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Revenue Management

Learning Objectives

1. To understand the importance of maximizing revenues.
2. To understand why REVPAR is so important for maximizing hotel revenues.
3. To understand revenue management systems—Yield Management.
4. To understand rate structures and selling strategies.
5. To be able to read, understand, and use revenue management reports.

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This chapter discusses the importance of revenue management in operating a hotel. The two primary ways of maximizing profits is first to maximize revenues and second to control and minimize expenses. Understanding the policies, procedures, and tools that are available to maximize revenues and being able to use them effectively are valuable skills for any hospitality manager, particularly in the rooms department. A hotel that is meeting or exceeding revenue budgets is a much more enjoyable place to work and provides managers a better opportunity to maximize profits because revenues are helping rather than hurting profitability. It is challenging for hospitality managers to maximize profits when a hotel is under-performing based on its revenue budgets and forecasts.

Revenue management relies on historical room revenue information contained in a computerized program called Yield Management or Demand Tracking. Yield management programs contain historical information organized by day of arrival (DOA) and compare the current year's booking pace to the historical average. The booking pace determines appropriate selling strategies that a hotel can put in place to maximize room revenues for a specific day of arrival.

This chapter covers the different aspects of revenue management. All managers need to have a good understanding of how their hotel generates revenues. It will help them understand how their particular department fits into the total operations of the hotel.

REVPAR: Revenue per Available Room

Definition

Revenue per Available Room (REVPAR) is total room revenue divided by total rooms available. It combines room occupancy and room rate information to measure a hotel's ability to maximize total room revenue. It is the best measurement of maximizing total room revenue because it identifies the hotel's ability to manage *both* occupancy (rooms sold) and average rate in maximizing room revenues. A hotel must effectively manage both to maximize total room revenue.

There are two formulas for calculating REVPAR. The REVPAR calculated each way might be slightly different as a result of rounding. Typically, the occupancy percentage is

rounded to one decimal point—87.3%, for example. Average room rates are rounded to two decimals points—\$76.23, for example. Let's look at the formulas:

$$\text{REVPAR} = \text{Occupancy Percentage} \times \text{Average Room Rate}$$

or

$$\text{REVPAR} = \frac{\text{Total Room Revenue}}{\text{Total Available Rooms}}$$

Applying the first formula to our example results in a \$66.55 REVPAR:

$$\$66.55 \text{ REVPAR} = 87.3\% \text{ Occupancy Percentage} \times \$76.23 \text{ Average Room Rate}$$

Following are characteristics of REVPAR that this example demonstrates:

1. REVPAR is measured in dollars and cents.
2. REVPAR will always be lower than the average room rate. The only exception is if the hotel is running at 100% occupancy. Then REVPAR and average room rate will be the same. REVPAR can *never* be higher than the average room rate.
3. You need to know both the hotel occupancy percentage and the hotel average room rate to calculate REVPAR, or
4. You need to know the total room revenue and the total available rooms in the hotel to calculate REVPAR.

This leads to our second REVPAR formula:

$$\text{REVPAR} = \frac{\text{Total Room Revenue}}{\text{Total Available Rooms}}$$

To calculate REVPAR using this formula, we need to know the total room revenue (a variable) for the day and the total number of rooms in the hotel (a constant). To continue our example, let's use a 400-room hotel. That is the only additional information that we need to calculate REVPAR with this formula. It will require three steps:

1. *Calculate rooms sold.* We need this number to calculate total room revenues. We can calculate rooms sold by applying our 87.3% occupancy percentage to our 400-room hotel:

$$400 \text{ Total Rooms} \times .873 \text{ Occupancy Percentage} = 349.2 \text{ Rooms Sold}$$

Because we cannot sell .2 of a room, we round to 349 rooms sold.

