The 2017 Smart Decision Guide™ to Hospitality Revenue Management

Everything you need to know about Hospitality Revenue Management – and how to select the right solution and/or services for <u>your</u> organization

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infor

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Introduction

A celebrated physicist once famously remarked that prediction can be very difficult, especially when it's about the future. That certainly applies to forecasting demand for hotel guest rooms. With the advent of next-generation revenue management capabilities, however, predicting the future has become a lot easier, more accurate and more profitable.

Hospitality Revenue Management — also commonly known as *yield management, demand pricing, dynamic pricing, time-based pricing* and (in the world of ridesharing services) *surge pricing* — is nothing new. Companies in the airline industry have been using supply and demand data for decades in their incessant quest to maximize revenues. More and more hotels are also now jumping on the bandwagon. For those that have implemented next-generation revenue management solutions, the investment has generally paid off in spades. In fact, according to research conducted for this Smart Decision Guide, large and very large hotels have enjoyed a 10 percent average increase in revenue per available room (RevPAR), potentially resulting in millions of dollars in additional profit.

Fueled by the rapid growth of big data processing, demand forecasting and pricing optimization models, these solutions generate pricing recommendations based on real-time analysis of relevant data. They automate the decision-making process, driving increased revenue from not only guest rooms but from all parts of the hotel property. This gives hoteliers unprecedented inventory management and pricing control.

> The solutions automate the decision-making process, driving increased revenue from all parts of the hotel property while giving hoteliers greater inventory management control.

By now, of course, most hoteliers have come to embrace the concept of revenue management as a strategic imperative, given the opportunity to improve the financial performance. That said, it is important to note that revenue management can take many different forms, some of which are far more sophisticated — and effective — than others. Different approaches, difference technology solutions and different organizational resources can yield dramatically different business outcomes.

This Smart Decision Guide offers hoteliers a framework — and also, perhaps, additional encouragement and inspiration — for taking their revenue management capabilities to the next level. This is not a technical "how-to" guide. There is no delving into the principles of, for example, capacity management and duration control. There is no examination of the best strategies for using displacement analysis. The nuts and bolts of calculating group rates or applying rate fences to create appropriate customer segments are not among the topics covered. Those learning opportunities are available elsewhere, including in programs at dozens of accredited schools that specialize in hospitality management.

The purpose of this Smart Decision Guide is to provide decision makers with insights for selecting the right revenue management solution in the context of their hotel's or resort's specific needs. It also offers practical advice for putting the right resources, processes and metrics in place to maximize success and drive continuous performance improvement.

> It is important that prospective buyers understand that revenue management can take many different forms, some of which are far more sophisticated — and effective — than others.

Chapter 1

Topic Overview and Key Concepts

Advanced revenue management tactics have become an everyday fixture across multiple industries. Surge pricing is a core feature of ridesharing services like Uber and Lyft. When demand is higher, transportation rates automatically increase, often by many times the usual rate. Major theme park operators, including Disney and Universal Studios, have begun to use demand-based pricing techniques. Tickets cost up to 20 percent more during peak periods than during slower periods. Movie theaters, sports teams and even parking lot operators are rolling out similar approaches.

In all cases, the idea is to automatically forecast demand and capacity for a perishable product or service and then price that product or service in a way that maximizes profits for the business. *Perishable* is the key word. Revenue management tactics work only for products or services that lose their usefulness and value if they are not utilized within a certain period of time. Another key concept is *price elasticity of demand*. Demand is sensitive to changes in price and price is sensitive to changes in demand. Generally, hotels have a lot of elasticity because the main product in demand — guest rooms — is both perishable and fixed in capacity.

Hospitality revenue management is about s*elling the right space at the right price at the right time to the right guest*. Again, *space* typically refers to guest rooms. Large hotels may have dozens of room types. *Price* refers to room rate, which may be influenced by multiple factors, including how far in advance the reservation is booked and what the hotel's competitors are charging. *Guests*, which may include individuals as well as groups, can

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be grouped together using meaningful segmentation schemes. For example: Guests who book through a discount site, who purchased a package deal or who took advantage of a special rate promotion may be grouped together for price sensitivity. Length-of-stay is another criteria for factoring pricing. So, too, can the extent to which guests utilize the spa, casino or other facilities. Business travelers usually have different wants and needs than leisure travelers and thus may be grouped together. Guest segmentation lays the foundation for revenue management. The approach also supports sales, marketing and loyalty management efforts.

For a long time, revenue management was all about filling empty rooms with paying guests. Today, the goal is no longer just about increasing guest room occupancy, with no consideration given to the pricing decisions in terms of the long-term implications. Nor is it just about rooms. Banquet and business conference hosting, recreational facilities, restaurants and spas also now factor into the equation. Together, these assets typically account for a sizable portion of a large hotel's revenues.

Next-generation revenue management means optimizing profitability and not just revenue. It means analyzing ancillary revenue streams (e.g., food and beverage as well as golf, spa, etc.) along with related cost data to understand profit contributions by guest segment. For hotels with casino operations, even the "theoretical loss" (the amount of money a player can be expected to lose during their stay) can factor into the pricing model.

