



Effective Revenue Management in the Hospitality Industry

White Paper



Effective Revenue Management in the Hospitality Industry

White Paper

Disclaimer

The information and opinions in this document were prepared by EyeforTravel Ltd and its partners. EyeforTravel Ltd has no obligation to tell you when opinions or information in this document change. EyeforTravel Ltd makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. In no event shall EyeforTravel Ltd and its partners be liable for any damages, losses, expenses, loss of data, loss of opportunity or profit caused by the use of the material or contents of this document.

No part of this document may be distributed, resold, copied or adapted without prior written permission from EyeforTravel Ltd.

© EyeforTravel Ltd. 2013

EyeforTravel Ltd is a registered company in England and Wales - Registered Number 06286442. 7-9 Fashion Street, London, E1 6PX, UK

Author

Morag Cuddeford-Jones

Editor

Carlos Márquez Salazar
carlos@fc-bi.com



Acknowledgments

EyeforTravel would like to thank the following individuals and organizations for providing inputs for this White Paper.

Josep Bernat, Chief Revenue Officer, Odigeo

Tom Botts, EVP and Chief Customer Officer, Denihan

Jeremie Catez, Regional eCommerce Manager, Novotel North America

Ash Kapur, Vice President Revenue Management, Starwood Capital Group



Overview

Technological innovation and the increasing importance of digital are creating a shifting consumer landscape for the travel industry. Not only is there disruption in how customers choose to research and interact with travel brands but traditional purchasing behaviors are evolving. Revenue managers are having to look afresh at their modeling to improve outcomes. For example, assumptions about last-minute pricing are being challenged as a surge in use of the mobile channel reveals a shift away from price-sensitivity and towards convenience and availability.

Reliant on volumes of customer data to make accurate revenue predictions, revenue management systems (RM) should be enjoying the start of a halcyon period. Yet fewer than 20% of North American hotels use them.

The reasons behind slow RM implementation are as varied as the hotel industry itself. In many ways, the highly fragmented nature of the North American hotel sector is to blame. Sole operators with wafer-thin margins simply do not have the capital or experienced executives to implement such a system. Other hotels benefit from umbrella group brands and yet are still considered lone operatives, responsible for their individual revenues. For those who do benefit from centralized operations within the group brand, organizational silos prevent the seamless flow of information and expertise across departments that is needed to optimize RM outputs.

Hotels whose structure and financing allow for RM implementation face further hurdles. The emergence of much more detailed customer data from digital channels in particular is undoubtedly a boost to their RM strategies. However, the vast array of channels delivering this information results in data that is duplicated, inaccurate and confusing. Far from delivering a clearer picture of future customer journeys, 'big data' is obscuring it.

This white paper draws on information exclusive to Eyefortravel regarding executive's opinions on customer channel choice as well as data from travel customers themselves revealing channel choice and booking behavior. This is supported by interviews with key executives within the RM space, highlighting the challenges they face and how they propose to address these. This white paper will reveal where the future of RM lies and what travel executives need to consider now to maximize its returns.

The Challenges for Revenue Management

Revenue management systems (RM) when deployed correctly have been proven to directly generate a 5-10% uplift in sales. Its limited adoption so far indicates there are a number of challenges yet to be overcome before it can fully demonstrate its worth to a wider audience. Of these, there are five key elements that must be considered:

- Return on investment
- Clean data
- Strategic insight into the use of that data
- Organizational consensus
- Constantly changing customer landscape

Return on investment

Of the five elements, the first and simplest to address is that of return on investment (ROI). RM systems present a fixed cost to the hotel. While this varies depending on supplier and level of technical sophistication, it can be measured against the potential returns it might deliver – the 5-10% mentioned above.

That said, smaller hotels with lower potential revenues are not excluded from benefiting from RM. Access to RM is one of the attractions of becoming part of a larger group and should be a point of consideration for any hotel director when considering joining such an alliance.

As will be discussed later in this briefing, access to such a system is not the only consideration as RM works best when its variables are tailored precisely to the property involved. A 'vanilla' RM solution covering a variety of diverse properties serving differing customer groups may be worse than none at all.

