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The Future of Hotel Revenue Management

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The Future of Hotel Revenue Management

Abstract

What insight do professional revenue management (RM) have about the future? A survey of 487 professionals found the future was going to be much more strategic in nature and will be more strongly driven by technology in which function space will be the new frontier. As technology evolves analytical pricing models and social networking/mobile technology are going to have a major impact on the future. Survey respondents think that the organization of the RM function is going to become more centralized, and that the skills required for a successful revenue manager are going to be a combination of analytical and communication abilities. As a consequence, performance measurement will move to total revenue or gross operating profit rather than by Revenue per available room.

Keywords

revenue management, pricing, future, technology, performance

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THE FUTURE OF HOTEL REVENUE MANAGEMENT

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What insight do professional revenue management (RM) have about the future? A survey of 487 professionals found the future was going to be much more strategic in nature and will be more strongly driven by technology in which function space will be the new frontier. As technology evolves analytical pricing models and social networking/mobile technology are going to have a major impact on the future. Survey respondents think that the organization of the RM function is going to become more centralized, and that the skills required for a successful revenue manager are going to be a combination of analytical and communication abilities. As a consequence, performance measurement will move to total revenue or gross operating profit rather than by Revenue per available room.

Keywords: revenue management; pricing; future; technology; performance

INTRODUCTION

What will revenue management (RM) look like in the future? A number of articles have been published in which the authors provide their best guess of what's to come (for example, Mainzer, 2004; Bobb and Veral, 2008; Cross *et al* , 2009; and Ng, 2010), but I decided to go to the field and ask RM professionals their thoughts on the future of RM. As part of this international study, I conducted an online survey of nearly 500 RM professionals. The aim of this study is to project what the future might look like, and to provide a framework on how hotels can best position themselves for the future.

The online survey was divided into six sections: (1) future challenges facing RM, (2) what RM will encompass in the future, (3) what pricing and distribution will look like, (4) other areas of the hotel to which RM will be applied, (5) how RM will be organized in the future and (6) what skills and education future revenue managers will need to possess. In addition, several demographic questions (for example, experience, geographic location, industry, RM position/interest) were included. Respondents were also asked several open-ended questions about the future of RM.

THE RESPONDENTS

A total of 487 completed surveys were received. The majority (78.4 per cent) of respondents were from the hotel industry, while the remainder were from consulting, airline and other industries. Of the hotel respondents, 54.0 per cent were at the property level, 13.1 per cent at the regional level and 33.0 per cent at the corporate level.

About half (48.7 per cent) of the respondents were from the Americas, 26.1 per cent were from Europe, 23.1 per cent from Asia Pacific and 8.1 per cent from Africa - Middle East.

About half (47.9 per cent) had over 5 years of experience in RM (6-10 years, 22.9 per cent; 11-15 years, 14.7 per cent; and 15 or more years, 10.3 per cent). Half of the respondents (50.0 per cent) were directly responsible for the RM function, 27.4 per cent influenced RM practice, 5.1 per cent were affected by RM decisions, 11.3 per cent were interested in RM practice and 6.2 per cent had some other relationship with RM.

THE FUTURE OF RM

Before beginning the quantitative part of the survey, respondents were asked to give their opinion on what they thought RM would look like in the future. Answers were received from all but three respondents. The results were analyzed using SAS Text Analytics and the responses were categorized into 11 categories (Figure 1). The most common response (28.2 per cent of all comments) was that RM would become more strategic in nature, and that it would encompass all revenue streams within the hotel. The second most common response (24.6 per cent) was that technology would play a strong role in future developments within RM. Other frequent comments included ones related to the role of competition (17.8 per cent), improvements in forecasting and other analytic techniques (16.7 per cent) and changes in consumer behavior (12.9 per cent).

FUTURE CHALLENGES FACING RM

Respondents were presented with 12 potential challenges to RM adoption and were asked to evaluate how likely each was to be a major challenge on a 1-5 scale (5=very likely). Respondents did not view any of the 12 possible obstacles as particularly challenging (all scores were below 4.0). The four most challenging issues (all between 3.5 and 4.0) were (1) a shortage of qualified revenue managers (3.89), (2) changes in the global economy (3.77), (3) increased competition (3.76), and (4) pressure to cut costs from owners (3.71) (Figure 2).

WHAT WILL RM ENCOMPASS IN THE FUTURE?

Respondents were asked to indicate the future likelihood (1-5, 5=very likely) of eight different possible RM functions ranging from pricing to property design. The results were not surprising. Pricing (4.79) and forecasting (4.77) had the highest likelihoods followed by budget (4.59), group decisions (4.41) and marketing (4.10) (Figure 3).

WHERE WILL RM BE APPLIED?

Respondents were asked which other hotel departments RM would be applied to in the future. The application of RM principles to function space (4.38) was considered highly likely, followed by restaurants (3.86), spa (3.81) and golf (3.63) (Figure 4).

PRICING IN THE FUTURE

Respondents were asked to indicate how pricing would be applied in the future and evaluate eight different pricing practices on a 1-5 likelihood scale. All factors were rated fairly similarly (only two were slightly below 4.0). With the exception of competitive pricing, all pricing practices presented would require the use of analytical pricing tools. This indicates that respondents felt that pricing would be much more analytical and detailed in the future (Figure 5).

