The Five Steps

A revenue management system is a great way for hotels and other businesses to improve their financial performance. What's involved in implementing revenue management at your business? Here's an overview of the five steps of the revenue management process. As you build your knowledge of hotel revenue management, you'll come to a deeper understanding of what is involved in each step.

The Five Steps of the Revenue Management Process

1. **Establish the baseline.** Think about it. Before you make changes to an existing organization, you need to know what its performance is like now. Document a solid baseline using a few simple tools. You can gather internal data by monitoring demand patterns and Revenue Per Available Space Time (RevPAST) with a simple Excel sheet, and use a simple survey to collect customer feedback. Use this information to inform your goals.
2. **Understand the causes.** Once you have established the baseline, you need to understand the underlying causes driving these results. Look at the internal and external forces that influence your organization's performance. For instance, is customer behavior correlated with seasonal weather changes? Do service-cycle problems arise around particular tasks or individuals? Which of the causes you identify are things you can address? Use these answers to inform your strategy.
3. **Develop a strategy.** You've got a clear idea of where your organization needs to improve, and you have a good understanding of the underlying causes of any shortcomings you've observed. Now it's time to develop a strategy. Consider your options here. What levers do you have to manipulate? Price? Duration? Occupancy? You may choose a hot/cold strategy, which implements different operating procedures based on demand. During high-demand periods, known as hot periods, you may feature higher prices or a reduced offering of services to accommodate the larger crowd. Slow periods, known as cold periods, may feature reduced rates or special services to help bring in more customers.
4. **Implement the changes.** When you've solidified and documented the strategy, it's time to implement it. This, too, requires thought and planning. What sort of training does your staff need? Is there information outside of the simple procedures of the new rule structure that you need to explain to your staff? Implementation of a new approach requires position-specific training programs to help employees understand their roles in it. Additionally, managers should align any employee-incentive programs to coincide with the objectives of hotel revenue management. Make sure employees have the support and the incentives they need.
5. **Monitor the impact.** Return to the tools you used in step one to revisit your baseline data. Compare these data to your current results. Is your strategy working? At this stage of the process, you must determine if your revenue management strategies are leading to better operational performance. You will want to consult your financial reports to investigate improvements. You will want to consider customer satisfaction as well. Are these measures showing improvement? Are you exceeding your expectations in some areas? Could you further refine your revenue management strategy? Keep these five steps in the forefront throughout your management process to ensure your organization is running to its fullest revenue potential.

Refining Revenue Management

By now, you've got a solid foundation of revenue management techniques. Let's take a look at how you can further refine these practices and apply them to areas of your hotel that you may not have considered suitable for them before. In this section, you will deepen your understanding of revenue management principles and learn the strategic benefits of refining your approach to managing revenue.

Changes at Your Hotel

After six months on the job as rooms manager for Random Stays Hotel, you have a strong grasp of basic revenue management strategies. In fact, the revenue management approach informs many of your management decisions. So far, the general manager is very pleased with your results. She has encouraged you to refine the hotel's implementation of revenue management to further increase profits. Your hotel is in a popular tourist area and enjoys an admirable occupancy rate. People are drawn to your beautiful spa facilities and convenient, central location. What are some ways you might further utilize revenue management techniques?

Refinements to Current Practices

1. Managing group and volume accounts
    - Newer systems are more capable of handling these
2. Distribution-channel management
    - New systems are making this easier
3. Customer-relationship management
    - Knowing your customer's spending patterns can inform your choices
4. IT Integration
    - This is getting easier with the development of new systems
5. Regional and centralized management
    - A new approach to maximize efficiency
6. Cluster approach

- By managing several brands you can keep business within the same brand family

One of the big things that's going on in the hotel revenue management world is all the improvements that are going on with various portions of it. Groups and other volume accounts are one of the big things that's been happening. Basically, commercial revenue management systems traditionally don't do a really great job with groups and volume accounts like corporate accounts, but this accounts for a large amount of business for a number of hotels, and these different systems out there are starting to do a lot better job with not only helping hotels forecast those groups but also helping them do a better job of making the yes-or-no decision.

Also there's a lot that's going on with distribution-channel management as the Internet becomes a more frequent choice for customers for making their reservations—it's caused a lot of opportunities and problems for hotel revenue managers. There's a lot going on to help revenue managers make these decisions, make it a lot easier for them, so they are not having to go in and manually monitor each one of these different distribution channels.

Another interesting thing that's going on is the integration between customer-relationship management and hotel revenue management. So, for example, Harrah's Entertainment, a large casino and hotel company in the U.S., keeps track of its customers' gaming behavior. The way they do this is that most of the customers have a loyalty card that they use when they gamble, whether they're using the slot machines or playing the table games. Harrah's tracks this information, puts it into their customer database, and when customers call to make a hotel reservation, their system has caller ID and automatically picks up the customer's telephone number and then calls their gaming behavior. If you happen to be someone who gambles a lot, you're probably going to be quoted in a room rate that's fairly low, or you might even get the room for free because of all the other revenue that you bring into the casino. Whereas, if you're someone who doesn't gamble very much, you're likely to pay a much higher rate, because, again, you don't provide much gambling revenue. Very interesting combination of revenue management and customer data.

