How Revenue Management Will Improve your Hotel Budget
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One essential aspect of a revenue manager’s role is creating the framework for the hotel operator’s “living budget.”

For most hoteliers, thoughts of budget season are accompanied by the stress of long days packed with meetings about profit and loss statements.

This is no different in the revenue management department. An accurate demand forecast is immensely important to a hotel budget as it provides the framework from which to build next year’s revenue goals. Therefore each department across the hotel should be operating with the same data – data collected, analyzed and presented by the revenue manager.

Assuming the purpose of your budget is to understand your business and realistically manage revenue and profit expectations, a hotel’s budget should closely resemble its forecast. Only after the revenue manager analyzes how future market conditions will affect certain segments of demand can you begin setting hotel-wide revenue goals. An accurate forecast includes many layers of data, starting with historical and booking pace and including other forward-looking metrics, such as web-shopping data.

The best revenue managers don’t wait until two weeks before budget meetings to prepare a forecast. A better strategy is to have a “living budget,” a real-time forecast of upcoming demand that, combined with forward-looking data, will shed the most light on future revenue potential.

Before setting revenue and expense goals, revenue managers should understand and present the important components of a forecast, as well as how yielding rates will dictate future demand. At any time, a revenue manager should be able to look 30, 60 or 90 days out and get a clear picture of anticipated occupancy and revenue. This is where the assistance of user-friendly technology with quick access to the right reports can be incredibly helpful.

A living budget means the revenue management team can always provide forward-looking performance metrics to help various departments within your hotel refine revenue expectations.
How to Budget

Don’t Manage Revenue to Meet Your Budget

Perhaps your end-of-year bonus relies on how accurately your department meets its budget. Does that mean you should manage revenue with that goal in mind? No. Ultimately the goal for any topline team is to capture all the potential market share and revenue that is possible to get. You should manage revenue to make the most profit, not to meet forecasted numbers.

For example, perhaps your budget was previously overstated, and now you must sell rooms at a specified rate to meet budget. But what if the market is not buying at that rate?

An initial budget is important and should act as the guiding light to finding the most optimal price to drive revenue. But instead of focusing on the perfect budget, optimizing for that and finding prices to fit that budget, realize your primary mission is driving RevPAR and improving profitability at your hotel. Rather than price to fit a budget, aim to find the perfect price that will make your hotel the most money and then adjust your budget along the way.

Why should you be worried about budgeting in the first place? Because a good budget provides a plan for revenues and expenditures and a map for allocating resources to complete your top initiatives. Without a plan, you leave it all to chance.

Most forecasts and budgets will start with analyzing projected occupancy and average daily rate. Next, before segmenting, hotels should build a comp set performance forecast by looking a year out and budgeting by day how much occupancy and ADR you believe your comp set is going to grow.

Having the right tools always helps the end result. Web-based software can provide revenue managers with the ability to create real-time reports to assess performance and projections by segment every day for the near and distant future.

Forecasting: The First Step to an Accurate Budget

Many revenue managers are tempted to look at market data and base their forecast solely on that. For example, perhaps the market is expected to see 3% to 4% RevPAR growth next year.

Let’s assume you are forecasting 1% occupancy growth. A simple approach would suggest a flat 3% rate increase. Basing your forecast off last year’s performance is not optimal because perhaps your rates weren’t maximized last year. A smarter way of forecasting is looking at where occupancy growth opportunities exist. Did you sell out every Tuesday and Wednesday? Then determine where you’re going to grow that occupancy, ensuring to factor in the cost of acquiring that new demand.
In addition, use any forward-looking demand data you can get, including airlift data from nearby airports and web-shopping behavior.

Once you've outlined your growth opportunities and forecasted comp set growth, you can compare the two for the base of your hotel's budget. Do this monthly at the very least. Look at how your projected growth compares to the market and identify opportunities to grow share. Distribute your target numbers with the various department heads of the hotel as a framework for them to benchmark spending.

**Who Should Budget**

Budgeting in most cases will start with the director of revenue management. For a revenue manager, the only difference between a forecast and a budget is that your forecast looks into the future and presents what you think is going to happen, while a budget requires all hotel departments to come together, analyze those numbers and then create a plan around how to meet and exceed those numbers.

The revenue manager should start by providing a thorough forecast to the GM and department heads, who will each need to sign off on forecasted revenues, expenses and profits for the coming year.

Budgeting for group business requires a holistic focus from the entire team. Sales and marketing should work closely with the revenue manager to identify prospects. Look at group booking pace over the past three to five years and try to identify trends as well as where there are gaps. Perhaps your strategy needs a variance to remain competitive or gain back share. This is where marketing has the opportunity to share their plans and why they think it’s feasible to make up that business.
After rough revenue and expense numbers are allocated for each department and the hotel as a whole, initial numbers should be shared with the owner or asset manager.

### When to Budget

Many operators will wait until November to nail down budgets for next year. This can be a costly mistake as many properties will already have negotiated various corporate rates for next year and it’s now too late to yield those rates.

Instead, at the end of every month, the revenue manager should be creating a forecast for at least the next month and the next year. Drill down as far as day of week or market segment. This way, once you get to budget season next fall, you should have fresh data. Also, this allows the entire team to adjust their budget to current data all year.

Your group strategy should be similar. Your entire team should be talking about group data looking at least three years into the future because, if you wait until the the budget is done, you may have as much as half of your group business already on the books for next year.

While creating the framework for an achievable and profitable budget, it’s important to keep in mind that revenue managers can’t ignore their daily responsibilities of running reports and yielding rates to maximize profitability.

### What to Budget for 2016

Today’s revenue manager is doing more than pricing and budgeting based on historical data. Cutting-edge revenue leaders are incorporating data from various departments at the hotel and analyzing emerging distribution trends with one goal in mind: drive bottom-line profit for hotel owners.

While you can’t build your budget based on market averages, you can use nationwide research firms like STR and PKF Hospitality Research to compare how your hotel is performing against a very broad market.

For example, PKF is projecting that a 6.8% increase in RevPAR will lead to a 6.6% gain in total hotel revenues for 2016. Concurrently, operating expenses are forecast to rise by 3.8%. This should result in a 12.9% improvement in profits, the company says.

The odds are favorable for hotels to achieve their budgeted targets in 2016. With a living budget and a smart, fluid strategy, revenue management can help hotels shoot past revenue goals. When those revenue managers are armed with the right data, they’re able to yield their supply to more profitably meet demand.
About Duetto

With solutions that address the true challenge of today’s distribution landscape, Duetto provides unique and powerful revenue strategy tools to optimize profit and guest loyalty. Duetto delivers powerful insights on pricing and demand to hotels and casinos through a 100% cloud-based application.

Utilizing new consumer-centric data sets such as web shopping regrets and denials, social review, air traffic, weather and more, Duetto GameChanger transforms the way hotels and casinos price and sell rooms by providing better and more actionable information. Make informed distribution choices and independently yield all channels, dates and room types with open pricing to drive healthy revenue and optimize profitability.

Thanks to modern cloud architecture, new features and upgrades are delivered seamlessly with zero system downtime. This rapid innovation enables Duetto to provide an industry-leading user interface and experience that’s continually improving.

Working with and for the hospitality industry, Duetto is changing the game.