OBJECTIVES

- Yield management definition
- When is the use of yield management appropriate?
- Yield management formula
- Tools and strategies
- Yield management team
- Training development and organization culture
- What is a Yield Management Software system?
OBJECTIVES

- What is a Yield Management Software system?
- How does the yield or revenue management system work?
- Differential room rates
- Occupancy ratios
- Statistics
- Graphical representation of statistical data and writing report
- Reporting
- Measuring yields
YIELD MANAGEMENT

- Yield Management is the process of allocating the right inventory to the right customer at the right price so as to maximize revenue.

- Yield management is a tool to maximize yield (revenue, and ultimately profit) based on a hotel’s performance.
WHEN IS THE USE OF YIELD MANAGEMENT APPROPRIATE?

The objective of the intelligent use of yield management concepts and principles is to increase bottom line profitability in hotels.
YIELD MANAGEMENT FORMULA

Yield = \frac{\text{Actual Rooms Revenue}}{\text{Potential Rooms Revenue}} \quad \text{(OR)}

\frac{\text{Room Nights Sold} \times \text{Actual ARR}}{\text{Room Nights Available} \times \text{Potential Average Rate}} \quad \text{(OR)}

\frac{\text{Occupancy} \% \times \text{Room Rate Achievement Factor}}
TOOLS AND STRATEGIES

Yield management emphasizes the achievement of high rates on high demand days and high occupancy when demand is low. The underpinning framework of yield management consists of four steps:

- Forecasting
- Systems and procedures
- Strategies and tactics
- Feedback
FORECASTING

- The reservations forecasts incorporate group and transient data.
- These forecasts are important to the rest of the hotel because they help plan for:
  - Asset allocation
  - Staffing levels
  - Inventory availability
- The primary message of the forecast is occupancy percentage.
FORECASTING FACTORS

➢ Forecasting is a time-sensitive process.

➢ The reservations forecast is quite accurate in the short term, and less so long term.

➢ History plays a big part in forecasting future occupancies. Historical transient data is best reflected in the transient booking cycle.

➢ The transient booking cycle and group worksheet provide the basis for the forecast.
A computerized system aids the communication of forecast information from the yield management team to relevant departments of a property and in some cases between properties and booking agencies or CRS. A computerized system allows 24-hour input of information and link up to enable efficient circulation of current information.
STRATEGIES AND TACTICS

Strategies are broad directional plans while tactics are immediate implementations during day to day operations to meet rising situations. Various strategies are:

- Price Flexibility
- Guest Mix
- Service Mix
- Capacity management
- Group Bookings
- Discount allocation
- Upselling
- Period Management
PRICE FLEXIBILITY

Management has to evaluate the range between which room rates can be manipulated. They establish the maximum - moderate – maximum rates. It depends upon

- Location
- Type of room
- Type of guest
- Day in the week
- Days in the year
GUEST MIX

A guest mix is the different types of guest profiles that are included in the plan. Hotels have found the wisdom of having guest mix so as not to rely on any one segment.
Service mix refers to service value additions made to a room, or room rate that can command a higher room tariff. Investors have added mini-bars, room safety lockers, internet connections, etc. to rooms to enhance their value and therefore, command a better price.
CAPACITY MANAGEMENT

Capacity management involves various methods of controlling and limiting room supply. In some cases a hotel may well choose to accept more bookings than it can actually accommodate.
GROUP BOOKINGS

Group bookings certainly sell rooms in volume. To get that volume, tour operators, travel agents and event management companies and associations negotiate for best prices. A hotel may not want a group booking in peak season. The sudden withdrawal of volume rooms can jeopardise revenue plans.
Yield management will attempt to get the right sales mix. On most nights, it will be next to impossible for a hotel to sell at rack rate. Limiting discounts also has the objective of encouraging up selling.
UPSELLING

This is the best strategy to employ. Up-selling is the process of selling rooms with higher room rates. All front office personal are good sale persons. They must be able to upsell to get the best revenues. This is achieved by promoting benefits and additional facilities accompanying higher prices.
PERIOD MANAGEMENT

Period management is the process of employing rate strategies based on the potential of business in any given period. There are two aspects of period management.

