

## Experts: Chains Leave 'Group' Money on the Table

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Manugistics Webinar team decodes group pricing - 'total property spend' is new measure - By Graham Young

Attracting - and winning - profitable corporate group business is essential for much of the hotel industry, but manual group rate setting and evaluation processes may be costing hotels money. Corporate travel is increasing - groups now constitute 30-40 percent of the occupancy at the average North American hotel of 200-400 rooms. At the same time, in a recent survey 70 percent of properties said group rates are higher than in 2000 and are continuing to rise. However, independent revenue management experts participating in a Manugistics Webinar on group rate optimization found group evaluation and rate setting continues to be largely manual, and this may be resulting in lost revenue for many properties - despite the large growth in group occupancy.

Manugistics hosted the webinar titled 'How to Find Hidden Revenue Using Group Rate Optimization,' on May 18, 2006. Industry rate management professionals Kathleen Cullen and Manugistics Senior Scientist Dr. Jon Higbie examined driving forces shaping today's group convention segment in hospitality and how operators can optimize their revenue from group bookings. Cullen is a founding partner of inspire resources, a revenue management consulting firm, with more than 13 years of hospitality revenue management experience; Higbie is senior scientist and consulting services director for Manugistics Revenue Management Group. Together they guided participants through an analysis of the forces driving group business and rate setting in today's Internet-focused market, and taught operators how to leverage emerging factors to maximize revenue from their group segment.

### Group meetings up 43% in 2005

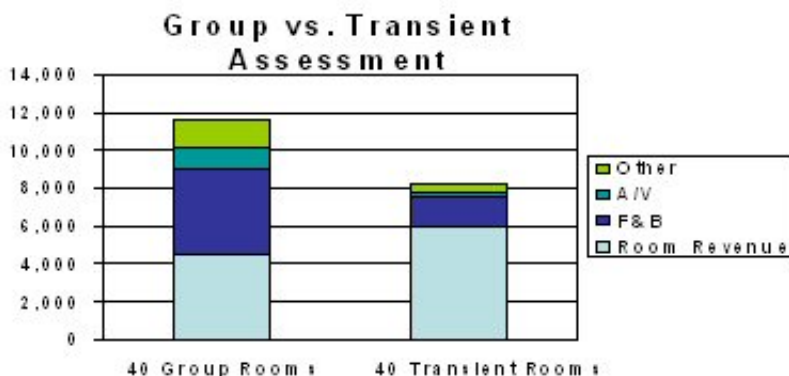
Thanks to a strong economy, many companies are expanding business travel and sponsoring more group meetings at conference centers and hotels. Total event reservations in the US have increased by 43 percent in 2005, according to PassKey, an online reservation management provider. Since group room rates are often lower than transient bookings, group value is regularly underestimated by operators who fail to analyze all aspects of a group's property involvement. When operators inaccurately forecast a groups' revenue potential, they run the risk of losing money by turning away valuable business.

### Group value = 'total property spend'

Kathleen Cullen explained that accurate group revenue forecasting extends beyond room rate. Savvy hotel sales teams assess a prospective group's value by analyzing its 'total property spend.' In addition to a group's room block, total property spend includes forecasted revenue from meeting space, food and beverage, A/V rental and other factors that generate income. It also factors in a group's stay pattern and seasonal impact on the cost of lost transient business. Many properties do not employ this type of in-depth analysis because it is extremely complex and takes time away from a sales team's other duties. Nevertheless, an accurate group revenue forecast is essential to a property's decision on whether to book a particular group and has a major impact on revenue, staffing and hotel performance.

Between the many factors that comprise total property spend valuation, date/rate float analysis, and transient displacement estimates, operators have more calculations than they can manually accomplish to provide timely evaluation of a group's value. 'The Manugistics Hospitality Rate Management solution is designed to do the math for a corporate sales team so they can book the business at one property or for a chain at the highest price point for all elements of the deal,' said Dr. Higbie. 'The system is designed to maximize group revenue by automating the group pricing and forecasting process.'

When a group's total revenue contribution is analyzed, the 'total property spend' per group member may be 30 percent more than the average transient guest.



## **Revenue Management technology does it faster**

'Analyzing a group's total value is a demanding process, but it is essential if operators want to optimize revenue from both transient and group segments,' said Cullen. 'Group lead times are shrinking due to Internet price shopping, so the decision to accept or turn down a piece of group business must often be made quickly. Fortunately, revenue management systems perform these calculations much faster than a person and can be a valuable tool for group analysis.' Cullen noted that without a reliable estimate of total group value, operators frequently make the decision based on emotion - and this can cost them money.

