



**Revenue Management Isn't New - But It Is Important - By Kirby D. Payne CHA - American Hospitality Management Company**

In the Friday, May 30, 1997 issue of the Minneapolis Star Tribune's business section I happened to see a book review by Michael Pellechia. He was reviewing "Revenue Management: Hard-Core Tactics for Market Domination" by Robert G. Cross (Broadway Books, \$27.50). The title of the review was, "' Revenue management' is the way to build profits".

Any hotelier who has been around more than a half hour knows that revenue management (a.k.a. yield management) is the only way to make a significant profit in rooms and when applied to other operating departments it is an important contributor to profits, as well. When I saw the headline I thought it would be an opportunity to see how businesses other than hotels undertake yield management.

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Being your basic lazy reader I quickly scanned the boxed off column to see if there were any lists. Sure enough, there it was, "seven core concepts of revenue management". Here they are:

- Focus on price rather than costs when balancing supply and demand.
- Replace cost-based pricing with market-based pricing.
- Sell to segment micro-markets, not to mass markets.
- Save your products for your most valuable customers.
- Make decisions based on knowledge, not supposition.
- Exploit each product's value cycle.
- Continually re-evaluate your revenue opportunities.

After reading the list I went back and started reading the review. It began with, "It is a new holy Grail that means selling the right product to the right customers at the right time for the right price." Clearly I was about to learn something!

The next paragraph, to my astonishment, began, "Successful practitioners have included Marriott International, Southwest Airlines, Hilton Hotels Corp., American Airlines and many other hospitality and aviation businesses with a large percentage of fixed costs."

Finally, somebody was subtly recognizing the hotel industry for doing something first and right. Remember, we did yield management before the airlines. Airlines didn't do it until they were deregulated. We've probably done it since we put up tents on the newly opened camel trail from what is now Cairo, Egypt to Amman, Jordan 200 generations ago! Just think of the peak rates hotels were getting about 2,000 years ago when we blew that reservation in Bethlehem and walked that couple to the barn next door during the Roman census!

The review was excellent in that it used examples from the book of both large businesses such as airlines and car rental companies but also small businesses like barbershops. A barbershop example was interesting in that it suggested discounting on Tuesdays to attract customers who might want to avoid the Saturday crowds and save money.

A word of caution might be in order. I don't care how much one discounts Christmas night you cannot develop a sell-out in most hotels! I believe that during off times you need to combine a positive reason to come along with a price which is perceived to be a value while not degrading the hotel's image. Friends of mine market their upscale resort during the slow times as being "quiet time" but they don't discount off its low season rates to do it. In fact his quiet time is so successful that they're raising the rates for that period each year.

I'll relate my interpretation of Mr. Cross' list to some hotel concepts with words you and I use. I think you'll find you're very familiar with each item.

1. When demand for rooms exceeds available rooms in the area, raise your rates. If you know what you're doing you can even try to be one of the last to sell out when people are really desperate for rooms and are willing to pay an extra premium.
2. Pricing should be based on the market situation rather than costs. While seemingly the same as the first, there are some subtle differences. For instance during normal demand periods evaluate the features of your hotel relative to the direct competition and their prices and position your rates accordingly. If they include a continental breakfast in their rate and you don't have one, consider pricing just below them. Then market into the situation in a positive way by pointing out to guests who comment about the lack of that

feature, that you charge slightly less and for the price difference there are numerous breakfast alternatives in the area where they will get something better than a doughnut and warm coffee! Another example of this pricing concept is applicable to beer. If, under cost based pricing, you're satisfied with a dollar profit on your highest volume beer why not do the same with your premium beers? Think what a great value they'll be as a result and what the resulting increase in consumption might do to your bottom line.

3. None of us has enough money to mass market and it is inefficient. Even in your target geographic markets, no matter how small a part of a larger area, only a very infinitesimal percentage are your potential guests. Within that geographical area, marketing must be targeted to the most likely decision maker. What media are best to reach them, what will catch their eye or ear, what will attract them to your destination, if they weren't planning on going there already, and your hotel specifically? What about socio-economic sub-segments or life style groupings or demographic niches? When we target families we only show one adult with children in our photos. This way we don't inadvertently alienate single parent families.
4. Saving your rooms for your most valuable guests is obvious especially when you remember value is not just a function of how high a rate they'll pay. For instance a guest who stays both Friday and Saturday night is more valuable than one guest for each of those nights as you have less front office and housekeeping effort associated with the former. If your peak weekend night is Saturday save some rooms that night for Friday - Saturday reservations and walk-ins. After all, if Saturday is that good you'll sell out Saturday at the last minute to same day reservations and walk-ins. It is simply a matter of knowing what last day demand is.
5. As the previous item implies, making decisions based on knowledge is critical. Keeping tallies of how people heard of you or examining reservation lead-time are examples of critical research to develop real knowledge. Supposition comes from accidents, coincidences and prejudices. If you come to work early each morning and visit with guest's checking-out at that time their comments will begin to out way information you might receive on a second hand basis from some of the staff. If one staff member who is more vocal than others has an opinion it will also begin to stand out. Gather information both formally and informally. Make ads and coupons traceable whenever possible and tally the information. In our hotels we try to ask every person inquiring about availability how they heard of us.
6. I'm not sure what the author means by "exploit each product's value cycle." While the phrase seems obvious I can't seem to apply it to a specific hotel example. I would imagine it means that a package which relates to a season or an event should be marketed on a timely basis or it could mean to be aware of consumer trends and always be ready to adjust your hotel's image or amenities offered (priced accordingly) to accommodate market developments.
7. Continually re-evaluating revenue opportunities take many forms. At one extreme are systems like Holiday Inn World-wide's HIRO system, which constantly adjusts a hotel's discount programs, and rate ranges. The other extreme, other than ignoring the subject, are hotels that have revenue management meetings daily in order to adjust rates and give the front office staff selling guidelines. One of the best stories I heard on this subject was about a very ritzy hotel on the southeast Florida coast. The hotel's staff was forced to follow the results of a yield management computer system even though they knew the previous year's data was an anomaly. The corporate office kept telling them to, "trust the computer." As a result they over priced and missed out on a lot of revenue opportunities during the peak season. According to the book review, American Airlines, due to a software glitch in 1988, lost \$50 million in possible revenue!

