

Phocuswright White Paper

HOTEL REVENUE MANAGEMENT: Opportunities in a Dynamic and Challenging Landscape

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In cooperation with



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This Phocuswright White Paper is made possible by **Expedia Group**.



Foreword

The hotel revenue management landscape is changing quickly, creating critical challenges for the individual at the center of it all: the revenue manager.

In order to better understand these challenges, Expedia Group commissioned Phocuswright to conduct a research study to gather the perspectives of revenue managers from all over the world, and from varying types of lodging partners, to facilitate an industry conversation around the future of revenue management and its potential.

Expedia Group is committed to helping our lodging partners drive revenue performance by democratizing access to revenue management technology. By leveling the playing field leveraging Expedia Group demand data, technology infrastructure, global reach and machine learning capabilities - all lodging partners have an opportunity to make timely, data-driven decisions.. This research study with Phocuswright reveals insights and elevates the conversation on this important topic. We are confident that together we can make revenue management practices sustainable and propel the hospitality industry forward.

Vivek Bhogaraju

Director, Revenue Management Platform Solutions
Expedia Group

About

Expedia Group (NASDAQ: EXPE) is the world's travel platform. We help knock down the barriers to travel, making it easier, more enjoyable, more attainable and more accessible. We are here to bring the world within reach for customers and partners around the globe. We leverage our platform and technology capabilities across an extensive portfolio of businesses and brands to orchestrate the movement of people and the delivery of travel experiences on both a local and global basis.

Our family of travel brands includes: Brand Expedia®, Hotels.com®, Expedia® Partner Solutions, Vrbo®, Egencia®, trivago®, HomeAway®, Orbitz®, Travelocity®, Hotwire®, Wotif®, ebookers®, CheapTickets®, Expedia Group™ Media Solutions, Expedia Local Expert®, CarRentals.com™, Expedia® CruiseShipCenters®, Classic Vacations®, TravelDoo®, [VacationRentals.com](https://www.vacationrentals.com) and SilverRail™.

About Phocuswright

Phocuswright is the travel industry research authority on how travelers, suppliers and intermediaries connect. Independent, rigorous and unbiased, Phocuswright fosters smart strategic planning, tactical decision-making and organizational effectiveness.

Phocuswright delivers qualitative and quantitative research on the evolving dynamics that influence travel, tourism and hospitality distribution. Our marketplace intelligence is the industry standard for segmentation, sizing, forecasting, trends, analysis and consumer travel planning behavior. Every day around the world, senior executives, marketers, strategists and research professionals from all segments of the industry value chain use Phocuswright research for competitive advantage.

To complement its primary research in North and Latin America, Europe and Asia, Phocuswright produces several high-profile conferences in the United States and Europe, and partners with conferences in China, Singapore and the United Arab Emirates. Industry leaders and company analysts bring this intelligence to life by debating issues, sharing ideas and defining the ever-evolving reality of travel commerce.

Phocuswright also operates [PhocusWire](#), a media service that covers the world of digital travel 365 days a year with a range of news, analysis, commentary and opinion from across the travel, tourism and hospitality sector.

The company is headquartered in the United States with Asia Pacific operations based in India and local analysts on five continents.

Phocuswright is a wholly owned subsidiary of [Northstar Travel Media, LLC](#).

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HOTEL REVENUE MANAGEMENT: Opportunities in a Dynamic and Challenging Landscape

Executive Summary

Revenue management and the role of revenue managers has changed dramatically in the past 20 years. Introduced by hotel chains in the late 1980s, revenue management was used to make decisions on room prices and lengths of stay. The field of revenue management has since evolved to support an array of strategic decisions made by hotels, management companies, and travel intermediaries aimed at optimizing profit and enhancing the overall value of the physical asset.

As a result, the role of revenue managers has expanded. They influence nearly every aspect of lodging organizations, from marketing and sales to operations. And as the role of revenue management changes, so do the demands and desires for an adequate technology-based solution that addresses the needs of today and the challenges of tomorrow.

