The Ultimate Guide to Hotel Revenue Strategy

In this comprehensive ebook, learn how to navigate the hotel landscape, from core revenue management principles of segmentation and forecasting to the emerging discipline of Revenue Strategy and the breakthrough concept of Open Pricing

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Appendix: Revenue Strategy Glossary

1 Introduction

## 1.1 Introduction to Revenue Management

By now you're familiar with revenue management and what it means for the hospitality industry. But is that definition the same as it was five years ago? More importantly, do you think revenue management will work the same way in five years — or even just one year from now?

Most likely, the process for optimizing demand and revenue will only get more complicated, especially as hotel groups get better at collecting and analyzing all the available data that goes into the customer's decision on where and when to book a room. The information can be overwhelming. It includes everything from historical data, to web shopping statistics from your website or from online travel agents, to what's being said about particular brands on review sites and social media. Every change in any category affects demand for a hotel room.

Revenue management goes a long way toward making sense out of all that data and dynamically pricing rooms to put the most heads in beds and the most money in the bank.

But as consumer expectations and behaviors change with new distribution channels that emerge every year, hotel and casino groups can't keep up merely with a revenue management mind-set. Your guests have learned to shop for deals on OTAs like Expedia and Priceline over the past decade, and tech giants like Google are trying to muscle into that space as well. Newer threats are popping up constantly in the "sharing economy," where Airbnb has become the dominant alternative to traditional hotels.

Hoteliers must expand their thinking toward a broader Revenue Strategy, which encompasses more than just manipulating room rates from a common benchmark like the Best Available Rate. Revenue Strategy incorporates the latest technology, in particular predictive analytics, and pulls in far more economic and consumer data to help hospitality companies segment their customer base, forecast demand, price room rates dynamically and manage an increasingly complex landscape of distribution channels.
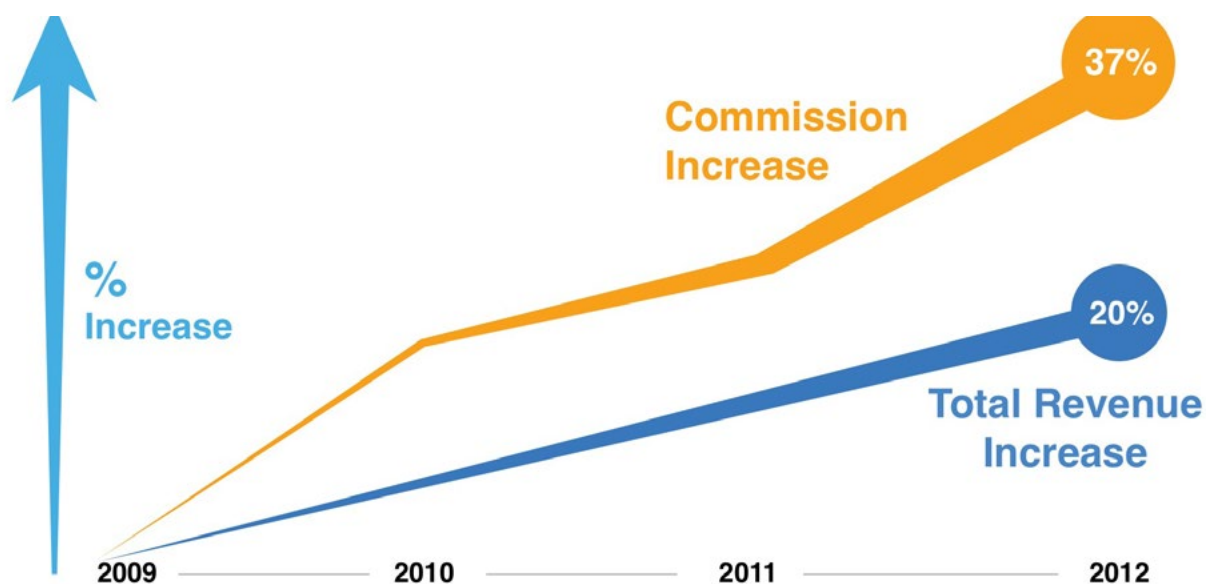
From 2009 to 2012, commissions hoteliers paid to third-party distributors like OTAs rose at nearly double the rate that hotels' revenue increased.

Absent a comprehensive strategy for optimizing revenue in this environment, hotel groups will be thrust into a race toward the bottom, competing solely on pricing and discounting, while forking over larger commissions to OTAs. Guest service always suffers in this scenario.

This book aims to teach hoteliers how to transcend revenue management and to adopt true Revenue Strategy, in which brands are open to all avenues for converting every shopper into a satisfied guest — and for stealing share from competitors still locked into old ways of thinking.

1.2 Hospitality's Slow Embrace of Revenue Management

The hospitality industry was slower than others, particularly airlines, to adopt revenue management. Marriott International was credited with starting the movement within hotels in the 1990s, using historical data on room rates to start dynamically pricing rooms for certain peak booking dates. The reasons behind the slow implementation of revenue management are as varied as the hotel industry itself.

In many ways, the highly fragmented nature of the hotel sector is to blame. A hotel can be owned, operated, branded and asset managed by four different entities, and needing that many decision-makers on the same page can be a major roadblock to innovation. Even at properties that do benefit from centralized operations within a group brand, organizational silos at that parent company may prevent the sharing of information and expertise across departments needed to make revenue management work.

Another obstacle has always been the technology powering the industry. Hospitality has lagged in this area and suffered from tremendous fragmentation among the different systems needed to run a hotel (property management, central reservation, customer relationship, revenue management and channel management, to name just a few). Cloud-based technology is driving innovation and consolidation, making deeper integrations possible among those core systems. More, and better, data is available today and more easily shared between systems and across the enterprise.

Most hoteliers now have some staff dedicated to revenue management, and most continue to make any possible technology upgrades with this in mind, even if their cash flow is constrained. By upgrading from an on-premise provider or a Microsoft Excel spreadsheet to an automated and cloud-based revenue management system (RMS), most general managers or revenue managers are better able to control inventory, staff the right amount of employees and market their hotel to the right audience.

But customers are also more plugged in than ever, and they use new sources of information like social media, review sites and search engines to educate themselves on what hotel rooms are in supply and what competitive prices look like. The good news for hoteliers is that they can use these same tools to understand how they compete with other hotels. Moreover, accessing more detailed customer data from digital channels is a big help to revenue management strategies. The bad news is that these dozens of new platforms may be delivering data that is duplicated, inaccurate or just confusing due to the sheer volume. Sometimes, "Big Data" obscures the picture of the customer's journey instead of clarifying it for hoteliers.

1.3 Addressing Doubts About Revenue Management

So it is understandable when hotel groups struggle to establish the potential return on investment for an RMS. Skilled managers not only understand the numbers coming back from an RMS but also know the context of important local influences (such as conventions and area events) or macroeconomic conditions (like a pickup in business travel) that affect demand. However, the realization that a costly technology investment also requires significant human resources can prove off-putting for hoteliers. That is particularly true when their previous attempts at revenue management did not combine the technology upgrades with the recruiting of revenue management leaders and professionals.

A hotel's next RMS needs to process more data from an ever-growing number of sources, often in real time. With less flexible systems unable to keep up with the torrent of information, revenue managers become overwhelmed with countless daily reports, which they're unable to analyze quickly or meaningfully. If those managers are too overloaded, they fail to recognize new customer segments and new selling opportunities that arise every day in the hotel industry. Their pricing strategies fall out of favor as a result.

Consider for a moment how mobile web browsing on smartphones is driving many of these new customer behaviors, especially in the last-minute booking space. Would your revenue manager be prepared to address this if she can't get out from under her dozens of tabs on her go-to Excel spreadsheet?

1.4 Enter Predictive Analytics

Progressive RMS providers are answering this challenge with predictive analytics. As the name suggests, the aim of predictive analytics is to look forward. Traditionally, hotels have looked backward at static numbers of bookings, room rates and revenue in order to predict the future. But analytics have changed the game by observing standard industry data differently and bringing in new information sources to provide a fuller picture of demand and, subsequently, more accurate forecasts, higher rates of conversion and prices optimized for the most revenue.

The math is similar to the algorithms used by online retailers like Amazon, which can infer peaks and troughs in business days, weeks and months in advance and then take action. The ultimate goal is to manage future demand, target specific markets and reach the right consumers at the right times in order to convert every potential shopper into a confirmed guest.

In the past few years, RMS providers have been able to pull in not only data from a hotel's existing property management system, but also third-party data and related information like weather and air travel data. Ratings and review data also are becoming more robust and quantifiable. Perhaps some of the most important information to be integrated is web shopping data that gives a hotel group insight not only into its customers who did book and stay at their properties, but also into the potential customers who decided to stay elsewhere.

Predictive analytics are not the only facet of a successful Revenue Strategy. (After all, the Oakland A's popularized the use of analytics in pro sports in "Moneyball," but they have yet to win a World Series this way.) The hospitality industry has its own unique challenge in using data because of the way cancellations and no-shows skew conversion metrics. But continually striving to pull in more data from more sources in order to refine how dynamically hotels can price their rooms surely will position hotels to succeed now and in the future.

In addition, predictive analytics can be used in any area of hotel operations, not just for setting rates. Like the number of hotel rooms on a busy Saturday, many other things offered at hotels sell from a perishable inventory, meaning the same supply and demand rules a sophisticated RMS can apply to room rates can also be used for restaurant meals, golf tee times, spa packages or meeting spaces. Integrated resorts can use predictive analytics to promote and price a wide range of ancillary services. Even better, the ability to dynamically price amenities can affect how to price the room of a certain customer segment or individual hotel guest. If the revenue manager at a resort knew, for example, that a frequent guest often books a round of golf with his wife and a spa treatment for his daughters, the hotel could offer a special loyalty discount on his room or suite, knowing that more revenue and profit would come back to the hotel from the guest's higher out-of-room spend.

1.5 Where It All Leads: From BAR to Open Pricing

As this book will show, the change in mind-set from revenue management to Revenue Strategy, along with a hotel's buy-in on the use of predictive analytics, leads to a comprehensive pricing philosophy of Open Pricing, which ultimately maximizes net revenue and profit. Open Pricing is defined as the ability to price all distribution channels, segments, room types and offers independently of each other to maximize revenue without ever having to close any of those avenues off.

It is a flexible, responsive system that ensures a hotel never has to say "no" to a guest able and willing to pay an acceptable rate for a hotel room. In Open Pricing, rates are always open yet priced right for the demand of the booking period. Discounts are not strictly tied to BAR but can be flexed depending on demand, even if it means only a 1% discount off BAR for a peak day.

This book will go into greater depth and detail in the chapter on pricing, but as an introduction to the concept, suffice it to say that Open Pricing is the strategy that allows hotels to benefit from the opportunity to convert all shoppers into booked guests. It also gives hospitality brands the foundation to better manage what rates they push through OTAs and other distribution channels.

