SEA CHANGE

Diminishing returns for owners are setting in motion large-scale changes in revenue management.

by **NATHAN GREENHALGH, ASSOCIATE EDITOR**

The currents have begun to profoundly shift in hotel revenue management, and the profession is heading into uncharted waters.

Of course, revenue management has seen steady evolution over the past few years, but now the profession's pace of change is set to be accelerated by hotel ownership groups that are dissatisfied with seeing more revenue but less profit as customer acquisition costs have increased at a higher rate than revenue. At this year's HSMAI Revenue Optimization Conference held in June in conjunction with HITEC, revenue managers discussed how this will usher in new metrics for benchmarking, new pricing strategies and new responsibilities for revenue managers, possibly including a new job title for the position.

"There has been a lack of willingness to closely examine costs — in the aggregate and by channel — and to recognize that the rate at which costs are increasing is unsustainable," says Brian Berry, vice president – revenue management, Host Hotels & Resorts, Bethesda, Maryland. "Owners are placing increased emphasis on understanding the drivers of acquisition cost growth and are calling for increased scrutiny on not only external channel costs, but on internal acquisition expenses as well."

New benchmarks

Instead of new ways to measure revenue, revenue managers are now seeking out the best methods to calculate acquisition costs and profit, but an industry standard for determining those figures has not yet been decided.

"When acquisition costs are 15% to 25% of room revenue, the revenue numbers that are monitored should be the ones net of these costs, and management teams need to drill into these performance metrics to identify which accounts are delivering higher profit business by day of the week, lead time and other key variables," says Cindy Estis Green, CEO of Kalibri Labs, Rockville, Maryland. "The management can turn the dials to refine how they deploy the limited resources they have. How these resources are deployed can make the difference between a profit and a loss for the owner and affect profitability much more than tweaking prices."

Revenue managers say ideally, a benchmarking system akin to STR's STAR reports could be set up, and there is certainly a business opportunity there for a vendor that can successfully implement such a

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system. However, there are significant challenges standing in the way.

The various funds used by a hotel to acquire customers are spread between many departments and accounts, and some are not recorded on a property's P&L statement, although revenue managers could start recording their sales and marketing expenses and integrating those into their tabulations.

"Our budget templates and P&L reporting will have to change," says Bonnie Buckhiester, principal, Buckhiester Management, a Seattle-based revenue and yield management consulting firm. "Our metrics need to get a lot more granular."

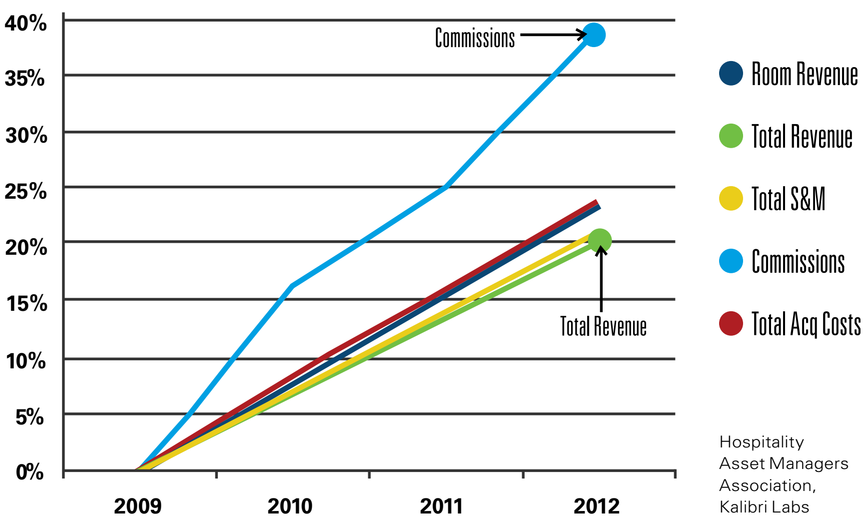
"It is sort of a joke that our most important report card still treats a room we sell directly to a customer and one sold through an intermediary with a 20% margin, each at the same price, as having the same value," says Scott Dahl, vice president of technology, Hersha Hospitality Management, Philadelphia.

This means that while the profession is in what revenue managers call the "awareness stage" where they have identified the shortcomings, the tools to address those are not yet available. Given the demand for these tools, it could only be a matter of time before the sea change on metrics and benchmarking gathers steam.

