Terminology and KPIs (+ Panel Discussion on RevPAR)

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KPIs for Revenue Management

The Big 3

- Occupancy %
- Average Daily Rate (ADR)
- Revenue per Available Rental Night (RevPAR)

** Note: Check out these, and other key terms, in the Vacation Rental Data and Revenue Management Glossary listed in the Conference Workbook*

Occupancy %

- *Paid occupancy rate*
  - Let's say you want to calculate the occupancy % for a rental unit for the month of June. You rented out the unit for 15 nights during the month:

    15 guest nights occupied/ 30 guest nights available

    => 50% occupancy

Occupancy %

- *Available [normalized] occupancy rate*
  - Now, let's say that the unit owner decided to take 10 guest nights out of inventory for his own use:

    15 guest nights occupied/ 20 guest nights available

    => 75% occupancy

Average Daily Rate

- Let’s say that the rental unit yielded $3,720 in revenue during the 15 days that it was rented out in June:
    - $3,720 in total revenue/ 15 occupied guest nights

      => $248 ADR

Occupancy vs. ADR

You can increase occupancy by lowering rates

You can increase rates but may lower occupancy

GOAL

Use **RevPAR** to balance occupancy and ADR

RevPAR

[Revenue per available rental night]

- There are two ways to compute RevPAR:

Occupancy % x ADR

OR

Total unit revenue/total guest nights available

RevPAR

- Let’s say that the rental unit yielded $3,720 in revenue during June, and that all 30 nights were available for rent:
    - $3,720 in total revenue/ 30 guest nights available

      => $124 RevPAR

ADR is better (more profitable) *IF* RevPAR is equivalent

Guest Nights Occupied	Occupancy %	Rate	Revenue	RevPAR	Variable Cost ($25 per night)	Marginal Profit
24	80.00%	$ 125	$ 3,000	$ 100	$ 600	$ 2,400
20	66.67%	$ 150	$ 3,000	$ 100	$ 500	$ 2,500
10	33.33%	$ 300	$ 3,000	$ 100	$ 250	$ 2,750
6	20.00%	$ 500	$ 3,000	$ 100	$ 150	$ 2,850

Comparing performance across units

- Let's say you are comparing performance across 2 units [a 3-bed, and a 6-bed] for the month of June
- RevPAR:

	Revenue	Available guest nights	RevPAR
3-bed	$10,000	30	$333.33
6-bed	$12,000	30	$400.00

RevPAB

[Revenue per available bedroom]

- Now let's compare performance based on number of bedrooms:

$$\textbf{RevPAB} = \frac{\textbf{Total unit revenue}}{\textbf{Total bedrooms available}}$$

	Revenue	Available Bedrooms
3-bed	$10,000	30 x 3 = 90
6-bed	$12,000	30 x 6 = 180

=> 3-bed: $10,000/90 = $111.11

=> 6-bed: $12,000/180 = $66.66

RevPAS

[Revenue per available sleep nights]

- Say your properties drive a lot of ancillary spend: the number of heads on beds matter!

$$\textbf{RevPAS} = \frac{\textbf{Total unit revenue}}{\textbf{Total sleep nights available}}$$

	Revenue	Available Sleep Nights
3-bed	$10,000	30 x 7 = 210
6-bed	$12,000	30 x 15 = 450

=> 3-bed: $10,000/210 = $47.62

=> 6-bed: $12,000/450 = $26.67

Emerging Metrics

- Counting costs:

E.g.: Net RevPAR:

$$\frac{\textbf{Total revenue minus booking costs and Sales and Marketing expenses}}{\textbf{Total guest nights available}}$$

Recall our RevPAR example

- Rental unit yielded $3,720 in revenue during June, and all 30 nights were available for rent:

$$\textbf{RevPAR} = \frac{\$3{,}720 \text{ in total revenue}}{30 \text{ guest nights available}} = \$124$$

Net RevPAR

- Now, let's assume that the booking costs and Sales and Marketing (S&M) expenses associated with the rentals for the month were $744.

Net RevPAR:

$$\frac{\text{\$3,720 in total revenue minus \$744 booking costs and S\&M expenses}}{\text{30 guest nights available}}$$

=> $90.20

Key takeaway

- Know when to use the ‘right’ metrics
    - What gets measured, get’s managed
    - What gets measured, get’s improved

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Industry Data Overview:

What Matters?

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Data Types

Scraped Data vs Authoritative Data

- Authoritative (or Source) Data is the data that is stored in your system of record, typically this is your property management system
- Scraped data is data that is sourced from a third party using technology to extract data from human-readable output coming from another system. The most common in our industry are companies that scrape data from Airbnb, Booking and VRBO and resell that data to managers and other interested parties.

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When to use each?

