

YIELD MANAGEMENT

METHODS ADOPTED FOR EVALUATING PERFORMANCE OF OPERATIONS

- Occupancy %
- ARR

DISADVANTAGES OF OCCUPANCY % AND ARR AS PERFORMANCE MEASURE

- One Dimensional Approach
Relationship between the two is neglected.
For eg; Lower Room Rate = Higher Occupancy
Higher Room Rate = Lower Occupancy
But ARR does not increase
- Cost per Occupied Room is neglected

REVENUE MANAGEMENT/ YIELD MANAGEMENT

[Combines the two factors Occupancy% and ADR into one statistic]

Revenue management is an evaluative tool that allows the front office manager to use the potential revenue as a standard against which actual revenue can be compared.

WHAT IS YIELD

Yield is

- The final product after processing
- Revenue generated per statistical unit
- Yield = Output = revenue
- Therefore, yield management = revenue management
- Yield is the total output and depends upon facts

ORIGIN

- Concept introduced by the airline industry in 1970's
- Sold perishable seats at rack rates
- Adopted a technique based on Demand & Supply
- Demand exceeded supply = increase the rate and supply exceeds demand = demand the rate
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- Yield management was referred as revenue per available seat per mile.

APPLICATION OF YIELD MANAGEMENT/ REVENUE MANAGEMENT

Applied in segments with perishable product

- Airlines Revenue per available seat
- Car rental per car Revenue per available seat
- Restaurant per hr Revenue per available seat
- Hotel per night Revenue per available room

CONDITIONS FOR THE APPLICATION OF YIELD MANAGEMENT

1. Fixed amount of resources for sale
 - Airline seats, hotel rooms
2. Resources sold are perishable
 - Tomorrow, hotels sells tomorrows room
3. Differential pricing
 - Customers willing to pay different price for using the same resources.

Thus, yield management is

- Understanding
- Anticipating
- Influencing

Consumer behaviour in order to maximise revenue/ profits from a fixed perishable resource.

“Technique based on demand and supply used to maximize revenues by lowering prices to increase sales during periods of low demand and raising prices during periods of high demands.”

CHALLENGE IS:

- The right **INVENTORY** to
- The right **CUSTOMER** at
- The right **TIME** at
- The right **PRICE**

COMPONENTS OF YIELD MANAGEMENT

- Fixed inventory
- Potential customer
- Differential pricing
- Time: Peak seasons and off seasons
- Channel: Travel portals, CRS

POINTS TO BE CONSIDERED

- Predict consumer behaviour
 - Length of stay
 - Buying capacity
- Optimize the price and inventory available to each customer segment
 - Discounts
 - Packages
 - Apply rack rates
- Focus on revenue maximization than on cost minimization
 - Do not cut on facilities and amenities
 - Effect quality and brand name
- Marginal cost which is involved in cleaning and supplies will be incurred only if the room is sold.
 - Loss to hotels operating cost

GOAL OF YIELD MANAGEMENT

To select which business to accept and which business to turn away!

BUSINESS TACTICS FOR HIGH AND LOW DEMANDS

Industries use some practices to maximize the revenue.

In order to implement these tactics, management needs to establish the **HURDLE RATE** (the lowest rate for a given day) below which it is impossible to sell any room.

HIGH DEMAND TACTICS

- Close or restrict discounts
- Apply minimum length of stay
- Reduce group reservations
- Reduce or eliminate 6 pm holds
- Apply early deposits to maximize early departures.
- Raise room rates
 - Executive and suite rooms

LOW DEMAND TACTICS

- Sell hotel facilities and benefits
- Offer packages
- Accept discounts to encourage room nights
- Encourage and provide incentives to staff for increasing occupancy
- Encourage upgrades
- Remove stay restrictions
 - Encourage guest to overstay in case of low occupancy

- Establish relationships with competitors to share
 - Referrals
 - Marketing strategies
- Offer stay-sensitive price incentives
 - Provide discounts for guest who stays longer
 - Guest with a five days stay may get a discount while a guest with two days stay may not.
 - Provide freebies like movie tickets, site seeing, shopping coupons from the hotel's concessionaire.

IMPORTANCE OF YIELD MANAGEMENT

1. Improved forecasting
2. Improved seasonal pricing and inventory management
3. Identification of new market segments
4. Identification of new market segment demands
5. Increased coordination between front office and sales
6. Determination of discounting activity
7. Improved short term and long-term planning
8. Increased business and profits

TOOLS USED TO MAXIMIZE SALE

1. Capacity management or Selective Overbooking
2. Discount Allocation or Differential Pricing
3. Duration Control or Duration Restriction

CAPACITY MANAGEMENT OR SELECTIVE OVERBOOKING

- Involves controlling and limiting room supply
- Based on historical data, the rooms are overbooked
- Overbooking is:
The availability of rooms increases in following situations-
 - Early departures and under stay
 - Cancellations
 - No shows
- Compensates loss of revenue in case of
 - I. **Early departures/ Under stay**
 - Guest leaves hotel before their date of departure.
 - Increase the room inventory
 - Discourage early departures or compensate
 - II. **Cancellation**
 - III. **No-shows**
 - Guest with guaranteed reservation does not arrive on the day of arrival
 - No show increases room inventory
 - Released to waitlisted or walk-ins

PRECAUTIONS WHILE OVERBOOKING

- Refer past records on
 - Number of cancellations
 - Number of under stays
 - No of no-shows
 - No of turn away
 - Events in the city
 - Relationship with the managers of the neighbouring hotels

