Masterclass

Applying Revenue Management principles to your Food and Beverage Outlets

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Agenda

► Restaurant Revenue Management – Concept overview

► RRM Measures

► RRM Strategies

► RRM Implementation

► RRM Best Practice – Case study

► Restaurant Marketing and Distribution

Who am I to deliver the Masterclass?

Associate Professor – Dr. Detlev Remy

- Professor of Revenue Management at SIT since 2016
- Research interest in RM metrics, TRM + RRM developments amongst other areas
- Over 30 years hospitality industry experience
- Own consultancy business 'Remy Consult'

Who am I to deliver the Masterclass?

Director of Revenue Management –
Anastasija Ovtchinnikova

- Joined FRS in 2012 (now Accor Hotels)
- Have worked with 30 hotels across 20 different countries
- 17 hotels were on the RRM program
- Launched RRM at Fairmont The Palm, Dubai
- Facilitated RRM Workshops across 8 countries in APAC region in 2018
- Guest speaker at the HSMAI Asia ROC (May 2018) and Hotel Revenue Distribution Summit (Oct 2018) representing Total Revenue Management

What is Revenue Management?

Selling the right product to the right client at the right moment at the right price via the right distribution channel with the best cost efficiency

Characteristics of the F&B Industry

- Highly fragmented and complex

- Intense competition + rising food and labour costs

- Furthermore, characterized by small profit margins, and a more demanding
  customer base

- Moreover, the restaurant industry is primary governed by a sense of explicit time. That is, the time is primarily controlled by the customer.

- **It's time to apply Revenue Management to optimise F&B performance**

Differences in Application of Revenue Management

- Contrast Restaurant industry with the Hotel and Airline industry in terms of RM application:
  - unit of inventory
  - turnover
  - service Capacity: depends on 2 characteristics: physical constraint of the business and duration of service use by a customer
    - *flexible and less constrained in F&B compared with hotels and airlines*
  - meal experience vs. transport/ accommodation
  - main aim is to achieve customer satisfaction

- The goal of RRM is to maximise revenue per available seat hour (RevPASH) by manipulating price and meal duration

Pre-conditions for Restaurant Revenue Management

Capacity constraints or relatively fixed capacity

Perishable inventory

Variable demand

Season	Meal Duration	DOW	Time of Day	Special Events

Varying customer price sensitivity

High fixed costs & low variable costs

Why Table Occupancy?

Shortening meal duration during BUSY periods = More Revenue

During NON-BUSY periods entice customers to stay = More Revenue

Why Seat Occupancy?

More seats occupied during BUSY periods = More Revenue

During NON-BUSY periods it doesn't matter!

Why Average Check?

We need to have a benchmark to drive increases and set expectations

Why RevPASH?

If I told you your seat occupancy was 100%, would that be a good thing?

→ What if they were all comp?

If I told you your average check was $300 USD, would that be a good thing?

→ What if you only had one cover?

RevPASH combines both the volume and the value of your business into a single metric that allows you a full understanding of your business flow

Restaurant Revenue Management – Capacity (Duration)

– A successful RM strategy is predicated on effective control of customer demand

– Managing demand needs therefore:

   ► Duration Management
   – *typically restaurants face an unpredictable duration of consumer use*
   – *thus, Restaurant Managers must increase control over the length of time customers are occupying their seats*

   ► Table Mix configurations / Seating policies

   ► Key aspect of managing duration is also proper Staffing levels

Restaurant Revenue Management – Pricing

- Demand-based pricing
  - when it comes to pricing, methods need to be developed for offering differential prices that make sense for the demand level at a given time

  - Use of Rate Fences (*physical and non-physical*) such as:

    - table location, party size, menu type,

    - time of day or week, duration of use, type of reservation (*guaranteed or not*)

Restaurant Revenue Management – Pricing

- A word of caution

- Lets think one moment of reasons why using variable pricing in a restaurant may not such a great idea:

  - W-T-P difficult to establish
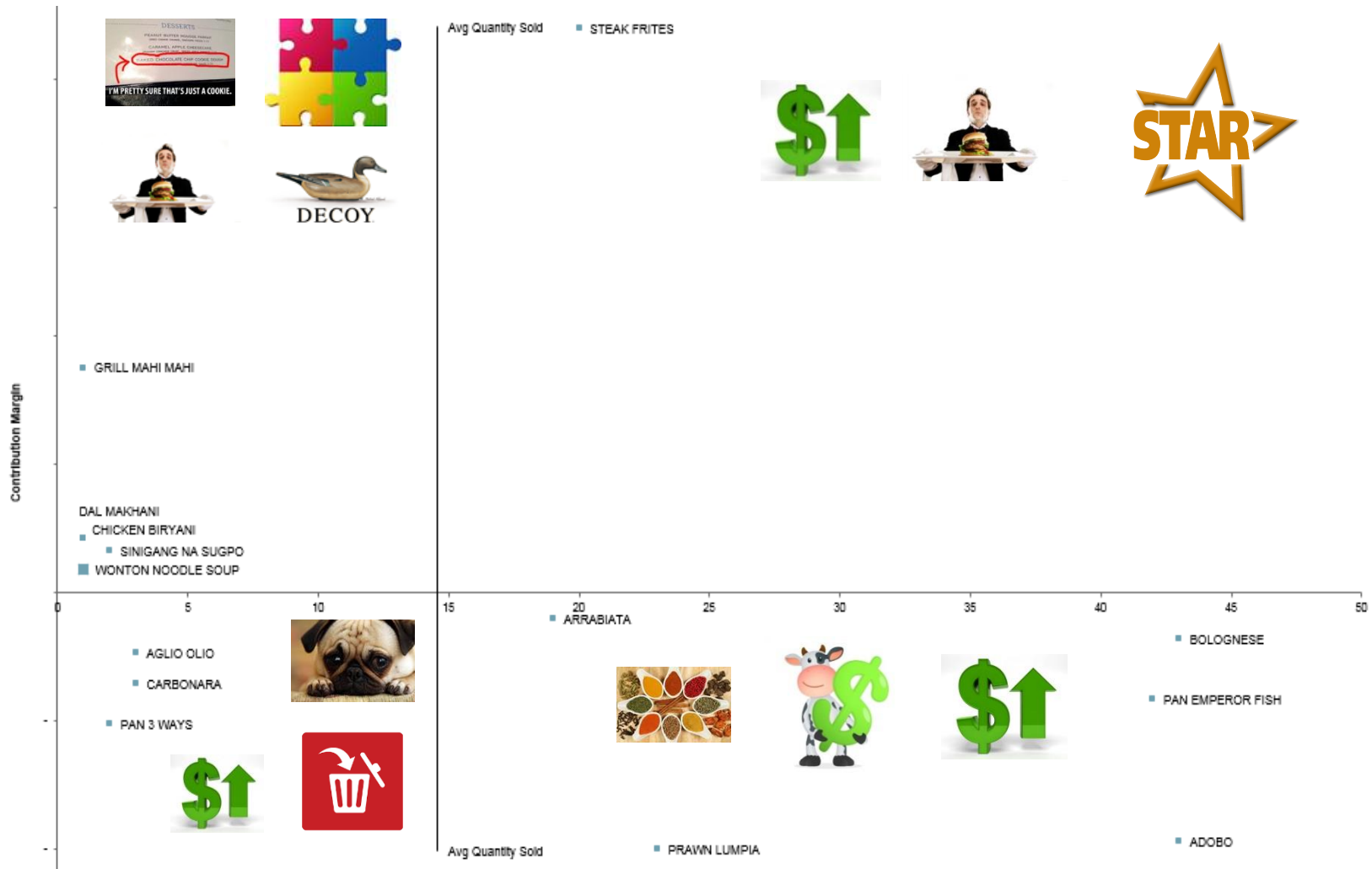
  - Perceived Fairness

Menu Engineering

Puzzle	Star
Dog	Cash Cow

Menu Engineering – Action required

Restaurant Revenue Management – Tools

- **Forecasting**, collect data such as:
  - demand patterns
  - customer preferences
  - arrival time
  - Other information (*i.e. weather, events*)

- **Overbooking**
  - keep track of no-shows, late-shows and short-shows

- **Market segmentation**
  - at the most basic level, price-sensitive vs. non-price-sensitive

Restaurant Revenue Management - Strategies

→ RevPASH Strategies

    – The common ways to increase RevPASH is to:

- *decrease the amount of time each party spends at their table*

- *increase the average spend*

- *decrease the time that a table stays empty after a party leaves*

Restaurant Revenue Management – Strategies

→ High RevPASH Strategy

- *control duration*

- *Smooth demand from peak to off-peak periods*

- *create customer segments that can be charged variable prices*

→ Low RevPASH Strategy

- *creating demand (i.e. events)*

- *making price more variable*

- *offering discounts or coupons*

- *creating new products to stimulate demand*

Restaurant Revenue Management - Implementation

→ 5-step approach (Kimes *et al.*, 1999)