2. *Calculate total room revenue.* The formula is

$$\text{Rooms Sold} \times \text{Average Room Rate}$$

or

$$349 \text{ Rooms Sold} \times \$76.23 \text{ Average Room Rate} = \$26,604 \text{ Total Room Revenue}$$

3. *REVPAR = Total room revenue divided by total available rooms.* Make sure to use the 400 total available rooms in the hotel and not the 349 rooms sold. Our REVPAR is

$$\text{\$66.51 REVPAR} = \text{\$26,604 Total Room Revenue} \div \text{400 Total Available Rooms}$$

Let's compare our two REVPARs:

$$\text{\$66.55 REVPAR} = 87.3\% \text{ Occupancy Percentage} \times \text{\$76.23 Average Room Rate}$$

and

$$\text{\$66.51 REVPAR} = \text{\$26,604 Total Room Revenue} \div \text{400 Total Available Rooms}$$

There is a difference of 4 cents. Which one is right? The difference is the result of rounding, so technically the \$66.51 is the best answer because it is calculated using total room revenues and total available rooms in the hotel. However a 4 cent difference on a \$66.51 REVPAR is insignificant, so either formula can be used. It is important to use the same REVPAR formula to be consistent and ensure that all REVPAR calculations are reliable and useful.

Why REVPAR Is Important

REVPAR measures both the ability to sell the most rooms (occupancy percentage) and the ability to achieve the highest average room rate. Therefore REVPAR includes *two financial measures* and identifies how the hotel is combining the two strategies of maximizing rooms sold and maximizing the average room rate to maximize total room revenue. Together they form a strong and useful financial measurement. They require the hotel management team to be good at managing *both measurements*.

If a hotel's selling strategy focuses only on one of these measurements, it can miss significant opportunities to maximize total room revenue with the other measurement. For example, a hotel can focus on maximizing its occupancy percentage and to accomplish this goal, managers might set low room rates to sell more rooms. If a hotel is running a 92% occupancy, which is very high compared to the industry average, which might be in the low 60% range, it probably dropped its room rates significantly lower than its competitive set. If a hotel is running a \$48 average rate and its competitive set is achieving a \$65 average rate, the hotel is missing out on an additional \$17 in average rate. We refer to this as leaving money on the table. The important questions the hotel's management has to ask is, can the hotel increase total room revenues by increasing its average rate and is it willing to run a lower occupancy percentage as some customers go elsewhere because of the higher average rate?

The same issue applies to average room rate. A hotel might set its room rates too high and lose customers as a result. Using the same example, if our hotel is achieving a \$65 average rate compared to the competitive set's average rate of \$55, but running a 60% occupancy compared to the competitive set's average occupancy percentage of 78%, then

our hotel is probably not maximizing revenue. Again the hotel is leaving money on the table because of a high average rate that might turn away potential customers, resulting in a lower occupancy percentage.

In each of these examples, the hotel is doing well in one of the revenue measurements. To accomplish this, it is probably not doing well on the other measurement. That is what makes REVPAR so important. REVPAR requires a hotel to be evaluated on its ability to *manage and maximize both rate and occupancy measurements*.

How REVPAR Is Used

REVPAR is used in several ways. Because of its importance, it is used as a management tool that assists the hotel management team in maximizing room revenues. It is also used to measure financial performance by outside investors who are evaluating investments. It is contained in P&L Statements for a hotel and the annual reports for a corporation. It is the most important measurement of how well a hotel is able to maximize room revenues. If a hotel is maximizing room revenues as measured by improvements to past results and by comparisons to competitors, it makes it much more possible for the hotel management team to efficiently manage expenses to maximize profits. Specific uses of REVPAR are as follows:

1. It is used as a measure of the hotel management team's ability to maximize total room revenue.
2. It is used to compare the hotel performance to similar hotels in the same market area. This is called the hotel competitive set.
3. It is used to measure the hotel's progress in consistently increasing total room revenue compared to previous years and the budget.
4. It is used by owners, outside investors, and other financial institutions to project future room revenues and cash flows.

REVPAR is used in many reports. It is calculated daily and included on the Daily Revenue Report. It is used in weekly forecasting. It is used in preparing the annual operating budget. It is used in corporate annual reports. This demonstrates its importance in the daily operations of individual hotels.



Photo: Hyatt Hotel and Resorts

Hyatt Regency Maui Resort

This 815-room Hyatt resort is located on 40 beachfront acres on Ka'anapali Beach on the Hawaiian island of Maui. Its food and beverage operations include 5 restaurants, poolside snack bar, 7 lounges, and an authentic Polynesian Luau. The 25,000 square feet of indoor meeting space includes a 17,000-square-foot ballroom. An additional 40,000 square feet of outdoor meeting space is also available. This resort has expanded water recreation that includes a half-acre swimming pool, 150-foot water slide, 4 miles of beaches, and scuba diving activities.

