WHITE PAPER

The Lifecycle of Hotel Revenue Management

The sheer volume of structured data being generated today is overwhelming. Hoteliers and their management teams encounter far too many data points to analyze—and certainly too many decisions for any human brain to make accurately and efficiently.

Advanced hotel revenue management analytics use data mining, machine learning and a variable deployment of complex predictive algorithm sets to calculate optimal pricing and inventory decisions for hotels. Analytics assist hoteliers in moving beyond traditional revenue management processes into harnessing their data and forecasting capabilities to explore, predict and optimize total hotel revenue performance.

But no hotel is created equal, and even at a single property there will be many different periods in a hotel's existence that require a change in approach to revenue management. From preopening to renovations, economic downturns to refinancing, a sophisticated approach to revenue management and an automated revenue management system (RMS) can help you make the smartest decisions every step of the way.

With this paper we'll explore what hoteliers can expect from an RMS over the lifecycle of their hotel. And we'll explain how these advanced pricing and forecasting solutions assist with critical business decisions at each key stage of development.

OPEN FOR BUSINESS: PRE-OPENING CONSIDERATIONS

Many new hotels struggle to reach their optimal revenue potential. A variety of factors can contribute including poor pre-opening preparation or a lack of clarity around in-depth market positioning analysis. Certainly, they also struggle with the necessary pricing strategies to address the varying and often fluctuating market demand and conditions.

It is no longer enough to build a great property, ensure the rooms are nicely decorated and have staff in place to service potential guests. For instance, an integral component to the pre-opening process should include the consideration of optimizing room-type configurations, as well as the implementation and integration of revenue management technologies with the hotel's IT infrastructure and platforms from the very start.

There are many areas of revenue management that must be considered throughout the pre-opening phase of a hotel—ranging from establishing market segment revenue and sales strategies, undertaking comprehensive competitor evaluation, pricing research, pricing processing and forward planning of market demand cycles. To ensure hotel revenues are maximized from day one, it is highly advisable to work with specialists who can access in-depth analytics to optimally price a property based on the ideal market positioning and validated segmentation.

It is important that properties follow a structured, standardized approach to pre-opening. This will ensure consistent and effective results from day one. Hotels under development should conduct a strategic analysis that includes a study of the micro market and overall economic factors that could affect the hotel's performance.

They should also conduct a competitive analysis, including competitor value and benefits positioning. Hotel pricing structures should be based on market conditions and hotel positioning and should include established channel strategies according to market environment to cement "product positioning" (i.e., hotel descriptions, room-type descriptions, etc.) through all channels.

NEW COMPETITION PRESENTS NEW CHALLENGES

It happens. Your new property enters the market to some fanfare, you attract customers based on the quality and novelty of your new hotel—building a loyal base over time. Then before you know it, a few years have passed and your property is no longer the shiny new one in the market and another hotel opens on the same street with an aggressive discounting policy to attract new business and carve out market share at your expense.

What should you do? How can you counter such an aggressive new player?

Frankly speaking, sometimes the best way to engage with an aggressively discounting new hotel is to not engage with any discounting at your property at all and instead focus on maximizing your hotel's average daily rate (ADR). Under an ADR focused strategy, hotels let the competitor fill their newly opened property with cheaper business and not look to engage, or compete, directly with this property on price alone. To help address a new property's aggressive discounting, without discounting yourself, hoteliers will need to invest time and effort into targeting specific customers where they have a better chance of winning against a competitor.

The introduction of new products that deliver value, and which the newly-opened hotel may not be able to offer, will also help ensure their customers make value trade-offs in exchange for lower prices—giving your property a competitive differentiator.

To properly establish your hotel's competitive difference, a thorough strength, weakness, opportunity and threat (SWOT) analysis of the new competitor should be undertaken. Understanding where your opportunity lies in conveying greater value is a far stronger tool in revenue management than knowing at what price your competitor is selling. Established properties also have a fleeting competitive advantage in the number of reviews compared with a new hotel, so make sure those are front and center while you have that advantage.

Even if a new competitor is undercutting you every day, is that always a bad thing? There will be days where your hotel doesn't need the lower-rated business in the market, so let the new competitor take the demand at that price-point. By taking these lower-rated guests, it gives them less rooms to sell at higher rates and allows your higher-rated hotel to secure more of the better business. On days where you do need lower-rated business, build promotions.

Hotels should create length-of-stay discounts over softer days, or offer lower demand room types at competitive price points to ensure they capture incremental revenue that is not displacing better business or negatively affecting your RevPAR.

PRICING IN A DOWNTURN

Hoteliers encountering softer booking conditions, or operating in a financial downturn, face challenges to their business. Many hoteliers make the mistake in these scenarios of adopting a mantra of "a busy hotel is a successful hotel," reducing room rates and relying on the in-house spend in food & beverage, spa, ancillary and more, as top-up revenue. However, what many hotels need to realize is that guests paying significantly lower room rates are also typically less likely to spend on the spa, luxury dining or experiences needed to compensate for a cheap room rate.