Phocuswright conducted an extensive, qualitative study on the evolution of revenue management across the hotel landscape through roundtable discussions and phone interviews with revenue management professionals. The focus of the study is on helping lodging organizations improve revenue performance and overall competitiveness by examining the challenges, changes and potential opportunities for improvements. This white paper focuses on the challenges faced by the revenue management function and lodging organizations from the perspective of those who actually perform that task: the revenue managers. Participants in the study included revenue managers from chains, ownership/management companies and independent properties.

Overview of Key Findings

1. Information overload: In a digital travel environment characterized by multiple streams of data, many respondents reported their struggle to identify, access and analyze the data most important to optimizing revenue and profit. Lodging organizations particularly experience a challenge separating the signal from the noise. This challenge is most prevalent among smaller, independent hotels.

2. Pulling together disparate systems: There remains a lack of systems integration across the different technology solutions utilized by lodging organizations today. These include channel management systems (CMS), revenue management systems (RMS), property management systems (PMS), central reservation systems (CRS) and customer relationship management systems (CRM), among others. As a result, revenue managers must gather information manually. This results in less time for strategy, data-driven decisions and a slower pace of actions.

3. Dynamic and complex distribution landscape: A fast-evolving distribution landscape featuring numerous distribution channels, rapidly changing market segmentation and competitive sets makes it difficult to deliver effective personalized offers through the right channel to drive conversions.

4. Filling the information gap: Travel intermediaries (such as online travel agencies (OTAs), search engines, metasearch and social media sites) track a variety of data points related to hotel marketing, customer analytics and segmentation, destination demand and distribution. But revenue managers struggle to accurately analyze cost per acquisition versus revenue generation and incorporating demand data indicators into their day-to-day decision-making — creating an opportunity for intermediaries to close the information gap.

5. Expanding role and impact of revenue managers: The role of the revenue manager is growing. It is shifting from rate and inventory management to total hotel revenue management. This places revenue managers in a unique leadership position at lodging organizations. In addition to an increased focus on optimizing profit, revenue managers often influence data-driven decisions across the entire organization (i.e., between revenue management, marketing, sales, distribution, loyalty and hotel operations). They are being asked to lead organizations' efforts to increase revenue (contribution) for owners.

Methodology

To produce the report, Phocuswright reviewed recent research on revenue management as a practice; held two roundtables with revenue managers and revenue management executives in Europe and the United States; and conducted phone and face-to-face interviews with chain, hotel management and ownership companies, and individual property revenue managers in summer 2019. All phone interviews were conducted on the basis of individual and employment anonymity. The focus of the research was global and included managers from multiple regions.

Key Finding 1: Information Overload

“There is so much information out there. How do you best filter it and how do you decide what data to focus on?” — Independent Property Revenue Manager

The current digital travel environment makes it possible to collect, store and analyze an enormous volume of data. The challenge for many revenue managers is to identify the specific data points that will enable them to optimize decision-making and drive profits effectively.

