AN INTRODUCTION TO PROFIT-ORIENTED REVENUE MANAGEMENT

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Content

INTRODUCTION TO PROFIT-ORIENTED REVENUE MANAGEMENT

In the face of an increasingly complex and competitive hotel landscape, traditional revenue management methods have shown their limitations. Hotels need a more comprehensive and proactive approach to maximize their profitability. This whitepaper introduces Profit-Oriented Revenue Management (PORM), a transformative strategy that shifts the focus from top-line revenue to profit generation.

PORM provides a holistic perspective of the hotel's financial performance, accounting for all costs associated with generating revenue, including Customer Acquisition Cost (CAC) and the cost of goods sold (COGS). It redefines the concept of 'profitable customer' by recognizing that not all revenue is created equal, and strategic allocation of resources to high-profit segments can significantly improve bottom-line performance.

This whitepaper highlights the top 10 actions that have been proven to significantly impact a hotel's profitability based on extensive industry experience. These actions cover a range of areas, from understanding marginal profit to utilizing data and analytics. By optimizing all facets of your hotel operations and marketing, you can create a harmonious and profitable balance that surpasses traditional limits.

This whitepaper also addresses the integral role of the commercial team, operational managers, and other key stakeholders in implementing PORM. Their active engagement in understanding the cost structures, revenue potentials, and profitability of each product and service is crucial for the success of PORM.

Additionally, this whitepaper outlines a three-step approach to implementing PORM effectively. It includes initial brainstorming for PORM implementation, understanding the detailed cost structure and contribution to profit, and allocating responsibilities to different stakeholders. Each step is essential to ensure that all departments within the hotel are aligned toward the goal of maximizing profit.

By the end of this whitepaper, you will have a robust understanding of PORM, its implementation, and how it can redefine profitability in your hotel.

We invite you to share the experiences of your PORM journey and welcome a continuous discussion on how to improve profitability in hotels.

Anders Johansson, Brandon Chan, and A/Prof. Dr. Detlev Remy in a Singapore hotel attending HSMAI ROC Asia 2023.

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WHAT IS PROFIT-ORIENTED REVENUE MANAGEMENT (PORM)?

KEY CONCEPTS TO INCREASE PROFIT

Hotels are now focusing more on profit

Learning the fundamental principles to understand how to contribute to achieving higher profitability.

A Strategic Approach

Profit-oriented Revenue Management (PORM) is a strategic approach to optimize revenue and profitability in the hospitality industry. PORM incorporates concepts like flow-through, marginal profit, and total revenue versus profit orientation to help hotels maximize their financial performance and achieve long-term success.

> *"Revenue Managers should start looking beyond fundamentals of yielding rooms but expand its scope to Customer Acquisition from the perspective of guest experience, customer retention as well as cost of acquiring new customers. "*
>
> Mark Chan, Chief Operating Officer, Frasers Hospitality

Revenue vs. Profit Optimization

Revenue optimization and profit optimization are two distinct concepts in the hospitality industry, and understanding their differences is crucial for implementing Profit-Oriented Revenue Management (PORM) effectively.

Revenue Optimization

Revenue optimization focuses on maximizing the total revenue generated by a hotel. It involves employing dynamic pricing, demand forecasting, and inventory management strategies to sell the right product or service to the right customer at the right time and price. Traditional revenue management techniques typically emphasize revenue optimization, aiming to increase top-line revenue without necessarily considering the impact on profitability.

In the context of hotels, revenue optimization primarily focuses on optimizing occupancy levels at the highest possible rate. However, in hotels revenue management can also encompass other revenue streams such as food and beverage, spa services, and event spaces.

Profit Optimization

Profit optimization aims to maximize a hotel's overall profitability. While revenue optimization is essential to profit optimization, it is not the only factor to consider. Profit optimization involves a comprehensive approach that considers both revenue generation and cost management, ensuring that an increase in revenue results in a corresponding increase in profit.

Definitions of Key Metrics

Flow-Through

Flow-through refers to the percentage of incremental revenue converted into profit and can be measured at any profit level in the P&L.

Flow-Through Rate (%) = [(Change in Profit) / (Change in Total Revenue)] * 100

Marginal Contribution

The Marginal Contribution is the percentage of revenue from each additional room or product sold or service provided that contributes to the profit after accounting for variable costs.

Marginal Contribution Rate % = (Marginal Profit / Sales Revenue) * 100%

Marginal Contribution Hotel Rooms

Marginal Contribution from Increased Volume = [(Increased Volume - Old Volume) x Rate] - Variable Costs associated with Increased Volume

Marginal Contribution % from Increased Volume = (Additional Revenue from Increased Volume - Variable Costs associated with Increased Volume) / Additional Revenue x 100

Marginal Contribution from Increased Rate = [(Increased Rate - Old Rate) x Quantity Sold]-Variable Costs associated with Increased Revenue

Marginal Contribution % from Increased Price = (Additional Revenue from Increased Rate - Variable Costs associated with Increased Revenue) / Additional Revenue x 100

Flow-Through

The flow-through concept highlights the importance of a hotel's ability to effectively convert revenue into profit, ensuring a significant proportion of revenue "flows through" to the bottom line and contributes to overall profitability. By focusing on actions that generate high flow-through, hotel managers can ensure that their revenue growth results in a corresponding increase in profit. This approach encourages them to consider revenue generation and the costs associated with different revenue streams and operational aspects. Optimizing flow-through is essential for maximizing profitability and maintaining a sustainable, successful hotel business in the long term.

> *"When applying a strategic purview to profit-oriented revenue management, it is important to consider the flow-through to the bottom line. For example, RevPAR should not be looked at purely as a measure of how well the hotel is doing from an occupancy point of view. It should also include an analysis of operating costs to cascade rooms related revenue streams down to the GOP level. "*
>
> General Manager, Luxury Hotel Chain

Marginal Contribution

Not all revenue streams are equally profitable. To maximize profit, the commercial team (and everyone else in the hotel) need to understand the contribution from each revenue source. A general assumption is that departments, such as the hotel, with low variable costs (COGS) has a high contribution while departments such as Food & Beverage, Meetings & Events, and Spas have a lower contribution. That is the reason that we introduce Marginal Contribution which is the additional profit generated from selling an extra room night, a meal at the hotel restaurant, or any other ancillary service. It represents the difference between the revenue generated from the additional sale and the variable costs associated with providing that extra room, service, or product.

Marginal Profit Contribution

Understanding marginal profit is crucial for hoteliers because it allows them to identify which products and services generate the highest profit margins. By focusing on these high-margin offerings, hotels can increase their overall profitability more effectively than by simply trying to maximize revenue.

Marginal Contribution Rate

The marginal contribution rate is the rate at which incremental revenue is converted into incremental profit. This rate helps hoteliers evaluate the efficiency of their operations and revenue management strategies, ensuring that growth in revenue translates into an increase in profitability.

