Optimal Pricing & Market Positioning

Innovations in RM to maximise sales & optimise revenue

Neil Corr
Senior Advisor, EMEA
Setting off on the right path

The RM landscape

Harnessing big data

Innovations in optimisation

Achieving optimal segmentation & pricing
This have always changed.......and fast!
Revenue Management evolution

1990s
- Yield Management
- Flexible Retail Pricing
- Group Displacement
- BAR Derived Rates

2000s
- Flexible Rate Contracting

2010s
- Meta Search
- Price > Value
- Breakdown of Parity Rules
- "Big Data"
- ‘Total’RM

2020s
- Rise of Analytics
  - Data Mining
  - Machine Learning
  - Text Analytics
  - Digital Intelligence

Rise of the OTAs
Where Evolution meets Innovation...

Flexible Retail Pricing
BAR Derived Rates

Flexible Rate Contracting

Total RM

“Big Data”
Rise of Analytics

Best Available Rate Pricing
- Fold-in derivative rates
- Account for competition

- Account for Derived Rates in Pricing
- Management of Rate Availability

- Expanding into other disciplines
- Rational and disciplined approach

- Application of both descriptive and predictive analytics
How is the established ‘mantra’ coping?

You’ve all heard this...

Right Product

Right Channel

Right Price

Right Customer

Right Time
The market is changing!
What about consumer sentiment?

**LEISURE TRAVELER**

1. **Reviews Critical**
   - Negative reviews remove you from the Leisure Travelers choice set.

2. **Price Important**
   - Price becomes a factor when all else is equal for Leisure Travelers.

3. **Ratings Influence**
   - It can’t just be OK – it has to be great for Leisure Travelers to notice.

**BUSINESS TRAVELER**

1. **Reviews Matter**
   - Business Travelers want to know what their experience will be.

2. **Loyalty Matters**
   - Business Travelers will put up with good enough for points.

3. **Price Matters**
   - Business Travelers still recognize a good deal.
How are we handling cost of acquisition?
What about price optimisation?

\[ D + C + PE = P \]

- **D**: Demand
- **C**: Capacity
- **PE**: Price Elasticity
- **P**: Price Strategy

- **Right Price**
- **Right Time**
Innovations in RM
Today:

Harnessing Data & Optimising Revenues
Tackling the ‘Big Data Challenge’

How do we drive competitive advantage with data-driven decision making?

Spreadsheet Based Methods
- Multiple Data Sources
- Extremely Labour Intensive
- Quickly Out of Date

Decision Support Systems
- Decision not factored into Optimisation or Forecast
- ROI difficult to validate
- “Recommendation” Output
- High Level Analytics

Fully Integrated Solutions
- Controls
- External Data Analysis
- Daily Analytical Updates
- Real Time Decisions
- Real Time Optimization
- Real Time Forecasting

Value Delivered

Timeline
More data demand = greater analytical demand!

Probability of cancel and rebook

Booked versus Stayed

Continuous Pricing

Reputation influenced BAR

Demand360

Room-type forecasting & Pricing
What data is going into the optimization process?

Next Generation Integration (‘NGI’)
‘Big Data’ needs Actionable Insight
More Strategic Revenue/Commercial Teams

From Sifting Through Reports to Dynamic Alerts

‘Manage by Exception’

Let RMS identify the key items for review

- Users monitor key items that are important to the business
- Users review significant changes – not every day, day-by-day
- Be more strategic not tactical

‘What-if’ Analysis

Informed Decision Making Support

- Price Changes
- Overbooking Changes
- Marketing Campaigns
- Adjustments to Sales Strategy
Holistic Business Optimisation
“Understanding and improving each area of the Revenue Management Cycle will allow you to target your growth effectively”

- Benchmarking & Performance Monitoring
- Data Collection
- Data Analysis
- Forecasting
- Pricing
- Reporting & Impact
- Space Management
- Select the right piece of business
- S&M, Ops, Finance, Technology
- Effective use & Communication of the data collected in strategic decision making decision
- Unconstrained Demand Forecast for RM purposes
- Systematic gathering of historical and current market trends, including competitor data, channels etc

Optimal Pricing Approach
Holistic Business Optimization

Responding proportionately to all the business challenges

- Forecasting Total Unconstrained Demand by segment
- Robust demand and market-relevant pricing decisions
- Determining and achieving optimal business mix
- Accounting for cancellations and no-shows
- Dynamic evaluations of Group profitability
- Managing an ever more complex distribution network
Optimal Pricing & Segmentation:

Tangible methods to optimise revenues

IDEAS™
A SAS COMPANY
Pricing Analytics & Market Positioning

- Managerial, owner or investor pricing pressure
- Establishing pricing structures
- Launching new hotel properties
- New business, market or competitive dynamics
- Pricing confidently & competitively
- Optimal Business Mix

Market Forecasts, Price vs. Competitor re-validation

Business Mix comparisons & segment benchmarking

Strategy & Segment (Re)positioning
Data Sources: Benchmarking & Rep Tools

Summary Market Revenue Forecast Samples: STR Global

[Graph showing market revenue forecast samples for different categories like upper upscale, market luxury, etc., with data points for various years indicating growth and value assessment based on rate and value average.]

