"VISION 2020: HOSPITALITY AND TOURISM IN INDIA"

AN OVERVIEW OF REVENUE MANAGEMENT AND ITS APPLICATION IN THE HOSPITALITY INDUSTRY

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SYNOPSIS
The essay provides an overview of revenue management and its application in the hospitality industry. It also provides information about the various strategies i.e., traditional and contemporary strategies of revenue management. It gives the relevance of all the strategies and the changes that information technology has brought in the hotel industry.

Chapter 1: Conceptualization of Project

INTRODUCTION
Revenue management is the application of disciplined analytics that predict consumer behaviour at the micro market level and optimize product availability and price to maximize revenue growth. The spirit of this concept is in understanding customers’ perception of product value and accurately aligning product prices, placement and availability with each customer segment. Revenue management means not only placing a room today at a low price to sell it tomorrow at a higher price. It also means selling a room at low prices today if we do not expect higher demand.

To predict consumer behaviour and optimize product availability and price to maximize revenue growth, different strategies have been formulated. The art of application of such strategies is known as Revenue Management.

Aims
The aim of the project is to discuss Revenue Management and its strategies and develop a revenue model which will help us in increasing the revenue.

Objectives
1. The objective of Revenue Management is to manage the product inventory in such a way as to maximize revenue.
2. The objective of the project is to study changing concepts in Revenue Management and IT applications in the hospitality industry.

IDENTIFICATION OF STRATEGIC AND PRO-ACTIVE DECISIONS
Strategy is defined as a carefully devised plan of action to achieve a goal or the art of developing or carrying out such a plan. In simple words, it refers to a plan of action designed to achieve a particular goal.

The Revenue Management strategies are classified into two categories:

- Traditional Strategies of Revenue Management
- Contemporary Strategies of Revenue Management

Some of the Traditional strategies are as follows:
- Capacity Management
- Duration Control
- Discount Allocation
- Close to Arrival
- Sell Through

Scope of Project
This topic will assist us to be acquainted with Revenue Management and how different strategies are formulated after taking into account all the factors and the viability of that particular strategy in the particular market.
The project includes how the revenue management strategies benefit the hotels in terms of wealth. It also provides information about hotel valuation techniques and its relevance with the information technology. It also presents the future trends for revenue management.

Limitations of the Project
Revenue Management being a vast topic, all the concepts and theories cannot be explained in this project due the specified word limit. The project is strictly based on the different strategies which show the importance of information technology in generating more revenue for the hotel.

Conclusion
The chapter provides an overview to the basics of Revenue Management and its different strategies which are used by the hotels.
It also describes the limitations that prevented the author from completing the project.
The next chapter provides the reader with a comprehensive explanation of all the points briefly discussed in Chapter 1.

Chapter-2 Literature Review

Introduction to RM
Revenue management (RM) was once considered a weapon only for airlines as they waged competitive battles in the wake of deregulation. But RM is emerging as an approach that can improve earnings for energy companies as well—by tens of millions of dollars annually. By ensuring that companies sell the right product (or bundle of products) to the right customer at the right time for the right price.

Challenge of Revenue Management

RM combines forecasts of demand, supply, and competitive behaviour at the micro market level with optimization techniques to improve revenues with little or no associated cost. It's the next step in the world of consumer markets.
Although the use of RM was pioneered in the airline industry, it is now a common practice in several other industries. Companies as diverse as cargo shippers, hotels, and broadcasters have implemented sophisticated RM
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Chapter 2: Literature Review

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Although the use of RM was pioneered in the airline industry, it is now a common practice in several other industries. Companies as diverse as cargo shippers, hotels, and broadcasters have implemented sophisticated RM systems and report increases in revenues of at least 2–3 percent—translating to net-income increases of 20–30 percent or more. With new technology, many organizations have changed the way of doing business. Advances in technology and computing have caused new concepts to come up. Revenue management systems are one example among them. As first users airline companies used revenue management systems as a critical management tool since the early 1980s.

How Revenue Management Evolved Over The Years

First Generation

Second Generation

Third Generation

- Hotel Industry Applications:
  - The Commodity that the hotel sells is time in a given space, and if it is unsold, revenue is lost forever.
  - Revenue Management is composed of a set of Demand Forecasting Techniques used to determine whether Room Rates should be raised or lowered, and whether a Reservation should be accepted or rejected in order to maximize revenue.
  - In order to maximize revenue, the Front Office Manager needs to forecast information concerning capacity management, discount allocation, and duration control.