The longer-term ramifications of rate reductions are far reaching; not only does this impact brand perception but it also impacts product value perceptions and future pricing scopes when the market is in recovery.

The overuse of incentives to attract guests can reduce the revenue coming into a particular venue and turn away higher-paying customers who are attracted to a hotel for its reputation or prestige. If hotels elect to compete solely by price, then the only way guests can differentiate between these hotels is by those prices. How do you intelligently counter aggressive competitors with a strategy that no price is too low to win business?

The only way to operate at prices higher than competitors in a period of lower demand is to deliver true value and experiences competitors cannot match. If hoteliers do not emphasize a hotel's value, they are vulnerable to customers price-shopping their property against the competition, even if their product delivers a higher value.

In quieter business periods, hoteliers also have the opportunity to "fence" cautiously. This is the time to create new products that increase business during periods of lower demand and create demand from a new sector. The advantage of offering a range of fenced products is that market segments that find these offerings meaningful will begin gravitating toward purchasing new products.

This in turn produces previously untapped business—and the possibility of further untapped business. This will enhance revenues and capture existing demand based on the occupancy levels and business patterns.

MAXIMIZING HOTEL PROFITS WHILE RENOVATING

For some hoteliers throughout the world, there is never a good time to renovate their property. Hotel refreshes are costly and can result in a whole or partial closure of the business. However, major hotel building works should be undertaken when a property needs to be upgraded in order to maintain its revenues and defend its fair market share and revenue generation index.

A key indicator that it is time to put renovation investment on the table is when the asset experiences a sustained drop in room occupancy, unrelated to any price rises or other factors the hotel could have manufactured that resulted in such an occurrence.

One of the biggest choices a hotelier must make relating to a renovation is whether to partially shutdown the property, stagger building works and trade-through, or to undertake a full closure. A hotel's online reputation will be impacted both during renovations (think complaints from guests about noise or availability of rooms) and post renovations (guests may or may not like the new rooms or could potentially stage a reputation revolt if they get an unrenovated room).

It is vital, therefore, that pricing should reflect how guests currently perceive the property, how this compares to the competitor set, how a partial shutdown (and subsequent building works) will impact a guest's stay and what is the desired reputation for the hotel after the property is reopened.

The answer to which approach is best for a property relates to whether your hotel needs to maintain a short-term cash flow, in which case a partial or staggered renovation is probably the best choice. However, if a hotel owner's focus is long-term revenue or reopening to reposition the hotel at a different service or star level, a full shutdown may be the better approach.

There are downsides with both full and partial shutdowns; a partial shut-down can lessen brand prestige as guests have to stay at incomplete properties, while a full shutdown kills revenue and can result in high-performing staff leaving for competitors. To assess which strategy is best employed for a hotel's renovation, property owners should run A/B testing to understand displacement of a renovation and help accurately weigh the cost to the business.

TIME TO REINVEST, REFINANCE, OR SELL?

The additional revenue that comes from the proper utilization of an RMS and revenue strategies directly impacts a hotel's bottom line, thereby making it a valuable tool for increasing a hotel's valuation. This is a keystone in any owner or asset manager's lens, in particular at a time of investment, refinancing or sale. Increased revenue leads to higher cash flow, which has a number of benefits from giving the hotel greater day-to-day liquidity, to having money in the bank, generating interest and leveraging return on capital.

When applied to its fullest potential, revenue management processes and technology, used in tandem, can positively impact efficiency and improve operational performance across an entire property. Advanced forecasting tools provide powerful insights into business demand, which in turn assists with project planning and staffing. For example, if a hotel can anticipate accurate levels of guest occupancy, it can ensure the optimal amount of staff and avoid under or overstaffing, schedule maintenance appropriately to avoid displacement, forecast and buy power and utilities efficiently.

It should not be overlooked that the increased revenue generated by an advanced RMS makes further reinvestment in the hotel possible, or alternatively, can be leveraged to make property portfolio expansion possible.

OPTIMIZE REVENUE NOW & INTO THE FUTURE

In today's competitive hotel environment, the importance of revenue management and its ability to impact a hotel's financial performance is continually expanding. While revenue management is not a new industry practice, what is not always so well

understood is how the practice and automated systems can assist hoteliers in making key business decisions over the lifetime of their property.

Best-in-class RMS analytics enable hoteliers to uncover granular patterns and trends at a micro level. By determining why specific results are emerging, and if a hotel can expect them to continue, hoteliers can optimize their revenue opportunities today and into the future.

While none of us has a crystal ball to tell us what lies ahead, today's technological advances in artificial intelligence, and the algorithms that drive it, are coming closer than ever before in helping hoteliers better understand their market. Changes to business practices necessitate changes to analytics, and technology enhancements and new data enable novel analytical methods that previously have been unavailable.

No matter where your hotel sits in its lifecycle, using the power of revenue science will help you gain insights that come fairly close to that of the elusive crystal ball. It is an ongoing process that continues to emerge and transform the day-to-day decisions hoteliers must make to remain innovative and stay ahead of, or at least in line with, the technological curve.

ideas.com | info@ideas.com

WHPR0011-00-EE-ID 08/2021