Other things that are going on...most hotels—and not only just hotels but most industries—have a real problem getting all their different computer systems together. You've probably seen this where you work. You've got your property-management system, your central reservation system, you might have a system for groups, you've got your revenue management system, you've got the Internet, and theoretically—note that I'm saying theoretically—they should all work together. But in reality they don't. So many times people have to print things out of one system and type them into another system. I bet a number of you have had to do that before. It's a real waste of time and real waste of resources. There's a lot that's been going on over the last year or two trying to provide more of an integrated approach so all the systems talk to each other—two-way interface—so those sorts of manual interventions don't really have to take place.

Another thing, kind of interesting, that's been going on is how hotels have been organizing revenue management. The traditional way is to have the revenue manager at the property level, because the thought behind this is that the revenue manager at the property has a good feel for what's going on in the market, and can make decisions, better decisions, accordingly. But what happens when you have a hotel that's fairly small, doesn't have a very sophisticated staff, and really doesn't have the resources to do this? What some hotel chains have been doing is hiring some revenue managers who are more regional or centralized who might have the responsibility for 15 to 20 hotels for managing their revenue.

You can also see some variations of this with Starwood Hotels and Marriott Hotels who have gone with a cluster approach. The cluster approach is similar to what I talked about recently with talking about how sometimes they have people who manage a number of hotels. Marriott's approach, for example, though, is a little bit different in that they managed 10 different brands, so they might take all the hotels that are in a particular city or region—and those are all revenue managed by one office. The idea here being said if someone is not willing to pay the price for a full-service Marriott, perhaps they might be willing to stay at a Residence Inn or a Courtyard. They can, not only cross-sell them, but they can also revenue manage them. A lot of very interesting things going on, and I'm sure we are going to see a lot more interesting things coming in the future.

Refining Strategic Levers

In this article, "The Strategic Levers of Yield Management," authors Sherri Kimes and Richard B. Chase point out that yield management is often viewed simply as a tool for pricing and inventory management, though it can also be used for managing duration. A broader theory of yield management (revenue management) would permit a range of service industries to gain significant benefits. In addition, a broader theory would provide insights into new areas in which companies experienced in the use of revenue management might further apply the concept.

The focus of this article is on the strategic levers available for revenue management, how they have been applied, and how they can be applied to other service settings.

"Real potential exists for novel use of these tools in industries not typically associated with yield management."

Extending Revenue Management

Your hotel may possess undiscovered revenue possibilities. Even if you have a revenue management system in place, additional revenue potential may be hidden in plain sight. In this topic, we examine several revenue-producing units within the hotel to determine how revenue management might be applied in each. These units may include a meeting room, a restaurant, or a spa that could be optimized to run more efficiently. By extending the same revenue management techniques you've acquired for general hotel operations to other profit centers within your hotel, you can increase your bottom line and make more money.

When you have completed this topic, you will be able to:

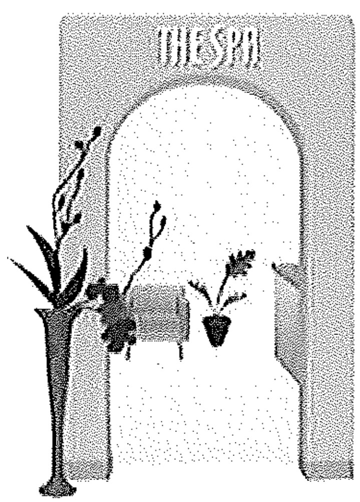
- List some nonhotel industries into which revenue management can successfully be introduced
- Identify ways your organization is or is not an ideal candidate for revenue management

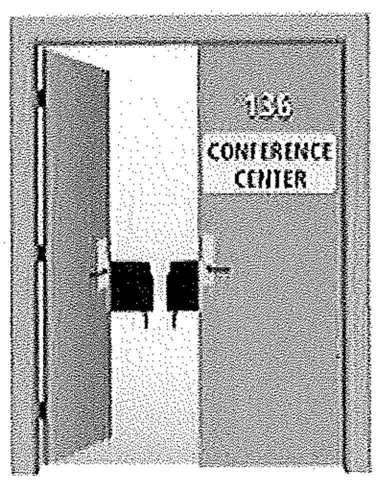
Beyond Rooms

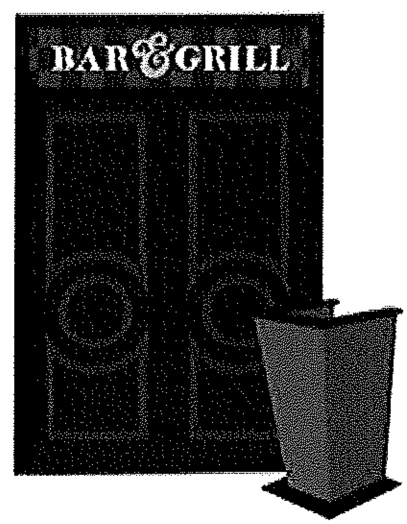
As a new manager at the Random Stays Hotel, you're building your knowledge of the revenue management system your colleagues implemented just before your arrival. According to reports, revenue is up 4%! This is great news, and no small part of the reason the general manager has asked you to look into revenue management opportunities in other units of the hotel.

Looking around, you see that the hotel spa suffers from severe slow periods, and that the conference facility is often empty. After talking to the spa staff, you discover that their unit has an excellent reputation for quality and that they need to turn customers away during peak periods. Similarly, the conference facility is in high demand at certain times of the year, although at other times its bookings slow to a trickle.

Is it possible to work with the known levers of revenue management to maximize the profitability of these facilities? To what other areas of the hotel could you apply these principles?







