Cloudbeds

The ultimate guide to hotel revenue management

Contents

What if we told you there was a relatively simple way to increase your top-line revenue by 20-30%? Would you believe it? Believe it or not, only a very small percentage of hospitality operators use revenue management strategies and are potentially robbing themselves of their own revenue potential.

What is Revenue Management?

At the basic level, revenue management is the strategic use of performance data, local market data, competitor rates, and other applied analytics to help predict consumer demand in order to optimize pricing and distribution in a way that maximizes revenue and profits.

In this series, we will uncover revenue management strategies that are designed to help you realize optimal revenues and gross operating profit for capacity-constrained and perishable assets (rooms, in our case). If implemented correctly, a 50-room property can see an increase of $100,000 – $200,000 each year.

What revenue management is not

It might be easy to believe that good revenue management is about simply following your competitors' rates (comp set), chasing after occupancy and revenue growth, or accepting every piece of group business that comes your way. While benchmarking your competitive set and managing occupancy is part of revenue management, mindlessly following these particular behaviors can actually hurt your business. That is because you also need to account for:

- Specifics of your property (location, value proposition, etc.)
- Your booking dynamics (pace and speed of sales)
- Future strength of demand
- Guest price expectations (market segments and your ideal guest profile)

To get the most revenue, you can't just "set it and forget it." Revenue managers are in charge of planning and demand forecasting for the future (365 days out) and have to be flexible enough to change their strategies if need be. This diligence helps prevent problems such as having too many unsold rooms or selling out at a rate much lower than it could have been.

The difference between yield management and revenue management

Yield Management and Revenue Management were pioneered by the airline industry but they are not the same. Revenue management is the comprehensive strategy to grow a hotel's overall revenue, whereas yield management focuses on maximizing profit for a specific asset at a specific time, e.g. hotel room revenue in the high season.

Think of Yield management as the strategy to sell a room at the right price to the right guest at the right time. Think of revenue management as the larger strategy that makes use of data analysis to make accurate forecasts for overall profits.

Indexes used in the revenue management science

Let's look at some metrics you should already be familiar with:

$$\underset{\text{(\% of Rental Units that are Occupied)}}{\textbf{Occupancy}} = \left(\frac{\text{Numbers of Occupied Rooms}}{\text{Total Rooms Available}}\right)$$

$$\underset{\text{(Average Daily Rate)}}{\textbf{ADR}} = \left(\frac{\text{Room Revenue}}{\text{Number of Rooms Sold}}\right)$$

Occupancy and Average Daily Rate (ADR) are often used as a shorthand way of measuring the success of a property, but these KPIs alone are a poor measure of the sales volumes they generate.

RevPAR: A better measurement

A better measurement that takes into account the relationship between these figures is RevPAR (revenue per available room). This metric is useful for measuring the hotel's productivity and for comparing properties inside of a market – it is a more accurate view of hotel performance as it combines both occupancy and ADR into one statistic.

$$\underset{\text{(Revenue Per Available Room)}}{\textbf{RevPAR}} = \text{(ADR x Occupancy)} \;\text{or}\; \left(\frac{\text{Total Guest Revenue}}{\text{Total Availabe Rooms}}\right)$$

The difference between yield management and revenue management (cont.)

TRevPAR: Measure total performance

TRevPAR (total revenue per available room) has been gaining recognition as an important measure of success for lodging businesses in the hospitality industry. Why? Because unlike RevPAR, ADR, and Occupancy, TRevPAR measures total revenue performance for the entire property, not just rooms.

$$\underset{\text{(Total Revenue Per Available Room)}}{\text{TRevPAR}} = \left(\frac{\text{Total Revenue}}{\text{Total Available Room Nights}}\right)$$

GOPPAR: A simple measure of profit per room

GOPPAR (gross operating profit per available room) accounts for total hotel revenue and operating costs to measure a property's operating profit. By dividing total profit by the available guestrooms on property, GOPPAR provides a simple, holistic measure of profit breakdown per room.

$$\underset{\text{(Gross Operating Profit)}}{\text{GOP}} = \left(\text{Gross Operating Revenue} - \text{Gross Operating Costs}\right)$$

$$\underset{\text{(Gross Operating Profit Per Available Room)}}{\text{GOPPAR}} = \left(\frac{\text{Gross Operating Profit (GOP)}}{\text{Total Number of Available Room Nights}}\right)$$

6 Revenue Management Strategies

01. Practicing Dynamic Pricing

02. Setting Stay Restrictions

03. Managing Booking Channels

04. Overselling

05. Managing Groups & Corporate Business

06. Using Revenue Management Technology

01. Practicing dynamic pricing

Now that we've walked through a high-level overview of what revenue management means for independent hotels and why it is so important, we can jump into the first of six actionable strategies you can get started on today to maximize profit.

