

An analytical study on Revenue Management Practices and its impact on Hotel performance

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Abstract:

Revenue Management, the practices of planning, forecasting and controlling the demand of customers by using the dynamic pricing, capacity management and other practices to increase the profit. Revenue Management practices fulfill all the techniques, pricing strategy and the forecasting for the organization goal and also helps to beat the competitor. The study reflected the concept of revenue management practices adopted by front office in Hotel Industry and emphasis on how its practices impact on hotel sales and performance in the hotel industry. This study also highlights the reason of practices being used in Hotel Industry and why hoteliers have to adopt Revenue Management practices in Hotel Industry. It is an analytical study based upon literature, research papers, articles, other sources of secondary data. The result of this collected information allows us to reflect the influence of Revenue Management practices on hotel performance.

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1. Introduction

The Revenue Management is the most important area of the Hotel in the operational area of the Hotel. The Revenue Management is also reflecting the employee, Guest and the Hotel performance. Hotel Revenue Management included so many practices that help to increase the revenue and the satisfaction of the customer as well as employee retention.

Revenue Management included practices like price discrimination, forecasting, market understanding, search engine, optimization, work closely with other department, segmentation of customer, booking practices, pricing strategy, mobile optimization. Revenue Management techniques always assist to finding the right solution and profitability value and maximize revenue in a profitability way. Revenue Management first starts from the airline industry, this industry uses the Revenue Management to increase the business. After the airline industry all the industry used the Revenue Management techniques and practices to improve their business

and retention of the employee, maintain the customer satisfaction in the industry. In the way of its importance there is lots of research and the experiments in the hotel industry. All literature of this study define the Revenue Management practices all this area and importance in the hotel industry. **Yeoman and Watson, 1997, Kimes 1989** reported that the Revenue Management concentrate on the forecasting techniques and the policy of decision making also use so many mathematically modals. In the way of implementations of the Revenue Management systems there is more emphasis on the customer's satisfaction. **Chai and Mattila 2005, Kimes 2002** revealed that when customers are rely that all Revenue Management techniques are true, fair than the satisfaction level of the customer is increase but if the customer perceived the Revenue Management techniques are not fair with the customer then the customers satisfaction levels is decrease and in the result of the practices the business in the loss. **Cross, 1997** stated that the

practices of Revenue Management as a disciplined tactics in the hospitality industry to analyze the customer behaviour in the market that will help in product availability and the maximize pricing. **Kimes 1994** reported that Revenue Management as a tool that forecast the demands and supplies in the market and fulfills the need of customer with satisfaction. Revenue Management is also used in the demand controlling of the customer by dynamic pricing and capacity management to increase the profit. **Kahneman, Knetsch and Thaler, 1986** reported that according to author unfairness of the practices of Revenue Management decrease the satisfaction and goodwill of the organization, ultimately company goes to loss. We should investigate the entire price before the price settlement and also considered the competitors because customer always compare the price value in the market then they choose the hotel. **Writz 2003** revealed that we have to analyse that Revenue Management practices like price dynamic, forecasting, brand policy and the customer attitude and behaviour related to the Revenue Management practices. **Kasavana and Brooks 1998** revealed that the Revenue Management is idea that first introduced by the airlines in 1980 as yield management. **HOSPA (Hospitality Professional Association) 2013** argued that the main function of the Revenue Management to maximize the profit in the hotel on the base of different point of sales operational area. **Cross 1997** revealed that Revenue Management practices are also help to create coordination in the employee and improve communication in interdepartmental. **Hayes and Miller 2011** reported that Revenue Management also made the employee responsible to their work and enhances the training, development. **Abbott and Lewry 1999** reported that the difficulty faced due to untrained and unprofessional employee. **Yeoman and McMohan Beattie 2011** reported that Revenue Management practices create confusion among the customer for identify the value for money. Front office is the department that directly connected with the hotel performance and hotels performance is

depends upon Revenue Management practices. The next section is review of literature on Revenue Management practices and impact of Revenue Management practice on hotel performance.

Objective of the study

To identify various Revenue management practices in front office.

To analyze the impact of Revenue management practices on hotel performance.