DISCOUNT ALLOCATION OR DIFFERENTIAL PRICING

- Price is the value of the goods or services expressed in terms of money.
- Price is the major criteria which affects the choice of the customer.
- Price of the product is affected by the demand of the product in the market.
- Impossible to sell rooms at rack rate.
- Apply sales strategy for selling rooms
- Peak seasons sell at rack rate
- Lean seasons offer
 - Discounts
 - Package plans
 - Off season rates
 - Increase commission to travel portals

DURATION CONTROL OR DURATION RESTRICTION

- Implement duration restriction on room bookings to protect room for multi day reservations

ELEMENTS OF YIELD MANAGEMENT

To develop a successful yield strategy the following elements are important

- i. Group room sale
- ii. Transient room sale (FIT)
- iii. Food and beverage activities
- iv. Local and area wide convention
- v. Special events

GROUP ROOM SALE

To understand how group room sales will affect overall room revenue the hotel should collect information about:

1) Group booking data

Management should carefully examine every group block for any following reasons:

- Frequency of booking
- Reputation of group in terms of business
- Wash out factor

Wash Factor: group tend to book 5% to 10% more rooms than they are likely to need. The hotel's deletion of unnecessary group rooms from a group block is called Wash Factor.

2) Group booking pace

- Rate at which group business is booked.
- Track bookings for one-timers and series group

3) Anticipated group business

- Monitor group bookings in the neighbouring hotels
- Forecast the booking pressure in the market
- Adjust selling strategies accordingly

4) Group booking lead time

- Time gap between date of booking and date of arrival
- Determines whether to accept more groups and transients and at what room rate

5) Displacement of transient business

- Displacement occurs when a hotel accepts group business at the expense of transient guest
- Transient business books rooms closer to date of arrivals than groups
- This might endanger profitability problem and bad reputation
- Monitor the booking pace and lead time of individual guests

TRANSIENT ROOM SALE

Front office should monitor the booking pace and lead time of Transient Guest in order to understand current reservations with historic reservation and anticipated rates.

FOOD AND BEVERAGE ACTIVITIES

- Food and beverage should consider for potential booking groups that need banquets, meeting space and guest rooms.
- Book groups that needs rooms along with food and beverage services to increase revenue.

LOCAL AND AREA WIDE CONVENTION

- Individual hotel may not accommodate in case of big events
- Hotels should take advantage of such situations
- Individual guests and groups who have been displaced by convention may be referred to the hotel as an overflow facility and this may have a tremendous impact on the hotel's revenue.

SPECIAL EVENT

- During special events like festivals and city events hotels decide to benefit from high demand by restricting
 - Room discounts
 - Encourage minimum length of stay

YIELD MANAGEMENT TEAM

- **Rooms Division Manager:** has the overall control on the department with the targets for maximizing occupancy and revenue
- **Reservation Manager:** has complete knowledge of booking patterns, past histories, pace and high and low demand periods of business etc.
- **Sales Manager:** is responsible to bring and promote business for the hotel

FUNCTIONS OF YIELD MANAGEMENT

- Predict demand of rooms for future
- Decisions on whether to accept group reservations or transient reservations
- Decide the levels of rates to open or close
- Regular training and motivate the staff
- Conduct feedback sessions to know efficiency and effectiveness of performance

STEPS FOR YIELD MANAGEMENT

Yield management consists of four steps:

- 1) Forecasting
- 2) Systems and procedures
- 3) Strategies and tactics
- 4) Feedback

I. FORECASTING

- Prediction of future business as per reservation data
 - Special arrangements for VIP, Groups
 - Effective staff allocation
 - Optimum inventory for departmental stationaries
 - Sufficient time for maintenance and replacements
- Tools for forecasting
 - Thorough product knowledge
 - Profile of the market segment
 - Special events in the city
 - Percentage of no-shows, cancellations
 - New competitors in the vicinity of the hotel
 - Wash out factor (last minute cancellation made by the travel agents)

II. SYSTEMS AND PROCEDURES

- Manual system
 - Used in small hotel
 - Accurate only if staffs stay focused at all times
- Computerized system
 - Used in large hotels
 - More accurate as it is automatically updated

● YIELD MANAGEMENT SOFTWARE SYSTEMS

Although the individual task of yield management can be performed manually, the most efficient means of handling data and generating yield statistics is through yield management software.

The following results have been observed:

- Continuous monitoring
- Consistency
- Information availability
- Performance tracking

- **REPORTS GENERATED BY YIELD MANAGEMENT SOFTWARE**

- Market segment report
- Calendar/ booking graph
- Future arrival dates status reports
- Single arrival date history report
- Weekly recap report
- Room statistics tracking sheet

III. STRATEGIES AND TACTICS

- Apply strategies as per high and low demand and supply.
- Apply business tactics to increase revenue like offering
 - Discounts
 - Packages
 - Commissions

IV. FEEDBACK

- To assess effectiveness of the decisions taken
- To assess efficiency of the strategies and business tactics used
- To assess performance of the hotel staff

BENEFITS OF YIELD MANAGEMENT

- i. Improved seasonal pricing
- ii. Identification of new market segments
- iii. Enhance coordination between Front Office and Sales
- iv. Development of business plans
- v. Initiate constant touch with guest
- vi. Improved forecasting to know number of rooms vacant for a day.

CHALLENGES IN YIELD MANAGEMENT

- i. Difficult to measure performance of yield management system
- ii. Low guest satisfaction due to hotels policy on differential pricing
- iii. Possibility of losing loyal customers
- iv. Incentives are given to the staff for selling higher category rooms and this might not sell the basic category rooms.