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“You don’t need a weatherman to know which way the wind blows,” sang Bob Dylan in his classic 1965 song “Subterranean Homesick Blues.” He was right. Knowing which way the wind will blow in the future, on the other hand, is a whole different matter. It requires not only a weatherman, or meteorologist, but also massive amounts of data and computational processing power. Accurate weather forecasting means knowing the temperature, humidity, air pressure, soil moisture and wind speed at many different points and elevations. The predictive model may also call for multiple other types of data sourced from historic observations of the atmosphere and underlying surfaces. In addition, accurate weather forecasting requires advanced technologies like Doppler and dual polarization radar and next-generation analytic software. As a result, seven-day weather forecasts today are more accurate than were 24-hour forecasts only a couple of decades ago.

By the same token, you don’t need a revenue manager to know how many guests are currently checking into a hotel. However, knowing how many guests will likely check into a hotel a few weeks or a few months out — and knowing what types of guests they will be, what kinds of rooms they will want, how much they will be willing to pay to stay at the hotel and how much they will likely spend during their stay — presents a much bigger challenge. Accurately forecasting guest room demand by segment, room type and rate, and ensuring that the hotel maximizes the value of guests through optimized pricing tactics, may be even harder than accurately forecasting the weather.

What is certain is that in a dynamic market characterized by ever-changing numbers, patterns and results, it is impossible to optimize room rates and overall revenue outcomes without the right data from a diversity of relevant sources. It is also impossible to do so without a next-generation hospitality revenue management solution. The good news is that some of these solutions have become extremely sophisticated and effective, fueled by the rapid growth of big data processing, demand forecasting and pricing optimization models. The best of these solutions have the ability to generate pricing strategies based on real-time analysis of all relevant data, automating the decision-making process for pricing rooms.
Introduction

analysis of all relevant data, automating the decision-making process for pricing rooms, driving increased revenue per available room (RevPAR), and finally giving hotel operators the level of inventory management control that has eluded the hotel industry since its initial foray into revenue management, and especially with the proliferation of the OTAs.

Also commonly known as yield management, demand pricing, dynamic pricing, time-based pricing and (in the world of ridesharing services) surge pricing, the concept of revenue management is hardly a new one. But the techniques and enabling technologies that hotel operators used even a decade ago were extremely rudimentary by today’s standards — and, certainly, a far cry from next-generation platform capabilities that harness the power of data and analytical models to automate the decision-making process for pricing and distribution.

Today, most hotel operators view the need to progressively improve their revenue management capabilities as a strategic imperative worthy of garnering ever-increasing amounts of attention and resources, given the opportunity to improve financial performance in highly predictable ways. For most hotel operators, the investment in upgrading their revenue management capabilities has paid off in spades. In fact, according to research conducted for this Smart Decision Guide, large and very large hotels have enjoyed, on average, a 10 percent increase in RevPAR, often resulting in millions of dollars in additional profit. Midsize and limited service hotels have fared only slightly less favorably, with a 7 percent average increase in RevPAR.

Of course, not all revenue management initiatives are the same. Different approaches, technologies and resources produce dramatically different results. This Smart Decision Guide offers hotel operators a framework for upgrading their revenue management capabilities and insights for selecting the right solution in the context of their hotel or resort’s specific needs. It also offers practical advice for putting the right resources, processes and metrics in place to maximize success and drive continuous performance improvement.
Chapter 1

Topic Overview and Key Concepts
Chapter 1: Topic Overview

In his seminal 2004 book The Wisdom of Crowds, author James Surowiecki wrote about the economics of movie theaters. He observed that when it comes to maximizing profits, flat movie ticket pricing is a fundamentally flawed approach. That’s because consumer demand for a movie varies in predictable ways depending on any number of factors, including the movie’s release date, its cumulative Rotten Tomatoes score, its expected popularity (e.g., in the case of a sequel in a hit franchise), its production cost, its star power, how long the movie has been in theaters and whether it has received any major awards or nominations. Yet movie ticket prices have seldom fluctuated. According to the author, the failure of theaters to develop a flexible pricing model based on demand has been “one of the more perplexing examples of the triumph of convention over rationality.”

If the goal is to maximize revenue — which, of course, it is — then static movie ticket pricing simply makes no sense. That is why, however belatedly, major movie theaters are now testing the waters with variable ticket pricing. Regal Entertainment Group, the second largest movie theater chain in the United States, just announced plans to test a new pricing model designed to drive incremental revenue in peak periods and incremental attendance in nonpeak periods. Not wanting to leave money on the table, major theme park operators, including Disney and Universal Studios, are also getting into the demand-based pricing game. Tickets cost up to 20 percent more during peak periods than during slower periods. With consumers having come to accept the idea of variable pricing — thanks, in large part, to the popularity of ridesharing services like Uber and Lyft that hike transportation rates when demand is higher (much as the airline industry has done for decades) — industries ranging from rental car providers to parking lot operators are turning their attention to advanced revenue management tactics.

