AxisRooms

# Efficient Revenue Management Strategies for Independent Hotels

## It's not about selling more,

**It's about selling at the best rates to the right guest at the right time via the right channel.**

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In the dynamic and fiercely competitive world of hospitality, independent hotels face unique challenges in carving out their market share and ensuring profitability. The art and science of revenue management are at the heart of navigating these challenges successfully.

Revenue management empowers these smaller entities to optimize their pricing, understand market dynamics, forecast demand accurately, and ultimately drive higher revenue. Most importantly, it enables them to compete effectively against larger chains and adapt swiftly to the ever-changing market conditions.

**Only 22% to 28% of hotels globally, mostly big brand chains, use a Revenue Management System (RMS). The RMS adoption rate among independent hotels is slow - hovering around 3%-4%.**

# Why are independent hotels slow to adopt the Revenue Management System?

01 Lack of awareness regarding the return on investment from the Revenue Management System

02 Less budget allocation for specialized fields like revenue management

03 The high cost of a Revenue Management System is also a significant barrier

04 Lack of the right resource - a revenue manager

Most independent hotels utilize basic revenue management features, such as rate management, available in their property management systems.

# Fundamentals of
# Robust Revenue Management Strategy

- 01 Predicting Demand
- 02 Setting/Adjusting Prices
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- 04 Driving More Direct Bookings
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# Predicting demand

You can predict demand by analyzing historical data and market trends. Look at past bookings to spot peak and off seasons, and keep an eye on competitors' pricing and local occupancy rates for a bigger picture. This data helps you see how events, holidays, and economic shifts affect demand in your area. By blending these insights, you can foresee demand changes. It allows you to adjust rates accordingly to sell more at the best rates.

# Setting/Adjusting prices

Target the right customer for the right room at the right price, to extract maximum revenue from your inventory.

Segmentation and Forecasting help you determine what prices to sell at and to which sector of your audience.

Setting your hotel’s pricing strategies based on forecast reports is a great way to boost profitability during the peak season, and cover your hotel’s basic operating costs during the rest of the year.

# COMMON PRICING MISTAKES TO AVOID

### MAINTAINING STATIC RATES

No matter how attractive your current prices are, you need to update rates often or you miss out on potential revenue.

### PRICING PURELY BY INSTINCT

Always go by hard data over any intuition. The more sophisticated your segmentation, the better your pricing strategy is bound to be.

### KNEE-JERK REACTIONS TO COMPETITORS

Competitor pricing data is invaluable in improving your hotel’s pricing strategy. However, you must also know when to ignore their rates. A drastic increase in room rates for a weekend may be due to an event at the competing property.

# SELLING AT COMPETITIVE RATES

You can adjust your rates by monitoring competitor pricing to offer better deals or match value. It doesn't just mean slashing prices; it's about finding that sweet spot where the price feels suitable to guests while keeping the hotel profitable. Keeping tabs on competitors also helps in identifying market trends. For instance, if everyone's increasing rate during a big event, you might follow suit or offer a unique package to stand out.

**Adopt a Rate Shopper tool to gain real-time intelligence into competition pricing.**

# DRIVING MORE DIRECT BOOKINGS

## Optimize traffic

Building your website's online authority is important. This involves search engine optimization (SEO), search engine marketing (SEM), keyword planning, sourcing quality content, and backlink building.

## Optimize conversion

Optimizing your website for better conversion is crucial to convert incoming visitors to customers. Implement a great website design, equip it with a reliable booking engine, secure payment gateways, and a good loading speed for your website.

## Did you know?

**Ready to use technologies like Price Check Widgets, Tracking Guest Preferences while they are on the website are easily available. These help the hotel website engage with the guest and drive higher conversions.**

# Market segmentation

You can know their booking patterns by dividing your market into distinct groups – like business travelers, FITs, etc. It will enable you to offer them the rate they will likely pay. And once you get to know their needs, you can offer them relevant packages. You can even attract them during the off-season to keep your rooms occupied. A targeted approach like this boosts sales and enhances guest satisfaction.

