



HOTEL PRICING IN A Social World

**DRIVING VALUE IN THE
DIGITAL ECONOMY**

KELLY A. McGUIRE

FOREWORD BY JEANNETTE HO

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Hotel Pricing in a Social World

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Hotel Pricing in a Social World

Driving Value in the Digital Economy

Kelly A. McGuire, PhD

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*To the Girl Geek Gang, for the support,
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Foreword

“Reset your thinking and see the future of revenue management.” In today’s competitive marketplace, revenue management is an incredibly hot topic because well-conceived revenue strategies and tactics can grow a hotel’s market share and profits significantly . . . making you the hero of the day.

As an early pioneer in airline and hotel revenue management in Asia Pacific, I have experienced tremendous and unrelenting changes in the global travel marketplace. The rapid growth of worldwide wealth has fueled global travel, the explosion of ecommerce and social media has brought a new generation of digitally savvy travelers and with them, the era of big data and analytics. Never has there been a more exciting time in hospitality and its fast evolving discipline of revenue management and pricing, and never has your role as a revenue manager been more strategic yet more complex.

How do you understand these changes in marketplace, technology, and consumers, and the impact that they will have on your business? How will you evolve your pricing strategy to exploit these revenue opportunities to gain competitive share and transform your role from a revenue manager into chief revenue strategist?

Read this book, and take your revenue management game to a new level. In *Hotel Pricing in a Social World*, Kelly McGuire helps you to understand and navigate these new forces that have swept the travel landscape and changed the strategic nature of revenue management forever. She helps you to develop the knowledge and skills required to stay current and be successful.

I have profound admiration for Kelly, and how she has over the years, with passion and commitment, challenged the old conventions of revenue management and pricing and helped to transform industry thought and practice. Kelly is a revenue management and analytics evangelist to the hospitality and travel industries. Through her research work and leading role in hospitality at SAS, Kelly has been a persuasive advocate for integrating consumer psychology into the

discipline of revenue management and pricing, through the application of big data and advanced analytics.

Pricing strategies need to evolve with the changing mind-set of the consumer. Travelers are now self-reliant and resourceful—they research more than 12 websites to plan a trip, trust user-generated content over hotel marketing, compare prices using metasearch, expect instant gratification with 24/7 connectivity and book last minute on mobile devices. Less than 30 percent of travelers have a preferred hotel brand, half of what it was eight years ago, and decreasing still. Consumers are loyal to their needs, not to a hotel brand. Hotel supply has increased exponentially over the past 10 years and players in the sharing economy, like Airbnb, have brought even more private rooms into the market. Choice is abundant, competition is fierce, and consumers have full transparency on the web.

The distribution landscape has also become more crowded, with proliferation of online travel agencies like Expedia, Booking.com, and CTrip, and search players like Kayak, Qunar, and Google Hotel Finder. Revenue managers not only have to craft pricing strategies to account for different consumer needs and price sensitivity, but they also find themselves having to comprehend and manage among direct consumer channels, the online intermediaries, and traditional agreements with wholesale, group, and corporate accounts—each incurring different transaction costs and having different impacts on profitability.

Hotel Pricing in a Social World is timely and relevant. You will learn from Kelly how revenue management systems today should take advantage of innovations in analytics and data visualization to drive more profitable business decisions. It will help you identify opportunities for revenue management to play a larger and more strategic commercial role within your organization. And it will provide you with a compelling vision for the future, where revenue management professionals are encouraged to step out of the box, embrace innovations, and develop a holistic understanding of consumer behavior. I believe that this book will give you the road map to transform your revenue management capabilities and build a sustainable long-term competitive advantage for your company. You will feel energized and

empowered to develop critical thinking around key topics influencing our industry:

- How do we take advantage of the explosion of big data in revenue management? Kelly provides some definitions, frameworks, and cautions about how to approach new data sources and new technology options to improve revenue performance.
- Does your hotel's online reputation impact pricing? Kelly shares her research findings on how consumers combine user-generated content with price to make a purchase decision, and she helps you understand how the impact differs for various purposes of travel.
- What did Peter Drucker mean when he coined the phrase "Culture eats strategy for breakfast"? We all intuitively understand the importance of instilling an integrated revenue culture across revenue management, sales, marketing, and operations in order to achieve truly superior performance results. Here, Kelly helps you to achieve the vision of "intelligent demand management" and provides tips on how to start your organization moving in this direction.
- How do you forecast and manage demand when the prevalence of the mobile culture encourages instant and last-minute bookings? In the book, Kelly shows how changes in consumer behavior are influencing the way revenue management needs to think about pricing. She also provides a framework for applying revenue management to other revenue-generating assets and explores the role of the guest in total hotel revenue management.
- What is the role of revenue management in building loyalty and increasing marketing returns as the marketplace becomes increasingly crowded? Learn the crucial part that revenue management plays in the creation and execution of consumer personalization initiatives.
- How do you develop the right revenue management talent for success in this new future? The book describes the skills and competencies that will be required for the revenue manager of the future, and it helps hotels understand how to attract and retain top talent into the discipline.