When to use Authoritative Data

- As often as possible! Essentially the further a data set gets from the system of record, the less reliable that data is. You use your property management system to report owner income for example because it will always be more reliable than getting a scraped data source report that shows you what each of your home's booked for that month
- Challenge: Most of the data we want is not available from the authoritative data source. Most people do not share all of their property management system data for good reason. There is often personal information such as Owner and Employee information that is sensitive and should be kept confidential.
- Companies such as Key Data, LSI Tools and VRMA Insights are making it easier to get Authoritative data from other managers without getting too much information that would violate confidentiality.
- When reaching conclusions using data, you want to have as little margin from error as possible and getting data directly from the source will always reduce that margin of error. Think of it as similar to getting a story directly from someone who was part of the story vs second hand or more.

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When to use each?

When to use Scraped Data

- When the authoritative data available doesn't complete the picture for a critical business question you are trying to answer using a data driven approach.
- Example: Identifying changes in supply in your market. You could manually look at Airbnb, Booking, Homeaway and all of your competitors' websites and monitor all of their properties to detect increases or decreases in supply but that would be a ridiculously time consuming process that is far better served by a scraping tool.
- Scraped Data is wonderful for identifying static data - does a property exist? Who manages it? How many bedrooms is it?
- Scraped data becomes less reliable the more dynamic a data point is. For example, a nightly rate displayed on Airbnb may or may not actually reflect the price that property is being rented for on Airbnb let alone on other channels. While discounting is less common on Airbnb, guests still inquire for dates and request discounts. Managers also tend to wrap in a lot of fees, taxes and other expenses that don't fit into Airbnb's pricing scheme.

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What should you be using data for?

You're probably already doing it!

Most PMs use data every day to make operational decisions such as:

- How many check ins you have that day
- How many housekeepers you need based on average clean time
- How you are you doing with guests? Most people are using Reviews, some are starting to use NPS and some also segment reviews by channel and dig into specific ratings for different aspects of the stay.
- How many reservations did you get yesterday, last week, last month, etc?
- How is my portfolio doing Year over Year?
- How is that property doing Year over Year?

- All of these questions so far along with many others can likely be answered by reports within your PMS. If not, you should probably consider getting a new one.

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But what about all of this other data?

There is certainly more you can do, but focus is key.

Be Intentional about the data you are reporting on and/or buying:

- What decisions do you plan to make with the data you are harvesting/buying?
- Does the cost of both money and time for the data you are reviewing equal less than the *incremental* revenue that you expect to gain from it?
- What is the quality level of the data you are using? What is the margin of error for that data and if the data is not reliable enough, can you make decisions based on the information it provides?

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Data use in Pricing Strategy

I know I should use a data driven approach for pricing, but what data should I use?

The short answer is that it depends and if that is not the answer someone gives, you should ask more questions:

- Generally speaking the price for a given property should always be what the market will bear for that specific property with the booking window that remains.
  - Example, if you have a 10 bedroom castle that is ski in/ski out in Vail, the price for that property should be astronomical for Christmas week today as the demand is higher than the total supply in Vail for that week and you have an incredibly unique property. If you are trying to book next Monday and Tuesday for the same house, the market rate may very well be lower than the owner is willing to accept so it will likely go vacant.

Determining that market rate is the problem as the factors are constantly shifting and the number one factor that shifts is the attributes of the property you are trying to book relative to the remaining competitive properties available on the market.

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Data use in Pricing Strategy

Different Approaches:

Most successful managers who are using dynamic pricing set initial pricing from one of the following data sources:

- Base rate for property based on analysis of market with variances by date set by occupancy, ADR, property qualities from similar units, and advertised rates from similar units.
- Seasonality of property based on market data - typically ADR for booked dates and occupancy
- Property's past performance
- Cohort's past performance (Typically narrowed down to a comp set that resembles the property in question as close as possible)

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Data use in Pricing Strategy

Data Points to consider for ongoing rate adjustments:

Factors that revenue managers and revenue management systems may include in the data sets they capture include:

- Quality of Reviews
- Quality and breadth of marketing efforts for the specific property:
- Length of Time property has been on the market:
- Weather forecasts: snow, fires on the west coast, hurricanes, etc.
- There are thousands of other data points that influence vacation rental pricing

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Data use in Growth Strategy

So much data is available to help you grow your inventory!

Types:

- Assessor data - there are several resellers of county assessor data and many PMs have been using this property information to identify prospective owners and mail them for years. One of these options is Melissa Data but there are several available.
- Scraped data that matches the property address to listings on Booking, Airbnb and Homeaway so you can develop a more complete picture of the properties you are targeting.
- Mortgage data - owners with mortgages are far more likely to be open to renting their properties as vacation rentals
- Scraped data that helps give an estimate of how a property may be performing that is being managed by one of your competitors or self-managed. I would caution you not to use that data as an exact income as it may backfire if the data is incorrect but generally you can identify underpriced or underperforming units and then verify it by reviewing the property and comparing the data you received against similar properties in your inventory.
- Scraped data to identify properties that have very few reviews or bad reviews. This could cut both ways, it could give you insights into properties you want to steer clear from or it could be an opportunity to rescue an owner from a bad manager or get them out of the self management business.

RevPar Debate Panel

Julie Brinkman, Beyond Pricing

Anurag Verma, PriceLabs

Heather Richer, Richer Logic

Steve Milo, Vtrips

Jordan Locke, RevPARTY

Melanie Taylor, Key Data