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Revenue Management: Things to Know to REALLY Maximize Revenues

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By Brenda Fields

The concept of revenue management has been around for quite awhile, with the airline industry first formalizing it with its computerized Yield Management system. The hotel industry, although late in the game, has now made a "revenue management" position as part of its standard staffing. This position was primarily developed as a way to maximize revenues generated by the increasing demand over the past decade. Revenue Managers were in the enviable position of doing business in a sellers' marketplace. Now that business is significantly down, many properties are at a loss as to how to generate business and how to ensure that each room is sold at the right rate to the right market. This article will provide some tips on ensuring that you manage your rates from a position of strength for both a short term and long term pay off.

Revenue Management, Marketing, and Direct Sales:

Revenue Mangers more often than not, move to this position from a reservations or front office background and also, typically, have the final say in what business is booked and at what rate. But, the successful revenue manager has the ability to manage revenues from a broad perspective and has an understanding of and an appreciation for how business is driven to the property(s). That understanding leads to decisions which are based on factors other than what will produce the highest amount of revenue for the day. For example, a company or a guest who has demonstrated loyalty to your property, especially during "need" periods and receives favorable rates and better availability during peak periods will most likely remain loyal to you regardless of market conditions, thereby giving the property a boost over their competitors during the low periods. A collaborative relationship among Revenue Management, Marketing, and Sales will result in a loyal guest/company following which produces the best ROI over the year. Short term strategies may produce impressive short term results, but many times the long term pay off is jeopardized.

Market Position:

A key component to revenue management is identifying, understanding and maintaining the proper market position on a consistent basis. Most managers will agree with that statement, but when business drops, more often than not, all bets are off and rates drop like a lead balloon. It may pay off in the short term, but when demand increases, how do you then justify your rate increases and more importantly, will the guest accept them? Rates are a reflection of market demand and the cost of the room to rent. Higher real estate value, labor costs, services, and quality of furniture, fixtures, and equipment (FF & E) all contribute to your established rate. A prominent luxury brand like Cartier would have no credibility if their prices fluctuated greatly for the same diamond necklace, based solely on economic conditions. The same is true for hotels. The Revenue Manager is better served if he/she understands the economics of the rate structure and the property's stated market position. The Revenue Manager is therefore in a better position to adjust rates wisely and from a position of strength.

Market Segmentation:

The continuous high demand has resulted in the near extinction of market segments, as hoteliers were able to sell each room at the highest price on an ongoing basis. Now that business is down, those hoteliers are faced with the impossible task of knowing who their actual customers were and are, and therefore, are at a loss as to how to bring them back. That knowledge allows hoteliers to budget and forecast with strength and accuracy and to proactively establish availability and rates for each segment, resulting in greater revenue opportunities. Market segmentation by definition is the type of business that you have identified as potential business depending on your market position i.e. rack rate, corporate transient, weekend package, or corporate groups as examples.

Rate Parity and Rate Integrity:

Guests in each market segment are most likely booking your property through a variety of ways. The days of calling the hotel directly to book a room has been replaced by the hotel web site and third party web sites. As third party web sites have become more and more common, so is the competition between them. They market their businesses and those properties giving them the most favorable rates and in turn, those properties are given preferential exposure on their sites. You give them the lowest net rates and they will market your property. In down times, it is tempting to cast a wide net and become partners with every third party website provider. But, the downside of this strategy is that invariably your property will be listed at a different rate with each third-party website, resulting in a backlash from your customers paying the higher rates. Rate parity and rate integrity are key components to developing and maintaining a loyal customer base. Strategically selecting a partner or two will result in greater credibility with your customers and greater guest loyalty.

Tracking Production:

A key tool to evaluating the value of an account or a guest is to maintain historical records of production. How many times are we swayed by the value of an account which has produced a significant portion of business for your property, only to find out that the business was produced solely in City-wide sell-out periods? And how many times do you loose a loyal customer because either the customer is not given availability during a peak period or his/her rate has increased significantly over that peak period. Maintaining production statistics will help manage that important process of who gets a room and what rate, resulting in strong customer loyalty and ultimately strong revenues sustained over the long run.

Budgeting:

Good budgeting is the foundation for great rate management. Integrating all of the above components i.e. positioning, market segmentation, rate parity along with the assumption of demand periods, laid out on a daily basis, will provide the opportunity to establish a realistic goal of revenues and expenses. Many times, the budgeting process is based on increasing revenues by a percentage year over year, as an example. That approach leads to disaster as many factors have to be considered to accurately project revenues and expenses. Taking the time to budget revenues for each day and incorporating rooms sold and average rates per segment creates a solid foundation for rate management that allows for wise management if corrections/adjustments need to be made.

Technology:

There are many companies which specialize in revenue management software for all types of properties from resort hotels to limited service hotels and for

single properties as well as multi-properties. But as a local NYC retail store says, "An educated consumer is our best customer". Understanding all of the components of revenue management will place you in a greater position to evaluate and choose the best system that will accomplish your needs for both the short term and long term, as well as have a system customized to meet your particular needs. Otherwise, there is a great possibility of making a very expensive mistake not only from the hard cost of the system, but lost revenue opportunities.

An approach that encompasses positioning, collaboration, market segmentation and proper rate establishment combined with well founded budgeting and the tools to evaluate each account/guest, will allow the Revenue Manager to generate results that create the best daily revenues for both a short term and long term pay-off.

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About Brenda G. Fields
fields & company

Representing a "who's who" roster of clients, Brenda Fields of fields & company, has worked with a number of industry leaders and innovators, from hotelier Ian Schrager and real estate developer Harry Macklowe, to global brands including Starwood Lodging Corporation, Planet Hollywood, Vornado Realty Trust, Choice Hotels International, Olympus Real Estate Corporation, and Apple Core Hotels. In addition to major hospitality brands, Brenda's consulting practice includes a wide range of independent properties around the country, such as The Kitano Hotel, New York; Woodlands Resort and Inn, Summerville, South Carolina; the former Bel Age Hotel, Los Angeles, CA; Mondrian Hotel, West Hollywood, CA, and more.

Brenda brings a hands-on approach to problem solving along with her two-decade long record of results as both a consultant and in corporate sales and marketing to each challenge. She has honed a reputation for helping owners and operators achieve target revenues through development and execution of cost effective, workable strategic plans that maximize profits and build stronger, sustainable brands.

Brenda is a member of the International Society of Hospitality Consultants; currently on the Americas Board of Director for HSMAI; is Immediate Past President of the Hospitality Sales & Marketing Association International in NYC; and was named one of "The Top 25 Most Extraordinary Minds in Sales and Marketing" by HSMAI" for 2007. She was awarded the "Leadership Development" award by HSMAI in 2009. And additionally, was awarded "Best of the Best" by HSMAI in 2006 for her contributions on the Awards and Recognition committee. Brenda serves as a member of the Editorial Board of *Hotel Executive.com,* is a regular contributing editor to international publications *Hotels Online, Hotel Resource Weekly Network News*, *eHoteliers,* and *4Hoteliers*. She is also a member of the Real Estate Board of New York.

Brenda can be contacted at brenda@fieldsandcompany.net; 518 789 0117 or by visiting www.fieldsandcompany.net.

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