Hotel Pricing in a Social World has masterfully combined the art and science of pricing and taken it to higher ground. Kelly has succinctly and powerfully described the winds of change in our industry and provided frameworks, tips and critical thinking to take us into the future. If you are serious about creating and sustaining superior revenue management performance for your organization, this is a must read and must practice. Change favors the prepared, and with the knowledge and skills acquired from this book, you will be ready to succeed and win.

Jeannette Ho
Vice President—Revenue Management,
Consumer Insights and Analytics
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Acknowledgments

I have been privileged in my role at SAS to be able to travel around the world speaking at events and meeting with individual hotel companies. I have appreciated the opportunity to listen and to advise. Questions, comments, and discussion points from hundreds of conversations are represented in this book. I have endeavored at all times, and particularly for this book, to be respectful of the need to keep specific company business strategy and internal processes private, while providing advice that will raise the discipline as a whole to the benefit of all. Thank you to those who were willing to be quoted, and especially also to those who helped to inform my thinking but needed to remain anonymous.

There are many people who deserve my deepest gratitude for their support and contributions to this book. I must particularly express my thanks to my dear friend and research partner Dr. Breffni Noone. The genesis of the title of this book was a chance meeting with her at the HSMIAI ROC conference in Orlando in 2010. Although we became colleagues and friends during the PhD program at Cornell, I hadn't seen her in a few years. We snuck out of a session to have a chat about how we could maybe do some research together, and that meeting turned into the research I describe in Chapter 4, and eventually the title of this book. The opportunity to work with her on the research has been a great source of inspiration and joy for me. She also took on the role of technical editor for this book during a very busy time, for which I am very grateful. She provided feedback that was critical to the quality of the final version. I also remain thankful to her and her incredibly supportive husband, James, for convincing me to go back to Cornell for my PhD to begin with. If I had not done that when I did . . . well . . . things would have turned out very different!

I am grateful to Jeannette Ho for writing the foreword to this book, but even more so for her inspiration throughout my career (and the careers of many other revenue managers). Jeannette sponsored the function space revenue management (RM) internship in Singapore at

the Westin Stamford that led to my honors monograph and first published article with Sherri Kimes. This was a crucial factor in my having the opportunity to work with Sherri during my PhD. It is an honor to continue to have Jeannette's support today. She is a role model for revenue managers in general, and women in revenue management in particular.

I am also very grateful to Chris Crenshaw, Nicole Young, Tim Wiersma, and Neal Fegan, who also took time out of their busy schedules to review the outline and content of the book for me. Their feedback helped me immensely and the book is much better because of our conversations, and their quotes and case studies.

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I also appreciate the connections and insights my work with HSMIAI has facilitated. I have been privileged to serve on the Americas Revenue Management Advisory Board, which has allowed me to spend time with talented and dedicated revenue leaders (many of whom are featured in this book). I have also had the great opportunity to speak at all of HSMIAI's global Revenue Optimization Conferences (ROC) in 2015 in the United States, Europe, and Asia. Thanks to Bob Gilbert, Juli Jones, Ingunn Hofseth, and Jackie Douglas for including me in your conferences and roundtables, and for giving me access to your resources and your content for this book. It's a great organization and I feel fortunate to be able to be involved! Every revenue manager should join and get involved with HSMIAI. It provides great access to knowledge and to networking opportunities around the globe.

I am grateful to my advisor and friend, Sherri Kimes, for inspiring me to get involved in this discipline and for guiding me through the PhD. Your tireless dedication to your students, current and former, and to this discipline, is an inspiration, and I feel fortunate to be a small part of your legacy.

Thanks to Brad Weiss for supporting me, taking my panicked phone calls, and for making me dinner when I was deep in the writing process.

Finally, my deep appreciation to my family, particularly my parents, who have always supported my endeavors.

About the Author

Kelly A. McGuire, PhD is senior vice president, revenue management and direct marketing for MGM Resorts International, where she is responsible for driving profitable room revenue for MGM Resorts International's Las Vegas resorts. Prior to this role, she was Vice President, Advanced Analytics for Wyndham Destination Network. She led a team of data scientists and developers who build custom analytic solutions for Wyndham Vacation Rental's companies and the RCI time-share exchange. Prior to joining Wyndham, she led SAS's Hospitality and Travel Global Practice, setting the global analytics strategy for these industries, and supporting engagements around the world.

PART
ONE

**New Analytics
for a New
Environment:
The Evolution of
Hotel Revenue
Management
Analytics,
Technology,
and Data**

CHAPTER **1**

**The Social World
Has Changed
Revenue
Management
Forever**

Revenue management has a lot less control today than we like to think we do. It used to be that we could influence guest behavior by putting a particular pricing strategy in the market. With price transparency, rate parity, user generated content, mobile and all of the other myriad of influences on guest behavior, we can't change behavior with just a price. Our guests are in control, and we need to understand them better to be effective. Price alone won't do the trick anymore.