The Hyatt Regency Maui Resort is able to attract large group business because of the large number of guest rooms, the wide range of meeting space, and all the recreational activities offered by a beachfront resort. Do you think the Director of Revenue Management spends more time on transient or group business? With 815 rooms, do you think the strategy to maximize room revenue is based on achieving higher room rates or higher occupancy? What effect will the large amount of indoor and outdoor meeting space have on the transient/group market segment mix? How profitable do you think the Banquet Department is and how will Banquet Revenues effect the decision to accept or reject a piece of group business? Would you accept a large, lower-rated piece of group business with significant banquets and activities or hold out for higher-rated transient room reservations?

Rate Structures and Market Segments

Definitions

We defined *market segments* in Chapter 1 as customer groups defined by preferences, buying patterns, and behavior patterns. These similar characteristics enable hotels to create promotions, packages, and rates that meet the different expectations of each market segment. The hotel identifies market segments that it will be able to compete in and then advertises to attract customers in those market segments to the hotel.

Rate structures are the range of room rates that a hotel establishes for different market segments. They can be year-round room rates or seasonal room rates. They are published, and the hotel uses them to attract customers. Customers view the rates of a hotel, compare them to rates at other hotels, and choose which hotel they will stay in based on rate, experience, location, and the expected overall value of the service they will receive.

Establishing Rate Structures

Hotels use several factors in establishing room rates for their hotel. These include the following:

1. Rates of their primary competition
2. Age of the hotel, including recent renovations and improvements
3. Perceived value of the products and services delivered by the hotel
4. Location
5. Cost of the hotel and the return on investment (ROI) required by investors
6. Any competitive advantages that the hotel might have over its competition

Room rates are generally set for one year. They are established based on information from actual rates for the previous year, marketing studies, inflation rates, competitor's actions, renovations or improvements, and the expectation to increase total room revenues. It is a detailed process to change the established rate structure, and that is why room rates are generally set for a year at a time. The exception is seasonal properties where a rate structure is established each year for each of the seasons.

The room rate structure involves setting specific rates for specific market segments ranging from the highest to the lowest rates. Historically, the central point of room rate structures is the regular rate or rack rate. This is the room rate that is available to all of the different reservation systems selling rooms at a hotel, including travel agencies, airlines, and car rental companies, and generally the first room rate quoted at central reservation centers (800 numbers). All other rates are calculated based on increases or decreases from the rack rates. Let's look at a sample room rate structure for a full-service hotel and a limited or select service hotel:

	<u>Full-Service Hotel</u>	<u>Select-Service Hotel</u>
Concierge (upgraded rooms and service)	\$135	Not available
Regular or rack rate	\$119	\$75
Corporate rate (preference to business travelers)	\$109	\$69
Special corporate rate (company special rates based on volume)	\$100–\$75	\$65–50
Discounts		
Super saver	\$ 89	\$55
Weekend	\$ 75	\$50
Government/military	\$ 65	\$40

These rates are examples of how a hotel might set its rate structure. The concierge rate is the highest rate because it includes special amenities and services similar to first class on an airline. The regular or rack rate is considered the standard room rate that the hotel would like to get for all of its rooms.

The remaining rates are all forms of discounted rates from the rack rate. The corporate rate is a slightly discounted room rate extended to individual business travelers recognizing both the company and the individual's amount of time spent on the road on business. Often, the corporate rate has the highest rooms sold mix percentage, especially for the full-service market segment. Special corporate rates are the next level of discounted rates and are negotiated directly with each company. The degree of the discount is based on the number of room nights generated annually. A company that produces 200 rooms annually might receive a slightly discounted rate of \$100 at our full-service hotel, whereas a company producing 1,000 rooms per night annually might receive a larger discount and a \$75 rate. The discount rates reflect lower rates that are available during the slower time periods. They involve the biggest discounts because the hotel is running lower occupancies during this time. Our full-service hotel might run an 85% occupancy midweek but fall to 50% on weekends. The discounted weekend rates are a strategy to occupy more rooms during slow times at a lower room rate.

In setting the room rates at a hotel, there is a logical relationship between the various rates. Generally the discounted rates will be either a fixed dollar amount lower between each market segment, such as a \$10 or \$15 discount, or a fixed percentage discount lower, such as a 10% or 15% discount. The rate structure is orderly and intended to accomplish two goals that seem to be the opposite of each other: maximize room revenue with higher rates on the upper end and maximize room revenue with more rooms sold stimulated by lower room rates on the lower end. Customers are looking for lower rates, and lower rates generally do not maximize room revenues. This is the challenge of hotel management when setting room rates—how to balance maximizing room revenue and customer satisfaction.

