Basic revenue management guidelines

Hotel, hostel, apartments & meeting rooms.

By John Kennedy
john.kennedy@kennedyandersson.com

INTRODUCTION

Revenue Management (RM)

This guide will explain what RM is about, how to create a set of RM rules and how to focus on a rate and occupancy strategy with examples on how to use RM.

To succeed with RM you need to know what you have sold historically, the inventory you have available, the price you want to sell it at, an allocation of rooms to be sold to meet demand, have a demand forecast, decided the mix of business you want and then have tools to measure your on-going performance.

The building blocks for RM are: training, a decision-making procedure, a regular allocation of time to RM, resources available to input and analyse data, processes in place, and top management commitment.

GOAL & MISSION

Goal

- Develop a rate and room strategy that your team can apply as the level of customer demand changes up and down over a year

Mission

- Benchmark performance against competitors
- Provide easy to understand revenue management guidelines and instructions
- Agree performance measures and responsibilities on who does the tracking
- Reduce efforts needed to manage rates and rooms inventory
- Profile your customer
- Document the historical demand and booking patterns
- Create a future demand calendar

RM COMPONENTS

RM COMPONENTS

1. Market segmentation
2. Pricing and rates strategy
3. Budgets, forecasting and demand calendar
4. Performance measures
5. Support tools

MARKET SEGMENTATION

One of the components needed to apply RM is market segmentation. It allows you to target and market to a range of customers that behave differently with an offer that matches their needs and budget.

Market segmentation identifies the purpose of the trip for example if a guest is on business, meetings or leisure. Price does not necessarily dictate the market segmentation.

Today's ways of booking makes it difficult to identify the purpose of the trip but you can segment by default for example the individual bookings for short midweek stays as business, and a booking of a double room over the week-end as leisure – it does also depend on the season.

A property may have various booking channels that sell to the customer; examples of these are listed below:

- Public channels direct to the hotel by the phone, email and fax or making a reservation at the reception desk
- Through the corporate brand website
- OTAs (online travel agents) i.e. Booking.com
- GDS (global distribution service) – mainly for business travel
- Tourist or professional associations that your property needs to be a member of.

MARKET SEGMENTATION

Identifying what the market segmentation is for your property:

- Leisure guests can be individuals or retail customers that book through public channels or may be a part of a tour group that has a block booking
- Business guests are individuals or contracted companies that have negotiated rates available only to corporate employees or customers that book through a particular travel agency or via the GDS.
- Meeting or conference customers (individuals/delegates or contracted companies) that book a meeting room
- Food & Beverage customers (guests or meeting delegates or "passers-by" who pop in for a meal or drink.

PRICING AND RATES

Pricing is the process of setting rates to get the optimal revenue. It can be dynamic and will be demand and season driven. There should be a strategy on how much a price set at the beginning of the year as a standard rate can move up or down throughout the year depending on demand. So for example it would be recommended that as a base rate of 100, the highest rate should be 110 and the lowest 90, a 10% fluctuation from the base rate depending on demand levels.

Typically inventory can be classified as:

- A hotel
- A long stay apartment
- A hostel
- Food & Beverage restaurant facility
- Meeting rooms
- Attraction or activity

Developing the RM rate strategy should be based on typical customers needs that could be defined as follows for example:

- Mid to low price level and desire to seek value for money
- A location near to things to do and see
- Convenient location for business travellers to visit local companies/offices
- A safe and secure environment to stay in
- Clean and tidy room and public areas
- Near to transportation hub
- Easy and hassle free bookings
- Access to a fast and reliable WIFI network

PRICING AND RATES

Rate parity

In order to implement rate parity properly in a hotel, and truly have the same price over all your distribution channels, you need to know all your commissions and margins for 3rd party channels.

A recommendation would be to make an excel table with all the conditions of each third party channel, to include;

- Tax % (included / excluded)
- Net / commissionable
- Margin % / fees
- Cancelation policies
- Payment policies
- Free sale / allotment

It will help you to better understand your property's distribution mix if you place room nights against each channel and the cost of doing business.

Next step is to configure a channel management system with the correct margin and taxes so you can easily load the same sell rate for each extranet all at one time.