Extensions of Current Hotel Revenue Management

Let's talk a bit about how you can extend revenue management to other parts of the hotel and to other industries. If you go back to the very beginning when we first started talking about revenue management, we said there are two things that you have to play around with. You've got duration, or length of stay, and that could either be uncontrolled or controlled, and price, so few prices or many prices. And hotel rooms pretty much fall into quadrant two, where we try to control the duration, and we have lots of different prices for it.

If we go over and look at spas and function space, spas have a pretty predictable or controlled length of stay because we sell treatments for a certain amount of time. Function space—we sell space for a certain amount of time, and we have a deposit so if people don't decide to use their space, it doesn't really matter because we have their money. For them to be able to use revenue management, what they need to do is they have to offer more prices, because if you're offering revenue management, where you would like to be, if possible, is in quadrant two.

For example, with spas, what they can do is they can offer all sorts of different prices based on demand. When they do that, they're going to be having more prices—they are going to be using demand-based pricing, to be specific, and they're going to be able to be more profitable. The same thing with function space.

If we go down to quadrant three...this is my favorite quadrant, because you've got so many opportunities. So restaurants, golf courses—we don't know how long people are going to stay at the restaurant, and we can't ask them, because that's considered to be rude. And with golf courses, we don't really know how long people are going to take to play a round of golf, so, if possible, we would like to get some more control over the duration, and at the same time, we don't usually offer all that many different prices. So we have two tools available to us. We can try to control the duration, or we can try to offer more prices. Either one that you do, you're going to be able to be more profitable. If you happen to do both—control the duration and offer multiple prices—you're going to be even more profitable.

So there are all sorts of different industries that we can apply revenue management to. It's interesting to think about these. Well, how would you apply revenue management to function space? Or to restaurants? Or to golf? Or to a spa? And whatever we look at, we're always trying to maximize the revenue per available time-based (so time could be a day, an hour, a half an hour) inventory unit. An inventory unit might be a seat at a restaurant; it might be a room in a hotel. It might be the square meters in function space. So we are maximizing the revenue per available time-based inventory unit.

We can refer to this as RevPATI—revenue per available time-based inventory unit. The way we calculate this, again, is we multiply the average rate by the capacity utilization, or we could take the revenue and divide that by the number of inventory hours available.

Extending Revenue Management to Restaurants

Can revenue management be applied to restaurants? This article by Professor Sherri Kimes shows how and why it can. Restaurants, after all, offer a perishable product—time in the dining room! It's true that the food and drink may be perishable, but the focus for revenue management, according to Professor Kimes, is perishable seat hours. The restaurant is only open a certain number of hours per day, and, during those hours, the restaurant owner is hoping that most, if not all, of the seats in the dining room will be filled. Once those hours are gone, they will never come back. That's the essence of perishable inventory.

In addition, restaurants are characterized by relatively fixed capacity, time—variable demand, and segmentable markets—and restaurants take reservations, too. Though restaurateurs cannot directly control a customer's use of the restaurant table, they can control service processes to ensure that the dining experience is handled efficiently—just as they control them to ensure the customer's satisfaction.

Read about how Chevy's Arrowhead in Phoenix, Arizona, used revenue management levers to improve its revenue through process control in this essential reading on extending revenue management.

"The key to any successful revenue management strategy is to offer multiple prices to a variety of market segments, as appropriate."

Module Wrap-Up

In this module, you have completed a review of the basic principles of hotel revenue management. In addition, you have concluded an examination of how revenue management can be refined by hotels to achieve greater revenue and of how it can be extended to other areas of their operations and even to other industries. Most importantly, you have begun work on your course project using the project worksheet. You are now ready to move on to Module 3, where you will develop and apply the concepts covered in Module 2 and where you will complete your course project.

Having completed this module, you should be able to:

- Explain why a business would want to use revenue management
- Describe how duration and price can be used as strategic levers
- List the necessary conditions of hotel revenue management
- Provide examples of how to refine hotel revenue management practices
- Explain how to extend revenue management practices
- List some new internal areas that hotels can explore to refine their revenue management practices
- Recommend some areas of your organization you can explore to refine a revenue management plan
- List some nonhotel industries into which revenue management can successfully be introduced
- Identify ways your organization is or is not an ideal candidate for revenue management

Module Three: Revenue Management Applications

In this module, Professor Kimes describes her experience implementing revenue management strategies at Talking Stick Golf Course in Phoenix, Arizona. As you work through this case study—its analysis of data, diagnosis of revenue-related problems, and recommendations for increasing revenue—continue to work on your course project. Develop your thinking about your own organization as you consider Talking Stick and the Raffles Convention Center as revenue management candidates.

When you have completed this module, you will be able to:

- List steps one and two in the revenue management process
- Use baseline data to analyze cause and effect
- Discuss your interpretation of baseline data and of underlying causes
- List steps three though five of the revenue management process
- Calculate whether the duration of a process can affect its revenue capacity
- Identify two good candidates for revenue management extension, and explain your choices
- Recommend strategies for dealing with common problems related to revenue management
- Recommend approaches to measuring the success of a revenue management program
- Explain the difference between revenue and contribution
- Complete a revenue management plan for your organization

Making Revenue Management Happen

You've learned the basics of revenue management and how to extend these principles to other organizations. Now examine an in-depth case study presented by Professor Kimes. Use what you've learned to help you understand the issues at Talking Stick Golf Course in Phoenix, AZ, then discuss your impressions and recommendations for Talking Stick with other learners in the course.

