



Invent the future series: spotlight on revenue management
Placing the customer at the heart of revenue management



Revenue management, with its roots in the airline industry, was traditionally based on capacity. However, by 2000, its application in the hotels sector was proving not to be as effective as hoped. Today, it is price management based on many factors that is superior to revenue management based on capacity. And looking forward, it is the complete integration with multiple systems and an approach more aligned to CRM which is what hotels of the future need.

The early days

When the airline industry became deregulated in the mid-1980s, aggressive competition provided the catalyst for developing new ways to maximize revenue from airline seats. Companies started to introduce Revenue Management Systems (RMSs) that optimized the balance between the fixed amount of resources for sale, the time these resources were available, the price customers were willing to pay for a seat, and segmentation across the products available on a flight.

Approaches that work for the hospitality sector

But by the 1990s it became clear that capacity-driven revenue management systems, built for airlines, simply didn't work as effectively for the hotel industry. Principally, this was because airline customer profiles are not as complex or as fluid as those of hotel guests. While an airline company might have a grid of fares, a hotel might have a flexible and dynamic rates system depending on location, season and other facilities and services on offer. And while an airline company might differentiate between just business and leisure travelers, hotels need to draw from a much bigger spectrum of customer backgrounds, needs and wants.

So the hotel industry's demands – multiple segmentation, matching capacity to customers – needed a new approach based on something more sophisticated than just capacity. Enter price management. This looks at the Best Available Rate (BAR) based on future predictions of many parameters such as where the customer is, the current season and, critically, what a company's competitors are offering. From the simple grid of capacity management we now look at a vast array of variables to manage pricing and rate levels.

The importance of price management not just revenue management

Price management thrives in an environment where revenue management does not. It is possible to realize a vision of a market tied to customer personalization in place of more limited customer segmentation. It is possible to move effectively from just inventory management to channel management. By discarding the traditional capacity allocation models inherited from the airline industry it is now possible to address, at a macro-scale, the pricing issues that hoteliers are facing, and at a micro-scale provide pricing solutions, including dynamic pricing, real-time group quotations, with more granular competitive intelligence. And this enables systems to reveal many more opportunities for increasing revenue for hotel companies.



With dynamic price management techniques hotel rooms can be filled at the most profitable price according to learned demand patterns. By looking ahead using future booking data, and back with detailed historical records, advanced forecasting models can make intelligent rate and inventory recommendations. This can be done in real-time, adjusted dynamically to changes in the hotel environment, ensuring accurate and reliable 'always on' business intelligence.

Beyond revenue management



"We live in an exciting time where the speed and breadth from which we are receiving data opens whole new possibilities regarding to revenue management. We can expand our data collection beyond the PMS and really start to abandon old archetypes we've used to pigeonhole consumer behavior patterns used for our revenue management strategies. Imagine optimization techniques where you're holding inventory for soccer moms from Tennessee or setting pricing tiers for iPad users searching long tail keywords on Google. The rapidly growing availability of information will eventually allow us to paint pictures of our customers with striking accuracy. Those who've developed or implemented the systems and processes to take advantage of the multitude of data sources will have a very real competitive advantage."

Andy Grinsfelder

Director of Business Intelligence & Marketing Technology Services, Delaware North Companies Parks & Resorts, Inc.



In essence, the fixed, disconnected and disparate model of revenue management has now been overtaken by the fluid, dynamic model of price management, and this multi-variable model works much more effectively with the complexities of the hotel industry. By employing price management techniques hotel revenue can see improvements of up to five per cent which is a convincing argument for any hotelier worried about how best to survive in an ever more competitive marketplace.

In many ways what we are looking at are models that share a lot with sophisticated trading systems. Like the rocket scientists who analyze price movements in a trading market, today's systems also look at markets and try to establish the influences on a price point within that environment. By using a combination of elegant algorithms and the sheer force of computational power to predict where that price is likely to move in the near future – the Holy Grail of trading – and make the most competitive offering available. The technology really is affording us this deep look at both when and where a customer is, and this environment will come to be dominated by whoever has the biggest computing engine, the most effective systems and the capabilities to effectively merchandise the hotel product.



