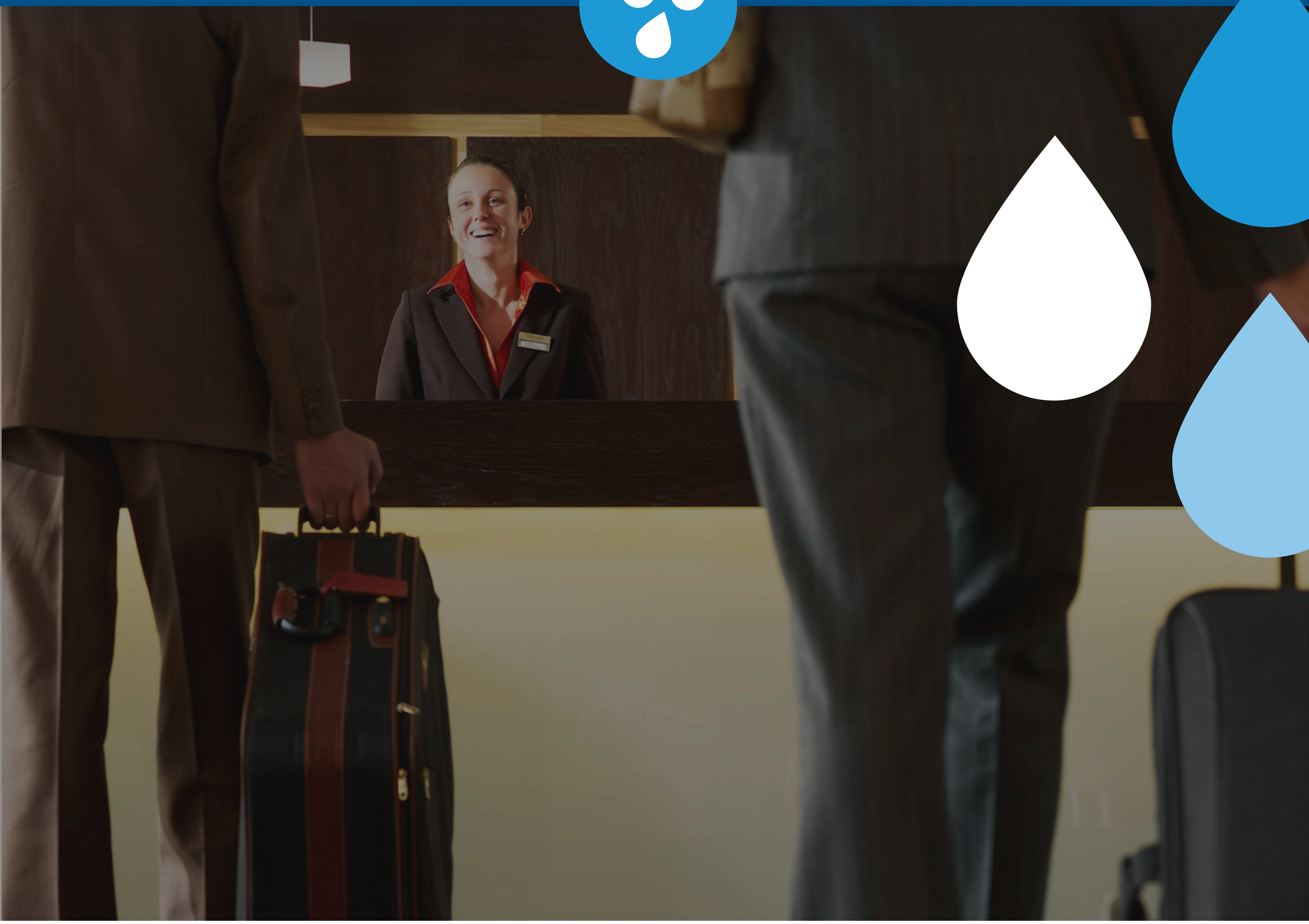
GROUP REVENUE MANAGEMENT 2.0

How new analytics are improving processes, decisions and revenue performance.



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Introduction

Group business forms a critical part of the sales mix for many hotels. With the record increases in occupancy of the last few years and the rise of the eRFP and its attendant workload, group business has never been more important, nor more of a challenge for hotels. Yet the art and science of revenue management (RM) remains heavily focused on transient decision-making, with conferences, thought leadership and academic work largely neglecting group RM in favor of transient. There is evidence to suggest that this imbalance should be redressed.

The Table below summarizes the core room revenue performance metrics for the upper upscale and luxury hotel segments of the US lodging industry. In these hotels – which typically attract the largest proportions of group business – during the last five years of record growth, group business has held virtually the same share of hotels' overall occupancy – in the 33%-34% range in each year.

	Occupancy			ADR			RevPAR		
	Group	Total	Group vs Total %	Group	Total	Group vs Total %	Group	Total	Group vs Total %
2011	23.0%	67.3%	34%	$162	$169	96%	$37	$114	33%
2012	23.3%	68.9%	34%	$166	$176	94%	$39	$121	32%
2013	23.0%	69.8%	33%	$172	$184	94%	$40	$128	31%
2014	23.8%	71.4%	33%	$177	$192	92%	$42	$137	31%
2015	23.9%	72.2%	33%	$184	$199	92%	$44	$144	31%

Business Mix for Upper Upscale and Luxury US Hotels (Source STR Global)

Group Average Daily Rate (ADR) and consequently Revenue per Available Room (RevPAR) have grown almost as quickly as their total hotel equivalents over the same period, suggesting two important things. First, despite impressive overall rate growth in the transient sector, group rates have almost kept pace. Second, and perhaps more importantly, group rates are typically being managed in a less analytical, less scientific way than the rest of the hotel's business. We will discuss, and later demonstrate through data analysis, how the gap in rate growth could and should be closed through the adoption by revenue managers of better analytics than those typically being used today.

