Revenue Management: Making the Move from Tactical Player to Strategic Artist

By Christian Koestler, President & CEO, Lixto, Inc.

At its core, revenue management in the lodging industry is simple – at least in theory. It is about selling the right product to the right customer (the guest), at the right price, at the right time, and for the right length of time. Looking at it another way, it is the honed practice of demand management, executed in a strategic manner.

At the other end of the spectrum, says wikipedia, it becomes a bit more complicated: Revenue management is the application of disciplined analytics that predict consumer behavior at the micro-market level, and optimizes product availability and price to maximize revenue growth.

The reality is somewhere in the midst of the definitions, and while every revenue manager will have individual challenges, there is no doubt that the profession has changed greatly – and rapidly – in recent years. Early on, in the industry, “revenue management” was basically a front office manager handling inventory control of rooms. Over a relatively short period of time, the practice has evolved from this type of tactical nuts-and-bolts operation to a profession requiring strategic thinking, analysis and execution. For the hotel industry and its employees, the transition takes on particular importance in the development and implementation of both strategy and tactics.

Birth of Revenue Management

Initial credit for the creation of revenue management goes to the airline industry. BOAC (now British Airways) began experimenting with differentiated fares to help fuel demand for otherwise-empty seats. American Airlines followed suit with what it termed “yield management,” focusing on forecasting, inventory control and overbooking management. Its success literally took off with the deregulation of the airline industry in the early 1980s.

The pivotal transition to the hotel industry came when American’s then-CEO discussed the yield management methodology with Bill Marriott, CEO of Marriott International. The practice made sense to Marriott, as the hotel chain and airline shared many of the same issues: perishable inventory, advance bookings, low-cost competition and challenges in balancing supply and demand. “Yield” – a term more applicable to the airline industry – became “revenue” in the hotel industry, and “revenue management” was born.

Evolving Role of the Revenue Manager

With the evolution of the industry has come the evolution of the revenue manager. As the role transitioned from the front office manager’s singular focus on inventory, it also morphed into a position that is an integral part of sales, marketing and brand management. Moving from a solely tactical to more strategic function means that the role of the revenue manager has evolved dramatically over the past 10 years, and continues to do so today.

“Selling to the right customer at the right price” is a sales and marketing function. But in today’s fast-paced, web-centric world, the revenue manager’s functions extend far beyond balancing demand and supply inside the walls of his or her office. An uncertain economy, changing global markets, external events, mobile commerce and savvier customers impact revenues in radically new ways. Today’s revenue manager must be able to obtain, understand and analyze complex data, communicate that information with other managers in the business, make sound decisions, and, above all, be a strategic thinker.

Building the Brand

On a strategic level, development of revenue management strategy today is about building and maintaining branding. Building brand loyalty involves more than just satisfying a guest on a particular stay. It starts with truly understanding the target market and how those individuals make decisions.

While today’s post-recession hotel guests remain price-conscious, they also are becoming ever more knowledgeable and confident in how they make decisions on lodging. Our connected and increasingly mobile world means consumers are comparison shopping more than ever for the best deals and rates before they make decisions. Revenue management must step in to help managers evaluate their offerings – and their competitors’ – against the same information those guests are using to make decisions.

Today, that information includes not only rates, but room/unit type and detail, meal plans, packages, deals, promotions, taxes and service fees, and cancellation policies. Revenue managers also must increasingly learn to use advanced intelligence systems to analyze qualitative review information, which is growing increasingly important in understanding how potential guests perceive value. It is no secret that search engines and online travel agencies (OTAs) rely heavily on this qualitative information for key ranking criteria.

Only by obtaining, analyzing and using all of this information strategically can a hotel confidently establish itself as the source of the best and most up-to-date offerings available. Importantly, revenue management then also must step up to clearly, concisely and proactively communicate what it is doing with every part of the business. The resulting credibility creates for revenue management the ability not only to improve look-to-book ratios, but also truly take part in the business as a member of the strategic team.

Integration with Marketing and Sales

Responsibility for building the brand at a strategic level may rest in part – no doubt in large part – with revenue management. But this key strategic activity does not take place in a vacuum. Revenue managers must strongly integrate with every facet of the business when designing and implementing revenue management strategies.
In the hotel industry, revenue management’s integration with marketing and sales, in particular, is at the crux of a strategic – and successful – program. Using advanced software systems and other available tools, revenue management can provide the data, analysis and guidance to develop and guide viable strategic direction in the marketing and sales areas. Sales, marketing and revenue management must work together to develop and implement plans, carefully monitoring performance and adjusting plans as necessary.

