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TOTAL HOTEL REVENUE MANAGEMENT: PRACTICES, CHALLENGES, AND FUTURE
TRENDS

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ABSTRACT

The rapid evolution of revenue management (RM) in the hotel industry has paved the way for Total Hotel Revenue Management (THRM). As defined in the literature, THRM refers to the implementation of RM across all revenue streams in the hotel. However, as the RM grows in sophistication, so too do the practices associated with THRM. Therefore, the purpose of this study is to determine how THRM is understood by the hotel industry today and what THRM initiatives are underway. The challenges associated with THRM implementation are explored, and immediate areas of opportunity for THRM are also highlighted. Findings suggest that THRM has evolved to include both ancillary revenue streams and a customer-value focus, but it is not practiced to a consistent degree of sophistication across the industry. Major barriers to THRM success include data capture and analysis, systems integration, the distribution landscape, and company culture, although the extent to which these barriers exist is dependent upon hotel type and company size. While many resources are needed to develop a successful THRM program, findings indicate that the THRM approach is gaining prominence industry-wide.

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Chapter 1

Introduction

Revenue Management (RM) entails selling the right product to the right customer at the right time for the right price (Cross, 1997). While the RM process may sound simple when stated in this manner, the practical realities of RM implementation offer a different picture. Today, RM is a challenging, strategic, and highly critical function in the global hotel industry. As Lieberman (2010) points out, successful RM practices are hinged on balancing quantitative data with practical reasoning to make informed decisions.

In the late 1980's, major North American hotel companies followed the lead of the airline industry and began to implement, what could now be considered, rudimentary RM practices: practicing inventory control and determining when to charge higher or lower rates (Cross, 1997). The evolution of RM in the hotel industry can be traced from this more tactical approach to inventory control and differential pricing to the current more strategic role of RM within the organization, where RM encompasses demand creation as well as its more traditional functions (Cross, Higbie, & Cross, 2009; Lieberman, 2010).

The characteristics associated with the ability to apply RM are: constrained supply, high fixed costs, variable demand, versioning opportunities (the ability to create different versions of a product through means such as packages, additional amenities, or special views), perishable inventory, the ability to manage differential pricing, and the ability to communicate RM-related efforts (Hayes & Miller, 2011; Kimes, 1989). The RM process can be simplified into a five-step process, as illustrated by the model in Figure 1, although many versions of this process are present throughout RM literature.

Figure 1. The Revenue Management Process (Hayes & Miller, 2011).



First, baseline prices must be established. Next, demand forecasts are generated. Step three, managing inventory, involves the application of optimization techniques to determine rate availability and restrictions. Next, managing distribution involves how the organization actually distributes the product to the guest. Due to the complex nature of distribution – the availability of hundreds of different distribution channels through which hotels can push inventory and engage customers, and the differential profitability associated with the various distribution channels – the role and scope of distribution strategy within RM has grown significantly in recent years. Finally, constant evaluation of results will determine the success of RM decisions. Currently, the most common metric for measuring RM success is revenue per available room (RevPAR). In addition to being used as an internal measure of success, RevPAR is used as an external benchmark against the competition and industry standards. The valuation of results also informs future RM decisions and prompt adjustments to RM strategies and tactics as needed. Technology plays a significant role in facilitating each stage of the RM process. A number of off-the-shelf RM systems are available on the open-market (e.g., IDEaS, EzRMS, or i-Rates), but a number of the larger hotel companies have developed internal proprietary RM systems. Regardless of which approach is taken,

technology plays a critical role in a RM program. RM systems continue to evolve and become more sophisticated in terms of demand forecasting, price optimization, and distribution.

An evolving concept within hotel RM is customer-centric RM. Every customer represents a different value to a hotel depending on various factors such as the room rate that they pay, their spend in ancillary departments, and their loyalty to the brand. The profitability of individual customers, and customer segments, is a growing consideration for hotels, particularly as distribution costs increase. Thus, the idea is to systematically integrate the value of the customer into RM decisions.

Another evolving concept within hotel RM is Total Hotel Revenue Management (THRM), defined as the application of RM beyond the guestroom environment to include the hotel's other revenue streams such as Function Space, Food & Beverage, and Spa. While basic RM principles have long been applied to non-rooms revenue streams within the hospitality context – (e.g., early-bird specials in restaurants, special packages for resort properties during low demand periods, and differential pricing at golf courses by day of week), THRM suggests the systematic and formal application of RM to all revenue streams.

The success of a THRM program is dependent upon the presence of a supportive RM culture. It is widely acknowledged that company culture impacts RM success (Kimes, 1989; Yeoman & Watson, 1997). Given the complexity of THRM, collaboration across many departments in the hotel is required. For example, RM, Sales and Marketing, and Operations must all work together to target the right customer, engage the customer, and present value to the customer. Aligning goals across all departments in the hotel and top-down support to meet these goals is important. Further, a supportive company culture will encourage maximum use of RM tools throughout all revenue-generating functions, and keep these tools relevant as the business environment evolves.

Though THRM has been identified as a future area of growth for hotel RM, a solid definition of THRM based on industry practices is lacking (Cross *et al*, 2009; Kimes, 2010; Noone, McGuire, & Rohlfs, 2011). THRM has been described in the literature as the application of RM to all revenue streams

within a hotel, but this definition remains quite theoretical. Therefore, the purpose of this study is to determine how THRM is understood by the hotel industry today and what THRM initiatives are underway. The challenges associated with THRM implementation are explored, and immediate areas of opportunity for THRM are also highlighted.

Chapter 2

Literature Review

This section will review relevant literature associated with the major topics covered in this study. Although dedicated research on THRM remains particularly limited, some articles have sections or discussions pointed to the general topic, while others focus on a specific component of THRM. The insights from those articles are outlined below.

2.1 Defining THRM

THRM has previously been described as revenue managing all revenue streams within a hotel beyond just rooms or group rooms (Cross *et al*, 2009). The literature also highlights that, due to the presence of more ancillary revenue streams in larger resort properties, as well as hotels in Asia Pacific and the Middle East, THRM may be more applicable in those contexts (Cross *et al*, 2009).

