



*The **Heart** of Hospitality*

Revenue Management Foundations and Evolution

Tuesday, February 4, 2025 | 10:50 AM

Revenue Management Team



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Overview of the session



- ✓ **What is “Revenue Management”?**
- ✓ **Fundamental Components for Revenue Management**
- ✓ **Brief History of Revenue Management**
- ✓ **Why Revenue Management is Important**
- ✓ **Revenue Management Best Practices**
- ✓ **Maximizing Revenue: Automation & Manual Intervention**
- ✓ **Understanding Key Performance Indicators (KPIs)**
- ✓ **Challenges**
- ✓ **Do’s and Don’ts**

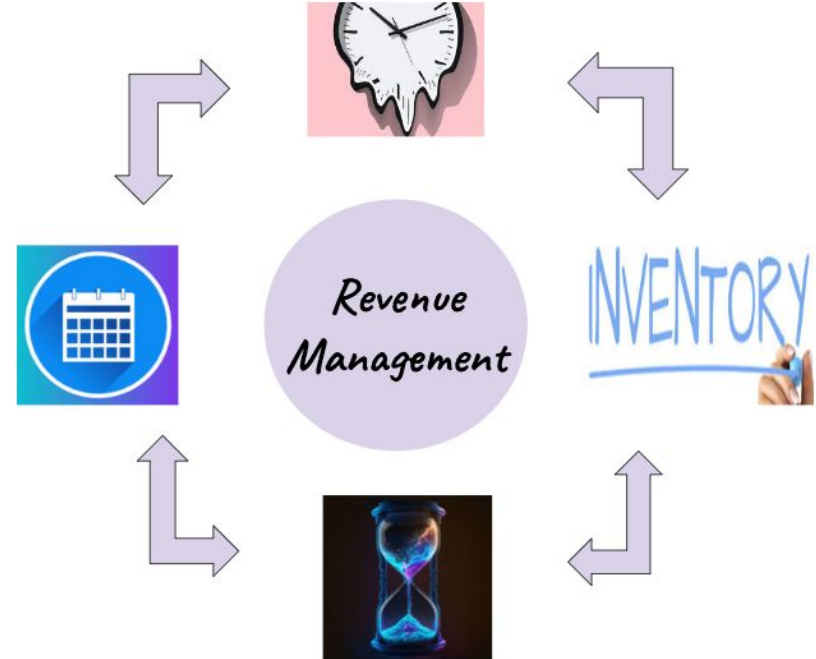
What is “Revenue Management”?

A business strategy that uses data and analytics to **maximize** a company's revenue by selling services at the **right price**, to the **right customer**, and at the **right time**.

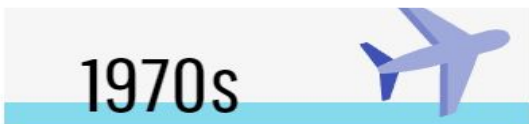


Fundamental Components for Revenue Management

- A fixed amount of **inventory** is available for sale at any given time
- Your inventory has **expiration** dates
- There is some ability to predict future **demand** for your inventory (using technology and historical data)
- Different customers are willing to pay a different **price** for the same inventory based on factors of time/demand/availability



A Brief History of Revenue Management in Hospitality



Originated in the late 1970s with the airlines with the objective to maximize income on a **fixed number of seats and flights**.



Hotels and other sectors such as **car rentals** implemented dynamic pricing based on real time demand



a **dynamic pricing tool** for **HOTELS** was created, by JDA Software group, that would adjust rates based on demand + **VRBO** was created in 1995 = game changer for **Y2K**



Over the next 2 decades, Channel partners and **software options** multiply allowing more visibility into supply and demand for vacation rentals

Why is Revenue Management Important?

How many of you are already utilizing dynamic pricing / revenue management in some form?