In your daily practice, start with a dynamic pricing strategy and proceed to the next strategy as you become more comfortable with the routine.

What is dynamic pricing?

Dynamic Pricing in revenue management is simple: a hotel room (or a hostel bed) should be priced based on supply and demand (your equilibrium price). In general, room rates should be increased when demand exceeds supply (to capitalize on ADR) and lowered when demand is weak (to increase occupancy).

Now, it's time to get out of your comfort zone. Think about the next 365 days, and chart out your property's approximate demand. It's important that you proactively think about what the demand will be because this reflects different levels of revenue potential.

To start you can do things like track repeat events in your area or measure different highs and lows in occupancy based on your specific location's seasonality. Ask yourself: do you get more guests in summer or winter? Are there conventions in your area that bring in business travelers during the week? Do you have family-friendly activities over the weekends? You can use your local visitors' bureau as a way to see which events are promoted.

In the end, just go for it, your predictions are probably more accurate than you might expect. Don't fret if you aren't sure, your predictions and ability to estimate demand will get better over time and you can always adjust your decisions later. The important part is that you must start somewhere.

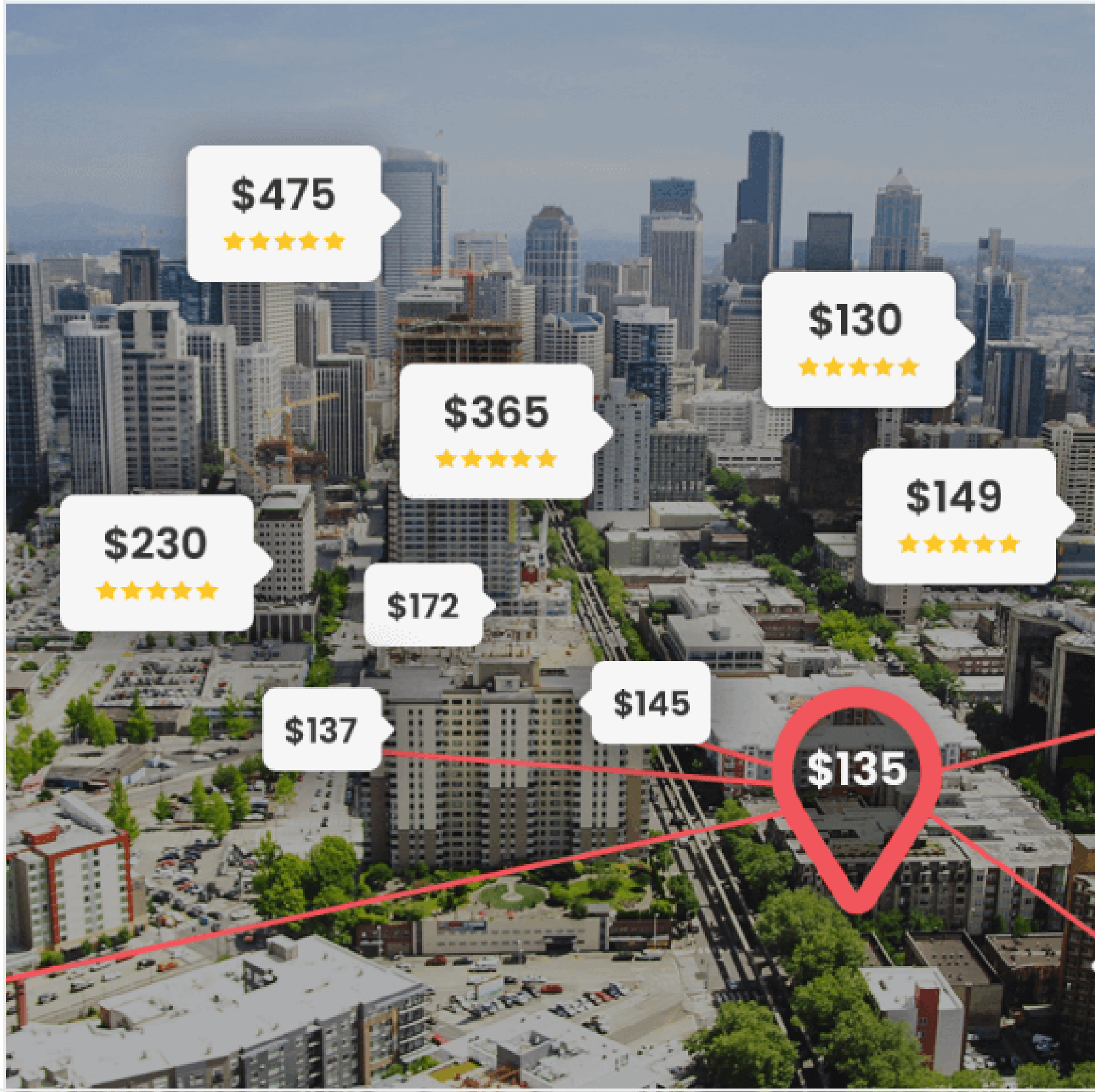
What is dynamic pricing? (cont.)