Tactically, the functions must work together on projects that can range from viral marketing to targeted guest promotions. While revenue management does not drive the execution of marketing campaigns, its impact on marketing is significant. Most hotels – whether large international chains or independent properties – find that a program of regular, standardized communications with marketing and sales ensures identification of opportunities and potential problems. Whether in the form of regular meetings, video or phone conferences, and/or written correspondence, those communications will maximize results.

Operations and Finance

While the need for strategic integration with sales and marketing may be clear, it may not always be that way when it comes to operations. Yet when operations shares in the understanding of revenue management strategy, those departments and employees can more directly relate to how their product and service directly affects the hotel’s position in the marketplace. Greater involvement and understanding inevitably leads to taking a more vested interest in the job at hand. An accurate picture of the hotel’s supply, demand and revenues over the short and long term also will allow operational departments to make better, more strategic decisions of their own.

Financial and revenue management will overlap in many, if not most, hotel environments. Both have roles that are critical to the financial success of their businesses. In fact, in many organizations today, the revenue manager reports to the chief financial officer (CFO). Where the CFO must determine the entire business’ financial direction – for the short and long term – the revenue manager focuses on one part of that function: rate structure and the factors surrounding it.

In some cases, the key decision-making differences between organizational financial management and revenue management rest in the timing. Both, though, must remain in sync on a strategic level. Revenue managers must be able to make rapid, informed decisions on a daily (if not hour-by-hour or minute-by-minute) basis, whereas CFOs generally take a longer-term view. The CFO may not need to know those minute-by-minute rate changes, but the two managers must determine the way to communicate clearly – and often – to ensure staying on the same strategic page. Integration of revenue management strategy and tactics with the business’ budget and overall financial direction is critical.

The integration of revenue and financial management grows closer every day. The use of opaque pricing to segment customers, and incorporation of techniques such as discrete choice modeling, are just a few examples of how the two disciplines must work hand in hand to understand how consumers make decisions, and ultimately, how those decisions affect the bottom line.

Finally, no matter what the department, employees of all levels are key elements to the success of any revenue management strategy. Businesses of all types and sizes do better when each employee feels a part of the organization and has a stake in its success. Hotels are no different. Since revenue management sits at the heart of a hotel’s success or failure, development and involvement of committed employees will help assure the collective strategic vision, better day-to-day success and elevated levels of pride.

Looking Forward

Long gone are the days of simple (and occasional) competitive rate analysis, and pricing based on “feel.” So, too, are the days of building brand by solely ensuring a good guest stay. Revenue management must continue to look beyond the hotel to encompass the market, guests’ value perceptions and external events – all on a national, if not global, scale.

As revenue management so deeply integrates to all the different business functions, the need for complete understanding of the changing market landscape, in particular, becomes more and more critical for revenue managers. These professionals need systems in place to deliver daily updates on complete pricing and quality rankings information in the competitive landscape, delivered via reporting and dashboards that make this information actionable. As more advanced tools come on the market to provide this information available, revenue managers can respond quickly to a shifting landscape, setting the right pricing to drive optimal bookings and achieve revenue forecasts.

Going forward, more systems will become available to analyze social media in greater detail, and to offer prescriptive rate solutions. As technology advances, more OTAs will debut, and the sales distribution channel picture will become increasingly more complex. Throughout all of these changes, what will not change is the need for revenue management – and those who work within the profession – to adapt to changing forces and execute strongly on a daily basis, all the while maintaining strategic vision.

Christian Koestler is president and CEO of Lixto, Inc., a global leader in web data extraction and analysis for the hotel, retail and consumer products industries. He also holds the position of managing director for sales and marketing at Lixto Software GmbH, the company’s headquarters, in Vienna. Mr. Koestler brings a broad background in software technology to his work in the hotel industry. He previously served as vice president of manufacturing for Lixto Software GmbH in Vienna. He has held sales and sales management positions in Europe with Agile Software, Eigner Inc., and Siemens AG Austria. Mr. Koestler can be contacted at 408-952-9200 or christian.koestler@lixto.com

© 2011 Cummins Communications