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Demand Management

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Abstract

[Excerpt] More than ever before, you and your operation need expertise in demand management, which involves strategies and tactics to encourage your guests to book your hotel or restaurant by dynamically managing demand to optimize revenue while securing customer relationships for the long term. What that means is that you and your managers must constantly oversee and adjust your operation's use of distribution channels to reach target customer segments; build on and enhance existing customer relationships; and take effective revenue management actions to achieve an objective balance of near-term profitability and long-term viability.

This chapter explains the rapid evolution of demand management in the hospitality industry. I review the many changes in distribution—most of them driven by the rise of the Internet—that have placed the burden of demand management squarely on your shoulders as a chain staff member, regional chain manager, or manager of a local property. At the moment, demand management in most hotels and restaurants is being handled by different positions in different organizations. If you are handling demand management, your title may be marketing manager, revenue manager, or sales manager (or you may have all of those responsibilities with a different title). If more than one person in your operation has demand management responsibility, they may not report to the same boss or even coordinate activities with the same staff group. With the background and strategies presented in this chapter, your firm should move toward a program of integrated demand management, using all distribution and media channels. With an integrated demand management program, you and your managers will make integrated decisions about pricing, promotion, distribution channel management, and customer relationship management (CRM).

Keywords

Cornell University School of Hotel Administration, hospitality management, demand management, distribution

Disciplines

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Demand Management

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Congratulations! You are now a Demand Manager

More than ever before, you and your operation need expertise in demand management, which involves strategies and tactics to encourage your guests to book your hotel or restaurant by dynamically managing demand to optimize revenue while securing customer relationships for the long term. What that means is that you and your managers must constantly oversee and adjust your operation's use of distribution channels to reach target customer segments; build on and enhance existing customer relationships; and take effective revenue management actions to achieve an objective balance of near-term profitability and long-term viability.

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At the individual establishment level understanding and applying the principles and organizational considerations of demand management as a hospitality manager or owner can make a difference between profit or loss, a positive or negative return on investment (ROI), and even survival or bankruptcy.

Why is Hospitality Demand Unique?

Each semester, I tell my freshman economics class at Cornell's School of Hotel Administration that there is no such thing as demand for a hotel stay or a restaurant meal. That's a shock to hear from an economics instructor when parents pay $45,000 a year for their son or daughter to learn how to manage hotel stays and restaurant meals! I am making a deliberate exaggeration to focus on the need by hospitality suppliers to create and then fulfill travelers' demand for a travel experience. To do this, hotels participate either directly or indirectly by combining services, including those of common carriers, destination service suppliers like car rental firms, restaurants, and attractions. The expected value of the experience—and thus the demand— relating to those services is a function of the services themselves and how they are combined for the consumer.

Demand Is for a Travel Experience

The fact that travel involves an experience infinitely complicates your ability to control the way customers experience your firm, particularly how your firm's services fit in with the full travel experience. The amount that a customer is willing to pay for your service might depend on whether you have integrated your operation with other parts of the experience, or it may rest primarily on the value you add. For example, a leisure consumer may be willing to pay a given amount for the segments of a resort trip that involves an economy-class flight with two stops and a stay at a two-star hotel with no airport pickup and no on-site meals. That same consumer will likely be willing to pay much more for a nonstop flight to the same destination with an immediate airport pickup and return plus inclusive on-site meals at a five-star property where activities are coordinated with those of others in the customer's travel party. The difference between these two experiences supports the business of travel agents, tour operators, and online travel agencies (OTAs).

Gauging Market Response

Your most effective tool for developing an integrated approach to demand management is measuring customers' responses to pricing, promotion, and marketing. This task has become increasingly difficult and complex with customers' use of the Internet, social media, and interactive mobile devices.

Let's look first at consumers' hospitality industry purchase behavior. Room sales and restaurant meals are a barometer of consumer sentiment, since they rise and drop in tandem with economic factors such as household income or net worth and corporate profitability. The importance of these factors was dramatically demonstrated in the 2008-2009 "Great Recession." Falling household net worth, rising unemployment levels, and evaporating company profits drove hotel occupancies and average daily rates (ADRs) to historic lows.[1] As the recession gradually abated, consumers expected the same services for the low prices established during the depths of the recession.[2]

