

Revenue Management

O P E N I N G D I L E M M A

The sales manager has left a message for the front office manager, the food and beverage manager, and the revenue manager requesting clearance to book a conference of 400 accountants for the first three days of April. The front office manager needs to check out some things before returning the call to the sales manager.

As mentioned in earlier chapters, revenue management is the technique of planning to achieve maximum room rates and most profitable guests. This concept originated with the use of yield management, a similar concept, in hotel management circles in the late 1980s; in fact, yield management was borrowed from the airline industry to assist hoteliers in becoming better decision makers and marketers. It forced hotel managers to develop reservation policies that would build a profitable bottom line. Although adoption of yield management had been slow in the hotel industry, it offers far-reaching opportunities for hoteliers in the twenty-first century in the form of revenue management. This chapter applies concepts of yield management to the demands of aggressive applications of revenue management. For example we see in the following article on revenue management by Dr. Robert McMullin, professor of hotel, restaurant, and tourism management at East Stroudsburg University, how aggressive applications of yield management are employed in revenue management.

CHAPTER FOCUS POINTS

- Occupancy percentage
- Average daily rate
- RevPAR
- History of revenue management
- Use of yield management
- Components of revenue management
- Applications of revenue management

As with other businesses, pricing for the lodging industry is based on supply and demand. A good illustration of this is room rates at hotels near the Pocono Raceway in Pennsylvania where there are two big races (the NASCAR Pocono 500 and the Pennsylvania 500) every year. Hotels in the area are full for the races, which define the peak season. During peak season hotels collect rack rates. However, during the valleys, or off seasons, hotels must offer discounts and accept group travel discounts. The period between the peaks and valleys is called shoulder time, during which hotels build business and offer a variety of rates.¹

Occupancy Percentage

To explain revenue management, we first review traditional measures of success in a hotel. **Occupancy percentage** historically revealed the success of a hotel's staff in attracting guests to a particular property. This traditional view of measuring the effectiveness of the general manager, marketing staff, and front office staff was used to answer questions like these: How many rooms were sold due to the director of sales' efforts in creating attractive and enticing direct mail, radio and television ads, billboard displays, or newspaper and magazine display ads? How effective were reservation agents in meeting the room and amenity needs of the guests? Did travel agents book a reservation? How competent were front office staff members in making the sale? Today's questions include: Did the director of sales choose the right website to advertise the hotel's excess room inventory? Did the revenue manager price the rooms at the correct rate for the correct period? While interpretations of occupancy percentage are still indicators of the staff's efforts, in this chapter we focus on applications of revenue management because it provides a more comprehensive review of factors such as room rate potential, revenue potential, and nature of the group.

The occupancy percentage for a hotel property is computed daily. The method used to determine it is as follows:

$$\frac{\text{Number of Rooms Sold}}{\text{Number of Rooms Available}} \times 100 = \text{Single Occupancy \%}$$

To see how this formula works, consider a hotel that sold 75 rooms with a room inventory of 100 rooms; this would yield a 75 percent occupancy percentage:

$$\frac{75}{100} \times 100 = 75\%$$

Investors also use occupancy percentage to determine the potential gross income of a lodging establishment. For example, a 100-room property with a daily average 65 percent occupancy and an \$89 average daily rate generates about \$2.1 million in sales annually:

FIGURE 6-1

A front office manager discusses the elements of yield management as it applies to revenue management in a training session. Photo courtesy of Hotel Information Systems.



100 rooms \times 0.65 occupancy = 65 rooms occupied daily; 65 \times \$89 room rate = \$5,785 revenue per day; \$5,785 \times 365 days in a year = \$2,111,525 gross income from room sales annually.

