Hotel Revenue Management is Not Rocket Science - By Neil Salerno

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So, Why Aren't You Using It?

In the years before the Internet, it was financially impossible for many hotels to create an identity in the eyes of the public at large. Most hotels had to Now, I never claimed to be the requisite authority on revenue management, but I get very frustrated with revenue management insiders who make the process sound much more complicated and tedious than it need be for most hotels. Some simple revenue management tactics can make a significant improvement in a hotel's bottom-line, especially for smaller independent hotels.

Several years ago, there was a subtle shift in thinking; hoteliers began to realize that the old standard of using occupancy and average rates is a poor way to determine a hotel's profitability or its competitive status within the market. RevPar, revenue per available room, provides a much clearer picture of revenue status. RevPar also enables us to compare hotels of different sizes and rates.

There are two elements in RevPar; occupancy and average rate. Computing RevPar is as easy as multiplying occupancy times average rate. The result is the hotel's revenue income per available room in the hotel; a measurable standard for every hotel.

We all know that increasing average rates provides a much greater benefit to the bottom-line than simply increasing occupancy. Increases in occupancy are always accompanied by proportionate increases in operating expenses; average rate increases are not. Revenue management, done faithfully, balances both functions to produce healthier net revenues.

Many hoteliers concentrate only on increasing occupancy; increasing occupancy by sacrificing average rates just doesn't make sense; it doesn't work. Only in rare cases will reduced rates generate enough incremental occupancy to compensate for the rate reduction. It most often results in slightly increased occupancy; only at lower rates and much lower profit.

I know there are some people out there who still believe that lower rates produce increased demand; the fact it that it doesn't. Revenue management simply takes advantage of increased demand periods. In order to do this, one must be able to recognize those opportunities.

Let's be practical; the prospect of hiring an experienced revenue manager is way out of financial reach for most hotels. If this is your situation, it behooves you to learn and apply a few simple techniques to improve your revenue yield.

If your hotel has the size and revenue stream to afford a talented revenue manager, then this article may not be of much interest to you. If, however, you choose your revenue manager by looking in the mirror and picking the first one you see, you may want to read-on.

The Benefits of Revenue Management

Are your rates properly positioned to compete in your marketplace? How were your rates developed in the first place? Rates should never be developed in a vacuum; knowledge of your competition is critical to developing your rates. Start with a comprehensive study of the competition.

Correct rates are determined by what people will pay, yet create a good value to the buyer. Value is a relative term which includes your hotel's location, facilities, and its competitive environment. Ignoring your competition doesn't make them go away.

The best study for this purpose is called a S.W.O.T. analysis; Strengths, weaknesses, Opportunities, and Threats. This study compares your hotel with your selected competition hotels. It should not simply include bricks and mortar, but also general manager strengths and weaknesses, sales staff, franchise factors, etc.

Revenue management is a process of anticipating hotel occupancy and market demand and to determine how it will affect your hotel. Of course, this process begins with gathering data about your market's business flow; your hotel's occupancy demand and rate history; and your hotel's current reservations booking pace.

Anticipating market and hotel demand is the key to properly positioning your rates. If there is a large convention which is eating-up hotel reservations downtown; that could provide a boost in demand for suburban hotels. Determining this possible demand can be very profitable.

Don't those hoteliers who have no clue what's going on around them and are therefore, relegated to reacting to market changes instead of being proactive to potential demand increases. This hotelier is the one that I hear from wanting to do something about next week's poor occupancy or worse, missed demand rate increase opportunities.

Nothing dark and secret here. It's really a matter of knowing your hotel and its market; then making the appropriate changes in rates based upon demand.

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