

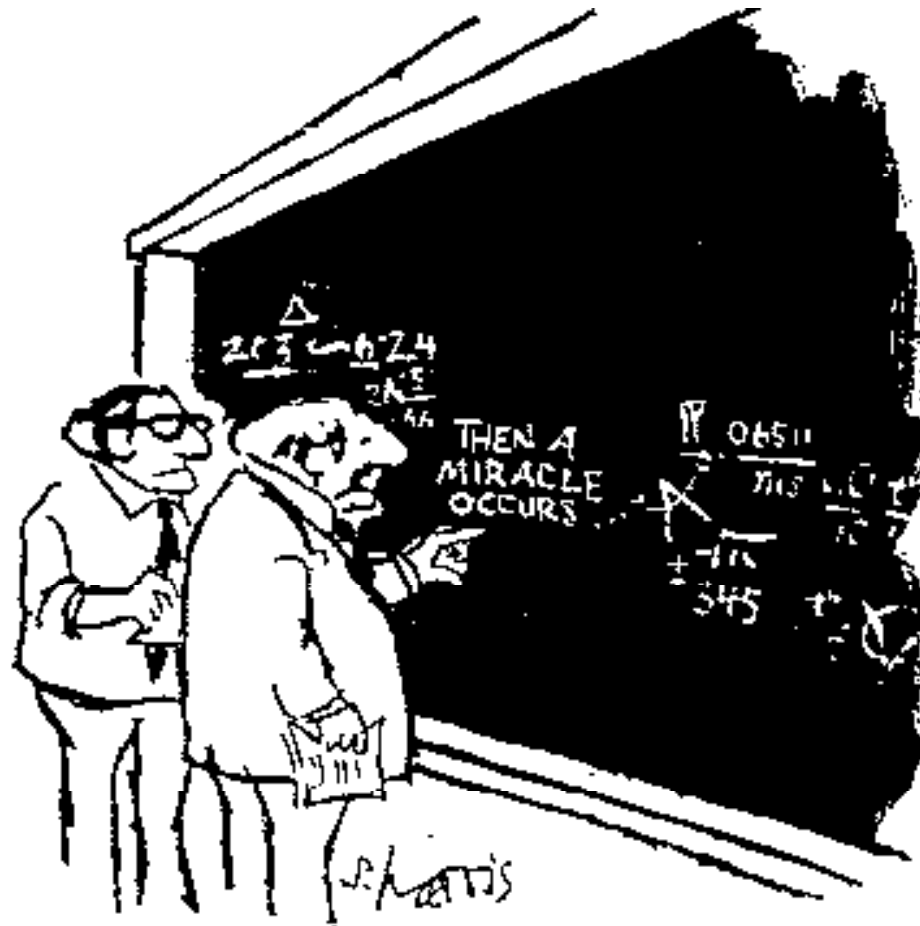


Revenue Management

Practical Considerations for Anyone



Is it a “Black Box?”



“I think you should be more explicit here in step two.”



Revenue Management Defined

“The application of disciplined tactics that predict consumer behavior at the micromarket level and optimize product availability and price to maximize revenue growth.”



- Robert G. Cross
*Revenue Management:
Hardcore Tactics for Market Domination*



RM in the News - Unflattering

- Headlines from the popular press (WSJ, USA Today, Business Travel News) - late 80s/early 90s
 - Lower Hotel Rates for the Asking
 - Taking the “Sting” Out of Travel
 - Savvy Consumers Check Into Bargain Hotel Rates
 - How to Knock 10% to 50% Off your Hotel Room Rates
 - Hotel Rates Complex - Chains Differ on Restrictions



And on And on...

- Have we gotten better as an industry?
 - “Consumer Reports magazine reported that their shoppers got the best hotel rates by calling the hotels directly...
 - Use these tips to get the best hotel rate by calling on the telephone:
 - Call the front desk directly
 - Ask: "Is that the best you can do?"
 - Ask: "Do you have any specials that I should know about?"
 - Say: "That's more than I can spend."
 - ...call again a few days before your trip”



Customer Service Effects

- What pitfalls can get in the way of Revenue Management?
- How might RM enhance service?
 - Forecasting and re-forecasting
 - Saving space for most valuable customers
 - Expand markets served
 - Improved profitability funds improved product

