



RM EXISTENCE THREATENED OR GAINED OPPORTUNITY?

Abstract

The hospitality industry is heavily relied on technology and data to make the best strategic decisions and Revenue Management is at the core of this tech-revolution. However, even with extensive skills and influence on hotel profitability, the insignificant demand during the **COVID-19** crisis shook the ground of every revenue manager. With changing times, as the role of revenue managers continues to evolve, what is their future? Is this role threatened? Has it been merged with another function?

Introduction

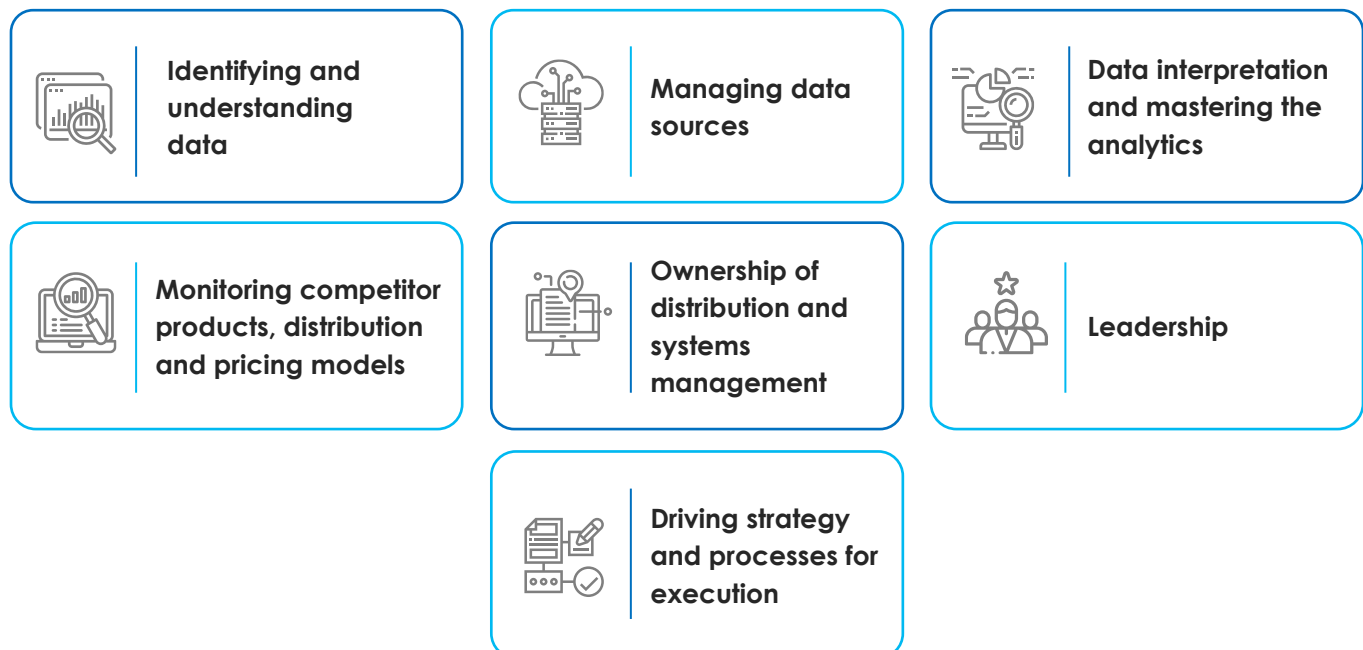
Hotel Revenue Management Systems (RMS) traditionally rely on data. This reliance on historical data has now become obsolete. The unprecedented market conditions cannot be treated as a temporary blip. Now, moreover of being reactive, revenue managers are required to be proactive. So, what's next in the role of revenue management?

There is an exciting opportunity to hit the reset button and rethink RMS. As hoteliers look ahead to recovering in the post-pandemic landscape, now is the time to build a revenue management discipline. A revamped RMS has the capability to maximize revenue during both good times and bad.