When you have completed this topic, you will be able to

- List steps one and two in the revenue management process
- Use baseline data to analyze cause and effect
- Discuss your interpretation of baseline data and of underlying causes

On the Links

Talking Stick Golf Course, in Phoenix, Arizona, is a public course where the demand for tee times is robustly seasonal. The owners are interested in looking at how they might incorporate revenue management principles to increase their revenue. Can revenue management be applied to a golf course?

Professor Sherri Kimes worked with Talking Stick on this question, and she describes her experience in this module. Find out how she approached this problem, and learn both from the decisions she made and the results she achieved.

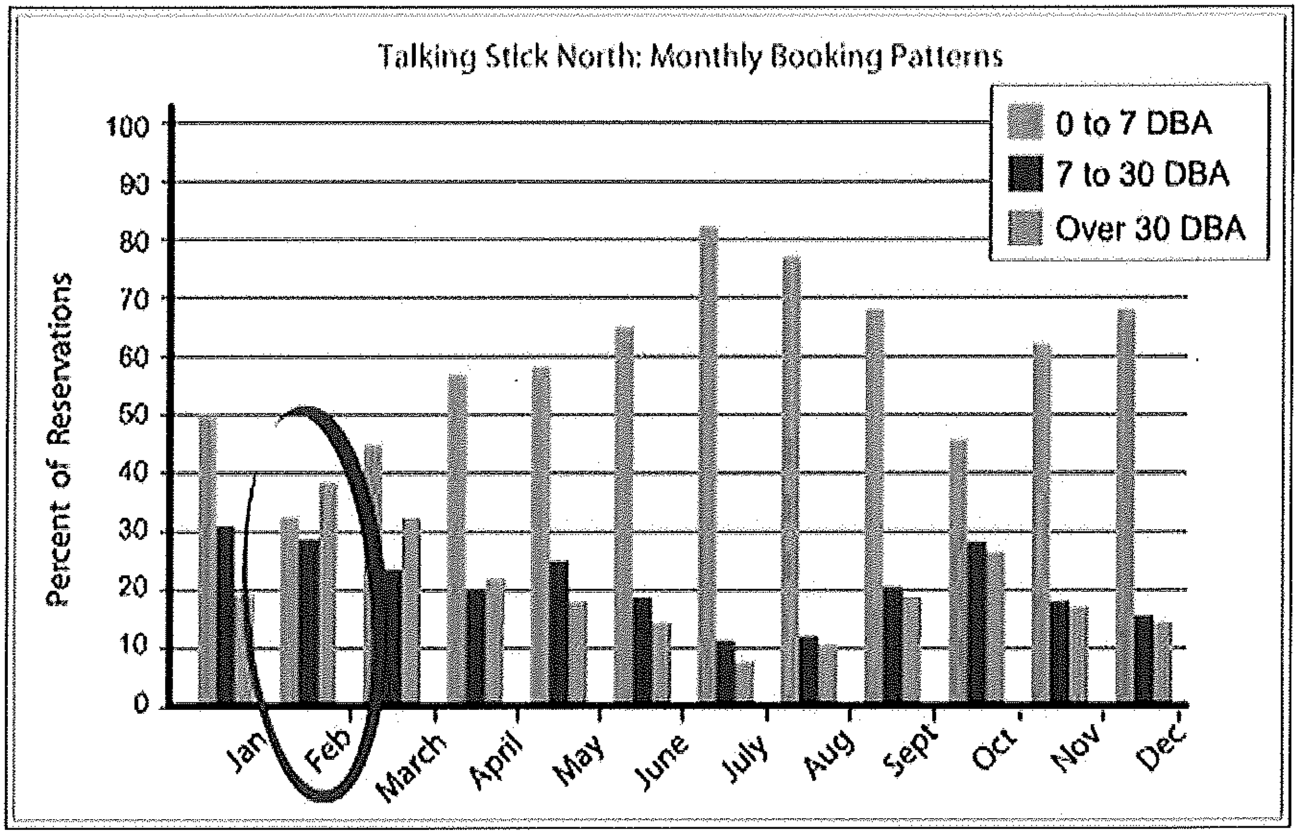
The First Two Steps

The golf course we're going to be looking at is a golf course called Talking Stick Golf Course. Talking Stick Golf Course is in Phoenix, Arizona, in a beautiful location right next to the mountains. And it's a public course—very, very popular. It has a lot of seasonality. Phoenix, Arizona, is a place where they have a lot of people who travel there in the springtime and winter to play golf. But in the summer it's really pretty warm—it's about 50 degrees Celsius—and not that many people want to play golf, surprisingly.

