Resort Revenue Management: Put Your Mind at Ease

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Managing revenue at resorts, particularly those operating with all-inclusive pricing models, needs to be viewed through a different lens.

Instead of running the same revenue management playbook as a traditional hotel, ensure you've got the right data analysis and the most profitable pricing recommendations that are unique to resorts' lead time and business mix.

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Introduction

At first glance, the difference between an urban, city-center hotel and a resort hotel is simple: one is in the middle of the hustle and bustle and caters to guests who need to be in the city, and the other is oceanside, catering to beach lovers looking to escape that hectic environment.

But resort hotels are an entirely different segment of commercial real estate and need to be treated as such, from financing to construction to operations. Resort guests have very unique demands and a successful strategy for a city center hotel may not be a successful strategy for a resort hotel.

These differences are magnified when it comes to managing the revenue at city center hotels versus resort hotels. The differences are mainly based on lead time and business mix. Most resorts depend greatly on seasonality and are much busier at certain times of the year, meaning their strategies must shift as the pages of the calendar turn. They secure a large percentage of their business before the season starts through wholesalers, tour operator contracts and groups. Wholesalers and tour operators have traditionally been incredibly inflexible, operating with printed brochures with static offers for months in advance.

Booking lead times are extended significantly at resorts and oftentimes rooms start filling up more than a year in advance. Weddings or other contracted group business can hit the books as far as five years out.

For these reasons, resort success will often be determined before a new season even starts. This means it's critically important to have visibility into future demand at a resort; the last thing a resort revenue manager wants to do is fill the property with low-margin demand before high-paying transient guests are ready to book.

One subset of resort properties is "all-inclusive resorts" where one price gets the guest access to a room, all their meals, beverages (including alcoholic and non-alcoholic), beachside activities and sometimes golf and spa packages. Gone are the days in which staying at an all-inclusive resort meant cheap vacations and boring food and beverage offerings. Nowadays, all-inclusives are built to target different market segments, from adults-only to families and guests of all ages, preferences and budgets. And the trend, very popular in the Caribbean and Mexico, will only continue as Millennials search for experiences over goods.

Unfortunately, as the discipline of revenue management has grown over the past 30 years, there has been really only one playbook to serve all the different segments of hotels. Revenue management strategies for resorts and all-inclusive properties have evolved very little. Revenue managers are often running the same reports across the entire industry no matter what type of hotel.

While all-inclusives measure their success with some of the same metrics – occupancy is a good comparable number, for example – Average Daily Rate (ADR) and Revenue per

Date	Occupancy		ADR		RevPar	
	This Year	% Chg	This Year	% Chg	This Year	% Chg
Total 2017	70.7	0.9	$207.38	3.1	$146.65	4.1
Total 2018	70.6	-0.2	$214.35	3.4	$151.35	3.2

As of January 2019, STR was capturing performance data for 444 resort hotels, encompassing 219,520 rooms.

Available Room (RevPAR) are often skewed and don't often provide the clearest picture. Total Revenue per Available Room (TRevPAR), which includes spending from other outlets across the property, helps resort revenue managers make better decisions. And recently, all-inclusive operators have discovered that a new "per person pricing" model is an opportunity to grow beyond the traditional room revenue model, incorporating guest spend on food & beverage, golf, spa and any other amenity charges into their pricing strategies. Particularly for resorts, the new model is slowly allowing the industry to focus on Revenue Per Guest or Revenue Per Available Customer more than RevPAR.

Throughout this report, we'll dive into the critical metrics around resort revenue management and uncover some tested strategies to gain further visibility into demand and yield rates for this specific set of customers. We'll highlight strategies to take advantage of the extended lead time and help resorts capitalize on their differentiated product mix.

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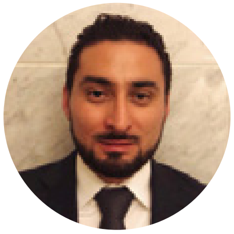
Hotel Talk: Successful Strategies from Resort Hotel Operators



The 900-room Hotel Xcaret has been open in the Riviera Maya region of Mexico since December 2018. The resort features more than a dozen different room types and features an "All Fun Inclusive" model, meaning guests pay one price for their room and meals, in addition to admission into several regional waterparks and adventure parks.

