

Yield Management

OPENING DILEMMA

The assistant sales manager has left a message for the front office manager and the food and beverage 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 assistant sales manager.

As mentioned in earlier chapters, yield management is the technique of planning to achieve maximum room rates and most profitable guests. This concept appeared in hotel management circles in the late 1980s; in fact, it 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 this concept has been slow in the hotel industry, it offers far-reaching opportunities for hoteliers in the twenty-first century. This chapter explores traditional views of occupancy percentage and average daily rate, goals of yield management, integral components of yield management, and applications of yield management (Figure 6-1).

CHAPTER FOCUS POINTS

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

Occupancy Percentage

To understand yield management, we will first review some of the traditional measures of success in a hotel. **Occupancy percentage** historically revealed the success of a hotel's



Figure 6-1. A front office manager discusses the elements of yield management in a training session. (Photo courtesy of Hotel Information Systems.)

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 such questions as 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? While interpretations of occupancy percentage are still good indicators of the staff's efforts, in this chapter we will focus on applications of yield management.

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

However, it is also 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:

$$\begin{array}{rcl}
 \text{Monday–Wednesday:} & 100 \times 0.65 \times \$89 \times 156 (52 \times 3) & = \$902,460 \\
 \text{Thursday–Saturday:} & 100 \times 0.40 \times \$89 \times 156 (52 \times 3) & = \$555,360 \\
 \text{Sunday:} & 100 \times 0.50 \times \$89 \times 52 & = \underline{\$231,400} \\
 \text{Total:} & & \$1,689,220
 \end{array}$$

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 will require 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 a walk-in guest, 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 yield 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 understand one of the financial determinants that hoteliers use. 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 there are certain rooms that 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 the concept of yield management, which turns the passive efforts of hoteliers into aggressive financial strategies.

History of Yield Management

The airline industry instituted the first use of yield management after deregulation in the late 1970s.¹ The airlines blocked out certain time 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 share similar operational features with airlines. 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), which place the provider in a favorable position. Airlines and hotels have various rates from which guests can choose. Reservations are the key operational concept that allows managers to use yield management.² By using computers to track a database of products (hotel rooms and airline seats) and to process reservations, each has the ability to look at a sales horizon of 45 to 90 days and to set price and reservation policies that will allow managers to predict profitability.

One of the major differences in how yield management is used in airlines and hotels is that at the hotel, the guest will also spend money within the hotel for various products and services. The airline passenger usually does not have an opportunity to spend large amounts of money during a plane flight. Because of this unique difference, hoteliers have to consider the financial potential of one prospective guest over another in determining reservation policies. For example, one group that is requesting to block a group of 500 rooms with a \$50,000 value may also want to book banquets and other food service events that total \$25,000, while another group may want to book a block of 600 rooms with a value of only \$60,000.

Use of Yield Management

The goal of yield 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 yield management.

The following information shows how yield 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, which will reflect favorably on the bottom line. 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.”³

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 some examples:

OPERA—a Revenue Management System (Yield Management) is one of the smartest and most informed strategies for increasing sales and raising profits. OPERA Revenue Management System is powered by OPUS 2 Revenue Technologies, a subsidiary of MICROS Systems, Inc. By synthesizing the hospitality industry's most sophisticated technologies for sales forecasting, analysis and rate quotation in an easy-to-use format, this revolutionary revenue management system guides personnel in offering rates and dates that will maximize revenues.

Designed to work in concert with the OPERA, CRS (Centralized Reservation System), and PMS applications, Windows®-based revenue management systems are fully integrated, thereby eliminating the need for duplicate data entry. All reservation transactions are automatically and seamlessly communicated, allowing the system to deliver rate quotations every hour, so personnel can make appropriate adjustments as demand patterns shift. After gathering data from all reservation transactions, group blocks, and inventory changes, the system creates rate hurdles, which guide reservations agents to sell the most profitable stays at the most profitable rates. During high demand, for example, the rate hurdle will be high, shutting off discounted rates. During low demand, the hurdle will be lower, encouraging agents to sell to even the most price-sensitive guests. As a result, revenues are optimized while rate resistance is minimized.