Revenue

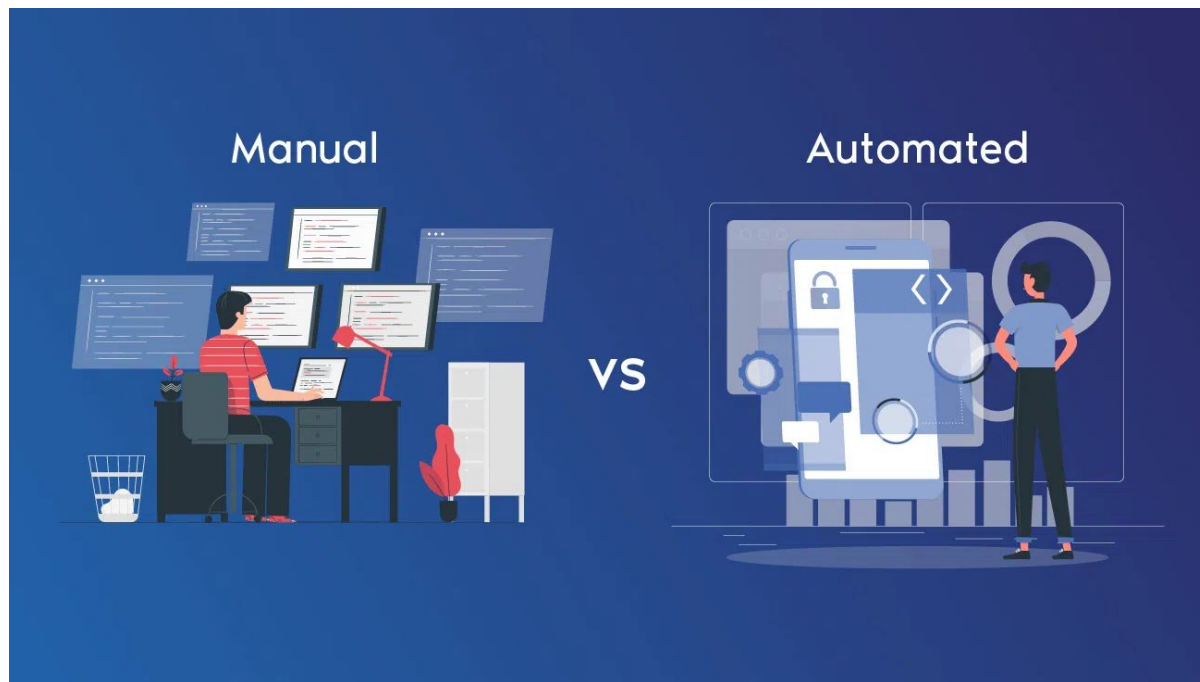


Why?

- #1 Objective is to grow revenue
- Revenue management is used in many areas of hospitality and has become the norm
- An ever-changing world requires ever-changing strategy
- Stagnant rates lead to stagnant growth or even missed opportunities

Revenue Management Best Practices

The **best** strategy for maximizing revenue is to use both Automated tools and Manual Intervention.



Maximizing Revenue: Automation & Manual Intervention

Automation Benefits



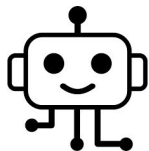
Use dynamic pricing tool to upload unit settings, base rates, min stays, seasonal min rates, etc.



Starting point for recommended rates using compset data



Save yourself hours per week automating premiums, discounts, and more



Manual Intervention Benefits



Information gathering



Historical rates



Benchmarking



Booking window



Pacing



Owner preferences



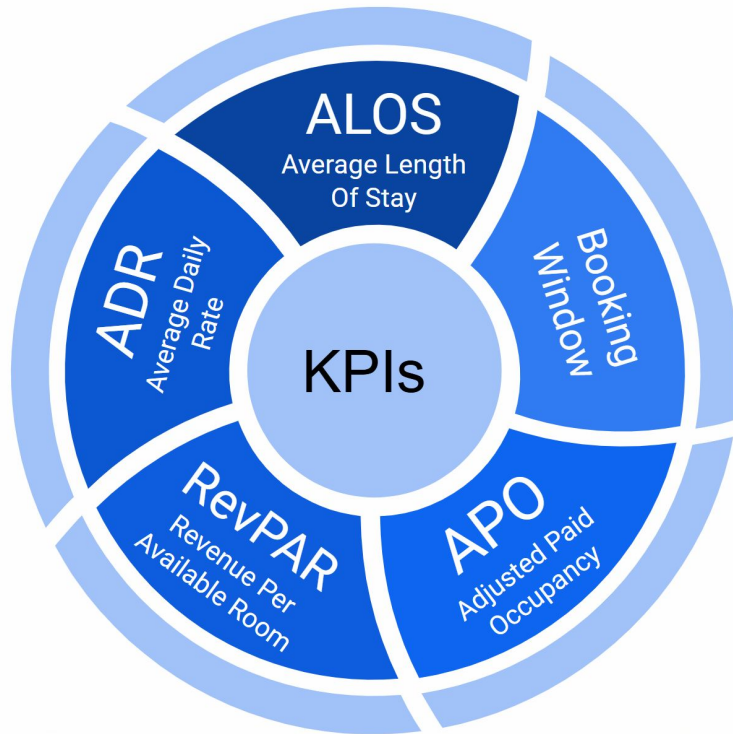
Manual overrides on top of pricing tool suggested rate



