

Revenue Management



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Hospitality Finance, Revenue and IT Professionals

Education & Training

Aims

Aims of the Book

This book provides an introduction to the world of Revenue Management and how it can be used in the hospitality industry.

Objectives of the Book

The principle aim of this eBook is to enable the reader to develop their knowledge of Revenue Management practices including how to:

1. **Understand the core components of revenue management and how these are applied within the service sector.**
2. **Understand the motivation of the customer in making purchase decisions.**
3. **Understand the influence of the economic cycle in consumers purchase decisions.**
4. **Understand the nature of competitive markets.**
5. **Understand the principles of market segmentation for a hotel.**
6. **Understand the core components of pricing and its impact (in a variety of demand periods) on value perception.**
7. **Understand the key skills required for a revenue manager.**

As you progress through this book you have the opportunity to test your knowledge and understanding using the interactive review tools.



What is Revenue Management?

A commonly accepted definition of revenue management is to sell:

- The Right Product
- To the Right Customer
- At the Right Time
- For the Right Price
- Through the Right Channel



Revenue Management

Section Objective:

- 🌐 **Understand the core components of revenue management and how these are applied within the service sector.**

WHAT IS REVENUE MANAGEMENT ?

Revenue Management (RM) is the art and science of maximising revenue under variable conditions. It is a management tool that has the objective of increasing sales revenues by manipulating the prices at which fixed products (i.e. hotel rooms and airline seats) are made available for sale in relation to the current and forecasted demand.

Customers are now very aware that the price they would need to pay for an airline seat or a hotel room will vary significantly depending upon the point at which they make a purchase decision and the availability of the seat or room. This change in the way that customers perceive the pricing of these products has been relatively recent but universally accepted.

As revenue management has developed, it has become more disciplined and technical in using a variety of analytics to predict consumer demand, and to optimise the inventory and price availability to maximise revenue. The essence of this discipline is in understanding the customers' perception of product value and accurately aligning product prices, placement and availability with each customer segment.

HISTORY

The deregulation of the airline industry is generally seen as the catalyst for revenue management (and its precursor, yield management). The terms revenue management and yield management are often confused, yet there is a key distinction between the two disciplines. Whereas revenue management involves predicting consumer behaviour by; segmenting markets, forecasting demand and optimising prices for several different types of products, yield management refers specifically to maximising revenue through inventory control. Thus, “yield management” is a tactical application within the broader field of “revenue management”.

After the US Government deregulated the airline industry in the early 1980s, revenue management practices were first launched. Over the next few years, yield tactics became common practice among major airlines. However, revenue management may reasonably be assigned an inception date of 17th January 1985 when American Airlines launched its “Ultimate Super Saver” fares to compete with the low cost carrier PEOPLExpress.

Revenue management was born out of the need to fill at least a minimum number of seats to cover fixed operating expenses. Once these fixed costs were covered, the remaining capacity could then be sold at higher rates to maximise revenue and profit.

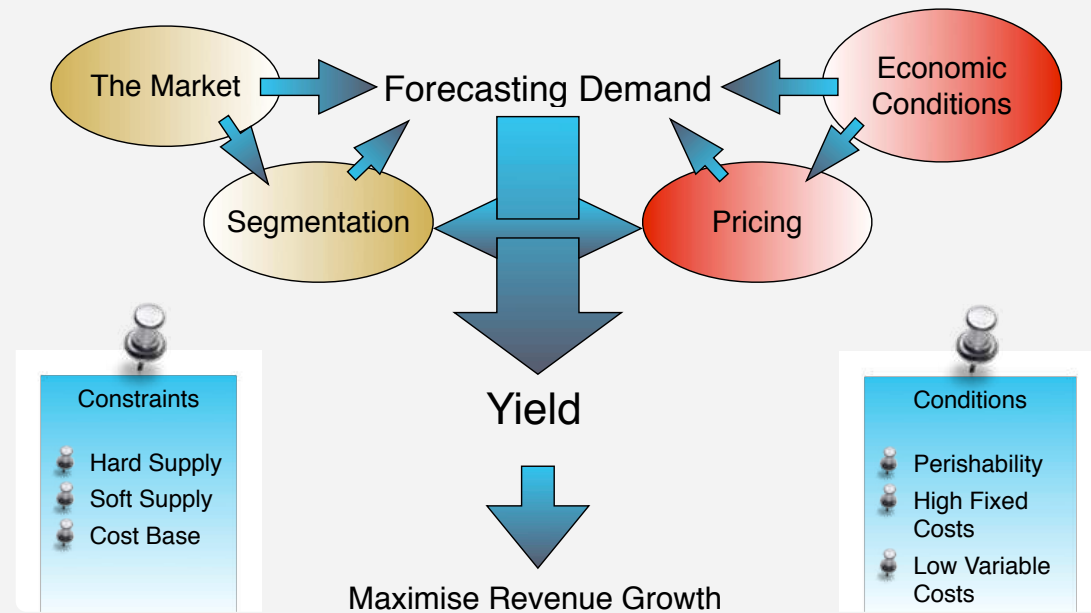
The hotel industry recognised the benefits of adopting a revenue management approach as practiced by the airline sector but initially growth of the technique was held back by the lack of appropriate technology available to manage data and the shortage of meaningful information about guests. The final challenge to overcome was how to manage the length of stay – a feature which is different to that experienced by the airlines.

CORE COMPONENTS

Most businesses will face complex decisions regarding their pricing and selling strategy. Namely, what product to sell, who is the target customer, when is the ideal time to sell, how much to sell that product for, and what is the “best” route to market (considering such factors as cost of sale and brand image).

An overview of the key variables in revenue management is shown in Fig 1. It is the complex interrelationship between the variables that needs to be understood to be able to make management decisions on pricing and yield to generate revenue. As the model illustrates the complexity is bounded by the constantly changing pressures on the different variables, the market is influenced by economic conditions, pricing similarly, the segments of the market change by the nature of the purchase decision and customers changing expectations. At the heart of the revenue management strategy is the customer, as understanding customer behaviour and attitudes towards price

Figure 1 Components Revenue Management



and purchasing is a core determinant in the success of any company's revenue management strategy. With the overall aim of maximising revenue, being able to manage variables in this complex equation relies on an understanding of the dynamics of those variables and how they change over time. Reliance on automated complex algorithms is not the entire answer as it's the underlying concepts that need to be properly understood to have confidence that any algorithm will produce an appropriate result. The ability to scan the wider economic environment and understand trends is an important consideration when forecasting demand.

Revenue management is of particular value in situations where the proportion of fixed costs is high compared to the proportion of variable costs. The less variable cost there is the more added revenue will contribute to overall profit. For example when a hotel room is sold for £300 per night only a small proportion of this selling price is spent on variable costs such as guest amenities, cleaning, laundry and energy consumed. Variable costs may only amount to around 10 - 20% of the selling price. The remainder is the contribution to fixed costs and then profit.

As a result the concept of revenue management can be applied to the selling of hotel bedrooms and to other areas in the hospitality industry such as conference and banqueting, and food and beverage where the management of fixed resources is essential to maximise profit.

Revenue management relies on the collection of data and factual evidence to support strategies and their tactical application, to increase both revenue and profit. Revenue management uses the basic principles of supply and demand economics, in a tactical way, to generate incremental revenues.

Revenue management in the service sector is distinct and more complex in comparison to other sectors. For an overview of the current use of RM in the hospitality sector read this opinion piece by Dr. Gabor Forgacs.

www.hospitalitynet.org/news/4059233.html

CONDITIONS AND CONSTRAINTS

To be of practical use, revenue management can only exist where certain sets of conditions and constraints apply. These conditions and characteristics, whilst not individually unique to the service sector, when taken together, provide a complex set of interrelationships that need to be analysed and understood.

There are a number of essential conditions for revenue management to be applicable. These are shown in Interactive Diagram 1.

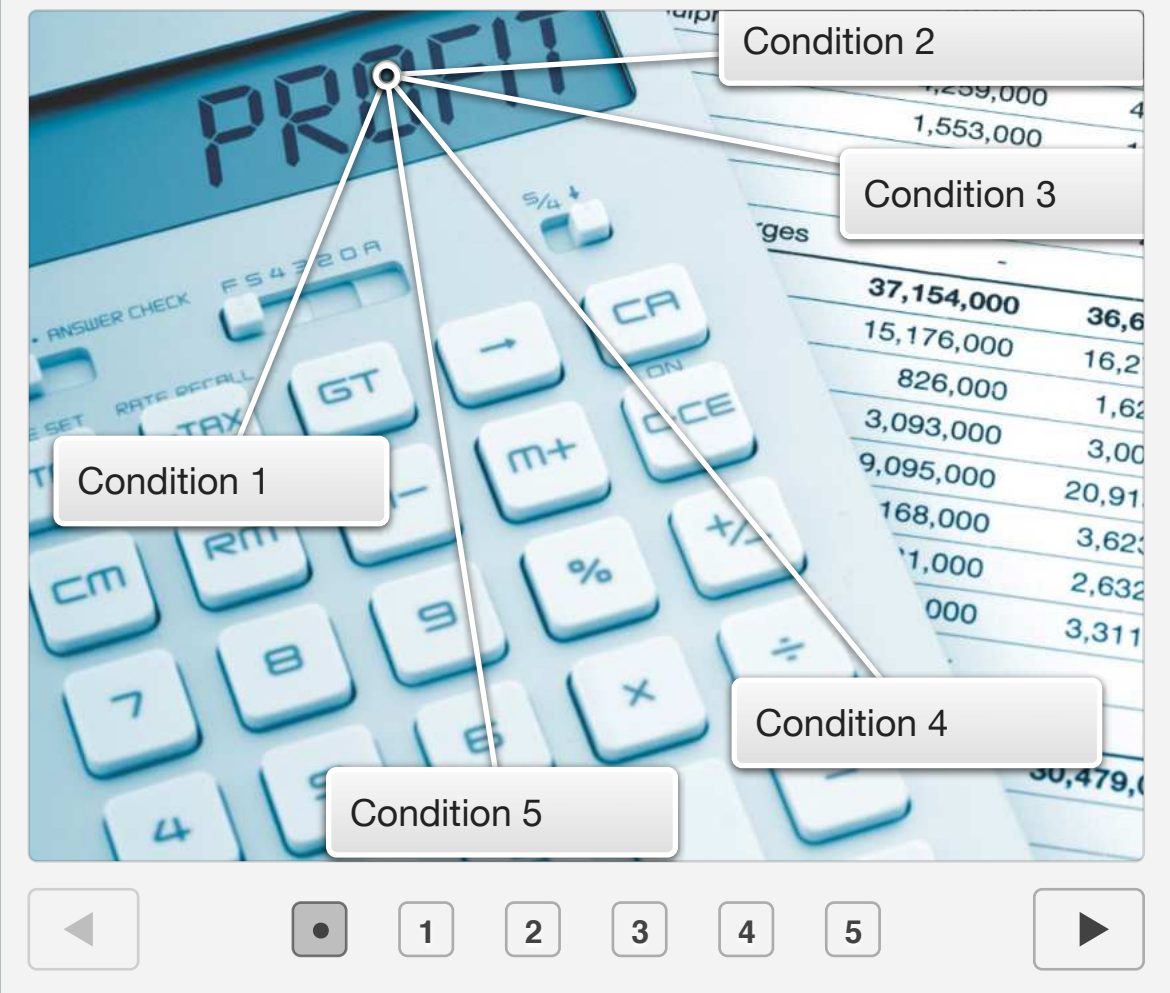
Condition 1 and 2 taken together characterise the supply constraints. There is a limited supply only available at that moment in time. This is referred to as “hard supply”. The hotel has a fixed number of rooms, the airline has a fixed number of seats, and the cruise liner has a fixed number of cabins. Soft supply however is a constraint where it may be possible to increase supply to meet demand but that supply may not be at the times or indeed places where the demand is greatest. For example a restaurant could increase its opening times to increase the availability of seats and supply but that in turn may not increase the revenue unless customers come during those times and spend money.

Not only is the supply fixed it is also perishable. An airline seat, cabin on a cruise liner, a room or a meal, cannot be stored in inventory and reused on another occasion. If not sold for the specific flight, cruise or day, the opportunity for the sale is lost.

The customer must be prepared to pay variable prices dependent upon the nature of the product and the demand. The fact they're

Interactive 1 Essential Conditions for Revenue Management

Explore the



prepared to pay a variable price for the same product as with airline seats and hotel rooms creates the unique environment in which revenue management can work.

Low variable costs, this refers to the relatively low costs in servicing either the airline seat or the hotel room.