In this eBook we will argue that the industry and revenue managers should devote more time and focus to this important sector of the business. Specifically, we will explore:

- The nature of group business and why it matters – often more than hotels give it credit for
- The process of handling group RFPs and the impact that it has on revenue management
- The shortcomings in the industry's most widespread processes for setting group rates
- The introduction of new analytical approaches that are changing the face of both group RM and group sales

Our goal is to help revenue managers look beyond conventional wisdom and traditional approaches to group RM. We will share the results of new analysis performed on actual hotels that are embracing new analytics in a radically different approach to RM. We will demonstrate the gaps in current industry practices that can be addressed by analytics that save time, improve decision-making and ultimately improve performance.

1 Understanding Group Business

In the introduction we described the importance of group business to many hotels. While they are undoubtedly important, groups are also complicated, as numerous – often conflicting – factors have to be considered in every group RM decision.

There are two broad sets of factors that complicate hotels' handling of group business: the inherent complexity of group bids, and the incentives that hotels tend to set for their sales and RM leaders. In this chapter we will discuss both with the objective of understanding the background and current issues with group RM.

GROUP BUSINESS IS MORE VALUABLE THAN PEOPLE GIVE IT CREDIT FOR

Balancing Sleeping Rooms & Meeting Space

Before we address any of the details of group RM analytics and decision-making we must first understand the nature of group RM decisions. In particular we must pay attention to the facto rs that make group RM decisions more complicated than – say – transient RM decisions.

The Fixed Capacity Problem

The concept of fixed capacity is central to all applications of RM. In retail and manufacturing the supply can be adjusted in response to short-term fluctuations in demand. A hotel with 300 rooms can't realistically add 50 more rooms in response to an anticipated increase in demand for an upcoming month, for example. Nor could it remove rooms when demand is soft.

When demand exceeds supply, inventory – whether it be hotel rooms or seats on an airplane or otherwise – is considered to be constrained. The typical Revenue Management response is to use price as a lever to control the flow of demand to better match the available supply. Higher prices will usually decrease demand as more price-sensitive customers will opt not to book rather than being turned away on the basis of sold-out inventory. In this way, the business will benefit from ensuring that their product is consumed only by the highest-paying customers, thereby maximizing revenues.

The challenge is bigger for hotel group business, as it requires us to optimize two inventories – sleeping rooms and meeting space – at the same time.

Add Business Segments

In addition to the problem of two separate and fixed inventories, the types of groups or individuals that consume bedrooms and meeting rooms fall into three broad categories.

Figure 1 summarizes the consumption patterns of three groups: Transient Guests, Meetings and Conventions and Local Catering Groups, each of which is described below.

Transient Guests are individuals looking for sleeping rooms only. Typically (but not always) they book later in the booking window and hence may be subject to higher rates based on the constraints in place on particular days. Transient guests on their own will rarely displace other types of business. Still, an accurate forecast and a well-crafted segmentation scheme for transient guests will help a hotel in achieving the best possible business mix in a constrained situation.

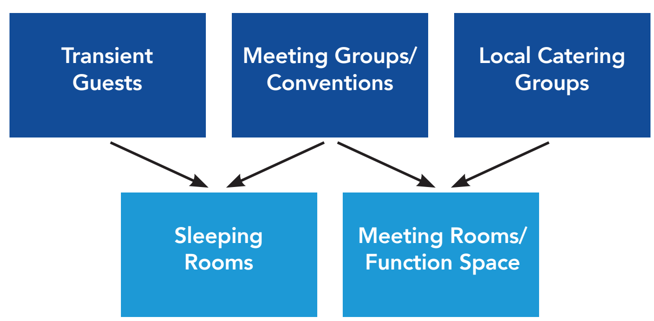


Figure 1: Constrained Capacity and Group Booking Segments (Source: Interfaces, Jan-Feb 2010)

Meetings and Conventions are groups that need both meeting space and sleeping rooms. They typically book early in a hotel's booking window, which helps ensure availability of inventory and allow the hotel to fill in “gaps” with other types of business later on. They are usually the source of a significant portion of a hotel’s volume and are therefore important in driving occupancy for both rooms and meeting space.

Meetings and conventions also provide opportunities for a hotel to capture a higher rate from other groups and transient customers once there is a constraint on available rooms. However, there is a risk that a hotel might book too many rooms and/or too much space at a discounted or negotiated rate and displace higher-value customers later on in the booking window.

Booking groups that heavily utilize either sleeping rooms or function space may make it difficult to accommodate additional group requests in the future. Therefore it is important that the hotel accurately forecasts future business and how the needs of each group impact the property as a whole.

GROUP REVENUE MANAGEMENT IS COMPLICATED

Local Catering Groups are function space-only clients and their booking windows vary, but flexibility exists. While they will not book a material number of sleeping rooms, they can potentially make or break the overall utilization of the hotel.

As is the case with meeting groups, booking too much function space early on in the booking window can displace future business that needs that space. It can also displace demand for sleeping rooms from groups that need them. Many hotels try to leverage the flexibility these groups have in their booking horizon and backfill unused function space with this business once other group and transient business is on the books.

Balancing demand from these three segments is far from easy. While there is no ideal, mathematical solution that balances that demand with the supply of bedroom and meeting room inventory, hotels have strategies to help them manage. Many hotel sales departments will work together with revenue management and catering to establish a time prior to arrival that function space is “released” to catering for booking these groups.

The dynamics between the needs and behaviors of each business segment and the associated constrained inventories resembles a competition for space. This is sometimes exacerbated by the fact that different departments of the hotel organization bear responsibility for each segment:

a) Hotel Sales typically drives demand and makes decisions concerning the meetings and conventions segment

b) RM might focus on the transient segment while catering is responsible for space-only groups

The already complex matter of balancing group supply and demand is rendered more complicated still by the need to coordinate more than one department in the hotel. To this already complex scenario we will now add the potentially distorting factor of management incentives.

Revenue Management’s “Rooms-First” Habit

Room revenue dominates the conversation about RM. There are very good reasons for that – RevPAR index drives decisions from major capital investments, all the way down to individual tactical RM decisions. The availability of a single metric that allows so many actors in an industry to be aligned around the same financial objective undoubtedly makes the industry more efficient.