Clean data

It is a common complaint from travel brand marketers that they don't need more data, they need insight. The multichannel environment has undoubtedly increased the volume of data available to travel brands and looks set only to increase as channel owners, particularly those in the social sphere, look to emphasize the benefits their increasingly deep profiling can provide.

But for useful insights to be drawn, work still needs to be done on the raw data. Specifically the high volume of inaccurate data swirling around customer files. There is an abundance of clean data available – data emerging from transactions and travel partners such as airlines where accuracy is a result of tight controls (passport and financial data being two of the most likely to be correct). However data supplied by the customer or gathered in by person to person contact must be examined more carefully.

Ash Kapur, Vice President, Revenue Management, Starwood Capital Group insists: "Clean data is the challenge from the get-go. Strong revenue management can provide codes and market segments that are clean but there is still a struggle. Front of house staff under pressure are often required to fill in data from guests' passports but, when faced with a line, are tempted to check the first entry on the list. We seemed to have an awful lot of guests from Afghanistan."

Data arising from location-based services or historical purchase activity can be indicative of customer behavior but is not guaranteed accurate. Purchases can be made on behalf of others, location-based data from mobile phones can be wrong simply by dint of another party borrowing the device. But these are elements over which the travel brand has no direct control.



Person to person contact can however be more tightly managed. The check-in process remains central to the revenue manager's ability to garner data. In a digital age, there is a temptation to ascribe more importance to automated information than personal interaction and yet the latter is where the detailed information so critical to determining customer preference can be found.

Revenue managers will have to work with both their human and technological resources to ensure clean data can support their RM strategies.

Strategic insight

Eradicating contaminated data is critical to providing a strong foundation on which to run RM programs however the correct oversight is also vital if systems are to deliver the desired outcome.

Tom Botts, Denihan's EVP and Chief Customer Officer notes that some providers are moving in this direction. "We partnered with Duetto and are in the process of rolling out its strategic RM system. We chose it for a couple of reasons: We wanted a more analytical, systemized approach that was more sophisticated than spreadsheets and we needed additional control. The system lets us observe how decisions are made across the company and means we are able to bring in new thinking and new ways of doing things."

"The main issue is that most people are using a RM system that was designed 50 years ago. You didn't have as much data or the facilities that we have today," Bernat states.

Revenue managers have to understand the importance of flexibility and supplementary information that will inform how they interpret the financial data delivered by RM systems. Increasing availability of real time data means managers must decide what are the critical pieces of information to focus on and ensure any systems or processes they use are able to deliver them in a timely manner.

"You need to know the limit of the machine," Odigeo's Bernat states. "The question on the table is 'what is the long term strategy?' You need to understand that there are some things the computer cannot know."

Skilled people also have to have the capability to combine these inputs with information not so easily

incorporated and much more situational such as the impact local events and external macro influences such as economic conditions will have on their business.

For companies questioning the value of investment in RM systems, the realization that such investment must be supported by a dedicated strategy and suitably skilled staff resource can prove off-putting. This is particularly the case when previous attempts have not incorporated a joined up approach between strategic RM leadership and technologies, leading to the belief that RM systems do not deliver the value against cost some resellers claim.

Historically, RM has been a long sell, as it's been challenging to prove value is created by the tool and not just a competitor having a bad day.

It's clear that an approach that brings together the latest in technology with usability in an RM system, would go a long way to alleviating such doubts.

Organizational consensus

The lack of joined up approach has been central to the lack of uptake of RM systems to date. The North American hotel sector is highly fragmented. From geographic location to segmentation to internal structure, there are a number of hurdles that RM must overcome to be deployed seamlessly – and effectively.

Even within groups that enjoy centralized marketing, sales and revenue functions the need for inter-departmental cooperation for effective management is still a struggle. At the C-suite level, RM is viewed as a cost that has yet to prove significant returns, a Catch-22 situation where it must be run well and widely to prove its worth yet in many cases, hotels' internal cultures need to change for this to happen.