Hotel industry has also been affected by innovations in information technology. To manage room inventory effectively and get the most revenue out of it, many hotels use revenue management techniques. Revenue management systems use the computation speed of high-speed computers and are considered as one of the core competencies in hotel industry. Many hotels are using these systems to maximize their revenues. Revenue management for a hotel is the science of using past history and current levels of booking activity to forecast demand as accurately as possible to maximize revenue. It maximizes revenue by applying some disciplined tactics that predict consumer behavior, optimize product availability and price products. Firms who have made use of RM techniques have seen revenues increase by 7% without adding significant amounts of capital expenditures, resulting in a 50% to 100% increase in profits. The incremental revenue generated depends on several factors, such as the sophistication of the inventory controls used, the occupancy level, business versus leisure and individual versus groups. The level of detail at which inventory can be controlled is a reflection of the level of sophistication of the revenue management process.
Revenue management of hotel consists of three strategic issues: duration control, discount allocation, selective overbooking.

The hotel industry can control duration and have many prices. To achieve revenue gains from applying revenue management, hotels have to make pricing more variable and customers' use of a hotel's services more predictable. During peak demand periods in the hotel industry, rooms become available only to customers who are willing to pay higher rates, while during low demand periods, rooms become available to everybody and at lower discounted rates. When demand exceeds capacity, revenue management recommends that the hotel sell the limited capacity only to the most profitable mix of customers. When capacity exceeds demand, however, revenue management recommends that the hotel stimulate demand for the consumable room inventory that would otherwise go unsold by introducing lower discounted rates. The arrival day of the week is a commonly used rule for hotels. For a business hotel, customers who arrive at the hotel on weekdays are usually business travellers, who are willing to pay higher prices than leisure travellers, who generally arrive at weekends and are more price-sensitive. Therefore, offering discounts by the arrival day of the week ensures that business travellers do not take advantage of discounted rates offered to attract more leisure travellers. Another commonly used rule is the length of stay. Guests stay at the hotel only on busy days are charged higher room rates than those who stay not only on busy days but also on slow days around the busy days. In some cases, it is better to reject room requests for only busy days, but accept requests for both busy and slow days at lower rates. This helps the hotel maximize revenue for the entire period rather than only for high demand days. Reservation date is also used as a pricing rule. This rule is a good way of distinguishing between leisure and business travellers. Leisure travellers tend to make their reservations far in advance, whereas business travellers book the rooms only a few weeks or days in advance. In order to stimulate more leisure business for slow weekends, hotels offer discounted rates to customers who reserve rooms far in advance of the arrival day. They also limit the availability of the discounts to business travellers by ending the discounts as the arrival day approaches. As a result of applying revenue management to the hotel industry, it is now common for different customers to be charged different prices for the same type of room at the same hotel, depending on their stay days of the week, lengths of stay and advance reservation days, etc. It is very usual for the same customers to be charged different prices by the same hotel for different durations of stay at the hotel.

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**Strategies**

**Overbooking controls/Capacity Management**

The process of overbooking sets reservations above capacity to compensate for cancellations and no-shows. Spillover represents the number of empty rooms on closed-out dates. Over sales represents walked (unaccommodated) customers. The risk associated with walked customers is customer compensation, loss of goodwill and operational constraints. At the economic optimum, the overbooking level minimizes the number of spillover rooms and over sales simultaneously. To lower the risk and ensure an acceptable service standard, the overbooking level may be lowered below the theoretical optimum by imposing a service level constraint on the number of walked customers as a percentage of expected occupancy on closed-out dates. Overbooking typically generates 20% per cent of the total revenue opportunity.

**Example:** A college every year organizes a trip for its fresher's to Jaipur for it always books rooms in Hotel Pearl Palace Heritage, its group story reveals actual rooms occupied by group are always less than the reserved rooms. As room is a perishable commodity hotel overbooks its rooms at to safeguard itself if there is group attrition.

**Length of stay controls/Duration Control**

The true potential for revenue management is achieved by controlling reservations by room type, rate, length of stay and the arrival date. The average length of stay depends on the demographics and type of property. For example, airport properties typically have a high percentage of transient, shorter length of stay customers, averaging 1.0-1.3 days per customer. A large downtown property typically has a mix of 60 per cent group and conventional business and 40 per cent transients with an average length of stay of 1.8-2.8 days per customer. Resorts typically experience early bookings several months before the arrival date and have an average length of stay of 4-7 days during the peak season. Controlling customers by length of stay can be achieved using restrictions or hurdle rate controls. Restrictions-based controls are usually applied at the individual rate programme level by arrival date. Common restrictions that can be applied are closed to arrival (CTA). Restriction-based controls have one major shortcoming — they are static and do not change, dynamically based on bookings and cancellations. Hurdle rate controls overcome this shortcoming.