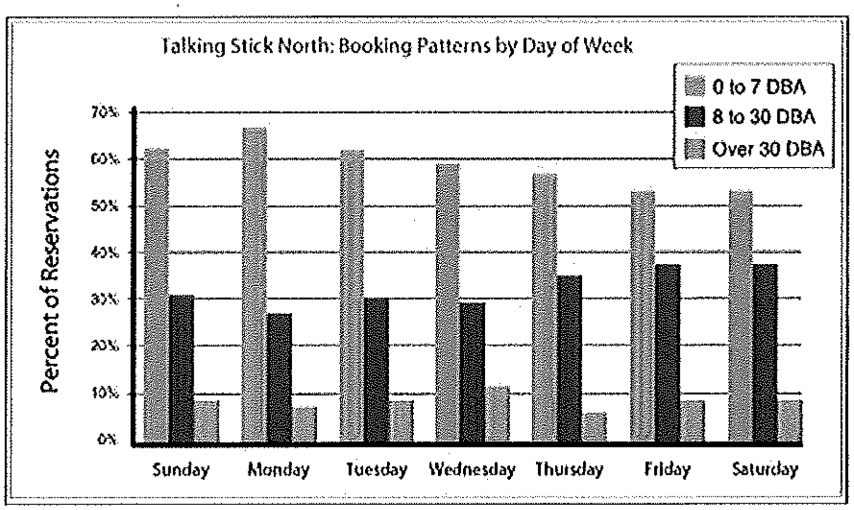
February RevPATT

	6a	7a	8a	9a	10a	11a	12p	1p	2p	3p
Sunday	$0	$46	$80	$86	$82	$86	$84	$83	$21	$0
Monday	$1	$31	$37	$65	$63	$62	$58	$40	$6	$0
Tuesday	$0	$18	$26	$53	$53	$43	$50	$40	$14	$3
Wednesday	$2	$20	$33	$49	$47	$39	$51	$54	$16	$3
Thursday	$0	$30	$61	$76	$75	$66	$75	$75	$25	$6
Friday	$0	$48	$94	$97	$101	$91	$90	$97	$60	$3
Saturday	$0	$52	$102	$99	$101	$96	$82	$92	$71	$3

And so the first thing we did was we established the baseline. We looked at a lot of different things. We looked at the occupancy, or the utilization percentage, of the golf course by a day of week and by hour of day. We looked at the RevPATT for the golf course, that is, the account not only the utilization percentage but the rate. We also took a look at their demand patterns, and also their booking patterns.



So when we looked at their demand patterns, what we found was that their high-demand periods were from November through March, and their low-demand periods were during the summer months from June through August.



For day of the week this varied as well. They had a much higher demand on weekends than they did during the week, very typical for most golf courses. In the time of day, mornings were more popular than afternoons. And particularly, when they started to get into the warmer months, the earlier in the morning, the better it was.

Now what's interesting with golf courses is that the number of hours that they have available for people to play golf is dictated by the number of hours of light. So they can start playing golf earlier during the summertime, for example, than they might be able to during the wintertime just because of the length of the day.

So let's just take a look at some of the things that we looked at. RevPATT—here's a slide talking about the RevPATT at Talking Stick. Notice again: revenue per available tee time. Notice that we broke this down by day of the week, so Sunday through Saturday and time of day from 6 a.m. to 3 p.m. And we went ahead and color-coded this, so we had hot when they had a very, very high RevPATT and blue when they had a very low RevPATT.

And if you look at this—Friday, Saturday, and Sunday, between the hours of 8 a.m. and 2 p.m. they were really busy. They had a RevPATT pretty much of over $100 on a lot of these days. This is $100 per available tee time per person. A lot of money. At the same time, we had the periods before 7 a.m. and the periods pretty much after three o'clock where not that many people wanted to play—we had a pretty low RevPATT. During the week, Monday through Thursday, our RevPATT wasn't nearly as high as on the weekend.

Already we're starting to get some ideas of what we might want to do.

We also took a look at their booking patterns. They were looking at customers who could book either in the last week—they could book between one week and a month ahead of time—or over a month ahead of time. If you look at this, most of the time, customers were making their bookings during the last week. The only time that this wasn't true was during February. During February, most of their customers were making their reservation over a month ahead of time. Again, some interesting information.

Also, if you look at this by day of the week, again, people were making their reservation during the last week. If we go back again to the seasonal things, they were making their reservation during the last week a lot more during the summer months than during the spring and fall and winter months, probably because of the temperature. When we looked at their existing pricing strategy, they had weekend prices and weekday prices. The weekend rates, where their regular rate was $145…their Twilight Rate was $90. Twilight was if people started playing after one o'clock, and their Supertwilight Rate was $60. This is if people started playing after three o'clock, because sometimes when people start playing that late, they might not be able to finish the round of golf. A round of golf normally takes about four hours for 18 holes, so if they start that late, they might maybe only get nine or 10 holes in. They had weekday rates which were $125, and they had Troon Twosomes for $75. This was a membership program in which people spent about $300 or $400 for an annual membership, and, in return for that, they were able to get discounted rates to play golf.

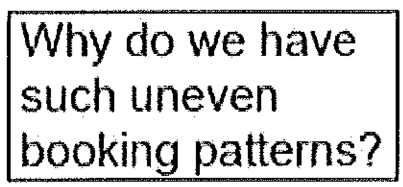
And so we wanted to look at the data. We wanted to understand the causes. Why was this happening? Well some things are kind of obvious. So for example, if I look at the booking patterns, it makes sense that people were booking, waiting until the last minute to book, during the summer months, whereas in February, which was a prime season, people were making their reservation a lot farther ahead of time. When I looked at the RevPATT patterns, it made a lot of sense that they were busy on the weekends, Friday and Saturday and Sunday, and not so busy during the week. Again, your idea here, when you're trying to understand the causes, is trying to figure out, what are the underlying reasons behind the behavior that you're observing?

Fishbone Diagram

Step two of the revenue management process is to understand the causes of your revenue management problems, and to do this you need tools. A fishbone diagram is a great tool you can use to analyze factors you've identified as affecting your revenue. Let's look at how the fishbone diagram is used to explore cause and effect. Starting with what we know about Talking Stick Golf Course, we can complete a simple diagram and then use it for steps three and four of the revenue management process.