However, RevPAR index – and in particular its growth or decline – is not always the best framework for decisions relating to hotel profitability. Other revenue streams matter – in particular, considerable revenue and profit can be generated from the food and beverage and meeting space components of group business. But the industry’s incentive structure does not always reflect this reality.

In early 2015 HSMAI commissioned a survey that reviewed and recorded the compensation structure of hotel RM teams. The results in Figure 2 highlight two interesting points from the 322 respondents:

1. Most revenue managers (52%) have either RevPAR Index or Room Revenue as their primary performance metric.

2. Among sales leaders, Total Revenue is more prevalent as a primary metric (26%), but Room Revenue still dominates for 36% of respondents.

	Sales Leader	RM Leader
Primary Performance Metrics	36% Room Revenue	27% RevPAR Index
	26% Total Hotel Revenue	25% Room Revenue
	20% Gross Operating Profit	13% Total Hotel Revenue

Figure 2: HSMAI Survey Results

The dominance of Room Revenue metrics for both sales and RM leaders has the potential to bias important decisions regarding group business. To make good decisions on group business, revenue managers must consider the total revenue opportunity of a group. Food/beverage and requested meeting space contribute to the real value of any given piece of group business.

Understanding Total Group Revenue

There are times when you should accept a group, even if the booking initially appears to be "losing" revenue. Consider the following scenario:

- A 300-room hotel is considering a large group opportunity for the week of September 12, 2016.
- Last year, the same customer paid $140 per room per night at a different hotel. The team believes it can get the group up to $170 per room/per night.

Group Opportunity

	Mon	Tues	Wed	Thurs
Dates:	9.12.16	9.13.16	9.14.16	9.15.16
Rooms:	200	200	200	200
Average Rate:	$170			
Displacement Cost: (lost opportunity)	$128,800			

Group Value

	Revenue	Profit
Group Rooms Revenue:	$136,000	($26,800)
Food Minimum	$45,000	$18,000
Beverage Minimum	$10,000	$7,000
Meeting Room Rental	$4,000	$3,200
Total:	$66,200	$1,400

Based on the analysis completed by the hotel, the group causes us to forgo $26,800 in profit due to displacement of other higher-rated transient business. However, by adding in the food/beverage minimums, they can make the overall value of the group profitable.

In this example, the group only makes sense if you factor catering revenue into the equation. And stakeholders need to be confident that the team will push hard enough to get the catering spend guarantees. But assuming the analysis is realistic, it is clear that the hotel's profitability is best-served by taking the group.

REVENUE MANAGERS OFTEN MAKE THE WRONG DECISION ABOUT GROUP BUSINESS

Revenue metrics are critical. But when room revenue is the only metric (as the HSMAI research suggests it is for most revenue managers), hotels create an incentive to make counter-intuitive decisions about group business.

Groups are complicated. As we have discussed, it is far from straightforward to balance multi-segment demand against two separate but inter-dependent fixed inventories (bedrooms and meeting rooms). The added complications of multiple organizational stakeholders with different and sometimes conflicting performance metrics makes for a difficult decision-making process. With ever-increasing volumes of group RFPs the workload on revenue managers has been steadily increasing. In the next chapter we will discuss the implications for revenue managers.

2 Group RFPs - Avoiding the Revenue Management Bottleneck

Imagine you're at the airport. You're rushing to board a flight. You arrived with no time to spare. You run into the airport to the security line, and it looks long. You wait patiently, telling yourself that you've got plenty of time, but the seconds keep ticking by. The seconds turn to minutes, and you start to worry that you might not make your flight. Then you start to analyze the situation you see before you.

The line next to you looks like it's moving more quickly than yours. You look all the way to the front of the line and you see that there are two passenger screening agents at the front of the other line and only one working on yours. Panic sets in!

In this scenario you've identified a bottleneck. The fast-moving line is working well: as quickly as people arrive, they are moving through the checkpoint, then the scanners, and on to their flights. The single agent on your line is overloaded with work, meaning that the line will get longer and longer until somebody corrects the process.

The Bottlenecks in the RFP Process

The process of responding to group RFPs in a hotel is full of potential bottlenecks. When a sales department receives a group RFP, they must allocate some time to deciding whether or not to respond. They must then identify whether or not the meeting room space is available to accommodate the group. Finally, a decision must be made on the sleeping room component of the bid.

This is the hardest part of the process, as it requires them to consider not only whether or not rooms are available, but whether the group is likely to displace higher-value individual guests. At this point, unless the group is very small, the sales team will have to get approval from the revenue manager. Each time a revenue manager receives a new group request, he or she has to understand:

- group demand – both the demand that has already materialized and the demand that is still to come
- the future transient bookings that will potentially be displaced by the group
- non-room revenue.

With this many decision points, each group request requires its own analysis and consideration before the revenue manager can reach a pricing decision.

Furthermore, whereas transient revenue management lends itself to rules and price changes that affect many bookings, group RFPs are unique and require time-consuming individual analysis. This puts the revenue manager in the unenviable position of being the bottleneck in the group bidding process. Sales managers fret about the time it's taking to respond to bids – in the same way that our passenger in the security line looks nervously at his or her watch – because they know how important response time can be in winning group business.

Addressing the Group Spam Problem

The revenue manager cannot be rushed into a decision, because a bad decision to accept a group can have a significant impact on the hotel's revenue. This already familiar situation has been made worse in recent years because of the problem of "group spam" – the volume of speculative RFPs that are being issued to an ever-increasing number of hotels by meeting planners. Just like the lengthening line at airport security, the revenue manager sees an ever-increasing workload of group RFPs to be evaluated.

The fundamental problem with group RM is that the tools available to sales and revenue managers have not kept pace with the technology available to meeting planners. As a result, the volume of RFPs has been increasing rapidly, but the tools and methodologies for responding to them have remained the same for most hotels.