For hotel operators, the challenge of revenue management is particularly complex. It has become increasingly so as the basic approach to pricing guest rooms has evolved from a technique that uses “best available rate” (BAR) pricing to one that uses dynamic pricing based on data-driven demand forecasts. BAR pricing yields one primary rate with tiered percentage or flat amount based discounts off BAR differentiating prices across distribution channels. The discounts are usually fixed
percentages that move up or down on different dates. Next-generation techniques, on the other hand, make dynamic pricing and distribution decisions based not on BAR, but, rather, on real-time analysis of multiple data sources. At a minimum, these data sources generally include the hotel’s own historical data, its booking site data, competitor pricing data and competitive set and digital review data, much of which is available within the revenue management solution from third-party providers. With data access and technology capabilities having evolved almost beyond recognition, hotel operators today have the opportunity to achieve the ultimate promise of revenue optimization: to sell the right space at the right price at the right time to the right guest.

In this context, space has commonly referred to guest rooms. Large hotels may have dozens of room types. For a long time, revenue management was all about filling empty rooms with paying guests. Today, the goal is no longer just about increasing guest room occupancy, with no consideration given to the pricing decisions in terms of the long-term implications. Nor is it just about rooms. Business and social event function space, recreational facilities, restaurants and spas also now factor into the equation. According to the Center for Exhibition Industry Research, demand for function space is growing at up to quadruple the rate of supply, with the daily cost per attendee having increased by 4.5 percent last year. For some hotels, function space revenue may account for more than half of the property’s total revenue.

Price refers to room rate, which may be influenced by multiple factors, including how far in advance the reservation is booked and what the hotel’s competitors are charging. Importantly, revenue management now involves optimizing profitability and not just revenue. It means analyzing ancillary revenue streams (e.g., food and beverage as well as golf, spa, etc.) along with related cost data to understand profit contributions by guest segment. For hotels with casino operations, even the “theoretical loss” (the amount of money a player can be expected to lose during their stay) can factor into the pricing model.

Guests, which may include individuals as well as groups, can be grouped together using meaningful segmentation schemes. Guests who book through a discount site, who purchased a package deal or who took advantage of a special rate promotion
may, for example, be grouped together for price sensitivity. Length-of-stay is another criteria for factoring pricing. So, too, can the extent to which guests utilize the spa, casino or other facilities. Business travelers usually have different wants and needs than leisure travelers and thus may be grouped together. Guest segmentation lays the foundation for revenue management.

Given the sheer volume of data, it is no longer feasible for revenue managers to spend their time manually reviewing one forecasting and demand report after another and analyzing mountains of data in their quest to make better pricing and inventory control decisions. Next-generation revenue management solutions allow revenue managers to focus their efforts on more strategic tasks and allows hotels to generate better business results. The ability to automate pricing and distribution decisions makes the business case an easy one from an ROI perspective. In addition to improving RevPAR and other key performance indicators, hotels can improve marketing and sales effectiveness, generate competitive intelligence, and gain insights into occupancy trends, guest demographics, market positioning and channel profitability.

Research Data Point

What are the biggest benefits one can expect to gain with next-generation hospitality revenue management?

- Increase hotel revenue and profits: 98%
- Reduce time and costs associated with traditional pricing tactics: 91%
- Improve accuracy of pricing and distribution decisions: 87%
- Gain competitive intelligence and market insights: 76%
- Improve marketing and sales activities: 73%

Research findings are derived from the Q4 2017 survey on Hospitality Revenue Management.
When it comes to evaluating platform capabilities, it is a good idea to include someone with revenue management expertise in the decision-making process. That said, one can gain a good understanding of next-generation capabilities without knowing how to analyze statistics and yield data to identify market trends, pinpoint new business opportunities and minimize risk — and without working knowledge of yield exemptions, capacity management, duration control, overbooking practices and displacement analysis. This section provides a cursory overview of some of the key concepts related to revenue management practices, starting with the ever-evolving performance metrics that are commonly used to track and measure success.