2.2 Non-Rooms RM

From the early stages of hotel RM, the literature has noted the potential to move into other departments outside of rooms (Kimes, 1989). Function space has been the most identified domain for future RM implementation, followed by restaurants, spa, retail, golf, and parking (Kimes, 2011). Due to the characteristics of these functions (i.e., constrained supply, high fixed costs, variable demand, versioning opportunities, perishable inventory, the ability to manage differential pricing, and the ability to communicate RM-related efforts), it has been suggested that RM principles are readily applicable in these

departments (Kimes, Chase, Choi, Lee, & Ngonzi, 1998, Kimes & McGuire, 2001; Kimes & Schruben, 2002; Kimes & Singh, 2009).

2.2.1 Function Space RM

The high revenue generation associated with this area creates an opportunity for RM application (Kimes & McGuire, 2001). The complexity of this business, however, makes Function Space RM very difficult. For instance, advanced forecasting in function space is rare, in part because the data (e.g., lead time and amount of business by major market segments) is difficult to obtain. Another challenge relates to the interdependence of functions space sales with sleeping rooms and F&B (Kimes & McGuire, 2001). If an event will also utilize guest rooms, displacement of higher-rate transient business presents a loss of potential revenue. Interdependence with F&B may impact pricing of the package and different profit margins need to be considered. The timing of room turns also presents an issue in the optimal use of function space. The labor and time required to quickly turn a room may actually limit optimal use of space (Kimes & McGuire, 2001). The presence of a competitive index that enables the evaluation of a function space RM initiative, and benchmarking, is also lacking (Kimes & McGuire, 2001).

2.2.2 Restaurant RM

Restaurant RM may be considered selling the right seat to the right customer at the right price and for the right duration (Kimes, 1999). The goal of Restaurant RM has been identified as maximizing revenue per available seat-hour by manipulating price and meal duration (Kimes, 1999). Though quite basic RM practices have been common in restaurants for some time, they are very tactical in nature (e.g., early-bird specials, rearranging table mix, taking reservations, and menu design) (Kimes *et al*, 1998). More sophisticated practices may include day of week pricing, day-part pricing, or price premiums for

different types of tables, customers, and party sizes. Managing table times presents a challenge in the context of Restaurant RM in that pricing for RM by a time component is not common (Kimes, 1999). Managing table times may require better internal operating practices, such as low preparation time dishes and server training.

Research suggests the application of Restaurant RM is becoming more common. Shields & Shelleman (2008) found that 88% of small, independent restaurants are implementing RM practices, however most of these practices continue to be very operational in nature (e.g, staff training to reduce bottlenecks and monitoring meal progress).

2.2.3 Spa RM

RM in the spa function has been largely limited to basic RM-type practices such as tracking appointments, offering discounts, or managing treatment times (Kimes & Singh, 2009). More advanced RM strategies may require a shift in the way that operators view sales to take into account the time element involved in spa services. The literature has suggested more advanced RM strategies that could be implemented including identification of high/low demand periods, time management of space, differential pricing, and use of Spa Revenue Management software (Kimes & Singh, 2009).

2.2.4 Golf RM

There is limited literature on Golf RM. Common Golf RM practices today include demand forecasting and price management (Kimes, 2000). Most of the RM tactics applied to golf courses at this time involve optimal tee time scheduling and managing round duration time. However, it has been found that, in practice, optimal tee time scheduling may harm customer satisfaction (Kimes & Schruben, 2002).

2.3 Technology and RM Systems

The RM literature has long pointed to the need for data to drive RM decisions and the role of information systems in a successful RM program (Kimes, 1989). The literature describes modern-day price optimization systems for rooms RM that go beyond traditional inventory control. These systems are able to set rates for the date of arrival based on the demand forecast, account for price elasticity per segment, and consider competitive rates (Cross *et al*, 2009). Some developments in function space RM systems have also been noted in the literature, but described to be in an early stage (Cross *et al*, 2009).

2.4 RM Distribution Strategy

The literature supports the industry-wide understanding of a shift in the way in which people book hotels (Carroll & Siguaw, 2003; Estis-Green, 2013). The distribution landscape is now made up of online-travel agents (OTAs) such as Expedia.com, Priceline.com, and Travelocity.com, wholesalers, travel agents, and travel planners, in addition to traditional distribution channels such as the global distribution systems (GDSs), hotel central reservation systems (CRSs), and brand websites. The most notable development in distribution is booking in the online world (Carroll & Siguaw, 2003). More recent trends in distribution include mobile booking, social media, and metamediaries such as Google Hotel Finder (Estis-Green, 2013).

The growth in OTA commissions and the emergence of many intermediaries and channels have driven up hotel costs (Estis-Green, 2013). Therefore, a critical evaluation of business acquisition costs across channels is crucial to determining optimal distribution channel mix, but it has been noted that tracking these costs can be difficult (HSMIAI, n.d.).

The literature suggests that, with the evolution of channels, there has also been an evolution in the way in which hotels interact with their customers through distribution (Carroll & Siguaw, 2003). A

highlighted benefit of online distribution channels is the ability to identify the customer, gain knowledge about the customer, and facilitate more intimate marketing and sales interactions (Carroll & Siguaw, 2003). It has also been suggested that electronic distribution may enhance customer retention (Carroll & Siguaw, 2003). As Estis-Green (2013) pointed out, customer engagement through distribution in a way that does not commoditize hotel stays is critical. To do this requires an understanding of the customer perception of products and services through channels (HSMIAI, n.d.). Ongoing concerns surrounding distribution channel management for RM include where to allocate resources and which channels will generate maximum response (Noone et al, 2011).

In considering non-rooms revenue generating assets, specific literature regarding distribution strategy for these non-rooms products is scarce. Some articles mention the ability for meeting planners to shop and book online (Carroll & Siguaw, 2003). However, outside of rooms, information on additional departments is often presented without the ability to book, which limits the distribution of these products. The distribution of packages, which obviously contain non-rooms components, has been identified as an issue for hotel RM, but no discussion has emerged regarding their impact on distribution strategy (Carroll & Siguaw, 2003).

2.5 Performance Metrics for RM

Advancement in performance metrics has been highlighted in the literature, however a strong focus on performance against budget, the Revenue Opportunity Model, and revenue per available room (RevPAR) against the competitive set remains (Cross *et al*, 2009). These metrics do not take into account the quality of any revenue generated, and they focus solely on room revenue. A need for metrics across the total hotel has been identified (Cross *et al*, 2009).