Changing consumer landscape

Perhaps the biggest challenge for RM systems is the constantly changing consumer landscape. The multichannel environment is presenting two distinct problems:

- Data
- Purchasing behavior

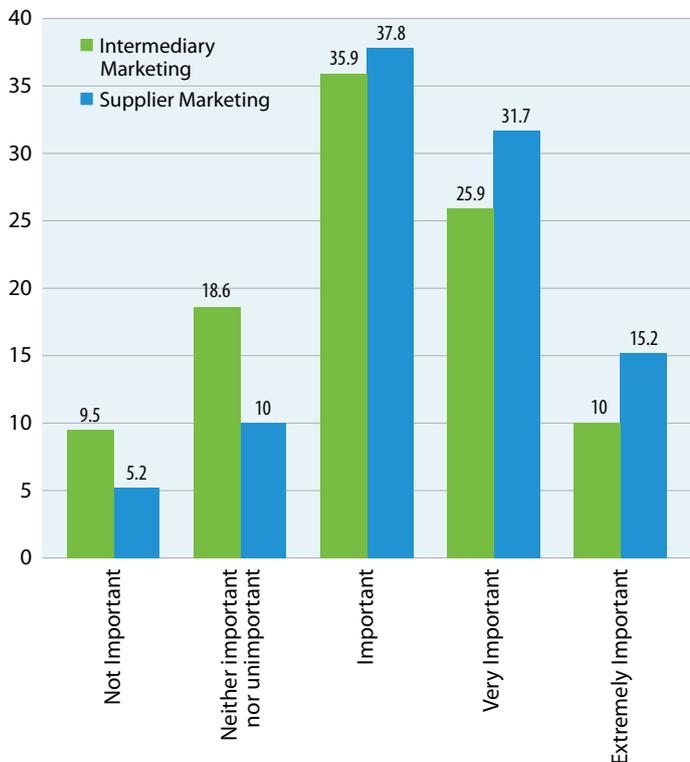
Data is a challenge, as mentioned above, simply because of the volumes the multichannel environment produces. As mobile accounts for 20% of travel transactions (eyefortravel, 2013), the volume of data needing to be analyzed and processed has also grown. While an increase in social media interactions is yet to generate a significant rise in bookings through this channel, it already provides

a wealth of information about location, preference, customer segment and advocacy (see figure 1).

As a result, RM systems need to not only process more data but data of different types from a wide variety of sources, often in real time. The burden on less flexible systems is great and their ability to process such an abundance of information is limited. This is then transferred to revenue managers who are faced with a growing number of daily reports that they are unable to analyze meaningfully or rapidly.

Purchasing behavior is also evolving, creating entirely new customer segments and windows of opportunity. Both managers and RM systems are having to frequently reassess their pricing strategies in line with these new customer paradigms. Mobile again is driving a large portion of these new behaviors, particularly in

Figure 1. Using social media as a marketing tool, June 2013



Source: EyeforTravel Supplier and Intermediary barometers, 2013; "how important has the social media channel been for your organization in the last three months? Please rate on the scale below against each of the following:" 455 respondents

(eyefortravel, 2013)



Table 1. Devices and websites customers are most likely to use to make a last-minute booking

	1 week before	2-3 days before	1 day before	On the day	Never	Responses
Travel provider on a desktop computer	57.6%	13.1%	3.9%	2.5%	22.9%	15,176
Travel agency on a desktop computer	53.0%	15.7%	4.4%	2.1%	24.7%	15,173
Travel provider on a tablet computer	45.6%	13.8%	5.3%	2.6%	32.7%	15,168
Travel agency on a tablet computer	45.0%	13.4%	4.5%	3.1%	34.0%	15,169
Travel provider on a mobile	43.9%	12.7%	5.7%	3.5%	34.2%	15,168
Travel agency on a mobile	43.6%	12.8%	5.3%	3.5%	34.8%	15,167
I would call the travel provider personally	47.8%	13.2%	6.7%	4.9%	27.3%	15,169

Source: EyeforTravel consumer research in association with WAYN, May 2013; "On which device and website are you most likely to make a last-minute booking?" (eyefortravel, 2013)

the last minute segment where it is much more the transactional channel of choice than in longer term travel purchases (see table 1).

Pricing strategy itself is being impacted by multichannel as online travel agencies (OTA), metasearch and price consistency begin to affect how hotels target customers. Discounting is no longer the preserve of the last-minute segment, indeed often this customer is happy to pay a premium for convenience and choice.