But first, in subsequent chapters, this book will start with the proper ways to segment a hotel's clientele and to forecast demand, then move on to strategies for pricing and distribution.

2 **Segmenting**

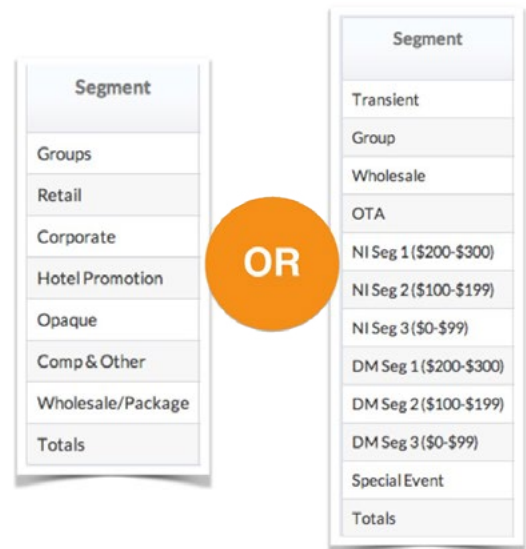## 2.1   **2.1 Introduction to Hospitality Segmentation**

The Economic Times defined "segmentation" as the practice of "dividing the marketplace into parts, or segments, which are definable, accessible, actionable and profitable and have a growth potential."

Hoteliers can't forecast or yield without first breaking down their business. New revenue management systems must be able to create multiple sets of segments so that data can be tailored to fit the needs of different departments for reporting and forecasting. More importantly, the RMS must be able to change and reformulate those segments and allow for the historical data to be remapped. In an antiquated RMS, changing the property's segmentation invalidates the history and creates a scenario for the revenue manager like she is opening a brand new hotel.

Segmentation is the critical first step to all facets of revenue management that many hotels don't get. But when they are able to put together customer groups that behave similarly or distribution channels that have similar acquisition costs, it gives them a clearer picture of which lines of business account for the greatest mix of bookings and profit.

Similarly, if a hotel relies more heavily on one kind of customer sector — like a convention center hotel dependent upon group rather than transient business — or one kind of distribution channel, like OTAs, segmentation can subdivide those things into far more helpful groupings.

Some hospitality groups already invest heavily in redefining segmentation that they are looking ahead to the potential for one-to-one marketing and more advanced revenue management via lifestyle or behavioral segmentation. But before sophisticated revenue strategists are off and running with high-end segmentation, it's important that they walk through basic segmentation and understand why it is the foundation for sound revenue management and eventual Open Pricing.

2.2 Native Segments

Start by looking at native segments, which are the different ways your hotel's business can be broken down to a fundamental level. For example, one native segment might be a booking channel, whether it's the hotel's website or call center, or an OTA. Perhaps it is a customer grouping, such as a group with a corporate-negotiated rate, like an airline flight crew staying overnight at the airport hotel. These options can be narrowly defined building blocks that make up larger segments, and they can and will vary by property.

Wherever distinctions can be drawn, native segments can be identified. For instance, by customer type, there is group business versus individual travelers, leisure versus business travelers, weekday versus weekend travelers. Individual distribution channels make up their own native segments, such as a global distribution system used by a travel agent, a hotel brand's website, or an OTA.

In many cases, these native segments are grouped together into yielding segments. For example, the property's website and call center can and usually are joined with the general OTA channel to form what's commonly called the "transient segment." These could be yielded together as a larger group because, at some hotels, these prices might all be set to the same publicly listed BAR rate.

2.3 More Segments Mean More Insight

Each individual hotel has its own appropriate mix of yielding segments and native segments. While many properties find the "transient" segment described above as a useful yielding segment, some other hotels might want to break out every single native segment within it individually and yield them separately. It comes down to how much business each native segment produces. If each contributes a significant amount of bookings, absolutely they could be yielded individually.

In general, the more groupings revenue managers have before them, the more options they have for pushing different room rates or offers, letting them maximize each piece of the business with a price that will generate more revenue and profit. Perhaps a hotel brand knows that the majority of its bookings come from the dozen or more OTAs it uses. Then it would make sense to segment each OTA as a native segment and each OTA type — be they package, opaque, or general OTA merchant and agency — as yielding segments.

There are countless ways to put channel or customer groups together and just as many ways to slice groups into narrower elements. A few common examples are to segment by psychographics (people with the same booking behavior, people in loyalty programs, etc.), by geography or source markets, or by age group (Millennials versus Gen X or Baby Boomers).

Group sales also can and should be segmented according to what reasons bring them to the property for a stay, especially if for events, like a citywide convention or a sports contest. For instance, a hotel in Jerusalem might have religious pilgrims as a native segment, and that group might produce a steady flow of guests year after year. But some other groups might only be booking this year for a major event that won't recur in the market, like a political convention that will rotate to another city four years from now or a visiting team's fans in town for a playoff matchup that won't repeat next season. In every case, you want to compare expected demand against what's in the hotel's forecast, and that forecast should be based in large part on the calendar of local events.

2.4   Segment By Booking Channel

Breaking down the business into the different ways customers book rooms is important not only for the revenue management department's pricing strategy, but also for the finance and marketing departments' evaluation of the hotel's distribution structure. Who are these guests, how and where are they booking, and how should that affect hotels' pricing strategies? Is there a difference among those people coming from OTA sites, including both package and opaque? Or those coming from a hotel's website and its call center? What other ways are customers booking your hotel?

Ultimately, the more a property can diversify its sources of guest bookings, the better it can segment its clientele and offer compelling value to individual guests or groups. The greater flexibility a revenue manager is given, the more revenue she can manage.

It's important to think about two things in particular when grouping channels to create segments. First, do customers pay a similar price when booking through the collection of channels? Second, do they tend to book at around the same time in the booking window? The first criterion tends to be obvious to most people, but the second is less commonly considered. It's critical, however, to consider the booking curve, because if a hotel combines channels that book very early with ones that tend to book very late, then the algorithm will struggle to find a forecast and price for the segment that fits both behavior patterns.

For example, customers shopping opaque OTAs may shop well in advance and be more price-conscious than those booking directly. Segmenting those potential guests separately is the first step to yielding them independently of other guests who might spend more.

Customer motivations for booking a room vary widely, and differ whether consumers are on their own or part of a group or if they are traveling for business or leisure. Travelers also have many reasons to opt for one distribution channel over the others when booking. The challenge for hoteliers is having a pricing strategy open to serve any of those travelers coming from any of those booking platforms.

2.5 Keep Your Segmentation Strategy Fresh

As revenue managers get familiar with the key segmentation considerations, they can continually work through the cyclical process for optimizing their customer mix. The cycle is as follows:

> **Analyze current performance.** Is the mix profitable and aligned with the property's goals?

Strategize performance objectives. Where does the hotel want to be, and what benchmarks for customer mix and profitability is the owner trying to hit?

Evaluate distribution strategy. What new mix of distribution channels would reach these goals?

Determine expected changes. Are the hotel's revenue management, sales and marketing, and operations departments aligned on this plan?

Execute new segmentation. Shortly after the plan is put into action, hotel owners should circle back to the start of the process and analyze the performance of the property's segmentation anew.
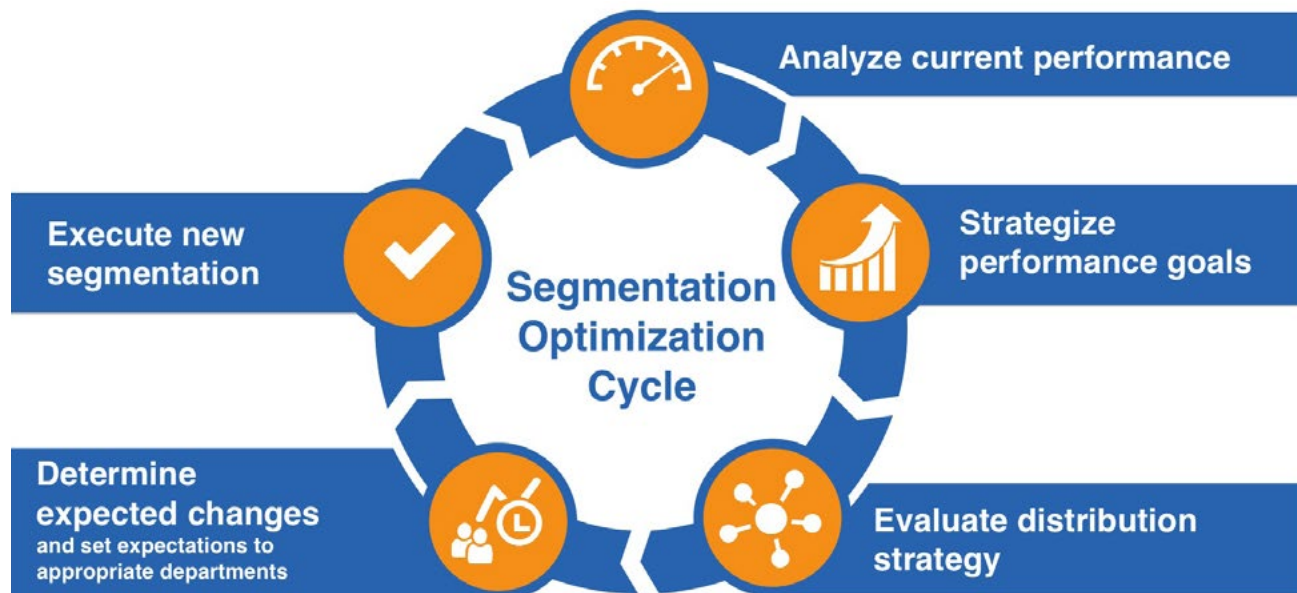
Thus far this chapter has dealt with segmentation as it relates to pricing rooms for individuals or groups, often called yielding segmentation. But a separate kind, called market segmentation, is used in the hospitality industry to give hotel stakeholders outside of revenue management a look at the health of the business.

More sophisticated segmentation doesn't benefit only the revenue management department. With a sophisticated RMS, a hotel or casino property can group any combination of channels or yielding segments as it needs for other departments and purposes. For example, a market segment made up of OTA package, land and opaque could be a general "third-party" category for the finance and accounting departments to monitor in their own reports. Investors might like to see the business broken out in that way as well.

Hotels stuck in the old ways of segmentation are used to seeing data one way. That's how they run the property, from the front desk to revenue management to finance, all the way up to ownership. But greater flexibility allows for better yielding, forecasting and management of the property for different departments. The right mix of rates and offers pushed across the various marketing channels is always dynamic, and actively segmenting the business always gives your hotel the right filter for making the right decisions.

