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Adopting Hotel Revenue Performance Principles

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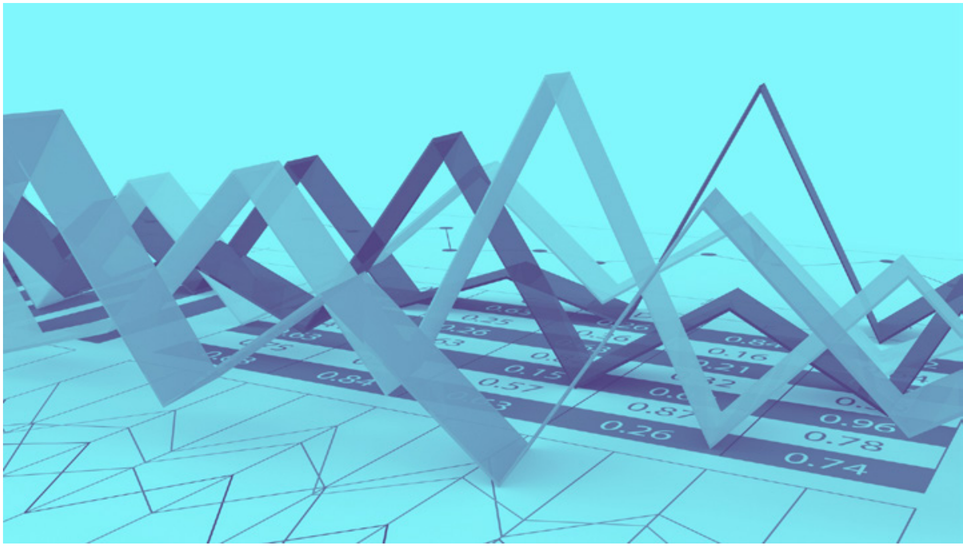
Not long ago, revenue optimization was limited to hotels with access to one of the few experts in the industry. Next came expensive revenue management software that still required expert management. Now, revenue optimization is available to everyone. It's become an essential tool for assets ranging from large portfolios to small inns. It is never too late for a hotel to embrace revenue performance principles to supercharge their profits.

The idea of embracing new principles and practices to improve revenue performance can feel overwhelming, and it's easy to see why. There's an abundance of data to make sense of, fluctuating market conditions, increased competition, and an array of travelers with different desires. All of these factors need to be considered with limited time and resources. The good news is that there is a path to sustainable revenue performance for every hotel. With the right foundations in place, it's not so complex after all.

The Covid pandemic has further highlighted the need for hotels to understand today's travelers better, recognize market disruptions, and continually develop new strategies to drive profits. With travelers ready to see the world again, what better time than now to get started?

FORECASTING

Forecasting is making an educated guess about the future based on past trends and current market conditions. Every hotel operator should get into the habit of predicting demand and prices in a structured way. Why? If you have a sense of future demand, you'll be in a good position to meet that demand by setting prices to reach the right travelers at the right time. Forecasting also helps you make smart operational decisions, such as planning staff levels, which is more important than ever given today's rising costs. Ideally, forecasting should be done 12 months at a time and should be constantly updated based on performance and changes in the market. Then you will be ready to meet demand across the short, mid and long terms.



How do you start? Let's review the basics:

- 1. Forecasting
- 2. Market Segmentation
- 3. Pricing
- 4. Distribution

To get started, consider your past occupancy, your current bookings for upcoming dates, and your past and future rates. To go a step further, you can look at the segments of travelers staying at your hotel and the different channels they are using to book. No matter what approach you take, striving for accuracy and being willing to adjust is much more useful than obsessing over accuracy 100% of the time. When your projections don't match reality, that's when you have the opportunity to learn and adjust. As with any discipline, you will get better with practice.

Step one is setting the goal you want to achieve; use the rest of the steps to achieve the goal. Segmentation, pricing and distribution are the steps you will undertake to achieve the revenue goals that you set for yourself in the forecast.

MARKET SEGMENTATION

Understanding the origin sources of your revenue is a very important step in embracing revenue management principles for your hotel. Learning which travelers are staying at your hotel allows you to target them better, not just by providing the right price but also by offering the right product to suit their needs. By tracking your sources, you can start to group travelers, based on common desires and booking behaviors, into market segments.

When dividing travelers into market segments, consider things like how far in advance they book, what days of the week and time of the year they typically stay, and how much they spend. Knowing when these segments of travelers are likely to travel – and which segments drive the highest profits – should influence how you strategize to make the most money.

