

8-2019

# Implementing Revenue Management in Your Restaurants: A Case Study with Fairmont Raffles Hotels International

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## Recommended Citation

Kimes, S. E., & Ho, J. (2019). Implementing revenue management in your restaurants: A case study with Fairmont Raffles Hotels International. *Cornell Hospitality Report*, 19(5), 1-13.

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## **Abstract**

In 2015, Fairmont Raffles Hotels International implemented a system-wide revenue management program in its restaurants. Starting with an analysis of baseline data, Fairmont applied a five-step revenue management process to highlight potential revenue-enhancement opportunities. Restaurant managers and employees were invited to suggest tactics and strategies drawn from three categories: (1) all-purpose strategies, (2) strategies to use when a restaurant is busy (hot), and (3) strategies to use when a restaurant is not busy (cold).

Appropriately chosen strategies were simple to implement in most cases, and guests often were pleased with the operational and menu changes. Within a year of implementation, Fairmont restaurants that implemented revenue management had generated five times more revenue growth than those not applying the program.

## **Keywords**

restaurants, revenue management

## **Disciplines**

Hospitality Administration and Management

## **Comments**

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# *Implementing Revenue Management in Your Restaurants:*

## **A Case Study with Fairmont Raffles Hotels International**

*by Sheryl E. Kimes and Jeannette Ho*

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### EXECUTIVE SUMMARY

**I**n 2015, Fairmont Raffles Hotels International implemented a system-wide revenue management program in its restaurants. Starting with an analysis of baseline data, Fairmont applied a five-step revenue management process to highlight potential revenue-enhancement opportunities. Restaurant managers and employees were invited to suggest tactics and strategies drawn from three categories: **(1)** all-purpose strategies, **(2)** strategies to use when a restaurant is busy (hot), and **(3)** strategies to use when a restaurant is not busy (cold). Appropriately chosen strategies were simple to implement in most cases, and guests often were pleased with the operational and menu changes. Within a year of implementation, Fairmont restaurants that implemented revenue management had generated five times more revenue growth than those not applying the program.

Keywords: restaurants, revenue management

Disciplines: business, food and beverage management, revenue management

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## ABOUT THE AUTHORS



**Sheryl E. Kimes**, PhD, is professor emerita of service operations management at the School of Hotel Administration in the Cornell S.C. Johnson College of Business. She has served as interim dean of the school, and also as the school's Richard and Monene P. Bradley Director of Graduate Studies. Kimes teaches revenue management, restaurant revenue management, and service operations management. She has been named the school's graduate teacher of the year three times and was awarded a Menschel Distinguished Teaching Fellowship by Cornell University in 2014.

Kimes's research interests revolve around revenue management in the restaurant, hotel, and golf industries. She has over 100 articles in leading journals, such as *Interfaces*, *Journal of Operations Management*, *Journal of Service Research*, *Decision Sciences*, and the *Cornell Hospitality Quarterly*.

She was awarded the CHR Award for Industry Relevance in 2010, 2012, and 2014 and was given a lifetime achievement award by the Production and Operations Management Society in 2010.

Kimes has served as a consultant to many hospitality enterprises around the world, including Chevy's Fresh Mex Restaurants, Walt Disney World Resorts, Fairmont Hotels and Resorts, Starwood Asia-Pacific, and Troon Golf. She was given the Vanguard Award for Lifetime Achievement in Revenue Management by the Hotel Sales and Marketing Association International in 2017.

**Jeannette Ho** was vice president of revenue and customer analytics, Fairmont Raffles Hotels International at the time of the study discussed in the accompanying article. She has since become vice president Raffles global brand strategy and strategic relationships, AccorHotels. Jeannette joined Raffles in 2005 and has held leading roles in brand marketing, customer analytics, distribution, revenue management, and guest experience with Raffles and its parent companies.

As VP marketing for Raffles, Jeannette played an instrumental role in the transformational openings of Raffles Dubai, Raffles Beijing during the 2008 Olympics and Le Royal Monceau–Raffles Paris. Previously, she held various senior-level positions with international companies such as Singapore Airlines, Banyan Tree, and Starwood Hotels & Resorts.



Jeannette holds a first class honours degree from the London School of Economics, University of London, and was awarded both the British High Commission's Award and the Singapore Airlines Scholarship. She is an active speaker at industry conferences, guest lecturer for Masters in Innovation at Singapore Management University, and has co-authored numerous papers with leading services marketing academics from Cornell University and National University of Singapore.

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**O**riginated by the airline industry, revenue management (RM) has been applied to restaurants for over 20 years.<sup>1</sup> Although the principles are similar, restaurant RM requires a somewhat different approach than that applied by airlines. The restaurant approach involves implementing the following five-step process.<sup>2</sup> Restaurants first need to establish their baseline performance (Step 1) and then seek to understand the causes for that performance (Step 2). With that knowledge, they can formulate strategies on how best to drive revenue in their restaurants (Step 3). Subsequently, they face the challenging task of implementation (Step 4). This implementation involves strategies that fall into three categories: **(1)** all-purpose strategies, **(2)** strategies to use when your restaurant is busy (hot), and **(3)** strategies to use when your restaurant is not busy (cold). Finally, they need to measure whether their strategies were successful (Step 5).

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<sup>1</sup> Kimes, Sheryl E., Richard B. Chase, Sunmee Choi, Philip Lee, and Elizabeth Ngonzi. 1998. "Restaurant Revenue Management: Applying Yield Management to the Restaurant Industry," *Cornell Hotel and Restaurant Administration Quarterly*. 39 (3): 32-39; Kimes, Sheryl E. 2004. "Restaurant Revenue Management," *Center for Hospitality Research Report*. Cornell University.