Help is at hand, though. While hotels have not kept pace with meeting planners, new technologies and processes are emerging that provide a solution to some of the long-standing problems that we have outlined so far. The three key components of group yield decisions, group pricing and lead prioritization will be discussed in the next three chapters.

3 How to Yield-Manage Group Business

Chapter 1 outlined the challenges of balancing supply and demand in order to make group pricing decisions. Hotels need to decide how to optimally allocate sleeping rooms and meeting space across business segments and to each individual group, and then derive the "right" price that aims to maximize revenue. The decisions on how to allocate and price sleeping rooms and meeting room space can be described as "yielding".

Historically these decisions have mostly remained independent for hotel rooms and function space, though some consideration for the other can be given in the yielding of each. The yielding landscape is starting to shift towards the adoption of more dynamic tools to manage each inventory separately as well as approaches that attempt to consider both sleeping rooms and function space together. In this chapter we will outline both current processes and some new ones that are changing the way the industry approaches group RM decisions.

Yielding Sleeping Rooms

Conventional RM wisdom has it that there are two main components to yielding demand for sleeping rooms as it relates to groups: through transient displacement models and group blocks.

Transient Displacement Models account for the transient business that would be "spilled" if the hotel were to accept a proposed group booking. They help hotels to calculate a break-even rate or total profit hurdle for the group. In constrained situations the transient displacement models optimize the remaining forecast of transient business both with and without a proposed group. The difference in the resulting optimal revenue becomes the total displacement value. That value divided by the number of proposed group nights equals the break-even room rate for the group, or alternatively a profit-per-room hurdle if other revenue streams are being considered.

Figure 3 contains a simplified example of displacement analysis. A 500-room hotel is considering a proposed group totaling 350 room nights over three nights. This hotel has three transient segments that are worth $200, $180, and $160 per night respectively, and is forecast to be full or nearly full all three of these nights. The first step of the analysis is to deduct group and transient reservations already on the books to calculate how many available rooms are yieldable to the remaining transient demand plus the group, if they book it.

	Tue	Wed	Thu	
Total Hotel Capacity	500	500	500	
Reservations on Hand				
Group	100	100	100	
Transient	30	40	35	
Remaining Available Capacity	370	360	365	
Transient Unconstrained Forecast				
Segment 1 ($200/nt)	100	125	150	
Segment 2 ($180/nt)	150	125	200	
Segment 3 ($160/nt)	75	100	100	Total
Optimal Remaining Revenue w/o Group	$59,000	$63,500	$68,400	$190,900
Proposed Group Size	100	150	100	
Adjusted Remaining Capacity	270	210	265	
Optimal Remaining Revenue w Group	$50,200	$40,300	$50,700	$141,200
Displacement due to Group	$8,800	$23,200	$17,700	$49,700
			Total Proposed Group Rooms	350
			Break-Even Rate/Profit Hurdle	$142

Figure 3: Simplified Displacement Model

Next, the hotel needs to understand the optimal remaining rooms revenue if the hotel does not accept the group and just accommodates the remaining transient demand. In this simple example, we are neither considering the length of stay of each arrival nor the stay-throughs from previous nights, which would be important to do in practice. The total, optimal achievable amount given the demand forecast is about $191k.

The next step is to deduct the proposed group size from the available capacity and re-calculate how much of the $191k the hotel would lose if the group booking were accepted. With 350 fewer room nights available for the transient demand, the total achievable revenue is reduced to just over $141k. This assumes the hotel is successful in only accepting the highest-value transient business and "yielding out" the less valuable segments.

The difference between these two values – roughly $50k – is the value of the transient business that would be displaced by the proposed group. Dividing this amount by the 350 total proposed group rooms gives us a value of $142, which is the amount the hotel needs to receive from the group on a per-room night basis in order to break even with what they anticipate losing from transient business. In this example the break-even rate is comprised purely of room revenue, however contribution from other revenue streams can be considered in the calculation.

As the example shows, displacement models depend on an accurate transient forecast at a segment level, along with an appropriate valuation of each segment. Good displacement models can provide an effective safeguard against displacing more valuable transient business, however this approach has a few drawbacks. The resulting rate is just a break-even rate. A hotel is not necessarily any better off by accepting the group business at this rate, especially given the harder-to-quantify risks of group wash, attrition, and cancellation. Further, these models do not take into account the amount of function space necessary to ensure the group is meeting its overall profit hurdle.

Group Blocks work by removing a given number of group rooms from transient inventory to help a hotel price the latter appropriately. Proper yielding of sleeping rooms to transient customers requires an accurate view of available transient supply.

Hotels typically deduct room blocks coming from their PMS from the total hotel capacity before deciding how to allocate and price the remaining rooms to transient segments. While this is a necessary step in the yielding process, the main drawback is that typically only definite group blocks are deducted from capacity. Any future group business that is not yet booked is not accounted for and could dramatically impact transient pricing once made definite.

In addition to the shortcomings already highlighted above, some bigger opportunities exist for group RM – namely factoring in price sensitivity and predicting future demand.

Group decisions should not simply be a factor of availability and displacement. Each group is different, and has different drivers. A church group, for example has different characteristics from a high-profile product launch. With varying group characteristics comes varying willingness to pay, and that has an important bearing on group pricing decisions.

The inability of traditional yield models to predict future group demand is an obvious gap not only affecting groups, but also transient business. With forward-looking insight into anticipated deals and their associated room nights and revenues, a hotel could better evaluate tradeoffs between accepting a proposed group and holding out for a better piece of business that is still to come. Similarly, the hotel would be able to derive a higher price for remaining transient business if they had a more accurate picture of remaining transient supply after anticipated groups have booked.

TODAY HOTELS HAVE MECHANISMS THAT EXIST TO HANDLE GROUP BIDS

Yielding Meeting Space

The prevailing methodologies for allocating meeting room space are based on business rules, the most common of which are minimum profit hurdles and rooms-to-space ratios.