However, it is important not to assume that occupancy is standard each night. Variations are reflected in the following example:

A 65 percent occupancy is usually achieved on Monday, Tuesday, and Wednesday evenings. However, Thursday, Friday, and Saturday night statistics reveal a 40 percent occupancy, with Sunday night occupancy at 50 percent. Therefore:

Monday–Wednesday:	100 \times 0.65 \times \$89 \times 156 (52 \times 3) = \$902,460
Thursday–Saturday:	100 \times 0.40 \times \$89 \times 156 (52 \times 3) = \$555,360
Sunday:	100 \times 0.50 \times \$89 \times 156 \times 52 = \$231,400
	Total: \$1,689,220

Double occupancy is a measure of a hotel staff's ability to attract more than one guest to a room. Usually a room with more than one guest requires a higher room rate and thus brings additional income to the hotel. This method is also traditional in determining the success of building a profitable bottom line. The method to determine double occupancy percentage is as follows:

$$\frac{\text{Number of Guests} - \text{Number of Rooms Sold}}{\text{Number of Rooms Sold}} \times 100 = \text{Double Occupancy \%}$$

If a hotel sold 100 rooms to 150 guests, then the double occupancy percentage is 50 percent, computed as follows:

$$\frac{150 - 100}{100} \times 100 = 50\%$$

Average Daily Rate

Average daily rate (ADR) is a measure of the hotel staff's efforts in selling available room rates. Such questions as why more \$85 rooms than \$99 rooms were sold, or whether the marketing office developed attractive weekend packages to sell the \$80 rooms instead of relying on the desk clerk on duty to take any reasonable offer from walk-in guests, are typically answered when the ADR is reviewed.

The method to compute the ADR is as follows:

$$\frac{\text{Total Room Sales}}{\text{Number of Rooms Sold}}$$

If a hotel has daily room sales of \$4,800 with 60 rooms sold, the ADR is \$80, computed as follows:

$$\frac{\$4,800}{60} = \$80$$

The ADR is used in projecting room revenues for a hotel, as previously described in the discussion of occupancy percentage. Occupancy percentage and ADR computations are essential parts of revenue management because they challenge hoteliers to maximize occupancy and room rates.

RevPAR

RevPAR (revenue per available room) was introduced in chapter 1 to allow you to recognize it as one of the financial determinants that hoteliers use in discussing revenue management. RevPAR is determined by dividing room revenue received for a specific day by the number of rooms available in the hotel for that day. The formulas for determining RevPAR are as follows:

$$\frac{\text{Room Revenue}}{\text{Number of Available Rooms}}$$

or

$$\text{Hotel Occupancy} \times \text{Average Daily Rate}$$

This type of financial insight into a hotel's ability to produce income allows owners, general managers, and front office managers to question standard indicators of hotel success. RevPAR asks the question, "How many dollars is each room producing?" If certain

rooms are always occupied because of a lower rate, attractive amenities, or other reasons, then the hotel's administration may want to duplicate those sales to similar markets. This questioning opens the door for revenue management, which turns the passive efforts of hoteliers into aggressive financial strategies.

History of Yield Management

Yield management is the source of the concepts that underlie revenue management. The history of yield management provides a framework for your developing a background knowledge of revenue management. The airline industry instituted yield management after deregulation in the late 1970s.² The airlines blocked out certain periods when seats on flights were priced at certain levels; the potential passenger either booked the flight at the price quoted or found other means of transportation. This bold marketing policy met with some problems but established the economic structure of airfares.

Hotels and airlines share similar operational features. Each has a fixed number of products (hotel rooms and airline seats) that, if not sold on a certain day or flight, cannot be resold. Airlines and hotels sell to market segments that have distinct needs in product and service level. Each has demand periods (holidays, weekdays, and weekends in hotels; holidays, weekdays, and time of day for airlines) that place the provider in a favorable position. Airlines and hotels have various rates from which guests can choose. Reservations allow managers to use yield management.³ By using computers to track a database of products (hotel rooms and airline seats) and to process reservations, managers have the ability to look at a sales horizon of 45 to 90 days and to set price and reservation policies that will allow a prediction of profitability.

