

HSMAI Instructor-Led Classes






hsmai
ACADEMY

MASTERCLASS
Profit-Oriented
Revenue Management
(PORM)

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TODAY'S MASTERCLASS

- Why PORM and What is PORM?
- Key Concepts in PORM?
- The Commercial Team's Role
- Getting Started with PORM?

WHY PORM?

- Shifting the focus from Revenue to Profit
- Time to recover from Covid losses
- Profit is what you bring to the bank...

WHAT IS PORM?

- By focusing on Profitability rather than only Revenue, we force ourselves to look at the bigger picture, such as Costs and Ancillary Revenues
- Revenue Maximization might be misleading, impacting the bottom line sometimes negatively ...

KEY CONCEPTS IN PORM

- Maximize all four profit levels
- Flow-through
- Marginal Revenue, Cost and Profit

FOCUS ON ALL PROFIT LEVELS

Profit KPIs

- Net Revenue
- Gross Profit
- Gross Operating Profit
- EBITDA

The PORM Profit & Loss Statement

- + Total Operating Revenue
- Customer Acquisition Cost (CAC)
- = Net Revenue (Contribution to Operating Profit and Expenses)
- Cost Of Goods Sold (COGS)
- = Gross Profit
- Operating Expenses
- = Gross Operating Profit (GOP)
- Management Fees
- Non-Operating Income & Expenses
- = EBITDA

FOCUS ON FLOW-THROUGH

The flow-through concept highlights the importance of **a hotel's ability to effectively convert revenue into profit**, ensuring a significant proportion of revenue “flows through” to the bottom line and contributes to overall profitability.

EXAMPLE OF FLOW-THROUGH

Profit & Loss for a small hotel

Amounts in '000 USD	This year	%	Last year	%	+/-	%
Total Revenue	5 420	100%	5 180	100%	240	100%
- CAC	-958	-18%	-920	-18%	-38	-16%
= Net Revenue	4 462	82%	4 260	82%	202	84%
- COGS	-745	-14%	-720	-14%	-25	-10%
= Gross Profit	3 717	69%	3 540	68%	177	74%
- Operating Expenses	-1 460	-27%	-1 400	-27%	-60	-25%
= GOP	2 257	42%	2 140	41%	117	49%

Flow-through

The P&L shows the annual flow through for each profit level with a revenue mix of room and food & beverage revenue.

MARGINAL PROFIT

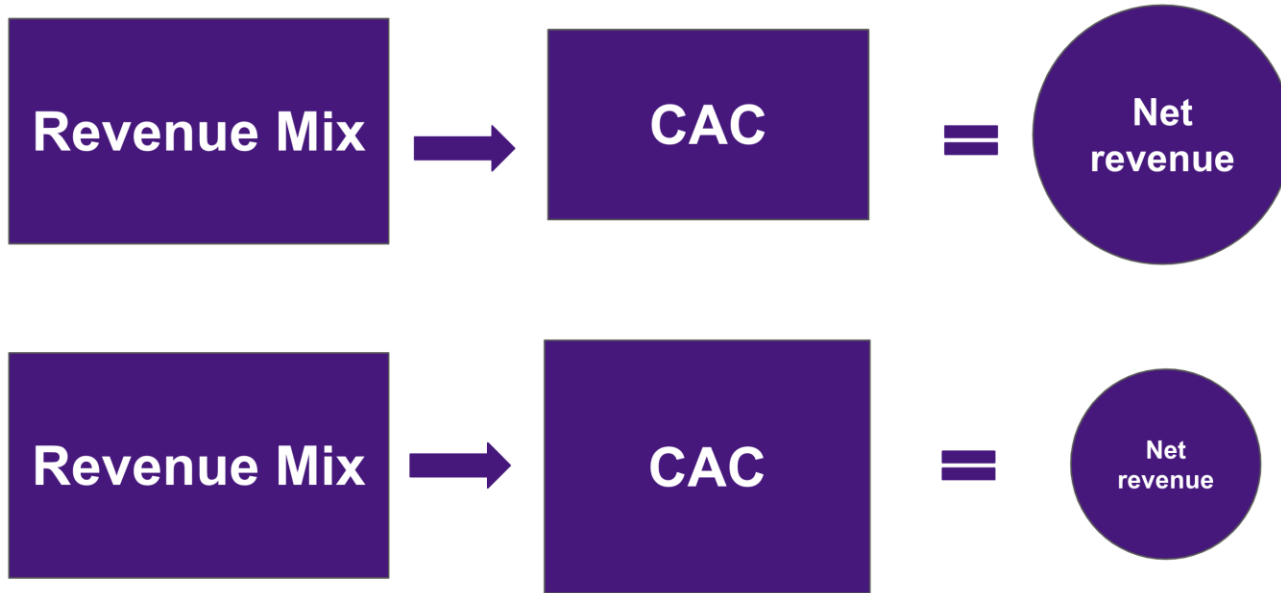
- By focusing on **actions that generate high flow-through**, hotel managers can ensure that their revenue growth results in a corresponding increase in profit.
- This approach encourages them to consider revenue generation and the costs associated with different revenue streams and operational aspects.
- Optimizing flow-through is essential for maximizing profitability and maintaining a sustainable, successful hotel business in the long term.