**About 75% of travelers are more likely to book with your property if you offer personalized experiences.**

# BETTER UPSELLING

## ONCE A RESERVATION IS CONFIRMED, THERE'S ALWAYS ROOM TO UPSELL.

### How will you do that ?

**01**

Get a cloud PMS that records guest data and preferences. Use this information to market specific services, such as a anniversary offers, family packages and more

**02**

Send confirmation emails armed with special offers, tailored to guest's interests

**03**

Upsell can happen through booking engine that will highlight current discounts, packages and offers

**04**

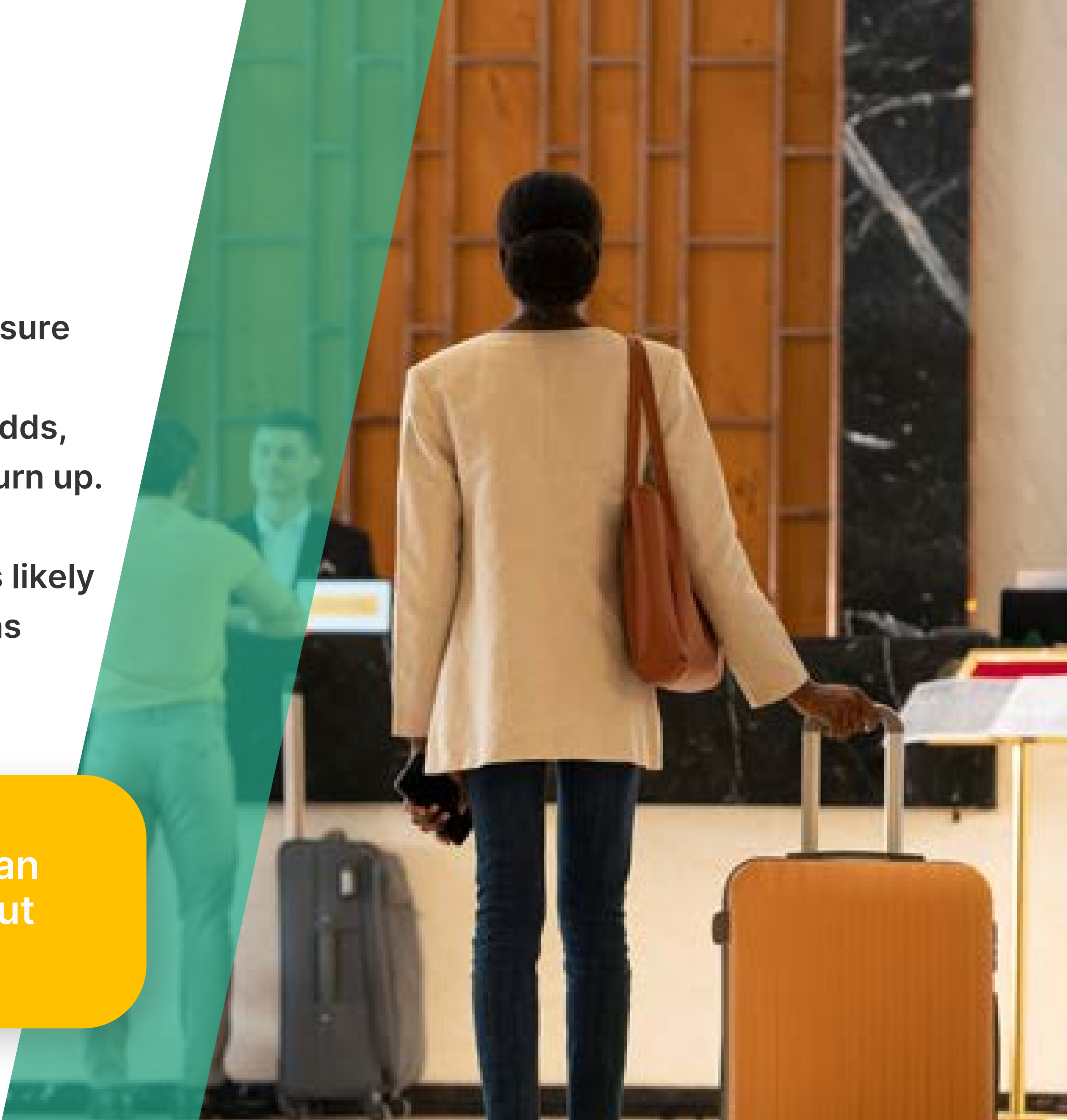
Leverage international and local events like sporting extravaganza, festivals, or carnivals. Stock the gift shop with merchandise, create special tour packages and introduce themed dishes around the event to boost sales on such occasions