Hoteliers today, require their RMS to shift towards real-time demand analytics that comes from important data sources. This whitepaper gives revenue managers a complete breakdown of what updates are needed in the overall revenue management strategy.

In an environment where there is an insignificant demand to capture, it is questionable if the role of revenue managers becomes obsolete or gets merged with other functions. Having said that, hoteliers should be focused on adapting and innovating to remain self-cash sustained and maintain business structures. However, it does raise questions on which function needs greater protection.

With emerging norms, a transformed function is needed to enact revenue recovery plans. Such a complex role requires intense fundamental capabilities and skills, such as:



Mastering these skills is paramount to relaunching a key sequence to the new role of revenue managers. Data interpretation skills can lead revenue managers to identify trends and opportunities for development and optimization at any stage. These are skills that are required throughout the recovery window.

The Ingredients of Change for Revenue Management

Reset the counter on historical trends (LOS, Booking windows, rate efficiencies), market segmentation, competitive set definitions, and pricing guidelines. Revenue management executives will need to relearn their property and the local market.

Identifying which Business is Currently Possible

With the current situation pertaining to travel restrictions, and border closures to contain the virus, travel decisions suffer from vivid bleakness. The scare of the health crisis and government restrictions are mainly rocking the decision boat. This just means that travel is going to be extremely complex in the near future.

However, several market reports suggest that leisure travel will highly propel over the gloomier business travel. Nevertheless, the trajectory is such that there will be a steep decline in long haul travels. Although travelers want to step out, safety and precaution, and being closer to their homes will remain a priority. They are considering traveling to destinations that are within their driving range, or require nominal travel, without having to jump flights, buses, and other transport options.

With international borders opening phase-wise it only points out one possibility—an increase in domestic travel. Short vacations, weekend trips, and staycations are steadily gaining momentum, especially amongst family travelers. These trends suggest that there is a growing demand in the domestic travel and hospitality sector.



Analysis of Market Segmentation and Strategic Actions

Market segmentation strategies in the hotel industry have always played an important role in generating revenue. These segments need to be constantly monitored to have a deeper understanding of the booking pace. Initially, the markets will be increasingly dynamic at first until a new baseline is found. But this is how hotels can once again have data that can be the base of their pricing decisions. Static rates might prevail at the beginning of the recovery, but the overall trend towards dynamic rates will continue.

The first question that comes to mind is, where do you begin? The first step would be setting up a dashboard. This can be used to observe the travel rules and COVID-19 statistics surrounding your key source markets or previously emerging source markets. Recording this is important since markets are likely to recover at different paces. If a source country or city is important to a hotel's business, they must understand the restrictions as well as the COVID-19 response rate. This dashboard will act as a tool for hoteliers to get an insight into where there is a likely increasing recovery.

Consider these points while analyzing market segmentation:

- Look at segment by segment planning
- Analyze the unpredictability of a segment
- Look at the type of traveler for each segment

The key insights that may be captured post analysis would be:

- Leisure travelers are expected to return first according to the experts
- Corporate travel is unlikely to return to previous levels for the foreseeable future for reasons like:
 1. Safety concerns of the corporate traveler
 2. The ethical side around asking people to travel for work
 3. The multiple adjustments made to work styles and schedules by those working from home
- Group travel will be at the slowest with group restrictions because of social distancing.

Once the dashboard highlights the above points in bold, hoteliers need to chalk out how much business these segments represent. Based on the findings they need to devise strategies to recover the lost business.

For example, look at new segments to replace the loss of business such as 'COVID-19* Isolation'. This can be a new segment for hotels operating near airports in countries or regions where regulations mandate isolation on arrival.



Planning and Forecasting

Revenue Management is the foundation for various recovery scenarios. It cohesively defines the commercial actions with the Sales and Marketing departments. However, the cornerstone of Revenue Management is planning and forecasting. This can provide the hotel with as much clarity about the future as possible to gain flexibility and avoid a lack of a plan.

