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Ms. Dickinson

Revenue Management

Top 5 Questions Hotel Owners Should Be Asking About Revenue Management

By Kristie Dickinson, Senior Vice President, Business Development and Marketing, CHMWarnick

As hotel asset managers, we ask a lot of questions. Separating the average asset managers from the indispensable ones, is the ability to ask the right questions. What are the right questions, you ask? The right questions do a number of things…for one, they challenge the status quo, shake things up and really make people think – why are we doing it this way, how else might this be done, is it working and what should we change?

Questions should also evoke discussion about where you are today, but more importantly where you want to be in the future and how to get there. Hotel operating teams represent the "on-the-ground" experts, possessing unparalleled knowledge about the market and demand dynamics unique to their hotel. Asset managers and/or owners can leverage this expertise by asking questions that spark dialogue, lead to further exploration, a sense of joint ownership of the issues and collaborative efforts to achieve desired results.

So, what does all that have to do with revenue management? (Great question, by the way.) Revenue management has been the subject of many headlines, discussed regularly at conferences and critical to the success of any hotel operation today. Despite advances in technology; the emergence of companies specializing in the discipline (Rainmaker, Kalibri Labs and Duetto, to name a few); an elevation in the perception of the role of revenue managers; and, a multitude of other factors advancing the focus on revenue management, there still exists a wide spectrum of abilities and practices employed at both the property and corporate level. A general lack of consensus on the best approach, systems and structure, coupled with consumer products and services serving to undermine traditional strategies, makes revenue management an area that warrants constant attention….and yes, a lot of questions.

The following are five key questions that hotel owners or asset managers should consider asking again, and again, and again…

Revenue Management – Is it a Position or a Philosophy?

A reliable indicator of how focused an operating team is in revenue management includes understanding who is responsible for optimizing revenue, and hopefully, the answer will include more than one individual. The Director of Revenue Management should be in charge of the analysis, supporting strategies and on-going recommendations surrounding rooms inventory distribution and pricing, but should also interface and strategize regularly with the other operating departments. The ultimate goal is to have the entire hotel focused on optimizing revenue (and profits),

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through specific strategies that can be applied and spearheaded by department – pricing and seating practices at the restaurant, services and treatment pricing at the spa, space utilization within banquets and catering – all departments should be actively engaged in revenue management and in sync with forecasted volume of business and pricing.

Adopting revenue management as a "philosophy" and team responsibility vs. that of a single person within a hotel must be supported and encouraged from the top down. General Managers should be intimately involved in setting the strategies and challenging the team to analyze and implement initiatives aimed at optimizing revenue throughout the entire operation. This effort must then be supported on a more global basis, tying in marketing and other resources to effectively promote and track efforts. Owners can gain valuable insight as to the adoption of revenue management practices by asking 1) how often the team meets to discuss revenue management, 2) who attends the meetings; and, 3) what are the top revenue management initiatives by department?

While having a dedicated position on property is often the preference, if the revenue management function is centralized within a brand or corporate management cluster, it becomes even more critical that the General Manager and senior-level property team is actively engaged to ensure the decisions influencing the direction is in line with property-specific goals. Which leads us to the next question…

What is the Goal?

What is simplistic in theory – optimizing revenue and profitability – has become increasingly more complex in execution. The first step is clearly identifying and communicating measureable goals. From an ownership standpoint, the goal is typically tied to a proforma that spans several years. Seeking buy-in on long-term performance objectives will engage the operating team to think strategically about how to achieve goals over the investment horizon, as opposed to a single year in time. Absent a discussion of long-term objectives, revenue managers may rely more heavily on historical performance as a means of setting goals, rather than working toward more forward looking potential. Once the overall goals are established, it is incumbent on the team to execute on strategies to achieve those goals. This then begs another question worth asking…

What Are The Right Metrics to Measure Success?

Metrics for measuring success can be viewed as the "interim goals" established to ensure that the hotel is on track to achieve investment goals. Historically, occupancy, average daily rate (ADR) and revenue per available room (RevPAR) have been the prevailing metrics to measure and benchmark performance. As an industry, these metrics still reign supreme, but there are many factors compromising the integrity of these metrics when it comes to assessing optimal performance. The proliferation of booking channels, changes in commission structure and payment options (pay now, pay later), group intermediaries, among other modern day challenges have muddied the profitability picture considerably. As a result, two hotels could have the same ADR, but one could be more profitable than the other. Similarly, two hotels could have the same RevPAR, but one could be more profitable based on the strategy and mix of occupancy and ADR (more rate = more profit; more occupancy = more cost, but also more ancillary spend…lots of analysis needed here to balance the mix). This means traditional measures such as "indexes" on top line alone, while directional indicators, are not representative of the true picture, and in fact may work against hotels in certain instances where the team is incented against these metrics.

