

## Computers set prices for rentals

by **Nevin Batiwalla, Staff Reporter**

NASHVILLE (Jan. 20, 2012) - Using computer software to set prices isn't just for airlines and hotels anymore.

Revenue management software is exploding in popularity with businesses in an array of industries. Retailers, car dealers, media companies and even sports franchises are using data analysis to develop pricing strategies as they strive to optimize revenue.

"Because business is becoming so complex and competition is becoming so intense, everyone is looking for more and more accurate ways to do things like pricing to give them a competitive advantage," said [Robert Cross](#), chairman and chief executive of Revenue Analytics Inc. of Atlanta.

Cross pioneered the computerized approach to price setting in the '80s when he founded Talus Solutions Inc., a company credited with creating billions of dollars in value for clients like **Delta Air Lines, Ford Motor Co.** and **UPS**.

Today, virtually every industry is starting to rely on revenue management software, Cross said.

Take apartment owners and managers, for example, who are using powerful computer programs to determine the optimal rent rate they should charge for a given unit.

The software weighs hundreds of factors, including competitors' rent rates, traffic, market conditions and move-in dates. The price for an available unit could change on a daily basis.

Apartment owners are adopting revenue management software "at a record pace," said [Andrew Rains](#), executive vice president of the Rainmaker Group of Alpharetta, Ga., which offers a program called Rainmaker LRO. In 2011, the company signed up clients with a total of 750,000 units.

"Four or five years ago, it was predominantly only customers that had 20,000 units and above," Rains said. "But now in the last 18 months we have as many companies under 8,000 units as we do over 8,000 units. A good percentage have only 2,000 or 3,000."

"It's really been the last two years where we moved out of the early-adopter phase and into rapid adoption across the industry," he said.

Currently, 25 to 30 percent of apartment owners and operators use revenue management software, Rains estimated. In the next few years, that number will likely climb to over 50 percent, he said.

What is driving the trend?

**Freeman Webb Inc.**, the largest private owner/manager of apartments in the Nashville area with more than 13,000 multifamily units under management, began using computer software in 2009. Initially, co-founder [James Webb](#) was worried the software would spit out rates too low. That didn't happen.

"It has allowed us to maximize our revenue by charging what the market will allow," Webb said.

Rental rates almost everywhere are on the rise. But rates are climbing even higher for properties whose managers use revenue management software.

"For our customers, rent is going up 3 to 5 percent in excess of what the market is going up," Rains said. "So if the market is going up 5 percent, our customers are seeing 10 percent increases."

Rains wouldn't disclose the price of the software, but he said customers typically receive a tenfold return on investment.

Having a computer determine it's time for rent to increase makes the decision easier for property managers, said [Woody McLaughlin](#), chairman of Nashville-based apartment manager **Parthenon Properties**.

"Sometimes the manager is friends with the residents and the natural temptation is for them to be slower raising rents, and this makes it less personal and less confrontational," McLaughlin said.

That said, McLaughlin's company doesn't use revenue management software.

"We are perhaps more attuned to what's happening in the market than somebody that's got widely dispersed operations in multiple markets," McLaughlin said.

In addition to multifamily housing, Rainmaker serves clients in the gaming and hospitality industries. Rains said the company is exploring ways to tap into new markets.

"Whether it's concert tickets or restaurant menus, there are all sorts of things you can optimize revenue around," he said.

The high-tech, data-driven approach has been met with resistance from the old model of relying on gut feel and instinct, said Cross, whose company is working on implementing a computerized pricing system for an automotive retailer with 150 dealerships across the country.

"Car dealers like to think they can look someone in the eye and decide, 'This is how much this customer is willing to pay,'" Cross said. "It's subjective. But what we are seeing now with access to so much information and the history of millions of transactions, you can glean a lot more about what a customer may be willing to pay at any given time."