DISTRIBUTION IN THE FUTURE

A similar set of questions was asked about hotel distribution. Respondents were asked to evaluate the likelihood (1-5) of nine different distribution approaches. The ones considered to have the highest likelihood of occurrence were hotel websites (4.51), smart phone technology (4.28) and social networking (4.20). Respondents also felt that it was highly likely that distribution would be much better integrated with RM systems (4.35) and reservations (4.27). Call centers and hotel reservation offices (2.93 and 2.81, respectively) were considered to be less likely to be important in the future (Figure 6).

FUTURE PERFORMANCE MEASUREMENT

Interestingly, only 18.6 per cent of respondents felt that Revenue per available room (RevPAR) would be the performance measurement of the future. Gross Operating Profit per available room (GOPPAR) (29.3 per cent) was the most common response. Other highly ranked performance measures were Total Revenue per available room (TotRevPAR) (20.5 per cent) and Total Revenue per available square foot (TotRevPASF) (13.5 per cent) (Figure 7).

ORGANIZATIONAL ISSUES

Centralization

The majority of respondents felt that RM would be either centralized (33.8 per cent) or regionalized (38.5 per cent). About (15.8 per cent) felt that RM would continue to be decentralized, while 6.4 per cent felt that RM would be outsourced (Figure 8).

Department

About half (51.7 per cent) of respondents felt that RM would be located in a separate department. The second most common response was Sales and Marketing (29.5 per cent). Only 5.6 per cent of respondents felt that RM would be located in the Rooms department (Figure 9).

NECESSARY SKILLS AND EDUCATION

Characteristics of future revenue managers

Respondents were asked to indicate the future importance of nine different characteristics (1-5, 5=very important) that revenue managers of the future should possess. The most important characteristics were analytical skills (4.57), leadership skills (4.32) and communication skills (4.24) followed closely by a formal RM education (4.13) and negotiation skills (4.06). The least important characteristics were a rooms or reservations background (3.46 and 3.34, respectively) (Figure 10).

What universities/colleges should be teaching

Respondents were also asked to evaluate the importance (1-5 scale) of 13 different topics that future revenue managers should study. The most important courses were data analytics (4.61), pricing (4.56), distribution (4.43), economics (4.18), web site optimization (4.15) and social media (4.03). Courses considered the least important were HR (2.96) and Rooms (3.47) (Figure 11).

OTHER OPEN-ENDED QUESTIONS

Respondents were asked two other open-ended questions: (1) what factors would drive change, and (2) if they had unlimited money to spend on RM for their organization, what would they spend it on?

What factors will drive change?

Technology was the most common theme (37.0 per cent), followed by the economy (23.6 per cent) and more detailed market segmentation (20.5 per cent). Other important themes included the Internet and social media (20.0 per cent), competition (20.0 per cent) and consumer behavior (16.7 per cent) (Figure 12).

Uses of unlimited money

If given an unlimited amount of money to spend on an RM initiative, respondents were most likely to invest in technology (47.1 per cent). Other common themes that emerged were investments into systems and system integration (20.0 per cent), better analytical tools (18.1 per cent), distribution channel management (17.3 per cent), training (16.2 per cent) and understanding consumer behavior (16.2 per cent) (Figure 13).

DISCUSSION

Several themes emerge from the data. First, respondents believe that RM is going to be much more strategic in nature and will be more strongly driven by technology. Second, it seems that respondents believe that function space is the next frontier for hotel RM. Third, respondents felt that analytical pricing models and social networking/mobile technology were going to have a major impact on hotel RM in the future. Fourth, respondents think that the organization of the RM function is going to become more centralized, and that the skills required for a successful revenue manager are going to be a combination of analytical and communication abilities. Finally, respondents believe that RM performance will be measured on the basis of total revenue or gross operating profit (GOP) rather than by RevPAR. Each of these themes has major implications for hotel RM. Interestingly, but not surprisingly, the last four

themes are all related to the first over-riding theme - hotel RM is going to become a more technologically driven strategic discipline.

RM will be more strategic and more technology-driven : Respondents believed that RM will move from more of a tactical discipline in which rooms revenue is maximized to one that is more strategic in nature and considers all revenue streams. They see technology playing a major role in this transformation because of the complexity and number of decisions that must be made. The proper use of technology can also help free revenue managers from more mundane analyses and allow them to focus their attention on the strategic implications of RM and make better decisions for the entire hotel. By making better revenue decisions for the entire hotel, revenue managers can also help drive value and profit for the hotel owners.

The organizational structure will change : This transformation from a tactical discipline to more of a strategic one has major implications for the future organization of RM. For example, the added complexity and more strategic bent will require revenue managers with both strong analytical skills and strong communications skills. It also has implications for the department in which RM should be located as revenue managers will be maximizing revenue across departments. Finally, it has implications for the level of centralization because technology may enable many RM functions to be automated and/or performed off-site. Each will be discussed in more detail below.

Strong analytical skills and strong communication skills : If RM is to be more strategic and technology-driven, the RM of the future will need to be someone with strong analytical skills, with a strategic outlook who can also communicate with multiple stakeholders. In addition, as RM will encompass all revenue streams within the hotel, the future RM must be able to structure the RM process across different departments and be able to work with those departments on the successful implementation of those processes.

RM should be in a separate department : As RM will be more strategic and will be responsible for all hotel revenue streams; the department should be separate and, at the hotel level, should report

directly to the GM. Respondents stressed the need for RM to see the big picture, and felt that if RM was placed within an existing department it might lose sight of this.