1.1 Historical Background of Revenue Management

The revenue management or yield management has started from 1978 by the airlines industry because airline industry faced the price competitors in the market so they started to revenue management to beat the competition in the market and they adopt techniques of revenue management. **Kimes, (1994)** stated that RM is the practice of controlling customer demand through the use of dynamic pricing and capacity management to enhance profitability, its outcome results in differences. **Mark D. Scott (1994)** stated that study was purposed to three resort/Hotel in central Ontario. Acc to author competition is clearly on the service, hotel who fails to the service and the guest expectation those has to more quickly from this stage. **Britan and Caldentey, (2003); Elmaghraby and Keskinocak, (2003)** stated little work has been done to examine the potential conflicts that arise from trying to integrate customer and RM orientation; in other words, the way customer perceives RM strategies. Based on the review of Revenue Management the study discusses the key elements of revenue management in the front office. It explore the barriers to revenue management and implementation in the operational area. Through the literature **Writz et al (2003)** has suggested that "customers seem to have been forgotten in this stream of research." That is a surprise since the importance of establishing long-term customer relationships has been profoundly researched in the marketing file.

Donaghy (2004) revealed that Revenue Management in a Hotel context based on its good Revenue Management is a revenue maximization technique

which aims to increase net yield through the predicted allocation of available bedroom capacity to optimum price Revenue Management is a concern with maximization of room revenue. **Jeff Caneen, ZhengGu (1998)** stated that most of the hotel manager say that they are using yield management techniques for the revenue and 76% of hotel claim that utilization yield management techniques extensively and very few are using all of the basic elements in their effort to maximization revenue this study reveal that a random sample of a hotel General manager was surveyed the degree to which they use hotelier have looked at the airline. **Judy A. Signaw , Cathy A. Enz (1999)** founded that this study improving customer satisfaction effective operation system reflect a good merchandising hotel . Manger must recognize the practices that give the good satisfaction to the guest and ensuring the repeat customer. **Breffni et al. (2003)** stated that fundamentals issues for the apply of CRM/RM program and need to establish the financial implications of CRM /RM program and organization have to decide the customer segmentation based on the their life style. **Schwartz & Cohen, (2004)** stated Revenue Management managers although technology greatly supports Revenue Management managers work its role in and an impact on final decisions, made by the Revenue Management manager, is under researched and needs more attention in future. **Leyla Göthesson and Susanna Riman(2004)** stated that revenue management is the key to making money this study based on Swedish hotels this study reveal that revenue and yield management as a tool to influence revenue it would be interesting to see how yield management could be interlinked and used as the centre point to the areas of company , price, sales and marking customer yield management is the centre point of the hotel system yield management as the centre point therefore takes advantage of opportunity. **Stanislav Ivanov/Vladimir Zhechev(2004)** reported RM mathematical problems could be expanded from single-unit to multiple-unit problems. When a hotel chain has several

substitutable properties in terms of location, services and category in one destination, it can coordinate the individual properties' RM practices in order to maximize chain's revenues as a whole, not the revenues of individual properties. **El Haddad, Roper & Jones, 2008)** stated that Revenue management is an essential instrument for matching supply and demand by dividing customers into different segments based on their purchase intentions and allocating capacity to the different segments in a way that maximizes a particular firm's revenues. **Noureddine Selmi Esc La Rochelle, Raphaël Dornier (corresponding author)(april 2011)** stated that the study based on quantitative study of the practices of yield management in the Hotel Industry and interview with 27 Paris hotel manager. This study highlights strong connection between yield management and information system and stress. Author reveal importance of adoption and development of yield management techniques in hotels yield management has been describe in many articles as a technique that makes possible accurate predictions of the behaviour of demand, which can lead to higher earnings. **Gandolfo Dominici ,Federica Palumbo (2013)** stated that customer satisfaction are not fully exploited and we can increase satisfaction level of the customer by some actions that all the hotel should provide air conditioning , heating, shuttles buses, business centre. The author also founded that there is no cigar lounge, hydro massage, bathtubs, etc. **Ljiljana Radulović(2013)** stated that the study based on GDS (Global Distribution System) at global level this study reveals that number of changes in the demographics , economic, psychographic and other characteristics of the tourist are recorded in recent year and also create a major change in tourism demand . **Noopur Sharma (February 2015)** revealed that Revenue management and its adoption in the front office by Hotel business. This study analyzes the pros and cons of the revenue management for the hotel as well as its employee and guest. **Zur Erlangung des akademischen Grades (March 2015)** stated that we