Considering performance measures going forward, the most popular potential measure identified by RM professionals in a study by Kimes (2011) was gross operating profit per available room

(GOPPAR). Following GOPPAR were total revenue per available room (TotRevPAR), RevPAR, and total revenue per available square foot (TotRevPASF) (Kimes, 2011). Other performance metrics discussed in the literature include revenue per available seat hour (RevPASH) in restaurants, contribution per available space for a given time (ConPAST) in function space, revenue per available treatment hour (RevPATH) in spas, and revenue per available tee time (RevPATT) in golf (Kimes *et al*, 1998, Kimes & McGuire, 2001; Kimes & Schruben, 2002; Kimes & Singh, 2009). While revenue-based performance metrics have been suggested for the majority of non-rooms functions, contribution has been highlighted as preferable to a revenue-based measure of performance in the domain of function space RM because a sole revenue evaluation does not account for the various profit margins across all components of a product (Kimes & McGuire, 2001).

2.6 Collaboration and a RM Culture

Inter-departmental collaboration has often been discussed in the literature, and pointed to as key to successful RM practices (Noone & Hultberg, 2011). Most predominantly, collaboration between RM, Sales, and Marketing is discussed (Cross *et al*, 2009; Noone *et al*, 2011; Noone & Hultberg, 2011). However, lack of consistency in collaboration efforts across properties has been noted (Noone & Hultberg, 2011). Catering and convention services have also been mentioned as departments that may be involved in THRM implementation (Cross *et al*, 2009). Challenges surrounding collaboration center primarily on the divergent goals that different functions may have (Cross *et al*, 2009). For instance, Cross *et al* (2009) noted that sales people are typically driven by volume, not revenue or profit, performance, while revenue managers oftentimes work towards revenue goals. At the property-level, procedures surrounding sleeping room allocations and rates have presented conflict between Sales and RM (Noone & Hultberg, 2011). Quite simply, the decision of whether to accept or deny a piece of business often

presents a challenge when different functions have separate performance goals (Noone & Hultberg, 2011).

At a higher level, the need for collaboration between Marketing and Finance in the evaluation of distribution costs has also been identified (Estis-Green, 2013). Limited literature also highlights a need for collaboration between CRM and Loyalty in the data collection process. This data collection process points to inbound information. Inbound information can be considered customer-generated content that can be picked up by the company such as reviews, ratings, or customer preferences (Noone *et al*, 2011).

Hand in hand with collaboration is the idea of a RM culture. From the outset of the application of RM in hotels, the importance of company culture and top management commitment to RM has been identified (Kimes, 1989). Yeoman and Watson (1997) argue that the practice of RM is largely driven by human activity. Because of the human force in RM implementation, organizational commitment to resources and authority are required. The literature also points out that many organizations have a clear hierarchy for decision-making processes and that the team approach required for RM is inconsistent with the nature of that hierarchy. Further, lack of organizational culture can cause failures in systems and processes (Yeoman & Watson, 1997).

2.7 Future Developments in RM

Many articles describe or touch on future initiatives in hotel RM. Future themes identified in the literature describe a more strategic and technology-driven RM discipline. Price optimization is often mentioned as an area for future development as RM evolves away from a tactical inventory control function (Cross *et al*, 2009; Noone *et al*, 2011). Additionally, a customer centric approach to hotel RM has been identified as a future development in RM (Noone *et al*, 2011). Customer-centric RM has been described as the ability to understand and predict customer behaviors (Cross *et al*, 2009). In discussion surrounding this approach, a longer-term vision of the customer (i.e., the lifetime value of the customer),

and a focus on customer profitability have been identified as key. Further highlighted has been the use of various data sources to collect information about, and target, the individual customer (Noone *et al*, 2011). Consideration has also been given to applying a customer-centric approach to target and grow customer segments, as well as share of wallet from individual customers (Cross *et al*, 2009).

There is also literature discussing the need for better RM decision-making in group room sales (Choi, 2006; Cross *et al*, 2009; Hormby, Morrison, Dave, Meyers, Tenca, 2010). Other areas of requiring development have also been identified including improvements in forecasting and data analytics (Kimes, 2010).

Chapter 3

Methodology

Given the nature of the questions being explored, a qualitative research approach was adopted for this research study. In-depth telephone interviews were conducted by the researcher with each participant. The following sections describe the participants in the study and outline the procedures followed during data collection.

3.1 Participants

There were two target populations for this research: major hotel companies with an international presence, and leading systems and analytics vendors in the hotel RM space. An initial set of potential participants was identified through professional contacts. Additional potential participants were identified through referrals from the initial participant pool.

A recruitment email was sent to a total of 24 potential participants with a request to participate in an in-depth, telephone interview. Participants were informed that the purpose of the in-depth interview was to gain insights regarding how RM experts conceptualize THRM, the extent to which THRM is applied in the field, and the challenges and opportunities for THRM. Of those that were emailed, 15 indicated that they would be willing to participate in an in-depth interview. Of the 15, 11 work at the corporate level in hotel companies and hold a President, Vice President, Director, or Senior Director position. Various hotel types were represented in this sample, including lifestyle and casino resorts. In terms of systems and analytics vendors in the hotel RM space, there were 4 participants from a number of levels within their companies including CEO, Chief Analytics and Products Officer, Vice President of Client Services, and Executive Director.

A sample size of 15 was deemed appropriate given the high convergence that was observed in responses across the two sets of participants.

3.2 Procedure

The in-depth interviews took place between February 5th, 2014 and March 6th, 2014. They were conducted over the phone in a private room and lasted between 40 minutes and 1 hour in duration.

The researcher began the interview by reiterating the purpose of the study as outlined in the recruitment email. Participants were asked to consent to their interview being recorded. Finally, they were asked if they had any questions before the interview commenced.

Each interview followed a pre-selected structure of questions with scripted transitions. All participants were presented with questions surrounding the main topics of the study. However, in order to capture the most valuable insights from the participants, some in-depth questions were geared towards their expertise and backgrounds. Interview questions were as follows:

Definition

- How do you define Total Hotel Revenue Management?
- In an ideal world, what would Total Hotel Revenue Management encompass?

Non-Rooms Revenue-Generating Assets

- What initiatives are underway outside of Rooms RM?
- Who is involved in these practices, both at the corporate level and at the property level?
- What do you see as the challenges to implementing RM in these areas?
- What technology are you leveraging to apply RM to non-rooms revenue-generating assets?