**Relevant data sources.** When it comes to data, revenue managers today have an embarrassment of riches. There is practically no end to the number of internal and third-party data sources at their disposal. The question is: What data is relevant to the model? Almost everyone would agree that the volume and depth of clean historical data related to occupancy, rate and revenue figures (including booking dates, rate codes, arrival dates, departure dates and revenue by day) provides the strongest basis for forecasting accuracy. Market-level data, including publicly available competitor rate information, also ranks as a must-have data source. Future flight demand, weather reports and geographical information (where guests are arriving from) may be used for forecasting purposes. Web shopping data (the number of consumers looking at and booking rooms and at what price, as well as the percentage of visitors abandoning the hotel website) may also provide some insights into current and future room demand as well as price sensitivity. The number of website visitors tends to correlate to the frequency of last-minute arrivals. Because consumers are shopping beyond hotel websites, there are insights to be gleaned from the travel distribution network, as well. Another option is “customer worth data” on hotel rewards club members. Yet another potentially valuable data source may be user-generated content in social media. In the end, accuracy in revenue forecasting tends to be a matter of quality over quantity rather than the more the merrier. Revenue managers may be excited about the ever-growing number of available data sources. But incorporating every last bit of data into their models can be a recipe for disaster. At a certain point, more data can simply mean more noise.
Useful performance metrics. The most commonly used metric for measuring how well a hotel is managing its inventory and rates is revenue per available room (RevPAR), which is calculated in one of two ways: by either multiplying the average daily rate (ADR) by occupancy or by dividing the total guest room revenue by the total number of available rooms and then dividing that number by the number of days in a given time period. Just to be clear, occupancy refers to the percentage of guest rooms that are occupied during a given time period while ADR refers to the average room revenue per occupied room. Some hotel operators still make the mistake of focusing their promotional efforts solely on increasing room occupancy, no matter that higher occupancy can, in some cases, actually lead to lower profits. Yet while RevPAR provides a good picture of performance, it fails to measure actual profitability. That’s because RevPAR doesn’t take into account costs per occupied room (CPOR). Without knowing the operating costs, it’s not possible to calculate the actual profit margin or determine target optimal occupancy. Hence the emergence of gross operating profit per available room (GOPPAR), which takes into account not only the amount of revenue generated but also the actual operational costs. Still, neither RevPAR nor GOPPAR look at non-room revenue streams such as restaurants, casinos, parking, spas, golf courses, etc. This shortcoming helps explain the advent of other metrics like TRevPAR (total revenue per available room). In addition, the industry is seeing new metrics around performance in other areas. Function space revenue performance can be measured in terms of meeting room utilization, attendee density and revenue per attendee. Revenue generating index (RGI), also known as RevPAR Index (RPI), looks at relative hotel revenue performance, by measuring the extent to which a hotel is achieving its “fair share” of revenue in comparison to a defined group of hotels. RGI is calculated by dividing the hotel’s RevPAR by the RevPAR of the competitive set (the data for which can be obtained through a third-party provider). Similarly, average rate index (ARI) measures the extent to which the hotel is achieving its “fair share” of ADR. It is calculated by dividing the ADR of the hotel by the ADR of the competitive set. RGI and ARI — and, also, market penetration index (MPI) — provide a solid basis for performance comparison in the market.
**Intelligent pricing.** With next-generation revenue management, the idea is to automatically forecast demand and capacity for a perishable product or service and then price that product or service in a way that maximizes profits for the business. Here a key concept to keep in mind is *price elasticity of demand.*

Demand is sensitive to changes in price and price is sensitive to changes in demand. Generally, hotels have a lot of elasticity because the main product in demand — guest rooms — is both perishable and fixed in capacity. Starfleet Research defines *intelligent pricing* as the science of making decisions for how to maximize room occupancy at the best possible price while factoring in all the related revenue questions in a real-time or near real-time manner. Questions that intelligent pricing addresses might include: What is the optimal price to charge in order to maximize revenue, accounting for the fact that demand will change as the price changes? What is the best possible rate for a guest room, taking into account the type of room as well as the length of stay? How can a hotel ensure that discounted price promotions won’t dilute revenue and profits in the long run? Intelligent pricing addresses these questions by analyzing demand forecasts, competitor rates, price sensitivities and various other inputs and factors, including demand drivers like seasonality, day-of-week differences and market dynamics.

Intelligent pricing is forever evolving with new approaches to forecasting demand and dynamically pricing room rates based on expected demand and capacity. For example, with the ability to price room types, channels and dates independently of each other, some hotels are adopting a pricing strategy based on the idea that different prospective guests should be offered different rates depending on which guest segment they fall into as well as which channel they are using for booking their reservation. The important point is that intelligent pricing can translate into financial outcomes. Consider: A mere $2 reduction in the ADR for a 500-room hotel with a 75 percent occupancy rate would cost a hotel more than a quarter million dollars in lost profit in a single year. Advances in intelligent pricing are changing the revenue management game, enabling hotel operators to better optimize their business.
Chapter 2

Buying Considerations and Evaluation Checklist
Most hotel operators, particularly those with properties in popular destinations, have a lot to celebrate. In the United States, the industry has enjoyed eight straight years of RevPAR growth. Industry analysts agree that the party may be far from over. STR and Tourism Economics predict that U.S. hotel occupancy rates this year will increase to 66 percent, ADR will rise 2.4 percent, and RevPAR will increase 2.7 percent. The luxury and independent chain segments are expected to report the largest increases in occupancy, according to these research firms, while independent hotels are forecasted to see the most substantial growth in ADR and RevPAR. PwC forecasts occupancy to reach the highest level in more than 35 years.

The steady climb in hotel occupancy rates and record-breaking RevPAR growth continues, albeit at a slower rate, even despite the emergence of some very real challenges to the hotel industry. These include the onerous commission structures imposed by online travel agencies (OTAs) and the effect of Airbnb and smaller online marketplaces operating in the so-called sharing economy. In addition, there is the simple fact that, in many markets, supply consistently outpaces demand, reducing hotels’ pricing power. Many hotels have been hampered by internal challenges, as well, not the least of which, in some cases, is the limited number of rate codes imposed by legacy property management systems, constraining the number of price points a hotel can offer potential customers.

The widespread adoption of data-driven revenue management strategies and advanced technologies no doubt deserve a lot of the credit. These capabilities make it possible for hotel operators to yield rates more aggressively than ever before. Data is the new oil, as they say, and analytics is the engine that converts the data into increased profitability, as evidenced by these record levels of RevPAR growth. Until recently, the idea of a revenue manager gazing into the dashboard equivalent of a crystal ball and generating precise demand forecasts for every night of the year across every room type and every guest segment was the stuff of fiction. Now, revenue managers have the tools to generate millions of new forecasts based on analysis of demand forecasts, competitor rates, market conditions, price sensitivities and demand drivers like seasonality, day-of-week differences and market dynamics.
Chapter 2: Buying Considerations

A state-of-the-art solution is capable of generating tens of thousands of optimal pricing decisions on a daily basis, and there is reason to believe that revenue management capabilities will get even better as the analytics continue to evolve. In fact, according to research conducted for this Smart Decision Guide, more than half (53 percent) of today’s hotel operators believe that revenue management will become even more automated with further advances in data analytics capabilities.