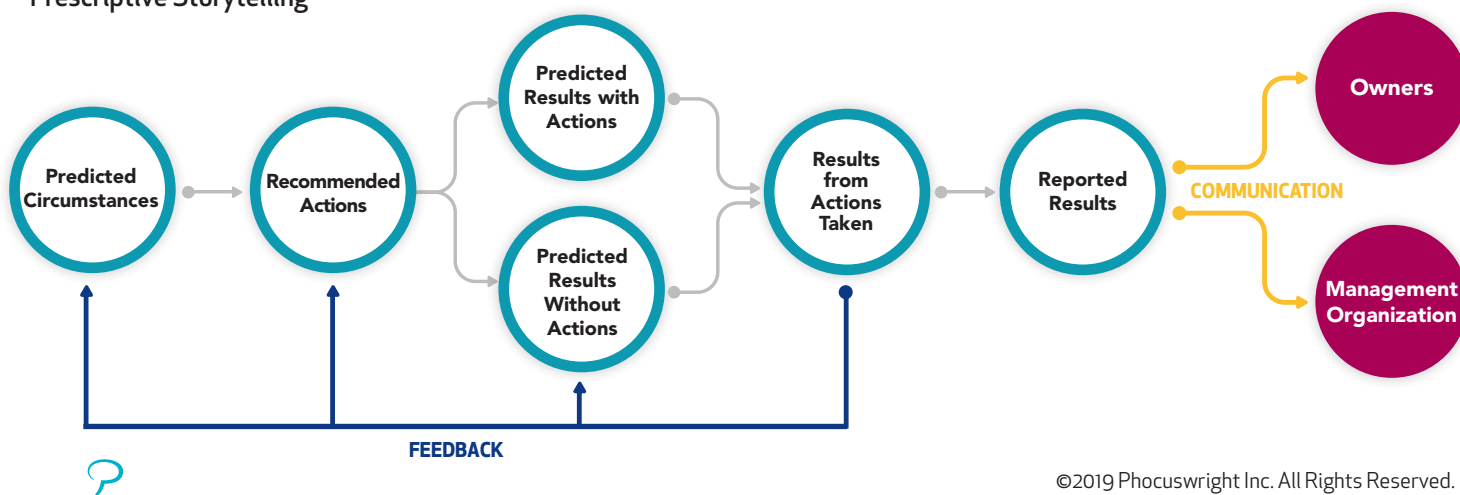
Many independent property participants suffer from information overload and struggle to identify the information that will make a real financial difference— that is separating the signal from the noise. One revenue manager explained, “I spend 50% of my time pulling information together and not enough time analyzing it.” Independent properties are more likely to lack access to a revenue management system. These managers need solutions to improve owner profits that are simple, affordable, effective and easy to execute.

Revenue managers from chains, larger properties and management companies often have access to revenue management systems that enable them to gather relevant data such as room prices and length of stay, but other important information is lacking. For example, room type; whether event space is involved with the booking; or if loyalty program membership among guests are relevant to the process, but often exist in other, disparate systems. Several participants expressed a need for executable, prescriptive information instead of the diagnostic information most often provided (see Figure 1).

There is an expressed need for revenue management systems to do the heavy lifting of interpreting key data points to make clear recommendations while still enabling users to see under the hood. According to a senior revenue manager at a large independent hotel, “Revenue management systems should support human interfaces that illustrate how recommendations were developed; offer alternatives; and enable users to evaluate results.”

Several participants expressed the desire to receive information in a storytelling format, where reporting: (1) predicted what would occur if particular, executable revenue management actions were taken; (2) what would occur if those actions were not taken; and (3) after the fact, reported actual results versus predictions, when actions were taken (see Figure 1).

Figure 1:
Prescriptive Storytelling



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Key Finding 2: Pulling Together Disparate Systems

“We need a solution that consolidates insights from across multiple systems — is easy to get to; with an intuitive dashboard; that can be accessed anywhere; is fast with trusted information, presented in an integrated, clean and accurate way ... enabling swift and timely actions...” — Individual Property Revenue Manager

Nearly all individual property revenue managers and most management organizations indicated that lack of systems integration and dependable information made the revenue manager’s job more challenging. There was too much time wasted loading and validating information from disparate internal and external systems and then executing actions (e.g., prices, terms and conditions, content) in various internal and external distribution systems.

A large share of small independent properties do not have a formal revenue management system. So manual processes are required to develop forecasts of demand versus supply of rooms inventory, load prices and lengths of stay requirements in the CRS, post rates to OTAs, among other functions.