The next part is more fun, take your anticipated demand and use it to adjust your daily rate. Note that this exercise is not about maximizing occupancy. That's because the ultimate goal of any Revenue Manager should not be increasing your occupancy, but rather maximizing your profits, the bottom line. If you're losing more in your ADR by chasing occupancy growth – this means you're leaving money on the table because this ultimately drives your profits down. For more info, check how you can automate your dynamic pricing with Cloudbeds PIE.

Believe it or not, some revenue managers update their pricing daily – even hourly. How much time you invest should be based on the size of the opportunity. Regardless of your size, you should revisit your pricing decisions and occupancy estimates regularly (preferably daily). Demand constantly fluctuates, and so should your prices. You need to be flexible enough to be able to adapt to the ever-changing market conditions and react accordingly, by updating your prices on a regular basis.

A little bit of research and knowledge of upcoming events and your market trends will help your estimates become even better and enable you to reach your revenue potential. It also doesn't hurt to keep tabs on competitor pricing – this can help you better predict demand and give you an edge when deciding how you are adjusting your price.

There are tools available that can help you with making dynamic pricing choices.
For example, Cloudbeds' Pricing Intelligence Engine (PIE) gathers and displays competitive data. With competitive intelligence and an all-in-one dashboard, PIE can streamline complicated pricing decisions.



02. Setting stay restrictions

In addition to establishing Dynamic Pricing, there are a few other non-pricing methods you can use to increase revenue and profits. One such method is setting stay restrictions and controls, which helps you maximize revenue potential through managing busy peak days and adjoining shoulder days. The two main restrictions used in the hotel industry are:

Minimum length of stay (MinLOS)

This restrictor requires that a reservation is made for at least a specified number of consecutive nights. It allows you to develop a relatively even occupancy pattern during high-demand periods or special events. Specifically, the minimum length of stay restriction helps keep an occupancy peak on one day from reducing occupancy on shoulder dates.

MinLOS can also be applied with discount rates. For example, guests may have to pay rack rates for shorter stays but they can enjoy a discount on longer stays.

Closed to arrival (CTA)

This restriction keeps guests from arriving on a specified date. You'll use CTA in two cases:

1. To limit the number of arrivals on a given day (to reduce the burden on your front desk, for example, in preparation for a large group arrival).
2. In conjunction with MinLOS restrictions, to achieve even occupancy during peak demand dates that are longer than 1 night.

In general, stay restrictions allow hotels to filter less profitable clients during peak demand seasons, thus increasing the resulting room revenue. It is important to note that these restrictions should only be used when estimated sales flow is sufficient enough to achieve a high occupancy rate without the loss of revenue.

03. Managing booking channels

Hospitality operators work with various booking channels as part of their distribution strategy, including direct bookings, walk-ins, online travel sites, travel agents, opaque channels, corporate contracts, and others. The purpose of booking channel management is to maximize your revenue by restricting certain distribution channels with different profitability margins at different times.