Minimum profit hurdles are typically static hurdles that represent the total profit threshold at which a group requiring space would be accepted or rejected. They take into account all revenue streams including rooms, food and beverage, ancillary spend, and then apply the associated margins.

Profit hurdles can be derived by studying history or based upon the overall profit goals for the hotel and the sales organization. The more granular a hotel can get in setting these minimums (considering the specific space, configuration, season, day part, and so forth), the better the hotel can tailor its specific strategy to the incoming demand. Aside from yielding access to function space, these hurdles can also help guide room rate decisions, as a group can make up any gaps to the profit minimum via an increase in rooms revenue.

Rooms-to-space ratios are thresholds that are also usually static and help a hotel to better balance utilization across sleeping rooms and function space. Based on the number of rooms and function space requested these ratios determine how much of the other type of inventory must be booked in order for a group to be accepted. The challenge is that a broad-brush measure like this can lead to a hotel being overly restrictive with these policies as it could risk turning away valuable business.

With or without the above controls in place, hotels still essentially allocate meeting room space on a "first-come, first-served" basis. If a proposed group satisfies all of the requirements in place, a hotel will tend to book business in the order in which it enquires. Getting strong business on the books early on helps ensure that the hotel will meet its long-term goals. But it is still difficult to gauge what other business may be still to come.

Further, there is considerable risk associated with a static, "set it and forget it" approach towards determining the above business rules. Function space can go empty if demand is weak and hurdles are not adjusted appropriately and/or in time. Conversely, hotels may forgo additional revenue opportunity when demand is strong and hurdles remain unchanged. In this scenario a hotel could fill quickly with less profitable business. Hotels need at least some barometer for assessing demand and a means to dynamically adjust business rules when a situation calls for it.

HOTELS WOULD BE BETTER OFF USING ANALYTICS WEIGHING UP INDIVIDUAL REQUEST ON A CASE-BY-CASE BASIS

While hotels benefit from the simplicity of the rules-based approaches, there is considerable risk if these rules are not continuously reviewed and reevaluated as business conditions and hotel strategies change. This requires coordination between sales and catering and RM if hotels are to handle exceptions and prevent overlooking important opportunities that might not fit with the established criteria.

Local catering groups – like weddings and social events – may seem like they ought to be simple: after all they usually only require function space and most of the attendees are typically not traveling. They may be used to fill unused function space after the group booking window has mostly closed, or if too many rooms-only groups have been booked.

But therein lies a RM challenge: when is it safe to release to local catering function space that was being held for overnight groups? Hotels need to do this late enough so as not to displace potential rooms-and-space groups, but early enough to capture the demand from catering groups before they go elsewhere. Guidelines for the release of space to a "free sell" situation are often static and too high-level, and adjustments or exceptions may not be made in a timely enough fashion to capture (or turn away) business when necessary.

Hotels Need Technology to Yield Total Revenue

The challenge of releasing space for free-sell provides a good example of how technology can vastly improve yielding decisions. Static business rules do not offer the flexibility and granularity to deal with the breadth of demand conditions experienced by hotels. To make good decisions about when to release group availability for free-sell, the following factors must be considered:

- Release dates should be set at a granular level for function space – at levels too detailed for a manual approach, including:
    - Day of week
    - Day-part
    - Meeting space type
- Decisions should be based on date-specific conditions of hotel and function space, including current and projected hotel occupancy
- Important additional metrics should be included, such as:
    - Average lead times (current and historical)
    - Rooms-to-space ratios (current and historical)
    - Function space utilization (current and historical), by both meeting groups and catering groups

This collection of factors – all of which play an important part in yield decisions – collectively represent too much complexity for a manual process. However, they are also data points that lend themselves to automated measurement, using data available in sales and catering and property management systems. What has been missing to date is the analytical layer that leverages the data for decisions.

In this section we have talked a lot about constraints. One thing that should not be constrained is a hotel's capacity to increase revenues – that should be limitless. It is through the adoption of better analytics that hotels can better balance multiple business segments across multiple constrained inventories and capture the maximum possible profit opportunity.

The time has come for a truly data-driven approach to group yielding. The same is true of group pricing – another important area which is currently addressed with broad-brush business rules, and one which we will analyze in detail in the next section.

4 Why Minimum Acceptable Rate (MAR) Isn't Good Enough

So far we have discussed the group bidding process, the drivers behind it, and the complexities of group yielding decisions. It is now time to turn our attention to the most important group RM lever of all – price. Hotels have historically focused on volume when making group decisions. Room rate has been somewhat less important than achieving desired occupancy, booking meeting space, and driving ancillary spend.

OPTIMIZING PRICE DELIVERS BETTER RESULTS THAN THE MARs - THE NUMBERS PROVE IT!

Typically, hotels set long-term, high-level targets for group business that might stretch out over the next year or more. These targets are usually based on an analysis of the hotel's history and involve setting goals for both room nights and rates. Due to competition among hotels, room volume, sales manager incentive structures, and other factors, there tends to be a high degree of negotiation associated with group business that creates downward pressure on rates.

As a result of these priorities and processes, the setting of group rates has historically been mostly manual in nature. Manual approaches to setting group rates have some considerable drawbacks that this chapter seeks to address. From a Group RM perspective, the setting of room rates has historically relied upon these two approaches:

a) MAR (Minimum Acceptable Rate) - The preset, agreed-upon minimum rate (or "walk away" rate) for prospects, often based on longer-term sales objectives and goals and collaboration with the Revenue Management team.

b) Transient Displacement Analysis - A method of determining "break-even" rate based on value of forecasted transient business being displaced by a proposed group (see description in Chapter 3).

The issues with Transient Displacement Analysis were highlighted in Chapter 3. Here are some of the biggest issues with MAR:

1. Too static – Rates may change by season, but are still not granular enough given the dynamic nature of groups, business conditions, etc.

2. Too inefficient – Updating MARs is time-consuming; therefore it is difficult for MARs to respond fast enough to changing market conditions.

