operating. This should further help the current strong marketing and brand position	With staff gaining more experience they should be able to better sell their superior product and location and become a stronger competitor
	City to host the largest number of conventions since 1998	City to host the largest number of conventions since 1998	City to host the largest number of conventions since 1998
THREATS	Construction of a new high rise next to the hotel will increase traffic congestion and valet parking problems, noise complaints	Large number of low rate airline crew contracts will work against them in the next year with a lot more city-wide compression	New hotel of similar size and style will open in March only 2 blocks away and will compete for the same market
	Tentatively planned start of room renovation in October — while necessary — would greatly decrease results in Q4; some of the biggest conventions will take place during that time	Biggest Corporate Account will have no new store openings next year (after 7 last year) which will greatly reduce their room night production	Might lose several of their key corporate accounts following intense price competition with Hotel A



Process Benchmarking

With competitive benchmarking, part of understanding the competition includes understanding their processes and various areas of participation. It is important for hoteliers to ensure they have a good understanding of the answers to the following questions for each of the properties within their competitive set.

The approach to identifying the answers to these questions will vary. It may be as simple as calling the hotel or asking a friend or colleague. But other answers may best be found by doing research online.

Keep in mind this information can change over time. Therefore, collecting this information will be an ongoing process. Be sure that as new information is identified, all revenue team members are kept informed.

With which third party sites does the competitor work?
What is the cancellation policy on the competitor's best available rate on their site?
Do they have reservations on property or are they centralized?
What is the comfort and knowledge level of the agents in terms of their selling skills?
Are they able to effectively and comfortably describe product knowledge?
How many room types do they have? What are their room types?
Do they show the lowest room types on their site first?
Do they have a revenue manager? To whom does he/she/they report?
What kind of a strategic focus do they have?
How sophisticated are they?
Do they use an automated revenue management system?
Do they differentiate between weekdays and weekends with respect to rates?
List the hotels in the order from highest rates to lowest rates. Where do you want to position your hotel's rates on this list and why?
Do they identify you as part of their competitive set on their intelligence reports?

As with the S.W.O.T. analysis, this information can be compiled by using a variety of sources including using a company with expertise in business intelligence (for a list of companies that offer this service refer to page 109), reviewing competitive websites, online searches and so on.

Rate-Value Benchmarking

Similar to competitive benchmarking, rate-value benchmarking allows the hotelier to rank their hotel against the competition. This provides an opportunity to perform a qualitative comparison by identifying specific attributes that are relative and ranking each of them.

The goal of this exercise is to ensure the competitors identified by the revenue team are competitive with the subject hotel and to identify the areas in which they are competitive. This is done by seeing if all are within a reasonable ranking compared to the subject hotel.

This is important because it allows the revenue team to ensure it has identified the specific attributes a competitor has that makes it a competitor. Some competitors may have attributes that their hotel does not. In those cases, that attribute may keep the hotel from competing with them in a certain market segment. However it is important to determine whether or not this should keep the team from identifying them as a competitor all together. For example, a hotel that has 35,000 square feet of banquet space compared to the subject hotel's 15,000 square feet may keep them from being a competitor in some parts of the convention segment, but not in the leisure segment.

Once the chart for rate-value benchmarking has been created, proceed with making a comparison of rates and market share by the use of various business intelligence reports (see page 109 for a listing of companies offering these products and services).

Review the intelligence report(s) to identify the rates offered by competitors. In this process you are trying to identify significant variances between the subject hotel's rates and those of its competitors. For example, if a competitor that ranked significantly higher than the subject hotel on the chart is offering significantly lower rates in a specific market segment such as corporate or qualified rate, this needs to be watched carefully. That hotel may be implementing a revenue strategy that is focused on trying to steal market share.

Conversely, if you find the subject hotel's rates are significantly lower than the competitor's, and yet it ranks higher on the comparison chart, a review of the rate structure may be in order. However, it is important that the revenue team does further research on this. Speak with all members who can give feedback to identify their perspectives and collect information that they receive directly from customers. For example, speak with the front desk and reservation staff to obtain their comments. Collect as much information as possible, involve all

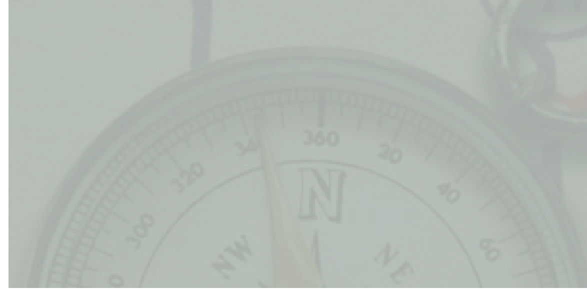
revenue team members and make a collective decision as to whether or not a change in rate structure is needed.

Use the market intelligence reports on a regular basis to ensure you are optimizing revenues and positioning the hotel properly. For example, some of the reports provide hotels with trend statistics including market share, ADR index and RevPAR index, Occupancy index, ADR index and RevPAR index. The index balance is an indicator of whether or not the hotel has played the market conditions optimally. In general, a good point of reference when reading this report is to aim to keep the occupancy and rate indexes within 10 points of one another.

Chart Example

	SUBJECT HOTEL		COMPETITOR #1		COMPETITOR #2	
	Hotel Score	Weighted Score	Hotel Score	Weighted Score	Hotel Score	Weighted Score
Location weight: 5	5	25	3	15	1	5
Curb Appeal weight: 2	3	6	5	10	1	2
Quality of Service weight: 5	5	25	3	25	5	25
Quality of F&B weight: 3	3	9	5	15	3	9
On-site Restaurant weight: 3	3	9	3	9	1	3
On-site Room Service weight: 4	1	4	3	12	1	4
Bell Service weight: 3	1	3	3	9	1	3
Meeting Space weight: 2	5	10	3	6	5	10
Total Score	**26**	**91**	**28**	**101**	**18**	**61**

Key: 5=excellent, 3=good, 1=poor/does not exist



This example includes a "weight" assigned to each of the different items before ranking them. For example, quality of service has a "5" weight and curb appeal has a "2". This means that quality of service is extremely important (or weighted heavily) but curb appeal is not as important (or weighted as heavily).

Some properties may find that some items will weigh heavier for this comparison and may want to use a weighting system to accommodate this. However, it is extremely important to note that the weighting system must be assigned as it relates to the importance of the consumer.

Market Position

Once the benchmarking exercise is completed, hoteliers then have the ability to show the unique differences between their products and services compared to the market's offerings. This differentiation allows hotels to position themselves favorably in comparison to competitors.

When a hotel has a solid understanding of its positioning in terms of products and services compared to its competitive set, it can then properly position pricing. Getting the price-value position of the hotel correct is fundamental to optimal market positioning. Those that can find the price that works for the hotel and is a good perceived value for the customer will find success.

Understanding Market Position

Identifying a hotel's appropriate market position is an important part of the overall process. In order to identify the appropriate market position, all of the benchmarking exercises should be completed. The rate value benchmarking process is especially useful in understanding a hotel's market position.

In addition to creating an internal tool, hoteliers need to be sure they research and take advantage of the appropriate market intelligence tools provided by third-party vendors. Hoteliers need to identify which companies and reports meet their needs and provide them with the most appropriate information. A list of vendors that provide business intelligence reports can be found on page 109.

There are occasions when a hotel must be repositioned in its market. This includes times when the product has been upgraded and when the product is getting tired but there are not capital funds available for a renovation. It is important that a hotel is repositioned at the appropriate time or lost revenue and opportunity could result.

Maximizing Market Position

Once a hotel is sure that the appropriate competitive set has been determined and that the hotel is appropriately aligned within the competitive set, the next step is to ensure the hotel maximizes its market position to allow for optimal and appropriate pricing.

The following are recommendations:

- When adjusting rates, the market position must be considered. Rates should never fluctuate above or below a hotel's market position;
- Suitable inventory controls should be utilized to ensure the appropriate product is available at the right price at the right time in the current market;
- Hotels can provide value-added pricing to incentivize consumers to book their product rather than the lowest priced product in their competitive set;
- Rate parity and integrity are fundamental to maximizing a hotel's market position.

KEY REVIEW QUESTIONS
What are the factors that influence market conditions?
What are some questions to be asked during an external review?
What are some questions to be asked during an internal review?
What are the three types of competitive benchmarking that should be done for each hotel? List in the order in which they need to be completed.
How does a hotel ensure that they are appropriately positioned within a market?
What can you do to get your hotel out of a market that is in a downward spiral?

CHAPTER 5

MARKET SEGMENTATION

KEY LEARNING OBJECTIVES:

To challenge the industry's current methods of market segmentation;

To consider redefining your hotel's market segmentation to improve tracking and marketing focus;

Segmentation has always been a very important part of a hotel's revenue management strategy. This was true even before hoteliers called it "revenue management." In other words, segmentation has been around for quite some time and has always played an important role in pricing, sales and marketing initiatives.

The fundamental reason for defining segmentation is to understand a hotel's different customer types including their purpose for travel, price sensitivity, booking lead times and so on. Defining a hotel's segmentation mix is part of building a solid foundational strategy for a hotel. Once this is defined, the strategies can then be created in support of this mix.

As with many other areas, the fundamental needs of segmentation remain; however, the needs of how hoteliers define segmentation differ today. This section explores the traditional segments as originally defined by hoteliers and will compare it to the realities and needs of today's changing marketplace.

Traditional Definition

The traditional definition of segmentation includes having a clear understanding of customer segments that apply to the property and to the corporate level, and an understanding of the source of business. At the most basic level, the industry differentiates between rooms sold as a group and those sold individually, also known as transient business.

An evolving way of thinking about segmentation is to look at the sources of business or the channels through which the booking arrives at the hotel. Examples of sources or channels are as follows:

- Brand Website
- Voice (phone)
- OTA
- Group: includes rooming list and call-in
- GDS

For a detailed description of sources or channels, see the most recent edition of the *Distribution Channel Analysis* report from the HSMAI Foundation (www.hsmai.org).

The next level of categorization usually separates rooms booked by the purpose of the guest's travel such as business or leisure. Sub-segments are then further developed and customized to unique demand drivers in a market. These are commonly referred to as market segments.

Market Segmentation

Market segments were initially defined by the purpose of the customer's visit to a hotel such as someone traveling on business staying at a corporate negotiated rate. Prior to the inception of the Internet and the use of the Internet as a channel through which to receive hotel reservations, it was relatively easy and sufficient to define market segments as each customer's reason for travel.

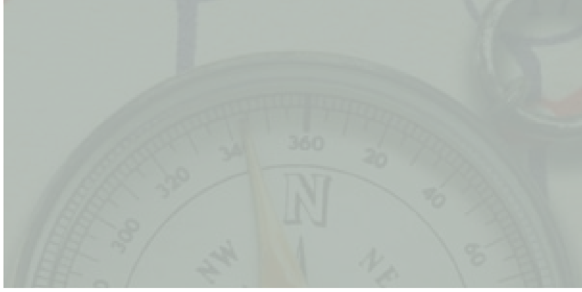
If the reservation was made via the telephone directly with the hotel, the reservation associate would simply ask the direct question, "What is the purpose of your visit to the hotel?" If the reservation was booked via a global distribution system (GDS), the confirmed rate or rate code would typically provide the reservation associate with the reason for travel. For example, someone traveling on corporate business but not with a preferred company would typically book the public corporate rate. (This was obviously long before hotels offered more complicated rate structures.) In other words, it was clear and typically very easy to understand the customer's purpose of travel making it easy to track and measure. But today, we operate in a very different environment and our current market segments have become less cut and dry.

Purpose

Historically, hoteliers determined market segments that best defined their specific clientele. Each booking would be tracked so as to understand what types of travelers stayed with the hotel. This helped hoteliers better tailor their pricing, marketing, and sales efforts. But this has now become blurred.

The Blurred Lines of Segmentation

The traditional classification of market segments has become much more difficult to apply and track accurately. This is due to the variety of channels through which hoteliers can receive reservations in today's environment, as well as the more advanced and/or complicated rate structures created by hoteliers.



Today's business traveler no longer automatically books his or her negotiated rate. Nor do they book through the traditional channels that allow an easy understanding of their purpose. If they do book through a traditional channel, the caller may not share that he or she is traveling with company XYZ in hopes of getting a better rate as an individual traveler. Instead, travelers have the option of booking through the channel of their choice — such as an opaque channel like Priceline or booking via the hotel's website or mobile site. They also have the option of booking the rate at any time — such as waiting until last minute in hopes of getting a good "deal" with a last minute offer on a same day mobile platform — third party or proprietary. Additionally, the consumer is often traveling with dual purposes. They are adding leisure time to their business trips making their purpose of travel "bleisure."

This means that the purpose or reason for traveling is no longer apparent to the hotelier based on the type of rate confirmed. As a result, hoteliers have found themselves adding channels to their market segments. This allows hoteliers to track the reservations that arrive via specific channels even though they cannot identify the purpose of the guest's stay.

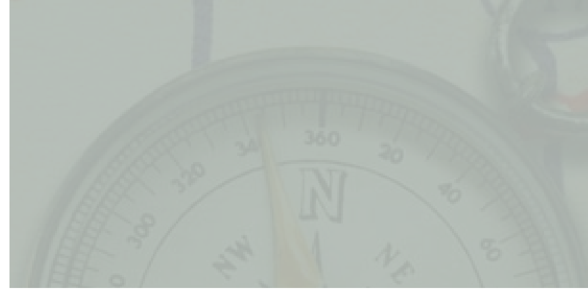
Hoteliers are finding that market segments as traditionally defined are less and less meaningful due to these changes in channels and consumer behavior.

Market Segment Examples

In order to have a more accurate and up-to-date purpose for market segments, the following was presented in the HSMAI Foundation's *Defining Revenue Management* publication: The general market is divided into distinct groups to direct sales and marketing efforts for which a hotel specifically targets budgeted sales and marketing dollars. Typically, each segment identified by a hotel will have a unique strategy for pricing, promotion, policies, distribution, and sales. The following chart identifies many of the generally accepted market segments used in the hotel industry.

It is important that hotels understand the lifestyle of their customers. This will lead to a better understanding of what choices the customers are willing to make.

MARKET SEGMENT	DEFINITION
AAA	Some hotels choose to manage AAA separately from qualified discount
Adventure	Adventure traveler searching for an unusual experience usually nature or activity oriented
Airline	Contract airline crews or transient airline travel
Association	Association group business, such as the American Medical Association
Convention Group	Citywide convention segment
Corporate Group Travel	Corporate group travel
Extended Stay	Usually defined as stays longer than seven days without departure, though legally, it is stays longer than 30 days without departure
Family	Family individual leisure travel
FIT	Individual tour and travel
LGBT	Lesbian, gay, bi-sexual, and transgender travel
Government Group	Local, state or federal government groups
Government Transient	Local, state or federal government individual travel
Incentive Travel	Travel purchased usually by an incentive agency or company as an employee incentive or reward
Leisure Individual	Individual leisure travel for vacation or getaways, not business
Mega Agency/Consortia	Travel booked by mega agencies or consortia
Military	Individual military travel
Qualified Discount	Any discount for which the consumer must qualify, be a "Customer" or "belong to" in order to qualify, such as AAA, AARP, or an entertainment club
Religious	Religious groups, some hotels choose to manage separately from SMERFE
Rooms or Base	All publicly available rates for which the guest does not have to qualify to book
Senior	Some hotels choose to separate AARP from qualified discount to manage these reservations individually
SMERFE	Social, Military, Educational, Religious, Fraternal and Ethnic Groups
Third Party Web Channels	Includes online agencies for which you cannot track the purpose of travel — does not include brand website
Volume Preferred Negotiated Corporate	Negotiated rates with volume accounts
Wholesale	Group tour and travel



Changes to Uniform System of Accounts for the Lodging Industry (USALI)

Effective January 1, 2015, the newly released changes outlined in the 11th Edition of Uniform System of Accounts will change how hoteliers track segmentation. Changes have been made to allow reporting to align with revenue management needs and definitions. (Refer to Components of Revenue Management section in this publication for an explanation and purpose of USALI.)

The following table compares the 10th and 11th editions. The main changes are in the Transient segments.

10TH EDITION	11TH EDITION
Transient • Commercial/ Corporate • Leisure • Government/ Military • Frequent Guest/ Preferred • Travel Packages, FIT • Hotel Packages • Internet	Transient • Retail • Discount • Negotiated • Qualified • Wholesale
Group • Corporate • Association/ Convention • Government • Tour group • SMERF • Wholesale	Group • Corporate • Association/ Convention • Government • Tour group / Wholesale • SMERF

Brad Garner, Senior Vice President of Client Relations at STR, and Robert Mandelbaum, Director of Research Information Services at PKF Hospitality Research, reviewed the key changes to the USALI in an article published by *Hotel News Now* in August, 2014.

There are five keys items highlighted in this article; two of which have an impact on revenue management practices.

Rooms Department Changes: The 11th edition includes changes in definitions of the segments of business listed in the rooms department charges.

- The 11th edition of the USALI separates rooms revenue into three classes — transient, group, and contract — but it includes fewer sub-segments under each class than were included in the previous edition. Transient covers retail, discount, negotiated, qualified, and wholesale; while group includes corporate, association/convention, government, tour group/wholesale, and SMERFE (social, military, educational, religious, fraternal). No changes were made to the contract segment.
- "These changes line up more with the nomenclature of online travel agencies and the segments we track," Garner said.

Resort Fees and Surcharges:

- Under Other Revenues in the rooms department, Resort Fees and Surcharges was changed to Surcharges and Service Charges. Garner said service charges are standard in hotels in some global markets and are recognized in the new edition.
- Resort fees were moved out of the rooms department ledger and will be credited as miscellaneous income and not included as a component of average-daily-rate or revenue-per-available-room metrics.
- Service charges are defined in the new edition as a mandatory amount billed to a guest for whom the customer has no discretion as to the payment or its distribution to employees. From an accounting standpoint, service charges are treated as revenue, and payment to employees is considered a wage expense.

The key to understanding what all this means for revenue management is to ensure that the teams are completely aligned in the reporting. By ensuring proper reporting within the organization, a hotel will be better able to compare equal information in relation to the competitive set; but even more importantly, it will allow the hotel to be aligned in all revenue streams. Ultimately, hoteliers want to ensure that this alignment provides the ability to drill down to profit contribution.

KEY REVIEW QUESTIONS
What is the purpose of market segmentation?
What are some of the challenges with the traditional definition of segmentation?
Which of your customers are price elastic and price inelastic?
How does the Uniform System of Accounts impact revenue management practices?

CHAPTER 6

FORECASTS FOR DIFFERENT OBJECTIVES

KEY LEARNING OBJECTIVES:

- To understand the different types of forecasts and why they are necessary for optimal performance;
- To increase the ability and confidence in developing and creating an accurate forecast;
- To know what information is needed to create different types of forecasts;
- To understand who needs which forecast and how frequently they are needed.

Sound forecasting is an essential part of any revenue management process. As a matter of fact, the forecast is so important that it is considered to be the foundation of a hotel's revenue management program. Without an accurate forecast and the right types of forecasting, even the best revenue strategies cannot be realized.

Ironically, forecasting is one of the biggest challenges for many hoteliers. One reason for this is that many revenue directors are not confident in their forecasting abilities There are a variety of reasons for this lack of confidence. Perhaps they are unsure where to begin, or how to collect the information, or even what information should be tracked. Perhaps they are not confident in taking the steps that should be taken to put together a forecast.

The second reason that forecasting can be so challenging is that many hoteliers are not aware of the importance and purpose of the different types of forecasts that should be created and managed. Most revenue directors put together one or two different types of forecasts — one to satisfy the operational needs of the hotel and one to satisfy stakeholder needs.

There are however, different forecasts that allow hoteliers to satisfy different objectives. Each forecast may require a different approach and information may be specific to individual forecasts.

The third reason that forecasting can be such a challenge is that much of forecasting includes a certain amount of intuition or "gut" feeling that must be taken into consideration. Many hoteliers find this to be intimidating. Common questions surrounding this are, "How do I know exactly how much business I can anticipate?" and "Is there a formula I can use to come up with the forecast?"

The good news is that there are specific steps that can be learned to improve the methodology and accuracy in forecasting procedures, as well as the comfort level in putting all of this information together.

This chapter will provide a better understanding of forecasting and its importance, and will answer the following questions:

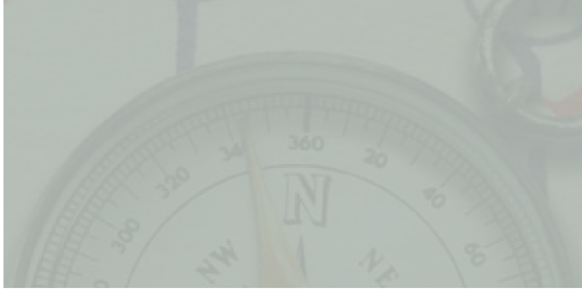
- What are the different types of forecasts?
- What are the objectives for each of the types of forecasts?
- What information do I need to put each forecast together?
- How do I find this information?
- What questions should I ask when putting together each of the forecasts?
- How often should I be putting together each of the forecasts?
- What are the steps that I need to follow to put each forecast together?

One thing that is important to remember is that forecasting is an art. Therefore, it can and will take practice and over time if you follow the proper procedures and apply the level of detail that forecasting requires and deserves, the comfort level and accuracy will improve.

The ideal solution is having a fully automated revenue management system that provides the appropriate information and detail to support the forecasting process.

Automation allows hotels to monitor not only the historical aspect of channel business but also the future trends much more quickly than in a manual environment. This allows hoteliers to quickly identify shortcomings, as well as opportunities well in advance while there is still time to influence the outcome.

One important point to note about this chapter is that it is focused purely on rooms forecasting. But the same principles can be applied or expanded to other revenue streams throughout the organization or hotel. Refer to the chapter on Total Hotel Revenue Management for more ideas on additional revenue streams.



Different Forecasts for Different Objectives

As introduced earlier, there are different forecasts that should be put together for every hotel; and each forecast has a different objective.

The following table provides an introduction to the types of forecasts along with their supporting objectives. They are listed in the order in which they should be completed.

Each of the forecasts is explored in more detail in individual sections following the table. Those sections provide the supporting methodology for the different forecasts.

FORECAST TYPE	OBJECTIVE	WHEN/ FREQUENCY
Demand forecast	To determine the anticipated demand for the hotel absent any constraints.	Long-term based on booking window / quarterly and / or monthly
Strategic forecast	To support strategic objectives such as understanding the impact of the unconstrained demand and its effect on occupied rooms.	Medium term / monthly
Revenue forecast	To have a realistic picture of probable future occupied rooms and rates to use to compare to budget and identify variances.	Short-term / weekly
Operational forecast	To use for operational necessities such as scheduling.	Short-term / weekly

Demand Forecasting

Of all the different types of forecasts that are critical to a hotel, demand forecasting is the most crucial. Ironically, this is the forecast that is most often not utilized and sometimes not even understood.

Purpose

A demand forecast is determined by the amount of demand a hotel would have for its rooms on a given night in the absence of any constraints. This is referred to as unconstrained demand.

A hotel's unconstrained demand or demand forecast is the forecast on which all revenue management decisions including rates, availability, and restrictions are based.

Important note: This is NOT the forecast that is to be shared with ownership or senior management for the purpose of explaining the forecasted end result. The revenue forecast is the forecast that will be shared with them for that purpose. Instead, the demand forecast is to be used by revenue directors and shared with the revenue team to ensure proper strategies are discussed and implemented to support the projected demand. Provided ownership and senior management understand the purpose and definition of demand forecast, then they absolutely should review it as well.

In an effort to provide hoteliers with a guideline and to help understand the concept of demand forecasting, a general calculation is provided. It is vital to understand however, there is no one scientific calculation that can be followed for the purposes of calculating a demand forecast. This calculation is shown to illustrate the concept of how to arrive at the demand forecast. Each hotel must derive its own specific forecast.

Transient "On the books" bookings
\+
Anticipated Unconstrained Transient bookings
\+
Group "On the books" bookings
\+
Anticipated Group bookings
=
Demand Forecast

One final point to understand is that a hotel's unconstrained information will only be as good as the hotel's tracking of historical and future activity. Without solid tracking methods in place, the demand forecast will not be accurate.

Things to Know

Demand forecasting requires the use of historical patterns and current trends to forecast future demand. Therefore, there is specific information that must be

tracked and reviewed for the purpose of putting together the demand forecast.

Following is a list of items that hoteliers must have available and accurately tracked in order to create their demand forecast.

Room nights	Extended stays
RevPAR	Length of stay pattern
Revenue	Denials / Regrets
Cancellations	Transient and group mix
Lead time / Booking pace by segment	Demand generators
Transient rooms	"On the books" bookings
No shows (both guaranteed and non-guaranteed)	Rate changes
Arrivals	Group blind cut and group wash
Group rooms	Comp set availability
Walk-ins	Supply changes
Departures	Sell-out frequency of your hotel and the competitors
Early departures	Tracking of past marketing demand drivers (e.g. flash sales)
	Tracking significant weather events in your major source markets or in your own destination

It is ideal to have this information tracked day-by-day for one full year or more as it will assist hoteliers in understanding the patterns and trends for the hotel. This data will be used to determine the hotel's historical pattern and will assist with anticipating future demand patterns.

While a solid understanding of the historical pattern is very beneficial, understanding current trends should be weighted more heavily. Historical information is helpful to use as a base so hoteliers have a place to begin, but current booking information should supersede historical trends. This is because booking trends change and hoteliers must adapt their forecasts to incorporate the current trends and weigh these more heavily.

Tracking this information is not always easy and of course some information may be easier to track than other information. Ease of tracking depends on the technology available and the processes that each hotel follows. For those using technology that limits the ability to track or retrieve any of the previously listed information, a business process needs to be put into place allowing it to be tracked from this point forward. For those using an automated revenue management system, this information is most likely being tracked and can be easily accessed.

The following are key points for each hotel to address before a demand forecast can be created:

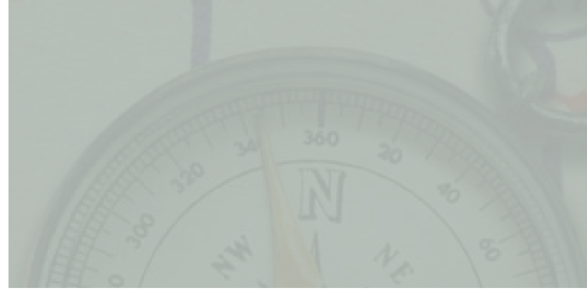
- Identify the current technology that is being used such as the CRS, PMS, SCS, and RMS. It is important to review each and understand what information is able to be retrieved and/or tracked;
- Identify reports that are available and that can provide the necessary information;
- Identify all gaps in tracking ability. In other words, what information are you not able to retrieve from existing technology? What is missing?
- Where possible, implement manual business processes to track the missing information to close the gaps.

For those who lack sophisticated technology to help track much of this information, it is vital that you capture as much as humanly possible. It may not be possible to gather and track everything but the more you are able to track, the more accurate your demand forecast will be. It may require something as simple as using Excel spreadsheets to enter the data and possibly even cross reference the information so it can be sliced and diced according to the needs of the hotel.