3 Forecasting

3.1 Introduction to Forecasting

A demand forecast is the first step to better pricing and greater profitability. Because hotel rooms are perishable goods with a shelf life of one day, it's important for hoteliers to maximize their value. The clearer the picture you have of upcoming demand, the better you can prepare accordingly in many phases of operations, from staffing to marketing to, perhaps most importantly, pricing.

Forecasting upcoming demand allows revenue managers to identify needs and build a strategy based on projected occupancy. Forecasting can be broken down into simple steps. It's critical for hotel management to have a good understanding of its performance goals in terms of occupancy, rate and, ultimately, revenue. For example, if a popular event in the area brings a number of new guests to the door, forecasting helps hoteliers understand how to price to maximize revenue. In addition, it's the first step to understanding when it may be necessary to lower rates to boost occupancy on days with lower demand.

Simply put: A forecast is a basic tool used to run a hotel more effectively and profitably. Hoteliers can begin building daily forecasts by segment rather easily.

3.2   How to Get Started

A basic forecast can be as simple as some notes on pen and paper, and as complex as computing algorithms that produce precise and accurate projections. But a forecast is only as good as the numbers that go into building it. Include only what will truly make a forecast more accurate.

The first step is to look at historical data from a hotel's own system that shows occupancy, rate and revenue figures from prior years. Three years of historical data provides a great look at business and helps project a more accurate forecast, but even a year or two's worth of data is helpful.

The most important data points to include are booking date, rate code, arrival date, departure date and revenue by day. Once historical data is present in Excel or the RMS, hoteliers can add, tweak or manipulate the data to make forecasts more accurate. The first numbers to incorporate are upcoming reservations that are already on the books. The more business on the books, the more accurate a demand forecast will be.

Market-level data, such as future flight demand, weather reports and geographical data, such as where guests are coming from, is yet another important source for more complex forecasts.

3.3   Why Hotels Don't Want to Sell Out Too Early

For many hotel general managers, knowing their hotel is sold out means they're finally able to get a good night's sleep. But if the hotel is sold out a week or even days in advance, they should instead be up at night wondering how it happened and worried about lost revenue. It may go contrary to the way the hospitality industry has operated for decades, but a hotel completely booked more than a day or two in advance is a costly mistake.

The general manager or revenue manager in that instance has almost certainly filled the hotel with the wrong customers, paying the wrong rates. In general revenue management theory, the absolutely ideal scenario would be selling your last room to a guest walking in at midnight, who'd be willing to pay almost any price for a place to sleep. That's extreme, but that's the idea. The closer a hotel sells out to the day of arrival, the better job the revenue manager has done.

An accurate forecast will give you better insight into how much and what kind of demand to expect. When you are confident knowing how many rooms will sell between now and day of booking, you can be more confident holding — or even increasing — the rate.

If you have that much demand that early, if the velocity of bookings is that fast, prices should have been increased long before you were down to 10 rooms 14 days out. If you're still not convinced, here are a few more reasons why selling out early can cost you money:

> Think about the shoulder dates, too. If the hotel sells out Saturday too early, for example, what about those customers who were looking for a three-night stay beginning on Friday? You may have unintentionally frozen them out.

> If the hotel does sell out early, it's no longer going to show up on the OTA sites and would miss out on the "billboard effect," one of the benefits of using those more expensive channels.

> Operationally speaking, a hotel at 80% occupancy and a higher average daily rate (ADR) may be more profitable than the hotel completely filled at a lower ADR. Especially if management knows in advance and adjusts staffing to reduce labor costs.

Today's consumers understand this concept, and those business travelers who need to be in your city tomorrow are happy to pay almost any price for the convenience of finding a room at your hotel. Do them the favor and take their money. Don't tell them you're already sold out.

3.4   Seven Steps to Better Demand Forecasts

1. Segment Your Forecasts. When forecasting, it's important to segment different parts of the business, as this book discussed in the previous chapter. Historical data should be extracted for both group and transient guests separately, as well as any business that is currently on the books for each. Hotels should build a forecast for both group and transient business and then analyze them separately before overlapping them further down the line. If you can further segment your business into clearly defined groups that share booking behaviors, your forecasts will be more accurate and actionable.

2. Monitor the Hotel's Website. There are many more complex factors that can determine the accuracy of a forecast. One simplified way of determining the popularity of a hotel on a certain day is by monitoring the property's website traffic. Tracking web shopping behavior can get highly complex, but it can provide valuable insight on current and even future demand. It can shed light on how many people are visiting the website, which can help gauge the frequency of last-minute arrivals.

If you can track how many people are visiting the site versus how many are booking for future dates, you can see a much clearer picture of true demand. If you can see at what prices those customers are booking, and more importantly, when they are abandoning the site, you can gain incredible insight into the price sensitivity of those customers.

3. Monitor Upcoming Events. The next influencer to consider when forecasting are upcoming events near the hotel. The obvious events that will boost demand at a hotel are holidays, such as New Year's Eve and Thanksgiving weekend. Revenue managers should map out the days of major sporting events in the area, as well as any local community events that might attract a crowd. They should observe the market's convention calendar and inquire about events that might draw lots of business travelers. Concert venues and nightclubs may also have certain nights that attract more visitors than others.

The key here is to best understand how these events will affect your market and assign a number value to them. Use historical data to get a clearer picture of annual events; new events may be harder to predict. When looking at past events, pay attention to booking pace, or how far in advance guests typically booked their rooms, and chart the booking patterns. This will give you a more accurate picture of when to expect a surge in demand.

4. Get to Know the Competition. Along with collecting and analyzing your hotel's internal data, key insights for an accurate forecast can be gleaned from keeping an eye on your competitors. Build a competitive set by identifying hotels nearby that are of similar size, operate in an equivalent segment and are priced comparably. Much can be gleaned about competitors' demand by their pricing. There are many third parties that provide tools to analyze the room rates of a competitive set, but remember, it's a street corner business.

Looking deeper at competitors' pricing across various channels, such as brand.com websites, OTAs and the global distribution systems, can give you a better picture of what kind of demand the competition is expecting.

5. Partner with Sales and Marketing. Many hotels will have a marketing department or marketing manager to assist in promoting the hotel and advertising in the right places to boost demand. Although pricing responsibilities may fall in another department, it's imperative the two work hand in hand. Sales, marketing

and revenue management functions in hotels should integrate all of their customer acquisition strategies. Forecasts can give visibility to marketers on periods of high demand versus low demand, and on what segments are coming each day, so promotions and specials can be used more tactically.

 6. Understand the Impact of Discounting. Before acting on a forecast, it's important for hotel staff to understand that it won't be a 100-percent accurate picture. Predicting the future is not easy. In advance, revenue managers must prepare for events or shifts that may alter the forecast, whether slightly or by a wide margin. One thing that might alter your forecast is a discount strategy, either by you or your competitors. Short-term sales, such as a 24- or 48-hour sale, will often generate a good deal of business in a very short window. Use your forecast to determine if and when they are needed, and then adjust the forecast accordingly. Once the promotion has run, you might find you increased your base business to a level that allows you to increase rates.

 7. Check the Forecast After the Fact. There are many more numbers and data sets that can help with the accuracy of a hotel's forecast. Some may become available as the day or week in question gets closer. Therefore, properties must continually monitor and adjust forecasts accordingly and in real time. Just as important as the actual forecasting is the evaluation of it after the fact. Testing is the only way to know the accuracy of your forecast, and consistent errors must be addressed and can often be corrected.

There is another factor that confounds a forecast that is often overlooked. Even if the demand data is stable and robust, and the math is perfect, a forecast can be invalidated by changes in strategy by the management team or changes in the market that deviate from historical patterns.

3.5   How Big Data Improves Forecasts

Perhaps you've heard the term Big Data enough already. You get the idea, but you're not sure how it's helping you run a better business.

In hotel operations, Big Data generally refers to any information collected about your guests that helps you learn more about them. Analyzing it helps you operate more efficiently, market to consumers more effectively and enhance the guest experience at your hotel.

Considering the history of the hotel industry, the practice of collecting and analyzing consumer data is relatively new. But as technology and information-gathering tools continue to evolve, so have we. Today, there is more data available about guests than ever before. Access to this information is reshaping all areas of hotel operations — perhaps none more so than forecasting demand.

Traditionally, hotel forecasts have been made up of historical information from the PMS and booking pace. Over the past several years, more information about consumers has become available. Today, we're learning about travelers who visited our websites, even began searching dates and locations, but left without booking. This provides a clearer picture of unconstrained demand, a more comprehensive look that goes beyond just those guests booking a room and into all of the potential shoppers as well. Instead of looking only at what's happened in the past, novel data sets are available that can more accurately measure and predict potential buyers.

**Reviews &
Social Media**

**Macroeconomic
Data**

**Competitor
Pricing Data**
TRADITIONAL
REVENUE MANAGEMENT

**Web Shopping
Regrets & Denials**

**Booking &
Reservation Data**
TRADITIONAL
REVENUE MANAGEMENT

Weather

Air Traffic

So shift your focus from Big Data to "Better Data." To start, here are seven sets of data — from the most widely used to the more specific and most critical — for building demand forecasts:

> **Historical Data and Booking Pace.** A hotel's historical data, traditionally stored in the PMS, will build the framework for a solid forecast. With historical data, a revenue manager can recreate past booking curves to get an idea how far in advance rooms for the same date were booked in past years. Once she understands past booking patterns, she can segment and price more accurately. From there, she can incorporate an events calendar by importing a list of historical and future events that took place or will take place near your hotel.

> **Competitor Pricing Data.** An RMS can scour your competitors' websites to see how their hotel rooms are priced, giving a clearer picture of overall market demand for an upcoming date. This insight can be used early in the

forecasting process as a baseline, but revenue managers don't want to rely on what their competitors are charging; they wouldn't want to be at the mercy of their worst competitor. Discounting because competitors are discounting just leads to a race to the bottom. Place more weight on your own value proposition and other indicators of demand.

Events and Macroeconomic Factors. Historical booking information allows you to establish a baseline for important dates, like holidays and annual area events that affect demand. A quick scan of local media and community boards for upcoming events can and should also be plugged into forecasts. Larger factors, such as economic development in the area, zoning changes, citywide transportation changes and other neighborhood developments, could cause shifts in demand patterns.

Airlift Data. The connection between air passenger information and hotel demand is clear. If more flights are scheduled to land in your market, you can expect more travelers looking for a place to stay. Imagine knowing a week in advance that your local airport will have twice the amount of inbound travelers arriving. It stands to reason that hotel demand will be more than expected. The opposite would be true if half as many visitors were arriving as were originally expected.

Consider a hotel on The Strip in Las Vegas, for example, which typically sees 10% of its demand coming from New York City. If there is a snowstorm in New York grounding most of the planes, expect cancellations and that your demand is going to be adversely affected.