3. Bad for profitability – MARs tend to result in a "race to the bottom" in many negotiations, and the negotiations (both internal and external) take time!

4. They sometimes cost hotels business – Sometimes it may be necessary to go below the MAR to capture much-needed business during a period of soft demand. The usual approval process for doing this could hinder the sales manager's ability to quickly respond to and convert a prospect.

Alternative Pricing Approaches to Boost Group Revenue

There are much better ways to set prices than those currently employed by most hotel companies. To set prices we must determine the price sensitivity and willingness of a group to pay a certain rate. By analyzing historical data, we can uncover the likelihood of winning a certain piece of business at a certain rate. This allows us to optimize the resulting revenue on a case-by-case basis by identifying the best combination of rate and booking probability.

Here are some of the key elements of science-based group price optimization:

> **1. Calculate price sensitivity at a micro-segment level** – Historical data can be used to estimate price sensitivity and win rates at a micro-segment level.
>
> **2. Get Specific** – Segmentation can and should be more detailed than the traditional broad-brush concepts of group segmentation. Day of week, length of stay, size, season, week parts, etc. should all be factored into pricing decisions.
>
> **3. Optimize price** – The optimal price for group business is the one that strikes the balance between price and win likelihood. It is by balancing those two key factors that that hotels optimize revenue & contribution.
>
> **4. Respond quickly** – First-responder advantage is a key element of winning group business. When analytics can simultaneously capture displacement, and optimize price at an individual group bid level, the hotel considerably increases both the value and the likelihood of winning the business.

The elements above describe the relatively new process of group price optimization. The benefits of this approach to hotels are considerable, as we will discover in the next section.

Case Study: Looking Beyond the MAR

To prove the effectiveness of the new pricing methods versus traditional methods, we examined a set of properties that have been employing the process described above to price group business. The hotels included in the study have been using group optimization to generate quotes for hotel sales teams, using data from the property sales and catering systems.

As we shall see, the study found that room rates from definite ("won") business improved for properties using optimization, with no apparent impact to conversion rates nor increase in business lost for rate-related reasons. The properties were compared to a data-driven simulation of a traditional displacement-based pricing approach, and showed considerable revenue improvement.

Methodology

- We compared a year-over-year performance metrics covering time periods both before and six months after implementing group price optimization:
- ADR
- Distribution of average rates across stay nights
- Win rates
- Lost business reasons
- Next we performed an analysis of actual revenues vs. simulated revenues that the same hotels would have achieved by using a traditional displacement based pricing approach

Impact on Room Rates

Figure 4 depicts the shift in the distribution of "won" group room rates achieved by a test group of properties who were using price optimization. In each case, the "post" periods were six-month periods that began six months after implementing the solution, to allow for some ramp-up time. The "pre" periods were the corresponding six-month periods the year prior. The control group is provided for comparison and consists of properties that were not using the new method in either period.

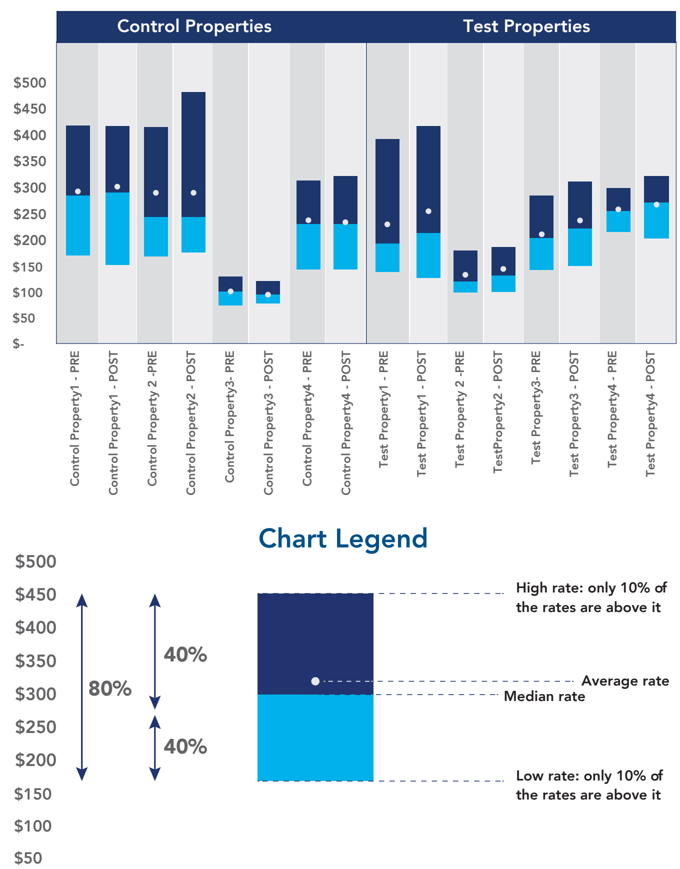


Figure 4: Distribution of "won" rates for the test and control sets

The test properties achieved clear improvements in several metrics from the "pre" period to the "post" period. First, average "won" rates increased by 8.8%, median "won" rates increased 8.4%, and high (90th percentile) rates increased 6.7%.

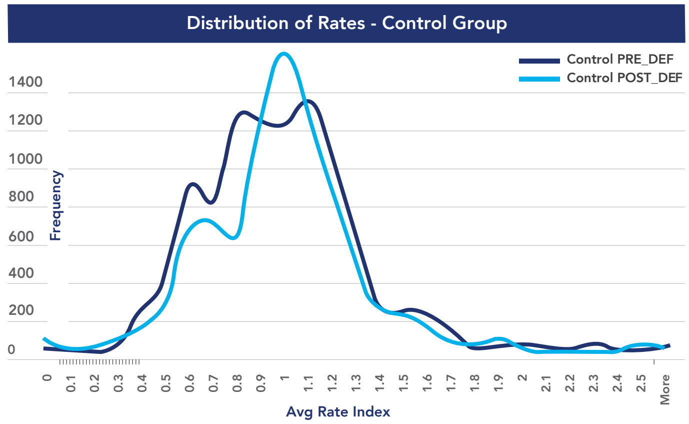
The control group saw corresponding changes of -0.1%, -0.4%, and 3.3% respectively. It is interesting to note that low (10th percentile) rates actually decreased by 2.2% for the test group, indicating that the new pricing method offers greater flexibility and a greater range of recommended rates, and that overall average and median rates can still improve despite the fact that some recommended rates were lower compared to the pre-implementation period.