Understanding Key Performance Indicators (KPIs)

Key Performance Indicators (KPIs) are essential metrics used to track and evaluate the overall performance of inventory.

KPIs can give us unique insights, not only on our own properties, but also on our market and our competitors.



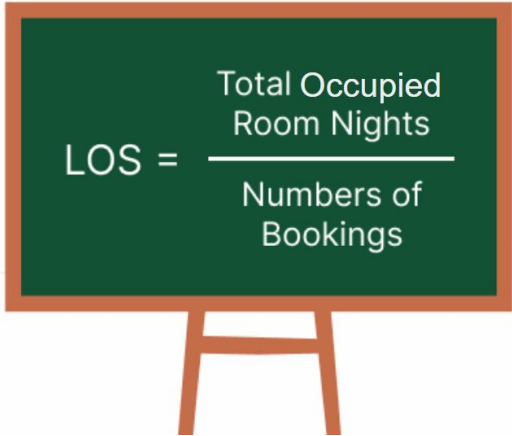
Understanding KPIs - Average Length of Stay (ALOS)

ALOS indicates how long a guest typically stays in a unit or at a property.

ALOS varies from unit to unit and can identify perceived qualities of the facilities:

- Are guests staying longer on higher floored units?
- Does your competitor with similar units have a longer ALOS than you? Why is that?
- Have guests extended their stays compared to last year?

Average Length of Stay (ALOS)


$$\text{LOS} = \frac{\text{Total Occupied Room Nights}}{\text{Numbers of Bookings}}$$

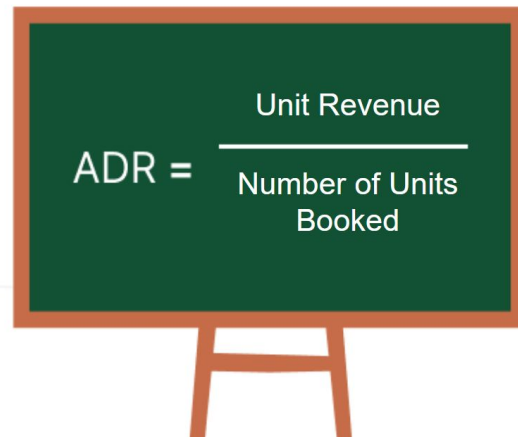
Understanding KPIs - Average Daily Rate (ADR)

ADR indicates the average amount of revenue made per room/unit.

ADR can be applied to many scenarios:

- To compare **ADRs** with competitors & the market
- To compare your own **ADRs** Year-Over-Year or Month-Over-Month
- To decide what your goal is: Are you going to be **Occupancy** or **ADR** oriented? Why?

**Average Daily
Rate (ADR)**


$$\text{ADR} = \frac{\text{Unit Revenue}}{\text{Number of Units Booked}}$$

Understanding KPIs - Adjusted Paid Occupancy (APO)

Adjusted Paid Occupancy (APO)

reflects the percentage of units that were occupied by paying guests based on the number of units available to be booked by guests.

APO does not account for nights that are blocked for bookings, whether for maintenance or Owner Nights.

Adjusted Paid Occupancy (APO)


$$\text{APO} = \frac{\text{Guest Paid Nights}}{\text{Adjusted Nights Available for Booking}}$$


Understanding KPIs - Adjusted Paid Occupancy (APO)

Why **APO** and not **Occupancy**?

APO is an accurate representation of the usage of units by guests.

Occupancy determines the general usage of the unit, regardless of the reason it is being used. The **Occupancy** metric does not take blocked nights or Owner Nights into account.

