

# Inside the Mind of a Supplier Hotel Revenue Management

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25th February 2008

## RFP's – A Hotel Perspective

### Introduction

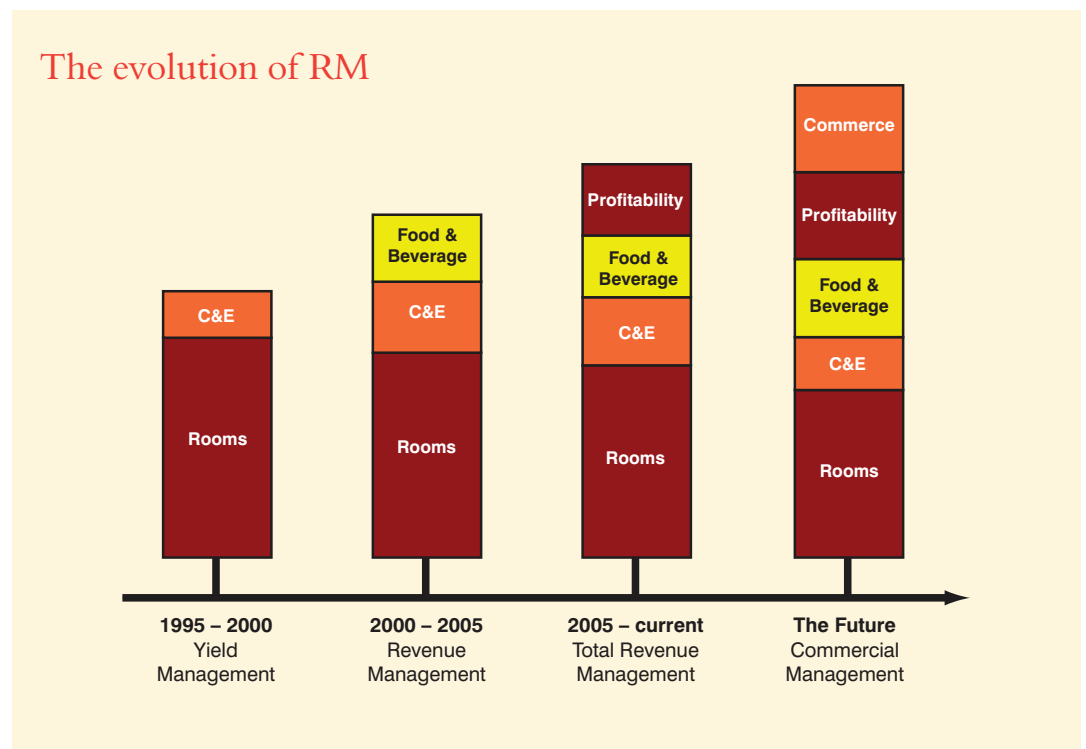
This perspective was created by Jim Cockell, Director of Strategy & Implementation at IHG for an ITM & HBAA Partnership Forum in 2008. It has been transcribed and edited for members of the Institute of Travel Management UK & Ireland (ITM) & the Hotel Booking Agents Association (HBAA).

The content of the original presentation was designed to give Hotel Booking Agents and Corporate Travel Managers an insight into the rationale and methodologies of hotel revenue management. This paper has subsequently been written by a hotel expert to present a hotel perspective on the RFP process, giving insight into the detail of what is used to arrive at the price and hopefully provide a solid overview of the Revenue Management process in today's industry.

### Hotel Revenue management – the origins

Revenue Management (RM) was born in the airlines during the 1970's and has made its way into a variety of industries today.