> Meaningful guest segmentation lays the foundation for revenue management and also supports sales, marketing and loyalty management activities.

The prospect of increasing hotel revenue and profitability is the primary impetus for investing in a next-generation hospitality revenue management solution. The business case is easy to make from an ROI perspective. But this is not the only one benefit. Other benefits include the ability to improve marketing and sales efficiency and effectiveness, generate competitive intelligence and market insights into occupancy trends and guest demographics, and benchmark performance against competitors in the same market to drive continuous improvement.

Increase revenue
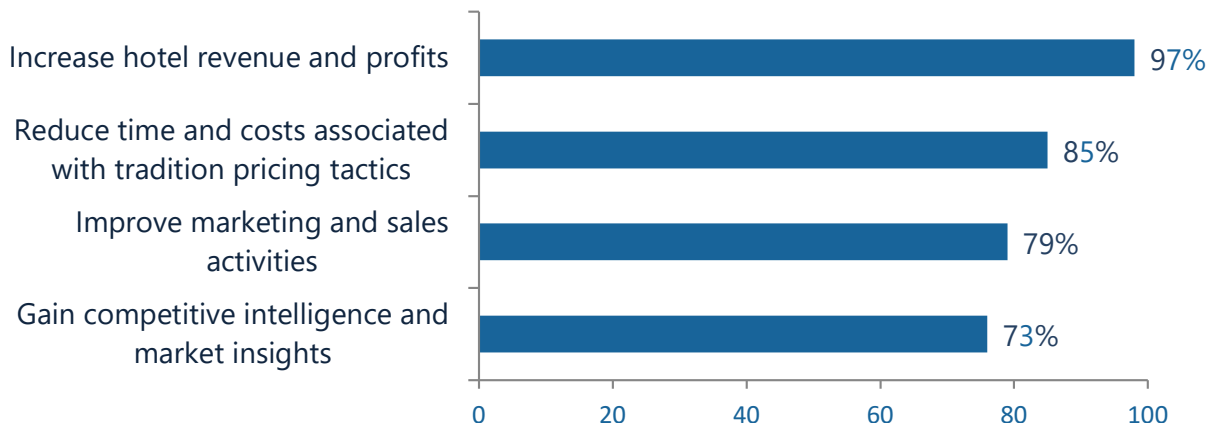Increase profitability
Maximize occupancy
Increase ancillary revenue

Improve marketing and sales efficiency
Reduce time associated with traditional pricing tactics

Improve predictive abilities (occupancy, arrivals, etc.)
Generate more accurate reporting
Gain market and guest insights that can point to new opportunities

Research Data Point

What are the biggest benefits one can expect to gain with Hospitality Revenue Management?

Benefit	Percentage
Increase hotel revenue and profits	97%
Reduce time and costs associated with tradition pricing tactics	85%
Improve marketing and sales activities	79%
Gain competitive intelligence and market insights	73%

Research findings are derived from the Q4 2016 survey on Hospitality Revenue Management.

Hospitality revenue management has its own distinct vocabulary. It includes terms like *capacity management, duration control, overbooking practices* and *displacement analysis*. While these terms sit at the heart of a revenue manager's day-to-day operations, having more than a cursory understanding of their meaning is unnecessary if the goal is to simply gain an overview of next-generation revenue management capabilities. Nor are the terms necessarily important for evaluating the technology solutions currently available to hoteliers who seek to upgrade their capabilities in this area. With that in mind, this section explores the continuously-evolving performance metrics that are commonly used to track and measure success with hospitality revenue management. It also offers a brief introduction to pricing analytics ("intelligent pricing") and explains the importance of incorporating only relevant data into a pricing model.

Performance metrics. Revenue per available room (*RevPAR)* is the most commonly used metric for measuring how well a hotel is managing its inventory and rates. RevPAR is calculated in one of two ways: by either multiplying the *average daily rate* (ADR) by occupancy or by dividing the total guest room revenue by the total number of available rooms and then dividing that number by the number of days in a given time period. Just to be clear, occupancy refers to the percentage of guest rooms that are occupied during a given time period while ADR refers to the average revenue per occupied room. Some hotel operators still make the mistake of focusing their promotional efforts solely on increasing room occupancy, no matter that higher occupancy can, in some cases, actually

> Hospitality revenue management has its own distinct vocabulary. It includes terms like *capacity management, duration control, overbooking practices* and *displacement analysis.*

lead to lower profits. Yet while RevPAR provides a good picture of performance, it fails to measure actual productivity. That's because RevPAR doesn't take into account costs per occupied room (CPOR). Without knowing the operating costs, it's not possible to calculate the actual profit margin or determine target optimal occupancy. Hence the emergence of *gross operating profit per available room* (GopPAR), which takes into account not only the amount of revenue generated but also the actual operational costs. Still, neither RevPAR nor GopPAR look at non-room revenue streams such as restaurants, casinos, parking, spas, golf courses, etc. This shortcoming helps explain the advent of additional metrics designed to measure specific areas. For example, banquet room revenue performance can be measured in terms of function space utilization, profit per available space/time and profit per occupied space/time as well as overall economic performance in a more comprehensive manner. *Revenue Generating Index* (RGI), also known as *RevPAR Index* (RPI), looks at relative hotel revenue performance, by measuring the extent to which a hotel is achieving its "fair share" of revenue in comparison to a defined group of hotels. RGI is calculated by dividing the hotel's RevPAR by the RevPAR of the competitive set (the data for which can be obtained through a third-party provider). Similarly, *Average Rate Index* (ARI) measures the extent to which the hotel is achieving its "fair share" of ADR. It is calculated by dividing the ADR of the hotel by the ADR of the competitive set. RGI and RPI — and, also, market penetration index (MPI) — provide a solid basis for comparison.

