

Case Briefing

Revenue Management - Basics



The Situation

The 120-room Hotel Del Mar in Fort Lauderdale, Florida, has recently completed a series of renovations at great expense. Ownership is eager to maximize revenue to get a return on their investment. However, the rate structure hasn't been updated for several years and ownership believes better, modern revenue management techniques could increase revenue substantially.

Your Role

You have been appointed to the new position of Revenue Manager for the Hotel Del Mar and tasked with increasing RevPAR (Revenue Per Available Room) which will increase overall hotel revenues.

Learning Phase

Step-by-step instructions will guide you through revenue management tasks for a practice hotel. The Hotel Practice is in a very different location but the principles you will learn can be applied to any hotel. First you will review a STAR report showing your RevPar performance against other hotels in your competitive set. Then you'll study a detailed competitor report showing the market positioning of key competitors. Based on this information, you will adjust room rates to increase occupancy while not overly discounting. You'll then further adjust rates based on day of the week demand that is driven by the demographics around your hotel. Finally, you will explore the limits of rate cuts and discover where occupancy increases no longer exceed room rate decreases.

Challenge Phase

Ownership has set an aggressive revenue goal for you. As Revenue Manager for the Hotel Del Mar, you will need to assess your competitive set and price rooms accordingly. You are in Fort Lauderdale, Florida, a beach resort area with many leisure travelers. To achieve your goal, you will need to adjust overall room rates and then fine tune rates to account for day of week demand differences.

At the option of your Professor, you may be able to retry the Challenge Phase multiple times. Only your best grade will count.

Revenue Management in the Simulation

The simulator models thousands of potential guests, including their desired room types, arrival days, lengths of stay, even their price sensitivity. As you make changes to your rate structure, these guests are constantly shopping for hotel rooms. They evaluate your offerings vs. the competition and make a decision where to stay. The aggregate results you see for revenue and occupancy are the outcome of these thousands of commercial decisions.

Discussion Questions

In comparing your rates to your competitive set, name several factors that might cause you to set your rates higher or lower than your competitors?

Describe some ways that hotels can experiment with different rates?

What was your pricing strategy in the Challenge Phase and why?

How did it vary based on day of week?

What did you learn about the limits and dynamics for room pricing in the process of completing this exercise?