Assessing the Effectiveness of Room Management Tactics in Maximizing Accommodation Revenue

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Abstract: *The study was conducted to assess the effectiveness of room management tactics in maximizing accommodation revenue. A simple random sampling technique was used to obtain a sample of fifty (50) respondents for the study. Questionnaire was the main research instrument. The data collected was processed using SPSS software package, analyzed and presented using descriptive statistics to obtain frequencies and percentages. The study found out that the majority of the respondents were female. Most of the respondents were between 22-29 years. The highest level of education was diploma holders. The findings showed that segmentation was a strategy used by majority of the hotels. They study also revealed that overall booking and forecasting were strategies adopted by the hotels to manage their rooms revenue. It was recommended that hotel Managers should embrace technology in all operations, especially information communication technology, which widens the coverage of hotels information accessibility and increase marketing activities, so that they can attract guests from far and wide. Again, hotels implement Yield Management fully in their hotels to increase and maximize revenue.*

Keywords: Yield Management, Accommodation Revenue, Tactics and Strategies, Segmentation, Overbooking

1. INTRODUCTION

Hospitality industry is one of the industries using Revenue Management as it is an industry of services but not every industry can use Revenue Management process as a strategy. Yield management is a strategy used by different types of companies in order to maximize profit. Yield management is not about how many employees we hire, how much we pay for their work, or what we invest our money in. This strategy maximizes profit from another point of view. It focuses on selling the right product to the right customer for the right price at the right time. It is about allocating the capacity to different fare classes. In contrast to other profit maximizing strategies, yield management is not about setting and updating prices, but rather setting and updating the availability of fare classes. When a room of a hotel is not used, it is an opportunity to increase revenue by trying to sell it at discounted price if the revenue is higher than the cost of the service, (Okumus 2004).

Yield management is the general term for a set of tactics that allow bulk controlled service industries to appreciate the best revenue from operations. The main idea of yield management is to provide the right service to the right customer at the right time for the right price (Gourville et al., 2002). It is a procedure used to maximize room revenue through systematic and continuous manipulation of rates in response to forecasted patterns of demand (Lee-Ross & Johns, 1997). Every single airline employs Yield Management to maximize capacity, overall revenue and consequent net returns (Donaghy et al., 2008). The hotel industry has also started adopting the principles of yield management (Netessine, 2002). Like airlines, hotels utilize YM as a profit maximization technique that aimed to increase net yield through the predicted allocation of available room capacity to pre-determined market segments at an optimum price (Kimes, 2002).

Hotel managers have long been using various pricing strategies to maximize their profits by bringing the seasonal demand for rooms and capacity limitations into a balance (Choi et al., 2004). However, yield Management literature is mainly interested in the system implementation in hotel chains, instead of small and medium size hotels (Noone et al, 2003). The aim of Revenue Management is to improve an organization's performance by obtaining the best revenue streams possible from its resources, (Rousse, et al., 2010). According to Sinsou, (2005), the technical and economical innovations, that is to say performance management tools as marketing and pricing, computerization of the reservations and the development of Global Distribution Systems facilitate the development of Revenue Management (Rousse, et al., 2010). Eventually, when the low season changes into the high demand season, the emerging problem is usually of

a different nature. The high season is normally a period when many hotels cannot meet the excessive demand. Those that were too ambitious end up with over-bookings and 'walking guests,' a painful experience to all involved, especially, during peak demand periods when most beds in the market have been taken up. This affects the 'goodwill' towards such hotels negatively.

On the other hand, the high season finds some hotels already blocked off to heavily discounted clients, hence heavy opportunity costs incurred as the hotel has to retain the low paying contracted guests and loses on the late booking higher rates-paying guests. Sheivachman (2011) confirms that during the high demand periods, many inexperienced management teams regret having discounted rates so sharply in response to falling demand during the low demand periods. It is stated that in order to match demand for hotel rooms a flexible room price is required and that it is beneficial to run special offers to increase occupancy (Anderson, 2004a). Nevertheless, it is also argued by Anderson (2004b) that lowering prices would not be beneficial in the long run. In the Swedish market in general, prices have decreased by 4% during 2004 as a result of increased room capacity among hotels in Sweden (Svenska Dagbladet, 2004a). Further, competition within the hotel industry is tough, new hotel operations are establishing on the market and increase the competition for business travellers. The new hotel operations tend to have technical solutions that older hotels do not match (Svenska Dagbladet, 2004b). In order to meet these prerequisites, it is suggested that one must be flexible in regards to pricing. However, the focus should be on what prices the customers are willing to pay rather than on the occupancy rate; hence lowering prices to increase occupancy is not seen as an option. It is clear that there are discrepancies and different opinions as to whether prices should be fixed or flexible in order to meet guest demand and manage revenue. It should also be known that demand for hotel rooms is particularly sensitive to the state of the economy.

