

YOU CAN'T IMPROVE ON WHAT YOU DON'T MEASURE:

*Linking Sustainability
to Revenue Management*

Prepared for:



Prepared by:



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Introduction – *Sustainability at a Glance*

Sustainability has become a pressing concern globally due to the rapidly changing climate, unsustainable industrial practices, overconsumption of resources, and increasing environmental degradation. These challenges, which are primarily caused by human activities, lead to the depletion of natural resources, amplified waste, air and water pollution, loss of biodiversity, and global warming. To address these issues, it is imperative that we transition to more sustainable practices and minimize our impact on the environment.

Background – *Sustainability in the Hotel Industry*

In the hotel industry, sustainability refers to the implementation of practices and policies that minimize negative impacts on the environment and promote social and economic well-being. This can include reducing energy and water consumption, using sustainable materials and products, promoting recycling and waste reduction, supporting local communities and economies, and educating guests about ways that they can reduce their own environmental impacts. Additionally, hoteliers increasingly strive to reduce their properties' greenhouse gas emissions, promote biodiversity and conservation, as well as working towards obtaining certification that demonstrates their commitment to sustainable practices. Sustainability in the hotel industry is not just a trend, it is a long-term business strategy that hoteliers can use to meet the expectations of their guests, comply with increasingly stringent regulations, while simultaneously reducing costs, raising customer loyalty, and improving their hotel's reputation.



“We realized that we needed a more comprehensive and strategic approach to integrate the principles of responsible business across every aspect of our business versus the short-term targets we had in place”

– Catherine Dolton, Chief Sustainability Officer of InterContinental Hotels Group

After the preconstruction/design and construction phase, the environmental impact of hotels can broadly be categorized into four main areas: water usage, energy consumption, waste generation, and overall carbon footprint. Water usage for example, is particularly significant for hotels, as the nature of the business makes it difficult to restrict usage by guests and necessitates a substantial amount of laundry services. Energy consumption, which primarily comes from non-renewable sources, also contributes to the environmental impact of hotels. Energy consumption, like water usage, is significantly higher in hotels as compared to other commercial and service buildings due to their 24/7 operation, the amenities/services they offer and the operations of their kitchens and laundries.

Moreover, in terms of their carbon footprint, hotels tend to have the highest negative impact on climate change, with the exception of hospitals. This is a significant consideration as the industry's dependence on tourism, which is frequently affected by climate change, necessitates taking steps to minimize its environmental impact to ensure business continuity. Finally, hotels generate a significant amount of waste, including both food and non-food waste, due to the demands of the business and the guests' expectations.

“Responsible business is good business. A commitment to social consciousness, environmental sustainability and philanthropic actions inspires and motivates our employees, our businesses, and our industry as a whole.”

– Allen Fusco, Chair of InterContinental Hotels Group Owners Association

Importantly, sustainability practices in the hotel industry could directly lead to revenue maximization, if done correctly. Firstly, implementing sustainable practices leads to cost savings for hotels, which can then be passed on to customers through better price packages or could be invested back into the hotel to improve amenities and services. Secondly, incorporating sustainable practices can attract environmentally conscious consumers who are willing to pay a premium for sustainably operated hotels. Thirdly, hotels that have a reputation for being sustainable can differentiate themselves from the market and therefore achieve a competitive advantage.

“Besides reducing adverse effects to the environment and winning the goodwill of guests, when hotels go green they also lower costs. This is a win-win situation.”

– Ines Barreiros, Digital Marketing Manager of GuestCentric

Moreover, many large corporations and government entities have sustainability procurement policies in place, preferring to do business with companies that also have strong sustainability programs. Therefore, hotels that can demonstrate their commitment to sustainability can win business from these organizations, further leading to increased revenue. In short, implementing sustainable practices can lead to revenue maximization for hotels by reducing costs in the long term, attracting new customers, and winning business from organizations with sustainability procurement policies.

Finally, it is important to note that sustainability and revenue management are both crucial aspects that are required to help hotels stay afloat post-Covid and to remain competitive in the long term.