Revenue Management Manager Marco Flores calls it "like Disney, but in our own way." The key, he says, is to educate their customers of the "All Fun Inclusive" difference by informing them of all of the amenities that come in the package price. "Once you arrive, you don't have to worry about anything," he says.

In the Riviera Maya, about 70% of travelers are from the U.S. and the rest are either local or from South America. At Hotel Xcaret, though, locals make up about 35-40% and U.S. guests make up about 40%. "Our mix is different as our brand is very strong in the local market," Flores says.

Q. On what channels do most guests book?

A. We have several different channels. Our direct channel is relevant because it's a new property, but most of them go through Apple Vacations or a similar tour operator. Apple controls pretty much all of the U.S. markets.

We are trying to convert more directly – that's everybody's goal. We are very aware of the market and who converts, but we are also aware of what's happening.

Q. How do you market your group space?

A. Right now we have some spaces but we will be expanding – targeting bigger spaces from a convention center to something we're calling Stadium Xcaret, which will be a show space where we can hold events.

We like to have a strong group base so we can yield the transients guests. Right now we have about 25% group business mix.

Q. What does the current booking window look like?

A. Currently, it's from 60-90 days but for the local market it's 30 days or less. Fortunately, right now we don't even have space until July. That's great from one perspective but from another perspective it means that maybe we didn't yield enough. That's where you have to look at the market and understand what your competitor's occupancy is.

Q. **How do you benchmark yourselves against competitors?**

A. Our main challenge and goal is to get the market to understand that we are All Fun Inclusive. It goes further than the parks – once you arrive at the airport you get transportation to the hotel and to all the parks, and transportation back to the airport once you leave us. It's really the complete experience.

It's hard because I try to compare with similar properties, but I have to take into account that they don't always have the all-inclusive part. So, it's not always comparing apples to apples. We have to do some math to compare our competitors' rates plus admission to the parks to see how we stack up. I can't, for example, put the same rate out as Paradisus (Playa del Carmen La Esmeralda) because we would be losing money on admission to the parks.

Q. **Are you able to track total resort spend?**

A. Once guests arrive on property they get a bracelet and from there you forget about everything. If you charge in a store or if you want to charge a photo package, you just pass your bracelet. We're just starting to think about how we can yield park passes and things like that. For example, you can purchase one photo package from one park or maybe you can purchase the package for all the parks for a bundled cost. Once the guest passes through these photo checkpoints and scans their bracelet, all that information is stored in the cloud and you can see your photos on the TV back in the room. You can purchase and take your photos with you, so you don't have to worry about taking your camera on these trips.

There was some technology that already existed in the parks and we're trying to integrate our technology with that. We've acquired some new technology to help but we're first trying to understand how to share that data. The systems have to understand where the data comes from, otherwise we have the wrong interpretation.

Q. **How does RM at your property differ from a city-center property?**

A. It's all different. With an urban property your bookings usually come in within 30 days or less. Our accounts are much different because of the deals we do with Apple or Air Canada. In urban hotels maybe you have IBM coming in and it's very regular – every Tuesday, Wednesday and Thursday you're giving them 20 rooms. If you have your data in place, it's easier to predict your demand at an urban hotel. We have to look further out, maybe 90 days. I'm already looking at my group pace for 2020.

Also charging for European Plans is much easier. With all-inclusive packages we have to have a creative mind. Some of us charge for children, some give the second child free, and we have to fit that creativity into the systems.

Right now, for example, I have two different strategies – one for the local market in Pesos and one in U.S. dollars. It was not easy to understand how to do that – most people think it's just looking at the exchange rate, but for us we have two separate strategies.

