

Hotel revenue management software has its Pharrell Williams moment

Since the 1990s, revenue management software (RMS) has promised to take the guesswork out of rate-setting. Yet most hotels still don't use it.

That may seem odd, given the software's bottom-line promise to lift hotel revenue available per room, or RevPAR, from between 5% and 20% a year, on average.

[STR Global](#), a consultancy, estimates that there are 164,090 hotels worldwide. Fewer than 10% of those are using RMS, according to [Tnooz](#) estimates, based on interviews with software vendors.

To date, the biggest competitor to RMS has been Microsoft Excel. Many hotel managers still rely on spreadsheets and their gut instinct.

But change is in the air. Several startups have received fat funding rounds to make RMS a widely used tool, while the vendors who pioneered RMS claim that their sales are spiking. Revenue management's late jump into the spotlight could be reminiscent of the career of artist Pharrell Williams. After years of disco-soul promise, Williams had his first global chart-topping hit, "Happy," once he entered his 40s.

Get lucky

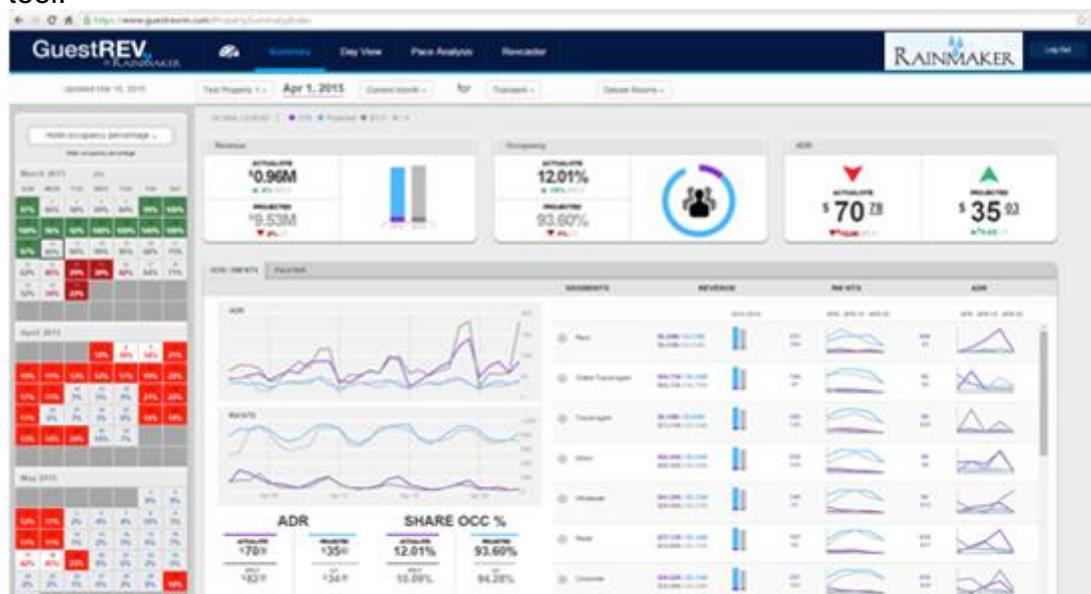
There's been a wave of RMS startups, such as [Duetto](#), [iRates](#), and [Pricematch](#).

[Duetto](#), founded in San Francisco in 2012, has signed hundreds of properties in 19 countries. It has also received [\\$33.2 million in funding](#).

Another startup, [iRates](#), was founded in 2011 in San Diego. It says it has about 100 hotel clients.

[Pricematch](#), a Paris startup, says it serves 800 hotels. Its goal is to serve 3,500 by year-end. It has raised more than [\\$10 million in funding](#). It recently [acquired](#) its European rival PowerYourRoom.

Since 2012, [Rainmaker](#), which has long sold RMS to gaming companies like Caesar's, rolled out [GuestRev](#), a solution aimed at hotels generally. Rainmaker has signed 100 hotels. [Omni](#) is a major client. In March [Rainmaker acquired Revcaster](#), a rate shopping tool.



Come get it bae

The startups have entered a market that already has established players.

Exhibit A: Integrated Decisions & Systems, the Minneapolis company better known as [IDeaS](#), first offered a cloud-based RMS in 2003. Today it serves 7,000 hotels, covering more than a million rooms at brands like Extended Stay of America, Fairmont, Shangri-La, Kempinski, and Kimpton.

IDeaS CEO Sanjay Naglia says he doubts that the young upstarts will lock it out of the mass market:

“We have already expanded beyond luxury properties. One example is [Travelodge](#), the chain of 500 discount hotels in the UK.”

Another longstanding contender is [EzRMS](#), which says it has broadened its appeal, too. Bernard Ellis, vice president of industry strategy at [Infor](#), the US enterprise software company that acquired EzRMS in 2012, says:

“We have different scale products with different value propositions for hotels, depending on their size and need.”