If you have more than one room type per online travel agency website, you may want to configure a differential, variable per room type. For instance, set the difference between your superior room and deluxe room to 400.00 kr. This way you will save time on rate loading a price for each single room type, and will only have to submit the BAR for one room type and the channel management system will update the rest.

PRICING AND RATES

Having the same rates on all public distribution channels will stimulate more consumers to book directly with your hotel.

Each customer has different motives on why they buy, experience expectations and a level of willingness to pay at a particular price point, different needs/drivers for different products. To understand this we segment into interests, pricing bands, reservation terms and customer journey. There is also a product factor that brings together, hotel, destination, experience, and services.

Price determinants – demand, seasonality, business cycle, channel shift, competitor environment, product positioning, marketing, and costs of doing business and their pressure on profit.

The right price based on = value, customers perceived value, positioning and competition

- What rooms do you sell first and last?
- By room type what is the starting price point?
- Corporate deal commitments – is there a percentage % per day of occupancy that needs to be blocked?
- For how long in advance of bookings before any rate reductions or increases?
- Will customers pay more closely to an arrival date / last minute?
- Does mid-week business pay higher rates than on a weekend?

PRICING AND RATES

Price positioning strategy

Choosing a clear price positioning strategy for your base rate will help strengthen your value perception to consumers. There are several strategies you can follow;

1. Penetration pricing strategy
2. Equal pricing strategy
3. Surrounding pricing strategy
4. Skimming pricing strategy

Penetration Pricing Strategy - The local market accepts and understands your positioning: you may be among the cheapest in tow which is ok if that positioning does not drive the market rates down.

Is there an opportunity to still sell more expensive on specific periods? How does your client value your hotel?

Equal Pricing Strategy - The hotel sells at comparable rates. Does your value proposition make the difference in the clients' decisions?

Surrounding Pricing Strategy - Your first room type will be the cheapest in the market or among the cheapest ones. Your superior room type will be sold at a rate close to the first available rates of your competitors.

The key success is to offer added value, with the room types you have are you offering better facilities or specific features, and additional amenities.

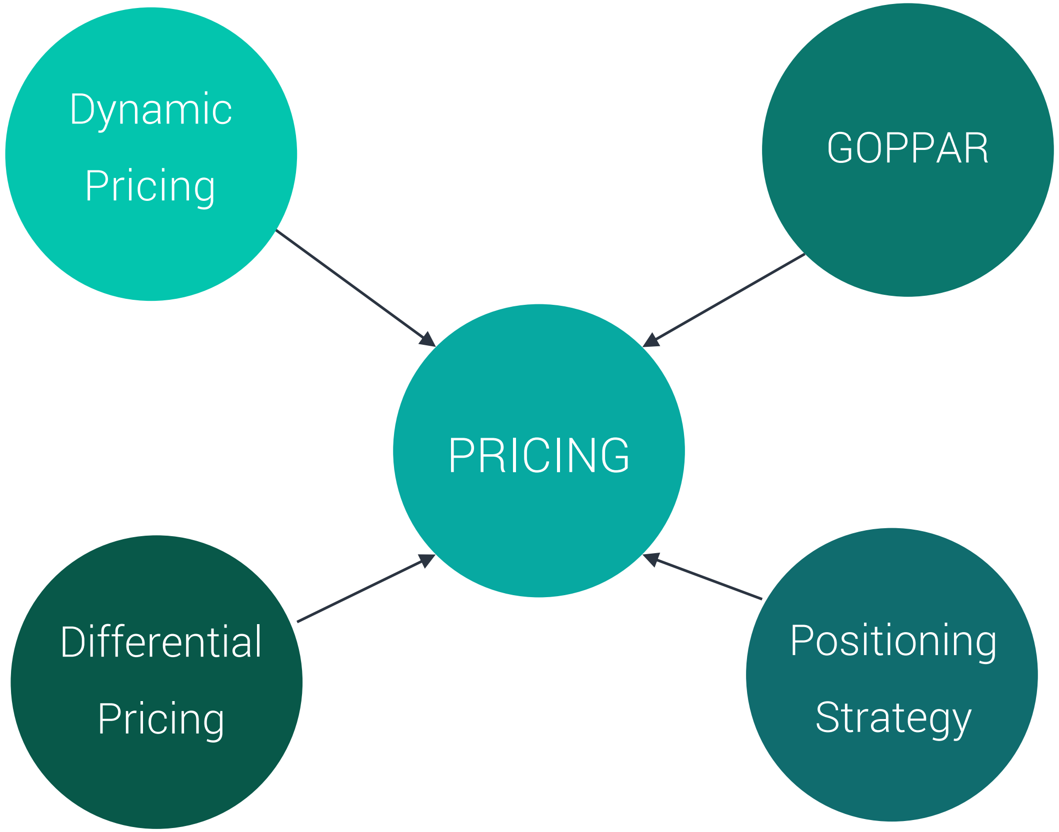
Skimming Pricing Strategy - The skim strategy is to position clearly your hotel among the most expensive. Price leaders often achieve among the highest profitability.