- Is the technology that you have access to right now lacking in terms of facilitating non-rooms RM?
- Do you have any technology developments going on right now on the non-rooms side?

Culture

- Do you believe there is a culture supportive of THRM within your company?
- Is there alignment across departments, particularly sales and marketing and RM? Both at the corporate and property levels?
- Is the notion of THRM reflected in the performance for your RM and Sales teams? How are they incentivized?
- In term of evaluating RM performance, do you think that performance measures have or will evolve? What is the best measure when evaluating THRM?

Customer-Centric Approach

- There has been a lot of discussion around the idea of customer-centric RM. What are your thoughts on this?
- Do you see marketing managers retaining responsibility for personalized, individualized, or direct promotions, or is that RM? How do the two functions work together to accomplish this?
- Do your revenue managers have access to individual customer data?
- Do you have the technology to support customer-centric RM?

Distribution Strategy

- How does Distribution Strategy fit into the THRM picture?

- Because distribution strategy has largely been focused on rooms, where does the focus lie in the context of THRM?
- Do you consider the type of customer that buys on different channels? Is this reflected in your strategy?
- How have distribution costs impacted your distribution strategy and decision-making?
- What are some of challenges in distribution channel management?

Wrap-Up

- In terms of implementing THRM, what do you see as the low hanging fruit?
- In the context of THRM, what would your dream RM system look like?

At the conclusion of the interview, participants were asked if they would like a copy of the transcription to be sent to them for review. Their response was noted. Finally, the participants were thanked for their participation.

While each interview was recorded for later transcription, reflective notes were also taken by the researcher during the interview. After transcribing the interviews, the researcher sent the transcriptions to participants for review. Where comments were received, appropriate updates and changes were made to the transcriptions.

3.3 Data Analysis

A content analysis was conducted whereby participants' responses were first read to obtain a feel for the content. Next, a code list consisting of the themes, sub themes, and inter-related themes, identified by participants, was developed. The researcher and thesis advisor independently reviewed and coded the

data. Inter-rater reliability was acceptable (Cohen's Kappa=.90). Disagreements between coders were resolved through discussion.

3.4 Benefits and Limitations of the Selected Research Method

The key benefit of the qualitative approach employed in this study is that deep description provided rich theme development. Further, responses reflected reality (Creswell, 2009, p. 175). It could be argued that indirect biases from interviewees can be present in responses (Creswell, 2009, p. 179). However, the fact that convergence was observed in the responses provided by participants suggest that this did not occur. Equally, this approach to data collection poses the potential for researcher bias in questioning and directing the conversation (Creswell, 2009, p. 179). Having a schedule to guide interviews minimized this opportunity for bias.

In terms of the purposeful sample included in this study, a potential limitation is that independent hotel companies were not represented. However, the hotel chains targeted for this study were deemed appropriate as they have been at the forefront of RM development and implementation in the hotel industry, and, as such, offer the greatest potential to gain insights into developments in the domain of THRM. Additionally, while economy hotels were not represented in this study, they are also likely to have less emphasis on THRM initiatives due to a lack of non-rooms revenue streams. (Cross *et al*, 2009)

Chapter 4

Results

4.1 Defining THRM

When asked how they define THRM, all participants identified it as encompassing the application of RM across all revenue streams within the hotel. A number of participants additionally pointed to THRM as including consideration of the value of a piece of business, whether a group, customer segment, or an individual customer, to the enterprise. In other words, major consideration is given to how to capture a larger share of the customer's wallet across the entire hotel in the most profitable way possible. As one participant pointed out, all revenues are not created equally. Thus, participants spoke to the need to understand the costs associated with each transaction, across channels and revenue streams in order to optimize profit.

4.2 Non-Rooms RM

Participants were asked to discuss non-rooms related RM initiatives. The greatest focus outside of rooms is currently on Event and Functions Space RM, with Restaurant RM emerging as the second largest area of focus outside of rooms. Spa was also pointed to as an area where RM initiatives are underway. Some participants did indicate that, at the property-level, specific RM initiatives surrounding areas such as golf or mini-bar exist.

It appears that current non-rooms RM initiatives can be classified into one of two levels of deployment: in-place or emergent. In-place initiatives can be characterized as those non-rooms RM initiatives receiving a high level of support from top-line management, with formal RM processes

employed and some degree of automation to support those processes. Emerging initiatives, on the other hand, refer to those where basic RM principles are being applied but formal RM processes are largely absent. The highest incidence of in-place RM initiatives was reported to be in Event and Function Space RM. While one participant described Restaurant RM as being very prominent in their organization with RM initiatives firmly in place, most of the participants that mentioned Restaurant RM characterized it as an emerging initiative. In the spa arena, one major brand has solid spa technologies in place, but the majority of participants identified spa as an area where RM thought-process and methodologies are being applied without a high degree of sophistication.

As many respondents noted, the level of interest in, and commitment to, non-rooms RM initiatives is driven by the percentage of hotel revenue generated by the various revenue streams in their hotels. The greater the percentage of total revenue driven by non-rooms revenue streams, the greater the amount of resources were committed to non-rooms revenue initiatives. For example, resort properties, and hotels with multiple, high-revenue generating F&B outlets (e.g., hotel properties in Asia), and/or extensive function space to manage, are more focused on the application of RM to non-room revenue streams, while more mid-scale, limited service properties remain focused on room revenue as that is the key driver of hotel performance.

In terms of technology, larger hotel companies have been able to leverage in-house resources to design and develop internal proprietary systems to support their non-rooms RM initiatives. Smaller hotel companies are forced to operate in a more manual environment due to the current unavailability of off-the-shelf solutions for non-rooms revenue streams. Their RM initiatives tend to be emergent in nature - more focused on adopting an RM mindset within those revenue streams as opposed to a structured approach to RM.

While most non-rooms RM initiatives are driven by a corporate team, particularly in the domain of data aggregation and the development of tools to support RM implementation, the ultimate responsibility for implementation lies with personnel at the property level. According to participants, the

specific personnel involved at a property level will depend greatly on the initiatives being rolled out and the skills of the on-site teams. Overall, the RM position plays a critical role, whether that is as a facilitator, adviser, or a more active implementation role. As one participant illustrated using the example of an Event RM initiative, if the Director of Catering is very analytical, their interest and involvement in the initiative may be greater and require less of the Revenue Manager. However if the Director of Catering demonstrates a greater sales and customer focus, the Revenue Manager may play a bigger role.

