

HOSPA

TRANSCRIPTION: REVENUE MANAGEMENT

ATTENDEES

[JP] Jane Pendlebury, HOSPA

[MH] Michael Heyward

[SD] Sarah Duncan

NOTES

[JP] Good morning and welcome.

I'm delighted that so many of you have joined us today, especially as so many hotels are open again.

I'm excited to introduce you to Michael Heyward and Sarah Duncan, HOSPA's advisor on sustainability.

Thank you for joining us and for being brave enough to address this topic.

[MH]: My name's Michael and I'm from the Heyward group. My background is in hotel operations and revenue management as well as franchise support. I've been running my own business, a rapidly growing one, over the past 6 years. We've been doing leadership operations consulting as well as corporate education, developing graduate programmes and lecturing. That keeps us fairly busy.

[SD]: My background is in hospitality. I started my life in posh hotels and then worked over in Asia in spa development. I then came back to the UK and started my own consulting business around 15 years ago now. I still help businesses with development but I do it with a sustainable and ethical hat on. Today I am representing the customer in this debate and challenging whether these revenue management practices are designed to have the customer in mind.

[JP]: Brilliant thank you. When I was introduced to revenue management a few years ago, it was all about rights.

[MH]: Revenue management is still a relatively new discipline. Many of the guys who I started out with have now got broader commercial roles so it's been fascinating to see how it's grown. One of the things that makes revenue management roles in hotels unique is that you are measured daily on your performance. Every single day you are winning or losing against the competition. Everyone has an opinion on what you should be doing. If things aren't going well it tends to be one person explaining why. The measures on a revenue manager's performance is quite unique in being pretty close to real-time. Competition is changing all the time. It draws you into 'let's just get more OTA business in even though there's a massive commission'. There are all of these pressures going on. Even though I'm going to play the role of the cold hearted commercial animal, it's important to recognise managers are making decisions all the time. There are things that are not only unethical but also illegal. For many of us in revenue management there is that real awareness of what's illegal as well as unethical and real pressures to get top line performance. All of those pressures come together for many of us and in the back of the mind, we're a little curious about how others see the ethical aims of what we do to seek top-line business performance.

[SD]: First of all, I wouldn't want to be in revenue management for all the reasons Michael has just set out because there is a lot of pressure on it. Bluntly speaking, that's not my problem. As a customer, it is a relatively new role. There's something immediately when you think about managing revenue that feels quite devious and manipulative about it, just by the name of the area. To be fair, I don't think if you ask most people on the street about the role that they really know. Aside from the pressure of that, the problem from a customer point of view is trust and transparency. Let's look at pricing. The fluid pricing, the managing the pricing. The fact is that as customers we're not naive or stupid. We completely understand that idea of supply and demand and tactical pricing. We see it in our everyday lives and purchasing. It's very overt - we understand price differences in shops because it's very transparent. Even if there's a difference in price, for example, if we buy a ticket at the O2 to see Dua Lipa it would cost me more than if I went to xxx. I know that the demand for one thing is higher than the other. Unfortunately, the rod I think hotels have made for their own back with revenue management is personalised pricing. When I was looking at this, I stumbled across the Trivago ad, which promoted the virtue of short term profit over long term customer loyalty.

From the customer point of view, the fact that it's an OTA doesn't matter. It is the hotel's responsibility to manage that. The perception of mistrust on how revenue is being managed starts there. As Michael rightly said, the pressure on him to give these rates to the OTAs makes him and the hotel complicit.

[MH]: To undergrads, when we get to pricing, one question I ask is when you sit down on a flight, do you expect that the person who is sat next to you has paid the same amount? With airlines, I don't know whether that was the case 20 or 30 years ago. When I asked them about hotels, universally they said no. Perhaps that would be different if we were talking about an economy product but in mid-scale hotels, no one expects to pay the same amount as others. Let's be clear, lots of revenue managers don't do the right things for their guests. I think I'd be particularly interested in challenging customer perception when we look at very high demands. When we're looking at a big event, let's take something really

obscure like the rugby world cup, there's a huge demand in Cardiff, but not in the rest of the world. It's a small city, there are limited numbers of hotels. I can sell my hotel out multiple times and I know people are paying huge amounts of money for the ticket, I'll be turning people away at £300. Is that unethical?