<sup>2</sup> Kimes, Sheryl E., Deborah I. Barrash, and John E. Alexander. 1999. "Developing a Restaurant Revenue Management Strategy," *Cornell Hotel and Restaurant Administration Quarterly*. 40 (5): 18 - 30.

This report illustrates the application of the five-step RM process and its attendant strategies using as an example the revenue management program implemented by Fairmont Raffles Hotels International.

## The Fairmont RRM Journey

Fairmont embarked on its restaurant revenue management (RRM) program in 2011, starting with several pilot restaurants in their Singapore hotels and then expanding the pilots into restaurants in China, the U.S., and Canada. By 2018, RRM had been deployed to over 70 percent of their F&B revenue. The results were striking. Restaurants using RRM generated five times more new revenue growth than restaurants not using RRM in their first 12 months of application.

**Noisy data.** The first issue to overcome involved acquiring baseline data and then reducing the noise in those data. During the pilots, we quickly realized that data were challenging to obtain, and even when obtained were often “dirty.” We saw numerous instances of zero cover counts, incorrect starting and ending times, and obviously incorrect check amounts (e.g., zero or impossibly high). Indeed, when we first started RRM, zero cover counts accounted for 40 to 50 percent of all transactions.

Upon inspection, we determined that the zero cover counts came about for two reasons: inaccurate server data entry and confusion over the definition of a cover. We addressed those two issues as follows.

First, we needed to resolve the definition of a cover. Like many hotels and restaurant chains, Fairmont defined a cover as the sale of an entrée. This meant that almost all cover counts in the lounges were zero, no matter how busy the lounges actually were. Operators recorded incorrect party-size information for parties that shared an entrée or just ordered starters. The issue of how to define a cover has since been rectified by the *Uniform Systems of Accounts for the Lodging Industry*, 10th edition, which now clearly states that a cover is a customer, regardless of whether that customer orders an entrée.

With the definition of a cover clarified, the next goal was to reduce the incidence of zero cover counts. To address this issue, Fairmont emphasized the importance of entering an accurate cover count in its server training. By 2016, the zero-cover-count percentage had dropped to 10 to 11 percent (most probably due to split checks). Only 1 to 2 percent of zero-cover-count transactions remain unexplained.

We found another source of dirty data at buffets. The manager of one of the buffet restaurants complained about how long it took guests to complete

their meals. However, when we looked at the data, we noticed that check opening and closing data indicated that a substantial portion of guests took less than ten minutes to dine (which we considered impossible). Investigating this apparent contradiction, we discovered that the servers were not opening the check when guests were seated, but were instead waiting until guests requested the check.

These data issues are certainly not confined to just Fairmont. Over the past fifteen years, we’ve noticed the same problems in restaurants around the world. The source of the noise is employee-entered data, which is more likely to be error-prone than computer- or machine-generated data regardless of industry. Fairmont, like other companies facing the same dirty data issues, began to stress the importance of entering data correctly and provided training to ensure that correct entry occurred.

## Getting Started

Before embarking on their RRM journey, Fairmont’s restaurants needed to determine their baseline performance. To do this, we developed an RRM dashboard for each restaurant and used it as a basis for identifying the appropriate RRM strategies to deploy.

We measured the following five key metrics: table occupancy, seat occupancy, average check per person, meal duration, and RevPASH (revenue per available seat-hour, which we define below). All metrics were calculated by day of week and time of day.

Table occupancy gives a clear indication as to how busy a restaurant is. Logically, if the table occupancy nears 100 percent, there will almost certainly be customers waiting for tables. Table occupancy is calculated by dividing the number of table-hours used (# of covers multiplied by the average meal duration) by the number of table-hours available (# of tables multiplied by the number of hours in question).

Seat occupancy gives an indication of how completely the restaurant’s tables are being used. The idea here is that occupied tables should not have numerous empty seats. Seat occupancy is calculated by dividing the number of seat-hours used (number of customers served multiplied by the average meal duration) by the number of seat-hours available (number of seats multiplied by the number of hours in question). Note that a restaurant can have a high table occupancy, yet have a fairly low seat occupancy, for example, when numerous singletons or deuces are occupying four-tops. This is an indication that the restaurant has a poor table mix.

Average check per person is a commonly used metric that is simple to calculate, assuming that the data are available and accurate. It is simply the total check amount divided by the associated party size. As discussed below, if the check amount is incorrect or if the party size is missing, it may be impossible to develop an accurate estimate of the average check per person.

Meal duration is typically calculated from POS data and is calculated by subtracting the opening time of the check from the closing time of the check. As we noted above, meal duration calculations will be inaccurate if checks are not opened and closed in a timely fashion.

RevPASH (revenue per available seat-hour) is a measure akin to RevPAR (revenue per available room) commonly used in the hotel industry. This measure indicates how well a restaurant is using its inventory of seats. RevPASH can be calculated in two ways. The simplest way to calculate it is to divide the revenue earned by the number of seat-hours available (number of seats multiplied by the number of hours in question). The other approach is to multiply the average check per person by the seat occupancy and divide by the meal duration.

One of the key challenges that we faced was helping restaurant operators understand the difference between being operationally busy and revenue-management busy. We found that many of the operators stated that they were quite busy, and that was true for some restaurant sections. But we also noticed that some of the other sections in a particular restaurant were closed, and sometimes reservations were being turned away even when there was available capacity.