In economic upturns, demand for hotel rooms tends to be strong, especially from business travellers since companies often expand their businesses and finds new business opportunities during flourishing times. On the other hand, during downturns in the economy business travellers are often the first to be cut off the budget (Fattorini, 1999). The intense competition in the hotel industry is likely to continue to increase (Greger and Peterson, 2000). Hence, competition could lead to excess capacity in the market. Further, hotel executives are confronted with a decline in leisure and business travel, severe short-term liquidity problems, and rising business failure rates (McMahon-Beattie et al., 1999). In this context, survival and profitability are essential and the management of revenue has become one way to address this. As a result, it is vital for managers to understand where revenue is derived from within their business. This study was, therefore, conducted to find out about the effectiveness of room management tactics in maximizing accommodation revenue in some selected hotels

2. EFFECTIVENESS OF YIELD MANAGEMENT APPLICATION

Vinod (2004) stated that "the process of revenue management generates incremental revenues by accepting and rejecting reservation requests based on the value of the reservation request". Kimes and Wirtz (2003) were of the view that "the application of revenue management has been most effective when applied to operations that have relatively fixed capacity, demand that is variable and uncertain, perishable inventory, a high fixed cost structure, and varying customer price sensitivity". In the definition of yield management that is given by Lee-Ross and Jones (1997), "yield management is a procedure which is used by service organizations to maximize revenue under conditions of fluctuating demand where the product is perishable". Ranial (2008) identified revenue management is an important tool for matching supply and demand by segmenting customers into different segments based on their willingness to pay and allocating limited capacity to the different segments in a way that maximizes company's revenues. Kimes and Wirtz (2003) also defined revenue management as "the application of information systems and pricing strategies to allocate the right capacity to the right customer at the right price at the right time"

One other characteristic that hotels share with airlines and hotels is the price-sensitive customer segmentation. Most at times, some customers may want the time and service they desire regardless of cost, while other clients may be looking for a reduction of rates and do not mind off peak times" (McCarthy, 2006). In the hotel industry, the demand is uncertain. "Demand forecasting is a basic element of yield management that enables a hotel to identify potential low-demand days far enough in advance to take appropriate actions" (Lieberman, 1993)). In Vinod's study (2004), he explains the theoretical relationship between price and demand in a competitive environment and states that a property that offers a range of prices has more advantages since guests might choose the higher rates when the lower rates are not available. Similar in spas, according to Jeremy McCarthy (2006), demand may vary depending on the day of the week and the hour of the day. Last but not least, similar to the hotel industry, spa reservations are usually booked in advance. Cross (1997) analyses how revenue management can work successfully in businesses. Cross (1997) stated that "revenue management can apply to virtually all businesses. Applications range from simply adopting the revenue-management attitude and thinking about supply, demand, and pricing management in revenue-management terms to using high-powered algorithmic tools".

3. MATERIALS AND METHODS

Descriptive survey was used for the study. The purpose of descriptive survey, according to Ezeani (1998), is to collect detailed and factual information that describes an existing phenomenon. The study was conducted at Bolgatanga municipality. The area consists of local houses build by the residents and private houses and shops build by government and its agencies. It is largely noted for its commercial activities and busy nature. The choice of the area was based on widespread cases of the use of Yield management as a tool to maximizing revenue in most hotels in the municipality and the effectiveness of room management strategies in maximizing accommodation revenue.