Therefore, in this whitepaper, the authors aim to outline how to link these two disciplines and take advantage of the benefits of doing so. Specifically, the authors aim to:

- To encourage hoteliers to measure their hotels' sustainability efforts.
- To promote their standing/ranking through benchmarking their performance against their competition and industry averages.
- To use that information for revenue optimisation, in turn allowing for higher profit margins.

Sustainability Innovations in the Hotel Industry

Several new sustainability innovations have emerged in the hospitality industry in recent years, including:

01 Green building and design: Incorporating sustainable practices into their building design and construction, such as using energy-efficient lighting and HVAC systems, as well as sourcing building materials from local and sustainable suppliers.

02 Water conservation: Implementing practices to conserve water, such as low-flow showerheads and toilets, as well as more efficient use of greywater.

03 Food waste reduction: Implementing programs to reduce food waste, such as food recovery programs, reducing portion sizes, composting and investing in anaerobic digesters.

04 Circular economy: Implement circular economy principles, such as recycling, (downcycling/upcycling) and reusing materials, as well as sourcing products that are biodegradable or made of recycled materials.

05 Sustainable transportation: Offering electric vehicle charging stations, bike-sharing programs, and shuttle services to reduce the environmental impact of transportation.

06 Sustainable tourism: Participating in sustainable tourism initiatives, such as supporting local communities and preserving the environment by investing in conservation as well as reforestation projects.

07 Carbon offsetting: Purchasing carbon credits to offset carbon emissions and contributing to renewable energy projects as well as purchasing green energy certificates.

08 Digitalization: Adoption of digitalization in the form of paperless check-ins and check-outs, digital menus, and keyless room entries, to reduce the environmental footprint.

If done correctly, using these strategies will allow hoteliers to improve the sustainability of their operations and consequently, this will lead to a point of differentiation that can be used to position their hotel as a being more environmentally friendly than competing brands. In other words, it will improve the reputation of the hotel in the customers' minds.

“With sustainability rightly becoming an increasingly important focus for the industry and their guests, clients, investors and suppliers, it is vital that the industry has the tools to measure and monitor their impact, and can be accurately recognised for their progress.”

– Glenn Mandziuk, CEO, Sustainable Hospitality Alliance

Online Reputation Management

Online reputation management (ORM) has become increasingly important for hotels in the digital age. With the proliferation of review websites and social media platforms, customers have more opportunities than ever before to share their experiences with others. As a result, hotels must be proactive in monitoring and managing their online reputation in order to maintain a positive image and attract new business. One key strategy for ORM in the hotel industry is to actively solicit and respond to customer feedback on review websites and social media. This allows hotels to address any negative comments or concerns in a timely manner and thus demonstrate to potential customers that they value guest feedback and take it seriously. Additionally, hotels can also use ORM to promote positive guest experiences and showcase their best features.



By effectively managing their online reputation, hotels can improve customer satisfaction, increase bookings and ultimately, drive revenue.

As suggested by research conducted at Cornell University, a review score increase of 1 point on a 5-point scale (e.g., from 3.3 to 4.3), allows a hotel to raise its price by 11.2 percent and still maintain the same occupancy and market share.

Online Reputation Management and Sustainability

Sustainability is important for effective ORM as it enables organizations to maintain a positive image and maintain good relationships with their customers. Ensuring that an organization's online presence aligns with their values, particularly in relation to environmental consciousness and sustainability, is vital. By actively engaging with their customers and also promptly responding to their feedback, organizations can foster trust and loyalty, which can raise their corporate reputation. Furthermore, ORM can assist organizations in identifying areas for improvement and to more effectively achieve their sustainability goals.

As outlined above, hotel guests are more likely to pay a premium as well as remain loyal to hotel brands that have a reputation for being sustainable. As such, there is a clear link between a good online reputation and revenue optimization.

“Sustainable practices in a hotel have a positive impact on customer experience and their likelihood of returning. Going green leads to better loyalty and word-of-mouth marketing, and higher customer satisfaction”

- Kearney: Global Management Consulting Firm





Revenue Management

Revenue management is a strategy employed to optimize a company's profits by forecasting customer demand, determining prices, and adjusting availability to maximize revenue. This approach is based on the principles of supply and demand and is commonly used in service industries such as hotels, airlines, car rental companies, and cruise lines. The objective of revenue management is to maximize revenue by understanding customer behaviors and preferences and forecasting when demand for a product or service will rise or fall. Indeed, being a continuously evolving discipline, the importance of revenue management has grown in recent years.