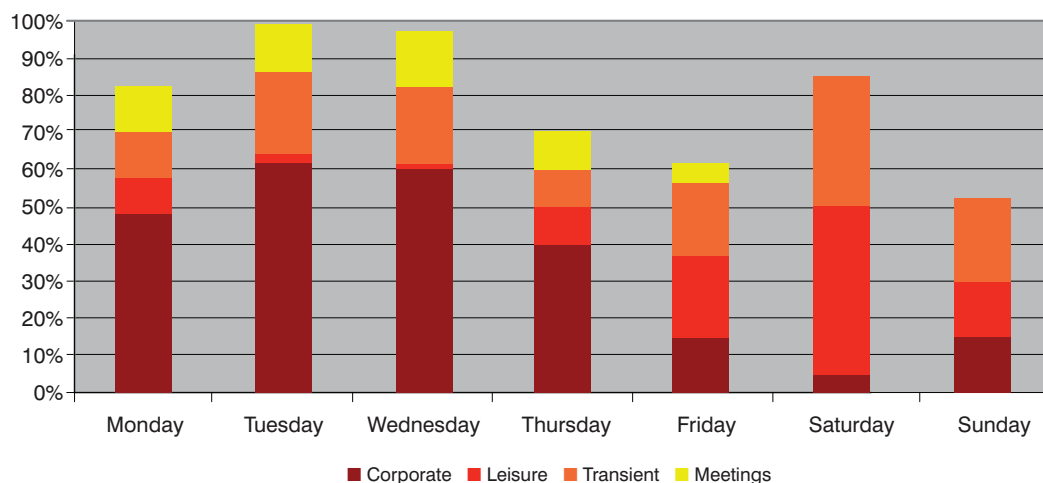
Supermarkets are one of the market leaders in development and implementation of RM practice but you will find supply and demand management in nearly all the products we use daily. The consumers have been taught by the airlines to book early and fly outside of peak demand in order to receive substantial discounts, hotels have begun to communicate this principle effectively but we are still some way from having complete understanding and adoption from the customer.



Revenue Management in hotels has evolved both in terms of focus and positioning within the industry over the last 15 years. There is less of a focus now on the room's element of the business and much more on the overall incremental spend that customers have within a property.

The relationship and understanding between revenue and profit conversion has developed in line with the changing ownership models now seen in the industry as asset management ownership with a brand over the door becomes the preferred method of financing. The future holds a much greater focus on commercial management and utilisation of the full capability of the asset, not just bedrooms, restaurants and leisure clubs. Understanding how to commercially manage your floor space, develop into markets that are not currently associated with hotels whilst maximising the customer experience. This is starting to emerge in cities like Las Vegas where the Revenue Management process is aligned to the customer journey from start to finish.