have provided a survey of the result for the interval problem for hotel revenue management and also consider internal problems author reveal that a special attention is paid to the survey of studies on hotel revenue management. **Rania El Haddad, Angela Roper, Peter Jones (2015)** stated that hotels are reducing their price by increasing the flexibility and improving assets utilization through RM strategy .this study aims to giving the customer's perception regarding the RM decision and how they all decision reflect on them attitude behaviour at the budget hotel. **RasikaGumaste*, RituBhagwat, Puneet Thakkar(2015)** stated that most of the guest are satisfied with the services given by the front office department and the hotel should give the monthly award to the staff and name should be display on board that is more motivational factor and the practices like sending the bill at night before departure or early morning with the newspaper for the check by guest and also provided some gift s to the guest while living the hotel and click photo and send to the guest by post or mail with that practices guest can become more loyal and satisfied with the hotel **Mehmet Erdem, Lan Jiang (13 june 2016)** stated that Revenue Management will continue to be a critical tool for the hotel industry, especially since the rise of its perceived strategic role among hoteliers. This study reveals that 83 hotels are surveyed and 70 research journals were identified for this study. **FoadHassanmirzaei (2016)** stated that Revenue Management is a complex problem you can solve by revenue operator. In the practices of Revenue Management also clearly define across multiple industries including hospitality industry and author reveals that we continue involved in Revenue Management space.

Research methodology

This research investigates by the descriptive information taken from secondary sources. Secondary data which is cover all Revenue Management/Practices and its impact on hotel performance is collected from combination of journals, magazines, publication, articles, research

paper, and various websites. Through that secondary data in the present study conclude the sum of Revenue Management Practices in front office and its impact on Hotel performance. These theories will be specified to the following practices of revenue management, like Overbooking, Demand Forecasting, Dynamic Pricing, Customer Segmentation and Capacity Management.

Result and Analysis

Identification of Revenue Management practices, their impact on Hotel Performance.

1.1 Overbooking Management and its impact on Hotel Performance

According to ArashRaiasi (2018) Overbooking is when the total number of rooms in the hotel for reservation is exceed overbooking always used to maximize the profit. **Hoisington(2017)** revealed that in perspective of revenue management overbooking help to overcome no-show, cancelation and maximize the revenue profits by selling the room and minimize the expected loss. **PhumchusrisManeesophon(2014)** stated that overbooking always considered the marginal cost for every room. Overbooking can give the profit in case of no-show, cancelation. Result of overbooking we find it is a best practices in hotel and positive impact on hotel performance. **Josef Abrham,JirinaJeckova (2016)**This practiced predicts the strength of customer for room booking and hotel can sale the rooms to their respected guests with minimize the loss.

1.2 Demand Forecasting and its impact on Hotel performance

Rex Nelson Warren (2017) revealed that all the hotels are spend their time, money on improving the demand forecasting and widely organized. **Armstrong (2006)** defined all the literature on forecasting depend upon rules based forecasting in the result we can predict more accurate forecasting. **Haensel and Koole (2011)** justified the forecasting techniques based upon the historical data and according to the multiple season periods like high

profit season historical demand and low season period historical data. **Larry R. Weatherford, Sheryl E. Kimes (2003)** revealed that the managers must know that what they have to forecast numbers of arrival, rooms for nights, length of stay, tariff category and duration of period for the forecast. At the result revenue management demand forecasting predicts has positive impact on hotel performance. Hotel can make a budget and fulfill the customer demand which fall in the past. Hotel predicts all the coming challenges and the requirement in the market.

1.3 Dynamic Pricing and its impact on Hotel Performance

Heba Abdel Aziz, Mohamad Saleh, Mohamad H. Rasmy, Hisham El Shisking (2011) stated that dynamic pricing suggest the right tool to revenue manager in hotel for maximize the hotel revenue. **Abd EL-Moniem Bayoumi, Mohamad Saleh, Amir F. Atiya and Heba AddelAzizz (2012)** revealed that it is the transparent way or a system to effect on pricing and directly effect on hotel outcomes and pricing is also depend upon variables (hotel capacity time, until arrival, length of stay, and group size) **Sungjin Cho, Gong Lee, John Rust, Mengkai Yu (2018)** revealed that the behavior of price setting is competitive element and apply the price dynamic is the best response to compete the competitor. **Feng and Xiao (2000)** founded a modal on dynamic price in that price are selected from the predetermine for a couple of time or a specific period of time. **Zhao and Zheng (2000)** revealed that pricing strategy are using in the hotel for selling the perishable product for the instant selling. In the result hotel used the dynamic pricing to beat the competitor in the market and also sale their perishable and non-demanding product to the customer. The impacts on hotel performance the hotel increase the revenue by selling the product at a right price and also make a loyal customer in the hotel.