High fixed costs,; this refers to the conditions where there are high fixed costs in providing the product or service that need to be recovered. The costs of operating the airplane, the cruise liner or the hotel are largely fixed irrespective of the number of passengers or guests using them.

Hard supply; this is a constraint where the operator cannot increase or decrease the number of seats or rooms they offer in relation to the demand.

Constrained supply; is a key feature of revenue management and is defined as:

‘When sellers cannot readily increase the amount of products or services available for sale when consumer demand for them increases.’

As the term “Revenue Management” is often misused and frequently misunderstood, it is therefore important to understand the key components and concepts that will be discussed throughout this introduction.

SEGMENTATION

Segmentation is the practice of subdividing or “bucketing” customers or guests into groups with similar behaviours. Each

segment should respond in a different way when presented with the same proposition. Traditionally, hotels segment their guests based on the purpose of the stay. To be effective, segmenting the market must meet certain criteria as shown in Figure 2.

FORECASTING DEMAND

Most revenue management practitioners consider this to be at the core of their RM approach and application. Without an accurate forecast, pricing and yield tactics cannot be effectively applied. Despite this, forecasting still proves to be a challenge for many organisations.

Forecasts are often used in a variety of ways throughout the organisation. At a high level, these can be seen in Figure 3.

Demand forecasts are an essential part of a Revenue Management System. For example in a hotel, a demand forecast is usually calculated by taking the actual number of reservations on hand (actual number of rooms booked) and adding the predicted number of rooms that will be booked (this is sometimes known as pickup).

As Movie 1 shows in times of high forecast demand, setting a high price point will maximise revenue, however if the demand forecast suggests that the demand is lower than usual, it may be appropriate to open a lower price point/band to stimulate demand.

Figure 2. Effective Segmentation

Effective segmentation:

Measurable: It has to be possible to determine the values of the variables used for segmentation with justifiable efforts. This is important especially for demographic and geographic variables. For an organisation with direct sales (without intermediaries), the own customer database could deliver valuable information on buying behaviour (frequency, volume, product groups, mode of payment etc).

Relevant: The size and profit potential of a market segment have to be large enough to economically justify separate marketing activities for this segment.

Accessible: The segment has to be accessible and servable for the organisation. That means, for instance, that there are target-group specific advertising media, such as magazines or websites the target audience likes to use.

Distinguishable: The market segments have to be that diverse that they show different reactions to different marketing mixes.

Figure 3 Forecasts

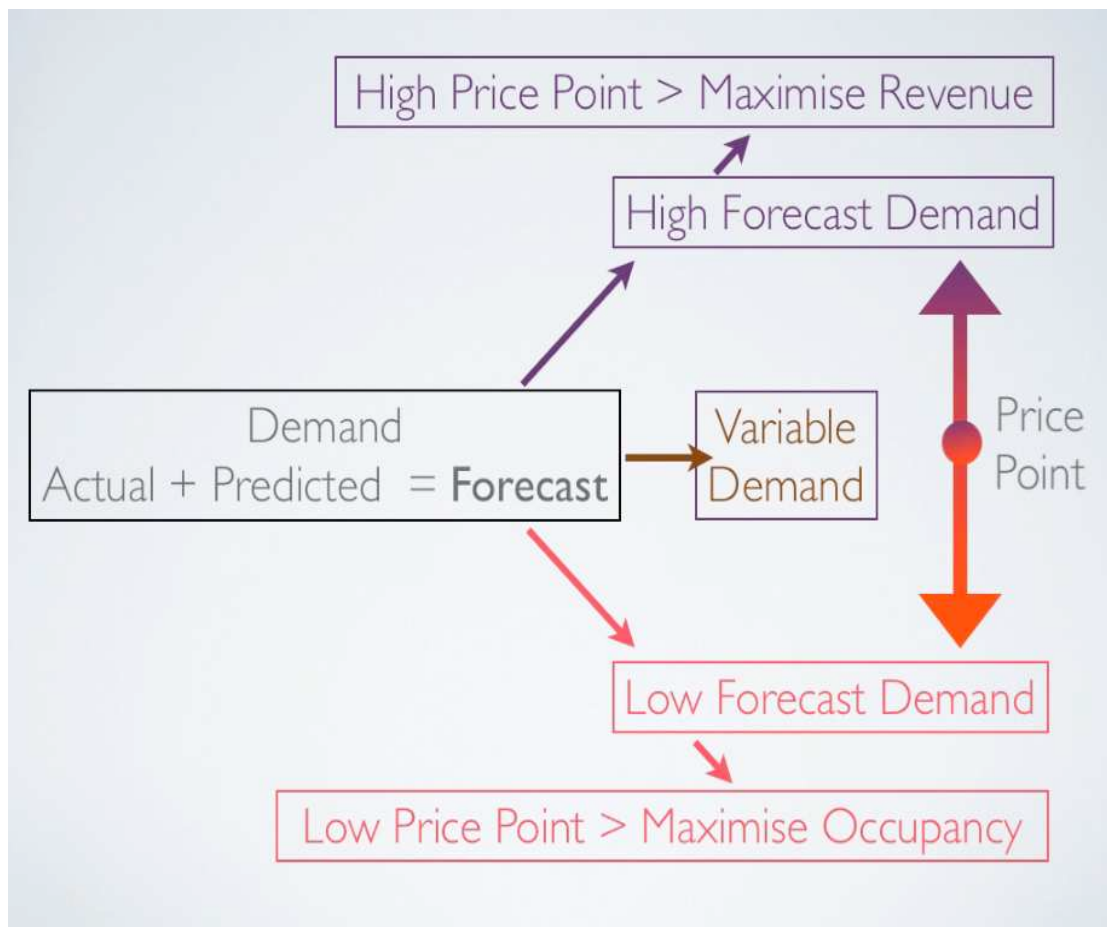
Forecast Type	Purpose	By Whom	Frequency
Demand Forecast	To understand the unconstrained demand. Used to apply pricing and yield tactics.	Revenue	Short Term: Daily and Weekly Medium Term: Monthly and Quarterly
Financial Forecast	To understand future revenue and costs. Identify shortfalls.	Revenue Finance	Short Term: Weekly Medium Term: Monthly and Quarterly
Operational Forecast	Required to complete operational tasks such as scheduling and maintenance.	Revenue Finance Operations	Short Term: Daily and Weekly
Strategic Forecast	To understand the long term revenue performance, demand implications and market conditions.	Revenue Finance GM Corporate	Medium Term: Monthly and Quarterly Long Term: Annually

As demand can be variable and change over time, flexibility in establishing the appropriate price point is essential if revenue is to be maximised.

In a dynamic pricing environment, where prices change regularly, the decision to open or close different price points is based on the demand forecast for that particular day.

Beware! The term forecast can mean different things to different people. People in the Finance team will think of a forecast as

Movie 1 Forecasting Demand



Touch screen to start, turn up volume

similar to a budget, which is very different to the view of revenue managers who think of the forecast as the prediction of demand.

An accurate demand forecast is one that is compiled day by day, by market segment.

PRICING

Upon completion of an accurate forecast, the business is in a position to revisit their tactical pricing approaches.

Correct pricing is, without doubt, one of the largest and most critical success factors in an organisation's strategy. Revenue management techniques have a large part to play in establishing the "right" price.

The primary aim of pricing is to determine the maximum revenue and profit that is achievable through the product or service that you have available for sale, by considering each segments' willingness to pay. This willingness to pay, or price sensitivity, is driven by the value that each consumer places upon the product.

Pricing tactics will then determine how a company can capitalise upon that value perception. Tactics may include price ranking against competitors, market penetration tactics or, the most valuable approach of following market conditions of supply and demand.

Pricing involves both science (dynamically changing prices based on price sensitivity, price ratios, unconstrained demand and remaining capacity) and art (understanding customer segments, their attitudes towards the product and where they place value). This is often referred to as 'pricing discrimination'.

YIELD

Upon completing the pricing review, the next stage in the RM methodology is to apply inventory or yield controls. Yield tactics are also known as inventory controls and, if applied correctly, can have a considerable impact on the businesses ability to “optimise” on revenue and profit potential. The use of yield tactics allows businesses to maximise revenue opportunities during high demand days and maximise occupancy opportunity during low demand days.

The primary yield tactics are shown in Figure 4

REVENUE GROWTH

Revenue growth occurs by maximising the revenue opportunities through a thorough understanding of the demand supply pricing relationships and flexibility in applying pricing tactics over time. If demand is high, the closer to the time when a particular product “perishes”, the less flexibility and variability will occur in the pricing. If demand is low however the reverse applies. As demand can change significantly over time it is important to be able to track that demand, amend the forecast and implement variable pricing quickly in order to be able to respond to the market and maximise revenue.

Figure 4 Yield Tactics

Yield Tactic	Primary Application
Maximum Length of Stay MaxLOS	A reservation is restricted to a maximum duration. Often used to limit the availability of discounted or promotional rates.
Minimum Length of Stay MinLOS	A reservation is restricted to a minimum duration. Often used during high demand dates to optimise on demand for longer lengths of stay.
Closed to Arrival CTA	No reservations are permitted with arrival on a particular day. Often used to encourage stays into shoulder dates, but risks turning away long stay bookings.
Allocations	Partners are given an allocated number of rooms to sell within the hotel, often at a discounted rate.
LRA	Key accounts are guaranteed availability within the hotel; on the room type they have contracted rates for, as long as that room type is still available for sale.

APPLICATIONS OF REVENUE MANAGEMENT
WITHIN THE SERVICE INDUSTRY

Revenue management is applicable within most of the service industry, although it can be applied in a variety of ways.

As the interactive illustration (Interactive 2) shows, the most successful yield management applications are generally found in Quadrant 1 and 2 industries, because they can manage both

capacity and customer duration. The other quadrants can all implement RM techniques, but there are undoubtedly greater challenges in these areas due to the unpredictable nature of the guest 'visit'.

Interactive 2 Where is RM most applicable?

		Price	
		Fixed	Variable
Duration	Predictable	Quadrant 1 Cinemas Stadiums Convention Centres	Quadrant 2 Hotels Car Rentals Cruise Liners Airlines
	Unpredictable	Quadrant 3 Restaurants Golf Courses Internet Providers	Quadrant 4 Hospitals

Additional Reading: Chapter 1, Cooper, C., Whittington L. (2010) Hotel Success Handbook. MX Publishing, London.

Review Questions: Revenue Management and Businesses

Question 1 of 5

Why is RM Important ?

- ☐ **A.** Predicts Growth
- ☐ **B.** Creates Sales Leads
- ☐ **C.** Improves Yield
- ☐ **D.** Reduces Costs
- ☒ **E.** Generates Revenue



Check Answer



Understanding the Customer (Consumer)

Section Objective:

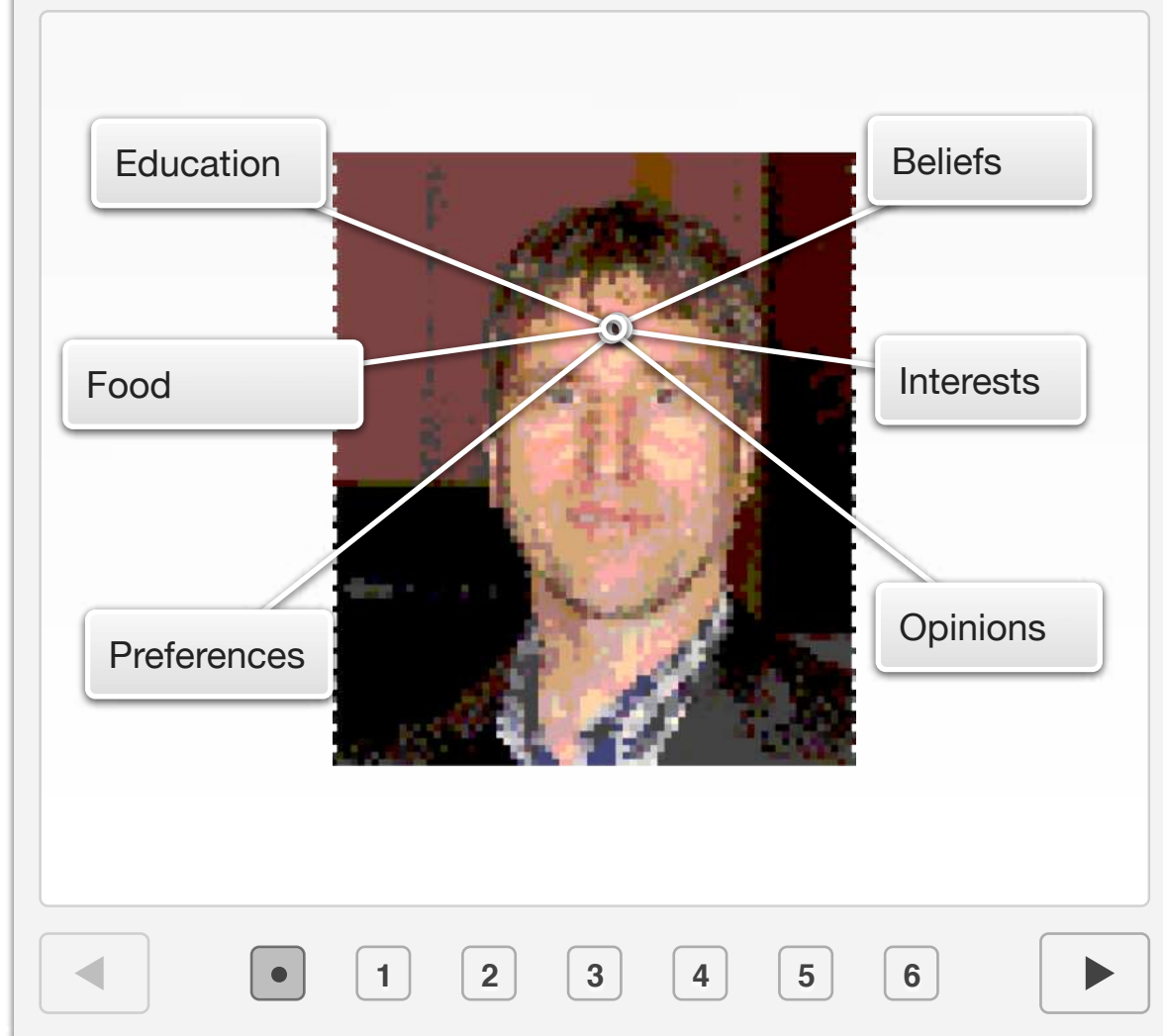
- Understand the motivation of the customer in making purchase decisions

THE CUSTOMER (CONSUMER)

With globalisation, increased mass communication and the instant transmission of ideas, societies and the people within them are influenced by a tremendous range of cultural, social and different behaviours from across the world. For marketers the traditional approach to understanding people (consumers or customers) has been to try and differentiate them in a number of ways. The usual ways were – by age, gender, race, nationality, education, occupation, marital status and living arrangements. This now needs to be enhanced by a common understanding of how one differentiates people by their interests, activities, opinions, preferences and values. They differ in the food they eat, their political beliefs, what they might choose to wear and what they might choose to read. (Figure 5)

Predicting the needs and wants of people (consumers) is the business of marketers and social researchers who now need to focus on smaller groups of individuals with similar buyer behaviours or niche markets rather than the mass markets of previous decades. Diversity in behaviour, choice and the methods by which the marketing message will reach the consumers has expanded almost exponentially. Direct marketing and social marketing using social media are merely some of the “distribution channels” widely used to try and reach markets which can be defined by specific consumer behaviour.

Figure 5 Influences on Consumer Behaviour



The difficulty with this of course is that consumers refuse to be ‘pigeonholed’ in this way and the situation has become even more complex with a profusion of goods and services and the freedom of choice that is now available. Understanding the consumer and the potential buying behaviour, given certain sets of circumstances, has become increasingly difficult yet increasingly important, especially in providing targets for specific types of promotions and offers to desired market segments. If

revenue management is going to work effectively, the understanding of what conditions and behaviours will influence individual purchase decisions becomes more important than trying to provide a “global solution”.

“Consumers” can be both individuals, as personal consumers, or organisations, who are making purchase decisions on behalf of a corporate body. The personal consumer makes purchase decisions on the basis of their own requirements, needs and use, whereas the organisational consumer makes purchase decisions for products, equipment and services for the benefit of the organisation. In revenue management terms, both are equally important in the pursuit of maximising revenue, but have to be approached in very different ways. Understanding the corporate market is equally important to understanding individual consumers.

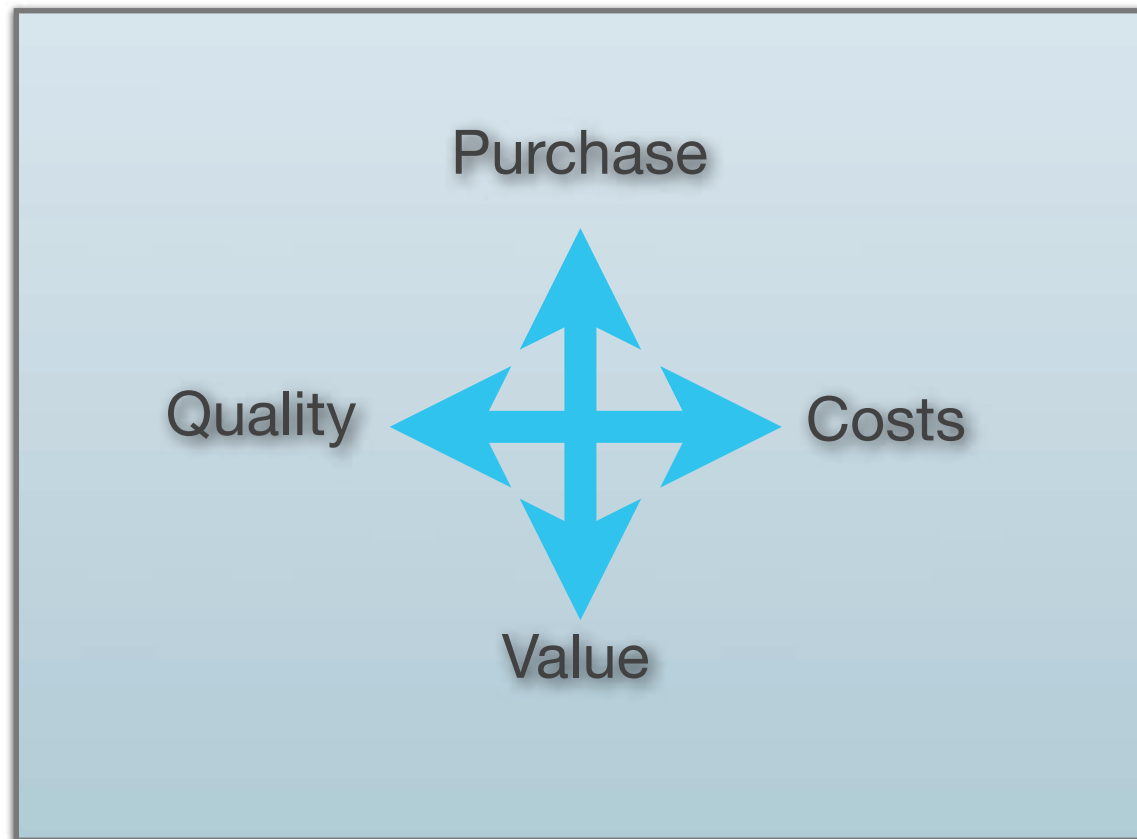
PERCEPTIONS AND EXPECTATIONS

Consumers, be they a person or organisation, have “perceptions” of the value and quality of a particular product or service, based on their own view of the product or service whether they have used it or not. This perception may be based on “real world” experience using the product or service, or, equally based on stimuli derived from a broad range of messages from individuals, advertising or third party opinion, such as could be found on any comparison website. The interpretation people

put on the vast range of visual and other stimuli that condition their perception of particular products and services, is not always based on objective evidence but on the imagery that is used to try and position products and services.

The consumer's perception of the product or service includes

Figure 6 The Quality Value Relationship



within its frame of reference the price (cost) and perceived quality. Perceived value therefore is based on costs, which could include non-monetary costs, combined with the perceived quality. If the costs in relation to the perceived quality are seen to be outside an acceptable range then the product or service will be rejected. In

revenue management, understanding the price points in relation to the perceived quality is particularly relevant when making pricing decisions in rapidly changing demand situations.

The quality and price relationship sets up for the consumer, expectations as to the “value” of the product or service. If that product or service does not meet those expectations the consumer becomes dissatisfied and that dissatisfaction will significantly influence future behavioural purchase decisions.

If that dissatisfaction is widely broadcast through a range of different media this can have a particular impact on other people's perceptions and expectations of the product or service.

UNDERSTANDING “VALUE”

Understanding value or more importantly the consumer's perception of value is integral to revenue management. In a buyer or seller transaction, the value is the amount of perceived benefit gained minus the price paid. This can be expressed as a formula:

$$\text{Perceived benefit} - \text{Price} = \text{Value}$$

For most consumers both personal and organisational, the value of the various alternatives on offer is not necessarily obvious. The information that consumers receive and how they evaluate that information will affect the perceived value. Where price points for

a product or service are set lower than consumer expectations, consumers tend to be prepared to take more risk because the value would be greater as the price is lower when measured against the perceived benefit. Where the price point is higher against the perceived benefit, consumers tend to be more risk averse and will be seeking more “value”. The issue for revenue management is establishing the appropriate balance across the range of price points that are offered.

SITUATIONAL BEHAVIOUR

One of the complexities in understanding consumer behaviour is that consumers do not represent homogenous groups and their behaviour changes significantly dependent upon the situation in which they are making the purchase decision. This situational behaviour impacts on how markets may be segmented. For example, in making a purchase decision for a hotel room the “perceived benefit” will vary significantly depending upon the situation that is governing the purchase decision. The perceived benefits for a one night stay as part of a business trip are going to be very different from those of a three night leisure stay. Thus the “perceived value” is dependent upon the situation in which the purchase decision is being made.

Review Questions: Understanding the Customer

Question 1 of 3

Why is it important to understand the consumer beyond the traditional factors such as age, gender etc?

- ☐ **A.** Consumers have more freedom of choice than in the past
- ☐ **B.** Consumers refuse to be ‘pigeonholed’
- ☐ **C.** Increased goods & services on the market
- ☒ **D.** All the above



Check Answer



The Economy and Supply and Demand

Section Objective:

- Understand the influence of the economic cycle in consumers purchase decisions.

THE ECONOMY

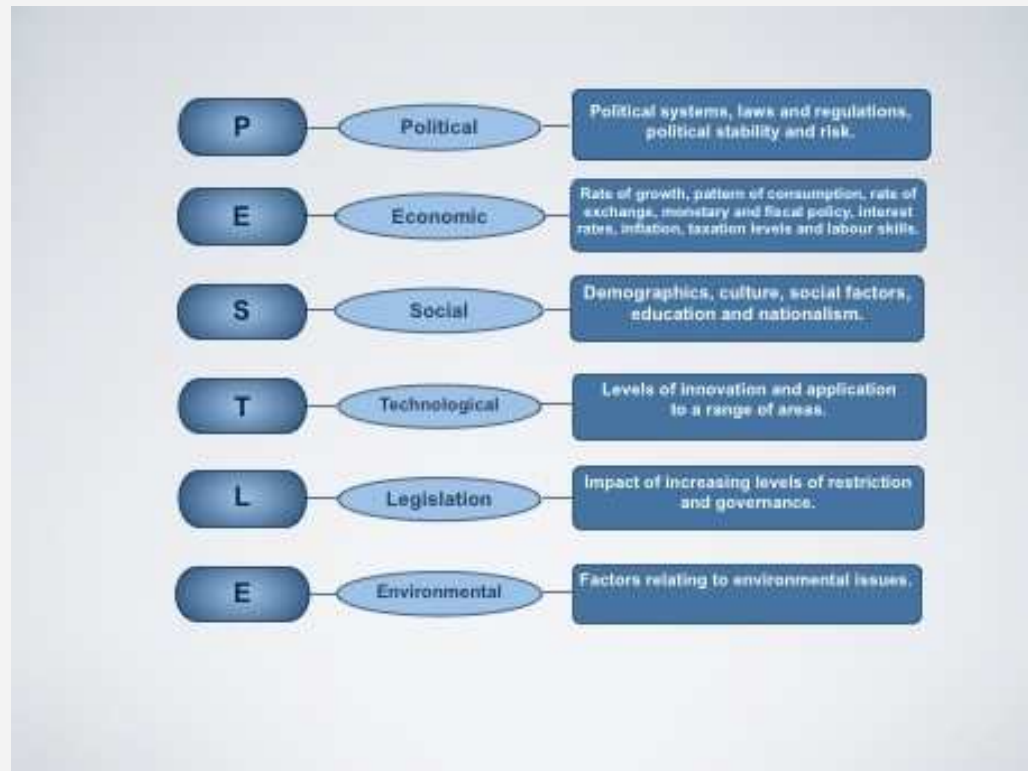
The state of the economy influences the confidence of consumers in making purchase decisions. In conditions of growth, confidence increases, which in turn increases the propensity to spend. In conditions of recession or stagnation confidence is reduced, savings increase, demand falls and spending is reduced. Under these conditions competition increases and for the consumer “perceived value” is fundamental to the purchase decision. It could be argued that revenue management is even more important when competition is increased and the economic conditions show little or no growth. The importance of maximising revenue under the circumstances of reduced demand is obvious, therefore the pricing policy implemented and the speed at which organisations respond to changes in demand determine their competitiveness.