The concept

Different distribution channels are configured into a small number of groups, each managed simultaneously. As in the case of high demand, it may be beneficial for you to close less profitable distribution channels in order to maximize the resulting yield. This will slow down your property's booking pace but will increase the resulting room revenue via the ADR growth.

How it works

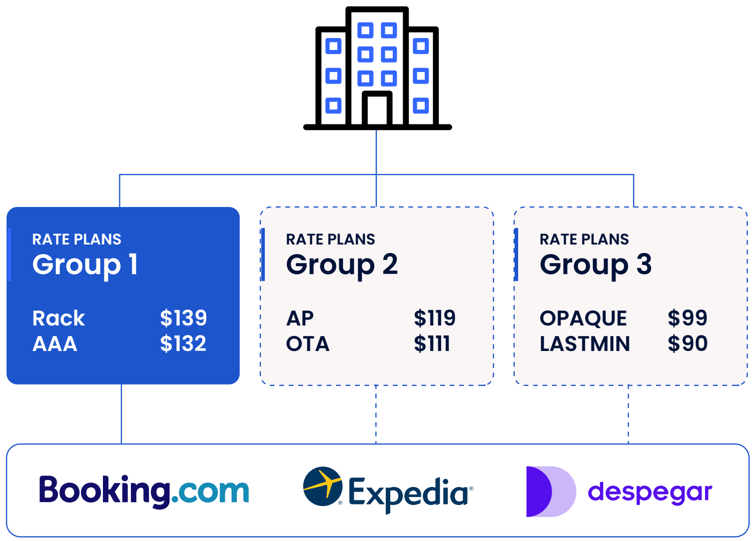
Booking channels are represented in a hotel's Property Management System (PMS) or Channel Manager software through Rate Plans. Many of these rate plans are manageable (i.e. can be closed or opened at a specific point in time for a specific date range). For effective Revenue Management, it is important to have a full list of all rate plans with corresponding margins and discounts off of rack (also known as 'the BAR rate' or 'Base rate') and then to group them into 3 or 4 categories based on their profitability level (or, their "proximity" to rack rate). After that, manage these by closing the more expensive (and least profitable) channels when demand and booking pace is high. **Then sit back and watch your ADR go up during the high demand periods, which leads to a proportional increase in your profits.**

Example

Let me give you an example of effective channel management to illustrate how this works:

Let's imagine that a hotel has 6 different rate plans (this is simplified for the sake of the example, as we know in actuality this number can go up to 20-30 or even 50 in some cases). The rate plans are: RACK, AAA (5% off Rack), Advanced Purchase (AP) (15% off Rack promo), OTA (20% off Rack), OPAQUE (30% off Rack), LASTMIN (35% off Rack).

Looking at these rate codes, one can see they're not equal in the size of the contribution to the bottom line profits. With that in mind, let's group these plans into 3 different categories, based on their profitability level (from the least expensive and most profitable channels to the most expensive and least profitable):



When this exercise is done, simply start managing your channels by closing groups #3 and #2 for those dates where you can sell your rooms via group #1 alone, without having to offer deeper discounts. I.e., if your weekends always sell out, you may try to restrict group #3 from booking those dates and see how this affects your occupancy and resulting ADR. For higher demand dates (special events) you can close groups #3 and #2 altogether. Group #1 will always remain open.

Make sure to check back periodically for cases when the channels need to be reopened if real demand turns out to be slower than anticipated.

There's one more thing to keep in mind as you open and close these various booking channels. In some cases, you may be unwilling to close a particular rate code, due to contracts with different companies that require Last Room Availability, or brand policies, etc. Place those in category #1, which is not closeable. Everything else should be split among your other categories, according to profit margins, and managed as described above.

04. Overselling

Overselling (or overbooking) is a technique used in revenue strategy to offset future cancellations and no-shows. In other words, if you expect 2 cancellations and 1 no-show, you oversell by 3. That's the optimal strategy for maximizing your revenue.

Still, even as simple as this idea is, not very many hoteliers wholeheartedly embrace this practice. In fact, it's very common for most managers (especially at smaller properties) to close out availability on all channels even before they reach the 100% occupancy mark for a certain day. In most cases, this decision is driven by the fear of having to walk a guest.