- High demand tactics
- Low demand tactics
HIGH DEMAND TACTICS

- Close or restrict discounts
- Apply minimum length of stay restrictions carefully
- Reduce group room allocations
- Reduce or eliminate 6 p.m. holds
- Tighten guarantee and cancellation policies
- Raise rates to be consistent with competitors
- Consider a rate raise for packages
- Apply full price to suites and executive rooms
- Select dates that are to be closed-to-arrivals
- Evaluate the benefits of sell-through
- Apply deposits and guarantees to last night of stay
LOW-DEMAND TACTICS

- Sell value and benefits
- Offer packages
- Keep discount categories open
- Encourage upgrades
- Offer stay-sensitive price incentives
- Remove stay restrictions
- Involve your staff
- Establish relationships with competitors
- Lower rates
FEEDBACK

➢ Feedback on decisions employed in yield management is essential.

➢ A record of the date and amount of turn away business is vital for hoteliers to assess the viability of yield management and to update yield management and marketing strategies for the future.
YIELD MANAGEMENT TEAM

The yield management team will consist of the rooms division manager, the sales manager and the reservations manager. This does not mean that anyone is excluded, but for a speedier and more effective decision making progress it is wise not to make the management team too big.
ROLE OF YIELD MANAGEMENT TEAM

The role of the yield management team is fourfold

- To predict demand
- To assign rooms to transient reservations
- To open or close rates as seen fit
- To conduct feedback sessions
TRAINING DEVELOPMENT AND ORGANIZATION CULTURE

➢ The training process would consist of education in new computerizes systems, yield management policies and customer enlightenment programmes.

➢ The organization may also undergo a cultural change in its approach to using yield management.
WHAT IS A YIELD MANAGEMENT SOFTWARE SYSTEM?

A yield management software system is a powerful decision making tool that automatically makes yield management judgements to determine the rate availability by length of stay to maximize overall revenues. Revenue management software provides:

- Continuous monitoring
- Consistency
- Information availability
- Performance tracking
- Special reports
THE YIELD MANAGEMENT PROCESS

- Research
- Forecasting Unconstrained Demand
- Target Potential High Yield Periods
- Tools to Control Incoming Reservations
- Monitoring and Feedback Systems
- Adjustments to Original Plan
HOW DOES THE YIELD MANAGEMENT SOFTWARE WORK?

Property Management System databases

Raw data from history file

DATA COLLECTION
Information about the property is collected

Simultaneously the information is checked and verified

ANALYSIS
Pertinent information is analysed and patterns extracted

DECISION MAKING
Forecasts and opportunity cost is produced

UPDATE & MONITORING
Information is updated and monitored

REPORTS ARE PRODUCED

Yield management process

STAGE 1

STAGE 2

STAGE 3

STAGE 4

STAGE 5
DIFFERENTIAL RATES

Many large associations are offered the concession. It is quite common for their members to be eligible for discounts. As private individual their purchasing power may not be very significant, but collectively they represent an important source of business. This applies to trade associations, professional bodies, trade unions and the like.
VARIOUS FRONT OFFICE RATIOS

House Count:
(Total No of Guest stays in a particular time.)

Previous night House Count + Arrivals – Departures

Or

Single Rooms + 2 X (Double Rooms) + Extra Beds
VARIOUS FRONT OFFICE RATIOS

Room Count:
(Total No of Rooms occupied in a particular time)

Total No of Available Rooms – No of Vacant Rooms

Or

Total No of Rooms Occupied Previous Night + No of new Arrivals – No of Departures.
VARIOUS FRONT OFFICE RATIOS

Occupancy Percentage:

Relationship of the number of Room sold to the number of Room available for sale. This measures the success of the sales department.

\[
\frac{\text{No of Room sold}}{\text{No of available for Sale}} \times 100
\]
VARIOUS FRONT OFFICE RATIOS

Average no of Guest per Room (AGR)

House Count

---------------------
Room Count

34
VARIOUS FRONT OFFICE RATIOS

Single Occupancy Percentage:

No of rooms occupied by one person is called Single occupancy.

\[(100 - \text{Double occupancy } \%)\]

Or

\[\frac{2 - \frac{\text{House Count}}{\text{No of Room Sold}}}{\text{No of Room Sold}} \times 100\]
Multiple Occupancy Percentage:

No of Room Sold with 2 persons or more occupying each Room is called Multiple Occupancy.

\[
\text{House Count – No of Room sold} \div \text{No of Room sold} \times 100
\]

\[
\left\{ \frac{\text{House Count}}{\text{No of Room sold}} - 1 \right\} \times 100
\]

Gautam Singh, Hospitality Trainer, 07830294949
VARIOUS FRONT OFFICE RATIOS

Bed Occupancy Percentage:
(Guest Occupancy or Sleeper Occupancy)

\[
\frac{\text{No of Bed sold}}{\text{No of Bed available for sale}} \times 100
\]
Average Room/Daily Rate (ARR/ ADR):

