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A Review on Hotel Revenue Management

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Abstract-- *The revenue management states the technique of pricing a particular product, services or commodity in order to increase the profit. The significant change made in the Hotel Revenue Management till now is its development from the approach of tactical inventory management to strategic marketing. There exists many practices of Hotel Revenue Management that results in increase in profits of the resorts and the hotels. Although there is now a good understanding of the potential benefits of implementing revenue management in the hotel industry, the actual implementation is not a simple task. The role of Hotel Manager has been proved to be more essential in increasing the profitability or the revenue of the Hotel. Many such advancements were made by the manager that are discussed in this paper. This paper demonstrates about the reasonable changes made in the hotel revenue management practices and discusses about the external forces that proved to be helpful in initiating the change.*

Keywords-- *Hotel Management, Marketing, Revenue Management, Evolution, Manager, profit.*

I. INTRODUCTION

"Revenue Management" explains the Technique or science pricing the commodities, goods and services in order to maximize overall revenue. Such research takes the form of calculating the cost of selling a resource unit today as opposed to preserving it for a potential future customer who is ready to pay the higher price for the particular product or services. This cost of opportunity is then related with the revenue accessible from an immediate sale, whereas yes / no decisions will be made for every opportunity of demand. These decisions need to be made interactively in industries with consumable assets as the resource comes up for renewal after a particular period of time, after which it could be sold [1].

Hotel rooms and also airline seats fall in this category as there is no interest for both an airplane seat and unsold room after a night or the departure of airliner. Each unoccupied room generates little income, so a demand management strategy aims to occupy a profit generating amount of hotel rooms either by dynamically changing costs or by switching on and off various tier levels. Although there is now a good understanding of the potential benefits of implementing revenue management in the hotel industry, the actual implementation is not a simple task [2].

The position of the hotel revenue manager have evolved significantly over the past 25 years, as has the research itself. They identify the changing tactics of the managers of local hotel revenue in this paper and finish with our thoughts about what the future will bring to this career path. It is important to first study the context of how sales management has developed through sectors before addressing shifts in the positions of hotel revenue managers. Revenue management practices have existed since the dawn of trades which are commercials, where

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several traders and merchants would hold goods and food of higher quality apart from the commoners, and only present them to upper class and nobility [3].

This technique took benefit of the fact that they could sell their finer goods to "mean people" at a higher price. The supply and demand rule often regulated the period inn keepers who were forced to increase their food and accommodation rates when their goods were rarer and demand and supply fluctuated. The aviation industry was the leader in industrial sales control, developing along with developments in computer technology. Current revenue control in the transportation and hospitality industry started in 1971 when "BOAC airlines" began offering certain travellers reduced airfares while paying on the same trip a full fare to others.

BOAC's plan for allocating discounted rates was to offer only an amount equal to the quantity of seats that would remain empty if there were no discounts. Once this limit was met, from that stage on only full-fared tickets would be available. The development of systems of computerized inventory control that could be used to manage and enforce reduced tariffs significantly enabled this use of a two-tier pricing structure [4].

Whereas the inventory control mechanisms were already in operation, in 1977 the US domestic airlines deregulated the case that significantly advanced revenue management activity in the airline industry. Such reform extracted authority from the Board of "Civil Aeronautics", which had previously set the aviation industry pricing policy and enabled the Free-Market to decide and regulate airfare.

The transition from effective control of pricing industry to empowering airlines to set their own rates also put the airlines into a competitive environment focused on the demand. Rates were decided collectively prior to legalization, and were regulated by the federal government. -fare had to be accepted by the Board of "Civil Aeronautics", and the procedure was frequently long. It restricted the willingness of the airlines to play with reduced rates or use ticket prices to respond to changes in demand.Since legalization, airlines started setting their own rates, which they often continue to do. This new freedom of pricing, along with the introduction of "Computer reservation systems" (CRSs), enabled airlines to keep track of the vast inventory of seats on flights over a period of several months. The prevalent use of modern day hospitality and travel revenue management is often ascribed to the discounting price strategy referred as the "Super Saver Rate" [5].

The introduction of the "Super Saver Rate" and other discounted airline tariffs required extensive regulations preventing passengers from making changes or cancelations to an established airline. The changing landscape of hotel revenue management discount fare booking. Typically, those restrictions took the shape of cancelation fees or transaction fees. The justification for these limitations was predicated on a consumer's "quid pro quo" theory accruing a penalty for changing or cancelling an existing booking in exchange for a standard rate discount.Although some consumers originally didn't understand or support this logic, they gradually acquired the knowledge to accept it but have now become a standard practice in the aviation market. Many airline passengers have trained over a long period of time of acclimatization to recognize that discount rates are bound to some sort of constraints. One such example of a constraint is the mandatory "Saturday-night stay-over" law,

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or a barrier as it is alluded to in the market. Most airlines wanted the passenger to depart before Saturday and return the next Sunday or later at all discounted rates [6].