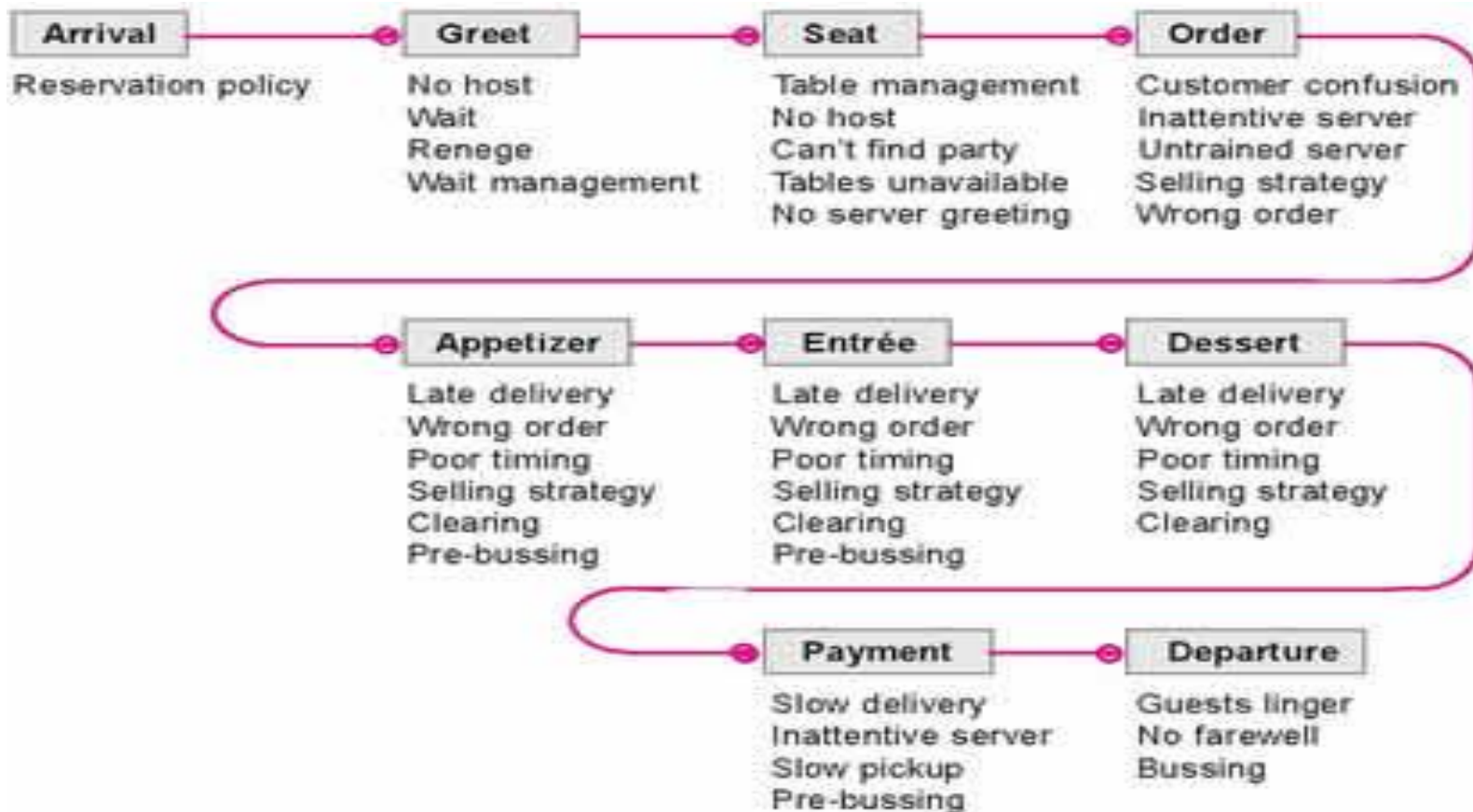# Restaurant Revenue Management - Implementation

→ Establish the Baseline

      - collect information, for example arrival times, estimated time, revenue generated, and customer likes and dislikes

→ Understand the Causes

      - analyse the causes that effect duration;

      - service blueprints and fishbone diagrams can be used to understand the reasons why people stay or leave ...