Participants indicated that an important contributor to the success of non-rooms RM initiatives is the presence of a RM culture, with support for RM initiatives from the top down within hotel properties. The leadership team has an enormous impact on the culture of a property, so if that team does not embrace RM philosophies, a RM culture will likely be inhibited. Equally, all participants highlighted the need for a highly collaborative environment, both between departments at the property and at the corporate levels, and cited a high to very high level of collaboration within their company. Numerous participants also pointed to the increasing importance of collaboration as more and more people sit at the revenue strategy table and have a vested interest.

Although there was agreement among participants that collaboration is necessary to the overall success of a THRM strategy, two interesting challenges associated with collaboration were identified. Firstly, one participant pointed out that as more and more people are involved in decision-making, a combination of ownership may lead to a lack of accountability. This risk also demonstrates the need for an embedded THRM culture. The theme of the need for the alignment of goals also emerged as essential to ensure success. Secondly, another participant pointed out that as departmental roles evolve to take on more RM initiatives throughout the hotel, it is important to ensure that the work that they take on actually generates a return on their investment. Busy work throughout departments may impede success and negatively impact a RM culture.

One company in particular provides a great example of how tangible efforts are being made to foster collaboration, a THRM culture, and profitability goal alignment, with their concept of the “war-

room.” This on-site meeting space is where weekly revenue strategy meetings are held with various departments represented including Sales, F&B, and Marketing. The war-room is a place where hotel-wide action plans, initiatives, gaps, and opportunities are identified in a visual manner. Operational departments such as F&B, Rooms and Spa also have their departmental meetings in this space.

4.3 Revenue Managing the Customer

As reflected in some participants’ definitions of THRM, an emerging theme in RM is the ability to identify an individual customer’s overall value to the company and the application of that information in RM-related decisions. Participants noted the need to understand exactly where the customer spends money across revenue streams and how much value that customer brings. Multiple participants pointed to lifetime value analysis as an important component of this customer centric approach to RM. Beyond assigning a specific value to each individual customer, many participants also mentioned the need to build an understanding of an individual’s preferences and price elasticity.

Participants pointed to two implications of a customer-centric selling approach. Firstly, it enables a firm to target the “right” subset of customers that will yield the greatest spend across departments while they are on-site. Secondly, this approach enables a firm to provide a customer with a unique offer that will resonate with them and that reflects their value to the total hotel. As numerous participants mentioned, a unique offer may even be a rate specific to the individual. On a related note, a number of participants pointed to the potential application of predictive modeling in this domain. Based on the pattern of behavior that a customer exhibits in their interactions with the hotel’s technological platforms, predictive modeling can be employed to reach out to that customer with recommendations that fit the customer’s preferences.

As with non-rooms related RM initiatives, collaboration was a strong theme during participants’ discussion of customer-centric RM. Collaboration between the many stakeholders including RM, digital

marketing, brand marketing, loyalty/CRM, and distribution, was mentioned by nearly all participants. For example, RM has the tools, demand insight, and pricing capabilities that are crucial to identifying the specific products offerings that need to be developed while Marketing typically builds and markets the product offerings to the consumer.

Based on participants' responses, it is apparent that a customer centric approach is occurring largely at the customer segment level. In fact, one participant pointed out that a better term for current practice might be customer group centric RM. Nevertheless, a couple of participants spoke to individual customer-centric initiatives already in place, albeit at a very early stage of development and testing.

There was agreement among participants that a customer centric approach to RM at the individual customer level is the ideal and that it is the direction of the future. However, the ability to adopt a customer centric approach to RM is not without challenges, a key challenge being the ability to fully track individual customer level data. While casino hotels are well-known for the degree of individual customer level data that they capture, not all hotels are as successful at capturing customer spend beyond room rate. As one respondent noted, even though a loyalty cardholder's spend can be tracked by their individual loyalty card number, customers do not always use their card to charge spend in other revenue streams (e.g., F&B and gift shop purchases), diluting their apparent value to the hotel.

While it is possible to patch information together from various sources and systems, it is expensive, and may also require some degree of partnering. For example, one participant pointed out that credit card companies have individual data, loyalty programs have data, but to combine that data takes collaboration. Another participant spoke to an environment in which the hotel may not own or operate each component of the property (e.g., retail space), so data collection may require participation from key partners.

There is also issue of data usability. Even when data is collected, it is often in a very raw form. Though corporate level initiatives may support some understanding around this customer data, and

revenue managers have access to individual customer data, it may be difficult to action on it in a meaningful way without significant investment to put it into a usable form.

In terms of the impact of a customer centric approach to RM, a couple of participants identified the potential damage this might bring to customer relationships. For example, one participant noted that individualized rates and offerings may pose potential issues with contract and negotiated rates. For instance, a corporate account may not like it if their members are also receiving individual rates. Another participant pointed out that customers may be uncomfortable with the idea of individualized rates if they feel that they are being targeted negatively.

4.4 Distribution Strategy in THRM

In the context of THRM, a sound distribution strategy is crucial because it plays a role in hotel profitability. While hotel's distribution strategies have historically focused on rooms, the distribution and promotion of non-rooms inventory was a key theme identified in the context of THRM distribution strategy. One participant noted that websites, such as Yelp, may not be being sufficiently exploited. There are also booking engines available to hotels that can accommodate non-rooms inventory. These booking engines can be built into the booking experience online, but many participants agreed these tools are not being utilized across all brands and hotels. Participants identified meeting space, spa, and restaurants, as the key areas that show potential for being booked via online booking engines, with some RM initiatives already in place to allow for online group bookings.

Given that the cost of distribution continues to be one of the hotel industry's biggest concern in the domain of distribution strategy, participants highlighted the need to understand which channels are most profitable. This understanding will allow for decisions to be made regarding which distribution channels to use and for appropriate tactics to be developed that drive customers to book on the most profitable channels. Equally an understanding of who is booking where is important to identifying the

true value of a customer segment or individual customer. While the major hotel brands are focusing on trying to better understand the type of customer that is booking through the various distribution channels, this is proving difficult. Historically, bookings via global distribution systems (GDSs) tended to be associated with the business traveler and bookings via OTAs with leisure travelers, but these lines are beginning to blur. For example, it can be difficult to delineate between the types of customers booking through OTAs – who belongs to the unmanaged business segment and who should be counted in the leisure segment?

