

READY FOR RMS?

Knowing when a revenue management system is right for your property

By Bonnie Buckhiester



It's been almost a year since I shared the stage with three esteemed colleagues at HITEC 2006 and talked about the challenges of acquiring a Revenue Management System (RMS). Since then, although I've had innumerable discussions with clients about RMS acquisition strategies, the number one question remains: "How do I know when I'm ready?" You would think the central focus might be on system functionality or integration issues; or implementation and support; or on the vendor's background and list of clients. But these questions take a back seat to the fundamental question of knowing when you're ready for an RMS.

So let me begin by laying my cards on the table. I believe that in the not too distant future RMSs will be as common as PMSs. The complexity of distribution combined with shorter lead times and the gravitation of all segments (transient and group) to the Internet makes it impossible, even today, for hotels to optimize demand manually. As well, except perhaps for the smallest of hotels, a dedicated revenue management person is not just a needed resource, but an essential one. At the very least, smaller hotels should find ways to share the position or outsource the role altogether.

It's interesting, therefore, that the decision making process for RMS acquisition is less about the absolute functionality of a given system and more about whether the hotel is really ready for a sophisticated RM tool. Few would argue that most computer systems are highly under-used. A perfect example is the traditional property-level sales/catering system. Sales/catering systems have had revenue management functionality for 20 years, but how many hotels fully use features like selective selling guidelines,

F&B profit profiles and dynamic baselines? When it comes to acquiring an RMS, the crux of the issue is knowing what questions to ask *yourself*, not the RMS vendor. The first two questions may not be the most interesting, but certainly the hardest.

Questions to Ask

Is there an established revenue management culture at the property? When it comes to revenue management there are three primary pillars (or building blocks) for organizational change. The first involves building a culture of revenue management within your organization by making RM a priority throughout the hotel. This means aligning all revenue centers to one central goal — optimizing the asset. The second is the development of an integrated decision making forum to overcome traditional departmental barriers to revenue optimization. The third is to be willing and ready to shift your thinking from tactical to strategic RM. Hotels tend to focus on the tactical side of Revenue Management, i.e. opening and closing rates and dates and lengths of stay, channel by channel. A more strategic question would be whether the pricing hierarchy is optimal for the position the hotel holds in the competitive marketplace.

HITEC 2007 Speaker

Tuesday, June 26

4 – 5:15 p.m.

Untangling the Network of Distribution Channels and Their Impact on Revenue Management

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Revenue Management — Three Methodologies		
Occupancy Forecast	Revenue Forecast	Demand Forecast
Operational Orientation	Financial Orientation	Strategic Orientation
4/7/14	30/60/90	12 weeks
Weekly	Monthly	Daily
Constrained	Constrained	Unconstrained

How effective is the revenue team?

The discipline of Revenue Management requires a highly-focused effort. Revenue teams should consist minimally of the general manager, director of sales and marketing, revenue manager (or revenue champion), as well as a representative from front desk, F&B/catering and reservations. Revenue meetings are best held weekly and should be designed to focus on strategic issues, not just the tactical *mechanics* of revenue optimization.

Does your hotel treat revenue management as a comprehensive business process? Once you've answered the questions about culture and team, the next step is to determine how advanced the Revenue Management *thinking* is at your property. If you've ever wondered where your property was from an RM expertise point of view, you're not alone. For example, have you ever asked the question, "Are we doing everything we can to optimize revenue?" Or, "Even though our market penetration indexes exceed 100 percent, are we still leaving money on the table?" Or, "Where exactly are we on our revenue management journey to best practices?" If you aren't sure about the answers to these questions, then really what it amounts to is that you don't know.

Determining the Need for RMS

The easiest way to determine if you're ready for an RMS is to examine your RM practices in the context of a structured business process. Follow the *REVRoad-Map*®, a holistic approach to RM practices at the property level.

There are six key components to the process starting with product definition and going all the way around to distribution management. And you'll note that

distribution management is last — although hotels typically spend an inordinate amount of time on this component of the process, a hotel cannot manage distribution optimally until every other component of the RM process is well in hand. Perhaps the best way to test your readiness for an RMS is to briefly examine each component and pose some strategic questions.

Product Definition — This component of the RM process is all about aligning room categories to customer demand. Product definition is a comprehensive process which defines markets so that customer needs can be assessed and product can be matched to those needs. It's about how to increase the "absolute" value of inventory without impacting pricing integrity. Ask yourself (and be honest) — if you tracked all the upgrades in a given month and calculated the lost revenue, how high would the dollar figure be? Product utilization acts as the acid test for your assumptions about user needs — if you have appropriately matched product to your various segments then utilization should be fairly balanced. Room categories in the PMS shouldn't show large negative figures as a result of un-checked *run-of-house* selling strategies. Clearly this is an indication that room types are not being fully leveraged.

