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The Revenue Manager's Approach

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Learning outcomes

After reading this chapter, you should be able to:

- Understand that to maximise turnover, a company will often confront two price orientation options: reaching a volume target and offering numerous low-price seats in order to increase its sector market share; reaching a turnover target and maintaining its high-price product or service, even if this means not selling its entire production, in order to ensure the highest possible average selling price (ASP) per client.
- Appreciate that the objective of revenue management is to enable permanent arbitration between the two above solutions. It falls to the revenue manager to set up a specific pricing policy and to be continuously monitoring the bookings activity in order to be able to take corrective actions regarding stock management if necessary.
- Understand the various steps of this approach: history analysis, demand forecasting, revenue optimization, and performance monitoring.

■ **Integrated revenue management systems**

The revenue manager follows a four-step approach: database analysis, demand forecasting, revenue optimization, and performance monitoring. Figure 4.1 shows the specific ordering of those steps.

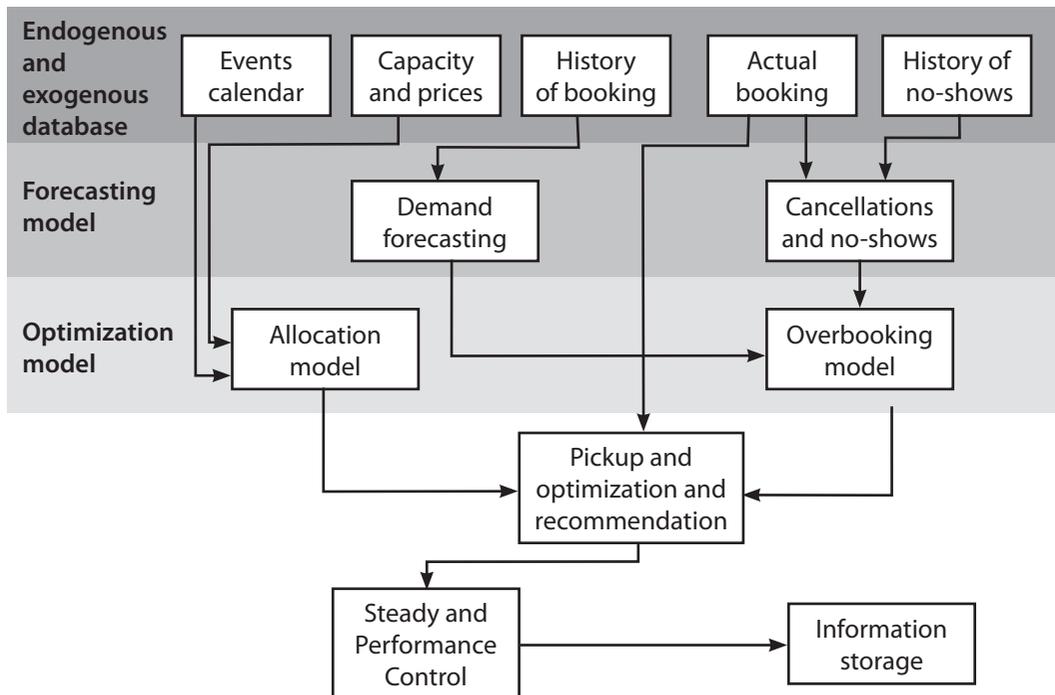


Figure 4.1: Integrated Revenue Management Systems

Here are the details of this approach

□ Endogenous and exogenous database analysis

The first step in this approach is the analysis of the history and portfolio bookings databases. This constitutes an essential step for the revenue managers as it gives them access to the full reporting of past activities. Function expertise is crucial so that the data are contextualized (in terms of the market, past events, etc.), and certain differences are accounted for. The information, extracted from the various computer systems dealt with in the next chapter, has to be reliable. Both past data and portfolio data are needed for the analysis.

The study of past data

Past data analysis reflects the demand over a past period. The analysis concerns rooms, sold seats, or the turnover figures. The data can be broken down by product type, preferably by clientele segment, or according to day/month/season, market/product type such as the history of:

- Cancellations.
- No-shows (failure to show up or cancel a reservation).
- Go-shows (passengers who booked less than 3 hours before departure).

- Selling refusals.
- Occupancy rates.
- Bookings from the opening day to service realisation (that is, the pickup).
- Results.
- Events linked to the activity, special events (public holidays, strikes, etc.).

After the history analysis, the company activity is segmented into 'representative days'. Each representative day is a date with specific characteristics (occupancy rates, average price, clientele mix, events that have had a special impact, etc.). For instance, there are representative days labelled 'events', 'holidays', 'ordinary day –low', 'ordinary day – high', etc. Each future date is related to a representative day. In concrete terms, there are four or five representative days, defined by each establishment in terms of its activity. The year is divided into several seasons, determined according to the activity levels expected over the months. Determining these seasons is crucial, because this division will enable senior management and the revenue manager to work out the pricing strategy to adopt.

Generally, four types of days are selected:

- *Trade show days* which are highly constrained. Prices are high because space is rare. Trade show days may be occasioned by professional or leisure shows but also concerts or sports events.
- *Ordinary days*, which are days when demand is low, and clients need to be attracted by promotional offers.
- *Holiday days*, which are periods of high activity for hotels situated in cities visited during this period.
- Certain years, types of *supplementary days* may be found, such as the Olympic Games in London in 2012

Once the representative days have been decided upon, the calendar will be used by the revenue manager throughout the year for pricing decisions, acceptance or refusal of groups, etc. Then, the revenue manager determines an 'ideal mix' for each representative day: the clientele mix is defined as number of nights, segment per segment, for each representative day. For instance, for an 'ordinary' type day, 20 full price guests and 45 guests in the leisure group are expected. The aim is to find the best quantity/price combination for a specific date in a realistic fashion, taking into account the market characteristics, the history, and in a more proactive fashion, the ideal mix that reflects the hotel strategy for the future.

Finally, the chosen software solution will match the ideal against the actual reservation situation. The rule to conform to is the following: as soon as a segment has reached the number of nights that were assigned to it, it is closed to further sales. For instance, if for a given date, X hotel had calculated 120 rooms allotted