A good plan will help you—

- Get clarity about the future
- Gain flexibility
- Avoid disorganization

Forecasting provides new perspectives; tracking, pick-up by segment and analyzing differences from the last year. It will highlight any changes in travel patterns. Additionally, you'll be able to infer that the pace of reservations and arrival by segment will be very different. All these pointers combined will give the decision-makers an edge to understand how changes need to be made and adjusted.

However, there are a few basic guidelines that you must adhere to when it comes to forecasting.

- Consideration of global level insights
 - Recovery indicators and figures from other countries
 - Use of benchmarking reports (e.g., STR) which provide insights into markets that are already recovering
 - News regarding the development in aviation and rail transport and their impact on local markets
 - Classification of various regulatory travel restrictions such as border closures or prohibition of group gatherings and their impact

- Identifying insights impacting the hotel
 - Segment recovery
 - Forecasting at the segment level. This is the only way for hotels to reliably identify, where possible starting points are, and activities should be targeted at
 - Daily forecasts to understand WD/WE concentrations
 - Tracking of trends, for example, daily pick up to understand the changes in the booking window. This can be tracked based on segments

Hotel Pricing in the Recovery Phase

Pricing is the most critical area for hotels when it comes to successfully overcoming the crisis. With no historical data pertaining to a previous pandemic available, hotels will need support for pricing strategies so that they do not miss out on any opportunities in the recovery phase. Ironically, RMS and pricing tools are designed to optimize prices in a stable market at a faster pace than a revenue manager but not in disruptive markets.

The fact that there is no historical data available gives revenue managers an advantageous position because historical data has become largely useless. Therefore, the RMS lacks its reference point for making pricing decisions. They can now leverage the experience and real-time knowledge to capture and access current data that will help them adhere to new trends for making accurate pricing decisions. Devising a value-based pricing strategy is the need of the moment.

Pricing should be based on the below factors to gain a competitive edge in the market:

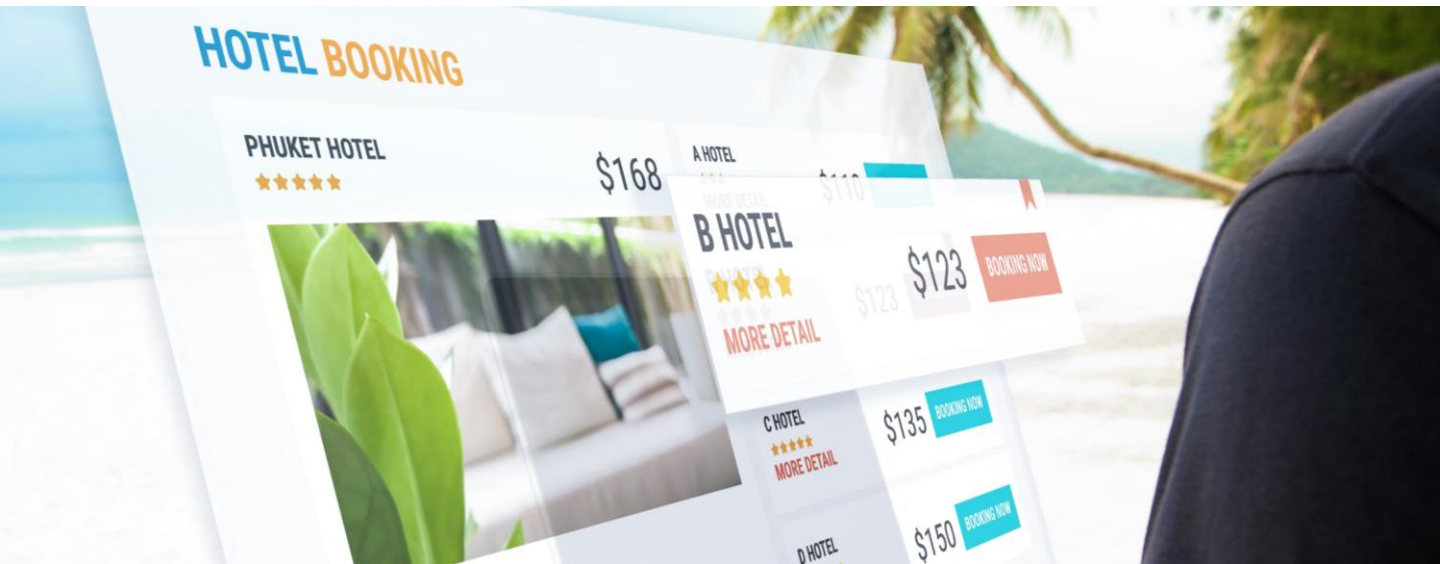
Historical Data

It is important to recognize which data can be further churned out to be used and interpreted. Revenue managers can variably select data according to the current situation. This data can help in recalibrating the RMS.

Competition Analysis

It is vital to have knowledge of your own product, figures in the books and pick-up pace. This knowledge can then be further put in relation to your competitors. To identify an ideal price point post the pandemic, a detailed analysis of CompSet is needed. It should ideally be based on the below points:

- Close monitoring of the Best Available Rate (BAR) pricing
- Advance purchase rates
- Promotions



Rates

Rate Reduction



Retail pricing is a vital key when it comes to bookings picking up the pace, which also determines the B2B sector pricing. It is important to not sell at a lower value and at the same time, not price it out of the market. If the hotels lower the rates carelessly it will be difficult to increase prices to a sustainable level after the crisis.

Transient Pricing



The strategy for the leisure market will also need adjustment based on the retail market. Rates for transient tour operators and wholesalers should be adapted to the new pricing strategy in the retail segment. Hotels with dynamic prices and directly connected distribution partners will have an advantage in this area. What will benefit them is the fact that price structure automatically adapts to changes in public prices. However, for fixed contract rates, renegotiation with each partner will be necessary.

Corporate Rates



Hotels with dynamic corporate rates are at an advantage since they will adapt to the new structure with no effort. However, it won't be the same case when it comes to contracts with fixed rates. This challenges the hotels to define a fixed price based on the calculated recovery scenarios. These scenarios must be calculated manually by the RMS with different assumptions. If there is a switch between scenarios with different rates, this would require adjustment to the corporate rates slab. It would be more beneficial for hotels to improve their offers for corporate customers through value additions, like including breakfast, high-speed WLAN or free parking.

Flex Rates



Discounted advance purchase rates that must be paid immediately, but can be processed for a cancellation refunded closer to the arrival date provides security through flexibility. Through this, hotels on the other hand benefit from the cash flow. These rates provide secured occupancy and direct revenues.

Room Type Supplements



In addition to reviewing the rate structure, hotels should also critically review the existing room type supplements. Depending on the willingness to pay, an adjustment is necessary in order to increase the occupancy of higher room categories. A competitor check is required as well.

Flexible Cancellation Policies & Precise Pricing



The customers expect flexibility from the hotels to protect themselves against further travel restrictions. Therefore, hotels should review their cancellation policies and, if necessary, adjust them through the recovery phase.

Strategy for Group



The group segment is expected to be last in the recovery phase. This is due to the cancellation of several fairs and events keeping in mind the chances of cross-infection. It is advisable for hoteliers to chalk out strategies that can act as a recovery on this segment.

Deposit Policies



Hotels, which need immediate cash flow, can get it by offering higher discounts in return for earlier deposit payments. Also, if discounts are not an option, then late deposit policies will be the need of the hour for hotels to hold on to the booking.