At least once a year, hotels set new rates for the upcoming year. On occasion, they might change rates during the year based on new market conditions that warrant new room rates. Also, if the hotel completes a room redo and the hotel is refreshed and updated, it is typical for management to increase room rates at that time to reflect the better condition of the hotel and its facilities.

Revenue Management Systems

Definition

Revenue management systems are computer programs that utilized past historical information to project future room occupancies and revenues. They not only contain several years of historical room rate and occupancy information, they also include computer programs that utilize this information to assist managers in projecting future demand and rooms sold. These programs are referred to as Yield Management or **Demand Tracking** systems.

Yield Management

We will use the term **yield management** to describe computer programs used in identifying past rooms sold activity and trends and projecting rooms sold for future dates. This includes the number of rooms sold for every day in the future and the associated room rate. Generally the historical information of the hotel for the previous four to five years is combined to provide historical averages and buying patterns.

What Yield Management Is

Yield Management is the computer program that organizes a hotel's historical information by **day of arrival (DOA)**. This includes room rates, rooms sold, and room revenue by market segment. It tracks the number of rooms sold for each arrival date in the future. Directors of Revenue Management or Reservation Managers can compare the progress of reservations for any future DOA and compare it to the **historical average** for that date. The status of current reservations booked is called the **booking pace**, and it is compared to the historical average for that day of arrival. Yield Management reports determine whether the booking pace of this year's reservations for a specific DOA is ahead of or behind the historical average pace. Let's use an example to illustrate these points for a 400-room hotel. Yield Management provides the following information:

Day of arrival: June 1

Today's date: May 1

Number of days until the DOA: 31

Booking pace or the number of current reservations for the DOA: 275

Historical average of number of reservations 31 days before the DOA: 300

This information tells us that 31 days before the DOA of June 1, the hotel has 275 reservations booked compared to the historical average of 300 reservations booked 31 days before the DOA. The hotel booking pace is behind the historical average by 25 reservations. The selling strategy team will review this information and then decide what strategy to put in place to try and catch up and sell more rooms for the DOA. The team still has 31 days to affect the number of rooms sold. A typical strategy at this point will be to open up all discounted rates for the DOA in an attempt to stimulate reservations by offering lower, discounted room rates.

Now let's look at the Yield Management information two weeks later:

1. DOA: June 1
2. Today's date: May 15
3. Number of days until the DOA: 16 days
4. Booking pace or number of current reservations booked for the DOA: 320
5. Historical average of number of reservations 16 days before the DOA: 325

This information tells us that 16 days before the DOA, the hotel is now only five reservations under the historical average. The actual booking pace for the previous two weeks has been higher than the historical average, resulting in the hotel being down only five rooms from the historical average. The hotel is catching up. The selling strategy at this time could remain the same by keeping all discounts open, indicating that the hotel is willing to continue selling discount reservations in an effort to book more reservations to maximize room revenues. Or the selling strategy could change and restrict the lower discount rates but keep the higher discount rates open. The Director of Revenue Management will be the main person interpreting the information from Yield Management and helping the other managers to decide what selling strategy to implement.

Here is one more example:

1. DOA: June 1
2. Today's date: May 25
3. Number of days until the DOA: 7 days
4. Booking pace or number of current reservations booked for the DOA: 350
5. Historical average of number of reservations 7 days before the DOA: 340

This information, gathered one week before the DOA of June 1, tells us that the booking pace for the hotel is now 10 reservations ahead of the historical average. The hotel has not only caught up to the historical average number of reservations seven days before the DOA of June 1, but has booked 10 more reservations. The selling strategy would now probably change and discount rates would be closed, forcing remaining reservations to be booked at a higher rate. The hotel would choose this selling strategy because it has 10

more reservations booked, indicating a higher demand than historical averages. Higher demand means a higher probability of selling more rooms. The hotel will now implement a selling strategy to maximize rates by closing discounts to maximize total room revenue.

Yield Management's historical averages for any DOA reflect the historical average of the total number of actual rooms sold at a specific number of days before the DOA. It could be 400 rooms sold (a perfect sellout), or 375 rooms sold (a 93.8% occupancy, which is very good), or 200 rooms sold (a 50% occupancy, which is not good). The total number of rooms sold for the DOA reflects the historical average for that DOA whether it is high or low, good or bad.