1.4 Customer Segmentation and its impact on Hotel Performance

Segmentation practice can be including Market, Image and Customer. Segmentation is to categorize the element according to different facts. **Michael Zhang (2011)** revealed that segmentation used in hotel also improve the revenue in the Hotel by using the right tools, right prices to the different segment. **Wind (1978)** conveyed that the segment variable such as age of customer, income, occupation, willingness to pay these all variables of segmentation give direction to set the offer, price and discount in the market. **Capon and Hulbert (2001)** reported that the purpose of segmentation to improve the understanding of the customer, market their need and wants according to their lifestyle because it lead to a good customer satisfaction and also good effect on hotel performance. **Noor Azmi Ahmad, Syaquif Yasin Kamarudin, Azdel Abdul, Mohamad Faez, Saiful Bahhtiar and Nur Hidayah Che Ahmati (2011)** stated that segmentation is the first practice in revenue management. In absence of this Hotel enables to understand the potential customer for their revenue and hotel can focus on their target customer in the market. End of the result the segmentation practice give a positive impact on hotel performance and enhance the customer satisfaction and revenue.

1.5 Capacity Management and its impact on Hotel Performance

Madeleine Pullman, Svetlana Rodgers (2009) stated that capacity mgt impact the external factor and the demand, supply it require multidisciplinary vision and solution. **Ronald j. Huefner (2011)** defined that capacity manager show that how much time our occupancy is idle or non profitability, and from what time we can convert in to profitable and productivity revenue generating use. **Ayia- Koi Albert, Sachle- Sachey (2015)** revealed that capacity management strategy which include as encouraging residential conference, encourage conference, organizer use this in the lean season and encourage non-residential conference or postpone non-residential conference in the high demand season to manage the capacity. In the account of impact on hotel performance there is again positive

impact on the hotel revenue and also avoid the threat again the length of stay and other issue related the room occupancy.

1.6 Mobile Optimization and its impact on Hotel Performance

Arnelyn M. Torres (2018) revealed that mobile optimization is the uses of Smartphone in hotel operation. Now days customer want to use their mobile phone in selecting the hotel, booking, check-in, check-out, according to survey mobile application in hotel related to directly satisfaction of guest. **Robert Cole and Corraine Sileo (2017)** stated the hotel industry immediate avail the mobile optimization practice in the hotel for the revenue and the maximize customer. **Kanokwan Wongklang (2013)** revealed that mobile optimization use in hotel as a marketing tool that all the promotions, offers, trends introduced to the customer by the help of mobile optimization. **Dang Wang, Zheng Xiang, Rob Law & Tang Puiki (2015)** revealed that hotel properties used application which is in the online travel agency in important functional area (hotel information section, facilitating booking service and also give security of information about guest.

Finding and recommendation

At the stage of finding I find that the Revenue Management practices are more effectively used in hotel industry after the airlines. Hotels are use these all practices in their operational area for increase the profit and gain the satisfaction level of the customer and hotels also develop the retention and motivation level among the staff members. I recommend that all the hotels and other service organization have to adopted practices of Revenue Management according to their organization nature to develop the customer satisfaction and increase business.

Conclusion

The above research preferring the practices of revenue management in hospitality industry to survive in the market. Hotels have to understand the market according to the segmentation of the customers, their likes and dislikes. This research

define that all the practices of Revenue management are entitle to the hotel performance because theses directly and indirectly related to the hotel revenue and the guest satisfaction. So, if the revenue of the hotel is increase and builds the guest satisfaction that automatically hotel performs will improve and goes to the profit. Revenue management tool help to anylase the customer perception. This study also tested the impact of revenue management practices on hotel performance. In the practices hotels are use the techniques of revenue management like Overbooking, Demand Forecasting, Dynamic Pricing, Customer Segmentation and Capacity Management.

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