Ellis adds that the RMS industry is in a replacement cycle now.

Many hotel chains that had previously relied on proprietary systems are opting to outsource that technological function. They’re choosing to concentrate on their core competence of hospitality management.

Since 2012, [Infor EzRMS](#) has tripled its install base.

Can I have it like that?

There’s a divide among industry players about which ingredients are the most important in the rate-setting recipe.

Is it enough to track the velocity of demand, such as by comparing the current pace of bookings with historical trends? Or do you need to track other things, like the weather, currency fluctuations, and airport passenger volumes?

Between those two poles, RMS vendors scatter along a spectrum.

At one end is PriceMatch, whose algorithm uses econometric techniques to measure a hotel’s bookings, competitors’ rates, local transportation prices, reputational data, local weather, currency changes, and other factors.

At the other end of the spectrum is i-Rates, whose CEO Vadim Asadov says:

“If you track demand and price elasticity, you capture all of the parameters.”

Echoing that view is Roman Peskin, vice president of hospitality consulting at [DataArt](#), a custom software shop that makes RMS and other tools:

“Since the invention of the supply-demand curve, nothing new has come along.

Whatever happens — a volcano exploding, a currency shifting in value, an airport closing — you see that in the velocity of booking at your hotel and at your competitors.”

Other companies fall in-between the two positions.

IDeaS has long emphasized demand. But in the past year, it added reputational data from four vendors. The data essentially calculates the effect of one’s [TripAdvisor](#) ratings and reviews on a hotel’s pricing power.

Yet Nagalia, the IDeaS COO, is skeptical about the impact of having dozens of factors. He says a change in passenger arrival data, for instance, is only significant for wholesalers and resorts set in remote areas.

Duetto CEO Patrick Bosworth says price elasticity is often inadequately measured by his competitors.

“To measure elasticity, we put a javascript tag on the brand.com site of our hotel clients. It allows us to track every click in its booking engine, every piece of data in the potential guest’s experience, such as what rates were quoted by room type and what type of room

they clicked on to learn more about, and if any of the room types were sold out, and if the customer went on to make a purchase.

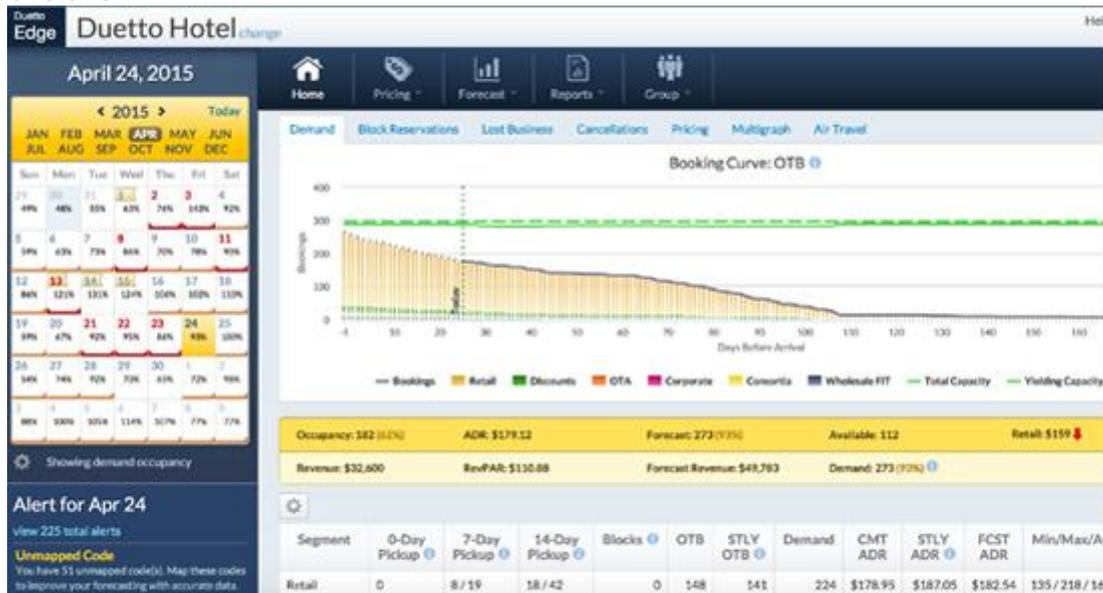
Unlike our competitors, we know how many people searched but didn't buy.

Here's an example. A legacy RMS can tell you that, on, say, May 11, I was expecting three new guests today, but I actually got seven. Its algorithm will adjust its forecast and probably recommend that you hike the rates for remaining rooms.

But our system is more sophisticated. Did 20 people shop, and 7 book? Or did 100 people shop, and 7 book? Raising rates makes more sense in the first case than the latter."