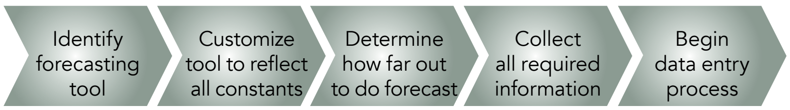
The Process: Step by Step

Putting together a demand forecast can be quite overwhelming as there are multiple steps and requirements. As mentioned earlier the methodology to create a demand forecast can be broken down into steps that are technical in nature and easy to learn. But it also includes a level of intuition or "gut" feeling which is not easy to learn. A certain comfort level with it will develop over time. It comes easier to some than to others.

This section will outline a step-by-step process for putting together a demand forecast. However, depending on the sophistication of each hotelier's forecasting tool some steps outlined may or may not apply. Therefore, each hotelier must identify the steps that apply to the specific tool customized for their corresponding hotel or organization.



The flow chart below outlines the process. The explanation supporting the flow chart is provided immediately following.



The first step in putting together a demand forecast is identifying the right forecasting tool. There are probably as many versions of forecasting tools as there are hotels. Some hotel companies have a corporate standard while others do not. The key is finding the right forecasting tool that works for each hotel. It is also important to realize that a hotel will gain only as much benefit from the demand forecast as the amount of time and information put into it.

Once the tool is identified and agreed upon within the organization, it is time to set it up to reflect the constants of each hotel — for example, the customized market segments, the total number of rooms in the hotel and any type of special parameters that may be specific to each hotel's forecasting philosophy, such as whether or not to include out of order rooms in the availability count. Some companies opt to include out of order rooms in their availability count and some consider they are not available for sale and therefore they do not include them. If they are not included, they do not impact the hotel's RevPAR.

The next step is to determine how far out the demand forecast should be completed. It is recommended that the demand forecast be completed for as far out as the hotel receives bookings. For example, for a hotel that receives group inquiries five years in advance, the demand forecast should be put together five years out. (Do not panic…it is not as difficult as it may appear.)

Now it is time to collect all of the information that is required and available to you in support of creating the forecast. (see prior "Things to Know" section)

One important point to understand about forecasting in general regardless of the tool in use is that it is important to ensure the forecast is put together by market segment. This may seem overwhelming but it is truly the only way hoteliers can accurately create a forecast.

It is time to move on to using the tool itself. Now the data entry begins — by market segment.

1. Enter special parameters such as out of order rooms on specific days, as well as special events or demand generators.
2. Enter all of the "on the books" information including number of rooms, revenue, and ADR. This should be done day-by-day for as far out as there are bookings — including group bookings (blocks).
3. Now it is time to enter in the projected (gain or loss) demand for each market segment day-by-day. This should be done as far out as bookings are accepted.

For those who do not already have a forecasting tool or for those who may be interested in using a more sophisticated tool, a forecasting tool is available from HSMAI for hoteliers to incorporate as part of their revenue management tools. To download the spread sheet, go to the Revenue Management tools section in the HSMAI Knowledge Center at www.hsmai.org. This resource is free to HSMAI members.

Entering in the projected demand for each market segment for every day into the future is obviously the most challenging part of demand forecasting. And remember, the projected demand means that it should reflect the total amount of demand a hotel would enjoy absent any constraints — the unconstrained demand. What this means for this forecast is that you must ignore length of stay restrictions, overselling, price restrictions, and any other types of restrictions. The projected demand number needs to reflect the total number of rooms the hotel could sell without restrictions or limits.

Use the information that is available to assist with identifying the demand for each day. Reference some or all of the following information as it is applicable:

- Historical information by market segment for the same day in the previous year.
- Demand generators that may be different from year to year.
- Current booking pace; compare it with the previous year's booking pace if it is available. Identify differences to assist with adjusting the historical information and apply to demand information.

- Identify patterns such as every Tuesday in the month of March historically looks the same. Apply these patterns (if they still make sense based on the current booking trends).
- Refer to the internal analysis — what may be different within the organization compared to previous years? Are there new products or services that may impact the demand? Are there new targeted segments?
- Refer to the external analysis — what may be different within the marketplace compared to previous years? Is there a new product? Are competitors targeting new segments compared to previous years?

Once you are confident in the demand by market segment, by day, enter the information into the forecast. This includes rooms, revenue, and ADR information. Congratulations! The most difficult part of the forecasting process is now complete.

Strategic Forecasting

The strategic forecast is used to support strategic objectives such as understanding the impact of the demand forecast and its effect on occupied rooms.

The strategic forecast is the place where hoteliers will assign their rate strategies based upon the demand forecast.

Things to Know

The two major requirements to complete this forecast are:

1. Demand forecast
2. Pricing strategy

As mentioned, the demand forecast will be used for the creation of strategies such as which rates will be offered for specific time periods based on the unconstrained demand.

The pricing strategy is important because it will be required when creating rate strategies based on the forecast. The rates that will be assigned to the demand forecast will be based on the hotel's pricing strategy and will be in line with its philosophy.

The Process: Step by Step

As mentioned earlier, the demand forecast is the most challenging of all the forecasts. So the good news for those hoteliers who have completed the demand forecast is that the most difficult part is finished…until you have to do it again.

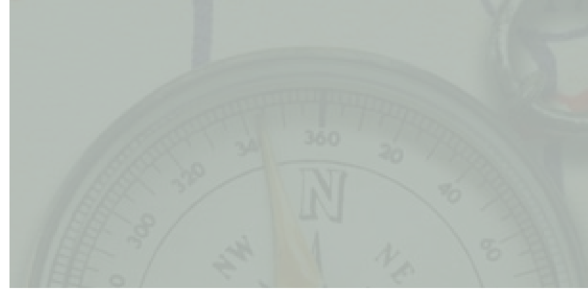
The strategic forecast has the potential to be much more of a streamlined process provided the hotelier sets up the hotel's rates according to the forecast. The tool provided with this publication offers that as an option. By taking the time to set up the rates in advance the overall process for this forecast will be much easier and much less time consuming in the long run.

For those hoteliers who are using a different tool, it is strongly suggested that the same approach be taken to incorporate the rate setup into the tool chosen.

The following is an example of what this setup may look like. Of course, each hotel would need to customize this according to its needs and philosophies. For example, a hotel would need to define its own rates that best fit into each rate level. This may be done by month or by season. Additionally, hotels will need to customize the setup to reflect their own market segments.

Example:

Forecasted Occ %		Rate Level	RAC	COR	NEG	SPC	WKD	DISC
99%	90%	1	open	COR High	only with LRA will remain open		LEISURE High	
89%	80%	2	open	COR High	Pref 1, 2, 3	open	LEISURE High	
79%	70%	3		COR Med	Pref 1 — 6	open	LEISURE Med	
69%	60%	4		COR Med	Pref 1 — 10	open	LEISURE Med	$60.00
59%	60%	5		COR Low	Pref 1 — 10	open	LEISURE Low	$60.00
49%	40%	6		COR Low	Pref 1 — 10	open	LEISURE Low	$60.00
39%	1 %	7		COR Low	Pref 1 — 10	open	LEISURE Low	$60.00



For those hoteliers using the tool provided, the format is already set up to allow customization based on each hotel's needs. Once each hotelier defines their hotel's specific needs the information will automatically be "pulled" into the rate strategy worksheet(s) for each month. It will display the rate levels based on the forecast for each day. Hoteliers will then be able to update the appropriate systems based on the assignment of rates with each rate level.

The strategic forecast should be completed for the same timeframe as the demand forecast. It should also be updated and reviewed each time the demand forecast is updated.

Revenue Forecasting

Once the strategic forecast is complete the next step is to complete the revenue forecast.

Purpose

The purpose of the revenue forecast is to provide hoteliers with a realistic picture of probable future occupied rooms that they can use for budget comparison purposes and to identify variances.

This is the forecast that is appropriate to share with stakeholders to communicate the realistic forecast for the hotel. It is not, however, to be confused with the budget. Instead, it should be used as a comparison to the budget in order to understand the variances (both positive and negative).

Things to Know

In terms of the information that will be needed, the revenue forecast is similar to the demand forecast. It requires the use of historical patterns and current trends to forecast future realistic occupied rooms, revenue, and ADR. Therefore, the information that was reviewed for the purpose of creating the demand forecast will also be used for the revenue forecast. However, this time the focus will be on what hoteliers believe will actualize for the hotel.

The following is a list of items to reference.

RevPAR	Departures
Revenue	Early departures
Cancellations	Extended stays
Lead time / Booking pace by segment	Length of stay pattern
Transient rooms	Denials / Regrets
No shows (both guaranteed and non-guaranteed)	Transient group mix and group wash
Arrivals	Demand generators
Group rooms	"On the books" bookings
Walk-ins	Rate changes

The Process: Step by Step

The process of creating the revenue forecast is essentially the same as the process for the demand forecast. The only difference may be in the forecast totals. The same information should be included and the same patterns should be applied. This time, however, the total forecasts by market segment may (may not) be lower than the unconstrained information.

1. Review special parameters such as out of order rooms on specific days, as well as special events or demand generators to ensure they are complete and up to date. Because they should be the same as the demand forecast, they can be carried over from that tool.
2. Ensure all of the "on the books" information including number of rooms, revenue, and ADR is accurate and up-to-date. This should be done day-by-day for as far out as there are bookings and should include group bookings (blocks).
3. Now it is time to enter in the projected (gain or loss) forecast for each market segment day-by-day. Remember, the projection should reflect only the totals you believe will actualize for the hotel.

The timeframe for how far into the future this should be completed will vary by hotelier. Most will need to complete one year into the future but some may need to go farther out.

Information is available to assist with identifying the demand for each day. Reference some or all of the following information as it is applicable for each respective hotel:

- Historical information by market segment for the same day in the previous year.
- Identified demand generators that are different from year to year.
- Compare the current booking pace with the previous year's booking pace if it is available. Identify differences to assist with adjusting the historical information and to apply to demand information.
- Identify and apply patterns (e.g., "every Tuesday in the month of March historically looks the same").
- Refer to the internal analysis — what may be different within your hotel or organization compared to previous years? Are there new products or services that may impact the demand? Are there new targeted segments?
- Refer to the external analysis — what may be different within the marketplace compared to previous years? Are there new products? Are competitors targeting new segments as compared to previous years?

Once you are confident in the demand by market segment, by day, enter the information into the forecast. This includes rooms, revenue and ADR.

4. The final step for the revenue forecast is to determine how often it should be completed. This is another area that will vary by hotel based on specific requirements and needs. There are a couple of factors that need to be considered when deciding how often to complete the revenue forecast:
    - The most obvious factor is the requirements of each hotel or company's management. Some companies require weekly updates for one to three months into the future while others require monthly updates for one full year out;
    - The other factor is how busy the hotel is and what type of activity it has. Hotels located in a downtown city center that cater to business travelers will most likely have a very busy booking window 30 days out but find that outside 30 days the activity significantly slows down. In this case the hotelier may opt to revisit the revenue forecast two to three times per week for the next 30 days and less often for 30+ days.

Operational Forecasting

The operational forecast is the final forecast created.

Purpose

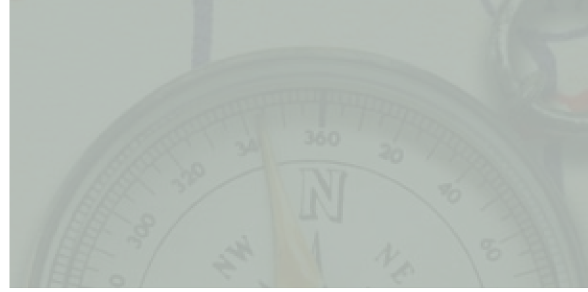
The purpose of the operational forecast is exactly what the name implies — it is for operations. It provides the operational departments with the information they need to know in order to properly prepare their areas of responsibility.

Things to Know

The operational forecast is relatively easy to put together and in most cases requires only basic information that is easily extracted from the revenue forecast. Some hotels will simply distribute the revenue forecast to the appropriate departments while others prefer to extract the specific information required for each department and distribute that.

The following are the items required to complete an operational forecast:

- Identify each of the departments that will rely on this forecast;
- Understand the specific information each department requires and for what purpose. For example, front desk and housekeeping will most likely need to know the arrivals and departures for each day in order to staff their departments appropriately;
- Identify how often and when each department requires updates.



The Process: Step by Step

The process for the operational forecast is relatively simple once you have identified the appropriate information.

1. Identify a format that works best for the hotel. The required information can either be extracted directly from the revenue forecast with some supporting formulas to calculate certain information (e.g., total occupied rooms / Average Length of Stay [ALOS] will result in arrivals) or be entered by hand into a spreadsheet.
2. Determine a schedule for distribution, communicate this schedule, and stick to it.
3. Upon completion, distribute the report to the appropriate departments.

KEY REVIEW QUESTIONS
What are the four types of forecasts that should be completed?
What are the objectives for each of the forecasts?
What information is needed in order to properly complete each forecast?
How should hotels obtain the information?
How often should the forecasts be completed?
What is the most important goal as it relates to forecasting?
What needs to be implemented to measure and achieve this goal?

CHAPTER 7

REVENUE STRATEGY

KEY LEARNING OBJECTIVES:

- To understand how to create a successful revenue strategy;
- To learn the key elements in effectively communicating a revenue strategy;
- To understand how to implement a revenue strategy once it has been created;
- To understand how to measure the success of the revenue strategy once it has been implemented.

A revenue strategy is critical to the success of a hotel's revenue management philosophy. A revenue strategy allows the entire revenue team to discuss, strategize, and understand what the goals are for the hotel and how to work towards these goals. It is critical that the strategy is put into writing. By strategizing with the team and documenting the revenue strategy a hotel is set up to ensure that the hotel looks out into the future and creates a long-term, measurable path for success.

> *"If you don't know where you're going, you'll probably not wind up there."*
>
> Forrest Gump

The objective of a revenue strategy is to capture the optimal profitability from projected demand. It is important that there is a focus on creating a successful strategy.

Developing a Successful Revenue Strategy

The first step in developing a revenue strategy is to ensure that the entire revenue team is included, prepared and attending the meetings. To be successful the entire revenue team needs to provide their input and fully buy into the strategy. This is the only way to ensure all perspectives are taken into consideration and that there is across-the-board agreement. Moving forward, everyone needs to be working from the same foundation and goals.

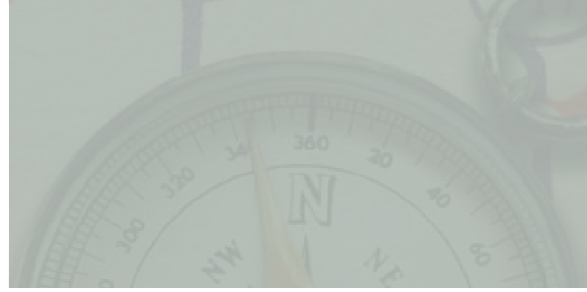
It is also important to understand that the development of a revenue strategy may take one long meeting or several shorter meetings. So be sure to plan accordingly and make sure everyone has the same understanding and expectation.

The elements that should be included in every revenue strategy are as follows:

ELEMENTS TO INCLUDE	PURPOSE
Demand Targeting	To determine the most appropriate segments and identify which ones will deliver the greatest profit or value to the hotel. This must be done for the entire year and broken down by season.
Acquisition Planning	To determine a communications plan and a sales plan that outlines how to reach each of the targeted segments to achieve the goals.
Customer Retention Plan	To identify the method(s) by which the hotel will retain customers. How will the hotel work to communicate directly with the customers to capture their next booking? How will the hotel target the appropriate customers directly?
Revenue per Available Customer Value	Identify the types of customers who provide the most value to the hotel. Factors to be included in this are the total spend, the time-of-year or day-of-week the customer typically stays with the hotel and finally the method of booking. Once the hotel has a good idea of the revenue per available customer, create a plan to target the customers with higher value.
Channel Costs	Determine the cost to the hotel for each channel. This will allow the hotel to understand the most profitable channel through which to receive bookings.
Channel Shifts	Once the hotel understands the most profitable channels, develop a plan to target specific customers or customer types to shift their bookings to a lower cost channel as appropriate for each customer. For example, for those customers who currently book through a higher cost channel such as a third party site, provide an incentive for them to book via a lower cost channel like the hotel's website. It will not be appropriate to shift all customers to another channel but it will benefit the hotel to shift those that are appropriate.
Acquisition Costs	Understand how much the hotel's cost of acquisition is by channel and by segment.

As mentioned earlier, all of the decisions and factors must be documented and distributed to all revenue team members. Be sure to include the following in the documentation.

- Be specific and detailed with all action plans that are created in support of the strategy;
- Assign responsibilities for all action plans;
- Assign timelines or specific dates for all action plans.



The last step in the development of the strategy is to set a follow up meeting or meetings to review the progress, discuss any challenges and identify resolutions. This meeting will allow hoteliers to ensure everyone is doing what they should be doing in order to stay on target.

Communicating the Strategy

Once the revenue strategy is developed and properly documented, it is critical to communicate it to all key stakeholders. "This must be done in a well planned and thorough manner in order to obtain a high level of 'buy-in' of the current goals and objectives of our organizations," said Jack Easdale, Vice President of Yield Management for The Venetian. "Thoughtful management at all levels must lead in these endeavors in order for the corporation to survive and thrive, in today's disquieting milieu."

All members of the revenue team must receive a final copy of the strategy. Be sure to distribute the final copy to all team members by the predetermined due date.

A communications plan must be created and executed in order to ensure proper understanding, support from the field, and success. Each department and level of staff or management has their own role in ensuring success. Therefore, they will need to understand varying parts of the strategy in order to support it and do their part. Remember — one size does not fit all. The communication will need to be tailored to each audience member. For example, what the general manager needs to know may be different from what the front office manager needs to know and will certainly be different from what the reservation sales associates need to know.

It is very important that the revenue director (or whoever is responsible for the communication) manages the communication to all team members. The communication of the strategy can ultimately determine its success.

Following are some recommendations to help manage the communication of a revenue strategy:

1. Prioritize the information that needs to be shared.
2. Educate appropriately:
    a. What is the specific information that each department needs to know?
    b. Provide specific ways each department plays a role and show them their importance.
    c. Be specific about what is needed from each department.
3. Create a plan of action with each department. Be specific by assigning dates and responsibilities.
4. Set follow up meetings to ensure ongoing communication and buy-in.

Following is an outline of the varying roles and responsibilities for each member along with recommendations on how to target each appropriately.

Communicating to Ownership or Corporate Office

One of the key points in communicating the strategy, or any information, to a corporate office and ownership is the fact that the information that is most appropriate for them will be different in many ways than the information that is appropriate for others.

It is first important to identify the key points that are most important for the ownership or corporate office to know and understand. It is also important to understand their knowledge level. For example, does ownership understand the complexity of distribution channels and the costs associated with each? Do they understand strategic forecasting? Understanding their level of knowledge will help you in putting together the information. It may require straight forward information in some areas where there is a high comfort level and some supporting educational information in other areas where the comfort level is lower.

Owners and corporate offices typically have the same areas of focus — ROI, bottom line revenue, procurement, and development.

The information that will be provided to this audience will need to take into consideration all of the above points. Additionally, be sure that the information provided is specific and to the point, supports their overall goals, and includes supporting data where appropriate.

The method of communicating this information will vary based on several factors:

- Your relationship with them
- Their preferences
- The type of information to be communicated

The method of communication may include some face-to-face meetings with supporting documentation and a formal presentation or simply a formal document sent via email. This must be assessed by each company to determine their specific preferences.

Communicating to the General Manager

It is vital that the general manager has a solid high-level understanding of the revenue strategy and the tactical plans to execute it. It is important that the general manager does not undermine the strategy by focusing on short-term results, demanding constant changes, or requiring implementations that work against the original strategy. If this happens, no one will be successful. The general manager needs a full copy of the strategy and someone to walk through all of the high level points with him or her. Ideally, the general manager will have been involved in the development of the strategy, but depending on the hotel structure this is not always possible.

Communicating to Sales and Marketing

Revenue management and sales have a long history of not always seeing "eye to eye." Because of this, it is vital that there is a strong level of communication between the two.

Sales and marketing professionals need to have a good understanding of the revenue strategies — both short and long-term. Without this understanding, it will be difficult to ensure that everyone is on the same page and working toward the same goals.

There are many ways or approaches to communicating the revenue strategies and providing information that will help sales and marketing know specifically what they can do to impact the goals — both negatively and positively, as well as both long-term and short-term. It really is all about the communication and information shared that will bridge any gaps between these departments or disciplines.

It is critical to provide them with an overview of the various demand periods with the supporting rate strategies. Ensure that sales and marketing both have a solid understanding of specific dates and time periods for when business is needed. Discuss specific items that can help to fill the slower times with more business. Hotels that are corporate focused may consider ideas such as GDS marketing campaigns, consortia campaigns, or value-add promotions to offer during these dates. Hotels that are leisure heavy might consider an email promotion or online promotions. The point is, identify all possible options to help drive more business during the "need" times based on the customer type that makes the most sense for the hotel and timeframe.

It is equally important to ensure that sales is included in the strategies for high-demand time periods. A good example for a corporate hotel is to ensure that everyone knows how corporate contracted business will be yielded to accept longer length of stays versus one night stays. Or some may even be closed out completely if the contract allows.

One of the ways to ensure buy-in of the strategies and open communication is to make sure everyone is working toward the same goals. Sales managers should be measured by profitability not by volume. Ensuring the optimal communication and understanding as described will ensure proper buy-in by all.

Communicating to Operations

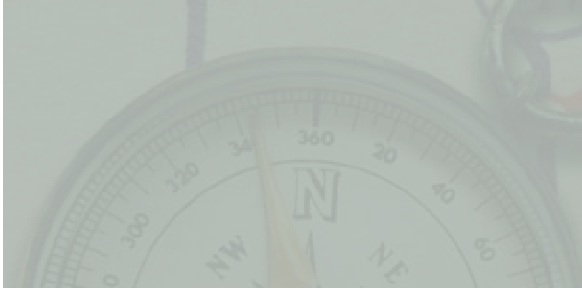
Communicating the revenue strategies to the operational departments is just as important as communicating with the sales and marketing department. Unfortunately, the operational departments are often forgotten.

The operational departments such as front desk and reservations are absolutely critical to ensuring the success of the revenue strategy. These are the departments that are dealing with customers on a daily basis, receiving feedback and questions, and are selling the products and services.

These departments need to understand the general strategies, the purpose for these strategies, and how the revenue team came to their decisions. Additionally, they need to understand management's expectations on how to "sell" the product, and they need to have guidelines for overcoming objections or resistance in their efforts to sell the product.

This can be achieved through several communication opportunities:

- Ensure the appropriate department heads are included in the meetings at which the strategies are set;
- Ensure the appropriate department heads are included in the ongoing revenue meetings (see recommended revenue team members);
- Attend the appropriate departmental meetings. This will be extremely helpful in providing information directly to the line staff and answering any questions or concerns they may have.



Another point critical to success is providing the operations team with an understanding of how they can impact the results directly. Ensure that they are provided with the tools and training to know how their activities have a direct impact on achieving the revenue goals and adhering to the revenue strategy. A whiteboard in the back office outlining the monthly revenue goals along with a daily status update of what is on the books is a great way to keep them informed.

Remember, good communication is the key to maintaining successful relationships.

Implementing a Successful Revenue Strategy

The next step is to ensure a successful execution of the revenue strategy. This is where many hotels drop the ball. There are several things hotels can implement to ensure the strategy is executed successfully.

The first and most critical is to ensure everyone's incentives are created so that every team member is working toward the same goal. Create the incentives to focus and reward based on profitability. This does not mean the incentives must be the same across the board. Instead, just be sure the incentives created are appropriate for each individual and allow their focus to be on the same end goal as everyone else.

The next step is to ensure all appropriate departments understand their role in the strategy and tactical plans. Each department should have a specific plan of action that is appropriate for their department and positions. Review these plans with each department. Follow up periodically with one-on-one meetings to work through any challenges and give recommendations. This follow up is key to ensuring everyone stays motivated and continues moving forward.

Measuring the Success of a Revenue Strategy

Measuring the success of a revenue strategy is just as important as developing it. Without measurements one would not know the outcome and what needs to be changed for the future.

One of the key indicators of whether or not a revenue strategy worked for a hotel is how many times the revenue team wanted to or tried to make significant changes without an extreme market change. Did the team implement tactical plans that conflicted with the overall strategy? Did this happen often? Was everyone questioning the strategy over and over again? If the answer is yes to these questions then there is a strong possibility the overall strategy was not developed to work realistically for the hotel and the market conditions. It is also important to drill down further and review each element and how successful each one was throughout the year.

Each department's role must also be reviewed. Did the department implement their specific action plans? What worked? What did not work? What were the challenges? What was done to overcome these challenges? Was it the specific actions that were failing or not appropriate, or were they neglected? Was it human error? Was it process error?

Adjusting a Revenue Strategy during Extreme Market Changes

Effective strategies are the outcome of expert analysis and evaluation. Strategy setting is an ongoing process. Through excellent management, it will become obvious when to change and when to maintain the current strategy.

Anyone can have the best laid plans but the reality is that extreme market changes can cause a need to adjust a revenue strategy. Hoteliers have faced the reality of major unexpected events significantly impacting revenue strategies. Events such as 9/11, the tidal wave in Japan, Hurricane Katrina in New Orleans, and so many more have forced hoteliers to quickly readjust their plans.

It is important that, if a hotel company uses a revenue management system, the system can quickly recalibrate to take into consideration the new market conditions when establishing revenue recommendations, pricing and inventory controls. If a hotel company does not utilize a revenue management system, it is equally important that the hotel is able to make quick changes in all channels in order to respond to an extreme market change.

Additionally, data from past time frames in which there were extreme market changes should be examined to determine what worked well, what didn't work well and what adjustments produced the best results. A plan must be created and executed quickly that considers major demand impacting events. For example, after 9/11 many companies realized they had to do drive campaigns with organizations like AAA, because many people stopped flying. During those times, it is crucial to be aware of changing travel patterns and create a plan to address the new reality.

KEY REVIEW QUESTIONS:

What is the foundation to creating a revenue strategy?

What are some of the elements to ensure are included in every revenue strategy?

What methods can be used to communicate the revenue strategy?

How should a hotel determine if a revenue strategy is working for the hotel?

CHAPTER 8

PRICING: STRATEGIC TO TACTICAL AND BEYOND

KEY LEARNING OBJECTIVES:
To understand the impact of pricing on the bottom line;
To comprehend the importance of strategic pricing and why it is a priority over tactical pricing;
To understand why it is important to execute rate strategies in a timely and accurate manner;
To relate the market position to the price;
To realize the importance of pricing integrity;
To understand the dangers of discounting;
To understand alternatives available to hoteliers before discounting becomes an option.

Once the revenue strategy is secure, it is vitally important to accurately price the perishable room inventory. Industry experts indicate that when a hotel realizes revenue growth through rate, 95% flows to the bottom line, and if the growth comes through occupancy, approximately 50% flows to the bottom line.

This drives home the importance of pricing and the impact of appropriately developing a hotel's pricing strategy and managing the tactical execution of the strategy. In the past, revenue management practices had a strong focus on the management of stay controls, such as length of stay requirements in an effort to maximize revenues, and pricing was secondary. Today, the focus has grown to place more of a priority on the importance of pricing strategies.