So, which technology solution is the right one? How can a hotel operator be assured that the solution they implement will best meet the needs of the hotel and enable revenue managers to achieve optimal results? The following are just a few key buying considerations to keep in mind.

**Technology interoperability and data integration.** Hotel operators today can gain a deep, unprecedented understanding of their guests—who they are, what they do, what their preferences are, and how much they spend across the property. Combining the platform capabilities of a next-generation property management system (PMS) and an advanced revenue management solution, hotels can automate decision-making processes in ways that can make a world of difference in terms of pricing and inventory management. Technology integration is key to revenue management success. The PMS, the central reservations system (CRS) or channel manager, and the revenue management solution all need to seamlessly connect and share data—preferably, in a real-time manner. Inventory-related data needs to flow into all distribution channels, including direct booking platforms and call centers, as well as the global distribution system (GDS) and OTAs. The CRS needs to publish optimal pricing decisions and channel recommendations based on input from the revenue management system. In short, no revenue management solution can be treated as a standalone application. It needs to seamlessly integrate with multiple data streams. It needs to integrate with marketing, sales and distribution systems as well as with OTAs and other third-party channels. Internally, point-of-sale (POS) data needs to integrate with PMS data to provide a holistic view of a guest’s stay, including their ancillary spending on food and beverages, guest services, spa visits, etc. Buyers need to know that all technology components and data sources are compatible with the solution and also that all historical PMS data can be readily extracted and validated.
Cloud computing data processing power. Advances in data processing power, largely enabled by the rapid growth of cloud computing, are enabling solution providers to develop capabilities that revenue managers have been striving towards for more than a decade. Advanced revenue management solutions are able to process increasingly large volumes of data, and faster than ever. With the advent of a next-generation hospitality platform built for the cloud, the grand movement to unify the disparate and fragmented technologies and data silos has become an achievable goal. Hotels can connect and seamlessly share data in the cloud across all parts of the property or properties and across all of the various hospitality solutions. For a large property, the totality of the data set may include dozens of guest segments, a dozen or more room types, several years of historical booking and reservations data, and upwards of a dozen length-of-stay buckets. Advanced processing power makes it possible to include real-time integration of customer lifetime value (CLV) into pricing and availability, modeling consumer behavior from click-stream data, and integrating loyalty and total property spend data. Add to the mix competitive rate data, demand data, multi-market economic data, and even air traffic and weather predictions, if desired. Combining all of these data sets for just one hotel could amount to several hundred million observations. Generating the pricing and distribution recommendations could easily require result in thousands of decisions being generated each day for every day into the future. Multiply that number for a hotel chain with dozens of properties and it quickly becomes clear that, more than anything, revenue management is a big data challenge. As an example, one major hotel brand recently revealed that it generates more than 45 million forecasts nightly for each hotel, segment, room type, and channel for the next 365-day period. Needless to say, the processing and algorithms require an enormous amount of data storage and processing capacity to accomplish this task. While even global hotel brands may not have data processing requirements that are in the same league as Amazon, Apple, Facebook or Google, their data processing needs are certainly large enough to constantly stretch the limits of on-premise data storage and computing capacity, hence the need for cloud-based deployment. Prospective buyers need to know that any revenue management solution under consideration can handle the rigors of big data processing and optimize pricing calculations in highly compressed timeframes.
**Channel management and optimization.** Rates and inventory information need to be reflected accurately across all systems and touchpoints, including OTAs and other partner- and guest-facing channels. Otherwise, the prices that are presented to prospective guests on some channels may be lower than desired or rooms presented on some channels as available may, in reality, be unavailable, and the property may be overbooked. Inputting room rate and availability changes manually can result in errors that damage the brand’s reputation and lead to revenue loss. It is important to understand the extent to which room change updates are handled automatically rather than manually and what the average lag time is in implementing channel updates.

**Customization to user and property needs.** Because users have differing needs, any solution will invariably require some degree of customization. Revenue managers should be able to create notifications based on their own predefined triggers. They should be able to define the data inputs and dashboard views based on their own priorities and display preferences. Flexibility in configuration is needed to mine the right data and generate actionable insights. Prospective buyers should have a high level of confidence that any solution under consideration has flexibility and customization capabilities to meet the needs of the property as well as those of the revenue manager(s) and other end-users.