The target population for the study included the front office staff and Management members from the various selected hotels in Kumasi Metropolis. The sample size for the study was 50 respondents. This comprised of thirty (30) front office staff and twenty (20) Management staff. Respondents were selected from seven (7) hotels comprising two (2) 3-Star hotels and five (5) 2-Star hotels respectively in the Kumasi Metropolis. Purposive sampling technique and simple random sampling technique were used for the study. Purposive sampling technique is best used with small numbers of individuals/groups which may well be sufficient for understanding human perceptions, problems, needs, behaviours and contexts, which are the main justification for a qualitative audience research. Random sampling technique gave every element in the target population an equal and independent chance of being included in the simple random sampling. Questionnaire was used to collect firsthand information from the respondents. The questionnaire contained likert scale questions and this was designed based on the objective of the study. Data collected was edited, coded and fed into the computer using Statistical Package for Social Sciences (SPSS). Data was presented in tables and graphs to give visual impression of the data. Frequencies and percentages were used to analyze the data and the results descriptively presented.

4. RESULTS AND DISCUSSIONS

Table 1: Demographic characteristics of respondents

Gender	Frequency (n)	Percentage (%)
Male	24	48
Female	26	52
Total	**50**	**100**
Age of respondent		
22-29 years	27	54
30-39 years	15	30
40-49 years	4	8
50-59 years	4	8
totals	**50**	**100**
Highest level of education		
Diploma	34	68
Degree	12	24
MSc/MPhil	4	8
Total	**50**	**100**
Number of years worked		
Less than 5 years	30	60
5-10 years	8	16
11-15 years	9	18
Over 15 years	3	6
Total	**50**	**100**

Source: Field Survey, 2018.

Table 1 shows that, 24 (48%) of the respondents were females whiles 26 (52%) were males. Thus, the females dominated males. This is not quite suppressing because female dominate more than male in most hotels in the

metropolis. Regarding the age of the respondents, 54% were aged between 22-29 years, 30% were aged between 30-39 years, and between 8% were aged 40-49 years and 50-59 years respectively. The majority were between 22-29 years. 68%, 24%, and 8% of the respondent's highest academic qualifications were Diploma, Degree and MSc/MPhil respectively. Majority of the respondents were diploma holders.

The various positions list by the respondents were; receptionist, manager, accountant, chief security, matron, housekeeping, marketing manager, assistant manager, front desk officer, gardener and waitress. When asked how long they have been in their various positions, 30 (60%) of the respondents said they have been in the positions for less than 5 years, 16% said between 5-10 years, 18% said between 11-15 years and 6% said over 15 years. It is clear that majority of the respondents (60%) had been in their position for less than 5 years.
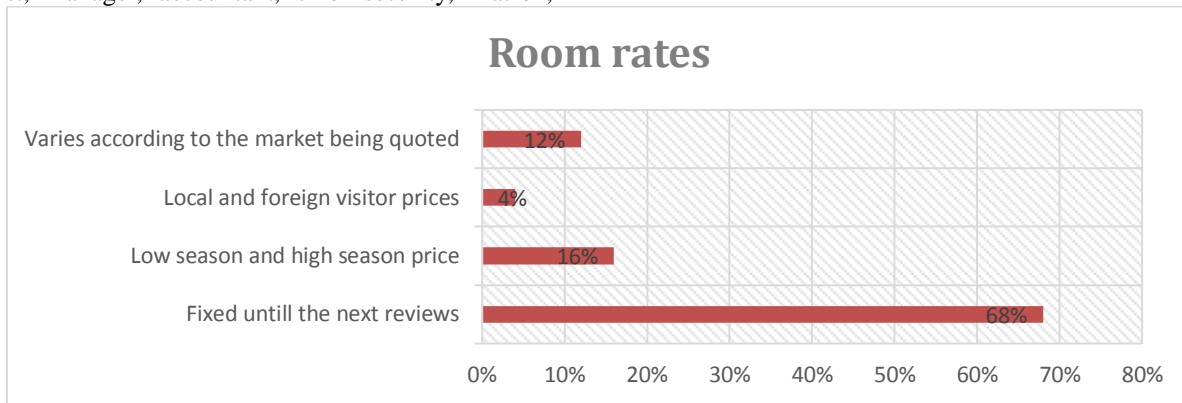

Figure 1: How are your room rates?
Source: Field Survey, 2018.