A WELL-THOUGHT-OUT UPSELLING STRATEGY CAN GET YOU ABOUT **40% MORE REVENUE.**

# Overbooking

You can leverage an overbooking strategy to ensure high occupancy while dealing with last-minute cancellations or no-shows. It's like playing the odds, as there's always a chance some guests won't turn up. So, booking a few extra rooms beyond your availability ensures that every available space is likely to be filled. This approach maximizes revenue, as empty rooms are revenue lost.

When done carefully, overbooking can increase occupancy and lead to about **20% more revenue.**



## To determine how many rooms to overbook for a certain period, you must analyze:

01 Total number of rooms available to sell

02 Confirmed reservations

03 Guaranteed reservations – payments received in advance

04 Expected no-shows based on historical data

05 Expected last-minute cancellations based on historical data

06 Expected bookings from walk-ins/OTAs and other channels

07 Predicted overstays and understays

# Winning guest loyalty

**A**

Personalization can go a long way in building guest loyalty. Extract guest related information from your PMS to predict behavior and spending trends during the guest's stay. Offer package deals that are more suitable to the individual's status (newly married, have children, on business travel).

**B**

Create loyalty packages for returning customers. Something as simple as a bottle of champagne or a room upgrade will do. While these are by no means disposable resources, the customer appreciation invoked is well worth the temporary cost.

**C**

Ensuring that a detailed guest history is maintained and is accessible to all departments when the customer in house will help convert the stay to a great experience.

**You can earn about 20% -25% more revenue if you increase your repeat customer base by about 5%.**

# Enhancing online reputation

In today's digital era, potential guests often turn to online reviews and social media impressions before booking. In this scenario, your hotel will stand out with glowing guest reviews. Positive reviews influence guests' booking decisions in your favor, leading to more sales, occupancy, and revenue. It is essential to provide exceptional service that exceeds guest expectations. Additionally, it is crucial to encourage feedback and use it to improve. Satisfied guests are more likely to spread positive word-of-mouth about your hotel.

**A 1-point boost in your online ratings allows you to increase your room rates by at least 4% to 5%, leading to higher booking value and enhanced revenue.**

# ESTIMATING YOUR COSTS AND MEASURING PERFORMANCE

# High Occupancy ≠ High profitability

**Focussing on just filling your rooms to achieve maximum occupancy can be a costly mistake.**

**In fact, a hotel may have lower occupancy than competing properties with the same number of rooms, and still enjoy higher profitability!**

## Assume Hotel X and Y, each have 100 rooms.

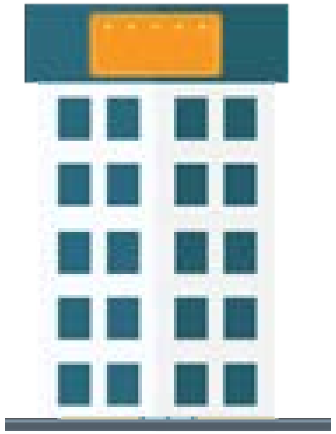
### Hotel X
### Prioritizes occupancy

100% Occupancy

$80 Room Rate

$80 RevPAR

### Hotel Y
### Prioritizes RevPAR



90% Occupancy

$90 Room Rate

$81 RevPAR

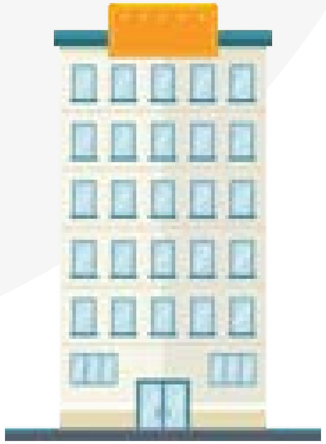
**Clearly, informed pricing decisions can contribute more to a hotel's bottom-line than merely filling all rooms.**