> While RevPAR provides a good picture of performance, it fails to measure actual productivity. That's because RevPAR doesn't take into account costs per occupied room (CPOR).

Relevant data. Almost everyone would agree that the volume and depth of clean historical data related to occupancy, rate and revenue figures (including bookings dates, rate codes, arrival dates, departure dates and revenue by day) provides the strongest basis for forecasting accuracy. The greater the number of years for which a hotel has data, the more accurate the forecast. Market-level data, including publicly available competitor rate information, also ranks as a must-have data source. Future flight demand, weather reports and geographical information (where guests are arriving from) may be used for forecasting purposes. Web shopping data (the number of consumers looking at and booking rooms and at what price, as well as the percentage of visitors abandoning the hotel website) may also provide some insights into current and future room demand as well as price sensitivity, at least on the hotel's website. The number of website visitors tends to correlate to the frequency of last-minute arrivals. Another option is "customer worth" data on hotel rewards club members. Personalized pricing recommendations can be made based on a calculation of a given guest's value to the business. Another potentially valuable data source may be user-generated content in social media. And the list goes on. In the end, accuracy in revenue forecasting tends to be a matter of quality over quantity rather than the more the merrier. Revenue managers may be excited about the ever-growing number of available data sources. But incorporating every last bit of data into their models can be a recipe for disaster. More data can simply mean more noise. At a certain point, there is bound to be diminishing returns.

> Revenue managers may be excited about the ever-growing number of data sources available to them. But incorporating every last bit of data into their models can be a recipe for disaster.

Intelligent pricing. Starfleet Research defines *intelligent pricing a*s the science of making decisions for how to maximize room occupancy at the best possible price while factoring in all the related revenue questions in a real-time or near real-time manner. Questions that intelligent pricing addresses might include: What is the optimal price to charge in order to maximize revenue, accounting for the fact that demand will change as the price changes? What is the best possible rate for a guest room, taking into account the type of room as well as the length of stay? How can a hotel ensure that discounted price promotions won't dilute revenue and profits in the long run? Intelligent pricing addresses these questions by analyzing demand forecasts, competitor rates, price sensitivities and various other inputs and factors, including demand drivers like seasonality, day-of-week differences and market dynamics. Intelligent pricing is forever evolving with new approaches to forecasting demand and dynamically pricing room rates based on expected demand and capacity. For example, with the ability to price room types, channels and dates independently of each other, some hotels are adopting a pricing strategy based on the idea that different prospective guests should be offered different rates depending on which guest segment they fall into as well as which channel they are using for booking their reservation. The important point is that intelligent pricing can translate into serious financial outcomes. Consider: A mere $2 reduction in the ADR for a 500-room hotel with a 75 percent occupancy rate would cost a hotel more than a quarter million dollars in lost profit in a single year.

> Intelligent pricing is the science of making decisions for how to maximize room occupancy at the best possible price while factoring in all the related revenue questions.

Chapter 2

Buying Considerations and Evaluation Checklist

What does nirvana look like for a hotelier? It is the idea of a revenue manager gazing into a crystal ball in the form of a revenue management dashboard and quickly generating precise demand forecasts for every night of the year across every room type and every guest segment. For a hotel collection with a few thousand rooms, the undertaking would involve generating some fifty million new forecasts on a daily basis. Impossible? The pipedream is inching closer reality with the advent of next-generation revenue management solutions that analyze demand forecasts, competitor rates, price sensitivities and various other inputs and factors, including demand drivers like seasonality, day-of-week differences and market dynamics.

These advanced solutions make it possible to manage pricing in a way that dynamically responds to changes in demand for guest rooms and optimizes profitability based on the aforementioned notion of price elasticity. The need for these solutions has become increasingly urgent with the proliferation of online travel agencies (OTAs) with differing pricing and commission structures, shrinking booking windows, ever-more intense hotel competition in high-demand destinations and ever-increasing pressure to drive profitable growth and increased shareholder value. To that point, thanks to continuous technology innovation on the part of leading hospitality solution providers, revenue management has gone from being an undertaking with uncertain financial upside potential to a strategic imperative with highly predictable revenue outcomes.

> Nirvana is the idea of a revenue manager gazing into a crystal ball in the form of a revenue management dashboard and generating precise demand forecasts for every night of the year.

