

# innovate

## INTRODUCTION

### THE BTN GROUP INNOVATE 2016 THINK TANK SESSIONS

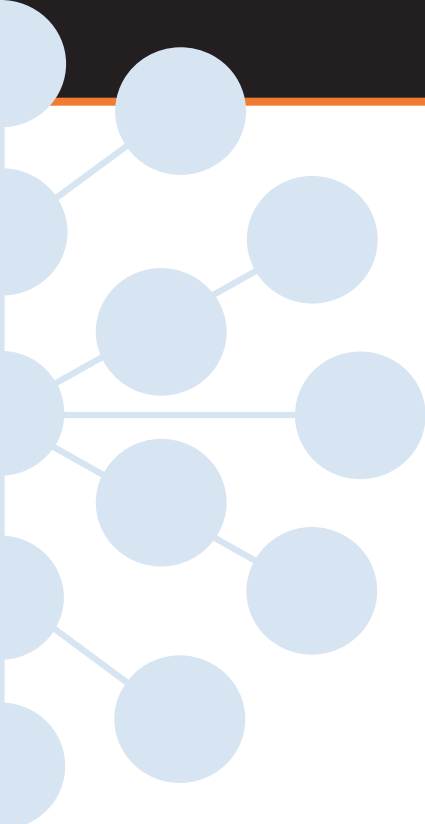
In its third year, the Innovate Conference for the Advancement of Business Travel offered business travel executives the opportunity to articulate priorities and recommendations about five of the biggest challenges facing corporate travel buyers and suppliers. The following white papers are the final output of these in-depth inquiries.

- Corporate Travel Policy & The Sharing Economy
- The Business Case for End-to-End Travel Management Solutions
- Behind the Curtain of Revenue Management
- Sharing & Protecting Managed Travel Data
- Defining the Value of the Traveler Experience

The BTN Group worked first with its Advisory Board and then with a dedicated Steering Committee to identify the focus topics for 2016. *Business Travel News* editors recruited leading travel buyers to form task force groups to identify specific concerns and posit new ideas for moving the practice, tools and objectives of business travel management into the future. Think tank sessions held during the BTN Group Innovate 2016 Conference validated concerns and flesh out innovation concepts. This white paper consolidates the output from BTN's Innovate think tank session on revenue management.

In focus now:

### **BEHIND THE CURTAIN OF REVENUE MANAGEMENT**



# BEHIND THE CURTAIN OF REVENUE MANAGEMENT

**Long the cloaked mechanism behind decision-making in the airline and hotel industries, revenue management has come into the spotlight as hotelier strategies begin to resemble airline practices and the airlines try new tactics.** By Julie Sickel

Segmenting of fare classes and room inventory. Inability to meet market share or roomnight goals as a result of closed off inventory. Direct-to-traveler loyalty program offers that conflict with corporate messaging. These are just a handful of frustrations that corporate travel buyers voiced to

Business Travel News in 2016. While they sound diverse, and potentially unrelated, each of these challenges can be linked to revenue management practices, affirming there's value in getting behind the scenes with these strategies and finding new ways to negotiate corporate deals.

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## WHERE IT BEGAN

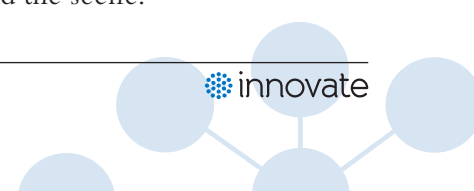
Yield management got its start and its name in the early 1970s when American Airlines CEO Robert Crandall, inspired by British Airways' two-fare-class discounting model, adopted analytics-driven inventory control to enhance revenue for American.

The methodology relied on forecasting and overbooking capabilities. American and other carriers doubled-down on yield management after airline deregulation paved the way for low-cost carriers to enter the market and undercut fares charged by legacy players. In the mid 1980s, American introduced new, highly discounted fares that were advanced-purchase restricted, capacity controlled and nonrefundable as a way to fill empty seats.

