

# Margin Prophets: New Strategies Outlining Profit Over Revenue

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The still-emerging practice of revenue management is a relatively new addition to the hotel management toolbox. While some degree of revenue management has long been a part of the operational equation, the sophistication and granular insight that new tools and techniques have made possible in recent years has spurred widespread adoption and renewed emphasis on the art and science of revenue management.

Enhanced transparency and control has contributed to a shift away from using only revenue as determining factor when it comes to setting and

evaluating key performance indicators (KPIs). Instead, revenue management professionals are utilizing profit and ROI as the key level-setting variable.

This emphasis on profit over revenue as a basis for generating and evaluating KPIs has led to a cascade of strategies and practices designed to maximize ROI. From tactics to boost direct bookings, to implementing and relying on newly powerful automated elements in their revenue management systems, revenue management experts and hotel owners and operators are expanding the frontiers of ROI-driven revenue management innovation.

What do these new and still-evolving revenue management strategies look like? How is this profit-focused mindset influencing both the day-to-day details and the big-picture thinking of revenue management professionals? And how are successful hotels utilizing information and enhanced techniques, not just today, but in the months and years ahead.

## Seeking the Headwaters

In order for revenue managers to focus on true profitability, they need to fully evaluate their business production. This means drilling down each room night and making sure that they know what channel it came from—as well as the negotiated margins, costs and fees associated with that channel. Those insights are essential for achieving a full understanding what our business for each segment is truly costing us—and then subsequently maximizing it by day to drive profitability. Yes, this often means driving and exceeding top line revenues, but it also means making sure it is optimal business that will help drive gross operating profit per available room (GOPPAR).

## Nothing But Net

Today, the most effective revenue management strategies are centered around "net" rates instead of published rates. This ensures that driving profitability is always at the forefront of the hotel's revenue management plan. Revenue managers at some of the most successful and forward-thinking hotels are proactively developing distribution strategies in their revenue meetings. This practice ensures that the revenue team always knows what inventory by rate plan is being assigned towards each channel.

It also reinforces the fact that the rate needs to be tied directly to their budgeted/forecasted plan for that specific day. The specifics of these distribution strategies will, of course, differ by hotel, market, available demand by segment, and the target guest.

## **Reevaluation and Coordination**

As a central part of the development and implementation of effective revenue management distribution strategies, ROIs must be frequently evaluated and reevaluated to make sure they are effective and relevant for the hotel. Coordination and collaboration is essential to make that determination and ensure optimization going forward. Revenue managers need to be working closely with Directors of Sales, Marketing, and e-Commerce to ensure that they are deploying the correct spend by segment during the most valuable time periods.

Also understanding the true cost of acquisition for all business is critical and should be reviewed prior to booking. This is especially relevant for group business as well as negotiated. What inclusions, giveaways and/or commissions were established in order to secure the business? All of this must be discussed during strategy meetings with the entire revenue team. This is key to making sure that the revenue management strategies align with corresponding marketing strategies, and that both are driving revenues and overall profitability by day. Ideally, this is in the hotel marketing plan, created in tandem with the budget.

## **Channel Surfing**

Today's most consistently successful revenue management professionals conduct frequent deep dives into channel production and costs. Those comprehensive explorations are essential, as the hotel's financial goals may change over time, and new cost terms may be negotiated and assigned for each channel. It is also important to note that different seasons and shifting market dynamics will call for different distribution strategies and should be evaluated and subsequently designed/implemented accordingly.

## **Never Settle**

Although exceeding top line revenues and GOPPAR projections by month is a definite win for any hotel, the most effective revenue managers are never satisfied. They are relentless in their pursuit to keep finding new ways to move the needle. Could a specific strategy have been tweaked slightly to drive even more to the bottom line? Ultimately, it is not just about missteps, but missed opportunities. Most effective revenue managers conduct regular-daily-practice of "looking back" into what worked, what did not work, and what could have been leveraged even more.

## **Direct and to the Point**

An expanded focus on direct hotel bookings is another notable revenue management trend. The best revenue managers recognize that booking directly through the hotel not only remains the most profitable channel-but also one that helps create and retain brand-loyal guests. There are several ways that you can take that recognition and capitalize with specific strategies designed to boost direct bookings. First, by engaging in more robust direct sales efforts to drive more group business to your hotel or hotels. Second, through a concerted and consistent push for negotiated corporate business on both the local and national levels. And lastly by developing targeted promotions to branded and independent websites to drive guests to you and avoid costly online travel agencies.

The most effective promotions are marketed and optimized for maximum exposure for distribution to targeted guests and feeder markets. And all promotions should be tracked and benchmarked for evaluation and future use. In addition to the more favorable margins and brand-loyalty benefits referenced above, steering guests away from online travel agencies (OTAs) and getting them to book with a hotel allows revenue managers the opportunity to upsell room upgrades or other additional services.

## **Automatic for the People**

It is impossible to talk about trends and advances in the revenue management space without discussing the profound and continuing impact of automation. Many revenue management systems today feature automated functionality for everything from data entry and logistics, to data aggregation and interpretation. Increasingly

effective artificial intelligence AI features are particularly effective at analyzing complex systems and parsing large data sets, and AI is starting to unlock new predictive functionality and systems that "learn" over time.

Predictive technology already allows revenue management professionals to navigate and even predict fluctuations in demand. The predictive capabilities of high-end revenue management systems continue to grow, transforming previously broad forecasts into more refined and precise prescriptive tools. Consequently, hoteliers are able to make daily and even hourly predictions, integrating a range of variables (occupancy patterns, competitor metrics, market-specific elements, seasonal dynamics) to optimize pricing, boost occupancy, and make smarter and more strategic rate and revenue decisions, and ultimately maximize ROI.

### **Slow and Steady**

As fully or partially automated revenue management systems continue to become less of a novelty and more of the norm, it is easy to take them for granted and see them as a time-saver and a way to make a revenue manager's life easier. By taking away the need to conduct the tedious manual process of extracting and compiling data, powerful new automated systems free up valuable time that can be used to analyze, develop and implement strategy-not on a monthly or even weekly basis, but on a *daily* basis. It is important to recognize, however, that even the most powerful of these new systems-including those with sophisticated AI capabilities-are still just tools.

And, like all tools, they are only as effective as the expert using them. This process should not be rushed and should also be triple checked along the way throughout the implementation process for accuracy-ideally by multiple key players on the revenue management team. Frequent system audits should also be completed to ensure optimal functionality. Periodic glitches should be expected and resolved as soon as possible.

### **Active and Ongoing**

The biggest "make or break" factor with automated revenue management systems is how often the revenue manager is evaluating and tweaking the system as needed. Even the best systems must be actively managed on a daily basis and used as a strategy resource. A "set it and forget it" approach, or any attempt to simply sit back and rely on the system to drive revenues for you is destined to fail.

Market dynamics, demand generators and business levels are consistently changing, and it is the revenue manager's job to make sure the system is "aware" of and is integrating all of these important and ongoing changes-and that the systems settings and parameters have been adjusted accordingly. The motto "trust but verify" still applies to even the most powerful and sophisticated revenue management systems, and management.



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