One of the major differences in how yield management is used in airlines and hotels is that at the hotel, the guest may also spend money for products and services besides the room itself. The airline passenger usually does not have an opportunity to spend large amounts of money during a flight. Because of this difference, hoteliers must consider the financial potential of one prospective guest over another in determining reservation policies. For example, one group may want to book a block of 500 rooms with a \$50,000 value plus banquets and other food and beverage service events that total \$25,000, while another group may want to book a block of 600 rooms with a value of \$60,000 but no additional food and beverage income.

Use of Yield Management

Yield management has now caught on in the hotel industry. It is imperative that hoteliers understand the importance of the basic factors of yield management—room rate categories, room inventory, and group buying power—to navigate their way through revenue management. The goal of revenue management is twofold: to maximize profit for guest

room sales and to maximize profit for hotel services. These goals are important for future hoteliers to understand, because if they set out only to maximize room sales, the most profitable guest may not stay in the guest room. This is the difference between airline yield management and hotel revenue management.

The following discussion shows how revenue management is used in the hotel industry. As you read through this information, note how the management staff is using technology to make informed decisions that will reflect favorably on the bottom line. (You may note that the terms *yield management* and *revenue management* are now interchangeable. Yield management was the earlier concept from which revenue management developed.) The real challenge of developing any computer application is to support the goals of the management staff. The following quote from the International Hotel Association summarizes the importance of using yield management as a business tool: “Yield Management is the must-have business planning tool for hoteliers in the 1990s and beyond. The computerized functioning [mathematical model] of yield management is complex, but the concept is simple: By using a combination of pricing and inventory control, a hotelier can maximize profits from the sale of rooms and services.”⁴

So how are hotel general managers, directors of marketing, and front office managers applying this new technology to produce more profit for a hotel? Here are examples:

The first example is provided by Maxim, a global provider of revenue management systems, and TravelCLICK, an electronic provider of reservations for consumers.

Maxim Revenue Management Solutions (MaximRMS), a leading global provider of revenue management and profit optimization software and services for the hospitality industry, and TravelCLICK, the leading provider of solutions that help hotels maximize profit from electronic distribution channels, announced the signing of a strategic partnership agreement aimed at delivering an industry-leading portfolio of revenue management tools to the hospitality industry. The two companies introduced RevenueDASHBOARD™, a revenue management system built specifically for senior executives and hotel owners. RevenueDASHBOARD provides executives with an overview of their hotel’s or company’s forecasted demand by channel, taking budget and competition into consideration. The system identifies peak and need periods and generates specific calls to action that help hotels improve revenue, profitability, and competitive positions.⁵

Programs like the maxim® automated revenue management system apply information about property history and booking and stay activity to algorithms for forecasting. The resulting information combined with user interface enables significant increases in revenue per available room (revPAR) and bottom line revenue. Systems like this use a company’s history to predict future demand for a variety of factors, including arrival dates, rates, room types, and length of stay.⁶

The following information is provided by MICROS on another revenue management software product available to hoteliers, revenue managers, and front office managers.

OPERA Revenue Management, powered by OPUS 2 Revenue Technologies, is integrated with OPERA CRS, ORS, and PMS. It provides property-based and centralized

revenue management, using group analysis, managing transients at the stay pattern level and “Hotel within a Hotel” revenue management. Additionally, the system is interfaced with the OPERA Sales and Catering System.⁷

Revenue Manager

Because revenue management has become such an active part of hotel management, a new operational position has emerged: the revenue manager. The **revenue manager** reports to the general manager, works closely with the marketing and sales department, and consults with the front office manager. The job of the revenue manager is to oversee the room inventory and room rates that are offered throughout the year to groups and individuals and through the various channels: central reservation system, Global Distribution System, third-party reservation systems, toll-free reservation number, etc. The revenue manager also identifies trends and methods to match those trends. The person in this job communicates on a regular basis with members of a revenue management team. The following is a management job listing for a revenue manager.⁸

1. Monitor, analyze, and report on demand patterns, sales, and losses.
2. Develop, implement daily, and improve sales strategies as needed.
3. Work with Sales, Catering, and Conference Planning to balance transient and group business. Provide feedback about potential new customers.
4. Analyze no-shows, cancellations, early departures, and unexpected stayover patterns.
5. Direct weekly revenue meetings.
6. Assist with product development and marketing of transient packaging.
7. Adjust all rates and restrictions on property and through all transient channels.
8. Provide weekly reports about business pace and changes in consumer behavior that affect revenue.

