

The Psychology of Hotel Revenue Management



The hotel industry has experienced positive growth over the last couple of years, thanks to a resurgence in travel and hotel occupancy rates. Business and leisure demand has led the way in driving growth for the sector, which has resulted in increased hotel bookings and occupancy rates. As a result, the so-called *bleisure* trips are becoming increasingly popular.

The Skift State of Travel Report revealed that these blended trips have grown by 7% since 2020, thanks to the rise of digital nomads that can work from anywhere. At the same time, domestic travel has also remained strong and is expected to increase by the end of the year. The report shows that domestic travel spending stood at \$682 billion in 2020, and grew to \$941 billion in 2022. Further increases are expected over the next few years, with domestic travel spending set to rise to \$1,060 billion by 2026.

These positive upward trends have helped to bolster hotel revenues, which are nearing record highs of 2019. In addition, occupancy rates stood at 58% in 2021, compared to 44% in 2020.

However consumers are not just traveling *more*, they are also changing the way they travel and are increasingly choosing the consistent quality of branded hotels over unknown boutiques.

This has been reflected in a positive 6% shift towards branded versus non-branded hotel direct

bookings. In North America alone, brands make up 70% of hotels in the region. Established brands such as Wyndham build a stronger connection with customers due to their reputation for delivering seamless guest experiences. Wyndham's prioritization of value-driven brand standards has helped to drive revenue growth for owners.

All of these statistics point to an ever-evolving landscape that presents new opportunities and increased optimism for the hotel industry. Consequently, revenue management has re-emerged as a strategic discipline that can help hoteliers tap into the growing demand for travel.

What is Revenue Management?

The most commonly accepted revenue management definition is advertising the most suitable hotel room to the right customer at the right time. It involves the use of performance data, analytics and inventory management to predict and influence buying behavior.

Analyzing customer behavior can help hotels to understand what influences different demographics to book a hotel at a certain price point. These types of insights are based on the economic theory of 'willingness to pay', which measures the highest price a guest will pay for a room. Revenue management seeks to create a better balance between the price of a room and a customer's maximum price.

This whitepaper evaluates the ways in which revenue management can position hoteliers for success. It includes insights from Vikram Pradhan, GVP of Global Revenue Management at Wyndham who highlights some of the challenges of revenue management and explores the most effective strategies for maximizing profitability.

How Can Revenue Management Strategies Help Your Hotel?

Having a revenue management strategy is essential for running a profitable hotel. It helps you to understand the trends and match them to customer demand so you can modify your pricing model accordingly. Using intelligence tools and revenue management systems (RMS) makes it easier to optimize your prices and boost RevPAR even during times of increased competition and rising costs.

A revenue management system typically results in hotels experiencing a [RevPAR increase](#) of between 5-20%. This is because it gives hoteliers the ability to set prices automatically according to room type. Dynamically pricing rooms in this way means that you will be able to respond more readily to the seasonal changes in demand and environmental influences that impact your business.

How Does Revenue Management Work?

Hotel revenue management studies buying behavior, consumer psychology, and travel trends that change seasonally. It seeks to understand why some customer segments are willing to pay a higher price during busier seasons but not during others. Revenue management also works by utilizing technology and analyzing dynamic and holistic data sets to help hotels create strategies that will appeal to their ideal customers. Hotels may subsequently offer inventory adjustments, discounts, and package deals to specific demographics to increase occupancy and RevPAR.

Why is Revenue Management Important?

A robust revenue management strategy is important because it helps you to drive top-of-the-line revenue to your hotel. It also helps to unlock the strategies needed to build a sustainable and successful hotel. In an ever-changing landscape, the purpose of revenue management is to give your brand the competitive edge and make it easier to promote your hotel to the right audience.

A growing number of hotels are realizing the importance of implementing a robust revenue management system. Research published by [Global Market Estimates \(GME\)](#) revealed that the global revenue management market is forecast to rise to \$24.5 billion by 2026. This represents an increase from \$15.1 billion in 2021.