Group ADRs outperformed a control group over the same timeframe. A control set of properties (who were not using price optimization) saw an 8.7% decrease in ADR year-over-year while the properties using optimization saw group ADR decrease by only 0.2%

LETTING THE ANALYTICS SET THE PRICE ALLOWED HOTELS TO CUSTOMIZE RATES, WHICH LED TO INCREASED REVENUE AND CONVERSIONS

Impact on the Distribution of Room Rates

So far in this eBook we have discussed extensively the shortcomings of broad-brush business rules and pricing structures, and the limitations that they place on the group RM process. Highly-customized pricing should yield a greater variety of pricing, reflecting the variety of types of group and the removal of the constraint of rules-based pricing. *Figure 5* depicts the distribution of room rates for the same test and control sets of properties.



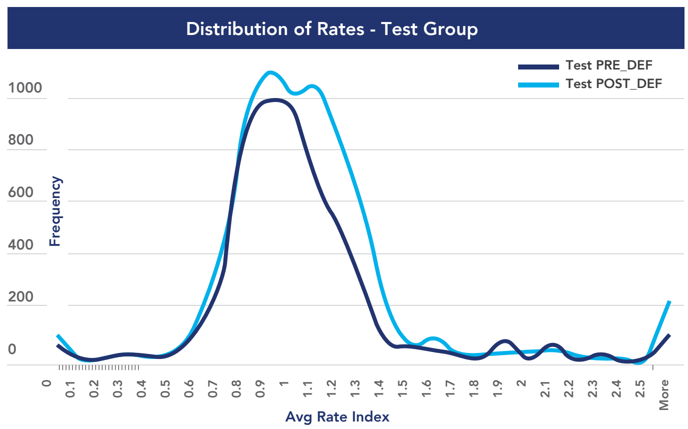


Figure 5: Distribution of "won" rates for the control and test groups

The graphs show how the test properties had a broader distribution of rates at the higher end of the scale following the implementation of group price optimization. These results indicate that these properties were successful in closing business at the higher rates recommended under the new approach. While the shape of the distribution for the control group changed from one period to the next, rates largely fell within the same band, with interesting peaks at the lower end of the distribution that might indicate the prevalence of MAR rates in place at those properties.

Finally, we compared price optimization to the traditional displacement approach. To accomplish this we compared the test property results to the output from a transient displacement model. The test properties together achieved an impressive 29% lift compared to if they had used a traditional displacement approach for the exact same groups.

GROUP OPTIMIZATION LEVERAGES THE VAST AMOUNT OF HISTORICAL DATA AVAILABLE TO BALANCE SUPPLY AND DEMAND, UNDERSTAND WILLINGNESS TO PAY AT A MICRO SEGMENT LEVEL AND HELP HOTELS TO MAKE BETTER AND QUICKER DECISIONS.

Impact on Conversion Rates

With higher, potentially more aggressive rates, one might expect conversion rates to decline in the new environment. However, the properties using group price optimization saw a slight increase in conversion, closing 11% of potential room nights compared to 10% before optimization. This illustrates the role of optimization in targeting the right group with the right price. Importantly, it underscores how price optimization does not necessarily represent a more aggressive pricing strategy across the board that could put conversion at risk.

To take that point a little further, we examined the lost business reasons used to track turned away business in the sales and catering system, to see if there was a much higher incidence of rate resistance after adopting price optimization than there had been previously. The change in the proportion of lost business due to price-related reasons was negligible, again indicating that pricing had not become generally more aggressive as a result of optimization.

Conclusion

Based on this evidence from this study, hotels achieve significantly higher revenues through the implementation of group price optimization, enjoying higher conversion rates while at the same time experiencing no significant increase in business lost because of rate resistance.

For the test group in this study technology was clearly the enabler. Group optimization leverages the vast amount of historical data available to balance supply and demand, understand willingness to pay at a micro segment level and help hotels to make betterand quicker decisions. The group price optimization approach featured in this analysis holds the key to better, faster pricing decisions, along with the exciting new addition of group lead-scoring, which we will turn to in the final chapter.

5 Lead Scoring: The More You Know the Better

The handling of group inquiries has always provided unique operational challenges to hotel companies. It requires the coordination of two different functions: revenue management with sales and catering. As we discussed earlier, meeting rooms and hotel rooms both have independent fixed capacities, which means that each has the opportunity to sell out independently of the other. A good piece of business to sales and catering might not appear so attractive to revenue management, and vice-versa. It's a classic source of friction in hotels. As in all other business, interdepartmental friction costs time and money and can often lead to sub-optimal results.

Let's take the perspective of the hotel (rather than the departments within it) and consider what constitutes a good way to handle group business. Everyone should be looking to win the blend of business that delivers the greatest overall economic benefit to the hotel. The highest benefit comes at the intersection of high revenue, and high "need", where "need" is defined as the potential to be unable to fill bedrooms or meeting rooms for a given set of stay nights. The trouble is, those two factors can be hard to assess.

LEAD SCORING COMPLETES THE PICTURE, USING DATA ABOUT THE GROUP AND ALSO THE GROUP PLANNER TO HELP SALES MANAGERS

The Group RFP Journey

When a piece of group business arrives on a sales manager's desk, it typically includes a set of dates, a number of rooms and some meeting room requirements. Given the way that most hotels operate, the process of responding to a single bid already constitutes a considerable amount of work. We have to find out if the meeting rooms are available on those dates. Next we have to understand if there are sufficient hotel rooms available to accommodate the group. Hotel availability isn't sufficient to make the decision though. We also need to determine whether or not they should be made available, given the prevailing market and transient conditions. It takes time and effort to answer those questions. Now imagine adding the complexity of considering other sets of dates that could be proposed to the meeting planner.

