Stop Guessing and Start Profiting:

A Beginner's Guide to Hotel Revenue Management

WHITE PAPER

duetto

GLOSSARY

Demand
The amount of interest in a product.

Forecast
Expected revenue results based on analysis (occupancy and average rate included).

Revenue Management
The art and science of predicting real-time customer demand and optimizing the price and availability of products to match that demand.

Stop Guessing and Start Profiting:
A Beginner's Guide to Hotel Revenue Management

By using basic approaches to segment, forecast and price, operators can run their hotels more efficiently and profitably.

Introduction

Ever notice how you each time you check the price of an upcoming airline ticket it's different? Airlines have been using supply and ***demand*** data to optimize their pricing for years. That's ***revenue management*** at work—a practice the airline industry began ahead of many industries, including hospitality.

Marriott International was the first hotel company to adopt revenue management practices in the late 1980s when it began using historical data to adjust how hotels priced their inventory. The strategies have evolved and advanced significantly over the years as hoteliers learned to segment their business to uncover how different types of customers affect the bottom line. Adapting operational practices to meet expected demand became more accurate as hoteliers learned how to better ***forecast*** and technology has sped up the process in recent years.

Today, hoteliers who practice even basic revenue management are managing their inventory better, staffing the right amount of employees, marketing their hotel to the right audience and dynamically pricing their rooms to optimize revenue. Understanding your business and segmenting it appropriately, and then accurately forecasting demand, will lead to optimal pricing and more profitability.

GLOSSARY

Channels
Different methods by which a customer books/reserves a room.

Leisure traveler
Non-business traveler, or someone traveling for personal reasons and not work.

Length of stay
The number of nights a guest has booked at the hotel.

Online Travel Agency (OTA)
An Internet-based hotel and travel reservations system. Hotels typically provide inventory to OTAs, which sell the rooms in exchange for a commission.

Opaque
Describes a booking channel where the supplier (hotel) remains hidden until after the purchase is complete.

Transient
Non-group business.

Start by segmenting

Segmenting is the first step to good revenue management. Before taking the next steps, you must understand your customers and begin sorting them into buckets depending on how they book and use your hotel.

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First and foremost, look at individuals and groups as separate parts of your business. The two different kinds of customers have different buying tendencies. From there, you can dig down lower and segment your customers even further. Business travelers should be treated differently than ***leisure travelers***. Demand can be divided by the different room categories you have, and by whether the guest is a first-time customer or a repeat guest. It's also a good idea to segment the business you get through third parties from business you get directly.

The next level of segmenting includes looking within the business travel bucket to see ***transient*** and contracted business differently. Sort your ***OTA*** demand by guests who purchased a package deal, those who used an ***opaque*** site or a flash site and those who took advantage of one of your marketing specials. Customers who book through different ***channels***, but exhibit similar behaviors (price sensitivity and when they book) can be grouped together.

You can segment your business by ***length-of-stay***, learning to analyze guests who stay multiple nights differently than overnight guests. This will help you target the types of guests you want and more effectively fill shoulder nights with limited demand.

Segmenting your business will not only pave the way for the next stages of revenue management, but will benefit other operations within the hotel as well. For example, effective segmenting can help build a more powerful marketing strategy so you can target the most profitable guests.

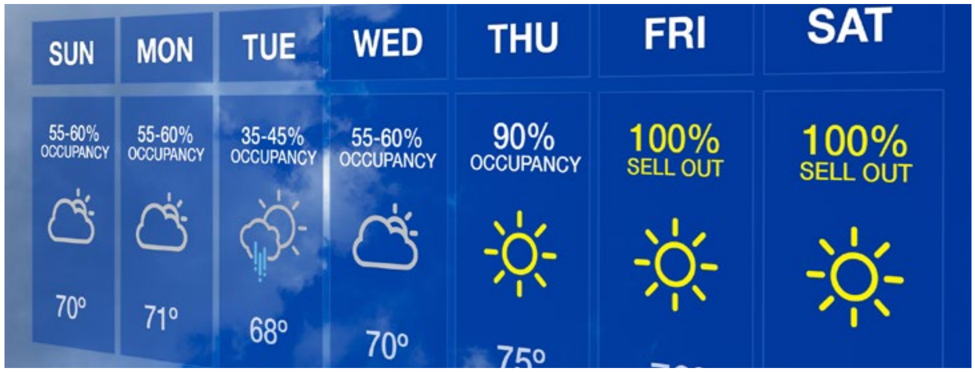
GLOSSARY

Occupancy
The percentage of available rooms that were sold during a specified period of time. Occupancy is calculated by dividing the number of rooms sold by rooms available. Occupancy = Rooms Sold / Rooms Available

Property Management System (PMS)
Used on-site in an individual hotel to allow for guest check-in and check-out.