Components of Revenue Management

To understand revenue management you first must understand the components of revenue management and their relationships. Each part of revenue management feeds into a network that supports the goal of maximizing profit for a hotel.

Definition of Yield

Previously, occupancy percentage was presented as a traditional concept used to try to achieve 100 percent occupancy. Using this concept, a certain percentage of the rooms may have been sold, but how profitable was the venture? For example, Table 6-1 shows

TABLE 6-1 Occupancy Percentage Comparison

Hotel	No. Rooms Available	No. Rooms Sold	Rate	Income	Occupancy %
ABC	500	200	\$80	\$16,000	80
		<u>200</u>	\$95	<u>19,000</u>	
		400		<u>\$35,000</u>	
XYZ	500	100	\$80	\$8,000	80
		<u>300</u>	\$95	<u>28,500</u>	
		400		<u>\$36,500</u>	

Hotel ABC, which has 500 rooms. It sells 200 rooms at \$80 and 200 rooms at \$95 (rack rate), earning \$35,000 in room sales and achieving an 80 percent occupancy. Hotel XYZ also has 500 rooms and sells 100 rooms at \$80 and 300 rooms at \$95 (rack rate), earning \$36,500 and achieving the same 80 percent occupancy. This additional daily income (\$1,500) will assist hoteliers in building a better profit-and-loss statement. This process of creating additional income leads us to the definition of yield. **Yield** is the percentage of income that could be secured if 100 percent of available rooms were sold at their full rack rate. **Revenue realized** is the actual amount of room revenue earned (number of rooms sold × actual rate). **Revenue potential** is the room revenue that could be received if all the rooms were sold at the rack rate. The formula for determining yield is as follows:⁹

$$\text{Yield} = \frac{\text{Revenue Realized}}{\text{Revenue Potential}}$$

Table 6-2 demonstrates the effects of revenue management strategies. Both hotels have achieved an 80 percent occupancy, but Hotel XYZ has achieved a higher yield while selling the same amount of rooms.

Another example of determining yield is as follows: If The Times Hotel has 300 rooms available for sale and sold 200 rooms at \$85 with a rack rate of \$110, the yield is 51.51 percent.

$$\frac{200 \times \$85 = \$17,000}{300 \times \$110 = \$33,000} \times 100 = 51.51\%$$

The determination of yield provides a better measure of a hotel staff's effort to achieve maximum occupancy than the traditional occupancy percentage. The 51 percent yield means the staff's effort in achieving maximum occupancy could have been improved by

TABLE 6-2 Yield Comparison

Hotel	Revenue Realized	Revenue Potential	Yield %
ABC	\$35,000	\$47,500*	73.68
XYZ	\$36,500	\$47,500*	76.84

*500 rooms × \$95 (rack rate) = \$47,500

using effective strategies to sell more \$110 rooms. Thus, one of the goals of revenue management is to sell all available rooms at the highest rate (rack rate). A later subsection of this chapter deals with the development of effective strategies to ensure maximum yield.

Optimal Occupancy and Optimal Rate

Achieving the best yield involves redefining occupancy percentage and average daily rate. Although these concepts are important to the long-range potential financial picture, they take on a new meaning with revenue management. **Optimal occupancy**, achieving 100 percent occupancy with room sales, which will yield the highest room rate, and **optimal room rate**, a room rate that approaches the rack rate, work together to produce the yield. The following scenario illustrates the harmony that must be achieved to maximize yield:

A 300-room hotel has sold 100 rooms at \$76, 150 rooms at \$84, and 35 rooms at \$95 (rack rate). The yield for this combination is 83 percent. If revenue management were in use and the daily report revealed 200 rooms sold at \$90 and 85 rooms at \$95, a 91 percent yield could have been realized. Not only could an additional 8 percentage points have been achieved but also an additional \$2,550 could have been earned. In both situations, an occupancy of 95 percent was achieved, but the average daily rate in the first case was \$82.54, while the optimal room rate in the second case was \$91.49. The \$91.49 optimal room rate more closely approaches the \$95.00 rack rate.