# Hope you didn't miss CPOR

**CPOR (costs per occupied room) account for expenses associated with preparing a room for occupancy -like housekeeping, replenishing toiletries, and room inspections.**

**Continuing with the example of Hotel X & Y, assume CPOR is $10 per room**

**Hotel X**

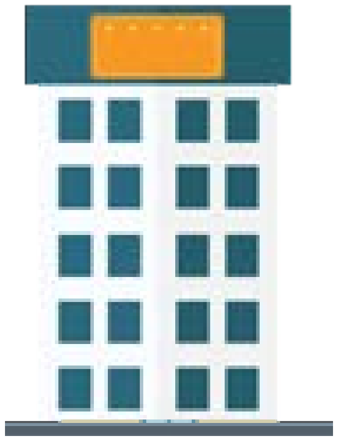


100% Occupancy

$80 Room Rate

$1000 CPOR

**Hotel Y**



90% Occupancy

$90 Room Rate

$900 CPOR

*Gross Profit (Hotel X): $8000 -$1000 = $7000

*Gross Profit (Hotel Y): $8100 -$9000 = $7200

Analysis: Hotel Y earns more room sales & incurs lower costs than Hotel X

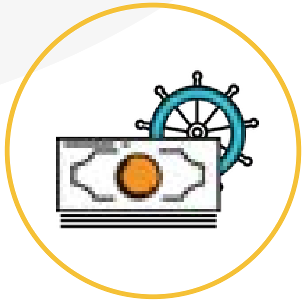
Verdict: High occupancy by itself is not a good indicator of profitability

*Gross Profit [{Total Revenue) –CPOR (Hotel)}]

# Segregating all channels for objective data

**Gathering objective information is key to estimating factors like ADR evolution targets and customer acquisition costs. Analysis of each of the channels currently being used by your property is a great way to begin collecting this objective data.**

**Its essential that each booking channel (online and offline) is analyzed for 3 key metrics**

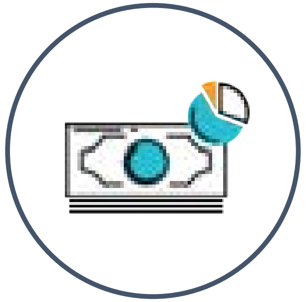


## Gross Revenue

The total revenue being generated by the channel for a specific period

## Customer Demographics

The segment of travelers which each channel attracts



## Channel Costs

The total cost of customer acquisition associated with each channel

**Based on above data, evaluate the profitability of individual sources and identify areas that need to be prioritized.**

# How will you determine the cost of each channel?

Imagine Hotel A with 100 rooms, and 4 primary sources of bookings:

2 OTAs + 1 direct booking engine + 1 GDS network

Let’s say rooms sell for $100 on all channels.

When we analyze each channel's profitability (assuming that each channel sold all 100 rooms)

Hotel A

100 Rooms

2 OTAs

1 Direct Booking Engine

1 GDS network

| | OTA 1 | OTA 2 | Hotel Website | GDS |
|---|---|---|---|---|
| Associated costs | 25% Commission | 15% Commission | $4/room (commission) | $20/room (commission) |
| Gross profit per room | $75 | $85 | $96 | $80 |

At first glance, most profitable channel appears to be the direct booking portal. However, the customer acquisition costs depend on the final number of rooms sold on the hotel's website for that period.

If Hotel A were to sell only 10 rooms through its website, the costs incurred would be borne by those bookings and hence the cost of each acquisition would drastically rise from $4 to $40.

