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WHITE PAPER

Car Park Revenue Management: Is Money Being Left in the Parking Lot?

By Pauline Oliver, IDeaS Business Development Manager

The car park industry has been quick to recognise and adopt well-established revenue management practices from a variety of other industries. In fact, variable online booking pricing is relatively commonplace at many airport car parks. However, we commonly hear car park operators ask, "Can I truly optimise my car park's revenue by adjusting rates through our online booking system?"

In the car parking industry, there are definitely some confusing aspects to variable pricing versus dynamic pricing—and that includes its overall role in maximising revenue. The confusion around pricing approaches has even paved the way for some technology providers to claim their solutions have optimal revenue performance capabilities, even though they only address pricing, and not inventory.

This is especially true where allocation or "bucket" methods are used to influence price changes, since this particular approach often overlooks the date of arrival and length-of-stay impacts on pricing decisions. Today's reality is that car park operators cannot maximise their revenue—or profitability—by solely managing rates within an online booking system.

LIMITATIONS OF VARIABLE PRICING-ONLY APPROACH

While users of online booking systems continue to successfully increase online business (in both volume and revenue), they still face some limitations to maximising revenue:

"In addition to price, we need to be able to use length-of-stay controls to help maximise our revenue during busy periods."

So how does that work? In situations with more demand than spaces, car parks need tools that enable them to accept a mix of demand that achieves the highest average daily rate across an entire period.

An example of the length-of-stay inventory challenge:

Christmas tends to be a holiday period with very high car park demand at an airport, and there are wide ranges in length of stay for people using the car park over that period. Let's assume this holiday period consists of a leisure demand peak around the 25th and 26th of December, and less business travel until after the New Year.

With this in mind, the aim should be to maximise the "shoulder" revenue from either side of the peak, as well as the value of each transaction. There are many customers wishing to arrive on the 24th or 25th of December looking for one-day parking. And while these customers are prepared to pay a premium price and make a reservation, depending on when they book, they could displace other customers looking to stay for longer durations —and for higher overall revenues.

Using the tables below, the car park has a capacity of 250 spaces and revenue needs to be maximised from the 24th of December until the year's end. Both tables reflect the period of the 24th to 31st of December and show occupancy at differing lengths of stay, with considerable demand reflected for the longer durations of stay. Table 1 illustrates the revenue potential for car park demand without any length-of-stay controls in place, while Table 2 illustrates revenue potential with the use of inventory controls.

In Table 1, 50 people booked to arrive on the 25th and 40 people on the 26th to stay for just one day. However, there were also 40 people looking to book six-day stays and 50 people looking to book seven-day stays—both at higher total price—on those days. What is impossible to understand from a booking system alone is that the total demand for that period is greater than the capacity of the car

TABLE 1 — **Arrival Date**

Length of Stay	Rate/Day	Price	24th	25th	26th	27th	28th	29th	30th	31st	Total
1 day	$45	$45	20	50	40	10	10	15	15	10	$7,650
2 days	$35	$70	30	40	30	10	10	10	10	10	$5,250
3 days	$26	$75	20	30	30	20	10	10	10	10	$3,640
4 days	$24	$88	20	20	20	20	20	20	20	20	$3,840
5 days	$19	$95	20	20	20	20	20	20	20	20	$3,040
6 days	$17	$102	20	40	40	40	40	40	40	30	$4,930
7 days	$15	$105	40	50	50	50	50	50	50	50	$5,850
	Occupied Spaces		**170**	**250**	**230**	**170**	**160**	**165**	**165**	**150**	**$34,200**

TABLE 2 — **Arrival Date**

Length of Stay	Rate/Day	Price	24th	25th	26th	27th	28th	29th	30th	31st	Total
1 day	$45	$45	20	0	10	10	10	15	15	10	$4,050
2 days	$35	$70	30	40	30	10	10	10	10	10	$5,250
3 days	$26	$75	20	30	30	20	10	10	10	10	$3,640
4 days	$24	$88	20	20	20	20	20	20	20	20	$3,840
5 days	$19	$95	20	20	20	20	20	20	20	20	$3,040
6 days	$17	$102	20	60	60	60	60	60	60	30	$6,970
7 days	$15	$105	70	80	80	80	80	80	80	80	$9,450
	Occupied Spaces		**200**	**250**	**250**	**220**	**210**	**215**	**215**	**180**	**$36,240**

Revenue Improvement	**$2,040**
Revenue % Change	**6%**

park. The demand is constrained by capacity and much of the higher valued business may not be accommodated if the shorter stays book first.

In Table 2, length-of-stay controls for one-day stays on the 25th and 26th of December allow the car park to accept more six- and seven-day length-of-stay reservations at the higher total price—resulting in maximised revenues over the whole holiday period.