While distribution channels provide a hotel the capability to push inventory, participants also noted the important role of distribution channels in customer engagement. A major theme identified by participants is the opportunity provided by the various distribution channels to reach out to customers in a way that resonates with them and encourage conversion. The notion of collaboration emerged again, with participants noting that decisions regarding how to communicate, and where to communicate, with the customer require input from various functions such as RM, e-commerce and marketing.

4.5 Performance Metrics to Support THRM

When asked if incentives are in place at the property level to encourage the adoption of a THRM approach, a number of participants stated that incentives are built around both top and bottom line goals. However, the majority of participants responded that they are not yet evolved to incentivize THRM. That said, the majority of participants indicated they believe there will be an evolution of performance metrics to reflect a THRM approach, characterized by a move away from solely using RevPAR, metrics that reflect contribution or profit, and metrics specific to each departments' initiatives. Specific metrics identified by participants included:

- Net Revenue Per Available Room (Net RevPAR)
- Gross Operating Profit Per Available Room (GOPPAR)

- Revenue Per Customer
- Revenue Per Available Seat Hour (RevPASH)
- Revenue Per Available Square Foot (RevPASF)
- Contribution

Given the importance of competitive benchmarking, a need for a competitive measure of performance beyond RevPAR was identified. There was also agreement among participants that one measure for THRM will not be the solution, but instead a variety of measure across departments, as well as total hotel profitability measures, are needed. Also mentioned was the need for additional metrics to measure emerging issues for hotels such as social media impacts.

4.6 Total Hotel Revenue Management: Low Hanging Fruit

Participants were asked for their perspective on where the immediate opportunities lie in the domain of THRM, yielding the following advice:

4.6.1 Pay attention to non-rooms revenue generating assets

The majority of participants identified implementing RM practices and tactics, or at least applying a RM mindset, to non-rooms revenue streams throughout the hotel property as the lowest hanging fruit. Initiatives should focus on inventorying these assets, better forecasting demand for them and better pricing all non-rooms products. Currently, initiatives are mostly focused in Function Space or F&B and many companies that have not already rolled out initiatives mentioned those areas for greatest impact next. As one participant summed it up: “The lowest hanging fruit for THRM would be maximizing all sales opportunities throughout the hotel.”

4.6.2 Recognize individual customer value

Reflecting the idea that THRM include consideration of the value of individual customers or customer segments, tracking customer spend and cost data, and using that data to drive RM decisions was identified as low hanging fruit. As one participant noted, it is important that hotels recognize that when a customer comes to stay, they have a total folio with the hotel property beyond their room spend. Rather than requiring a change in philosophy, it was suggested that customer level data can be leveraged to drive the fine tuning of systems capabilities to forecast and optimize taking into account total profit contribution, rather than just rooms revenue.

4.6.3 Have a strategy for each customer segment

Related to the idea that hotels focus on customer value, it was suggested that hotels ensure a strategy is developed for each customer segment. Hotels need to think holistically about demand and pricing and make sure that they are including all customer segments in their analysis. For example, if a hotel is not building a specific strategy for group business, that segment is not being optimized to its fullest potential.

4.6.4 Understand your costs

Hotels need to figure out customer acquisition and retention costs so that they can manage them. While price optimization tools can raise revenues a number of points, the true opportunity lies in significant increases in net revenue if costs are properly managed.

4.6.5 Engage the customer

It was suggested that, in the hotel environment, the incentives that are tied to loyalty programs are not sufficiently strong to motivate customers to identify themselves throughout all of their in-hotel transactions and therefore a complete picture of customer spend is not captured. Consequently, better engaging the customer in loyalty programs, and integrating these programs across all departments, was identified as low hanging fruit.

4.6.6 Build a Total Hotel Revenue Management Culture

Building a THRM culture was identified as low hanging fruit, though the processes behind it are complex and involved. Creating this culture may grow as the industry begins to better define practices, identify key players, and build a revenue strategy team to oversee RM initiatives.

4.6.7 Better Rooms Optimization

Although much of the focus in the discussion of THRM was on non-rooms revenue streams, there was a strong sense among participants that much work remains in the domain of rooms RM. As the operating environment and distribution landscape continue to evolve, and more factors emerge to influence both customer purchase, and RM, decisions (e.g., customer-generated reviews and ratings), being able to fine tune optimization models for rooms RM was identified as low hanging fruit. This will likely involve garnering a better understanding of how customers make purchase decisions as well as more advanced pricing and distribution techniques.

4.7 The “Ideal” Revenue Management System

As it is clear that technology plays a critical role in RM implementation, and continues to be a challenge for the industry as whole, participants were asked what their ideal RM system would look like in the context of THRM. The major themes that emerged are summarized below:

4.7.1 Data integration and centralization

A major theme identified by participants was the need for one centralized data source. A major challenge to THRM implementation that was identified was the lack of data integration associated with the difficulties inherent in linking disparate operating systems (e.g., property management systems, sales and catering systems, CRS and loyalty program systems). The ideal RM system would centralize all departmental and individual customer data (e.g., spend across revenue streams, lifetime value) such that it could be used collectively to drive RM decisions. Multiple participants highlighted that, although this information may be available, the RM teams on-property do not have the necessary resources required to pull all of the data together.

4.7.2 Easy to use tools and data visualization

Analytical capacities are crucial for corporate level initiatives and system development, but many participants cited the need for easy to navigate tools and access to readable, visual data. This would allow RM to better utilize the information that is available to them. As one participant pointed out, current RM teams may have the thought-process, but the tools are not readily accessible to implement a THRM strategy.

4.7.3 Distribution cost integration into optimization and performance measurement

The ideal RM system would be able to account for costs in the optimization process. This is especially critical as distribution costs continue to grow. Costs should also be integrated into the performance metrics and measures of profitability reported by RM systems.

