Bang for buck

Maximising revenue and yield management potential is something the hospitality industry has been trying to achieve since day one. And while sophisticated software and apps scrutinise every aspect of property management, the key lies in finding a balance between experience, intuition and technology, writes *Donald Gasper*

Hoteliers are trying to boost revenues in an increasingly complex hotel marketplace. Demand for hotel rooms is generally increasing, but so is the quality and quantity of competing hotel offerings. Also, the consumer has become much more adept at finding the best hotel deal for their immediate needs, often making their purchase at the last possible minute.

"To counter the effects of these changes, hoteliers should look to modern, sophisticated revenue management software to maximise revenues," says Cary Umrysh, vice president for Customer Success at PROS Revenue Management.

"Today's best RM systems can predict the customer's willingness to pay, capture micro-trends for how your different room-type offerings are being valued by the market and recommend tactical price changes multiple times per day, even potentially after each new booking is made."

Fabian Bartnick, senior consultant for the Asia-Pacific region with IDeaS – a SAS company, also argues that in a world where an overwhelming amount of data is generated every day, it is impossible for any hotelier to make properly informed decisions about pricing strategies without the help of technology.

"Using advanced, best-practice revenue management systems turns reactive approaches to pricing into proactive knowledge about future pricing needs."

Don Wilson, senior vice-president of Maxim Revenue Management Solutions, reveals that his company optimises more than one billion rate and control decisions every night on behalf of its clients.

Every hotel should be using a modern, sophisticated revenue management system, he says. "Without such a tool, you are wasting time, missing opportunities and falling further behind your competitors. Optimising rates and controls across market segments, room types, rate plans, lengths of stay and channels for months into the future are just too complex to handle with spreadsheets."

Wide range of tools

So what revenue management tools are currently available?

Over the years, revenue management systems have evolved from requiring a super computer to run a revenue management system to only needing software as a service, which generally works on a subscription basis. Today there are revenue management tools in the market that range from those that focus on demand forecasting to assist straightforward pricing decisions, to more sophisticated tools that offer the ability for hotels to use their current online reputations as a criterion for making pricing decisions.

Latest advances even include a mobile revenue management smartphone application that allows revenue managers to make time sensitive revenue decisions on the go.

But it is not simply a case of 'one size fits all' when it comes to which revenue management tool should be used by which hotel.

"Some hotels need high-end revenue management for groups, function space, ancillary revenue and rooms, while other hotels may just need a forecast or some pricing for rooms," says Bartnick. "At IDeaS we work with our clients to deliver the right solution, rather than assume one piece of software is the right fit for all hotels, which a lot of other systems in the market today do."

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As the way hotels are researched and booked continues to evolve online and the power of consumers increases, it is essential for hotel operators to move towards an overall convergence of disciplines that defies traditional sales, marketing and revenue management structures and challenges traditional thinking, he says. Today's hoteliers must take a holistic approach to generating demand, digital distribution and revenue optimisation in order to not just survive, but to thrive.

Hoteliers looking to improve both their competitive position and their bottom line overall should ensure that not only do they have proper revenue management systems in place, but also that they are measuring the pricing and marketing actions they are taking, and the results these actions produce. More often than not, promotions are put onto the marketplace, but not measured effectively to understand the immediate and longer-term impacts.

By analysing and understanding market segment information, hoteliers can begin to make better decisions about which customer should receive that last available room and who should be offered free or discounted breakfast options or complimentary spa treatments, to help drive demand in low periods and boost revenue and profitability overall.

In Bartnick's view, revenue managers should also consider total revenue contributions, not just concern themselves with managing room inventory and pricing. They should extend their focus to include the management and pricing of function spaces, group business and ancillary revenues.

"Wise revenue managers will also consider and analyse not just revenue contributions, but also costs, to ensure there is a clear management focus on profit, not just revenue."

"Measure what matters," Wilson says. "Get the available data on competitor rates, forward demand data, hotel performance, customer feedback, etc – as long as you have a way to organise and analyse the data for decision-making purposes." He says that Hyatt Hotels recently outpaced their competitors' quarter after quarter by focusing on a few key measures and utilising the Maxim revenue management system to the fullest.

Finding a balance

The use of a modern RM system does not replace a hotelier's experience and intuition, Umrysh says. These are still critical for making the right strategic decisions for your hotel. "However, an RM system does take care of the day-to-day pricing changes that are necessary to maximise revenue for your strategic hotel investments."

Bernard Ellis, vice president of industry strategy, Infor Hospitality, takes a similar view: "I would agree that a balance needs to be found, but in fact, many hoteliers are still wary that technology is overly reliant on its own experience with historical patterns, when a variety of factors have introduced more uncertainty about the future than ever before," he says.

For years, explains Ellis, many online travel agencies have essentially been training customers to wait until the last minute for the best deal. Now that occupancies are stronger, the problem has become worse: people will now book a placeholder reservation, ensuring its policy allows them to shop again at the last minute, cancel, and rebook a better deal.

So even if it is there, advance business on the books is less and less an indicator of demand yet to come. Likewise, in many regions, the group segment has still not recovered from the downturn, and at best, also books much later that it used to. Beyond that, seasonality changes brought about by climate change, as well as the general uptick in geopolitical conflicts, have made history a weaker and weaker predictor of future demand for travel.

"Even seasoned hoteliers familiar with their markets have lost faith in their own experience to help predict the future," Ellis says. "Sophisticated software applications are continuously tuned to give more weight to recent patterns when history doesn't appear to be repeating itself, and are actually significantly more objective about this than humans. What hoteliers need to add to the balance is not experience or intuition, but insight.

"They need to know what things their systems will see in the data and account for automatically, versus insights only a human can foresee. In-context business intelligence can help expose hoteliers to external factors, but only they have the vision to decide how much these factors should impact data-driven forecasts. Any overrides they make should also be as data-driven as possible."

The human factor

It basically boils down to the fact that systems can only see what has happened in the structured data they analyse. Humans need to be the ones to review the unstructured data and think about what might happen. Will our home team make it into the play-offs and bring unexpected home game business? Will our city be awarded that major sporting event or citywide convention? Will that rumored concert appearance actually be scheduled? If I hear my competitor is considering changing its flag, what will be the impact of the new brand's loyalty programme? What if the rumour of our local airline going out of business comes true?

None of these effects will be machine-readable in the demand data, at least not in a meaningful way.

Bartnick, too, says that using a revenue management system does not mean a hotel should forgo or underestimate the skills that experienced revenue managers and their years of practice in the industry can offer.

"Good revenue managers know intuitively that setting the correct price can drive success or failure for any hotel business," he stresses. "They are the link between having the right data at hand and a hotel getting the right price to market in the right place to attract the right guest. In fact, optimal revenue management only works when you bring processes, people and tools into alignment. Finding the right balance between those three will drive the business and the bottom line forward." AHCT