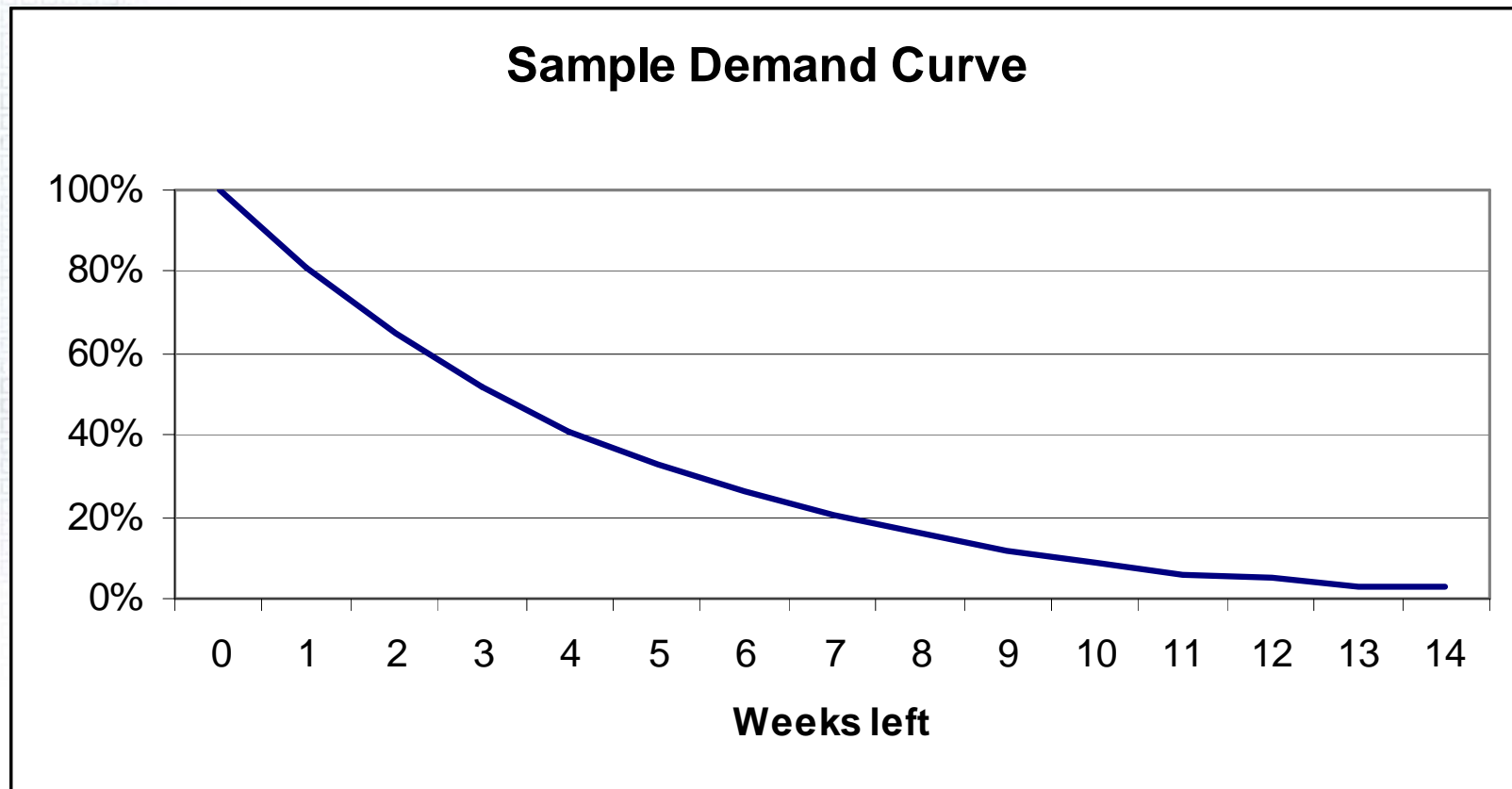


Market Alignment

Who's Out There? When?