WIDER ECONOMIC CONDITIONS

Environmental scanning is the careful monitoring of an organisation's internal and external environments for detecting early signs of opportunities and threats that may influence its current and future plans. External environmental factors have a significant impact on a consumer's propensity to purchase. These are often

categorised using the acronym PESTLE which considers the following factors: Political, Economic, Social, Technology, Legal and Environmental.

PESTLE ANALYSIS



Key factors in PESTLE analysis

THE ROLE OF COST IN PRICING

In order to be profitable a seller must sell a product or service for more than the cost of providing the product or service.

Business costs can be classified in a range of ways with the following being the most important. The basic cost element approach represents a simple way of classifying costs using the resources required to produce the product or service. There are three cost elements:

- **Materials** which represent the cost of the components that make up the product such as the cost of ingredients for a restaurant meal.
- **Labour** which includes all costs associated with rewarding personnel for their efforts
- **Expenses** which includes all other arising costs

This approach forms the basis of the traditional profit and loss account.

A second approach is to divide costs into those which can be assigned to products, services, departments or particular activities, i.e. **direct costs** and those which cannot be assigned i.e. indirect or overhead costs. Examples of direct costs include:

- **Materials:** cost of sales e.g. ingredients
- **Labour:** restaurant managers salary
- **Expenses:** laundry of table linen

All these costs could be directly attributable to the restaurant.

Examples of **indirect costs** include all indirect materials, wages and expenses included in the operation such as:

- Site rental
- General manager's salary
- Energy costs

It is tempting to try to allocate indirect costs to products and services; however, this is often problematic, as it is usually difficult to arrive at a basis of apportionment which is truly representative of how the cost has been accumulated.

The third category illustrates how the cost behaves under differing conditions of volume or activity. The two extremes are variable costs and fixed costs but many costs contain an element of both.

Fixed costs: these are costs that remain unaffected by the level of activity.

Whether open or closed a business still has to bear fixed costs. Rent is payable regardless of how busy the business might be. Other examples of fixed costs could be loan interest and management salaries.

It cannot be said that fixed costs will never change. Fixed costs will change if there is a price increase i.e. rent charges may go up each year in line with inflation or indeed by a higher rate. The

main point to realise is that fixed costs are costs that do not alter as a result of changes in the activity of the business. Although fixed costs remain constant, in total the cost per unit of activity decreases as volume increases.

Finally, it is important to realise that fixed costs only remain constant for a certain range of business activity. This range of activity is called the relevant range.

Variable costs: these change in proportion to the level of activity of the business.

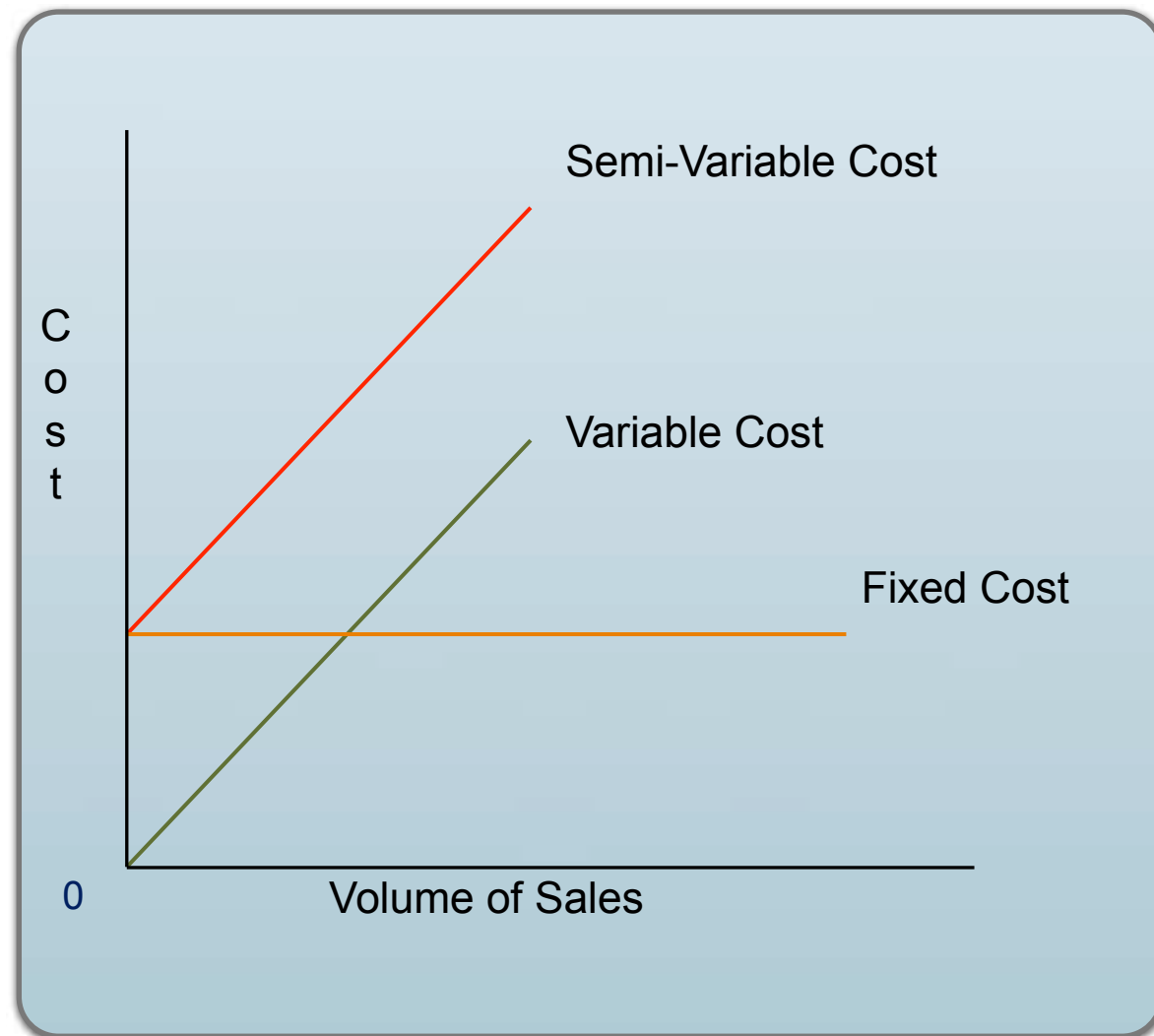
The most obvious example is food cost in the case of a restaurant. If the number of covers increases by 50% then food costs will increase in direct proportion. This means that we assume that the cost per portion remains constant and each additional cover served will create a linear increase in the cost of sales.

Of course, it is possible that the cost per portion may fall with increases in volume to take account of, for example, bulk-buying discounts, however generally we assume that the cost per unit is constant.

Semi-variable costs contain an element of both fixed and variable costs. Energy costs, for example are likely to contain a fixed rental charge whilst the remainder of the cost is dependent on consumption.

In order to be able to predict how costs will change with revenue or activity, it is essential to be able to determine which costs are fixed, variable and semi-variable and a linear relationship is

Fixed and Variable Costs

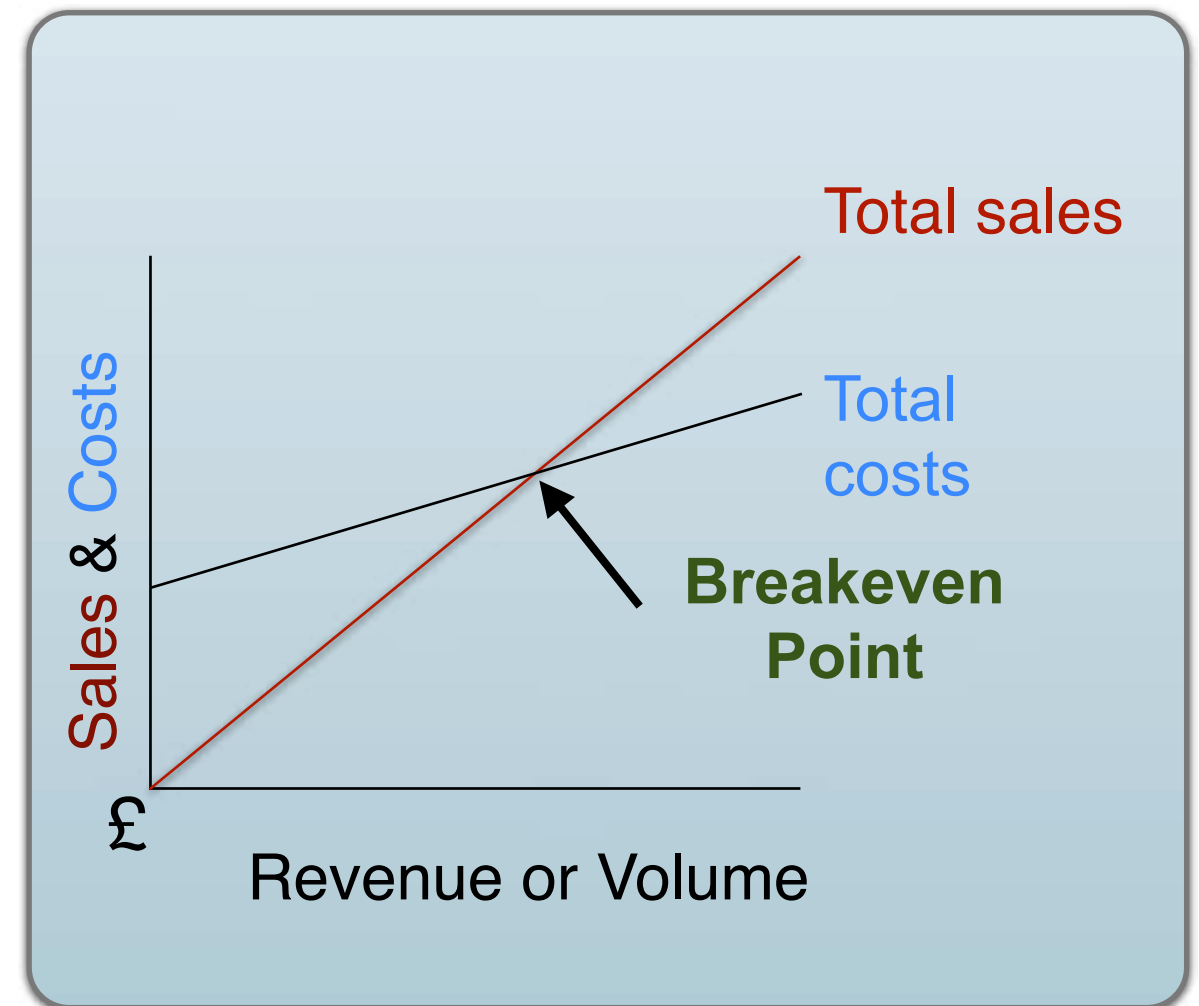


assumed. However, in practice it can be expected that variable costs per unit drop as volume increases due to increasing discounts for bulk purchase and economies of scale. Graphically the costs can be represented as shown.

The identification of the **breakeven point** is critical in understanding pricing as businesses need to ensure that the selling price exceeds the cost of providing the product or service.

The breakeven point is when the business revenue equals the

Breakeven Point



total costs exactly and is illustrated by the graph shown.

Definitions of the differences between direct, indirect, fixed and variable costs are in the table below.

Fixed and Variable Costs - Definitions

Direct Cost	Amount spent directly by a department for their operation
Indirect Cost	Amount spent by supporting departments to assist operations
Fixed Cost	A cost that does not change according to sales volumes, e.g. overheads such as rent or production costs
Variable Cost	A cost that varies in direct proportion to revenue or units sold
Semi Variable Cost	A cost which contains both a fixed-cost component and a variable cost component
Contribution	The difference between sales and variable costs is called contribution.

SUPPLY AND DEMAND

The correlation between price and how much of a good or service is supplied to the market is known as the supply relationship.

Supply indicates how much the suppliers in the market place can offer.

Demand refers to how much (quantity) of a product or service is desired by buyers.