The marginal contribution rate can be calculated as the change in profit divided by the change in revenue, expressed as a percentage.

Marginal Contribution from Volume

Marginal contribution from volume refers to the percentage of additional revenue converted into profit when the volume of sales increases. In a hotel context, the flow-through can never be 100%, as selling an additional room always incurs costs such as cleaning, laundry, and guest amenities. Still, there are no other costs than the variable costs of producing an additional room night, so the marginal contribution should be 70-90 % depending on the type of hotel and rate level.

Definitions of Key Metrics

Cost of Goods Sold (COGS) Hotel rooms

The Cost of Goods Sold (COGS) for a hotel room refers to the direct costs of providing that room to a guest.

- **Housekeeping costs** include cleaning the room, laundry for the bed linens and towels, and any other housekeeping costs directly associated with preparing the room for guests.
- **Amenities** include the cost of toiletries provided in the room, such as soap, shampoo, conditioner, and lotion. It can also include any other amenities provided in the room, like coffee or tea, bottled water, or minibar items included in the room rate.
- **Utilities** include the proportional cost of electricity, heating, and cooling for the room.

The marginal cost for a hotel room is often identical to the total COGS per room. This is because most of the costs associated with providing a hotel room are variable - they increase directly with the number of rooms sold.

Cost of Goods Sold (COGS) Food & Beverage

The COGS in a restaurant typically includes direct costs associated with food production, like raw ingredients and any direct labor involved in food preparation.

The marginal cost, which represents the cost added by producing one extra dish, mainly encompasses the cost of raw ingredients because labor and other overhead costs remain relatively stable.

In a buffet setup, COGS is largely calculated based on the food prepared. The marginal COGS for an additional guest is often close to zero since the food is prepared in advance, and the cost does not significantly increase unless the buffet needs restocking or the service capacity is reached.

Marginal Contribution from Rate

Flow-through contribution from rate refers to the percentage of additional revenue converted into profit when an increase in the price or rate is charged for a product or service.

> *"Another perspective is to look at optimising the hotel, not necessarily, at its highest occupancy but with a higher room rate growth strategy. This, in addition to minimising the wear and tear on the room product, also enables a more prudent approach to managing operating expenses, with a positive flow-through to the profit line. "*
>
> General Manager, Luxury Hotel Chain

The goal for flow-through contribution from the rate is typically around 90-100%, as increasing the rate often has less impact on the associated costs than increasing sales volume.

Marginal Contribution from other revenue

Hoteliers are well aware of the marginal contribution from selling an additional room night, but lack a deeper knowledge about the marginal contribution from other revenue sources.

Food and Beverage (F&B): The marginal contribution is the additional revenue from selling one more meal or drink minus the variable costs (raw materials. With a well-managed F&B department, the marginal contribution can be substantial.

Spa Services: The marginal contribution from spa services is the additional revenue from one more service (massage, facial, etc.), less the variable costs (therapist's time, products used). The marginal contribution can be quite high if the spa operates below capacity.

Events and Meeting Facilities: The marginal contribution from renting out an event or meeting space can be high, especially for events that don't require much additional staffing or resources. Once fixed costs like maintenance and utilities are covered, each additional event can contribute significantly to the bottom line.

> *"All things considered, driving profitability is a function of increasing revenues and managing costs simultaneously. At FEH, we have always taken a robust approach to cost management. Driven by the corporate HQ, we have been able to look at a more judicious cost management process. This, ultimately, benefits all the properties within our brand portfolio. "*
>
> Malcolm Leong
> Head of Revenue Management, Far East Hospitality

The ideal product mix for a hotel to maximize profits depends on a few factors, including the hotel's target market, the local competition, and resources and capabilities. A good starting point is to focus on services with a high marginal contribution and high demand among the hotel's guests. From there, the hotel can adjust its product mix based on market feedback and performance metrics.

Profit & Loss for a small hotel

Amounts in '000 USD	This year	%	Last year	%	+/-	%
Total Revenue	5 420	100%	5 180	100%	240	100%
- CAC	-958	-18%	-920	-18%	-38	-16%
= Net Revenue	4 462	82%	4 260	82%	202	84%
- COGS	-745	-14%	-720	-14%	-25	-10%
= Gross Profit	3 717	69%	3 540	68%	177	74%
- Operating Expenses	-1 460	-27%	-1 400	-27%	-60	-25%
= GOP	2 257	42%	2 140	41%	117	49%

Flow-through

The P&L shows the annual flow through for each profit level with a revenue mix of room and food & beverage revenue.

> *"COMO Hotels and Resorts' realignment of performance management in total revenue management is a step in the direction of consolidating all revenue sources, with a view to increasing profitability of all strategic business units. "Certainly, for the upcoming opening of the COMO Metropolitan Singapore, where all our brands will come together under one roof to present a seamless integration of an innovative, tech-enabled, lifestyle experience for our guests and customers."*
>
> David Tam
> Assistant Director, Revenue & Performance Management, COMO Hotels and Resorts

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UNDERSTANDING THE HOTEL PROFIT AND LOSS STATEMENT

FIND THE KEY LEVERS TO IMPACT PROFIT

Maximizing profit requires actions at each profit level beginning at the top with the most profitable revenue mix.

Introduction

Understanding the Profit & Loss (P&L) statement is crucial for effective hotel management. In the hotel industry, financial management and reporting are guided by the Uniform System of Accounts for the Lodging Industry (USALI). This standardized accounting framework ensures consistent and transparent reporting, enabling hoteliers and stakeholders to effectively compare performance across different properties and periods. It was first published in 1926 by the Hotel Association of New York City and is now in its 11th edition. A new edition is expected in 2023.

However, the profit and loss statement (P&L) used by USALI takes a traditional approach to accounting and is less focused on managing a business. One example is that USALI does not include the level net contribution after customer acquisition costs. This makes it challenging to measure flow through and hold the commercial team accountable for the profit level.

To address this issue, we recommend making a minor adjustment to the hotel's profit and loss statement and instead use a the PORM Profit & Loss, see panel to the right.

The PORM Profit & Loss model

Our innovative approach is aimed at transforming the traditional profit and loss statement to promote accountability and transparency. By subtracting Customer Acquisition Costs (CAC) from total revenue, we create a new profit level called Net Revenue or Contribution to Operating Profit and Expenses. This approach helps to highlight the importance of CAC and encourages a profit-centric perspective for the commercial team.

To optimize the total revenue mix, it is crucial for the commercial team to understand the Cost Of Goods Sold (COGS). However, COGS falls under the operations domain, and it is managed by the team to maximize profits for each revenue stream. The Gross Operating Profit is then determined by deducting the operating expenses, which are managed by department heads.

The general manager oversees all sections of the P&L, ensuring that all components align towards profit maximization.

PORM promotes shared understanding, accountability, and ultimately leads to a more profitable hotel business.

Next, we provide more details on each profit level.