Competitive Benchmarking — It's not uncommon for hotels to benchmark their performance against the wrong competitive set. There are many reasons why this might be the case — including wishful thinking by ownership interests — i.e. allowing ego-driven comp set choices. The unfortunate truth is that up to 50 percent of hotels select the wrong comp set. Being ready for an RMS is partly about

being realistic in terms of how your hotel competes in the marketplace. If your market penetration indexes are considerably above or below 100 percent, or widely out of balance, these could be indications that the competitive set has not been chosen properly. Since so many strategic and tactical decisions are made based on market share results, it stands to reason that accurate competitive benchmarking is a crucial part of RM strategies.

Strategic Pricing — A good question to ask with regard to pricing is whether your hotel has a clear understanding of the difference between price parity and price integrity. Price parity (of course) is about the same price. Price integrity is about value and the clear differentiation of that value no matter where the price appears. There's been so much focus on price parity that the real issue of price integrity has been overshadowed. There's nothing wrong with having different prices in different channels (for the same product) as long as the value proposition has been properly fenced (i.e. differentiated). It's when the exact same product appears with different prices that the consumer loses confidence. Using "fences" to differentiate product offerings is an art. When wondering if you're ready for an RMS ask this question: "Is my Revenue Team expert at fencing our products"?

Demand Forecasting — There are three primary forecasting methodologies used in hospitality — occupancy, revenue and demand. The first two represent constrained forecasts; the last one represents unconstrained forecasting. These three types of forecasts are distinctly different and have very different orientations — respectively they are operational, financial and strategic.

An occupancy forecast gives very limited information and is used for short term, internal operational purposes. Revenue forecasting is largely designed to keep senior management informed of what to expect in the coming months in the way of occupancy, average rate and revenues. It's usually combined with a detailed food and beverage forecast, as well as labor/expense estimates to produce a comprehensive financial forecast.

Demand forecasting takes into consideration a number of factors includ-

ing past history, rooms on the books, booking pace, denied business, market compression and demand influences. It has a strategic orientation and is unconstrained — in other words, it's all about how much demand there is, not how large the hotel is. Demand could very well be at 120 percent of capacity. A demand forecast assists a hotel in establishing rate guidelines, stay controls, and sales and marketing initiatives.

The question you want to ask with regard to the forecasting regimen at your hotel is whether there's a clear understanding of the difference between constrained and unconstrained forecasting and is the hotel really basing its selling guidelines on demand versus rooms on the books? Typically, hotels without RMSs rely heavily on rooms on the books data and estimate reach or pick-up using instinct — definitely more art than science. One of the keys to knowing if you're ready for an RMS is having a good understanding of the nature and purpose of demand forecasting.

Business Mix Manipulation — Manipulating business mix might seem like a no-brainer — after all it's second nature to accept or decline business from various segments. But the art of business mix manipulation is found in seeking the ideal balance (for your hotel) of market penetration indexes. Ideally ADR and occupancy indexes should be within 10 points of one another. This is an indication that strategies have optimized both the rate and occupancy opportunities presented by the market conditions. In other words, you've reached an optimal state of revenue management. This is more formally known as economic equilibrium. A circumstance where balance may not be possible is when, for example, a hotel is a dominant player in their marketplace and consistently achieves average rates significantly above the competitive set. The question to ask (with regard to being ready for an RMS) is "Are we fully utilizing/interpreting third party market

Revenue Management as a Business Process



intelligence reports to optimize demand in the market place?" If not, an RMS is not going to do this for you.

Distribution Management — Finally, there are questions to be asked with regard to your hotel's management of distribution. For example, does your team have a firm grasp of the *mechanics* of demand creation in today's advanced markets? Even if the optimization of your web site is outsourced or handled by a corporate office, does the revenue team understand the basics of SEO (search engine optimization), pay-per-click advertising, web site traffic analysis, link popularity strategies, page rank, etc?" It's no longer sufficient to leave web site optimization efforts to outside experts and not understand the impact of demand creation on demand management. The reality is that revenue teams today must have new skill sets to compete effectively. They don't have to be web site marketing wizards, but they must understand the basics.

Summing it Up

The bottom line is if there isn't a structured, disciplined RM effort at the

property level — if you don't think you've taken your RM practices as far as you can manually — and if you're still questioning the need for a dedicated RM resource... you're probably not ready for an RMS. Knowing when you're ready is the most important aspect of the decision making process. And there's good news and bad news surrounding this journey. The bad news is that it makes no sense to give a Ferrari to a student driver. RMSs are sophisticated tools and a hotel must be ready to fully use (and appreciate) the functionality before embarking on an acquisition. Your revenue team must be thinking strategically before injecting a high-tech tool into the RM process.

The good news is that RMSs are more feature-rich and affordable every day. They take the weakest link in revenue management practices (forecasting) and add proven science to the process. Am I a believer in RMSs? Absolutely! Are they for everyone? Not yet! But if you approach your RM practices as a structured business process, you'll certainly be well on your way to being ready for a sophisticated RMS! ■