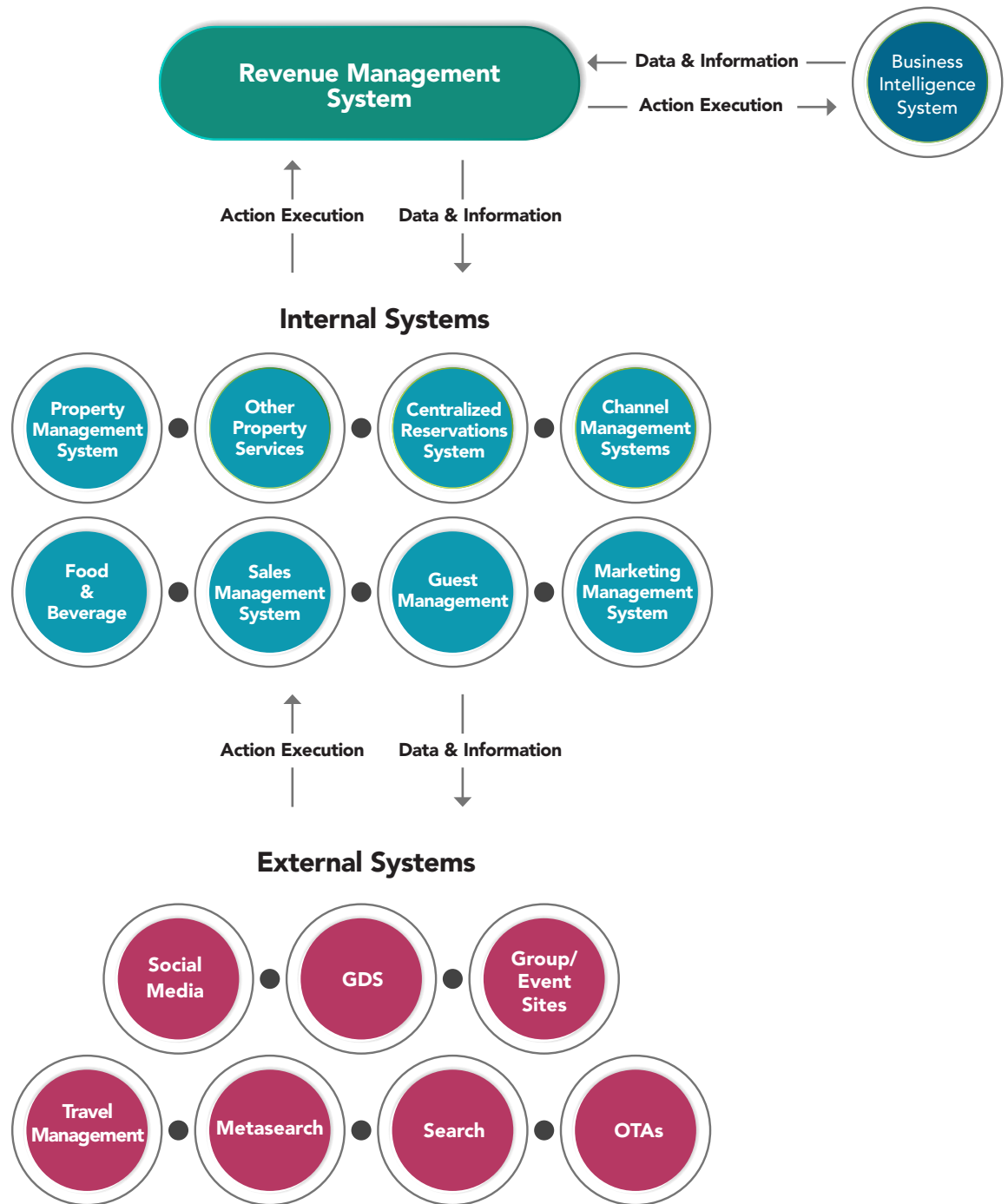
Even among large chain properties that do have access to revenue management systems, incomplete integration and a lack of confidence in recommendations can sometimes occur. According to several research participants, some property-level revenue managers override system recommendations, either because of local knowledge or, as one chain’s senior revenue manager said, “lack of faith in the recommendations and the impact of using the recommendation on revenue and profit for their particular property and circumstances.”