Restaurant Revenue Management – Implementation / Causes

Arrival	Greet	Seat	Order
Reservation policy	No host Wait Renege Wait management	Table management No host Can't find party Tables unavailable No server greeting	Customer confusion Inattentive server Untrained server Selling strategy Wrong order

Appetizer	Entrée	Dessert
Late delivery Wrong order Poor timing Selling strategy Clearing Pre-bussing	Late delivery Wrong order Poor timing Selling strategy Clearing Pre-bussing	Late delivery Wrong order Poor timing Selling strategy Clearing

Payment	Departure
Slow delivery Inattentive server Slow pickup Pre-bussing	Guests linger No farewell Bussing

Restaurant Revenue Management - Implementation

→ Develop a Revenue Management Strategy

- *recommend solutions to rectify the problem.*
- *what levers do you have to manipulate (i.e. hot/cold strategy)?*

→ Implement that strategy

- *ensure that everybody understands the importance of executing the strategy;*
- *training is needed to understand what RM is and how it can benefit both the hotel and them.*
- *consider employee-incentive programs*

Restaurant Revenue Management - Implementation

→ Monitor the Outcomes

- *Monitor the strategy and its components (does it lead to better operational performance?)*

- *respective measures and adjust if necessary*

- *Consider customer satisfaction as well*

Restaurant Revenue Management - Implementation

Audience:

→ **What do you think are the Critical Success Factors for implementing RRM?**

Restaurant Revenue Management Examples – Atlas Singapore

Restaurant Revenue Management Examples – Blu Kouzina

Restaurant Revenue Management Examples – Tippling Club

Are we rational or irrational decision makers?

Researchers wanted to see if we how we are presented with an item had any impact on participants willingness to pay. They asked participants to view a series of food items and indicate how much they would be willing to pay for each item.
People were randomly assigned to see either;

- A Text description with the food's name
- A high resolution picture of the food
- The food itself displayed on a tray

In which representation were people willing to pay the most?
1. The high resolution photo of the food
2. The actual food
3. The text description of the food
4. The photo and actual food yielded an equally high willingness to pay

2. The actual food

Why are Dessert trays so tempting?

HOW DO OUR EMOTIONS AFFECT OUR WILLINGNESS TO PAY?

When we see items in greater detail, they become more immediate and invoke higher levels of emotion.

And with heightened levels of emotion – we are willing to pay more

Restaurant Revenue Management – Marketing & Distribution

→ Internal Marketing - Menu Design

→ Marketing / Promotion /Upselling + Cross-selling

→ Distribution

Restaurant Revenue Management – Marketing

→ Menu Design

Two Schools of thought:

► Menu Sequence
- *Menu should follow progression of meal*

► Focal Points
- *Use focal points on the menu to push certain menu items*

Restaurant Revenue Management – Menu Design

► Larger Bolder type than the rest of menu

► Longer description (*Teaser*)

► Concept of Closure
  – *people's eyes are drawn to what ever is enclosed by a box*

► Color, illustration, and/or pictures, bullets can be used to draw attention to signature items.

RRM – Menu Psychology, the importance of the Menu

- Paradox of Choice
  - *guests may only remember seven pieces of information (plus or minus two) at a given time; a menu offers a huge variety but many guests stick with the "usual"*
  - *combat the paradox of choice: menus typically cluster similar pieces of information together, a category for pizzas etc.*

- Decoy Effect
  - *the decoy effect is psychological phenomenon that says guests are more likely to change their preference between two options when a third, less appealing option, is introduced to show the value of the most expensive option*

RRM – Menu Psychology, the importance of the Menu

- Social Proof
  - *social proof is the theory that people will adopt the beliefs or actions of a group of people they like or trust. It's the "me too" effect.*
- Eye Movement Patterns
  - *most experts say that people's eyes will immediately flip to the top of the page or the top right-hand corner. However, other researcher claim that guests order the first item they see on the page. Other research revealed that guests read menus like a book.*

Restaurant Revenue Management – Distribution

→ Huge array of Distribution options for restaurants

RRM - Recommendations for the practice

→ There is a correlation between average check, meal duration and capacity

→ Each one gives us a different lever to work with in terms of revenue: if one is weak, you can shore it up by tweaking the others

→ For example:
- *if capacity is weak (in terms of customers showing up), you can find ways to increase average spend (i.e. up-selling, cross-selling etc.)*
- *if capacity is at the limit, you can find ways to decrease meal duration (i.e. change of menu or menu items etc.)*
- *if average check is weak, you can find ways to increase volume (i.e. promotional activities etc.)*

RRM - Concluding Remarks

Are there any risks associated with the application of RRM?

> Customer acceptance (*RRM vs. Menu experience*)

> Employee acceptance

> Reference prices

> Impact on Brand Equity

Concluding Remarks

- RRM is different, compared with RM applications in other industries

- RRM needs to work mainly on uncertainty of arrival and stay

- Menu Engineering is a MUST

- Any Implementation of RRM needs time, resources, commitment and acceptance, from both employees and customers

- <u>BUILD RRM CULTURE IN YOUR HOTEL!</u>

Panelists

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Q & A