A hybrid model of centralization/decentralization will emerge . Respondents felt that RM will become more centralized, but that there will be some mix of centralization and decentralization. Larger and more complex hotels will probably still have on-site revenue managers (reporting directly to the GM), while RM for smaller hotels will probably be regionally or centrally managed. Respondents also believed that the high skill level required for good revenue managers would drive the need to centralization and even outsourcing. Of course, the issue with removing the RM function from the hotel is how to balance local knowledge with technical and strategic expertise. The key here is to determine which RM decisions require knowledge of the local market and those that do not. Those that do not require that specialized knowledge can be made off-site, whereas those that require that knowledge are best made at the property level.

RM will be applied to function space . Respondents believe that RM will be applied to function space. Function space is a bit more complicated than transient guest rooms because of the multiple revenue streams and departments involved. Some chains (most notably Marriott (Interfaces article) have successfully applied RM to function space, but most hotels are still struggling with it. The main difficulties have to do with getting the necessary data, and overcoming the internal politics that involve the multiple departments.

Pricing will become more analytical : Analytical pricing models that allow hotels to price by smaller segments, distribution channels or even individual customers are going to become more prevalent. These models will be applied not only to transient guest rooms, but also to all revenue streams within the hotel. As technology develops, which allows hotels to more easily analyze customer data, CRM will become more common and hotels will make pricing decisions based on total customer value.

Social networking/mobile technology will play a major role in distribution : Distribution through social networking and mobile technology is still in its infancy, but is rapidly moving into adolescence. The question is where is it going? Currently, the key thing is for hotels to make sure that they are involved

with these distribution channels, and that they are nimble enough to make sure that they are ready to go when these platforms become more widespread.

RM performance will be measured differently : As RM will become more strategic and consider multiple revenue streams, RevPAR, as traditionally measured, will not be an adequate measure of performance as it considers only the rooms portion of the hotel asset. Respondents were mixed between whether RM performance would be measured as total revenue or as GOP. Respondents were also mixed on whether total revenue or GOP should be per available room or per available square foot. A per available square foot metric better captures the asset-generating nature of the hotel, but causes difficulty when hotels try to compare their performance against their competition. Smith Travel Research, the most commonly used competitive performance source, is based on revenue, and legal restrictions may prevent hotels from sharing GOP performance.

CONCLUSION

Respondents clearly felt that RM will become more strategic and technologically driven in the future. This shift from a tactical emphasis on rooms revenue to a more strategic focus on total hotel revenue will require changes in the organizational structure as revenue managers will need to be able to see the 'big picture'. This will involve moving RM to a separate department and making sure that revenue managers have the necessary analytical and communications skills to be able to work across departments. In addition, it is likely that many RM functions will become more centralized and that a hybrid centralized/decentralized organizational model will develop.

Other important trends that emerged are that pricing will become more analytical and that new technologies (such as mobile technology and social media) will play an important role in distribution.

Respondents indicated that function space is the next frontier for RM. Function space RM is still in its infancy, and while it is theoretically possible, much work still remains before it becomes as widely accepted and practiced as hotel rooms RM.

Finally, a focus on all revenue streams will necessitate a change in performance metrics from RevPAR to something that incorporates all revenue. Such a change will entail not only modifications in how hotels measure and reward internal performance, but also in how hotels compare themselves with the competition.

While all of these potential changes are exciting and hold great potential, RM professionals must determine how best to enhance and develop their RM practices so that they are well-positioned for the future. One thing is clear; hotel RM will continue to grow in importance. The challenge to hoteliers is how best to position themselves to maximize revenue and profit in the future.

ACKNOWLEDGEMENTS

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Figure 1. What will hotel RM look like 5 years from now?

