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Title: Total Revenue Management, the future Revenue Management?

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Total Revenue Management, the future Revenue Management?

Cheryl Kimes conducted a study in 2010 regarding the future of Revenue Management, which concluded that "In the future, Hotel Revenue Management would be more strategic in nature, would be more technology-enabled and that it would encompass all parts of the hotel. The respondents identified function space and restaurants as the most likely candidates for future applications of Revenue Management". I agree with this point of view; a good way to make sure to achieve the optimal result is to focus on all departments that create Revenue. This conclusion is also strengthened by the survey that HSMAI recently conducted and which was presented by Carl Oldsberg during the HSMAI conference in London on the 6th of February 2014.

Some hotels and hotel chains are starting to extend the responsibility of Revenue Management to the Function Spaces. However; there is no massive movement in applying Revenue Management to other departments such as; Restaurants, Minibars, Spa, Shops, etc. This might be so because these departments are considered to be a service and a loss or Break Even is therewith acceptable. Basically properties are missing out on a potential growth of 30% per department.

The Six C's in Revenue Management on different departments

Previously we talked about 4 C's (Capacity, Calendar, Clock, Cost) with a fifth binding factor; Customer. The sixth factor increases in importance; Channel.

1. **Capacity:** There are many similarities to the "traditional" Room Revenue Management, conducted by most hotels, though the time factor is even more important when it comes to Conference-, Spa- and Restaurant Revenue Management, as these facilities can be rented by the hour, part of day or whole day. Also Space Management is an important factor to keep in mind as many times space, such as swimming pools and floor space, can be limited compared to, for instance, the treatment- and hotel rooms available.
2. **Calendar:** Calculating Total Demand is a vital parameter in determining the right price. On the same day and time, the demand may vary from department to department, which might be challenging, but can mainly be seen as a great opportunity to achieve the optimal effect, as all departments can benefit from each other and pricing can be adapted strategically. This does mean that the various departments should be able to co-operate well and trust each other's judgement.
3. **Clock:** Knowing your booking pattern, such as time of booking, expected length of stay and the pick-up levels that can be expected are also important factors to calculate Total Demand. When applying Revenue Management on Conference, understanding your customers booking pattern is one of the most important parameters in determining the probability to expect the most profitable requests and which requests to say No to.

4. **Cost:** Every sale comes with a cost. This does not only concern Cost Of Sale on your distribution channels, but even operational- and personnel costs. How do we relate cost towards revenue and achieve the best margins on all departments? Do we work with Dynamic Rates and how do we sell this practically? How does Menu Engineering work and how can we use this tool to increase profitability?
5. **Customer:** How do we define the optimal Marketing Mix and what is the Total Revenue per Market Segment? Do we need to break this down to Customer Level in order to be able to offer customer adapted packages? How can we make sure we know the Total Margin per Segment and how do we make sure we can offer availability to our most loyal and profitable customer? Furthermore, how do we find the systems that support us in these questions?
6. **Channel:** This factor is increasingly important. Which channels do our customers use and which customers do we need to attract in order to find new markets and new possibilities? How do we make sure we can find the packages our customers want to buy and to which rate? Furthermore, what are the possibilities the different channels create to offer packages and which channels are best adapted to our needs?

Challenges and Opportunities in the implementation process

There are basically three main challenges, that all are related:

1. **Organization:** There usually is a fear factor involved; department heads can be unsure if they will be able to handle an increased responsibility on an already overloaded schedule or might be afraid to delegate a certain responsibility to somebody else. It is not always easy to have a person from a different department determining which rates to sell to. Trust is an important factor and it is vital to know all involved know what to do in order to increase result. This leads directly to the second challenge/opportunity;
2. **Knowledge:** Not only training is of an essence; staff members from all departments will have to be aware of the implications on their daily tasks. In many cases, a Revenue Management project on a property starts with making sure that all heads of department are aware of the changes of the impact the implementation of Revenue Management will have on their department. By the end of the day, all involved will achieve increased knowledge and new challenges. With knowledge comes the demand for good statistics and tools to analyze. This relates to the next challenge;
3. **System Solutions:** Where can we find the Systems that help us know the Total Revenue per customer or per Market Segment? Will we be able to offer the possibility to offer a booking engine that enables our customers to book all our departments directly through our website and are there any systems available, or being developed, that will help us yield all Revenue generated?

Related Articles:

Cheryl Kimes article on Total Revenue Management:

http://hotelexecutive.com/business_review/3620/total-hotel-revenue-management

HSMAI Survey: RM%20succession%20planning_1.pdf (attached)