4.7.4 More advanced analytics and price optimization models

The ideal RM system would be able to learn and adjust quickly to changes in the internal and external environment. For example, forecasts would be more forward looking to incorporate changes in external factors that influence demand. Additionally, more advanced price optimization models that take into account the various dynamics that impact pricing in today's landscape was identified as a component of the ideal RM system. As identified by participants, dynamic pricing models would take into account more complex price elasticity, competitor data, and potential effects of social media-generated data on demand.

Chapter 5

Discussion and Recommendations for Future Research

5.1 Application of THRM in the Field

As defined in the literature, THRM is considered the application of RM across all revenue streams of a hotel (Cross *et al*, 2009). This definition is partially supported by this research, because it was found that RM is being applied to specific areas such as function space and F&B, but not necessarily being systematically applied to all revenue streams. The application of RM into additional areas of a hotel seems to be merited if there is sufficient business volume and revenue generation to justify dedicated resources. Additionally, the practice of THRM as previously defined in the literature may be limited due to various constraints such as data and systems availability, resources, and company culture.

However, the findings of this study further suggest a broader definition of THRM to include customer value. In other words, the value of the customer to the hotel across revenue streams and the lifetime value to the company. Though the concept of customer-value was mentioned in the literature, there was limited discussion of current practices (Noone *et al*, 2011). The findings of this study suggest that a customer value consideration and analysis is practiced today, but is not consistently applied across the industry. It seems that major hotel companies have more defined practices around understanding customer value implications.

Because the degree of THRM implementation and practices is inconsistent across the industry, and due to the fact that initiatives in individual non-rooms revenue centers are still considered quite separately from each other, THRM remains fairly academic in nature. For these reasons, it seems that in the industry today THRM cannot be considered a practice, but rather an approach. This research sought to define THRM by elaborating on the multiple facets to the practice including non-rooms revenue streams,

customer-centric RM, distribution strategy, evaluation of performance, and technology. Each facet can be considered part of a THRM strategy. Discussion surrounding each of these facets will follow.

5.2 Non-Rooms RM

Kimes (2011) identified function space, restaurant and spa as the three key functional areas where RM will move next. The findings of this research suggest that the hotel industry is making strides in these domains, particularly function space RM. However, the literature also pointed to retail, golf, and parking as additional emerging areas of RM application (Kimes, 2011). This research did not identify any brand-wide initiatives around implementation of RM in these areas, although rudimentary golf RM practices were described as occurring at a local level. In terms of technology to support these initiatives, this research suggests major improvements and developments to non-rooms RM systems beyond the function space RM and group tools that are described in the literature (Carroll & Siguaw, 2003; Cross *et al*, 2009). However, the need for technological improvement was also identified, particularly in terms of systems integration and consolidation.

5.3 Customer-Centric RM: A Balance of Engagement, Insight, and Selling

One biggest themes identified in this research is the growing effort among the major hotel brands to determine an individual customer's value to the company. Yet in the constantly evolving distribution landscape, understanding the customer is one of the most critical challenges plaguing the hotel industry. Customers are growing in sophistication as they shop differently, decide differently, and book differently. Previous literature has addressed the concept of theoretical value and profitably analysis at the individual customer level (Noone *et al*, 2011). The findings of this study provide support that application of these

concepts occurs in practice, with major initiatives underway in the hotel industry to determine individual customer value across revenue streams.

Previous literature identified the various data sources that may aid in the ability to profile customer value (Noone *et al*, 2011). However, a major challenge identified in this study is the difficulty inherent in collecting customer data in practice. Today much of the customer data collection in the field occurs through loyalty programs. Casino hotels in particular have had success in capturing customer data, but this research suggests that better incentives need to be built into traditional hotel loyalty programs to encourage customers to identify themselves through every transaction. A major benefit to a loyalty program is that customers voluntarily submit information. Privacy and sensitivity remain a concern, so this voluntarily commitment of data is key and may be further enhanced with better incentives across of a hotel's revenue generating outlets.

Closely linked to the issue of data collection is data analysis. This study revealed that the ability to slice and dice the community of customers, identify their needs, and determine their value is a major challenge in the field. In order to be able to pursue customer-centric initiatives, heavy-duty technology and dedicated resources are needed to analyze customer data, determine customer value, and integrate customer value scores into pricing and inventory availability decisions. This presents an opportunity for RM systems vendors to develop RM systems capabilities to address this need for integration.

Finally, the ability to target and sell to an individual customer, based off this data analysis, is a major trend. Individualized rates, packages, and promotions were all mentioned. Some of the tools to be able to do this are already in place, such as distribution email lists, but the possibility exists to further implement these tools into practice. For example, adding a login option to booking engines could allow individual rates to be presented to the customer based on their identifying login information. Future research could examine the potential for success of these individual tactics, in addition to exploring the potential negative side effects of an individualized approach, particularly in terms of pricing, that may impact the customer relationship.

In practice, today much of the customer-centric work occurs at the customer segment level, however a movement towards a truly individualized approach is apparent. Two major brands spoke to very innovative projects in this realm. These findings suggest a very strong movement towards a customer-centric approach, though initiatives are still in an early stage due to data capture, technology, and resource constraints.

5.4 Distribution as an Important Component of RM Strategy

With regard to distribution, more platforms exist to engage the customer than ever before. The ability to reach out to the customer, target the customer, and make offers that resonate with the customer through these platforms is critical, but understanding the customer creates a unique challenge in this realm. Further, keeping up with the constantly changing distribution landscape is very difficult for hotels, and support may be required from the corporate level. The findings of this research support the notion that having a robust distribution strategy is critical to RM strategy, with many efforts remaining focused on shifting hotel room reservations from third-party to direct, distribution channels.

Perhaps the greatest force in distribution strategy today is high distribution costs. Quantifying these costs, managing these costs, and benchmarking these costs, were identified challenges. With this perspective, the opportunity exists for a company to standardize their view of distribution costs, create a better understanding of cost by channel, and manage accordingly. Of course this is not an easy task, but one hotel company already has an initiative in place to standardize how distribution costs are viewed across their properties. Dedicated corporate-level resources are being leveraged to drive this initiative. Along similar lines, an industry-accepted metric that could measure cost of distribution across markets could be useful, and help hotels to better benchmark their performance against their competition with respect to the true net revenue.