Market (Consumer) Behavior



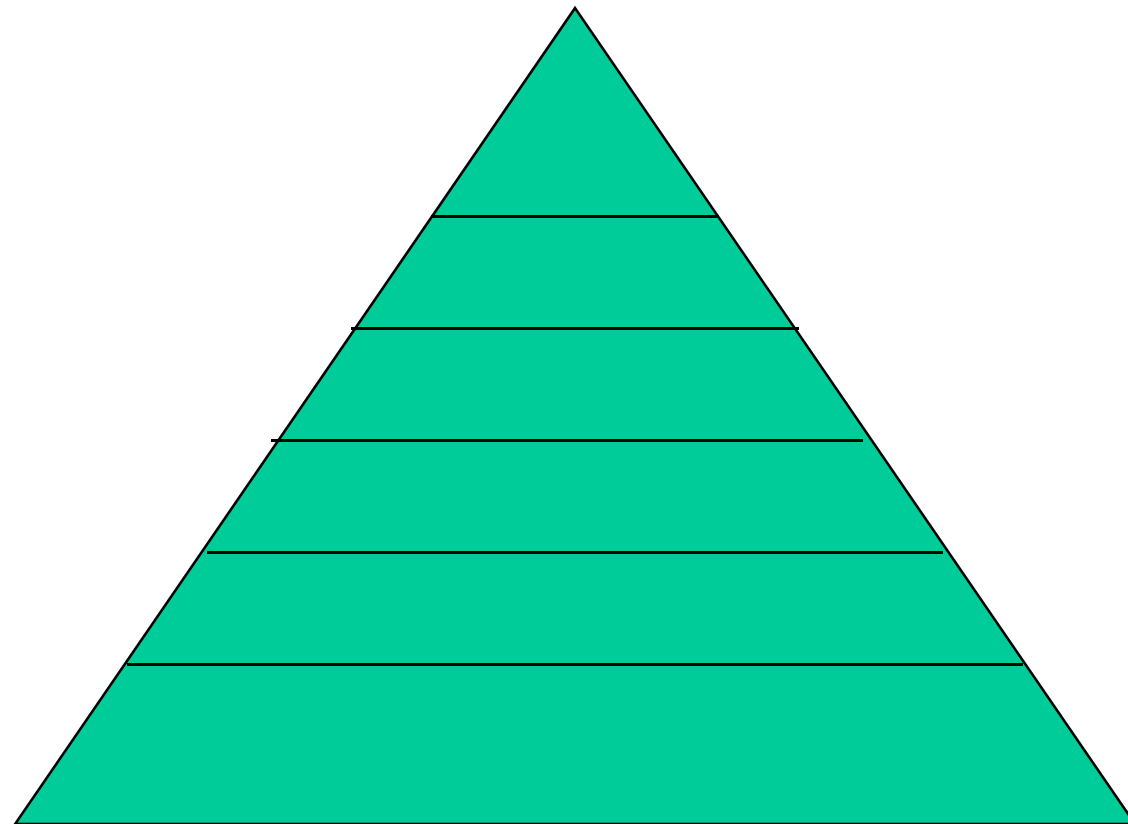


Value Controls - Conceptually

Value Tiers

Highest

Lowest





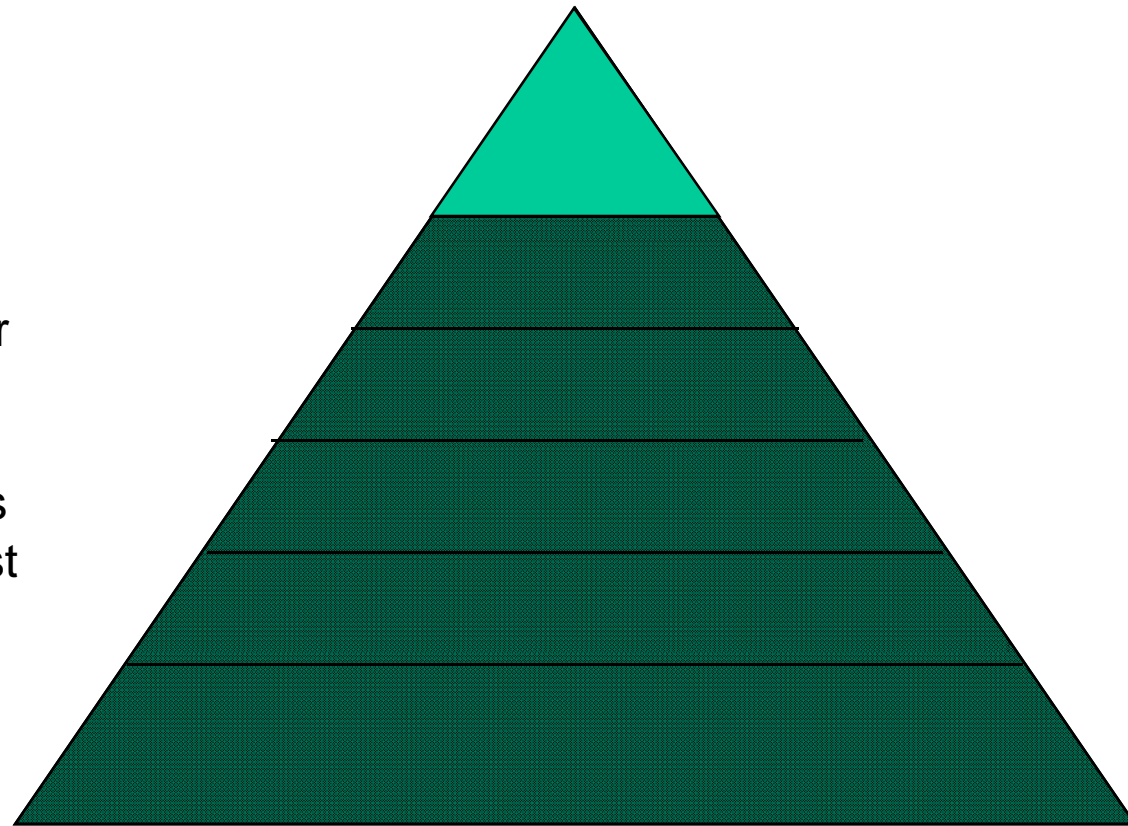
Control Objective

Value Tiers

Highest

As demand begins to threaten capacity, lower value customers are progressively restricted until remaining space is available only to highest value customers.