An accurate measurement of demand for products in the hospitality industry requires consideration of three key factors which affect buyer's behaviour:

- Desire to purchase
- Ability to pay
- Willingness to pay

Equilibrium price – The point at which the amount of a product supplied and the amount of demand for the product are in balance.

For a foodservice operator, the business has some ability to increase or decrease supply in order to adapt to demand. Supply in a sit-down restaurant is calculated by multiplying the number of seats in the restaurant by the hours of seat availability. For example a café with 20 seats which is open for 12 hours per day has a total available seat supply of 240 seat hours. The manager can increase or decrease the number of hours that the restaurant is open to satisfy demand, however it is important to note here, that just because the café adjusts its hours to try and cater for increased demand, there may not necessarily be the same demand at those times, for example late at night. Furthermore, revenues will not increase just by extending supply capacity, but only if customers spend money.

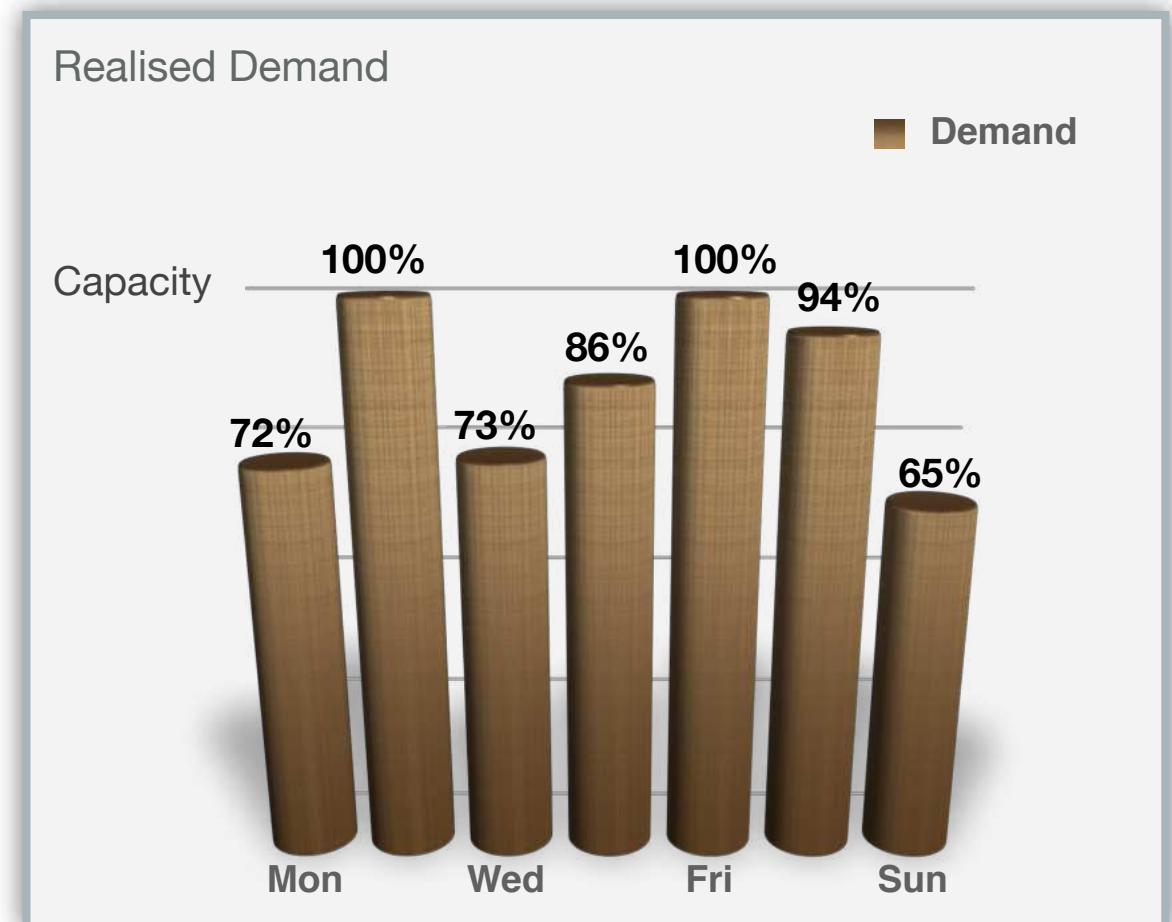
Unlike hoteliers who know that their guests will pay the agreed room rate, foodservice operators do not know how much a guest occupying one of their seats will spend until they order. However, foodservice operations have the advantage over hoteliers that often managers have opportunity to sell the same item offered on a given day, the next day, recovering some of the previous day's revenue-generating capacity.

Revenue management relies on the condition that the price that buyers are willing to pay for a product is subjective and constantly changing. The role of supply and demand in pricing is not to set the price but to act as a guide to setting price.

It is not always the case that increasing scarcity equals increasing value.

It is important to understand that there are two types of demand. The first is aptly called 'Realised' or 'Observed' demand, for it is the demand that is reflected in occupancy figures. On nights where a hotel fills, it is not unusual to hear comments such as "we had enough demand to fill last night". This is true, but the chances are that there was more demand than the hotel could (or wanted to) accommodate. This extra demand is known as unconstrained or frustrated demand.

The graph shows a hotel's **realised** demand by day of week.

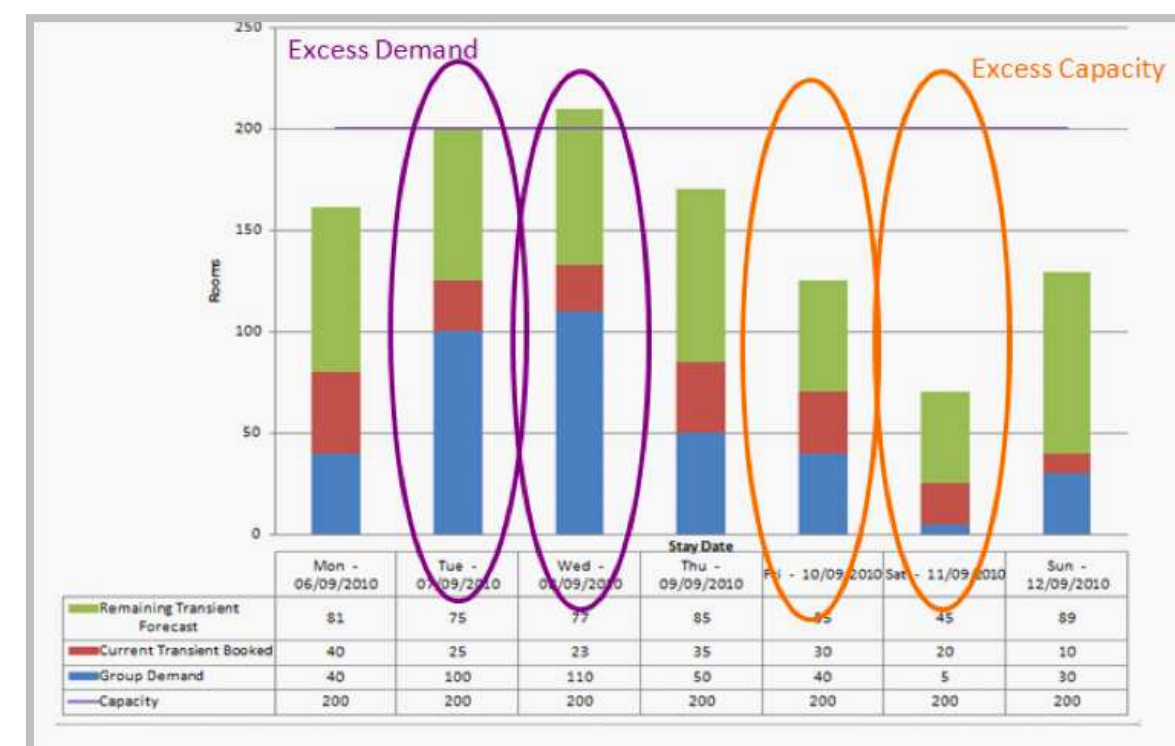


On the nights when the demand was realised to capacity this implies that the total demand was satisfied. However this does not show what element of demand was not satisfied and therefore was unsatisfied or 'frustrated' demand in that it exceeded capacity.

The following graph shows a hotel's realised and **frustrated** demand by day of week. Frustrated demand is defined as demand for products and services which cannot be met by the supply. Realised demand is defined as actual sales receipts.

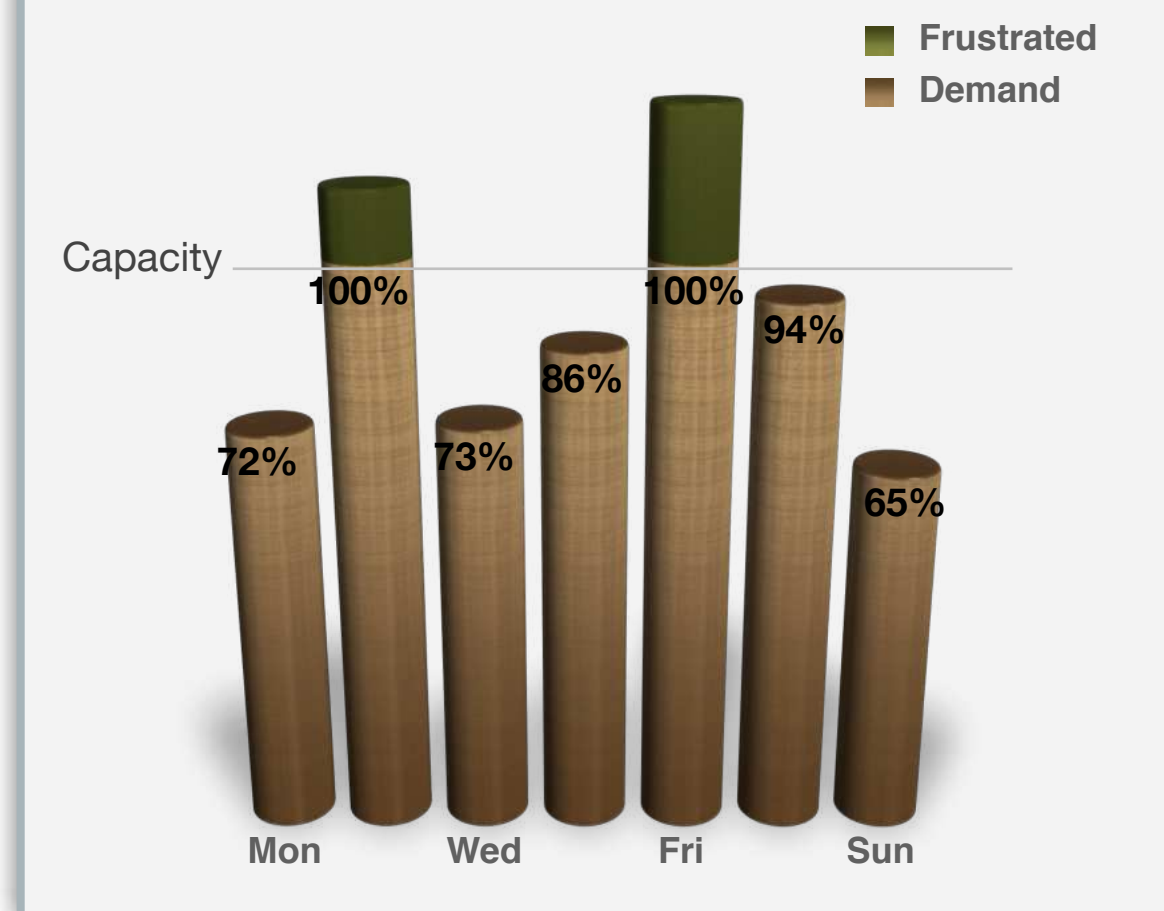
What are the causes of constrained demand?

Demand can be constrained by a variety of causes. The major causes would be no remaining capacity (either at room or house level), Length of Stay (LOS) restrictions or pricing that does not meet the customer’s requirements.



The chart above shows an example of excess demand and excess capacity by the two major segments of Transient and Group.

Unsatisfied or Frustrated Demand



Why is it important to be aware of unconstrained demand by day of week?

If the level of unconstrained demand is known, then this allows the business to set appropriate pricing and yield restrictions, optimising on the most profitable demand and rejecting the least profitable demand. A hotel can also ensure that it has sufficient capacity available for guests who wish to stay for multiple nights, without blocking out the peak nights.

Review Questions: The Economy and Supply and Demand

Question 1 of 4

How does a recession impact consumer confidence when making purchase decisions?