Q. **Does working with tour operators keep your rates static?**

A. Not necessarily, because with marketing we find ways to communicate dynamic offers. It's really important that your partner accounts agree with your strategies. That's the sales department's responsibility – sometimes I have to talk with the major accounts to help them understand. Some accounts require more information on why we have a dynamic strategy, and the sales department helps a lot, but sometimes we have to explain further why we have a strategy like that.

Q. How often are you communicating with the sales team?

A. Pretty much every day. We have a weekly meeting, but they are next door so that's not a problem. Communication with the sales department is critical. Previously I was at a property where that communication wasn't as good – the strategy was right, but the resort was a mess. Once we solved the communication issue the strategy proved successful.

Q. Do you have a per-person pricing strategy in place?

A. Yes, and it's really important for us. You have an all-inclusive park and every person that gets in the hotel has a cost. You have to measure that per person because otherwise you risk losing profit. Maybe the room has three people, which is not the same cost as two people.

You also need per-person pricing for measuring purposes if you want to compare apples to apples. You can't have one person paying zero percent, otherwise you're paying them to come.

Q. How important is technology to your strategy?

A. It's critical. With the complexity we have in pricing and measuring market trends, technology becomes an important part of our operations. It's like flying an airplane – you think you can do it with a rope but then look at all the buttons a pilot has at their disposal. You can't properly fly the airplane without all those buttons.

Q. What data is most important to your revenue strategy?

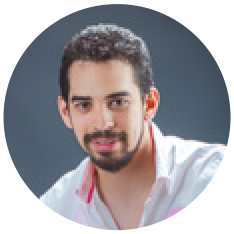
A. There's a bunch of data, but the most important is our segmentation. You have to understand your mix in your hotel. The pricing of your market competitors is also very important, as well as your production so you can measure whether your strategies are working or not. What are your lowest rates, your highest rates, and which have the biggest conversion? Also, when you put some money into marketing, you need to be able to measure whether it's paying off or not. For example, maybe I invest $10,000 into Google because, you know, it's Google. But you could lose all of that money. The data gives you a heat map.

Q. Are you optimizing your prices by room type?

A. We have 16 room types – so there's a bunch – and we are just now trying to understand with Duetto the best room-type pricing strategy. I know Duetto will be amazing for this once we have the proper execution of the tools in place and I am definitely counting on the tool to help me better understand that.

Q. How important is having all your available rates in parity?

A. All of my pricing is based on rate parity because otherwise you risk losing control of your inventory. Sometimes you think you're being really smart by taking bookings out of parity but if you go down that path you're going to find trouble in some way.



Based on Ibiza in the Balearic Islands, Palladium Hotel Group has been operating for more than 50 years, with a portfolio that spans Europe, Brazil and the Caribbean. The company manages 50 hotels worldwide under eight brands as well as the Hard Rock Hotels brand under license in Spain.

The role of Revenue Manager is fairly new at Palladium — created just four years ago — but now each property, including all resorts, has a revenue manager on site. Below, Diego Fernández Pérez De Ponga, corporate revenue manager for Palladium Hotel group, discusses the difference between managing revenue at city center properties as opposed to resorts, where Palladium attacks the discipline from several different angles.

Q. How does revenue management for resorts differ from traditional hotels?

A. Although the working base is similar and the objectives are identical, there are three perspectives that are different: focus, timing and strategy.

At resorts, we think in terms of weeks and months rather than in days because most of the stays are long and with a greater presence from the tour operators. We focus more on segmenting our guests by inbound market — United States, United Kingdom, Germany — rather than the traditional segments of leisure, conventions, BAR and corporate.

Timing is key to all our revenue management strategies and this is especially true at resorts, which have long and midterm sales. At city hotels, timing is much shorter than at resort hotels and this affects our strategy. Contract planning at resorts is done a year and a half prior to the trip date. Poor planning may cause us to miss the season.

Another fundamental difference is the strategies that are implemented at resorts. Here we focus our strategy more on controlling the distribution and offers rather than on controlling the segment and flexibility of pricing. Having a higher percentage of business coming from tour operators requires us to vary the prices and think about the best ways to raise FIT and non-yieldable rates.