The research underlines the importance of adopting revenue-generating strategies and digital tools to penetrate the market in a competitive industry.

Challenges

However, while revenue management helps hoteliers to maximize performance, there are many challenges you must consider if you are to remain competitive and improve performance. By embracing the challenges and investing in the right technology, teams, and resources, you can help to generate long-term sustainable growth at your hotel.

Fixed Supply

Supply on any given day for any hotel is fixed. There is no variability. The quantity of rooms is finite, meaning that you cannot simply build more floors during the busy seasons. If you have a high level of demand and occupancy, having a fixed supply is an advantage because of the consistent income that it generates.

However, in times of low demand, you will need to optimize your assets to ensure that you remain profitable.

Booking Windows

Hotel rooms are perishable because there is a small window of opportunity to sell the room. This means that once a given night is over, it is no longer possible to earn revenue in that room.

for that night. There is thus more 'urgency' to fill vacant rooms in order to maintain a high occupancy rate. This is why it is important for hotels to plan ahead and try to fill rooms in advance.

Segmentation is More Challenging

In the past, segmentation was easier for hotels because there were fewer price comparison sites, which made it more difficult for travelers to determine what prices were offered to other customers. However, nowadays there are many price comparison websites and booking apps that make it quick and easy for guests to research prices and choose the most affordable option.

This makes it more challenging for hotels to have complete control over the prices offered to different groups of customers. Now it is necessary for hotels to analyze specific behavioral patterns to understand what influences customer purchasing decisions.

This was a point reiterated by Vikram Padram. He explained:

"Revenue strategy all comes down to human behavior and expectation. Segmentation is now disappearing and becoming more about human behavior and sociology. You influence certain behavior to have people take the options you want them to take instead of just focusing on pricing. That is how you optimize today."

Wyndham partners with some of the biggest tech leaders in the industry to create a seamless revenue management network that allows owners to optimize pricing, and channel mixes. As a leading hospitality company, Wyndham is purchasing technologies such as RevIQ at a tremendous scale, which allows hoteliers to easily segment their customers and adjust their strategies at the click of a button.

Increasing Competition

The number of hotel openings in the US has increased, and hotels must establish their competitive advantage in the face of stiff competition. A report published by [Lodging Econometrics](#) highlights an increase in hotel construction.

Its figures showed that hotel construction projects increased by 14%, while the number of hotel rooms rose by 13% year-on-year. In the face of growing competition, hotel owners will need to optimize their strategy constantly to ensure that they are making as much money as their competitors. This is important to ensure long-term viability and profitability.

Vikram added: "You want to make sure you are competitive and that you are gaining. One room sold instead of ten could start a very downward cycle. If you are ahead, you will need to figure out how to stay in that winning position all the time."

Wyndham hotels are designated brand leaders that are recognized across different markets around the world. With more consumers choosing branded hotels over independents,

partnering with a recognized hospitality company such as Wyndham gives hoteliers a competitive advantage.

Seasonal Demand

Hotels will naturally experience peaks and troughs in demand. Peak seasons and holiday periods will bring higher occupancy rates and profitability. Demand is higher in the summer and typically drops during October and November. Hoteliers will need to be able to plan ahead and diversify their offerings to prepare for the times when demand is at its lowest. It is also important to prepare for times of high demand to ensure you have the resources and the staff to cope with an increase in guest numbers.

Channel Costs & Distribution

It can be challenging for hotels to optimize demand across distribution channels, as it often involves sifting through a large volume of data and negotiating prices. Hotels can mitigate this challenge by leveraging the scale of larger hospitality companies like Wyndham, which can negotiate more favorable OTA/distribution rates compared to boutiques.

Common Revenue Management Strategies

Revenue management strategies eliminate the guesswork when it comes to pricing. The first step in creating an effective revenue strategy is understanding your customers, so you can develop a seamless guest experience. To do this, you will need to understand how customer biases and experiences influence their expectations and price sensitivity. Adopting common revenue management strategies such as segmentation, demand forecasting, and other approaches can help you to gain a deeper understanding of your guests.