> **Social Reviews and Ratings.** Hoteliers are much more cognizant today of their "online reputation," or aggregation of past guest reviews and ratings. Up for debate is just how much these third-party scores should affect your forecast and pricing decisions.

Consider the following: There are two hotels in a market that are identical in their value proposition—they each offer the same amenities and service at the same price. If one has much stronger online reviews from past guests than the other, the more popular hotel should be realizing and expecting higher demand.

A report by the Cornell University School of Hotel Administration found that if a hotel increases its review scores by 1 point on a 5-point scale (e.g., from 3.3 to 4.3), the hotel can increase its price by 11.2% and still maintain the same occupancy or market share.

So, when forecasting, it's important to look at how your review scores have changed over the past year, for better or worse, and take that into consideration when determining whether to expect more or fewer guests. Also look at your competitors' online rating changes and consider how that could affect your forecasting and pricing.

> **Weather Data.** Tracking weather is another way hotels can better predict upcoming demand changes. Monitoring local weather in feeder markets can provide additional insights into how many people may be visiting your market. For hotels and resorts in weather-driven markets, this can provide significant insight. Accurate five-day forecasts can mean the difference between profits and losses.

> **Web Shopping Data** (Regrets and Denials). Despite being last, this data set is probably the most important to consider when forecasting demand. Not everyone visiting your hotel website is actually booking a room. Many potential guests are searching specific dates, checking prices, and leaving your website without completing the booking or booking elsewhere. Monitoring this lost business can provide incredible insight into demand and price elasticity.

Web "regrets" refer to potential guests who searched a specific date and saw a price, but did not book. "Denials" are people who shop for a specific date or room type, but are denied due to a lack of availability.

If you're only tracking actual bookings, two similar dates may have had three reservations made on the hotel's website. By looking at the universe of those shopping, you can see how completely different the dates might have been. What if one had three conversions out of 100 people shopping, while the other had three out of 10? Observing actual customer shopping behavior and comparing "looked vs. booked" data is the best way to measure true unconstrained demand and price elasticity.

3.6   Web Shopping and Unconstrained Demand

Analyzing past bookings or current reservations on the books is just beginning to scratch the surface of the supply-demand equation. A forecast is much more accurate when you're accurately measuring unconstrained demand.

Traditional models of measuring unconstrained demand can give you an idea, but there are new and more accurate ways to "unconstrain" your demand. Analyzing a hotel's web regrets and denials is one of the most reliable ways to see the true market of shoppers and not just bookers. That lost-business data also factors into sound forecasting and pricing strategy.

Another benefit of tracking web shopping behavior is that you are considering forward-looking data as opposed to archived data. This is especially beneficial for new hotels that don't have the ability to analyze past booking data.

Understanding Future Demand

Current
Converted business is a small part of the greater opportunity

Opportunity

| Visits on your website
| Lost Business
| Regrets & Denials
| Price elasticity & Sensitivity
| Future Demand
| Conversion and source markets

| Understand demand source markets and price elasticity
| Use data to maximize Revenue Opportunities
| Understand price points
| Grow direct business

Total demand

By incorporating third-party information and web shopping data, especially regrets and denials, into its forecast, a hotel can accurately gauge its unconstrained demand and adjust its pricing strategies.

Until recently, measuring regrets and denials was a difficult proposition at best. Call centers could loosely track the number of inquiries they received and number of people who hung up without booking, but the data was largely unreliable. Today, as more bookings are made online, hoteliers armed with the right tools can get a more holistic picture of unconstrained demand. They can see who visited the website, what pages they looked at and even any information they entered into a field box. Behind the scenes, technology can capture and sort this lost-business data, influencing forecasts and pricing algorithms and providing key information that drives better operational decisions and ultimately more revenue.

A constrained forecast caps demand at the available room inventory of the hotel. For instance, a constrained forecast for a hotel with 200 rooms would never show demand exceeding 200 rooms. This makes sense because you know that even on your busiest days you will not be able to accommodate more guests than the rooms you have. This type of forecast is perfect for operating departments trying to staff appropriately and is adequate for a financial analyst building a budget, but it has serious shortcomings for revenue managers.

An unconstrained forecast provides a much better representation of the intensity of demand by day. The forecast extrapolates from what has already been booked and the pace of bookings to determine how many room nights would be consumed if the current pricing and distribution strategies were continued. In the example above, the first day may be pacing to an occupancy of 205 rooms whereas the other day may be pacing to 287 rooms. Therefore, the first day has unconstrained demand of five rooms and the second day has 87 rooms of unconstrained demand, which is much more useful information to have when determining appropriate pricing and distribution than to simply note on the forecast that both days will sell out.

Web shopping data helps hoteliers do more than price rooms. It sheds a whole new light on how many people are visiting your website, which can help gauge the frequency of last-minute arrivals, as well as other important insights.

For example, if five people booked a specific date yesterday and that's all your system knows, it may recommend a price increase. But what might be missing is the fact that 100 people shopped that date and only five booked at that price, which paints a completely different picture than a day with five bookings and only 10 shoppers. Regret data can tell us how the market is reacting to your prices. Too many regrets? Perhaps your price is too high. A high conversion rate? Perhaps your price is too low.

Here is a famous example of how tracking lost-business data can provide a critical advantage over the competition: Years ago, when a huge music festival called the Electric Daisy Carnival announced a venue change from Los Angeles to Las Vegas, tickets sold out in days, as did all the hotel rooms on The Strip for an average rate of $99. Months later, when the event began, walk-in customers downtown — not even on The Strip — paid $1,000 for a room per night. The market lost millions of dollars because hotels didn't see this coming and weren't able to react in time. With web shopping data, you see those spikes in searches earlier than everyone else and can adjust your prices quicker to capture much of that lost revenue.

For the marketing department, much more analysis can be done when you know what offers have been booked vs. not booked, and at what price points. While marketers typically look at redeemed offers, it's just as important to consider people who clicked the offer, but did not redeem. And the price point they were offered when they declined to book adds another layer of knowledge.

4 **Pricing**

## 4.1 **Introduction to Pricing**

Not to downplay the importance of segmenting and forecasting, but pricing — the actual calculating and publishing of room rates — is where hoteliers can exert the most control over how much revenue is involved in their Revenue Strategy. As this chapter's discussion of Open Pricing makes clear, every room in a property on any given booking date is an opportunity for a unique price that will maximize net revenue and lead to higher net operating income. Revenue managers just need to be confident they have nailed the right price for the right consumer at the right time, and that confidence comes from using data and analytics.

Twenty years ago, when hoteliers received most of their transient bookings via a call center and brick and mortar travel agencies, hoteliers began moving from a seasonal, set-it-and-forget it pricing strategy to a BAR strategy where different segments of guests were offered different variations of a single rate. The way guests book hotel rooms has changed immensely since those days, particularly with the emergence of digital distribution, third-party intermediaries and now mobile booking. Hoteliers, unfortunately, are still pricing their inventory with that 20-year-old BAR method.

4.2 Raising the BAR with Open Pricing

Savvy hoteliers are beginning to understand a revolutionary new pricing approach that is much more fluid and dynamic, much less restrictive and therefore much more profitable. Called Open Pricing, this new model allows hoteliers to offer each segment a personalized rate offer based on a number of independent variables such as room type or acquisition channel.
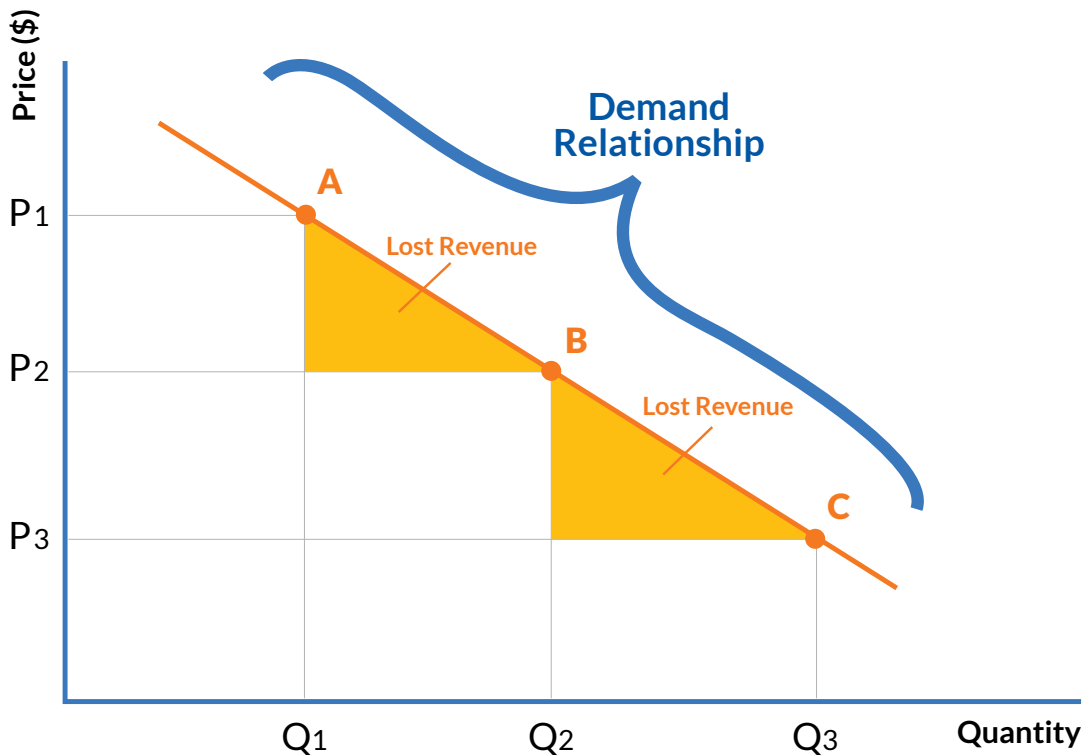
Because discounts can be yielded dynamically on a sliding scale, all the way down to 2% or even 0%, offers are never blacked out or limited by length-of-stay or other restrictions. This means a hotel's rooms are always available on all channels without the risk of "over-discounting" on a high-demand day. Open Pricing allows hoteliers the ability to be available 365 days a year and never say "no" to a customer.

To illustrate Open Pricing vs. BAR pricing, let's look at an example. Assume Hotel X uses a common pricing strategy that offers a promotional rate (AAA, for example)

at 10% less than BAR and an OTA package net rate that might be 30% less. If BAR were $200, the promotional rate would be $180 and the package net rate would be $140. If BAR jumps to $400 on a compressed date, other rates move in lockstep and the promotional rate would become $360 and the package net rate $280.

