RAVI MEHROTRA

Speaking the Universal Language

Can a company called "IDeaS" live up to its name? By taking a scientific approach to ROI, it just may.

For many of us, when we hear terms like "price elasticity" or see equations like $(\Delta R/R)/(\Delta P/P)$, it makes our heads hurt. We studied math and science in college because we had to, but now that we're in our careers we don't expect to actually have to use them, right? However, with the economy forcing their hands, hotel owners and their revenue managers have discovered that math and science do come into play.

When times are good, the concepts of supply and demand are fairly straightforward. But current economic conditions aren't good, especially for hotels. Determining new price points for rooms and event spaces

A basic illustration that demonstrates the concept of price optimization:

EXAMPLE 1
Room Rate: $40
Rooms Sold: 60
$40 x 60 = $2,400

EXAMPLE 2
Room Rate: $60
Rooms Sold: 40
$60 x 40 = $2,400

OPTIMAL SOLUTION
Room Rate: $50
Rooms Sold: 50
$50 x 50 = $2,500

that still increase the bottom line becomes quite complicated. If only one had a scientist on his side to help figure it all out. Ravi Mehrotra is just the guy. A Ph.D. of electrical and computer engineering, Mehrotra is the president and founder of IDeaS Revenue Optimization, a Bloomington-headquartered provider of revenue management solutions and services. The company began in the '80s and today has systems installed in 1,800 properties worldwide, from five-star hotels to roadside inns.

For Mehrotra, when a hotel is working to determine its best room rate, it's all about math and science—making decisions in a reasonable manner for different time frames or calculating risk during an uncertain marketplace. Mehrotra created an optimization system to which hotels can subscribe. IDeaS studies a particular hotel's room rates, does some fancy math that's best left up to the experts, and then offers up a solution that should help revenue.

"People think revenue management only works in good times," Mehrotra says. "Revenue management is infinitely more important when demand does not exceed capacity. Then you have to say yes to everyone and the only thing you have in your hand that you can control is price. If you get this wrong, it will cost you in a huge way."

In tough times, Mehrotra says hotels don't fully focus on their brand. Instead, they worry most about putting heads in beds and filling meeting space, which means they drop their prices. And, this affects the industry as a whole. Mehrotra uses math to demonstrate the fine line between dropping price the right way versus a way that's detrimental. In the simplest of terms, he says if a hotel drops its room rate from $100 a night to $50 a night, that's 50 percent off. However, when the economy starts turning around, and that same hotel wants to once again charge $100 a night, that's a 200 percent increase.

"That increase will be seen by the guests much more than the drop will," he says. "Then when you look at the reality that this is cyclical, what is the best way to manage your prices so you are maximizing revenues for a much longer period of time, as opposed to reacting in ways that can hurt you later?"

It's not necessarily about filling up the hotel, Mehrotra says. It's not necessarily about charging the maximum amount of money. It's about balancing the two sides to optimize revenues. And, with the Internet, and Web sites like Expedia, a hotel's competitors and costumers now have all the information, too. To Mehrotra, this means the job of revenue management has changed; they now have to study distribution, pricing, packaging, contracts, profits and even statistics. "Revenue management is more about how to maximize the profitability of the business as a whole as opposed to only one aspect of the business," he says. "There is a point that if you drop the price below that amount, you may increase demand but only at the expense of revenue." IDeaS helps hotels pinpoint that price.

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