—Nicole Young, Vice President, Revenue Management and Sales, SBE Hotels

The chapter opening quote perfectly illustrates the challenges revenue management faces today. In today's interconnected social world, getting it right is harder than it used to be. Pricing and competitive positioning are becoming more complicated by the day, as service triumphs and mistakes are laid out for the world to see. Revenue managers are asked to build profitable pricing strategies in the face of price transparency, distribution complexity, increased competition, changing market conditions, hyperconnected consumers, and evolving technology. The market has changed, the technology has changed, and the revenue manager has changed as well. Hoteliers are left wondering how to evolve to manage through these changes.

Any statistics I provide about the evolution of the social web and its impact on the search and booking process will likely be outdated before the book is out of copyediting, but the trend will be directionally correct. It is clear that social media has gone mainstream, and it has changed the way consumers engage with one another and the vendors they do business with. Pew Research Center, in a 2014 study, estimated that 52 percent of American online adults use two or more social media sites, with Facebook being the most popular at 71 percent. Seventy percent of Facebook users engage with the site daily and 45 percent interact several times per day (Duggan et al. 2015: www.pewinternet.org/files/2015/01/PI_Social-MediaUpdate20144.pdf). To illustrate how this has changed behavior,

the 2014 Pew study reports that nearly half of web-using adults get their news about politics and government from Facebook. A Harris poll found that half of Americans get recommendations about something good to try from social media (www.mediapost.com/publications/article/241179/half-of-americans-get-product-recommendations-from.html). My own research has shown that 55 percent of leisure travelers (Noone and McGuire 2013b) and 80 percent of business travelers (Noone and McGuire forthcoming) read reviews some or all of the time when researching a hotel purchase.

This evolution of the social web came close on the heels of the revolution of ecommerce, which completely transformed the way that consumers research and buy products. Online travel agencies (OTAs), like Expedia (founded in 1996) and Orbitz (founded in 2001), took advantage of the Internet as a buying platform to build online storefronts that display multiple hotel options in a market, so that consumers have easy access to price, location, and feature comparisons across the market. TripAdvisor (founded in 2000) provides a platform for user-generated content describing the travel experience. Today, TripAdvisor has more than 225 million reviews and opinions about more than 4.9 million accommodations, restaurants, and attractions worldwide (www.tripadvisor.com). Review sites are now integrated with Facebook so that consumers can identify reviews generated by friends, or friends of friends. Metasearch sites like Trivago and Kayak aggregate prices and information from booking sites across the web, helping consumers identify the “best” deals (even though with rate parity, they should be finding the same rates for the same hotel offered everywhere).

Facilitated by this robust and complex digital ecosystem, consumers today look at dozens of websites during the search process, making it challenging for hotels to understand where demand is sourced, and which partners are generating bookings. A 2013 report from Expedia Media Solutions and Millward Brown Digital found that leisure travelers visited up to 38 sites before booking a vacation package, an average of 15.5 of them in the week before booking (<http://info.advertising.expedia.com/path-to-purchase>). The OTAs had a 47.2 percent share of site visits in this study. Let’s not forget that all of this digital activity is rapidly shifting from computers to smart phones, tablets and other mobile devices.

Before I describe how this book will help hotel revenue management survive and thrive in the new social world, it is important to briefly describe where hotel revenue management started, and why the changing marketplace I discussed earlier has put pressure on traditional revenue management systems and practices.

THE CHANGING MARKETPLACE

Based on the success of revenue management in the airlines after deregulation (Smith, Leimkuhler, and Darrow 1992), major hotel companies saw an opportunity to adapt this model to their business, which shares similar characteristics. Yield management, or revenue management as it came to be known, is a pricing methodology that is well suited for industries that have a limited capacity (only 300 rooms in the hotel), perishable inventory (if the room goes empty one night, you lose the opportunity to sell it for that night), segmentable demand (business travelers and leisure travelers value the product differently), time-variable demand (at a business hotel, weekdays are busy, weekends are slow), and a low cost of sale (compared to the cost of operating the hotel, the variable cost associated with booking one more room is relatively low) (Kimes 1989).

Hotels followed the airline model of forecasting demand and preserving inventory for higher paying guests. Overbooking policies protected against no-shows and length of stay controls helped to fill the days around busy periods (“shoulder days”) (Vinod 2004). These measures were very successful, even when implemented in a relatively manual environment. However, this methodology originated at a time before the Internet existed, so it was difficult for consumers to “price shop” in the market. Demand was relatively stable, and assumptions about the independence of rates held for the most part. After realizing substantial value from manually applied overbooking and length of stay controls, rudimentary forecasting techniques, and pricing strategies like threshold models to shut off lower rates as demand started to build, hotels were only just starting to implement automated revenue management systems based on airline models in the late 1990s.

Suddenly, the Internet went mainstream, ecommerce became widespread, and consumer behavior started to change dramatically.