### **Total property spend factors for group revenue analysis**

- œ Sleeping room count
- œ Patterns/seasons (high season rooms have greater potential value)
- œ Meeting room usage
- œ F&B (catering space and outlets: groups spend more time on property)
- œ Cost of transient room displacement
- œ Future opportunities with group
- œ Existing corporate contracts
- œ Promise of future business
- œ Global agreements

'Manugistics implemented total-contribution demand forecasting for clients in other industries, and we are now finding it evaluates the factors that comprise hospitality group value analysis just as well,' said Higbie. Manugistics provides revenue management solutions to many of the largest hotel chains, including Marriott, Omni Hotels and Princess Cruise Lines, as well as Continental Airlines. 'The likelihood of winning a piece of group business drops as room rate increases,' said Higbie. 'But if a property can quickly apply 'what if' analysis to an increase in the meeting room price while lowering the group rate for sleeping rooms, they can negotiate more strongly. Our systems provide that capability.'

### **Required: Sales buyoff**

Webinar panelists also found that property sales teams often reject corporate rate management tools, even if available, because they feel they are a better judge of business factors, and also because of their compensation plans. 'Sales people must factor the promise of future business, existing corporate agreements and personal relationships into their group bargaining process,' said Cullen. 'But because most have pay plans based solely on sleeping room sales, this becomes their focus - and that can cost their properties money.' Cullen explained that if sales people were incented to book group business during low-demand periods and on the basis of total group value, the property would benefit from more business and increased revenue.

Date flexibility is also becoming a factor in the group booking process. Many properties analyze their calendars to spot slow periods and then offer prospective groups a lower room rate if they book during those dates. Higbie said, 'The goal is to make more money for the property, and if a property can adapt automated group rate management strategies seamlessly to the negotiation process, they have an edge in the bidding process. By using their rate management system to calculate the value of multiple future group booking dates in different seasons, combined with different meeting room and food & beverage (F&B) packages, they can judge the value of each possible booking. This gives a sales team the information it needs to intelligently evaluate bids for the best deal.'

### **The Buzz: Floating dates and group rates**

In answer to a question from a webinar attendee about the value of 'floating rates,' Kathleen Cullen responded: 'The latest buzz is about adapting group dates and rates to low-demand periods. Some properties are writing contracts that allow group rates to float up or down according to occupancy. The goal is to motivate meeting planners to book their events during slow periods. When sales people are trained and incented to do this, the property has more uniform occupancy and groups get better rates.'

Cullen noted during the Webinar, 'The ability to Internet price-shop is a big advantage to group bookers. Hotel sales people must use all their product knowledge, competitive awareness, and revenue management tools to level the playing field. Technology can give sales teams the ability to analyze group-to-group and group-to-transient business quickly for more precise and profitable decisions.' Automating the group pricing process creates efficiencies that free up property sales staff to spend more time with clients and generates more income for properties.

Both Cullen and Higbie agreed that effective revenue management technology must be integrated with a company's strategic pricing strategy and fully understood by the team using it. Cullen concluded, 'Group revenue management technology will never replace trained professionals, but it can be a very effective tool to help them generate more revenue for their companies. Without relying on a sophisticated revenue management system to perform the demanding analysis required for informed group selection, properties may not be making the most profitable business decisions.'

*Graham Young is Senior Vice President of Business Development for Manugistics*

### **Manugistics Revenue Management Group**

For more than 20 years, Manugistics has pioneered industry leading pricing and revenue management solutions. Manugistics is the innovator in Revenue Management -- first to market in Integrated Revenue Management, first to market in Price Optimization, and first to market in Price Sensitive Revenue Management. Today, industry leaders in the service-based Travel, Transportation and Hospitality industries leverage Manugistics' expertise to maximize their profits on more than \$100 billion in annual revenues. Manugistics clients include Harrah's-Caesars, Omni Hotels, Marriott, Princess Cruise Lines, TUI (formerly Thomson Holidays), and Continental Airlines.

### **About Manugistics Group, Inc.**

Manugistics powers the synchronized supply chain. Clients depend on Manugistics to position them one step ahead of demand. With Manugistics' unparalleled supply chain and revenue management solutions, clients achieve improved forecast and inventory accuracy and leverage industry leading pricing and yield management solutions to maximize profits while ensuring optimum supply for constantly changing demand. Its clients include industry leaders such as Boeing, Canadian Tire, Cingular, Circuit City, Coca-Cola Bottling, Coty International, DHL, Diageo, DSG International plc, DuPont, Eurostar Group Ltd., Georgia-Pacific, Great North Eastern Railway (GNER), Harley-Davidson, Harrah's Entertainment, H.J. Heinz, Limited Brands, Kraft Foods, Marriott, McCormick, Nestle, RadioShack, The Scotts Company, Sears Holdings Corp., Sinotrans, Unilever and Wickes Building Supplies. For more information, visit our website at [www.manugistics.com](http://www.manugistics.com).

**Kathleen Cullen** is a founding partner of 'inspire resources,' a revenue management consulting firm, with more than 15 years of hospitality revenue management experience. She has held senior management positions with Swissotel and Raffles International, is a past board member and vice president of HEDNA (Hotel Electronic Distribution Network Association), and is a frequent speaker and panelist at rate management seminars and tradeshow. Cullen is currently writing a white paper on revenue management for HSMIA (Hospitality Sales and Marketing Association International) scheduled for publication in June of 2006. For more information on Cullen and 'inspire resources' please visit [www.inspireresources.com](http://www.inspireresources.com).

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