## The Strategies

Fairmont applied one or more of the three categories of strategies to improve its restaurant operations. Again, the strategies are (1) all purpose, (2) hot strategies, and (3) cold strategies. For each strategy, we will describe the available tools and then provide an example of successful implementation.

### All-Purpose Strategies

Three all-purpose strategies can help restaurants generate incremental revenue regardless of how busy they are. The strategies are (1) menu engineering, (2) menu design, and (3) server mentoring and upselling. We will briefly describe each strategy and then provide an example of successful implementation at Fairmont.

**(1) Menu engineering.** Menu engineering has been examined in considerable detail since it was introduced three decades ago.<sup>3</sup> While there are a number of variations, the essential approach involves determining the contribution margin (selling price less food cost) and the sales volume of each menu item by menu category (e.g., starter, entrée, or dessert). For each menu category, the classic approach assigns items to one of four quadrants. Menu items are classified as Stars (above average contribution margin and sales volume), Cash Cows (below average contribution margin and above average sales volume), Puzzles (above average contribution margin and below average sales volume), and Dogs (below average contribution margin and sales volume).

Managers then use these classifications to determine possible actions to take with each menu item. For example, with Star menu items, recommendations might involve highlighting them on the menu, featuring them as a signature dish, or perhaps raising the price. On the other hand, possible courses of action for Dogs might be to bundle them with other menu items, drop them from the menu, or even raise the price of the menu item (to gain more contribution margin from the relatively scant sales).

The menu engineering process need not be onerous. In its simplest form, it just involves meeting every month or two (or whenever the menu is about to be changed), reviewing the classifications, and using those classifications to guide some of the menu changes. The resulting changes in sales volume and contribution will help determine whether the changes were effective or whether further revisions are required (or should be undone).

**Menu engineering at Fairmont.** Fairmont developed an Excel-based tool for their restaurants to analyze their menu items (see Exhibit 1, overleaf). The tool also gives guidance on which actions to take for a particular menu item.

For example, the firm's potential tactics for Cash Cow menu items included reducing the portion size or

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<sup>3</sup> The seminal work on menu engineering was done by Michael Kasavana and Donald Smith (see: Kasavana, Michael L., and Donald A. Smith. 1990. *Menu Engineering: A Practical Guide to Menu Analysis*. Revised Edition. Okemos, Mich.: Hospitality Publications, Inc.). For other research on menu engineering, see: Atkinson, Helen, and Peter Jones. 1993. "Menu Engineering: Managing the Foodservice Micro-Marketing Mix," *Journal of Restaurant & Foodservice Marketing*. (1): 37–55 or Leo Yuk Lun. 2005. "The Application of Menu Engineering and Design in Asian Restaurants," *International Journal of Hospitality Management*, 24(1): 91–106.



## EXHIBIT 1

### Menu engineering tool

Dinner Entrées Matrix							
Menu Segment: <b>Dinner Entrees</b>		Start Date: 1-Apr-13		End Date: 30-Jun-13			
<b>Cash Cow</b> <b>Recommendations:</b> Adjust ingredients to increase CM / reduce portion without compromising quality or perceived value. Bundle with items that have higher CM. Conduct competitive pricing analysis, make price changes carefully, monitor any downward demand shifts.		<b>Star</b> <b>Recommendations:</b> Highlight Stars on menu; feature as Signature Dishes; Server "Favorites"; use in Sales Promos/Contests. Raise Prices. Consider menu extensions on this item.		<b>Dog</b> <b>Recommendations:</b> Should be "Strategic Dog" which balances menu (vegetarian) or supports concept(local); if not consider removing. Determine why item is not selling. Can a Menu Description/Design change or revamped recipe improve sales? Adjust recipe to increase Contribution Margin.		<b>Puzzle</b> <b>Recommendations:</b> Seek feedback on why the item is not selling. Will Menu Description/Design change or revamped recipe improve sales? Competite pricing analysis: should price be reduced? If desirable & correctly priced, highlight item with menu & servers (promos, contests).	
<b>Item Name:</b>	<b>Profit Delivered</b>	<b>Item Name:</b>	<b>Profit Delivered</b>	<b>Item Name:</b>	<b>Profit Delivered</b>	<b>Item Name:</b>	<b>Profit Delivered</b>
CRAB CRUST KAMP	35.156	FILET	36.556	ONO	12.586	NEW YORK STEAK	14.574
SEAFOOD TRIO ENT	26.336	LOBSTER	26.502	GRILL PORK CHOP	11.232	AHI TATAKE	6.084
LINGUINI	20.264	DINNER SPECIAL	19.982	SALMON	11.288		
				MUSHROOM RISOTT	8.16		
				HULI CHICKEN	3.904		

## EXHIBIT 2

### Lunch menu at Jaan

#### LUNCH at J A A N

##### Artisanal Cuisine

3 course menu 68  
Including coffee

##### A P P E T I S E R S

RICE CURED ATLANTIC MACKEREL  
Caviar, rattes, horseradish

QUAIL & FOIE GRAS BALLOTINE  
Pickled onion, pumpkin, samosa  
(Supplement \$15)

J A A N ' S G A R D E N  
Season's best composition, wild herbs

##### M A I N C O U R S E S

CONFIT LINE CAUGHT RED SNAPPER  
Carrots "Saveurs d'Orient" crayfish, saffron

SALT MARSH WELSH LAMB  
« Provence » Asparagus, « Nicoise » olives, barley  
(Supplement \$15)

bundling them with menu items with a higher contribution margin (CM). For menu items classified as Stars, the firm tested highlighting them on the menu or raising their prices. Dogs were divided into Strategic Dogs and True Dogs. Strategic Dogs provide balance to the menu (perhaps by offering vegetarian options) or support the restaurant concept, while True Dogs might eventually be dropped from the menu if sales or

margins could not be improved. To adjust items classified as Puzzles, Fairmont proposed such strategies as changing the menu item description, dropping the price, or highlighting the item on the menu.