Instructions for Creating a Fishbone Diagram

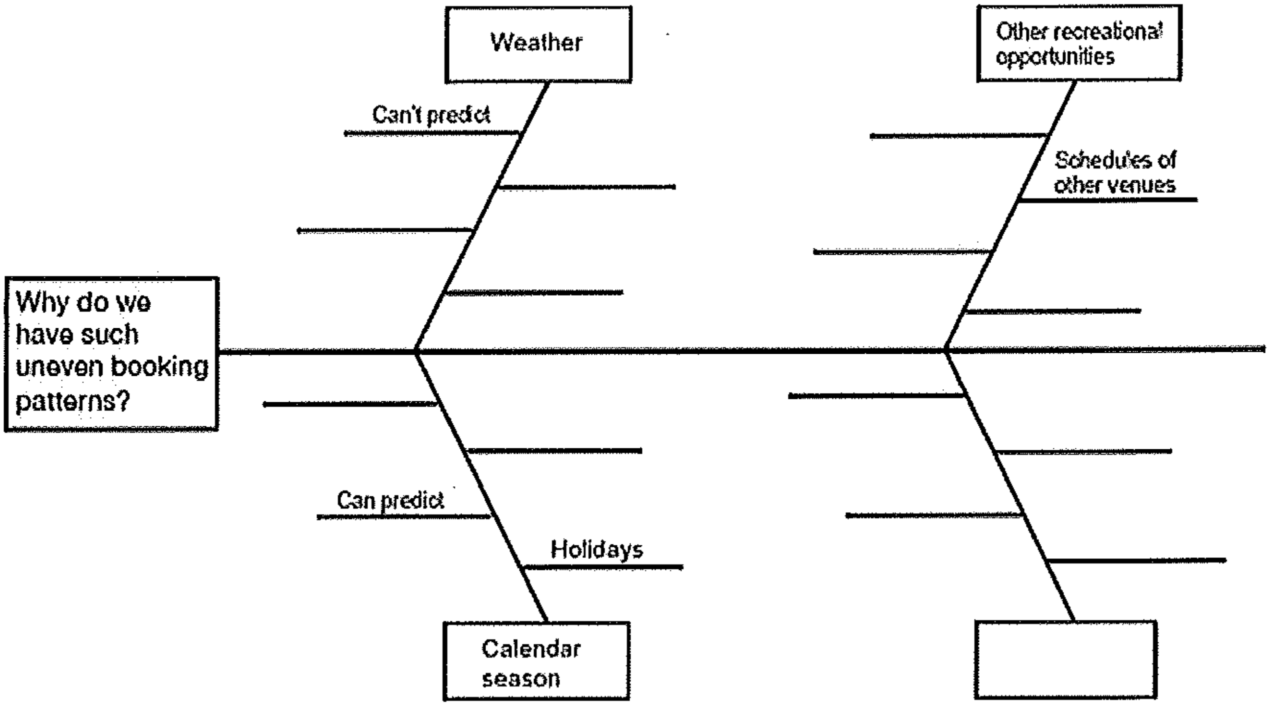
First, identify the issue to be analyzed. In this case, let's focus on the uneven booking patterns at Talking Stick. Recall that in the summer months, golfers make many reservations at the last minute, whereas in the winter, they may book weeks or months in advance. This issue can be represented in box like this one.



This is the head of the fish in your fishbone diagram.

Next, brainstorm the possible reasons for this situation. Draw a horizontal line from your issue and begin building up the fish's "backbone" with possible reasons for this behavior.

As you develop the diagram, keep what you consider to be the major causes closer to the "head" of the diagram (the issue), and the more tangential causes closer to the "tail" of the diagram.



As you continue to brainstorm possible causes, you'll get a clearer picture of the factors you might address and in what order. Can you make this fishbone approach work for you?

Revenue Management Strategies

You have looked carefully at steps one and two of the revenue management process: establishing the baseline and understanding the causes. In the previous discussion, you shared your opinions about how the team at Talking Stick might proceed, given what its members learned in the first two steps. Now continue your study of Talking Stick Golf Course. Find out if they pursued any of the strategies you would have recommended, or if they did something completely different.

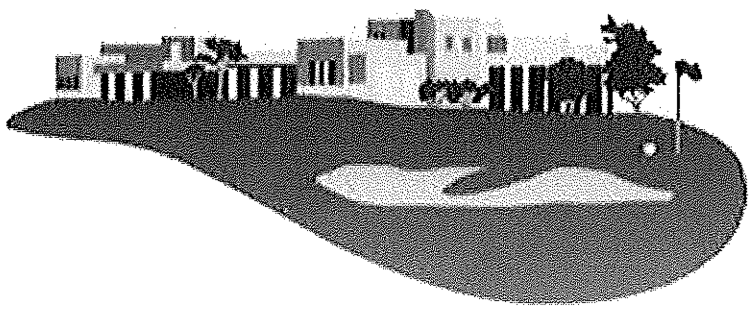
In this topic, we look at steps three through five of the revenue management process. Professor Kimes describes the strategy the team chose, how the team implemented the changes, and how it monitored the impact of those changes.

When you have completed this topic, you will be able to:

- List steps three though five of the revenue management process
- Calculate whether the duration of a process can affect its revenue capacity
- Identify two good candidates for revenue management extension, and explain your choices
- Recommend strategies for dealing with common problems related to revenue management
- Recommend approaches to measuring the success of a revenue management program

Does It Apply?