Pricing strategies allow hotels to charge different room rates for the same or similar rooms according to customers' characteristics and needs. For example, a senior citizen traveler looking for a AAA discount has different needs, different characteristics, and a different willingness to pay than a corporate traveler has. As a result they may book the exact same room but pay a much different price. Along with the different price may be certain booking requirements or unique restrictions.

Once the market segments are defined for a hotel, it is up to the revenue director, along with the director of sales, to ensure a healthy mix of the segmentation. This is a key component to optimizing a hotel's pricing strategy and approach.

Since hoteliers offer multiple rates for essentially the same room type it is critical to understand the importance of pricing and all it encompasses. This section explores strategic pricing and the various pricing-related elements.

Strategic Pricing

Developing a long-term pricing strategy is a very important part of a hotel's overall revenue management process. Proper creation of a pricing strategy and proper deployment of that strategy will ultimately provide the hotel with an opportunity to identify and capture the optimal revenue opportunities in both good and bad economic times.

Too many hoteliers take a tactical approach as opposed to starting with a strategic approach. Developing a long-term strategy allows hotels to look out into the future and do a proper analysis of the realistic needs and opportunities and determine the most appropriate pricing for their hotel in the current marketplace. This is the best approach and is a good start to ensuring the hotel has an eye out to the future and is focused on long-term benefits.

A strategic pricing strategy allows hotels to be proactive and provide guidelines and plans for the entire hotel sales team to effectively sell the products.

Pricing guidelines will allow the sales department to effectively and confidently quote rates for the future because they will know the price points for specific demand periods and specific dates. With pricing guidelines, sales will have the opportunity to analyze the potential business themselves and work quickly with the customer without having to take the time to discuss pricing with the revenue director unless there is an unusual circumstance. Ultimately, this allows for more empowerment and confidence in the sales department as they will have a solid understanding of the hotel's future outlook, peak demand times and times of need. In addition, if the sales department's incentive is tied to profitability as discussed earlier, having pricing guidelines will help them reach their personal goals.

Strategic pricing done right offers the following benefits:

- Reflect overall corporate or hotel strategies such as maximum growth, maximum revenue or new market growth objectives;
- Communicate positioning, image and branding for targeted segments;
- Communicate expectations of product quality, status and value to prospective customers;
- Determine long run revenue flows and ROI;
- Be used as part of the process for building long-term customer relationships.

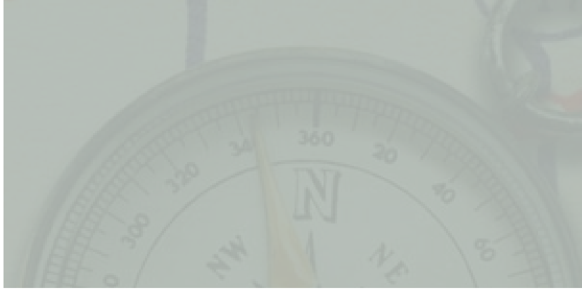
Creating a Pricing Strategy

Creating the pricing strategy must include all of the revenue team members. This is something that must be done as a team and not by one person alone. Each revenue team member will have a unique perspective and important input. Additionally, this will ensure buy-in to the final strategy is positive across the board with everyone who must support the strategy moving in the same direction.

Creating a proper pricing strategy requires an understanding of customers' willingness to pay, customer segmentation, consumer psychology, competitive value analysis, market research, value creation and, of course, revenue management.

Every pricing strategy must address the following elements:

ELEMENT	PURPOSE / CONSIDERATIONS
Mix of Business	The most effective way to increase the ADR is to change the mix of business. Be careful not to overinflate pricing in one segment as the effect can potentially decrease the ADR. Focus on how to replace discount segments with higher rated segments such as BAR, consortia or corporate negotiated.
SWOT analysis	Provides a solid understanding of the hotel's unique attributes, strengths and weaknesses for both services and product. (An example of a hotel SWOT analysis can be found on page 40.)
Market position	Every hotel must put together an analysis that allows careful evaluation of the hotel compared to its competitors. It is important to understand the market position of the hotel within the competitive set. This will be an important part of determining the pricing for the hotel. (Refer to Understanding the Market chapter for more details on this.)
Seasonal demand	One of the fundamentals for a pricing strategy is to understand market demand for the various seasons in the marketplace. Flexibility for seasonal rates must be taken into consideration.
Day-of-week demand	In addition to the seasons, it is also important to take into consideration day-of-week flexibility. What are the hotel's peak days throughout the week? What are they for each season?
Length of Stay (LOS)	Determine effective use of LOS pricing. Offering pricing based on various lengths of stay can lead to increases in revenues simply by being able to price according to the length-of-stay demand. It can, however, be a challenge to manage without automation from a revenue management system.
Customer segmentation	Understanding the customer segmentation specific to the marketplace and to your hotel is critical. Every hotel must identify the target customer segments appropriate for the hotel and accordingly create price points to satisfy each segment.
Special need periods	Identify the hotel's need periods and areas of opportunity for promotional offers. This may include holidays, special events in the marketplace, or low demand times. Identify these times and create promotional offers as part of the hotel's overall strategy. This will ensure the team will not need to create something last minute and potentially miss an opportunity.
Room type or product demand	Understanding the product needs within a market and how the hotel can optimize the opportunities is critical. For example, is the hotel targeting families for vacations? At the most basic level, this will indicate a need for family suites and rooms with two beds and connecting rooms. It is also important to drill further down and know the demand by room type. Hotels need to know: • When can the hotel sell full rate for each room type versus needing to set oversell strategies and upgrade for free? Different demand periods (seasonal, DOW, etc.) will dictate these strategies. • Hotels can also take advantage of shifting lower room types into higher room types when possible. For example, identify if there is an opportunity to combine room categories so that the lower rated rooms are eliminated or limited. This will help lift the hotel's revenue and ADR. • Another important strategy to consider for group or business travel markets is identifying opportunities to create a higher level room type and offer it at a higher rate. • Managing the room type availability for contracted rates can be another part of a hotel's strategy. Close out availability or set restrictions on lower room types for the contracted rates and only sell the higher rated room types.



ELEMENT	PURPOSE / CONSIDERATIONS
Channel strategies	Be sure the hotel includes channel strategy as part of the pricing strategy. Identify all of the appropriate channels — offline and online — in which the hotel participates or should participate. Defining multi-channel pricing strategies is a must for today's landscape. The Internet has drastically changed hotel pricing over the years. Its speed and transparency have changed the way hoteliers approach a multi-channel strategy. Channel strategies not only include pricing but they now also include the influence of consumer reviews posted on various channels.
Customer loyalty	Understanding customer loyalty is also a very important part of creating the strategy. Every hotel has specific customers or customer types that must be considered in their pricing. Ensure this is discussed and that there is an agreement on the strategy that will be applied to them.
Education for sales and reservations on the process / approach	Be sure to educate reservations about how they are expected to sell the product. How should rates be quoted? Top down; bottom up? Should they offer the rate up front followed by the description or should they offer the description and benefits followed by the rate? There are many different approaches that can be taken by reservations and sales. It is critical to establish in the sales strategy how to sell the value of the products and rates.
Room costs	Understanding the direct and indirect costs associated with rooms is an important part of pricing. Knowing the costs and incremental costs will ensure that profits can become a focus and ultimately be incorporated as part of the pricing strategy.
Price fencing rules	Ensure that the revenue team strategies about the various fencing rules that can be applied to specific rates. This will allow hotels to define booking conditions or parameters that need to be met in order to book a room rate. This will ensure that the hotel strategically considers and protects specific segments from being diluted from lower or discounted rates.
Channel costs	In the past, hoteliers needed to have a strategy behind price parity — meaning do they offer the same rates on all channels or will they have a best-rate guarantee? Today, with metasearch sites such as Kayak, TripAdvisor, Google Hotel Finder and so on, it is too easy to simply find the "lowest rate." Now hoteliers need to ensure that their channel management approach is sound. For most this requires more sophisticated connectivity to allow easier rate management.
Cost of acquisition	Understanding the total acquisition costs for a hotel is critical in today's environment. Hoteliers must understand the impact on profits through all of the various costs of acquisition. More will be explored later in this publication.
Consumer reviews	As will be explored later in this publication in much more detail, it is critical for hoteliers to understand what the consumer's perception is about the hotel. What are they saying about the hotel online? What are they saying about the competition online? Understanding the consumer reviews and feedback will have an impact on a hotel's ability to properly define its pricing strategy.
Booking policies	Understanding the booking policies — cancellations and prepaid bookings — within the market place is crucial. This needs to be understood by distribution channel and even down to the various OTA sites. Since customers shop around it is important to remain competitive and ensure that policies do not conflict with each other. For example, do not be victim to allowing customers to book early and then find a better deal on a same-day-offer site and then cancel their original higher rated booking and book through the same-day channel at a cheaper rate.

TO BE OR NOT TO BE (IN RATE PARITY)

by Chinmai Sharma, CRME

Recently the rate parity discussion between hotels and OTAs has heated up again. The rising costs of distribution and the lack of ecommerce infrastructure and focus at hotel companies has always resulted in a love-hate relationship between the two sides. To add some more spice to this interesting relationship — the OFT in UK (Office of Fair Trade) along with some other similar consumer protection agencies in Europe like the German Federal Cartel Office launched an investigation on the rate parity clause between the OTAs and hotel companies (the UK case involved two major OTAs and one of the largest global hotel companies). This investigation centered on competition concerns by the OFT citing that the OTAs had entered into agreements with the global hotel company that restricted the ability of these companies to discount rates to the end consumer due to rate parity / MFN (most favored nation) type clauses in their contracts.

The ironic part is that hotel companies are the ones that came out with this bright idea of rate parity many years ago as an easy way to protect their interest and to ensure that customers were not finding better deals on other online channels. Now the same Best Rate Guarantee (BRG) and rate parity logic is becoming an issue, as consumer protection authorities in Europe are saying that this practice infringes on EU competition laws. Their argument is that such contracts are not beneficial to the customers as they are unable to find lower rates online and that this practice also forms an entry barrier to new OTA channels that want to enter the market.

The case on rate parity has been closed for now by the respective offices in UK and Germany. While the Germany ruling basically states that having rate parity clauses in OTA-Hotel agreements is not allowed, the UK ruling states that both hotels and OTAs are allowed to discount rates but only to 'closed groups' like loyalty members. To keep things exciting one of the meta-search companies in Europe has asked for a full antitrust investigation on the UK ruling as discounts in closed groups would mean meta-search sites would not be able to show the lowest rate to their consumers. As you can see this issue is not going to be solved soon and there will surely be more legal cases coming up in different markets. The idea of discounting freely in closed user groups is also not very appealing to hotel companies as the OTAs do a better job of acquiring qualified customers as well as in retargeting / CRM. The other issue is that discounting in closed user groups could be a race to the bottom with both sides trying to outdo the other by offering better rates. The other commercial aspect is that the OTAs will have no incentive to promote hotels who don't play ball and offer uncompetitive rates vs. other channels. This means that if a hotel wants to generate some visibility and revenue from the OTA partners they will still have to work on some broad guidelines irrespective of the contract language. For now Keep Calm and Let the Revenue Manager Handle It!

In addition to understanding the elements that must be considered for the pricing strategy, it is important to understand the timeframe for which the pricing strategy should be created.

Similar to the demand forecast, a pricing strategy must be created for the same timeframe for which the hotel receives booking requests. If the hotel receives group inquiries five years out, then the pricing strategy must support this timeframe. Hoteliers must also understand, in detail, the booking windows and deploy pricing based upon the customers' propensity to book specific rates at what times.

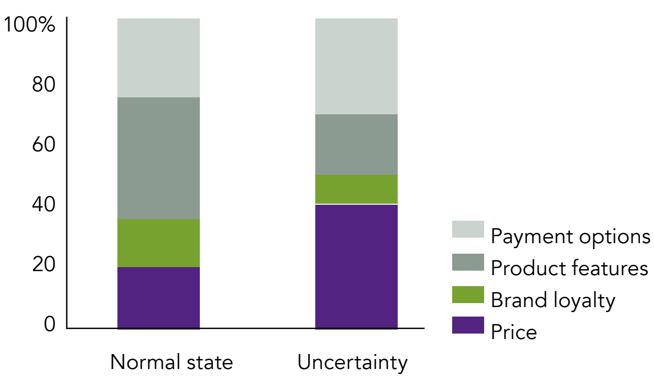
1. Share the results of any pricing research and the overall pricing strategy with the sales team. It will help build confidence in the pricing strategy.
2. If booking pace is slow, do not assume rate is the problem. It may be something else, in which case a price cut is not the answer.
3. Include the sales team in the pricing strategy development process. It will enhance buy-in and reduce roadblocks.
4. Be sure the sales team, including reservations, is asking good questions about customer needs. Qualifying the customer helps reduce the necessity to discount.
5. Make the connection between the product offering and what the customer wants.
6. Ensure the offer is focused on the value, not the price. Educate the reservations team on making the offer, asking for the sale, and overcoming objections.
7. Negotiate later in the process. Giving discounts in the early stages of discussions does not make the customer feel they received as high a value as they do if the discount is given at the end.
8. Price objections are often a disguise for deeper concerns.
9. Establish the hotel's value early or the hotel will always be defending price.

10. Include the pricing strategy as part of the annual business plan. The more specific the direction the better.
11. When determining costs to support a pricing analysis, consider how they change as the volume changes. What are the incremental costs?
12. Put a process in place that requires reviewing the number of price adjustments made over time. If there are too many adjustments, identify the concerns and address them.
13. Measure the margin performance of the sales team and reward high performers. Provide incentives to book business during low demand periods.
14. Implementing a price increase can be done in several different ways. For example, consider reducing discounts to less profitable customer segments.
15. Be sure to communicate the value being delivered after the sale is made. This will reduce price resistance the next time they buy.
16. Be sure to measure the won/lost ratio for all inquiries. It will help to identify trends and be less reactive.
17. Consider the costs of retention versus those of acquisition when determining the discounting policy.
18. Watch for "system beaters," those who complain every time they inquire about a room or service just to get a discount.

LEVERAGE BEYOND PRICING

Although pricing becomes more important during periods of economic uncertainty, other levers still remain valuable to consumers.

Value importance shift during uncertain times



Source: Accenture analysis

Keeping the Focus

If it has not already been stressed enough throughout this section, and even throughout this publication, it is important to review it again. It is absolutely vital that hoteliers ensure pricing is driven by an overall strategic focus and plan. This should apply to every aspect of revenue management.

High-value product and service providers must base their pricing decisions on the changing needs of their customers, not on the pricing moves made by their lowest-cost competitors.

In weak economies, smart prices outperform their nervous rivals by confidently honing their strategic focus and deeply understanding changes in customer demand.

Pitfalls of Losing Focus

It is very easy to fall into a trap and believe that the best thing to do is abandon the pricing strategy and go rogue. When unexpected or even expected changes begin to occur — one of the most common expected changes is a competitor significantly dropping their rate — do not panic. First, it is important to do research to identify the reasoning for the change. The fact that a competitor decreases their rate or seemingly changes their strategy completely does not automatically require the same activity at your hotel. Perhaps the competitor received a last-minute group cancellation and they are desperately trying to fill the void. Perhaps they are panicking because they are finding they are not bringing in the level of business they had originally set out to get. Perhaps they have a general manager who forces changes without sound reasoning. Perhaps they have a revenue director who is making poor revenue decisions. Does their poor choice in tactics require other hotels to follow and make the same poor choices? We think not.

This is where developing and maintaining a strong SWOT analysis is critical. Having the right information on the hotels within the competitive set will help the revenue team better understand when hotels react and even understand the reasoning when the unexpected does occur.

Drastically modifying a pricing strategy — while in the short-term it may drive short-term results — in the long-term it may negatively impact customer confidence and can ultimately damage long-term pricing goals; specifically in how this relates to improved market mix and market position. This damage can have long-term effects on the performance of the hotel that can last years. If you do not trust your pricing, how will others? Hotels that easily divert

from their market position will struggle with revenue growth in the long-term as they have degraded their value in the market.

If booking pace is slower than anticipated do not assume price is the problem. Do the research to identify the issue. If it is not pricing, then cutting prices is not the answer. That could mean immediate and unnecessary lost revenue.

Go back to the original strategy, how it was arrived at, and why. Are the foundational principles still the same? It is important for owners and asset managers to understand the long-term negative impacts on asset profitability as a result of focusing on short-term decisions such as covering cash flow. Those that continually tweak strategy are not allowing the overall strategy sufficient time to impact change.

During good times hoteliers are more apt to pay attention to their own needs and price as a benchmark of what the market will bear. During downturns, hoteliers tend to follow the herd to the bottom. There are always opportunities to maintain or grow rate even in a down economy.

Getting Tactical

As mentioned earlier, strategy setting is an ongoing process. However, there are times when it may be necessary to adjust the strategy due to unforeseen circumstances. It may be necessary to tweak the strategy and make some tactical changes.

Tactical pricing is the process of reviewing and changing the existing long-term strategy in order to have a shorter-term more immediate impact. It can be very beneficial if considered and applied only when the overall long-term strategy needs to be adjusted due to unforeseen circumstances. However, it is important to fully understand that tactics should never ignore the overall hotel revenue strategy.

Tactical pricing when done correctly allows hoteliers to:

- Manipulate last-minute or late-booking demand through price incentives;
- Achieve short-term cash flow;
- Determine daily revenue yield;
- If appropriate, match competition by the quickest available method and send warning signals to the competition of aggressive action;
- Promote brand or product trial for first-time customers;
- Provide a vital, short-run tool for crisis management.

Tactical pricing can be an opportunity to drive performance from targeted markets and achieve short-term cash flow as long as it is supported by the hotel's overall long-term strategy. It is important that the tactical strategy supports the market position of the hotel. Tactical strategies that are deployed on their own can be costly and less impactful. Tactical solutions utilized in conjunction with long-term strategies can often help jump start a long-term revenue strategy as long as they are used sparingly.

The key point to tactical pricing is to use caution in applying tactical solutions. Tactical pricing should be considered carefully and applied in a way that does not go against the hotel's overall strategy.

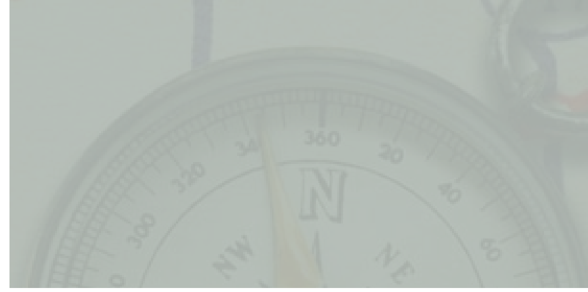
Discounting

Most hoteliers agree that discounting is necessary during difficult economic times. It is also necessary during up times, as well. Discounting is typically done to achieve additional revenues by enticing guests into booking hotel rooms by lowering rates in order to increase occupancy in the short-term.

Experts say, however, that decreasing room rates does not bring higher room revenues. On the contrary, decreasing room rates dilutes RevPAR. Instead, hoteliers need to focus on the bigger picture — overall strategy and value. There have been numerous arguments and studies surrounding whether discounting is beneficial or harmful to hotels. Research has shown that hotels with an ADR significantly lower than that of their competitive set have an inferior RevPAR performance relative to their competitors.

Cornell's Center for Hospitality Research has conducted research on the topic of discounting and has released several articles with their analysis. One such article entitled, "Why Discounting Doesn't Work," was followed by, "Why Discounting Still Doesn't Work: A Hotel Pricing Update."

The second article states, "Overall, for hotels that held their price below that of their competitive set, average percentage differences in occupancy was higher, but average percentage differences in RevPAR were lower as compared to the competition. For hotels that held their price high relative to their competitive set, on the other hand, average percentage differences in occupancy were



smaller, but average percentage differences in RevPAR were greater."

According to the research, hotels with ADRs 12% to 15% lower than those of their competitive set had 10.38% higher occupancies but recorded a 4.44% lower RevPAR. However, hotels that priced 6% to 8% above their competitive set obtained a lower occupancy by 1.84% but a higher RevPAR by 5.02%. The research also included information about the different hotel market levels. The results show that the relationship holds true across all different hotel levels, from luxury to limited service.

There has been much research done that proves discounting is not the best course of action just because a hotel needs to achieve their budget or to generally increase revenues. Research over the years has shown that:

- Hotels still haven't learned that dropping rates will not recover enough revenues to cover the discounting. These just cause price wars in the long run.
- Discounting can cause Price Wars!! How low does one go? It can also cause "rates versus perceived services" issues. If one sells too low this may cause damage to a brand's perceived image.

According to Jessica Comaskey, Director of Revenue for Commune Hotels and Resorts' Chicago Athletic Association Hotel, "Discounting is not a demand generator unless the discounting is tied with a strong marketing plan. Discounting as it is practiced by most hotels allows for customers to buy up but does not necessarily drive demand. Instead discounting has a cascading effect that will impact the overall competitive landscape."

Why Do Hotels Discount?

The basic principle and foundation of discounting is to try to fill rooms that would otherwise remain empty.

Discounting is an attempt to increase occupancy. This is achieved by potentially stealing market share from the competitive set by enticing leisure customers or price-sensitive customers who may respond to the perception of a better value.

Additionally, by increasing occupancy it provides the hotels with opportunities to generate revenues throughout the other revenue generating departments at the hotel. It also provides the hotel with more cash flow during difficult economic times.

While there are some potential benefits to discounting it is of the utmost importance that hoteliers understand the complexity and dangers that discounting may potentially bring.

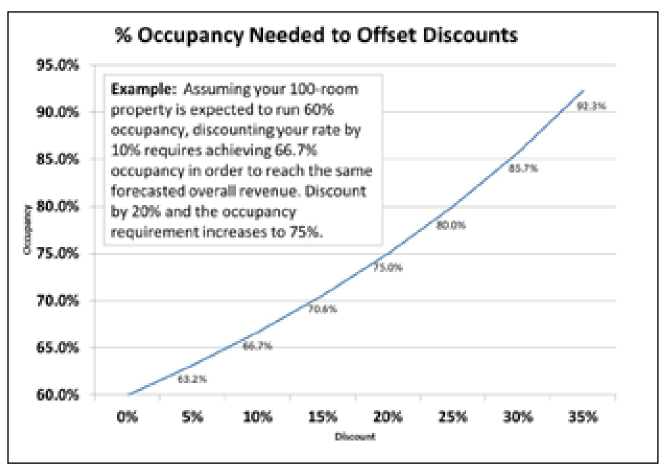
Cornell University has published excellent information cautioning hoteliers about applying discounts.

The following charts illustrate the complexities of discounting and how important it is to understand the impact discounting has on a hotel.

They illustrate the occupancy needed in order to make up for the discounts that are applied to the rates.

Using this example, if a hotel running a 60% occupancy drops its rate by 10% it will now have to obtain a 66.7% occupancy in order to reach the same overall forecasted revenue. This increase in occupancy is necessary just to break even. In order to increase revenue, the hotel would have to achieve an occupancy greater than 66.7%.

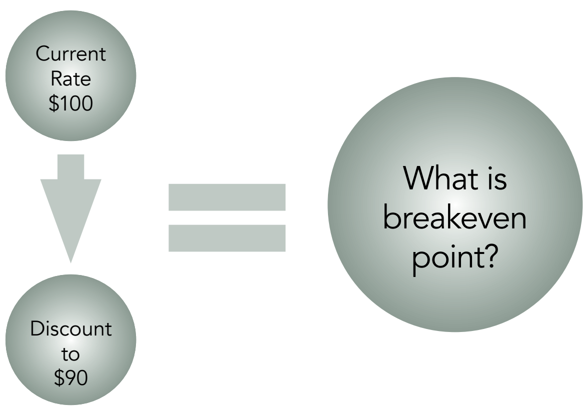
A hotel that drops its rates by 20% and previously ran a 60% occupancy would need to obtain a 75% occupancy to make up for the lost revenue.



Discount	Occupancy %	*	ADR	=	RevPAR	Revenue
0%	60.0%		$100		$60	$6,000
5%	63.2%		$95		$60	$6,000
10%	66.7%		$90		$60	$6,000
15%	70.6%		$85		$60	$6,000
20%	75.0%		$80		$60	$6,000
25%	80.0%		$75		$60	$6,000
30%	85.7%		$70		$60	$6,000
35%	92.3%		$65		$60	$6,000

This scenario assumes your property has 100 rooms available to sell

The following is a simple calculation that every hotel can use when considering offering discounts. Prior to offering any discounts, each hotel should consider going through this exercise to identify if it is worth it and find out if the discount can make up the revenue lost by applying the discount.



The "break-even point" is the number of additional reservations that would need to be confirmed at the discounted rate in order to break even with the original potential revenue. Therefore, if the hotel is to apply this discount, there needs to be a high level of certainty that it can capture additional reservations over and above the break-even point.

REVENUE GOAL	$10,000		
Price points	$100	$90	$80
Number of reservations needed to achieve the goal	100	112	125

At a 10% discount, the hotelier will need to be certain they can capture an additional 12 reservations to achieve the same revenue goal. At a 20% discount, the hotelier will need to be certain they can capture an additional 25 reservations to achieve the same revenue goal.

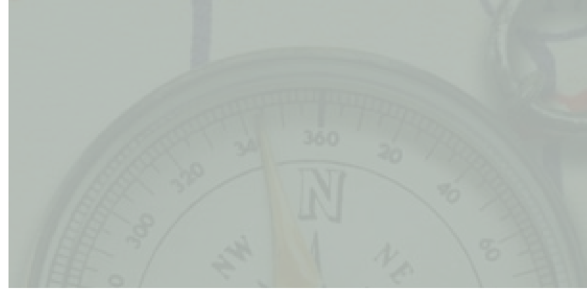
A vital part of this exercise is to test it. Draw a line in the sand, record the probable outcome prior to discounting and compare the actual results. Did the hotel achieve the desired gain? Continue to test over and over again. This will truly give you an idea of whether or not the change will really achieve the end goal.

It is important to note that during times of low demand in a market, the number of rooms needed to recoup the revenue lost as a result of discounting can be extremely challenging. Since discounting itself will not increase demand — instead it may help to shift share — the market impact of discounting must be considered.

If one hotel discounts to try to shift share, the next competitor may do the same in order to be competitive. This then turns into a price war and it can easily become a vicious cycle where the hoteliers drive their own prices down. More about the pitfalls of discounting are explored in the following section.

It of course goes without saying that the break-even point is just one piece of the decision making process. There are multiple other points that must be considered. The following are some other points to consider before the decision to discount a rate is made:

Marketing Plan	"Discounting will ONLY create demand when it is tied directly with some type of marketing initiatives," offered Warren Jahn, Ph.D. of IHG. What type of marketing plan will the hotel put into place to target the right segments and capture the right amount of additional reservations?
Long-term Impact	By offering this discount, what long-term impact will it have on the hotel?
Ancillary Revenues	Can the hotel capture the segments which are likely to have solid spend in other areas of the hotel?
Dilute Existing Business	By offering the discount will the hotel risk existing business cancelling reservations on hold just to re-book at the newly offered discounted rate?
Target Segment	By discounting the rate, are you targeting the appropriate customer? What type of customer will you be attracting?
Hotel Staff Perception	Ask the appropriate staff at the hotel what their perception is regarding rates. They are the ones talking directly with the customers and gaining feedback daily. What do they hear? What are their recommendations?



