

Hotel Revenue Management - The way I see it - By Neil Salerno

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The way I see it, there are almost as many versions of revenue management as there are people actually using it. Whether it's referred to as yield management or revenue management, it's obvious that it means different things to different people, but no matter what definition or tasks are applied to revenue management; it can work magic if it's applied correctly and consistently.

The way I see it, the process of managing the flow of one's business revenues can and, possibly, should be tailored to the individual hotel operation and what one is looking to accomplish. The primary goal is to maximize hotel revenue by taking advantage of available pockets of occupancy demand.

Many hotels and major franchises or hotel membership type affiliations take revenue management very seriously and have people dedicated to the process; while others leave the responsibility to local management, the front office, or reservations department. The sad part is that many people, with the revenue management title, have never been trained nor provided with the tools and goals of their job.

Preferred Hotels & Resorts have true revenue management professionals who follow strict guidelines to walk their member hotels through the process of maximizing their revenues. Their commitment to revenue management has contributed to their great success as a company, one of the many benefits of being a member of this fabulous group of hotels.

The way I see it, no matter who is charged with this important responsibility, revenue management can make a serious impact on your bottom-line. There are several important elements of revenue management, but none more important than knowing your competition.

Many years ago, I worked for an owner who constantly reminded me that increased occupancy had its own associated increases in expenses; linen, disposables, housekeeping payroll, etc. The key to increased profit, he used to add, is to find ways to increase average rate; where a dollar improvement meant that at least \$.95, from every room sold, goes to the bottom line.

Revenue management is a combination of art and science.

It doesn't happen by accident or simply good fortune. It takes work and dedication. The first step is to know your competitive business environment.

Start with knowing your competition

For those fans of the Sopranos, there is an Old Italian proverb which says 'Stay close to your friends, but even closer to your enemies'. I hope no one considers business competition this harshly, but this can easily be translated to 'Know your hotel well, but know your competition even better'.

The way I see it, there is no better way to begin the process of revenue management than to understand your competition. I can think of no better way to begin that process than to subscribe to Smith Travel Research weekly and monthly reports. Smith Travel Research compiles data on occupancy, average rate, and revenue-per-available room for your hotel as compared to your competition. This will help you to develop your hotel's true position in the marketplace and to set goals for where you want to be in the market.

The way I see it, too many hotels, especially independent ones, place themselves in a box by ignoring competing hotels. Hotels can't operate well in a vacuum. I can't understand how a hotel can set competitive rates without knowing what the competition offers.

Traditional Revenue Management

Traditional revenue management involves the adjusting of rates and hotel inventory based upon room demand. These adjustments are usually dependent upon current reservations, historical data, forecasting, and a good measure of gut-instinct; the art in revenue management.

In traditional revenue management, discounted rate tiers are closed as occupancy increases. Historical data may also indicate that a certain period has high demand even though reservations may be weak at the current time. Basically, as occupancy increases, rates available for sale should also increase. In this way, the hotel is building a 'base' of business, which enables the hotel to sell rooms at higher rates.

Many hotels build this base with discounted group business; dedicating a portion of their rooms to groups, actually enables the hotel to end up with stronger average rates overall. This would be a very simple process except that revenue management should be applied to group bookings as well. One of the factors affecting good revenue management is the fact that many hotels accept too many group rooms at deeply discounted rates.

Telltale Signs of Poor Rate Management

It's very easy to spot hotels which are not using revenue management; hotels which start-off with strong rates and begin dropping rates when they realize that reservations are not what they expected. Don't you just love those feelings of panic, one or two weeks into the month, when management finally figures-out that you aren't going to make budget and declares that rates need to be reduced? It's usually much too late, but something has to be done; right?

It's amazing how often this takes place. On the other hand, this is the same hotel which will do nothing when reservations appear stronger than anticipated. Frankly, I don't know which scenario is the bigger sin. This rate, 'set it and forget it', situation is more common among smaller independent hotels and can be avoided if someone is assigned to revenue management.

The way I see it, revenue management need not be a complicated process in order to be effective. Sometimes our industry tends to magnify the complexity of various tasks. Revenue management is a learned process, but you need to assign it to someone who has a legitimate interest and curiosity for numbers. If there is no one on staff with this knowledge, there are many outside authorities who can handle training. The return on this modest investment can be huge.

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