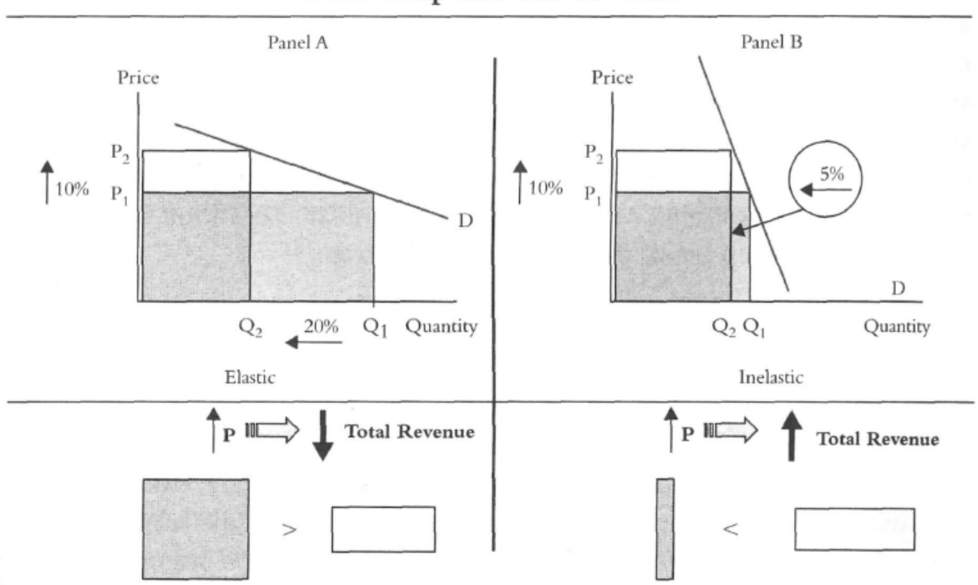
How does this fit into a demand management strategy? By cutting rates during the recession, hoteliers and restaurateurs taught consumers that it was possible to obtain hospitality services at much lower prices. For the moment, let's disregard who started the price wars, since everyone says the "other guy" started it.[3] Even after economic recovery, underlying economic forces dampened hospitality demand, starting with a stubborn, high unemployment rate in many places. Also suppressing demand were increases in fuel costs that raised travel costs, reductions in airline lift through mergers, and tacit cooperation and route rationalizations that raised airfares.

If your situation is like that of most hotels and restaurants, you compete aggressively with other operations that you view as your competitive set. These operations produce services of similar quality to yours and perhaps charge similar prices. As a general rule, you probably compare your rates and occupancies or covers with those of your competitive set. However, the consumers' responses to pricing in a competitive set is more complicated than one might expect.

Typically, one expects that when a hotel or restaurant cuts its prices, that operation will gain additional business from customers who are price responsive or price elastic. A study by PricewaterhouseCoopers (PwC) actually measured price elasticity in hotel competitive sets. PwC found that for a given percentage change in price by a single hotel in a competitive set, the occupancy change was a greater percentage. So, for example, an increase in price by 10 percent yielded more than an 11 percent drop in occupancy, provided the other hotels in the competitive set failed to match the price increase.[4] Assuming no variable or marginal cost effects, that suggests that a hotel unilaterally raising its (public) prices will likely experience revenue declines. This is shown in Figure 13.1, Panel A. However, that is only the case if just one hotel acts. By contrast, if all firms in a competitive set match a price increase, revenues will increase for all hotels in a competitive set. This result was also supported by PwC research. To take the example of a 10 percent increase in price by all hotels in the competitive set, room demand might fall by only 3 percent. In this case, revenues for all hotels will increase. This is shown in Figure 13.1, Panel B.

Let's look at hotel price discounting during the 2008—2009 recession. In response to falling occupancies, individual hotels lowered rates (and thus their ADRs) hoping to stabilize occupancy and preserve revenue per available room (RevPARs). Based on PwC's findings, not surprisingly, discounting by one hotel in a competitive set, and likely by more than one, had the effect of forcing others to match in order to preserve their own occupancy levels. Otherwise, the hotel that cut prices would enjoy occupancy gains, albeit at the lower rates. Such price cutting cost hotels revenue and profit. In 2009, U.S. hotel occupancy fell 9 percent, while ADR fell by 10 percent, causing a substantial drop of 19 percent in RevPAR. Using PwC data, if hotels had held their ADRs steady, their RevPAR would have fallen by 9.5 percent.[5] Unfortunately, few hotels could withstand the onslaught of the Great Recession to hold rate, but this situation demonstrates two issues. First, if hoteliers had held their rates in the face of falling occupancy levels, they would have lost revenue from decreased occupancy, but not from lowered rates. By also lowering prices, they lost revenue from undercutting their own rates (effectively, negotiating against themselves) for room-night that they might well have achieved regardless of rate reduction and RevPAR loss not offset by discount-induced additional business.

Figure 13.1
Price Response and Revenue



In this panel the demand for hotel rooms (D) is very responsive to price changes (elastic demand). This characterizes demand faced by a single firm in a competitive set. If a single hotel in the set raises price and others do not, there will be a proportionately larger fall off in occupancy than the price increase. Hence, revenue will decline for the property. The reverse holds for a price reduction.