Q. How does a revenue management system assist or complement your job?

A. Over the past few years, an RMS has become an essential working tool and one we could not do without. The RMS helps us be more efficient in our timing as well as our decisions. Thanks to price and forecast algorithms we can have a clearer view of the needs of our resort.

Q. What data is relevant for your pricing decisions?

A. We have a great deal of information that we use to make decisions:

Historical data: We analyze the reservations by inbound segment/channel/country and type of room we have had over the years. This way we can have an idea about how we are selling and at what pace.

Pace / Pick up: We constantly take into account the manner in which we fill each one of the segments and the pickup we are obtaining.

Cancellation rates: We also take into account issues like cancellation rates per segment and we use this to make decisions on the level of overbooking we wish to implement.

Analysis of the competition: Monitoring of our comp set is essential in terms of its variations in price as well as its occupancy performance.

Distribution costs: I think it is essential to know your distribution costs at all times in order to implement changes in your sales strategy.

Ancillary spend: Another important point we must take into account are the ancillaries purchased by guests, which, even though these do not directly impact our ADR or RevPAR, they do impact our TRevPAR and GOPPAR.

Macroeconomic data: There's some information that is of vital importance but often overlooked, such as the euro-dollar exchange rate and exchange rates of our other inbound markets, the price of a barrel of oil (mainly to determine the price of the plane ticket and therefore the price of a tourist package), and geopolitical conditions.

Q. How do you ensure your rates and inventory are consistent across distribution channels?

A. This is one of the biggest problems we have as hotel managers nowadays because the distribution is automated and websites could be distributing with different rates and availability. This can only be fixed via an error free commercial contract, a proper rate structure, a control of the distribution and a constant review of our online distribution channels.

Q. What percent of business comes through tour operators?

A. This depends on the area and the type of product. We have resorts where distribution is 80% tour operated and others where more than 70% comes through the online market. Negotiating with OTAs is different to negotiating with tour operators as prices can often be a "deal breaker."

It is important to be very empathetic when negotiating with tour operators and have a good understanding of their business and their approach to selling rooms, such as when room rates are packaged with flights. We must take into account that often, especially in island destinations, most arrivals are controlled by the tour operator.

Q. As a resort, how important is you hotel forecast?

A. In my opinion, with resorts, timing is more important than forecasting since decisions are often made between 180 and 240 days out.

Broadly speaking, we can say that the booking pace is extended much more at resorts than at city hotels and therefore the contracts with tour operators occur a minimum of one year out, even reaching 18 months in some markets. This timing is essential because if you arrive late, you will not be included in their brochures, which is very important in tour operator distribution.

On the Ground: Duetto Dives Deep into Resort Revenue Management

Duetto's Customer Success team has decades of experience in the hospitality industry working for many of the top hotel brands and including several unique independent boutiques. The CS team helps hotels determine optimal pricing strategies and identifies the right analytics to drive revenue. They go beyond troubleshooting and teach revenue strategy best practices, helping hotels reach true profit potential.

Below, two members of Duetto's CS team, Chris Knothe and Juan Ruano, both Directors of Hospitality Services, discuss managing revenue for the resort and all-inclusive segments.

Q. How does revenue management differ for resorts?

A. **Knothe:** The main difference is the lead time of bookings. In New York a lot happens seven days before arrival and you have to be like a stock trader on the trading floor, constantly eyeing booking pace, looking at comp set pricing and running around like a crazy man or woman. In the Caribbean, you might get a booking for 11 months from now.

Q. What are the biggest revenue and pricing challenges facing resorts?

A. **Ruano:** Resorts generally have two main focuses: reduce the weight of contracted non-dynamic business and also "desestacionalizar," or extending seasons as much as possible as a way to increase revenues. Resorts not only compete against each other they also compete against different destinations.

A. **Knothe:** The biggest challenge for resorts is how to get those wholesalers on real-time pricing. Some tech vendors have started building interfaces for wholesalers to connect with. Otherwise you're working with emails or even faxes. With static wholesale rates, you don't have the ability to just open and close rate packages. If you give a promo you can change it once at the most because it requires them to print all new brochures and books.