A major challenge called out by many management company participants is the lack of business intelligence (BI) tools that can be used across managed properties. Integrating variant chain system information is difficult; validating information for accuracy from disparate information sources and vendors is challenging; and sharing information across management companies is complicated.

Surprisingly, even some large management organizations still rely on proprietary spreadsheet applications, which are difficult to share among organizations. “We use the most complicated spreadsheet in the world for groups and revenue management,” said one revenue manager.

The blueprint for a truly integrated cloud-based revenue management system that pulls together data from the universe of hotel systems such as the CRS, PMS and others, as well as external systems and travel intermediaries is complex (see Figure 2). The system must be capable of not only aggregating the information. It must also verify and integrate it in a meaningful way, make recommendations, execute actions, and analyze financial results.

Figure 2:
Complexity of Systems Integration



There was consensus among participants that the lack of systems integration causes frustration for revenue managers ranging from small properties to global chains:



Industry action is needed to create the information standards and open architectures required to support integrated revenue management systems. Revenue managers are looking to industry organizations or consortiums to take the lead.

Key Finding 3: Dynamic and Complex Distribution Landscape

“There are too many channels right now to keep track of... it’s hard to understand the behavior of every type of traveler — corporate and leisure — and what their purchase paths are.” — Revenue Management Executive | Ownership and Management Company

An increasingly diverse supply of inventory, paired with a complex distribution landscape, is creating new challenges for revenue managers. In response, properties are rethinking how they manage prices and content throughout the distribution landscape.

For consumers, there is more lodging supply to choose from than ever before — both in inventory and variety. The rise of alternative accommodation and rental options including rooms and spaces provides consumers with a range of possibilities beyond traditional hotels. This trend requires hotels to redefine competitive sets for a property or brand when making pricing and revenue management decisions. As one revenue manager finds himself asking, “In a changing market with new brands and new types of properties coming into the market, how do we determine where our property fits? What’s the competitive set?”

At the same time, the distribution landscape is becoming increasingly complex. The resulting variance in consumer shopping and buying patterns makes it difficult to attribute sales and calculate cost-of-acquisition. Accurate evaluation of ROI is further hampered by the inability to assess whether a given sale represents incremental business or channel shift. As a result, revenue managers struggle to validate channel and price recommendations provided by revenue management systems.

A senior manager at a large independent hotel urged revenue management vendors and travel intermediaries to continue to work together to address the challenge of integrating revenue management analysis and action, both across distribution channels and based on alternate comp sets.

In general, many independent properties and several management groups said that channel decisions, including reliance on chain and third parties, were difficult because of the need to sort out and associate costs of sale with incremental revenue generated and comp set share shift, as well the marketing and sales value of chain membership.

Key Finding 4: Filling the Information Gap

“Intermediaries have an opportunity to support hotels, to be proactive in reaching out and to share information about the customer journey.”

— Individual Property Revenue Executive

Travel intermediaries (such as online travel agencies (OTAs), search engines, online shopping sites and social media sites) have an evolving role in both the marketing and distribution of hotel services as well as in providing information for revenue management decision-making. As one senior level executive at a management company noted, “We really want to know from an intermediary who in our competitive set is eating our lunch and why.” Understanding competitive sets is only part of the equation. As one revenue manager voiced, “I would like to know why the customer did not book; the pathway to booking; conversion rates and comp sets shopped.”

According to one hotel management company senior executive, there is a need for more granular data (e.g., based on rate code) to better understand the channel used, source market, and the path from search to book, including factors such as length of stay and day of week.