Customer Perception	What is the customer's perception of your hotel? What other hotels do they consider when booking? Who do they consider to be your competitors? Are they comparing pricing with the same competitive set you are? Many times customers that are searching for that discount will be the most vocal and critical on consumer review sites.
Tracking	An oldie but goodie…are you tracking regrets and denials and reviewing the information? What does this data show you? Is it really price resistance that is the reason for the lack of bookings? Are you training your loyal customers to wait for discount offers? Have you changed their behavior and booking channel?
Competitive Set	Is the competitive set decreasing its rate? Following their lead without understanding the reason behind it is not a good strategy.

Before hotels even consider decreasing pricing, appropriate research must be done. Perhaps pricing is not the issue at all. Use caution before automatically jumping to discounting prices.

Discounting Pitfalls

Deciding to discount rates without understanding the long-term impact is a mistake that is made by many hoteliers. Too many hoteliers automatically jump to offering discounts in an attempt to capture more of the demand. This may or may not be the right short-term approach and it may also create long-term challenges.

Discounting rates does have a long-term impact which is often not understood by hoteliers. Often, rates are discounted to capture short-term demand, competitors follow and then the consumer expects these same levels of rates to be available again.

According to Ypartnership, research shows that consumers will only accept up to a 5% increase in rate year-over-year. So for hotels that discount their rates by 25% for short-term gain, this means it can take them five years to successfully bring their rate back up to its original starting place.

Hoteliers must also consider what discounting does to the demographics. It is important to anticipate change in the demographics. Good examples of this are hotels in Las Vegas as they rely heavily on ancillary revenues for their mainstream of income. When hotels in Las Vegas offer discounts they find the customers enticed by the lower rates are those who go out or order pizza instead of those who eat in-house.

As mentioned, regardless of the reason, when hoteliers decide to discount their rates, experience shows that in all markets the majority, if not all, of the competitors will follow.

Hoteliers have many tools available to them today that allow competitors to see rate drops almost immediately. It goes without saying that if the competition then drops their rates, the first hotel to start the price drop will lower their price again…and so the cycle begins. This is a vicious cycle, often referred to as a "pricing war," that leads to devastating negative consequences.

Hoteliers attempt to lower their pricing in an attempt to maintain or increase their market share. But it often has a devastating, long-term impact on the hotel's performance and profitability.

Offering discounts in an attempt to steal market share also has its challenges. As stated in the previous section, discounting may allow one hotel to steal price sensitive customers away from another hotel, but what is to say this customer will remain loyal for their next booking? This customer will most likely book the hotel that is the least expensive and the price war continues!

Customers that are driven by discounting may fulfill short-term needs of the hotel but could be displacing potentially long-term loyal guests and higher yield segments. Discounting tends to drive performance from the costliest channels and can impact a hotels long-term market mix needs. Hotels that rely on discounting to drive performance tend to struggle with performance from higher yield segments as those segments find value in BAR positioning. Consistent discounting will degrade the value of BAR and will impact a property's performance from higher yield, less costly channels.

The final pitfall of discounting remains that hoteliers continue to discount without the full understanding of the long-term negative impacts, the negative impact on RevPAR and the vicious cycle of price wars.

Discounting definitely has a place in the industry. But it must be approached and executed smartly and cautiously. This is where maintaining a long-term calendar of high-demand and low-demand dates are key. Understanding those dates will ensure minimal reliance on discounting to drive performance. Hoteliers need to ensure that

strategy and rates are guarded and valued. If everyone can get on board with this philosophy, the industry as a whole will prevail.

Impact of Discounting:

- Budgets and forecasts are impossible to manage
- Risk cannibalizing existing business and damage to brand
- In an upward market, everyone follows the best practices of the market leader, in a downturn everyone follows the first person to panic
- Smaller properties cannot make up in volume what they lose in rate
- Decisions are based on competitors' action rather than the hotel's strategic initiatives and revenue needs
- Ability to manipulate behavior using price is severely limited in a falling market
- Discounting often 'doubles up' the loss of occupancy and rate
- Profitability is often overlooked and can be adversely affected by reductions
- Markets take years to recover.

Price Points

In order to have success with the different pricing methods, the price points must be established correctly. In the simplest terms, price points can be defined as multiple levels of prices that are offered based on the demand for the product. The price at which the hotel decides to offer their product (based on the customer's willingness to pay) is a price point.

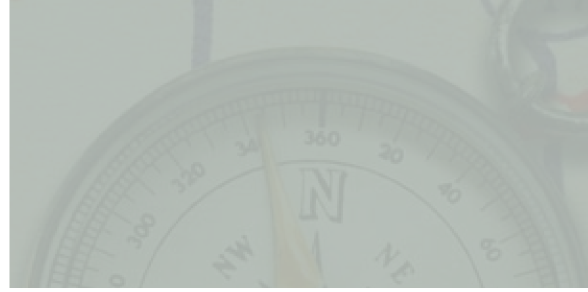
There are multiple segments of customers and all of them have varying levels of willingness to pay. One example of this is that the customer who is price sensitive and time conscious generally pays less by reserving in advance. A customer who is willing to pay more and books the room just one or two days prior to their stay often pays more. This translates into hotels creating appropriate price points according to the demand for each segment. Not only does the hotel have to create appropriate multiple price points for each segment, they also need to consider the local market and the hotel's position within the market.

The process of creating price points can be a challenge as it is important to ensure the right number of price points are created to allow the hotel to manage according to demand. If hotels create too few, they risk losing customers who may have been willing to pay at other prices, and if they create too many they risk the inability to manage their rates appropriately and effectively.

There is no one way to create price points for a hotel. However, there are some guidelines or considerations that must be included in the discussion with the revenue team.

Positioning	Know your position in the market. Is pricing a key factor in your positioning? Are you positioning the hotel on value? For a hotel that positions itself as an exclusive luxury hotel, a low price can hurt its image. Price does need to be consistent with the positioning. Consumers do hold true to the idea that you get what you pay for.
Demand Curve	How will the pricing impact the demand?
Cost	Know the fixed and variable costs associated with your products. Be sure these costs are calculated into your pricing to understand their implications on profit.
External Factors	Know what external factors may impact pricing. Are there any local restrictions such as government per diem rates? Will your pricing impact your competitor's pricing and trigger price wars?
Value Based Pricing	Hoteliers must price their products based on the value created for the consumer.
Perception	There are certain price points at which consumers become more willing to book a room. For example, instead of offering a rate at $200, a better perceived rate may be $199 or $195.

The following section addresses the importance of segment pricing and elements that should be considered.



Segment Pricing

The power in pricing clearly sits with the consumer. The consumer decides the price and the conditions they are willing to accept. And the definition of what is acceptable will vary tremendously for any product, depending on the consumer's circumstances at any particular point in time.

Consumer behavior, however, is not easy to predict. The factors that drive the purchasing decision and the price the consumer is willing to pay are not necessarily linked to demographics or psychographics. The same individual can exhibit different behavior when purchasing the same product.

One example of this is the consumer who regularly stays at the same hotel and books the same type of room and their purpose of the stay is generally for business. This person generally makes the reservation a few days prior to the arrival date, confirms a business rate, and can expense the cost of the hotel stay back to the company for which he or she is traveling. However, the same person can book the same type of room when traveling for pleasure and the characteristics of their needs will be different. In this case, they may book further in advance and want a value based price as this expense will come directly out of their own pocket.

Market segmentation is the key to developing segment-based pricing and ensuring revenue maximization. Hotels must identify the types of customers they have and the prices they are willing to pay for utilizing the hotel's products and services. The following table is a guideline and some parameters to use in understanding this for a hotel. It is one example and must be customized for each market and hotel specifically.

Negotiated Pricing

Negotiated pricing has been around for quite some time. It is also referred to by hoteliers as volume or preferred pricing. For the purposes of this section, it will be referred to as negotiated pricing.

The fundamental definition of negotiated pricing is a price that is established through meetings or discussions between hoteliers and travelers. A special or negotiated price or discount amount is offered by hoteliers to those who are in need of hotel rooms on a regular basis. The frequency and amount of these needs can vary significantly. These variances should be taken into account when developing the pricing or discount.

Negotiated pricing is a basic concept that has long been embraced by hoteliers. The underlying fundamentals to this concept are the same but the way hoteliers handle the different aspects of negotiated pricing can vary considerably.

The following sections address the various aspects to negotiated pricing such as the development of a pricing structure and the various elements that should be included in every negotiation and contract.

Pricing Structure

It used to be that it was relatively simple to determine the best negotiated pricing structure for a hotel. Today however, there are many different factors that need to be considered making the process not as simple as it used to be.

In the past, hoteliers would ask the client the number of room nights they estimated they would need for the year. Based on those production estimates, hoteliers would

PHYSICAL CHARACTERISTICS	HIGH PRICE	LOW PRICE
View	Pool view, ocean view, hill view, city view	Non-scenic view
Size	Larger rooms offering more facilities	Smaller rooms with fewer facilities
Temporal	Weekday bookings	Weekend bookings
Length of Stay	Shorter stay—one or two days	Longer stay—several days or weeks
Flexibility	Cancellations and rebooking allowed with little or no penalty	High penalty for cancellation and schedule changes
Time of Purchase	Bookings made close to arrival date	Bookings made far in advance
Privileges	Awarded loyalty privileges	No loyalty privileges
Size of Business Provided	Corporate business customers book and stay frequently	Self-funding vacationers booking infrequently
Point of Sale	Physical delivery of confirmations	Confirmations sent by e-mail or phone

look up the rate they should quote based on where the total volume fell in a predetermined chart of volume ranges and rates. The focus was mainly on the estimated production for the year. It did not take into consideration profits, actual production, time of year, and so on.

Today, hoteliers know better and most understand the importance of focusing on more than just the production in determining the best pricing structure for negotiated rates.

Depending on the resources, experience and technology that is available, hotels will have varying levels of sophistication in their approach. However, it is extremely important that all hotels move away from the old way of creating a structure for negotiated accounts.

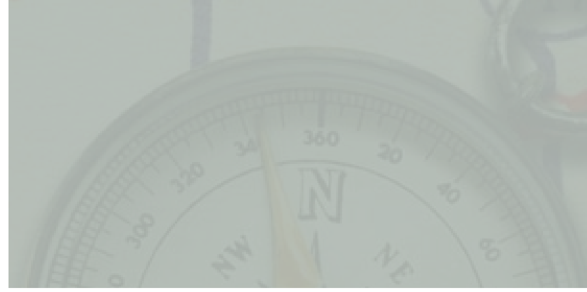
The following is a list of items that must be considered by every hotel when determining the best negotiated pricing structure.

All of these factors must be taken into consideration when creating the hotel's pricing structure for negotiated accounts. The goal should be to understand which accounts bring the most value versus those with just the most production.

Negotiation and Contract Elements

Determining the best pricing structure for negotiated accounts is one of the first steps to ensuring a focus on profit for each hotel. The second step is to include the factors used to evaluate an account's value to the hotel, as well as a review clause in the contract. If performance expectations are clearly defined for the account and the performance metrics are regularly reviewed with them, the hotel can more easily adjust the rate as necessary throughout the year based upon performance.

ESTIMATED VOLUME	IDENTIFY THE TOTAL VOLUME
Seasonal Usage Pattern and Day of Week	The ideal negotiated accounts are those that have people who travel during the times when your hotel needs the business. For example, during your slower months and / or slower days of the week. Identify the estimated stay pattern and include the time of year the guests are traveling. For example, determine the typical travel months and the day of week for travel. This information is a key factor in deciding the appropriate value of this company to your hotel. Therefore, this will impact the most appropriate rate and room type to offer. Example: If a company typically travels during your hotel's peak weekdays and/or peak months only, then the rate offer needs to reflect this. If you wish to still negotiate an offer with this company, offer a higher rate or a room type that typically has lower demand.
Ancillary Revenues	Understand any additional revenues that may be applicable from this account. Ancillary revenues will definitely bring additional value to the account and will therefore have an impact on the rate that can be offered.
Booking Method	What is their method of booking? This will impact the profit to the hotel and, therefore, the value of the account. The rate offered should reflect this.
Fixed or Dynamic Pricing	Is the hotel prepared to work with a fixed or a dynamic pricing structure? Is the client prepared to work with a fixed or a dynamic pricing structure?
Expectations of Value Adds / Inclusions	Ensure that the hotel understands the expectations for any inclusions in the rate such as free Wifi, parking, breakfast and so on. Also need to know what inclusions the competitive set may be offering.



Including performance expectations, parameters, and goals in the contract communicates that the hotel has a clear expectation of the performance required from the account in order for the client to receive the rate offered in the agreement. The client then clearly understands that should the performance expectations not be realized, the hotel has a legal right to change the rate and even potentially collect money due to the hotel to make up for lost profit based on missed performance goals.

Including a review clause allows the hotel and the client to review the actual production and true value of the account based on what has been realized. By doing this, it allows both parties to identify and understand any discrepancies, as well as identify where production or profit may be lacking and make immediate adjustments instead of having to wait until the following year's negotiations.

It is highly recommended that every hotel implement a tracking method that ensures each account's production can be easily reviewed. This tracking method needs to include the total production and have the ability to be viewed by day of week and time of year.

The review clause must also state the frequency of the reviews. It is highly recommended that the reviews be conducted quarterly. However, these should be reviewed internally within the hotel each month so that issues are identified as they occur. Hotel sales managers should always know the current performance of their accounts and should be prepared to discuss any performance issues as they happen.

One final point is to be sure that these reviews with the client actually take place each quarter. It is one thing to put the review clause in the contract but it is quite another to prepare for and conduct them, and then take action based on the key performance metrics.

The following is a guideline of areas that should be included in every negotiation process. It is broken out to include contract terms and items to include in the review clause.

FACTOR	CONTRACT	REVIEW CLAUSE
Estimated Production	Include the estimated production in the contract.	Is the actual production in line with the estimated production? Ensure it is stated that this will be reviewed every month or quarter (whatever is deemed most appropriate and realistic by the hotel).
Stay Pattern	Include the estimated stay pattern that was provided by the client and used in the analysis in the contract. Ensure that it is outlined in as much detail as possible as this information is critical to the hotel's profitability.	Is the actual stay pattern production in line with the estimated stay pattern production? Ensure that it is stated in the review clause that this will be reviewed every month or quarter (whatever is deemed most appropriate and realistic by the hotel).
Room Types	All accounts should have more than one room type and rate negotiated in the terms of the agreement. A general guideline is to negotiate two to three room types. This allows for more booking options in general and more availability options when one room type is sold out.	
Last Room Availability (LRA)	This means that if any room is available—regardless of the specific room type available at the time of booking—the hotel must allow the company to book the available room type at the lowest negotiated rate. This should be reserved for only the highest value clients and offered in the contract/rate agreement only when necessary. A hotel should not have more than a few accounts with this included in their contract. This limits any opportunity to revenue manage this account.	

Opaque Pricing

Quite the opposite of negotiated pricing, opaque pricing is a practice that is used for selling hotel inventory at a price without revealing the specific hotel or hotel brand until after the completion of the booking transaction. It is targeted at transient, price-sensitive consumers who are not brand loyal.

Opaque pricing is most commonly used through sites such as priceline.com and hotwire.com. The primary target consumer who uses these sites is price sensitive, and flexible in their travel needs. Consumers see this as a way of being able to book a higher value hotel room at a much cheaper price. The hotelier's main goal in participating in this type of program is to fill rooms that would otherwise go unfilled.

However, not all hotels participate and offer their brands through these sites. Some hotels, especially those that are considered to be luxury brands, view these sites as potentially diluting their brand perception because the view of the customer is that these sites offer low rates. Hoteliers, however, need to understand that extremely low rates are not a requirement for participation in these programs. Discounting rates from the hotel's normal rates is required but going below what the hotel identifies as an appropriate rate for their market position is not required. The difference is in how the hotel creates and manages its pricing structure.

Qualified Discounts

Qualified Discounts is a common market segment for which pricing is developed. It typically is a percentage discount off of BAR. A customer has to qualify for the discount hence the name. Rates such as Government, Senior Citizen, and AAA are all examples of this segment. These segments are often not made available unless the customer has a specific booking code for use online or requests the discount directly. Hotels control the discounts for these channels so should monitor and adjust based on demand, target customer, and day of week.

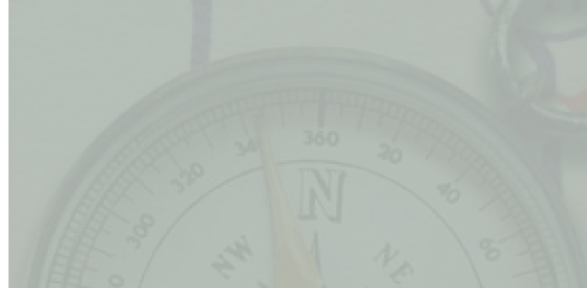
Price Fences

Discounting of rates should be offered only to selected market segments. Building effective rate "rules" or "fences" that limit the discounts to specific customer segments is key to an effective discounting strategy. By setting appropriate requirements that must be met to qualify for a particular rate, hotels can encourage purchases by some market segments, while preventing other, less price-sensitive customers from booking the lower rate. If used properly, price fencing can be very successful. If not used properly it can be disastrous.

Price fencing allows hoteliers to apply restrictions or rules to rates that prevent one segment of demand from buying down into the next lower priced segment.

There are four categories that are commonly used in price fencing. To be able to develop good rate fences, a hotel must know its customers well and understand what types of rate fences will be effective in attracting particular market segments. In addition, fairness and rate parity issues must be considered.

1. Product: Limiting the offer to one or a set of products such as a specific room type or types;
2. Transaction: Apply restrictions to the process of booking or ability to book such as restricting the booking window period and requiring advance booking of a specific number of days or weeks;
3. Customer: Target a specific customer type;
4. Availability: Apply restrictions to the availability such as requiring a specific number of nights in the stay.



Following is a chart showing some examples of rate fences and their associated categories:

RATE FENCES		EXAMPLES
Room Related	Basic product	Room type
		Room location or view
		Room furnishings such as linens, bed, iPod player
	Amenities	Free breakfast, airport pick up, etc.
		Toiletries
		Valet parking
	Service level	Priority check in
		Dedicated service hotlines
		Personal butler
Transactional Characteristics	Time of booking or reservations	Discounts for advance purchase
	Location of booking or reservation	Guests booking rooms from different countries are charged different prices
		Customers making their reservation online are charged a lower price than those making a reservation by phone
	Flexibility of reservation	Fees or penalties for canceling or changing a reservation
		Non-refundable reservation fees
Consumption Related	Time or duration of use	Minimum length of stay
		Saturday night stay
	Location of consumption	Price depends on departure location, especially in international travel
		Prices vary by location (between cities, city center versus edges of the city)
Guest Related	Frequency or volume of consumption	Member of certain loyalty-tier (e.g., platinum member) get priority pricing, discounts or loyalty benefits
	Group membership	Child, student, senior citizen discounts
		Affiliation with certain groups
		Corporate rates
	Size of customer group	Group discounts based on size of group
	Geographic location	Local customers are charged lower rates than tourists
		Customers from certain countries are charged higher prices than those from other countries

Hotels commonly use one of the four categories above in creating price fences. As mentioned, if used properly with promotional rates or specials, price fencing can be very successful. However, if these promotions or specials are not carefully planned then it can result in huge trade-down from one segment to another. In the end, the result is based on how well the offer was designed.

Pricing Premiums

In addition to the pricing methodology and segmentation, there is another critical ongoing element that needs to be taken into consideration in order to maximize a hotel's pricing strategy.

Pricing by room type means determining the price premiums or price differences between each of the room types. The price differences between the room types is

an opportunity to push a hotel's ADR during all demand times. The pricing premiums need to be evaluated on a regular basis. Factors for consideration during each evaluation should include:

- Time of year — Seasons or time of year will definitely have an impact on how far you may price higher premiums between rooms. Peak demand times can yield higher premiums.
- Offers — Have a clear strategy of the premiums between the various offers to ensure that the differences make sense to the consumer from a demand a value perspective.
- Market — Understanding what the entire market has to offer for products will be key in some of the premium pricing. If the market lacks a product that your hotel has, then a higher premium can be charged (assuming there is the demand for it in the market).
- Competitive Set — Knowing the competitive set's pricing premiums will help guide some of the premiums to be set. For example, if your competitive set is charging an additional $200 for suites over their base room type and you are charging $80, then there may be an opportunity to increase your premium. Of course, understanding the products and doing a product comparison is critical to support the decisions.
- Today's Usage — Be sure that the hotel is set up to track paid bookings by room type. This will help determine if there is strong demand for a product. If so, opportunity may exist to increase the pricing. Conversely, lack of demand or paid bookings may indicate premiums that are too aggressive.
- Conversion — It is essential to evaluate conversion of room types to understand if the premiums are helping to drive ADR. If a premium is overpriced, the conversion will be low and those room types will be used as complimentary upgrades. If the conversion is high, there is a possibility to increase the premium. It is important to evaluate regularly as overpriced premiums can negatively impact a property's ability to drive ADR as they are relying on the base category room type to drive performance.

Overbooking by Room Type

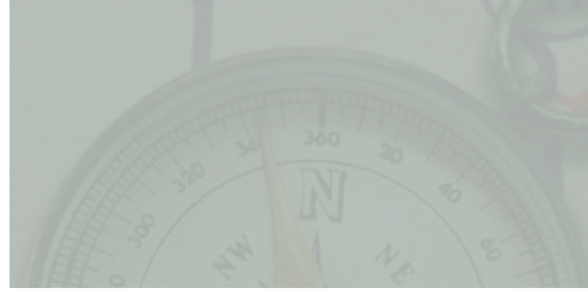
Hoteliers are notorious for overbooking the base or standard room types and then upgrading to a higher room type for free upon arrival. This practice needs to be understood and managed very carefully so not to upgrade for free. Ensuring that room types are sold based on their availability and paid for will have an immediate lift in revenues and ADR.

When developing an overbooking strategy it is important to understand the demand drivers of the market at least one year out. Overbooking strategies are most effective when deployed in conjunction with long-term pricing strategies. By understanding the wash factor of the hotel it will minimize the free upgrades and help push ADR performance.

It is also key to ensure that the overbooking strategy supports the hotel's ideal mix of business, room type product demand and length-of-stay needs. Overbooking strategies when used effectively can help improve shoulder dates within a week, and can help drive conversion with premium room types. In order to deploy a successful overbooking strategy it is important to evaluate room type conversion, turnaways by room type, and length-of-stay opportunities. Too often hotels deploy length-of-stay restrictions too late, losing out on opportunity to build out shoulder dates during compression periods.

Often hotels utilize overbooking strategies on base level room types when pricing strategies are not effective. When deploying overbooking strategies on base category room types it is important to ensure that the overbooking is being utilized to maximize performance and not to drive performance. If higher tiered room types are not converting over key periods it is important to evaluate the pricing strategy as a whole. Overbooking cannot compensate for a pricing strategy that does not align the property properly within the market.

Groups also play a large role in overbooking strategies for some hotels. Hotels that have solid group business must take care to ensure that the room types confirmed for the groups are strategically approached. Too many hotels just use the base or standard room types as the "go to" room types to confirm. This can cause many problems in optimizing the room type demand, as it may skew the true demand for that room type. It also displaces other potential room type demand that may be willing to pay higher rates. It is important that hoteliers have a strategic plan in pricing the groups by room type. This will also help avoid those random upgrades of the group customers



by the front desk on day of arrival as they are trying to balance out the house.

One-to-One Revenue Management

While price fencing is an effective tool, increasing the level of one-to-one revenue management could have an even more significant impact on a hotel's profitability in the future. Revenue management has traditionally analyzed and predicted customer behaviors by segment. Hotel companies now realize the importance of understanding each individual customer's behaviors and patterns whether it is someone who stays frequently with a hotel or at multiple hotels within the same hotel company, or if it is someone who stays once or twice.

Hotel companies that can afford to utilize loyalty program databases or customer relationship management (CRM) databases can easily capture information about each individual customer. Most of these databases track the customer's purchase patterns in great detail. The more sophisticated systems can capture, store, and analyze additional information about each customer, including demographic profiles, booking source profiles, sales data, requests, complaints, and even survey responses.

There is a disconnect to revenue management however. The majority of these systems are not linked to revenue management systems and many times not even easily accessible to revenue directors. In fact, this level of detail is not typically included in the revenue team discussions.

At some point, this information needs to be tapped to identify and better understand the most valuable customers and to examine customer profitability and lifetime value. By understanding more about each customer and their individual needs, behaviors and buying patterns, hoteliers can enhance the relationship with that customer. The objective is to capture a greater share of the customer's spending by understanding their full and unique needs.

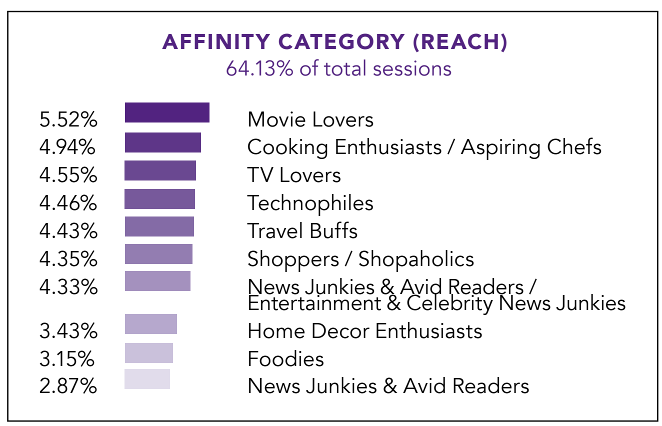
For the purpose of generating future demand, customer-centric revenue management will mean reaching out to past customers in a personalized way with targeted packages that optimize their response. This capability could include promotions to fill off-peak periods or advertising campaigns with a more targeted message sent to narrow customer sets with known behavioral responses. Based on an understanding of customers' responses to those offers, hotels will target and optimize promotions. Moreover, they will integrate promotions into their revenue management systems. New insights about customer behavior patterns can be used not only to grow and develop the customer base, but also to afford loyal customers differential treatment using revenue management processes. (Cross, Higbie and Cross 2009)

Casino hotels typically do a good job in this area. Casino hotels understand their guests who are considered to be the top spenders. The hotels understand their customers' behaviors, focus offers around them, and continue to nurture these relationships.