The PORM Profit & Loss Statement

+ Total Operating Revenue

- Customer Acquisition Cost (CAC)

= Net Revenue (Contribution to Operating Profit and Expenses)

- Cost Of Goods Sold (COGS)

= Gross Profit

- Operating Expenses

= Gross Operating Profit (GOP)

- Management Fees

- Non-Operating Income & Expenses

= EBITDA

Gross Profit, GOP, and EBITDA is also expressed as a percentage of Total Operating Revenue to clarify how much of the revenue the hotel converts to profit.

Notes:

Net Revenue is also referred to as Contribution to Operating Profit and Expenses (COPE) and is also expressed as COPE %, showing the percentage of the total revenue.

Profit levels in the P&L

The top line (Total Revenue)

This level includes all revenue generated by all facilities and outlets in a hotel business, encompassing sales from rooms, food and beverage, spa services, event spaces, and any additional income streams such as fees, commissions, or rental income. This provides an overall picture of the business's income-generating potential.

Contribution to Operating Profit and Expenses

This level subtracts the costs of acquiring customers, such as marketing, advertising, sales expenses, distribution costs, commissions, and loyalty program costs, from the net revenue. After considering the costs required to attract customers, net contribution indicates the hotel business's revenue.

Gross Profit

This level is calculated by subtracting the cost of goods sold (COGS) or variable costs associated with producing or delivering the products or services from the net revenue. Gross profit is generated before accounting for other operating expenses and overheads.

Gross Profit Margin %: This ratio compares gross profit to net revenue, expressed as a percentage. It provides insight into how efficiently the business generates profit from its core operations before accounting for other expenses.

Essential PORM Profit Level KPIs

- **Total Revenue:** The overall income generated by all facilities and outlets in a hotel, including rooms, food and beverage, spa services, event spaces, and any additional income streams.
- **Contribution to Operating Profit and Expenses:** The revenue remaining after subtracting the costs of acquiring customers, such as marketing, advertising, sales expenses, distribution costs, commissions, and loyalty program costs.
- **Gross Profit:** The profit generated after subtracting the cost of goods sold (COGS) or variable costs associated with producing or delivering the products or services.
- **Gross Profit Margin:** The gross profit ratio to net revenue, expressed as a percentage. It provides insight into how efficiently the business generates profit from its core operations before accounting for other expenses.
- **Gross Operating Profit:** The profit generated from the business's core operations after accounting for all variable costs and operating expenses.
- **Gross Operating Profit Margin:** The ratio of operating profit to net revenue, expressed as a percentage. It shows how effectively the business generates profit from its core operations after accounting for all variable costs and operating expenses.
- **EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization):** A measure of the business's operational efficiency and performance, often used as a proxy for cash flow.
- **Net Profit:** The overall profitability of the business after accounting for all costs and expenses, including interest and taxes.
- **Flow-through:** The percentage of incremental revenue converted into profit, illustrating the effectiveness of cost management and revenue optimization efforts.
- **Marginal Profit:** The additional profit generated by selling one more unit of a product or service, taking into account the associated variable costs.
- **Marginal Contribution Rate:** The rate at which incremental revenue is converted into profit, highlighting the hotel's cost management efficiency and optimization strategies.

Gross Operating Profit

This level is calculated by subtracting operating expenses (such as salaries, utilities, technology, and other general expenses) from the gross profit. Operating profit represents the profit generated from the business's core operations before accounting for interest and taxes.

Gross Operating Profit Margin %: This ratio compares the gross operating profit to net revenue, expressed as a percentage. It shows how effectively the business generates profit from its core operations after accounting for all variable costs and operating expenses.

EBITDA

This level represents the operating profit with depreciation and amortization expenses added back. EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) is often used as a proxy for the business's cash flow and helps to evaluate the operational efficiency and performance of the company.

Net Profit

This level is calculated by subtracting all expenses, including interest and taxes, from the operating profit. Net profit represents the bottom line and indicates the overall profitability of the business after accounting for all costs and expenses.

Flow-through concept application in P&L

By applying the flow-through concept to the P&L, hoteliers can identify areas of improvement and optimize their revenue management strategies to maximize profit.

> *"The purpose of driving revenue growth has to be intentional so that incremental revenues can flow through to the bottom line. To this end, revenues less cost of sales would generate the first line of Gross Profit. "*
>
> Mark Chan, Chief Operating Officer, Frasers Hospitality

From Total Revenue to Contribution

The flow-through at this level depends on the efficiency of customer acquisition and marketing efforts. Hotels can improve flow-through by optimizing the revenue mix by focusing on marketing campaigns to target the most profitable customer segments. In addition a focus on Contribution will minimize distribution costs and commissions.

From Contribution to Gross Profit

The flow-through at this profit level is influenced by the cost of goods sold (COGS) or variable costs. Hotels can improve the flow-through by optimizing the revenue mix based on COGS, which varies significantly by room category, guest segment, and length of stay. Understanding COGS based on the revenue mix can increase the gross profit by optimizing resource allocation, reducing waste, and streamlining operations.

From Gross Profit to Gross Operating Profit

The flow-through at this level is affected by the efficiency in managing operating expenses. Hotels can enhance the flow-through by controlling overhead costs, optimizing staff productivity, and managing utilities effectively.

Departmental flow-through

The flow-through concept can be applied to various departments within a hotel. Here's how:

Food and Beverage (F&B): The flow-through in the F&B department would be influenced by factors such as food cost, beverage cost, labor cost, and overheads. The flow-through can be improved by optimizing menu pricing, reducing waste, efficient inventory management, and optimizing staff scheduling to match demand patterns.

Meetings & Events (M&E): The flow-through in the M&E department will depend on the effective management of direct costs such as food and beverage for events, labor cost, equipment rental, and other overheads. Strategies to improve flow-through may include optimizing booking, effective cost control of direct event expenses, and effective negotiation with suppliers and vendors.

Spa: The flow-through in the Spa department will be influenced by the costs of therapists, other staff, spa supplies, and overheads. Strategies to improve flow-through could include effective scheduling of therapists, efficient procurement and use of spa supplies, and providing value-adding services that can command higher prices.

Moreover, it's also essential to consider the interdependencies between departments. For example, a successful M&E event may boost F&B revenue, or a well-run spa can contribute to room sales by enhancing the overall attractiveness of the hotel.

Therefore, a holistic approach that considers the hotel as an integrated operation can often be the most effective way to optimize flow-through and overall profitability.

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THE COMMERCIAL TEAM'S ROLE IN PORM

SIGNIFICANT IMPACT ON PROFITABILITY

By becoming more Profit-Oriented, the commercial team can optimize the total revenue mix from all sources, leading to a higher flow-through and increased profitability.

Responsibilities

Successful Profit-Oriented Revenue Management requires cooperation and alignment across the entire hotel team, with everyone understanding how their actions contribute to the hotel's profitability.

