

How to maximize revenues and minimize costs

The Spa, Phoenicia InterContinental Hotel, Beirut

Water, fluidity, and tranquility are the essence of the InterContinental Phoenicia's spa. With a string of successful therapies ranging from the Gold Facial to Ayurvedic treatments, The Spa is taking on another regime of Thai treatments using the YTSARA range. Purely organic, its concentrated products are made from herbs, roots, flowers and fruits that draw upon centuries of authentic Asian beauty secrets. A sniff of aromatic oils, and the Taa Souay restorative eye treatment starts. The face is cleaned with a milk containing hibiscus responsible for moisturizing. A jasmine-water skin toner refreshes before sesame-filled, vitamin B2 fortified, poultices are used for an eye massage that drains retention and removes toxins.

A face cleansing and toning precedes the Cham Chou Tropical Flower Facial that begins with a Green Papaya exfoliation that dissolves damaged skin-cells while allowing nutrients to nourish the skin. The scrub is removed and the skin is toned again with jasmine-water. A rosewood oil massage stimulates blood flow to the face and a bamboo biological mask reinforces pore structure and increases skin elasticity. The skin is cleaned and toned one more time before a Lotus Flower serum is massaged into it to further boost hydration with its anti-oxidant properties. Finally, a Green Tea protector is applied as an anti-pollutant. **The best part is that you get to keep the poultices to spoil yourself at home.** ■



What is Revenue Management?

Revenue management (RM) is the practice of dynamically pricing a perishable product and selectively allocating scarce capacity across segmented demand and distribution channels, while taking into account customers' profitability and value, in an effort to maximize gross total revenue and, therefore, improve profitability.

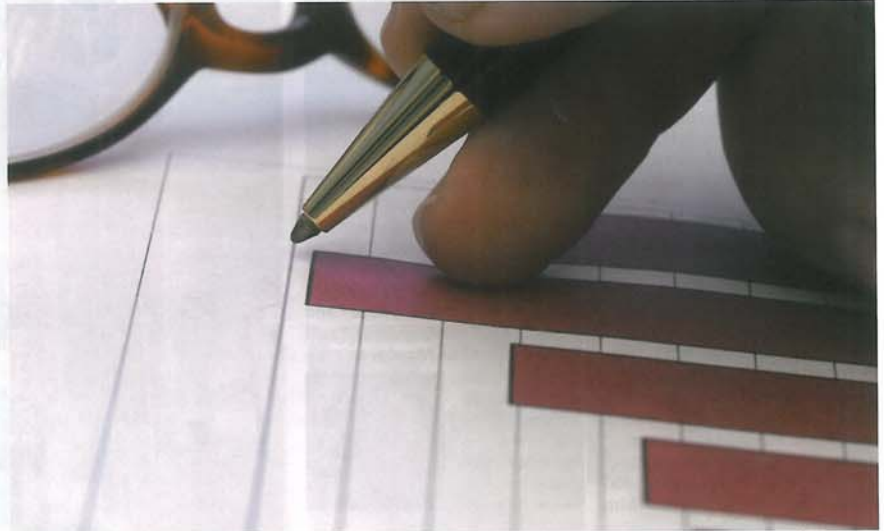
RM applications are moving from the travel and hospitality industries where they were born to other new industry sectors due to the accessibility to technology, the advanced management science models, and the recognition of revenue management's ability in enhancing the bottom line. Numerous researchers have examined the application of RM in industries different from the airline and hotel industries such as healthcare; restaurant industry; in golf courses; car rental agencies; cruise line industry; retail industry; bandwidth and internet providers; passenger railways; convention centers, among others.

"Revenue management aims at maximizing revenues and optimizing contribution"

Revenue management techniques assist a hospitality organization in finding the optimal inventory allocation and price setting for various services in a profitable way. The idea is to maximize the hotel's effective use of its resources by moving away from mass pricing and mass marketing, to the management of the micro market.

Put it simply, hotels leave less money on the table in competitive bid situations and they know when to quote a higher price without risking the loss of a long-term customer relationship.

Some of today's most profitable hospitality organizations are the lowest-cost competitors in their industries. Serge Chamelian, partner, h-hotelier, a hospitality and tourism services company, shows us where these organizations really shine in getting the balance right: implementing revenue management techniques and formulating a distribution strategy to maximize revenues and minimize costs



Several authors confirm the revenue driven purpose of RM and they realize the potential of RM to be profit oriented. In other words, a RM system allows the adjustment of prices to the fixed room capacity through different patterns of demand, in order to achieve the highest possible revenue (maximize room revenue) from different market segments. Revenue management can make a serious impact on the bottom-line; h-hotelier s.a.r.l. advises, trains revenue staff and/or provides a Revenue Audit for hospitality organizations to improve profitability.

How to minimize costs? As the number of distribution channels continues to grow, it becomes increasingly complex to choose to price and distribute the product at the lowest possible costs.

The distribution channels used by hospitality organizations should be assessed to determine which ones are most effective at delivering business. For instance, hotel managers need to calculate the true cost of sale from the various distribution channels to identify whether direct online sale is always preferable or third-party or other channels drive incremental business.

The emergence of Internet-enabled distribution channels has created both opportunities for and challenges to revenue management practices. The potential to reduce distribution costs using Internet channels has made hospitality managers more conscious of the need to maximize contributions to gross profit (revenue less distribution costs) rather than just the revenue obtained from a given room sale. The management of consistent rate and availability information throughout these systems has been critical to successfully managing revenue.

In the hotel industry, distribution channel management has been considered as a marketing tool, and distribution costs have been generally seen as inflexible. Little attention has been paid to the revenue management implications of using various distribution channels although the implications for hotel profitability could be substantial. A hotel distribution chain is complex as there are many intermediaries. A hotel will acquire only 80% of a reservation's gross revenue; for example for a booking coming to the hotel through a travel agency (TA), the hotel will pay a commission to the TA, a booking fee to the GDS (i.e. global distribution system), a booking fee to the

switch company, and a management fee to the call center or CRS (i.e. central reservation system) being used. Thus, a reasonable proposition is that it is most beneficial for hotels to book reservations through the least-expensive channels, if there is sufficient demand via those channels. Distribution channel management can be expensive and its implementation must be effective. h-hotelier s.a.r.l. assists hospitality organizations in choosing cost effective distribution channels and offers recommendations when choosing technology.

The concept of the identification of costs, and hence maximization of revenues and profit, has been discussed for some years. Revenue management aims at maximizing revenues and optimizing contribution, through the cost-effective use of distribution channels.

By understanding the competitive dynamics of pricing in their industries, the appropriate selection of distribution channels, and the purchasing approaches of their customers, hospitality organizations have turned revenue management into a potent competitive weapon to maximize revenues and minimize costs.

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