How to drive profit-minded revenue management

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While many strategies revolve around the bottom line, the key to driving profitability starts at the top with revenue management.

Highlights

- While the same RevPAR can be achieved under a variety of occupancy and rate combinations, the resulting profitability can vary considerably.
- Focus on cultivating long-term business with repeat potential and "core" guest segments.
- A RevPAR index may be a useful barometer, but strategy should always prevail.

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Hotel asset management is an exercise in balancing ownership investment returns within the practical realities of the operation achieved by monitoring performance and implementing strategies to optimize bottom line profitability.

So naturally, that is where we start, at the bottom, asking what is the best strategy to yield the most profitable (and sustainable) outcome.

While the strategy revolves around the bottom line, the key to driving profitability starts at the top with revenue management. Enhancements to revenue management tools and technology have been matched steadily with new complexities such as more channels of distribution to manage, the impact of user generated content, increased transparency in pricing and numerous commission structures to evaluate.

While we must trust the revenue management expertise of our operators overseeing day-to-day decisions, there is an underlying strategy that must be developed to ensure budget and investment goals are achieved. Outlining profit objectives is a healthy dialogue for asset managers and/or owners to have with operating teams so all parties are aligned toward a common goal.

The following are some key factors to consider when coming to a consensus on a profit-minded revenue management strategy:

Not all RevPARs are created equal
Intuitively, a rate-centric strategy is most profitable. Yet as an industry, we have not been very good stewards of rate preservation and growth over the past 10 years. Recognize that while the same revenue per available room can be achieved under a variety of occupancy and rate combinations, the resulting profitability can vary considerably.

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While this concept is certainly not new, it bares more relevance today than ever in light of stabilizing demand and rising operating costs. Simply stated, increases in occupancy equate to increases in revenue and expenses (given the variable cost of an occupied room). Incremental rate equates to increased revenue without additional costs, thereby presenting an opportunity for generating a greater profit.

Testing and gaining consensus around the optimal mix of occupancy and average daily rate will empower the operating team to make sound revenue management decisions and is the first step toward developing a strategy that addresses profitability goals.

Get granular
Armed with the knowledge of a hotel's optimal RevPAR composition, it's time to get granular, revisiting strategies, targets and pricing by segment, channel, season, day of week and room type.

What works on weekdays may not work on weekends. The guest who comes in January may be different than the guest who visits in June. Understand that simply "discounting" is not a strategy for driving long-term demand. There needs to be other measures in place to create value and attract the right guests to fuel the bottom line.

Focus on cultivating long-term business with repeat potential and "core" guest segments based on the hotel's positioning. Challenge your operating team to identify these opportunities by season and set specific targets to maximize profitability at varying times.

A word about indices
Competitive benchmarking is a natural and common practice used to assess a hotel's relative success in achieving, and hopefully exceeding, fair share of occupancy, ADR and RevPAR.

In a perfect world, all hotels in a given competitive set would be the same size with the same mix of business and the same laser-focus on growing ADR, allowing for a fair and direct comparison. The reality is that this is never the case. There are a host of external factors that drive decisions and performance of a particular grouping of hotels.

An index may be a useful barometer, but strategy should always prevail. It is also natural to experience some fluctuation in RevPAR index, especially as savvy revenue managers look to restrict certain segments in light of higher-rated business as they push the rate envelope.

Encourage the team to adopt a "lead" over a "follow" mentality. Get comfortable that a loss in a few points of occupancy at the expense of growing rate may not always improve a hotel's RevPAR index, but it will drive profitability.

Further complicating this issue is the fact that RevPAR index targets are often viewed as "fixed" and may be tied to performance tests within management agreements developed over a decade ago. Owners must ensure the operating team allows the strategy to drive the index, rather than the index driving the strategy.

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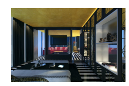
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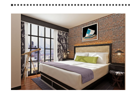
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distribution channels that provide access to a variety of new customers, while also creating opportunities to drive as much direct business at the lowest cost.

The landscape of distribution is ever-changing as are the rules and more importantly, the cost, comprised of third-party commissions and hotel spend on Web optimization and pay-per-click advertising. Toward this end, a significant investment has been made in recent years by several of the major brands to share-shift business away from third-party sites. While commendable, given the newness of these programs, this makes it increasingly more difficult for owners to attribute a true "cost" of business acquisition, let alone anticipate expenses in this area.

Operating teams not only should understand the revenue potential by business segment and channel but also the profit potential. This then becomes the basis by which strategies can be developed to drive bookings from the most favorable and appropriate channels with an eye toward the bottom line.

Mind the market

Having a strategy is imperative, yet the shelf life of any given strategy is closely tied to market conditions and must constantly be re-evaluated. Operating teams need to be nimble to make adjustments to leverage new opportunities and mitigate external threats.

Revenue management has, and continues, to evolve in both practice and philosophy. The real thought leaders in the industry are touting Total RM (total revenue management), a practice which transcends the rooms department and looks to make business decisions based on profit contribution from all revenue streams. This is the future of hotel profitability and the direction operators should be heading in order to be competitive and deliver investment returns. Until then, owners must continue to collaborate with operators to ensure revenue management strategies are developed with the bottom line in mind.

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