A growing number of next-generation solutions are engineered to handle these kinds of pricing questions. But which solution is the right solution? How can a hotelier rest assured that the solution they implement will allow them to achieve optimal results? The following are just a few key buying considerations to keep in mind.

Technology integration capabilities. No revenue management solution can be treated as a standalone application. It needs to seamlessly integrate — preferably, in a real-time manner — with multiple data streams, starting with the hotel property management system (PMS). It needs to integrate with marketing, sales and distribution systems as well as with OTAs and other third-party channels. Internally, point of sale (POS) data needs to integrate with PMS data to provide a holistic view of a guest's stay, including their ancillary spending on food and beverages, guest services, spa visits, etc. Buyers need to know that all technology components and data sources are compatible with the solution and also that all historical data can be readily extracted and validated.

Data processing power. Advanced revenue management solutions are able to process increasingly large volumes of data. For a large property, the data set may include dozens of guest segments, a dozen or more room types, several years of historical booking and reservations data, and upwards of a dozen length-of-stay types. Add to the mix competitive rate data, demand data, multi-market economic data, and even air traffic and

> A revenue management solution cannot be treated as a standalone application. It needs to integrate with multiple data streams, starting with the hotel property management system.

weather predictions, if desired. Combining all of these data sets for just one hotel could amount to several hundred million observations. Generating the pricing recommendations could easily require more than 15 gigabytes. Multiply that number for a hotel chain with dozens of properties and it quickly becomes clear that, more than anything, revenue management is a big data challenge. Prospective buyers need to know that all solutions under consideration can handle the rigors of big data processing and optimize pricing calculations in highly compressed timeframes. Checking that box is imperative.

Channel management and optimization. A hotel's room rates as well as its inventory need to be up-to-date across all OTAs and other partner- and guest-facing channels. Rates and inventory information need to be reflected accurately across all systems and touchpoints. Otherwise, the prices that are presented to prospective guests on some channels may be lower than desired or rooms presented on some channels as available may, in reality, be unavailable, and the property may be overbooked. Inputting room rate and availability changes manually can result in errors that damage the brand's reputation damage and lead to revenue loss. An important buying consideration, therefore, is the extent to which room change updates are handled automatically rather than manually, and what the average lag time is to implementing channel updates before they update across the board.

> Prospective buyers need to know that any solution under consideration can handle the rigors of big data processing and optimize pricing calculations in highly compressed timeframes.

Cloud versus on-premise hosting. As with most enterprise technology solutions, revenue management solutions are moving to the cloud. Hoteliers are benefiting from the global scale and distributed access to interfaces and information. Other benefits include reduced stress on hotel technology infrastructures, elimination of resources otherwise needed to maintain hardware and provide the IT support and data security, and, in some cases, more seamless integration with other applications. Prospective buyers should keep these benefits in mind and also know that a big advantage of true software-as-a-service "SaaS" solutions is that software updates and bug fixes are "pushed" as they become available, meaning that users always have the most current software version running on their system.

Customization to user and property needs. Because users of revenue management solutions have differing needs, any solution will invariably require some degree of customization. Revenue managers should be able to create notifications based on their own predefined triggers. They should be able to define the data inputs and dashboard views based on their own priorities and display preferences. Flexibility in configuration is needed to mine the right data and generate actionable insights. Prospective buyers should have a high level of confidence that any solution under consideration has flexibility and customization capabilities to meet the needs of the property as well as those of the revenue manager(s) and other end-users.

> Buyers should have some assurance that any solution under consideration will provide the flexibility and customization they need to make strategic decisions that drive revenue growth and profitability.

Group sales optimization. Prospective buyers with a significant amount of group business or function space business should check that any solution under consideration provides group sales optimization. This means that the solution can be used to evaluate group requests by forecasting the impact and displacement of transient guests while calculating ideal group rates. Some advanced solutions offer pricing recommendations by room type to maximize inventory and can provide meeting planners with a blended price quotation. Some solutions can suggest alternate dates for flexible groups based on projected demand and availability to drive business to dates where the hotel stands to gain the most profit. Some solutions can offer simultaneous evaluation of multiple properties to identify which one would be most profitable to the business.
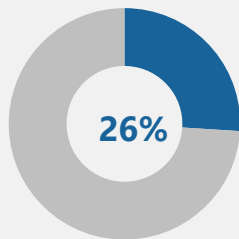
Research Data Point

"How would you rate your company's success in terms of utilizing revenue management to improve financial performance?"
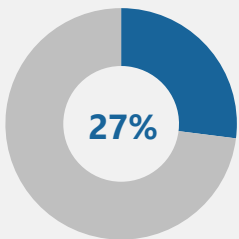
Very successful	Successful	Somewhat successful
27%	26%	14%
31%	32%	23%
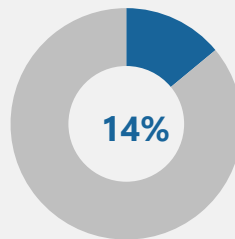
Midsize and Limited Service Hotels
- Have utilized revenue management for 9 years, on average
- Have increased RevPAR by 7.5% on average
- 25% have one or more revenue managers