**(2) Menu design.** Menu engineering can be used to determine which menu items to highlight (or hide), but other menu design tools can be used to help restaurants generate more revenue from their menus. Designing a menu for revenue generation involves four key issues: **(1)** how to name the menu item, **(2)** how to describe it, **(3)** where to place it, and **(4)** how and where to display the price. Numerous studies have examined the effects of how an item is presented on a menu.<sup>4</sup>

**Menu design at Fairmont.** Jaan, a well-regarded modern French restaurant at the Swissôtel in Singapore,<sup>5</sup> introduced a supplement of \$15 to \$25 for high demand items on their lunch menu. In addition, they highlighted those items on the menu to attract attention (Exhibit 2). The results were positive, as average food check per person increased by \$16 and revenue exceeded budget by 36 percent.

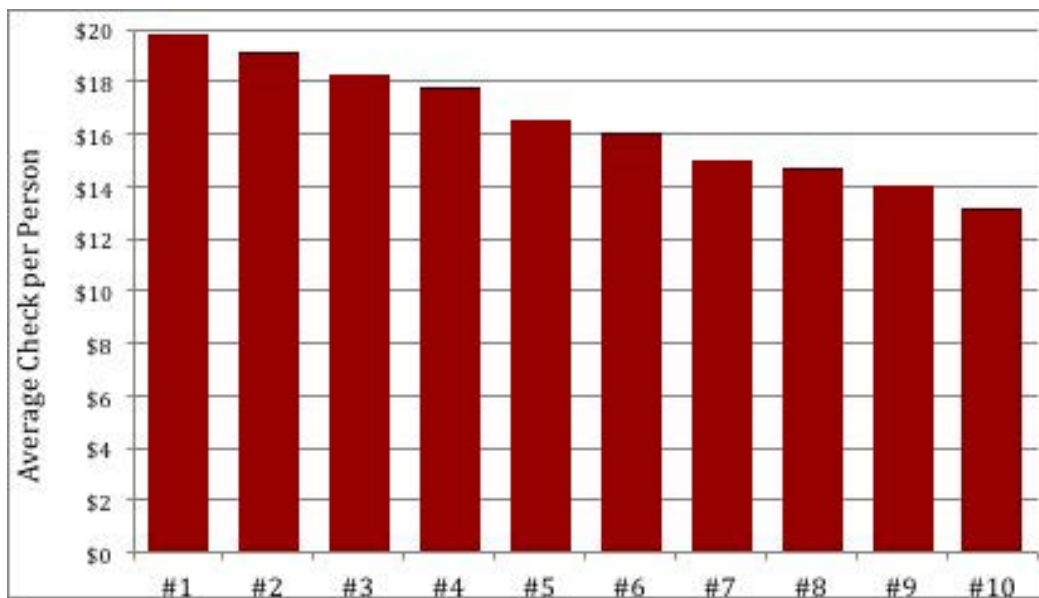
**(3) Server mentoring and upselling.** Another all-purpose tool is to improve servers' selling skills. For example, consider a restaurant with 10 servers that has an average check per person of \$16. Say that the top-performing server has an average check per person of about \$20, while the bottom-performing server has an

<sup>4</sup> For a good review of menu design fundamentals, see: Yang, Sybil S., Sheryl E. Kimes, and Mauro M. Sessarego. 2009. "Menu price presentation influences on consumer purchase behavior in restaurants," *International Journal of Hospitality Management*. 28(1): 157-160.

<sup>5</sup> Winner of the S. Pellegrino Young Chef for Southeast Asia in 2015.



## Average check per server



average check of around \$13 (Exhibit 3). If the bottom-performing server can increase his or her average check per person up to the overall average, the restaurant can generate an additional \$3 per check. (Plus, if the restaurant permits tipping, the server receives an additional 60 cents in tips per check.)

**Server mentoring at Fairmont.** To assist the poor-performing servers, Fairmont drew on an innovative approach called Single Server Mentoring (SSM), developed by Averro (www.averroinc.com). SSM has been adopted in over 10,000 restaurants, and restaurants using SSM have generated over US\$40 million in incremental revenue.<sup>6</sup> Restaurants using this method extract data from the POS system to analyze menu item sales by server. They then pinpoint areas in which a server is either below or above average and give managers specific advice on how to mentor individual servers on how to improve.

Restaurants can, of course, train servers to upsell without a formal SSM program. The formal program provides specific financial information regarding upselling. Otherwise, managers must rely on telltale signs that upselling might help increase revenue, for example, when guests are just ordering the lowest cost or simplest menu items with no add-ons or starters.

After Fairmont adopted SSM in their restaurants, the firm realized an annualized US\$3.5 million incremental uplift in 2015, as the program brought up average checks of 419 lower performing servers. The training brings an equivalent of US\$8,273 of revenue uplift per selected server per year. In addition, customer satisfaction increased.

