Top 5 trends in revenue management: Data and digital with a dash of design

Introduction

The travel industry is a complex beast. Competition is far from straightforward. The global economy may largely be climbing out of recession but travelers are still as price sensitive as ever. Yet they expect even the most no-frills service to personalise, deliver added-value products and generally work hard for their dollar.

Knowing that money is tight and competition strong, travel companies need to pull out all the stops to maximise revenues. Increasing pressure from intermediary behemoths makes this an even bigger priority.

In such a climate, revenue management is being elevated beyond skill into high art. Understanding the multiple factors that influence customers' travel behaviour and being able to manipulate them to provide an irresistible package is little short of alchemy. There isn't a single tactic in recent years that RM professionals haven't tried.

However, in 2015 there are five key themes that are rising to the top - strategies or philosophies that can help revenue managers focus on their key strengths and drive the greatest return for their efforts. In researching these trends, there have been some surprising revelations. Long-held assumptions are being proven wrong.

Is it because the industry has fundamentally changed? Or have these ideas simply gone unnoticed, under the radar until now? Perhaps it is the customer who is suddenly confounding expectations? In reality, it's a mix of all three. Three drivers for five trends to reshape the revenue management arena.

- Breaking down silos
- Customer-centricity - more than a buzzword
- Above Par - what the figures ***really*** say
- What loyalty means
- Bundled and branded - ancillaries under the microscope

The list above outlines the five broad trends defining the revenue management challenge in 2015 and going forward. They are by no means exhaustive, nor are they unique. Executives will recognise many of the trends affecting commerce as a whole. This paper seeks to demonstrate the issues specific to the travel industry and outlines some of the strategies leading companies are deploying to answer them.

Breaking down silos

No man is an island, no revenue manager doubly so. It simply no longer works to have departments working in isolation in travel. Formally defined roles would have it that the marketing team connects directly with consumers to generate demand, while revenue management controls demand through profitable pricing[1].

But in an era where customer segmentation is recognised as a powerful targeting tool, RM needs to share with marketing who the most profitable customers are. Marketing on the other hand needs to create demand in the customer segments RM would most like to target.

Because while customers remain price sensitive, this is not as a result of downward price pressure. It is more accurate to say that customers are more value sensitive and have a heightened sense of what they expect to receive at each price point. This goes beyond RM's traditional focus of bundling in products or varying room rates but speaks directly to brand, perception and personalisation.

These are traditionally marketing's territory. With an understanding from the RM team over where costs need to be minimised and profit maximised, the marketing team can develop guest experience, increase direct bookings (and thus reducing cost from involving intermediaries) and generate benefits across the board from creating social capital (reviews influencing pricing strategies) to customer loyalty (lower cost to serve and greater potential for ancillaries and upsell).

Beyond the need for intra-departmental collaboration on a strategic basis, there is a great deal of need for cooperation from a functional point of view. With both marketing and RM generating vast amounts of data, much of it in real time and from both structured and unstructured sources, the ability to share information and insights rapidly and accurately is critical.

As the number of automated processes balloons, both departments need to be able to combine their data sets to create the fabled 'single customer view', track

1 http://hotelexecutive.com/business_review/4212/is-your-hotel-ready-revenue-management-predictions-for-2015

customer journeys to allow for retargeting (marketing) and pricing (RM) and deliver the right service at the right time at the right price.

Tom Bacon, airline and revenue optimization strategist states: "Airlines have long been siloed and to integrate [everything] it does make sense to have a centralised unit. But then you can't just put one in and keep the existing siloed structure. [Departments] do need to be more nimble on this stuff and approach analytics and merchandising as cross-functional. I'm sure there's a way of getting a hybrid of each unit."

Customer-centricity - more than just a buzzword

Having marketing and RM work together is vital from more than a convenience perspective. Today's travel customer very much dictates the travel experience and both sides of the coin need to be tuned in to their needs.

Customer-centricity isn't about pandering to the customer. It's about understanding their needs and motivations, the external trends that influence their choices. It is easy to say that the digital, multichannel environment has been responsible for a wholesale change in customer behaviour but this is very much the case.

Across segments there has been a marked change in how they interact with brands. Immediacy is expected in both pre and post-purchase. Variety and personalisation are a given. It is now less about pricing products to attract certain types of customer and more about creating products for customers with often fluid ideas of how much they are willing to pay. This presents both an opportunity and a challenge for RM.

One of the most powerful segments affecting the travel sector at the moment (and one which, at the vanguard of similar segments following on behind it, is creating a trend that will not go away) is the Millennials.