OPERA Revenue Management Systems powered by OPUS 2 Revenue Technologies automatically evaluates a group's total contributions by analyzing all revenue sources including room rates, food and beverage, conference facility, equipment rentals, etc. These revenues are then compared to the net cost of the group and the impact the group may have on transient revenue, including how it may disrupt typical transient stay patterns. After analyzing these factors, if the group is considered not profitable, the system prompts the sales manager with alternative rate guidelines and stay dates in an attempt to accommodate the customer profitably, thereby gaining incremental business as opposed to turning the customer away.

The built-in incentive program is driven by the profitability of the groups that the establishment hosts. The system allows management to institute a range of incentives for sales managers based on the group business they capture. While the system is easy to use and understand, its depth of analysis allows a direct link to the performance of individual sales managers to each property's profitability.⁴

PROS Revenue Management can help hotels gain substantial incremental revenues while simplifying decision making for individual and group reservations, promotions, walk-in acceptance, network rerouting, and contract negotiations. Linked to property management and centralized reservations systems, The PROS Forecaster obtains historical and current booking information to forecast future demand by such factors as day of arrival, product (room type, rate), and length of stay. Its split

history functionality defines multiple non-contiguous periods of history to use as bases for forecasting when data from a previous year reflects unusual influences. Hotels can also specify periods of the year with unique demand profiles, such as holidays and special events, to forecast from very specific history pools. The PROS Forecaster can combine such alternative data sets and incorporate data weighting to improve forecast accuracy.

The PROS Optimizer uses forecaster results to set the most revenue-beneficial room rates and allocations based on the forecast demand at each price point. Many factors influence the bid price (minimum acceptance price) for a hotel's fixed inventory. Doubles have more value than singles especially when the actual rooms are identical. Extended stays are usually preferable to one-nighters, except when the latter leaves free capacity for an upcoming high-demand period. If a hotel has a party room or ballroom, people attending a function there have added incentive to stay at the hotel, raising bid prices for rooms during that period.

Vacancies and room spoilage are serious problems in the hospitality industry. Even with credit card-guaranteed reservations, a room that goes empty for a night represents a lost opportunity. The PROS Optimizer automatically sets overbooking levels to gain the most revenue possible while avoiding denials of guests with reservations.

PROS can also assess the revenue value of prospective groups and provide minimum bid prices for their acceptance. Its systems track the rate at which preliminary requests from a travel agent or group manager become firmed reservations, and the rate these reservations materialize into paying guests at the front desk.⁵

maxim® automated revenue management system is a state-of-the-art yield management solution for the hospitality industry. It interfaces with a property management system (PMS) and/or Centralized Reservation System (CRS) to obtain up-to-date information on transient and group bookings, rates, room types and other data. Property history and current booking information is used to forecast future demand for products by arrival date, rate, room type, and length of stay. The system generates recommended yield actions, including changes to length-of-stay availabilities at the level of rate category and room type. A graphical user interface, in an easy-to-use windows environment, allows users to review the forecast and recommend revenue actions, make adjustments to the forecast if appropriate and transmit yield actions to the PMS and/or CRS. maxim®'s revenue actions can be implemented by a hotel's revenue manager, the management company's remote revenue support staff, or by the Yield Management Systems support team.

Some of the features of this system include the following.

- Forecasting accuracy achieved by incorporating activity related to the initial reservation, denied reservations, cancellations, modifications, no shows, check-ins, and check-outs.

- Identifies the mix and price of bookings that will generate maximum profits for each hotel.
- Accurately determines which customer reservation requests to accept and which to decline.
- Considers competitive pressures and economic cycles with daily analysis and updates.
- Assesses the impact of prospective groups on overall property net revenue and provides guidelines on minimum room rates for groups.
- Tracks planned and actual group block materialization and identifies deviations from forecast.
- Performs a complex optimization of data every night, processing every booking transaction and updating large forecast data sets.
- Forecasts transients up to a year and half into the future.⁶

Components of Yield Management

To understand yield management, it is important that you know its interrelated components. Each part of yield management feeds into a network, which 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 this venture? For example, Table 6-1 shows Hotel ABC which has 500 rooms. It sells 200 rooms at \$80 and 200 rooms at \$95 (rack