How Yield Management Works

As the example shows, Yield Management not only provides the number of actual reservations booked for a specific DOA, but it also provides information that tells whether reservations are being booked at a faster or slower rate (the booking pace) than the historical average for any date before the DOA. This is valuable information for hotel managers to have as they determine the best selling strategy to implement to maximize total room revenue.

Yield Management provides a hotel with a historical number of reservations booked to compare with actual reservations booked at any point in time before the DOA. A Director of Revenue Management looks at the Yield Management Report daily on his/her computer to search for trends. These managers enter a specific DOA and compare the current booking pace to the historical average. Then they make any appropriate changes to the selling strategy that will help maximize total room revenue for each DOA.

The fact that a hotel has 300 reservations on the books as of a specific number of days before a specific DOA has little meaning by itself. However, when it is compared to a historical average of 325 reservations or 275 reservations, the hotel knows whether it is booking reservations at a faster pace (325 rooms) or a slower pace (275 rooms) and can implement an appropriate selling strategy in each situation. Once again, financial analysis involves comparing current actual results with other numbers. In this example, the current actual information (the booking pace) is compared to historical information (the historical averages).

How Yield Management Is Used

Hotel management uses Yield Management as a tool to maximize total room revenue. It provides the hotel with a daily status of total room reservations made, the average room rate, expected room revenues, and the pace or progress at which reservations are being made for a specific future DOA. It reflects the current status of demand for hotel rooms. This information or booking pace is compared with historical averages that show the current demand, which are then compared with the historical demand.

This information enables hotel management to consider room rates, rooms sold, and the reservation booking pace in managing reservations to maximize total room revenue. Managers can implement selling strategies to increase rooms sold or to increase room rates. They can change the selling strategy daily based on the updated information and room status that Yield Management provides.

Using Yield Management in Different Types of Hotels

All types of hotels in all types of markets and locations can use Yield Management. This is because Yield Management includes the historical and current information for any hotel. How that hotel uses the information can be very different. Let's look at some examples.

Corporate Hotels (Airports and Suburban)

The example we just discussed is similar to a corporate hotel. The main market segments are transient (business and pleasure) and then group. The transient segments, especially business travelers (corporate and special corporate), tend to make their reservations within days rather than weeks or months ahead. That results in many room reservations being booked within the last two weeks of the DOA. It is typical for a corporate hotel to book 25% to 50% of its room reservations within the last three weeks before the DOA.

Group Hotels (Downtown or Suburban)

These hotels have a higher number of group rooms than transient rooms. Because groups require a block of sleeping rooms and a certain amount of meeting space, they require certain types of hotels. To ensure that groups can obtain the required number of sleeping rooms and meeting space, they book their reservations more in advance—typically 6 to 12 months ahead. These reservations are called group room blocks and can include from 5 to 300 rooms per night—a nice way to sell a lot of rooms. Group rooms generally have a lower average room rate because of the higher volume. They also generate significant revenues for the Banquet and Food and Beverage departments. The booking time period for group hotels is very different than corporate hotels. Because most of the rooms are booked more than three months before the day of arrival, as little as 5% to 10% of reservations are booked within the last three weeks of the DOA.

Resorts and Convention Hotels

These types of properties book group blocks as far as five to six years before the day of arrival. This is because many conventions are very large, requiring 500 to 1,000 sleeping rooms per night and a large amount of space for meetings and banquet functions (+50,000 square feet). To be able to secure this number of sleeping rooms and amount of meeting space, large corporations and associations book their meetings five to six years in advance. The same is true at resorts, where the high or prime season involves only a couple of months. During these months the demand is typically very high. Large corporate and

association groups book five to six years in advance to ensure that they can conduct their meeting when and where they want.

Group functions requiring 100 to 300 sleeping rooms and less meeting space still book their functions two to four years in advance to ensure that they can conduct their meeting when and where they want. This is especially true at resorts. The further ahead of the meeting date a company books the rooms, the better the chances that it can meet when and where it wants to meet. It is possible for these groups to book within one year but only if demand is slow, and there is greater risk that the company might be unable to find a resort with the amount of sleeping rooms and meeting space required.

Selling Strategies

We have mentioned *selling strategy* several times in this chapter. Let's talk about selling strategies—what they are and what they do.