However, when overbooking practices are correctly implemented, the chance of having to walk a guest will be minimized while leading to a noticeable increase in revenue (as well as profits). One doesn't need to have a lot of Revenue Management experience or knowledge to be able to achieve this goal.

A good overbooking strategy based on data analysis is a proven revenue management practice in the hospitality and travel industry.

05. Managing groups & corporate business

"Managing group and corporate business" means assessing the profitability of these booking channels and managing them to maximize revenue and bottom-line profit for your hotel.

To make the right choices, when deciding to accept or reject a group business opportunity, we need to run through an exercise called displacement analysis. We do this by comparing two alternatives. The first alternative is the potential of generating revenue from a group request or a corporate contract (which immediately benefits your hospitality business by adding revenue through room nights sold at a specific negotiated price, plus expected additional revenues generated from other departments). The second alternative is revenue generated from expected sales of the same amount of rooms to transient business (potentially, at a higher price) that this group/corporate contract would be displacing. You can determine the breakeven price to be quoted to a group or a corporate contract by finding the point where the potential revenue from both alternatives is equal, which means that the hotel won't be at a loss by accepting the contract.

By performing a displacement analysis you may discover that, in order to improve profitability, sometimes it's necessary to limit (or decline) a group business opportunity for one of the following reasons:

1. Your transient booking channels don't anticipate the deep discounts that are normally offered to groups, resulting in a higher ADR.
2. You free yourself from the risk of having a large number of rooms canceled (even if you set strict group cancellation rules, this risk still exists).

Due to these reasons, every group or corporate request needs to be analyzed in order to assess its revenue potential against the displacement of expected transient business.

06. Using revenue management technology

Large hotels traditionally use a revenue manager to handle all of these strategies for them. What does a revenue manager do? They gather and analyze all of the data necessary to make the best pricing decisions to maximize profits. For smaller, independent properties – that's easier said than done. Many small properties don't have the budget to maintain a full-time revenue manager on staff. With the basics covered in this guide, you can start managing your revenue on your own – but there's a better and reasonably affordable way to take control of your revenue management. This is where revenue management technology comes into play.

Revenue management software has been a game-changer for independent properties because it manages your revenue for you, letting you focus on making your guest experience seamless.

What should you look for in a revenue management tool? Here are a few must-have features:

- It integrates with your property management system to ensure seamless data flow between the two systems
- It makes automatic pricing and stay restrictions changes for you
- It provides relevant and detailed data about the market and lets you set alerts to track the competition's pricing

Revenue management 101 infographic

As a recap, here is an infographic of the six strategies for managing revenue at your independent property. Be sure to keep reading below to learn a few secondary revenue management tactics to help support your primary efforts.

Effectively managing rates and availability while keeping an eye on all the different key performance indicators is an art. Follow these six strategies for success.

More hotel revenue management tactics

In addition to the direct revenue management strategies we've covered so far, there are more practices you can use to help support your main efforts. An independent, holistic audit of the hotel can really help bring forward areas where revenue-generating improvements can be made. Below are additional tactics you can use to boost your revenue.

Marketing

Marketing is a separate discipline, and larger hotel brands and hotel management companies normally have a different position -or even a whole department- dedicated to hotel marketing strategies. However, I feel obligated to list it here because marketing needs to go hand in hand with revenue management, as timing, rates, and availability will ultimately determine what campaigns you run and when.

One of the biggest goals of any hotelier is to shift business away from the OTAs to the hotel's direct sales channels (which, as we know, happen to be the least expensive for the hotel and thus the most profitable). The truth is: this goal is hard to accomplish through the use of revenue management techniques alone. That's why the marketing and sales departments are the best resources for any Revenue Manager trying to achieve more direct bookings.

Managing online reviews

TripAdvisor and a hotel's Google Business Profile are the leaders in the world of online travel reviews. However, monitoring and responding to the reviews posted on your website (if applicable), all major OTA sites, and social media accounts is also important.

There are SEO benefits, too. Adding original content to websites, such as reviews, is a great way to draw more traffic to your website. Ensure that you implement a reputation management strategy to consistently monitor and respond to online reviews and use the comments to help make improvements at your property.