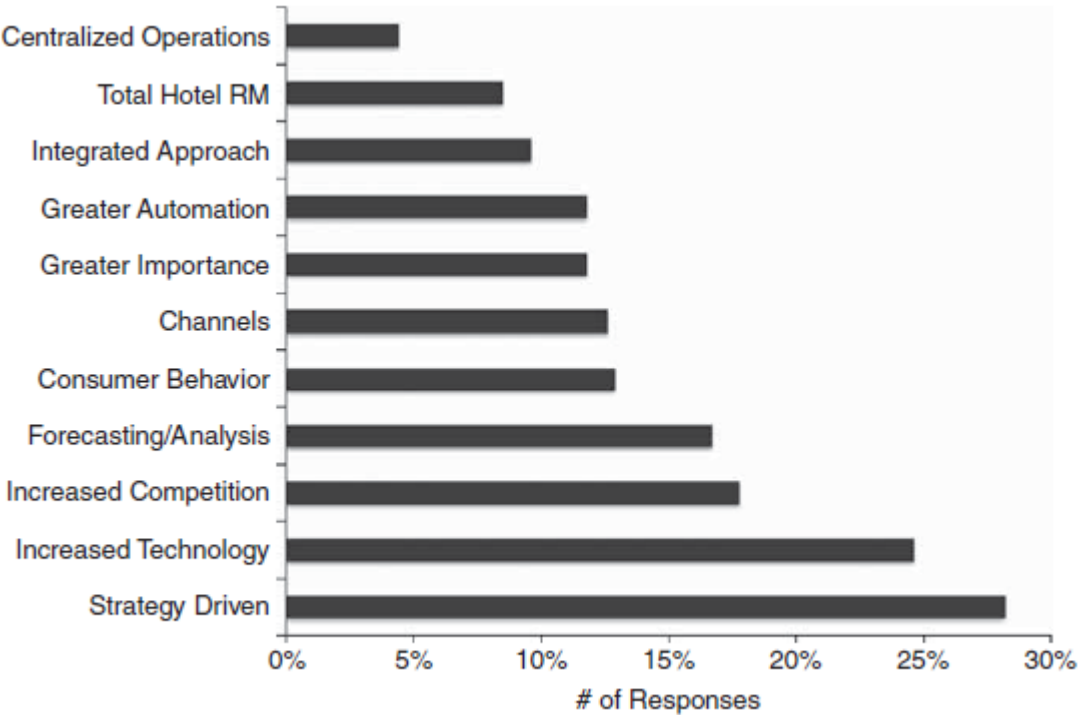


Figure 2. Future challenges facing RM.

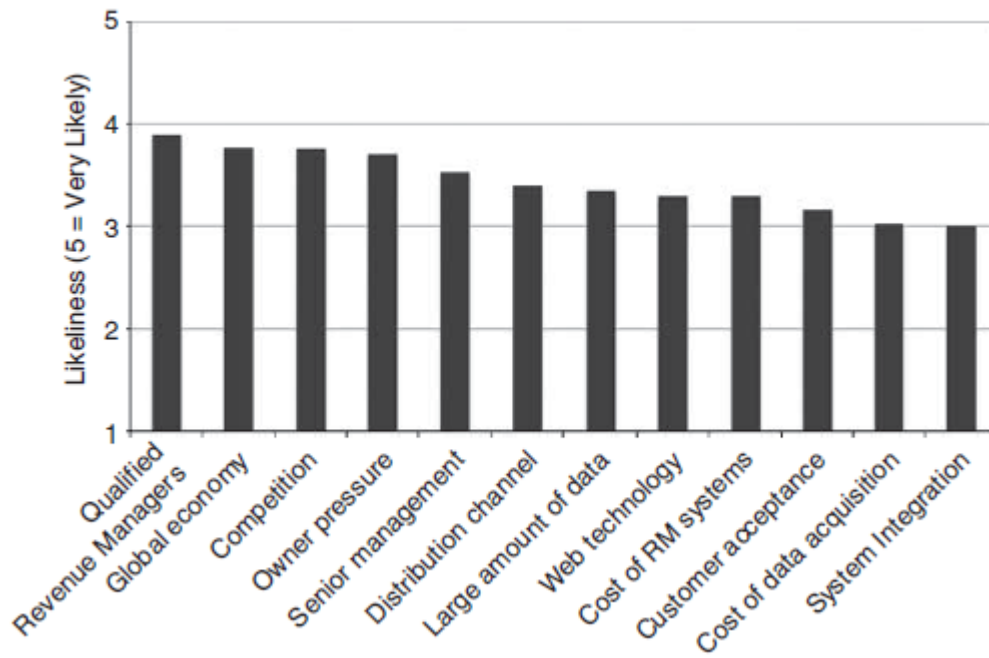


Figure 3. What will RM encompass in 5 years?

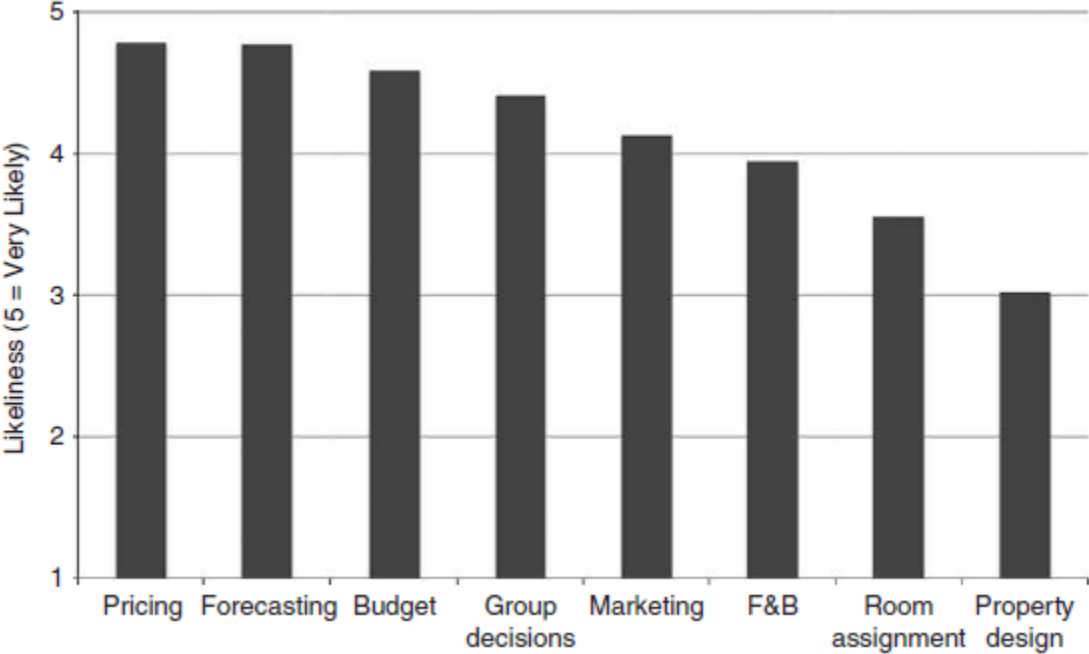


Figure 4. Where will RM be applied?