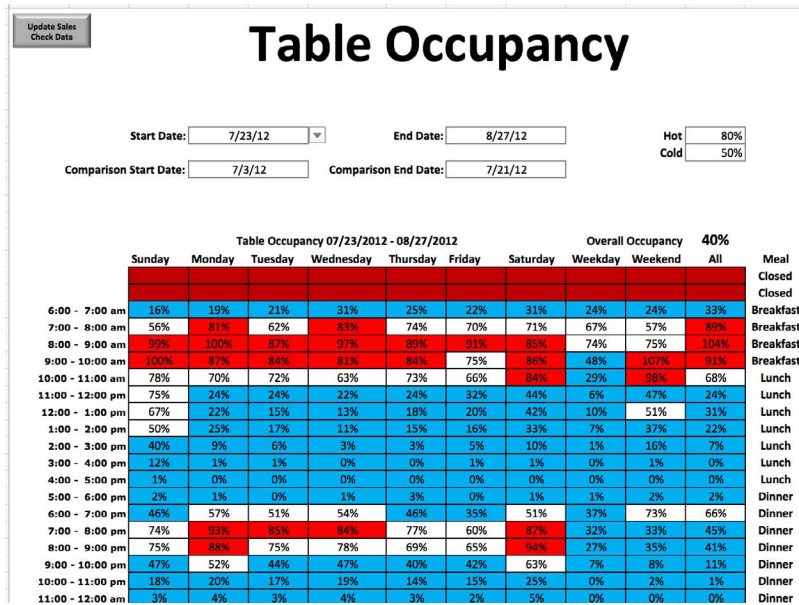
Sales of *foie gras*, a high-margin signature dish, provide an example. A manager using the SSM approach noticed that the stronger servers sold *foie gras* to six of every ten guests, but that the lowest performing server sold *foie gras* only to two out of ten guests. When the manager pointed this out to the server, she explained that since she hated liver, she did not want to suggest that guests order *foie gras*. Once the server realized that most guests liked the *foie gras*, she shadowed some of the more successful servers and learned how to pair it with wine. As a result, she became one of their top performing servers.

A key challenge Fairmont faced was how to motivate the servers to participate in SSM. In countries where tips are common (e.g., the U.S.), it was not difficult to provide motivation since a higher average check results in higher tips. The question, however, was how to implement an upselling program in restaurants where tips are not customary. At first, the firm offered rewards such as hotel vouchers and monetary awards, but then they realized that the serv-

<sup>6</sup> www.averroinc.com/products/view/single-server-mentoring

## EXHIBIT 4

### Sample dashboard



To identify hot and cold periods at Fairmont, we calculated table occupancy by day of week and month. Hot periods were typically defined as hours in which the table occupancy was over 80 percent, while cold periods were usually defined as hours in which the table occupancy was under 50 percent. Each restaurant involved with the RRM program was provided with a simple dashboard that allowed them to quickly see the percentage of time the restaurants had hot or cold periods (Exhibit 4). Once these had been identified, the restaurant manager, the director of food and beverage, and the director of revenue management could begin to determine which tools to deploy at which times.

Tools to deploy during hot times are adopting a better table mix, better managing reservations, restricting promotions, and implementing premium pricing. Suggestive selling can also be used, but only if it does not extend

ers enjoyed the competition and liked the recognition. Now the restaurants show sales results on a weekly basis so servers can see how they are performing versus their peers.

### Is It Hot or Is It Cold?

In addition to the all-purpose tools that we just outlined—tools that can be applied no matter how busy a restaurant is—certain revenue management tools work better if a restaurant is extremely busy or not busy at all. Thus, the choice of RM tools we discuss next depends upon how busy your restaurant is. As a starting point, we have found it effective to classify different time periods as either hot (busy) or cold (not busy). This simple approach works well and, in our experience, makes it easier for restaurants to determine which tools to deploy at which times.<sup>7</sup>

Telltale signs of hot periods are full tables, queues, and declined reservations. Conversely, cold periods are easy to spot—too many empty tables. Typically, a restaurant will have some hot periods and some cold periods. The trick is to identify when they occur.

<sup>7</sup> This characterization was borrowed from erstwhile coauthor John Alexander, former CEO of CBORD, a provider of menu systems, food production management, and other computerized support for congregate dining facilities. See: Kimes *et al.* 1999.

meal duration, since it would it most probably be better to seat another party rather than sell espresso and dessert.

During cold (or not-hot) periods, the operator should focus on making the best of the situation by maximizing its use of distribution channels (online and mobile reservations or ordering) and offering targeted promotions and discounts. Servers should also use suggestive selling since it really doesn't matter how long guests stay at a table. On the other hand, trying to find a better table mix is not really an issue since tables are empty anyway. Exhibit 5 summarizes the appropriate tools to be deployed for hot and cold periods

### Hot Tools

Let's look at the "hot tools" in more detail.

**Adjusting table mix.** The optimum table mix matches the mix of table sizes and availability to the mix of party sizes. Thus, telltale signs that indicate that the table mix should be changed are when there's a mismatch between table and seat occupancy or a mismatch between the party-size mix and the table-size mix, and when there's a queue because all tables are occupied even though there are plenty of empty seats.

A study on the impact of the optimal table mix at Chevys FreshMex restaurants found that the optimal table mix would allow a restaurant to serve up to 35 percent more customers while maintaining the same waiting time.<sup>8</sup> Clearly, an improved table mix has great promise for busy restaurants.

**Table mix at Fairmont.** While an optimal table mix can help increase revenue, Fairmont noticed that many of their restaurants were not busy enough to justify the investment unless they were undergoing a renovation. The firm viewed an optimal table mix as an ideal, but from a practical perspective they instead chose to focus on providing a flexible table mix that could be reconfigured by meal period and day of week, on other restaurant design features, and on selecting the right mix of reservations.

