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Practice: Marketing & Technology

Topic: Demand Management

The Evolution of Revenue Management: Demand Management

Executives at every hotel chain, management company, and individual property agree that Revenue Management (RM) plays a crucial role in the hotel business to create and optimize revenue...



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These same executives agree on the value of diversifying room nights sold across channels such as GDS, wholesalers, online travel agencies, and other external distribution channels. The RM processes and toolsets available today do not necessarily support this diversification of demand fully.

The RM processes proven historically important focus on rigorously determining the exact rates and stay patterns that generate the highest total revenue. Yet many RM processes executed on a daily basis have shifted to separate clerical tasks of controlling rates and availability in external channels. These external channels include:

- Global Distribution Systems (GDS)
- Wholesale Channels (On-line and off)
- Retail Internet Travel Agencies

Digging deeper, hoteliers find RM and the management of these external channels largely disconnected activities and conducted in sequence, rather than constituting a coherent single process.

This disconnect represents a both problem and an opportunity for the industry. Rather than tolerating today's separate processes, we believe that RM models, approaches, and roles must evolve and reflect the complexity of the distribution environment both today and in the future. We call this further evolution of Revenue Management "Demand Management."

Demand Management allows hotels to assess and value all channels of distribution, both internal and external, when establishing RM strategies. Additionally, hotels require the capability to execute these strategies consistently and efficiently and deliver the determined rates and availability to distribution channels in real-time. At the same time, the hotel must receive reservation updates from the distribution channels. To do this, hotels need robust automated connections to their distributors and supporting tools.

Current Environment

Revenue Management was introduced to the industry over 15 years ago (Remember "Yield Management"?) at a time when no one could guess at today's high number of channels to distribute

hotel rooms through – let alone what the internet was or the impact it would have on the travel industry. Today, many of the traditional RM processes and technologies are still in practice and used successfully determining the baseline information for maximizing revenue. This being said, these traditional revenue management practices are combined with a Revenue Manager’s best guess of the external channels that should be used to complement the internal call center, brand.com website, and direct hotel sales.

Many of the rate and availability decisions for external channels are consistent with contracts that have been in place for many years and are primarily focused on bringing high volumes of room nights to the hotel, typically at contractually fixed rates. Additionally, the external channels are typically managed using manual processes, the most popular being distributor extranets and faxed reservations, and receive updates on a much less frequent basis than internal sales channels. The current state of the distribution environment typically includes the following characteristics:

- High labor costs because high-value revenue managers spend too much time on repetitive manual tasks that should be automated
- Effective RM strategies fail to be implemented due to lack of time and consistency
- Sales organizations tend to focus on increasing total room nights, even though high volume channels may not prove to be the most profitable
- Rate parity across channels is not possible because of a disconnect between supplier and distributor reinforcing a belief among consumers that there is always a better deal somewhere else
- Increasing channel proliferation and market complexity, a topic in itself

Market Complexity

The distribution landscape of the hotel business has changed dramatically over the past few years. Never have there been more opportunities to

distribute hotel products and never have the decisions been so confusing. In the past, it seemed fine to 'gut forecast' the next few months based on experience. Now the questions are more complex: Exactly what product do I sell? What channels do I sell it through? When do I sell it? For what price?

Online travel agencies have created a paradigm shift in travel distribution. Other key trends driving increased distribution complexity include:

- Shortened booking lead times
- Varying costs per reservation
- Opaque channels
- Escalating consumer expectations for real-time, immediate service

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Management’s stronger pushes for rate parity across retail sites further raise the bar on distribution.

Traditional wholesalers and travel agencies are responding vigorously. Distribution is more complex from a wholesale perspective also, with their own channel proliferation problem, competing business models and suppliers unwilling to allocate fixed blocks of rooms. Today’s leading wholesalers seek real-time access to inventory, thus giving fully-connected suppliers the ability to yield rates. This quantum leap in attitude and execution enables hotels to offer last-room availability not just to the CRS but also to their wholesale partners.

Ideal State

The existing scenario is too costly, inefficient, and suboptimal to allow it to continue. We, as an industry, need to solve this problem and begin driving towards Demand Management.

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The baseline characteristic of a company utilizing

Demand Management principles is connectivity between a supplier (hotel or chain) and their distributors (wholesaler, internet travel agencies, GDSs, etc.). When data flow using automation

rather than manual intervention, the suppliers and distributors take a huge step towards integration and combined goals of profitability. More importantly, distribution channels receive the most updated and profit-optimizing rates and availability on a frequent basis. Efficiencies such as automated reservations delivery and real-time availability / rate updates significantly reduce the labor that is currently required to manage faxed reservations and partner extranets.

Beyond tight integration of suppliers and distributors, analyzing and executing on the most profitable mix of channels is important to being successful in Demand Management. This is one area that takes traditional Revenue Management to a greater extent to determine not only the right room and the right price, but also to the right channel at the right time. A comprehensive understanding of each channel and factors influencing overall channel profitability leads to a detailed and executable Demand Management strategy. The main difference from today's environment is the number of variables taken into consideration when determining the proper channel mix. Profitability of a channel is just as important, if not more important, than the number of rooms booked.

Demand Management also includes a consolidated point of analysis and control for managing distribution channels. In many instances, the Revenue Management functions are segmented from determining the specific channels that receive RM recommendations. In other instances, separate organizations manage groups of external distribution channels (i.e., all wholesalers, internet travel agencies, etc.). In this scenario, unknown internal competition may sometimes drive a less than ideal return to the hotel. Consolidated processes and technologies for Demand Management activities will prove to be the most profitable outcome.

Evolution, Not Conclusion

We believe that the industry will answer our call for a new vision of Revenue Management that fully incorporates efficient, automated channel management and cost of distribution. The realization of this vision will likely include service-based platforms purpose-built to evaluate all sources of demand, recommend optimal mixes of channels and execute those recommendations without extranets and fax machines. An interesting consequence of this evolution, we clearly see that all sides of the

distribution triangle, travelers, distributors and suppliers, will benefit.

Demand Management represents merely the next step in concepts we use to optimize distribution of our inventory. We cannot wait to see what comes after it! ■

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