

Cornell Study Confirms the Value of Revenue Management

2006-06-21

Hotel Industry Applies Revenue Management In Good Times And Bad

Whether business is weak or strong, hotels in the United States generally apply demand-based revenue management techniques to rate-setting decisions. However, a study of the interaction of pricing strategies and revenue management shows that certain types of hotels are particularly diligent with revenue management. The study, by Cornell professors Linda Canina and Cathy Enz, found a strong correlation between a price strategy of offering rates above a hotel's competitive set with effective revenue management. Issued by the Cornell Center for Hospitality Research, the report, 'Revenue Management in U.S. Hotels: 2001-2005,' is available at no charge at

<http://www.hotelschool.cornell.edu/chr/research/centerreports.html>.

'In an earlier study, we noticed that as business fell off in 2001 and 2002 hotels were careful to adjust rates based on demand changes,' explained Enz, who is associate dean for industry research and affairs and the Louis G. Schaeneman, Jr. Professor of Innovation and Dynamic Management. 'The question that we answered in this report is what happens with revenue management when the industry's fortunes improve. The general answer is, revenue management continues in force, although the correlation between rate and demand was the strongest in 2001. Additionally, we note that revenue management correlations are generally stronger in higher performing hotels.'

Certain hotels have a different approach to revenue management compared to the rest of the industry, Canina and Enz discovered. Particularly as the economy improved, high-price luxury hotels showed lower correlations between rate and demand in 2004 and 2005 than did the hotels in the industry's vast middle market. While the study does not show causality, Canina and Enz suggest that the changing correlations indicate that high-price luxury hotels were able to reestablish their rate structures with the return of a strong economy. Looking at a different market position, upscale hotels that consistently priced just under their competitors were particularly diligent with revenue management.

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