Another senior-level manager from a large independent property commented that the evolving distribution landscape calls for revenue management systems capable of analyzing thousands of price-response variables across distribution channels, target market segments and competitive sets.

Travel intermediaries are increasingly called upon to provide more information to lodging organizations, BI vendors, chains and revenue management system vendors to fill the information gap. Several chain and large property research participants noted there was a near-term opportunity for travel intermediaries to provide valuable revenue management information such as destination demand data that is unavailable elsewhere.

For example, intermediaries, and particularly OTAs, have visibility into aggregate demand for hotel services to a destination. Revenue management systems tend to focus more on the demand for properties’ own products — rooms and event space — and OTAs can fill an important information gap with destination demand metrics. As one senior chain executive noted, “With improved destination demand information, there is a possibility to reduce forecast error from 10% to 2%.”

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Senior Chain Executive

Key Finding 5: Expanding Role and Impact of Revenue Managers

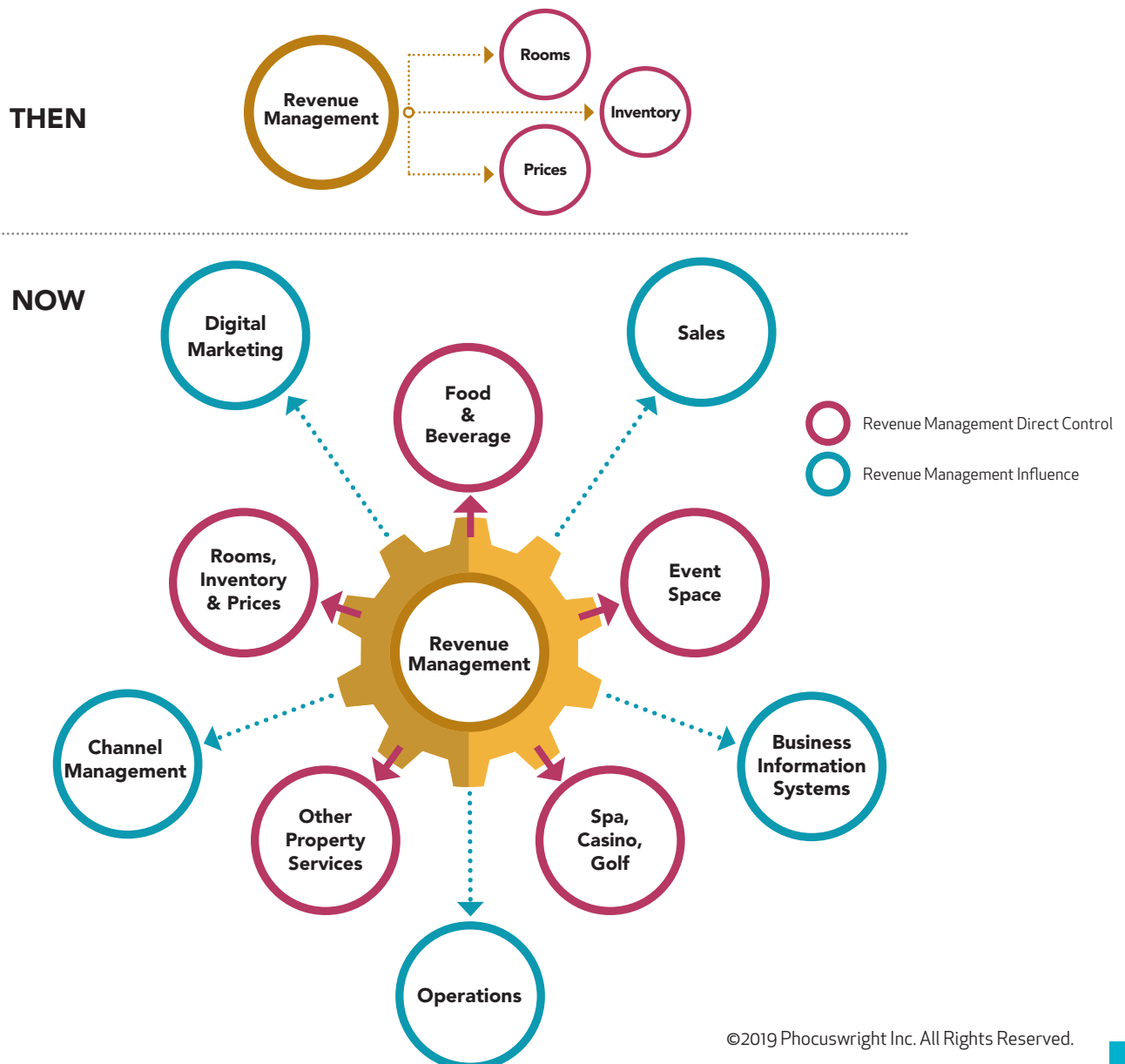
“People are starting to understand that revenue management can aid in decision-making throughout the organization. We own the data and the insights that are able to increase revenue performance for the entire organization.”