Refunds and Cancellations



The current situation is uncertain for all those associated with the travel industry. Customers are insecure due to unclear government advisories as to what extent travel will be possible. The economy could shut down again at any time, which explains the traveler's clear hesitation to book. The hotels need to include a clever set-up of the cancellation policies for all rate plans and BAR rate should be there most flexible rate in order to be perceived as the most secure.

Communication of Hygiene Measures



Hoteliers should be as proactive as possible in staying connected with prospective guests. This interaction is quite likely to get the guest to keep his booking and taking the trip. The safety aspect in the context of a reduced risk of infection will play an important role in deciding whether an event will take place. Hotels should therefore communicate their hygiene policies openly to renew the trust of their customers.



Distribution Strategy

Hoteliers should thoroughly review their existing distribution channels, including their own website. The following points should be examined more closely:

- User experience – Are pictures and descriptions up to date?
- Prices – Is the pricing on the portals right?
- What about the Online Travel Agency (OTA) ranking and the visibility of the own website?

OTA & Hotel Website Content

The presentation on the OTAs does not only influence the ranking of a hotel, but it also impacts the conversion significantly. Hoteliers should accept OTAs as partners that provide an opportunity to showcase your product and strive to present it as impressive as possible.

Apart from the content on the OTAs, it is important to optimize your own website. Feedback from regular guests should be sought where appropriate. Intuitive navigation, easy accessibility of important information and the proper visual presentation should be a priority for hotels.

The website should always offer the best available price and the booking flow should be intuitive for the guests. The speed of the booking process is also important as delays can lead to lower conversion rates due to booking aborts.

Rate Availability

Hotels should also check whether the existing rate plans and packages are optimally integrated into the distribution. For increased visibility and conversion existing products should be distributed across all channels as far as this is possible.

New Partners

Depending on the choice of partners, hotels must be prepared to allocate a part of their room inventory to these partners. Tour operators and wholesalers sometimes reward the availability of higher allotment numbers with increased visibility into their systems that leads to more volume.

Hoteliers should carefully network with distribution partners. In many instances, it is enough to contract a single additional OTA, tour operator or wholesaler in order to extend your reach significantly. This way, hotels can avoid building up a distribution strategy that is too complex and later difficult to understand.



Conclusion

The global hospitality industry is facing its greatest challenge in recent years. But it is also one of the greatest opportunities for transformational change and benefits. Hotels must break the longstanding silos and come up with radical ways of delivering guest value and guest experience. The only way to drive this is with the help of revenue managers who have hands-on data and tools on optimizing hotel revenues, simply by capturing the right demand. This makes restarting revenue management operations with a renewed vision.

Revenue managers can make a critical difference just by re-orienting themselves and embracing dynamic data and being reactive and adaptive to evolving markets. The analysis of all existing market segments and the possibility to identify new segments will take center stage through this debacle. However, this data analysis should be paired with new distribution possibilities along with maximizing the existing capabilities and attractive and relevant pricing.

You can survive and thrive by taking bold yet strategic actions toward profit optimization by rapidly making your revenue managers adept with dynamic tools. But these are testing times, and the only way to navigate out of it is by leveraging the right tools, skills, and knowledge. It doesn't just stop there; you will need a strategic partner who can bring your vision of recovery to life by plugging the best-fitted technology solutions. You must move away from being a "numbers person" and become a "people person" all through technology.

If the above seems a bit overwhelming, especially while working with smaller teams, then Cybage's entire suite of solutions can be your saving grace. We've worked with leading hoteliers to enhance their RMS. Our services like Rate Shopping, Rate and Demand Analytics, Competitive Set, Integrations with CRS, and PMA helped them achieve crucial results in the recovery phase. As a technology partner we can assist you in processing data, integrating with Hotel CRS, seamless integration with leading GDS, and make better revenue management, distribution, and marketing decisions. Technology infused with data and strategic thinking at every level, gives us the power to prepare you for the future. Feel free to reach us for an anytime consultation based on the points outlined above.

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