(Ratio of Room income to the no of occupied Rooms)

\[
\frac{\text{Total Room Revenue}}{\text{Total no of Rooms Sold}}
\]
VARIOUS FRONT OFFICE RATIOS

Rev Par:
(Revenue Per available Room):

Total Room Revenue
----------------------------------------
Total Rooms Available for Sale
VARIOUS FRONT OFFICE RATIOS

Average Revenue Per Guest (ARPG / ARG):

Total Room Revenue

-----------------------
House Count
VARIOUS FRONT OFFICE RATIOS

Potential Optimum Revenue

Total Potential Optimum Revenue

--------------------------------------

Total Number of rooms
VARIOUS FRONT OFFICE RATIOS

Average Optimum Room Rate:

Average Room Rate (Actual daily room rate)

-----------------------------------------------

Average Optimum Daily Room Rate
VARIOUS FRONT OFFICE RATIOS

Variance in guests:

Variance in guests = Actual Total Guests (H.C.) + Budgeted guests
VARIous FronT OFFICE RATIOS

Variance in revenue:

+ - Variance in revenue = Actual Revenue - Budgeted Revenue
VARIous FRONT OFFice RATIOS

Variance in Arrivals:

Actual Arrivals – Budgeted Arrivals
= + - Variance in arrivals
VARIOUS FRONT OFFICE RATIOS

Overstay Percentage:
(This is the percentage of schedule Departures who remain on in the Hotel, even after their schedule Departures)

\[
\text{No of Overstay} \times 100
\]

------------------------------------------
Total no of schedule Departures

Gautam Singh, Hospitality Trainer, 07830294949
VARIOUS FRONT OFFICE RATIOS

Under stay Percentage:
(This is the percentage of those Guest who leaves before the schedule date of Departures)

No of Under stay
-----------------------  X 100
No of Stay Over
VARIOUS FRONT OFFICE RATIOS

No Show Percentage:
(This is the percentage of those Guest who did not arrive in spite of having Confirmed Reservation)

\[
\text{No of (DNA) Did Not Arrive Guest} \div \text{No of Confirmed Reservation Guest} \times 100
\]
Cancellation Percentage:

(It is the percentage of total no of cancellations against total no of Reservations)

Total No of Cancellations
--------------------------------------------------------------------- X 100
Total No of confirmed Reservations
VARIOUS FRONT OFFICE RATIOS

Foreign Guest Percentage:
Foreign Guest =
(Total House Count – Total Local (Indian) House Count)

\[
\text{No of Foreign Guest in the Hotel} \div \text{Total no of Guest in the Hotel (House Count)} \times 100
\]
VARIOUS FRONT OFFICE RATIOS

Rooms occupied by Foreigners:

\[ \text{Rooms occupied by Foreigners} = \text{Total Rooms Occupied} - \text{Rooms occupied by Indians} \]
VARIOUS FRONT OFFICE RATIOS

Potential Capacity Of The Hotel

Potential Capacity = Total Capacity (No Of Rooms) of the hotel - (Rooms Occupied by staff + Complimentary Rooms)
AVAILABLE CAPACITY:  

Available Capacity = Potential Capacity –  

( Room under repair i.e. Out Of Order etc.)
Breakeven and Pricing Influences:

It is the sale at that point (rate) where by selling the rooms at that point (rate) there is neither profit nor loss.
BREAK-EVEN ANALYSIS OR TARGET PROFIT PRICING

- Fixed cost = $300,000
- Variable cost = $10 per meal
- Sales price = $20 per meal

Target profit (200,000)

Dollars (thousands)

Sales in thousands of units (meals)
MARKET SHARE

Market share is defined as a hotel’s occupancy performance in relation to other hotels within a predetermined competitive set.

The first step in determining market share is to determine which nearby hotels fall within the competitive set. The competitive set should include hotels of similar product type, location type, and service level.
The next step in determining a hotel’s market share is to determine its individual market potential. The individual market potential is defined as the number of rooms a hotel has for sale within a given time frame.

A hotel's rightful market share (or fair share) reveals how much of the total market potential is made up by its own individual potential.
MARKET SHARE

- Once the individual and total market potential is determined, and the rightful share of each hotel is known, actual occupancy data is used to calculate market share.

- Most hotels will share occupancy data with each other, but they cannot share rate information.