In the late 1980s, Bill Marriott, rec-

ognizing some of the similarities between hotel and airline dynamics, adopted Crandall's model, which then became known as revenue management. Marriott deployed automated revenue management systems and, later, demand forecasting systems, and the rest of the industry followed suit, adopting rate fences and targeting discounts to market segments, maximizing revenue.

Today, revenue management has become more important than ever. In the fragmented, non-commoditized hotel space in particular, the emergence of online travel agencies charging higher and higher commissions, the ever-rising costs to acquire customers and shifting consumer behavior have placed new pressures on the industry since revenue management first entered the scene.





# AIRLINE REVENUE MANAGEMENT

While airlines may have pioneered revenue management, hotels have drawn more attention for the practice in recent years, and that says as much about the airline industry as it does about the hotel industry. The systems used by legacy carriers are vast and complex. As a result, confronting issues around airline revenue management can seem untenable for many corporates. A number of corporate travel buyers voiced the perception that even if they had a good relationship with sales representatives, it didn't necessarily solve problems around such things as fare class availability. The general consensus was that sales and revenue management operate in silos.

## AIRLINE PAIN POINTS

**Alphabet soup.** The days of two fare classes and an excursion fare are over. Travel buyers are left to interpret as many as 26 different fare class letters. Beyond buyers, the different classes meddle with program perception when travelers go online and look at nothing but price.

**"I saw it cheaper elsewhere."** The complexity in routes and class fares and the marketing to individuals through consumer sites can lead travelers to think their best option is booking through online travel agencies, undermining managed programs and hurting revenue targets. "Our travelers are getting marketed to by airlines from all different directions as leisure and corporate travelers," said one travel manager. "Yet airlines want us to direct travel one way."

**The disappearing act.** With revenue

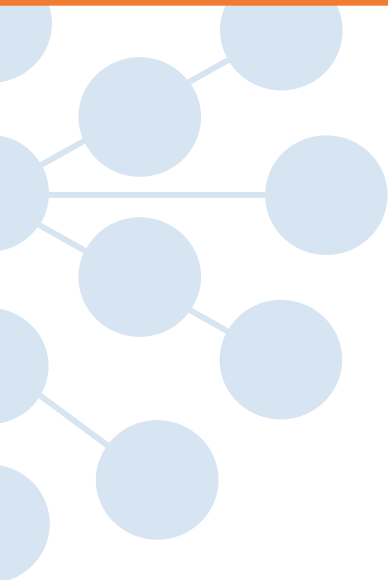
managers changing inventory and fare class availability several times a day, a fare that was available one evening may not be there the following morning, but then will reappear days later, frustrating travelers. Similarly, revenue managers may decide that demand no longer exists for a particular route and turn it off. Think Tank participants said they are at the mercy of arbitrary revenue management decisions and later get punished during meetings with airline representatives for not meeting contracted revenue targets.

**The data is bad.** The complexity inherent in airline business practices often leads to issues around correct data. One travel manager described the frustration he felt at the process his program has to go through to try get correct airline data. "You get the data from the airline and the data from your TMC," he said, "and they never match on the first try."

**Game-playing perception.** Travel managers expressed the feeling that much of what airlines are doing is basic trickery, manipulating inventory to ensure airfares aren't appropriately discounted.

## AIRLINE SOLUTIONS

**Mine your data.** Airline data is complicated, so find a way to clarify it. One travel manager said his program worked with an airline information service to get his company's air data, then partnered with a consultancy to comb through it and identify gaps using booked data versus airline agree-



ments. The process ensured the company was getting “the right discounts for the right buckets.”

**Evaluate midstream.** Instead of waiting until regularly scheduled meetings with airline representatives to see how the company is progressing toward revenue goals, check on status more frequently. Perhaps travel has shifted to different routes since establishing the contract; re-evaluating traveler bookings should allow travel managers to re-negotiate targets with suppliers before missing them.

**Find the right tools.** If data is an issue for the program, explore newer tools that exist around airline spend

and bookings, particularly those that could track ancillary spend. One travel manager said he used Yapta, an airfare price shopping tool, that allowed him to reduce his large program’s air spend in the millions of dollars.