Segmentation

Segmentation is one of the most common revenue strategies. It involves dividing customers into groups based on demographics, preferences, or behavior. There are two types of segmentation:

- **Direct:** Direct segmentation is when hotels approach different groups of customers directly with a tailored price. For example, a hotel may give special discounts or rates to students, retirees, or club members.
- **Indirect:** Indirect segmentation is when hotels encourage customers to self-select based on perceived value. An example of this is when hotels offer a non-refundable rate at a lower price and a flexible rate at a higher price. Customers can then view both choices and self-select based on their preferred option.

Segmentation can be narrowed down even further by tapping into the behavioral characteristics of customer groups and creating bespoke promotions designed to appeal to them.

Pricing Strategies

Pricing strategies are another effective way to optimize revenue. One of the most effective pricing strategies is dynamic pricing which involves diversifying room prices and utilizing variable rates. This strategy helps hotels improve occupancy rates and sell rooms for the best rates possible based on supply and demand.

A simple example of dynamic pricing includes reducing prices when demand is low and increasing prices when demand is high. Dynamic pricing allows hotels to optimize revenue by adopting a flexible pricing structure to respond to seasonal changes and market conditions. Another common pricing strategy is open pricing which refers to the practice of varying pricing rates based on guest segments and demand through various distribution channels.

Demand Forecasting

Demand forecasting is a revenue management strategy that uses historical trends and data to predict future fluctuations in demand. It helps hotels to manage their inventory more effectively, and adapt their pricing, marketing, and distribution strategy accordingly.

Working With a Revenue Management Company

Partnering with a hospitality company can connect you to dedicated revenue management professionals whose only goal is to help you grow your business. Collaborating with an established company like Wyndham gives you access to a team of revenue management professionals that can implement strategies designed to shift market share into your hotel.

Wyndham brands get access to exclusive tools and reports that can provide guidance on pricing, selling strategies, market analysis, and more.

Leverage Technology

Leveraging technology such as AI and big data can help hoteliers deliver the experiences guests want, drive efficiency, and organize staffing schedules more efficiently.

A [CBRE report](#) revealed that hotel wages are up 8.4% year-on-year and are likely to remain high due to worker shortages.

Technology will play an increasingly important role in helping hoteliers to navigate these challenges and maintain profit margins. Wyndham has partnered with industry leaders to create an affordable technological ecosystem that helps owners to enhance guest experiences, optimize schedules and improve the bottom line.

Who Uses Revenue Management?

Revenue management is used by hoteliers to inform their decisions and revenue-generation strategies. They utilize various products, systems, and technology to gather insights into customers and put them at the center of the equation.

Other industries which use revenue management include airlines, car rentals, entertainment venues, restaurants, and other hospitality businesses.

What Revenue Management Services Does Wyndham Offer?

Wyndham is committed to the success of its franchisees and has assembled a dedicated revenue management team that is here to help you grow your business. Our comprehensive, personalized suite of owner services includes several tools such as RevIQ, which are designed to drive maximum RevPAR for your hotel and improve performance.

RevIQ

Utilizing revenue management tools can [save hotels between 20-40 hours](#) per month on average. Wyndham helps you manage your revenue strategy with the help of a seamless easy-to-use system known as RevIQ. It looks at various data points to help you respond in real-time to market changes. Our system delivers sophisticated revenue management capabilities anytime, anywhere, and on any device, across multiple hotels. Its core benefits include:

- **Control** – Hotel owners can create a tailored pricing strategy based on market conditions and competition with the ability to choose competitors and revise as needed. Competitors are automatically shopped five times daily, and RevIQ instantly adjusts its forecasts and recommendations.
- **Flexibility** – Our cloud-based, mobile-first design includes single sign-on makes it easy to switch between property management and revenue systems seamlessly at any time.
- **Simplicity** – RevIQ is designed for busy hotel owners and franchisees. It makes it easy and simple to quickly update rates, manage inventory, switch seamlessly between multiple hotels, and more. Pricing changes are immediate across all channels while a clean, intuitive interface allows for faster onboarding.

