

The Value of Hotel Revenue Management Today

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The biggest misperception that some in the hotel industry make is that when there is no demand, there is no need for revenue management leadership. This could not be further from the truth. When demand changes or shifts from one segment to another, it requires immediate and decisive changes in revenue strategies. The hotels that quickly react and implement sound revenue strategies will out-perform their competitors, especially during this period of post COVID recovery. This article will discuss how the COVID pandemic's sudden impact on demand accelerated the need for new and creative revenue strategies, and why strong revenue management leadership will play a key role in the hotel's recovery.



If we review the past 10 years of hotel performance in most markets, life has been pretty good. Demand was strong, with guest room supply continually trying to catch up. With these dynamics in play, revenue managers driving the highest yield from overnight guestroom sales, were valued at the highest levels. During my 40-plus years in the hospitality industry,

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I have always viewed the art of hospitality revenue management as the ultimate high-stakes game. A hotel room is a perishable commodity with a lifespan of 24-hours. In that time, the revenue management team must determine the optimal rate and occupancy that will generate the highest revenue for that day. After that, the opportunity is gone forever. On a daily, weekly and monthly basis, this is the game, and the revenue management team, typically made up of the General Manager, Director of Sales, Front Office Manager and Director of Revenue Management must collectively evaluate the data available to them and make their best educated decisions ultimately around two primary variables. Will the rate desired achieve the occupancy and ultimate the total revenue desired. If the hotel accommodates group business, these strategies must also factor in the maximum number of group rooms the hotel can accommodate and not displace higher rated non-group segments. What could be more fun than that?

Technology has stepped up the process of revenue management exponentially with third party systems that can provide invaluable and immediate data on past and future projected demand. This comprehensive competitive data allows the revenue management team to make highly educated and strategic decisions that previously required a lot more guesswork. With such knowledge, hotels can react immediately to competitive rate changes, evaluate the booking lead-time, and identify which segments are filling their competitors. The information enables the team to make focused sales and marketing decisions to capture increased market share, regardless of the level of demand.

The COVID pandemic caught most hotels completely off guard and resulted in unprecedented cancellations across all segments. Cost containment became mission critical for every hotel, and initial staff furloughs quickly turned into long-term layoffs for an indefinite period. For some hotels, these layoffs included the elimination of on property revenue management leadership, the key individuals needed to provide the analysis and suggested strategies for recovery. Now almost 14 months later, hotels face the difficult choice of either bringing back their revenue managers, assuming they are still available, or seeking the assistance of third-party consultants.

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Noted industry expert, Robin Rossman, managing director at STR, CoStar's hospitality analytics firm, stated during the online [Hotel Data Conference: Global Edition](#), "that the global hotel industry has a long road to recovery after experiencing its worst year on record in 2020". Rossman clarified further that "by [fourth quarter] 2022, depending on where you are in the world, demand will be between 80% to 100% of 2019 levels. I'll just say that again, within seven quarters of today, it's going to feel pretty normal." This may be optimistic and apply to some markets, but the larger group and gateway destinations have a much longer recovery journey ahead of them.

Markets heavily reliant on business and group travel – domestic and international were most impacted, while the suburban limited-service hotels were able to maintain a reasonable base of leisure business. During the pandemic, however, there has been no correlation between the historic drops in demand and the sharp drop of rates by hoteliers. For example, the rates being captured by the business and group city center hotels that are currently at occupancies of 10% - 20%, are still considerably higher than the short-term rental properties and suburban hotels that have been able to maintain more consistent and higher occupancies of 40%-50%. We also project that pent up leisure demand due to the pandemic lockdown on travel is still projected to continue, while group and business demand will be more sluggish to return until confidence in travel and safety improve.

As hotels begin the process of recovery, external factors such as local government ordinances, the success of vaccine efforts, and customer confidence in travel will each play a key role. Hotels with strong revenue management leadership, either on property or from a third-party consultant, must utilize all data at their disposal and develop strategies to respond to current and changing market conditions. Below are some revenue strategies that will help jump start your hotel's performance:

- Assure the hotel's performance is guided by the revenue management tools and reports your hotel subscribes to. If such subscriptions were allowed to lapse during the pandemic, we strongly recommend the hotel renew immediately.

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- Understand the shifts in market demand by segment that have occurred. Develop revised fill strategies for your hotel. The revenue manager's analysis should also include a review of booking lead time by segment to assure rate adjustments are impactful. Additionally, more lenient, short-term revenue strategies should be considered. For example, more flexibility with cancellation date minimums and advance deposit policies, as well as a complete revision of length of stay pricing levels should be considered.
- Develop strategies targeting the segments that are still performing and can help fill the void created by the pandemic. If a hotel has traditionally been dependent on large citywide group events, now is the time to revise the mix of business and specifically target leisure and smaller niche segments such as amateur sports teams, car and boat shows, social and fraternal organizations.
- Consider layering in lower rated, weekly base business to shrink your rooms inventory bucket. This business may have been avoided in the past. Airline crew rooms should be viewed from this perspective. The property will also gain an increase of incremental revenues captured by crews patronizing on-property outlets.
- Establish a rate strategy to remain competitive, while still taking advantage of the hotel's perceived value. Understand that the strategy of offering rates substantially below your competitors may result in the hotel leaving revenue on the table. Conversely, if your hotel is the premiere hotel in the market, your competitive rates may still be higher than your comp set.

In Summary, the need for strong revenue leadership is clear. Identifying the drastic shifts in demand within the various market segments, and developing perhaps creative, "out-of-the-box" strategies is essential. We discussed the urgency of decisive changes in rate and inventory controls to enable stronger yields and ensure that your hotel ramps up quickly during this period of recovery. How this leadership is provided will be a decision made by the hotel's ownership and management. If there is concern with bringing back such a position during the early stages of recovery, the alternative might be to seek support from a third-party vendor.

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HPS is currently working with management companies to evaluate market changes and create strategies for success. We would be glad to provide such assistance to you.

About Hospitality Performance Systems, Inc. (HPS)

Hospitality Performance Systems (HPS) was created to provide operational and sales support to the hospitality industry globally. Founded in 2009 this enterprise takes advantage of its founder and President, Stanton D Jacobs, CHA, with over 30 years of proven success in the hospitality industry and strategic relationships globally, HPS is affiliated with a wide array of professionals specializing in their respective disciplines, enabling HPS to provide a wide range of services. <https://www.hps-strategic.com> <https://www.linkedin.com/in/stantonjacobs/>