In this panel the demand for rooms (D) is very unresponsive to price changes (inelastic demand). This characterizes demand faced by all hotels in a competitive set. If all the hotels raise price, they will experience a proportionately smaller fall off in demand than the price increase. Hence, they will all experience an increase in revenue. The reverse holds for a price reduction.

The point here is that when you change rates unilaterally, consumer room demand response is likely disproportionate to the rate change. Since consumers view a hotel or restaurant as more or less substitutable within a competitive set, you will probably see a higher volume loss (or gain) for a given percentage price change. Yet—and this is the key point—a price change by all members of a competitive set produces proportionately less volume change than the amount of the collective relative price change. As you can see, Figure 13.2 graphically illustrates this "damned if you do and damned if you don't" result. We have been talking here about hotels or restaurants that consumers view as essentially similar. Let's look at how differentiation can help break this competitive-set trap.

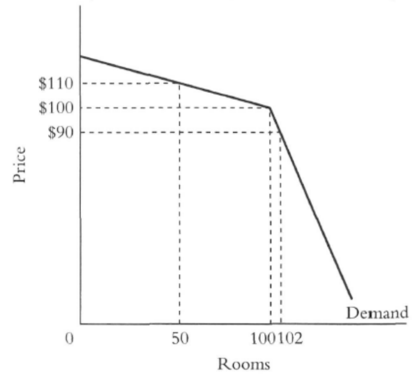
Market Segmentation and Pricing

The seemingly iron law of price response within competitive sets illustrated in Figure 13.2 is mitigated when you can differentiate your property's or your restaurant's services from others in your competitive set. (See Chapter 15 for a discussion of differentiation strategies.) You can also become selective in the customer segments served and find ways to communicate value effectively within distribution channels for your services. You can do this through effective marketing, revenue management, and by pricing according to customer segment and distribution channel (as described in the next chapter). Your hotel or restaurant has at least some power to charge price premiums when certain of your customer segments value your services or see them as differentiated from those of your competitors. This is nothing new to the hospitality industry. To take the most obvious example, this is why luxury lodging properties can charge higher prices than economy properties, and upscale restaurants charge higher menu prices than quick-service restaurants.

The idea that there is value in service differentiation is nothing new. The challenge you face is assigning a price premium for that differentiation. Firms like Revenue Analytics, SAS, RMS, and JDA have developed a business around the concept of determining price premiums associated with service offerings relative to competitors. Your own revenue management analysis may also help you make this determination.

Figure 13.2
Price Response in Competitive Sets

(Damned if You Do; Damned if You Don't)



Situation 1: Price is $100 and occupancy is 100. Revenue is $10,000 per day.

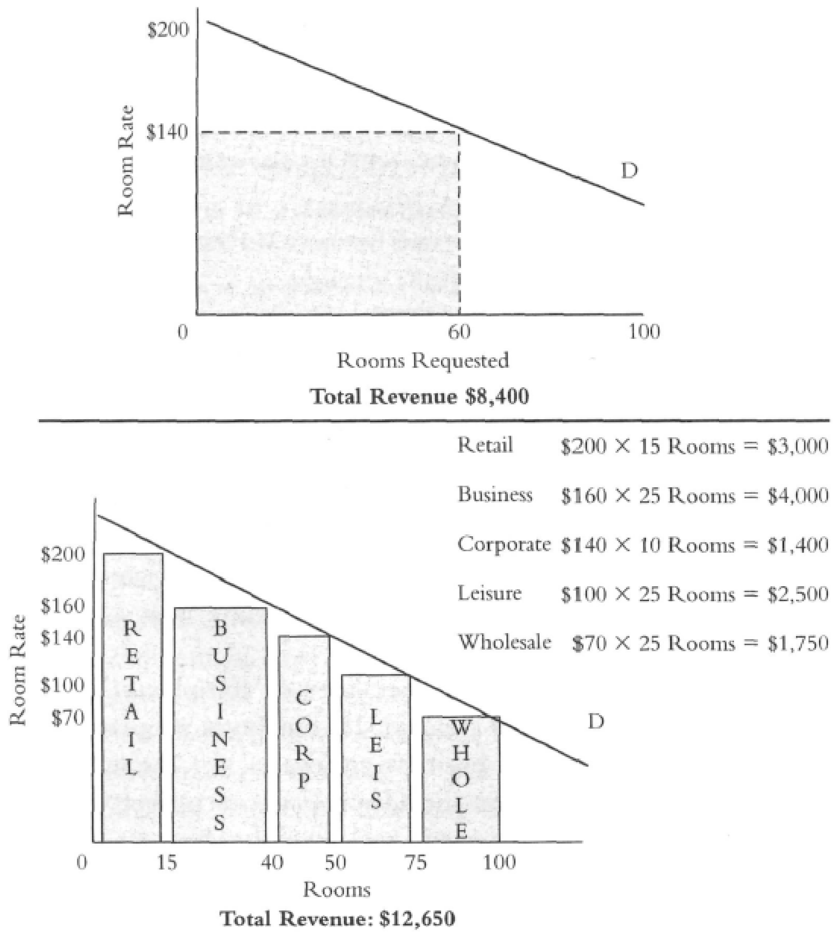
Situation 2: Price is increased by $10 and other firms in the set do not match in order to steal market share. Revenue is $5,500 per day.