**Group sales optimization.** Buyers with group business goals should check that any solution under consideration provides group sales optimization. This means being able to evaluate group requests by forecasting the impact and displacement of transient guests while calculating ideal group rates. Some solutions offer pricing recommendations by room type to maximize inventory and can provide meeting planners with a blended price quotation. Some solutions suggest alternate dates for flexible groups based on projected demand and availability to drive business to dates where the hotel stands to gain the most profit. Some solutions offer simultaneous evaluation of multiple properties to identify which one would be the most profitable for the entire enterprise. Having profit-based price evaluation capabilities enables sales teams to understand unsold and undersold meetings and events space as well as less-than-optimal displacement of group business.
Chapter 2: Buying Considerations

Expected return on investment. Making the business case for upgrading revenue management capabilities means projecting the likely return on investment (ROI). Unlike many other technology-enabled business initiatives, the results of a revenue management initiative can generally be measured by way of an ROI calculation. Assessing the value of a revenue management solution from a cost standpoint means determining the extent to which the technology is achieving optimal financial results. Comparing historical performance to current performance is one approach. But due to changing business practices, market conditions and various other factors, this approach may fail to provide an apples-to-apples comparison. Revenue opportunity uplift goes beyond a simple ROI calculation or historical performance analysis. A careful measurement of RevPAR performance during a given time period compared against the same time period in the year prior to technology implementation may allow hotel operators to track incremental improvement driven solely by the new solution. In this way, hotel operators can gain an accurate read on time to value and determine the lift in revenue and profitability the new technology is currently delivering.

Research Data Point

“How would you rate your company’s success in terms of utilizing revenue management to improve financial performance?”

<table>
<thead>
<tr>
<th>Very successful</th>
<th>Successful</th>
<th>Somewhat successful</th>
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<tr>
<td>27%</td>
<td>26%</td>
<td>14%</td>
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<tr>
<th>Midsize and Limited Service Hotels</th>
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<tr>
<td>• Have utilized revenue management for 9.5 years, on average</td>
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<tr>
<td>• Have increased RevPAR by 8% on average</td>
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<td>• 32% have one or more revenue managers</td>
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<th>Large and Full-Service Hotels</th>
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<tr>
<td>• Have utilized revenue management for 12-plus years, on average</td>
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<tr>
<td>• Have increased RevPAR by 10.5% on average</td>
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<td>• 83% have one or more revenue managers</td>
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Research findings are derived from the Q4 2017 survey on Hospitality Revenue Management
Chapter 2: Evaluation Checklist

The following is an Evaluation Checklist for conducting an apples-to-apples comparison of key buying considerations for hospitality revenue management solutions. Additional considerations can be added. Relative weightings can be assigned on a scale of 1 (“This buying consideration has no bearing on our purchase decision”) to 10 (“This buying consideration is a very important factor”).

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<tr>
<th>Buying Consideration</th>
<th>Weighting</th>
<th>Vendor 1</th>
<th>Vendor 2</th>
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<tr>
<td>1. Technology interoperability / data integration</td>
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<td>2. Data processing power</td>
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<td>3. Intelligent pricing / analytic modeling</td>
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<td>4. Channel (OTA) optimization</td>
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<td>5. Customizability to property needs</td>
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<td>6. Cloud hosting (hybrid vs. native)</td>
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<td>7. Flexibility in data analysis and reporting</td>
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<td>8. Group sales optimization</td>
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<tr>
<td>9. Other features and functionality</td>
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<tr>
<td>a. Demand forecasting management</td>
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<td>b. Group pricing management</td>
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<tr>
<td>c. Multiple property management</td>
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<td>e. Meetings &amp; events revenue management</td>
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<td>f. Competitive rate shopping management</td>
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<td>e. Other _____________________________</td>
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<tr>
<td>10. Support, training and consulting services</td>
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<td>11. Reputation / installed client base</td>
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<td>12. Cost (TCO) / Expected ROI</td>
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**Overall Rankings**                  N/A
Chapter 3

Must-Ask Questions
In a matter of a decade, revenue management has gone from being an undertaking with uncertain financial upside potential to a strategic imperative with highly predictable revenue outcomes. At the same time, the demand for next-generation solutions has increased with the proliferation of online travel agencies (OTAs) with differing pricing and commission structures, shrinking booking windows, ever-more intense hotel competition in high-demand destinations and ever-increasing pressure to drive profitable growth. According to the research, more than one-quarter (28%) of hoteliers who have not upgraded their revenue management within the past 3 years plan to do so in the next 12 months.

By asking the right questions, decision makers can determine which revenue management solution on the market best fits their needs and is most likely to deliver the benefits they seek, with minimal risk and expense. The hotel’s revenue manager(s) — people who know the nuts and bolts of inventory management and length of stay control and who understand, for example, how to calculate group rates and apply rate fences — should be included in the evaluation process. Most revenue managers want solutions that provide visibility. They want to be able to look under the hood and dive into price sensitivity data and observe at a detailed level what inputs are behind the system outputs that are being made and how adjustments to the decision model would change revenue outcomes. They do not want to wait for actual booking numbers to come in to understand the impact of their strategies and determine whether they made the right decisions. In short, revenue managers need to be comfortable that the new solution will enable them to do their jobs with maximum effectiveness.

**Research Data Point**

Percentages of hoteliers who view each of the following success factors as “important” or “very important.”