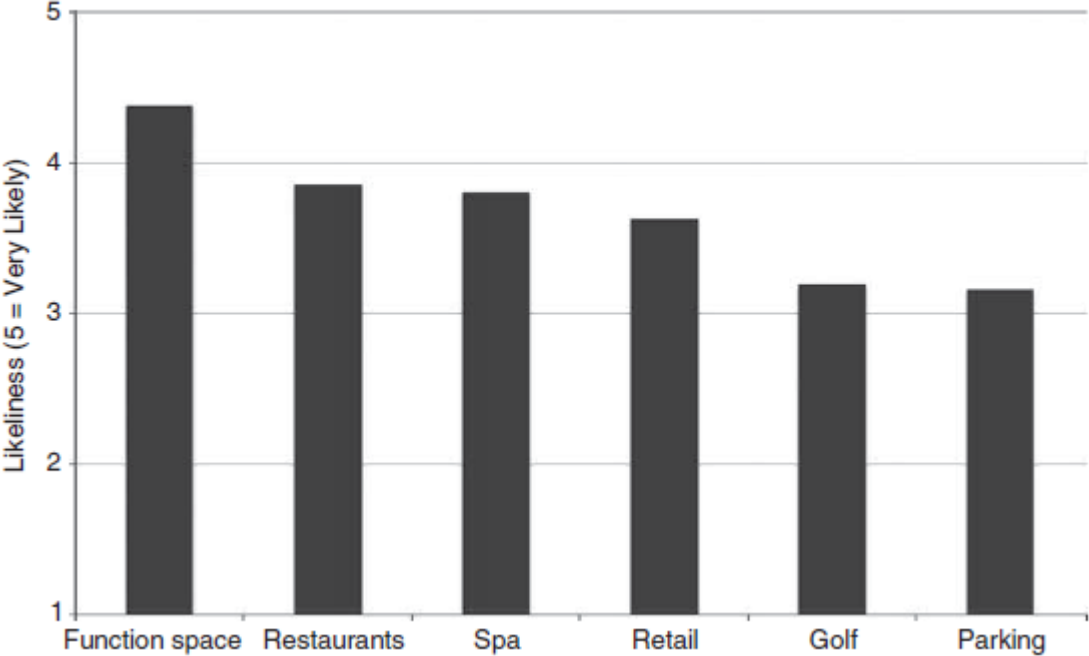


Figure 5. Future of pricing.

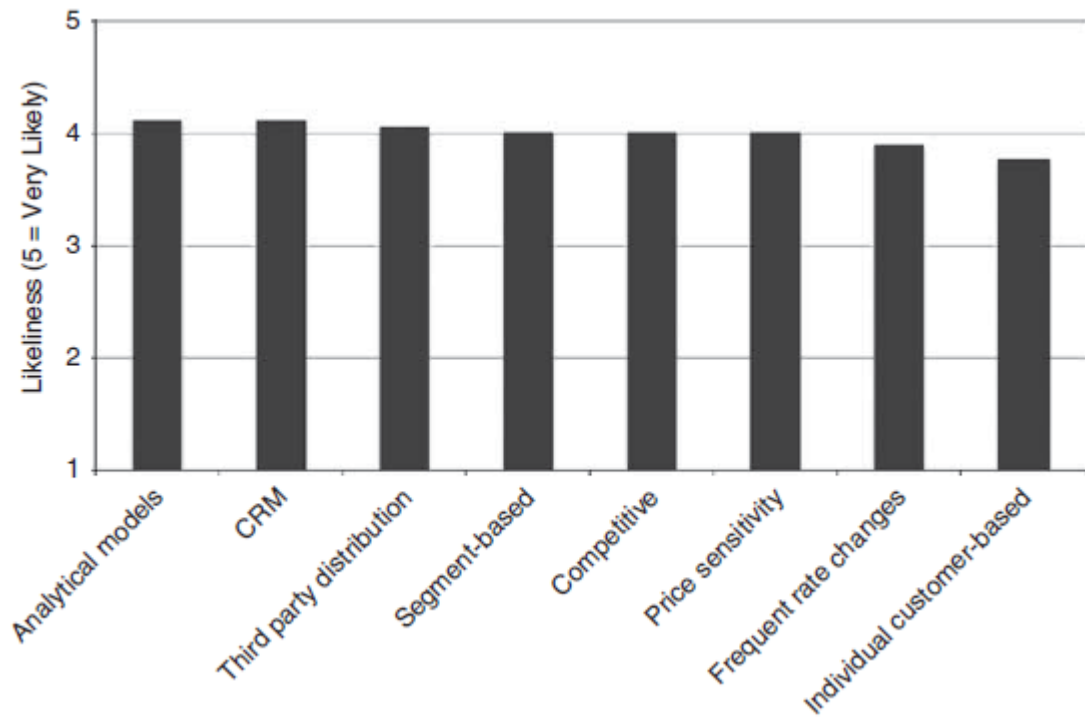


Figure 6. Future of hotel distribution.