**Adjusted Paid
Occupancy
(APO)**


$$\text{APO} = \frac{\text{Guest Paid Nights}}{\text{Adjusted Nights Available for Booking}}$$

VERSUS

**Hotel Occupancy
Rate (OR)**


$$\text{OR} = \frac{\text{Total Number of Occupied Rooms}}{\text{Total Number of Available Rooms}}$$


Understanding KPIs - Revenue Per Available Room (RevPAR)

RevPAR indicates the property's/company's ability to fill available units at the average rate.

It can also be calculated by dividing total room revenue by the total number of rooms available

It gives a bigger picture than other KPIs alone.

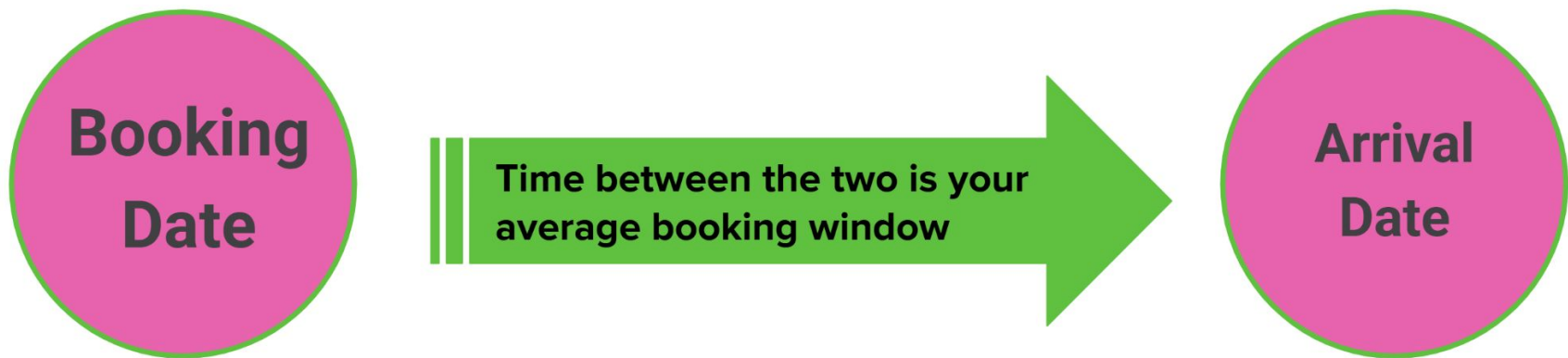
**Revenue Per Available
Room
(RevPAR)**


$$\text{RevPAR} = \frac{\text{Average Daily Rate}}{\text{Adjusted Paid Occupancy (APO)}}$$

Understanding KPIs - Booking Window

Booking Window measures the number of days between a reservation and the check-in date.

This metric is used to understand when to adjust prices and length of stay restrictions to maximize occupancy.



Challenges of Revenue Management

- Unique inventory of units/properties and available amenities for each
- Ever-changing market
- Managing dynamic homeowner expectations and personalities
- Personnel: Who is your expert?



These homes are within a mile of each other. Why is it important to understand KPIs if they have the same seasonality?



DO's and DON'Ts of Revenue Management

Do

- ✓ Frequently assess and adjust rates
- ✓ Utilize dynamic pricing tools
- ✓ Understand your KPIs and goals
- ✓ Stay in tune with your market



Don't

- ⊘ Set it and forget it
- ⊘ Have stagnant rates
- ⊘ Forget to frequently assess your KPIs
- ⊘ Miss opportunities for rate adjustments



NEXT
STORY

Revenue Management Foundations and Evolution:

What we learned today



- ✓ **What is “Revenue Management”?**
- ✓ **Fundamental Components for Revenue Management**
- ✓ **Brief History & Why Revenue Management is Important**
- ✓ **Revenue Management Best Practices Using Automation and Manual Intervention**
- ✓ **Understanding Key Performance Indicators (KPIs)**
- ✓ **Challenges & Do’s and Don’ts**

Upcoming Sessions

- 2025 Revenue Management: Shaping the New Baseline - Austin Ford
Tuesday, Feb 4th @ 3:00 PM
- Market Resilience: Creative Strategies to Thrive in Tough Times - Austin Ford, Josh Butterworth, Kris Holm
Tuesday, Feb 4th @ 3:50 PM



Questions?