Strategies

E. Orkin offers a simple policy for developing strategies to implement yield management: When demand is high, maximize rates; when demand is low, maximize room sales.¹⁰ [Author's note: Orkin's use of the term *yield management* can be interchanged with the term *revenue management*.] This idea is expressed in Table 6-3. Orkin also offers specifics on developing strategies. He says that when demand is high, "restrict or close availability of low-rate categories and packages to transients [guests], require minimum length of stays, and commit rooms only to groups willing to pay higher rates. When demand is low, provide reservation agents with special promotional rates to offer transients who balk at standard rates, solicit group business from organizations and segments that are characteristically rate sensitive, and promote limited-availability low-cost packages to local

TABLE 6-3 Revenue Management Strategies

Demand	Strategy
High	Maximize rates, require minimum stays
Low	Maximize room sales, open all rate categories

market.”¹¹ Restricting or closing availability was indeed a challenge because most front office managers were familiar with the sell-out-the-house operating procedure and were unsure this aggressive marketing tactic would work. Some hoteliers were setting reservation policies that required minimum length of stay during heavy demand periods. The procedure recommended for low demand (special promotional rates and soliciting group and local business) was the strategy used during any demand period. As revenue management continues to be tried and tested in hotels, various combinations of maximizing room rates and room sales continue to challenge hoteliers, revenue managers, and front desk managers.

For example, Carol Verret reports¹² on the importance of developing a revenue management strategy.

A revenue management strategy establishes “target” numbers to be achieved through a variety of ways: sales, manipulating the GDS, controlling the allocation and rate in the electronic distribution channels, etc. In other words, it is a proactive rather than reactive function that simply turns the faucets on and off.

She describes the components of revenue management.¹³

Revenue drivers are defined as all areas of revenue generation within the organization. This includes central reservations, property-level reservations, the sales department, the electronic distribution channels and the web site.

Forecasting

An important feature of yield management is forecasting room sales. Orkin suggests using a daily decision orientation rather than a seasonal decision-making scheme in developing a particular strategy.¹⁴ (Revenue managers continue to apply these concepts of yield management daily.) Accurate forecasting of transient demand assists hoteliers in developing strategies to maximize sales to this group. For example, if a hotel has group business reservations for 95 percent of available rooms, seeking transient business with special promotional packages during that period would not be advisable. If the period following the group business is low, then advance knowledge of this information allows time for marketing and sales to develop special promotional packages aimed at the transient and local markets.

FRONTLINE REALITIES



The controller of the hotel has asked the front office manager to project room sales for the next 45 days. This is necessary for the controller to estimate cash flow for a payment on a loan that is due in 30 days. How will the use of revenue management help the front office manager make an accurate projection?

Block-Out Periods

The strategies just discussed for high demand periods require revenue managers, hotel managers, and front office managers to block out certain days when potential guests who seek reservations must commit to a minimum length of stay. If a guest requests a reservation for October 25 but that date falls in a block-out period of October 24, 25, and 26, the reservation agent must refuse the request. If the guest is willing to commit to all three days, then the reservation can be processed. This process of establishing block-out periods allows a hotel to develop standardized reservation operating procedures for a 24-hour-a-day reservation system. Forecasting these periods is an essential feature of yield management.

Systems and Procedures

Orkin suggests that a front office manager who implements yield management use an automated system that processes reservations, tracks demand, and blocks out room availability during certain periods.¹⁵ The details of operating a reservation system for a year-round 500-room hotel that uses yield management would be overwhelming if left to manual calculation. Orkin also advises initiating specific rate-setting policies that will ensure profitability. Establishing block-out periods requires an ongoing marketing effort by the hotel to ensure sales in projected low demand periods. He urges front office managers to develop a well-trained staff who understand and use yield management procedures. Training is a key element in making a complicated system workable (Figure 6-2).