— Individual Property General Manager

Revenue managers at all levels and types of organizations are being asked to do more while facing numerous challenges related to systems, information and evolution of the lodging market. They are being asked to lead their organizations efforts and strategy to enhance the revenue contribution for owners. There was a time when the roles of today did not exist. As one senior level revenue management executive highlighted, “In the past we never heard of roles like chief revenue officer.” Revenue managers — while still controlling distribution channel choices, prices and length of stay — now influence nearly every aspect of hotel management, from marketing and sales to operations (see Figure 3). “Revenue managers now have a bigger voice at the table,” concluded another senior revenue manager.

Figure 3:

The Scope of Revenue Management as Demand Management



There was near-unanimous agreement among research participants that revenue management is more appropriately defined broadly as demand management. This expanded definition includes traditional revenue management concepts and systems for forecasting, plus price and length of stay management. This adds additional responsibilities to the purview of a revenue manager, clearly placing them in a leadership role at lodging organizations.

Here are some examples of the additional responsibilities of today's revenue managers at lodging organizations:

- Non-room revenue generation at the property (e.g., from food and beverage operations, spa, casino);
- Customer (lifetime) value consideration (e.g., where customer loyalty becomes part of the decision to accept or deny a room reservation);
- Net (of distribution and channel cost) contribution pricing (e.g., where distribution costs are considered as well as price), where even online direct bookings are not free of cost and should not be undercounted for purposes of net pricing;
- Digital marketing insights and recommendations and direct management of digital marketing activities.

While research participants agreed on a broad definition of revenue management, there was variation in the degree of influence within their respective organizations. One revenue manager reported that their property had a very strong culture of revenue management, with data driving all decision-making and revenue management responsible for overall revenue strategy. A manager of a small hotel responsible for revenue management, however, reported that persuading others in the organization of the value of revenue management is a constant struggle. Numerous research participants emphasized the importance of collaboration between revenue management, marketing, sales, distribution, loyalty and hotel operations.

The expanding role of revenue management creates problems for organizations seeking to hire, promote and retain pertinent talent. Nearly all research participants reported that finding and keeping revenue management talent is difficult. Organizational career paths are not clear. One direction is marketing and sales leadership; the other is some (ideally) prescribed analytical track.

The Current Role of the Revenue Manager

Increasingly, individual ownership of hotels has given way to ownership by investment partners and publicly traded investment companies. This trend has placed more emphasis on revenue management to produce sustained profit, rather than revenue. The ownership model has also placed more focus and demands on revenue managers to produce profit and net operating income from the property portfolio, individually and collectively.