Every employee in a hotel contributes to profitability by providing excellent customer service. Happy guests are likelier to spend more during their stay, return and refer others, reducing CAC and increasing lifetime value. By understanding and aligning with the PORM approach, all stakeholders can collaborate to drive profitability and achieve long-term financial success.

Each department contributes to different sections of the P&L, so it's essential for effective communication and collaboration across teams. The overarching goal is to maximize profit, not just revenue, and every department has a role to play. Let's take a closer look at the commercial team's role.

Optimizing the revenue mix for profitability

The commercial team's key responsibility within a PORM framework is to determine and optimize the revenue mix that will maximize profits. Different revenue mixes don't produce the same profit primarily due to differences in associated costs and profit margins. Two different revenue mixes of the same total amount can have significantly different impacts on overall profit. This is why understanding the profitability of each revenue source and optimizing the revenue mix is crucial for profit-oriented revenue management in the hospitality industry.

Optimizing the revenue mix for maximum profitability is the ultimate objective for a hotel's commercial team. This task, however, requires a comprehensive understanding of multiple factors and their interconnectedness.

Customer Acquisition Cost (CAC) is the total expense of acquiring a customer. This includes costs such as marketing, sales, and commissions paid to third-party distribution platforms. Each customer acquisition source (e.g., direct booking, OTAs, travel agents, etc.) comes with different costs, and understanding these differences allows the commercial team to focus on the most cost-effective acquisition channels.

Another important aspect is the **Cost of Goods Sold (COGS)** for each revenue source. COGS includes the direct costs of producing the goods or services the hotel sells. This could range from food and beverages in a restaurant and spa supplies to the cost of utilities and cleaning for a room. Understanding COGS is crucial to accurately calculate the profitability of each revenue source.

However, understanding CAC and COGS alone is not sufficient. The commercial team needs to understand the **marginal profits** of each room category, guest segment, length of stay, menu item, delegate package, spa treatments, and so on. By understanding the marginal profits, the team can better identify which services are the most profitable and prioritize selling those services.

Finally, the commercial team must **combine all these factors** to optimize the most profitable total revenue mix. For instance, knowing the profitability of each offering, they can design packages that combine high-margin services or strategically upsell and cross-sell services to each guest. They can adjust their marketing strategies to attract the most profitable guest segments or focus on direct bookings to reduce CAC.

Driving Profitability: How Each Commercial Team Role Plays a Part

Here is a more detailed look at each role's opportunities to maximize total revenue, minimize Customer Acquisition Cost (CAC), and create a revenue mix with the lowest Cost of Goods Sold (COGS):

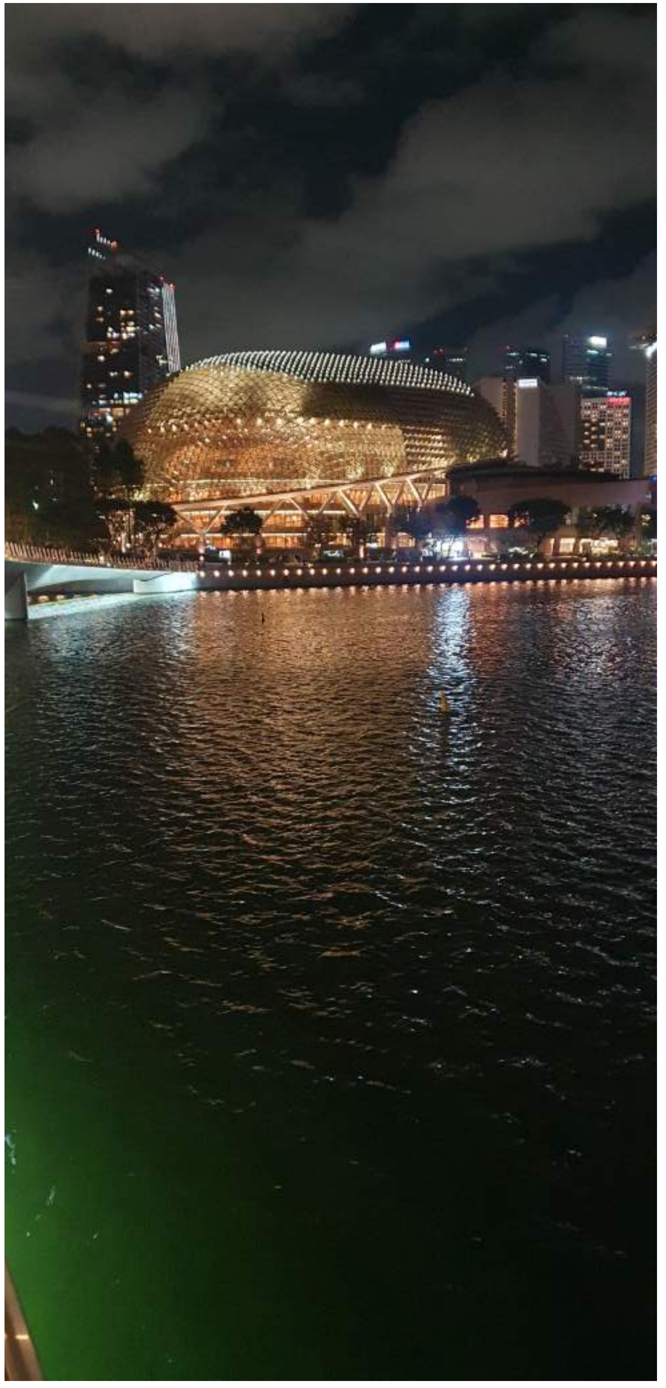
Marketing: The marketing team is crucial in attracting potential guests to the hotel, thus significantly impacting the total revenue and CAC. They need to craft marketing campaigns that effectively target profitable guest segments, leading to higher total revenue and lower CAC since these segments are more likely to convert. They also manage the hotel's online presence, ensuring its value proposition is clear, accurate, and compelling to minimize CAC. Furthermore, they can contribute to a favorable revenue mix by promoting offerings that have lower COGS.

Sales: The sales team drives total revenue by negotiating contracts for group bookings, corporate clients, and events. They need to understand the profit contribution of different room categories, event spaces, and additional services to maximize revenue from each contract. In terms of CAC, long-term contracts and repeat business are advantageous as they significantly reduce CAC over time. The sales team can also influence the revenue mix by upselling and packaging offerings with lower COGS and higher profit margins.

Revenue Management: The revenue team sets pricing strategies and manages inventory to maximize revenue and profit. They need to understand the marginal profit contribution of each room type, length of stay, and booking channel to optimize pricing. They also need to consider the CAC and COGS to determine the true profitability of each sale. Regarding the revenue mix, they can push for selling room types or packages with lower COGS, increasing profit margins.

Reservations: The reservations team interacts directly with guests, offering a prime opportunity to upsell and cross-sell more profitable services, thereby maximizing revenue per guest. They also minimize CAC by converting inquiries into bookings efficiently and providing excellent customer service to encourage direct bookings. Furthermore, they can recommend offerings with lower COGS during their interactions with guests, influencing the revenue mix in favor of higher profitability.