Those of you who have experience in the hotel industry will appreciate Orkin's last caution: Be adaptable to changes in demand. If a four-day convention booked 90 percent of the rooms for arrival on April 5 and 25 percent of those reservations cancel by March 30, the front office manager should drop the restrictions for a four-day stay and encourage reservation agents to offer promotional packages to transient guests.

Channel Management

There are many opportunities for guest room sales to be completed—central reservation system, GDS, third-party reservation system, toll-free phone reservation, travel agent, etc.—as noted in the chapter on reservations. Revenue management requires the objective

FIGURE 6-2

A front office manager encourages discussions of the application of yield management in a training session as the basis of revenue management. Photo courtesy of IBM.



review of those sales channels to determine which approach would have afforded the hotel with maximum opportunity for financial gain. Rebecca Oliver, in her article on channel management software, provides information on how this technology can assist revenue managers in this important function of their jobs.

“It wasn’t too long ago when revenue management solutions revolutionized the way hotels did business. Rather than a manual process of calculating rates and occupancies, the revenue management systems gave automatic recommendations for rates. Now, revenue management system (RMS) vendors are hoping to revolutionize the industry once again with advanced systems that offer hotels the ability to perform revenue management by different channels.”

“What we are seeing is a giant leap forward in revenue management as it moves to embrace distribution through electronic channels,” says John Burns, principal, Hospitality Technology Consulting, Scottsdale, Arizona. “It is a complex development process and calls for sophisticated strategy. Revenue management is not plug-and-play, and [vendors] have to make sure [hotels] will benefit from the technology.”

“These new systems have been adapted to keep up with the reservation activity outside of hotels, namely, central reservations offices and electronic reservation channels. While just coming on to the market, some hotels have realized results, and others anticipate the benefits yet to come.”

She continues [Vendors have developed software to manage this challenge.] “We saw a trend that many of our hotels were having great success in maximizing their yield with their revenue management system connected to the property management system, but they did not have any easy way to apply their strategy to their central reservation system (CRS)-powered channels, with their confusing way of booking channels and business models,” says Bernard Ellis, senior vice president of product/channel management, SynXis.¹⁶

Feedback

Feedback on decisions employed in revenue management is essential to any new venture in management. A record of the date and amount of turnaway business is vital for hoteliers to assess the viability of revenue management and to update revenue management and marketing strategies for the future.¹⁷ A general manager who reviews the report of a recent five-day block-out period, as depicted in Table 6-4, would find that the period restricted for a five-day minimum length of stay worked well for May 1–3, but 178 room reservations were lost for May 4–5. The director of marketing and sales must research the contracts the hotel had with the various groups involved. Also, the front office manager should ask if the front desk clerks, bell staff, or cashiers heard any guest comments on why they checked out earlier than scheduled. The turnaway business on May 3–5 might also indicate that the convention events scheduled on these days were more interesting or that the members of this group did not want to commit to a five-day stay and wanted reservations for only the last three days of the convention.

Management Challenges in Using Revenue Management

An enormous problem facing hotels that employ revenue management is alienation of customers.¹⁸ Potential guests who have a reservation refused because they do not want to comply with minimum-stay requirements or who feel they are victims of price gouging may not choose that hotel or any hotel in that chain the next time they need lodg-

TABLE 6-4 Turnaway Business Report

Date	Yield %	No. Rooms Turned Away	Dollars Lost [@ \$95 Rack Rate]
May 1	98	35	3,325
May 2	96	20	1,900
May 3	93	60	5,700
May 4	50	90	8,500
May 5	50	88	8,360

TABLE 6-5 Considerations of Food and Beverage Income in Setting Revenue Management Strategies

Group	No. Rooms	Rate	Room Income	Food and Beverage Income	Projected Income
A	350	\$110	\$38,500	\$18,750	\$57,250
B	300	\$100	30,000	62,500	92,500

ing. It is important that employees be well trained in presenting reservation policies to the public.