Upsells in revenue management

Upselling is an effective way of increasing revenue. Make an active attempt to sell additional services or amenities at the front desk, on your website, through email marketing campaigns, or via SMS, messenger, or WhatsApp. A booker may be unaware of different prices, amenities, or extra services (airport pickup, local tours, etc). You can even upsell guests during the booking process by using a booking engine that prompts them to add upsells, add-ons, and promotions while the guests are making their reservations online. Employees should be trained to listen to guests and make suggestions for appropriate accommodation upsells.

There are various methods of upgrading: top-down (mentioning the higher-priced option first), rate-category-alternatives (trying to upsell from a lower-rate category to a mid-rate one), or bottom-up (mentioning the cheapest option first and introducing each following category in increments, such as, "For only $19 more…") There are also software tools that help hoteliers maximize their revenue through proper upselling.

Managing room type differentials

Monitor and analyze the booking pace of different room types during different demand seasons and increase or decrease the difference in rates between them to maximize resulting revenue.

For example, during the summer season, 2-bedroom suites may be more popular if a hotel attracts more family businesses, whereas corporate clients (single-bed users) may book more frequently during winter. Analyze your booking patterns per room type before making decisions on the room type differentials.

Cloudbeds' Pricing Intelligence Engine (PIE) can help you manage room types individually based on occupancy levels that are specific for those room types. PIE can help you tackle every opportunity to yield more revenue, including helping you compare rates with competitors so you can make better pricing and distribution decisions.

Managing ancillary revenues

Many hotels have other revenue-generating departments, in addition to rooms. If those ancillary revenue venues are significant, it is also important to manage them to maximize the overall profitability of the hotel. This sometimes may mean discounting or even eliminating the costs associated with one department to increase the revenue from another one, thus increasing the overall bottom line. For example, hoteliers can consider offering free parking or a restaurant discount as an incentive for booking a large group or offer a discounted room rate to encourage guests to spend more in the hotel's casino.

Revenue management systems

As mentioned above, a revenue management system is one of the most critical components of an effective revenue management strategy. Here we discuss how technology can help you streamline processes to save time, earn more revenue, and make better business decisions.

What is a revenue management system?
A revenue management system is a comprehensive tool designed to help hotels manage various revenue tasks, including data management, pricing, inventory, and reporting. It uses a rules-based or analytics-based pricing algorithm that factors in internal and external data to recommend or update pricing and stay restrictions.

How does modern revenue management software work?

A modern revenue management system analyzes historical, competitor, and market data in real-time using machine learning and algorithms to present lodging operators with pricing recommendations.

It collects internal, historical data via integration with your property management system (PMS) and channel manager, along with important external data that impacts demand, like seasonality, events, competitor rates, flight data, weather patterns, and the economy.

Why is a revenue management solution important to use?

Technology is becoming increasingly important across the hotel industry — here's why RMS, in particular, is a crucial tool for hoteliers to have.

- **Competitive pricing.**
  Demand post-pandemic has reached all-time highs, and price is now one of the main determining factors in a traveler's purchase decision. An RMS ensures you're pricing competitively without losing out on revenue opportunities.

- **Rapidly changing market conditions.**
  Back in the day, hoteliers could update rates on a weekly, monthly, or sometimes yearly basis and be fine. Today, the market is changing so rapidly that you need a dedicated system to constantly monitor market activities.

- **Accurately report on critical metrics.**
  ADR, RevPAR, TRevPAR, GOPAR — these are just a few of the key financial metrics across hotel businesses. An RMS can help you track these KPIs and provide suggestions for improving performance.

- **Do more with less.**
  Whether you have a dedicated revenue manager or not, manually conducting accurate forecasts and altering your pricing strategies require a great deal of expertise and time. With an RMS, you can make more informed decisions fast.

8 benefits of an RMS

Let's break down the benefits of using a revenue management system in the hospitality industry.

1. **Complex calculations can be done quickly & accurately.** RMS algorithms work around the clock to analyze data and market trends based on real-time data.

2. **Make informed pricing decisions.**
   Let's face it — without an RMS there can be times when we make pricing decisions based on a "gut feeling." While these might work out sometimes, data-driven decisions will ensure consistent revenue streams through optimal pricing.

3. **Maximize revenue.**
   Your bottom line relies on how well you price your rooms. With an RMS you'll never miss out on the chance to optimize your room rates through automation and preset rules.