Other companies talk about price elasticity, too. Gautam Lulla, president of [Travel Tripper](#), a hospitality technology company that sells a central reservation system (CRS) and an RMS, says that "look-to-book" data can be approximated from data stored in the CRS.

He believes that stronger integrations between the CRSs and RMSs are "a natural industry evolution."



Frontin'

Yet another stream of data to consider is the revenue management suggestions increasingly offered from intermediaries like [Expedia Inc](#) and [HotelTonight](#) themselves.

Only the intermediaries can peer into their own data and see what price elasticity is in their channels. They're increasingly offering such information via their extranets.

Some hotel owners may want to do manual overrides of the automated rates that the RMSs suggest for online travel agency (OTA) channels that account for what the OTAs themselves recommend.

Drop it like it's hot

The industry pioneers say there's several tasks they accomplish better than the upstarts do. Group bookings is one of them.

Group travel is important because, for many hotels, a third of their revenue comes from bulk room orders related to conferences, weddings, and other events.

Group pricing is tricky because the issue isn't just selling a room but also the expectation of selling ancillaries, such as additional purchases of on-site food-and-beverage or spa services.

IDeaS touts its group-pricing module where the cost of the components are accounted for, with profit estimates.

The startups deny, however, that they have any disadvantage in handling group travel.

Pricematch, for one, says it creates a probabilistic estimate of how much revenue a hotel could generate by selling the rooms later, and lets the manager compare that with the expected revenue from a group sale.

The other companies say similar things.

The screenshot shows a detailed revenue management dashboard for May and June 2015. It includes a calendar view with columns for each day of the month. Key metrics displayed include:

- Occupancy:** Percentage of rooms sold for each day.
- Revenue:** Total revenue generated for each day.
- ADR (Average Daily Rate):** The average price paid per room per night.
- RevPAR (Revenue Per Available Room):** A key performance indicator combining occupancy and ADR.
- Availability:** The number of rooms available for sale each day.
- Room Types:** Breakdown of revenue and occupancy by room type (e.g., Standard, Suite, etc.).
- Channel Performance:** Metrics for different distribution channels like Direct, OTA, and GDS.

 The interface uses color coding (red for high revenue/demand, yellow for lower) to help managers quickly identify trends and opportunities.

Blurred lines

Revenue management used to focus on setting “the number,” usually a best available rate, or BAR. Prices for other channels, such as a hotel’s call center or its website, were moved up or down in a fixed modifier to the BAR.

But today RMS is shifting from helping hotels to forecast the BAR to helping hotels [pinpoint their most profitable guests](#).

This shift is due to hotels seeing their room rates rise while profits shrink. Costs are [eating up their revenue gains](#), surveys show.

Hotel owners increasingly talk about “flow-through” to the bottom line, says Ellis at Infor EzRMS. Each source of demand has its own cost associated with it, and [flow-through](#) accounts for that.

Amar Duggasani, Rainmaker’s chief strategy officer, agrees:

“Instead of optimizing for revenue, a hotel needs to optimize for profit.”

Sanjay Nagalia, who co-founded IDEaS (acquired in 2008 by [SAS](#)), says:

“The industry is moving from a focus on RevPAR to profitability metrics. That’s why there’s growth in RMS sales.”

Duetto’s chief says he wants his startup to eventually go beyond being an RMS provider to providing a suite of “revenue strategy” tools. He expects to build “reporting and decision support for hotel executives in sales, marketing, and distribution”.

Other companies, like Pricematch and Rainmaker, echo such aspirations.

Happy

The most obvious growth trajectory for any of these companies is to be acquired by a major property management system (PMS) vendor, which could cross-sell its services to its client list.

[Oracle’s recent acquisition of Micros](#), one of the leading PMS vendors, is notable in this sense, as one of many signs of [why rolling up hotel technology companies is the hot trend of the moment](#).

[SAP’s recent acquisition of Concur](#), a travel-and-expense platform that supports an ecosystem of travel tech companies, also suggests such an outcome is plausible.

Another possibility is that an OTA could acquire an RMS or two for portfolio diversification. An OTA might have the deep pockets and marketing savvy that adds rocket fuel for growth. Anecdotal evidence to support this thesis includes Priceline Group's recent [acquisition of hotel marketing firms Buuteeq and HotelNinjas](#), and its Booking.com division's [expansion into white-label hotel services](#).

It's also possible that a private equity company might try to roll up several hotel technology tools into a larger combination, for possibilities in cross-selling and mass scaling. Last year's [competitive bidding over hotel marketing firm TravelClick](#) suggests what that could look like.

A decade ago, RMS was exclusively the province of large hotels with high average daily rates. Industry pioneer [IDeaS](#)'s first client was a hotel so large it had four separate buildings.

But RMS might go mass market as the cost for customers drops and as it becomes easier for customers to use. Clap along if you feel like that's what you want to do.

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