Considerations for Food and Beverage Sales

The previous discussion of revenue management focused on rates, room availability, minimum stay, and the like. However, another issue that assists hoteliers in setting revenue management policies cannot be overlooked: potential food and beverage sales.¹⁹ Certain market segments tend to purchase more food and beverages than other segments. This factor must be taken into consideration to determine the most profitable customer to whom to offer the reservation.

Review Table 6-5 to determine which potential group would bring in the most income to the hotel. Group B, with projected income of \$92,500 due to projected food and beverage costs (perhaps guests with larger expense accounts or scheduled banquet meals), will bring more projected income to the hotel, even though the room rate for group B is lower than for group A.

Some hoteliers debate the food and beverage issue because the profit from food and beverage sales is not as great as that from room sales. Other debates in applying revenue management center on the type of guests who request reservations and the subsequent effects on room furnishings and use of hotel facilities. For example, group B may be a conference group of high school students who may damage hotel facilities, while group A may be senior citizens attending a conference. Developing effective revenue management policies, which identify groups who may yield additional income (or expense), is necessary to make revenue management work. This is indeed a challenge to you as you begin your career as a hotelier.

Applications of Revenue Management

The best way to understand revenue management is to apply it to various situations. Try your hand at the following scenarios to become familiar with the basics of revenue management.

Scenario 1

A front office manager has reviewed the daily report, which reveals that 240 rooms were sold last night. The hotel has 300 rooms and a rack rate of \$98. Using the following breakdown of room sales, determine the yield for last night:

85 rooms at \$98

65 rooms at \$90

90 rooms at \$75

Scenario 2

The general manager has asked you to develop a block-out period for the October Annual Weekend Homecoming event at The Times Hotel. There is a definite possibility of 100 percent occupancy, but the general manager is concerned that several of the alumni will dine off-premises. He would like a package rate that includes a kickoff breakfast and a dinner after the game. How will you proceed?

Scenario 3

A representative from the Governor's Conference has requested a block of 200 rooms for three days at a \$75 rate. This conference is attended by people who know how to entertain, and the projected food and beverage expenditure per person is significant. During that same three-day period, a jazz concert is scheduled in the city. In the past, reservations from this group plus walk-ins have allowed you to achieve 100 percent occupancy (200 rooms) at a \$135 rate (rack rate is \$95). However, the jazz enthusiasts do not have a positive history of large food and beverage purchases. What would you do, and on what would you base your decision?

Solution to Opening Dilemma

The front office manager must check the room availability for this period in the reservation module. She must determine if any block-out periods already exist and, if so, what minimum room-night restrictions are in force. She must also check with the food and beverage manager to determine the availability of banquet facilities and food services and the financial implications that may influence the decision. The revenue manager must provide information on rates and minimum reservation periods appropriate for the dates that are requested. If the decision leans toward rejection of the offer, the sales manager should consider public relations implications.

Chapter Recap

This chapter discussed the traditional concepts of occupancy percentage and average daily rate in determining the effectiveness of management's efforts to achieve a positive income statement. RevPAR was used to answer the question "How many dollars is each room producing?" Yield management was introduced as a tool hoteliers can use in developing guest room sales strategies and evaluating potential food and beverage purchases to ensure a higher profit. Yield management was borrowed from the airline industry, which shares a common operational design with the hotel industry. Components of yield management include revenue realized, revenue potential, optimal occupancy and optimal rates, strategies, block-out periods, forecasting, systems and procedures, feedback, and challenges front office managers face in implementing and using yield management. These concepts have been adopted into a daily revenue management operations practice and require the services of a revenue manager to monitor all opportunities to sell room inventory at various room rates and evaluate the potential financial impact of groups.