- Integrating all historic booking data, reservation data, transaction data, competitive data, and all other relevant data: 96%
- Continuously refining the accuracy of the forecasting model for room rate recommendations: 93%
- Customizing the revenue management solution and processes to fit the specific needs of the hotel: 92%
- Integrating revenue management activities with sales and marketing activities: 84%
- Hiring the right revenue managers and creating the right culture within the organization: 79%

Research findings are derived from the Q4 2017 survey on Hospitality Revenue Management.
Chapter 3: Must-Ask Questions

The following are just a few of the questions that decision makers and influencers may wish to explore with solution providers to ensure that, once implemented, the revenue management solution will enable them to achieve their desired business outcomes.

**Will the solution provide the answers we need to our pricing questions?** To be effective, revenue managers require tools that will enable them to answer all of their day-to-day pricing questions. These questions may be voluminous, and some may be difficult to always know in advance. Such questions might include: By how much should we increase or decrease our rates for a given type of room? How many groups, and what size groups, should we accept on a given day? How much should we charge walk-in guests? What should be the floor and ceiling for our rate range? Are the changes in demand and bookings likely to represent a short-term or long-term pattern – and, if the latter, what actions should we take in response? To what extent should we discount negotiated rates? What should our best available rates be for the coming year? What discounts and promotions, and to what target customer segments, are likely to perform well right now and in the near-future? What discounts would likely dilute profits and should we therefore avoid? To what extent should we mark up our premium rooms, based on the current and near-term demand patterns? What competitors’ price moves would likely affect these demand patterns and how should we respond if those moves become reality? How can we counteract cancellations and no-shows, group wash, extensions and early departures to capture optimal profitability? Tip: Compile a comprehensive list of pricing questions and verify that the solution will be able to address these questions in a straight-forward manner.

**To what extent does the solution offer depth and flexibility in data analysis and reporting?** Revenue management is a quantitative puzzle with ever-changing numbers, patterns and results and a need for continuous refinement. Delving into the data, testing different if/then scenarios, and collating actual results requires a high degree of flexibility. Not all data queries can be anticipated. A significant percentage of pricing questions may, in fact, need to be investigated on an ad hoc basis. Out-of-the-box functionality may satisfy the needs of novice users or small
properties with relatively simple needs. But it is likely to be insufficient for more sophisticated revenue managers and larger properties with multiple room types, customer segments and ancillary revenue streams. A solution should provide for flexibility, which is important when it comes to setting pricing, noting special events, adjusting segmentation schemes, etc. A solution should make it easy to accommodate virtually any need, including the need to monitor and measure individual property, portfolio, and departmental performance, the need to create customizable hierarchies for different geo-markets, channels, room types, time periods and loyalty programs. Important questions might include: Once problem areas are identified, can the solution guide users on how to take appropriate action? Can tactical decisions, including the overall impact, be tested live? Can the dashboards provide exception reporting, identifying areas needing the most attention? Tip: Verify that the solution is flexible in terms of keys areas of functionality, including custom reporting, and validate all of the vendors’ claims. If customized reporting is possible, find out what is involved in the process of filtering and sorting data according to a specified set of parameters.

**What is the solution provider’s track record of success?** As with any technology solution purchase, reputation and customer satisfaction are important factors in the decision-making process. Nobody wants to purchase and implement a revenue management solution that falls short of expectations due to known shortcomings in stability, reliability or promised benefits. No input may be more important to the buying decision than that which can be gleaned from existing clients, preferably lodging properties that share some commonalities in terms of size, typography and existing technology infrastructure. A solution provider or consultant may be willing to provide one or more client references. And some clients, particularly those operating in noncompetitive markets, may be willing to share their experiences and perhaps even disclose results in terms of percentage increases in RevPAR. Client testimonials and success stories can also be valuable sources of information. *Tip: Find out what performance issues may arise by talking to existing clients, preferable ones that are similar in size and existing technology infrastructure. Ask about the product roadmap to understand the plan for future features and functionality.*
Chapter 3: Must-Ask Questions

How long will it take for problems to be resolved? Decision makers should have clear expectations around customer support and problem resolution as well as the training that may be needed to get front desk employees and other staff up to speed on the new system. Almost three-quarters (73%) of hotel operators agree that user training ranks as a key success factor in ensuring that a revenue management solution is utilized as effectively as possible. Does the solution provider (or a certified subcontractor) offer adequate training? Does it offer online troubleshooting and diagnosis should technical issues arise? Is local in-person service and support a possibility? Tip: Make sure that problems will get resolved in a timely manner. Some solution providers will go so far as to guarantee response and case resolution times.

Almost three-quarters (73%) of hotel operators agree that user training ranks as a key success factor in ensuring that a revenue management solution is utilized as effectively as possible.
Chapter 4

Roadmap and Recommendations
Revenue management solutions have evolved by leaps and bounds in recent years. The best of these solutions can achieve some truly amazing feats — like calculate price sensitivity of guest demand, taking into account such factors as season, lead time and room type. That is not something that can be done using Excel spreadsheets. Needless to say, hotel operators who rely on Excel for their revenue management needs are obviously at a distinct disadvantage. Perhaps less obvious is the fact that revenue management capabilities have advanced at such a rapid pace in recent years that hotel operators who rely on software solutions that were thought to perform at a high level only a few years ago may also be at a distinct disadvantage, as well.

This roadmap diagram illustrates the migration path for revenue management solutions as they evolve in scope, sophistication, accuracy — and, ultimately, in delivering positive business results.