Because much of the information you learn from segmenting will differ greatly from hotel to hotel and market to market, segmenting correctly is a very important step to effectively managing revenue at your property. If you miss on your forecast or fall short of your budget, it allows you to narrow the problem down to a certain part of the business.

Forecasting the future



Forecasting allows you to better plan how you'll operate your hotel in the coming days, weeks and months.

After segmenting your business, the next key component of revenue management is to forecast upcoming demand. A forecast can be used in conjunction with historical data to run a hotel more effectively. Forecasting allows you to better plan how you'll operate your hotel in the coming days, weeks and months. If you have a good idea how much business will be coming during a certain time period, you can adjust accordingly.

A forecast can be as simple as expecting 10% more business this year as compared to last year. Even if you do nothing else, you can adjust your operations as needed, perhaps adding a staff member or even increasing rate to match the boost in demand.

For example, if a popular event in the area brings a number of new guests to the door, forecasting helps hoteliers understand how to maximize revenue through pricing. In addition, it's the first step to understanding when it may be necessary to lower rates to boost ***occupancy*** on days with lower demand.

A forecast is only as good as the numbers that go into building it. Include only data that will truly make your forecast more accurate, without biting off more than you can chew. Start by exporting Excel spreadsheets from your ***property management system*** that show occupancy, rate and revenue figures from prior years. Having several years of relevant data will help make your forecast more accurate. A hotel that has been open just one week will not have as good a base for a forecast as a hotel that has been open longer.

GLOSSARY

Average Daily Rate (ADR)
A measure of the average rate paid for rooms sold; calculated by dividing room revenue by rooms sold.

The most important data to include is booking date, rate code, arrival date, departure date and revenue by day. Once historical data is present in Excel, hoteliers can add, tweak or manipulate the data to make forecasts more accurate. The first numbers to incorporate are upcoming reservations that are already on the books. The more business on the books, the more accurate a demand forecast will be.

Market-level data, such as competitive pricing, future flight demand, weather reports and geographical data, such as where guests are coming from, is yet another important source for more advanced forecasting. Tracking web shopping data — consumers booking and abandoning your website — can get more complex, but it can also provide highly valuable insight on current and future demand.

Hoteliers should build daily forecasts by segment and use the data to shape the next steps in the process of revenue management.

Gain pricing power

While revenue management helps across many phases of operations, the end game is almost always ensuring you get the most money for your rooms as you possibly can.

Most hoteliers today use multi-segment pricing, meaning they no longer set a single rate for the entire hotel. Rates can be tailored for the type of customer you expect. A simplified example: If you see that one particular room type sells out often, you can increase the price of that room type to drive your hotel's ***average daily rate***. Even if fewer people book those rooms as a result of the higher price, optimizing the supply-demand equation will lead to higher revenue.

Adjusting rate to test and optimize demand can help answer a lot of your pricing questions. Take a look at the example below:

Rate = $100 + 100 bookings = $10k revenue

Rate = $200 + 60 bookings = $12k revenue

Rate = $300 + 30 bookings = $9k revenue

GLOSSARY

Best Available Rate (BAR)
A commonly used base rate upon which all other priced segments are based. Also the common rate used for comparison between hotels.

Dynamic Pricing
The process of actively applying revenue management by selling the same products at different prices to different customers.

Open Pricing
The ability to price all room types, channels and dates independently of each other to maximize revenue without having to close any off.

Technology and advanced revenue strategies can help sort this information for you in real-time and determine the best pricing strategy for your unique situation.

The above examples illustrates why revenue management is critical to operating your hotel. Technology and advanced revenue strategies can help sort this information for you in real-time and determine the best pricing strategy for your unique situation.