Situation 3: Price is reduced by $10 and other firms in the set match to protect market share. Revenue is $9,180.

Customer segmentation adds another layer of complexity and opportunity in attempting to apply this concept. If your hotel property is designed, marketed, and priced to serve business customers, for instance, two issues arise. First, you work to focus on the advantages your property offers its target market. More recently, however, you may also have to examine ways that your property might appeal to different market segments. The idea, of course, is to charge premium prices to target market segments. A classic example of being able to command higher prices is the on-property hotels at Disney World, which offer a distinctive value proposition, as compared to other properties in Kissimmee and Orlando—near immediate park access.

Before we review managing demand in your competitive set and look at the changes in distribution, let's quickly review a key tool in revenue management—rate fences. These should allow your hotel to charge different prices for equivalent services to different customer groups based on their response to price. This concept was illustrated in a 2002 Cornell Quarterly article by Richard Hanks, Robert Cross, and Paul Noland.[6] Taking a leaf from the airline industry playbook, they demonstrated that setting prices differently for certain types of customers could dramatically increase both occupancy and revenue (see Figure 13.3). Rate fences can be simple (e.g., advance reservation, Saturday night stayover, cancellation penalties) or sophisticated, such as credentialed rate access (e.g., corporate ID, association membership card, loyal club membership). Specific rate fences are discussed in the next chapter. Most hotels place fences on their low rates to preserve higher rates for less price-responsive customers.

Figure 13.3
Effect of Market Segmentation on Revenue



Adapted by permission from Richard D. Hanks, Robert G. Cross, and R. Paul Noland, "Discounting in the Hotel Industry: A New Approach," *Cornell Hotel and Restaurant Administration Quarterly*, August 2002, 94–103.

Managing Demand in Your Competitive Set

Setting your strategic position goes hand in hand with differentiating your property and developing appropriate rate fences. Your hotel may offer the most rooms and the largest event space—giving you a particular strategic position in the market. Likewise, if yours is the only restaurant with a nationally recognized chef, you have a strong strategic position in your competitive set. Your positioning depends on your differentiation—or lack thereof. If your hotel has the advantage of high-quality or excellent facilities, your strategy might well involve premium pricing—and you'll set rates and service levels higher than others in your competitive set. However, if your property is not differentiable, the best strategy may be one of market penetration through price discounting and promotional advertising, where you promote an aggressive price that is set equal to or less than your competitors. More on these strategic issues is presented in Chapter 15.

Regardless of your positioning strategy, you must continually monitor your own and your competitors' pricing and promotional activities. Then, based on your strategic position, you may need to take action as necessary to respond. This should be for each target market segment through distribution channels. While you can certainly do this informally, in many cases it's better to use sophisticated alert and detection monitoring systems that track price positioning, promotional activities, and customer awareness against that of others in your competitive set. Such systems for hotels are offered by firms like TravelCLICK and Rubicon.

Determining your competitive response is complicated by the state of the local economy, seasonality, and marketing activities. In addition, it is based on your long-run strategic objectives versus your short-run goals, not to mention those of your competitors. Again, you can rely on practical experience or use formal modeling and analysis systems. Examples of systems that handle this analysis for hotels include IDeaS, Revenue Analytics, JDA, and PROS. RMS and Avero offer systems for restaurants.

Historical Highlights of Hospitality Distribution

Kathy Misunas

Principal Essential Ideas

Hospitality distribution history is best broken down into preautomation versus postautomation periods. That demarcation point provides valuable insight as to how distribution has changed over time.

Preautomation distribution occurred before the early 1960s when the first electronic hotel reservation systems were being developed. These represented varying degrees of homegrown simple systems deployed mostly at the hotel property level. They were designed to manage the inventory of rooms available versus those sold to particular customer segments at particular rates: group versus transient and contract (business) versus leisure (noncontract). During the 1970s, more sophisticated reservation systems were created by major chains. These were designed to obtain a centralized business view of overall sales and inventory at all of the chains properties. These capabilities eventually led to enhanced room rate controls and functionality that offered different rates based on room type, time of booking versus arrival date, length of stay, and so forth. Initially, these reservation systems were used internally by the hotel's employees to make bookings for travel agents or consumers via telephone either to the property or through reservation center toll-free phone numbers.