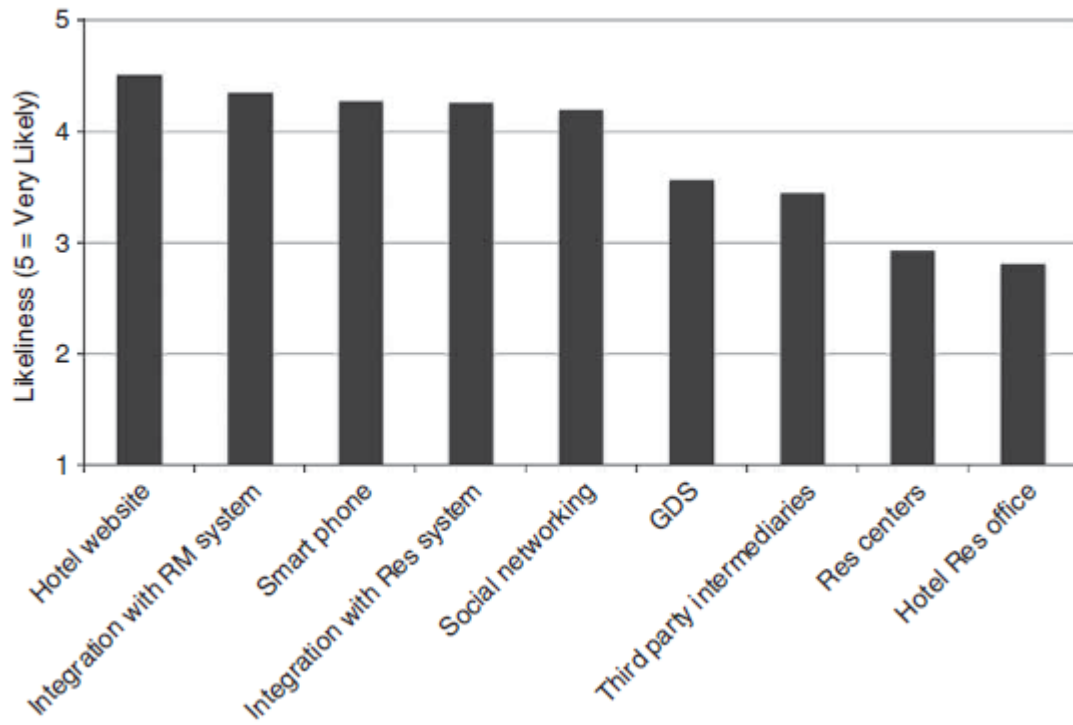


Figure 7. Future performance measurement.

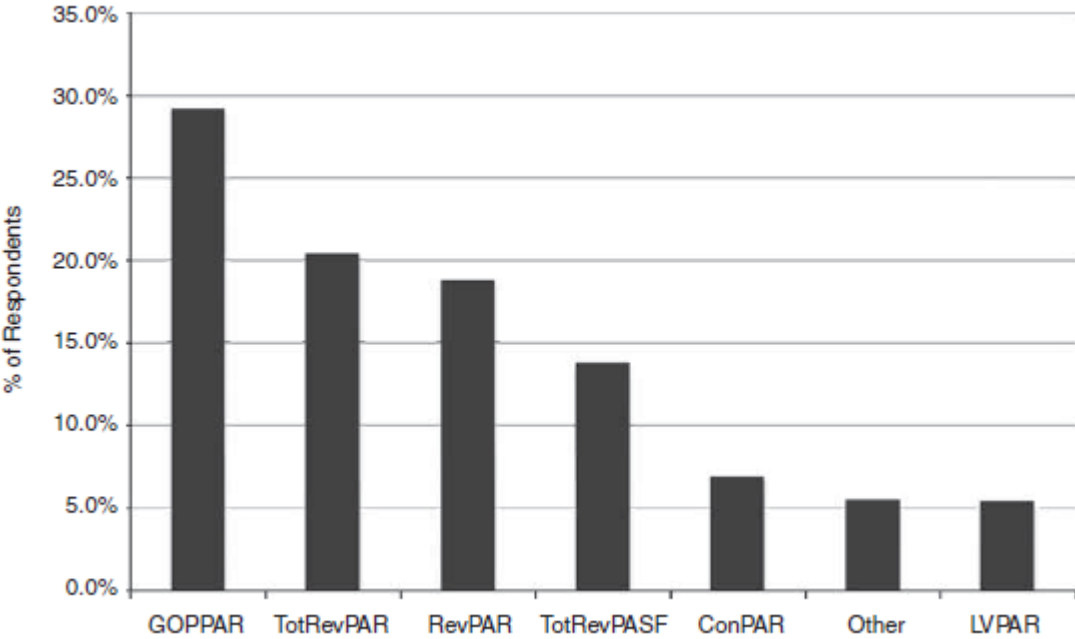


Figure 8. Level of centralization.

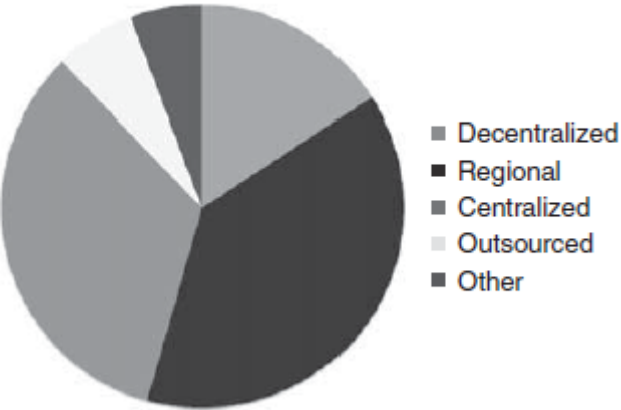


Figure 9. Department.