In the context of non-rooms revenue generating streams within the hotel, findings suggest that, although consideration is given to non-rooms distribution, it may still be in early phases of development. While booking engines for non-rooms revenue streams are available, they are not consistently applied. Simply activating non-rooms booking engines presents a huge opportunity for any hotel. However, there are potential negative implications to this. In areas such as groups and meeting space, the lack of personal interaction could lead to decreased customer commitment. In a setting when confirming a booking is so critical, the personal touch may enhance likelihood of commitment. This could also apply to F&B reservations and spa appointments. Fortunately, reservation guarantees are becoming more common and accepted in practice. Activating these additional booking engines also opens the door for “request for proposals (RFP) Spam,” which could create more work for employees and actually decrease efficiencies instead of enhancing them. Research is needed to identify, and evaluate, the impacts of any negative implications on business growth and retention.

5.5 Performance Metrics for RM Evolve

Findings support the literature that suggest an evolution of performance metrics for RM and metrics that explicitly consider non-rooms assets (Kimes *et al*, 1998; Kimes & McGuire, 2001; Kimes & Schruben, 2002; Cross *et al*, 2009; Kimes & Singh, 2009). Furthermore, findings from this research reinforce the idea that a move towards a profitability metric is expected. Further, it seems that there may not be one metric that can adequately capture all aspects of THRM. Instead a variety of measures will be needed.

The growth of non-rooms RM applications, the desire for a profitability measure, and the need for a competitive benchmark present a huge opportunity for industry collaboration. A major contribution to the industry would occur if the major hotel brands could determine a set of metrics to which their hotels would subscribe, whether this is operationalized through an expansion of the STAR (Smith Travel

Analytics Report), or otherwise. These metrics would then include non-rooms departments performance measures (in particular function space and F&B), profitability measures (perhaps in the form of a ratio), and distribution performance measures (again, a ratio may be best here).

5.6 Data, Technology, and Systems: Bigger and Better

Many challenges surrounding data were identified. Data must first be captured before it can be used. As described, in order to capture this data, hotels must better incentivize both the customers and the front employees who control data input. The use of data presents another challenge. Examples of successful use of data comes from big brands and casino-hotels, suggesting that lots of data must first be aggregated, followed by a centralized approach to data analysis. It seems that a corporate level initiative to digest massive amounts of data is critical. It was found that currently the use of Big Data is quite tactical, for example, targeting a subset of loyalty members with a promotion. A huge opportunity exists for the insights from data to be integrated into RM systems, specifically demand forecasting and price optimization.

Findings suggest that technology is a major barrier to THRM implementation. It has been identified that traditionally hotel technology lags the trends, but adaptability in the changing landscape is needed to succeed. Through the discussion of an ideal RM system, many needs have been highlighted including: data centralization, data visualization, advanced analytics, cost consideration, and performance measures. Inhibiting the development of an ideal system is the problem of systems integration. Many non-rooms department systems do not integrate well with the POS, PMS, or CRM database. Collaboration from major technology partners would greatly facilitate a THRM approach, in addition to collaboration between technology companies and the major hotel companies.

5.7 Where Will RM Go Next?

Perhaps the most telling sign of current practice, or lack thereof, in the domain of THRM is that the application of RM to non-rooms revenue streams was identified in this study as the low-hanging fruit for the RM function. Currently, any non-rooms initiatives that are in place are focused on specific, individual non-rooms revenue generating streams, rather than across the hotel as a whole. Given the complexity inherent in RM for non-rooms revenue-generating assets, it is likely that this piecemeal approach to RM implementation will continue in the near future. Further, the extension and level of sophistication of RM implementation in other revenue generating areas will be dependent on customer volume.

A customer-centric approach to RM was also highlighted as an immediate opportunity. While the ideal manifestation of customer-centric RM is engagement with, and recognition of customer value, at the individual customer level, a focus on the customer at the customer segment level may be a more practical goal in the immediate future. Indeed, it may be that for hotels with limited resources that a customer segment-approach will be the next step, while hotels with more data and resources will focus on developing a customer-specific approach. In order to act on any of these identified potential opportunities, technology and support are needed. Technology is enabled by good people, for instance RM-educated operational teams, and supportive business processes, such as incentive programs for loyalty program use. As one participant pointed out, “people, process, and technology go hand in hand.” This idea that people, process, and technology must work together reflects the literature that highlights the importance of top-down support and company culture to RM success (Kimes, 1989; Yeoman & Watson, 1997).

Finally, the findings of this study suggest the development of better room optimization models as an area of immediate opportunity. This is interesting because, although so much of the discussion of THRM lies outside of the rooms domain, this theme of a need for improvements in rooms RM models was identified by multiple participants. This finding suggests that many hotels will continue to focus on

refining RM practices and tools in the rooms domain in the future. Indeed, as the operating landscape continues to evolve, so too will the need for more sophisticated RM techniques and tools. With this consideration, RM may begin to grow in scope across multiple revenue generating streams while also having to continually refine RM practices in the rooms domain.

5.8 Pointing Fingers: Where does Responsibility Fall?

The traditional siloed approach to the management of different revenue streams within a hotel property presents a challenge in determining who and what should be responsible for guiding RM strategy, both where applied to different revenue streams, and where concerned with growing share of wallet. Findings demonstrate the high level of collaboration needed at both the property and corporate level, and across departments. It also seems there are many goals associated with a robust RM strategy, but a lack of one unified objective.

5.9 Conclusion

This research shows that the THRM approach is growing, but that practices are still fairly siloed. Applying RM practices to all revenue streams of a hotel present an immediate opportunity. In order to most optimally drive profit across the total hotel, an understanding of customer value and a robust distribution strategy are required, yet technology and company culture seem to be the greatest facilitators of success.

Perhaps at the property level it will be up to the Revenue Manager to direct a THRM approach, as this position is likely to have the best insights into profit-generating potential across the individual revenue generating streams within the hotel. Although a move away from tactical RM practices was identified, the tactical aspects of RM implementation are still required. RM may have the tactical ability

to enact RM practices throughout the hotel. However, at the corporate or brand level, the umbrella must be much wider. As identified through this research, many central departments such as CRM, Marketing, Loyalty, Distribution, and RM are involved. The implications of this research suggest that THRM will continue to gain prominence in the industry, but perhaps the title of THRM is not completely accurate due to the many approaches and perspectives required for a successful THRM implementation. Identified through this research is the need for one over-arching department to unite all these initiative and align goals towards a THRM approach.

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