The aim of this limitation was to prevent the more profitable business travellers from receiving discounts because they usually flew within the week and never included any stay-over for the weekend. Gradually customers have started to accept that the greater the price off the standard fare, the more limitations have been imposed on that airline booking. This results in development of non-refundable fares, which lock the user into payments at the time of booking, and which do not require any adjustment to the itinerary without the payment of any kind of tax, such as cancelation feesor alteration costs.

Hotel Revenue Management and its Development:

Influenced by the use of the airline industry's successful RMS, the lodging industry started implementing multitier pricing schemes for spaces, binding them to different discounts and constraints. The word "Revenue Management" became the standard in the hotel industry when Marriott International promoted its use as opposed to the phrase Yield Management which had traditionally been used in the airline industry. Based partly on the effective introduction of revenue management standards and procedures by Marriott, most of the other major hotel chains were able to launch their own revenue management implementations.

One of the main advantages of implementing practices of revenue management in the hotel industry has been improving the ability to forecast future reservations that are used by many decision-makers beyond just the person who is responsible for management of revenue. Researcher note that the precise estimation of the future performance of a lodging organization helps management to make important tactical decisions in all aspects of the lodging business with respect to personnel, schedules, expenses and regulation. The lodging management team often depends on reliable forecasts to devise long term and sort term business plans which are heavily dependent on projected cost and revenue [7].

Therefore, several hotels initially implemented sales management practices and applications simply based on their improved accuracy in forecasting. Such hotels really gained an appreciation for the full capabilities that revenue management can provide when they implemented revenue management. Nonetheless, in order to take full advantage of these resources a new position had to be developed to support the hotel management team. The new position was the manager of hotel revenue. Researchers provide a brief overview of how that role has developed in the next pages.

***Development of Hotel Revenue Manager*:**

The methodology served as a scaled-down version of the airline yield management theory until Marriott Hotels introduced a systematic system in revenue control for the hotel industry. Three common practices typically involved early implementations of revenue control in hotels:Implementing seasonal pricing which typically segmented the annual calendar into periods of high, medium (often referred to as shoulder) and low demand. Prices were set appropriately and often reproduced in hotel ads or directories; imposing specific constraints on days of very high demand which included qualifications for "Closed to Arrival" (CTA) and "Minimum Night Stay" (MNS). Those two constraints were not directed at increasing the cost of a hotel for a

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particular night, but rather at optimizing the number of nights a potential guest will be spending in the hotel, which was believed would increase profitability; The arrangement with either conventional organizations and the companies with discounting prices. This yield management strategy often focused on getting a fixed amount of room nights in exchange for giving a discounted rate that usually contained (although not always) a time limit. Such constraints enabled the hotel to shield the prices negotiated from being booked in times of peak or high demand.

Initially, these activities were usually developed by a hotel manager committee that comprises of the front office manager, general manager, hotel controller and sales manager. These were also seen as being more strategic decisions and are often only officially assessed once a year, despite changes only taken on average throughout the year. The hotel revenue manager position did not exist at this time. The hotel reservation manager was usually assigned the task of enforcing the committee's best activities, but he / she was not mentioned in the original process of decision-making.

While the revenue manager's position was formed as a distinct and separate position from the reservation manager, the position was consigned to role of reporting to others, who then decided to make allocation decisions and strategic pricing. This was illustrated by the management structure, which had the revenue manager refer to the marketing and sales director of the hotel, who, in coordination with the general manager, was the final authority on the decisions of allocations and pricing.Usually these plans were debated in weekly meetings, also named "Revenue Maximization" (REVMAX) meetings. The revenue manager was accountable for creating a list of regular items and bringing them to the “REVMAX” committee where any potential improvements were addressed and accepted in a group setting. It was assumed the "Revenue Manager" would contribute to the discussion, execute the decisions and take notes. Additionally, the concept of preserving and allocating minimal inventory of hotel rooms started to change with the rise in the RMS capabilities.