THE COMMERCIAL TEAM'S ROLE

- Commercial Team Goal
- Allocate responsibilities
 - Marketing
 - Sales
 - Revenue Management
 - Reservations

COMMERCIAL TEAM GOAL

Optimize the Revenue Mix to Maximize Net Revenue



MARKETING

- The marketing team is crucial in **attracting potential guests** to the hotel, thus significantly impacting the total revenue and Customer Acquisition Costs (CAC).
- They need to craft marketing campaigns that effectively target profitable guest segments, leading to **higher total revenue** and **lower CAC** since these segments are more likely to convert.

SALES

- The sales team drives **total revenue by negotiating contracts** for group bookings, corporate clients, and events.
- They need to **understand the profit contribution** of different room categories, event spaces, and additional services to maximize revenue from each contract.

REVENUE MANAGEMENT

- The revenue team sets pricing strategies and manages inventory to maximize revenue and profit.
- They need to **understand the marginal profit contribution** of each room type, length of stay, and booking channel to optimize pricing.
- They also need to consider the **CAC and Costs Of Goods Sold (COGS)** to determine the true profitability of each sale.

RESERVATIONS

- The reservations team interacts directly with guests, offering a prime opportunity to **upsell and cross-sell** more profitable services and thereby maximize revenue per guest.
- They also **minimize CAC** by converting inquiries into bookings efficiently and providing excellent customer service to **encourage direct bookings**.
- Furthermore, they can recommend **offerings with lower COGS** during their interactions with guests, influencing the revenue mix in favour of higher profitability.

GETTING STARTED WITH PORM

➤ ACTION POINTS :

1. Understanding Marginal Profit
2. Developing Profitable Products & Services
3. Creative & Flexible Packages
4. Pricing Strategies
5. Productive Marketing & Sales
6. Optimizing Distribution Channels
7. Upselling and Cross Selling
8. Enhancing Guest Experience
9. Investing in Technology
10. Leveraging Data & Analytics

1 UNDERSTANDING MARGINAL PROFIT

- The Commercial Team's understanding of the **marginal profit** for every product and service is crucial.
- This knowledge enables them to make informed decisions on **what to sell** and **how to price**, which can significantly impact profit margins.

2 DEVELOP PROFITABLE PRODUCTS

Focus on developing and promoting **highly profitable products and services** that appeal to the **target audience**.

3 OFFER CREATIVE AND FLEXIBLE PACKAGES

Offering **flexible and creative packages** that combine various services can **improve profit margins** and **increase overall guest spending**.

4 PRICING STRATEGIES

Implement dynamic **pricing strategies** that consider **demand, competition, and market conditions**.

5 PRODUCTIVE MARKETING AND SALES

Investing in **effective marketing strategies** and **sales training** can attract more guests and close more sales.

6 OPTIMIZING DISTRIBUTION CHANNELS

Actively **managing distribution channels** to promote the most cost-effective ones can **reduce customer acquisition costs** and increase profitability.

7 UPSELLING AND CROSS-SELLING

Train frontline staff to **upsell and cross-sell** to **increase revenue per guest** and improve overall profitability.

8 ENHANCE THE GUEST EXPERIENCE

Ensuring a positive guest experience can result in **favorable guest reviews** and drive repeat business.

9 INVEST IN TECHNOLOGY

Making the right investments in RMS, CRM, and PMS can **increase efficiency and productivity** and **provide valuable insights** for making informed decisions.

10 LEVERAGE DATA AND ANALYTICS

Efficient **customer data management** and **analytics** can result in more effective strategies and **drive higher profitability**.

IMPLICATIONS

What are the implications of applying PORM?

- Be careful not to lose your Customers off sight!

- KISS - Keep it Simple and Sweet!

DOWNLOAD WHITEPAPER



AN INTRODUCTION TO PROFIT-ORIENTED REVENUE MANAGEMENT

Prepared for

Prepared by



ARE YOU READY FOR PORM?

Any question please

Comments / Feedback?
Questions / Suggestions?

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