[SD]: With one phone call, one explanation, someone could explain to me that it's the rugby world cup. I get that there's something exciting that is valuable to people and therefore the prices are up. I get it and it's overt. The bit that leads to the mistrust here is I don't understand why I'm paying this amount, and they're paying that. Is it best for me to book last minute? What are the benefits of me being a loyal customer? Hotels do themselves a disservice by keeping it dark and mysterious which is exactly what you need to manage revenue. Price comparison sites have caused this problem for other industries as well. Customers voices are getting louder when it comes to ethical debates and I think that's only going to increase.

[MH]: I'm pleased that you've taken our side on that one. There was a French journalist a few years back who wrote a scathing article about a hotel in Cardiff about rates, but one of the things they didn't mention that a standard hotel in Cardiff was charging xxx.

[SD]: When you do say the 45 vs 300 that does sound quite extreme. What's interesting about that is someone picked up on it and made a deal about it. Price stuff what you want, but be prepared for people to challenge it. On a day-to-day basis, I don't see the same simple explanation from a hotel as to why I'm paying this, and someone else is paying that. From a customer point of view, it's not fair. All I'm looking for is trust and I think what's the solution here? What can hotels do to reach out to people like me and make me trust you more? I'm going to throw in here, pricing is one thing but I'm going to go into overbooking now. Aside from airlines, I can't see from a customer point of view any justification in this day and age regarding overbooking a hotel. I cannot see how it is feasible that I'm going to book a hotel without my credit card details, and that a no-show will at least be a cancellation fee. There shouldn't be a situation where if I don't show up, you don't charge me. There should be no justification for overbooking. The only motivation for overbooking has to be greed.

[MH]: First of all I need to flag that COVID has changed your position more than you realise. The expectation of the market now is prepayment guarantees and that customers have full flexibility at the moment. If we charge no shows on to credit cards, when people sort it with their banks, the banks won't take the hotels side. It is a very real choice between holding rooms when you know people won't show up. To give you the revenue management perspective on this, in a hotel in Yokohama, overbooking is not something they do or tolerate. No matter how strong my case, you can improve revenue through responsible overbooking. Hotels who almost never actually fill, unless there's been a screw up in the reservation system - you know there's enough demand to fill in cities. There are all sorts of reasons why there are dips in the last 24 hours. It's all about taking risks. If you do nothing, in my role as a revenue manager, I have 2 concerns. The first, every extra room I sell, if I'm a bit bolder, is worth hundreds of pounds to us. There is a part of me as a front desk guy,

every time I say no to someone on email, it's not the hospitable thing to do if I have empty rooms.

[SD]: I think that's a nice spin on it. However, I understand the pressure. If your job is to maximise revenue in every room, you're obliged to try and do that. The unethical part is the time it doesn't pay off. It does happen, you can wrap it all and make it sound good, but for the one person that's walked, it sounds wrong because they paid money. If you buy a ticket for Robbie Williams, I might decide that I only want to go to the encore. If I come in late, the O2 doesn't necessarily go 'You can't come in', because they know I've paid my money. You don't get that in other scenarios apart from flights. If we get back to the stage where you've got my credit card, I know I'm going to get charged. I hope then that takes the pressure off you to try and manipulate this.

It's clever what you're doing, you are in a position where you are having to manage and juggle a lot of plates in the air with revenue. I'm having to go back to whether this is ethical. Are these practices designed with the customer in mind? I can't see in any way that they are; they're designed for profit. I know it's not your intention to any way undermine customer loyalty. Looking at solutions, maybe that's worth a wider discussion within the hospitality arena about how we can balance short term profit and long term loyalty, and putting the customer at the heart of the decision making. I think there are bigger questions that we're being asked to consider over and above driving profit.

[MH]: So I should give preference to the 20 customers who want to book earlier to those that want to book on arrival? When there will be 20 people turned away, why should it be the people who have tried to book in the last 3 days? In the last 3 days, supply is dropping but demand is high. You're happy to drive the price up, but I want to keep it low.

[SD]: There is some wisdom there and compelling reasons about why you do what you want to do. I guess if I put the question back on to you, when you are looking at these various decisions you have to make and the juggling, morally how do you feel about each of those decisions? If you're feeling uncomfortable because the pressure is on you to get as much money every night, then I question that. If you're making your decisions because morally you feel ok with it, then great. All those things are great, but educate me as a customer - tell me when to book, how to book.

