3 Managing revenue

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Introduction

Maximising revenues is as important as minimising costs to achieve profits. The usual (sales and marketing or revenue management) approach is to try and gain additional business – and we will cover some of this here. However, since this is a book about control we'll be looking more at ways of ensuring that you get all your revenue from existing customers.

If you work in a section where only costs occur, much of this chapter may seem irrelevant, but you may have 'revenue' from a subsidy or allowance and you certainly still have customers. I hope you will gain an insight into practices in other sectors that may help you in the future, if not just now.

You have to ensure that everything a customer consumes is actually paid for and that you aren't giving it away, wasting it or losing it to fraud. This applies to a take-away, a drink, a package holiday or a five-star meal – all can lose revenues by inadequate control. In some sectors this may be more obvious as they have much stronger control mechanisms – in others it may be difficult to see easily where problems might occur.

We look at pricing in Chapter 5 but it's important to recognise now that there shouldn't be a conflict between marketing and control – the stakeholder approach means that everybody is interested in the business doing well. The controller wants good revenues as well as the marketing or revenue manager because this should result in good profits, which means good employment for them (in all its aspects).

By the end of this chapter you should be able to:

- Identify the features which may impact on revenue maximisation
- Understand the differences between revenue management and revenue control
- Identify where shortfalls can occur, using ratios
- Calculate ratios for a range of revenue areas
- Utilise methods of improving revenues.

Features of different sectors

Before we look at some general areas of controlling revenue let's look at some more features of the hospitality industry that might influence revenue patterns and hence control processes. Many of these features are common to several hospitality sectors, to a greater or smaller extent.

Nature of the product

The product may be very complex (leisure hotels, cruise lines, theme parks) or very simple. A guesthouse may offer room and breakfast only, with no restaurant, room service, bar or other facilities. A fish-and-chip shop may sell only eight or 10 items, being more interested in concentrating on speed of service than the range of products.

One single purchase may have several elements – a take-away order could include a dozen things and so can a package holiday. All these elements can be different in behaviour and so need controlling in different ways.

Even within a single identifiable product you may have lots of different prices available – a business class hotel may sell a standard single room at 10 different rates to separate types of customer, from the quoted 'rack rate' to a heavily discounted one for a favoured client at a quiet period. A double measure of gin may be priced differently if sold during a 'happy hour', in a cocktail or as a standard product – and differently again if in a mini-bar. Airline, rail tickets and accommodation can be discounted at different rates depending on how far in advance you buy them. Pricing at different levels is covered in Chapter 5.

Seasonality

Some businesses and sectors have distinct peaks and troughs in trade and 'seasonality' causes natural rises and falls independent of one-off economic changes. Seasonality is mainly used to mean different times of the year but you also get changes from day to day. Examples of seasonality are:

- The 'banquet season' before Christmas when the majority of functions are held
- Resorts may be strongly dependent on the weather
- Attractions are noticeably busier in school holidays and at weekends
- Soup bars and hot food counters may be far busier in cold wet weather than on warm summer days.

Mixed markets

Some sectors have very strongly defined markets whereas others such as fast food appeal to a much wider range of customers. Contract caterers may offer different types of meal to the same group of employees – a main cafeteria, a deli-bar and hospitality suites. Individual guests may change their market type – for instance they will spend a lot of money on a meal if on company business (say £100 per person if they're not paying!) but if they take their family for a meal (with their own money) then a spend of £15–25 each is more likely.

One business may have one type of market at one time and a different type at another. Restaurants offer fixed-price menus at lunchtime to attract office workers but in the evening have an à la carte menu to attract a different type of customer who will stay a lot longer and spend more money. Levels of trade in pubs vary dramatically with the time of day and day of the week. Another example would be a leisure club that takes groups of schoolchildren during weekdays but individuals in the evenings and at weekends.

All these form *market segments*, a term usually used in hotels to describe the different types of customers. Here you may get 'rack rate' (full rate) guests, business, tour groups, leisure, conference, airline crew and so on – a big hotel may have more than 17 different segments during a week.

A hospital may have patients, visitors and staff and a university have residential and commercial customers, students and staff. The occupancy statistics will include the split into segments as well as the overall result. Theme parks can split into age groups according to ticket type so that they can target their advertising to the right groups at the right time.

Activity

It's always useful to be able to identify where your customers come from. This helps you target your marketing differently to suit the different needs. Think about the customers where you work. Can you split them into 'market segments'?

Captive markets

These occur for such customers as factory workers or hospital staff (as well as patients, army employees or prisoners) and may seem to automatically generate revenue but there's a real danger that the customers can easily get 'menu fatigue'. This has the effect that they might start to bring their own sandwiches, or sneak out to the pub or a coffee shop (if they can) at lunchtime, so there's an employment as well as a feeding issue here.

Competition

Another issue can be competition for supply. A 'competitor analysis' is normally used to find the direct competition for your business (other restaurants, pubs and so on) but you could also use it on a smaller scale to see if there is any other type of competition. For a pub this could be not just other pubs and wine bars but people going to the off-licence and