Of course, technology can't do it all. Basic revenue management and pricing includes a human element, specifically taking a closer look at your property and determining where it fits in your market. What kind hotels are around you? What makes your hotel unique and how should you price your rooms to fit in?

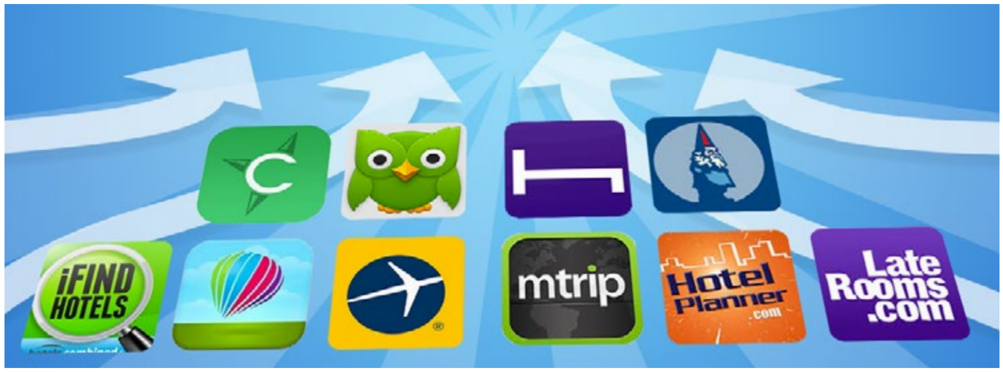
Revenue management can also help hoteliers understand displacement, or the idea that selling a hotel room at one price may take it off the market and hinder your ability to sell it later at a higher rate. For example, assume January is a slow month at your hotel, as it is at many hotels, and especially on Sundays, the day of the week that many hotels struggle.

If you receive an inquiry from potential group business willing to book a great rate for a Saturday night, it may be hard to pass up. But an optimized revenue management and pricing strategy may suggest you pass on that business if you can instead book a group at slightly lower rates with a length-of-stay requirement, helping you fill rooms on Sunday as well. Sometimes a successful revenue management strategy is about refusing the wrong business so you can book the more profitable and right business.

A hotel completely booked more than a day or two in advance can be a costly mistake. For dates you forecast to be sold out, you should raise rates as bookings increase and the date nears, leaving rooms open until the final day to take advantage of those high-value customers willing to pay a premium for a room where they want or need to be.

The standard pricing strategy used across the industry is known as "***dynamic pricing***," which is typically a fixed-tier approach based on one overall ***"Best Available Rate." BAR*** is established based on the available supply and expected demand for a particular date and then adjusted based on fixed modifiers for other channels and segments. A more advanced approach is to steer clear of rate tiers and instead use an "***open pricing***" strategy that prices each customer differently, depending on what segment they fall in, how they are booking and how much demand there is to that specific channel and segment.

Managing your distribution



In the early days of revenue management, changing prices on all of the various available channels was challenging, to say the least. Fortunately, as countless third-party distribution partners invent ways to drive demand, technology is advancing at an equally fast pace to help hoteliers manage.

One of the riskier parts of distribution is determining how much of your room inventory to give to each sales channel, and a sound revenue management strategy will help immensely.

A simple way to test the effectiveness of your distribution management is to search for your hotel using a search engine. If the top search results are dominated by third-party channels like Expedia, Orbitz and TripAdvisor, and your own direct channels are buried, you may need to make sure your website is optimized for search engines. If you operate an independent hotel and aren't getting much exposure online, partnering with one of these distribution companies can get you higher and more effective placement.

An effective strategy that takes the cost of using these new channels into account will help you fight for your customers and your profits.

In addition, the proliferation of third-party distribution channels—each of which take a cut of your revenue as a commission—is increasing the cost of acquiring customers at what is becoming an unsustainable rate. As online behemoths like Google, Apple and Facebook enter the hotel distribution and marketing space, distribution management is evolving at break-neck speeds and hoteliers are losing opportunities to reach their customers on their own terms. An effective strategy that takes the cost of using these new channels into account will help you fight for your customers and your profits.