The flaw here is that while some potential guests might need those steep discounts to book, others would still book at smaller discounts. So the amount of discount should be yieldable to each individual segment and channel. Perhaps one traveler booking through an OTA might be comfortable paying 35% off BAR while another potential customer would be willing to pay 20% less than BAR. There should be price points between $280 and $400. Even worse, many revenue managers will close those discount channels rather than offer those discounts on compressed dates. Those channels won't show availability and customers looking for multi-night stays won't see availability.

Sometimes, during a busy weekend, promotional rates might only be 1% less than BAR and the OTA package net rate might be yielded down to 10% or less, but they will always be open.

4.3   Unlinking Prices

As illustrated earlier, the more frequently you can change your rates based on supply and demand, the more revenue you can capture. It's also imperative to have as many different rates and price points available and to have your hotel available for booking in any and all channels where consumers may be shopping. You should provide special loyalty rates and other discount pricing for seniors, AAA and other promotions, as well as have rooms available for sale on the various online- and mobile-booking sites. You should also have different prices for different room types.

The hotel is missing the opportunity to use differentiated pricing applicable to different behaviors exhibited by people booking from different channels. The more price points you can have available, the closer you can get to capturing the most possible revenue. Another major flaw with the BAR approach is when hotels close down channels because they no longer want to accept less-profitable business during periods of high demand. If you know you're going to sell out for a date a month out, you probably no longer want to keep open those discounted package rates on sites like Expedia and Priceline and accept rates discounted 30%. Many owners and managers turn off those channels, hoping to book those remaining rooms through the higher priced and more profitable direct channels.

But what if a customer needing a week or even a two-week stay looks to book that date a month in advance packaged with airfare on that online booking site, and your hotel shows no availability? The customer will find another hotel and make a 14-day reservation and you've lost business on those other 13 days.

By unlinking your different rates across various channels, you can offer customers more price points and never have to close channels down and miss potential revenue and bookings.

4.4   Pricing Mistakes You Can't Afford to Make

> **Not Changing Rates.** One major revenue-losing mistake is not changing the rates for the rooms at your hotel. If your rates are static, you are not reaching your true profit potential. As outlined above, your rates should change to reflect supply and demand and ideally maintain a steady pace of bookings leading up to each and every day.

A hotel heavy on leisure business may have higher weekend rates and lower weekday rates, capitalizing on vacationing travelers. A hotel heavy on business travelers should be opposite, with higher rates during the week and lower rates on weekends when most business people are at home. Hotels located in areas with seasonal business, like the beach or near ski slopes, may have different prices for the different seasons when those local attractions are more popular.

The more price points you can offer, the more business and revenue you can capture. If your rate is $100 and someone is willing to pay $120, you've lost $20. If your rate is $100 and no one is booking your hotel, you're missing out on potential bookings and revenue you could have with lower prices. Understanding the relationship between supply and demand and pricing accordingly is the key to maximizing revenue and profits at your property.

> **Pricing by "Gut Feel."** A key part of understanding how to price your hotel comes down to having an idea of how much demand you have for each day. The more sophisticated you can be with your forecast, the more successful you can be with your pricing.

If you're relying solely on "gut feel" with no analytics behind the hunch, you're bound to make mistakes and miss revenue opportunities. Hunches, gut feels and guesstimates are never a better idea than using actual data and analysis. Look for customer-centric data and local information for more insight into your market, from social media and review sites to weather forecasts and other local factors like air traffic that could drive or diminish demand.

Whenever your gut is telling you something, take a deep breath and pause, pull up the data you have available and take a look at the information. Then adjust your pricing.

> **Reacting to Sudden Moves from Competitors.** The competition is an important piece of the pricing puzzle, but it is only a piece. If your competitor across the street suddenly raises rates by 25% for a weekend six months out, it doesn't mean you should do the same. That owner and manager may be adjusting rates because they just scheduled a wedding with a huge block and the hotel is almost sold out already, or maybe they're downright crazy or basing it on their own gut feel.

Now if every hotel in your market is making similar pricing changes, then it is time to take a second look at what's going on and potentially react. You may be missing something if every hotel makes the same move.

On the other side of the coin, you can't completely ignore the competition. You should always shop competitor rates, because they help paint the overall picture of your market. If every hotel in your market drops rates by 25% and you don't notice, and demand is truly down for that date and your property isn't head and shoulders better than the competition, you will likely end up with an empty hotel and lost revenue.

Pay attention to the competition, but don't always follow their every move.

> **Selling Rooms on a First-Come, First-Serve Basis.** If you don't have a true forecast or sense of how much demand you have for specific dates, you're probably taking hotel reservations as they come and leaving plenty of potential revenue on the table. Not all reservations and customers are created equal. Someone booking a night on Expedia is probably not as

profitable for you as someone calling your hotel directly. A customer may be paying the same exact rate for a night as the guest next door, but if that guest is staying three additional nights, which one is more valuable?

Or it can happen with room types just as easily: If you sell a king room to a customer who doesn't really care and isn't paying a premium for it, and then another customer comes along the next day and really wants to book that king room and is willing to pay for it, but you don't have one available, you've either lost that additional revenue or potentially a booking if the customer goes elsewhere.

Even more costly is what can happen when a hotel accepts a large group for a reduced rate during a time with strong demand. If you accept a large wedding block of 25 rooms reduced your standard 30% during a weekend that would otherwise be very busy, you've just lost the ability to sell those 30 rooms at higher prices. The group rate needs to be raised in that situation, and sometimes turning down group business can be the right choice.

Having a forecast and picture of future demand is critical to making the right pricing decisions and filling your hotel with the most profitable mix of customers.

> **Shutting Down Pricing Decisions at Day's End.** If at 6 p.m. you call it a day and hand over any pricing decisions to the overworked front-desk staff or, worse yet, to no one at all, you're missing out on potential revenue opportunities. No one likes to think hotel management has to be a 24-hour job, but it really is, and that's especially true with pricing your property.

This mistake can be especially detrimental, if not devastating, in markets with lots of weekend business. Have you ever come to work the next morning and realized 20 rooms were sold the night before for the upcoming next weekend? Great news, yes, but now you might be oversold, and worse yet, did you maximize revenue by yielding up rates?

For properties heavy on leisure business, it may not be out of the ordinary to get 10, 20 or 30 reservations on a Thursday or Friday evening for that weekend. Maybe there's a big event that comes up, like a sports team unexpectedly advancing in a tournament that brings plenty of out-of-town visitors. If you or someone managing the pricing at the property is not available and privy to that information, rooms will continue to be sold for well under what they should be selling for.

Managing rates at a hotel is too important a function to ignore for the 16 hours a day the manager isn't working. Rooms revenue is the primary — if not sole — source of profits at most hotels. Systems and people must be in place at all times to react to changing demand. An automated RMS meets this need with alerts that pop up when demand anomalies occur, enabling the revenue manager to quickly adjust rates in real time as conditions change.

4.5   The 7 Steps to Begin Open Pricing

Fortunately, re-thinking your pricing approach and taking the first steps to a more profitable Open Pricing strategy does not require significant investment. While it may take time to lay the groundwork for your new strategy and get the key pieces and personnel in place, the basics of Open Pricing can be implemented manually.

> **Collaborate Across Departments.** First, understand that an Open Pricing strategy requires a holistic approach that includes collaboration from several other key departments, starting with sales and marketing. Beyond the director of revenue and VP of sales and marketing, entire teams must work hand-in-hand to ensure larger strategies, specific promotions and inventory discounts are implemented most effectively. Once implemented, you'll no longer be closing channels while marketing is running promotions or deploying promotions during times of high demand.

Revisit Your Discount Policy. An easy place to start is by discussing corporate accounts that do not require last-room availability (LRA), which allows their pricing to be more dynamic. Instead of offering corporate accounts seasonal rates, such as guaranteeing 15% off BAR every day, instead offer "up to 20% discount but flexible." This means in times of low demand you might offer a 20% discount to the group, but on compressed dates you can reduce that discount down to 5% or even 0%. Hotels can slowly implement this strategy over time, and it is essential that the revenue team work with sales and marketing during RFP season to do so.

Adjust Your Marketing Messages. Hotels should take steps to change their overall marketing message, specifically the "Stay X Nights and Receive 1 Free" strategy. While this is a popular approach, it's limiting the ability to flex that discount based on demand. Instead, adapt your marketing message to say "Stay Longer (4 nights or more) and Save Up to 25%." Keeping that discount flexible allows you to keep the offer open even in times of constrained demand and simply reduce the discount.

Train Your Staff. Perhaps the biggest adjustment to your strategy when moving to Open Pricing will be training the entire staff to move away from a BAR approach. Simply put, eliminating BAR pricing will allow you to flex discounts — offering bigger discounts in times of need and fewer discounts on constrained dates — which will inevitably lead to more revenue and profit.

Eliminate Fixed Modifiers for Room Types. Room-type pricing is a common-sense adjustment that has been missing from hotel pricing strategies for years. Instead of using fixed

modifiers to differentiate prices between your rooms with double beds and rooms with king beds, for example, price those different room types based on demand.

When business travelers are in for a popular convention, you could end up charging $100 or $200 more instead of $50 more for king rooms. Inversely, on the weekends when you're hosting mostly families, price the high-demand double rooms at a premium.

Calculate Guests' Lifetime Value. The future of hotel pricing is a personalized approach where rates are based on a customer's lifetime value. You can begin implementing some of those first steps now by requiring your guests to login to a site, perhaps your loyalty program's, so you can offer them fenced rates without breaking parity agreements. By offering loyal customers discounts every day of the year, hotels can increase guest loyalty and drive more profitable direct bookings.

Never Close Your Channels. An important step in an Open Pricing strategy is understanding how to keep all promotions and channels available without closing them off as demand increases. For example, if hotels are nearing a compressed weekend and rooms are filling quickly at the best publicly available rate, it's a common strategy to close discounted channels and only accept bookings from your higher-rated channels. As a hotel nears capacity, operators often stop honoring the AAA rate, which is typically 10% off, and close discounted OTA sites and hope to fill those last few rooms at full rate.

Instead of closing the AAA channel, it could be yielded down, even to 1% less than BAR, to make sure customers aren't turned away. The same principle applies to OTAs. While you might typically offer deep discounts to sites that will package your hotel rooms with airfare or car rental, Open Pricing allows you to slide those discounts up and down independently based on supply and demand. Perhaps you choose not to offer package discounts at all, but rather than close the channel, your hotel remains available on the distribution site at your regular rate.

Closing availability on any site means you might miss customers shopping those channels. By yielding channels independently and not in lockstep, hoteliers can yield up and down the discounts on those channels and keep them open.