**Work on your partnerships.** Data doesn’t replace the need to have a good working relationship with supplier partners. They can provide answers that data can’t.

**Innovate the industry.** It’s a lofty goal, but as one airline representative put it: The way that corporates and airlines negotiate targets is ripe for disruption. [See 2015 Innovate white paper, “The Future of Airline Agreements”].

## HOTEL REVENUE MANAGEMENT

Hotels are behaving more like airlines, enacting stricter policies around cancellations and even introducing nonrefundable rates, yet they present a more worthwhile opportunity to confront revenue management challenges than do their airline counterparts. However, Innovate think tank participants agreed that sales teams and revenue management teams still seem to operate in silos, where a rate is negotiated with sales representatives but later disregarded by revenue managers.

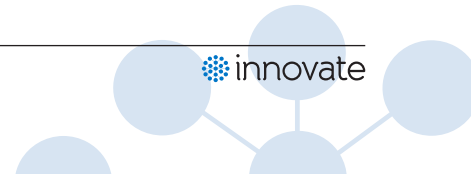
### HOTEL PAIN POINTS

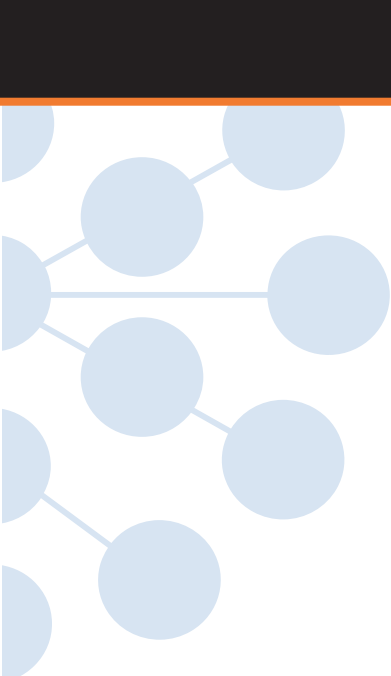
**Imperfect or missing data.** While hoteliers increasingly utilize Big Data and work to mine every bit of information about individual travelers through things like loyalty programs

to optimize revenue, corporates still have trouble getting a full picture of their hotel program from their supplier partners. Travel buyers negotiate extras such as free breakfast, yet such amenities aren’t tracked by hotel properties.

**“I can find better.”** Travelers who commonly shop on consumer travel sites often can’t understand why they should book corporate rates instead of those available via online travel agencies. Think Tank participants said hoteliers’ tactics to lure in particular customer segments undermine their negotiated rates and make it difficult to deliver on roomnight guarantees.

**Last room availability is anything but.** A staple to most corporate nego-





tiated hotel programs, last room availability is proving less and less valuable as hotels find more creative ways to avoid honoring it, particularly during compression periods, by segmenting inventory similarly to how airlines have proliferated class fares.

**Dynamic pricing push.** Many hoteliers are looking to move corporates away from static pricing and toward dynamic pricing. Travel buyers said they were willing to embrace dynamic pricing in secondary and tertiary markets to eliminate the RFP back-and-forth, but concerns still existed around transparency and the ability to budget. Unless travel managers are tracking hotel data daily through specific tools, it's impossible to know whether a 15 percent discount off the best available rate is actually being honored by the hotel or if the traveler is simply being charged the retail rate.

**Loyalty discounts.** The recent push by hoteliers to enroll guests in loyalty programs is partly a fixture of demand generation, as well as a move to shift customers to less costly distribution channels. The newest initiative of discounted loyalty member rates for those who book direct has corporates questioning the value of their negotiated rates, as well as feeling frustrated about the apparent disconnect between the corporate sales and marketing departments.

**Blackout dates.** In recent years, many hotels have expanded the number of blackout dates they put on the calendar for discounted rates, leaving corporates frustrated.