Revenue Management Services

Wyndham also has a global team of more than 100 dedicated CRME revenue management professionals that are here to make your hotel more profitable. Our professionals serve as an extension of your team, helping to optimize property rates and inventory availability to grow top-line revenue production.

Data-Driven Choices

As part of our RMS, you will benefit from dedicated partners that will be with you every step of the way to anticipate demand and optimize your property rates and inventory. Our RMS service levels give you access to exclusive tools and reports that utilize data-driven insights to provide guidance on pricing, selling strategies, market analysis, and more.

Tailored Revenue Guidance

We provide weekly, bi-weekly, and monthly packages designed to meet your needs. Our services include onboarding, advertising, and an entire suite of services designed to provide guidance on strategy, analysis, and sales. Dedicated revenue managers can also help you to negotiate pricing with suppliers. As a result, Wyndham franchisees have benefited from 20%+ savings on some of the most recognizable online travel agencies (OTAs). You will benefit from fully scalable service levels tailored to your property size and needs. These are just a selection of services we offer as part of our RMS.

Wellness Check

Our team of professionally trained revenue managers will periodically conduct free wellness checks that help you to identify opportunities to increase your overall performance. We help you analyze key performance areas such as pricing, STR data, promotional opportunities, and OTA reviews.

Results That Matter

Our research shows that Wyndham hotels on Revenue Management realized a 3.4% higher occupancy index in 2021.

What Sets Wyndham's Revenue Management Apart?

Wyndham's world-class revenue management tools help you to put your strategy on autopilot leaving you free to focus on other areas of the business. As the world's largest and most diverse company, Wyndham was the first major hospitality company to automate revenue management at scale for economy and midscale hotels.

Our next-gen revenue management services are designed to deliver top-tier performance and meet the needs of your hotel by providing the support, analytics, and tools needed to optimize your strategy based on intelligent market insights.

Wyndham's services deliver smart revenue management capabilities that give you full flexibility and control over your pricing strategy and inventory. Our high-impact revenue-driving offerings and digital ecosystem help to boost direct bookings from leisure to business travelers, and everyone in between. You also get performance-driven marketing and sales support in addition to affordable state-of-the-art technology that helps to set you apart from the competition.

Wyndham's scale and influential partnerships with tech companies provide you with access to new innovations for an affordable price. As a result, you will benefit from the corporate connections and relationships that no other external revenue management company can offer.

Closing Thoughts

There has never been a better time to invest in a hotel. Demand for business and leisure travel has peaked and this looks set to continue over the next few years. However, the expectations of guests have also evolved and there is a growing emphasis on providing high-quality experiences that are tailored to your guests.

Hoteliers that are successfully able to tap into this demand and deliver seamless, branded experiences will be positioned for positive, upward growth in the future. Revenue management has played a pivotal role in helping hoteliers attract their ideal customers and gain a greater market share.

The advances in revenue management technology have made it easier than ever to offer bespoke prices and services to guests that are an ideal match for your hotel. While price discrimination and segmentation have always existed, AI, big data, and customer analytics have made it easier to forecast seasonal demand and adjust your strategy in real time.

Partnering with a large, recognized company like Wyndham gives you access to the technology, discounts, and consumer base that you need to improve performance. Our top-rated loyalty program attracts more than 90 million members and drives nearly 50% of stays to Wyndham hotels based in America.

We also provide cutting-edge RMS and analytics tools to position your hotel for success. You will also receive dedicated resources designed to help you innovate processes and build a lasting legacy. Speak with a development expert today to [find out we can help](#) you with your revenue strategies.

I was commissioned to write a series of long-form articles, whitepapers and press releases on behalf of Wyndham Hotel, while working at ClearVoice. The articles covered various aspects of the hotel industry. This is one of the articles I wrote.