Lowest





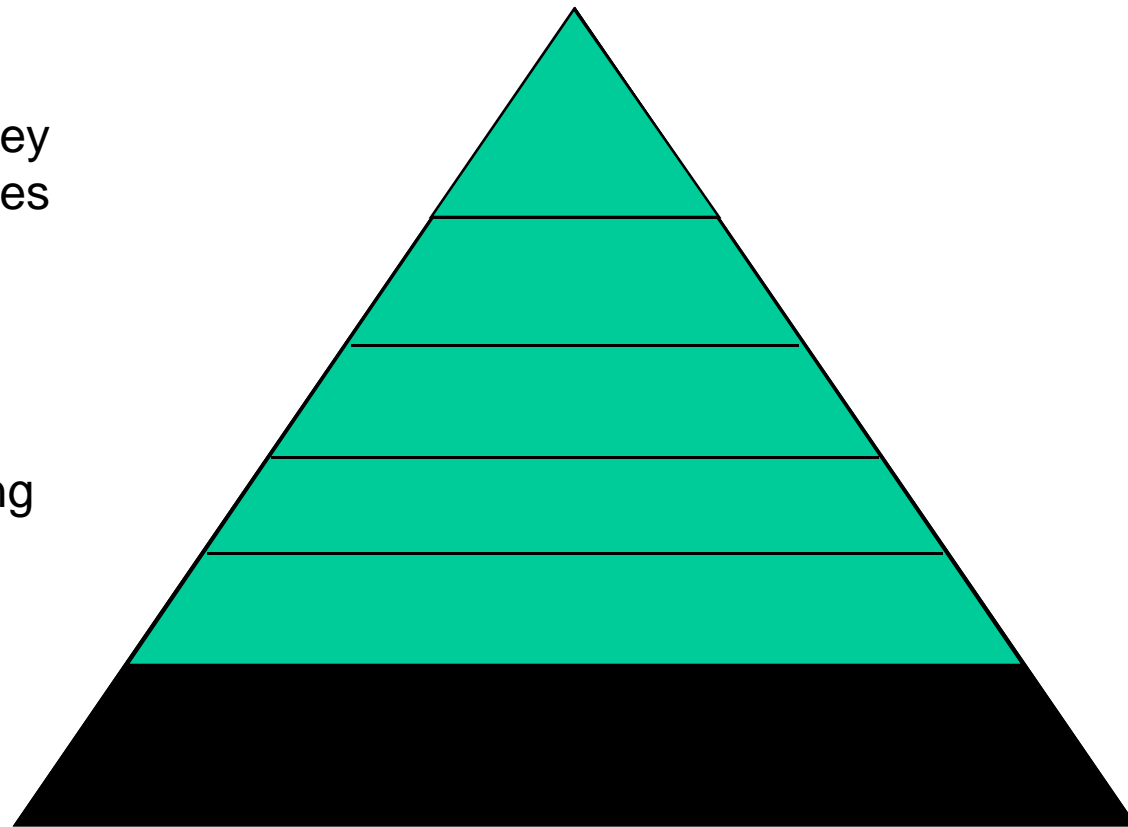
Common Control Steps in Reality

Value Tiers

For fear of “leaving money on the table,” lower values are restricted far in advance.

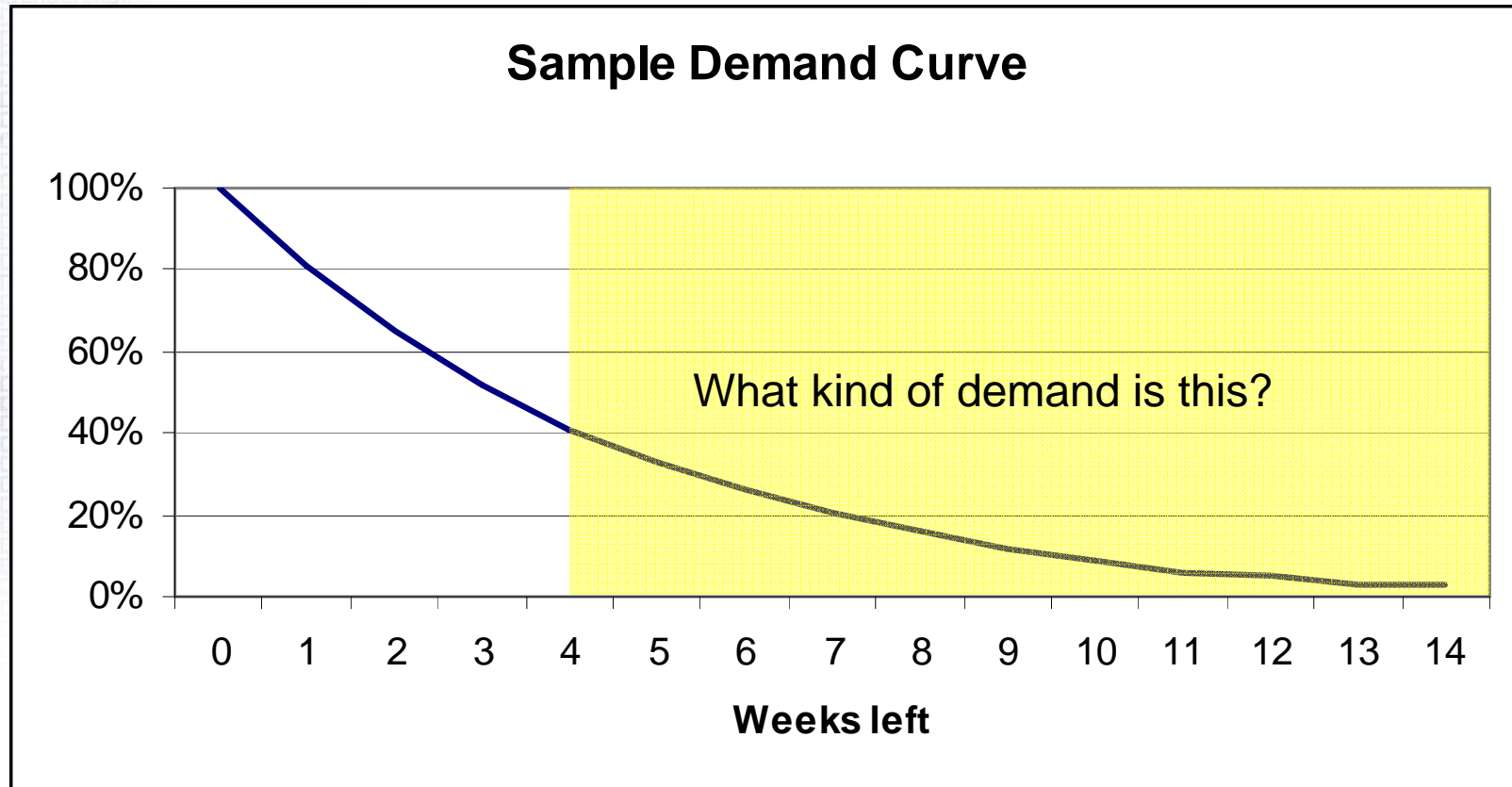
As DOA approaches, demand looks less strong than hoped for...

...and property retreats progressively to lower prices.