Segmentation empowers you to identify sudden changes in travelers' behavior and adjust your strategy accordingly. It also helps you identify why something has happened to your business. For example, if there is a drop in bookings, market segmentation can help you get to the bottom of it. If there is a sudden uptick in business, locating the source and preserving it will help your revenue grow. In good or bad times, operators can use segmentation to increase their revenue by:

- Curating marketing efforts to boost bookings from the most valuable segments
- Investigating low-performing segments and boosting sales efforts to capture your portion of the market
- Expanding on dynamic pricing by targeting individual segments like Transient, Corporate, Group, Wholesale, etc.

Consider which travelers are best suited to your property and offerings and which help you achieve your goals. Segmentation not only helps you diversify your revenue but also helps you understand who you are connecting with via your product and marketing.

PRICING

Pricing is the key to your marketing success and overall business growth. Like all revenue principles, it is rapidly evolving. Getting this right is more relevant than ever, as the pandemic has only added to the costs involved in running a hotel.

Revenue Managers used to look only at the cost of an unsold room. It has been long established that unsold rooms drive nothing to your top or bottom line. That remains a constant. But now we are getting a better understanding of the cost of an occupied room. These costs are also a factor in pricing decisions.

The modern approach is to price yourself based on your location, value and cost of operations first. Then you can glance at the competitor rates and adjust as needed.
So, what price approaches could you take to target a diverse mix of travelers?

PURPOSEFUL DISCOUNTING

Discounting alone is not revenue management. The simplest definition of discounting is a rate that is below the Best Available Rate (BAR). It is not the same as lowering your BAR. For discounting to work, you need to have some sort of qualification or fence in place (ex: a booking window, membership in some group, restrictive payment terms). Travelers are looking for different things. Some want the best value, while others want to be rewarded for committing to a purchase in advance.

DYNAMIC PRICING

Dynamic pricing simply means adjusting rates in real-time as needed, based on demand and supply. When demand increases (e.g., due to a major event taking place in your area), prices typically increase because there are a greater number of travelers, including some who are willing to spend more. When demand decreases, price decreases can sometimes stimulate demand.
Dynamic pricing doesn't have to be time-consuming. It simply means that you change your rates as needed at any time. Look inwards at your occupancy first and then outwards at factors like your competitor' offerings and market demand indicators.

THERE'S MORE TO PRICING THAN YOUR COMP SET

Competitor pricing matters, but it shouldn't be the only thing you use to set rates. Before looking at competitors' rates, look at internal stats like:

- Pickup – how many bookings have occurred in a given time frame
- Pace – the rate at which bookings are made for a particular date
- Position – how you are priced relative to the competition
- Conversion – how often lookers turn into bookers
- Forecasted revenue
- Your costs

Different segments of travelers are willing to spend different amounts. Use your data to figure out when to raise/lower rates for different segments of your business. Then look at your competitive set to determine magnitude (how much to raise/lower).

Benchmarking data like STR can be used in conjunction with your own data to give you more perspective on pricing and inventory decisions. However, much like competitor rates, it is most effective when paired with other insights.

DISTRIBUTION

Once you have your forecast, segmentation, and pricing strategy squared away, the last step is developing a distribution strategy. Hotels have the option to sell rooms through a variety of channels. These channels, both direct and indirect, continue to evolve. Most successful hotels maintain diversity in their channel mix. Channels include everything from the hotel's website to online travel agents (OTAs) and even Global Distribution Systems (GDS).

Distribution is not just about control. It should be about giving more exposure to your hotel on multiple channels. More visibility with consumers is the key to increasing your rates and driving higher profits. Distribution strategy should be a hard focus area for independent hotels, who can use their flexibility and nimbleness to work with multiple distribution partners whenever possible.

OPTIMIZE EVERYTHING

It is tempting to think that your guest follows a linear path to you. That is simply not the case, with the average guest doing 40+ searches before deciding where to stay. Visibility of your product is very important. Searchers have choices, and there is always someone ready to convert them into a hotel reservation.

Leverage everything to drive volume and exposure. Your website, OTA listings, GDS listings, and wholesale strategy all need to be optimized. Every single channel has its quirks, which you should optimize for.

CONCLUSION

Revenue optimization strategy is not limited to big box and brand hotels. At any size, a hotel can implement basic strategies and start learning. Get comfortable with forecasting, segmentation, pricing and distribution strategies. The more you practice, the more you will be able to grow your market share and profits.