Expected to account for 50% of all travelers by 2025[2], this group is all about engagement, transparency, technology and holistic lifestyle experiences. This segment is the greatest proponent of individual travel, driving the sharing economy boom in Airbnb and Uber. Heavy users of social media they are also some of the most nervous. A huge challenge for travel brands will be the fact that social capital is vital to pricing but Millennials feel more comfortable airing grievances on TripAdvisor and Yelp after the fact rather than addressing issues with management at the time.

Turning customer service issues from a potentially huge negative (United Airlines' poor treatment of a customer's guitar led to a twitter storm, a youtube video and a large amount wiped off the share price) to a brand positive (US Airways providing flight cancellation updates and then rapidly rebooking on the next available flight - all via Twitter[3]) is going to be a critical tool in serving the Millennial customer.

There is proof that a strong social media presence directly impacts pricing and profit. Research by TrustYou and the Preston Robert Tisch Center for Hospitality and Tourism found that:

- Given equal prices, travelers are 3.9 times more likely to choose a hotel with higher review scores
- Despite higher prices, travelers will book that room if the review scores are better than a lower priced equivalent
- 76% of travelers surveyed would pay more for a hotel with better reviews.[4]

"We're definitely looking to social and reviews for inspiration. Companies used to work only with their own data but with the growth of social media and the internet of things in the near future there will be more new data streams that are easily accessible. We're integrating anything and everything that can potentially help us develop better products," **Carlos Sánchez | Sr. Manager Big Data Analytics, Product Innovation, Carlson Wagonlit Travel** adds.

Ensuring you get those reviews now falls into the RM sphere as social provides a wealth of information as to the conditions that will lead to positive reviews and the acceptance of a higher price. From the RM perspective, it is important to view these improvements through the lens of cost as well as desirability. A pragmatic approach

2 http://blogs.sas.com/content/hospitality/2015/01/27/top-10-global-trends-that-will-impact-hospitality-in-2015/

3 http://thenextweb.com/socialmedia/2014/07/21/5-strategies-behind-awesome-customer-service-social-media/

4 http://www.trustyou.com/travel-reviews-impact-hotel-conversion-rates-pricing-12883.html

is important - renovated spa facilities may result in a small hike in RevPar but the cost to recoup may far outstrip any profit. The cost of customer-centricity is addressed further in *Above Par*, below.

And once again, customer centricity would otherwise have been the domain of marketing. Social media is usually under marketing's control; customer service increasingly is so. But RM could price a seat as competitively as it liked, unless it pulled an eye-wateringly loss-leading and ultimately unsustainable price stunt, the competitor with the unblemished social media record and $20 a seat more expensive fare will win the day - every time.

Bacon states: "There's a huge opportunity here but I don't know if airlines know yet how to do it. In any company they focus on how do I make more money next quarter or next year and what will give me the biggest pay off. With a simpler customer experience it's a tough one to say whether or not it will give me more revenue."

Above Par - what the figures *really* say

The hospitality sector, where RevPar has been king for so long, is experiencing something of an acronym deluge. NetPar, GopPar, NrevPar, ProPar and TrevPar are just a few of the ways the industry is trying to express what is essentially a common sense approach:

Successful pricing strategies maximise the revenue per room - but not at any price.

The tricky balancing act between delivering the best average daily rate (ADR) that also ensures maximum occupancy hasn't changed in essence. What has shifted is the potential influences on it. Customers' price elasticity is varying widely depending not just on the offers per se, but how they are packaged and communicated.

"If you want to attract new clients you can play with prices at the beginning. Business travel is a very competitive market and everyone is looking to maximise their investment and keep costs down. But if you can sell something for $1,000 don't sell it for $500. Understand what people are willing to pay for and move around in that space," Sanchez advises.

Trends across the airline industry where travelers have learned to customise their fares through baggage, meals and seat selection are merging with the dynamic pricing model shown by Uber whose algorithm reportedly raised fares by around 200 per cent during a strike by London Underground workers.

Hoteliers already price dynamically according to season - technology and data is simply allowing them to do it on a much more granular level including a range of influences including music events, customer loyalty, social media activity and the weather.

Yet there is evidence to suggest that closely following market fluctuations might be counterproductive. Cornell University's ***Competitive Hotel Pricing in Europe: An exploration of strategic positioning***[5] found that hotels who maintained an ADR higher than their competitors recorded consistently higher RevPar.

Additionally, the hotels maintaining a consistent price over time did not significantly affect revenue performance. Equally, lowering rates in hotel inevitably (and quite rapidly) leads to a similar lowering across the board and the competitive edge is lost.

Revenue managers should focus on their traditional aspect of positioning price at what the market will bear but then involve themselves more deeply in what achieving that will entail. In order to gain a few dollars on the ADR or increase overall bookings, where will that demand come from?

Again, this is a strong argument for working closely with marketing. To break the ceiling price it's possible that the brand will have to do something quite out of the ordinary which inevitably requires investment. Does driving more customers through the direct channel rather than intermediaries require an exponentially greater investment in brand advertising? Does improving the social standing mentioned above require investment in a 24/7 staff allocation that ultimately cannot be justified.