Revenue Management and Sustainability

Revenue management and sustainability are also interconnected as both aim to minimize operating costs and optimize profits. Additionally, revenue management can be employed to identify and create opportunities for sustainable practices, such as value based pricing offers for customers who use less energy and generally strengthen value proposition. Lastly, revenue management can be used to track the financial benefits of implementing sustainability initiatives, allowing businesses to measure their progress and make informed decisions.

Overall, sustainability and revenue management share quite similar objectives in terms of long-term profits, revenue, and cost management, making it logical to combine and promote sustainability efforts with revenue management efforts. However, it is important to first measure and benchmark the organization's current level of sustainability before implementing any strategies.

83% of global travelers think sustainable travel is vital, with 61% saying the pandemic has made them want to travel more sustainably in the future”

– Booking.com’s Sustainable Travel Report



ORM used to be considered as being separate from revenue management, however, it is now an integral consideration for revenue optimization. Equally, sustainability will also likely become increasingly important to revenue management and therefore, effective sustainability measurement and sustainability benchmarking will undoubtedly follow suit.

The Problem Statement

Suggesting a link between revenue management and sustainability may not seem evident at first, but these disciplines are related. In fact, it is well established that revenue management is not a standalone practice but related to other disciplines.

As outlined above, it has become widely accepted in recent years that ORM is closely related to revenue management as it deals with managing a business's online presence, which has a direct relationship with the prices that businesses can charge. In other words, a business's online reputation can have significant impacts on its revenue. A positive online reputation can lead to increased bookings and revenue, while a negative online reputation can lead to decreased bookings and revenue. Similarly, a business's sustainability practices could have a significant impact on its revenue.

Businesses that are seen as operating sustainably may therefore attract more customers and increase their revenue. On the other hand, businesses that are seen as being unsustainable may lose customers and decrease their revenue.

In other words, while these two disciplines may seem unrelated at first glance, they are in fact closely related. Revenue management and sustainability both involve making decisions that balance short-term and long-term goals. For example, a hotel may be able to increase its revenue by raising room prices, but this could lead to a decrease in bookings in the long run if the prices are too high in relation to the hotel's value proposition. Similarly, a hotel may be able to reduce its environmental impact by implementing sustainable practices, but this could lead to increased costs in the short-term.

Revenue management's link to sustainability can be seen as adding value to the business, subsequently allowing for the optimization of its price points. However, this is not so easily achieved, as measuring sustainability in the hospitality industry is a complex task, since it encompasses a multitude of different and interconnected factors. Moreover, there is lack of standardization in reporting environmental performance, which makes it difficult for hotel organizations to benchmark and communicate their environmental performance to their stakeholders. This problem highlights the importance of standardized methods and metrics for measuring sustainability in the hotel industry, as well as for greater transparency and comparability in reporting sustainability performance. Moreover, every hotel organization may have different environmental practices and policies, making it difficult to benchmark and compare their performance. This lack of transparency and comparability can undermine the trust and confidence of stakeholders in the hotel industry's commitment to sustainability.

The authors of this whitepaper are subsequently planning to conduct an applied research project, which will be focused on investigating the link between sustainability and revenue management by analyzing the financial performance of hotels that have implemented sustainable practices. The project will also investigate the impact of sustainable practices on customer satisfaction and loyalty. The findings of this research project will be used to develop a framework for integrating sustainability into revenue management. This framework will provide guidance for hotels and other businesses on how to balance short-term and long-term goals and make decisions that are both financially and environmentally sustainable.

“There are many regional pathways to a more sustainable future, but our lack of understanding about how these complex and sometimes contradictory pathways interact (and in particular when they synergize or compete with one another) limits our ability to choose the ‘best’ ones.

– Elena Bennett, Professor in the Department of Natural Resource Sciences at McGill University.