Conclusions

Revenue management—sometimes described as ***yield*** management or price optimization—has become synonymous with managing rates, but it is really much more and the first step to a comprehensive ***revenue strategy*** that will help your hotel run more efficiently and profitably.

If you don't know who your customers are and when they're coming, it's hard to properly manage your property and set rates to maximize profits. By taking a few simple steps today, you can get started with revenue management and begin reaping the rewards as soon as tomorrow. From there, you can advance to more sophisticated systems and strategies to better arm your hotel in the fight for its share of revenue in this ever changing and complex world of distribution.

GLOSSARY

Revenue Strategy
A more comprehensive approach to revenue management that encompasses not just pricing and demand optimization but also business intelligence as it relates to sales, marketing, distribution and other functions across the hotel enterprise. It also accounts for costs associated with customer acquisition and retention; leverages interdepartmental intelligence to facilitate a collaborative approach to revenue generation; and unlocks behavioral insights through new data sources and price elasticity testing.

Yield
The dynamic pricing, overbooking and allocation of perishable assets to maximize revenue.

GLOSSARY OF TERMS

Average Daily Rate (ADR)
A measure of the average rate paid for rooms sold; calculated by dividing room revenue by rooms sold.

ARI Average Rate Index
A metric used to determine whether the property is achieving its fair share of ADR compared to a specific group of hotels (i.e. a competitive set). It is calculated by taking the ADR of the property and dividing it by the ADR of the competitive set (competitive set data collected through a third-party provider such as STR). An ADR of above 1.00 indicates that the property is achieving more than its fair share, while below 1.00 suggests that the hotels in the competitive set are 'eating' into the properties' 'pie'. Note: Traditionally, hotel DORMs will prefer to multiply the number by 100 (or convert into a percentage).

Best Available Rate (BAR)
A commonly used base rate upon which all other priced segments are based. Also the common rate used for comparison between hotels.

Block code
A code attached only to group rooms that are a part of a block.

Block pricing
A non-yieldable rate given to a set number (or block) of rooms held for a particular group.

Booking curve
An important tool for yielding that provides a visual representation of the pickup, number of bookings, availability and yielding capacity of the hotel over time.

Booking engine
The technology that allows reservations to be made on a website.

Booking window
The time-frame in which hotel reservations come into hotels for a particular stay date(s).

Capacity
The set number of rooms in a hotel.

Central Reservation System (CRS)
A system or an office that is used by hotels in one chain or organization, or created by a third-party vendor, used to maintain hotel information, inventories and rates and to manage the reservation process.

Channel management
The techniques and systems used by hotels to update hotel information, room inventory and rates in each of the distribution channels.

Channels
Different methods by which a customer books/reserves a room.

Commissions
The payments that a travel agent receives for each reservation made on their site.

Competitive set
Consists of a group of hotels by which a property can compare itself to the group's aggregate performance.

Conversion
The transition by a customer from shopping or gathering information to taking an action such as purchasing or making an inquiry.

Day(s) Before Arrival (DBA)
The number of days before the stay date.

Demand
The amount of interest in a product.

Denial
A notification that the hotel has been shopped on the hotel's direct booking engine and a rate was not given because the hotel was sold out or a restriction was placed on the shopped date

Dynamic Pricing
The process of actively applying revenue management by selling the same products at different prices to different customers.

Fenced rate
A rate that involves certain requirements in order to make the reservation, such as nonrefundable and non-cancelable reservations, or advanced purchase reservations. Fenced rates are more easily segmented.

Forecast
Expected revenue results based on analysis (occupancy and average rate included).

Global Distribution Systems (GDS)
Four large reservation systems (Amadeus, Galileo, Sabre, Worldspan) originally designed for airlines and now widely used by travel agents only to book all forms of travel. GDS systems generally use older technology and are not connected through the Internet.

Gross Operating Profit Per Available Room (GOPPAR)
A metric that measures total revenue minus operational and marketing expenses per room.

Group Displacement
The process of evaluating a group's total profitability in comparison to the profitability of accepting business from other channels

Leisure traveler
Non-business traveler, or someone traveling for personal reasons and not work.

Length of stay
The number of nights a guest has booked at the hotel.