<table>
<thead>
<tr>
<th>Legacy Systems</th>
<th>Next-generation Systems</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uncertain ROI and financial upside potential</td>
<td>Proven ROI and predictable (and substantial) revenue outcomes</td>
</tr>
<tr>
<td>Best-available-rate pricing only</td>
<td>Dynamic and flexible approaches to pricing to optimize profits</td>
</tr>
<tr>
<td>Increased room occupancy as the primary goal</td>
<td>Increased net revenue as the primary goal</td>
</tr>
<tr>
<td>Manual calculation, or only partial automation, of pricing and inventory recommendations</td>
<td>Complete automation of pricing, inventory and all other recommendations</td>
</tr>
<tr>
<td>Revenue management separate from marketing &amp; sales activities</td>
<td>Revenue management integrated with marketing and sales activities</td>
</tr>
<tr>
<td>Manual distribution of rates to OTAs and other online channels</td>
<td>Automated channel management and channel optimization</td>
</tr>
<tr>
<td>Revenue management applied to guest rooms only</td>
<td>Revenue management applied to all property revenue streams</td>
</tr>
</tbody>
</table>
Chapter 4: Recommendations

Upgrading revenue management capabilities means not only implementing the right technology solution and integrating the right data sources — ones that have been shown to improve forecast accuracy and pricing decisions — but also putting the right organizational resources in place and creating a revenue-focused culture. Following are a few recommendations for buyers to keep in mind.

**Focus on data integration.** The revenue management solution needs to seamlessly integrate with the property management system (PMS), which, in turn, needs to integrate with the central reservations system (CRS) or channel manager. For revenue strategy to be most impactful, the PMS also needs to incorporate valuable data streams from all point of sale (POS) systems in order to capture ancillary spending on food and beverage purchases, as well as function-specific solutions (spa, golf, etc.).

**Focus on data quality.** Choose data sources that will help with accurate decision-making and steer clear of all the rest. Be wary of incorporating every last piece of data that may be available from every possible data source into the decision model. Revenue forecasting accuracy tends to be a case of “quality over quantity” rather than “the more, the merrier.” While poor technology integration can result in some data discrepancies, most data accuracy issues stem from human error. Put consistent processes in place that staff can follow to help improve data accuracy.

**Hire the right revenue manager(s).** The role of the revenue manager has never been more important. In fact, some industry observers contend that revenue managers should be the highest paid employees in the hotel, given their potential contribution level to top-line revenue growth. Of course, in smaller hotels with limited budgets, the revenue manager and general manager are oftentimes one and the same person. Unfortunately, general managers may have little or no training in the science of demand forecasting and price optimization, invariably leading to suboptimal results. Ideally, the individual running the show should have the specialized skills and knowledge needed to ensure the solution produces maximum benefit. In addition to employing large teams of seasoned revenue managers, some major hotels are now carving out positions for data scientists to evaluate all of the data that is collected and to refine the pricing models based on that data.
**Chapter 4: Recommendations**

**Think in terms of “total revenue management.”** While guest room revenue is the bread and butter of most hotels, ancillary revenue streams can contribute significantly to overall revenue and profitability. Look to see if there may be a golden opportunity to apply revenue management tactics in these and other non-room categories to achieve optimal financial results. Hotels that fail to embrace next-generation solutions that enable “total revenue management” will fall behind their competitors. The best of revenue management solutions allow hotels to consider the contribution margins and capacity constraints of not just guest rooms, but also restaurants, bars and cafes, spas, golf courses, ski lifts, and any other assets of the property. Some advanced revenue management solutions include capabilities specifically focused on optimizing meetings and events revenue and driving profitability. These capabilities allow hoteliers to optimize profits across multiple revenue streams, from guest rooms and meeting spaces to food and beverage, catering, A/V equipment rental, ancillaries and more. Thinking in terms of total revenue management, taking into account the ancillary spending that takes place in hotel restaurants, bars, conference centers, banquet space, golf courses, etc. and not just revenue management as it pertains to guest rooms, can mean leaving a lot less money on the table and significantly boosting revenue and profitability.

**Partner with the sales and marketing departments.** The pricing recommendations and market insights generated by revenue managers can be valuable across multiple parts of the organization. Access to the tools and dashboards should be made available to marketers, in particular, who are charged with demand generation activities. Insights, such as those that forecast periods of high demand versus low demand and that reveal which customer segments are planning to book rooms for a certain period, should inform every campaign. The insights should inform how aggressive to be with marketing offers and promotions, toward which customer segments the offers and promotions should be directed, and when, exactly, to present the offers and promotions, and which marketing tactics are most likely to elicit the desired responses. To achieve optimal results, it’s imperative that revenue managers work hand-in-hand with the sales and marketing functions and integrate all of their customer acquisition strategies.
Chapter 4: Recommendations

Ensure automation of room availability and rate change distribution. Hotels need to customize the direct booking engine within the CRS, or channel manager with revenue decisions and to automate channel-specific offers via the call center and other channels. The CRS should integrate with OTAs specific to the market in which the hotel operates. Built-in mapping capabilities should make it possible to organize OTAs, which today serve as both booking engines and online shopping channels. Channel management integration ensures that room rates and inventory availability update quickly and accurately across all booking channels. Otherwise, prices presented on some channels may be lower than desired. Similarly, rooms presented as available may, in reality, be unavailable, in which case the property risks becoming overbooked. Manually inputting room and rate changes can result in errors that, ultimately, can damage the brand’s reputation and result in revenue loss.