- ☐ **A.** It has no significant impact
- ☐ **B.** It increases consumer confidence
- ☒ **C.** It decreases consumer confidence



Check Answer



The Market

Section Objective:

- Understand the nature of competitive markets

MEASUREMENT

The importance of measuring performance cannot be over-emphasised. It is important to measure performance against both internal and external metrics and Key Performance Indicators (KPIs).

This measurement criterion ensures the team stay focused, on track and motivated with the same end goals in mind. An additional benefit of having consistent measures throughout the business is that the revenue culture will be continually strengthened. There are many revenue streams within a hotel, so it is important to engage as many departments as possible to ensure optimal hotel revenue and profit performance.

Useful measures:

- ADR - The overall Average Room Rate (ADR) for a hotel is calculated by dividing Total Rooms Revenue by the Rooms Occupied.
- Occupancy percentage - The overall Occupancy ratio for a hotel is calculated by dividing Rooms Occupied by Rooms Available. Complimentary rooms are not included in Rooms Occupied.
- RevPAR – Revenue per available room

- RevPOR – Revenue per occupied room
- GOPPAR – Gross Operating Profit per Room
- Competitive set - A group of other brands or providers offering a similar product or service to the same consumers.
- Market segment - An identifiable group sharing one or more characteristics
- Pace report - The rate of booking report highlighting busy and non-busy days in the booking cycle
- Rack room rate - The maximum advertised rate
- RevPASH - Revenue Per Available Seat Hour

THE COMPETITIVE MARKETPLACE

Revenue management practices need to take into account a wide range of external factors, such as the competitors, macro and micro economic impacts, industry trends and changing customer demographics. In this section we will be focusing on the impact of the competition and its integral role in revenue management strategy.

UNDERSTANDING THE POSITION IN THE MARKET

The benchmarking exercises are the foundation of developing a competitive pricing strategy. It is important that these exercises are carried out regularly, as the market is constantly changing. In addition, it is advisable to benchmark the hotel position using the following **Key Performance Indicators** (KPIs):

MPI - Market Penetration Index

How our Occupancy compares to our Market

FORMULA $MPI = \text{Hotel Occupancy} / \text{Market Occupancy}$

CALCULATION $MPI = 62\% / 64\% = 0.97$

When a hotel achieves more than 1, then it is receiving more than its fair share.

ARI - Average Rate Index

How our ADR (Average Daily Rate) compares to our Market

FORMULA $ARI = \text{Hotel ADR} / \text{Market ADR}$

CALCULATION $ARI = £82.36 / £76.56 = 1.08$

When a hotel achieves more than 1, then it is receiving more than its fair share.

RGI - Revenue Generation Index

How our RevPAR compares to our Market

FORMULA $RGI = \text{Hotel RevPAR} / \text{Market RevPAR}$

CALCULATION $RGI = £51.06 / £49.38 = 1.03$

When a hotel achieves more than 1, then it is receiving more than its fair share

SWOT Analysis - The basic concept



Of the three KPIs, RGI is considered to be the most important, as it balances both Rate and Occupancy (in the same way that RevPAR balances ADR and Occupancy).

DETERMINING THE COMPETITIVE SET

A competitive set is defined by STR Global as a group of hotels by which a property can compare itself to the group's aggregate performance. Before a hotel can construct a strategic plan it is important that they first invest the time to truly understand the market in which they operate. If this critical first step is not completed, then the foundation upon which the future strategy is built may be fundamentally unsound.

COMPLETING A SWOT ANALYSIS

SWOT is a strategic planning method used to evaluate the strengths, weaknesses, opportunities and threats involved in a project or in a business venture. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favourable and unfavourable to achieve that objective.

The technique is credited to Albert Humphrey, who led a convention at Stanford University in the 1960s and 1970s using

Competitor Analysis - Stage 1

	Your Hotel	Competitor 1	Competitor 2
Star Rating	3 Star	3 Star	4 Star
Year Built	2008	1846	1980
Last Renovation	N/A	2011	2002
No of Rooms	214	152	200
Meeting Rooms	4	6	8
Restaurants	1	1	2
Room Service	Yes 24 hrs	Yes 24 hrs	Yes 24 hrs
Bars	1	2	2
Free WiFi	Yes	Yes 24 hrs	Only in public areas
Fitness/ Pool	Fitness only	Fitness + Pool	No
Leisure Facilities	No	Yes Spa treatments	No
Car Parking	Yes £18 a day	Free	Free

data from Fortune 500 companies. Identification of SWOTs is essential because subsequent steps in the process of planning

Competitor Analysis - Stage 2 (Example)

	Strengths	Weaknesses
Your Hotel	• Accessible from Road and Rail Hubs • Newest Built • Large Rooms • Staffing • Close to Attractions	• No Business centre • No Pool • Not Branded • Expensive Parking
Comp 1	• Accessible from Road and Rail Hubs • Recent refurb • Large Rooms • Free Parking • Pool • Spa Treatments • National Brand	• Older Building • Difficult road access
Comp 2	• 4 Star • Good meeting rooms • Free Parking • Choice of Dining • International Brand	• No pool • No leisure activities • Limited WiFi
	Opportunities	Threats
Your Hotel	• New Corporate Accounts • New RMS to be installed • New Loyalty Programme • Staffing	• Increased competition • Limited Brand profile
Comp 1		
Comp 2		

for achievement of the selected objective may be derived from the SWOT analysis.

First, the decision-makers have to determine whether the objective is attainable, given the SWOTs. If the objective is NOT attainable a different objective must be selected and the process repeated.

The SWOT analysis is often used in business to highlight and identify strengths, weaknesses, opportunities and threats. It is particularly helpful in identifying areas for development.

Strengths: Characteristics of the business or team that give it an advantage over others in the industry.	Weaknesses: Characteristics that place the firm at a disadvantage relative to others.
Opportunities: External chances to make greater sales or profits in the environment.	Threats: External elements in the environment that could cause trouble for the business.

A SWOT is best completed in two stages. Stage one requires looking inwardly, and reviewing the strengths, opportunities, weaknesses and threats of the business. Stage two requires looking externally at competitors.

When completing the hotel’s SWOT analysis, it is important to ensure that the thinking is like that of the customers. Try to ensure that this includes a range of viewpoints, including teams

from several departments and both frequent and occasional guests.

When this has been completed and the key areas identified, these can then be transferred to a chart that will compare the businesses SWOTs to their competitors.

If the competitors vary by market segment, it may be a wise idea to complete a SWOT analysis by major market segment (e.g. one for Corporate, one for Leisure and one for Group). It is important to remember that different segments will have different needs from their hotel, and will place a different emphasis or value on the rated components.

When considering the weaknesses of the competition, it is important to think about the views of their customers. This can be done by using online travel review sites.

COMPLETING A PRICE : VALUE MATRIX

A Price Value Matrix is a very useful tool, allowing the ranking of the comparative value of the hotel (considering the combination of quality and price) against the competitors, thus establishing the value proposition.

The first step of completing a Price Value Matrix is to determine the relative quality of each of the selected competitors (by segment if required).

Determine the key factors that need to be assessed. These should be factors that customers rate as important. This may be a good opportunity to engage with customers and solicit feedback on these points.

Once rating criteria have been selected, each of the competitors will be rated against the hotel. The hotel always has a neutral rating of 0, and the competitors will be ranked comparatively against that, from -5 to +5. If it is considered that the competitor is equal to the hotel, they will receive a 0 on that section. In areas where they exceed the offering, the score will be positive, and in areas where they fall short of the offer, they will receive a negative score. Thus, if the competitor has a better location than the hotel, that hotel might receive a score of +3 in the Location category. As objectively as possible it is necessary to determine the extent to which competitor hotels fall short or exceed the base hotel.

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Comp 6
Star Rating	0	0	2	3	1	2
Location	-2	1	2	0	3	2
Sense of Arrival	1	3	0	2	5	1
Quality of Service	0	4	2	0	3	2
Restaurant Quality	1	3	2	-1	3	2
Restaurant Service	0	-1	-2	-2	3	-3
Breakfast Offering	0	5	4	0	2	3
Internet Price and Connection Speed	-4	-2	0	1	0	1
Leisure Facilities	-2	4	3	2	4	2
Total	-6	17	13	5	24	12

Price	190	215	199	240	220	225
Your Hotel	210	210	210	210	210	210
Price Positioning	-20	5	-11	30	10	15

Graph Data							
	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Comp 6	Your Hotel
Price	-20	5	-11	30	10	15	0
Quality	-6	17	13	5	24	12	0

Once the product offer is rated, each of the comparative values must be plotted on a matrix against the price offered (use the most commonly available rate, for the commonly available room type).



Source: Total Revenue Solutions Ltd

How to read the matrix:

Top Left Quadrant:	Higher Price, Lower Quality
Top Right Quadrant:	Higher Price, Higher Quality
Lower Left Quadrant:	Lower Price, Lower Quality
Lower Right Quadrant:	Lower Price, Higher Quality

Any hotel that falls within the parallel lines can be considered primary competitors from a price:quality perspective.

As the 'closest' competitors, these are the ones that need to be watched the most carefully, as any changes in their pricing

strategy could have an immediate impact on business (either positively or negatively). The outlying competitors could be deemed as secondary or tertiary competitors.

DISTRIBUTION

The term 'distribution' refers to how hotels sell their inventory and the various channels that a customer can use to book.

Distribution channels are now commonly understood to be electronic channels, but this does overlook the more traditional channels of hotel direct voice channels and GDS.

Hotels often use a variety of channels in order to reach a wider market share and increase their competitive reach.

When considering the use of electronic distribution channels, hotels must also consider the cost of sale, and therefore the net revenue impact.

IMPROVED DISTRIBUTION STRATEGIES

It is important that the communication to each customer segment is through the appropriate channels and with the right message. Accurate segmentation will ensure that the hotel message does not become confused or distorted, and will ensure over or under messaging does not occur.

Review Questions: The Market

Question 1 of 4

All departments within a hotel can have a part to play in revenue management.

☒ **A.** True

☐ **B.** False



Check Answer



Segmentation

Section Objective:

- Understand the principles of market segmentation for a hotel

How and why hotels segment their customers.

SEGMENTING THE MARKETS

Traditionally, hotels segment their guests based on the purpose of their stay.