By having a flexible table mix, Fairmont could change their table mix according to expected party size mix for each meal period (either from reservations data or from historical data). This is not the same as changing their table mix as parties arrive. As Thompson has shown, changing the table mix “on the fly” is a suboptimal solution for larger restaurants (defined as 200 seats) since it results in idle tables.<sup>9</sup>

Fairmont has also been designing their restaurants so that the various spaces flow into each other. For example, the bar might flow into the restaurant. During breakfast, they install soft separators such as flower-pots to separate the restaurant from the bar, but for other meal periods, they remove the soft separators so that they are able to fully use both spaces.

**Better manage reservations.** As with hotel RM during high demand periods, it is important to make it easy for people to make reservations, select the “right” reservation requests, and manage both the arrival uncertainty (late-shows and no-shows) and duration uncertainty (length of meal).

## Reservations Management at Fairmont

**Select the right reservation requests.** Fairmont has adopted the approach of selecting the party-size mix that best fits their table mix. For example, the Imperial

<sup>8</sup> California-based Chevys FreshMex operates three dozen restaurants, most of them in the southwestern United States. See: Kimes, Sheryl E., and Gary M. Thompson. 2004. “Restaurant Revenue Management at Chevys: Determining the Best Table Mix,” *Decision Sciences*, 35(3): 371-392; and Kimes, Sheryl E. and Gary M. Thompson. 2005. “An Evaluation of Heuristic Methods for Determining the Best Table Mix in Full-service Restaurants,” *Journal of Operations Management* 23.6 (2005): 599-617.

<sup>9</sup> Thompson, Gary M. 2002. “Optimizing a Restaurant’s Seating Capacity: Use Dedicated or Combinable Tables?,” *Cornell Hotel and Restaurant Administration Quarterly*. 43(4): 48-57.

## EXHIBIT 5

### Appropriate RRM tools

Tool	‘Hot’	‘Cold’
Menu Engineering	Yes	Yes
Menu Design	Yes	Yes
Server mentoring/ upselling	Yes	Yes
Table mix	Yes	No
Reservation management	Better manage	Maximize distribution channels
Promotions	Restrict	Yes
Suggestive selling	Only if doesn’t extend duration	Yes
Pricing	Premium	Selected discounts

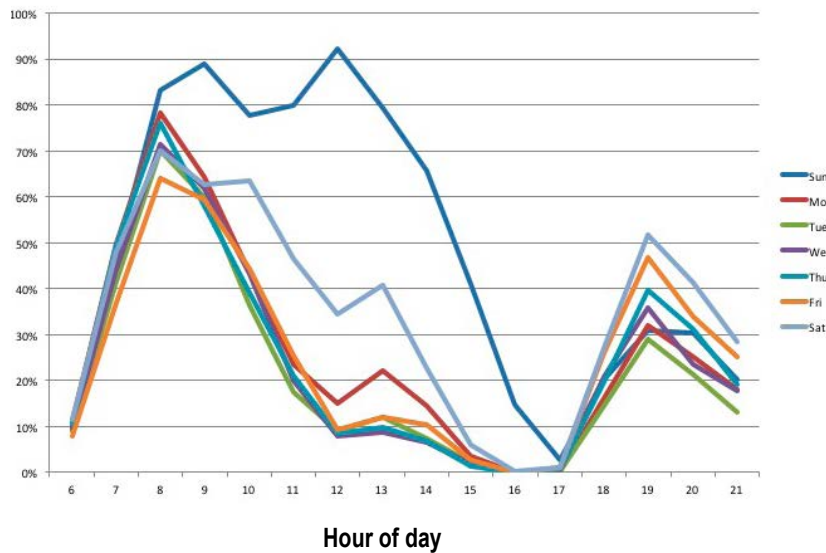
Bar at the Royal York in Toronto is quite busy during happy hour (between 6:00 and 8:00 p.m.) for most days of the week. Most of their tables are designed for four or more guests. Since the GM did not want to change the table mix until the Imperial Bar had to undergo a renovation, they decided to not accept party sizes of less than three during happy hour. Similarly, Singapore’s Jaan restaurant started to select more parties of four so that they could better match their party-size mix to their table mix.

**Make it easy to buy.** At the restaurants at the Fairmont and Swissôtel in Singapore, we noticed that about half of guests made their reservations the same day as they dined and that there were more reservations on weekends. In addition, there were significant same-day reservation attempts made between 7:00 and 8:00 p.m. However, we observed that the reservation office closed at 7:00 p.m., at which point calls were then directed to the restaurants (with a high likelihood of not being answered!). By extending the reservations office closing time by one hour, the firm was able to generate S\$50,000 in incremental revenue per month.

**Overbooking.** Equinox, a fine-dining restaurant also at the Swissôtel Singapore, had a 40-percent no-show and cancellation rate. Given that there was no penalty levied for no-shows, we analyzed the no-show and cancellation rates in detail and developed appropriate overbooking levels. To reduce no-shows, we had the reservations staff call to confirm reservations.

## EXHIBIT 6

### Bow Valley Grill: Seat occupancy by day of week and hour of day



As a result, the cancellation rate dropped to about 21 percent.

**Reduce arrival and duration uncertainty.** We noticed that Fairmont's Chinese restaurants were extremely busy for the traditional Chinese New Year dinner. Offering 6:00 and 8:00 p.m. seatings controlled meal duration to some extent, but the restaurants still experienced no-shows and late-shows. As a first step, the restaurants implemented a non-refundable pre-payment for the *prix fixe* meal. As a result, no-shows dropped significantly. Management also did not allow substitutions in the menu items and made sure that food delivery began promptly at 6:00 or 8:00 regardless of whether the guests were on time for their seating.