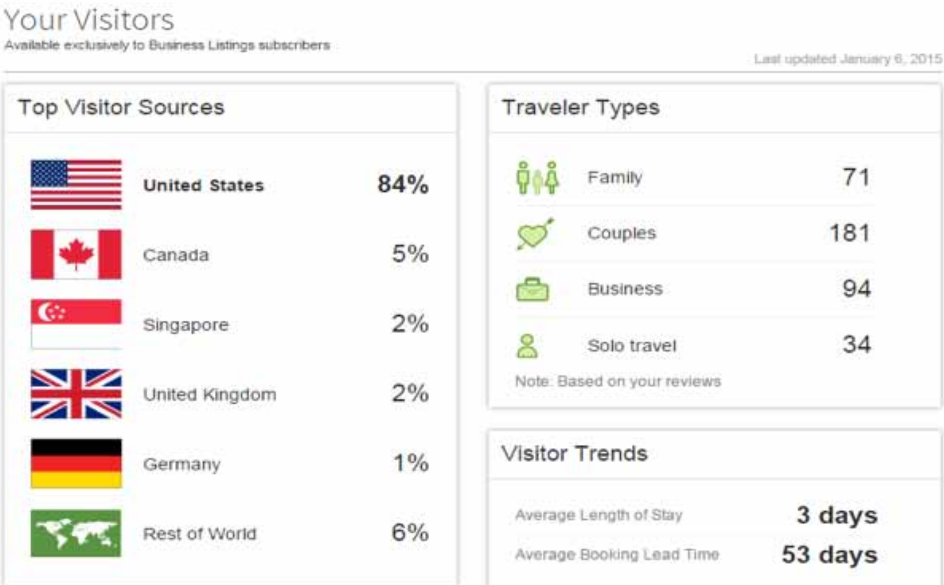
For those hotels that cannot afford the larger more expensive databases to provide all of this information, other more affordable options are now available to help. While they may not provide the same level of sophisticated data that a full blown CRM database may provide about specific customers, these tools will be helpful in understanding more about a customer. By putting the work into the set up and reporting, hoteliers can gain a lot of insight about who, what, where, and why customers are searching for their hotels.

Tools such as Google Analytics track the guest behavior on the brand websites. It measures where traffic comes from, what the traffic does when it lands on the brand website and when the traffic converts.

Again, it is not specific to unique customers but it does provide insight to customer shopping trends and interests. Reports such as future dates and length of stays for which customers are shopping the hotel can be provided.



TripAdvisor also provides some great insights into a hotel's customers. By subscribing to a TripAdvisor Business Listing, the hotel can understand the top visitor source and traveler types.



Marry this information with the Google Analytics Affinity Category data and revenue management can better understand how a value add, like a cooking class weekend, is received by the target customer.

KEY REVIEW QUESTIONS
What are some of the benefits to creating a strategic pricing plan?
What are some of the elements every pricing strategy should include?
How does understanding price elasticity assist in a hotel's pricing strategy?
What are some of the pitfalls of losing focus to a hotel's overall pricing strategy? How can these be avoided?
Why do hotels discount?
What are the benefits to discounting?
What are some of the negative results that discounting can bring to a hotel?
When should a hotel consider discounting?
What are the steps that a hotel should take prior to discounting?
What may be a better option compared to discounting?
What is the consumer truly looking for as the end result when searching for a hotel?

CHAPTER 9

DRIVING REVENUE THROUGH DIGITAL AND SOCIAL

KEY LEARNING OBJECTIVES:
What are the key components of digital marketing?
What role do social media and consumer reviews play in the revenue strategy?
How does social media impact revenue strategy?

Guests no longer "go online." "Online" is now a state of being. Today's consumer shops easily across multiple channels, searching for the right experience at the right price. Therefore, digital marketing and social media have quickly become vital components of the overall revenue strategy for hoteliers.

The digital space is ever-evolving and the modern guest is now visiting over 21 websites, reading consumer reviews, scanning social media, and much more before making a purchase decision. Guests have a digital opinion before they ever step into a hotel.

A savvy hotelier recognizes this behavior and must know how to influence that digital opinion by meeting the guest at the moment of planning. The brand's or hotel's story must be aligned with review sites and social networks; the hotel must be "front of mind" as guests begin their research phase through to point of purchase, property arrival, and ultimately, lifelong fandom. Without digital attention to detail, a hotel becomes vulnerable to the perfect guest being snapped up by competitors, wholesalers, or OTAs.

This publication will not get into all the details of each digital component, as there is another HSMAI publication to satisfy that need (*The Certified Hospitality Digital Marketer Study Guide*). Instead, it will touch on how revenue management and digital intersect; and how and why they need to co-exist.

Hotel companies definitely vary in how digital strategies are managed and executed. This publication will cover common practices for hotels today.

Defining Digital Marketing

The landscape of digital marketing is quite complicated and can encompass many different definitions and varying levels of understanding and can be broken down in many ways.

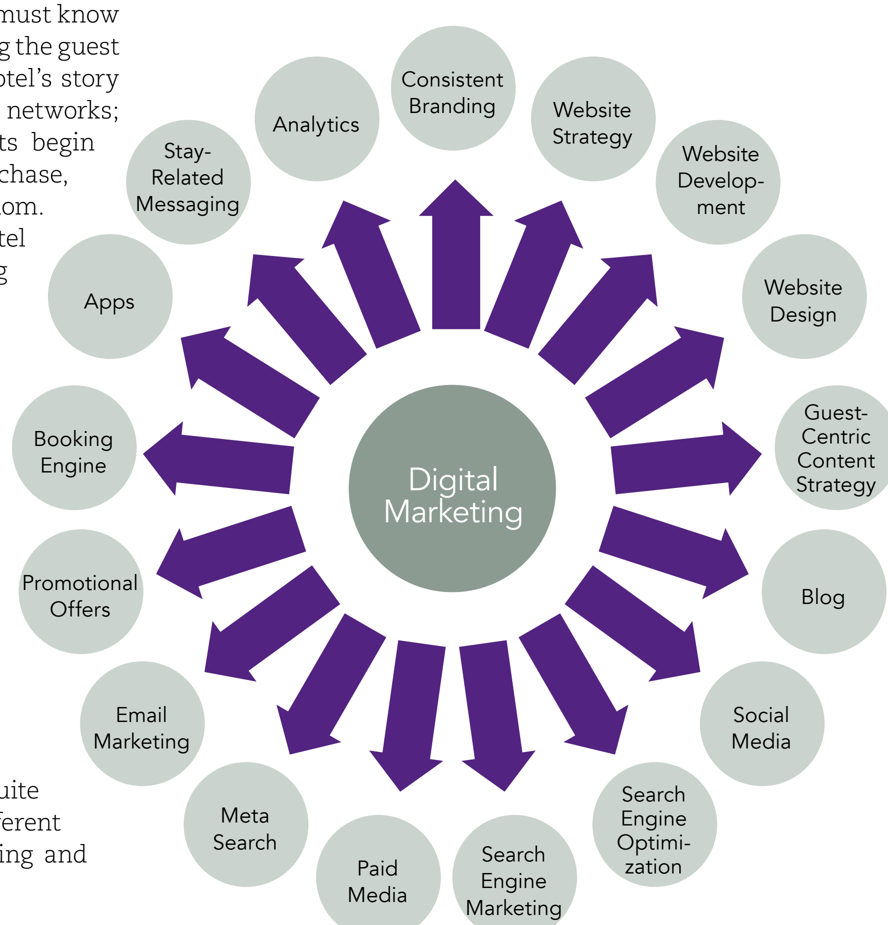
For purposes of this publication, "Digital Marketing for Hospitality" will be defined as follows:

It is the ever evolving use of both Internet-connected and non-connected technology for the expressed purpose of engaging, communicating, and listening to our past, present and future guests for the sole purpose of providing hospitality.

Components of Digital Marketing

An integrated digital marketing strategy is composed of several critical components. Successful execution of any strategy demands that each component be properly understood and utilized to the fullest extent.

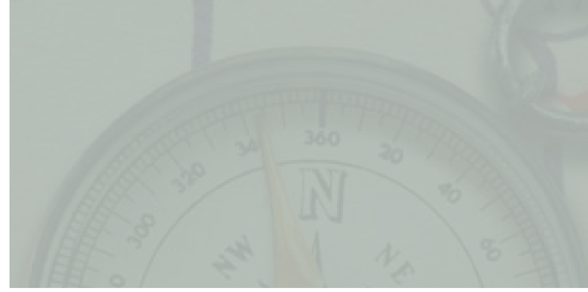
The following graph highlights components of digital marketing that are critical pieces of an overall strategy that ties into revenue management.



Some even say that CRM and Loyalty programs are tied into social media and/or branding. It can be argued that both CRM and Loyalty programs help build the brand. And social media helps support that communication and messaging.

All of the components within digital marketing play a role in helping hoteliers drive more business directly to their hotels.

COMPONENT	IMPACT TO REVENUE MANAGEMENT	TYPICALLY DRIVEN BY
Consistent Branding	A successful brand gains widespread recognition, ideally through trust and loyalty. Branding informs customers about the company's reputation, products, and services. The brand voice, message, look, and feel are woven through all components of a hotel's marketing messaging — offline and online. This messaging helps revenue management to position pricing strategy within a market.	Marketing Department
Website Strategy	The website is the most critical piece of digital marketing. A guest's entrance to the website is comparable to the hotel's lobby, it's the first place a guest arrives to get their bearings, and determine their next steps. A successful website speaks to the guests' needs and proactively answers the questions the consumer will have in the buying decision — quality (images), value (amenities), location (map). Email, social media, paid media, etc., all drive potential customers to the Website and a reservation through the website is typically the lowest cost channel for a hotel and the best way to capture consumer attention.	Marketing, Revenue Management
Website Development	Development of a website is a critical component and has a direct impact on revenue management. Key development components are: usability, navigability, accessibility, and responsiveness. Responsiveness has become critical in ensuring that sites are developed specifically for the needs of mobile versus desktop versus tablet. They all need to be designed specifically for how they respond and how customers use each device uniquely. Additionally, the development must be done with a solid understanding of how to optimize a website to be best understood by search engines. An old or out-of-date website or one developed without understanding its impact in the world of search engines will not be able to be read and indexed effectively; therefore, it will not have good placement.	Marketing or Distribution
Website Design	The design of a website should always be consistent with the "look and feel" of a brand. The consistency is going to help revenue management optimize revenues through this channel.	Marketing
Guest-centric Content Strategy	The purpose of content strategy is to attract and retain customers by creating fresh and relevant content regularly. Once content is created, it must be formatted according to the needs for each channel and then executed and communicated through all channels – website, social media, email, and paid search. A content strategy should clearly maintain a consistent message and amplify the brand.	Marketing, Revenue Management
Blog	Blog strategy is an important part of SEO and revenue strategies. Blogs have the potential to be the voice of a company in an informal and approachable way. Being relatively simple to implement, a blog is a great way to draw traffic to a brand's website (blog activity helps to drive more SEO traffic) while also projecting company personality. Make sure to put forth content that solves problems and is location-centric rather than exclusively selling brand products and services. Blogs also need to be loosely aligned with revenue management strategies. Hotels should not produce content with great deals when revenue management is selling in its highest demand seasons.	Marketing, Revenue Management
Social Media	Social mediaocuses on creating content worth sharing. Think word of mouth, but for the Internet age. The ultimate goal is still to gain traffic for the brand or hotel's Web presence, but in social the traffic is gained through promoting the brand or hotel content via social media outlets, and utilizing influencers to gain social reach.	Marketing
Search Engine Optimization (SEO)	SEO is an important, tactical component of an integrated digital strategy. It is used to make a hotel's web presence accessible to a search engine and ultimately to improve the organic rank of the site on search engine results pages (SERPs). SEO is determined largely by certain elements search engines look for. These include: content on website pages and blogs, (text, titles, and descriptions), website performance, and user experience. Conversely, search engines are not looking for the following attributes: keyword stuffing, purchased links, and poor user experience.	Marketing, Revenue Management
Search Engine Marketing (SEM)	A broader term than SEO, SEM utilizes search engines to grow the audience by advertising the hotel or brand on the web through paid tactics. It is essentially the practice of buying traffic for a brand's web presence by bidding for search terms so that banners and ads are placed ahead of others optimizing for the same terms. These tactics are commonly referenced as CPC (cost-per-click) and PPC (pay-per-click). Another way this tactic is enhanced is by retargeting i.e. following someone who has clicked on an ad around the web so that the hotel or brand remains on their mind during their research through to purchase. All of these paid tactics are conversion or ROI-focused and measured. Thus, as an industry this is handled more and more by revenue management as it is fundamentally different than brand marketing.	Revenue Management



COMPONENT	IMPACT TO REVENUE MANAGEMENT	TYPICALLY DRIVEN BY
Paid Media	Paid media is paying for a link on highly qualified websites that will drive potential guests to the hotel website. Paid media often includes merchandising opportunities for promotional offers and special features and sometimes the ability to pay for a link to your website v. an OTA. TripAdvisor, Yelp, Cvent, and wedding sites are strong paid media drivers.	Revenue Management
Meta Search	Meta search sites are those that provide the consumer a way to shop multiple products and prices across many channels. Google Hotel Price Ads, Kayak, and TripConnect are all meta search channels. Hotels can bid on a pay-per-click model to influence their position on meta search sites relative to third parties.	Revenue Management
Email Marketing	Email marketing can take many different forms and is often seen as the most one-to-one channel available to marketers. Email marketing can include promotional offers, brand newsletters, shopping cart abandonment triggers, confirmations, and pre- and post-stay communication. Promotional email offers help consumers keep the hotel top of mind and allow the hotel the ability to keep the guest informed by building a relationship over time. Email can easily become overdone; close management of email frequency must be top of mind.	Distribution, Revenue Management
Booking Engine	The booking engine is a key component to revenue management's success. Similar to the web design, usability, navigability, and accessibility are key in its development. But revenue management needs to ensure that the rate integrity, rate, product sequencing, and display of promotions are all set up in the optimal way by season. In addition to this, companies have an opportunity to push mobile-exclusive packages or offers on their own booking engine versus using third party sites' mobile apps.	Revenue Management, Digital Marketing
Stay Related Messaging	Transactional emails such as reservation confirmations, pre-arrival emails and guest surveys are all a way to communicate directly with the guest to ensure they know what to expect and what additional options may be available to them prior to arrival. This can include anything from restaurant or show options to upsells available.	Revenue Management
Analytics	Analytics is the practice of analyzing data to measure the success of a company's digital tactics. Analytics make it possible to measure and track efficiency while making sense of who's engaging digitally, where and why. The ROIs will help to determine what is working, what is not working, and support future strategic decision making. Analytics should be incorporated into the revenue strategy for the hotel. It provides key data to help with decision making, customer targeting, purchase intent, conversion ratios, and so much more. Google Analytics and Omniture are the two most common platforms used by hoteliers.	Revenue Management
Promotional Offers	The creation of promotional offers and incorporating them into all digital channels are a critical parts of ensuring that hotels have an holistic, integrated marketing plan.	Revenue Management
Apps	Apps have become a part of the digital plan in today's world. Hotels use both native and third party apps to support two-way conversations with guests while on site, and in some cases, prior to arrival.	Marketing, Distribution Operations

Division of Responsibilities

Many hotel companies are finding that traditional marketing roles no longer fit into the digital world. This challenge has forced hoteliers to find the right division of responsibilities between revenue management and marketing.

As mentioned earlier, the strategic goals are the same for both revenue management and marketing. But the tactical execution of how to execute can look slightly different in the digital world.

Revenue management has always been the process of selling to the right room, to the right guest, at the right time, at the right price and then, as added later on, via the right distribution channel. Under this framework it is logical that revenue directors needed to familiarize themselves with channels, many of which are involved with digital marketing. Revenue directors had already developed the skill set of determining pricing and promotional tactics through the central reservations office, GDS, and OTAs, so it became natural for revenue directors to begin to apply the same methodologies to digital channels.

In a world of enormous owner involvement and direct communication with revenue management, more and more is expected of the revenue professional. This includes a deep level of digital understanding in strategy, execution, and results. Thus, the revenue professional has taken a deeper level of responsibility in creating the digital strategy, handling the execution and measurement of the results.

Many of the responsibilities handled by the revenue team today include anything that is promotional and transactional in nature. For example, paid search, meta-search, paid media, email marketing, tracking and analytics, promotional offers and so on.

The revenue professional has keen analytical abilities that allow for connecting the dots between digital channels and performance. Digital channels and websites lend themselves to having another set of data points (website traffic, website engagement, click-through-rates and conversion ratios) that lead to in-depth measurement of tactics and insight into buying behavior. The revenue director is now able to identify a true source of bookings through the website, and pull different traffic levers to manipulate those bookings. However, it must be noted that digital marketing is not purely promotional. Every touch point or instance of your brand that a potential guest views, consciously or unconsciously, through owned or third-party channels, is a strong reflection of the brand and the consumer's perception. Marketing professionals have the expertise to positively manipulate this perception. Marketers can provide a great deal of assistance to revenue management to help set the best tone for these communications.

Defining Social Media

Social media allows for the creation and exchange of user-generated content online. Social media applications are designed to facilitate conversation, allowing the consumer to participate in the development and dissemination of content.

Social media has totally transformed how people connect, stay in touch, collaborate, plan, share information, and make decisions. This has had a huge impact on the travel industry. Sites such as Google+, TripAdvisor, Yelp, Facebook, Expedia, Twitter, Foursquare, YouTube, Instagram and many many more have entered the travel industry and have changed the entire landscape.

Customers now communicate and share their travel experiences through social media platforms by posting written reviews and sharing photos — both good and bad. Social media sites have become part of the search process for those looking for hotel rooms, restaurants, spas, and more. They want to know what others are experiencing and then make decisions, in part, based on the reviews and photos they see.

In addition to it changing the consumer purchasing funnel, social media has had an increasingly important role in many other areas for hoteliers. Guest experiences, satisfaction, and process improvement are a few. Hoteliers read what is being said about them online and have the opportunity to identify the perceived strengths and weaknesses in the eyes of the consumer. This is critical information for hotels to understand and make adjustments accordingly. And hoteliers need to communicate in return. Two-way conversation with guests using social media has become expected.

Social media platforms can be broken down into the following categories:

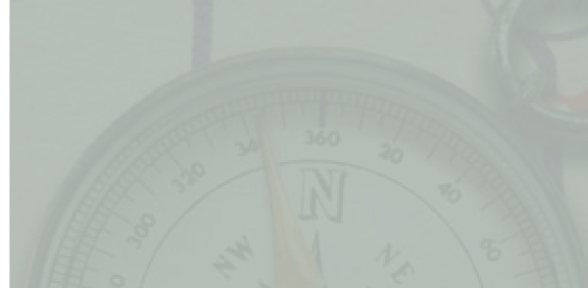
- Social Sharing: Facebook, Twitter, YouTube, Instagram
- Social Bookmarking: Pinterest
- Purchase Review Sites: Amazon, Expedia, Yelp, TripAdvisor, Google Hotel Finder

The above are just a few examples and the list of sites seems to grow daily. The point of understanding these sites and what they represent is that there are conversations taking place about hotels and brands in many languages across the globe, in real-time. While this can be overwhelming to think about, it has created a very big opportunity for hoteliers to incorporate into their revenue management strategies.

Is Social Revenue Management or Marketing?

Hoteliers have been talking about the differences between revenue management and marketing. The lines between the two can be confusing at times due to the cross over when it comes to digital. Marketing is focused on brand awareness, recall, and affinity to drive long-term demand, while revenue management is focused on matching that demand with price given the finite supply to maximize revenues and profits.

Managing social network activity is often under the marketing umbrella, and rightfully so. When done well, there is no better way to evangelize a hotel brand than through social media. It is on social media platforms that a hotel's brand ambassadors share their preferences and experiences. Studies suggest that nearly 68% of people find hotel inspiration through social media. Social networks



Reviews come in from over 100 different sites, but most are concentrated on a few of the major sites. It is important for a hotel to understand its own mix of review sources and have a plan to respond and address each of these.

are no stranger to this phenomenon, and they have found ways to monetize the success of travel on social media through the addition of "a friend recommends…" in searches, review transparency, and booking widgets. Now that every follower is a potential guest, and has the ability to book their hotel directly from their social media site, revenue management must take notice. Social media has a direct impact on "Value for Price Paid."

Social's Impact on Revenue Management

Based on research cited in a Cornell Hospitality Report written by Dr. Chris Anderson, November 2012, the guest experience mentioned in customer reviews has become the dominant factor in hotel selection, with 51% of survey respondents indicating they factored guest experiences into their hotel selection decision.

While pricing is still important, it has been demoted. Revenue management needs to pay attention to how their hotels are scoring in the online arena of guest experiences. What is said online will have a direct impact on the hotel's revenue management success.

The number of online reviews and the quality of the reviews both play an integral part of the value perception in the eyes of the consumer. In many cases, higher scores will equal higher occupancy and rates.

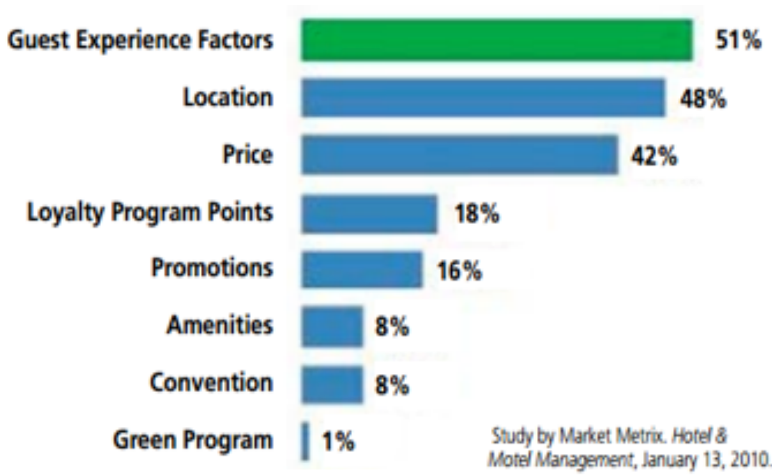
The same article cited research that showed that if a hotel increases its review scores by 1 point on a 5-point scale (e.g., from 3.3 to 4.3), the hotel can increase its price by 11.2% and still maintain the same occupancy or market share.

The online social sharing of the guest experience definitely plays an important role for revenue management. It is important to understand how the hotel is performing in the eyes of the consumer. Make sure that this information is part of the discussion with the entire revenue team during their meetings.

Some companies offering revenue management software solutions have updated their technology to include online review scores into the pricing recommendations for hotels. For those operating in a manual environment, it is critical to incorporate reviews into the pricing strategy. Ensure that operations has a focus on improving online scores. This needs to be an ongoing discussion among the team. Everyone plays a part and now there is a direct and financial implication of reviews. A well-cleaned front of house combined with excellent customer service can result in a positive social media review, which equals consumer confidence in booking and revenue growth.

Additionally, there are a variety of technology software providers that offer hotels the ability to aggregate online reviews and respond to these reviews from one central place. Reputation management for a hotel is a critical piece for the revenue professional to understand. Revenue management is not responsible for the management or responses but needs to know the impact on the overall revenue strategy.

FACTORS IN HOTEL SELECTION



Source: The Impact of Social Media on Lodging Performance, Cornell Hospitality Report, November 2012

KEY REVIEW QUESTIONS
What are the components of digital marketing?
Who is responsible for the management of the social sites?
How can consumer reviews have a revenue impact on hotels?

CHAPTER 10

INVENTORY CONTROL

KEY LEARNING OBJECTIVES:

- To understand the importance of inventory controls and how they impact a hotel's revenue performance both positively and negatively;
- To learn how to complete a channel cost analysis that directs a hotel to apply the appropriate inventory controls to garner the most profitability;
- To understand how to apply appropriate stay patterns and channel management to maximize revenue potential.

After implementing the correct pricing methodology, inventory control will both strategically and tactically provide hoteliers with the ability to determine how much total capacity is available and how much of each product will be sold.

Using inventory controls allows hoteliers to leverage high demand periods by closing shorter stay patterns and lower rates in order to deliver greater revenues and profits to the hotel.

This chapter provides an overview of the most commonly used inventory controls, and it reviews items that must be considered prior to determining the use of inventory control strategies at a hotel.

Overview of Inventory Control Strategies

Stay controls have been around since the beginning of revenue management. As a matter of fact, this is how hotels yielded inventory prior to pricing by segmentation and dynamic pricing. Stay controls still exist and are still commonly used but not as often as in the past. Pricing is a more effective lever to use in yielding and optimizing. However, stay controls do still have a place.

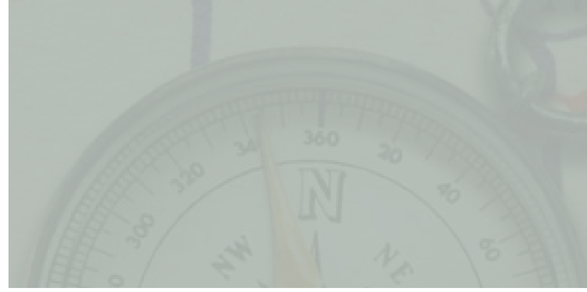
The following is an overview of the most commonly used inventory controls.

STAY CONTROL	HOW TOOL IS USED
Open	Free sell. No restriction on availability.
Closed	No availability is for sale.
No arrival or closed to arrival (CTA)	No reservations are accepted that arrive on a particular day/date. This is used to extend bookings into the surrounding dates or only accept lengths of stay that will include one or more of the "shoulder" dates.
No departure / closed to departure	No reservations are accepted that depart on a particular day/date.
Maximum Length of Stay (MaxLOS)	Restricts stays to a maximum time period. This may be applied when the goal is to restrict a discounted rate or package availability.
Minimum Length of Stay (MinLOS)	Requires stays for a specific time period. This is applied during periods when occupancy of one or more nights surrounding a high demand night is low. (Note: some systems read this stay control differently and it only impacts arrival dates that touch the restricted dates.)
Full Pattern Length of Stay (FPLOS)	Allows a hotel to accept discount rate up to a peak period, for example 2 and 3 length of stay, not allowing stays at a discount rate for the peak, but then again open up the discount for longer lengths of stay, thus improving occupancy on the shoulder nights and increasing overall revenues.
Allocations	Specific numbers of rooms are allotted to be sold. The total allocated does not have to equal hotel capacity.

Channel Costs

In implementing inventory controls, hoteliers must consider the cost of distribution so the appropriate controls can be established in order to focus on the most profitable channels. Hoteliers receive bookings through a multitude of different distribution channels and each of these channels has different costs associated with it. The various costs associated with each channel are not commonly understood nor are they taken into consideration by many hoteliers.

Today many hoteliers are lacking a cost analysis model to assist with understanding the cost for each channel. This section will review the purpose and importance of understanding the cost for each channel, as well as elements to consider when performing a channel cost analysis.



Creating a Channel Cost Structure

The following is an excerpt from HSMAI's *Distribution Channel Analysis* report. This explores the varying costs and net values for each channel, and considerations for how this plays into a hotels strategy.

Variable Marketing and Reservation Fees by Channel

The sample shown in Exhibit 2 represents a composite of many hotel types; it illustrates typical costs for a $100 rate at a one-night length of stay. The costs to acquire and deliver a $100 room night for a one-night stay range from $14 to $46. Offline advertising such as television or magazine costs have not been included in these calculations since they may influence all channels. A more detailed analysis is documented in the Flow-through Analysis section of this chapter, taking into account differences by channel and chain scale in terms of room rate, length of stay, ancillary spend, and all marketing, reservation, and transaction costs.

Given these costs, if a hotel decides to "sweeten the pot" by offering something else in addition to a room rate, it would be counted as an additional marketing cost to trigger additional business. For example, if a $50 gas card is included to add to the benefits of booking in a given channel, that fee has to be added to the direct marketing category to determine its impact. This value-add may be a marketing expense that is shared between the hotel offering it and the vendor who puts it on the market.