Revenue or yield management is critical to maximizing a hotel's profitability. The concept applies to every revenue department and across departments. Saving banquet space to sell in conjunction with group guest rooms is a classic example of this concept. Early bird specials in restaurants are another example, which happens to tie right to the barbershop example the author used.

The review closes by remarking that the book is, "a good stab at describing market forces from the revenue perspective. The marriage of marketing and operations research is a definite strength of the revenue management model."

Of all the points made, the one I think is most important is, "make decisions based on knowledge, not supposition." Gather information in a methodical, formal way. Analyse it and make decisions based on that rather than gut feeling.

# The Internet...The Great Equalizer

## For Independent Hotels

*By: Neil Salerno, Hotel Marketing Coach June 2005*

With the continued growth of the Internet's popularity, Independent hotels have their best chance ever to truly compete with their franchise competition. For many years, hotels have chosen to flag their hotels in order to cash-in on franchise loyalty and popularity and the resulting reservations contribution.

Although franchise contributions to reservations vary greatly by brand and by hotel, buying a flag almost always provided a hotel with a base of business to ensure successful sales numbers. The franchise flag provides big budget advertising, promotions, reservations services, and, in some cases, group sales services; a combination unavailable to most independent hotels.

But, thanks to the Internet, all that is changing. Internet marketing is still affordable and effective. The Internet provides little known hotels with unprecedented exposure to millions of travellers. It allows smaller independent hotels to advertise their hotels to the travelling world, finally at rates they can afford.

Through the Global Distribution System even smaller hotels can take advantage of the sales efforts of thousands of travel agents, just like the franchises have for years.

Although Global Distribution System contribution has been stagnant for many months, many experts predict that this will begin a reversal in coming months. Franchises have held on to mandatory GDS rights and for years GDS production has been at the heart of their contribution numbers for their hotels for years. Independent hotels now have the same access to joining the GDS through companies like GenaRes, an independent GDS service provider.

Fortunately for independent hotels, third-party Internet suppliers are still "ruling the roost" in Internet generated room nights and revenue. Franchises have made great progress over the last two years playing catch-up with third-party web suppliers, but there has been a cost to doing so. Their primary weapon in the fight with suppliers has been the amazing "guaranteed lowest rate". This tactic has met with some success, but it is creating havoc with the hotels they are duty-bound to help.

Selling hotel rooms by lowest rate has never been a good idea; especially while so many hotels are trying to get higher rates. I see more and more hotels spending time "explaining" exactly what "guaranteed lowest rates" mean while they quote higher group and corporate rates to their potential clients. In a short two years, we evolved from selling "value", while displaying our rack rates, to showing the world how low we will go to get their business.

The current online marketing superiority of third-party suppliers has helped many independent hotels to achieve the same or more total Internet contribution as many franchises. Third-party suppliers helped many hotels to stay afloat in the aftermath of 2001. The battle between hotel franchises and third-party online suppliers needs to come to an end...sooner rather than later.

Third-party suppliers have held the number one position in search engine marketing as well. They single-handedly took over the pay-per-click search world. It's difficult to find a city in which a search does not reveal a third-party supplier in the results.

Independent hotels are starting to understand and use pay-per-click search technology for their own web sites. It almost always produces a great return on their investment and is easy to implement. Many franchise hotels are also boosting their results by using pay-per-click for their own web sites.

It seems that web-marketing companies touting that search engine submission is the complete answer to low room night production from their web sites are disappointing many hotels. Submitting a web site to the search engines, without first making certain that the site is compatible with search engine rules, is a total waste of money and time. Submitting a non-functional site, no matter how pretty is futile.

Independent hotels can compete with their franchise hotel competition on the Internet. Many independent hotels are getting upwards of 30% or more of their reservations online.

### Some Suggestions for Independent Hotels

1. If you are not on the GDS, consider joining. It's a worthwhile investment.
2. Make certain your web site is working for you. Before you simply hire someone to submit your site to the search engines, make certain that it is a functional searchable site.
3. Determine which third-party suppliers are strongest in your market and get listed with them. You control rates and inventory. Get them working for you.
4. Consider hiring a hotel marketing consultant to provide you with a consistent flow of ideas. Most consultants work on an hourly business rate; work out an agreement based upon your budget.
5. Look around for additional marketing partners to create reciprocal links to add popularity to your site.