Look-to-book ratio
Used in the travel industry to show the percentage of website visitors (lookers) relative to the number who book on the website (bookers).

Metasearch
A type of search engine that aggregates inventory from several sources and presents it in a single space.

MPI Market Penetration Index
A metric used to determine whether the property is achieving its fair share of occupancy compared to a specific group of hotels (i.e. a competitive set). It is calculated by taking the occupancy percentage of the property and dividing it by the occupancy percentage of the competitive set (competitive set data collected through a third-party provider such as STR). A MPI of above 1.00 indicates that the property is achieving more than its fair share, while below 1.00 suggests that the hotels in the competitive set are 'eating' into the properties' 'pie'. Note: Traditionally, hotel DORMs will prefer to multiply the number by 100 (or convert into a percentage).

Net rate
The sell rate with commission already taken out, sometimes required for OTAs.

Occupancy
The percentage of available rooms that were sold during a specified period of time. Occupancy is calculated by dividing the number of rooms sold by rooms available. Occupancy = Rooms Sold / Rooms Available

Online Travel Agency (OTA)
An Internet-based hotel and travel reservations system. Hotels typically provide inventory to OTAs, which sell the rooms in exchange for a commission.

Opaque
Describes a booking channel where the supplier (hotel) remains hidden until after the purchase is complete.

Open Pricing
The ability to price all room types, channels and dates independently of each other to maximize revenue without having to close any off.

Overbooking
The practice of confirming reservations beyond capacity, either in expectation of cancellations or no-shows, or in error.

Pace
Also called pickup, pace is the rate at which reservations are made for a particular date.

Pay Per Click (PPC)
A marketing technique employed when a marketer establishes links or advertising copy on a web page and agrees to pay a fee each time a web user clicks on those links.

Predictive Analytics
Extracting information from data and using it to predict trends and behavior patterns.

Price Elasticity
An economic measure that shows the responsiveness or “elasticity” of the demand for a product based on a change in its price.

ProPAR
Profits per available room, an emerging metric that calculates not revenue, but net revenue. This factors in customer acquisition costs and other expenses. Net RevPAR is another term for this.

Property Management System (PMS)
Used on-site in an individual hotel to allow for guest check-in and check-out.

Rate parity
The strategy to maintain consistency of rates between sales channels, usually enforced through contractual agreements between hotel companies and third-party vendors.

Regret
A notification that the hotel has been shopped on its direct booking engine and a rate was given, but a guest chooses not to accept the reservation

Revenue per available room (RevPAR)
A metric used to assess how well a hotel has managed their inventory and rates to optimize revenue. Calculated by multiplying occupancy by ADR.

Revenue Generating Index (RGI) or RevPAR Index (RPI)
A metric used to determine whether a property is achieving its fair share of revenue compared to a specific group of hotels (i.e. a competitive set). It is calculated by taking the RevPAR of the property and dividing it by the RevPAR of the competitive set (competitive set data collected through a third-party provider, such as STR). An RGI of above 1 indicates the property is achieving more than its fair share, while below 1 suggests that the hotels in the competitive set are eating into the properties’ pie. Traditionally, hotel operators will prefer to multiply the number by 100 (or convert into a percentage).

Revenue Management
The art and science of predicting real-time customer demand and optimizing the price and availability of products to match that demand.

Revenue Strategy
A more comprehensive approach to revenue management that encompasses not just pricing and demand optimization but also business intelligence as it relates to sales, marketing, distribution and other functions across the hotel enterprise. It also accounts for costs associated with customer acquisition and retention; leverages interdepartmental intelligence to facilitate a collaborative approach to revenue generation; and unlocks behavioral insights through new data sources and price elasticity testing.

Shoulder Date
Nights that are next to full or very compressed dates. If a Friday and Saturday are forecasted to be sold out, and Sunday is not, it would be considered a shoulder date in that example.

Transient
Non-group business.

Unconstrained Demand
The forecast of how many rooms you could sell if you had an unlimited number of rooms.

Web Shopping Regrets and Denials
When a hotel has been shopped online and a rate was given but the guest did not book a reservation (regret), or a rate was not given at all due to a restriction or sell out (denial).

Yield
The dynamic pricing, overbooking and allocation of perishable assets to maximize revenue.

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.

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