- Business or corporate
- Leisure
- Government
- Contract
- Tour and travel

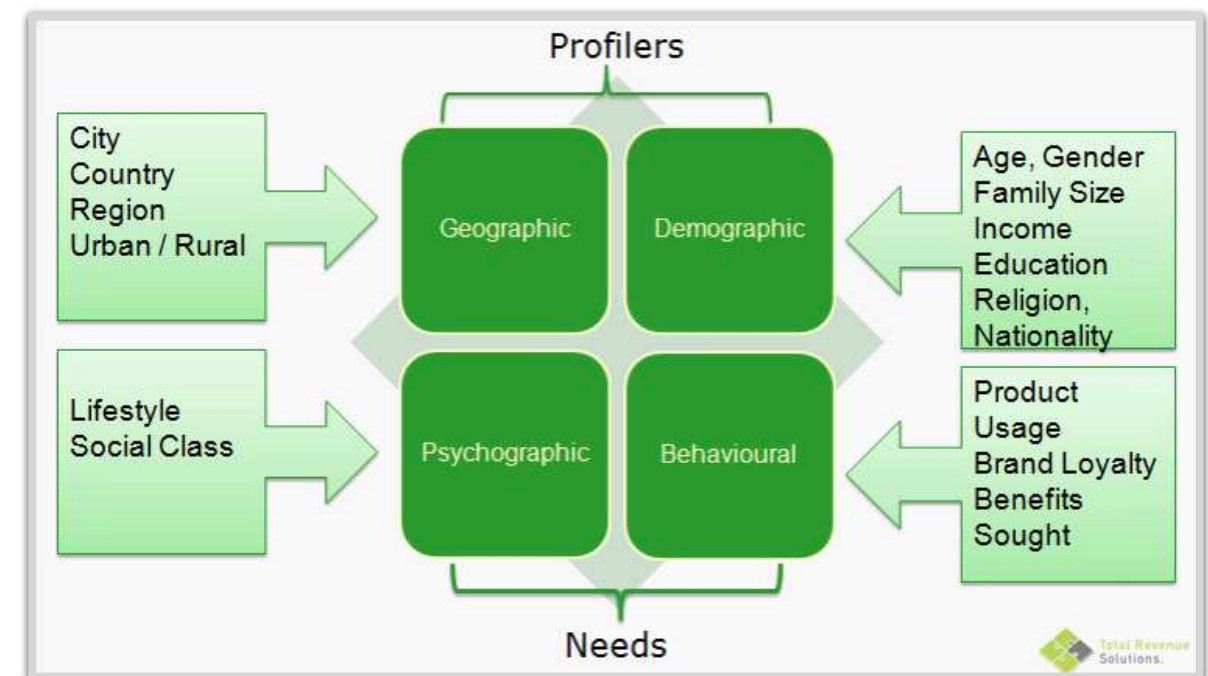
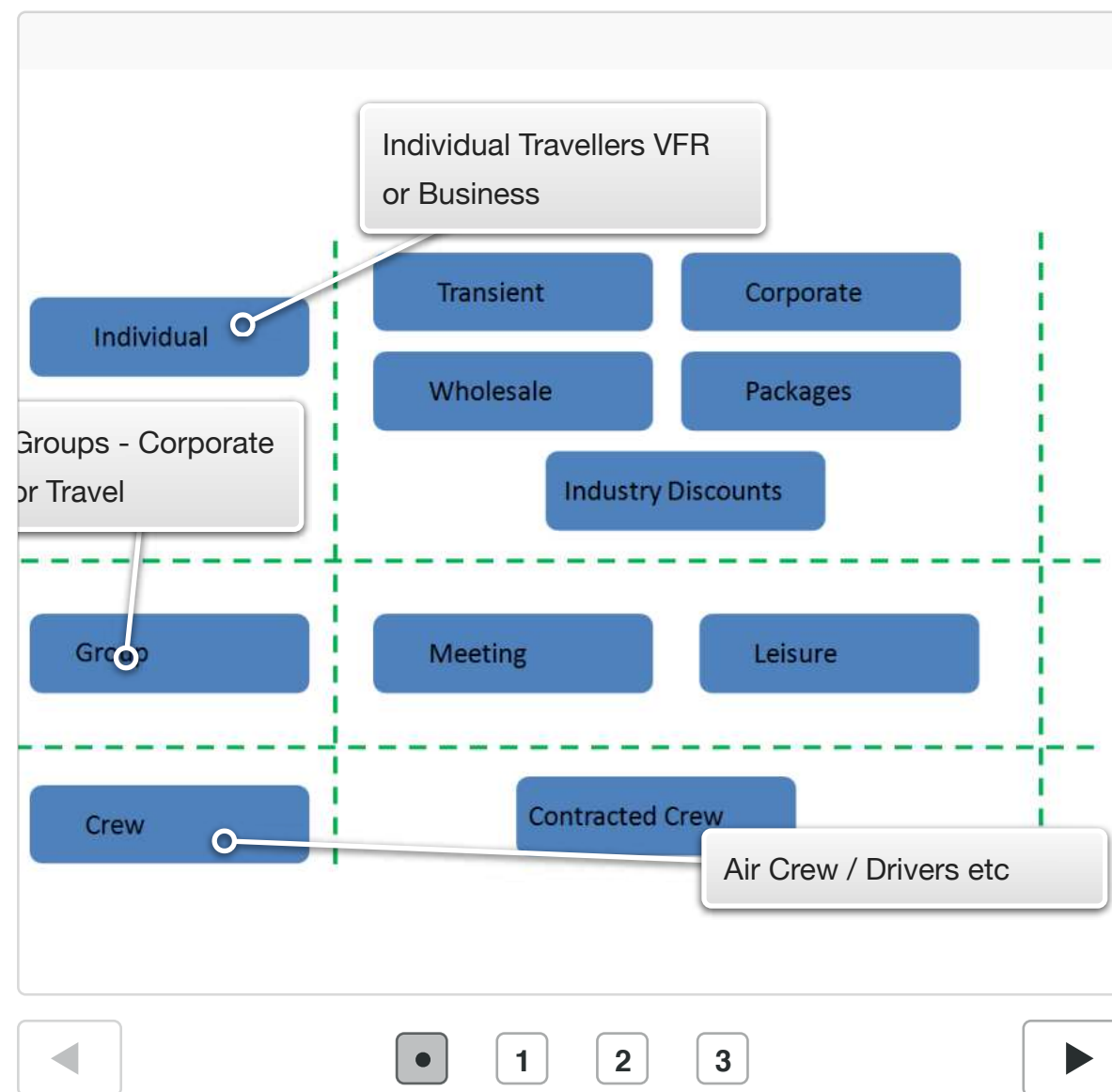
This is not a finite list and many hotels have many more categories! Sub-segments can be built using classifications such as age. The traditional segments of Business and Leisure can be summarised as follows:

<i>Leisure Travellers</i>	<i>Business Travellers</i>
Advance bookings	Short booking lead times
Quality required varies	Tend to require high quality
Destination flexible	Destination predetermined
Highly price sensitive	Relatively less price sensitive

Traditionally, hotels segment their guests based on the purpose of the stay. At a high level, these “major” segments might start with the primary categories of “Individual”, “Group” and “Crew”.

There are four ways in which we can segment the market. These are known as ‘profilers’ and ‘needs’.

Segmentation - Major Segments



Source: Total Revenue Solutions Ltd

In the hotel industry, access to the behavioural attributes tends to be easiest, and therefore this is the one that is used the most to understand customers and how hotels can best service their needs. Behavioural segmentation considers the why, what, when and how of a guest’s stay. For example: why is the guest staying; what is the occasion; when are they staying; how often does the guest stay?

WHY SEGMENT?

Segmentation involves subdividing markets, channels or customers into groups with different needs. It is then possible to deliver a tailored proposition which meet these needs as closely

as possible. When presented with the same marketing message, product or price point, each segment should react in a different manner.

The aim of segmenting is to group together customers with similar attributes and buying behaviours so that they can be understood, their needs can be recognised and the business understands where they gain value from.

If hotels understand who their guests are, and what they expect from the business, the operation can be more effective and efficient at meeting guest needs.

Some of the drivers behind accurate segmentation are:

Targeted Sales and Marketing Activities

Understanding the net profitability of each segment, ensures that the focus of sales and marketing efforts will be on attracting the right business at the right time.

Increase Guest Retention Levels

If the sales and marketing activities are focused appropriately, this will help to give alignment between guest expectations and operational delivery, increasing the value proposition. Ultimately, this will help a business retain the valuable, repeat business.

Targeted Pricing

As each segment will respond to price propositions in a different way (in other words, they have varying degrees of price sensitivity), accurate segmentation will assist in the pricing process (minimising the risk of over or under pricing through dilution or cannibalisation).

Increased Market Share of the Desired Segments

Accurate market segmentation will allow a hotel to focus on growing the desired market segments (through matching expectations at an operational level), focus on secondary segments during need or distressed periods, and move away from the unprofitable or hard to reach segments (i.e. those with a high cost of acquisition).

The ultimate aim of accurate segmentation is improved efficiencies, leading to enhanced profit opportunities.

What Happens if Segmentation is Incorrect?

There are many implications of inaccurate segmentation, many of which are frequently overlooked within the hotel industry. These include (but are not limited to):

Inaccurate Forecasting

When businesses do not know who is coming to the hotel (and the purpose), forecasting becomes more challenging. An accurate forecast is one that is completed day-by-day, by market

segment. Understanding segment trends in terms of stay patterns and revenue implications is essential to compiling an accurate forecast. In addition, inaccurate segment forecasting will inevitably lead to increased operational challenges if the business fails to anticipate customer needs.

Ineffective Pricing Strategies

Inaccurate forecasting by segment will lead to ineffective pricing strategies that fail to take advantage of the full range of segment pricing potential. Segments may be over priced or under priced – both having a significant impact on the revenue and operational efficiencies of the hotel.

Incorrect Sales & Marketing Activities

Acquiring new customers can be costly. It is therefore critical that the Sales & Marketing team focus its efforts on the segments that will best help the hotel achieve its long term goals. The activities of Revenue Management and Sales must be aligned, or the hotel may waste valuable resources attracting new business, which does not meet or exceed the price requirements as determined by the RM team.

Strategy Impact

The combination of points 1-3 will lead to a longer term strategy impact if the organisation is not clearly focused and delivering the optimal segment mix.

Review Questions: Segmentation

Question 1 of 3

Segmentation is important in hotels in order to:

- ☐ **A.** Best meet consumer needs
- ☐ **B.** Use resources efficiently and effectively
- ☐ **C.** Understand who their guests are and what they expect
- ☒ **D.** All of the above apply



Check Answer



Pricing & Value Perception

Section Objective:

- Understand the core components of pricing and its impact (in a variety of demand periods) on value perception.

CORE COMPONENTS OF PRICING

Determining the optimal rate for a product can be a challenging task and there are many factors that must be considered. Some of the primary factors are:

Demand

Section 3 considered the concept of unconstrained demand. It is important to recognise when unconstrained demand exists as this has a considerable impact on pricing opportunity. If more customers than you can accommodate want to buy your product this is a strong signal that you may have opportunity to increase the price. Conversely, when you have excess capacity this also needs investigating. If the market is buoyant and your competitors are busy, your lack of demand may be a signal that your customers do not consider your offer as 'value' and your pricing may be incorrect. However, if the market is all operating at similar occupancies, then lowering your rate may only damage your hotel's profitability.

Customer Willingness to Pay

Often referred to as either price elasticity or price sensitivity, the willingness of different segments to purchase our products is an important consideration in setting optimal price points.

The willingness to pay factor often leads to what is considered as pricing differentiation or discrimination. This exists when the same product is offered to different segments of customers at different prices based on their willingness to pay or value perception.

The insensitive markets are those customers who do not react strongly to changes in price, while the sensitive segments will see significant demand changes as a result of price changes.

The formula for understanding price sensitivity, known as price elasticity of demand, is:

$$E_d = \frac{\% \text{ change in quantity demanded}}{\% \text{ change in price}} = \frac{\Delta Q_d / Q_d}{\Delta P_d / P_d}$$

where E_d is elasticity of demand; ΔQ_d = change in quantity demanded; Q_d = quantity demanded

ΔP_d = change in price and P_d = price

Market Based Pricing

A market based pricing strategy is one that evaluates the price points offered by similar products in the same market place. It is

important to ensure that only products that your customer would consider as either similar or 'substitutes' are considered. Your pricing is then set in relation to these products, taking into account any product or service variants. For example, once you have completed your value matrix, you may set your price slightly lower than a competitor if they offer a superior product or location. If you have a higher quality product or service, you may opt to set the price higher or match the pricing in times of weak demand to gain an increased market share.

Profitability and Costs

It is important to ensure that, when setting price, you understand both the operational and transactional costs associated with the sale. The operational costs are those associated with the operational servicing of that guest (e.g. room cleaning and amenities) while the transactional costs are those associated with accepting that particular reservation (e.g. credit card fees and commissions). Understanding the net profitability of each transaction is important, as it may influence your pricing and your optimal segment plan.

Negotiated Pricing

Offering a negotiated price as a way of asking for a volume commitment is a tactic that has been in use for quite some time. In this arrangement both parties offer something in the negotiation process. The hotel offers a rate that is lower than a publically available one and the client gives a commitment to

giving a minimum number of room nights to the hotel. The rate that is offered can be fixed (by day of week or season) or it can be offered as a percentage off of the Best Available Rate. When offering negotiated or discounted pricing, it is important to ensure that any transactional costs are kept to a minimum.

Price Fences or Restrictions

A coherent pricing strategy is one that offers discounts in a strategic way to specified market segments (in other words, the discounting is discriminatory). Price fences allow the seller to control who has visibility of, and access to, any discounts that are available. This ensures that customers who are not price sensitive do not receive an unnecessary discount. When this happens, it is known as rate dilution. Your segment strategy should include details of the types of fences and restrictions that are appropriate to, and will be accepted by, this group of buyers.

Examples of price fencing could be:

- Controlling room type availability
- An advance purchase rate
- Deposit required
- No cancellations permitted
- Saturday night stay required

- Minimum stay required
- Qualifying criteria (e.g. membership of a specified group)

Review Questions: Pricing and Value Perception

Question 1 of 3

If the market is operating at similar occupancies, then lowering your rate is the best way to increase revenue and profitability.

☐ **A. True**

☒ **B. False**



Check Answer



The Revenue Manager

Section Objective:

- Understand the key skills required for a Revenue Manager

Revenue Management is a rewarding discipline that requires strong leadership, analytical and strategic skills. Good revenue managers are interested in the whole commercial aspect of the hotel and how the hotel operates and functions. We look for people that have an interest and desire to drive change in the hotel – people who are innovative, creative and passionate.

