

THE OVERVIEW

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Clouds ahead

Lee Jamieson explores how revenue management has found itself at the eye of the “big data” storm.

In recent years, hotel technology has undergone a period of convergence: PMS, reservation systems, guest preference databases, social media platforms and e-marketing systems are finally sharing data in a meaningful and actionable way.

The coming together of these once distinct disciplines has heightened the importance of revenue management because revenue teams are analysing the essential data needed by other departments to streamline their own operations.

In short, in this age of technological convergence, revenue management has become the lifeblood of the hotel organisation.

“Over the past decade, revenue management has arguably grown into one of the most developed and evolved departments in the hotel industry,” explained IHG vice president for revenue management, Brian Hicks. “Some of this development is due to an increase in the availability of data and the quality of the analytics. Marketing, sales and distribution departments are now looking to revenue management to inform and advise on demand and pricing decisions.”

Culture Shift

Many of the larger hotel groups have realised that a cross-departmental approach is essential if they wish to drive their revenue management strategy throughout the organisation. There are already signs that the cultural shifts and organisational changes required to deliver a group-wide focus on revenue management is already underway with some senior leaders responsible for revenue management beginning to take on wider responsibilities under their remit.

“In today’s fast-changing market, a good revenue management strategy is crucial to increase market penetration in both occupancy and ADR,” said Kempinski Hotels, vice president for digital sales and distribution, Riko van Santen.

“But creating a company culture that understands and is hungry to optimise their revenue dynamics takes time and commitment. So, the strategy should focus not only on what results need to be achieved, but also on how results can be achieved sustainably.

“Rather than simply using revenue management as a tactic to achieve higher yield, hoteliers should adopt it as a ‘strategic focus’ – it can therefore positively influence the company’s balance sheet and shareholder value.”

Poles Apart

With some hotel groups really pushing revenue management up the agenda

and into other parts of the organisation, a chasm is opening up between those that have embraced revenue management and those that have not.

“Revenue management has evolved quite significantly over the past five years,” explained Apex Hotels group revenue manager, Clinton Campbell. “So too has the role of the revenue manager. “Where the strategy was previously centred entirely around the basic revenue management decisions, today there is a need to expand this and consider the ever changing business mix and the channels which support them.”

But Campbell is concerned that not all hotels are keeping pace with the strategic changes that need to be made. “I’m not sure that all hoteliers have a solid strategy in place. I hear all too often of hotels that are still reactive revenue managers – making pricing adjustments based on what their competitors are doing.”

Big Data, Big Profits

But why are some hotel groups positioning themselves around a technology-driven revenue management strategy?

One argument is that the convergence revolution is only in its early stages. Hoteliers that can position themselves ahead of the curve and be ready to capitalise upon emerging technology will prosper over the next five years.

Convergence will usher in the age of so-called “big data”.

Essentially, the term “big data” simply relates to the potential treasure trove of customer and market information that exists beyond the hotel’s guest history and transactional data: social media, blogs, emails, photographs, guest reviews and so on.

Technology is moving towards being able to sort and analyse this unstructured data and identify profitable new insights. One solution provider, JDA, claims to be ahead of the curve with big data, as vice president Anand Medepalli explains:

“The next stage is to absorb all of this unstructured information from sites like Facebook and Tripadvisor, so revenue managers can begin to explore this data – even if the algorithms have to catch up. “We talk about new technology finally being able to bring together all of these unstructured data streams – but here’s the irony: technology has been doing this for customers for years! Hoteliers are just playing catch up!”

With the ability to harvest this information already in place, van Santen believes that we are entering a phase where guest and brand loyalty can be forecast by market segment or lead time, for example.

“Total Revenue Management will study guest behaviour at all points of contact – before, during and after stay – through various channels of engagement, not only the hotel or chain’s own channels,” he said. “Hotels already have means of measuring the influence levels of each guest, and this will add a new dimension in the revenue management algorithm to optimise yield per available room. “Interestingly, email and social media interaction is already being tracked, but not yet fully enough to play a role in optimising revenues.”

Too Much, Too Fast!

Concerns remain over the manageability of big data for revenue teams in making clear business decisions.

The sheer amount of data coming in could potentially be overwhelming, which means that revenue managers become much more reliant on automated solutions.

“I think that the revenue tools will become more sophisticated over the next five

years and possibly reduce the need for as much human interaction,” said Park Inn by Radisson director of revenue optimisation, Gail Peters. “The need for analytical tools will continue to grow, with management data being available on demand, but the key is to ensure you spend the time and have the skills within the business to fully use such data in setting strategies and reviewing results.”

Human Touch

Behind any revenue management system is a good, well-trained operator providing a human context to the raw data. In this sense, revenue management technology is a decision making aid.

“A revenue manager’s intuition can sometimes be more insightful than a data point,” said IHG’s Hicks. “Revenue management is both an art and a science – and all art requires the human element.” The balance between levels of automation and human intervention vary from hotel to hotel, but all agree that the role of technology is growing.

“IT for revenue management is continuously growing,” remarked Macdonald Hotels and Resorts revenue director, Stephen Dodman. “In fact, I’ve seen it grow faster in the past two years than ever before!”

“You will always need human knowledge in revenue management – the system has no way of knowing about a big forthcoming event, but, that said, you do have to accept that your system is booking 365 days per year. You have to have confidence and trust in that system. “At the end of the day, the software is performing complex calculations on multiple streams of data – something that goes far beyond the abilities of the human brain.”

New Markets

Whilst talk of big data and evolving algorithms is exciting for larger groups, many smaller hoteliers are disengaging from the debate.

There is a perception from small, independent hotels that they simply don’t have the time, need or experience to think about revenue management.

In many respects, this is an understandable point of view: a system designed for tens-of-thousands of rooms

is probably far too complex for a small 20-key operation.

Many of the major solution providers have identified this market opening and are developing new platforms to suit. IDEaS Revenue Solutions is one such company that has recently launched a product tailored to this market.

“No hotel is too small to practice smart pricing, and we have created the IDEaS Pricing System (PS) to meet this demand,” explained managing director, Fabian Specht.

“Simply put, IDEaS PS enables busy hotel managers to set the best available rates, easily push them into distribution channels and then provide dependable forecasts and reports.

“Smaller hotels often do not have the resources to dedicate a staff member solely to revenue management so the IDEaS PS has a simplified approach and intuitive design to minimize the amount of training and interaction needed to learn and operate the system.”

Perhaps part of the problem is that this market segment holds onto a very out-dated view of revenue management – as a specific tool for pricing rooms.

But as we have seen, revenue management has evolved far beyond this. Today, it reaches into the company’s many revenue streams and has proven itself to be the key solution to increasing profitability.

It is only a matter of time until smaller hoteliers realise this, as Niels Mekenkamp from Infor EasyRMS concludes:

“Many smaller chains and independent hotels don’t yet fully grasp the wider revenue management picture and rather than embracing the philosophy within their organisation, they believe it is something that is done by one person in a back office.”

“Once hoteliers realise that revenue management is about more than just room revenue and what rate the hotel is selling and they understand it needs the backing of the entire organisation, they will fully embrace it.”

This article first appeared in Hotel Industry Magazine.