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How to maximize hotel revenue

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Story Highlights

- An operator needs to have a firm grip on the demand patterns for his/her property.
- Day-to-day operations demand constant attention, but there are certain sources of data hotel operators should not let slip into the information abyss.
- Hoteliers should know their sources of business and the reason guests are at their hotel.

In my work with hotel operators, some of the most common mistakes I encounter revolve around failures to effectively manage distribution channels. Demands from day-to-day operations are such that it becomes difficult to not only properly allocate inventory, set rates and try to yield but also to stay informed about the actual demand patterns in any given hotel's market. Here are some insights that may help you maximize your revenue:

Over-reliance on and under-management of OTAs: In a recent headline, I read about a group of three hotels taken over by Marshall Hotels and Resorts where one of the properties was distributing 100% of its inventory via third parties such as Priceline, Travelocity, Expedia, Hotels.com and others. This means on peak demand nights this particular hotel was fire-saling rooms for US$69 while his next-door neighbor was enjoying a healthy US$148 rate. Obviously, this is an extreme example of mismanagement, but it is not atypical for hotels to become overly dependent on the online travel agent's ability to sell rooms, no matter the rate.

OTAs can help contribute valuable revenue if properly managed, but there are pitfalls to avoid:

Pitfall No. 1—An operator needs to have a firm grip on the demand patterns for his/her property not just historically, but in the year for the year, in the month for the month and in the week for the week. Market demand changes so rapidly at times that basing demand on same day last year can be a big mistake. If you allocate inventory to the OTAs too early on a date that ends up being a demand time, you can end up selling discounted rooms needlessly.

Pitfall No. 2—Do the math and calculate your Variable Costs per Occupied Room (VCPOR) and your fixed costs POR so you understand your break-even point. If you are selling a room at US$39 on Priceline, there is a very good chance that you are losing money with every room you sell. If the time is right and your zero-base labor costs can absorb additional guests without the need to add staff, selling heavily discounted rooms might be worthwhile. ***Be forewarned: Guest satisfaction scores from the lowest-rated OTA guests are typically the worst your hotel will receive.*** That's right—the guests paying the least amount of money are the ones lowering your guest satisfaction rating.

Pitfall No. 3—In the days before the OTAs, hotel rates were typically set by hotel operators starting with the market leader. The market leader was usually run by a seasoned hotel GM who made good decisions about where rates should be established. Other area hotels would then fall in line based upon their relative place in the market. Today, this type of legitimate macro-rate strategy does not exist, and it is often the village idiot who gives out the lowest rates and ultimately influences where room rates end up.

Last October, I attended the Cornell Hospitality Research Summit in Ithaca, New York, where I had the good pleasure to talk with Cathy Enz, a professor at Cornell's School of Hotel Administration. She discussed her work on hotel demand and made an extremely good case proving the idea that hotel demand is essentially inelastic. In other words, it is not something that can be created by deep discounting. Conversely, hotels that consistently price themselves higher result with the best revenue per available room in their market set. In certain instances this may not be true, but professor Enz's notion stands in stark contrast to the message the OTAs seem to have convinced us about reduced rate inventory. The idea with all of this is not just to paper the house with occupied rooms but to drive not only RevPAR but also gross operating profit per available room.

- *Read Cathy Enz's most recent HotelNewsNow.com column, "6 questions to determine competitive advantage."*

Under-use of available data: When I was a hotel GM in the late 1980s and early 1990s, we used something called "denial reports." These were reams of paper generated for me weekly by the on-site reservations department that showed a 365-day view of the dates my hotel was generating a turn-down to a guest attempting to make a reservation for a particular date. We also commonly used stay restrictions like "closed-to-arrival" and "minimum length of stay" requirements. These methods have been improved by the modern day revenue management practices, but the reality for most hotels is that properties receive tons of data so regularly that it essentially overwhelms the staff.

There has been a lot of talk about and focus on revenue management, but many hotels do not have staff that can be dedicated to it. Franchises offer "for hire" revenue managers, but in my experience, clients are often nonplussed by these services. They tend to spend more time educating the revenue manager about their market than they do making gains from the "for hire" service.

Day-to-day operations demand constant attention, but there are certain sources of data hotel operators should not let slip into the information abyss.

Know your sources of business and the reason your guests are at your hotel. Do you know your top 15 producing travel agencies (not OTAs) and the corporate accounts they handle? Are you getting your fair share of the business they generate in your market? Do you know the agencies generating business in your market but not at your hotel?

I just visited several travel agencies with a hotel client and as a result secured Preferred Hotel status from an in-house travel agency that was pumping thousands of dollars into my client's comp set.

Who is staying at your hotel? Almost 30% of a typical hotel's guests are not being delivered by its frequency program (Hilton HHonors, InterContinental Hotels Group Priority Club, Marriott Rewards, to name a few) and are not part of a group.

Hotels should make good use of resources such as TravelClick's Hotelligence 360 Report and Rubicon's Market Vision tools. (Incidentally, TravelClick just acquired Rubicon on 17 March.) On-site teams should meet regularly to discuss the data in selected reports, inform rate strategies, establish hurdle points, rate fences and best flex (rack) rates. Tools such as these can help you to steal share from your competitors and outperform your competitive set, no matter what economic conditions we are experiencing.

Gavin Landry is a 25-year veteran of the industry. He is a graduate of Cornell University's School of Hotel and Restaurant Administration and Principal of Landry Hospitality Consulting Services, L.L.C. (www.landryhospitality.com); a full-service hospitality consulting practice specializing in hotel development and existing hotel cost and revenue improvement programs. He is also currently an Adjunct Professor at NYU's Preston Robert Tisch Center for Hospitality, Tourism and Sports Management teaching a graduate level course on Tourism Policy Analysis.

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