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ADVICE: Managing revenue effectively

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Oct 23, 2014

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After the success of the first-ever Boutique Hotelier Personal Service Star Awards, Fabian Specht, EMEA MD at **IDEAS** and sponsor of our Reservations and Revenue Manager of the Year category, explains how hoteliers can revenue manage effectively.



Fabian Specht is EMEA MD at IDEAS Revenue Management

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Q. How much understanding of revenue management exists with owners in this sector?

A. The level of engagement does vary from owner to owner - usually dependent on whether the owners are involved with the day-to-day hotel management, rely on the management team at the hotel, or leave it to their expert advisors. At an extreme end of the scale, and particularly emerging markets, we see many owners that view revenue management as little more than a cost, rather than a strategy and tool to increase revenues and ultimately returns.

Q. What is the key benefit of revenue management that grabs boutique hotel owners' attention?

A. Increases in occupancy and average daily rate (ADR) lead in turn to a significant uplift in revenue. Many owners can see that effective revenue management ensures their hotel's value is continually enhanced over its lifetime. These owners and/or their expert advisors can appreciate the positive impact revenue management can have on the bottom line, and return on investment. This increased value will have a number of additional benefits for owners, including a greater ability to service debt, obtain higher loans, or re-invest funds into other business ventures, and keep investors happy.

Q. Why should a boutique hotel owner get involved in revenue management themselves?

A. In the past many investors and owners have viewed revenue management as a discipline that is at too much of a 'micro-level' to be concerned with. Technology moves quickly, and while keeping up with these constant changes can be difficult; owners should still understand the role that technology can play in their businesses' strategy.

While owners don't need to get down into the day-to-day operations of a hotel, it is important that they play a role in setting the overall goals and direction for the hotel. The different motivations and strategies of each owner may cause them to view revenue management differently from how General Managers and other hotel executives view it. For instance, some owners will demand

their management teams fill a hotel at any rate, with the idea to cover as many of the fixed costs as possible; high occupancy rates also hopefully drive other ancillary revenues (Food & Beverage, Spa, Conference & Events etc.) into the hotel. Other owners will request their management team run the highest Average Daily Rate (ADR) in town as they believe that only with high room rates will they be able to get a return on their original investment and per room expense.

It may be the owner's intention to create a long-term profit generator, or the owner could be an investment company diversifying its portfolio. If the hotel is a newly opened asset, an owner's objective could be to realise a quick return on investment by selling the asset after just a few years of successful operations. These differences in goals need to be shared with the revenue management department and worked into the hotel's overall strategy, to help reach these objectives.

Q. Where does a boutique hotel start a revenue management process?

A. Accurate forecasting is at the core of a successful revenue management strategy. It allows a hotel to take proactive instead of reactive actions, in response to changes in market conditions. For the sake of long-term revenue optimisation, a measured and strategic approach is needed, rather than a rushed and panicked reaction that can make everyone worse off.

During a low demand period, as many boutique hotel owners understand it is better for a hotel to use strategic pricing, and protect its positioning within the market.

A hotel's ability to forecast demand more accurately will not just affect revenue, but it can have a wider impact across a hotel's entire operation. For example, accurate forecasts can be instrumental in helping with planning inventory and staffing levels. If a hotel can anticipate demand it will be able to have the right levels of staff working at the right times, even down to forecasting peak check-in and check-out times. This will help not only with optimising wage costs, but will also increase satisfaction from guests. Guests form opinions of a hotel largely from the first and last impressions, and there is no surer way to annoy a guest than making them wait for a long time to check-in or out. Accurate forecasts will also help with anticipating demand in restaurants and spas, meaning that levels of perishable inventory, such as fresh food, can be more accurately ordered, and waste minimised.

Q. Why is it important to understand the value of each customer?

A. One of the key points of revenue management is that not all business is good business, and through utilising analysis, the customers who can provide the greatest long-term value to the business can be identified. Boutique hotel owners have a greater understanding of how important different market segments can be but even they can easily fall into the habit of selling out rooms to lower rated business, in-turn losing out on higher rated business – which is essentially throwing money away. This is one area of revenue management that owners may find difficult to appreciate, because on the surface it would seem counterproductive to turn down business.

Hoteliers must instead trust their forecasts and market pricing, and over time they will see that turning down the wrong business, can lead to increases in revenue.

Q. How can a boutique hotel owner create a revenue management culture?

A. Once revenue management is in place, hotel owners should attend revenue management meetings to keep engaged in the process. Hotel owners are familiar with hotel revenue metrics like average daily rate and occupancy, but for them to fully engage at meetings these should be tied into areas that owners are concerned with, like the asset's value, debt servicing, return on capital employed and cost of capital. This will help owners form a greater understanding of how revenue management provides a rational approach to improving business performance.

With technology and mobile applications available today, they are also in a position to monitor the performance of the hotels at any moment in time from everywhere. Something that helps owners stay on top of what is happening at their hotels and engage in the revenue management conversations with the management team at the properties.