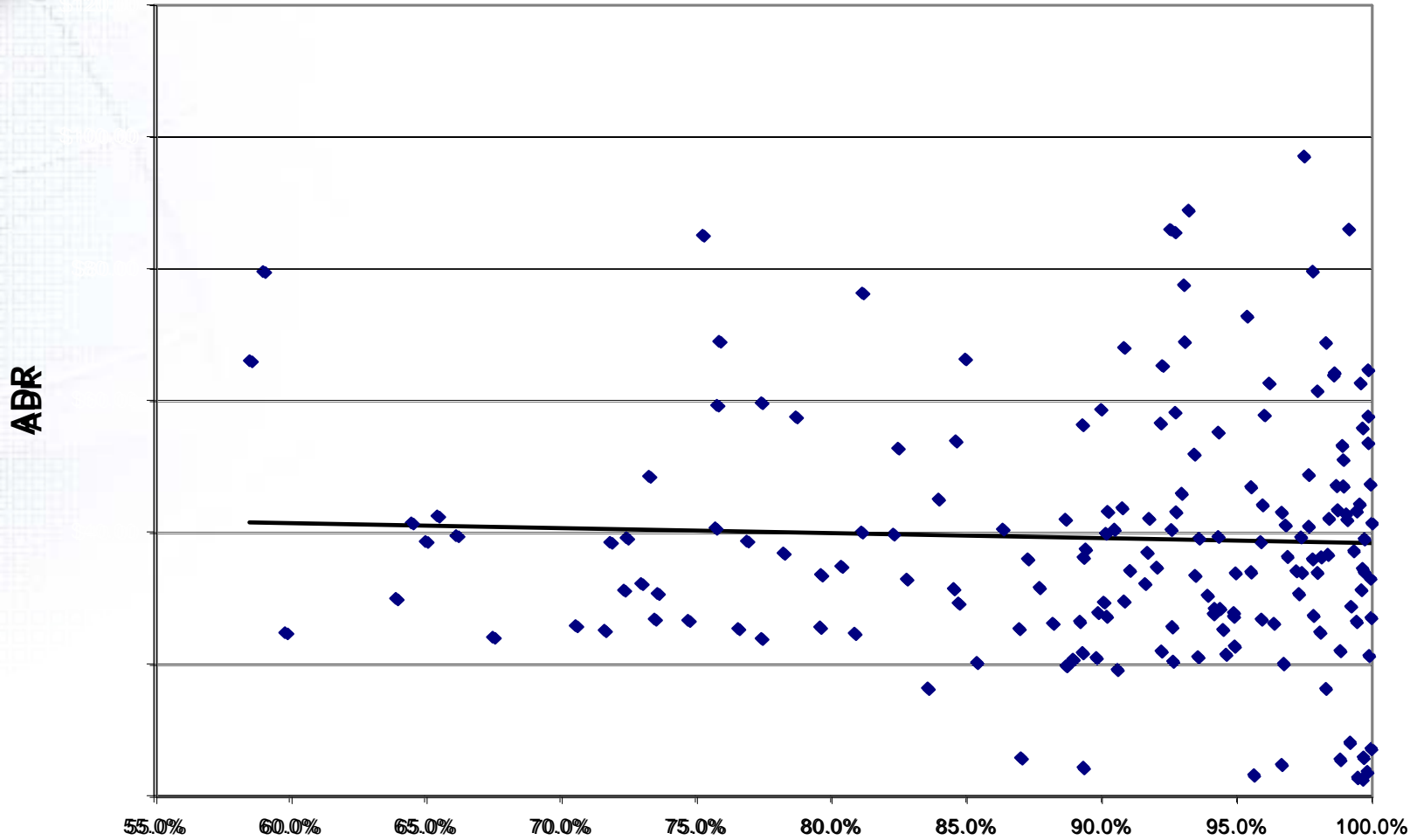


Market (Consumer) Behavior





Actual ADR vs. Occ% Example





Knowing What You Want

- What constitutes customer value?
 - Rate 1 + rate 2 + rate n
 - ADR x LOS
 - F & B contribution
 - Frequency
 - Demand variables