Each role in the commercial team has a significant part in maximizing total revenue, minimizing CAC, and creating the most profitable revenue mix. All roles must collaborate and align their strategies to fully leverage their collective potential in driving hotel profitability.



Operations role in PORM

The role of operations in PORM is crucial, as they are directly responsible for delivering services that generate revenue and managing costs associated with these services. Managers in Food & Beverage (F&B), Meeting & Events (M&E), and Spa departments have a significant role in improving profits, but their contribution doesn't end there. They need to educate the commercial team (Marketing, Sales, and Revenue) about the profitability of each product and service, ensuring the right offerings are promoted, priced, and sold.

Front Office Manager

Up-selling: Training staff to effectively up-sell to the next room category to increases the average spending per guest.

Cross-selling: Training staff to effectively cross-sell all products and services from all departments and outlets in the hotel increases the average spending per guest, enhancing top-line revenue growth.

F&B Manager

Menu Engineering: Designing menus based on the profitability and popularity of items. Highlighting high-profit items helps increase sales. Sharing this information with the commercial team can aid in promotional activities.

Inventory Management: By reducing waste through improved inventory management, costs are controlled. Collaborating with the revenue manager in forecasting demand leads to better scheduling and procurement processes.

Upselling: Training staff to effectively upsell increases the average spending per guest, enhancing top-line revenue growth.

Meeting & Events Manager

Dynamic Pricing: Meeting and event spaces can be priced based on demand and seasonality. Creating a pricing strategy with the commercial team can help to package and sell these spaces effectively.

Package Deals: Comprehensive packages increase revenue and the hotel's appeal to event organizers. Collaborating with the commercial team ensures these packages are marketed optimally.

Targeting Profitable Segments: Certain events may be more profitable than others. Sharing these insights with the commercial team can help target these segments effectively.

Spa Manager

Effective Scheduling: Maximizing the utilization of spa therapists and treatment rooms increases revenue. Sharing off-peak times with the revenue manager can allow dynamic pricing implementation, encouraging bookings during these periods.

Retail Sales: Selling products provide an additional revenue stream for spas. Communicating the profitability of these products with the commercial team can aid in their promotion.

Package Deals and Memberships: Offering package deals or memberships increases customer loyalty and provides a steady revenue stream. Working with the commercial team can ensure these packages are well-advertised.

Furthermore, operational managers must help the revenue manager accurately forecast the departmental revenue to optimize scheduling and planning. This collaboration improves operational efficiency and contributes to the hotel's overall financial performance by aligning revenue strategies across all departments.

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HOW TO IMPROVE PROFIT

ACTIONS TO IMPROVE MARGINAL PROFIT

Quick wins and long-term gains

Ten actions to improve profits by using the Profit-Oriented Revenue Management framework.

The top 10 actions to improve profits

Based on general industry experience and knowledge, here are the top 10 actions that often have a significant profit impact.

1. **Understanding Marginal Profit:** The commercial team's understanding of the marginal profit for every product and service is crucial. This knowledge informs decisions on what to sell and how to price, which can significantly impact profitability.
2. **Developing Profitable Products and Services:** Focusing on developing and promoting highly profitable products and services that appeal to the target audience can significantly increase marginal profit.
3. **Flexible and Creative Packages:** Offering packages that combine various services can increase overall guest spending and improve profit margins.
4. **Pricing Strategies:** Implementing dynamic pricing strategies that consider demand, competition, and market conditions can optimize revenue and profit.
5. **Productive Marketing and Sales:** Investing in effective marketing strategies and sales training can attract more guests and close more sales, leading to higher revenue and profit.
6. **Optimizing Distribution Channels:** Actively managing distribution channels to promote the most cost-effective ones can reduce customer acquisition costs and increase profitability.
7. **Upselling and Cross-selling:** Training staff to effectively upsell and cross-sell can increase revenue per guest and improve overall profitability.
8. **Enhancing Guest Experience:** Ensuring a positive guest experience can lead to repeat business and positive reviews, increasing revenue and profitability.
9. **Investing in Technology:** Using RMS, CRM, and PMS can increase efficiency, provide valuable insights, and help optimize pricing, all contributing to improved profitability.
10. **Leveraging Data and Analytics:** Using data to make informed decisions can lead to more effective strategies and higher profitability.

These actions, when effectively implemented and managed, contribute to significant improvements in a hotel's profitability. Let's look into some of these actions in more detail.

Flexible and creative packages

Developing flexible and creative packages for enhancing profitability requires a dual focus. Firstly, packages should be attractive and compelling to guests, enticing them to spend more than they would on individual services. This involves understanding guests' needs and preferences and designing packages that offer real value and an enhanced experience. Secondly, each package element should be chosen with profitability in mind. High-margin services should be emphasized, and costs should be carefully managed. In this way, hotels can increase revenue and profit while offering an appealing offer to guests. Here are some package ideas.

Stay and Dine Packages: This type of package combines accommodation with meals. For example, a package could include breakfast, lunch, and/or dinner at the hotel's restaurant. This encourages guests to dine at the hotel, increasing F&B revenue. The example to the left shows the marginal contribution of one extra package where a breakfast and dinner buffet are included in the package.

Marginal Contribution:
Selling one extra stay & dine package

Amounts in USD	Actual	%
Total Revenue	400	100%
- CAC	-20	-5%
= Net Revenue	380	95%
- COGS	-25	-6%
= Gross Profit	355	89%
- Operating Expenses	0	-
= GOP	355	89%

- Room, breakfast buffet, and dinner buffet
- CAC = direct booking, hotel booking engine
- COGS for the room night is $25
- No COGS for one extra buffet guest
- Marginal contribution $355 or 89%

Spa and Wellness Packages: These packages can be highly profitable, offering services with high perceived value but relatively low costs. For example, a package might include a massage, access to wellness facilities (like a sauna or steam room), and a healthy meal or juice bar.