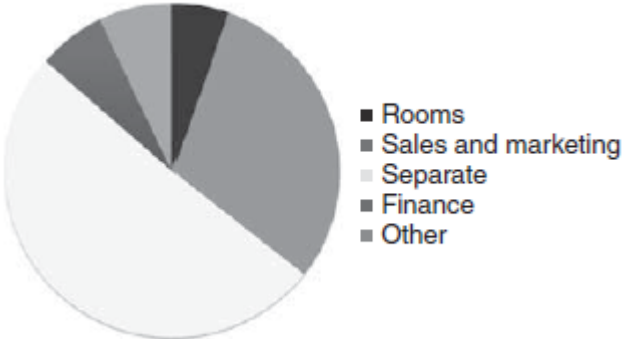


Figure 10. Characteristics of future revenue managers.

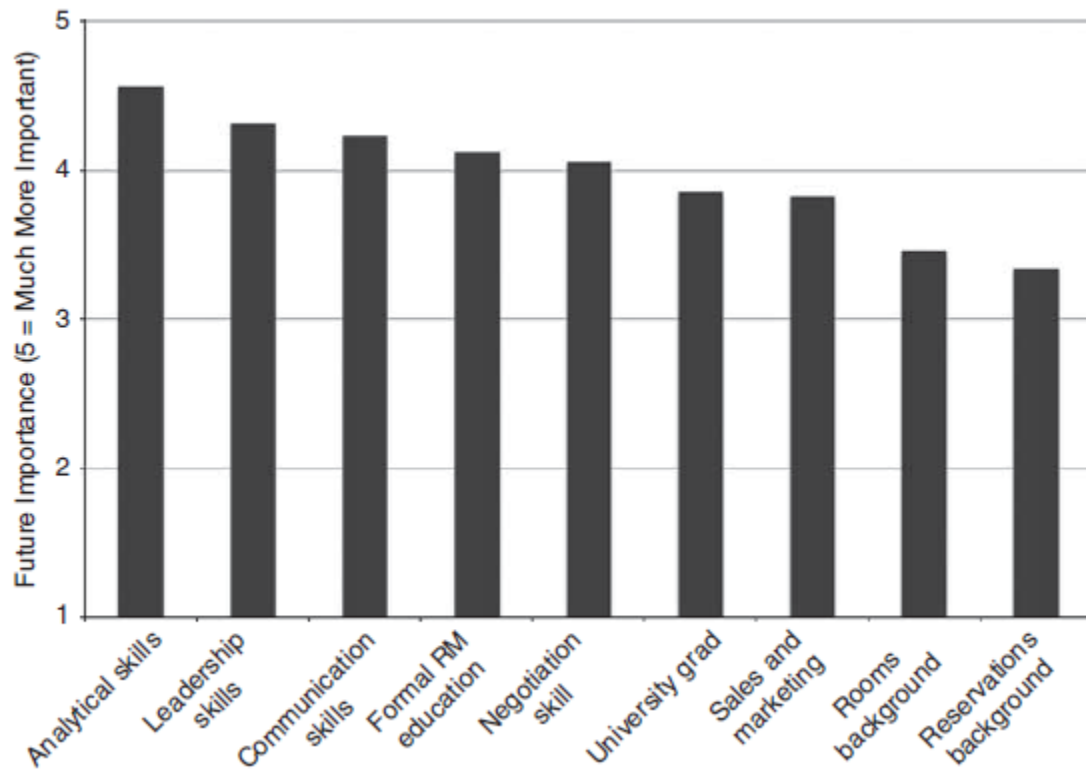


Figure 11. What should we be teaching?

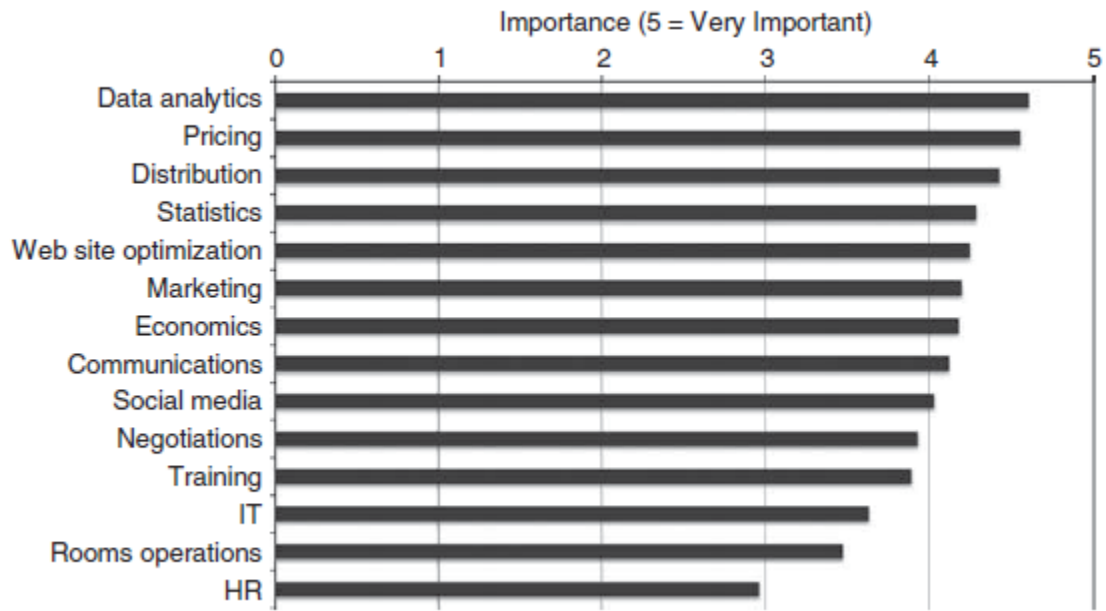


Figure 12. What factors will drive change?