It should be obvious by now that bidding on groups involves either a lot of analytical leg-work and time to craft the proper response, or a willingness to lose business as a result of a lack of due diligence.

Better Decisions – A Time for Automation

Despite developments in transient revenue management, the above example could have been described at any time in the last few decades. Responding to group business has been a tricky process for many years. The power of computer automation and the Internet simultaneously expanded group reach and volume. Group intermediaries emerged who made it easier than ever for group planners to submit group business to hotels. Suddenly the workload on sales managers multiplied, making it harder than ever to do a good job of responding to group requests. In all walks of professional life, when we are confronted with an overwhelming workload, the most important thing we can do is prioritize. And prioritization has emerged as a critical skill in the handling of group booking requests, differentiating the truly efficient and economically prosperous group sales organizations.

To prioritize groups, we must understand their relative attractiveness to a given hotel on given dates. Whether or not a group maximizes economic value to the hotel depends partly on the characteristics of the group itself, but mostly on what we expect to happen at the hotel over that date range. For transient business, this would mean that we have to forecast demand for rooms on the affected nights. But in the case of group business, that is not enough. Groups often book years prior to arrival, meaning we have to factor in how many group rooms we expect to have booked this far in advance of the arrival date.

Savvy hotels are already using data beyond transient bookings. By using historical group booking behavior to model the characteristics of "typical" group business, a sales manager is provided with a baseline that allows him to understand how attractive group business is relative to normal booking patterns. When this is combined with automated systems providing availability of both bedrooms and meeting rooms, he can judge which groups have the highest priority, and the workload on sales managers starts to look more manageable.

Lead Scoring for Faster, Better Decision-Making

Lead-scoring is still a relatively new process for hotels. But its benefits extend beyond simply being able to prioritize leads. If we think back to the original objective – winning the business that delivers the greatest economic benefit to a hotel – the case for lead-scoring is more compelling still. Best practices in group sales require that we:

- **Maximize the bid rate** – i.e., the number of bids for which a hotel submits a response
- **Maximize conversion rate** – i.e., the number of group bids that we win
- **Respond quickly** – because the first responder wins more often than not
- **Respond thoroughly** – because the quality of the RFP response matters

The best example of the final point is the question of alternate dates. We already noted the effort involved in quoting a single set of dates. However, many successful group bids are won with alternate dates that are counter-offered by the hotel. Of course, the effort of coming up with multiple quotes for multiple date ranges represents a multiplication of the work for our beleaguered sales managers! Sophisticated automated systems that are crunching the right data in order to efficiently score leads can also be used to suggest alternative dates, unlocking a powerful way of winning lucrative business when a hotel really needs it.

Throughout the history of revenue management, difficult, multi-functional processes have been made easier and more effective through data. Whether it be sales and operations, marketing and revenue management, or the familiar problem of getting sales & catering and revenue management to sing from the same hymn sheet, shared metrics have been the bridge between separate and often competing functions. And when departments work together without friction, everyone has time to be more strategic in their roles. Group-scoring is one of the latest examples of this long-term trend. It's time for the lodging industry to follow the leaders in adopting it so that everyone can reap the benefits.

NEW TECHNOLOGY IS ENABLING REVENUE MANAGERS TO IMPROVE NOT ONLY THE PROCESS OF HANDLING GROUP ENQUIRIES, BUT ALSO THE UNDERLYING METHODOLOGIES FOR MAKING DECISIONS

Conclusion: A Manifesto for Group Revenue Management

In the previous chapters we presented the reasons why group RM should get a greater share of management attention than it currently does. Healthy increases in group RevPAR attest to the health and importance of the sector. But marginally lower rates of ADR and RevPAR growth relative to transient growth suggest an opportunity to drive further performance improvement from groups.

Groups are complicated – not just in their nature, but because of the incentives in play at most hotels and the counter-intuitive effect that they can have on group RM decisions. The advent of the eRFP has added to the complexity by vastly increasing the volumes of group

bids under consideration by revenue managers at any given time. The analytical tools available to revenue managers have not kept pace with the eRFP tools available to meeting planners.

New technology is enabling revenue managers to improve not only the process of handling group enquiries, but also the underlying methodologies for making decisions. Throughout this eBook we have painted a picture of disparate decisions and business processes. We have described yield decisions that are based on rules that are typically broad-brush and that tend to be set and revisited relatively infrequently. It is extremely rare that business rules like rooms-to-space ratios are revisited as frequently as group business fluctuates.

To solve this problem hotels have to get better at analyzing data, and making informed decisions about every piece of group business, based on its individual attributes. When group demand is forecasted as its own entity, rather than simply characterizing group bookings in terms of their potential impact on more easily-forecasted transient business, the brush strokes become finer. Broad and potentially restrictive rules like rooms-to-space ratios can be replaced by customized assessments on the impact of each group on total revenue – both booked and predicted.

Both current and historical data must be analyzed to make good yield decisions, based on the individual attributes of a group and the demand conditions at play during the time it takes place. Price sensitivity must be estimated at a granular – micro-segment – level, to estimate willingness to pay and set the right price. The resulting revenue is optimized on a case-by-case basis by identifying the best balance of rate and booking probability.

All of the analysis described in this document is highly data-driven, and hence addressed by analytics that aggregate the relevant data in one place, using the analytical horsepower to help solve the yield and pricing problems. Hotels that place these key decisions on an analytical platform automate the process, achieve the levels of granularity necessary to make better group RM decisions than historical approaches allow.

It is time for group RM to catch up to its transient counterpart. It is time for revenue and sales managers to be equipped to prioritize and process the ever-increasing volume of group RFPs. The performance improvements characterized in our study speak for themselves – it is time for hotels to embrace the technologies that are already driving the next wave of performance improvements in group business.

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