Exhibit 3 shows the differences between the rates a hotel receives net of channel-specific costs. The fees a brand charges for website or call center reservations may be partially embedded in a marketing and/or reservation fee. There are third party reservation providers that support independents, small chains and those who need representation in feeder markets where a hotel has no other partner. Pricing between chain central reservation system (CRS) and third party CRS, if applicable, will also vary based on a chain's allocation formulas. Many brands absorb the individual components of distribution delivery and marketing costs and charge flat amounts or flat percentages per channel. Some costs may be additional, such as a performance marketing fee that is used for search engine marketing and can have a quantifiable benefit that can be assessed relative to the spend.

Based on these scenarios, a marketer would automatically assume it is best to choose channels in order of cost, but there are other variables to consider.

It is rare that a hotel can sell all room demand volume at top price. Hotels have to layer in their business to try to find the highest-rated demand at any given time. Think of it like a line of faucets filling an ice cube tray. Each faucet represents a channel and the ice cube tray represents all the rooms and rate types of the hotel for a day. Hotel management needs to put the tray under the faucets that are running and to turn them on and off as needed to fill up the tray as fully as possible. The hotel needs to consider all of its room and rate types and match them with the types of business flowing from the different faucets at any given time.

There are lean times when it is only possible to fill a hotel with business that may be lower profit than a hotel would usually like to take. Therefore, in spite of higher acquisition costs, if the room is being sold at a profit, even a small profit, and there is no business flowing through higher value channels, then it may be worth using the more costly distribution channel. If there is no profit, then in most cases, this practice may not be worthwhile. It is management's role to decide how many rooms should be available through each channel based on daily demand forecasting for each part of the week and each season of the year. If a hotel is obliged to sell through marginal channels during high demand times, in order to gain access to those channels during need periods, a cost/benefit analysis would be in order to assure management that there is a net benefit overall.

There are other times when a low-margin source of business can be worthwhile.

1. **Create a base for compression.** If low margin room nights can be laid in early

Exhibit 2 Variable Marketing and Reservation Fees by Channel

$100 BAR Length of Stay: 1	Voice-direct	Voice-third party	Voice-travel agent	GDS	Hotel's own website (brand.com)	OTA merchant	OTA opaque via GDS
Labor	$10	n/a	$10	n/a	$2	n/a	n/a
Direct marketing	n/a	n/a	n/a	$1	$3	Included in commission	Incdcluded in commission
Discount or commission	n/a	Sometimes 10%	$10	$10	n/a	$25	$40
Loyalty program (on portion only)	$2	$1.50	$1.50	$1	$3	n/a*	n/a*
Transaction channel fee	n/a	$25	n/a	$6	$5	$5	$6
Credit card fee (on portion only)	$2	$2	$2	$2	$2	n/a**	n/a**
Total Cost	$14	$28.50	$23.50	$20	$15	$30	$46
Cost %	14%	28.5%	23.5%	20%	15%	30%	46%
NET	$86	$71.50	$76.50	$80	$85	$70	$54

*Many hotels accept a loyalty card from OTA purchasers when requested and incur corporate costs for them;

Scenarios shown are for illustration only and actual prices vary based on negotiated arrangements with vendors and internal staffing and cost levels.

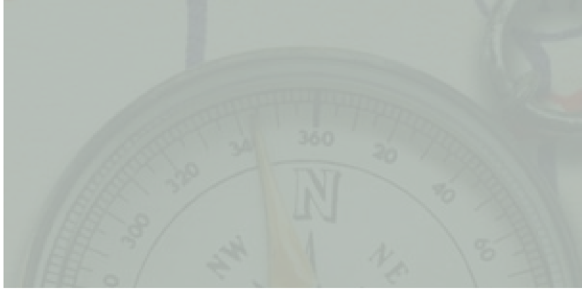
enough to add to a base that creates a higher level of compression in the comp set of the hotel, then it can serve as a springboard to yield higher rates from other channels during the peak booking time. For example, if there is a way to stimulate low-rate paying customers to book in the 21-40 day lead time window, then it can prove valuable to a hotel by pushing up rates for business booked within two weeks of the arrival date. Many hotels can make the mistake of using low-profit channels without regard for lead time and end up filling in with low rates closer to arrival; this contributes to the impression by consumers in the marketplace that you can get a better rate if you wait until the last minute. This behavior has been reinforced by media messaging where waiting for a lower last minute rate is the explicit theme (see Online Marketing and Consumer Behavior chapter for examples).

Traditionally, hotels would be best served by booking their lower rated business further out so they can push rates up closer to arrival when demand is likely to be highest. If a hotel takes lower rated business earlier for fear it won't fill, and then offers last-minute low rates in the last week or two before arrival there can be two outcomes, both of which may contribute to sluggish ADR growth: (1) the percentage of higher rated business will decline overall and (2) travelers learn that waiting can guarantee lower rates so the consumer is less inclined to book early even when lower rates are available.

2. **Bring business you cannot bring yourself.** Assuming the rates yield a contribution to profit, low-margin business is worthwhile if the hotel benefits from a valuable market it is not capable of tapping itself, either due to technical issues or access. If it diverts business that would come otherwise through a hotel's own website or call center, then it may not be worth incurring a higher cost. However, as an example, for those hotels in a market that is attractive to international feeder markets, or to fly-in markets in which air/hotel packaging is a major source of demand, then those channels specializing in packaging, such as OTAs, can be a valuable channels of choice, provided there is no feasible alternative to getting that business through a higher margin channel.

3. **When ancillary spend is high.** For hotels with strong potential for ancillary spending beyond the room rate, (i.e., revenue centers such as parking, premium internet services, golf), and that ancillary spend carries a high profit margin, the full benefit of that booking should be considered when evaluating the business. Even if the contribution to profit from the room rate is small, if the ancillary spend yields a substantial profit contribution, then low margin business can be an attractive option for a hotel. However, it should be compared to alternatives to determine if it is still more beneficial than other demand streams available in the same time period.

4. **Hit the threshold.** Some hotel brands set threshold occupancy levels that trip a premium in reimbursement to hotels for loyalty point redemption. When a hotel is near that threshold (e.g., 95% occupancy), it chooses to top off and hit that mark by taking the lower rated and marginally profitable business, often through the OTA channel, in order to qualify for the much higher reimbursement from the brand loyalty program. Feeling like a game of "whack-a-mole," where a wide range of demand may pop up in a few channels given a busy period in a particular market, this short-term quick fill may sometimes be a diversion of bookings that would have come through brand.com. But, being a quick fix and a reliable way to siphon off any last-minute demand coming into a market by the hotel that wants to hit the threshold, it works.



5. **Fill a hole.** When a large group cancels or a citywide event does not fill a hotel as expected, the mass marketing benefit of the OTA can be highly effective at plugging those holes for a given hotel, especially when they are unexpected and/or offer little lead time to launch other marketing initiatives to a large audience. The third party sites are adept at share shifting and one needy hotel may turn on the spigot that will direct much of the demand for a comp set to it during these need periods.

6. **Cover cash flow.** If a hotel is in such a desperate situation that it cannot reach its threshold of daily operating expenses, then lower margin business can still serve as "fast cash" to cover cash flow needs. This is not often a sustainable situation, but it is a method that a hotel can utilize when no other option exists, either because it does not have the internal skills to stimulate other demand sources, or because the market is so economically depressed that there is no other option to shift the limited existing demand. However, it is often a case where one hotel in a comp set gains volume, but due to limited demand, all of them rarely do. The tendency is for the hotel taking the lead in the market to lower rates, followed by the others in the comp set who feel they have to drop rates to avoid loss of market share. In the worst case, when all hotels have lowered rates, the only method to gain the limited demand in the comp set requires continual rate reductions and all hotels have to operate at lower margins; some call this a "race to the bottom."

Implementing an Appropriate Demand-Driven Inventory Control Strategy

Once a hotel knows the cost of each channel, then a demand-driven inventory control strategy, taking into consideration the channel costs, needs to be executed. Applying stay controls can be a very complex issue and many hoteliers underestimate the impact the controls have on revenues — both positively and negatively. If used without a complete understanding of the full impact on all stay patterns, stay controls can ultimately be devastating to a hotel's revenue (domino effect). If applied properly and carefully, the hotel can truly capture the optimal business. However, if applied without an understanding of the impact, the hotel can miss opportunities and turn away significant amounts of business.

Prior to applying inventory controls there are some items that must be understood and considered. The first is the general rule of thumb that in order to apply any stay control(s) there must be periods of excess demand. Otherwise, the hotel will be turning away business unnecessarily. More about this and its impact will be addressed in the stay pattern management section.

Before any inventory control strategies are implemented it is also important to know the impact of overselling, walk costs, channel management, and managing group wash. Each of these areas has a direct impact on inventory control.

Overselling

Management wants to ensure the hotel reaches its maximum potential capacity for any given stay pattern in order to maximize revenue. Sometimes that means selling out the hotel to 100% capacity. It is often necessary to oversell the hotel in order to achieve this goal.

Overselling is the practice of accepting more reservations for a particular day than there actually are rooms in the hotel. This is in order to compensate for the estimated wash factor. The wash factor is the hotel's estimate of no-shows plus cancellations and early departures.

Knowing how much to calculate as a wash factor can be quite challenging. The wash factor is determined by taking the historical no-show and cancellation information that is being tracked by the hotel and comparing it to the current booking pace activity. Additionally, it is important to look at the number and breakdown of arrivals. For example, the number of guaranteed reservations versus non-guaranteed reservations will be a factor in estimating potential wash.

When considering an oversell strategy it is important to include all costs associated with this — both tangible and intangible.

"Walking" is the result of what needs to happen when a hotel is oversold and the no-show plus cancellation estimate is too high. This means that a guest has a guaranteed booking at a hotel but the hotel will not be able to accommodate the guest for that night. Therefore, the guest is "walked" to an alternative lodging facility. The process of "walking" can be handled in two different ways. The first is probably the most common practice. The guest arrives at the hotel to find that the room reserved is not available and they will be staying at an alternate location — ideally already selected and reserved by the "walking" hotel. The second and less common practice is when a hotel contacts the guest prior to their arrival to inform them of the alternative lodging arrangements. This latter practice typically happens in a situation of extreme oversell.

The costs associated with "walking" are both tangible and intangible as stated above.

Some of the tangible costs are obvious such as the payout to the receiving hotel to which the guests are being sent, and any corresponding transportation costs such as taxis. These are normally absorbed by the hotel needing to "walk" their guests.

The intangible costs are a little bit more difficult to identify and many times are not weighted as heavily as they should be. Some intangible costs associated with overselling thus resulting in a "walk" are:

- "Ill will" or potential loss of a customer to the competition. This guest may not return again regardless of the efforts made by the hotel to make the situation as comfortable as possible.
- Reputation of the hotel due to the need to walk the guest. Unfortunately, viral marketing can work in reverse in this type of situation. Customers who have had a bad experience with one hotel can verbally spread the word and the hotel may develop a poor reputation.

A dollar value should be put against both of these items so it can be included in future displacement analysis.

One other point that needs to be considered is a cross between the tangible and intangible costs and that is distance between the original hotel and the location to which the guest is walked. This can vary based on the time of year. For example, during fall foliage time in New England, a hotel in Boston will have a very difficult time finding an available hotel within a reasonable distance. Therefore, the dollar value that is placed on a "walk" during fall foliage in Boston should be much higher than it is at other lower-demand times of the year.

The following is an example of how to arrive at a "walk" cost.

Walk Cost Example

Room & Tax	$100
Taxi	$15
Breakfast	$15
Customer "Ill Will"	$175
Total "Walk" Value	$305

The "walk" cost is important to take into consideration when implementing inventory management. If the controls are not appropriately applied, and the hotel has to "walk" customers, it is important to understand the complete impact for the hotel.

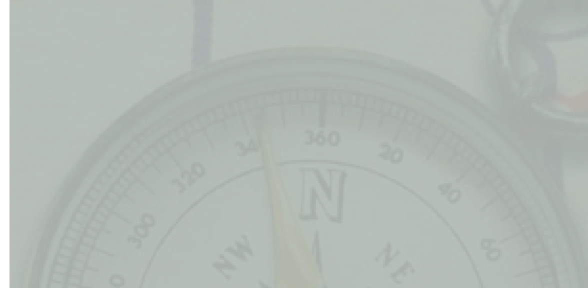
That being said, it is important to understand that the practice of overbooking which results in "walking" is a cost of doing business. There is a risk involved but hoteliers should not be in fear of implementing this practice as, if done right, it can greatly help to optimize revenues. As long as the hotel does not find a large number of "walks" being done regularly, then this is something that must be worked into the overall strategy and even budgeted for.

Stay Pattern Management

In addition to a demand-driven inventory control strategy, stay pattern management can further enable a hotel to maximize revenues. A reservation's stay pattern is the combination of arrival date and length of stay.

When maximizing revenue you want to accept the optimal number of reservations for each stay pattern, not the greatest number of reservations for each individual day.

The reason for this is because taking as many reservations as possible for one day could preclude a longer length of stay that includes that day, thus losing potential revenue for the surrounding days. This lost revenue may not be made up by shorter lengths of stays running through those surrounding days.



Example:

Stay Pattern 1	Arrival August 10, one-night stay
Stay Pattern 2	Arrival August 9, three-night stay

If all available rooms on August 10th were sold to Stay Pattern 1 and then a request was received for Stay Pattern 2, the hotel would have to turn away Stay Pattern 2, thus losing potential revenue for August 9th and 11th.

A day's total unconstrained demand is the sum of room nights from guests wanting to arrive on that day plus room-nights generated by guests who would arrive earlier and stay through. (Orkin 1998)

Stay pattern management works to achieve the optimal mix of stay patterns through each potential sold out date by limiting the stay patterns going through that date. Because the overall objective is to maximize revenue and not occupancy, it is possible to have a solution in which a potential sold-out day does not sell out and yet revenue is still maximized.

Channel Management

Part of the inventory control strategy is determining the hotel's approach to channel management and how to manage the channels most effectively.

Channel management is one of the industry's biggest challenges. There are a multitude of different channels available for the consumer to book and for the hotelier to manage.

When addressing channel management the following are the key issues that are involved:

1. Pricing
2. Rate management
3. Availability

Effectively managing these three elements across all channels is not an easy task.

For the purposes of understanding how to update inventory, rates and reservation content, the variety of channels can be broken down as follows:

- Electronic channels including the CRS, GDS, GDS-powered sites, third parties connecting via a CRS, and proprietary websites are the easiest to manage in terms of time. Typically any updates in the CRS will distribute through to the rest of the electronic channels. However, it is important to understand how it works specifically for each hotel.
- Manual extranets or third-party sites such as Expedia are the most time-consuming from a maintenance perspective. These typically require separate updates via each site's extranet. In some cases however, there are direct connects which make the updating much easier.
- Voice representation such as reservation centers (on property and off property) can vary depending upon how the technology is setup. Some companies have their on-property reservations department use their PMS for rate and inventory information. In that case, the PMS is then yet another system that must be updated at the same time as the others. For those who use the CRS for on-property or even off-property reservations, any updates made to the CRS will be applied. However, the selling order may be different than what the agents normally see in their system.

Most stay controls can be applied throughout the channels. However, it is important to understand how each of the stay controls works in the various distribution channels. Some of the controls do not apply the same way in all channels. For example, while the PMS will apply a minimum length of stay control as expected, the same control may appear as "closed" in some GDS systems. Therefore, as outlined in the stay controls example, the use of this control may have an adverse affect on the hotel's revenue in that channel.

Finally, the most important consideration to remember regarding channel management is to ensure each of the channels with which a hotel chooses to participate is managed appropriately and effectively. It can be detrimental to a hotel to participate in a channel and not to manage it effectively. In that case it would be better not to participate at all.

For more details about channel management and distribution issues refer to the HSMAI Foundation report, *Distribution Channel Analysis: A Guide for Hotels.*

Overbooking by Room Type

As already referenced in the Pricing chapter, hoteliers commonly miss out on proper management of the inventory availability by room type allowing for complimentary upgrades. Managing room types based upon demand and availability needs to be handled according to the needs of the hotel and the customer's willingness to pay for a higher room type.

More specifically, how a hotelier manages the availability of overbooking room types in low demand may be more flexible than managing overbooking of room types in high demand times. This approach will need to compliment the hotel's pricing strategy.

Management of Group Blocks

Finally, for hotels that have group business, there should be a process in place that allows for the management of blocks to maximize and protect the hotel's inventory. As it relates to inventory, hoteliers traditionally follow a process that nets down or applies a "blind cut" from the total number of rooms requested and contracted by the group. This information is typically not shared with the meeting planner as it is an internal decision and internally communicated, and a way to maximize revenue.

At a 100 room hotel, for a group that requests 100 rooms per night, based on the sales manager's research, expertise, and communication with the meeting planner, the hotel may decide the group should be cut down by 10%. Therefore, the hotel will block 90 rooms per night for the group. This leaves ten rooms per night to sell to other paying guests. Should the hotel estimate incorrectly, they are still obligated to provide the contracted number of rooms to the group.

In the past, hotels could "blind cut" the group based on past performance at their and other hotels. However, that is no longer realistic because of the significant change in group performance over the past years. It is imperative that the sales manager have a trusting relationship with the meeting planner. This level of trust and solid communication will provide the sales manager guidance in blind cutting.

In addition to applying this theory at the time of analysis, it is just as important to continue watching the group's pick up. If the group is not picking up as expected, it may be necessary to further net down, or "wash", the group in order to release more inventory for sale. However, if the group is picking up more than expected, it may be necessary to increase the inventory maxing out at the total number contracted or possibly increasing the block if the hotel finds that this would be prudent.

Ensuring proper management of a hotel's group wash will have a direct impact on the accuracy of inventory management.

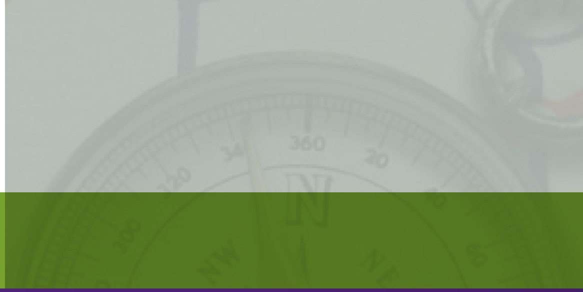
More about groups and their relationship to revenue management is explored in Chapter 12.

KEY REVIEW QUESTIONS:

What are the seven stay controls outlined in this publication?

What are four or five key steps that are important to consider when performing a channel cost analysis?

What are some key cost factors to include in a channel cost analysis?



CHAPTER 11

PERFORMANCE ANALYSIS

KEY LEARNING OBJECTIVES:

- To understand the importance of key performance indicators that measure the success of a revenue management strategy;
- To understand why it is important to align departmental goals around the revenue strategy;
- To learn what the key metrics for success should be for any hotel's revenue strategy;
- To develop strategies to implement improvement action plans when key performance indicators are under achieved.

It has never been more imperative for hoteliers to set objective metrics that accurately measure the effectiveness of their revenue management efforts. The scrutiny by management and investors on financial performance is accelerating the need for sophisticated measurements of revenue performance that are easily understood and directly correlated to the activity being evaluated. Revenue directors need to have pre-set metrics that measure the success of the revenue strategies.

Hotel companies have realized the importance of developing processes and sophisticated analyses to measure the revenue team's performance.

"What gets measured gets done."

"You cannot manage
what you cannot measure."

These are two statements that are often quoted when referring to performance analysis.

Performance measurement plays an important role in:

- Identifying and tracking progress against organizational goals;
- Identifying opportunities for improvement;
- Comparing performance against both internal and external standards.

A revenue management organization can have a tremendous impact on the success of a company. Accordingly, many revenue management organizations are beginning not only to oversee the process, but also to measure the effectiveness of pricing and inventory control decisions with respect to the bottom line. This expanding role, coupled with robust performance measurement analytics, is leading to increasingly sophisticated metrics to measure revenue performance.

This chapter addresses the key metrics for successful measurements and key reporting methods, and identifies issues that may have an impact — both positive and negative — on performance.

It is important first to understand that every company has identified their own way of measurement and what is important within their environment. For example, some companies measure year-over-year performance while others base measurements on budget alone.

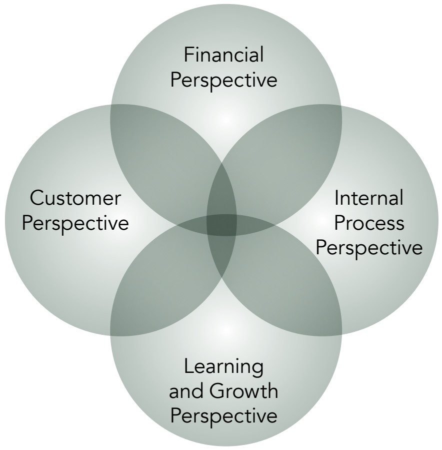
Key Metrics of Success

It is impossible to manage what cannot be measured. The concept behind this is simple. If you can't measure the performance, you can't tell whether or not there has been any improvement.

There are many key elements that are recommended to ensure proper measurement of revenue management strategies and execution. Unfortunately, for a variety of reasons, many hoteliers do not measure success. The most common reason is a lack of understanding of what should be measured. Another is that they simply lack the knowledge of how to measure the result or lack tools that can help.

It is important to realize that an investment in technology may be required in order effectively track and report success measures. Understand what is needed to do this right. It will be worth it in the end.

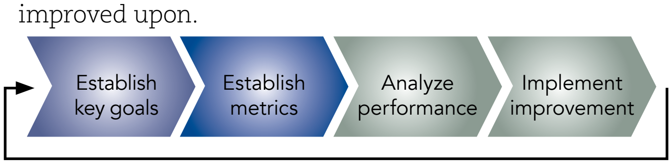
To have successful measurements, it is important to put together a solid framework on which measurements will be based. A good performance measurement framework should focus on four key areas:



It is also important that performance metrics be:

- Meaningful, unambiguous and widely understood.
- Owned and managed by the teams within the hotel or hotel company.
- Based on a high level of data integrity.
- Such that data collection and proper tracking are embedded in the hotel's regular processes.
- Reported and measured with regular frequency.
- Able to be interpreted and explained within the organization.
- Able to drive improvement.
- Linked to critical goals and key drivers for the organization.

There are four key steps in a performance measurement framework: the strategic objectives of the organization are converted into desired standards of performance, metrics are developed to compare the desired performance against the actual achieved standards, gaps are identified, and improvement actions taken. These steps are continuously implemented, reviewed and improved upon.



If the above process is managed continuously rather than being reviewed once a year, the performance of the hotel will constantly improve. Additionally, any issues can be identified and corrected immediately rather than waiting for a year of poor performance.

In order for a hotel to perform at its best, the appropriate measurements must be tracked. Following are some of the recommended measurements to use in a performance analysis.

Goal Alignment

Overall, it is important for senior management to establish the same measurements for all team members. Everyone needs to be working toward the same goal. Too often, hotels create different goals for different team members. By doing this, everyone is working toward different goals instead of working toward the same goal. For example, when sales managers are working toward a group production goal or corporate production goal and revenue management is working toward RevPAR, there is misalignment. In this case, the sales manager will only be focused on achieving their production goal regardless of how this impacts RevPAR. Success can be achieved if everyone works together and not against one other.

Forecasting Accuracy

Accuracy in forecasting has a direct impact on the hotel's revenues. Therefore, it makes sense for the revenue director to be measured based on the accuracy of the actual results compared to the initial forecast.

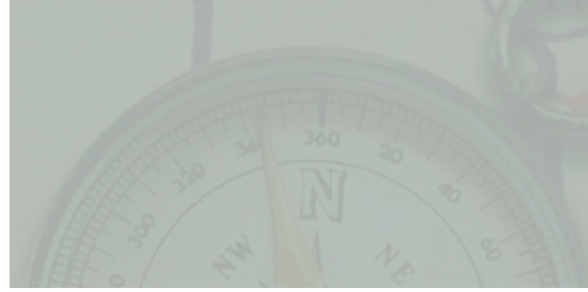
It is important to measure the performance results based on the initial forecast as this is the forecast from which all of the rate strategies are determined and, therefore, will have the biggest impact on results.

In order to be sure the measurement is being based on a realistic forecast that has a foundation in the business needs, the hotel must first define what that initial forecast needs to be. For example, those hotels that must create the demand forecast five years in advance do not want to use that forecast for measurement as it is highly likely that business needs will change over time. Basing the measurement results on the forecast created so far in advance will only be setting the revenue director up for failure. In addition, the chances are high that the same person will not be in the revenue director position after five years anyway.

Each hotel will be different and must determine for itself what should be considered the initial forecast. This is likely to be based on an average booking window of two or three months in advance.

Additionally it is important that the expectation be realistic. Do not expect the accuracy of the forecast to be 100%, as this is not a realistic goal for anyone to achieve. Instead, each hotel should take into consideration the skill set and expertise of the revenue director. If the revenue director is skilled and very experienced then the accuracy expectation can be higher; perhaps the actuals would have to be within five percent of the initial forecast. However, if the person is new and has limited experienced, then the expectation should be set to have more room for variance. Over time, as the individual's skill level improves, the hotel can close the accuracy gap and raise the expectations.

Another important factor in understanding a realistic accuracy goal for the hotel is the market in which the hotel sits. Markets with longer lead times and stable patterns are going to be easier to forecast. Other markets may have shorter or very last minute lead times and

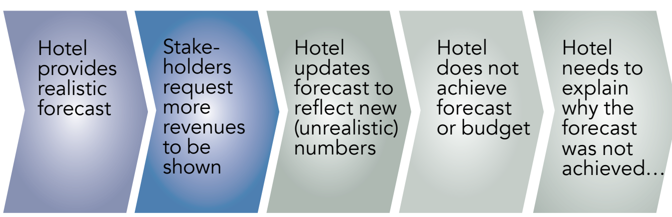


erratic patterns will be much more difficult to forecast accurately.

As long as the forecast is created according to the appropriate guidelines such as business conditions (and not created to meet or exceed budget) then it is critical that the forecast have an accuracy expectation and measurement.

Too many hotels or hotel companies require changes to the forecast to meet budgetary goals instead of allowing the revenue director to create a realistic forecast to meet business conditions. Requesting or requiring changes or enhancements to the forecast to meet other objectives not only puts the hotel in a situation of not being able to achieve optimal revenues, it also creates a no-win cycle.

This is a waste of energy and time for everyone involved. The end result is that the hotel will not achieve its potential for many reasons — the most likely of which is that their strategies were based on an unrealistic forecast



RevPAR

Both occupancy and ADR correlate to revenue management effectiveness, but revenue per available room (RevPAR) is a far better measurement because it includes both occupancy and ADR.

As touched on earlier, many hoteliers are still in the habit of measuring different staff members on different metrics. Occupancy and ADR are good examples of this. Many times the sales managers are measured (and incentivized) on volume of room nights or bookings and reservations staff are measured (and incentivized) on ADR. RevPAR is a much better measurement because it is a good balance of both.

RevPAR can be deceiving depending on how it is used and compared. RevPAR is a valuable indicator of revenue efficiency when one is comparing an individual hotel's performance over time or to a well-defined competitive set.

