

Revenue Management

How revenue management is becoming revenue strategy

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Hotel revenue experts explain how the hotel industry is evolving the discipline of revenue management into one more focused on long-term, companywide strategy.



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NASHVILLE, Tennessee—The hotel industry is undergoing a sizeable shift in how its revenue-management departments operate.

Revenue managers are moving toward setting long-term strategies to maximize their combination of daily rate and occupancy, which means using new tools, creating new culture and getting buy-in from every department.

Hoteliers who participated in Hotel News Now’s Revenue Strategy Roundtable shared their experiences in making the move from revenue management to revenue strategy.

From management to strategy

At one time, revenue management was a discipline in which hoteliers were systems experts, who knew which buttons and dials to push, said Chris Cheney, VP of hotel performance and analytics at Stonebridge Companies. But now, with the introduction of automation tools, the discipline has refocused on strategy.

“How are we going to use the tools in our tool belt to give us the most profit to the bottom line and set ourselves up for success in the future and get the return on investment in a property that ownership is desiring and what they built it for?” he said.

Revenue management in the past has focused mostly on rate management, said Mark Creger, VP of revenue management at Stoney Creek Hospitality. Now that almost anyone can manage rates using the new tools, hoteliers need someone higher up in the company, setting strategy and guiding property-level staff.



The discipline has evolved from just rates and inventory to include channels and now strategy, said Jay Hubbs, SVP of e-commerce at Remington Hotels.

“You’re looking at it more holistically about where you’re getting demand from, how you can price that, how does that layer in with your group component?” he said. “Is that a major thing in your market or for your hotel, or is it something that you’re competing against if you’re a smaller transient hotel?”

Hubbs said he has a smaller transient property that competes against some big-box hotels, so he’ll get compression from them, but he needs to understand what the dynamic is.

“The strategy can be very different depending on how, not just your hotel needs to fill, but also your comp set and your market,” he said. “That’s how you get to a point where you’re looking at overall strategy for your property.”

Revenue strategy is not an activity, but rather an approach, said Lloyd Biddle, director of revenue management systems at Hyatt Hotels Corporation.

“It’s a collaborative approach today,” he said. “It starts with close collaboration and coordination with sales, reservations—all the different aspects—and it all kind of comes together holistically.”

Introducing the culture

Along with figuring out how to start the process, it’s about starting the culture and getting buy-in from the hotel staff, said Johnathan Capps, VP of revenue of Charleston Hotels. He said it’s important to know where to look for different types of expertise when setting strategy. GMs know how their decisions and their out-of-order pattern or renovations impact revenue. The front-office manager knows how they affect revenue when they assign rooms or make changes.

“When you get that buy-in, then there’s not a question of hierarchy,” he said. “Everyone’s working to the same goal, and everyone’s working on the same thing.”

It starts with the strategy meeting, which Capps calls “reading the news.” It’s not the revenue manager’s job to get in that meeting to explain what’s happening. Instead, it’s everyone’s job to speak their part and explain what their department is doing to affect revenue and how they can contribute, he said.

Everyone on staff has to check their egos at the door so there aren’t power struggles during these conversations, and it’s important that short-term performance issues don’t spark unhealthy competition within an organization, Hubbs said. There will be good group weeks and bad group weeks, he said, and there will be days the revenue-management team killed it and weeks or days where it screwed up.

“You can’t have an environment where that team, with the general manager, is constantly sniping each other,” he said. “When you have that, then you don’t have a strategy at all. You have an environment where everyone’s only looking at their own silo and only looking at their piece of the pie rather than saying, ‘Hey, Ashley did a great job with their group this week, that’s fantastic;’ you know, ‘My team didn’t do as much as they could have, and that’s why we missed on the start.’”

There has to be an open dialogue about what people did well, what didn’t go well and how everyone is going to move forward.

“If you don’t have that part of the culture, whether it’s a property or above-property level, then you’re not going to get a real good strategy out of it,” Hubbs said.

Getting started

Hyatt’s first step is its revenue strategic workflow, Biddle said, where the company sets the baseline of business it has on the books to forecast future demand, beginning with group. Hyatt officials look at both definite and tentative group business before examining contract business and guaranteed wholesale.

“That’s kind of your first step in getting your strategy or your workflow started,” he said.

Once hoteliers have that baseline set, they should look at their unconstrained transient demand by gauging events and other market-specific factors, Biddle said. This leads to pricing, so hoteliers should deploy their pricing strategies, which can also affect the group target rates. The next step is yield management and setting the oversell limit.

“But the last step in that process is really kind of the most important: measuring the impact of that strategy,” he said. “That’s where your adherences to budgets, that’s where your RevPAR index changes come in, and then that informs your decision of what worked, what didn’t work, and sets you up for future success.”

Role of technology

Advances in technology mean the data is available in a useful format that provides takeaways immediately, Cheney said.

“We’re no longer in this discipline, spending time trying to find the right information,” he said. “The information is there. We’re trying to decide what it means to our future story.”

All of the available tech and data might not be able to provide what the owner wants to see, he said. There are owners who build hotels with a specific intent, and it’s not always to compete at a fair share within the market.

A lot of the system automation tells hoteliers where a property is landing exactly by segment and by channel and shows where they can press rate, he said, but that might not be enough for an owner who wants to exceed competitors in the market.

“Then we’ve got to look at what the data is telling us and say, ‘OK, this is actionable. Here we can find a little nugget out of a takeaway that we can exploit,’” he said. “But there’s a lot of noise sometimes in the data, too, that just may not apply to us. Because the data got there via intentional strategies that were there for a purpose, and if that purpose has changed, then we have to change our own story.”

Technology has made it easier to collaborate with other departments, which is key to building the new revenue strategy culture, Creger said. Everyone can collaborate on the same document at the same time if necessary.

“It’s no longer a revenue manager in a dark office with a green visor on crunching numbers and then passing that out to the team and everyone has that,” he said.

While technology has a lot of advantages, there is a downside to it, Biddle said. To think technology isn’t rapidly changing the hotel revenue-management function “is kind of short-sighted,” he said.

“Not to sound like a science fiction movie, but hotel revenue management’s kind of becoming a slave to technology,” he said.

Technology and consumer behaviors can combine to create powerful forces that erode rate, Biddle said. Recent consumer news reports have pointed out the practice of last-minute rate discounting, which hotels sometimes employ to boost occupancy for different reasons. Automated systems can react to this, reducing rate, and Biddle said it will only harm the industry if guests are conditioned to book at the last minute to get the best possible rate.

“We’re blindly following this technology,” he said. “You know, the brands, third-party RMS systems—they spent millions of dollars to develop these systems and they may give you these recommendations on the day of arrival to drop rate by \$40, \$50, and a lot of people are following those recommendations.

“I think we need to do a better job of having human interaction with those systems so that we can bring back those tactical decisions to the overall revenue strategy.”

Hoteliers are concerned that revenue-management automation pushes the discipline down the road toward commoditization of the industry, Cheney said. He goes back to the owners’ expectations and what they want to see, which is the return on their investment on something they built in a specific position in the market with a value proposition for the guest.

“Our role now as strategists is how do we get all of the disciplines on board to have a strategy to beat commoditization, essentially, and really get the value communicated to the guest, executed on by operations and get the profitable mix of guests that we really built the hotel for,” he said. “That is kind of what we’re all aiming for now in bringing everybody together to make sure that we’re capturing the value of what owners have invested in the product.”

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