Large and Full-Service Hotels
- Have utilized revenue management for 10-plus years, on average
- Have increased RevPAR by 10% on average
- 75% have one or more revenue managers

Research findings are derived from the Q4 2016 survey on Hospitality Revenue Management

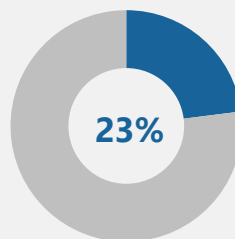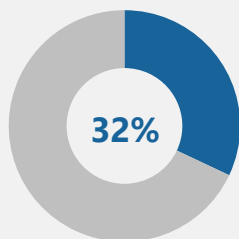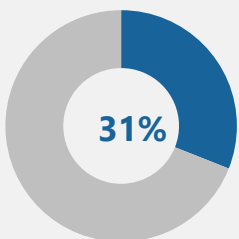The following is an Evaluation Checklist for conducting an apples-to-apples comparison of key buying considerations for revenue management solutions. Additional considerations can be added. Relative weightings can be assigned on a scale of 1 ("This buying consideration has no bearing on our purchase decision") to 10 ("This buying consideration is a very important factor").

Buying Consideration	Weighting	Vendor 1	Vendor 2	Vendor 3
1. Technology integration				
2. Data processing and analytics				
3. Pricing management				
4. Channel (OTA) optimization				
5. Customizability to property needs				
6. Cloud (SaaS) / on-premise hosting / hybrid				
7. Flexibility in data analysis and reporting				
8. Group sales optimization				
9. Other features and functionality				
a. Demand forecasting management				
b. Group pricing management				
c. Multiple property management				
e. Non-room (e.g. function space) rev. mgmt				
f. Competitive rate shopping management				
e. Other _____				
10. Support, training and consulting services				
11. Reputation / install client base				
12. Cost (TCO)				
Overall Rankings	N/A			

Must-Ask Questions

Which solution is the right solution? By asking the right questions, prospective buyers can rule out some options while narrowing down others. The hotel's revenue manager(s) should be involved throughout the evaluation process. As sophisticated business professionals with deep analytical skills, revenue managers naturally have a good sense for which solutions best fit their needs and the needs of the property. Generally speaking, they want solutions that allow visibility. The more transparency the better. Revenue managers would not want a black box solution. Rather, they want to be able to look under the hood and dive into price sensitivity data and observe at a detailed level what inputs are behind the pricing recommendations that are being made and how adjustments to the pricing model would change revenue outcomes. They do not want to wait for actual booking numbers to come in to understand the impact of their overrides and determine whether they made the right "re-optimization" decisions. Revenue managers need to be comfortable that any new technology solution under consideration will enable them to drive continuous revenue improvement.

Research Data Point

Percentages of hoteliers who view each of the following success factors as "important" or "very important."

96% — Importing all historic booking, reservation, competitive and other relevant data into the revenue management solution

92% — Integrating revenue management activities with sales and marketing activities

84% — Creating the right revenue management culture within the organization

81% — Performing an "audit" or assessment of existing pricing activities and practices

Research findings are derived from the Q4 2016 survey on Hospitality Revenue Management.

Chapter 3: Must-Ask Questions

The following are just a few of the questions that decision makers and influencers may wish to explore with solution providers to ensure that, once implemented, the revenue management solution will enable them to achieve their desired business outcomes.

Will the solution provide the answers we need to our pricing questions? To be effective, revenue managers require tools that will enable them to answer all of their day-to-day pricing questions. Such questions might include: By how much should we increase or decrease our rates for a given type of room? How many customer groups, and what size groups, should we accept on a given day? How much should we charge walk-in guests? What should be the floor and ceiling for our rate range? Are the changes in demand and bookings likely to represent a short-term or long-term pattern – and, if the latter, what actions should we take in response? To what extent should we discount negotiated rates? What should our rack rates be for the coming year? What discounts and promotions, and to what target customer segments, are likely to perform well right now and in the near-future? What discounts would likely dilute profits and should we therefore avoid? To what extent should we mark up our premium rooms, based on the current and near-term demand patterns? What competitors' price moves would likely affect these demand patterns and how should we respond if those moves become reality? How can we counteract cancellations and no-shows, group wash, extensions and early departures to capture optimal profitability?

> By how much should we increase or decrease rates for a given type of room? How many groups, and what size groups, should we accept on a given day? How much should we charge walk-in guests?

Tip: Compile a comprehensive list of pricing questions and verify that the solution will be able to address these questions in a straight-forward manner.