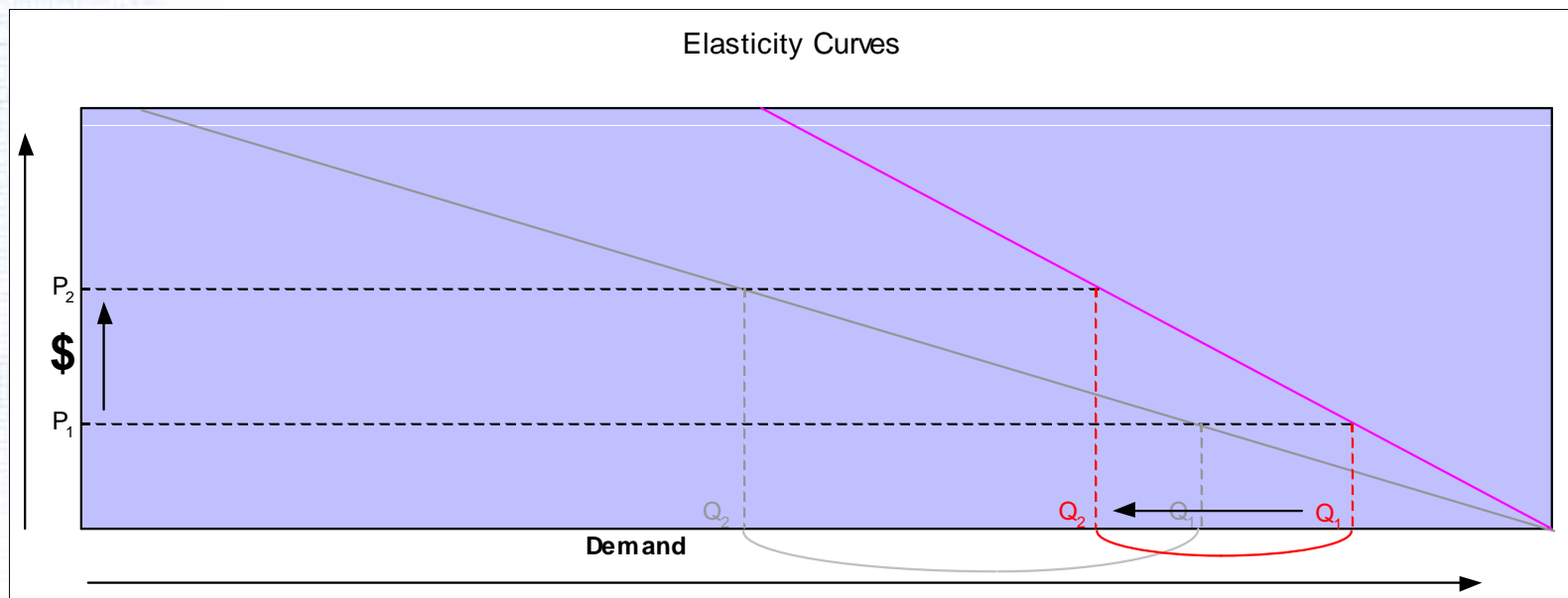


Segmentation Question

The Revenue Rationale

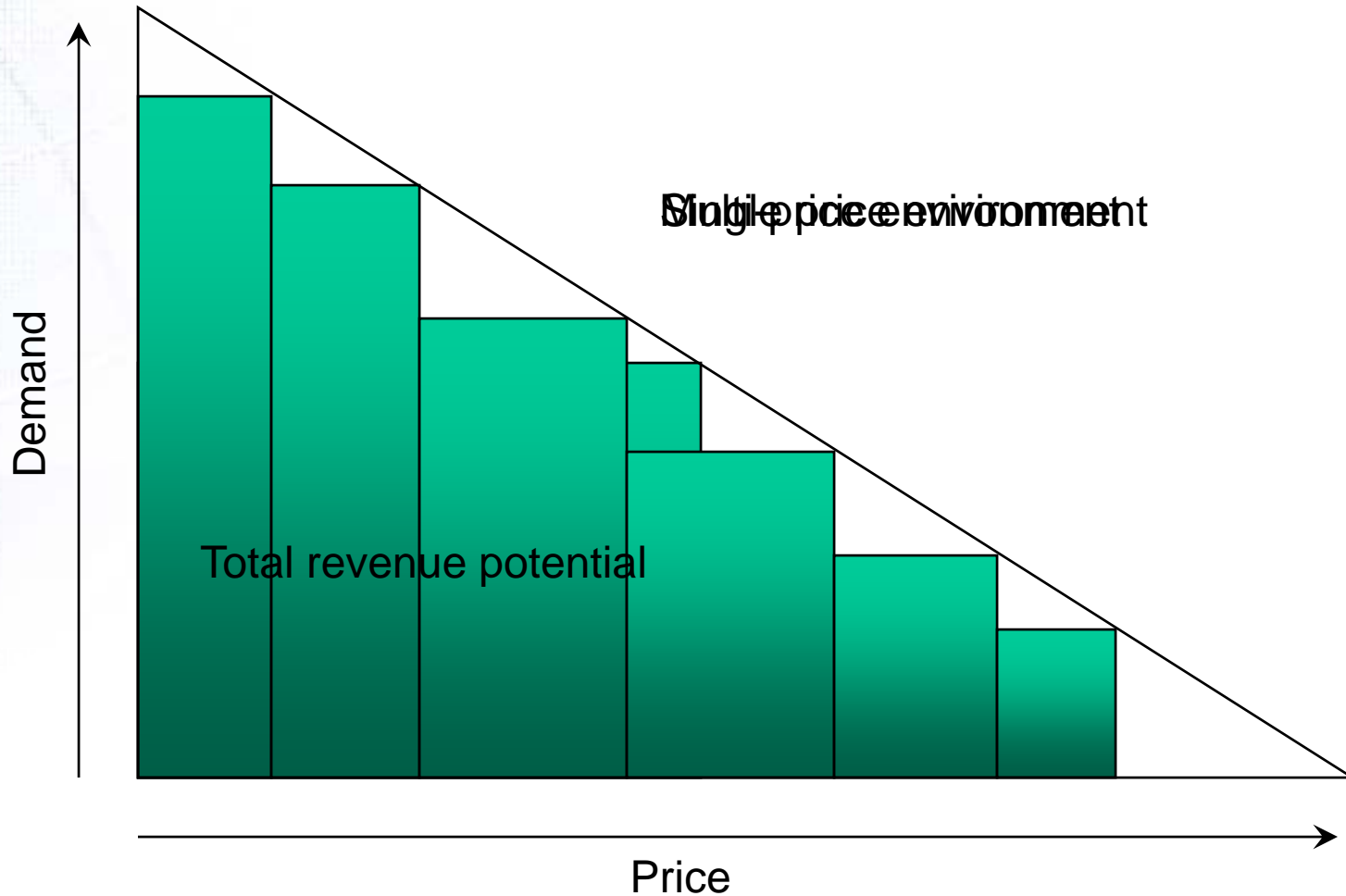


Price Sensitivity & Segmentation





Revenue Impact of Segment Tiering





Rational Pricing

Reservations from Everywhere



The Parity Buzz

- What is rate parity?
- What channel issues are there to consider?
 - Call center & property website
 - Corporate website
 - 3rd party sites
 - GDS
 - Group
- Reservationists' role/impact



Reservation Test Calls

Voice	Hotel Website	Expedia	Corp Question (Y/N)	Group Question (Y/N)
\$149	\$119 - \$540	\$93 - \$109	Y	N
\$325 - \$305	\$135 - \$185	\$135 - 185	N	Y
\$225 - \$242, \$225 - \$208 (faded to non-cxl \$139 when I balked)	\$208, \$242 AAA, AARP & Corp, regular \$245 - \$285	\$139 non cxl, \$152, \$169 non cxl, \$179	N	Y
\$149 – suggested I look for specials on hotel website & Expedia for better deal	\$149 - \$229	\$107 - \$201	Y	N
\$245 - \$265, faded to \$225	\$225 - \$265	\$300 - \$314	N	Y



Forecasting Issues

What's Coming Down the Road?