Where is the future headed?

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“We see three key areas for development in the coming years: (Managed) Automation - increasing automation in order to free up analysts for more strategic actions and decision-making; PSRM (Price Sensitive Revenue Management) - emphasis must be on utilizing the huge amount of rich data available online; and, CCRM (Customer Centric Revenue Management) - this should be linked to the above and requires coordination between revenue management and CRM systems.”

Darryl Piggott

Pricing and Yield Manager, Center Parcs Limited

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‘When’ and ‘where’ are good, but it is possible to think further – to look at ‘who’, that is, the individual preferences of a customers. Technology is allowing a greater focus on individuals and helping hotels to better cater for their personal preferences. By analyzing booking and stay data in detail and moving beyond traditional segmentation to personalization, of channel bookings, lead times and combinations of rates and activities, the prospects for driving up revenue whilst retaining guest loyalty are significantly improved.

This goes beyond revenue management, and beyond price management, to become customer-centric revenue management, a very close cousin of Customer Relationship Management or CRM. This is akin to the Facebook of travel, in which the ‘atom’ of processing is not the time or place, but the person. What could be lost in the quest to create dynamic pricing models that take everything into account except the individual, can be regained with this approach.

So for example, if you are booking a hotel room through such a system, it will recognize that you like golf and Chinese food and recommend local golf courses and restaurants. It might know that you generally like to hire a car, so it will offer car hire company options as a package. It could even choose the type of car you prefer. And the system can even charge a premium for these services, so that while the customer benefits from a uniquely tailored experience, the vendor also makes more money, whilst the customer feels more loved.

Now take a different season. Suddenly tennis is not as attractive, so the system needs to take this into account. How about a local shooting range? And instead of Chinese food, now that the customer is booking into a hotel in Europe, the system can recognize this and recommend local cuisine instead.

As we start to zero in on the customer we also start to ask interesting questions. For example, if systems are geared to the preferences of a small group or even to the level of the individual, how can the concept of brand value be incorporated? It is also important when we move beyond quantitative factors such as price, location and date, to start thinking about emotional factors around the service experience and the perceived value for the guest.



Towards a customer centric RM system: getting it right in a world of increasing expectations

This is critical in the hotel industry. While an airline operator will be looking at fairly limited competitors and alternatives to price, a hotelier is in an extremely tough market with many more competitors all adjusting their offerings based on seasonality and market demand. So in the hotels sector, absolutely the most important factor is becoming the hotel's value proposition and brand, and how this is perceived by the customer alongside the competition. It's not just about matching rooms to people or prices to segments, it's about matching a hotel's entire operations, from rooms, amenities, location, perceived quality and loyalty programs, to the expectations of the right person in the right place at the right time. It's a formidable logistical task and why deploying enormous computational power is critical to addressing this challenge.

Talk about customer-centric revenue management also acknowledges that revenue management is moving closer to marketing. And, in the same way marketing pervades an organisation and essentially sets its direction, so could and should customer-centric revenue management become integrated across a hotelier's systems, throughout the distribution systems, from the point of sale through to after-sales follow-up. Greater customer insights, and the proliferation of new channels for interaction with those customers such as email and social media, means it is vital to offer them the best possible deals for them as individuals rather than just their broad behaviors.



The future of revenue management must be tied into gaining sustainable competitive advantage in our highly complex and diverse hotel business where the customer perception of value will be the king. Hoteliers will be required to focus on one consumer and their experience even when they serve 100 million consumers. In our opinion, the future vision of revenue management and distribution marketing is a day when each guest is a market segment of one and the access and availability of rates for a requested stay would depend on a guest's past history or forecasted future with the hotel or brand.

Puneet Mahindroo

Corporate Director of Revenue Management & Global Distribution, Taj Hotels Resorts and Palaces



It's probably fair to say that the movement from RM to PM (Price Management) to CRM is the result of a symbiosis between market competition, customer choice and technology. If the environment in which you work is becoming more complex, then make sure you have the right tools and technology to enable you to lead it. If the customer is becoming all-powerful, then it is important you know how best to meet their needs.