[JP]: I've got a comment here: How much do we reveal to our guests? A lot of pricing strategies are based on willingness to pay, how should this be perceived by the guests and should it be perceived as an industry secret? Will they understand the ins and outs?

[SD]: Like I say there's no denying here that there's some very clever work going on behind the scenes. This is the area that customers get nervous about. It is about data and customer segmentation. That is the area that scares us as customers. Who's making the decision about what prices I get at the hotel? You might want to keep it as a dark area because it's better for you, but not so much for the customer. We're entering an era where

transparency is becoming more and more important. Customers will be demanding more transparency so you might want to get into that headspace now and come clean a bit more.

[MH]: Going way back to when I was in my late teens working front of house, there were certain rates where you could print a card... One of the things you get trained in, if it says in PR, when a customer asks what their rate is, you must not tell them. In the high street travel agents in Japan, they have different rates in the hotel than what you have on the system. Why are they pushing? They don't trust it, they don't believe it's transparent. Maybe it's the travel agent they don't trust? There are certain things that are confidential and will remain so for some time. In my view, a lot of the public know that OTAs charge high commissions. A lot of people are now using them as a rate shopper and then going directly to the hotel to ask about the rates.

[SD]: I think there's a brilliant point here that you make that hotels are collectively taking back more control over this against the price comparison. There's a lot of things they can be doing to communicate with the customer about the benefits of booking direct. Comes back to communication and making it easy. OTAs make life very easy and flexible for the customer, and that experience is missing when you go directly to the hotel's website. There's a learning point there about what makes life easier for the customer with OTAs. I think the industry is missing tricks there. With this moment in time and with COVID, the OTAs are struggling at the moment. As with a lot of business, this might be a moment where we think about how we do things in the future.

[MH]: It was back in 2000 when OTAs were on the scene. When online price comparison became the norm, the transparency xxx hotels in a way that it hadn't before. You could change prices a lot more easily, you no longer have to ring 3 different hotels to get 3 different prices. Now you could just see it all on your computer. Revenue management is strong now because that complexity and transparency have come in. The best teams I've worked with at handling overbookings are the ones that work very hard and understand their risks. My manager at a place I worked felt the hotel better than anyone else. If he knew it was going to be full, he'd come in early. He'd look at reservations and say we're going to be 3 over, and he'd keep an eye on it all throughout his shifts and rarely had to relocate. To me, it's about the risk. You can be irresponsible and maybe make some more money, or you can be very responsible with risk and make more money and I think that's the ethical side.

[JP]: We have a lot of comments. If you do it right, the occasional book out costs are more than covered by the additional costs generated by overbooking. Ginelle: Robbie Williams concert ticket is fully paid and audience member does not expect a refund if they come late. No shows are a bit of an issue. How do we charge deposit and cancellation policies to protect us but also keep the guest happy?

[SD]: If Robbie Williams can do it and that industry can do it, and the customer accepts that, I've paid my money, you have my credit card and I'm not going to get a refund if I don't show up. With a bit of time and education and to identify that as the problem. I do realise

historically that there are issues but I don't think overbooking is the solution. I think we should learn from other industries and sort out some practices that way.

[MH]: High demand times in restaurants etc are requiring credit card guarantees for tables of 6 or more. There is still a bit of a pushback from the general public because it's never been done before. There are always going to be restaurants with particularly high demand. If you don't turn up it doesn't matter because they aren't losing anything. It's the high demand restaurants that struggle at peak times.

[SD]: As a customer, I'm happy to pay a deposit and it's going to become something I expect to do. I'd prefer to do that than arrive at a restaurant and find out that someone would pay a bit more for that table. I'd prefer to change culture and behaviour, get people understanding that if I pay my money and don't show up, it's a 100% cancellation fee. From a customer point of view, communicate with me, help me understand.

[JP]: Yes, communication always seems to be key. Sarah, you said you wouldn't want to be a revenue manager. Someone else said 'I wouldn't want to be Prime Minister at the moment!'

[MH]: It's been quite clear to me that yes we can xxx, I think it's clear that there are ways you can revenue manage ethically in principle. It's how you do it and how transparent you are with your customers.

[JP]: Please remember that all opinions are just that. Thank you so much Michael and Sarah for joining me today.