End-of-Chapter Questions

1. Explain in your own words the concept of revenue management.
2. What does a revenue manager do as a member of the hotel management team?
3. Explain in your own words the concept of revenue management. How are yield management and revenue management related?
4. What does occupancy percentage tell the owner of a hotel? Discuss the shortcomings of this concept in measuring the effectiveness of a general manager.
5. Similarly, discuss the use of occupancy percentage versus the average daily rate (ADR) in determining the effectiveness of a general manager. What impression does quoting only the ADR give the owner of a hotel?
6. How can the use of RevPAR assist hotel managers in measuring the effectiveness of front desk staff and marketing managers?
7. What similarities in operational design do the airline industry and the hotel industry share?
8. What are the goals of revenue management? If you are employed at a front desk in a hotel, do you see these goals being achieved?
9. Determine the yield for a hotel that has 200 rooms available for sale with a rack rate of \$80, all of which are sold at \$75.
10. Determine the yield for a hotel that has 275 rooms available for sale with a rack rate of \$60 and sells 150 rooms of them at \$75.

11. Determine the yield for a hotel that has 1,000 rooms available for sale with a rack rate of \$135 and sells 850 rooms of them at \$100.
12. Discuss the concepts of yield and occupancy percentage as revealed in questions 9, 10, and 11.
13. Discuss strategies to use when demand is high.
14. Discuss strategies to use when demand is low.
15. Why should a revenue manager set daily rate strategies as opposed to general period rate strategies?
16. In your own words explain the term *block-out period*.
17. Why is sharing revenue management strategies with the front office staff so important to the success of the revenue management program?
18. What role does the transient guest play in the success of achieving yield?
19. What information can be obtained by reviewing the breakdown of rooms sold by rate category in the daily report? What should a hotel staff do with this information?
20. How can review of the various sales channels assist the revenue manager in his or her job?
21. Why should turnaway business be reviewed daily? What should the hotel staff do with this information?
22. What role do potential food and beverage sales play in revenue management? What are your thoughts on rejecting the role of this concept in achieving yield?

CASE STUDY 601

Ana Chavarria, front office manager at The Times Hotel, has completed a revenue management seminar at Keystone University and is preparing an argument in favor of adopting this concept at The Times Hotel to present to Margaret Chu, the general manager. She begins by compiling a history of room occupancy and ADRs, which she hopes will reveal areas in which revenue management could help. She prepares an electronic spreadsheet that lists rooms sold with corresponding room rates and correlates the data to tourism activities in the area. Ana sends an analysis of revenue realized and revenue potential to Ms. Chu for review prior to their discussion.

After reviewing the analysis, Ms. Chu concludes, “This is just another scam; the industry is slow to adopt this,” and disregards the entire report. She knows that occupancy percentage, ADR, and RevPAR are all you need to be efficient today, so why change?

Ana passes Ms. Chu in the lobby, and Ms. Chu indicates her distrust of the revenue management concept but says she will listen to Ana’s presentation tomorrow.

What tips could you give Ana to help her present a sound case for the adoption of revenue management?

CASE STUDY 602

Suggest revenue management strategies to use under the following circumstances at The Times Hotel:

Situation 1: The Train Collectors will be in town from November 10 through November 15 and will draw 50,000 people. Every room in town is expected to be taken for that period. What policy should the hotel develop for guests who want to reserve a room for the following periods?

- November 10 only
- November 10 and 11 only
- November 10, 11, and 12 only
- November 11, 12, and 13 only

- November 12, 13, and 14 only
- November 13, 14, and 15 only
- November 13 and 14 only
- November 14 and 15 only
- November 15 only

Situation 2: The last two weeks of December are usually a slow period for room sales, but a local Snow and Ice Festival will attract visitors who may request reservations for single overnight accommodations. What policy should the hotel develop for accepting room reservation?

Notes

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Key Words

average daily rate (ADR)	revenue manager
double occupancy percentage	revenue potential
occupancy percentage	revenue realized
optimal occupancy	yield
optimal room rate	yield management
revenue management	