GDS costs can fluctuate too, based on the hotel's objective. Costs will increase in case your hotel opts to lower rates in order to maintain relations with agencies. OTAs tend to provide more stability when it comes to this aspect, albeit at a high cost.

# Distribution v/s Profitability – Uncovering opportunity costs

1

With information gathered by channel-wise segregation of your hotel's booking sources, you get a clear picture of the profit breakdown.

2

Online channels also provide hotels with a powerful distribution platform and connect them to specific guest segments, like last-minute travelers.

3

While it may be tempting to focus solely on direct bookings, a lot of hotels simply can't generate the sort of exposure they get through listing on OTAs – these companies end up spending significantly on marketing and site optimization.

4

The key is to uncover the opportunity costs associated with each of your hotel's channels – allowing your revenue manager to take informed risks and discover the right channel mix for higher profitability.

# SEGMENTATION

# &

# FORECASTING DEMAND

# Segmenting your distribution platforms and guests

Segmenting your hotel's clientele is an integral to the revenue management process. It helps you discover patterns. Segmentation also help hotels target different set of consumers with different behaviors and spending capability.

Segmentation can be done on the basis of individual , group, leisure, corporate or travel agent etc. The hotel uses the date to understand length of stay patterns, pace of booking, seasonality of the segment, revenue spent by the segment etc.

With a cloud-based property management system, your staff can record all booking details, guest preferences and requested add-ons. This being integrated to most of the online channels, the overall booking experience becomes seamless.

# Combining segments to derive yield

Your clientele can be grouped together into yielding segments for simpler analysis.

For instance, the hotel website and front desk (call center) may be combined to form a ‘transient segment’ which can be yielded as one large group.

There’s no perfect way to go about segmentation – it all depends on how much business each segment drives for your property.

The more groupings your system provides, the greater your hotel’s scope for pushing different room rates or personalized offers and more effective is your revenue strategy.

# Leveraging available data to forecast demand

Economic conditions, political events, evolving guest behavior, spending patterns and other variables make it impossible to accurately predict periods of high and low demand.

Collecting historical data from your property management system is a great place to start –occupancy trends, rate and revenue figures can help improve the accuracy of your forecast.

Additional market data like –Competitor pricing, Future flight demand, Weather reports, and a list of upcoming events/festivals can enable you to make more complex forecasts with better precision.

Once you have a detailed report, you have a better insight into how much demand you can expect.

# Revenue Management Cycle

## Data Collection

- Reservation data and guest profiling
- PMS Reports

## Data Analysis

- Analytics
- Reports

## Forecasting

- Business on Books
- Booking Pace
- Forecasting
- STR Global-Market conditions
- Special Events

## Pricing (Strategic + tactical)

- Market Segmentation
- Pricing Structure
- Dynamic Pricing
- Promotions
- Pricing/ Rate Controls
- Avoiding price cannibalisation
- BAR & Derivative BAR
- Rate Shopping

## Distribution

- Channel Management
- GDS
- Web Booking Engine
- Mobile

## Room Inventory Management

- Overbooking Controls
- Hurdle Rates
- Closed to departure & Arrival, etc.

## Reporting & Impact

- PMS Reports
- Analytics

# Gain intelligence with Artificial Intelligence

You must leverage AI-powered Revenue Management Systems (RMS) to thrive in a fiercely competitive market. These innovative solutions offer unparalleled insights into market trends, demand forecasting, and customer behavior, allowing for dynamic pricing strategies that maximize revenue. By analyzing vast data sets, AI-powered RMS identifies revenue opportunities that human analysis might overlook, ensuring optimal room rates and occupancy levels. Moreover, these systems automate repetitive tasks, freeing your hotel staff to focus on enhancing guest experiences. Ultimately, you shouldn't look at these solutions as mere tools. Instead, these solutions become your strategic allies to drive revenue in the long run.

Remember, the trick lies in adopting the right Revenue Management System, a seasoned revenue manager, and the right approach.

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# Let AxisRooms help you improve your hotel's revenue!

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**Our Website**

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