Revenue management systems in the future will not only have to accommodate large volumes of data and process them in an easy-to-manage format for revenue managers but will have to be flexible enough to take into account changes in consumer behavior as purchasing trends remain in a constant state of flux.

Revenue Management in Action – Case Study: El Cortez Hotel and Casino

An example of revenue management adapting to the shifting consumer paradigm is El Cortez Hotel & Casino in Las Vegas. After the economic downturn in 2008, casino revenues were struggling. Far from being a temporary blip, the downturn had permanently changed the way casino customers were spending and the business needed to adapt.

The system

Working with revenue management consultants, El Cortez's strategy was to generate incremental cash business through transient and wholesale channels.

The hotel installed Duetto's cloud-based revenue management system (RMS) that delivered market intelligence, forecasting, pricing recommendations and historical data comparison. Using an alerts feature, key dates were flagged up, a process often missed in traditional RM systems.

To understand shopping behavior on a daily basis, the RMS tracked a JavaScript tag on the hotel's booking engine that monitored lost business. As a result, the hotel could then assess how a day's pricing strategy impacted the website's booking conversion rate.

New pricing approach

With more dynamic pricing the hotel was yielded much more frequently however pricing wasn't just increased across the board. Data from the RMS revealed that lower room rates were required midweek to be more competitive while prices could be raised during certain high pressure periods. Its discounting strategy was also reassessed, critically removing them during periods where the hotel could achieve capacity without them. Discounts still ran through third parties, generating exposure and the cash average day rate (ADR) rose 10% with an average occupancy rise of 6.3%.

Novotel's regional ecommerce manager, Jeremie Catez, notes that the move from rates to price elasticity is a key component of the new revenue management paradigm: "Everyone is talking about rate but we could do better with price elasticity. What is the customer's behavior if we lower the room by 10 bucks? How we can measure this is also a critical issue."

El Cortez also used the RMS to identify customer segments within the casino, noting that the lowest worth player segments were receiving complimentary or discounted cash rooms that were unprofitable. The result was a standardized casino yielding process that included variable casino cash and comp pricing. The hotel's occupancy by casino players was lowered, freeing these rooms up to be marketed to more profitable paying guests.

The hotel's ability to remain competitive had been affected by its attitude to price consistency and overselling. Until deploying the RMS it had failed to maintain consistency with OTAs driving custom away from direct sales and incurring 25% commission margins. In addition, its cheapest room rates only accounted for 10% of inventory and once sold, rates increased by at least \$10 making El Cortez less attractive in the price sensitive downtown Las Vegas market.

To solve both these issues, the RMS ensures price consistency with OTAs increasing direct room night sales by 10,000 or 130% and instituted a policy of limited overselling of cheaper rooms during non-critical occupancy periods. Having solved its price consistency issues, El Cortez actually extended its OTA network to extend its reach to new customer bases.

The strategy has delivered a cash revenue increase year on year of more than 30% in the first seven months of 2013.

Table 2. Key Performance Figures at El Cortez after RM Strategy Overhaul

YoY Change (Jan - July 2013 vs. 2012)		
	Number increase	% increase
Cash room nights (1)	7,122	18%
Direct room nights (2)	9,975	130%
Cash ADR		10%
Occupancy		6.3%
Cash revenue		30.1%

Source: Duetto

Having proven the utility of the RMS by modifying existing pricing strategies, El Cortez's next phase is to extend the program's reach. The three main areas it hopes to exploit are:

- Customer lifetime value
- Increase ADR
- Enhance digital presence

Customer lifetime value – by calculating the total patron worth by customer through all revenue centers including gaming and non-gaming, their profit contribution can be integrated into future revenue management decisions.

Increase ADR – using a dynamic room pricing by day for upgraded room types and promoting upgrades during the guest experience. Internal resources and hotel partners can be deployed at four stages: Pre-booking through offers; at the time of booking; post-booking and at check-in.

Enhanced digital presence – Expanding the hotel's social media presence and using it for targeted marketing as well as managing online content and managing reviews through OTAs and TripAdvisor.

The future of revenue management

To ensure the success of revenue management strategies, hotel owners must be both convinced of its ability to deliver return on investment as well as made aware of the resources required to maximize its potential.