Table 6-1. *Occupancy Percentage Comparison*

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

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 \times \$95 (rack rate) = \$47,500

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 income (\$1,500) earned on a daily basis 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 \times 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:⁷

$$\text{yield} = \frac{\text{revenue realized}}{\text{revenue potential}}$$

Table 6-2 demonstrates the effects of yield 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 view of occupancy percentage. The 51 percent yield means the staff's effort in achieving maximum occupancy could have been improved by using effective strategies to sell more \$110 rooms. Thus, the goal of yield 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 the use of 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 yield 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 \$76.00, 150 rooms at \$84.00, and 35 rooms at \$95.00 (rack rate). The yield for this combination is 83 percent. If yield management were in use and the daily report revealed 200 rooms sold at \$90.00 and 85 rooms at \$95.00, a 91 percent yield could have been realized. Not only could an additional eight percentage points have been achieved, but an additional \$2,550.00 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.⁸ These concepts are portrayed in Table 6-3. Orkin also offers some 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 market.”⁹ 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 if this aggressive marketing tactic would work. Some hoteliers were setting reservation policies that required minimum length of stay during heavy demand periods. The procedure rec-

Table 6-3. *Yield Management Strategies*

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

ommended for low demand (special promotional rates and soliciting group and local business) was the strategy used during any demand period. As yield management continues to be tried and tested in hotels, various combinations of maximizing room rates and room sales will continue to challenge hoteliers.

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.¹⁰ Accurate forecasting of transient demand will assist 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 time period would not be advisable. If the period following the group business is low, then advance knowledge of this information will allow time for marketing and sales to develop special promotional packages aimed at the transient and local markets.

Block-Out Periods

The strategies just discussed for high-demand periods require 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 will have to 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 will allow a hotel to develop standardized reservation operating procedures for a 24-hour-a-day reservation system. Forecasting of these time 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 will process reservations, track demand, and block out room availability during certain time periods.¹¹ The details of operating a reservation system for a 500-room hotel on a 365-day basis that uses yield management would be overwhelming if left to manual calculation. He also advises initiating specific rate-setting policies that will ensure profitability. Establishing block-out periods will require an ongoing marketing effort by the hotel to ensure sales in projected low-demand periods. He also urges front office managers to develop a well-trained staff, who will understand and use yield management procedures. Training is another key element in making a very complicated system workable (Figure 6-2).

Those of you who have experience in the hotel industry will appreciate Orkin's last



Figure 6-2. A front office manager encourages discussion of the application of yield management in a training session. (Photo courtesy of IBM.)

caution—be adaptable to changes in demand. If a four-day convention has booked 90 percent of the rooms for arrival on April 5 and 25 percent of those reservations have canceled 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.

Feedback

Feedback on decisions employed in yield management is essential in any new venture in management. A record of the date and amount of turnaway business is vital for hoteliers to assess the viability of yield management and to update yield management and marketing strategies for the future.¹² 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 will have to 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.

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	8,550
May 5	50	88	8,360

HOSPITALITY PROFILE



Doug Gehret is the director of rooms at the Waldorf=Astoria in New York City. Prior to his graduation from Penn State in hotel, restaurant, and institutional management in the early 1990s, he did an internship with Walt Disney World. His first job after graduation was with the Hilton Short Hills in Short Hills, New Jersey, as a management trainee in the front office.

Mr. Gehret relates that he uses yield management “every hour of every day” with a revenue management department at the Waldorf=Astoria. This interaction focuses on its room pricing versus the competition’s room pricing and the number of confirmed and number of regrets that are based on price and availability. Reviewing this data allows the Waldorf=Astoria to maximize business. He also says that the key to understanding the rooms operation is to understand the components of yield management. In today’s hotel business, you have to increase top-line revenues such as room sales because there is minimal opportunity to reduce expenses in order to grow profit levels.

Mr. Gehret interacts with other departments in

the hotel by supporting the activities of the sales and convention team. The efforts of his front desk staff in delivering quality communications and service promote repeat business with groups. Housekeeping depends on the front office in preparing accurate room blocks and changes to those blocks of rooms as well as accurate forecasting of room sales for preparation of employee scheduling.