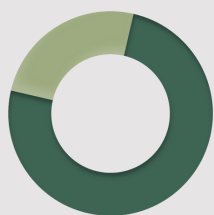


Insights from Hoteliers

As seen in the graphs below, our research shows that although hoteliers in Singapore do predominantly acknowledge the link between having a sustainable reputation and revenue management, the majority do not measure their sustainability efforts and are unable to effectively benchmark their sustainability efforts against their competitors.

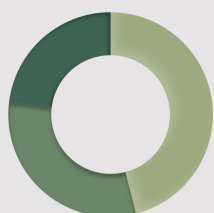


Of the 95 hoteliers surveyed, 75% see a clear link between sustainability and revenue management. However, 64% of the hoteliers either do not track their sustainability or feel that they do not have appropriate measures to do so. Moreover, 99% of the of the hoteliers surveyed feel that they are not able to effectively benchmark their sustainability against their competition.



Do you see a link between sustainability and Revenue management?

- 75% - Yes
- 25% - No



Do you measure your sustainability efforts?

- 36% - Yes
- 33% - No
- 31% - Looking for the right measure



Are you able to benchmark your sustainability efforts effectively against your competitors?

- 01% - Yes
- 68% - No
- 31% - Not yet

Considering therefore that the industry acknowledges the importance of sustainability and broadly sees the link between sustainability and revenue optimization, a lack of measurement in the industry and the consequent inability to benchmark, is holding hoteliers back from achieving competitive advantage in this realm.



Moving Forward

This whitepaper has discussed the topic of sustainability in the hospitality industry, its significance, and its relevance. Consequently, it makes sense to capitalize on these efforts and promote them to potential customers. Similarly, as revenue management has leveraged ORM by emphasizing high trust scores and subsequently raising prices, businesses can do the same with their sustainability efforts. A good ranking in sustainability, when benchmarked against the competition and industry averages, could enable hotels to promote these efforts and subsequently raise their prices.

It cannot be denied however, that initiating any new corporate policies presents challenges. Firstly, the identification of appropriate timing and momentum must be established. Secondly, progress must be objectively measured and finally, in the best case, benchmarking against competitors must be implemented. As demonstrated by various technology-based platforms such as Green Balance, GreenView and Envizi, it is now possible to not only measure sustainability efforts, but also to benchmark against competitors and industry averages to establish a ranking of sustainability performance.

The authors therefore suggest that hoteliers must firstly begin by measuring their sustainability performance. Secondly, that they make this data publicly available through platforms such as Green Balance and finally, that they begin benchmarking their sustainability efforts to assess their relative strengths and weaknesses in relation to the industry in order to improve their sustainability and through an improved corporate image, increase their revenues.

The authors therefore suggest the following action plan:



- Start by taking an inventory of your sustainability efforts with a clear breakdown of the focus areas i.e., energy, water, waste and carbon footprint.

- Gather data about the impact of each sustainability effort such as cost reduction in absolute numbers.

- Measure each focus area in terms of costs, both on a monthly and yearly basis.

- Look for a technology-based vendor offering benchmark services such as Greenview, Envizi or Green Balance, and share your sustainability data.

- Distribute the results among your stakeholders.

- Build your rating/ranks into your promotional action and add this to your value proposition.



Conclusion

The focus of this whitepaper is to highlight the importance of measuring sustainability in the hospitality industry to adopt more environmentally friendly practices and improve environmental performance. By implementing a practice of sustainability measurement and benchmarking, hotels can not only improve their environmental performance but also promote their sustainability efforts and subsequently increase their prices. The connection to revenue management is not only in the optimization of pricing but also, by incorporating sustainability scores, hoteliers will be adding value, which is paramount to conducting revenue management successfully. In the same way that ORM, such as the use of trust scores, allows for setting higher prices, positive sustainability scores could also be used to do so. This will be further researched by the authors of this whitepaper, with the aim of conclusively establishing this connection between sustainability and revenue management. However, in the short term, the important thing to remember is that to begin this journey of increased revenue resulting from sustainability, hoteliers need to first begin by actively measuring how sustainable they are relative to the industry.

In conclusion, this industry whitepaper's key take-away is that ...

... *“what you don’t measure, you can’t improve on.”*