

Cornell Restaurant Report Shows How to Calculate Revenue Accurately

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Online Restaurant Report Demonstrates Management Decision Tool

Restaurant managers are increasingly applying revenue management techniques to make their operations more profitable. The key to restaurant revenue management is accurately measuring revenue for a particular time interval. With a solid measurement of their revenue, restaurant managers can make necessary adjustments that will boost profits. A new restaurant report from Cornell's Center for Hospitality Research shows how to make that important revenue calculation.

The newly issued online restaurant report, 'Accurately Estimating Time-Based Restaurant Revenues Using Revenue per Available Seat-Hour,' (www.hotelschool.cornell.edu/research/chr/pubs/reports/2008.html) by Gary M. Thompson and Heeju (Louise) Sohn, is available at no charge from the Center for Hospitality Research. Thompson, a professor of operations management at the School of Hotel Administration, and Sohn, a master's candidate in engineering, compared and analyzed two ways of calculating revenue in the new restaurant management report, using revenue per available seat-hour, or RevPASH. 'We were concerned that the usual RevPASH calculation can be misleading,' said Thompson. 'The problem is that this approach assigns all of a meal's revenue to the time that the check was opened. A more accurate approach is to apportion the revenue across all the time intervals occupied by that meal.'

Newly Released Restaurant Management Report Shows How to Improve Operational Profits by Accurately Calculating Revenues for Specific Time Intervals

The traditional approach to RevPASH becomes increasingly inaccurate as one shortens the time period for analysis, as Thompson and Sohn demonstrate in the revenue management-focused online restaurant report (www.hotelschool.cornell.edu/research/chr/pubs/reports/2008.html). They discovered that the traditional calculation is accurate when it is applied to a complete meal period, an entire lunch time, for instance. However, if you break that meal period into shorter time measurement intervals, even one-hour intervals, the traditional approach is remarkably inaccurate.

Using the data from a 118-seat restaurant, Thompson and Sohn explain how to make a RevPASH calculation that precisely apportions the revenue for each measurement interval. That way, restaurant managers can make an accurate analysis of revenue levels in each measurement interval and can make changes in their operations that either bring in more customers (when things are slow) or move customers along more rapidly (when things are busy).

Meet and interact with Dr. Thompson, an active member of the executive education faculty at the School of Hotel Administration, when he presents sessions in the Professional Development Program: www.hotelschool.cornell.edu/industry/executive/pdp/.

Thanks to the support of the Center for Hospitality Research partners listed below, all Cornell Hospitality Reports and Tools are made available free of charge from the center's website, www.chr.cornell.edu.

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