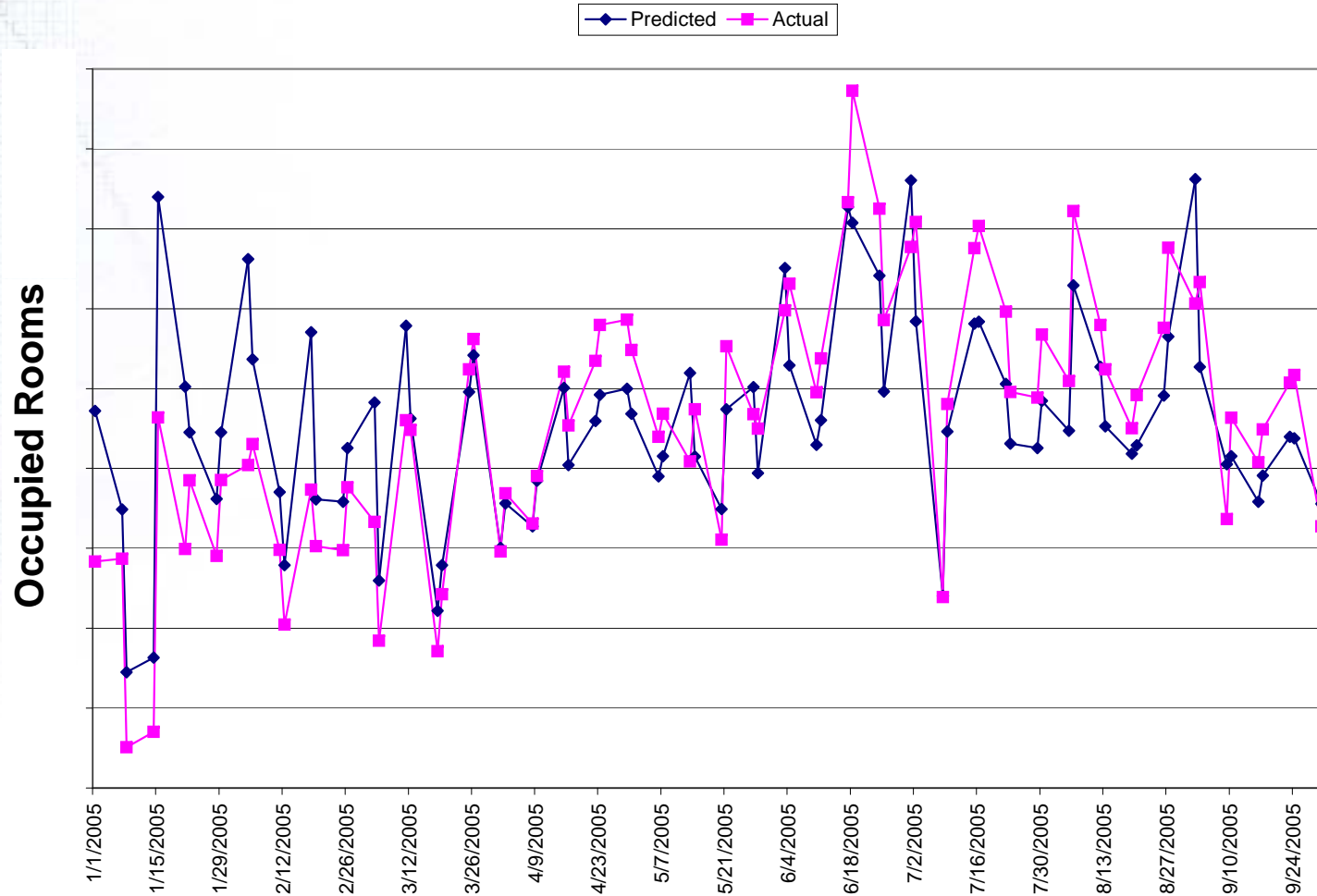
Simple Moving Average

A simple moving average
= sum of observations
divided by number of
observations

DOW	Mon	Tue	Wed	Thu	Fri	Sat	Sun
						145	
							129
	139						
		100					
			90				
				107			
					145		
						163	
	75						130
		51					
			37				
				41			
					45		
	92					41	46
		100					
			106				
				92			
					56		
						52	80
	108						
		86					
			85				
				102			
					106		
						113	
							105
	92						
Total	507	336	318	341	352	513	491
Average	101	84	80	85	88	103	98