In previous cases of hotel revenue management, high demand dates were granted CTA designations to discourage the lower rate level consumers from accepting new reservations for a single busy day while other busy days were permitted to' trade out' reservations that comprises of lower occupancy days. This classification would be put into the CRSs together with an MNS requirement to book reservations that helped the hotel by putting multiple rooms in lower days of occupancy in return for selling a room on a peak night. The net impact was to flatten the high demand times by leading to the filling of sluggish days around the peak day by requiring that a reservation.By setting up a variable pricing structure at which a unique hotel rate is calculated based on which days will be impacted, the use of MNS and CTAs has been removed and dynamic pricing has essentially been replaced. This strategy comprises of deciding the price on the busiest night for a 1 night stay so high that the customer is effectively rejecting the hotel as it enacts a price they wouldn't be willing and able to pay. If a guest is willing and able to pay the high rate for a stay of 1 night, the rate will be set near a minimum stay of 2 days [8].

As several hotels started seeing their revenue increase as a result of specific strategies of revenue management, the prominence of the manager of hotel revenue increased. This is likely due to the revenue

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manager being seen as the hotel's most knowledgeable person about what behaviour would increase the hotels freshly accented "RevPAR" results. This results in a shift of management structure: the revenue manager no longer deferred to the marketing and sales director but reports directly to the general manager of the hotel instead.This approach allows the revenue manager to make immediate decisions on a regular basis without having to seek the REVMAX committee's approval, which in turn causes for much faster reactions to the conditions of changing marketing. The revenue manager has become a gate keeper of the allotment of the hotel room, where the sales committee, which comprises of the marketing and sales director, is now required to seek the revenue manager's approval for any group contracts before being sent out [9].

The RMS that was built to support a revenue manager in the phase of strategic decision making has become so complex that some have proposed that the mechanism could be fully automated. By effect, this will remove the human factor and make the revenue manager job redundant. Although this may become a popular choice with the smaller, more restricted services facilities, it is hard to imagine the bigger, full-service hotels excluding the human element from the accept / reject decision making. Marketing experts from all divisions have often said you can't quantify a customer's partnership or trust with the service provider [10].

Also now, hotel managers still give priority to less lucrative articles of business because they think the customer satisfaction gained now can pay off in the future. As the number of financial decisions involving the hotel revenue manager continues to grow, both the importance and obligation of the hotel management career will also continue to rise. As discussed previously, the aviation industry is known to be the founders in revenue management while the hotel business has often followed the airlines' lead in terms of revenue management strategies and technologies. Therefore, to increase the efficiency of the hotel industry in receiving and satisfying reservations, it has to follow the lead of the airline industry and move away from the use of option-based policies. It ensures that visitors are moved away from fully refundable reservations towards a strategy that offers a firm commitment at the time of booking. Traditionally, airlines have been more effective in persuading customers to accept the fact that specific travellers can pay varying rates for the same trip than hotels. By comparison, charging different airline prices for passengers on same flight is common and is often recognized as industry standard for doing business by customers. The airlines experience this elevated level of customer recognition in part because, in addition to the limited availability (supply) of rival airlines to a destination as opposed to the competitive environment of a traditional hotel, they were the leaders of revenue management. Observing the successful strategies used by the airlines to promote greater consumer recognition of their revenue management practices can provide a “road map” for the hotel industry to increase adoption of non-refundable room reservations by their own clients.

II. CONCLUSION

Taking the rapid changes contributing to the emergence of the modern day hotel sales manager into account, it is reasonable to infer that the role will continue to change as will the expertise needs of the people who will do the job. Therefore, though predicting the future of any work is unclear, we may make reasonable predictions based on the general patterns that are emerging in the current competitive environment for hotels. Another such phenomenon is dependence on “big data” or analytics to simulate consumer behaviour and forecast it. Such

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strategic modelling would ensure that the hotel revenue manager consider not only the use of "big data" analytics, but also the right understanding of the performance from such modelling. While most hotel revenue managers lean toward the analytically inclined (number crunchers), more preparation and learning will be needed to use analytics. The hotel businesses that first understand this new skill needed for strategic sales growth and execute on it will become market leaders and profit from this early innovative approach.

A second phenomenon is the rise of online distribution platforms, contributing to a plethora of new booking options which go beyond alternative sources of hotel booking collection. The emerging trend has resulted in a new "channel management" expertise. Channel management enables the hotel manager to know the exact cost of distribution associated with each network and, in turn, set the suitable prices and inventories to maximize both the hotel occupancy and ADR. The advanced skills listed above will put the role of hotel revenue manager in an even more specific context, sometimes involving extensive and intensive instruction, either from a university or through an advanced training course offered by the hotel business itself. Therefore, the conventional "rose through the ranks" route, such as taking a capable reservation manager and advancing them to the role of income manager with little or no experience, would no longer be a feasible option. This was increasingly noticed when hotel companies started recruiting revenue managers from the ranks of recent college graduates and then placing them through months of intensive preparation, often at a central location. As these developments emerge, further research needs to be done to help determine what new employment skills are needed to be effective as a manager of hotel revenues in today's world.

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