Definition

Selling strategy refers to the decisions and actions taken by hotel management to maximize room revenues. Selling strategy meetings are held once a week, and that is where yield management information, group room block pickup, and other room revenue information is discussed and the best selling strategy identified and implemented.

The Process

The selling strategy process involves the Director of Revenue Management (the specialist), the Director of Sales and Marketing, the Director of Finance, the Director of Rooms Operations, the Front Office Manager, and the General Manager. They will discuss all the relevant information and determine the best strategy to put in place to maximize room revenues.

Selling strategies typically do not involve changing rate structures but opening and closing specific rate categories, arrival dates, and lengths of stay to maximize total room revenue. All of these actions affect total room revenues by either increasing the number of rooms sold or increasing/decreasing the room rates of reservations booked. Yield management provides the most detailed and valuable information used in determining selling strategies.

For example, if the booking pace for a specific DOA is significantly under the historical average, the selling strategy will probably be to open all discounts and do everything possible to sell rooms. This strategy should result in more rooms sold but at lower, discounted rates. This is okay because the booking pace is below the historical average. That generally means that the hotel will not be close to selling out and will probably have many unsold rooms. A room sold at a lower average rate is preferable to an unsold room.

Let's look at another example where the booking pace is significantly higher than the historical average for a specific DOA. This means that the demand for hotel rooms is

higher than the historical average, and therefore there is a higher probability of more rooms being sold for the DOA. The selling strategy will probably be to close or restrict all discounts and ensure that all future room reservations are booked at the higher corporate, rack, and concierge rates. This strategy should result in higher room rates. That should be okay given the higher demand. The expectation is that the hotel will still be able to sell the remaining unsold rooms at the higher rate because of the stronger demand.

When the selling strategy is decided at the selling strategy meeting, the Director of Revenue Management is responsible for changing the available rates to all agencies and organizations that have access to booking reservations from the hotel inventory. They do this by closing off the discounted rates. This means that travel agencies, central reservations offices, hotel and car rental companies, the hotel reservation staff, and the hotel front desk can only book room reservations in the higher rate categories.

Let's look at how the proper selling strategy can maximize room revenues for a sold-out night at our 400-room hotel. Let's assume that one week before the day of arrival, we have sold 350 rooms at an average rate of \$75. Yield Management tells us that this booking pace is 25 rooms higher than the historical average, and therefore we will almost certainly have a perfect sellout—400 occupied rooms for the DOA. We will now compare two revenue possibilities for selling the remaining 50 rooms.

First, let's assume we do not change our selling strategy and leave the discounted rooms open and available for sale. We can assume that the average room rate for the final 50 rooms will be the same \$75 that Yield Management has calculated for the 350 reservations already made. The expected incremental revenue will be \$3,750, which is 50 rooms sold \times \$75 average rate.

Second, let's assume we change our selling strategy to close all discounted room rates. The remaining 50 rooms will be sold at the corporate rate of \$99 and rack rate of \$115. The average rate of these 50 rooms will be somewhere between these two rates. Let's use \$105 as an average. The expected incremental revenue for these 50 rooms sold increases to \$5,250 or 50 rooms sold \times \$105 average rate. By closing the discounts, the hotel increases its average room rate from \$75 to \$105, generating an incremental room revenue of \$1,500 (the difference between \$5,250 and \$3,750).

The advantages of dynamic selling strategies is that they can take advantage of current daily updates to change selling strategies to maximize room revenues for a specific DOA. In fact, during high-demand times, a hotel might change its selling strategy several times during the day. Yield Management is the key because of the detail of current reservation information that it provides. The Director of Revenue Management can pull up individual DOAs and implement appropriate selling strategies at any time during a day. Obviously, Yield Management is most useful in high-demand time periods when it is extremely valuable in maximizing room revenues. But it is important to understand that Yield Management can also maximize room revenues in slow time periods by identifying them early

so appropriate selling strategies can be put in place to produce the highest room revenue possible during slow times. It would be a major mistake for a hotel to have discount restrictions in place when Yield Management indicates that the hotel is only going to achieve a 50% occupancy for a specific DOA. All discount rates should be open and available during slow times. Once again, it is better to sell a room at a lower, discounted rate and generate some incremental revenue than to have it unsold—another example of leaving money on the table.