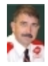
Recent studies indicate that the increase in customer acquisition costs has significantly outpaced revenue growth in recent years, forcing the industry to take a hard look, not only at revenue-driven metrics but at those that speak to profit as well. So, this begs the question, "what are the right metrics and how are we measuring our success"? Industry leaders in revenue management, suggest calculating RevPAR based on a net ADR (ADR minus acquisition costs) as a good place to start in better understanding and managing margins. This should be examined by channel and by segment. Others suggest measuring Total Revenue Per Available Room (also referred to as Adjusted Revenue Per Available Room) which factors variable costs, as well as incremental spend into the overall RevPAR equation providing a better sense for overall contribution or "value" by segment or channel. Another popular metric these days is GOPAR (Gross Operating Profit per Available Room) which factors in all operating costs. In all of these instances, those at the forefront of revenue management have recognized the importance of revisiting key performance indicators (KPIs) as a means of optimizing profitability. Clearly, one metric is not enough.

What Is The Data Telling Us?

A common misnomer is that data = results. Data is certainly a large part of the equation, but the ability to distill the information and focus analysis on the most meaningful data is the key to success. Revenue managers have an enormous job managing the day to day pricing and inventory, but they also have responsibility for identifying opportunities and implementing a variety of strategies based on findings extrapolated from data. For instance, a goal to increase ADR can be implemented in many different ways. It is the revenue manager's job to identify the most profitable way to implement. In this instance, through the use of data one might analyze pick-up patterns to determine if there is an opportunity to accommodate more demand from higher rated segments (shift in business mix) and/or from lower cost channels (to increase profitability).

There may be opportunities to increase ADR through smoothing out demand patterns through implementing length of stay strategies for specific dates. There may be opportunities to increase ADR through adjusting pricing based on internal demand, as well as pricing in the market. And, there may be opportunities to increase ADR through manipulating inventory and adjusting pricing by room type.


By Mike Sawchuk, President & General Manager, Enviro-Solutions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By Rohit Verma, Executive Director, Cornell Center for Hospitality Research

One of my favorite examples to share about the power of data analysis and revenue management involves a hotel located next to a MLB ballpark. In the pursuit of growing rate, the team was challenged to look for opportunities to increase ADR, specifically through an examination of room types, of which there were two general categories – standard and oversized. While initially, we thought the opportunity would come from increasing pricing on the oversized rooms, data analysis revealed that the rooms facing the ballpark, albeit smaller, were first to sell on game nights. As a result, they were able to implement a strategy during home games whereby "standard rooms" became "ballpark view", which elevated pricing power across both room types for a significant lift in overall ADR.

By focusing on a specific goal and simply asking, "what is the data telling us?" owners can readily access whether the team a) has the data it needs, and b) the resources and capabilities required to analyze and identify opportunities. This question will also reveal other challenges that may need to be addressed including revenue management systems, training, additional resource needs and other assistance that may be required.

Is It Working?

Revenue management is extremely dependent on data, but truly optimizing revenue and profit comes from testing new strategies, taking some risks, pushing the pricing envelop and attempting to shift business in a way that's most lucrative. Owners should be challenging the operating team on a regular basis to look at the future, while also learning from the past and continually asking….is it working?

Kristie Dickinson, brings more than 20 years hospitality industry experience to her current role as Senior Vice President for CHMWarnick, a leading hotel asset management and advisory company. Ms. Dickinson is responsible for business development and corporate marketing, as well as supporting strategic planning efforts for the firm's 58 hotels under asset management. Ms. Dickinson specializes in revenue management practices, sales and marketing effectiveness and market positioning. She is an active member of the International Society of Hospitality Consultants (ISHC) and Hospitality Sales & Marketing Association International (HSMAI), and a contributing author to several industry publications. Ms. Dickinson can be contacted at 978-522-7002 or kdickinson@chmwarnick.com Please visit www.chmwarnick.com for more information. ***Extended Bio...***

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With hotel refurbishments typically taking place every eight to ten years for the soft elements, and every fifteen to twenty years for public spaces and bathrooms, owners and investors rely on architects and designers to get things right. Their solutions must satisfy a targeted demographic, be aesthetically timeless and durable, and fulfill the market's desire for unique and memorable design. From re-thinking guestroom configurations to constructing dramatic public spaces, an effort is being made to recast hotels as the highlight of any business trip or vacation. In that regard, many architects have chosen to make a striking first impression, with an emphasis on the hotel lobby. These areas are being designed as multi-use spaces to accommodate casual or formal talks, individual or group work, and zones for social activity. Creative space segmentation is required, along with furniture that provides comfort and functionality. More extravagant entrance features also include indoor waterfalls, large chandeliers and multi-media stations. The bathroom is also an area of interest for designers in recognition of guest desires to experience luxury beyond their everyday lives. Spa-like features such as en-suite bedrooms, waterfall showers, over-sized bathtubs, his & hers sinks, giant towels, plush robes, and deluxe beauty items provide the promise of indulgent luxury. Additionally, hotel restaurants can no longer afford to be mere providers of three meals a day and a buffet. Signature restaurants are being designed to offer a genuine "wow" factor to both guests and external patrons alike. Along with sustainability concerns and an increased emphasis on local sourcing, these are some of the subjects in the fields of hotel architecture and design that will be explored in the June issue of the Hotel Business Review.