Global distribution systems (GDS)—which today, support travel agents, travelers, and others—were initiated by the airlines. By industry practice, they displayed their own and other airline booking information for themselves and travel agents. From these systems, current GDS evolved, adding information and booking capabilities for other services like hotel and car rentals. Aside from hotels with the same ownership or members of the same chain, hoteliers generally have never sold one another's services. This is an important point for hospitality distribution. Although paper directories existed for the bulk of hotels, there was no electronic compendium or "switch" supporting access to all hotel properties for either the travel agents or travelers.

The first major change in distribution occurred in the late 1970s, when Apollo, Sabre and other airline computerized reservation systems (CRS) were made available to U.S. travel agents for airline booking. Within months of their introduction, there was a desire by travel agents for booking rental cars and hotels as well. In response, the CRSs created databases to allow distribution for car or hotel companies that desired that their products be listed. Because of this, throughout the 1980s, hoteliers, mostly through their chains, were forced to improve their reservation and inventory management capabilities so as to provide the connectivity, quick response time, better accuracy, and richer content required by the CRS users.

Despite having many distribution channels, each channel is comprised of direct or indirect methods. Preautomation, direct sales included those made by the properties and chains themselves using their own reservation capabilities and sales teams. Indirect distribution included sales by travel agents, tour wholesalers, general sales agents, meeting planners, and marketing affiliations or consortia (such as Leading Hotels of the World). These sales were done via phone, fax, or in person.

Throughout the 1980s, the CRSs became global marketers of travel products, enhancing functionality for users and expanding beyond the U.S. travel agent base to agents worldwide. They began referring to themselves as GDSs. This prompted the proliferation of third-party hotel system developers to provide automation solutions to independently owned properties and small chains so they, too, could take advantage of worldwide distribution.

In the 1990s, conditions changed once again as the World Wide Web became functional for consumers. By the mid-1990s, today's well-known online travel agents (OTAs) such as Expedia and Travelocity were launched, followed thereafter by many others who offered or specialized in hospitality products (i.e., Hotels.com). OTAs became even more popular after 2001 as hoteliers turned to them for mass market distribution and consumers gained high-speed connectivity. Once again, hoteliers needed to adapt to a new environment by managing indirect distribution not only through the GDS for travel agents, but also for consumers using OTAs. Building web pages became progressively easier after 2001, and most hotels, inns, lodges, and bed-and-breakfasts introduced their own Web sites as a direct method of reaching potential guests and as a lower-cost (to them) type of distribution.

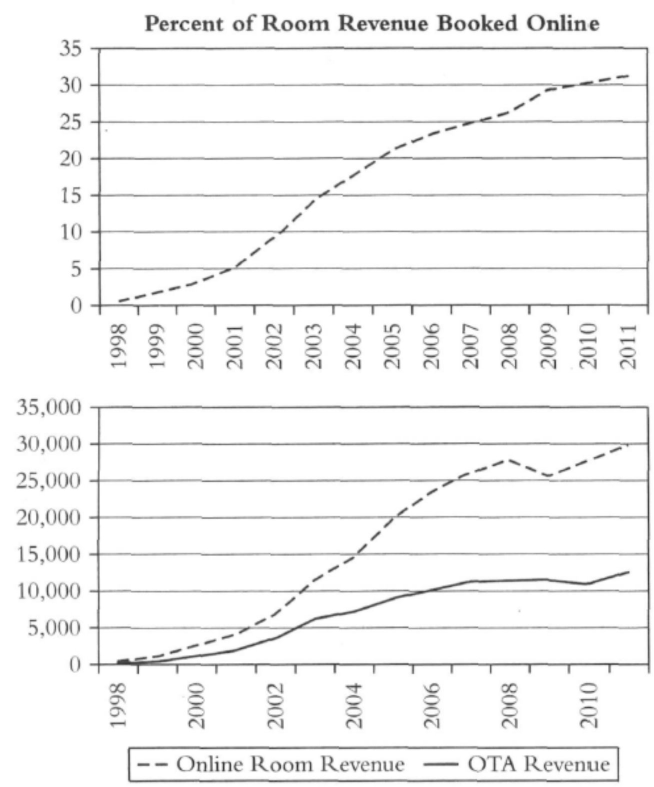
Today, distribution involves a combination of means for consumers to learn about, compare, and book hospitality services. Over the past 40 years, the means of distribution has multiplied, and there's no reason to believe that changes will cease. Mobile access as a distribution method is increasing. This will require hotels and restaurants to provide access by touch and voice through a myriad of handheld (or earclip) devices. Verbal interaction (with multiple languages required) will become the "input" norm. Multi-media images and maps plus social network produced information will be displayed. In addition, the distribution of services will go beyond the traditional planning, shopping, and buying process prior to arrival at the property and include services, reservations, and activities provided while at the property, restaurant, and spa.