Chris Knothe
Director of Hospitality Services, East Coast
Duetto

Juan Ruano
Director of Hospitality Services, EMEA
Duetto

Q. **What other cost centers do revenue teams need to take into account?**

A. **Ruano:** Resorts look at the hotel performance as a normal hotel would, but also their outlets, parks etc. are directly influenced by the hotel occupancy as well as by the type of occupancy. Looking at the total revenue performance for a particular period of time might make the hotel more occupancy or ADR driven, or keen to be selling all-inclusive packages vs. half board.

A. **Knothe:** Per-person pricing is critical at all-inclusive resorts, where you have loyalty ID based on your theoretical spend, just like a casino. Resorts have scuba diving, spa, F&B – and usually there's no other place to go other than the resort. If it's not all-inclusive you can easily spend $200 per day on ancillaries. With Duetto you can run your forecast and determine whether you should sell a room for single or double occupancy. If it's double occupancy you can discount the room rate because two people are there and each will be spending $200 a day on ancillaries, for example.

Q. **What impact does seasonality have on a resort's pricing structure?**

A. **Ruano:** Strategies to extend seasons and attract business outside traditionally low season periods have evolved over the last few years at two levels: destination and resort. Hotel operators are working with local authorities to continue offering services and attracting air carriers into the destination outside the traditional busy season. Simultaneously, resorts are evaluating cost vs. occupancies in order to continue offering full service for longer periods of time. Resorts meanwhile also work actively on adjusting dynamic pricing to entice new customers during mid to low season, targeting a profile of customers which might not be the obvious targets during high season periods.

Q. **And how does the seasonal availability of additional services (such as waterparks and entertainment) impact price and revenue strategy?**

A. **Ruano:** Fixed operating costs need to be covered to make offering the service worthwhile. If the resorts continue offering the service outside of the busy season, this will entice more customers to visit the resort year-round.

Q. **How far out should a resort be forecasting in order to negotiate strongly with tour operators on wholesale agreements?**

A. **Ruano:** Resorts are normally forecasting a one-year window. Some segments of their demand and contracted business could be secured before this window starts, and that will allow them to have some good visibility into what the season will be like a year out. Demand for this type of destination is influenced by a very specific number of elements that sometimes hotel operators have little control over. The fear of missing out on opportunities versus traditional risk-averse strategies will determine the decision-making for these contracts and will end up influencing what happens during the 365-day window.

A. **Knothe:** Duetto can now forecast up to five years in advance. A city center hotel doesn't need that much but it's hugely important for resorts, especially for group business. Often times people will come to the hotel saying, "I want to have my wedding a year and a half or two years out." Or they stay at Christmas time and then make their reservations for next year at checkout. Maybe next year they decide they'll come during Spring Break, which is 14 months away. That happens every day.

Q. How can this long-term forecast help boost profitability?

A. **Ruano:** Being able to analyze the real contribution of these very important contracts and patterns of behavior will help negotiations. If the hotel can make assumptions beyond the 365-day window as to how the season is expected to behave, the decision-making will be enhanced by a number of additional data points that resorts historically did not have available.

This is especially true in the all-inclusive sphere, where resorts can look to boost ancillary revenue through excursions, premium beverages, spa, room upgrades, etc. Being able to understand the resort demand by segment, and how each segment behaves seasonally, and what areas of the resort each segment is attracted to, will really help to increase revenues. For example, hotel vs. villas vs. apartments, or families vs. couples, school holidays vs. out of season periods. Being able to dissect, understand and articulate where the opportunities reside and also being able to turn this information into revenue management decisions or actions should empower resort revenue managers to innovate with their strategies and drive incremental revenues.

Q. How important is it to look at total RevPAR?

A. **Ruano:** RevPAR is important but resorts also like to look at the revenue generated per customer, Total Revenue Per Available Room (TrevPAR) and Total Revenue Per Customer (TrevPEC), as well as Gross Operating Profit Per Available Room (GOPPAR).

