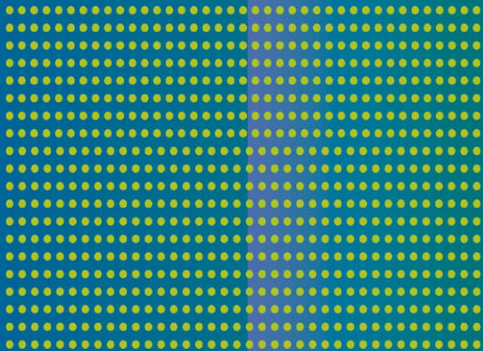


PEARSON NEW INTERNATIONAL EDITION

An Introduction to Revenue Management
for the Hospitality Industry: Principles
and Practices for the Real World
Tranter Stuart-Hill Parker



Pearson New International Edition

An Introduction to Revenue Management
for the Hospitality Industry: Principles
and Practices for the Real World
Tranter Stuart-Hill Parker

Once the perceptual positioning map is complete, an organization may wish to once again return to its SWOT analysis to make further adjustments. Perhaps the perceptual map illustrated the fact that the organization's positioning places it above one of its competitors. But perhaps that competitor is charging and getting higher rates. The organization should analyze and possibly reevaluate its pricing strategies. Or conversely, if the organization is being perceived lower than where it believes it should be positioned based upon the price/value of its facilities and services, the organization may need to launch sales and marketing campaigns to educate and change the perceptions of the customer.

Developing Strategies Based upon the SWOT Analysis

To enhance the probability that an organization makes the most of its opportunities and avoids the greatest number of threats, strategies must be developed based upon the SWOT analysis. To do this, we first pair strengths with opportunities (SO) and then strengths against threats (ST). For example, from the previously noted lists of strengths and opportunities, we could develop the following SO strategies:

- Pursue a new demand generator due to our location and proximity to their premises
- Induce trial of a new demand generator with special offers
- Based upon the upswing in the economy, utilize our financial resources to expand our operations
- Pursue the clients of an organization closing or departing the market
- Utilize our financial resources to develop new products and services to meet changing consumer behavior, demographics, tastes, and trends of existing and newly targeted market segments
- Capitalize on our brand and image to capture new business from the new demand generators entering the market
- Use creative talent in human resources to develop more exciting packages
- Merchandise our facilities and amenities to increase capture of ancillary revenue
- Expand our distribution by selectively adding the appropriate channels
- Increase capture of higher-rated new market segments
- Seek out new streams of revenue
- Utilize franchise resources to generate new sources of demand
- Adjust pricing and channel management strategies per segment (pricing and channel management will be addressed specifically in the chapters to follow)

Once we examine how we can utilize our strengths to capture opportunities, we must then again look to our strengths to see how they can help us minimize or reduce threats. Again, combining the lists created earlier, we can develop the following ST strategies:

- If cost of fuel is impacting inbound air travel, focus on the local and regional drive markets
- Also overcome the fear of travel by appealing largely to the local drive market
- Sell price/value to overcome rate objections during economic downturns

Internal Assessment and Competitive Analysis

- Build in added value to compensate for the devalued currency
- Utilize service to overcome rate resistance
- Develop new products and services to meet changing consumer behavior, demographics, tastes, and trends of existing and newly targeted market segments
- Match existing products and services to changing cultural values
- Increase marketing efforts or create new events to capture a larger share of the customers' disposable income
- In cases of political upheaval, divert business to another safer division or location to keep revenues within the organization
- Seek out new streams of revenue
- Utilize franchise resources to generate new sources of demand
- Adjust pricing and channel management strategies per segment

Following this pairing of strengths with opportunities and threats, we now turn to pairing weaknesses with opportunities and threats. So turning next to creating strategies to turn our weaknesses into opportunities (WO), we may develop the following WO strategies:

- Lower price to attract cost-sensitive consumers
- Add new destinations to be serviced
- Renovate facilities
- Add or change amenities
- Change the brand or enhance image
- Utilize new public relations opportunities to overcome past poor reputation
- Reposition the facility or service
- Dismiss poorly performing personnel and hire new talent
- Increase or improve customer service training
- Seek new avenues to increase revenue or obtain capital
- Upgrade technology
- Develop new products and services to meet changing consumer behavior, demographics, tastes, and trends of existing and newly targeted market segments
- Match existing products and services to changing cultural values
- Develop new customer loyalty programs to generate additional repeat business
- Seek out new streams of revenue
- Utilize franchise resources to generate new sources of demand
- Adjust pricing and channel management strategies per segment

Continually seek out opportunities to minimize or overcome weaknesses.

And finally, we must face the combination of our weaknesses with potential threats (WT). Developing WT strategies is not a pleasant task. However, as events in 2001 so clearly illustrated, creating a contingency plan is necessary in today's environment. Some possible WT strategies that may be developed include:

- Utilize older facilities to attract lower-rated business emerging in the marketplace due to local economic downturn
- Contract operations by closing a portion of the facility in the off-season

Internal Assessment and Competitive Analysis

- Reduce prices during seasons of projected inclement weather
- Seek out new markets
- Increase focus on local drive markets
- Develop products and services to satisfy changing customer behavior and demand
- Hire a more aggressive sales and marketing team
- Increase expenditures on facilities and features
- Develop new products and services to meet changing consumer behavior, demographics, tastes, and trends of existing and newly targeted market segments.
- Implement training programs to improve customer service
- Dismiss poorly performing personnel and hire new talent
- Seek out new streams of revenue
- Utilize franchise resources to generate new sources of demand
- Adjust pricing and channel management strategies per segment

Again, it is evident that many strategies may be used to address both opportunities and threats presented by an organization's strengths and weaknesses. To recap, the organization should pair the individual elements in the SWOT analysis to develop the following strategies:

- Strengths and Opportunities (SO) strategies
- Strengths and Threats (ST) strategies
- Weaknesses and Opportunities (WO) strategies
- Weaknesses and Threats (WT) strategies

Once an organization completes its internal assessment and prepares its competitive analysis, it possesses a better understanding of the competitive forces impacting its operation. By this point in the process, the organization has obtained a better understanding of its customers, its markets, its competitors, and itself.

BOX 1

**Revenue Management Professional Profile:
Courtney Granger²**

**HOW DID YOU FIRST ENTER THE
REVENUE MANAGEMENT FIELD?**

Transitioned from Reservations Manager to Revenue Manager back when the title first surfaced.

**WHAT ARE YOUR MAJOR
RESPONSIBILITIES IN YOUR CURRENT
POSITION?**

I am responsible to ensure all hotels in "The Americas" are maximizing every

possible revenue opportunity through our brands. I also manage a team of four Revenue Managers as well as manage our Call Center relationships.

HOW DOES REVENUE MANAGEMENT FIT INTO YOUR ORGANIZATION?

Reservation transaction fees are almost 50 percent of our company's revenues, so the Revenue Account Manager role is highly regarded in our organization.

WHAT ARE SOME OF THE GREATEST ISSUES FACING REVENUE MANAGEMENT PROFESSIONALS TODAY?

I still think there are hotels and/or individuals that do not recognize the importance of RM to a hotel's success. If there is not 100 percent support from the top down, a Revenue Manager will struggle.

HOW DO YOU THINK THE REVENUE MANAGEMENT FIELD WILL EVOLVE OVER THE NEXT DECADE?

Looking back over the past 10 years, RM has been one of the fastest evolving fields in our industry and has become one of the most respected positions. That said, I believe RM will continue to grow and will become an executive-level position in most properties.

WHICH COURSES OF STUDY (i.e. FINANCE, SALES & MARKETING, PSYCHOLOGY, etc.) WOULD BE MOST BENEFICIAL TO STUDENTS EAGER TO ENTER THE REVENUE MANAGEMENT FIELD?

