

## The Next Big Development in Hotel Revenue Management - By Neil Salerno

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Early this month, I had the privilege of speaking at the Travel Distribution Summit, sponsored by EyeForTravel Research in London. I was asked to present my thoughts on 'Integrating Profit Optimization and Revenue Management', the next big development in revenue management. I was immediately captivated by the subject because it sure makes common-sense.

EyeForTravel is a media company, headquartered in London, which specializes in developing business intelligence for the travel and tourism industry. They produce travel conferences all around the World.

### **The Progress we've made**

We've come a long way from the old-style and ineffective 'heads-in-beds' mentality of the early days of our industry. The heads-in-beds mentality sets occupancy as the ultimate goal and establishes rates based upon immediate need, usually with little relationship to the marketplace.

The typical knee-jerk reaction to this shallow marketing tact is to reduce rates, for all rooms, under the false belief that lower rates will increase room demand.

Ever since American Airlines started the transformation to revenue management in 1985, hoteliers began to learn and use revenue management to increase RevPar results. . Since then, the hotel industry has done its best to change its marketing efforts from simply selling rooms to actually managing revenue through the principles of supply and demand.

Unlike the 'heads-in-beds' mentality, revenue management 'best practices' requires us to set revenue and RevPar as the ultimate goal, set rates based upon market acceptance, establish a rooms sales strategy, evaluate and consider historic, current, and future demand, and adjust rate availability to room supply and occupancy demand.

### **Integrating Profit Optimization**

Integrating profit optimization into revenue management programs takes us to a new level, one which focuses strong attention on the bottom-line. This next step is to encourage revenue managers to drill-down to the operating profit line and consider opening and closing rate categories based upon the level of profitability for each market segment.

It is surprising to me how many revenue managers do not know the hotel's true cost of sales and most do not take any responsibility for the bottom-line. Yet, the decisions made in revenue management always impact bottom-line results. All it takes is to grasp a feeling for understanding how much each segment impacts profit.

Delivering profit has traditionally fallen into the realm of operations management. Today's revenue manager, or no matter what the actual job title, has many sales channels to manage, all of which have varying levels of profitability. Knowing which channels are viable for the hotel and knowing their level of profitability is important to the hotel's success.

### **Adjusting Rates to Market Conditions**

Profit optimization begins with a full review of your hotel's rate structure. Do your rates reflect a true value to the consumer? Do your rates meet the most important criteria...rates that consumers will pay? You may feel that your facilities and service deserve much higher rates, but will people pay those rates? Will your market support higher rates?

Remember that your rates often define your product and service. Rates that are too high lose value, rates that are too low lose value credibility. Do your rates reflect your hotel's position in the marketplace? If you are fortunate enough to be located in a Smith Travel Research area, are you using their STR report to gauge your competitiveness?

### **The Internet Has Changed Everything**

Don't ever underestimate the power of the Internet, its popularity continues to grow. The Internet makes it easy to find and book a hotel anywhere in the world. Are you practicing rate parity among all sales channels? Rate Parity produces consistency, Rate Consistency produces consumer confidence. People today are getting very disillusioned with some of the rate games they have seen in our industry.

I see no reason, whatsoever, to discount rates for Internet bookings. This practice was born from the hotel franchise/third-party aggregator wars of the early 2000's. In order to recapture Internet market share from third-party aggregators online, hotel franchises promoted discounted rates for online reservations, but the only benefactors were the franchises themselves. They regained market share at the cost of their franchisee's average rates and profits.

### **Third-Party Aggregators Online**

One of the giants in Internet research, PhoCusWright, recently debunked the commonly popular notion that supplier site production surpasses that of third-party portals. The fact is that this is not true. Third-party travel portals still remain firmly entrenched in online travel sales. This, alone, should encourage hoteliers to stop treating third-parties like the enemy and start treating them as marketing partners.

Smart revenue managers have learned to incorporate third-party portals into their decision-making to help provide a base of business, which allows hotels to actual boost the rates for their remaining rooms. They can provide needed sales especially when times are tough.

### **Creating a Revenue Management Profit Strategy**

Consider and include all channels in your sales strategy.

Create RevPar & profit increase goals and communicate those goals within your organization.

Determine profit parameters for all sales channels for your hotel, occupancy is not the goal - profit is the goal.

Develop an accurate 'cost of sales' profile and follow it.

Learn from mistakes - your own and those of others

Be unafraid to make a calculated risk - no risk, no reward

Keep accurate records and learn from them

Stop rate discounting when times are tough, people buy value, not rates.

Become your hotel's 'Profit Manager'

Creating a revenue management profit strategy should be the next big development in your revenue management program. It's a matter of focus. Focus on making decisions which support profit opportunities. We know that not all market segments produce the same level of profit, finding and evaluating them is the key.

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