

Original Sin of Revenue Management - By Jay Delerno

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A Pricing Strategy that Misses the Mark

What does sin have to do with Revenue Management? First, let's look at a definition of sin. Sin is defined as 'a transgression of a religious or moral law, especially when deliberate' or 'to commit an offense or violation'. Next, let's look at the origin of the word sin. The Greek word hamartia means "to miss the mark" or "to miss the target".

The Original Sin of Revenue Management is using an unscientific methodology to create a pricing strategy that 'misses the mark' or to say it another way 'misses the target'. All Revenue Management must begin with a scientific approach to developing a pricing strategy or all yielding will be done to inferior rates and less than optimum Revenue Management will be the result.

Before we go any further, let's clarify the difference between a rate strategy and rates. A rate strategy is how a property positions its rates versus its competition and most often expressed as a range of rates. Rates are within the rate strategy and are manipulated on a short term basis as demand dictates.

Let's examine what drives a hotel's room rate strategies today. If we ask hoteliers, "How did you arrive at your current room rate strategy" we receive the following or similar answers:

- œ "Our competition increased their rate by 5% so we did also."
- œ "We feel we need to be \$5, \$10, or \$20 etc., less than ABC Hotel and they raised their rates".
- œ "Our costs increased by 3% so we needed to increase our rates."
- œ "We need to pay for the renovation".
- œ "The hotel pro forma said"
- œ "My boss said"

So how scientific are the above answers? In the case of the first and second answers, a hotel would be following a competitor's rate strategy regardless of how good or bad it may be. In the third, fourth and fifth cases, the hotel is really doing nothing more than maintaining their profit margin or allowing cost to drive their pricing strategy. The last answer is a rate strategy that is being driven by some 'authority' which may or may not be well suited to create a rate strategy.

Another answer we sometimes receive is "demand determines our rates". If this is your answer, consider this. Demand really determines what rate you are quoting within your rate structure or strategy. The demand for your hotel will be determined by the attributes or features of your hotel and the appeal they have for a particular market segment traveler. If this is not true, then why does one hotel out-perform another in REVPAR? The answer is attributes or features. Attributes or features create the demand for a hotel which in turn drives the rate which is quoted within the rate strategy.

Hotels sin or 'miss the mark' because they do not address their pricing strategy in a scientific way. So, how should you determine your rate strategy? The best approach is to compare the attributes or features of your hotel with those of your competition. When making the comparison, bear in mind that each attribute will have a greater or lesser appeal to each segment. By using a scientific methodology to do this comparison, you can develop a superior rate strategy and not 'sin', but 'hit the mark'.

Jay Delerno, President of Revenue Source One, founded the company in 1987 and has over 30 years of experience in hotel sales and marketing, including the Executive Vice President positions for two hotel companies. Revenue Source One is the only hospitality consulting company offering improved rooms pricing strategies via an attributes-based, computerized Rate and Competition Analysis Pricing Model (Rate Razor). The company also provides sales and marketing consultation and market research to the hospitality industry.

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