While this example is simplistic, and assumes an understanding of forecast demand for each length of stay, it illustrates how optimising the length-of-stay mix for peak demand periods generates greater revenue. In this example, it increased revenue for the car park by 6 percent.

"Our rate structures need to have more variation for certain length of stays."

An example of the length-of-stay pricing challenge:

Online booking systems often employ rate structures that do not enable full flexibility in price variation, which makes pricing by length of stay another important element of revenue optimisation. How and when might this be important? Using our Christmas holiday example, there was a demand peak on the 25th and 26th of December. However, there was available capacity on the 27th onward that would not be filled due to lack of demand at the available price points. Comparing the two examples for three-day stays, one stay arriving on the 24th of December and the other on the 27th, should both three-day stays be priced the same?

The stay arriving on the 24th crosses the peak days of the 25th and 26th, potentially displacing other high-value customers. However, a stay arriving on the 27th will not displace anyone—it is important to deploy pricing and marketing strategies to fill this available capacity. While we don't have enough information to identify the optimal rate for each example, we do know offering more attractive prices for the second three-day stay would likely appeal to more customers and generate greater revenue.

With increasing pressure to maximise car park revenue, it can be easy to miss the importance of utilising different pricing levers and inventory controls. However, car parks that dynamically price utilising length-of-stay controls and price flexibility at the same time have a significant opportunity to outperform car parks that only manage variable pricing through rate structures and allocations.

Regardless of the type or quantity of car parks, car park operators need to consider whether their current online booking technology provides the pricing flexibility combined with the dynamic inventory control and intelligence to truly optimise their revenue. If the conclusion is that they don't, how much money is being left in the parking lot?

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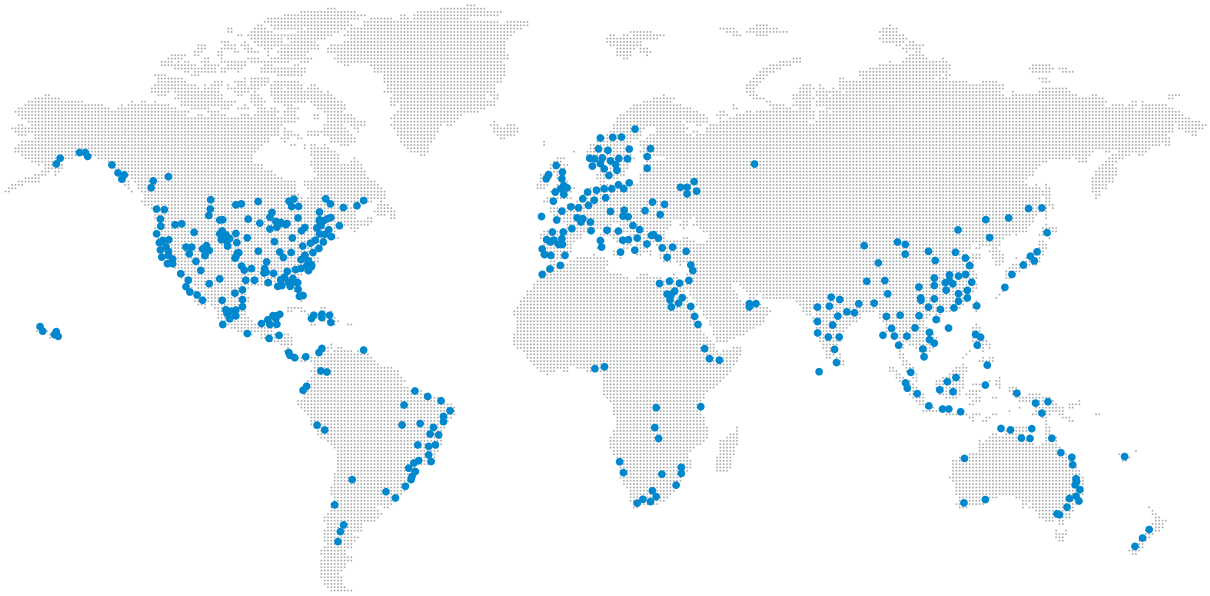
IDeaS empowers clients to build and maintain revenue management cultures by focusing on a simple promise: Driving Better Revenue.

IDeaS has the knowledge, expertise and maturity to build upon proven revenue management principles with next-generation analytics for user-friendly, insightful and profitable revenue opportunities for your car park business. For more information, visit **ideas.com**.



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Americas
Minneapolis, MN
+ 1 952 698 4200

China
Shanghai
+ 86 21 6163 3088

Asia/Pacific
Singapore
+ 65 6398 8988

Europe/Africa/Middle East
United Kingdom
+ 44 1628 490 100

ideas.com
info@ideas.com