You've been working with the managers of Talking Stick Golf Course in Phoenix, Arizona, to help them identify ways they can use revenue management strategies to boost their revenue. Alongside them, you've made baseline observations and done some cause-and-effect analysis toward this end. Now it's time to recommend strategies. You know well the two strategic levers of revenue management: price and duration. Can you make good recommendations for Talking Stick based on what you know and what you have observed?



Developing Hot and Cold Strategies

It was time to develop a strategy. We wanted to talk about a hot strategy and a cold strategy. A hot strategy was when we were busy, a cold strategy was when we were slow. And so if you look back at this hot and cold table, when we were hot, it was red, and that was Friday, Saturday, and Sunday between 8 a.m. and 2 p.m. When were we cold? This was earlier in the day and later in the day. Also notice that during the week, we weren't nearly as busy as we were on the weekends.

February RevPATT

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We had a lot of different things that we could play around with here. Again, remember the two strategic levers of revenue management: we've got duration, or the length of play, and we have price. We decided that we didn't want to play around too much with the length of play, even though, in the golf industry, one of the major complaints of golfers is the speed of play. Most regular golfers think the speed of play is much too slow. If you think about it, spending four or four and a half hours to play a round of golf—that's a whole lot of time. But there's also not a whole lot you can do about duration, not to have the sort of impact that we were talking about. You might be able to do things like require people to use carts. You might be able to do things like making sure that customers who are not particularly good golfers don't play during busy times.

But we decided that we wanted to have our emphasis be on price. We'll come back and talk about duration in a little bit.

So we started talking about charging higher prices on the weekends and lower prices during the week. But the more we talked about this, the more the golf professionals started feeling kind of uncomfortable with charging different prices. What they were worried about—and I understand why they were worried—was how would customers react to this? If customers were upset, maybe they wouldn't want to come back to the golf course in the future. There are a lot of competing golf courses they could go to. So we decided to do a survey of The Troon golfers—Troon was the company that ran Talking Stick Golf Course—to see what they thought.

So we did a mail survey. We sent this to a thousand randomly selected golfers. We got a 30% response rate. We gave these customers six different situations that we asked them to evaluate on an Acceptable—number was one—up to an Unacceptable—or seven—scale. We looked at six different things, as I said. One was Very Acceptable. Seven was Very Unacceptable.

Time-of-day pricing was considered to be Acceptable. An average on this would be about four, and this one was rated at about 3.5, so charging different prices by time of day.

Varying price levels—what we meant by this was for someone who regularly played golf on Saturday mornings at 10 o'clock, one week the price might be $60, the next week the price might be $90. Then it might be back to $45. Customers found this to be pretty Unacceptable. The average ranking was 6.1.

A no-show fee was rated to be Acceptable with an average rating of 3.0. Two-for-one specials, people thought that was wonderful. They gave that an acceptability ranking of 2.1.

Advanced-booking fees were considered to be Unacceptable, a rating of five.

A tee-time-interval premium—what this meant was that charging more for having more time between parties. So rather than perhaps having eight minutes between a party of golfers, perhaps 12 minutes between them. People thought this was Acceptable as well, with a ranking of 3.1.

Once we came up with this, we started thinking, OK, what can we do with price? Because after they saw the results of this research, the golf professionals were a lot more comfortable with this and were willing to do some experiments. So what our experiment was in this case, was at Talking Stick, is we started taking a look at their pricing strategy. As I mentioned before, they had a weekend price, and they had a weekday price. Any time people wanted to play during the week, they automatically got a lower price than if they played on the weekend. We started thinking about their market and their customers.

I mentioned before, that in the winter and in the spring they have a lot of tourists who come in from other parts of the U.S., and they are there to play golf. They don't care if they play on the weekend or whether they play during the week. They're not really particularly price sensitive. So we started talking about, why do we automatically offer them a discount if they play during the week?

Maybe what we should do is have one rack rate like we do in a hotel, and in this case we said the rack rate was $145. On the weekends, which were our hot periods, only the rack rate of $145 per person was going to be available before one o'clock. On the weekdays, when we were a little bit colder, we were to have both the rack rate $145 and a qualified discount rate of $125 available. To qualify for the discount, a customer had to be a member of the Troon Rewards, which was their frequent-customer program. Free to join it, and if customers weren't a member, we could offer to sign them up over the telephone.

So we first, again, identified the hot and the cold periods, and came up with a very, very simple pricing-strategy experiment to see how this would work.

Implementing and Monitoring Changes

So we first, again, identified the hot and the cold periods, and came up with a very, very simple pricing-strategy experiment to see how this would work. Well, the first thing that we had to do was to provide training to the reservation agents and also to some of the personnel at the courses. What we did with the training, we had three different phases to the training. The first thing we did was we talked about, "What is revenue management, and where do you see it in other parts of your life?" This was about half an hour.

The second part of the training, we went through and talked about "How will you quote prices for this experiment?" So for someone who wanted to make a reservation during the week, the phone call might go something like this: "I'd like to come in and play golf on Wednesday morning at 10 o'clock."

"Wonderful! We have space available."

"Well, how much will that be?"

"We have a tee time available for $145." If the customer said yes to this, they went ahead and booked them. But some customers would say, "Well, I don't know. That's kind of expensive." Then the reservation agent was trained to ask, "Are you a member of our Troon Rewards program?" If the person said yes, the agent said "Well, I can offer you a lower rate of $125." If the person said no, the agent was trained to ask, "Would you like to join Troon Rewards? If you do, it's free and I can offer you a lower rate."