Historical & Forecast: Cumulative Growth Upper Upscale

<table>
<thead>
<tr>
<th></th>
<th>Past 2 years</th>
<th>2015 - 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Occ</td>
<td>1.80%</td>
<td>2.90%</td>
</tr>
<tr>
<td>ADR</td>
<td>4.10%</td>
<td>5.30%</td>
</tr>
<tr>
<td>RevPAR</td>
<td>6.00%</td>
<td>8.40%</td>
</tr>
<tr>
<td>Supply</td>
<td>2.40%</td>
<td>5.20%</td>
</tr>
<tr>
<td>Demand</td>
<td>4.30%</td>
<td>8.30%</td>
</tr>
</tbody>
</table>

- Properties in this region are not a threat. They are more expensive and have less attributes.
- Properties in this region may or may not be a threat. They have more attributes but are more expensive.
- Properties in this region are less of a threat. They are less expensive but have less attributes.
- Properties in this region are a threat. They have more attributes and are less expensive.
Data Sources: Benchmarking & RateShopper

Transient Pricing Analysis: Monthly Rate Shop Comparison

<table>
<thead>
<tr>
<th>YTD 2014 STR Snapshot</th>
<th>Primary Compset (vs PY)</th>
<th>Rank</th>
<th>Secondary Compset (vs PY)</th>
<th>Rank</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Penetration Index (MPI)</td>
<td>97.6% (+3.5%)</td>
<td>4 of 6</td>
<td>94.1% (+0.2%)</td>
<td>4 of 6</td>
<td>This was the 2nd best ranking improvement in Primary compset,</td>
</tr>
<tr>
<td>Average Rate Index (ARI)</td>
<td>92.2% (+2.7%)</td>
<td>4 of 6</td>
<td>91.0% (-0.1%)</td>
<td>4 of 6</td>
<td>Selling SUN as a WE rate could be contributing to this poor ARI</td>
</tr>
<tr>
<td>Revenue Generation Index (RGI)</td>
<td>90.0% (+6.3%)</td>
<td>4 of 6</td>
<td>85.6% (+0.1%)</td>
<td>4 of 6</td>
<td>Rank vs. last year was the best increase (1 of 6) in Primary &amp; 2nd best in Secondary set</td>
</tr>
</tbody>
</table>
## Revenue & Business Mix Analysis

<table>
<thead>
<tr>
<th>Segment</th>
<th>Current Volume %</th>
<th>% Variance to Sample Set</th>
<th>Hotel ADR</th>
<th>Variance to Hotel ADR</th>
</tr>
</thead>
<tbody>
<tr>
<td>BAR</td>
<td>30%</td>
<td>+11%</td>
<td>219.79</td>
<td></td>
</tr>
<tr>
<td>CORP</td>
<td>6%</td>
<td>-16%</td>
<td>187.32</td>
<td>-32.48</td>
</tr>
<tr>
<td>CORPG</td>
<td>10%</td>
<td>+2%</td>
<td>237.49</td>
<td>-17.70</td>
</tr>
<tr>
<td>LEISG</td>
<td>25%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MICE</td>
<td>8%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PROM</td>
<td>12%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Segment</th>
<th>Current Volume %</th>
<th>Sample Set Volume %</th>
<th>ADR</th>
<th>Revenue Before</th>
<th>Revenue After</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>BAR</td>
<td>20%</td>
<td>31%</td>
<td>219.79</td>
<td>4,898,042</td>
<td>7,637,483</td>
<td>2,739,441</td>
</tr>
<tr>
<td>CORP</td>
<td>23%</td>
<td>6%</td>
<td>187.32</td>
<td>4,743,021</td>
<td>1,221,514</td>
<td>-3,521,507</td>
</tr>
<tr>
<td>PROMO</td>
<td>30%</td>
<td>12%</td>
<td>151.41</td>
<td>5,062,963</td>
<td>2,082,796</td>
<td>-2,980,167</td>
</tr>
<tr>
<td>LEISG</td>
<td>7%</td>
<td>26%</td>
<td>221.07</td>
<td>1,803,925</td>
<td>6,503,658</td>
<td>4,699,733</td>
</tr>
<tr>
<td>MICE</td>
<td>1%</td>
<td>9%</td>
<td>170.88</td>
<td>257,657</td>
<td>1,738,020</td>
<td>1,480,363</td>
</tr>
</tbody>
</table>

**Revenue Analysis**

- **Revenue Before:** The total revenue before any changes.
- **Revenue After:** The total revenue after any changes.
- **Variance:** The difference between Revenue Before and Revenue After.
It takes more than just a tool!

“Effective Revenue Management and Pricing can only be achieved through the optimal alignment of people, process and technology capabilities”

Ravi Mehrotra
President & Founder
IDeaS
Validating Market Positioning

- Review market with macro-economic and supply & demand indicators
- Review and validate all competitive sets by segment
- Contextualize vs. reputational data

Price Performance Trend Analysis

- Validate transient (BAR) price positioning historically and future
- Align to summary level Rate-Shop data and existing rate spectrums

Contextualise against benchmark KPIs

- Validate comp-set accuracy
- Does our pricing need review? Which competitors are we targeting?
- Scrutinize our metrics and take action!

Benchmarking Pricing of other Segments

- Compare existing business mix vs. BAR to understand rate relationships
- Can we attempt competitor business mix benchmarking?

Make Some Revenue Projections!

- Simulate scenarios with changes in pricing & mix based on data
- Are we losing market share due to reliance on wrong segments?
Thank you!

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