Twelve (12%) of the respondents said their room rates varied according to the market being quoted, 4% said their room rates were based on local and foreign visitors price. However, 16% said low season and high season prices determined their room rates whiles majority of the respondents (68%) said their room rates were fixed until the next reviews.
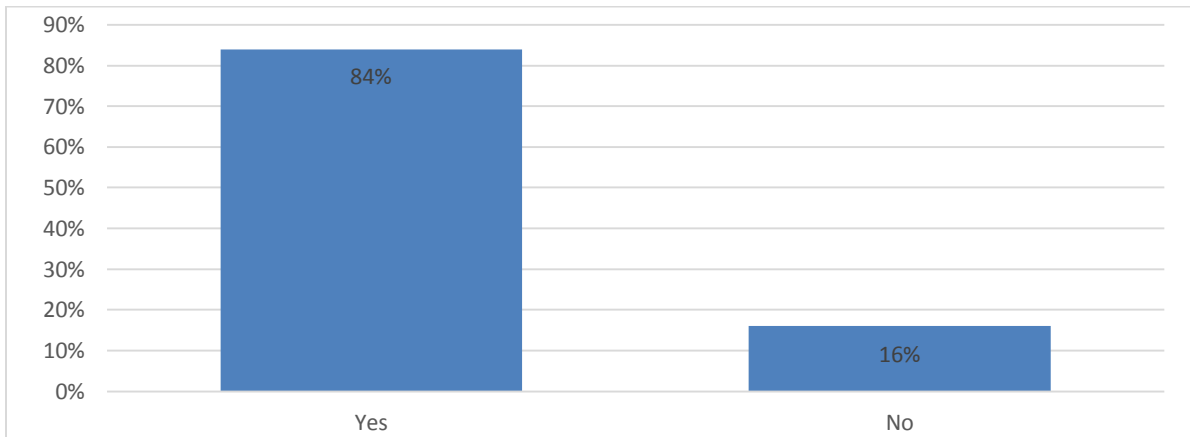

Figure2: Has the hotel identified its various market segments
Source: Field Survey, 2018.

Finding out from the respondents if their hotels have market segments, 84% said yes whereas 16% said no. it is clear that majority of the hotels (84%) have market segments. The various market segments identified were price segmentation, geographic segmentation and demographic segmentation.

Ranial (2008) identified revenue management as an important tool for matching supply and demand by segmenting customers into different segments based on their willingness to pay and allocating limited capacity to the different segments in a way that maximizes company's revenues.
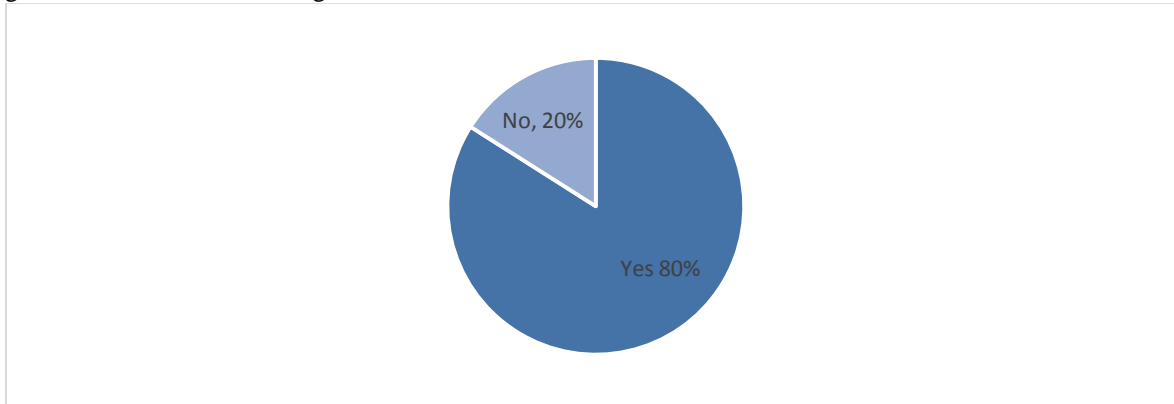

Figure 3: Is forecasting part of your yield management strategies?
Source: Field Survey, 2018.

