WHITE PAPER

WHAT YOUR REVENUE MANAGEMENT SYSTEM SHOULD BE DOING FOR YOU

Minimum analytic requirements for an advanced RMS

We've seen tremendous changes in hotel technologies in the last few years. Channels are evolving at a rapid pace, customers have the ability to compare options like never before, and even selling systems are finally seeing investment to keep pace. That said, few systems that hoteliers interact with are as analytically advanced as their revenue management system (RMS) – and these systems also need to keep up with business changes. Is your system keeping up? In this piece, I will elaborate on some of the latest features in revenue management analytics that you need to keep up with the state of the art.

Understanding How Different Rates and Segments Are Controlled

Many RMS roll-up transaction data into aggregated groupings such as market segments, or simply classify reservations based on value alone. Unfortunately, important information is often lost as a result of this aggregation process — in particular the information regarding how different rates are priced and controlled. Individually capturing information by transaction allows an RMS to separate these transactions based on factors that influence their key behaviors as well as critical aspects of the rates that influence how they should be priced and controlled. Once that is done, it is possible to build the most effective groupings to support accurate forecasting and optimization decisions.

Imagine we have two corporate rates: one is contracted at a fixed price, but the hotel can restrict availability for it as required on peak days. Meanwhile another corporate rate is contracted at a guaranteed 10% off BAR with Last Room Availability — meaning this rate cannot be restricted in its availability. These two rates will often end up in the same market segment, simply because they are both corporate contracted rates. However, from a revenue management, and particularly an advanced analytics, perspective, these two rates will behave differently and must be controlled differently. There are many rate attributes that should be used to properly separate them into proper analytic groupings. Creating analytic groupings by differentiating how rates will be "controlled" in your RMS (along with other factors) will result in more optimal decisions and ultimately, better bottom-line performance. Meanwhile, forecasts can still be made available to revenue managers and other system users, including users from other departments, in a manner consistent with their current organizational reporting needs.

Demand Forecasts That Handle the Variety of Customer Demand Patterns

Different customer segments have different booking and staying patterns. For example, corporate customers typically stay on weekdays and generally have short booking windows — but leisure transient guests have different patterns, as do groups, tours, etc. Channels can also influence these patterns. If you add on the

fact that customer behaviors change over time, and you begin to see why it's going to be problematic to try to "fit" one demand forecasting approach to all of these segments and channels. Still, some RMS continue to do that — use a single forecasting approach to predict the disparate behaviors of many different segments.

At SAS & IDeaS, analytical techniques that automatically review the distinct patterns in each property / segment / channel are applied, thereby determining which of a wide variety of models will best fit these patterns. Within a given property, different segments may well have different patterns and thus require different forecasting approaches — and utilizing the immense variety of forecasting methodologies offered by SAS provides for this. Then, the system regularly reviews properties and segments to see if these patterns are changing, and refreshes the forecasting model appropriately, moving the needle just a little bit further. The result is a more accurate and dependable forecasting process that is not bounded by the limitations of a single approach or forecasting methodology.

Elasticity and Competitor Rate Effects

As the industry has embraced the concept of Best Available Rate (BAR) — a dynamically priced rate available to transient guests — the importance of measuring and accounting for price sensitivity has moved to the forefront in revenue management. It simply isn't possible to optimize this rate without understanding how demand will change as a result of increasing or decreasing it. Often lost in discussions regarding elasticity is that we are not looking for a single number: elasticity can vary by market segment, time to arrival, day of week, season, and many other factors. Accounting for these factors and differences is essential to selecting the right rate at the right time.

Accounting for competitor rates is an important part of understanding price sensitivity. Guests do not view hotel rates in isolation: internet distribution has made comparisons amongst competitor rates so easy that most customers evaluate rates within a marketplace of available offerings. In this environment, it is very easy to simply follow the market, by pegging your rate to competition. But setting the rate based solely on competitors' rates is a very risky thing to do and can

lead to significant errors in revenue management. Rather, competitor rates need to be considered when estimating price sensitivity. That is, the degree to which your property's demand will be impacted by a rate change needs to consider not only how much we are changing our rate, but also how our rate is and will compare to competitor rates: will we be higher than or lower than our competition and by how much?

Managing Rates and Availability

Even with the prevalence of dynamic pricing / BAR in the industry, most hotels continue to have rates that need to be managed through availability. In this environment, it's not sufficient to optimize rates alone. The availability of these rates also needs to be managed. The impact of rate pricing decisions on demand makes simultaneously optimizing rates and availability extremely complex — particularly when accounting for length of stay — but that is the reality of today's marketplace.

Conclusion

The hospitality industry and travel distribution continue to evolve, and today's revenue management systems need to keep pace. This needs to be true not only at a technical level, but on an analytic level as well. Changes to business practices necessitate changes to analytics, and technology changes and new data enable new analytic methods that previously have been unavailable. The capabilities outlined here will help you keep up with the latest practices, and optimize revenues in today's dynamic market.

About the Author

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