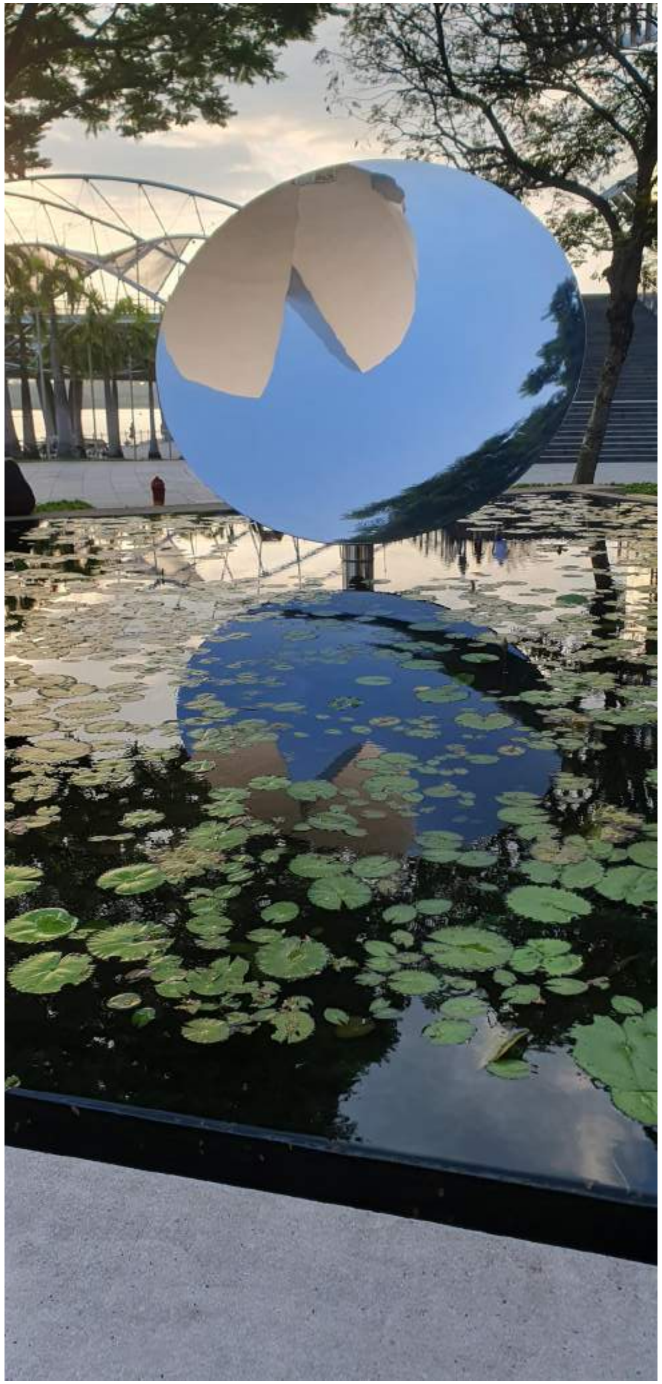
Adventure and Experience Packages: Depending on the hotel's location, packages could include guided tours, adventure sports, or local experiences. These can be profitable if the hotel can partner with local providers at a favorable rate.

Business Packages: For business travelers, a package might include a room, meals, and access to business facilities, like meeting rooms or co-working spaces. Adding services like fast Wi-Fi, printing, or concierge business services can increase the perceived value.

Romantic Getaway Packages: These packages can include extras like a room upgrade, a bottle of champagne on arrival, a special dinner, or spa treatments. These extras have high perceived value but can be provided to the hotel at a low marginal cost.

Family Packages might include accommodation in a family room or suite, meals for children, and family-friendly activities or experiences. Babysitting services or access to kids' clubs can also be added at a premium.

When negotiating packaged deals with the F&B manager, it's vital to balance attractive pricing for customers while ensuring F&B profitability, often settling on COGS + 10-20 %.



Optimizing Customer Acquisition Cost: A Multifaceted Strategy

Controlling the Customer Acquisition Cost (CAC) is crucial for a hotel's profitability. The commercial team, particularly revenue managers, must comprehend current CAC across all categories to identify cost reduction opportunities without sacrificing the customer experience.

> *"In reality, the cost of acquisition can be multi-faceted; hence, we need to deep dive into the real costs of acquiring the customers, beyond, for example, the cost of signing them up and maintaining their engagement in the loyalty programs."*
>
> Mark Chan, Chief Operating Officer, Frasers Hospitality

Managing distribution channels

Effective management of distribution channels involves negotiating lower commissions with third-party platforms, promoting direct bookings, and optimizing the distribution mix based on each channel's performance.

Return on marketing spend

High-ROI marketing strategies, customer segmentation, and data analytics utilization help improve marketing efficiency, leading to lower CAC. Well-managed loyalty programs, although costly, enhance customer retention and drive down CAC.

Monitor trends

Constant monitoring of market conditions, customer behavior, and initiative performance allows for necessary strategy adjustments. Proactive and data-driven CAC management can significantly increase net revenue and boost hotel profitability.

Leverage technology

Managing CAC in a hotel setting is a complex and time-consuming task due to the variety of cost components and the dynamic nature of the hotel industry. Hotels should leverage technology to better understand and manage CAC by implementing a comprehensive system with strong analytics capabilities. Here are a five must-have capabilities in a system for managing CAC.

1. **Automating Data Collection and Visualization:** Utilizing software solutions that automate data collection and visualization is crucial. These technologies allow you to track CAC over time, identify trends, and make informed decisions.
2. **Segmenting CAC:** Breaking down CAC by segment, feeder market, distribution channel and other variables to help pinpoint the highest spending and profitable customers. This analysis can inform where to focus efforts and resources.
3. **Establishing Target CAC:** After understanding the current CAC and how it breaks down by different segmentation criteria, set a target to strive for. This provides a concrete goal and allows for more focused and effective strategies.
4. **Monitoring CAC Over Time:** Keeping a close eye on CAC trends helps identify shifts in the efficiency of customer acquisition strategies. Regular monitoring enables timely adjustments to keep CAC within the target range.
5. **Adapting Strategies as Needed:** If CAC is too high, marketing and sales strategy adjustments may be necessary. This could involve changing the mix of channels, modifying the messaging, or revising pricing strategies.

Customer Acquisition Cost (CAC)

Customer Acquisition Cost (CAC) is a critical metric in the hospitality industry as it directly impacts a hotel's total revenue. Managing CAC effectively is a **primary responsibility of the commercial team** and is crucial to enhance net revenue. CAC can be divided into four key components:

- **Commissions and Third-Party Fees:** These represent the costs of using intermediaries like online travel agencies and traditional travel agents to acquire bookings. Each booking through these channels entails a certain fee or commission, which reduces the total revenue earned per reservation.
- **Transaction Costs:** These are the expenses related to transporting the booking information through different systems, including a central reservation system, channel management software, or a hotel website's booking engine. It's crucial to manage these costs efficiently, as they can mount up with every transaction, reducing the profitability of each booking.
- **Loyalty Program Costs:** The costs associated with maintaining a customer loyalty program constitute a part of CAC. These can include offering discounts or complimentary services to members, running the program's administrative operations, and managing rewards or benefits for members.
- **Marketing and Sales Costs:** This aspect of CAC covers all expenses tied to promotional activities intended to attract new guests and encourage repeat business. These costs can encompass advertising, search engine marketing, social media campaigns, and personnel costs for the commercial team.

The commercial team must understand and handle each component to manage CAC, optimize resource allocation, and boost the hotel's profitability. It's generally accepted that CAC should fall within 15 to 25% of room revenue, which is a substantial cost that needs to be managed.

Improve productivity

To enhance the efficiency of the commercial team, it is crucial to adopt a data-driven approach and improve productivity by creating well-designed processes and effective performance monitoring and analysis. This can greatly benefit various roles within the team, such as marketing, sales, revenue management, and reservation. Here are some strategies for optimizing productivity.