Yield Management Critiques

The last step in the yield management process is to evaluate the selling strategies and the results they produced for a specific DOA or week. The critique process is the same as that of critiquing monthly profit and loss (P&L) performance. Did the selling strategies produce the expected results? Questions included in the critique might be the following:

1. Did the implemented selling strategies produce the desired results?
2. Were selling strategies quickly and efficiently communicated to all reservation outlets and selling agencies?
3. Were there any reservation turndowns or lost revenue opportunities?
4. Were there any problems or surprises that need to be considered in the future?
5. Did the yield management process work as intended?
6. Do any changes need to be made to the selling strategy process?

Summary

Maximizing total room revenues is a major priority for every hotel management team. It involves managing room rates and rooms sold in the best balance to maximizing room revenue. It is also the first step and probably the most important step in maximizing total hotel profits. If a hotel is increasing total room revenue from year to year and meeting budgeted and forecasted room revenue, it makes managing and controlling hotel operating expenses much easier.

The process of maximizing total room revenues involves four important processes. First is effectively managing REVPAR (revenue per available room). REVPAR is total room revenue divided by total available rooms in the hotel. This means doing a good job of managing average rates and maximizing total rooms sold.

Second is developing a competitive yet profitable room rate structure for the hotel. Setting the different rates offered to customers at appropriate levels is important for maximizing rooms sold and total room revenue. Rates should be competitive in the market, reflect a good value to customers, reflect the investment in the hotel and the operating cost requirements, and reflect any competitive advantage that the hotel might have.

Third is utilizing a yield management system to provide historical and current reservation information that will assist in maximizing total room revenue. Yield Management is a computer program that compares the current year's booking pace of reservations for a specific day of arrival (DOA) to the historical average booking pace for the DOA.

Fourth is developing and implementing successful selling strategies that will assist all reservation partners and hotel employees in using the hotel room rate structure and current status of room reservations to maximize total room revenues. Selling strategies are developed at weekly meetings and changed daily to react to current rooms sold status.

Effective room revenue management is one of the most important elements of successful hotel operations. It enables the hotel to have flexibility in the use and management of expenses to maintain or improve the hotel's physical structure and provide more and better services and amenities. A hotel that consistently produces lower room revenues than budgeted will not have the revenue and cash flow necessary to keep the hotel in a strong competitive position.



Hospitality Manager Takeaways

1. **REVPAR is the most valuable measurement for maximizing total room revenues. It requires hotel management to be efficient in both maximizing rooms sold and maximizing the average room rate.**
2. **Yield Management is the most valuable tool used by hotel management to maximize total room revenue. It compares the current reservation booking pace to historical booking averages for a DOA and is used to decide on the best selling strategy to maximize total room revenue.**
3. **The selling strategy team is responsible for reviewing all reservation information including Yield Management information and implementing the best strategy to maximize total room revenue.**
4. **Room rates for a hotel are generally set annually for several specific rate categories based on the hotel's largest market segments.**



Key Terms

Booking Pace—The current rate at which reservations are being received for a specific DOA. The booking pace is compared to historical averages to determine if demand is stronger or weaker than historical averages for a specific DOA.

Day of Arrival (DOA)—The focus point of Yield Management. All historical reservation averages and trends for a specific arrival day in the future.

Demand Tracking—The part of Yield Management that utilizes computer programs to provide historical information of reservation booking patterns that provide historical averages and trends for the hotel.

Historical Average—Average reservation information based on four or five years of hotel information.

REVPAR—Revenue per Available Room. Total room revenue divided by total rooms available. It combines room occupancy and room rate information to measure a hotel's ability to maximize total room revenues.

Rate Structure—A list of the different room rates offered by a hotel.

Selling Strategy—The actions and decisions of the senior management of a hotel concerning opening and closing room rates, arrival dates, and length of stay to maximize total hotel room revenues.

Yield Management—The computer reservation tracking system that combines current reservation booking information with historical reservation booking information. It is used to implement selling strategies that will maximize total hotel room revenue.



Review Questions

1. What are the two formulas for REVPAR?
2. Why is understanding and using REVPAR information so important to maximizing total room revenue?
3. Explain the relationship between room rates and market segments.
4. What is DOA, and why is it such an important part of Yield Management?
5. How is the booking pace used with the historical average in Yield Management?
6. Who is on a hotel's selling strategy team? Which one is the most important?
7. What selling strategy should a hotel implement when the booking pace is under the historical average pace?
8. What selling strategy should a hotel implement when the booking pace is over the historical average pace?