The first steps of Open Pricing can be done manually, but yielding all dates, segments, channels, offers and room types independently requires tremendous investment in both labor and time. New cloud-based technology systems properly integrated can automate the process, but the change also has to be organizational across the enterprise.
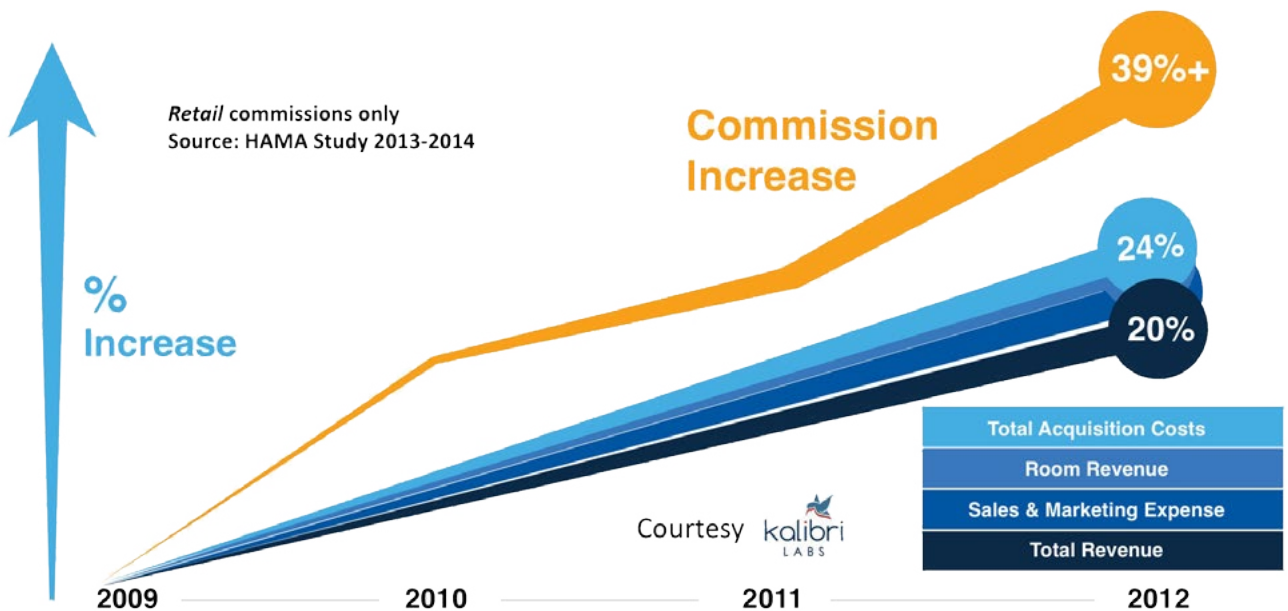
5 Distribution

5.1   5.1 Introduction to Distribution

For the longest time, hotel marketing was rather simple: The majority of hotel bookings came directly from guests either walking through the front door, calling the hotel or calling the reservation center.

But the technology disruption of the mid 1990s has completely flipped the way consumers book hotel rooms. Online travel agencies like Priceline and Expedia have become one of the primary ways consumers book hotel rooms. In turn, these distribution companies have grown to the point where their market valuations are higher than most hotel brand companies, all while building business selling hotel rooms without the risk of mortgages, bed bugs or handling a bad guest experience.

Because of this evolution, hotels are spending more than ever to market themselves to potential guests. A 2014 study revealed that hotels' costs to acquire a guest consistently have risen more than their revenues have increased.

Retail commissions only
Source: HAMA Study 2013-2014

Commission Increase

39%+

24%

20%

% Increase

Courtesy kalibri LABS

| Total Acquisition Costs |
| Room Revenue |
| Sales & Marketing Expense |
| Total Revenue |

2009   2010   2011   2012

Despite the growing costs of marketing hotel rooms online, distribution partners can't be considered the enemy. Other industries have faced, and embraced, the same situations. For example, Apple has their own brick and mortar stores, but many other retailers sell iPhones. In the past, it didn't really matter where you bought your iPhone—it would cost the same and you'd be presented with the same options. Today, retailers like Best Buy, Target, Verizon and Sprint periodically offer discounts and other perks, such as trade-in and sign-on bonuses or special gift cards. These channels have become major drivers of business, and when managed effectively, OTAs can be too.

The bottom line is that OTAs are requiring hoteliers to budget, measure and analyze their sales and marketing — and overall profitability — differently. As the distribution landscape continues to evolve and complexities and costs grow, effective distribution and pricing strategies are more important than ever.

5.2 The Goals of a Profitable Distribution Strategy

There's no ignoring OTAs and digital middlemen in the modern hotel distribution landscape, even for the most exclusive luxury resorts or the most old-fashioned motel. Rather, all hotels need to embrace the opportunities online distributor partners provide, while still guarding against the downside risk to profitability from higher commissions. A successful distribution strategy should encompass the following three goals:

Understand the Varying Costs of Customer Acquisition. Now that OTAs have become a primary way consumers book hotel rooms, those distribution partners have even more leverage and can charge hefty commissions, sometimes reaching 25% or even 30%. Refusing to work with them can mean the difference between profit and loss. And with Expedia and Priceline suddenly dominating the space, hotels have even less negotiating power when it comes to signing distribution agreements.

According to a recent study from the Hospitality Asset Managers Association, between 2009 and 2012, overall customer acquisition costs were nearly on par with revenue growth and in some cases commissions rose at nearly twice the rate of revenue. The study of 104 upper-upscale and luxury managed properties with brand affiliations in the United States and Canada found room revenue increased by 23%, or 7% annually. By comparison, overall customer acquisition costs increased just less than 23%. But brand allocations went up 37% and third-party commissions rose 34%.

Therefore, understanding the cost of each of these individual channels is critical. Keep up-to-date and accurate figures on your commission structures. Factor in your own property-level sales and marketing costs. Examine what you're paying your franchisor for sales and marketing, as well as any digital costs, and evaluate the brand.com channel just as you would a distribution partner.

To help, some forward-thinking hoteliers are now suggesting a new key performance metric to measure and benchmark hotel operating success: Net revenue per available room. NetRevPAR is defined as revenue per available room after subtracting the cost to acquire a guest, which is typically sales and marketing plus distribution costs.

Once you have a good sense of the costs of each channel, as well as common figures that will let you compare and contrast easily, you can begin making smarter decisions on where to place and how to yield your inventory. As we'll explore below, this does not mean closing one channel and adding inventory to another, but determining what kind of demand you need on any given day and fluctuating prices and availability within the spectrum of channels to acquire the right demand at the right price.

> **Drive Direct Bookings.** A comprehensive Revenue Strategy is anchored by driving as much direct business as possible. To compete with the OTAs, hoteliers must give consumers reasons to book on their lowest-cost channels.

To avoid the frequent example of a guest finding a lower rate on a partner website, showing the front desk and asking the hotel to match, ensure your rates and inventory are updated simultaneously and in real time.

Beyond pricing strategies, the opportunity is there for savvy hoteliers to take the first step to one-to-one marketing and really begin bridging the gap between revenue management and marketing. By integrating pricing strategies with loyalty

programs, hotels can regain control of distribution, lower costs and provide a more satisfying experience to their customers from the point of booking. Hoteliers have an advantage over OTAs in that they often have much stronger customer data profiles. Brands can use complex CRM systems to customize a guest experience, connect with the guest on a much more personal level and begin segmenting customers by lifetime value.

Take a best-rate guarantee one step further by using fences to segment your customer base and offer promotions to specific groups of people within that fence. By collecting more data on your guests, you can better customize their offerings. If done correctly, hotels could consider offering discounted pricing based on the profitability of guests. In the end, it's important to provide assurance to the customer that they will always get the best deal when they come to your site and that their loyalty is being appreciated and rewarded. Even the appearance that a better price could be available somewhere else could compromise your entire acquisition strategy.

> **Optimize the Booking Conversion Rate.** If the goal is to get the most traffic directly to your website, it's imperative that you are able to close the deal there as well. Worse than missing out on direct traffic is driving people to your website and then offering them a less-than-satisfactory web experience or offering them the wrong product.

For this reason, you must be clear on your target demographic and position your web content accordingly. Are you offering a luxury experience to appeal to high-end guests, or are you positioning yourself as a cost-effective alternative for people with a limited budget? Trying to please every guest across the spectrum could backfire and impact your conversion rate from web visit to booking.

5.3   How Changes in Rate Parity Affect Channel Management

Typical agreements that hotels have with online travel agencies in the U.S. call for rate parity across all distribution channels. This means that if a hotel lists a certain rate on its website for a room on a given night, that same room type and rate has to be available to the public on partner OTAs.

But winds of change are taking hold. In France and Germany, the concept of rate parity has been outright rejected. Other countries throughout Europe are considering new rules as well. Passed in July 2015 by the National Assembly, France's new Macron Law is designed to eliminate barriers to free competition in the lodging industry as well as implement reforms across the board. It explicitly bans rate parity clauses, granting hotels the right to price rooms as they please, including below the rates given to distribution partners.

In response, both Expedia and Booking.com eliminated the offending parity clauses in contracts with hotels throughout Europe.

Not satisfied that Expedia and Booking.com's concessions go far enough, Spain, the U.K. and Sweden are among other European countries weighing pro-competition statutes of their own. The consensus is that the U.S. will soon follow suit, though exactly when is unclear. Recent headlines suggest Hilton Worldwide and Marriott International have negotiated with OTAs the ability to break parity with special offers to loyal customers, which is a step in the right direction.

Considering the winds of change that are shaking up the once seemingly inviolable rate parity world, it's an opportunity for U.S. hotels and their revenue managers to take a hard look at their current Revenue Strategy.

What's working at your hotel? What's not? And what are the proactive steps you can take while the rate parity issue plays itself out? The following guidelines should help you navigate the choppy seas.

Envision a World Without Rate Parity. Removing these obstacles could give revenue managers better control of their hotels' channel management and pricing. Hotels, for example, could opt to increase rates for their highest-cost channels, while giving their low-cost channels a rate discount. Better yet, it would give revenue managers the flexibility to practice true Open Pricing without having to keep looking over their shoulders at the OTAs and their inflexible parity demands.

Bolster Your Website. Given this period of flux, hotels need to be even more aggressive in funneling customers to direct-booking channels. Early on, the OTAs understood they needed to invest heavily, not only to build recognition for their brand, but to create booking sites that were fast, convenient, reliable and user-friendly. Overall, they've made these investments and continue to do so. The same can't be said for hotel websites.

Don't Demonize OTAs. OTAs remain valuable and even powerful distribution partners, so don't take this period of flux as an opportunity to act drastically, especially during the low season or other periods of weak demand. OTAs also have a secret weapon in that they control the order in which hotels are ranked on their websites.

Aim for Balanced Distribution. Hotels will still need the OTAs, especially in those periods of weak demand, but to what degree? Spreading your inventory among multiple

OTAs, hedging your bets and marketing your property on all channels customers may shop is the best strategy. But in an environment where the Berlin Wall of rate parity is crumbling, it might make the most sense to move toward consolidation — or at least focusing only on the channels that bring you the most distribution and at the best cost.