**Discount allocation**

It is one of the oldest strategies in practice. It works on the principle of giving some discount at the price so that customer is attracted. In hotel terms, it means selling a room at a discounted rate so that some revenue is earned rather than earning zero revenue by not selling that particular room. This approach is generally applied during off-season when the sale is very less. This practice helps in increasing the revenue to some extent.

For example, during the off-season, all the hotels offer some discount to attract the customers. When the guest calls the hotel reservation office, the reservation executive will try to convince the guest by giving some discount on the rack rate. This will please the guest and the hotel will earn the revenue as well.

**Close to Arrival**

A yield management availability strategy that allows reservations to be taken for a certain date as long as the guest arrives before that date.

**Example:** A hotel may accept a reservation for a Wednesday night if the guest's actual stay begins on Tuesday night. (Reduces strain on the team too)
Dynamic packing
Main key to revenue management in hotels is to sell right room at right price at right time. What if, in addition to these standard revenue management factors, hotels could offer not only the right room, but also the right airline ticket, the right car reservation, even the right destination-specific activity at the right time and price. Dynamic packaging also allows hoteliers to manage revenue and maintain brand loyalty at the same time. Consumers who make reservations directly on a hotel's website are interested in working directly with that hotel. If they can arrange a vacation or business trip complete with transportation as well, customers will be more likely to continue using the same brand.

Example: Umaid Bhawan is hotel in Jaipur who has a good name in organising rajasthan tours. It is recommended in lonely planet in tours and travel section too.

A. Kimms and R. Klein (2007) "Revenue management" Revenue Management

Critique on Strategies

Ø Capacity Management Pricing Strategy: This pricing strategy helps in managing the situation of overbooking. This ensures that there is no loss of revenue even if there is any last moment cancellation. It also helps in determining the walk in arrivals for the day.

Ø Discount Allocation Pricing Strategy: This strategy helps the hotel to gain popularity among customers. It increases the sale of the room nights and ensures that revenue is earned from the other outlets as well.

Ø Duration Control: This Strategy helps the hotel to avoid/prevent valley days after high peak days.

Ø Dynamic Packing: This strategy helps the hotel to earn extra revenue, by selling hospitality product apart from their own hotels product. It also results in goodwill and development of brand

Insight into Proactive Decisions

Proactive decisions can be defined as the decisions that the revenue managers take after studying the market, doing an analysis of competitors and keeping in mind various strategies. It also involves an analysis of a finite set of alternatives described in terms of some evaluation.

If you understand the process of how a prospect buys, you can be ProActive. You can be a step ahead and pull the prospect to the next step along the way, pulling, not pulling the sale. When you pull, you are in control. When you push, someone else is in control.

How to get guest hungry for hotel restaurant (A Proactive initiative)

In the past, hotel food and beverage had been seen as a burden to hoteliers. Whether or not to lease, how to make it profitable and how to attract business from guests and the local community were just a few considerations. Today, many proactive hoteliers have created a variety of F&B offerings, from new chef programs to themed restaurants to higher quality menu offerings.

One such property with a creative approach to food and beverage is Seattle’s Edgewater Hotel. Edgewater developed a Buy the Chef program that allows guests to request a personal chef to customize a three-course dinner on Friday or Saturday to be served in the guest’s room or in the restaurant. The Ritz-Carlton hotel restaurant in Cleveland, The Century, features a chef’s table where four guests can eat in the kitchen and watch and interact with the chef while he prepares their five-course meal.

Serra, Jordi (2008) [Article] “Proactive Intelligence”

Role Of Marketing In Revenue Management

CEOs and boards care about revenue – how much revenue was made last quarter, how much this quarter, and how much next quarter. However, the marketing department is typically left out of the revenue discussion.

They get pigeonholed as the “arts and crafts” team and are viewed as a cost center to be cut rather than a revenue driver that should get investment. Today, marketing has the opportunity to reinvent itself as a core part of a company’s revenue engine. The ways that prospects research and buy solutions has been forever transformed by the abundance of information made available on websites and social networks. This reality is in turn driving a
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Earning profits is the primary objective of every business but the marketing emphasis on profitable sale only with customer’s satisfaction. The marketing manager does not want to increase sale and earn profit by supplying low-standard products or by using unfair techniques.

Elements of Marketing

- Product
- Price
- Place
- Promotion

Product Mix: The product mix refers to important decisions related to the product such as quality, design of product, packaging of product, etc. Another important thing included in product mix is product assortment. It refers to number of product and items a particular producer offers to the market.