The Rise of Electronic Demand

For the past 10 years, the hotel industry has seen distribution relentlessly shift to the Internet (see Figure 13.4). That shift was initially promoted by online intermediaries such as Travelocity and Expedia,[7] known as online travel agencies (OTAs). These firms initially offered airline services, then expanded to lodging, rental cars, and other destination services. Beginning with just a la carte sales, the OTAs' travel services have become increasingly sophisticated, offering their own packages, those created by tour operators and dynamically by the customers themselves. It's important to note here that, although distribution has consistently shifted to the Internet and away from traditional channels, those existing channels, such as call centers and the hotels' sales organizations, remain. The 2001 U.S. recession and terrorist attacks opened a period of rate discounting that gave rapid rise to the mass market appeal of OTAs. Recently and to a lesser extent, sites like OpenTable.com and PriceYourMeal.com have made similar inroads into restaurant distribution.

Once hotels launched their own Web sites and other Internet-based strategies to capture electronic (realtime interactive) distribution, customers responded favorably. In 2004, the hotel industry's own sites caught up to and surpassed OTAs' room revenue (Figure 13.4). The Great Recession gave a temporary resurgence to OTAs. So your hotel should be involved again with a brand Web site, search-engine strategies, and marketing efforts designed to encourage direct online interactions and bookings (rather than those through an OTA). That said, OTAs should remain a part of your hotel's distribution strategy as a complement (not a substitute) for direct distribution.

Figure 13.4
Percent of U.S. Hotel Room Revenue Booked Online: 1998–2011



Source: Reproduced by permission from PhoCusWright, Inc.

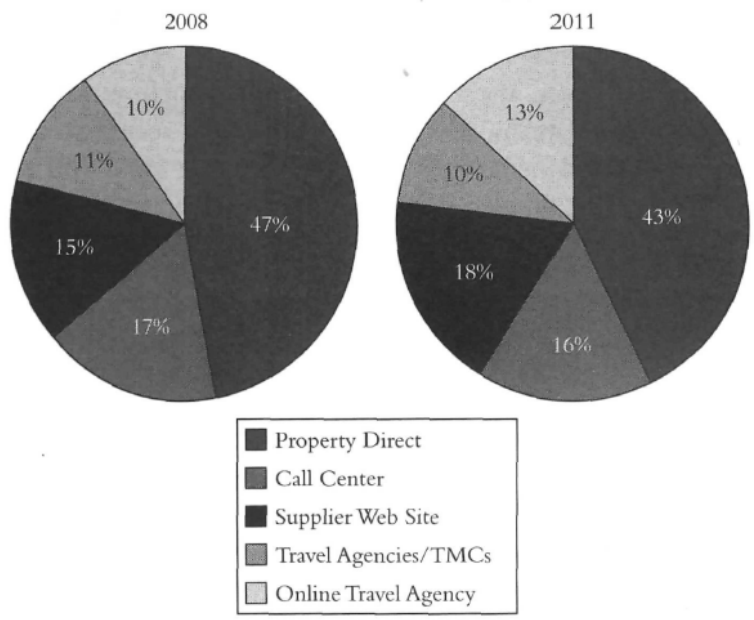
Following their success in the leisure market, OTAs have expanded into the business market with sites like Expedia's Egencia and Travelocity's Travelocity Business. This means that your business customers may increasingly come from electronic and intermediate sources rather than from traditional direct sales or those generated by traditional travel agents and travel management companies like

American Express Travel and Carlson Wagonlit Travel. To be sure, American Express and Carlson Wagonlit have launched their own online efforts. These included migrating travel management and travel booking activity online for their largest corporate customers as a means to protect that customer base and as a convenience and cost-saving step. These travel management companies also focused their online service offerings to smaller accounts as a means to grow and protect that customer base.

At this writing, the pace of online migration for hotel sales in the United States has eased somewhat (Figure 13.4). We do not know whether this is a result of the Great Recession, or simply a pause between early adopters and late adopters discovering electronic distribution channels. Expect fundamental changes in the bookings mix among hotel brand sites, traditional travel agents, OTAs, reservation centers, and property-direct channels (see Figure 13.5). Much booking volume has already migrated online and reduced the activity level of chain reservation centers. In response, chains have used their excess call center capacity to divert calls directed to properties. Group sales and booking activities, particularly for small groups, have moved online and to reservation centers to free up local and regional sales forces to service larger accounts and generate local sales. You may wish to assess the relative strength of your hotel's distribution channels as one means to develop your distribution strategy.

