Revenue Strategy: Not Just a Fancy New Name for Revenue Management

By Cindy Estis Green

A strategic view of revenue calls for proactive business mix planning and decision-making around deployed resources, well beyond reacting to what comes over the transom.

Now more than ever, sustainable profit is critical in a marketplace increasingly dominated by large third-party distribution platforms. Today we see online travel intermediaries entering the travel vertical who are deeply rooted in the consumer market. At the same time, consumers are laser-focused on value and convenience and large companies, both hotel brands and third parties, are consolidating merchandising power. While demand for hotel stays has improved year-over-year and guest-paid revenue has grown, costs are rising faster than revenue. Hotel profitability cannot keep pace, which is especially concerning in the event of an economic down cycle.

As a result, brands and management companies have put a renewed effort on delivering value to hotel owners triggering an urgency for a financial discipline and a proactive approach to integrating revenue planning and execution across channels. Revenue strategy builds on the foundation of revenue management to capitalize on opportunities afforded by the digital market.

Currently, experts in revenue management react to incoming demand and once the expected target for any given day is set, the revenue manager uses tools of inventory control, yield management and pricing to shape the flow of demand and achieve that forecast.

Cindy Estis Green (cindy@kalibrilabs.com) is founder and CEO of Kalibri Labs. She is also an inductee to the HFTP International Hospitality Technology Hall of Fame.

2 PERSPECTIVES: EVALUATING REVENUE PERFORMANCE

Revenue Manager and Revenue Analyst	Revenue Strategist and Revenue Strategy Analyst
Optimize for highest top line revenue share	Optimize for profit contribution
Understand incoming demand	Leverage knowledge of hotel and market performance to recommend a proactive strategy across all channels/segments
Adjust rates and inventory with a focus on pricing	Target an optimal business mix that takes advantage of the most promising opportunities using all revenue levers

A New Era of Opportunity

There is a new opportunity to evaluate revenue performance; a strategic view that calls for proactive business mix planning and decision making around deployed resources, well beyond reacting to what comes over the transom. Insights gleaned from data can improve predictability of everything from the quality of demand to which products each customer group is likely to purchase. To become more agile in leveraging opportunities, hoteliers require deeper cooperation between historically separate revenue generation functions. This means integrating a new approach and taking an omni-channel view of all disciplines such as call centers, digital, sales, marketing, branding and loyalty, which may require a new perspective on well-established processes.

Revenue strategy is not a fancy new name for revenue management; it can be a useful concept to influence change. With a focus on costs and multichannel planning, the goal is to improve profit contribution. Profit contribution resonates with owners whose investment depends on growing asset values. An increase in profit contribution can lead to improved investment throughout the hotel including staffing, product enhancement and new development, which ultimately benefits consumers and creates a healthier lodging ecosystem.

While it is true that all channels and segments should be considered when planning a hotel's optimal business mix, a measured approach to third party business is crucial. A dependence on third parties can be a triple threat to all hotels regardless of chain scale and size. These threats are:

1. Brand dilution through commoditization of hotel rooms,
2. Diminished relationships with customers, and
3. Increased costs with little control, particularly in down cycles.

Coordination and Setting New Targets

Looking at all the demand drivers and their associated costs and establishing a hotel's optimal business mix requires coordination between the revenue functions around the profit contribution goals of the property. Revenue management, when relying largely on yield management and pricing tools may deliver incremental gains of 2 to 5 percent. However, when tapping all demand drivers and evaluating associated costs, revenue strategists are searching for larger gains. In addition to pricing, the revenue strategist will work on channel mix to reduce overall acquisition costs and, with the help of sales, digital or other members of the team, grow specific market segments that show the most promise in a given timeframe. With customer acquisition costs being 15–25 percent of guest-paid revenue, revenue strategists will add new dimensions to the process when they measure and manage these costs and will coordinate the overall plan to achieve a hotel's optimal business mix.

Silo Expertise May Not Yield Optimal Results

The well-developed expertise of revenue management is essential, but it is one element of a solution for managing a complex and costly marketplace. Rates may be set correctly, but a hotel can still underperform relative to profit contribution due to a suboptimal mix.

While revenue managers are comfortable with pricing issues, few have experience with or authority to influence the rest of the sales and marketing mix.

Revenue strategists integrate all the disciplines to achieve profit contribution targets and enable efficient deployment by the appropriate specialist, whether it's sales, digital, loyalty or others.

Better Informed Decisions

Performance evaluation on top line revenue can hide large acquisition costs and distort the ability to accurately choose the best option for improving a hotel's profit contribution. The goal is for better informed decisions. The industry cannot sustain fragmented execution and high customer acquisition costs and remain healthy. Revenue strategy is emerging as a key discipline to optimize the flow-through to profit and steer the industry to better outcomes for two key constituents: consumers and hotel owners.