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**“Operational  
contribution  
matters before  
profit.”**

**“Revenue  
management is not  
just pricing; it is  
operational  
economics.”**

# I Didn't Learn Revenue Management in Hotels

*How railroads, real estate investing, and high-fixed-cost industries shaped my understanding of contribution, utilization, and commercial strategy.*

## Revenue vs. Profit

When I use the phrase “making money”, it can imply different things at different times, right? Making money can mean earning top line revenue for selling your products or services. Making money can relate to your operating profit, after your cost of goods sold. Making money can also relate to your net profit, after all costs are considered.

At my core, I am a real estate investor; it is the lens that I instinctively use to view and relate to business challenges and outcomes and as such, I am typically most concerned with my positive cash flow – the net profit. At the end of the day, how much money did I make for *me*? For *us*? I am less concerned about whether we sold a product for \$100 or \$120 than I am with the impact that we are having on the bottom line.

If the company's margin is 18%, then on a \$100 sale, we made \$18 for ownership. Great, how many times can we duplicate that \$18? How do we get more than \$18 out of that \$100? As an entrepreneur or a business owner, that is the purpose of all the economic activity that we are endeavoring to complete. I bring that lens of ownership mentality into every decision.

## Mountain of Fixed Costs

Accounting profit says [revenue – cost = profit]. However, I learned on the railroad that when looking at a business that has a large, fixed cost base, not every transaction is going to generate an accounting profit because there is a large mountain of fixed costs to climb but you need revenue; you need income to climb that mountain.

Over time, the operation will be profitable. If we have a profitable business model, a good strategy, our synergies are aligned cross-functionally, and we're getting the best out of our people and the best ideas are rising to the top and being implemented – if we have a good system in place, then we will get to the point where our operational contribution equals and exceeds our costs so that we get to the accounting profit. So, we must climb that mountain first.

If your fixed costs are \$1M per month, you need to understand that in your revenue generation engine, you need at least a million dollars each month just to keep the business operational. We want more than a million but to relate that to a hotel room, we are not going to make \$100,000 every time we sell a room. In real estate, we make money that accumulates over time and in time, that revenue will cover the entire cost of the real estate including the principal



**“Unused capacity  
is often more  
expensive than  
imperfect  
revenue.”**

**“A low revenue  
room is oftentimes  
much better than a  
zero-dollar room.”**

+ interest + finance charges + SG&A + depreciation. Renting that house for one month or that room for one night will not cover your expenses, but if we accumulate enough of those rents, we can cover the mountain of fixed costs as well as our share of associated variable costs. Similarly, with trains, there are large initial cash outlays that must be recouped. The government uses tax money to subsidize the roads that trucks travel on but railroads must incur and carry the costs of buying the land and building their own infrastructure. They must lay their own tracks. Engines are powerful but they are very expensive; so are specialized rail cars.

Similarly, rental car business models require operators to place thousands of cars in markets across the country to run their business model effectively. Whether they purchase or lease, there is a considerable mountain to climb before the company reaches accounting profit. So when I say “making money”, I’m typically talking about the bottom line but at any point in the conversation, we can move between the different definitions of making money – whether we are talking about revenue, profit, or simply operational contribution, that is all going to get us to the point where we are moving into profitable territory.

#### **Why Idle Capacity Is Expensive**

I learned early on while working in my family’s retail clothing business that Idle capacity is expensive. I also learned that it represents one of our best sources for immediate monetization opportunities. I carry that foundational understanding with me into revenue management when making pricing and utilization decisions. Perhaps the easiest example is with a hotel room.

When you leave the hotel room empty for a night, that room can no longer be sold after tonight, for that night. A hotel operator may be accustomed to setting their BAR at \$129. After revenue leakage – MLOS promotions, loyalty programs, group or corporate discounts – your net rate may be \$105. On average, all those room rates that were sold together are your ADR, but that is why RevPAR is so important. It considers factors in the impact of idle capacity. If you have 100 rooms and sell 50 of them at \$100, then you have \$5,000 but if you have another 50 rooms that went idle, that is money that you are missing that you can never make again. You may not get \$5,000 for those last 50 rooms but if you consider a graph of economic supply and demand at different price points, there is typically a diagonal line and everything underneath that line is available. That is all opportunity.

The more you move down that price, the more you flatten that curve, then the higher the demand goes. You may not finish the day with as high of an ADR, but you are talking about an average anyway. You are taking your high revenue rooms and your low revenue rooms together but even a low revenue room – an opaque room – is oftentimes much better than a zero-dollar room. In a hotel, an empty room may cost you \$0 in costs (if we do not consider the opportunity cost, which I do) but for a rental car operation in New York or



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FINANCIAL  
PERFORMANCE



REVENUE  
OPTIMIZATION



OPERATIONAL  
STRATEGY

Chicago, payment of parking to a parking lot operator can cost \$25 - \$50 per day so it actually costs money to not rent a car. So even if you only rent that car for \$25 for the day, you could be simultaneously offsetting or replacing \$25 - \$50 in expense. That is a big move. That is where you start manipulating contribution; that is contribution management.

### **Why The Correct Answer to “What Price to Charge” Is: “It Depends”**

Throughout my career, I have found one recurring theme that resonates across departments, companies, and industries. When confronted with the question of “What Should We Charge?” the answer is typically: “It Depends...” because it really does.

In some scenarios, like a hotel during a Taylor Swift concert, you want to maximize rate; but that is not the only consideration. Rewards compound when you consider frequency. For a Taylor Swift concert, you want the maximum rate on 2+ night stays so that you are maximizing transaction value. In rental cars, a weeklong rental covers both your peak and valley days, turning potential \$0 days into revenue generating days.

In identifying “What Price We Should Charge” you must consider the system constraints, the leverage points, and the overall business goals that you are solving for. So, the optimal price is not a magical number, but a function of your business goals in relation to your system constraints.

### **The Difference Between Optimizing Price and Optimizing Business Outcomes**

On the railroad, Product Managers, Marketing, and Sales need to generate the cash to keep the railroad running. The first task is to climb the high-fixed-cost mountain. The next task is to maximize profit. While doing both, however, generating \$2,000 in cash with an accompanying \$1,900 in costs is only \$100 of contribution. We need the cash, but we always want intelligent cash. I do not simply seek to optimize prices, I seek to optimize business outcomes and as a real estate investor, the best outcome is one that drives substantial positive cash flow that allows me to either accelerate the payoff of my assets or, even better, acquire additional assets.

Across railroads, hospitality, rental cars, real estate, and municipal operations, I found that the principles rarely changed – only the operating environments did. Revenue management was never just about price. It was about understanding how businesses monetize constrained assets, absorb fixed costs, maintain operational flow, and create sustainable economic contribution.

*Rodney Saunders*