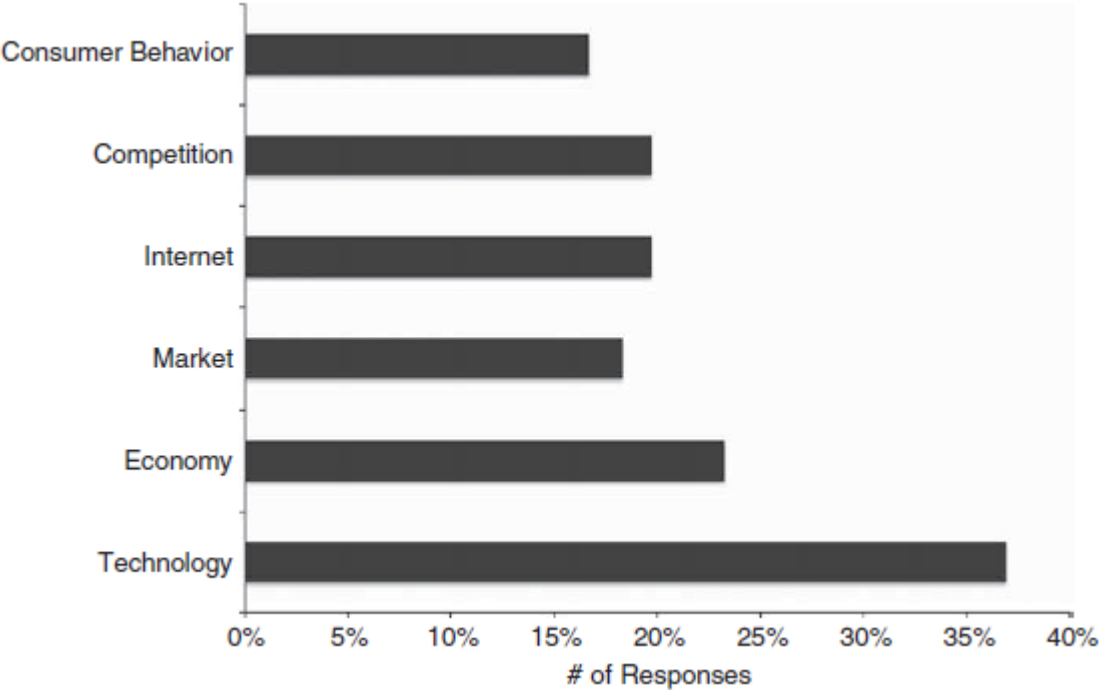
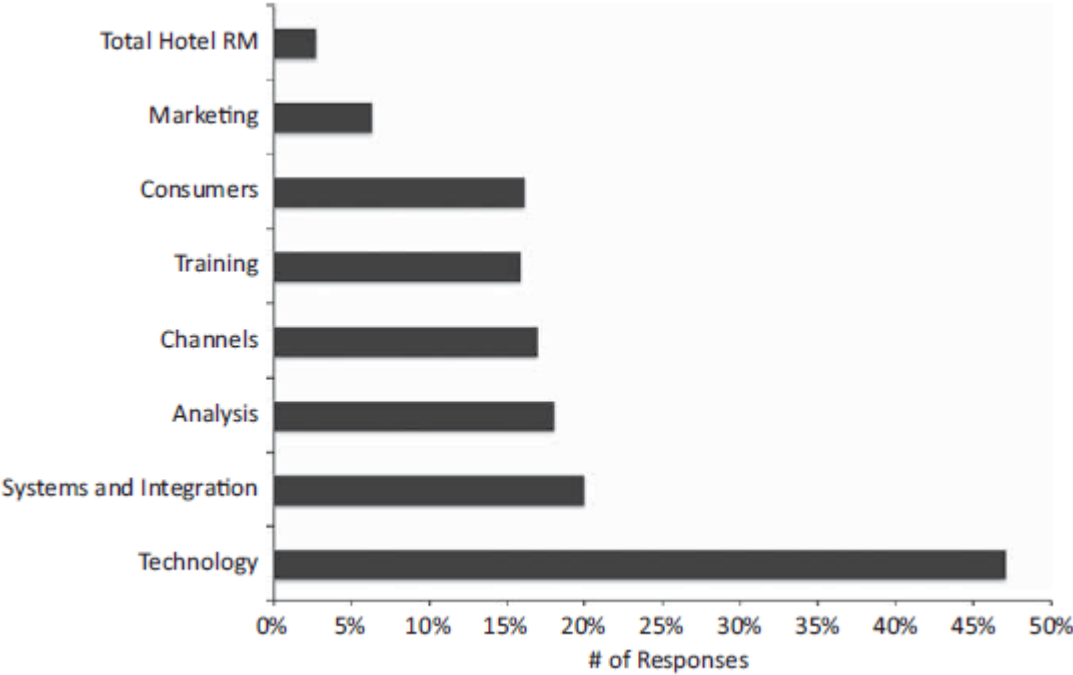


Figure 13. Uses of unlimited money.



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