RevPAR Index (RPI) or Revenue Generation Index (RGI)

RPI and RGI are two labels for the ratio of the hotel's RevPAR and the RevPAR of the competitive set. A RevPAR (Yield) Index measures a hotel's fair market share of their segment's (competitive set, market, submarket, etc.) revenue per available room. If a hotel is capturing its fair market share, the index will be 100; if capturing less than its fair market share, a hotel's index will be less than 100; if capturing more than its fair market share, a hotel's index will be greater than 100.

To obtain this number, simply divide the hotel's RevPAR by the competitive set's RevPAR and multiply by 100. Fair share can be thought of as the subject hotel's "piece of the pie" in the market. For example, if the subject hotel's RevPAR is $50 and the RevPAR of its competitive set is $50, the subject hotel's index would total 100. If the subject hotel's RevPAR totals $60, its index would be 120, which indicates that the subject hotel has captured more than its fair share. If the subject hotel's RevPAR totals $40, its index would be 80, which indicates that the subject hotel has captured less than its fair share.

Market Share Index

Market intelligence reports provide market share information, which includes market measurements such as market share, ADR index, and RevPAR index. An index measures a hotel's performance relative to an aggregated grouping of hotels (e.g., competitive set, market, submarket). An index of 100 means that the hotel is capturing its fair share. An index of more than 100 means it's capturing more than fair share and, conversely, an index less than 100 means it's capturing less than fair share.

Index balance (comparing the occupancy index with the ADR index) is an indicator of how well a hotel did in comparison to the market. Generally speaking, occupancy and rate indexes should not have more than a ten point spread between them.

Index Growth

The growth of a hotel's year-over-year index compared to the growth of the competitive set's allows a hotel to measure its ability to grow revenue, ADR, and occupancy compared to the growth of the competitive set year-over-year. If the market grows 10% and subject hotel grows by 5%, it is important to see this.

Consistent imbalances in indexes and index growth could be an indication of a misaligned competitive set.

Gross Operating Profit Per Available Room (GOPPAR)

For hotels that are complex and sophisticated enough to focus on total hotel revenue management, GOPPAR may be a good measurement to use. This measurement allows the focus to be put on how well the hotel is managing the entire business.

More revenue professionals are included in EBITA discussions and are included in the overall revenue strategy discussions.

GOPPAR is derived from taking the gross operating profit (revenues minus expenses) and dividing it by the number of available rooms.

Profit Per Available Room (ProPAR)

Profit per Available Room (or Net RevPAR) has been talked about for quite some time but very few are measuring this accurately. Hotels can continue to increase top line revenues, but if profits are not understood and measured, then owners will still be dissatisfied.

ProPAR is derived by taking the revenue minus all acquisition costs (commissions and sales and marketing expenditures) and dividing it by the number of available rooms.

A hotel can have a strong RevPAR Index and growth results, and one may believe that the hotel is performing optimally. However, once a true understanding of ProPAR is achieved, the performance of a hotel may look completely different.

> ***"It is possible to show positive performance on a hotel's traditional RevPAR index but then when comparing the subject hotel to its competitive set based on Net Revenue (net of customer acquisition costs), the hotel can show a completely different performance scenario," said Cindy Estis Green, Co-Founder and CEO of Kalibri Labs, LLC.***

More about acquisition costs is explored throughout this publication.

Specific measurements for total hotel revenue management are outlined in Chapter 12.

Regardless of the measurement a hotel uses, there are reports that need to be integrated into the daily operation of the hotel so performance can be measured effectively. The following section provides some direction on what types of reports should be considered in order to attain proper and useful measurements.

Key Elements of Reports

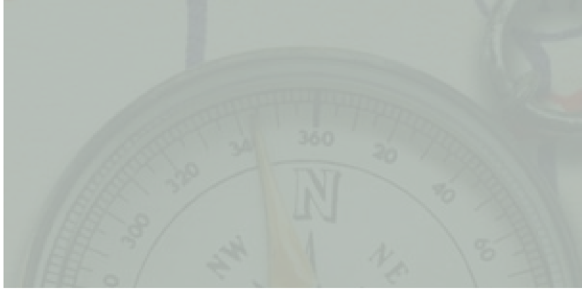
It is important to design a reporting process and identify the key reports or required information that will be needed in order to effectively analyze the hotel's performance.

That process should:

- Determine the process for data collection and reporting;
- Create clear expectations and write clear definitions;
- Agree upon a method for establishing performance;
- Agree upon the data formats;
- Identify sources of benchmark information;
- Determine the reporting calendar;
- Establish roles and responsibilities;
- Detail training requirements (if any are needed to perform tasks or measurements);
- Validate with process stakeholders.

Establishing the right reports is critical to properly measure the performance of revenue management. The following are types of technology, third party vendors, and reports that hoteliers can look to for collection of information.

- Property management system;
- Revenue management system;
- Central reservation system;
- Sales and catering system;
- Customer relationship management system;
- Data service provider;
- Market intelligence or business intelligence companies;
- Representation companies;



- Benchmarking reports;
- Market share reports;
- Corporate account and travel agency performance & market share reports.

See page 109 for a listing of companies that provide services, technology and reports to the hotel industry.

Discovering Issues Impacting Performance

Understanding performance measurement metrics and how to effectively implement and manage them is important. However, it is just as important to understand the issues that may have an impact on performance and performance measurements.

Hotel senior management has a responsibility to ensure the proper revenue-focused culture is created and cultivated throughout the entire company or hotel. Success begins at the top.

The following are critical factors that must be in place to ensure success:

- Strong leadership and a commitment to supplying the appropriate support and tools needed;
- Good planning and a sound implementation strategy;
- Appropriate employee involvement to ensure understanding and buy-in;
- Simple measurements and evaluation (do not over-complicate it);
- Constantly striving for improvement;
- A culture that encourages risk-taking and redirects appropriately when mistakes are made;
- Proactive rather than reactive leadership (do not react to every change in the market with drastic changes to the plan or to expectations);
- Aligned departmental goals;
- Rewards for employees for achieving revenue goals and successfully implementing the revenue strategy.

The Front Desk

It is often not fully understood by operations leaders the impact that the front desk has on the revenue success. The front desk must embrace the revenue strategies and the tactics needed to achieve the revenue goals so that they may properly support them.

A common practice that negatively impacts revenue success is the front desk holding "fake" rooms so that they do not have to worry about "walking" or overbooking situations. While their intent is never to have a negative impact on the revenues achieved, these practices are often done out of pure survival because they do not understand the overall strategy and everything that goes into achieving it. Therefore, it is important that front desk is included in the discussions, has input, and is on the same page with the estimated "wash" factor. This will go a long way toward ensuring that they work together with the rest of the team to achieve the revenue goals.

KEY REVIEW QUESTIONS:

What are the four key metrics of success when it comes to performance measurement?

Why is it important to ensure goal alignment within an organization? What benefits does it bring?

Why is it important to ensure accuracy in forecasting? What benefit does it bring?

What are some of the recommended measurements to use in performance analysis?

What are some critical issues to ensure are properly handled to ensure successful performance?

CHAPTER 12

TOTAL HOTEL REVENUE MANAGEMENT

KEY LEARNING OBJECTIVES:

- To understand the costs of an occupied room and why it is important to consider this when executing a revenue strategy;
- To understand why revenue management has become more than rooms revenue and pricing;
- To learn what total hotel revenue management should include.

As hotels have embraced the concept of "What gets measured gets done," hotels have realized that measurements need to reach beyond just rooms revenue. Over the last several years, the industry has recognized that revenue management can no longer be a tactical approach to room and pricing management only. With technological and management support, revenue management must be and is being integrated into all aspects of hotel marketing and operational strategies. Going beyond its role of managing room inventory and pricing, revenue management is now considering total revenue contributions across multiple revenues streams. Today, this includes group business and its ancillary revenues. In some cases, hotels are also including function space management, casinos, golf, skiing, and spas as applicable. These are areas that are quickly growing under the umbrella of revenue management.

In addition to total revenue contributions, and as with room revenue costs, revenue management will examine various costs associated with each of these areas and ensure the cost factors are taken into consideration allowing the focus to be on profit and not just revenue.

Industry analytics are also gaining traction in non-room related revenues departments. STR now offers reporting for spa and F&B departments. As more hoteliers incorporate revenue management into the practice for these additional revenue-generating outlets, more companies will develop the technology, measurements, reporting, and more, to support them.

Additional Revenue Generating Departments

If properly understood and maximized, additional ancillary revenues can make a generous impact on a hotel's overall profitability. This section explains ancillary revenues and addresses how they can become an important part of a hotel's strategy.

Definition

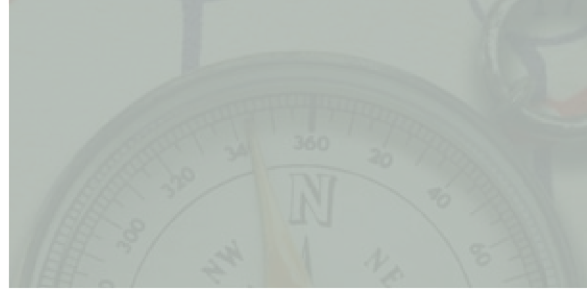
Ancillary revenues can be defined as any additional revenues generated from products and services other than the main products and services offered by a hotel. This will vary depending on the hotel and the type of services offered, but in general ancillary revenues include smaller revenue-generating departments such as Internet, business center, mini-bar, and laundry services as well as larger revenue-generating departments such as restaurants, spas, skiing, golfing, water sports, and beach or pool services, and products such as cabana rentals, children's activity centers, and more.

Understanding a hotel's additional revenue-generating departments and applying revenue management practices will bring significant benefits. In some cases, what begins as ancillary revenue may eventually become a main source of revenue for the hotel. Understanding all of the hotel's revenue sources provides the hotel with an opportunity to identify those that have the potential to become a larger source of revenue. It also allows hotels to use this information to assess an accurate value for various types of customers.

To further illustrate how this can work, spa and golf services are good examples to use. Similar to hotel room products, spas offer multiple products and services from which the customer can select. Each offering has specific variables to consider. Costs related to each specific service, popular times for them, and time of year are all factors to be taken into account.

Consider the profit per service. For the peak time periods, when services are in high demand, it may be wise not to offer those services that yield lower profits. Instead, offer those services that yield higher profits during the high demand times.

The same applies to golf. Understand the cost elements, compare peak and low-demand time periods, and restrict certain offerings based on the value or profit they bring. Price golf tee times according to the demand; higher demand times can equal higher greens fees and vice versa. Optimize scheduling to allow only foursomes or two twosomes versus singles during peak demand times. This way you always have the optimal number of players versus filling up times with the less-than-ideal number of players. The other important part of golf is managing golf outings. Make sure they will generate more revenue than public play and that the type of tournament (scramble, shot-gun, regular play) is optimal.



In order to be successful in applying revenue management principals and techniques to these revenue-generating departments, it is critical that hoteliers ensure solid tracking. Unfortunately, the technology offerings and nimbleness that hoteliers enjoy on the rooms side is not yet there for many of these other departments. Therefore, much of this tracking must still be done manually.

Understanding Ancillary Revenues by Segment

In order to optimize the potential for ancillary revenues, it is important to collect and analyze them for each segment of the market. Different customer segments bring different values and have different spending habits when traveling. Hoteliers need to have a solid understanding of each segment's typical spending habits and total spending as this will help in target marketing and showcasing the total value a hotel has to offer to that specific customer segment. Understanding the ancillary revenues for each segment not only provides the hotel with the ability to more effectively target the market but also allows a solid understanding of each segment's total potential value.

Hotels associated with casinos have solid tracking measurements in place and a holistic understanding of their customers' total spend. In this case, the hotel room product is secondary to the casino. The total spend at the casino has a direct impact on specific rate offerings and private promotional offers only made available to specific customers.

Resorts have an amazing opportunity to track and understand their customer segments. Resorts typically have multiple, large revenue-generating departments. Understanding what customers spend in which departments, and how much they spend, is crucial to knowing the total value of each customer. This understanding will also help the resort market more effectively to specific customers in the future.

The majority of hoteliers will be challenged in their tracking of total spend by customer segment unless customers charge to their rooms. Without direct charges to rooms, it is difficult to capture the total spend. Cruise ships and some resorts overcome this challenge by providing a room charge card for the guest to use for any and all of their charges throughout their stay.

Focus on Front End Ancillary Revenues

Front-end ancillary revenues are the most often overlooked by hotel management because they are revenue streams mostly managed by front line employees. There are several areas of opportunity for hoteliers to significantly increase front-end ancillary revenues. Up-selling, cross-selling, late check out, no-show, early departure fees, late cancellation fees, and ticket sales commissions are just some of the areas hoteliers tend to overlook. Hotels that place a strong emphasis on these areas can see a significant increase to the revenue streams for each one.

A good example of one of the areas in which hotels can realize significant increases in incremental revenue is reservation conversion ratios. The following is an illustration of the additional revenues a hotel can realize by simply focusing on increasing conversion by two additional reservations per day per agent. This example assumes an average length of stay of 1.5 nights, a transient average daily rate of $100, and three reservation agents.

2	Additional reservations per agent per workday
X	
1.5	Transient average stay
=	
3	Additional room nights per workday
X	
$100	Transient average rate
=	
$300	Additional revenue per agent per workday
X	
250	Number of workdays per agent per year
=	
$75,000	Additional revenue per agent per year
X	
3	Number of agents
=	
$225,000	**Total Additional Annual Revenue**

So, a hotel that focuses on increasing conversion by two additional reservations per agent, per day can achieve a total of $225,000 in additional revenues per year. While this can be a very successful focus with a great deal of impact, it is important to understand it will most likely require some type of reservations sales training, which will have a cost associated with it. The agents will need to learn techniques to improve their skills, increase enthusiasm, and have a higher level of comfort in closing the sale. However, the short- and long-term benefits of this type of minimal investment would far outweigh the short-term cost.

While revenue management does not always have responsibility for the reservations function, it is still critical that it is understood how the reservations revenues can be enhanced.

Costs Factors

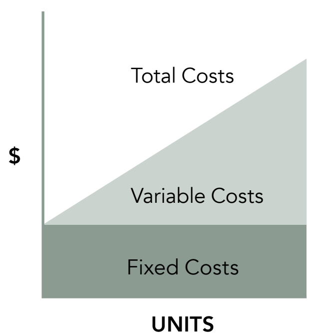
It is obvious that hoteliers have various costs associated with every occupied room. However, there are different types of costs that are important for hoteliers to understand, because they impact results in different ways. The following section addresses the differences between fixed costs and variable costs.

Fixed versus Variable Costs

Part of understanding the costs associated with occupying a room, and thus understanding the profitability potential, is to understand the difference between a fixed cost and a variable cost.

A fixed cost for an occupied room is the cost the hotel incurs regardless of the total number of rooms occupied. Hotels incur costs regardless of how many rooms are occupied on a given night. For instance, a certain level of front desk staffing is always required. These costs are incurred when the hotel opens its doors and operates regardless of the number of rooms occupied.

Variable costs are incurred when additional rooms, or services, are sold. A variable cost will change, and is dependent on the total number of additional sales. An example of a variable cost is an additional housekeeper that will be scheduled to work only after a certain number of rooms are sold.



Purpose

The purpose of understanding the costs of an occupied room is to allow hoteliers to understand the expenses per occupied room.

Being able to identify and understand the expenses per occupied room provides hoteliers with an opportunity not only to control expenses but also to identify any trends that may be impacting business. It also plays an important role in understanding the efforts that go into increasing occupancy. As hoteliers identify ways to increase occupancy, the cost of their efforts plus the costs associated with additional rooms need to be weighed against the additional revenue that can be achieved by selling those rooms. Thus we have an understanding of the profit from an occupied room.

Groups

In addition to focusing on ancillary revenue and total customer value, revenue management has grown in importance within the group and catering area because it provides tremendous value and opportunity for revenue growth.

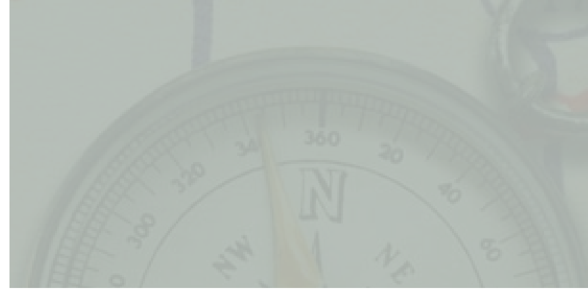
Group business used to be considered good filler for the rooms that transient business did not occupy. Today for many hotels, group business is an important part of the overall strategy. Over the years, hoteliers have come to realize the importance of groups and the revenues that can be generated from them. In order for hotels to be successful in the group arena they must ensure that they have the proper strategies and tools in place as well as a thorough understanding of the various needs of groups. It requires establishing measurements and value for function space, defining the total revenue contributions from each group, managing function space, and providing the sales department with the knowledge and tools they need to properly understand the group strategies.

This section addresses the various aspects and needs specific to ensuring success when maximizing groups and their potential.

Pricing Strategy

Developing a pricing strategy for group business is just as important as developing one for transient business. The process of developing a group pricing strategy is also similar to that of developing a transient pricing strategy. A strategic pricing strategy for groups allows hotels to be proactive and provides guidelines and plans that allow the entire hotel sales team to effectively sell their products.

Group pricing guidelines will allow the sales department to effectively and confidently quote rates for the future. The sales team will know the price points for specific demand periods and specific dates; have the opportunity to work quickly with the customer without having to take the time to discuss rates with the revenue director before they can quote; and, ultimately be empowered to achieve their own sales goals. They will also have a solid understanding of the hotel's future outlook, peak demand times, and times of need.



One factor unique to group business is that the pricing guidelines developed are just that: guidelines. The pricing strategy for groups should act as a general rule for sales managers to use in their initial discussions and as a basis for group evaluation. Once the sales manager understands the full needs of the group, including the total spend, they can then do a full analysis comparing the total value of the group to the value of other potential business that may be displaced if the group is accepted. (This analysis is explored in the next section.) After the analysis is completed, the rate should be adjusted to add value to the group if needed or decreased if needed.

The group pricing strategy needs to be created with the entire revenue team. It must be a part of the overall revenue strategy of the hotel and reflect the guidelines of that strategy. Groups are unique, however, and hoteliers need to address group-specific elements.

The following outlines the elements that the group pricing strategy should address:

ELEMENT	PURPOSE / CONSIDERATIONS
SWOT analysis	As with transient pricing strategy, a hotel is only able to create a proper group pricing strategy when it has a solid understanding of the hotel's unique attributes, strengths and weaknesses for both services and products as they relate to groups. This S.W.O.T. analysis must be developed according to what is important and unique to groups and their needs, which may be different than the needs identified in a S.W.O.T. analysis for transient business.
Market position	Every hotel must put together an analysis that allows careful evaluation of the hotel compared to its competitors with respect to group business. It is important to understand the market position of the hotel within the competitive set. This will be an important part of determining group pricing for the hotel. Some hotels may find their market position differs when evaluating their market position with respect to groups. (Refer to Understanding the Market section for more details on this.)
Seasonal demand	One of the fundamentals for a pricing strategy is to first understand the market demand for the various seasons in the marketplace. Flexibility for seasonal rates must be taken into consideration.
Lose-it rate	Determine the lowest price point that is acceptable for the hotel. Regardless of the occupancy, what is the absolute lowest rate the hotel is willing to accept? Set this as the "lose-it" rate.
Price points	Determine the various price points for each of the group market segments.
Group segmentation	Understanding the group segmentation that is specific to the marketplace AND to the hotel is critical. Every hotel must identify the target group segments that are appropriate and create price points that satisfy each of them.
Economic considerations	Identify the future economic status for the time of the group request. Based on this information, this will be the price point that is appropriate in that year. *
Special need periods	Identify the hotel's need periods and areas of opportunity. This may include holidays, special events in the marketplace or low demand times. Identify these times and create an action plan to target appropriate group segments. Make this a part of the overall group strategy, not an afterthought.
Room types	Identify the room types that should be included in group pricing.
Room costs	Understanding the direct and indirect costs associated with rooms is an important part of pricing. Knowing the costs and incremental costs will ensure that profits can become the focus and ultimately be incorporated as part of the pricing strategy.
Catering contribution	Identify food and beverage contribution for each group. This can have a significant impact on the value of the group.

Displacement Analysis

Part of the process of analyzing the value of a group is performing a solid displacement analysis. A displacement analysis compares the value of different pieces of business to identify the one that brings the most value to the hotel. A group displacement analysis analyzes group business based on the total value of the business, and compares it with the total value of other business (transient or other groups) that would be displaced if the group business was accepted. The group value includes all food and beverage spending, meeting room rental, and any additional outlet spending, minus any costs involved.

The following is a simplified displacement analysis. It compares a potential group's business to the transient displacement that would occur if the group was accepted at the current values.

Displacement Analysis Example

	TRANSIENT	GROUP
Rooms	40	40
ADR	$200	$160
Sub-total	**$8,000**	**$6,400**
Ancillary Revenues	$1,200	$5,000
Room Cleaning Costs	<$600>	<$600>
Catering Costs	$0	<$1,000>
TOTAL	**$8,600**	**$9,800**

Source: Created by Kathleen Cullen

The example above is simplified to provide a value comparison between group and transient business. It does not take into consideration transient length of stay and the impact that group acceptance will have on demand for room nights before and after the group block. It is also important to understand that this example can be applied to displacement against other group business as well.

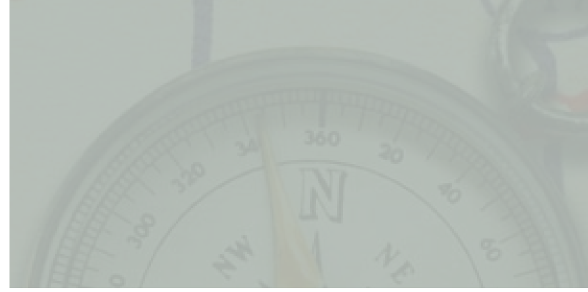
At first glance, it appears that the group would not be profitable because the room revenue from the transient business brings in $1,600 more than the group business. However, when the ancillary revenues are added, as well as the costs associated with both pieces of business, it turns out that the group is more valuable to the hotel by $1,200.

If an analysis indicates the group is not profitable and it is best not to accept the group, the hotel should consider offering alternate dates to the group. Dates with less demand will result in a more positive impact from the group. Another option that will increase the value of the group is to increase the rate offered. If you increase the rate and revise the analysis, the overall group value will increase.

In situations where "walking" would apply, that must also be considered in the calculation. This example assumes 10 transient guests would be "walked" for one night at a cost of $305 per room.

	TRANSIENT	GROUP
Rooms	40	40
ADR	$200	$160
Sub-total	**$8,000**	**$6,400**
Ancillary Revenues	$1,200	$5,000
Room Cleaning Costs	<$600>	<$600>
Catering Costs	$0	<$1,000>
Sub-total	**$8,600**	**$9,800**
"Walk" Cost		<$3,050>
TOTAL	**$8,600**	**$6,750**

When the possibility of "walking" is calculated into the equation, the group is no longer profitable for the hotel. Another element that should be included in the displacement analysis is the booking method. Below is the same scenario with the addition of the booking method and the costs associated with the different channels as outlined previously.



In the following example, the booking methods assumed for transient are ten each of GDS, on-property, third-party, and chain website bookings. The group assumption is 20 on-property and 20 chain website bookings.

	TRANSIENT	GROUP
Rooms	40	40
ADR	$200	$160
Sub-total	**$8,000**	**$6,400**
Ancillary Revenues	$1,200	$5,000
Room Cleaning Costs	<$600>	<$600>
Catering Costs	$0	<$1,000>
Sub-total	**$8,600**	**$9,800**
"Walk" Cost		<$3,050>
Sub-total	**$8,600**	**$6,750**
Booking Method Costs	<$509.70>	<$368.40>
TOTAL	**$8,090.30**	**$6,381.60**

In addition to the displacement analysis there are other elements that must be considered above and beyond being able to compare the numbers. Some of the other considerations follow.

- Consider the long-term potential that this group may bring to the hotel. Will this piece of business bring additional group or transient opportunities? If so, when do you expect them? Will they be during peak demand dates when the hotel does not need the business, or will they be during slower times when the hotel needs the business?
- Is this a regular event that the hotel wishes to capture?
- Is there known history for this group?
- Are there any other potential ancillary revenues that may be realized through this group?
- Does this piece of business bring any political advantages to the hotel?
- Is this a significant customer of the hotel company? Should the customer's overall value to the entire corporation be considered?
- Does the group have an attrition clause?

These are a few considerations that may or may not apply to the decision process. If they are applicable to a hotel or a specific piece of group business, then they should be considered and weighted accordingly. By combining the scientific analysis with human judgment, hotels can optimize the group side of the revenue equation and move toward a total hotel approach to revenue management. The final step in accepting or rejecting a piece of group business is to follow up on the decisions and measure the results. This will help the hotel enhance decisions in the future and learn from any mistakes or oversights.

Always review your performance. When evaluating your group displacement analysis, and measuring actual results against the projections, consider whether or not the group met the anticipated revenue objectives:

- Were higher value rooms or function space opportunities displaced?
- Did the hotel turn away more valuable opportunities from other segments (group, transient, or local catering / events)?
- How did the hotel perform relative to its competitive set during that time period?
- Can you establish new thresholds for similar time periods to maximize future demand based on what was learned from this situation?
- What would you recommend now based on what was learned?

Profitable decisions will ensure that the hotel realizes maximum demand from all segments on all measures from occupancy and ADR to Revenue Per Available Square Foot (or Meter) (RevPAS).

Catering / Banquet Optimation

The contribution from catering, or banquets, can provide tremendous value and opportunity for revenue growth. While the terminology in this area differs around the globe, for the purposes of this publication consider that hotels have two types of catering, or banquet, business:

1. Group catering, or group banquet, is the business connected with a group that is utilizing overnight guest rooms.
2. Local catering, or local banquet, is business that is not connected with any overnight guest rooms.

An example of group catering is a large corporate function where most attendees stay at the hotel and attend the events. All of the functions that result from this group, such as breakfasts, lunches, dinners, and receptions, are group catering functions. An example of local catering is a breakfast meeting of the community Rotary Club.

Group catering or banquet contribution is directly impacted by periods of lower group occupancy. Non-group, or transient, business has no impact on catering/banquet business. Hotels that make the decision to fill their meeting space with local catering run the risk of having to turn away potential group business. This is because many groups require both meeting space and sleeping rooms.

Basic guidelines must be established for a hotel to benefit from a total revenue management approach to catering/banquets. Following these guidelines and including the information in the analysis will make a big difference in the outcome:

- Catering Minimums: Define the required catering minimums that are specific for the hotel.
- Measurements: Understand how to measure against projected demand for the same dates and space.
- Demand by Segment: Understand the demand from all segments for all future dates in the strategy window. This will help the revenue team better determine if a piece of local catering business may displace group catering business which can make a larger overall revenue contribution.
- Group and Catering Values: Calculate the total estimated value of the group opportunity being evaluated. Consider meeting or function space rental, food and beverage, audio visual / Internet usage, parking, valet, and business center usage, and other applicable outlets.
- Average Catering Performance: Access and understand the average catering performance by meal period and by function space.
- Pricing vs. Customer Requirements: Have a solid understanding of the profit implications by comparing catering pricing requirements with the customer's requirements.
- Margins: Identify the profit margins, by outlet, of specific food items. For example, the profit margin on beef is different from that of chicken. The profit for the same item sold to a large group versus to an individual in the restaurant can be different depending on the hotel's approach to ordering. Typically, items ordered for groups make it easier because the complete menu and count are known. Therefore, ordering may be done in a more profitable way.

