

AUGUST 4, 2020

# The Valley of Despair: Part II



How to transition technology  
solutions and integrations



# **The Heart of Business** →

**The heart of any business is pricing and distribution.** Revenue management is the marketing discipline within an organization that drives pricing and distribution strategy. Revenue management is everywhere, across all industries. And changing or installing a revenue management system for the first time will send anyone into a technology change valley of despair.

**In this article, we're going to discuss the valley of despair and focus on revenue management systems and short-term and vacation rentals. How to price on Airbnb and VRBO and instant-book has changed the game. In the hotel and resort world, revenue management is a very clearly defined department. In short-term rentals, this discipline is taking shape with technology, tools, and experts emerging just in the last 1-2 years. Revenue management systems (RMS) are becoming necessary to survive and thrive in the world of short-term rentals.**

**For the hotel folks reading this article, you may find some of the concepts very basic as the technology is more mature and robust in the hotel and resort space.**

**For the short-term rental folks reading this, you'll relate to the challenges of the new technology and still-developing data tools. When and why should a short-term rental owner or management company navigate this complex world of automated, algorithm-driven, pricing? It's an exciting time for revenue management in the short-term and vacation rental space, and the level of sophistication and complexity is constantly evolving.**

# Pricing is Difficult



## **Why pricing without technology is so hard...if not impossible?**

**If you are still trying to price manually, or you are struggling to manage your RMS configuration there are many things to consider. And if you are using an RMS, remember you are always smarter than the system. It's your job as the revenue management professional to get configuration and system maintenance processes right. Here are a few reasons why it can be so hard:**

- COMPETITIVE LANDSCAPE: As traveler shopping and buying behaviors shift, depending on your market, there is a chance your home might be even competing against a hotel. Depending on the reason for the travel and needs of the travelers, understanding the pricing climate of the entire lodging segment may be relevant to you. You actually might be able to shift market share away from hotels. Does your pricing strategy properly include hotel data if it's statistically significant?**

# Pricing is Difficult



- **DEMAND:** The more demand you can generate, the higher you can price – simple supply and demand, right? For example, if 80% of the demand for your home is searching for a 2 or 3-night stay, if you place a 4-night minimum on your home you will only have access to 20% of all demand. Another scenario might be that 50% of all travelers are looking for a pet-friendly home and if your home is not pet friendly you may be missing out. Are you using systems and data aggregation tools to better understand your market?
- **BOOKING WINDOW:** If the majority of travelers book 30 days out, and you discount your price within 30 days before arrival it may be too late to capture any bookings. At this point, there is very little demand. This is called a booking curve, and understanding price point accuracy at a certain time before arrival can also make or break it for you. For 365 days in a year, this is not humanly possible to keep track of in real-time without technology. If you are using an RMS, are you confident it's using the right data inputs? With COVID-19, historical data isn't reliable to inform future predictions.

# Pricing is Difficult



- **SHOULDER NIGHTS:** Though the majority of your demand might be on weekends, there is always some demand for other days of the week. If you can price those unfilled nights more aggressively, you may improve your chances of capturing the longer length of stay guests and filling the holes in your calendar. Why not price Wednesdays lower? Can you configure your system to price for the correct patterns seasonally also?
- **SUPPLY:** One of the most interesting factors in the short-term rental space is the constantly changing supply. For example, last July there may have been 100 total 3-bed homes in your market, but this July there are now 200 homes. This might not be an issue if there is a special event bringing additional demand, but if this tips the scale and supply has outpaced demand growth, it could be much more competitive.

# Using Technology



**What are the revenue management system options?** Airbnb and VRBO have a built-in price recommendation capability, but there are many options available now to use a 3rd party system that integrates seamlessly to multiple channels at once. Here is a quick summary:

**Airbnb Smart Pricing:** This tool is providing a recommended price and seamlessly updating Airbnb. It is described on the website as: “Smart Pricing lets you set your prices to automatically go up or down based on changes in demand for listings like yours. You’re always responsible for your price, so Smart Pricing is controlled by other pricing settings you choose, and you can adjust nightly prices any time. Smart Pricing is based on the type and location of your listing, the season, demand, and other factors.” And interestingly, it is not available for anyone in Spain.