High-Value Activities: Direct the efforts of the commercial team towards activities with the highest return on investment. Promote direct bookings, focus on high-margin customer segments, or utilize high-impact marketing channels.

Data-Driven Decision-Making: Harness the power of data analytics to inform decision-making processes. Analyze performance metrics, market trends, and customer preferences to pinpoint areas for improvement and shape profitability strategies.

Optimal Resource Allocation: Efficiently allocate resources by focusing on activities that yield the highest marginal profit and conversion rates. Reallocate marketing budgets, adjust sales targets, or redistribute reservations staff to high-profit channels and customer segments.

Streamlined Processes and Systems: Leverage technology solutions and process improvements to enable the commercial team to work more efficiently. Adopt CRM systems, marketing automation tools, or channel management software to automate routine tasks and reduce errors.

Continuous Training and Development: Invest in the constant training and development of the commercial team. This will help them enhance their skills, stay updated on industry trends, and effectively contribute to the hotel's profitability.

Effective Collaboration and Communication: Foster a culture of cross-functional collaboration and open communication among the commercial team. This ensures the alignment of goals, facilitates the sharing of best practices, and promotes efficient strategy execution.

Performance Monitoring and Evaluation: Regularly track and analyze the commercial team's performance and adjust strategies as needed. Establish key performance indicators (KPIs) that align with the hotel's financial objectives and monitor progress against these metrics.

The data-driven approach

When monitoring and analyzing performance, a structured, data-driven approach is essential.

Establish KPIs: Identify KPIs that align with your hotel's profit-oriented revenue management objectives, such as contribution and flow-through rates.

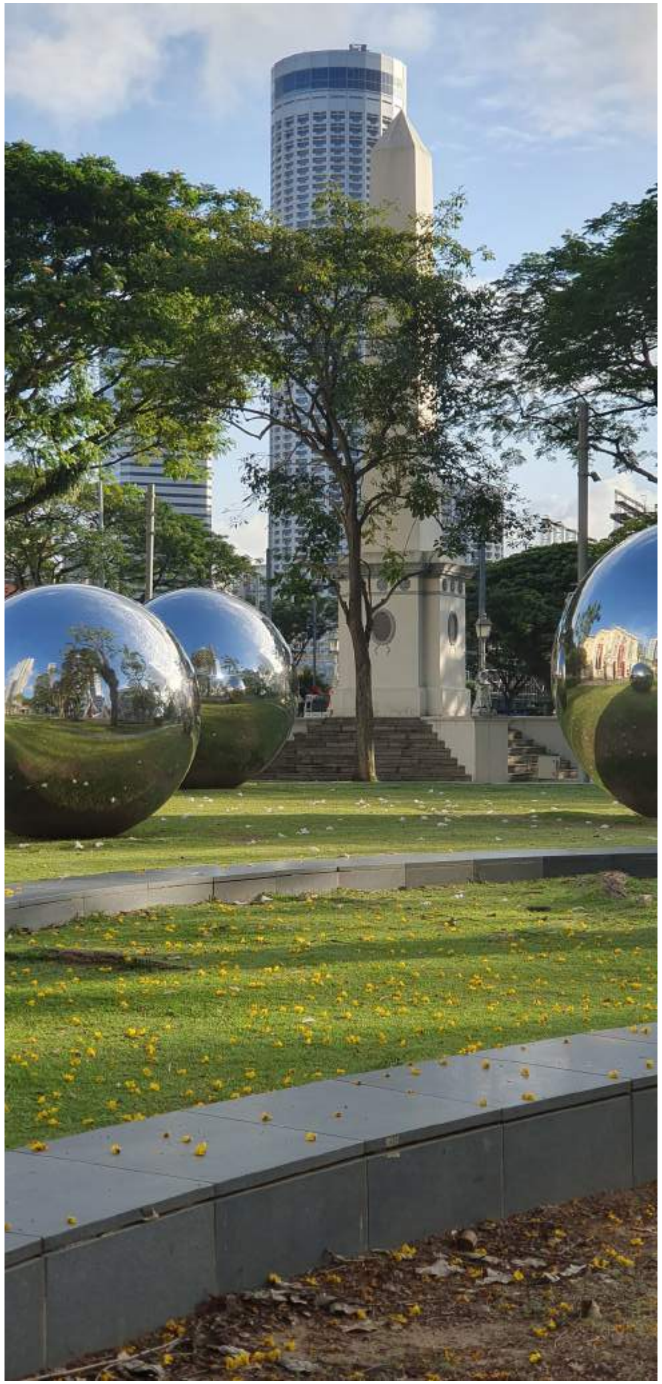
Implement Tracking and Reporting Systems: Set up robust systems for collecting, analyzing, and reporting performance data related to your KPIs.

Regular Performance Monitoring: Review performance data to identify trends, patterns, or anomalies and make informed, data-driven decisions.

In-depth Analysis: Perform detailed analysis to understand the root causes of performance trends and identify areas for improvement.

Strategic Adjustments Based on Insights: Use the insights from performance analysis to adjust strategies as needed, such as refining pricing strategies or enhancing up-selling efforts.

Communicate Results and Insights: Share performance data and insights with stakeholders to ensure alignment and collective efforts toward achieving profit-oriented revenue management goals.



5

IMPLEMENTING PROFIT-ORIENTED REVENUE MANAGEMENT

THREE STEPS IMPLEMENTING PORM

Create a plan for success

Implementing PORM is crucial to optimize profit from every revenue source, ensuring long-term growth and sustainability.

In the ever-evolving hospitality industry, the focus has shifted toward a more comprehensive, profit-oriented revenue management approach. The shift to Profit-Oriented Revenue Management (PORM) requires a systemic and strategic reorientation involving all hotel stakeholders, each playing a critical role in driving the hotel's profitability.

The implementation process can be outlined in three major steps.

1. Brainstorm on Implementation

Identify Stakeholders: Clearly define all the roles and stakeholders within your organization who will have an impact on or will be impacted by the shift to PORM.

Set Clear Objectives: Outline the primary objectives of implementing PORM. These objectives should be measurable and aligned with your hotel's financial goals.

Develop a Transition Plan: Draft a detailed plan outlining how your hotel will transition from traditional revenue management practices to PORM, considering aspects like technology adaptation, training needs, and changes to the existing processes.

2. Understand the Cost Structure

Define and Analyze Costs: Break down and understand all the costs associated with each revenue stream, including the Customer Acquisition Costs (CAC) and the Cost of Goods Sold (COGS).

Calculating Customer Acquisition Cost (CAC): Determine the costs associated with acquiring customers, including marketing and sales costs, commissions, and third-party fees.

Evaluating Marginal Profits: Analyze the marginal profits for each product or service, considering the revenues generated and the variable costs associated with serving an additional unit.

Analyze Profitability: Use the information on costs and marginal profits to analyze the profitability of each revenue stream and customer segment.