4. **Expand the role of your revenue manager.**
   Give your revenue manager the time and data needed for more strategic decision-making. An RMS can help hotel owners and revenue managers unlock insights that may have never been considered without technology.

5. **Don't have a revenue manager?**
   No worries. An RMS can be a lifesaver for smaller, independent properties without a dedicated revenue manager. Most RMS' present data in a simple, straightforward fashion so that anyone on your team responsible for pricing hotel rooms can do so effectively.

6. **Keep an eye on your competitors.**
   Your day is busy enough without worrying about what the hotel next door is doing. An RMS provides insights into your competitive set to help guide any changes you may need to make at your property.

7. **Improve the guest experience.**
   Travelers want a fair price for their room type and value hotels that are strategic about their pricing. In addition, by streamlining tedious revenue management activities, your team will have more time to determine how to increase revenue through ancillary services and value-added upsells.

8. **Automate operations.**
   Labor shortages are at an all-time high, with more than 90% of hotels unable to fill open positions. Revenue management is one area of operations that you can automate with an RMS to reduce the workload on your team.

Key features to look for in an RMS software

Various software solutions exist today, and your choice will depend on your property's size, requirements, and budget. Here are a few key features you should look for when researching revenue management systems.

Automated rules and alerts

To minimize time spent in the system, look for an RMS that can support preset rules and alerts so that you don't have to check your data and update rates manually. Specific rules and alerts can include (but aren't limited to):

- **Compset-based alerts:** get alerted anytime there is an important shift in pricing (i.e., be alerted every time your compset pricing goes up by 10%)
- **Occupancy-based alerts:** get alerted when it's time to update your rates based on your occupancy (i.e., increase your rates when your occupancy rises).
- **Restriction-based rules:** add restrictions that stop you from receiving new reservations (i.e., minimum length of stay).

Rate comparison functionality

Remaining rate parity is crucial as travelers frequent metasearch websites to compare pricing across a hotel's distribution channels. Your RMS should have rate comparison functionality that allows you to view your rates across your booking engine, online travel agency connections (OTAs), and against competitors.

Forecasting and pricing recommendations

Based on factors like market demand, historical data, and competitor pricing — your RMS should be able to forecast and provide pricing recommendations to ensure you always offer the right price at the right time. You should be able to assign the level of control your RMS has in implementing pricing decisions by setting rules where your price is automatically updated in certain instances, and in others, it must have your permission.

Key features to look for in an RMS software (cont.)

Comprehensive dashboard with key reports and insights

Data is of no use unless it can be analyzed and interpreted for decision-making. An RMS should provide key reports that offer an easily digestible snapshot of performance with the option to dig deeper into the data. Your RMS should give insight into KPIs like RevPAR, TRevPAR, Room Nights Sold, ADR, Booking Sources, etc.

Integration with your tech stack

An RMS is not nearly as effective without proper integration with your channel manager, PMS, CRM, and booking engine. Ideally, your RMS should be a part of a larger hospitality solution designed to work together to conduct operations. Your systems need to be in constant communication to update rates across channels, report on occupancy, and provide data for forecasting.

Cloud-based

Market demand is unpredictable and needs to be monitored in real-time. Not only can you log in to monitor performance anywhere, any time, but a cloud-based RMS provides better connectivity between systems and channels and offers regular updates to maintain effectiveness.