Significantly, hotels need to ensure that their organizational structure supports a revenue management policy. While wholesale reorganization is not required, there must be a cultural understanding that core departments such as marketing, sales and revenue work together to share information critical to RM success.

“The way companies were organized is dead. Today, if I change the price, it affects marketing and production’s bottom line financials. I need to know what the impact will be and I need that answer immediately. New systems give you that vision,” Bernat reveals.

Denihan’s Botts notes that movements are being made in this direction: “We’re working on combining marketing, sales and revenue management all under one leader who has an overall understanding of these things. A common decision-making platform is critical. That doesn’t exist today in many cases and it’s going to have to change.”

A clean data palate

As multichannel puts a much greater focus on data, hotels need to be able to manage their information well. This means investing significantly in data cleansing, without which RM predictions will be at best inaccurate. The single customer view is a pressing issue in all sectors, not just travel, and brings with it questions of data protection, management and storage. Hotels will be looking to RM systems providers for assistance in identifying and managing the most beneficial streams of information.

Starwood’s Kapur notes: “There’s a lot more comfort now in knowing that we don’t need to drop rates last minute because we know there’s a segment that books on mobile.”

The ability to bring together and meaningfully analyze quantitative and qualitative data is a necessity as the influence of social media and user-generated content such as reviews are recognized to impact customers’ decision-making processes more than price differential in many cases. Interviewees for this report noted that few RM systems are able to bring these two streams of information together effectively but those that do are creating demonstrable gains (see El Cortez case study).

“If one day we can mix data streams and have CRM and loyalty and customer information in the same system, it will be fantastic,” Catez predicts.

Minimal information, maximum effectiveness

The outputs generated by RM systems are no less voluminous and revenue managers interviewed for this briefing noted that reporting was becoming a critical issue.

Novotel’s Catez notes: “You can’t expect one human to look at 25 reports. The reports are no longer fresh by the time the managers get around to them. The world is quicker and a lot of these things, even Twitter for example, influence the pricing.”

To deliver truly effective RM support, systems providers must work to minimize the outputs managers have to analyze on a daily basis. The risk of ‘information paralysis’ is otherwise too great. The rise of the last-minute segment along with booking services active 24/7 means dynamic pricing is no longer a 9-5 job and profitability will be increasingly dependent on the manager’s ability



to make swift decisions from timely and easily-digested information.

Successful RM providers will be those whose systems are robust enough to not only aggregate data from various customer touch points, across multiple channels and different points in the customer journey – but to make it usable and accessible to managers at all times. The growing ability to host RM systems in Software as a Service (SaaS) or ‘Cloud’ technology will greatly increase managers’ ability to use dynamic pricing and react to real-time changes in the marketplace.

An industry evolution

Technological advances have proven both a boon and a bugbear to revenue managers. As customers make use of all the channels and devices available to them, the tsunami of data provides tantalizing opportunity but also demands a great deal of resources to derive benefit from it. But hotel managers should look at using the same technologies to support their RM tools.

“We’re asking our partners to get on the same technological page. Some are better than others. We still have wholesalers faxing reservations and systems not processing them in real time. We need to have an overall understanding about what the connectivity strategy is for partners,” Botts insists. Indeed, the ability to keep up with real-time RM systems may prove a clincher for working partnerships in the future: “If they’re not willing to participate in a realistic format, is that something the industry should be participating in? I hope others are pressuring their partners to keep up,” he adds.

From a data cleanliness perspective, introducing mobile check-ins removes pressure from front desk staff to gather the detailed, accurate customer data required for one-to-one pricing strategies that will ultimately become possible. However Kapur cautions: “In some cases technology has helped for pre-check in and getting guests to enter in their data but I still think getting clean data in general is the fundamental problem.”

From a marketing perspective, the ability to use data to market through social channels, while not currently a strong distribution channel, will become critical to enhancing reputation and market position.

Revenue management systems must evolve to keep pace with hotel needs however hotels themselves must also evolve to maximize the potential revenue growth that these tools can provide.



References

eyefortravel (2013) Social Media and Mobile in Travel Distribution Report: Online strategies, consumer and industry trends 2013. London: Eyefortravel.