To what extent does the solution offer depth and flexibility in data analysis and reporting? Revenue management is a quantitative puzzle with ever-changing numbers, patterns and results and a need for continuous refinement. Delving into the data, testing different if/then scenarios, and collating actual results requires a high degree of flexibility. Not all data queries can be anticipated. A significant percentage of pricing questions may, in fact, need to be investigated on an ad hoc basis. Out-of-the-box functionality may satisfy the needs of beginners or small properties with relatively simple needs. But it is likely to be insufficient for more sophisticated revenue managers and larger properties with multiple room types, customer segments and ancillary revenue streams. A solution should provide for flexibility, which is important when it comes to setting pricing rules, flagging special events, adjusting segmentation schemes, etc. A solution should make it easy to accommodate virtually any need, including the need to monitor and measure individual property, portfolio, and departmental performance, the need to create customizable hierarchies for different geo-markets, channels, room types, time periods, loyalty programs, and the need to do manual overrides of the automated rates suggestions for OTA channels. Important questions might include: Once problem areas are identified, can the solution guide users on how

> Out-of-the-box functionality may satisfy the needs of beginners with relatively simple needs. But it is likely to be insufficient for more sophisticated revenue managers.

to take appropriate action? Can tactical decisions, including the overall impact, be tested live? Can the dashboards provide exception reporting, identifying areas needing the most attention? *Tip: Verify that the solution is flexible in terms of keys areas of functionality, including custom reporting, and validate all of the vendors' claims. If customized reporting is possible, find out what is involved in the process of filtering and sorting data according to a specified set of parameters.*

What is the solution provider's track record for stability, reliability and continuous innovation? As with any technology solution purchase, reputation and customer satisfaction are important factors in the decision-making process. Nobody wants to purchase and implement a revenue management solution that falls short of expectations due to known shortcomings in stability, reliability or promised benefits. No input may be more important to the buying decision than that which can be gleaned from existing clients, preferably lodging properties that share some commonalities in terms of size, typography and existing technology infrastructure. A solution provider or consultant may be willing to provide one or more client references. And some clients, particularly those operating in noncompetitive markets, may be willing to share their experiences and perhaps even disclose results in terms of percentage increases in RevPAR. Client testimonials and success stories can also be valuable sources of information. *Tip: Find out what performance issues may arise by talking to existing clients, preferable ones that are similar in size and existing technology infrastructure. Ask about the product roadmap. Also, gain a clear set of expectations around customer support and problem resolution as well as the training that may be needed to get up to speed on the new solution.*

> Some clients, particularly those operating in noncompetitive markets, may be willing to share their experiences and perhaps even disclose results in terms of percentage increases in RevPAR.
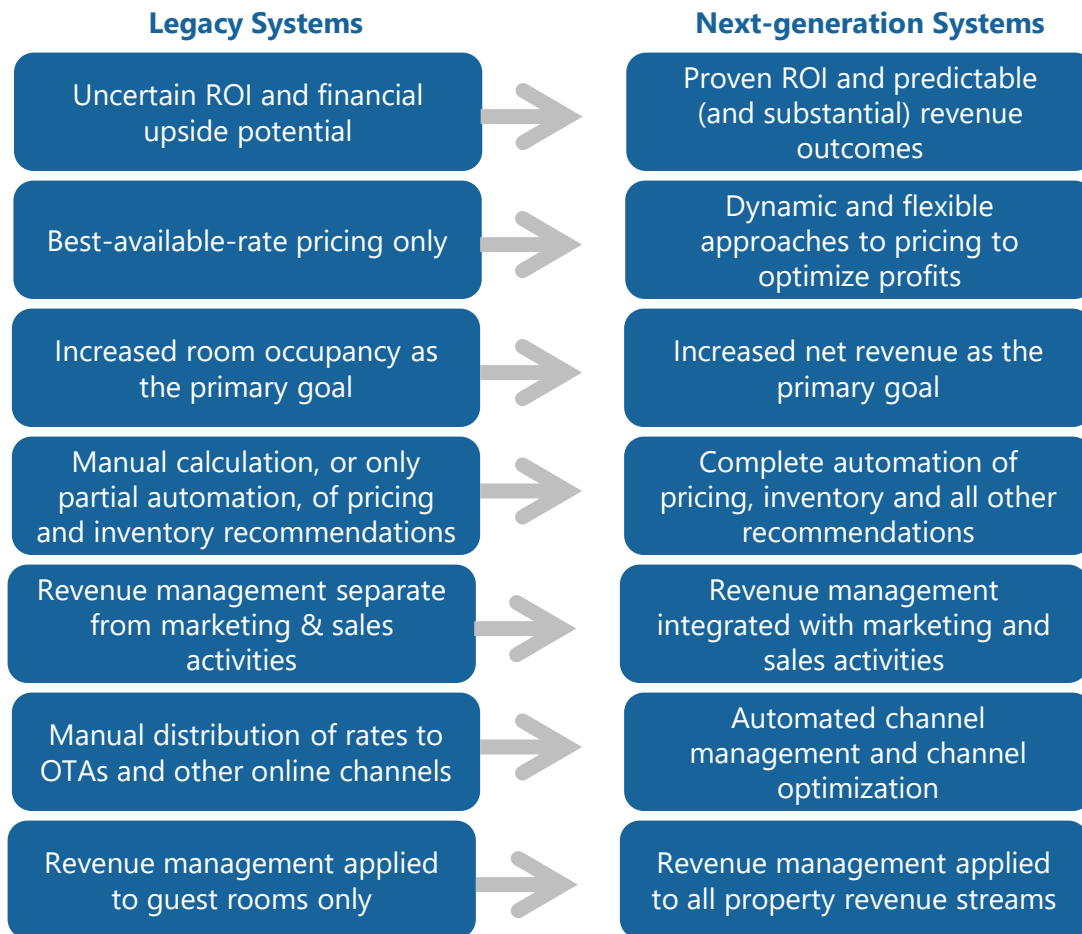
Chapter 4