# Using Technology



**VRBO MarketMaker:** The revenue management toolbox and teams at VRBO have been influenced by Expedia in recent years as well. Similar to Airbnb,, this tool is recommending a price and seamlessly updating VRBO. VRBO describes it like this: “MarketMaker™ can help you set – and stick to – a revenue management strategy that brings you closer to your goals. For any given night, MarketMaker shows you both supply (the percent of unbooked properties in your market) and demand (the volume of traveler searches) data in your market. It even shows you a calendar of local events and holidays that may influence demand in your area. It also compares your rate to the average rates of other properties in your area so that you can see how you measure up. In short, it gives you all the data you need to adjust your revenue management strategy. If you set a revenue management strategy in MarketMaker, the tool will even notify you when there’s an opportunity to get closer to your goal. For example, you set your strategy to maximize revenue. When MarketMaker sees that there’s high demand (many travelers searching for a property in your area) but low supply (few available properties) in your market, it may suggest that you increase your rate.”

# Using Technology



**Dedicated Dynamic Pricing Tools:** These providers use data from multiple different sources as input to their pricing algorithms. Pricelabs, Perfect Price, Wheelhouse, Beyond Pricing, and Quibble are a few of the technology providers in this space. Layering the market data with your system configurations, the system then recommends a price. That price can be updated daily for the next 365 days or more depending on the system you choose. These systems then serve as your pricing system of record and push rates via your PMS or Marketing Platform or they can push directly to the channel.



# **It's Complicated**



**In addition to all the revenue management factors mentioned above, as many of you know, there is still more:**

- **Things like cancel policies, amenities, or inclusions can also impact your ability to convert a shopper into a booker.**
- **Do you have full distribution? If you only offer your home on Airbnb, but 40% of all shoppers in your market never go to Airbnb, you are missing out on demand and a chance to price higher. Remember, more demand = more pricing power**
- **Page placement and special tagging on distribution channels, as well as guest reviews, can also have a big impact on your pricing power. VRBO and Airbnb offer ways to run promotions and get merchandising (tags, preferred placement, etc) with strategic discounting and advertising. VRBO's new promotional capability seems to be based on Expedia's success, so we'll have to watch how the VRBO promotional product evolves and gains traction. Booking.com also offers ways to get discounted, promotional tagging, and more exposure.**

# It's Complicated



- **In addition to RevPAR, new concepts like bedroom optimization are being included. What is your revenue per available bedroom? This becomes a revenue management focus if you are using a per person fee. Similar to restaurant revenue management, you can sell every table, but can you sell every seat? You'd rather not seat 2 people at the 6-top and turn away a larger party.**

**When you should make an RMS change depends on several factors, but seasonality is key. Making this type of change in a high demand period also brings higher risk. When demand is moving fast, and digital, instant-book is the way consumers are shopping, a 10-minute disruption can cost you \$10,000 – that may seem extreme, but other revenue professionals reading this who have been in the business awhile know what I mean. The 10-minute, \$10k mistake is real.**

**This might be due to a last-minute booking you didn't take because your systems were down, or it might be because you didn't have the correct price for future dates – the loss can come in a variety of ways. It's clear to see that to mitigate risk, the actual system change should happen when booking demand is lower.**

# How to Change



## How to Make the Change

Mapping your plan, mapping your systems, and developing your portfolio strategy are all critical steps in the process of a successful transition from manual to RMS or from one RMS to another. Ensuring you have a deployment plan to manage the ongoing system maintenance and upkeep is also critical.

Though change is hard and there will always be a valley of despair, the valley can be narrow and shallow with proper planning and the right team in place.

Revenue management is a ton of fun and can be considered both an art and a science. And stay tuned as dynamic pricing continues to evolve for short-term and vacation rentals.