Sample Revenue Management Team Priorities

- Maximize profitability for owners
- Improve operational effectiveness, such as timing for check-ins and checkouts to better manage staffing and facilities decisions
- Execute decisions that optimize profit from all hotel assets — rooms, event space, spa, F&B and other services provided by the hotel
- Act as the analytical arm of the organization
- Evaluate, optimize and execute profit-producing actions from every piece of business, from single rooms to groups of (5+) rooms to large events
- Inform and/or drive sales and marketing demand generation
- Support cross-functional teams' liaison for sales, marketing, operations, events, and on-property services with both technical systems and organizational processes
- Communicate forecasts, performance, data-driven planning, and actions across the entire organization

Conclusions & Opportunities

Most, if not all, hotels do some form of revenue management; relatively few use sophisticated revenue management systems. Chains, revenue management system vendors, and business information system vendors can help resolve challenges. Travel intermediaries can as well. Travel intermediaries, particularly large ones, have expansive databases of travel supplier, destination demand and consumer behavior information. They also have the technological prowess to use that information to address many of revenue managers' challenges. They have a role to play in solving today's challenges in revenue management by unlocking the door to more personalized guest experiences; providing greater agility within the lodging organizations to develop and act on impactful information; and to ultimately produce greater profitability for owners.

Terms & Definitions

Revenue Management

The application of disciplined analytics to forecast demand for hotel services, typically guest rooms, relative to availability for given periods of time at various per-day prices, to optimize revenue.

Revenue Management System

An integrated system that assembles, verifies and analyzes information about the demand for hotel services for the purpose of developing a demand forecast versus availability for the purpose of optimizing revenue over a given time. Services can include guest rooms (for basic revenue management systems) and can include ancillary revenue streams like meeting rooms and event space (for advanced revenue management systems). These systems produce recommended actions relative to price, conditions (e.g., type of guest room, cancellation policy) and length of stay for guest services. Systems are often integrated with the hotel organization's technology stack.

Hotel Ownership Company

An organization that owns a hotel or group of hotels. These can be privately owned and operated hotels with investors or others with a financial interest in the hotel or group of hotels. These can be four basic types of hotel ownership organizations: franchise, privately owned and operated, leased and managed. A franchise operation is privately owned, but the owner pays an up-front fee to purchase the franchise along with ongoing royalties. Leased hotels are owned by an individual or company, but normally lease the physical building. A managed hotel is also privately owned but has signed an agreement with another organization to run the hotel operations.

Hotel Management Company

An organization that manages the daily operations of a hotel, either for an incentive fee, a base fee or a cut of the gross revenue. These companies provide services for multiple properties, owners and ownership companies. Hotel management companies and owners usually sign a contract for a decade or longer.

Hotel Distribution Channels or Intermediaries

These can be external, third-party channels like global distribution systems (GDS), OTAs, search engines, metasearch and social media sites) or internal, such as a call center, the brand website, and the front desk.

Online Travel Agency (OTA)

An organization engaged in selling and arranging accommodations, tours, transportation and trips for travelers on an online platform.

Global Distribution System (GDS)

A computerized network system owned or operated by a company that enables transactions between travel industry service providers — mainly airlines, hotels, car rental

companies, and travel agencies. Agencies can be both online and offline.

Property Management System (PMS)

A platform that enables a hotel or group of hotels to manage front-office capabilities, such as booking reservations, guest check-in/checkout, room assignment, managing room rates, and billing.

Channel Management System (CMS)

A system that manages prices, content, terms and conditions, and availability of hotel services through the channels of distribution. It is typically integrated with the centralized reservations, property management and revenue management systems.

Centralized Reservations System (CRS)

A system used to update and maintain information pertaining to inventory availability and prices so that a hotel or group of hotels are able to manage guest service requests and reservations for services in real time.

Customer Relationship Management System (CRM)

A system that analyses various data about each customer, including interactions and history with the company, and makes recommendations for how to act on that information to improve the customer relationship.

Demand Management

The use of marketing distribution channels to reach target customer segments; leverage and enhance existing and future customer relationships; and take effective revenue management action that optimizes revenue contribution over the short and long run.