Focus on Value. To ensure success, hotels need to give consumers a reason to book direct simply beyond a discount on rate. A discount is important, but it doesn't necessarily translate into value for all consumers and is hardly the only carrot available. Suite upgrades, access to higher bandwidth on Wi-Fi, mobile check-in, complimentary breakfast, access to the executive lounge — all are sweeteners that might well equate to value to certain guests.

Bring CRM into the Picture. Loyalty programs track login details, which enables revenue managers to identify high-value repeat customers at the point of booking. Once they've identified a guest, they can turn to CRM data to help them craft the most appropriate personalized offer.

Stay Attuned to Nuances of Booking. Because such customized rates are not publicly available, they are often called private or "fenced offers." In this regard, they're similar to the rates on OTA opaque sites, where the rate is never publicly disclosed. This is also the case with special OTA promotions and package deals, where the room rate is buried into a larger charge that includes airfare and car rental.

> **Keep an Eye on New Partners.** In July 2015, Google introduced functionality that allows users to book hotel rooms through its metasearch tool. While the program is still relatively new, it has the potential to not only give OTAs a run for their money, but also to create another distribution channel for hotels, which are already struggling to come up with an effective third-party distribution strategy.

Likewise, TripAdvisor is trying to position itself as a booking tool. But for as well known as TripAdvisor may have become, its reach and influence are nowhere as great as Google's. Complicating Google's situation, however, is the fact that the search giant already derives significant revenue from OTA advertising and related OTA sources. Just how far is Google prepared to go to shake up that apple cart? Stay tuned.

6 Loyalty

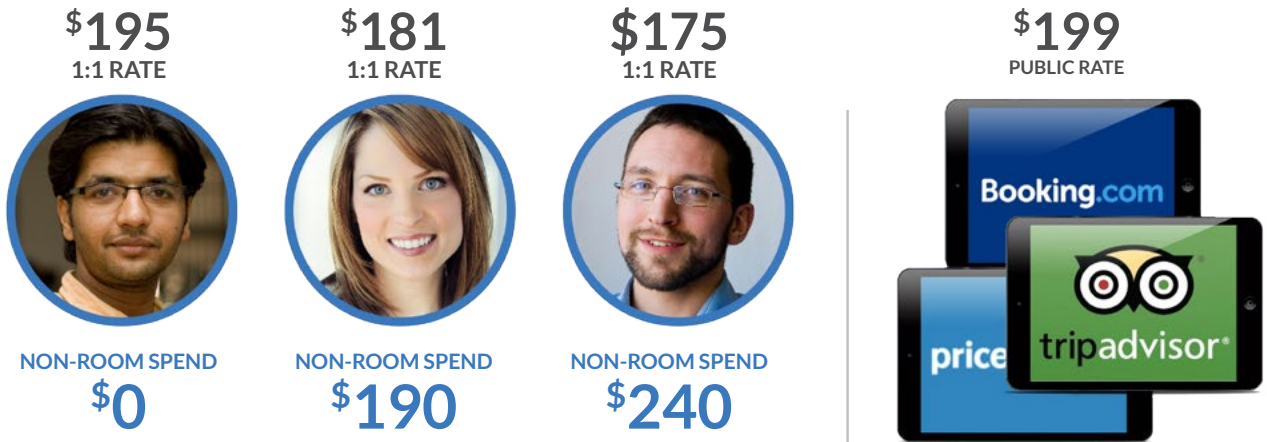## 6.1 How Open Pricing Begets 1:1 Marketing

CRM systems allow greater functionality to segment and analyze customer visits and spend, in essence capturing the more robust customer data profile marketers desire and the ability to segment customers by lifetime value.

The next logical step is connecting the CRM to the revenue management system. The CRM can calculate profit at the customer level and then segment by those profitability statistics or lifetime value calculations. Those segments could then be mapped to the RMS to offer yieldable rates per customer segment or profit tier. Each tier would receive independently yieldable prices, which would correspond to rate codes in the PMS. The trick would be having a booking engine and call center application that allows the customer to be recognized at the point of booking to determine the appropriate tier or rate code.

Most chains have that capability in place and are using a CRM with some form of profit-based segmentation. Their loyalty programs provide login capability so customers can be identified at the point of booking. The chains are using these logins to display discreet offers, including points promotions, and they provide the chance to redeem those points. But they could be doing a lot more and some innovative companies are beginning to take those first steps now.

Database marketers and the operations teams on property use the data and tiers to determine guaranteed benefits, discounts and personal preferences. But from the revenue management perspective, which is often overlooked at this point, the most important customer segmentation is by profit. For example, the top tier might include guests who stay 20 nights per year over peak dates in an expensive room type, or someone else who is more value-conscious but stays 50 nights a year.

Both guests are loyal and very valuable customers. When they log-in, they'd receive preferential prices, better than what a non-loyalty member would see at the brand.com site or what would be available through the best-available rates seen at third-party sites. These fenced offers would not violate rate-parity agreements, and would encourage customers to become loyalty program members and book directly.

$195
1:1 RATE

$181
1:1 RATE

$175
1:1 RATE

$199
PUBLIC RATE

NON-ROOM SPEND
$0

NON-ROOM SPEND
$190

NON-ROOM SPEND
$240

Even the lowest tier of known customer should receive a modest discount to the public best available rate, whether that be 10%, $10 or $1, because these are the customers who are most likely to defect to another higher cost, discount channel. Or worse yet, to another brand. Only unknown customers who do not have an account and login would see the highest and "best" available price that is also live on OTAs.

If communicated, or branded by a hotel company, this approach could be a marketing opportunity and shift significant share back to a company's low-cost direct-booking channel. A hotel chain's best customers already have an account and are logging in, but a move like this would give all other potential customers a significant reason to create an account, and then book directly for the lowest prices.

To expedite this, a company could raise rates on third-party channels and for unknown customers on their own website, while maintaining the lower prices for

loyalty members. Those prices for customers who are logged in would now be "discounted," to differing degrees depending on their profit tier, and bottom-line revenue would increase as ADR went up and as more customers booked directly at the lowest-cost channel.

The potential here is unlimited. Hotels, including independents with the right booking engine, could test different approaches, segmenting not necessarily by total customer worth, but recency or frequency. They could even maintain the public rates and lower prices for known customers, because even if ADR dropped a bit, profits would increase as more bookings came directly. The best approach may be somewhere in between the two, but the opportunity is there for a hotel company to lead the way on this strategy and brand the approach as its own.

The technology is in place for companies to begin making this move. Yes, there are still issues that need to be resolved, in further connecting the different systems used to run a hotel, not to mention other process and cultural challenges like customer understanding and acceptance.

This is the future of hotel revenue management, and a way for companies to retake control of their inventory and pricing. When hoteliers talk about one-to-one marketing, this is the logical first step. Once the industry figures this out, then the next step is more personalized marketing, which becomes possible because it relies on the same technology interfaces, data and booking engines.

In the next phase, hoteliers and revenue managers will be able to begin testing how deep they need to discount to an individual customer, if at all, or more heavily up to their point of indifference for those extremely price-sensitive customers. When coupled with dynamic offers and responsive website design, true 1:1 marketing will have arrived.

6.2 Calculating Customer and Group Value via Segmentation

Knowing which guests spend the most time and money at a certain property — as well as where and when they book their rooms — opens the door to one-to-one marketing and loyalty offers. The hotel or casino benefits from that over the long term because loyal guests are likely to return often, book directly on higher-margin channels like the property's website, and partake of ancillary services like food and beverage or the business center.

The casino industry has moved quicker toward segmenting and pricing rooms based on customer value, and with better Revenue Strategy, hotels can catch up and improve their loyalty strategies. Historical data on customers' past bookings and behaviors enable the segmentation needed to make it happen. There are many ways to define a customer's lifetime value to a hotel or casino, and each property must decide what it values most in a guest over the long term. Does the guest stay at the property several times per year? Is that customer's per-stay spend higher, either by booking at non-discount rates or by greater spending on meetings, spas or room service?

Once the segmentation process identifies these loyal guests, who often are the property's most profitable customers, the hotel or casino can provide discounts through fenced or discreet offers via a loyalty program. Usually this takes the form of a personalized login for guests to book directly on a brand's website. These loyalty platforms keep hotel groups from violating rate parity agreements set with partner OTAs and also drive more profitable direct bookings — even from price-sensitive guests, who don't mind going to a brand's website if it means that's where they get their deal.

The same is true for identifying ideal group business. Loyal, big-spending groups can drive a lot of revenue for a property, and it is a good idea to identify group business on the books first, because that tends to be booked earlier, takes up large chunks of rooms and is often more dependable than transient business. A revenue manager can compare a guest coming as part of a specific group to a non-group guest or a member of another group, which will better inform what prices and incentives to offer.

To evaluate the value of a group, the property first should forecast all non-group room revenue, including folio charges and ancillary revenue. It will then determine the profit margin for non-group customers in terms of both room spend and non-room spend. From there, the property can plug in the number of guests expected within a group and factor in that organization's needs, from meeting space to food and beverage. This allows hotels to forecast the total revenue of group guests for comparison to non-group revenue. With that difference in mind, hoteliers have the ability to perform a profit displacement analysis, a true profit-to-profit analysis on both room and non-room spend, and conclude with the right rates to offer.

Sometimes it can be a more profitable, albeit difficult, decision to turn away a group if the transient demand is forecasted to be high. Having the numbers in front of her can make the revenue manager's decision to pass on the group business easier. Group displacement models are available within a modern RMS so that hoteliers don't spend too much valuable time with the difficult process of calculating them manually.

7 Conclusion

Revenue management has come a long way in the two decades it's been practiced in the hospitality industry, but unless it evolves with the disruptive forces in online distribution swirling around hoteliers, hoteliers are simply "getting by" rather than thriving. Current strategies need to develop and improve to become comprehensive Revenue Strategy.

In its old-school sense, revenue management no longer adds enough value for hotel groups. It's a tactical decision merely to manage the demand coming in from existing strategies and, as a result, a property's pricing decisions become too conservative and unimaginative to maximize RevPAR or profit. Hotel executives who embrace the Revenue Strategy mind-set change their focus to being leaders within their organizations, setting aggressive targets and incentives for the sales, marketing and revenue departments. Revenue Strategy is far more proactive and quite often leads to hotels making more money than they would have in just a management mind-set.

Progressive executives can influence owners with regards to Revenue Strategy with the fact that it's often the fastest, most affordable way to drive higher revenue and net operating income. A hotel group could invest in renovating rooms, hiring more staff or launching a new marketing campaign. But those are relatively expensive and can take a long time to bear fruit. Revenue Strategy and Open Pricing prove their return on investment far more quickly. Luckily, those solutions are gaining traction at a time when the industry is focused on growing revenue.