So we went through and talked about exactly how to do this.

The third part, what we did, we did some role playing so that the reservation agents got some practice with doing it. We also had to make some changes to the reservation system so that when people made a reservation that they could see what the different prices might be.

Finally, we went through and monitored the impact.

We started this in March, and what we found was that 80 to 90% of the customers who wanted to play during the week booked at the rack rate, $145 versus $125.

What was also interesting was that the declines due to rate decreased, so people weren't put off at all by this higher price. In March we had a revenue increase of $10,000, in April we had revenue increase of $9,000, and it just continued. This has since been rolled out to their other golf courses that they manage. Very, very simple experiment, but it was very, very profitable.

Notice also that we didn't even play around with duration. We could have done some things like requiring that people use a cart, or we could have had a ranger on the course to make sure that people were moving along at a reasonable pace. We just looked at price, and we were able to increase revenue.

All we did here, again, was to implement this whole five-step approach. It's not very complicated. The first thing is establish the baseline. What's your occupancy? What's your RevPATT? What are your different demand patterns?

Understand the causes. What are the underlying reasons that are driving this performance? Coming up with a strategy—and in this case our strategy was hot and cold. We used price as our strategic lever.

We implemented the changes, which involved a lot of training. Then finally we went to see, did it actually work? Revenue management is a business process. It's a way of looking at things, a way of looking at businesses. Once you start learning more about revenue management, you're going to see revenue management opportunities most everywhere you go. This is going to be something that's going to be extremely valuable not only for you, but for your company, because you're going to be able to help them figure out how to make more revenue.

A Case for Revenue Management

You've extended the principles of revenue management to Talking Stick Golf Course, and you've thought about how to extend them to one or more areas at your chosen organization. Now let's consider a new application of revenue management, in a different context, to further instill how diversely these practices can be applied. In what follows, you'll use what you've learned from the Talking Stick case study, and you'll complete your recommendations on a revenue management plan for your organization.

When you have completed this topic, you will be able to:

- Explain the difference between revenue and contribution
- Complete a revenue management plan for your organization

A Question of Space

You have steadily acquired a solid background in revenue management—not just in the context of hotels, but in that of other industries as well. Your challenge now is to consider a high-margin area of the hotel we have not yet looked at in detail: function space. The question is, can something like function space be managed using revenue management techniques?

Here are some day-part-contribution data for the function spaces you've been asked to evaluate.

	Contribution per Available Day Part							
	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total
Ballroom	$9,810	$4,350	$2,470	$4,280	$6,220	$6,950	$10,450	$6,460
Meeting room 1	$610	$270	$470	$420	$490	$390	$526	$460
Meeting room 2	$1,000	$1,530	$1,260	$1,050	$1,590	$1,800	$1,860	$1,440

What can you say about the demand for these rooms? What's true in general? Are there any patterns to the demand?

Table 2 presents the same contribution data, but this time expressed per square foot. This altered view provides new information.

	Contribution per Available Day Part							
	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total
Ballroom	$1.10	$0.50	$0.30	$0.50	$0.70	$0.80	$1.20	$0.75
Meeting room 1	$0.20	$0.10	$0.15	$0.15	$0.15	$0.15	$0.18	$0.15
Meeting room 2	$0.20	$0.30	$0.30	$0.20	$0.35	$0.40	$0.40	$0.30

What does this table tell you about the revenue performance and the revenue potential of these rooms?

Function Space

Another thing interesting with revenue management is how we can apply it to other parts of the hotel. Let's just think about some of the major parts. Function space or meeting space—OK, does it have a relatively fixed capacity? Yes. The capacity is typically in square meters or square feet, because you can reconfigure that capacity usually in any way that you want. It also matters the way that you set the room up, whether it's in that classroom style or perhaps in a boardroom style—it really makes a difference. But the capacity is still relatively fixed.

You could go ahead and start looking at perishability of that inventory. (If you don't sell it tonight it's gone.) Do customers have varying price sensitivity? Yes.

What would function-space revenue management look like? Well, basically the same sort of thing as hotel revenue management. You'd be forecasting your demands, and, based on demand, coming up with different prices and availability controls. When demand was higher you wouldn't have discounts available. When demand was lower, you would probably have lots of discounts available.

You could also be using this with restaurant outlets within the hotel. The same sort of thing with spa. What you should do in your hotel is to look around. Look at all the different revenue sources that are there, and see if you can figure out a way to revenue manage them so that you can bring more revenue into the hotel. I can assure you that you would probably be one of the first people to do this. Your general manager will be thrilled with it, and it's an opportunity for you to help the hotel make more money.

Extending Revenue Management to a Convention Center

Can revenue management be applied to a convention center? This article by Professor Sherri Kimes and Kelly A. McGuire shows how and why it can. Kimes and McGuire begin with the assertion that a convention center offers a perishable product. As was the case with restaurant seat hours and golf-course tee times, the available space in a convention center at a particular time is perishable: once it's gone, it will never come back. The measure the authors have come up with to gauge the center's revenue performance is contribution per available space for a given time: ConPAST.

In the article, the authors explain how they developed a revenue management strategy for the Raffles City Convention Center at the Swissotel Stamford and for the Raffles Plaza in Singapore. Read about how these centers used revenue management to improve their revenue in this essential reading on extending revenue management.