<http://www.starwoodhotels.com/corporate/careers/> May 2013

THE REVENUE MANAGER

Increasingly employers and professionals within hospitality operations are recognising the importance of revenue management and its impact on the success of their organisation. Considering the constantly changing and competitive environment that organisations operate in, it is surprising that it has taken so long to introduce the full-time role of 'Revenue Manager'. Unlike many well established roles within the hospitality industry, due to its recent introduction, the path for career development for those working in this role is still evolving. It may be argued that every employee has a part in revenue management within their organisation, but the specific role of revenue manager provides the catalyst for formalising and coordinating the revenue management activity with specialist analytical skills.

A successful revenue manager must be a well-rounded individual, with multiple skills. Typically, the core skills are perceived to be:

- Attention to detail
- Numerical skills
- Computer literate
- Strong Excel capabilities
- Understanding of distribution channels
- Ability to make decisions from multiple data sources
- Understands P&L
- Ability to work under pressure in changing environments

As the discipline encompasses a vast array of focus areas (to be covered later in this section), the above skills are only the foundations. In addition, the following traits and capabilities are also now essential:

Relationship skills: The most effective revenue managers spend a considerable amount of their time managing people and building relationships – almost as much as they do managing revenue!

Creative thinking: Effective revenue managers are long term strategists and often responsible for corporate change. Therefore, they rely on innovative thinking to develop and implement new ideas.

Effective sales ability: Revenue managers inevitably spend a part of their day “selling” rate and yield recommendations to their colleagues who will need to adopt their pricing strategies before they can have an impact.

On-property experience: It is beneficial to have an on-property background and understand the impacts of RM decisions at a hotel level, with a consideration for all operating areas.

Training ability: Because of high property turnover, good training and development skills are critical to the successful implementation of revenue management recommendations. If hotel teams do not understand the factors that go into recommendations, they may disregard the pricing, yield and distribution guidelines and therefore fail to optimise revenue opportunities.

Strong communication skills: Good revenue managers need to be excellent communicators (and listeners) who are as effective at presenting their ideas as they are at using a computer.

Technically confident: Revenue managers need to embrace current technology and distribution techniques, to ensure these systems are profit enhancing and not labour consuming!

Revenue managers need to have a good understanding of reservations, marketing channels and pricing strategies. In addition to these attributes the revenue manager should have an understanding of the legal issues associated with pricing. Specific job descriptions for revenue managers vary quite considerably from one organisation to the next. To review a large number of different revenue management positions go to www.hcareers.com

The revenue manager should be an integral part of the decision-making process in a hotel and provide direction and strategy based on facts, data and analysis. The revenue manager should have expertise in managing the various systems (Central Reservation Systems, Property Management Systems, Revenue Management Systems, third-party extranets, etc.) and be capable of synthesising data and making sound business decisions to positively affect results.

Interestingly there is little agreement in the hospitality industry as to who the revenue manager should report to. A study undertaken by the HSMAI found that in response to the question “to whom do you directly report”

- 36 per cent said to the general manager

- 23 per cent to ‘other’ on property
- 16 per cent to the Corporate VP
- 16 per cent to the Regional Director of Revenue Management
- 9 per cent to the owner / CEO

Review Questions: The Revenue Manager

Question 1 of 3

Which of the following is not one of the core skills typically associated with the role of revenue manager?

- ☐ **A.** Numerical skills
- ☐ **B.** Attention to detail
- ☒ **C.** Programming skills
- ☐ **D.** Computer literate



Check Answer



Further Information

HOSPA is the Association that helps hospitality's Finance, Revenue Management and IT professionals to develop their careers, network with colleagues and keep up-to-date with industry trends and developments. We offer a wide and growing range of opportunities for members, from meetings addressing specific topics to webinars; from extensive professional resources to the latest industry data through HOSPA's monthly magazine The Overview.

For further information and details on the work of HOSPA and the Professional Development Courses in Revenue Management and Financial Management see the HOSPA website at: <http://www.hospa.org>



Hospitality Finance, Revenue and IT Professionals

Education & Training

Analytics

The science of examining data in order to discover meaningful patterns, make conclusions and improve organisational performance.

Related Glossary Terms

Forecasting demand, Profit, Yield Management

Index

Average Rate Index

(ARI) – An index designed to measure how a hotel’s average daily rate, the average amount charged by a hotel for a room each night over a period of time, compares to the market.

Related Glossary Terms

Key Performance Indicators, Rate Dilution

Index

What is Revenue Management? - The Market

Bucketing

Analysing customers into groups and segments.

Related Glossary Terms

Segmentation

Index

Competitive Set

Other brands or organisations that are targeting the same customers with a similar product or service.

Related Glossary Terms

Customer Segment, Demand

Index

Consumer Behaviours

The attitudes and process used by customers, including individuals, groups and organisations, when selecting, purchasing and disposing of goods and services.

Related Glossary Terms

Customer Segment, Customers' Perception

Index

Customer Segment

The group or “bucket” that the consumer is placed in depending on the needs and/ or interests they share with others.

Related Glossary Terms

Competitive Set, Consumer Behaviours

Index

Customers' Perception

The impression and/ or awareness that a consumer has of an organisation or of its products, services or brand(s)

Related Glossary Terms

Consumer Behaviours

Index

Demand

The amount of a good or service that customers are willing to buy at a certain price.

Related Glossary Terms

Competitive Set, Forecasting demand, Frustrated Demand, Observed Demand, Realised Demand, Unconstrained Demand

Index

Find Term

What is Revenue Management? - The Economy and Supply and Demand

Distribution

How hotels sell their inventory and the various channels that a customer can use to book.

Related Glossary Terms

Distribution Channel, Global Distribution System (GDS)

Index

Distribution Channel

The chain of intermediaries, including individuals and organisations, which get a product or service to the end consumer. A distribution channel may include the internet, retailers, wholesalers and distributions.

Related Glossary Terms

Distribution

Index

Equilibrium Price

The point at which the amount of a product supplied and the amount of demand for the product are in balance.

Related Glossary Terms

Price Discrimination, Price Sensitivity

Index

What is Revenue Management? - The Economy and Supply and Demand

Forecasting

A planning tool used by an organisation to determine how to allocate budgets for the future, based largely on historical data and the analysis of trends of demand.

Related Glossary Terms

Forecasting demand

Index

Forecasting demand

Estimation of the amount or quantity of a product or service that customers will buy.

Related Glossary Terms

Analytics, Demand, Forecasting

Index

Frustrated Demand

Demand for products and services which cannot be met by the supply.

Related Glossary Terms

Demand

Index

What is Revenue Management? - The Economy and Supply and Demand

Global Distribution System (GDS)

A universal computerised and centralised network used as a single point of assess for booking airline tickets, hotel rooms and other travel related items.

Related Glossary Terms

Distribution

Index

Incremental

Gradually increasing in number, size or amount.

Related Glossary Terms

Drag related terms here

Index

Inventory Control

This is the coordination and supervision of the supply, storage, distribution, of materials to ensure there is adequate quantities for the current needs without excessive oversupply or loss.

Related Glossary Terms

Purchasing

Index

Key Performance Indicators

Measures of performance used to benchmark and monitor the progress of an organisation.

Related Glossary Terms

Average Rate Index, Market Penetration Index (MPI)

Index

What is Revenue Management? - The Market

Market Penetration Index (MPI)

An index designed to measure a hotel's share of the segment's (comp set, market, tract, etc.) demand (demand = rooms sold).

Related Glossary Terms

Key Performance Indicators

Index

What is Revenue Management? - The Market

Maximise Revenue Growth

To use various methods and tactics in order to gain as much sales as possible.

Related Glossary Terms

Pricing

Index

Micro-Market Level

A small segment of consumers within the overall market.

Related Glossary Terms

Drag related terms here

Index

Observed Demand

Actual receipt sales.

Related Glossary Terms

Demand

Index

Opportunities

A favourable circumstance or set of circumstances which benefit the organisation and help enable it to become more profitable.

Related Glossary Terms

Weaknesses

Index

Optimising Prices

This involves establishing the maximum price that a business can charge for a product, service or experience based on the maximum quantity predicted to be sold.

Related Glossary Terms

Price Discrimination, Price Fences, Price Sensitivity

Index

Price Discrimination

This is when an organisation offers to sell a product or service for a different group of consumers, not due to the costs of the product or service.

Related Glossary Terms

Equilibrium Price, Optimising Prices

Index

Price Fences

Rules formed by an organisation to stop consumers from moving from one segment to another in an attempt to pay a lower price.

Related Glossary Terms

Optimising Prices

Index

Price Sensitivity

The degree to which changes in the price of a product affect the demand for the product.

Related Glossary Terms

Equilibrium Price, Optimising Prices

Index

Price Value Matrix

This matrix is designed so that organisations can establish the value of their products and services. This is achieved by ranking the comparative value of their products or services considering both quality and price, against their competitors

Related Glossary Terms

Pricing, Pricing tactics, Profit

Index

Pricing

The process adopted by a business to set the selling price of its goods and services.

Related Glossary Terms

Maximise Revenue Growth, Price Value Matrix

Index

Pricing tactics

A short term price variation set by an organisation in order to achieve a particular objective.
For example, offering a temporary discount.

Related Glossary Terms

Price Value Matrix

Index

Profit

A financial gain. Profit is the difference between the amount earned and the amount spent in buying, operating, or producing a product or service.

Related Glossary Terms

Analytics, Price Value Matrix, Revenue

Index

Purchasing

The act of buying or acquiring goods or services.

Related Glossary Terms

Inventory Control

Index

Rate Dilution

A drop in the actual rate achieved caused by discounting.

Related Glossary Terms

Average Rate Index

Index

Realised Demand

Actual sales receipts.

Related Glossary Terms

Demand

Index

What is Revenue Management? - The Economy and Supply and Demand

Revenue

The total income received for goods and services sold by the company during a certain period of time.

Related Glossary Terms

Profit, Revenue Generation Index (RGI)

Index

Revenue Generation Index (RGI)

RevPAR (Yield) Index. It measures a hotel’s fair market share of their segment’s (competitive set, market, submarket, etc.) revenue per available room.

Related Glossary Terms

Revenue

Revenue Manager

A role created to focus on the maximisation of yield from rates and occupancy.

Related Glossary Terms

Drag related terms here

Index

Segmentation

The practice of subdividing or ‘bucketing’ guests into groups with similar behaviours.

Related Glossary Terms

Bucketing, Segmenting Markets

Index

Segmenting Markets

The process of dividing customers into different groups or segments based on their needs or shared interests.

Related Glossary Terms

Segmentation

Index

Strategic Planning

The process of defining the long-term strategy, or direction of the organisation, and making decisions on how to allocate its resources in order to achieve it.

Related Glossary Terms

SWOT, SWOT Analysis

Index

Strengths

A tangible or intangible asset or attribute that are beneficial to the company and can help to achieve its mission. Strengths include capital, knowledge, skills, as well as products and services.

Related Glossary Terms

SWOT, SWOT Analysis, Threats

Supply

The amount of a good or service that is available for consumers to purchase.

Related Glossary Terms

Supply and Demand Economics

Index

What is Revenue Management? - The Economy and Supply and Demand

Supply and Demand Economics

The relationship between price and demand for a product or service.

Related Glossary Terms

Supply

Index

SWOT

SWOT stands for Strengths, Weaknesses, Opportunities and Threats.

See SWOT Analysis for further explanation.

Related Glossary Terms

Strategic Planning, Strengths, Weaknesses

Index

What is Revenue Management? - The Market

SWOT Analysis

SWOT analysis is a strategic planning method used to evaluate the Strengths, Weaknesses, Opportunities, and Threats involved in a project or in a business venture.

Related Glossary Terms

Strategic Planning, Strengths, Weaknesses

Index

Threats

Issues or factors which arise and pose a risk to the stability and/ or profitability of an organisation. Examples of threats include increasing competition and conflict among employees.

Related Glossary Terms

Strengths, Weaknesses

Index

Unconstrained Demand

The number of products or services that could be sold on a certain day if there were no constraints, for example, capacity or number of resources.

Related Glossary Terms

Demand

Index

Weaknesses

These are factors which hinder an organisation or place it at a disadvantage. This may include people, skills or resources that the organisation lacks or which are not of a high standard.

Related Glossary Terms

Opportunities, SWOT, SWOT Analysis, Threats

Index

Yield Management

Involves maximising revenue through strategic control of inventory in order to sell it to the right person, for the right price at the right time.

Related Glossary Terms

Analytics, Yield Tactics

Index

Yield Tactics

Also known as inventory controls - the coordination and supervision of the supply, storage, distribution, of materials to ensure there is adequate quantities for the current needs without excessive oversupply or loss.

Related Glossary Terms

Yield Management

Index