- Why is it unethical or illegal to share rate information?
In reality many guests want to stay for two or more nights. This is often the case with group tour or conferences, which tends to be low yield, and it raises one of the main difficulties experienced when applying yield management to hotels.

The problem stems from the fact that the hotel will have to prepare a separate set of booking estimates for EACH DAY. This means that it is likely to offer a different combination of rates for subsequent days.
STATISTICS AND ITS TYPES

Statistics is a group of data in an orderly and usable manner. Statistics is the science which helps us in knowing how to extract useful information from available data.

Types of statistics

- Primary data
- Secondary data
- Raw or ungrouped data
- Arranged data
STATISTICAL REPRESENTATIONS – THRESHOLD CURVES

- The straight line represents the anticipated booking pattern, whereas the jagged one shows what actually happened. It tells us that bookings were higher than expected some ten months before the date of arrival, whereas they sagged somewhat two or three months later before picking up again in the last quarter.

- Comparison between forecasted and actual bookings can be used ‘Trigger’ appropriate adjustments.
STATISTICAL REPRESENTATIONS – THRESHOLD CURVES

- Reducing the discounts offered to travel agents and other intermediaries.
- Reducing the number of ‘leisure’ bookings accepted by ‘Closing Out’ the lower rates, in the expectations that these would be replaced later by higher yield ‘business’ bookings.
STATISTICAL REPRESENTATIONS – THRESHOLD CURVES

Graph showing the comparison between East and West with two curves.
OTHER STATISTICS

- Bar Graphs
- Histogram and Frequency Polygon
- Ogive Curve
- Pie Chart
- Pictograph
- Line Graph
REPORT WRITING

- State the problem
- Define the scope
- Plan the records
- Collect Information
- Analyze the information
- Form conclusion
- Organize the report
- Prepare the first draft
- Edit Draft
- Publish
REPORTS

- Daily reports and their distribution
- Month ending report
DAILY REPORTS AND THEIR DISTRIBUTION

- Night Clerk’s report
- Suites Status Report
- Progressive Report
- Flash Report
- Actual Rooms Available
- Under Repairs (U.R.) Rooms Report
- VIP- In House report
- Expected Arrivals Report
- Expected VIP Report
- Discounted Rooms Report
- Complementary Rooms Report
- Rooms Change Report
- Forecasting Report
- Geographical Sources and today’s new

Gautam Singh, Hospitality Trainer, 07830294949
MONTH ENDING REPORT

- Actual Forecasted Comparison Report
- Suite Occupancy Report
- Market Mix Comparative
- IR Productive report
- Department of tourism Report
- Guaranteed Company Rate Productive Report
- Statistical report
- Citywise Room Nights Generation Reports
- Group Materialization Report
- Occupancy Comparison with other Hotels report

Gautam Singh, Hospitality Trainer, 07830294949
MEASURING HOTEL PERFORMANCE

- Hotel performance benchmarks are needed to compare hotels of differing sizes, location types, and product types.
- The approaches are either quantifiable or qualifiable.
- Quantifiable measurements depend on data (rev-par and market share).
- Qualifiable goals are determined by mgmt.
POTENTIAL AVERAGE SINGLE RATE

Single Room Revenues at Rack Rate

Number of Rooms Sold as Singles
POTENTIAL AVERAGE DOUBLE RATE

Double Room Revenues at Rack Rate

Number of Rooms Sold as Doubles
RATE SPREAD

Potential Average Double Rate

- Potential Average Single Rate
POTENTIAL AVERAGE RATE

(Multiple Occupancy % Rate Spread)

Potential Average Single Rate
ROOM RATE ACHIEVEMENT FACTOR

Actual Average Rate

------------------------------------

Potential Average Rate

Gautam Singh, Hospitality Trainer, 07830294949
REVPAR FORMULAS

Formula #1

Actual Room Revenue

--------------------------------------------------------------

Available Rooms

Formula #2

Occupancy Percentage  □  Average Daily Rate
IDENTICAL YIELDS

Identical Yield Occupancy Percentage =

\[
\frac{\text{Current Occupancy Percentage} \times \text{Current rate}}{\text{Proposed Rate}}
\]
GROUP ROOM SALES

- Wash Factor
- Group Booking Pace
- Assumption for Groups like series groups
- Booking Lead Time
- Displacement of transient business
BENEFITS OF YIELD MANAGEMENT

- Improved forecasting
- Improved seasonal pricing and inventory decisions
- Identification of market segment demand and identification of new market
- Increased co-ordination between Front Office and sales department
- Determination of discounting activities
- Improved development of business plans
- Establishment of a value-based rate structure