Mr. Gehret is responsible for delivering VIP service to various guests. The Waldorf=Astoria has created a “Diamond Reception” service for VIP guests and Diamond Travelers. This service consists of reception service that is similar to boutique hotels—seated registration and a personal staff who assist guests in acclimating themselves to the new environment.

Mr. Gehret urges students of hospitality management to think of the “big picture” as you develop your career by taking jobs and positions that will broaden your experience and prepare you for positions of responsibility and authority. He advocates commitment and gaining every possible bit of knowledge so you can learn about the business and yourself.

Management Challenges in Using Yield Management

An enormous problem facing hotels that employ yield management is alienation of customers.¹³ 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 are visiting that particular area. It is important that employees be well trained in presenting reservation policies to the public.

Considerations for Food and Beverage Sales

The previous discussion on yield management focused on rates, room availability, minimum stay, and the like. However, there is another issue that assists hoteliers in setting yield management policies that cannot be overlooked—potential food and beverage sales.¹⁴ Certain market segments have a tendency 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.

Let's 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 will 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 yield 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 who are attending a conference. Developing effective yield management policies, which identify groups who may yield additional income (or expense), is necessary to make yield management work. This is indeed a challenge to you as you begin your career as a hotelier.

Table 6-5. *Considerations of Food and Beverage Income in Setting Yield 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

Applications of Yield Management

The best way to understand yield management is to apply it to various situations. Try your hand at the following scenarios to become familiar with the basics of yield 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, which will include 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 quite significant. During that same three-day time period, there is a jazz concert 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 will want to check the room availability for this time period in the reservation module. She will want to determine if any block-out periods already exist and, if so, what minimum room night restrictions are in force. The front office manager

HOSPITALITY PROFILE



Randy Randall graduated from Cornell University's School of Hotel Administration in 1968. He served as director of operations for Wintergreen Resort in Wintergreen, Virginia. He also spent six years with the Sea Pines Resort company as director of operations for Palmas del Mar resort in Humacao, Puerto Rico; was manager of the Hilton Head Inn; and held a variety of other management positions at the Sea Pines resort in Hilton Head Island, South Carolina. In 1986, he moved to the corporate office as a senior vice president of operations at Richfield Hospitality Management, Denver, Colorado. In 1994, he became general manager of the Eldorado Hotel in Santa Fe, New Mexico. He is responsible for all aspects of the day-to-day operation of the hotel.

Mr. Randall decided to use yield management in managing his reservation system. He feels yield management maximizes revenue at times when demand is low because it allows the hotel to sell rooms at a lower rate and when demand is high because it allows it to sell rooms at the highest rate. Since 1994, the average rate in the hotel has increased by \$34.49 through 2000, with an increase experienced every year. This represents a 23.3 percent increase. With regard to the Santa Fe, New Mexico, market, it has seen a \$6.42 increase for the same period, which represents 5.8 percent. The average rate for downtown Santa Fe properties that are directly competitive to the Eldorado Hotel has increased \$20.54, for 15.7 percent. He attributes this performance ahead of the market in large part to the successful implementation and consistent use of the yield system. The hotel also

includes all availability in the global distribution system (GDS), a travel agent system, which gives the travel agency more ability to sell its rooms. Many other hotels restrict availability in the GDS and Internet sales locations, hoping to avoid commissions, and as a result tend to lose overall occupancy and rate.

He forecasts the desired average rate and the number of occupied rooms for individual and group business for every day of the year. Once a week, his staff inputs the actual bookings, and he updates them on a rolling six-month system. They make a strategic rate decision for every day—either high, medium, low, or D (for “disastrous”)—or close out certain dates. This gives the hotel's reservations office the flexibility to play a rate game. It factors together the current bookings and room sales forecast. The yield management strategy session occurs every week and includes the general manager, front office manager, director of sales and marketing, leisure sales manager, and rooms division manager.