An integrated Revenue Strategy must encompass sales, marketing, distribution, revenue management, loyalty and all parts of the revenue generating process. Market intelligence gleaned from revenue management forecasts must serve as the starting point for proactive revenue strategies.

How can marketing know how aggressive to be with offers and promotions when they don't know when they'll need them? If the promotions department is projected to fill 500 rooms in a month, are they filling them when demand is low or are they flooding the market with deals on days when it's not necessary? How much of an upgrade should a loyalty program member receive for his 20 stays, and might that displace a customer willing to pay top dollar for that room on that night?

Data is available that can answer those questions, but it must be shared and accessible to all departments and stakeholders who are working together and toward the same goal.

Hotel Revenue Strategy is the essential function in today's complex digital marketplace that can stimulate demand, and ultimately, optimize it.

Glossary of Terms

Average Daily Rate (ADR)

A measure of the average rate paid for rooms sold; calculated by dividing room revenue by rooms sold.

Average Length of Stay (ALOS)

The total room nights in a hotel or segment divided by the number of reservations in the hotel or segment. Formula: Total occupied room nights / Total bookings.

Average Rate Index (ARI)

A metric used to determine whether the property is achieving its fair share of ADR compared to a specific group of hotels (i.e. a competitive set). It is calculated by taking the ADR of the property and dividing it by the ADR of the competitive set (competitive set data collected through a third-party provider such as STR). An ADR of above 1.00 indicates that the property is achieving more than its fair share, while below 1.00 suggests that the hotels in the competitive set are 'eating' into the properties' 'pie'. Note: Traditionally, hotel revenue managers prefer to multiply the number by 100 (or convert into a percentage).

Best Available Rate (BAR)

A commonly used base rate upon which all other priced segments are based. Also the common rate used for comparison between hotels.

Block code

A code attached only to group rooms that are a part of a block.

Block pricing

A non-yieldable rate given to a set number (or block) of rooms held for a particular group.

Booking curve

An important tool for yielding that provides a visual representation of the pickup, number of bookings, availability and yielding capacity of the hotel over time.

Booking engine

The technology that allows reservations to be made on a website.

Booking window

The timeframe in which hotel reservations come into hotels for a particular stay date(s).

Budget

Refers to the annual budget prepared in late Fall that sets the financial plan for the property for the next calendar or fiscal year. It includes a daily occupancy, rate and RevPAR by major market segments and feeds into the financial budget for the property. The budget shows percent change vs. last year and previous year by month and quarter.

Capacity

The set number of rooms in a hotel.

Central Reservation System (CRS)

A system or an office that is used by hotels in one chain or organization, or created by a third-party vendor, used to maintain hotel information, inventories and rates and to manage the reservation process.

Channel management

The techniques and systems used by hotels to update hotel information, room inventory and rates in each of the distribution channels.

Channels

Different methods by which a customer books/reserves a room.

Closed to arrival (CTA)

An inventory control mechanism used by revenue managers meaning no new reservations can be taken for guests arriving on this date.

Commissions

The payments that a travel agent receives for each reservation made on their site.

Competitive set

Consists of a group of hotels by which a property can compare itself to the group's aggregate performance.

Conversion

The transition by a customer from shopping or gathering information to taking an action such as purchasing or making an inquiry.

Day(s) Before Arrival (DBA)

The number of days before the stay date.

Demand

The amount of interest in a product.

Denial

A notification that the hotel has been shopped on the hotel's direct booking engine and a rate was not given because the hotel was sold out or a restriction was placed on the shopped date.

Displacement Analysis

Determining whether it's beneficial to take rooms out of inventory that could be requested later at a higher rate (usually in a group environment). To analyze, multiply the number of guestrooms that will be denied times the average rate for that segment of business. If that is higher than the group revenue, then the group should be turned away.

Dynamic Pricing

The process of actively applying revenue management by selling the same products at different prices to different customers.

Fenced rate

A rate that involves certain requirements in order to make the reservation, such as nonrefundable and non-cancelable reservations, or advanced purchase reservations. Fenced rates are more easily segmented.

Forecast

Expected revenue results based on analysis (occupancy and average rate included). Forecasts also typically refer to predicted demand.

Global Distribution Systems (GDS)

Four large reservation systems (Amadeus, Galileo, Sabre, Worldspan) originally designed for airlines and now widely used by travel agents only to book all forms of travel. GDS systems generally use older technology and are not connected through the Internet.

Gross Operating Profit Per Available Room (GOPPAR)

A metric that measures total revenue minus operational and marketing expenses per room.

Group Displacement

The process of evaluating a group's total profitability in comparison to the profitability of accepting business from other channels

Leisure traveler

Non-business traveler, or someone traveling for personal reasons and not work.

Length of stay

The number of nights a guest has booked at the hotel.

Look-to-book ratio – Used in the travel industry to show the percentage of website visitors (lookers) relative to the number who book on the website (bookers).

Lose-it Rate

A rate where the hotel would be better off leaving the room unsold than sell at this rate.

Market Penetration Index (MPI)

A metric used to determine whether the property is achieving its fair share of occupancy compared to a specific group of hotels (i.e. a competitive set). It is calculated by taking the occupancy percentage of the property and dividing it by the occupancy percentage of the competitive set (competitive set data collected through a third-party provider such as STR). A MPI of above 1.00 indicates that the property is achieving more than its fair share, while below 1.00 suggests that the hotels in the competitive set are 'eating' into the properties' 'pie'. Note: Traditionally, revenue managers prefer to multiply the number by 100 (or convert into a percentage).

Metasearch

A type of search engine that aggregates inventory from several sources and presents it in a single space.

Minimum Length of Stay (MinLOS)

An inventory control mechanism used to optimize stay patterns, primarily to ensure that a peak demand night does not get filled with one-night stays.

Net rate

The sell rate with commission already taken out, sometimes required for OTAs.

Occupancy

The percentage of available rooms that were sold during a specified period of time. Occupancy is calculated by dividing the number of rooms sold by rooms available. Occupancy = Rooms Sold / Rooms Available.

Occupancy Index

The measure of your property occupancy percentage compared to the occupancy percentage of your competitive set. Formula: Hotel OCC/ competitive set OCC * 100.

Online Travel Agency (OTA)

An Internet-based hotel and travel reservations system. Hotels typically provide inventory to OTAs, which sell the rooms in exchange for a commission.

Opaque

Describes a booking channel where the supplier (hotel) remains hidden until after the purchase is complete.

Open Pricing

The ability to price all room types, channels and dates independently of each other to maximize revenue without having to close any off.

Overbooking

The practice of confirming reservations beyond capacity, either in expectation of cancellations or no-shows, or in error.

Pace

Also called pickup, pace is the rate at which reservations are made for a particular date.

Pay Per Click (PPC)

A marketing technique employed when a marketer establishes links or advertising copy on a web page and agrees to pay a fee each time a web user clicks on those links.

Predictive Analytics

Extracting information from data and using it to predict trends and behavior patterns.

Price Elasticity

An economic measure that shows the responsiveness or "elasticity" of the demand for a product based on a change in its price.

ProPAR

Profits per available room, an emerging metric that calculates not revenue, but net revenue. This factors in customer acquisition costs and other expenses. Net RevPAR is another term for this.

Property Management System (PMS)

Used onsite in an individual hotel to allow for guest check-in and check-out.

Rate parity

The strategy to maintain consistency of rates between sales channels, usually enforced through contractual agreements between hotel companies and third-party vendors.

Regret

A notification that the hotel has been shopped on its direct booking engine and a rate was given, but a guest chooses not to accept the reservation

Revenue per available room (RevPAR)

A metric used to assess how well a hotel has managed their inventory and rates to optimize revenue. Calculated by multiplying occupancy by ADR.

Revenue Generating Index (RGI) or RevPAR Index (RPI)

A metric used to determine whether a property is achieving its fair share of revenue compared to a specific group of hotels (i.e. a competitive set). It is calculated by taking the RevPAR of the property and dividing it by the RevPAR of the competitive set (competitive set data collected through a third-party provider, such as STR). An RGI of above 1 indicates the property is achieving more than its fair share, while below 1 suggests that the hotels in the competitive set are eating into the properties' pie. Traditionally, operators prefer to multiply the number by 100 (or convert into a percentage).

Revenue Management

The art and science of predicting real-time customer demand and optimizing the price and availability of products to match that demand.

Revenue per Square foot of function space (REVPAS)

A measure of how effectively hotels (especially group and convention hotels) are at renting their function space. Formula: Total Function Room revenue/ Total square footage of function room space.

Revenue Strategy

A more comprehensive approach to revenue management that encompasses not just pricing and demand optimization but also business intelligence as it relates to sales, marketing, distribution and other functions across the hotel enterprise. It also accounts for costs associated with customer acquisition and retention; leverages interdepartmental intelligence to facilitate a collaborative approach to revenue generation; and unlocks behavioral insights through new data sources and price elasticity testing.

STR

A private company that provides a clearinghouse where hotels can enter their own operating data (ADR, Occupancy and total rooms) and STR then aggregates this information with data from other hotels in the same market and allows participating hotels to compare their KPIs.

Shoulder Date

Nights that are next to full or very compressed dates. If a Friday and Saturday are forecasted to be sold out, and Sunday is not, it would be considered a shoulder date in that example.

Stay Pattern Management

A revenue management process that seeks to make optimum use of hotel capacity by ensuring the stay patterns on the books do not result in un-sellable stay patterns remaining to be booked.

Transient – Non-group business.

Unconstrained Demand – The forecast of how many rooms you could sell if you had an unlimited number of rooms.

Web Shopping Regrets and Denials – When a hotel has been shopped online and a rate was given but the guest did not book a reservation (regret), or a rate was not given at all due to a restriction or sell out (denial).

Yield – The dynamic pricing, overbooking and allocation of perishable assets to maximize revenue.

Yield Management – Sometimes synonymous with Revenue Management, Yield Management is the process of understanding, anticipating and reacting to customer needs and behavior with the intent of maximizing revenue.

About Duetto

With solutions that address the true challenge of today's distribution landscape, Duetto provides unique and powerful Revenue Strategy tools to optimize profit and guest loyalty. Duetto delivers powerful insights on pricing and demand to hotels and casinos through a 100% cloud-based application.

Utilizing new consumer-centric data sets such as web shopping regrets and denials, social reviews, air traffic, weather and more, Duetto GameChanger transforms the way hotels and casinos price and sell rooms by providing better and more actionable information. Make informed distribution choices and independently yield all channels, dates and room types with Open Pricing to drive healthy revenue and optimize profitability.

Thanks to modern cloud architecture, new features and updates are delivered seamlessly with zero system downtime. This rapid innovation enables Duetto to provide an industry-leading user interface and experience that's continually improving.

Working with and for the hospitality industry, Duetto is changing the game.

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