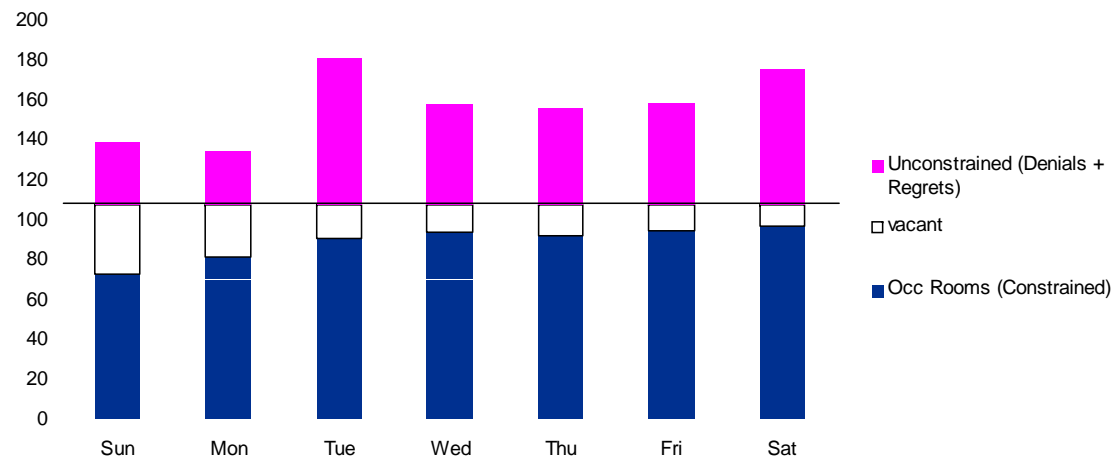
Regression Analysis





Forecasting Considerations

- Customer segment
 - Channel
- Events
- Seasonality
- Day of week or clusters (weekday vs weekend, for example)
- Unconstraining



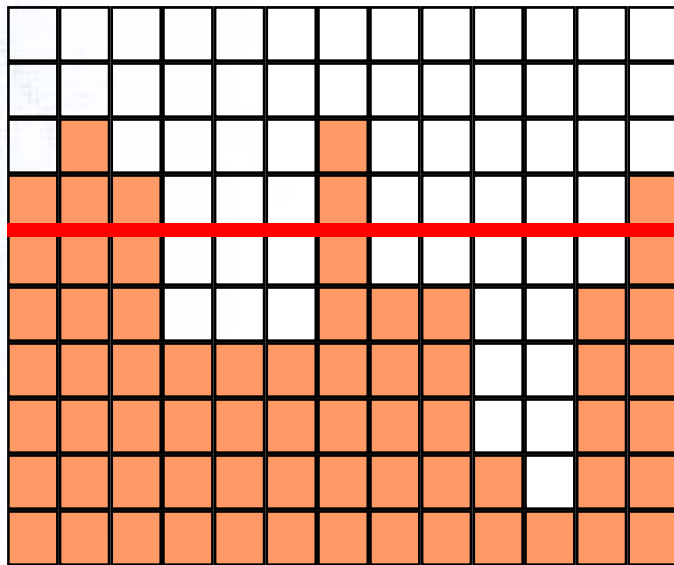


Group – The Great Unknown

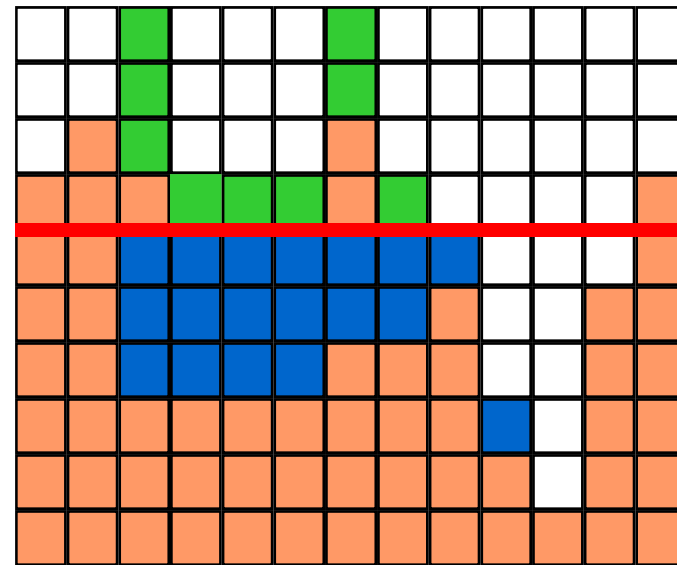
- Group ceilings
- Displacement analysis
 - Room revenue
 - Catering
 - Meeting space
 - Other
- Marginalization
- Cutoff dates



Example - Group Displacement



Compute optimal revenue without group booking



Compute optimal revenue with group booking

$$\text{Contribution of group booking} = \text{sum}(\text{blue square}) - \text{sum}(\text{green square})$$



The Loyalty Factor



What Engenders Loyalty?

- **KNOW** your best customers
 - Identification protocols
 - Travel habits
 - Hotel preferences
 - Idiosyncratic hot buttons
- Service delivery standards
 - Recognition
 - Communication
 - Reinvestment



Most Valuable Guest - Approaches

- Consistent delivery
 - Careful strategizing to make loyalty a genuine benefit
 - Benefit structure consistent with levels of contribution
- Exclusive recognition practices
 - Preferential availability
 - Personal greeting (attention) and/or transportation
 - Insulated check-in process
 - Personalized amenity
 - Outreach communication tailored to customer (offers & VIP events)



Revenue Management

Fundamentals Regardless of Size



Blocking & Tackling

- Make Revenue Management a daily priority
- Live and breathe market behavior/trends
- Bring brutal objectivity to hotel forecasting
- Understand competitor strengths/weaknesses
- Understand competitor pricing behavior
 - Competitor context informs – it doesn't dictate
- Price according to micromarket tolerance
- Position dynamically to capitalize on needed/available demand



Revenue Management

Q & A