

## Revenue management proves worth, but not a cure-all

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What are these?

**NATIONAL REPORT**—In 2008, in the early dawn of what is now seen as one of the worst hotel market downturns in history, several prominent hotel executives proclaimed—and quietly prayed—that advances in revenue management technology and its proliferation would help save the industry from the usual economic doom. In August of 2008, HOTEL BUSINESS® even went so far as to produce a story exploring the possibility that revenue management technology could keep the industry's head above water and help it avoid the deep rate cuts of previous downturns.

Obviously, with hindsight being 20/20 here in 2010 in the last throes of this most brutal of downturns, on the surface it would seem as if revenue management systems were indeed false gods. ADRs plummeted industry-wide as a desperate reaction to occupancy freefalls. Clearly, if revenue management technology was even being utilized at all, its overall efficacy was simply greatly exaggerated to begin with. Then again, what if it was all user error, with the systems not being employed correctly by hoteliers? Furthermore, what if the technology actually saved many hoteliers from even more dire economic straits that would have been realized without revenue management at all? According to some of the industry's top hotel revenue managers, in hindsight all of the above scenarios proved to be true.

"I think without revenue management during the recession, the industry would absolutely be in worse shape. Without the technology we wouldn't know where we were losing revenue. We would just see a negative decline in revenue and we wouldn't know where or why," said Katherine Steed, The Hotel Group's director of marketing, who oversees The Hotel Group's six regional revenue managers as well as the company's director of operations while utilizing the various brand revenue management systems. "For example, we've seen a huge shift from rack rates to discounts with the third-party Internet sites becoming huge. The business has shifted there and we wouldn't know that without revenue management systems. We knew we needed to put our effort there."

Agreeing with Steed's assessment was Dennis Morris, a director of revenue development for Meyer Jabara Hotels. Morris specifically oversees revenue management for six of the firm's properties using such diverse systems as MarketVision, Hotelligence, EZYield and Northwind's revenue management module.

"[Revenue management technology] has played a very critical role over the past few years, going into the recession and throughout it," Morris explained. "It allowed us to be able to quickly analyze price denials and, when competitor rates are available, you could see the alteration and quickly react to it, making your changes quickly; 24 hours sometimes can make or break you. You could, like with last year's presidential inauguration, wake up overnight and see a huge impact on our hotels in Baltimore, for example. We didn't think there would be much impact there, but it was just the fact that everyone wanted to be at that inauguration, so overnight after the election the demand changed. I never would have anticipated that. It was just based on that one event. The system is able to tell you that because of the central reservations activity, so we made the necessary changes."

Taking the argument a step further, revenue management can be even more critical in the case of casino resorts, where gaming revenue comes into play. Consequently, at Foxwoods Resort Casino in Mashantucket, CT, which actually consists of four different levels of hotels now, the appreciation of the Rainmaker Group's revenue management system there is understood. But the property's executive director of marketing services and revenue management, Rob Bunker, has had a hard time quantifying the impact the technology had during the recession. "You don't know what would have happened if it hadn't been used," he said. "But you do know you would have diluted your revenues by letting in certain people in at certain rates that you shouldn't, especially later in the booking cycle. So I can tell you, revenue management just works, but remember revenue management doesn't drive demand."

And because revenue management can't obviously artificially create demand, its savior status in this recent recession may have been exaggerated early on by those that don't entirely understand the technology. That's not a surprise to Nolan

Wrentmore, Aimbridge Hospitality's corporate director of revenue management, who knows the revenue management modules his company uses are good, but they are simply not that good.

"Revenue management technology has played an important role, but I wouldn't use the word 'critical,'" Wrentmore observed. "It's certainly been important for yielding rates and analyzing the pace of transient and group business, but there are down sides. Depending on the algorithms, these systems may be using information that's no longer valid. And you're always going to need the human element, someone that will analyze the data ultimately. The technology will never know when a snowstorm will hit and cancel flights. A lot of times, it overcomplicates things. I personally like to understand how things work and where the projections are coming from. Others are fine with plugging it in and letting it run. At the end of the day, you utilize everything and still put it through a process and take all the different aspects into account—the system says this, we know this, we think this will happen—and you come to a conclusion and hope you're right."

But that still doesn't take into account those hoteliers, assumingly without revenue management systems, that drop rates to create demand—a loser's strategy, according to most. Unfortunately, in that case, and as it played out in this recent downturn, revenue management technology is rendered useless.

"Unfortunately, the human component caused the drop in ADRs," Wrentmore admitted. "When you have empty rooms, it's just human nature that any revenue looks better than no revenue and that caused the ultimate downfall in ADRs. Certainly, if everyone followed certain revenue management system algorithms, it may have helped."

Morris echoed that statement, adding, "The minute someone cuts rate, you run up against the challenge to do the same, technology or no technology."

However, Bunker argued that if most hoteliers were properly utilizing accurate revenue management systems during the downturn it "certainly would have helped with the ADR cuts because people would have seen that they have enough demand at a certain rate and there was not a need to chop it below that point. Without technology, they just drop the rate and guess. So certainly, if those that are using [revenue management] didn't have it, things would have likely been worse. However, I still believe that even with those companies that consider themselves sophisticated revenue management system users, you still see people that don't use it at all or all that well. So it's hard to tell if they've learned their lesson now. You'd hope so."