PRICING AND RATES

Can you provide more value than your competitors? Can the consumers clearly understand the reasons that they would pay more staying in your hotel? What are the consumers ready to pay for?

Setting different prices

The graph to the right shows some reasons for having different approaches to pricing (GOPPAR means gross operating profit per room):



PRICING AND RATES

Yield management in hotels works best when you can target different types of clients at any given time with different prices.

If you have not priced rooms for clients who potentially have a higher budget range and your prices are too low you will lose profit margin, likewise if you price too high you may also lose business.

This basically means we are introducing a price segmentation strategy.

So we have determined that we need more than one rate. So how many rates should we offer? How can we sell multiple rates for our hotel at the same time?

You can develop a pricing grid with room products with different benefits and characteristics.

Products are a combination of price and value. Developing different products enables you to target different type of clients with different needs.

- Sell more than one room type
- Create value differences between them
- Detail the pricing matrix for all the room types
- Ensure clear differentiation through your room type descriptions in your distribution systems

PRICING AND RATES

Pricing grid

Now that we have created our demand calendar, how do we start with pricing? We can develop a pricing grid that provides a range of rates that can be selected depending on the level of demand.

We call the price range BAR (Best Available Rate) levels. In your pricing grid you can include various BAR levels to offer at different levels of demand.

Below an example of a basic price grid:

	RACK	PREFF	BAR1	BAR2	BAR3	BAR4	BAR5	BAR6	WKD1	WKD2
Standard	200	160	140	120	110	100	90	80	70	60
Superior	215	175	155	135	125	115	105	95	85	75
Suite	230	190	170	150	140	130	120	110	100	90

PRICING AND RATES

When putting together your pricing grid take the following criteria into account:

Build your pricing points (BAR levels) as per expected level of demand (High to low for each season)
To determine what prices each BAR level should have it will help if you study at what rates you sell the most by channels, month and rate types. This way you will not miss out on any rate levels.

BUDGETS, FORECASTING AND A DEMAND CALENDAR

Budgets, forecasting and a demand calendar

At what rate and how many rooms can you sell for each day in the future?

The budget is made once a year, divided up into market segments and uses as a metric room nights and revenue, based on historic data and an estimate of what the market situation will be like in the future.

A monthly forecast reflects the expected situation in the short term (1 to 3 months). Forecasts are compared to the budget to flag up any down or upwards movements in demand. You may want to apply a new rate or selling strategy depending on what the new forecast says.

A demand calendar is a way to show past and future demand mapped together, based on historic and future events that could impact business. Positive and negative demand generators and exceptions must be mapped and updated regularly on the calendar. When you are assessing a forecast some of the variables to review are competitor activity, seasonality, reservations on the books, events, economic situation and occupancy.

You should aim at 5% maximum (+/-) variance for the next month, variance between your forecast and the actual results. Take the time to analyse the variances to understand, learn and improve your hotel forecast.

BUDGETS, FORECASTING AND A DEMAND CALENDAR

A basic version of a demand calendar should contain the following information;

- RevPAR last year (Revenue per available room)
- Meeting room bookings
- Demand level indicator last year (High, Medium, Low, Distressed) by month
- Demand level indicator this year
- Public holidays
- School holidays
- Exceptional demand indicators

Forecasts are not perfect. It is a strategic management tool. A basic Forecast is better than none. It is the path to market and customer knowledge.

A forecast can help you to estimate for example the double occupancy, the number of arrivals and departures: useful for the front-desk and housekeeping. On the basis of your forecasted number of nights by segment, you can anticipate the number of guests: it helps housekeeping to forecast their costs, and for the number of breakfasts. The forecast can help you identify challenges in reaching your objectives: it gives time to adapt strategies or work out additional actions. The forecast can help to identify low demand period: you can develop it as a communication tool to focus sales efforts.