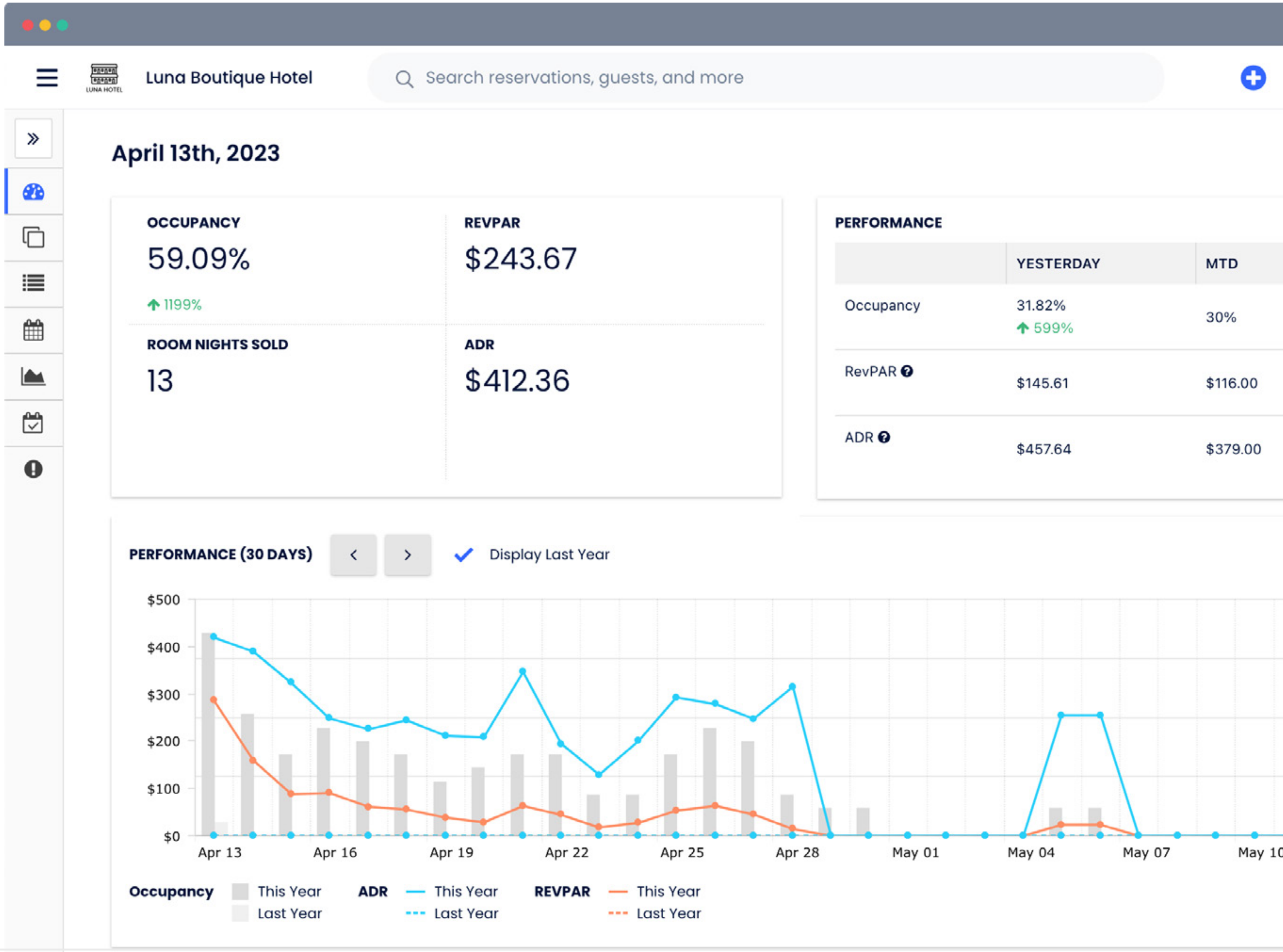
A provider with 24/7 support

Your room rates are the lifeblood of your business and the number one revenue driver. If you have a problem with your RMS, you need a partner with support resources available at all times to help get you back on track.

The Cloudbeds Pricing Intelligence Engine (PIE)

The key to profitability within the hospitality industry is effective revenue management. Say goodbye to spreadsheets and manual processes,
and look for a revenue management system to take your property's revenue management strategy to the next level.

Cloudbeds' Pricing Intelligence Engine (PIE) is an integrated dynamic pricing tool designed to help hoteliers optimize revenue and get ahead of the competition (or market) with competitive rate tracking and automated occupancy-driven price adjustments. As part of the Cloudbeds Hospitality Platform, PIE integrates seamlessly with Cloudbeds' PMS, Booking Engine, Channel Manager, and Marketplace partners.



Cloudbeds is also proud to be an integration partner with leading revenue management systems.

Visit the Cloudbeds Marketplace

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We hope you've enjoyed our series on Revenue Management and can start implementing these tactics at your property as a way to increase your profits.

As you can see, there are a number of ways hotel owners can increase their revenue outside of more direct pricing and revenue management strategies.

By far, the easiest way to manage your revenue is with a tool designed specifically to help you with your revenue goals.

Learn more about the Cloudbeds Hospitality Platform