New pricing strategies

In the United States, robust performance

HOTEL GUEST ACQUISITION AND RETENTION EXPENSES ARE RISING AT TWICE THE RATE OF REVENUE GROWTH



Hospitality Asset Managers Association, Kalibri Labs

THE REVENUE MANAGER'S NEW ROLE

In addition to how the metrics of the revenue manager may change, HSMAI Revenue Optimization Conference attendees widely discussed how the job's responsibilities, title and even place in a hotel's management structure may change.

The job will become more strategic as the role expands from measuring room revenue to measuring other revenues to analyzing how to achieve maximum profitability. As this happens the hotel industry could see the job's title change to revenue strategist or director of profit management.

Also, instead of worrying about how to communicate the hotel's revenue optimization goals to the sales and marketing team — a perennial topic of discussion at conferences — revenue managers may find themselves in charge of the sales and marketing team to ensure the most profitable business mix is being sought. Regardless of whether that happens, though, revenue managers need to expand their skill set to manage their new responsibilities.

"We went from yield management to revenue management. Now we need to go to revenue optimization and eventually profit optimization, but we're not quite there yet," says Sloan Dean, vice president of revenue optimization at Ashford Hospitality Trust, Dallas. "At this conference there is this undercurrent of 'just wait until all the other departments report to revenue management.' However, there are too many revenue managers that have only been in revenue management and not sales and marketing, development or finance."

metrics and a lack of new supply entering operation should help hotels drive rate. However, ADR increases have lagged relative to previous recoveries, and the hotel companies' overall pricing strategies are a culprit.

"While the catalysts may have not been present to support the mid- to high-single-digit growth seen in the last cycle, we would like to think that we, as an industry, are getting close," Berry says. "However, hotels are acutely aware of their competitors' prices and segment pace and, too often, that results in competitor-centric — not customer-centric — pricing. Furthermore, customers also have more tools available to them, from mobile same-day booking apps to group RFP platforms. Enhanced transparency for customers and between competitors is certainly having an influence on pricing."

METRICS MATTER

To help revenue managers get more granular, several metrics were discussed at the HSMAI Revenue Optimization Conference, including:

- **ProPOR, profit per occupied room**
- **ProPAR, profit per available room**
- **COPE, contribution to operating expenses and profit**
- **Net RevPAR, room revenue minus sales/marketing expenses divided by number of available rooms**
- **Net RevPOR, room revenue minus sales/marketing expenses divided by number of occupied rooms**
- **COA, cost of acquisition**

Benchmarking these metrics will be a challenge, as some owners may balk at sharing their profitability data the way that operators share RevPAR. Until this occurs, understanding and improving a property's profitability will be difficult.

Most hotels allow guests to cancel very close to their arrival date, and opaque and last-minute discount online travel agencies like Hotwire.com and Hotel Tonight have created a customer segment accustomed to steep discounts.

Despite the perennial griping at conferences, hotel companies accept online travel agencies are here to stay. However, to improve their position, hotels could adopt more airline industry practices such as requiring prepaid, non-refundable bookings.

"The hotel industry has been too conservative with changing pricing strategy," says Susan Weigel, vice president of revenue management, Denihan Hospitality Group, New York City. "The hotel industry has severely lagged behind other industries, including the airlines, in determining elasticities of various consumer segments and distribution channels along various points in the booking curve. Hotels often dilute revenue overall across a broad time frame versus truly stimulating additional demand and revenue. Many of the large brands compound the issue with paying higher amounts for loyalty-point redemptions when hotels are full, which often results in last-minute price discounting on customer segments that are less price-sensitive and willing to pay more."

Emulating airlines' pricing strategies would not be an easy task for hotels, though, as ownership is much more fragmented and supply cannot be reduced as easily. Also, revenue managers point to antitrust laws and the fact that room rate is sometimes only one factor in determining the profitability of a guest's stay.

"If someone were to blindfold you and place you on a plane, would you have any idea of the airline you were on? They are all the same and their pricing reflects that," says Jim Struna, director of revenue management, Auberge Resorts, Mill Valley, California. "As an industry we have managed not to fall into the same trap as the airlines in commoditizing our product and devaluing our brands. If a hotel has the means through CRM to understand that customer's value, then they can create offerings that make sense to the guest and hotel alike. This should be the goal — not any one price."

In addition to structural impediments, the personalities of the leaders of hotel companies may also be a factor in the industry's eschewing of more aggressive pricing strategies. "The hotel brands, in particular, are very conservative organizations," says Sloan Dean, vice president of revenue optimization at Ashford Hospitality Trust, Dallas. "There's not this risk-taking type of mentality. There is not a single major brand that will move toward a prepaid model, and we'll still be giving inventory to people that we complain about."