An example of hotel day of week stay profile – 100/120 bed city centre hotel

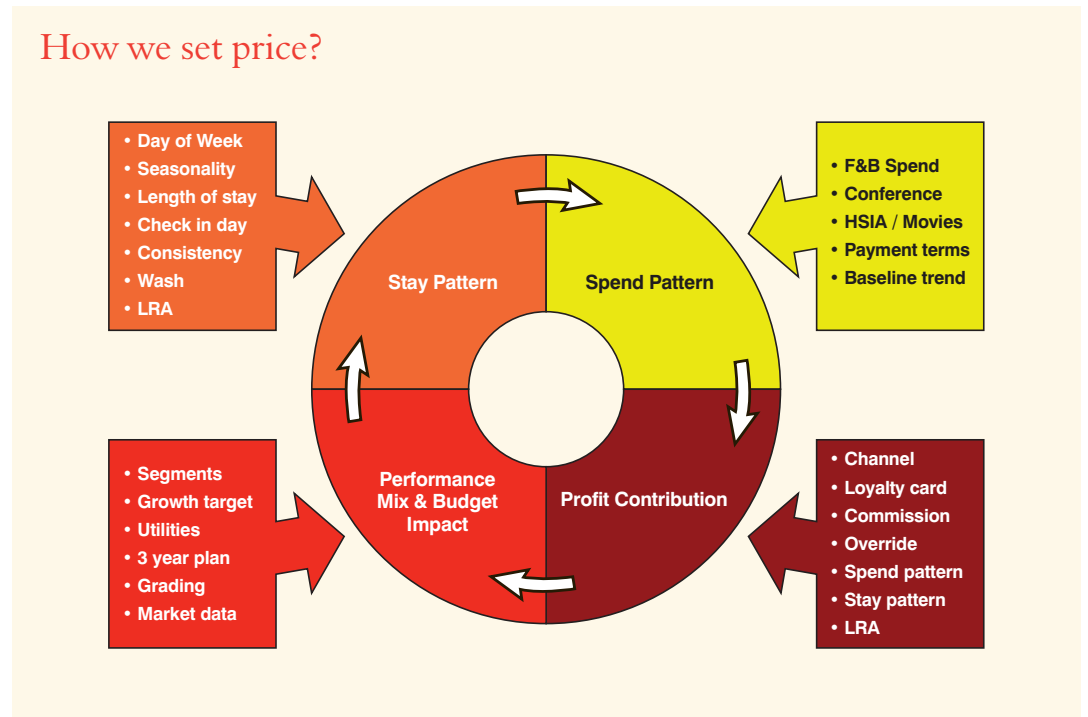


Typically a hotel like the example will run at circa 80% occupancy annually, filling consistently on a Tuesday & Wednesday night during corporate periods. Saturday nights generally see a strong 1 night stay demand but the challenge is to combine the sale with a Friday to support the weekend. Hotels will make the highest rate sales to the transient customers on a Tuesday & Wednesday nights often exceeding a £20 nett difference above corporate bookings.

Typically corporate business will supply 50-60% of the volume on peak nights with a growing trend towards Sunday night arrivals making rate negotiations and mix decisions very important for achieving the hotel targets. The length of stay within the corporate segment is normally between 1-2 nights per week in a typical hotel but when supply outstrips demand hotels begin to display lower occupancies on shoulder nights (i.e Monday/Thursday).

Agents / Clients that can move business to these shoulder nights in hotels will see significant discounts in the rates and availability to support both parties. Corporate business that trends as single night stays on either Tuesday or Wednesday will become heavily restricted as the business evolves to manage the inventory. Hotels will accept reduced or lower rates from corporate bookers who can offer and deliver length of stay into 3-4 nights per week, it's typically a balancing act between the occupancy gain and rate impact.