Figure 13.5
Distribution of Major Chain Revenue by Channel

Channel Shifts in U.S. Hotel Reservations (%), 2008 and 2011



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The increased online use of travel-related social media sites like Trip Advisor now requires that you monitor how your hotel or restaurant fares in online review and commentary sites. To the extent possible, you should protect and support your position as it relates to peer-to-peer reviews, Twitter interaction with guests, personalized search, and blogs. While you probably should not be defensive when you see negative ratings or commentaries, you need to be aware of how your customers evaluate your hospitality services, with an eye to amending services that have achieved high levels of disdain and your own position within your competitive set. For more on how to make use of social media, see Chapter 23.

In summary, every opportunity to "touch the customer" through a distribution channel, including social media, is an opportunity to engage that customer, enhance loyalty, and provide service.

Mobile applications are already creating the next major changes in hospitality distribution. Frequent business travelers started this trend,[8] but it's just a matter of time before leisure travelers will be using mobile apps for hotel and restaurant services. The most popular hotel apps facilitate hospitality services such as getting directions, making last-minute reservations changes, and canceling bookings. Your guests may soon expect to be able to employ mobile apps to check-in, get a room assignment, and check out—perhaps even gaining room access without a key. Airlines have already encouraged travelers to use paperless check-in (and pay for checked bags) via their smart phones. More advanced applications might include on-property merchandising.

Restaurant apps involve shopping and searching for dining options in addition to making, canceling, and changing reservations. Initial mobile restaurant apps were centered on getting directions and finding parking for restaurants plus sharing that information with others about food quality and service.

Hospitality mobile applications will have to go beyond simply refitting existing brand web pages, because mobile apps give you yet another chance to make direct contact with your customer by building a preference profile. Unlike Web site visitors, a mobile user's identity, relationship, physical location, and context can be used to refine the information presented; when a loyal guest wants to check in, you can give that person his or her preferred room type or other desired services without any further discussion. Higher-level functions like room check-in or keyless access will require more technological effort and more widespread use of applications by mobile device users. Such applications can give near-term competitive advantages but eventually become "table stakes," like so many other innovations. An exception may be the capacity to promote and merchandise to the guest (perhaps with mobile tweets) while the guest is at or near the property. Here is an opportunity to improve revenue without competitive set response!

The Brave New World of Distribution

Changes in distribution have made demand management more complex. Clearly, certain customer segments prefer certain types of distribution channels. At the moment, it is difficult to predict which channel a particular type of customer may use. Some will use more than one channel and for different purposes. I've tried to capture this complexity in Figure 13.6, which illustrates the many segments and channel options.

A particular issue to address is the interaction among pricing, market segment, and distribution channel. Your customers' response to pricing and promotional marketing can occur differently based on the channel used, their own characteristics, and the nature of the channel. For example, a leisure customer using Priceline's "Name Your Own Price" function will probably have a substantially greater price-elastic response to price differences found on that site than would a brand-loyal corporate customer with a prenegotiated rate calling your reservation center. The Priceline customer has little more than price to go on. The brand-loyal corporate customer is contractually obligated to use the property. Yet another customer may first check one of the OTAs, such as Expedia or Travelocity, and then move to the brand site to confirm the best-price offer. The critical distribution issue is where and how your hotel presents its price offer.

Figure 13.6
Customer Segments and Distribution Channels

	Channel						
Segment	Direct	Sales	Chain/ Rep	Travel Agent	Online Inter	Online Direct	CVB/ NTO
Leisure							
Mercenary							
Loyal							
Business							
Corporate							
Less Managed							
Unmanaged							
Wholesale	—				—	—	—
Group							
Large	—		—	—	—	—	—
Small							

In all of this, your revenue management system will have to be tuned to the steady changes in distribution and the nuances of channel cost variations. This includes marketing and pricing by distribution channel and by customer's segment. You'll need to develop your own answer to what the value is of the top positions in an OTA display, a peer-to-peer review, or a search result. Or you can rely on firms that offer these analysis features, such as IDeaS, SynXis, or TravelCLICK. Experience and analysis will also tell you how your market segments' response changes according to whether they are using a mobile device, a computer, or the telephone. The tools to manage this sort of activity are only now being developed.

Demand Management: Regional and Local Functions

We have focused on the role of a particular hotel or restaurant in this discussion because the local operations typically have significant functional responsibility for pricing and demand management. While the regional chain marketing managers still retain considerable responsibility, property and regional managers are the key players in the pricing decision. For many chain hotel and restaurant properties, management and responsibility for pricing, promotion, marketing, sales, and revenue management have been reserved for specific managers. These managers are supported by task-specific systems and processes—yield management for revenue managers, sales force automations for the sales force, and CRM for marketing. Chain central and regional managers may work with local managers in these areas. Yet managing a property's strategic position in a competitive set is essentially a local responsibility. Local management must remain in touch with nuances of local competitor activity and have an intimate understanding of the local market.