Build a revenue management strategy and culture. A revenue management strategy is a blueprint for improving financial performance over a specific period of time. It should incorporate all of the revenue streams from across all parts of the hotel as well as all of the revenue drivers, from the sales department to the online distribution channels. The strategy should be built upon a solid foundation of revenue goals using targeted RevPAR, GOPPAR and other relevant metrics for tracking progress. It should include a timeline with key milestones and spell out the tactics for achieving success. The strategy should be as specific as possible, detailing, for example, how the property approaches pricing. Done right, the strategy will help create cognitive alignment amongst all employees regarding the value of revenue management.
Chapter 5

Inside Voices and Outside Voices
Hotel revenue managers and other industry practitioners with first-hand experience with hospitality revenue management tend to have a lot to say about the topic. Following are a few perspectives gleaned from individuals who participated in the survey that produced the research findings included in this Smart Decision Guide.

I know a lot of hoteliers are still using the same strategies and technologies for yielding rates that they used ten or fifteen years ago, which is crazy. These strategies and technologies just aren’t effective anymore. To tell you the truth, they weren’t all that effective before, either. Nowadays the only way hoteliers can stay competitive is to adopt advanced revenue management strategies and solutions, especially now that there’s this whole new world of data that can be integrated into the pricing model. Hoteliers that haven’t updated their capabilities for managing pricing in recent years are probably leaving a lot of money on the table. For us, having these capabilities have made all the difference in the world.

Senior executive, full-service hotel

To be truly successful at this game, you have to eliminate the traditional walls that stand between these different functions. Everyone across the organization benefits when they work cooperatively to optimize revenue. Using a centralized technology that everyone can access can help a lot.

Revenue manager, full-service hotel

The right revenue management solution is a prerequisite to making optimal pricing and distribution decisions. Our hotel has seen a big increase in RevPAR since we deployed our new solution in 2016. For the first time, we’ve been able to take full advantage of our historical PMS data, our competitors’ pricing data, and several other sources of data to develop more sophisticated strategy pricing strategies... We’re able to forecast demand far more accurately than we were able to do previously.

Revenue manager, mid-size hotel

A luxury resort like ours has a lot of different revenue levers. It’s really important that we’re able to look at all of these levers in a single dashboard. Having a holistic view of all the OTAs and all the channels and all of the data that feeds into the model is the only way to optimize revenue performance.

Marketing manager, full-service hotel
Chapter 5: Outside Voices

Following are a few additional perspectives from industry observers, including industry practitioners as well as consultants, trade publication editors and market researchers, with insights into next-generation hospitality revenue management strategies and solutions.

I think the title and buzz word that has our industry locked on "revenue management" is entirely the wrong way to look at it. It is not revenue we are after, it is profit. Revenue is where we start but it is always profit that we end up with. Understanding what happens to the room revenue and resulting profit from different segments is the starting point to a much more effective outcome.


We have been budgeting and forecasting by segment, day by day, for years. Our granular process allows for day/demand/event shift analysis from year to year as our system remembers all prior and one-time impacts. In order to compensate for fluctuations and capture opportunity, we monitor three business bands at all time—a tier above our determined peer set, our peer set and a tier below.

Chris Green, principal and COO, Chesapeake Hospitality, as quoted in Hotel News Now

Hotels in many high-demand markets are hitting a ceiling in room rates. To continue to generate growth, it is critical for owners and investors to look at two areas. The first is what area in a room can be monetized. This does not mean nickel and diming for things that guests expect. It means understanding what guests value and how much they are willing to pay for it. The second area is revenue beyond room revenue. Meeting and event spaces are an area that most hotels are seeing as underperforming. In fact, for many hotels, the profit potential of this revenue stream is so significant that it can contribute 40 percent to 60 percent of their total profits.

Esther Hertzfeld, Contributing Editor, Hotel Management

TRevPAR [total revenue per available room] is the big illusion of the industry. It has been on the table for years and we are far from being where we need to be in regards to it. Rooms is 70% of revenue. TRevPAR sounds like good talk, but the industry has to work from scratch on it. The data is there, although it is not as easy to get as it is for rooms.

Marta Varela, Director of Revenue Strategy, Barceló Hotels, speaking at Opportunity 2018 Revenue Management 3:0
Appendix

Research Notes and Underwriters
In Q4 2017, Starfleet Media conducted an online survey, consisting of both multiple choice and open text questions, to capture the perspectives of industry practitioners with firsthand experience with hospitality revenue management. Some of the research findings are highlighted in this publication. Following is some basic information about the 167 qualified survey respondents who participated.

### Job level / role of survey respondents

- **Staff:** 46%
- **Managers:** 38%
- **Senior executives:** 16%

### Size / category of survey respondents’ hotel (or other lodging property) employers

- **Small hotels (including motels and bed & breakfasts):** 19%
- **Midsize and limited service hotels:** 43%
- **Large and full service hotels and resorts:** 38%

### Geographic location of survey respondents

- **North America:** 64%
- **Europe:** 25%
- **Other:** 11%
Appendix: Underwriter

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