**Don't turn away potential business.** The Jazz Bar at the Fairmont Peace Hotel in Shanghai was extremely busy during peak periods, and management often turned customers away at the door. Rather than continue to lose this business, they opened up the adjoining Cin-Cin room for food and beverage service. Guests could enjoy their reasonably priced drinks and snacks while still listening to the music in the bar.

**Promotions.** Given that promotions are designed to build demand during slow periods, they should not be offered during hot periods since you don't need the extra demand. If a restaurant offers promotions during busy periods, it might end up giving unnecessary discounts.

**Pricing.** Pricing can be used to help build demand during slow periods but also to capitalize on high demand periods by charging premium prices. During busy periods, a restaurant might be able to charge a premium or possibly increase prices on popular menu items. Research has shown that customers consider time-of-day and day-of-week pricing to be relatively fair, especially if framed as a discount (that is, full price during busy times and a reduced price during slow periods).<sup>10</sup>

### Pricing at Fairmont

**Bow Valley Grill.** Seat occupancy for the Saturday and Sunday brunches at the Bow Valley Grill in Banff, Alberta, Canada, topped 90 percent. Other times of day and days of week were not all that busy, except for breakfast between 8:00 and 10:00 a.m. (Exhibit

6). The director of F&B maximized his turns during the brunches and increased the Sunday brunch price by \$3 (about a 10-percent increase). As a result, Sunday brunch profit increased by 6 to 7 percent.

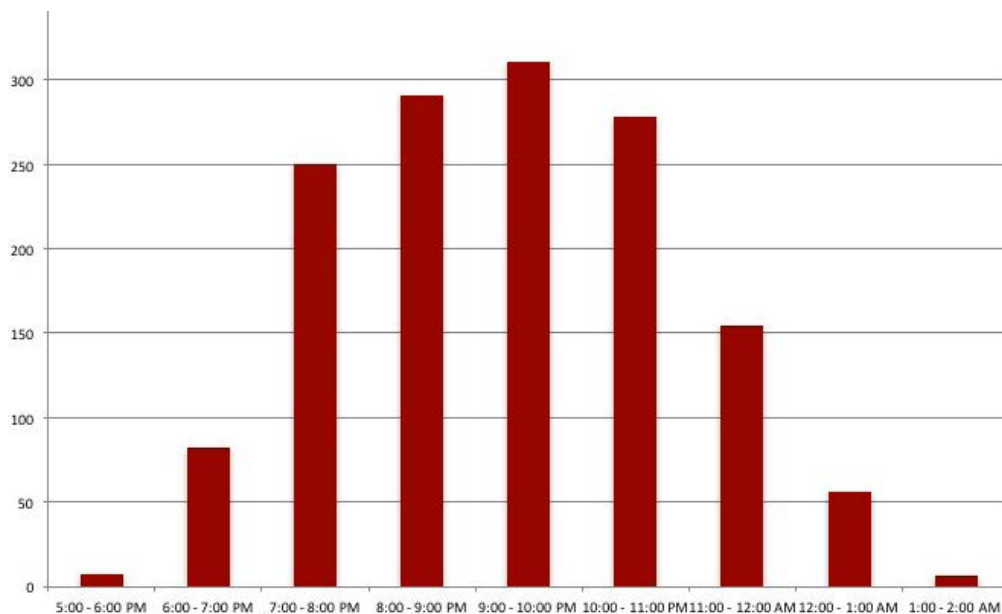
**City Space and Equinox.** Similarly, City Space and Equinox at the Swissôtel Singapore, which offered an excellent view, employed premium pricing for their window tables by instituting a \$20 charge for non-hotel guests using those tables. As a result, Equinox generated nearly \$100,000 per year from the window table charges. In addition, the average check per person for guests paying to sit at the window seats was over \$5 higher (\$142.57) than those at non-window seats (\$136.92).

**Suggestive selling.** Suggestive selling should be applied judiciously during hot periods. For example, when only one or two guests at a table order a particular course, the server should suggest that the other guests do so as well, or if guests only order one or two drinks during their meal, effective servers should ask all guests if they would like another drink. But during busy times, it is probably unwise for servers to push dessert (or any additional course) if no one has ordered one since all this would do is increase meal

<sup>10</sup> Kimes, Sheryl E. and Jochen Wirtz. 2003. "When Does Revenue Management Become Acceptable?" *Journal of Service Research*. 7 (2): 125-135; and Wirtz, Jochen and Sheryl E. Kimes. 2007. "The Moderating Role of Familiarity in Fairness Perceptions of Revenue Management," *Journal of Service Research*. 9 (3): 229-240.



## Jazz Bar: Number of checks



duration and preclude other guests from being seated at the table.

**Suggestive selling at Fairmont.** With those caveats in mind, Fairmont restaurants developed and deployed a number of innovative methods of suggestive selling during hot periods. For example, Prego in Singapore offered a set menu. If one person at a table chose that *prix fixe* option, the server would suggest it for everyone. Similar approaches were used at other Fairmont restaurants.

### Cold Tools

Tools for cold periods are intended to encourage greater sales in slow times. As we mentioned above, adjusting the table mix isn't one of those tools, but improving reservations, pricing, and upselling can be valuable.

**Reservations and distribution.** When you're cold, be sure to make it easy for your customers to make a reservation, and if you don't take reservations make it easy for them to order food from you. Well-chosen outside distribution channels can also generate additional revenue (even if they add cost) since customers can make reservations or order food whenever they want, regardless of whether you're open and answering the phone. In addition, food-service distribution sites increase awareness of your restaurant and may result in new customers who want to give you a try.