A wide range of courses is required to be a successful Revenue Manager. You must understand all aspects of how a hotel operates, not only to perform well, but to gain the respect and trust of others. Front Office Operations, Sales & Marketing, Selling Techniques, Finance/Accounting, Economics, Psychology, Effective Persuasion, Effective Communications, Basic Writing—all of these are beneficial.

WHAT ADVICE CAN YOU GIVE STUDENTS WISHING TO ENTER THIS FIELD OF ENDEAVOR?

If you have strong analytical skills, are willing to consider different points of view, will stand behind your decisions and enjoy success, Revenue Management is the perfect field for you.

WHAT IS YOUR NAME, COMPANY NAME, AND TITLE?

Courtney Granger, Director of Revenue Account Management—Americas, Preferred Hotel Group

SUMMARY

Once an organization understands its customers, it needs to understand its competitors. The first step in performing a competitive analysis is to identify the competitors. The competitors with whom an organization most directly competes are included in its competitive set. Organizations use competitive intelligence to conduct primary research and gather secondary research regarding their competitors. There are a variety of methods and resources available for gathering this data.

Internal Assessment and Competitive Analysis

The organization next compares itself to its competitors by completing an internal assessment. The easiest way to conduct this assessment is through the use of a SWOT analysis. In a SWOT analysis, an organization assesses its strengths, weaknesses, opportunities, and threats relative to its competition. After completing its self-assessment and SWOT analysis, the organization should prepare a SWOT analysis for each of the competitors in its competitive set. Then it should analyze its SWOT against those of its competitors.

Once the SWOT analyses are complete, the organization should use the information contained to develop a set of strategies. First, it should pair its strengths with opportunities and its strengths against threats. It should do the same pairing of its weaknesses with opportunities and against threats. *Internal assessment is the third fundamental element and competitive analysis is the fourth fundamental element in the development of revenue management strategy.*

Firms today seek to obtain a competitive edge or advantage over their competitors. A competitive advantage is some component of its operation in which it excels or maintains a competitive advantage over its competitors. Organizations also use their core and distinctive competencies to obtain and maintain these competitive advantages.

KEY TERMS AND CONCEPTS

The following key terms and concepts were presented in this chapter.

- competitive advantage
- competitive intelligence
- competitive intelligence specialists
- competitive set
- competitor
- core competencies
- demand generator
- distinctive competencies
- market share
- positioning
- secondary competitors
- SWOT analysis

DISCUSSION QUESTIONS

1. Identify your school's competitive set. Why did you select those competitors?
2. What are your school's strengths, weaknesses, opportunities, and threats?
3. Does your school possess a competitive advantage? How so? What are its core competencies? Does it have any distinctive competencies?
4. How could your school develop a strategy to use its strengths to take advantage of an opportunity?
5. How could your school develop a strategy to use its strengths to reduce or eliminate a threat?

EXPERIENTIAL EXERCISE

Visit the site of any hospitality organization. It may be a hotel, a restaurant, an airport, a stadium, a golf course, or a concert hall. Make a note of all the competitive intelligence data that you obtained during your visit. Make sure to observe the parking lot and look at license plates, see what products and services they sell, look to

see what vendors they use, assess the volume of business, carefully observe the physical facilities for cleanliness, inventory, and product availability, and listen to the employees and other patrons. Write a report detailing all of the competitive intelligence that you were able to gather in this one visit.

INTERNET EXERCISE

Review and critique two of the following financial websites:

www.bloomberg.com
www.finance.yahoo.com
www.money.cnn.com

www.wsj.com
www.today.reuters.com
www.cnbc.com
www.moneycentral.msn.com

REFERENCES

1. Society of Competitive Intelligence Professionals' website accessed July 18, 2006 <http://www.scrip.org>
2. Granger, Courtney. Interview conducted via email, August 5, 2006.