## Setting the price for RFP's

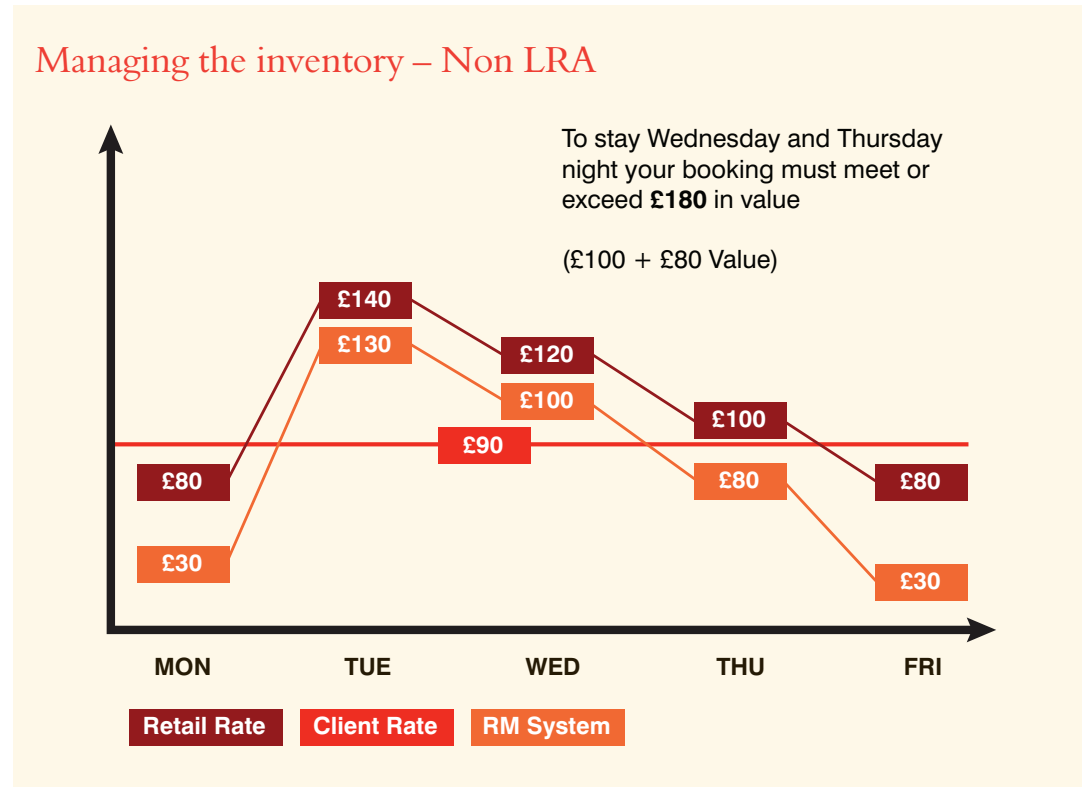


Hotels use 4 Key areas/data points to set price for an RFP based on the data collected from individual hotels. The industry now has extensive tools to be able to analyse accounts in great detail focussing on patterns, trends and key predetermined performance criteria allowing a far more informed decision to be made.

There is a far greater understanding of the costs that are incurred in receiving a booking with the growth in third party websites and the changing way a customer books. Commissions, overrides, channel costs and switch GDS charges play a large part in the negotiation in conjunction with uptake on loyalty programs and how a booking is delivered to the hotel.

Incremental spend in the hotel outlets and in room entertainment has become an important layer to the negotiation, again referring back to the length of stay example, additional spend can subsidise the reduction in contracted rate for a large account. The importance of the client & agent understanding the hotel targets in relation to growth expectations, 3 year strategic planning and mix of business can help to support the process. Hotels are becoming more comfortable with sharing strategic direction both internally and externally.

## Automated Inventory Management



More and more hotel chains have installed automated inventory management tools, invariably these all work in a similar way:

- Each day of the year is allocated a value that is not displayed to the booker
- This value can change up to 1000 times a day
- The value must be met or exceeded to allow a specific rate to be booked.

Hotels will flex their retail prices by day of week and the system will follow that demand, savvy travellers will always find good deals on shoulder nights and in advance. The system responds far more in the short term, so if you check a rate and then book 6 weeks in advance the RM system will not change the values as often as if you check 2 days in advance of arrival. There is also a growing trend to have this system change the retail rates in conjunction with the values assigned to each day.

This also forms part of the negotiation as hotels may suggest higher rates than requested as they know that the extra £5 will give far better availability on their historical stay patterns.

To summarise, Revenue Management has become a far more influential part of the hotel operation and decision making process. The relationship between sales and revenue has strengthened to develop both parties understanding and deliver an improved, quicker and more efficient customer proposition in an ever changing environment.

Produced by Jim Cockell. For any questions/queries please contact [jim.cockell@devere.co.uk](mailto:jim.cockell@devere.co.uk) from October 13th 2008.

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The Institute of Travel Management (ITM) was established in 1956 to provide networking, education and best practice in business travel management. The association boasts over 1,000 buyer and supplier members in the UK and Ireland with a representation of over 33% of the business travel market in this region, estimated at £24 billion per annum.

ITM undertakes conferences, research, lobbying and training for its members.  
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The HBAA represents a collective industry voice for both agents and hotels and venues for the best practice in the procurement and booking of accommodation, conferences, events and training sessions.

Members and Partners of the HBAA provide cost savings and management information to the corporate market – costs associated directly with the use of a hotel or venue for accommodation, meetings or conference purposes. Over 70 of the UK's leading booking agents make up the association; their consolidated buying power exceeds £900m per annum.  
[www.hbaa.org.uk](http://www.hbaa.org.uk).

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