3. Allocate Profit Responsibilities

Assign Profit Responsibilities: Depending on the profit levels in the Profit and Loss (P&L) statement, allocate profit responsibility to the corresponding stakeholders.

Define KPIs: Establish clear Key Performance Indicators (KPIs) for each stakeholder to measure their contribution to the hotel's profitability.

Establishing Cross-Functional Collaboration: Encourage collaboration between operations and the commercial team to promote the most profitable products and services, accurately forecast revenues, and manage scheduling and planning.

Monitoring and Evaluating: Establish regular check-ins to evaluate progress against the defined metrics and adjust strategies as needed.

By following these steps, hotels can implement PORM successfully, with each stakeholder playing a critical role in maximizing the hotel's profitability. It is a collaborative approach that improves the bottom line and enhances the overall operational efficiency of the hotel.

> *"Investing in the revenue management infrastructure at the operator level entails resourcing of talent, training, and development, as well as investments in systems and software, all of which will dilute the management fee. The counterfoil to the argument is to secure more management contracts in which PORM can be factored in as a value-add to hotel owners."*
>
> Malcolm Leong
> Head of Revenue Management, Far East Hospitality

An example of a PORM Strategy

The following page shows an example of a PORM strategy with the purpose to increase profitability to secure long-term financial sustainability.

AN EXAMPLE OF A PROFIT-ORIENTED REVENUE MANAGEMENT (PORM) STRATEGY

Introduction

This PORM strategy will grow revenue and optimize the revenue mix to boost profits for our 250-room hotel with two restaurants, a well-frequented bar, ten meeting rooms, and a spa. Our strategy aims to increase profits by offering the most profitable products and services that cater to the needs of our target audience. We will focus on rooms, food & beverage, meetings & events, and spa services. The goal is to create a revenue mix from all sources to maximize profitability without compromising quality.

Market analysis

A comprehensive local market analysis is critical to understanding customer needs, trends, and competition. This information will inform our approach and assist us in pinpointing opportunities for profit maximization.

Revenue sources

- ***Room revenue:*** *We will adopt dynamic pricing strategies to prioritize not just the optimization of room revenue but also the maximization of profits. Considering demand, occupancy, and seasonality, we will focus on driving bookings from guests with high-spend and high-profit potential using data-informed personalized offers. We highlight room categories and related services with lower COGS and higher marginal profit.*
- ***Food and Beverage:*** *In our food & beverage outlets, our emphasis will be on optimizing profits rather than merely revenue. Our menu will be curated to promote offerings with lower COGS but higher profitability. Data-driven personalized offers will target high- and potential high-spenders, guiding them toward these profitable choices.*
- ***Meetings and Events:*** *In the meetings and events department, we aim to optimize profits by offering data-driven personalized packages to corporate and group customers. Our dynamic pricing strategy will ensure we drive bookings towards options with lower COGS and higher profit margins. These could include specific meeting spaces, catering options, or package deals.*
- ***Spa Services:*** *We aim to optimize profits from our spa services by employing data-informed personalized offers and dynamic pricing strategies. We will direct high-spending customers towards spa treatments and packages with lower COGS and higher marginal profits while providing exceptional value to our guests..*

Customer segments

Through data analysis, we aim to identify our most profitable customers and guest segments and develop highly profitable offerings that cater to their preferences.

Technology and processes

We will use a Profit-Oriented Revenue Management system to gather, analyze, and disseminate data across various departments. This system will aid in implementing a profit-oriented culture in the hotel, optimizing profits across all revenue sources down to products and services.

Roles and responsibilities

- ***Sales:*** *The sales team will be tasked with not just selling rooms, food & beverage, meetings & events, and spa services to customers but ensuring these are sold in a way that maximizes profits. They will use data insights to craft highly appealing customized offers to the customers using products and services highly profitable for the hotel.*
- ***Marketing:*** *The marketing team will promote the hotel and its services, focusing on attracting potential guests. To maximize profits, the goal is to attract spenders of high-margin products and services.*
- ***Revenue management:*** *The revenue management team will use data insights to optimize the revenue mix to maximize profit across all revenue sources. They will closely collaborate with sales and marketing to ensure that all PORM efforts are harmonious and effective.*

Performance metrics

We will track the following KPIs to measure the success of our PORM efforts.

- **Revenue uplift:** The increase in total profit from all revenue sources combined compared to the previous period.
- **Flow-through:** The marginal flow-through for each revenue source
- ***Customer Satisfaction:*** Feedback from guests on their experiences and satisfaction with the hotel and its services to ensure high guest satisfaction

Action plan

Q1: *Conduct market analysis and identify profitable customer segments. Educate the commercial team on flow-through, CAC, COGS, and marginal profit concepts.*

Q2: *Create and price high-margin products and services that are attractive to the target audience*

Q3: *Launch customized offers for meetings & events' customers and personalized offers for rooms, food & beverage, and spa services for guests. Start testing highly profitable packages.*

Q4: *Monitor and evaluate PORM effectiveness*

DEVELOPED FOR PROFIT-ORIENTED REVENUE MANAGEMENT

OPTIMIZE PROFIT WITH DEMAND CALENDAR

Boost your hotel's long-term success

Profit-Oriented Revenue Management with Demand Calendar: The Mission-Critical Tool for Every Hotel CEO to Drive Success.

Implementing Profit-Oriented Revenue Management (PORM) in a hotel group necessitates an intuitive, insightful, and interactive tool to bridge the gap between all stakeholders impacting revenue. Demand Calendar is a pivotal tool uniquely positioned to facilitate the successful implementation of PORM. Here are some key benefits:

1. User-Friendly Interface

Demand Calendar has been designed with a user-centric approach. It is easy to navigate and understand all roles involved in revenue management, thus encouraging more frequent and efficient use of the tool.

2. Comprehensive Insights

One of the key strengths of Demand Calendar is its ability to calculate and present critical financial metrics such as Customer Acquisition Cost (CAC) and Contribution to Operating Profit and Expenses. This granular insight empowers stakeholders to make more informed, profit-oriented decisions.

3. Collaborative Forecasting

Demand Calendar promotes collaboration by enabling joint forecasting of all revenue streams. This unified approach encourages better planning, facilitates smoother communication among teams, and leads to the conversion of more revenue into profit.

4. Strategic Planning

With Demand Calendar, hotels can easily analyze past performance, track current trends, and project future scenarios. This level of insight allows for more strategic and proactive decision-making, which is essential in the PORM approach.

5. Accountability and Transparency

Demand Calendar promotes transparency and accountability among all stakeholders by automatically collecting and making all revenue-impacting data and actions easily available. Everyone can see their contributions to the hotel's overall profitability, encouraging responsibility and alignment toward its financial goals.

Overall, Demand Calendar is more than just a tool; it's a comprehensive solution for every hotel CEO for implementing PORM, facilitating better decision-making, fostering collaboration, and ultimately driving hotel profitability.