Q. How can an RMS help resorts calculate when to accommodate group business?

A. **Ruano:** Groups will assist hotels to fill gaps in demand as well as extend seasons, so the collaboration between the group sales team and the revenue structure is key. This collaboration ensures conversion as well as attracting more profitable groups from a RevPAR and TrevPAR perspective.

"Being able to dissect, understand and articulate where the opportunities reside and also being able to turn this information into revenue management decisions or actions should empower resort revenue managers to innovate with their strategies and drive incremental revenues." – Juan Ruano, Director of Hospitality Services, Duetto

The Duetto Difference: A Look at RMS Technology Built Specifically for Resorts

Duetto uses the term "resorts" as a broad category to encapsulate all-inclusive properties, amusement parks, multi-property resorts and some bed and breakfasts.

Our product managers and developers understand that resorts face unique challenges when pricing, forecasting and analyzing their business performance as compared to traditional hotels. Therefore, the following tools have been implemented specifically to support resort revenue managers:

1. Total revenue yielding
2. Per-person pricing
3. Ancillary revenue forecasting
4. Pricing and forecasting up to five years
5. Package rate publishing
6. Analysis by Booking Date

Duetto tracks new key performance metrics that are specific to resort management, including:

- TRevPar (Total Revenue Per Available Room)
- Avg. Revenue per Guest
- Avg. Guests per Room
- Avg. Length of Stay
- Direct Revenue Ratio
- Ancillary Revenue

Duetto also provides analytics and reports that help resort revenue managers make smart business decisions. The system helps resort operators strategize around the following situations:

Seasonality. How to maximize revenue during low/high seasons.

Opening and closing. When to open or close the resort to accommodate group business.

Reporting. Per-person level reporting, including adults vs. children.

Campus yielding. Shifting inventory and guests based on availability and cost.

Travel agent production. Analyze top and bottom producers.

Channel production. Better understand the reach of your demand partners.

Cost of acquisition. Which channels are better than others?

Room-type efficiency. Compare metrics from suites, villas and component rooms.

Ancillary folio revenue. Receive forecasts and reports on all spending prior to check-out.

Air data. Flight data from local airports is a key indicator of demand for resort destinations.

Conclusion

Managing revenue at resorts, particularly those operating with all-inclusive pricing models, needs to be viewed through a different lens. This requires data and insights that operators at traditional hotels might not have in order to enact the best strategies and drive the most profitable revenue.

Forecasting demand throughout the entire year, and up to five years in advance when needed, helps resort operators better understand how long their "season" will last and whether it's advantageous to remain open during low periods. Group business insights will help these hotels build a base level of occupancy even when transient demand is soft.

Analyzing the demand, and the cost of acquiring guests, from each channel will help resort operators shift their marketing spend to the most profitable distribution channels. This will sometimes mean relying less on tour operators and wholesale business while enacting strategies to drive more business direct. When wholesale and tour operator business is required, having access to critical reports allows sales teams to more confidently negotiate dynamic rate offers with all partners.

Lastly, resort revenue managers must ensure they're pricing each of their room types appropriately, capitalizing on opportunities for guests to upgrade their room type either during the booking process or once they've reached the property.

Instead of running the same revenue management playbook as a traditional, city-center hotel, make sure you've got the right data analysis and the most profitable pricing recommendations that are unique to your specific needs.

About Duetto

Duetto provides a suite of cloud applications to address hospitality's complexity in distribution and technology, providing solutions that increase organizational efficiency, revenue and profitability.

The unique combination of hospitality experience and technology leadership drives Duetto to look for new and innovative solutions to the industry's greatest challenges. Duetto delivers software-as-a-service to hotels and casinos that leverage dynamic data sources and actionable insights into pricing and demand across the enterprise.

More than 3,000 hotel and casino properties in more than 60 countries have partnered to use Duetto's applications, which include GameChanger for pricing, ScoreBoard for intelligent reporting and BlockBuster for contracted-business optimization.

For more information, visit http://duettocloud.com.