Roadmap and Recommendations

Advanced revenue management solutions calculate price sensitivity of guest demand, taking into account such factors as season, lead time and room type, to derive an analytical solution to competitive price effects. That's no small feat, and not something that can be done using Excel spreadsheets. Hoteliers who continue to rely on Excel or even basic software solutions for their revenue management needs are at a distinct disadvantage. This diagram illustrates the migration path for revenue management solutions as they evolve in scope, sophistication and accuracy.

Legacy Systems	Next-generation Systems
Uncertain ROI and financial upside potential	Proven ROI and predictable (and substantial) revenue outcomes
Best-available-rate pricing only	Dynamic and flexible approaches to pricing to optimize profits
Increased room occupancy as the primary goal	Increased net revenue as the primary goal
Manual calculation, or only partial automation, of pricing and inventory recommendations	Complete automation of pricing, inventory and all other recommendations
Revenue management separate from marketing & sales activities	Revenue management integrated with marketing and sales activities
Manual distribution of rates to OTAs and other online channels	Automated channel management and channel optimization
Revenue management applied to guest rooms only	Revenue management applied to all property revenue streams

Upgrading revenue management capabilities means not only implementing the right technology solution and using the right data sources — ones that have been shown to improve forecast accuracy and pricing decisions — but also putting the right organizational resources in place and creating a revenue-maximizing culture. Following are a few recommendations for buyers to keep in mind.

Hire a skilled revenue manager. Optimizing financial results across channels requires specialized skills, no matter that pricing recommendations are becoming increasingly automated. In fact, the role of the revenue manager has never been more important. Some industry observers contend that revenue managers should be the highest paid employees in the organization, given their potential contribution level. Of course, the revenue manager and general manager are oftentimes one and the same, particularly in smaller hotels with limited budgets. Indeed, many revenue decisions today are being made by general managers who may have little or no formal training in the science of demand forecasting and price optimization. Ideally, the revenue manager should have the skills and knowledge to directly interact with system inputs, sharing business insights such as sudden changes in the marketplace. The goal is to ensure the solution uses the best information available to produce the most beneficial mix of automated decisions that drive profitable business performance. And that requires human input.

> Some industry observers contend that revenue managers should be the highest paid employees in the organization, given their potential contribution level.

Build a revenue management strategy and culture. A revenue management strategy is a blueprint for improving financial performance over a specific period of time. It should incorporate all of the revenue streams from across all parts of the hotel as well as all of the revenue drivers, from the sales department to the online distribution channels. The strategy should be built upon a solid foundation of revenue goals using targeted RevPAR, ARI and other relevant metrics for tracking progress. It should include a timeline with key milestones and spell out the tactics for achieving success. The strategy should be as specific as possible, detailing, for example, how the property approaches pricing – e.g., whether it is dynamically pricing the best available rate based on forecasted demand (BAR) or on actual demand. Done right, the strategy will help create cognitive alignment amongst all employees regarding the value of revenue management.

Think in terms of Total Revenue Management. Until recently, the focus of revenue management was on guest rooms and nothing else. But next-generation revenue management means also taking into account the ancillary spending that takes place in hotel restaurants, bars, conference centers, banquet space, golf courses, etc. Thinking in terms of *Total Revenue Management* and not just revenue management as it pertains to guest rooms can mean leaving a lot less money on the table and significantly boosting revenue and profitability for the property.

> Next-generation revenue management means taking into account the ancillary spending that takes place in restaurants, bars, conference centers, banquet space, golf courses, etc.

Partner with the sales and marketing departments. The pricing recommendations and market insights generated by revenue managers can be valuable across multiple parts of the organization. Access to the tools and dashboards should be made available to marketers, in particular, who are charged with demand generation activities. Insights, such as those that forecast periods of high demand versus low demand and that reveal which customer segments are planning to book rooms for a certain period, should inform every campaign. The insights should inform how aggressive to be with marketing offers and promotions, toward which customer segments the offers and promotions should be directed, and when, exactly, to present the offers and promotions, and which marketing tactics are most likely to elicit the desired responses. To achieve optimal results, it's imperative that revenue managers work hand-in-hand with the sales and marketing functions and integrate all of their customer acquisition strategies.

> The insights should inform how aggressive to be with marketing offers and promotions, and toward which customer segments the offers and promotions should be directed.

Inside Voices and Outside Voices

Hotel revenue managers and other industry practitioners with first-hand experience with hospitality revenue management tend to have a lot to say about the topic. Following are a few perspectives gleaned from individuals who participated in the survey that produced the research findings included in this Smart Decision Guide.

> The vendor for our revenue management solution has been a true partner in our business every step of the way. They took the time to understand our needs and shortcomings from a revenue management perspective. They helped with setup and PMS integration. They have worked with us to make sure the solution is providing the incremental lift and ROI we hoped to achieve, which is really important.