01 02 03 04 05

BUDGETS, FORECASTING AND A DEMAND CALENDAR

Forecasting activity: 1x per week for the next 4 weeks, 1x per month for next 3 months, 1x every 3 months for the year and at least 1x per year for the next year

Analysis – daily average occupancy %, Average Rate, RevPAR and reservation pick up and monthly Guest Origin Business, Length of Stay, Lead-time and channel mix.

CAPACITY ALLOCATION

Capacity allocation

Setting the capacity allocation is a decision of whether to accept or reject an offer to book a room, how to then allocate capacity to different market segments or channels and when to withhold a room from the market and sell at a later point in time. Because demand is variable and uncertain, RM users must decide if they should sell capacity to a low paying customer today, or hold that capacity for a later arriving, potentially higher paying customer, who may or may not materialize.

How much of your room inventory you allocate to each channel will depend on your forecast and demand calendar.

PERFORMANCE (COMPETITIVE SET AND BENCHMARKING)

Hotel properties receive rankings based on Revenue Per Available Room (RevPAR), which incorporates the Average Daily Rate (ADR) and the hotel occupancy in its calculation. Hotels define a competitive set of similar service level hotels within the same geographic area.

Benchmark your competitors' rates in order to anticipate their strategies, list who your competitors are and keep tabs on everything that they are doing from rates to marketing campaigns.

- So how will your competitors selling strategies by segments evolve?
- How will that impact your demand to come to your hotel?
- Are you benchmarking your hotels GDS performance?
- Do you know you hotel's GDS market share?

Check the public rates of your competition, at least once a week. Also check periodically pricing by length of stay (LOS) i.e. 2 nights stay by arrival day, 3 nights stay by arrival day etc.

Benchmark on the following criteria:

- Prices
- Product
- Level of service
- Location
- Distribution channels

Market share reports help you to understand your performance versus your competitors, both in terms of occupancy and average rate.

PERFORMANCE (COMPETITIVE SET AND BENCHMARKING)

They can provide the following information:

- MPI - Market Penetration Index (your occupancy results versus the average occupancy of your competitors)
- ARI - Average Rate Index (your ARR versus the average ARR of your competitors)
- RGI - Revenue Generator Index (your revenue share of the market, the market being your hotel and the hotel competitors)

Your RGI should be above 100 (Index base 100). If not, that would mean that some of your competitors convert more business than you do.

- Reading the day-by-day RGI, when do you achieve the lowest score?
- For week-days, week-ends, events, when is the low demand periods?
- Do you have the right market segmentation?
- Is your price positioning by segment correct?
- It is also important to compare yourself to the right competitors!

Develop a checklist to evaluate your competitors in terms of product & quality: Score the quality of your competitors over the following measures:

- Welcoming and openness of the employees
- Quality and cleanliness of the bedroom
- Food & Beverage outlets and other services
- Location

You can of course also put into the mix score from hotel review sites like TripAdvisor.

IT / ANALYSIS SUPPORT TOOLS

IT / analysis support tools

There is a value in having specialist software and resources necessary to configure and maintain information systems in support of the business data.

- Google analytics
- Online booking engine
- Channel manager
- Benchmarking intelligence – to see how you are positioned with your competitors
- Property management system

You should have the knowledge of the number of one night stays, two nights stays, three nights stays, four nights stays etc, a booking curve graph will help you visualize the booking pace and flag up any issues.

It is important to keep the history of your competitors' availability and prices. That piece of information is an important part of the understanding of the demand to come.

Does your main competitor sell more or less expensive on the forecasted period versus the same period previous year? How will that impact demand?

Other questions to ask about your competitors:

- What are their fully booked dates?
- Are they changing their selling strategy?
- Low or High rates periods, are they the same?
- What are the openings and closing of competitors for refurbishment?
- Are any competitors being taken over with new management?

HAPPYBOOKING®

Happybooking International is a leading provider of IT solutions for the travel industry. In our portfolio we have a Property Management Systems, Online booking platform, OTA platforms and also custom development.

Visit www.happybooking.se and get to know us better!