Example: ICL has developed and designed its product in different ways i.e. Taj, Vivanta, Gateway, Ginger. Due to this it is able to offer product to every market.

Price Mix: It refers to important decisions related to the fixing the price of a product commodity. These decisions can be related to price of competition, decisions related to demand, decision related to fixed cost, etc.

Example: In Aurangabad Taj Residency’s main competition is Lemon Tree and Lemon tree tariffs are quite low as compared to Taj. In order to attract guest Taj has to price its room according to Lemon tree.

Place Mix: It refers to important decision related to physical distribution of goods and services. These decisions are deciding the channel of distribution, market for distribution etc.

Example: In order to distribute and make product available to different market, many hotels register themselves in travel websites like Trip Advisor and Hotel Booker.

Promotion Mix: It refers to all the decisions related to promotion of sales of product and services. The important decision of promotion mix is selecting advertising media, selecting promotional techniques, using publicity measure and public relation etc.

Example: IATA fair which is organised in many cities, hotels participate in it in order to promote and attract travel agents who bring business.

NOTE: Revenue strategies immediately and directly result in incremental revenue but the above elements of marketing do increase revenue but it happens over a period of time.

Poornam Gandhi (2010) “Marketing” Business Studies

Impact of Information Technology On Revenue Management

Revenue management systems are computer applications used for revenue management science. Starting in the early ‘90s, they became a critical management tool for the airlines to achieve success. Since the process of calculations in forecasts required considerable time, the process needed to be computerized. Today, many hotels are using computerized revenue management systems in order to boost their revenues. As we discussed above, there are rules used to optimize room rates. Taking all the rules into consideration and apply them in pricing requires a lot of time. Besides that, the marketplace is highly fragmented and continuously changing, with each sub-segment having its own judgments on the relative value of a room. To adapt to these changes for each segment and sub-segments is extremely time-consuming and after some point, it becomes an impossible mental
task. At this point revenue management systems come into play. By taking the advantage of high-speed computation of computers, revenue management systems can take historical data, current booking levels and the forecasts of which market segments are expected to be booking for these rooms in the future, balance the various rate tolerances of these segments, and set minimum rate hurdles and length-of-stay constraints below which you should not accept a current booking request. Since these forecasts run continuously, results are always up to date. Revenue management systems help hotels to diversify their risk by manipulating room rates. As it was mentioned before, RMS gives better prices for customers who are willing to stay during both busy and slow days. There may be a situation where demand for the rooms is much less than the usual in busy days. This case can be recovered by RMS because it spreads the risk to busy and slow days.

Example: In Delhi during Auto Expo there is an increase in traffic in hotel, RMS using historical data and current booking level would establish rack rate, minimum length of stay so that hotel balances as summer is a lean season in Delhi. At the same time the system will set discounted rates in order to attract customer in lean season.

Information Technology can be divided into 3 category relating to hotel industry

* PMS(Property Management System)
* IDS(Internet distribution System)
* GDS(Global Distribution System)

PMS: In today’s tech savvy world hotels are also adapting to this change. They are introducing technologies in hotels. PMS is the most famous and important among all.

PMS is divided into

* Reservation Module
* Room Management Module
* Guest Accounting Module
* General Module

PMS helps the hotel to earn revenue as it gives info about guest like their preferences, historical data on basis of which future buying trends are determined, according to which hotels makes its future policies.

Example: In earlier days hotel often couldn’t record call usage of guest properly which resulted in loss of revenue, with the introduction of PMS hotels can easily record call usage and charge the guest accordingly thus hotel doesn’t lose on calls revenue.

IDS: The electronic system that facilitates purchases of hospitality products and services by consumers. Everyone in the hospitality business knows that Internet-generated reservations will dominate travel distribution in the coming years. Expanding Internet reservation capabilities gives chains and individual properties a number of immediate benefits that will expand over time. Despite steep upfront development costs, an Internet-based reservation system can create significant savings, particularly at reservations call centres. Web site filled with useful and easy-to-access content can be a strong marketing tool for a hotel chain or property.

Example: Hostel booklet is a website on which hotel can sell its product, against each booking hotel has to pay certain amount of commission to Hotel Booker.

GDS: Refers to the reservation tool travel agent use when making an air, hotel, car or the travel service booking and not only do GDS’s power the content of “traditional” travel agencies platform, they also provide pricing, availability and reservation functionality to many travel agents. GDS has grown over the time that now travel agents can view real time information about the hotels thus minimising the error of double booking.

Example: Golden Arrow is a Shillong based travel company, it purchases and sells flight seats to customer through Amadeus against which they charge 3-4 % of commission.


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