Mr. Randall relates that some of the initial challenges included learning the system and learning to rely on it. The staff had to stop second-guessing it. It took about 90 days to get comfortable with the system, and overall it was relatively painless. He urges all general managers to adopt yield management. He feels that those who do not use it can't make effective rate decisions and maximize revenue. For example, he says that Santa Fe is a destination location and he often gives complimentary rooms to meeting planners and charities. But now he doesn't give away a room unless he knows there will be one available.

will check with the food and beverage manager, who will want to determine the availability of banquet facilities and food services and the financial implications that may influence the decision. If the decision leans toward rejection of the offer, the assistant sales manager should consider public relations implications.

FRONTLINE REALITIES



The controller of the hotel has asked the front office manager to project room sales for 45 days in the future. 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 yield management assist the front office manager in making an accurate projection?

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 new tool hoteliers can use in developing guest room sales strategies and evaluating potential food and beverage purchases, which will 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.

End of Chapter Questions

1. Explain in your own words the concept of yield management.
2. What does occupancy percentage tell the owner of a hotel? Discuss the shortcomings of this concept in measuring the effectiveness of a general manager.
3. Similarly, discuss the use of occupancy percentage in determining the effectiveness of a general manager versus the concept of average daily rate (ADR). What impression does quoting only the ADR give the owner of a hotel?
4. How can the use of RevPar assist hotel managers in measuring the effectiveness of front desk staff and marketing managers?
5. What similarities in operational design do the airline industry and the hotel industry share?
6. What are the goals of yield management? If you are employed at a front desk in a hotel, do you see these goals being achieved?
7. Determine the yield for a hotel that has 200 rooms available for sale with a rack rate of \$80 and sold 200 rooms at \$55.

8. Determine the yield for a hotel that has 275 rooms available for sale with a rack rate of \$60 and sold 150 rooms at \$55.
9. Determine the yield for a hotel that has 1,000 rooms available for sale with a rack rate of \$135 and sold 850 rooms at \$100.
10. Discuss the concepts of yield and occupancy percentage as revealed in questions 7, 8, and 9.
11. Discuss strategies to use when demand is high.
12. Discuss strategies to use when demand is low.
13. Why should a front office manager set daily rate strategies as opposed to general period rate strategies?
14. Explain in your own words the term *block-out period*.
15. Why is training front office staff in the use of yield management so essential for it to succeed?
16. What role does the transient guest play in the success of achieving yield?
17. 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?
18. Why should turnaway business be reviewed on a daily basis? What should a hotel staff do with this information?
19. What role do potential food and beverage sales play in yield 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 yield management seminar at Keystone University and is preparing an argument to adopt this concept at The Times Hotel to present to Margaret Chu, general manager. She begins by compiling a history of room occupancy and ADRs, which she hopes will reveal areas in which yield management could help. She prepares an electronic spread-

sheet 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 that you need to be efficient today, so why change?

Ana passes Ms. Chu in the lobby, and Ms. Chu indicates her distrust of the yield management con-

cept but says she will listen to Ana's presentation tomorrow.

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

CASE STUDY 602

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

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

1. S. E. Kimes, "Basics of Yield Management," *Cornell Hotel and Restaurant Administration Quarterly* 30, no. 3 (November 1989): 15.
2. Ibid, 15–17.
3. "The ABCs of Yield Management," *Hotels: International Magazine of the Hotel and Hotel Restaurant Industry* 27, no. 4. (April 1993): 55. Copyright *Hotels* magazine, a division of Reed USA.
4. MICROS systems, Inc., 7031 Columbia Gateway Drive, Columbia, MD 21046–2289.
5. PROS Revenue Management Inc., 3100 Main Street, Suite 900, Houston, TX 77002.
6. Yield Management Systems, (YMSI, L.C.C), 2626 N. Lakeview Avenue, Suite 3009, Chicago, IL 60614.
7. E. Orkin, "Boosting Your Bottom Line with Yield Management," *Cornell Hotel and Restaurant Administration Quarterly* 28, no. 4 (February 1988): 52.

8. Ibid., 53.
9. Ibid., 54.
10. Ibid., 53
11. Ibid.
12. Ibid., 56.
13. Kimes, “Basics of Yield Management,” 19.
14. Ibid., 18–19.

Key Words

average daily rate (ADR)
double occupancy percentage
occupancy percentage
optimal occupancy

optimal room rate
revenue potential
revenue realized
yield