Revenue Management for Dummies...(Like Me) - Smaller Hotels Should Reap the Benefits Too - By Neil Salerno

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Now don't get me wrong, I really don't think any of my readers are dummies, but some of the revenue management articles I've read lately have made me feel like a dummy. I'm sure there are many hoteliers that are interested in this topic; I just feel that some 'experts' make revenue management more mysterious and complicated than it needs to be for many hotels.

True, many of the articles I've read were obviously written to appeal to skilled full-time revenue managers, but how about the many hotels that don't share the luxury of having someone devoted to revenue management alone. Most hotels have no choice but to assign the tasks of revenue management to their best multi-tasker; usually the GM or front office manager; anyone with a strong interest in numbers and the time to do it.

My concern is for the many medium-sized and smaller properties which can't afford to hire a revenue management specialist and haven't yet experienced the results which managing revenue can produce. Many of my clients are owners of smaller independent and franchised hotels who sometimes struggle just to keep the front desk staffed. Revenue management is no less important to them, but they have to make do with what they can afford and what is practical for them.

The airlines were the first, in travel, to realize that the principle of 'supply and demand' could be used to maximize revenue. They realized that selling all their seats at high prices was nearly impossible most of the time. They needed some way to fill enough seats to cover expenses; yet have the ability to raise prices after that base is obtained. Thus, the magic 7 day fare was born. Anyone making a reservation more than 7 days, in advance of a flight, got a real deal; after that your reservation is profit and it has worked for them for many years.

The principle is the same for hotels as well. As occupancy demand increases and supply (room availability) decreases, lower rates are closed to sale and only higher rates are available. Hotels today need a base of business in order to cover operational expenses. Selling all one's rooms at the same rate rarely produces good occupancy or a good average rate.

Let's examine how hotel rates are determined. Contrary to what some hotel owners may believe, setting rates has little to do with the hotel's furnishings or design. Hotel room rates are determined by what people will pay for those rooms. I've seen many hotel rooms that sell for $150 per night in Florida, which would sell for $500 per night in New York City, for the same room. Occupancy demand is the major difference. Higher demand allows for higher rates, plain and simple.

When developing rates, it's always a good idea to 'go-to-school' on the competition. Hopefully, Smith Travel Research is active in your area; their comp set reports can give you almost everything you need. Their STR report can be the best investment you've ever made for your property. Develop your rates as compared to your competition. How does your hotel compare?

For many years, hoteliers have realized that various market segments tolerate different rate levels. Most well-operated hotels set rates by market segment all the way up and down the scale. All rates flow from your highest rack rates down to lower deeply discounted rates.

Once your scale of rates is determined, it's time to begin setting up revenue management parameters. In their simplest form, rates might look like this:

Rack Rate

Discount 1 (walk-in Corporate)

Discount 2 (Government/Military)

Deep Discount 3 (Segment Discounts)

Deep Discount 4 (Promotional rate)

Please note that AAA or AARP rates are not listed because, as a good business practice, these rate categories are rarely closed out.

Once rates are set for each segment of business, as listed above, the next step is to set desired occupancy levels needed to close each discount level; what is needed to establish a base of business. This example is for a 100 room property.

0 to 50 rooms sold ....all rates are available

51 to 70 rooms sold......close Deep Discount rates

71 to 85 rooms sold......close all rates except Walk-in Corporate and Rack Rates

Please note that rates are not actually increased. As the number of occupied or reserved rooms increase, lower rate categories are closed for sale; in effect, increasing revenue yield. The scales above are very simple; with practice and experience, one can add many more variables to fine-tune rate yield.

Obviously, the same principle can apply to holiday and special event periods as well. The rates may be increased for those periods, but the same scales might apply.

Adding Restrictions

For high demand periods, many hotels add restrictions to increase revenue yield. Some common restrictions, such as minimum stays, closed to arrival, etc. are excellent tools for experienced yield managers. Restrictions should be applied with some caution because they do limit demand.

Daily Practice Creates Perfection

A good practice is to create a yield meeting to include all key individuals in the hotel. To begin, I suggest meeting at least three days per week. Larger properties and properties with full time revenue managers obviously review occupied and reserved rooms every day. The purpose of this meeting is to review reservations for the future to determine which days need attention.

Booking Pace

Booking pace, the rate in which reservations are made for the future, varies throughout the year. If yield meetings are held faithfully, people managing revenue will gain a sense for the pace of bookings. Some careful records-keeping can aid in this process.

Generally, a three day program would include reviewing occupancy as follows: Monday, 30 days out, Wednesday, 60 days out, and Friday, 120 days out. Hotels with group business could go out a year or more every Friday.

Revenue management utilizes intuitive as well as analytical skills; both of these skill sets improve with practice. The mind-set of a good revenue manager or team is focused on producing a good blend of occupancy and average rate. The hotel’s mission should be to build base occupancy, through a good mix of rates, and then take advantage of having a base by then closing-out lower rates to build average rates.

The mission should not simply be to get 100% occupancy; it should be to get occupancy as high as possible, with an average rate as high as possible. For a 100 room property, occupancy of 85% with an average rate of $140 is more profitable than 100% occupancy at $110. Although both scenarios produce roughly the same revenue, what does it cost you to clean 15 rooms?

This is a simplified format for those hotels which are currently ’simply selling rooms’ at the present time. The purpose of revenue management is to help hotels to ’shape’ their business. Obviously, there can be much more detail and intricate techniques involved in revenue management; but sometimes progress has to come in baby steps in the beginning.

As stated at the outset of this article, it is true that many larger hotels, franchised and Independent, and some hotel companies have full-time talented revenue managers. However, most independent and smaller hotels are not using any form of revenue management in their operations. Revenue management, even in its simplest form, can benefit most hotels no matter how large or small.

There are other factors which will affect close-out and/or restriction decisions such as occupancy history, overflow pressure from hotels with convention facilities, and special events being held in the area. For properties which may be just beginning to use revenue management in their operation, practice makes perfection. For many hotels, start with the basics. You will find, in short order, many opportunities to become more sophisticated with additional ways to improve your revenue yield.

Revenue management is a vehicle to help hotels to become aware of the rooms they sell, the rates at which they sell, and the pace at which they sell. It is a way hotels can become pro-active in the selling process, rather than simply posting rates and waiting for them to be sold.

Contact:

Neil Salerno, CHME, CHA

Hotel Marketing Coach

www.hotelmarketingcoach.com

NeilS@hotelmarketingcoach.com