This trend toward local and regional responsibility (even if directed centrally) is also being pushed by the evolution of search, social media, and mobile as information media, along with the expanded importance of service personalization. Local management of price and demand management is particularly essential in hotels that are highly differentiated from others in their competitive set and those in distinctive locations. This calls for a greater local application of demand management talent and tools, a concept that is still evolving for hotel chains; albeit chains are providing guidance and tools to help local staffs manage demand.[9]

Successful restaurateurs, particularly independents or those who manage distinctive establishments within chains, are likely to understand the local nature of demand management. The difference today is that managing a restaurant's market position in the face of the evolution of distribution and media has become more challenging. Restaurants have only recently begun to work with revenue management or demand management. That said, restaurants' use of mobile and social media have produced some remarkable results where mobile applications can help customers find the restaurant; review menus; look over reviews; and make or cancel reservations. We can expect restaurants to increasingly rely on applications from Zagat, Foursquare, and OpenTable to project themselves in social media, mobile, and iPad media and to rely on sites like OpenTable to improve revenue management and online reach.

A Work in Progress

Effective demand management involves making integrated management decisions about pricing, promotion, and CRM. This means that you will need tools that can guide decision making about everything from the timing and spending on search keyword buys to the impact of peer-to-peer ratings and social media buzz on hotel and restaurant awareness and bookings. For both hotel and restaurant chains, the challenge is to provide tools, direction, training, and support that can promote local and regional demand management, thereby building on brand identity to create local market success and effective brand and network extension. For independent properties, it means finding vendors with tools that can help managers make complicated segment and channel decisions within their competitive sets and marketplaces. Major chains in the restaurant and hotel industry offer proprietary tools for many aspects of demand management. In addition, firms like Revenue Analytics, SAS, JDA, Rainmaker, PROS, EasyRMS, TIG, and Milestone provide tools for independent hotels and chains. Restaurant industry tools are provided by such firms as RMS, SAS, and Avero.

For hotels, responsibility for revenue management, channel management, distribution, and social media marketing is also being redistributed across organizational levels with integrated, shared responsibilities and tools at all levels. The role is being elevated at the property level to a direct reporting relationship with the general manager and at the regional level to a direct reporting relationship to the regional chain vice president.

Strategies and Tactics for Managing Hospitality Demand

To conclude, despite the dramatic changes in hospitality distribution, the key strategies and tactics for demand management still stand. This is despite the shift toward regional and local management of demand.

Demand Management Strategies

1. Have a defined strategic market position within your competitive set(s).
2. Optimize net contribution (total spend less variable cost) by channel and segment.
3. Reward loyalty through distribution channels, with enhanced service delivery and rewards afterward.
4. Support and protect the brand, particularly "with evolving social media.
5. Actively manage price, inventory, content, image, and relationships in line with your strategic market position.

Demand Management Tactics

1. As distribution media make price level and structure transparent to customers, price consistently and competitively subject to your differentiated market position.
2. Understand revenue contribution, price response, and promotional effectiveness by segment and channel. Then, use that information to optimize contribution, asset usage, and your overall strategy.
3. Monitor the market for price position, promotion, and awareness versus your competition and your own brand position. Actively promote and protect your brand.
4. Get help from your chain or service providers because decision making is complex and the distribution environment is changing rapidly.

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[1] PricewaterhouseCoopers, Hospitality Directions US Q4, February 2011, Smith Travel Research and PricewaterhouseCoopers U.S. Lodging Forecast, December 2010.
[2] Economist Intelligence Unit, *The Austere Traveler* (Amadeus, 2009); and C. Rheem, Consumer Travel Report, PhoCusWright (May 2009): Figure 30.
[3] See S. Kimes, "Successful Tactics for Surviving an Economic Downturn: Results from an International Study," *Cornell Hospitality Report* 10(7) (April 2010), Cornell Center for Hospitality Research.
[4] B. Hanson, "Price Elasticity of Lodging Demand," *Hospitality Directions*, PriceWaterhouseCoopers, September 2005.
[5] PricewaterhouseCoopers, U.S. *Lodging Forecast*, November 2010.
[6] R. D. Hanks, R. G. Cross, and R. P. Noland, "Discounting in the Hotel Industry: A New Approach," *Cornell Hotel and Restaurant Administration Quarterly* 43(4) (August 2002): 94-103.
[7] Actually, the first site was Preview Travel.
[8] C. Schetzina, *Consumer Technology Survey*, 3rd ed. (PhoCus Wright, December 2009), Part Five.
[9] W. Carroll, "U.S. Online Travel Overview," *Lodging*, November 2010.