Revenue manager, full-service hotel

> The market is evolving fast. Capabilities that were cutting edge a few years ago have become default. Guest segmentation and rate fencing and other basic revenue management functions have become table stakes capabilities. Everybody has them. They no longer differentiate solutions.

Senior executive, mid-size hotel

> Hotels need to have a standard approach to market segmentation. Revenue managers and employees need to adhere to it. Everyone needs to use the same rate and channel codes. Everyone needs to follow the same operational procedures. Success requires consistency.

Senior executive, full-service hotel

The 2017 Smart Decision Guide to Hospitality Revenue Management

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Following are a few additional perspectives from industry observers with insights into next-generation revenue management.

> The shift from traditional revenue management to predictive analytics is the most significant strategic change taking place over the next three years. To make the most of this change, several accompanying actions should take place: Redefine core industry principles and the expected skills and abilities of senior leadership (on property and in corporate offices). Deploy revenue management throughout the organization and align revenue management with enterprise goals. Advance the thinking in related disciplines and elevate strategic application of data throughout the enterprise.

Portrait of Revenue Management Leadership, The Hospitality Sales & Marketing Association International (HSMAI), 2016

> Today's revenue manager can play a larger role in the overall success of the hotel than ever before. For the potential of the role to be realized, the revenue manager has to take a leadership role and gain the support of others in the organization.

Ahmed Mahmoud, founder, RevenueYourHotel.com

> The application of hotel RM has gradually become more strategic and more centralized, but changes in RM practices have come more slowly than expected.... In particular, an earlier prediction that RM would be applied to all hotel revenue streams remains a work in progress, as does the use of mobile technology and social media as distribution channels.... Going forward, RM practices will be more fully integrated into all hotel operations, including function space.

The Future of Hotel Revenue Management, Cornell Hospitality Report (2017)
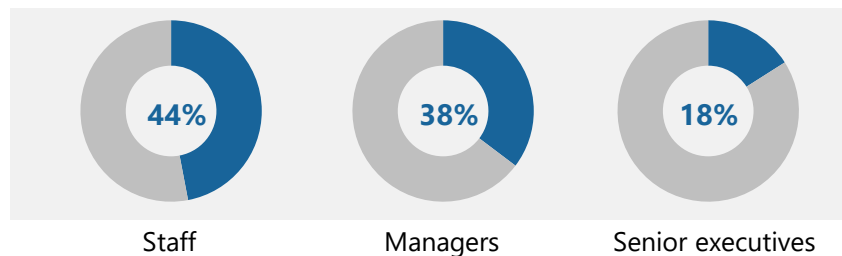
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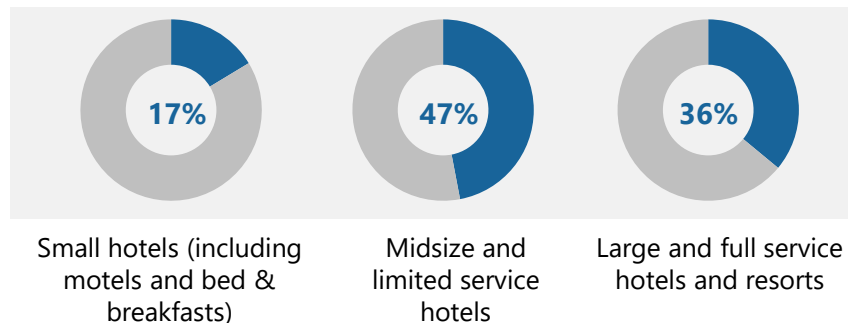
Research Notes and Underwriters

In Q4 2016, Starfleet Media conducted an online survey, consisting of both multiple choice and open text questions, to capture the perspectives of industry practitioners with firsthand experience with hospitality revenue management. Some of the research findings are highlighted in this publication. Following is some basic information about the 152 qualified survey respondents who participated.
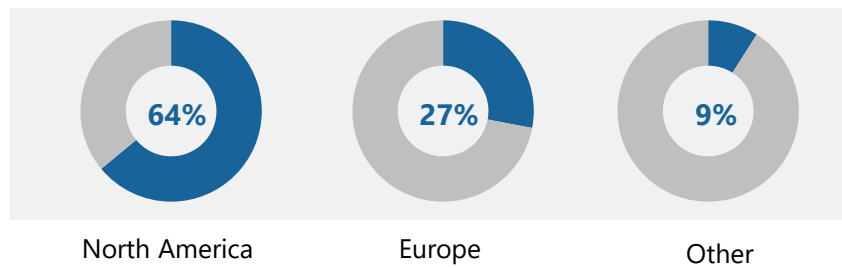
Job level / role of survey respondents

44%	38%	18%
Staff	Managers	Senior executives

Size / category of survey respondents' hotel (or other lodging property) employers

17%	47%	36%
Small hotels (including motels and bed & breakfasts)	Midsize and limited service hotels	Large and full service hotels and resorts

Geographic location of survey respondents

64%	27%	9%
North America	Europe	Other

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