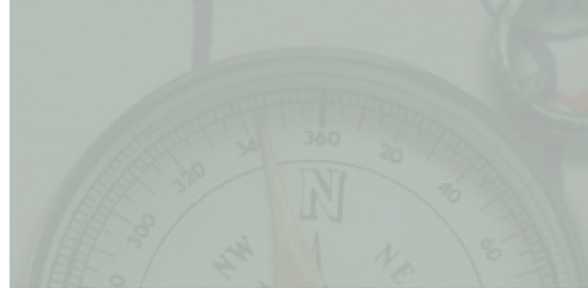
The final step in evaluating catering business is to follow up on the revenue team's decisions and measure the results. This will help the team learn from any mistakes or oversights, and make better decisions in the future. Effective revenue management in the catering arena requires performance measurement:

- Revenue Per Available Square Foot (or meter) (RevPAS) measures the revenue that an event generates based on the amount of space used compared to the space available. RevPAS can be applied to both group catering and local catering events.
- Catering Contribution per Group Room Night measures the amount of catering a group produces in relation to the room nights they use. A local catering group's contribution per group room night would be zero.
- Revenue per Occupied Group Room (ROGR) can be used to compare the contribution value of two different pieces of group catering business.
- Other useful measurements may include an historical look at day-by-day revenue generated on a particular day or in a specific function room, profit per available square foot (or meter), or revenue per available seat hour.

According to Bonnie Buckhiester, "In a Total RM environment, these metrics would appear on the monthly profit-and-loss statement. And once new performance metrics become a routine part of weekly revenue meetings, there's typically much more focus on selecting business from a Total RM perspective."

As the team reviews performance consider the following questions:

- Did catering revenue perform at or above expectations?
- Did the hotel perform better by taking this opportunity?
- Did the hotel maximize revenue and profit?



- Did the hotel realize maximum demand from all segments?
- Were higher value rooms or space opportunities displaced?
- Would the hotel consider rebooking this event?
- What might the hotel recommend be changed for the future based on past performance?
- Can you establish new thresholds for similar time periods to maximize future demand based on what was learned from this situation?
- What would you recommend now based on what was learned?

Function Space Optimization

Applying optimal revenue management to function space is rare for hoteliers. For all of the sophistication that is applied to transient revenue management, the industry is lacking in this area. Hotels' function spaces provide substantial income opportunities that can be enhanced by applying revenue management principles and techniques. For this reason, some major group hotels have reorganized their structures and included function space management in their revenue management strategies.

When it comes to optimizing function space there are multiple hurdles that may prevent some hoteliers from even attempting it. However, all of these challenges can be overcome by understanding the concept, defining measurements, and developing an internal process that includes the right tools and know-how:

1. There are no industry-wide KPIs to measure optimized function space.
2. While some industry partners have developed function space revenue management software tools, they are not widely adopted; therefore, most hotels lack technology that can help with the function space optimization process.
3. The industry does not have enough revenue experts with the knowledge and experience to properly and effectively optimize function space.

The following sections touch on the requirements in each of these areas along with recommendations for consideration in order to get started.

KPIs for Space Optimization

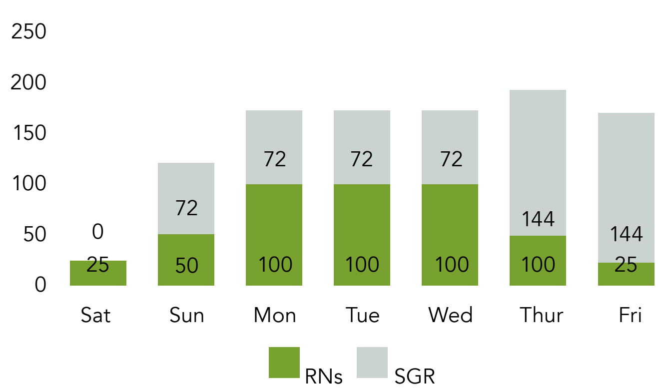
An important factor for implementing function space optimization is understanding effective key performance indicators (KPIs) and ensuring that the hotel implements the right measurements and definitions.

According to Jack Easdale, Vice President of Yield Management for The Venetian|Palazzo Las Vegas, there are two KPIs to review and measure when optimizing your function space.

1. **Space to Group Room Ratio (SGR):** This is the amount of required meeting space compared to the number of hotel rooms your group will need. The hotel needs to determine the value of the function space by square feet per guest room by day (not by total stay). Example: A group requests 100 peak room nights and 7200 square feet of meeting space on their peak event days. It is determined by Revenue Management that the hotel has an optimal Space to Group Room Ratio of 72. The rooms and space pattern, as well as the related SGR by day is listed below:

DAY	ROOM NIGHTS	SQUARE FEET	SGR
Saturday	25	0	0
Sunday	50	3600	72
Monday	100	7200	72
Tuesday	100	7200	72
Wednesday	100	7200	72
Thursday	50	7200	144
Friday	25	3600	144

SGR BY DAY



In this example, the hotel is optimizing the event space Saturday through Wednesday. However, the Space to Group Room (SGR) Ratio is twice as much on the last two event days where the room block decreases by 50% each day. This means that the hotel's space allocation on Thursday and Friday is only 50% optimal.

This leads us to the next KPI.

2. **Foregone Potential of Group Revenue (FPGR):** If one group takes up too much space for the rooms booked, hotel is unable to book another group requiring meeting space "on top of it" and optimize the hotel's revenue. This is the Foregone Potential of Group Revenue (FPGR). Using the same example as above, the group is displacing 50 room nights on Thursday and 25 room nights on Friday (50% optimization). If the hotel's average rate for this week is $200, the FPGR by taking this group is $15,000. [(50 + 25) x 200 = 15,000]

"In these scenarios, there are three approaches the sales managers can use to optimize function space: 1. Increase the room nights to align with the optimal SGR, 2. Lower the amount of square footage held on the less than optimal days, and/or 3. Increase the proposed ADR to compensate for the FPGR," said Jacquelyn Young of Las Vegas Sands Corp.

The key component to being successful using the above KPIs is that the revenue team must be very confident in the forecast that has been put together for groups and meeting space.

Jack Easdale said, "If you have adeptly and assuredly forecasted your future group room nights per day, then you believe the demand is coming. Be confident in your forecast and do not approve suboptimal groups (from a Space to Group Room Ratio perspective) that will put you in an upside down position just because it's a 'bird in hand.'"

Process for Space Optimization

One of the big challenges in this area is the lack of revenue management technology and appropriate processes that include extensive function space revenue optimization.

Group sales typically have a group selling goal that is measured and rewarded on total revenue sold. And in some cases it also includes a specific amount of revenue that must be "on the books" by a certain time period. This completely negates the flexibility to focus on optimizing the space based on the demand and forecast according to the demand.

A robust space optimization practice includes ensuring that the space is sold or optimized based on the demand for the space versus the request for the space. This is where revenue management comes in.

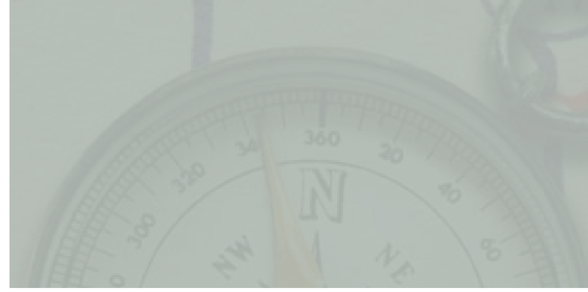
Jack Easdale shared his perspective on this. "The person approving the meeting space allotment for a group ought to be a revenue management professional, or at the very least be an individual who has the skill set to make an unbiased, articulate decision for the betterment of the entire property, not just a production goal. It can be someone with a sales background that knows how to optimize the space, but revenue management needs to have a hand in it."

If a group takes too much space compared to their rooms, then the hotel foregoes the opportunity to sell the remaining space to someone else. "All space is not created equal," according to Easdale.

For example, take a hotel with 311 rooms. The hotel has forecasted a strong day-by-day rooms demand and the revenue team is very confident in the forecast and in the demand. Two hundred group rooms and 111 transient rooms are expected, which will fill the hotel to capacity.

A lead from Group X requests 100 rooms and 70% of the hotel's function space. The hotel books the rooms and the space, and the sales manager feels great because she has met her room night goal.

Group Y, whose lead arrives chronologically later in the booking window, requests 100 group rooms but the hotel only has 30% of its function space left to sell. Group Y's meeting planner is not happy because the hotel has sub-optimal meeting space to accommodate his needs. To compensate for the sub-optimal space availability and ensuing less-than-ideal meeting experience, the sales manager discounts the guest rooms and the entire hotel loses as a result.



Your hotel has two assets — rooms and space. If you forego the space, the sales manager is happy because she has achieved her goals but now has a sub-optimal product to sell, and the hotel has lost the opportunity to optimize its revenue.

If revenue management principles were applied in the above scenario, the space could have been optimized initially with Group X based on the demand and the forecast for the overall space. Now the hotel is dealing with less-than-optimal revenue and will likely miss out on the hotel's overall financial goals for this time period.

In this example, one solution to optimize the function space over these dates was for the hotel to calculate the foregone potential of group revenue (FPGR) of selling the space to Group X, and incorporate it into the offer presented to the meeting planner. In other words, Group X could have been required to pay for the amount of space they wanted to consume.

Another solution was for the hotel to provide different options to the Group X meeting planner for how the group could use less space more efficiently; thus, leaving the hotel with optimal space to accommodate the next group request, optimize the revenues for the hotel overall, and keeping the group's costs down.

Jack Easdale offered another sound recommendation. "Pieces of business don't grow on trees. Hoteliers need to optimize the demand they do have versus turn away things that are not absolutely perfect upon initial review. Work closely with your sales team to look for solutions to make them acceptable to the hotel and the meeting planner. Often a solution exists if sales and revenue management can partner to provide potentially viable solutions to the meeting planner that he or she hadn't thought of. In essence, be problem solvers. Ultimately sales and revenue management are on the same team with a shared objective. That objective is to fill the hotel with the most profitable business that doesn't impede future demand from matriculating."

If the meeting planner wants more space than what makes good sense for the hotel, hoteliers are wise to calculate alternative options instead of simply giving them what they have asked for. When sales is confident in what a group really needs and will realistically use, the hotel can calculate the value of any excess space utilization and include it in the room rate offer or find another way to make up the difference so that the hotel wins and optimizes the revenue. Revenue management needs to help sales calculate this amount to make it measurable and useful.

When Jack Easdale first started at The Venetian in 2011, he set out to identify how the hotel could increase its group rooms. As part of his due diligence, he interviewed all sales team members to get their insight. He asked everyone the same question, "What is preventing us from booking more group rooms?" Every person he spoke with said the same thing. "Lack of space prevents us from booking more."

Jack was surprised to learn that the hurdles were not competition or lack of demand. Instead, everyone agreed that they needed more function space. So the question then became, "What if we were better at tightening up the space and using it more efficiently?"

Jack firmly believes that most hotels do not necessarily need more space. Hotels need to be better managers of the space they already have. It is the same concept as with rooms — function space is a fixed asset and a perishable asset. So quantify what it is worth.

There's always an opportunity to do better.

Managing the Space for Optimization

A robust space management practice includes ensuring the space is blocked accurately to avoid downtime, performing audits of the space on a regular basis, and blocking space with straight line availability in mind as this allows for multiple-day bookings. This also helps with labor if the same set up is consistent.

There are some common elements related to the management of function space in order to ensure optimization.

Managing the Timing of Events

In high demand periods, the time needed to turn the function room around from one customer to the next can affect the hotel's ability to meet demand. Hotels that try to minimize the labor costs associated with function room set up and tear down often end up turning down business that could have been accommodated if the hotel had employed a sufficient number of employees to turn the room faster. For example, a hotel that requires a two-hour set up and two-hour tear down for all events would not be able to book a meeting that ends at 5:00 p.m. in the same room with a dinner that begins at 6:30 p.m. If more employees were assigned to speed the transition between events, the labor cost would be more than covered by the increased revenue associated with booking the incremental event.

"It's an evaluation of efficiency versus cost versus future demand," says Jacquelyn Young. "It may cost a little bit more in labor to tear down a room, but if that efficiency creates an opportunity for forecasted incremental business, it's worth the initial risk."

Program Flow

Understanding the configuration and needs for the program will help to layout the proper location for each event with the goal of optimizing any unnecessary downtime. Determining the optimal room and set up types such as classroom, theater, rounds and so on will help ensure the most efficient use of space. Be sure to consider A/V needs and the number of attendees for each function.

KEY REVIEW QUESTIONS:

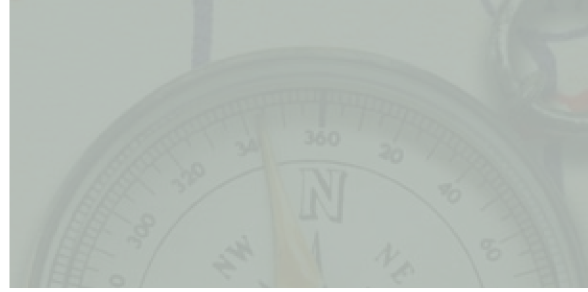
What is the difference between a fixed cost and a variable cost?

What are ancillary revenues and why are they an important part of a hotel's overall strategy?

What are some of the elements to be sure are included in a group pricing strategy?

What is a displacement analysis and why is this important to a hotel?

What are the KPIs for optimizing function space?

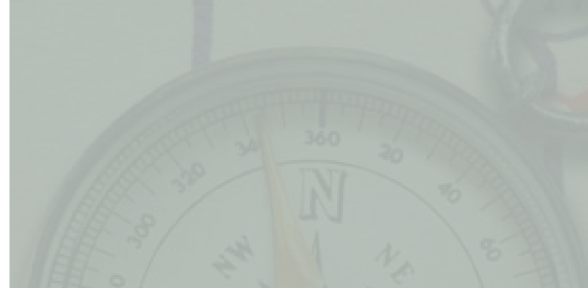


GLOSSARY

Average Daily Rate (ADR)	Figure derived by dividing actual daily revenue by the total number of rooms sold: Actual Daily Revenue / Total # of rooms sold.
Average Length of Stay (ALOS)	Figure derived by adding the total number of nights and dividing by the total number of bookings: Total # of nights / Total # of bookings.
Best Available Rate (BAR)	The non-qualified, publicly available rate that serves as the baseline for comparison between hotels. This rate serves as the benchmark and typically drives discount and package pricing based on a percentage or dollar amount above or below this rate. BAR replaced Rack Rates as revenue management evolved and became more dynamic.
Closed to Arrival (CTA)	A room inventory control function. Indicates that a reservation cannot be confirmed for arrival on this date.
Commission	The payment that a travel agent receives from a supplier for selling transportation, accommodations, or other services.
Customer Relationship Management (CRM)	The name given to increasingly sophisticated programs to maintain close, lasting relationships between a company and its customers; between a hotel and its guests.
CRS	Originally, the term used for a Global Distribution System. Now used in the hotel industry to refer to a hotel company's central reservation system — its CRS.
Displacement Analysis	Compares the value of different pieces of business to identify the one that brings the most value to the hotel.
Forgone Potential of Group Revenue (FPGR)	If one group takes up too much space for the rooms booked, the hotel is unable to book another group requiring meeting space "on top of it" and optimize the hotel's revenue.
Global Distribution System (GDS)	These are computerized reservation networks through which users — travel agents, airline employees or travelers — view data on a wide range of travel services, including air, hotel, auto rental and like services. Several GDSs provide their services to users worldwide (e.g., Amadeus, Cendant's Galileo International, Sabre, Worldspan) while others provide regional or national coverage. Online services and the Internet are increasingly coming to be regarded as global distribution systems as well.
Gross Domestic Product (GDP)	GDP is the total of all goods and services produced in an economy. As it measures the market value of all final goods and services produced by a nation, it is a fundamental indicator of an economy's performance. GDP is highly correlated with personal incomes and standard of living. It can be looked at as a true measure of the value added by an economy.
Gross Operating Profit Per Available Room (GOPPAR)	Figure derived by taking the revenue minus expenses divided by the number of available rooms: (Revenue — Expenses) / # Available Rooms.
Last Room Availability	An agent's ability to book the last available room in a hotel.
Market Penetration	The ratio in comparing total occupied rooms with the total occupied rooms within a competitive set: Total occupied rooms in hotel / Total occupied rooms in competitive set.
Market Share	Total number of rooms in a hotel as a percentage of total rooms within a competitive set: (Total # of rooms in hotel / Total # of rooms in competitive set) * 100 [results in a percentage].
Mark-Up	The difference between the supplier's selling price and merchant's price offered to the consumer.
Maximum Length of Stay	A room inventory control function. Indicates that a reservation for arrival on a particular date may not extend past a certain number of days.

GLOSSARY

Minimum Length of Stay	A room inventory control function. Indicates that a reservation for arrival on a particular date must be for a minimum number of nights (two or more).
Multi Channel Distribution	This is the concept of selling a product in many different channels. For hotels, it could mean via phone, wireless device, Internet, TV or walk-in.
Onward Distribution	The process by which hotel content is distributed on to multiple distributors who then in turn continue to distribute the content on to other distributors or affiliates. This process continues on ad infinitum.
Online Travel Agencies (OTA)	OTAs allow consumers to research and book their own travel through the use of travel websites such as Expedia and Orbitz.
Overselling or Overbooking	The practice of confirming reservations beyond capacity, either in expectation of cancellations or no-shows, or in error.
Property Management System (PMS)	The computer system in a hotel that contains information about available and occupied guestrooms, historical and future reservations and guest charges.
Price Parity	To ensure an even playing field of pricing or rates across all channels based purely on the price points.
Product Parity	To ensure an even playing field of pricing or rates across all channels based on products and fences around rates.
Profit Per Available Room (ProPAR)	ProPAR is derived by taking the revenue minus all acquisition costs (commissions and sales and marketing expenditures) and dividing it by the number of available rooms. Also referred to as Net RevPAR.
Revenue Management	The art and science of predicting real-time customer demand at the micro market level and optimizing the price and availability of products to match that demand. More simply, revenue management is offering room rates and inventory controls that are most appropriate for the anticipated demand. Hotels, airlines, car rental companies, and others use revenue management to control the supply and price of their inventory to achieve maximum revenue or profit. Also referred to as Yield Management.
Revenue per Available Room (RevPAR)	The daily revenue of a hotel divided by the total number of available rooms at that hotel: Daily hotel revenue / Total # of available rooms in hotel.
Revenue Generation Index (RGI)	RGI is a ratio of the hotel's RevPAR divided by the RevPAR of the competitive set. Also referred to as RevPAR Index (RPI): Hotel's RevPAR / Competitive Set RevPAR.
Revenue per Available Space (RevPAS)	A measurement of efficiency of utilization of meeting space. Similar to RevPAR, the higher the occupancy of the meeting rooms and the higher the average check, the higher the RevPAS: Total Catering Revenue Generated / Total Available Square Footage of Meeting Space.
Revenue Management System (RMS)	The computer system a hotel uses as a tool to assist with the maximization of revenue. The system typically contains information on the hotel's availability, room types, stay patterns (future and historical), ALOS, etc. The systems can be automated or manual.
Space to Group Room Ratio (SGR)	The amount of meeting space a group requires compared to the number of hotel rooms it group will need.
Unconstrained Demand	The amount of demand for a hotel in the absence of any pricing and inventory constraints.
Uniform System of Accounts for the Lodging Industry (USALI)	USALI is the guide for hotel owners, managers, and other parties for reporting and presenting hotel financial statements. The resulting standardization established by the USALI permits internal and external users of financial statements to compare the financial position and operational performance of a specific hotel with similar types of hotels in the lodging industry.



REVENUE AND CHANNEL MANAGEMENT TOOLS

COMPANY NAME	REVENUE MANAGEMENT SOFTWARE	DISTRIBUTION CHANNEL MANAGEMENT	FORECASTING TOOLS	RATE SHOPPING	CENTRAL RESERVATIONS MANAGEMENT	BUSINESS INTELLIGENCE	DIRECT BOOKING STRATEGIES	SOCIAL NETWORKING & MEDIA TOOLS	WEB ANALYTICS TOOLS
Avero	■					■			■
ChannelRUSH		■							
Datavision Technologies, Inc.			■			■			■
Digital Alchemy							■		
Duetto	■								
Flip.to						■	■	■	
ForNova						■			
Google, Inc.						■	■	■	■
Groupon Getaways							■		
HeBS Digital							■		
IDeaS	■		■			■			
Infor	■	■			■	■			
Intent Media								■	
Lanyon							■		
Maxim Revenue Management Solutions	■								
MICROS eCommerce							■	■	■
Milestone Internet Marketing							■	■	■
NAVIS					■		■		
Nor1	■					■			
PriceMatch	■								
Rainmaker	■			■		■			
RateGain	■	■		■		■	■		
Regatta Travel Solutions							■		
Revcaster				■		■			
Room Key							■		
SHR		■			■		■		
Siteminder		■					■		
STR, Inc						■			
Tambourine		■			■		■	■	■
TravelClick	■	■	■	■	■	■	■		■
Travel Tripper	■	■		■	■	■	■		■
TSA Solutions							■		
Vertical Booking		■					■		
Vizergy							■	■	■

This appendix provides examples of tools and companies available to support the hotel industry's revenue management needs. It is not an endorsement of companies nor is it exhaustive. HSMAI's Revenue Management Advisory Board invited industry partners to self-report what products and services they offer as of April 1, 2015. Most of these companies offer additional products and services beyond the categories examined here.

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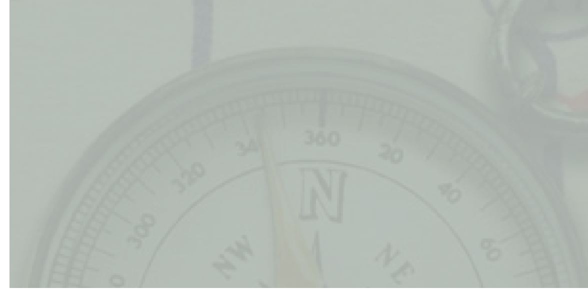

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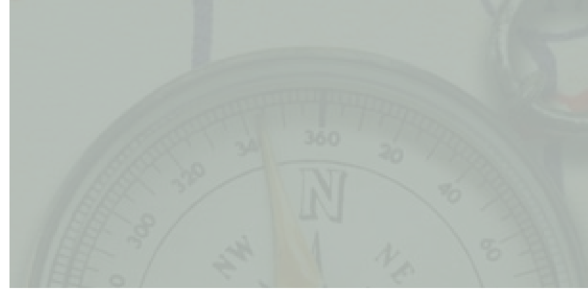

KATHLEEN A. CULLEN

Kathleen Cullen brings over 25 years of experience throughout the multi-faceted hospitality industry to her role at Commune Hotels & Resorts. Her experience ranges from consulting, co-authoring of professional publications, working on property to varying positions in the corporate office of a dynamic, faced-paced, global hotel company.

As Senior Vice President of Revenue & Distribution for Commune Hotels + Resorts, she is charged with the overall revenue strategies and increasing hotel market share for the portfolio, optimizing the company's revenue management foundation for all brands including the organizational set up, expert human resources and deployment, technology platform, tools and connectivity. Commune's brands include Thompson Hotels, Joie de Vive Hotels, tommie and Alila Hotels & Resorts.

Cullen has been an active member of HSMAI since 2005, has been on the Revenue Management Advisory Board since 2010, and served as Chair for the 2014 and 2015 Advisory Board. She has been the primary trainer for the HSMAI CRME (Certified Revenue Management Executive) certification course and is the author of the study guide, "Evolving Dynamics of Revenue Management." Cullen's most recent publication is the 2015 second edition of "Evolving Dynamics of Revenue Management."

Prior to joining Commune, Cullen was Vice President of Revenue Strategies for Heritage Hotels & Resorts where she was in charge of the overall revenue strategies including revenue management, marketing and advertising, electronic distribution, brand standards, transient sales and the company's databases. Cullen made an immediate impact by increasing RevPAR by 32%. Longer term she increased awareness of the company's hotels through online marketing initiatives, creative promotions, strategic SEO and social media initiatives.

Cullen's past also includes owning a successful hospitality consulting firm with a focus on development of strategies allowing hotel companies and companies servicing hotels to achieve their maximum potential in the marketplace. The areas of expertise included revenue management, call centers, technology and property conversions, technology assessment, electronic distribution, reservation operations, reservation sales training and revenue management training.

Past employment includes Swissôtel Hotels & Resorts, a Swiss company headquartered in New York City with offices in Zurich, managing 23 hotels across the Americas, Europe, Middle East and Asia. During her tenure at Swissôtel, Cullen started as Manager of Central Reservations and was promoted through several positions in operations to senior director of distribution. In June 2001, Raffles International (Singapore based hotel company owning and managing 33 hotels and resorts globally) purchased Swissôtel. Cullen continued in her position and was promoted to Vice President of Revenue & Distribution for Raffles International in 2002.

During her time with Swissôtel and Raffles, Cullen led the creation and implementation of a global revenue management infrastructure that included organizational structure, strategy, supporting processes and operations, as well as the selection of a revenue management system and partner and ongoing internal education for all levels of management. In addition, she established an organization that educated, trained and enhanced the management of electronic distribution systems and operations at a global, regional and local level. She successfully led three significant RFP search and implementation conversion efforts — two for the Central Reservation System and CRO Services, and another for Revenue Management software. She led the project to centralize North American reservations, opening a new centralized call center in Chicago, and later, restructured the Regional Reservations Office opti-

mizing the organizational structure and operations of the department; thus, improving efficiency, customer service and revenue.

In addition to her responsibilities with Swissôtel and Raffles, she was heavily involved with HEDNA — a not-for-profit trade association whose worldwide membership includes over 200 of the most influential companies in the hotel distribution industry. Cullen's involvement with HEDNA began in 1995, at which time she was elected education committee captain. In 2000, she was elected to the Board of Directors and one year later was elected as HEDNA's vice president.

Cullen's written work has been published in the HEDNA 2005/2006 White Paper Series, the HSMAI special report "Defining Revenue Management: Top Line to Bottom Line," published in June 2006, and the first edition of "Evolving Dynamics of Revenue Management" which was published in 2010. Both HSMAI publications are best sellers and currently used by Cornell University and NYU, amongst others, for their revenue management curriculum. HSMAI is releasing her latest publication in 2015 - Second Edition of "Evolving Dynamics of Revenue Management."

Cullen attended Fitchburg State University in Massachusetts and also received certificates in "Hotel Yield Management" from Horand Vogel and Associates and "E-Business Strategy" from the University of Chicago. The mother of three, Cullen resides with her family in the San Francisco Bay area.

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