The move from RevPar to at least one of the many abbreviated options above is to be welcomed because it finally takes into account the cost of achieving those room rates or high occupancy levels. Understanding customer priorities, how to serve them in a way that makes financial sense and communicating effectively are all vital to achieving not just higher revenues, but better profits.

5 https://www.hotelschool.cornell.edu/about/pubs/news/newsdetails.html?id=1055

What loyalty means

The logical extension from all of the above is to work on the most profitable customers, the ones who are likely to return. Surely focusing on maximising revenues through loyal customers eliminates much from the gnarlier questions of cost to acquire and serve?

Loyal customers and loyalty schemes are always a bone of contention in travel. How much are customers truly loyal? For airlines, loyalty can be quite high. Prices, routes and a standard that suit, not to mention serving the travelers home airport all contribute to multiple uses of the same brand.

In hospitality it's not so obvious. For leisure, the promise of discovery is half the point of travel so even if the experience is truly magical, travellers may well not return time and again. This will however secure the all-important advocacy so a degree of emotional, if not physical, loyalty should impact any hotelier's retention regime.

But how do travel executives price for loyal customers? Interestingly, the latest research from the McDonough School of Business, Georgetown University once again turns the 'lower cost of to serve = lower price to pay' paradigm on its head. In the paper Strategic consumers, revenue management and the design of loyalty programs[6], the authors suggest that spending-based loyalty programs deliver greater revenues to the travel brand because consumers actually spend more.

The idea is that loyal customers can also be strategic customers - maximising their loyalty programs to derive the biggest benefit. Traditionally this has hurt rather than benefited companies as the customer 'plays the system'. However doing so in spending-based programs appears to drive profits up.

This is because, when faced with a spending based program, loyal customers actually spend-up to increase their relative benefits. Spending-up includes buying products or services at higher prices than strictly necessary, mileage-running (flying more than needed at low prices) or a mixture of the two.

Critically, when it comes to positioning the cost to the organisation of this behavior, the paper suggests that again this is beneficial to the company because, with a mix of mileage running and spending-up or spending-up alone, overall the cost to serve the customer is lowered as they are paying a higher price in general for the same services.

Bundled and branded - ancillaries under the microscope

Having discovered above that fluctuating price points appear not to contribute significantly to increased revenues - if in fact they do at all, how does this differ from personalised pricing?

In both cases it comes down to an issue of transparency, trust and value. Today's customer wants to see every component of their purchase, how it delivers value to the whole experience and whether it is worth the price being asked of it.

"The number one requirement which is true for everyone is, will it solve a problem for the traveler or make their lives easier. It's about reducing the friction points," states Sanchez

In some cases, it is considered a consumer benefit to be able to customise, pick and choose aspects that are more important than others and show that the consumer has a surprising price elasticity when it comes to a build your own opportunity.

That said, examine the difference in the airline sector between attitudes towards Ryanair in the UK and Westjet in Canada for example. Ryanair has had a steadfastly unbundled approach since the beginning and at one point only half-jokingly announced that it would soon be charging for access to the toilet on flights. With this carrier, everything bar sitting on the flight is an added extra from baggage to boarding cards to meals and more.

Westjet in Canada on the other hand was popular among its similarly-priced peers for including the cost of the first bag in the ticket price. The more savvy customer, particularly in an already unbundled world, would note that they were simply paying for the cost of the bag in the single ticket price[7].

But in 2014 the company announced it was going to unbundle baggage from the fare. This would result in a drop in price, increasing its competitiveness and

6 http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2606791

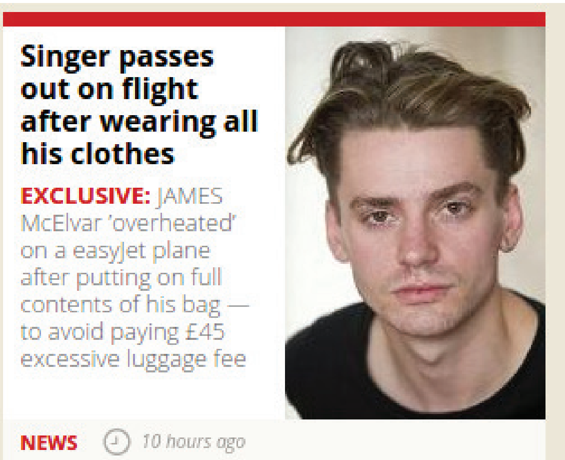
7 http://www.beyondcostplus.com/blog/unbundling-airline-business/

favouring those who don't check baggage. The news was not met with joy by Westjet customers according to CBC News[8]:

> **Charlotte Macgregor** @charelizabethm Follow
>
> @CBCNews nooooooo! this is the one thing i hate about flying to the #USA! shame.
>
> 8:46 PM - 15 Sep 2014

> **Emma Loucat** @LeJazzCat Follow
>
> @CBCNews So, how much to use the unbundled toilet @WestJet ?
>
> 8:48 PM - 15 Sep 2014
>
> 2 2

Not all customers react to extra baggage fees in an extreme way:



Singer passes out on flight after wearing all his clothes

EXCLUSIVE: JAMES McElvar 'overheated' on a easyJet plane after putting on full contents of his bag — to avoid paying £45 excessive luggage fee

NEWS 10 hours ago

Source: The Sun[9]

This is a clear example of a revenue management-driven pricing strategy that could impact upon the company's profitability as a whole. Westjet's point of differentiation among low cost carriers was its incorporated baggage, even if the ticket price was higher. Ryanair's point of difference has always been its no-holds-barred, pared to the bone service.

Products can be turned into a range of commodities but while the overall price may remain the same, the perceived value can be considerably reduced.

Sanchez states: "It's difficult when putting out a product - is it something you should charge for or do you want to attract more clients. You need to seek a balance. When it comes to pricing you don't want to scare people away. From an analytics point of view, we say if it can be automated it is most likely going to be offered for free but if it is customised or needing insight or manpower then we will charge."

While some airlines unbundle, others are wrapping up tight again. Ethiad and Delta are just two that have jumped on the branded fares bandwagon, providing travelers with a smorgasbord of packages to suit their needs and budgets. Mostly, these revolve around making the travel experience as hassle-free as possible, rather than adding in any kind of 'sweeteners' such as luxury freebies.

Ethiad's Branded Fares[10]

- **Breaking Deals** - our best fares at our lowest prices in Economy Class. Make sure you don't cancel your travel plans when you book with Breaking Deals fare.
- **Saver** - take advantage of our competitive rates with certain restrictions on changes or cancellations.
- **Value** - change or cancel your travel plans with just a minimal fee for Economy and Business Class guests.
- **Freedom** - a little extra goes a long way. Our Freedom Fares give you complete flexibility and peace of mind, allowing you to change or cancel your booking at no extra cost*.

Bacon believes companies must tread carefully where branded fares are concerned: "Each airline has different philosophies about this. We have two very different approaches out there now. The problem is we're all interested in total revenue now so ancillary and branded fares confuse the story. It's less obvious where you're getting the revenue from."

8 http://www.cbc.ca/newsblogs/yourcommunity/2014/09/checked-bag-fee-will-backfire-on-westjet-say-cbc-news-readers.html

9 http://www.thesun.co.uk/sol/homepage/news/6537063/James-McElvar-collapsed-on-easyJet-after-wearing-all-his-clothes.html?CMP=spklr-_-S9SunSocial-_-TWITTER-_-TheSunNewspaper-_-20150710-_-News-_-206402473

10 http://www.etihad.com/en-gb/plan-and-book/branded-fares/

Bacon also states that the branding of branded fares is an issue in itself because no two types are completely alike. Therefore the consumer is not entirely sure what they are.

According to a recent Eyefortravel report, ***Ancillary Revenues in the Hospitality Industry***, many hotels are not yet grasping the opportunities of capitalising on their ancillary offerings in a similar way.

This, despite over 50% of hotels making ancillary revenues a priority for 2015, 60% seeing ancillaries contributing 10% to total revenues and a third seeing 25% added to the bottom line[11]. But while hotels can learn from airlines in terms of what customers are willing to pay for as added extras to make their stay more pleasant, they can also learn from that sector as to what will turn customers off. If, in the case of Westjet above, it was baggage, in hotels essentials increasingly include Wifi, currently still charged for and increasingly a point of friction.

Conclusion

Revenue managers are having to take a close look not just at their specific sphere of interest but a holistic view of the whole organisation to be able to deliver profits in a customer-oriented, multichannel world.

Data is a strong ally in decision-making but getting hold of the right data is vital and increasingly small amounts of it are held by the RM department itself. Being able to examine data from a variety of sources both inside and external to the organization is vital to creating both a product platform and pricing strategy that creates differentiation in the market and encourages maximum spend.

As has been shown above, presumption is the enemy of successful revenue strategies, the price sensitive customer is still after a good deal but not the low price many assume. Loyal customers aren't automatically the recipients of the best deals and are happy to remain as such - as long as the return in the long game is worth it.

The five trends above combine to a single moment of truth for the revenue management industry - that it's no longer built on figures and formulae but collaboration, cooperation and creativity. Today it is as much art as science.

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11 http://www.eyefortravel.com/revenue-and-data-management/10-recommendations-get-hotel-ancillary-revenues-rolling-2015