**Promotions.** Cold-period promotions could include offering live music, developing special menus, and building affiliate programs. The important thing to remember is to carefully target the promotions so that they are only available during cold periods, and they attract customers who might not normally have come to your restaurant at all or at least would not have come at that time.

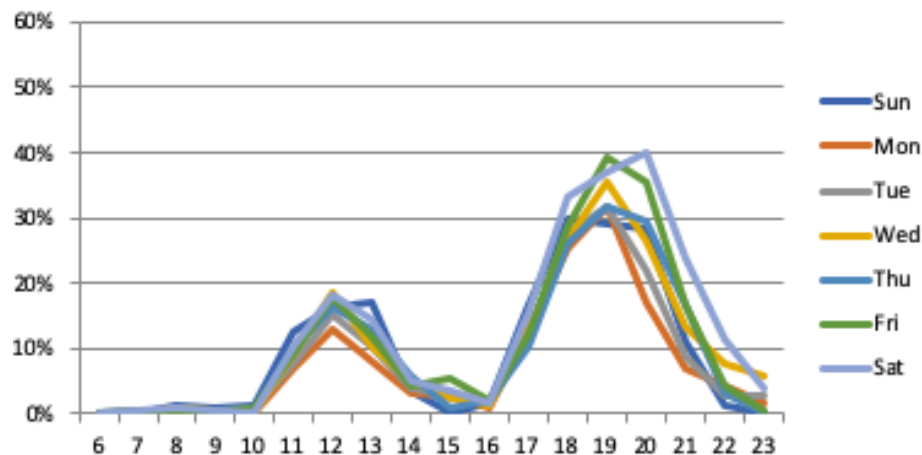
**Promotions at Fairmont.** The Peace Hotel's Jazz Bar offered two music sets: a popular Old World Shanghainese band that played from 8:00 to 11:00 p.m. and an international modern jazz band that played from 11:00 p.m. to 2:00 a.m. (Exhibit 7).

Restaurant managers noticed that while demand was high (often with long queues) from 8:00 to 11:00, traffic was relatively slow from 5:00 to 8:00 p.m. and after 11:00. They worked with travel agents to develop group packages during the early evenings and replaced the jazz band with a second Old World Shanghainese Band. As a result, the Jazz Bar achieved revenue 14 percent above budget.

**Pricing.** Pricing tactics during cold periods could involve offering lower prices at certain times of day or days of week. The important point here, of course, is not to lower prices for guests who were going to buy at full price. Thus, discounts must be fenced, meaning that customers must meet certain conditions in order to obtain the special price. Rate fences come in all

## EXHIBIT 8

### Low lunchtime seat occupancy at Mikuni Roboyaki counter



forms including physical (e.g., table location), transaction-based (e.g., time of day or day of week), customer-based (e.g., age or group affiliation), or controlled availability (e.g., promotional code).

**Pricing at Fairmount.** At Mikuni, the lunch time seat occupancy at the Robotayaki counter was quite low (Exhibit 8), while the tables in the rest of the restaurant were relatively busy. This restaurant also turned to a *prix fixe* approach, instituting a special S\$58 set lunch that was only available at the Robotayaki counter. As a result, counter seat occupancy increased by 25 percent, counter sales increased by 105 percent, and Mikuni achieved a 15-percent year-over-year performance over budget.

**Suggestive selling.** Upselling and suggestive selling are excellent tactics during cold periods. Since the restaurant is slow anyway, it doesn't particularly matter how long customers occupy a table, meaning that servers can suggest additional courses. If guests don't order an appetizer, for instance, servers should recommend a starter. The same approach can be used for espresso and desserts, as well as for after-dinner drinks.

**Suggestive selling at Fairmont.** The Tonga Room, a restaurant and bar in the San Francisco Fairmont, applied menu engineering principles to determine their Cash Cows. When the analysis identified the Mai Tai cocktail as a Cash Cow, the restaurant featured it as a signature item. Servers would make a point of asking guests whether they would like a second drink when they were finishing off their first drink. They also increased the price of a Mai Tai from US\$12 to US\$13. As a result, monthly sales increased by 47 percent.

## Summary and Conclusion

Effective data collection and analysis are the key factors in all the tactics and strategies that we have outlined in this report. With the proper revenue management data in hand, managers can have ready their all-purpose strategies, their strategies to use when the restaurant is busy, and strategies to use when things are slow.

We must also emphasize that implementing RRM often involves overcoming significant organizational challenges. Given that RRM is a different way of thinking, it is typical to encounter some resistance. In implementing the revenue management approach, it is also important to be sensitive to the operational pressures that the F&B team faces.

Fairmont sought to minimize any possible resistance by involving F&B teams in the RRM process. The company first developed the dashboard that illustrated the baseline performance. They then conducted short property-based RRM seminars for the F&B operators, presented the dashboard for specific outlets, and then asked the F&B team from that outlet to look at the dashboard and come up with two or three initiatives to test.

The revenue management team positioned itself as the provider of analytical support and left the ideas and implementation to the F&B teams. The RM group also made sure to celebrate the teams' successes both in person, by reporting directly to the hotel general manager, and through social media.

As a result, by 2016, RRM had been applied to over 70 percent of Fairmont's restaurants' F&B revenue sources. Within 12 months of implementation, restaurants using RRM generated five times more revenue growth than restaurants not using RRM. ■



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## *Cornell Hospitality Report*

Vol. 19, No. 5 (August 2019)

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*Cornell Hospitality Report* are produced for the benefit of the hospitality and service industries by The Center for Hospitality Research at Cornell University

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