To find out from the respondents if forecasting is part of their yield management strategies, 80% of the respondents were of the view that forecasting was part of their yield management strategies whiles 20% disagree to the statement. Majority (80%) of the respondents went further to say that accurate forecasting helps in developing strategies to maximize sales to transient guests. They emphasised that during forecasting hotel occupancy, the reservations department determines how many rooms of the available inventory will be sold on a particular night.
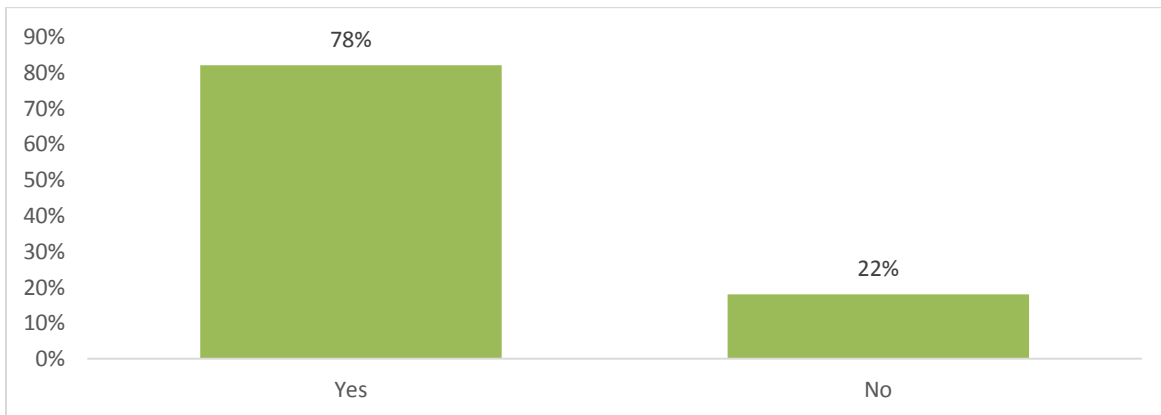

Figure 4: Does your hotel practice overbooking?
Source: Field Survey, 2018.

Figure 4 reveals that, 78% of the respondents said that their hotels sometimes practice overbooking whereas, 22% disagree to the statement. It can therefore be said that, majority of the hotels (78%) sometimes book more guest than it can accommodate and that majority of the hotel managers were interested in using the overbooking strategy. Overbooking is advantageous to hotel companies. Through overbooking, the company incurs minimal or no losses due to late cancellations, and no-show, room demand distribution over time and conditions of length of stay. As YM tool, overbooking is aimed at cushioning hotels against unexpected cancellations and no-shows by guests (Ross, 1995). According to Lee-Ross and Jones (1997), overbooking as a strategy is used in hotel industries to maximize revenue under conditions of fluctuating demand where the product is perishable

Table 2: Have you been formally trained on the application of YM (frequency table)

Have you been formally trained on the application of YM?	Frequency (n)	Percentage (%)
Yes, attended training session	16	32
Yes, trained on the job	20	40

No, never had any YM training	4	8
Total	**50**	**100**

Source: Field Survey, 2018.

Table 2 indicates that, 32% of the respondents said yes, they attend training session, 40% said they were trained on the job. Whiles 8% said no, they never had any YM training. It

5. CONCLUSION

It conclusion, the application of yield management in hotels under study have achieved greater impact in revenue maximization. It was also noted that segmentation was a strategy used by majority of the hotels. The consequence is that segmenting the market permits the manager to closely comprehend the different market and their needs. Hence, the hotel is able to create products for the different market segments, subsequently gaining competitive advantage. This was supported by Jarvis, Lindh & Jones (1997) in their previous study on the acceptance of YM by UK hotels, which established that there was a significant statistical difference in performance between UK hotels that had implemented market segmentation and those who had not adopted the variable, when measured by the hotel's occupancy demand.

6. RECOMMENDATIONS

i. The Management of hotel industries should embrace technology in all operations, especially information communication technology, which widens the coverage of hotels information accessibility and increase marketing activities, so that they can attract guests from far and wide.

ii. All hospitality training facilities should include YM training units in their curriculums. The units should contain both the general YM training specifics and the identified YM models. Workshops should be carried out throughout the industry to sensitize and encourage the hotel operators on the benefits of implementing YM in their hotels. As a result of these efforts, a new YM culture will be created for a seamless implementation and application of YM.

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is clearly shown that, most of the respondents (40%) were trained on the job and therefore have the know-how when it comes to yield management applications.

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