## **HOTEL SOLUTIONS**

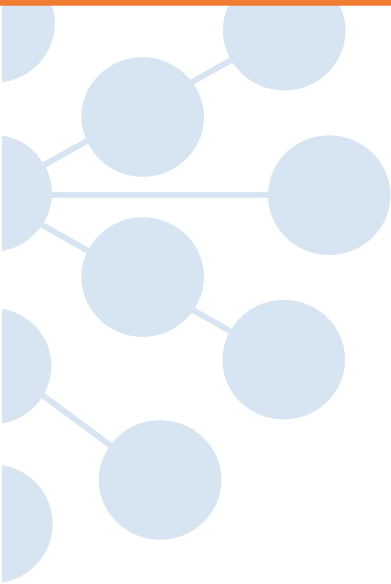
**Get good data.** Remember the old

adage: "Knowledge is power." Corporate clients who use data to do things like track traveler spending, evaluate negotiated rates and identify program shifts will have an easier go of working with suppliers in the intelligence arms race. Travel buyers not only will be able to make sure hotels are holding up their end of the bargain, but prove the value of their programs to hoteliers.

**Find the right tools.** To get good data, corporates need the right tools. Luckily, this is an ever-expanding area of the corporate travel world. Hotel rate shopping tools like TripBam and Yapta that constantly query for cheaper hotel rates will be able to provide missing data around last room availability, evaluate negotiated rates versus market rates, demonstrate the value of using a dynamic rate in certain markets and even examine the newer loyalty discounts entering the market. Beyond that, data analysis tools, such as those that allow users to combine travel management company data with expense and card data, can offer a better picture of whether, for example, travelers are expensing that free breakfast or Wi-Fi access.

**Build your partnerships.** Though it may be a reality that revenue management operates separately from sales, a corporate sales representative can still serve as the client's advocate within the hotel organization and, ideally, communicate about marketing initiatives that run counter to managed travel.

**Get to the source.** Hotels often have on-property revenue managers or ownership or management group revenue managers that can serve as another communication channel when



problems arise. One travel manager said she requested a meeting with the revenue manager of one hotel group after encountering negotiating difficulty during the RFP season because of her program's smaller size. Speaking to the revenue manager directly, she was able to demonstrate the true value of her program and allay concern on the revenue managers' end.

**Explore alternatives.** The hotel industry is characterized by fragmentation. A single property may fly the flag of a major hotel company, but it's likely owned or managed by a completely different organization. While it can be frowned upon to bypass a major corporate sales representative in favor of meeting with those from smaller ownership or management companies that represent particular properties in the program, travel buyers said they often resorted to this measure to address specific issues or when corporate-level negotiations had stalled.

**Get creative.** Think about ways to

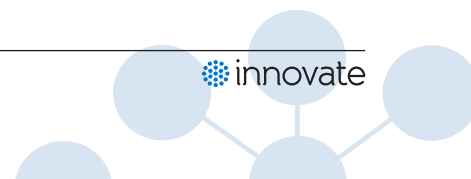
negotiate terms without flying in the face of revenue management. For example, if you can't get your negotiated rate during a specific time of year, try to negotiate a seasonal dynamic rate that would give the program a static rate except for in the window in which corporate business would be less valued than a retail rate. Alternatively, look at program behavior and see where changes can be made. If there's a meeting happening in the fourth-quarter in New York, see if that meeting can be moved to the first-quarter when hoteliers are more desperate for business.

**Communicate internally.** This may feel like an obvious suggestion, but travel managers reported having some success in combating revenue management issues simply by finding ways to explain to their travelers some of the basics around why rates may be cheaper through some channels, what is included in a corporate rate that isn't included in other rates and how the data from their bookings will be used to help the company.

## VALUE RELATIONSHIPS, EXPLORE NEW TECH

With advancements in technology impacting both the supplying and buying side, both are on their way to a sort of information arms race. For corporate managed travel, staying abreast of developments around business intelligence

is vital to keeping up. Yet, it's important not to forget the bedrock principals of the industry. This is still an industry of people; communication and relationship building will remain important as we move into the future.



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