

UNIT – III YIELD MANAGEMENT

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

$$\text{Yield} = \frac{\text{Actual Rooms Revenue}}{\text{Potential Rooms Revenue}}$$

(OR)

$$\frac{\text{Room Nights Sold}}{\text{Room Nights Available}} \times \frac{\text{Actual ARR}}{\text{Potential Average Rate}}$$

(OR)

$$\text{Occupancy \%} \times \text{Room Rate Achievement Factor}$$

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.

SYSTEMS AND PROCEDURES

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

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.

DISCOUNT ALLOCATION

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 computerized 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?

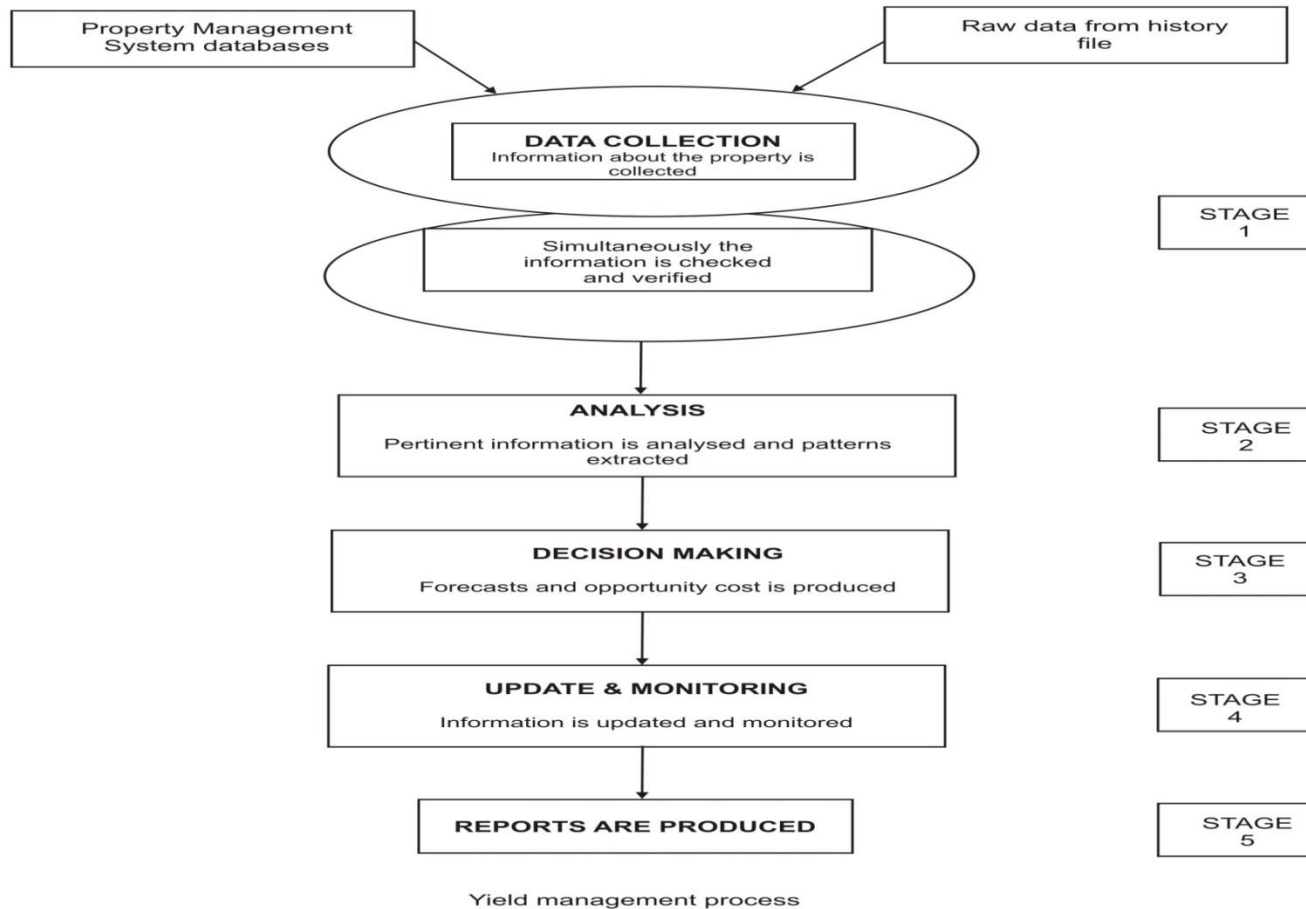
A yield management software system is a powerful decision making tool that automatically makes yield management judgements to determine the rate availability by length of stay to maximize overall revenues. Revenue management software provides:

- 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

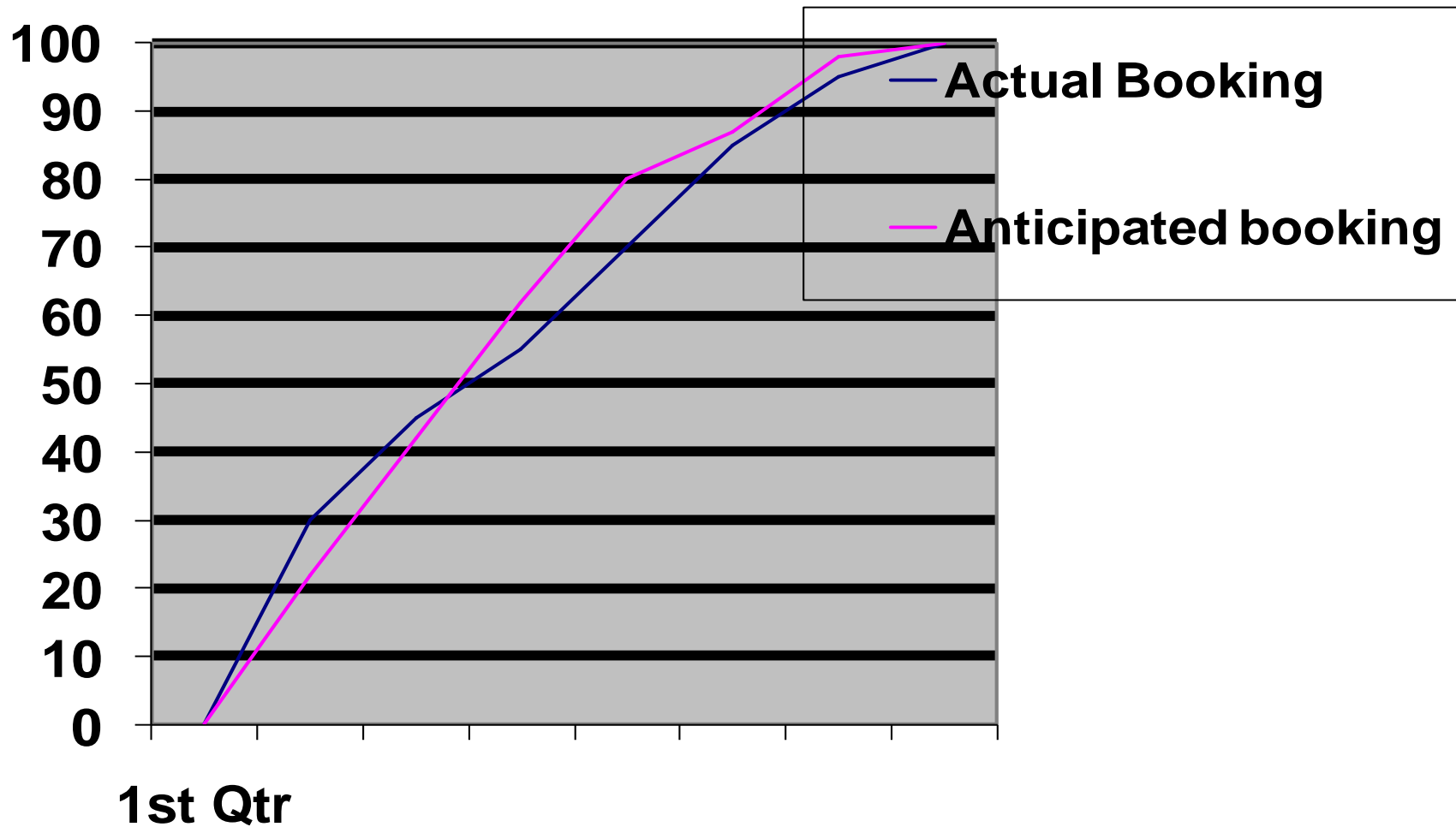
HOW DOES THE YIELD MANAGEMENT SOFTWARE WORK?



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.

DIFFERENTIAL RATES



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 no of Room sold to the no 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

VARIOUS FRONT OFFICE RATIOS

Single Occupancy Percentage:

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

(100 – Double occupancy %)

Or

$$\left\{ 2 - \frac{\text{House Count}}{\text{No of Room Sold}} \right\} \times 100$$

VARIOUS FRONT OFFICE RATIOS

Multiple Occupancy Percentage:

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

$$\frac{\text{House Count} - \text{No of Room sold}}{\text{No of Room sold}} \times 100$$

(OR) $\left\{ \frac{\text{House Count}}{\text{No of Room sold}} - 1 \right\} \times 100$

VARIOUS FRONT OFFICE RATIOS

Bed Occupancy Percentage:

(Guest Occupancy or Sleeper Occupancy)

$$\frac{\text{No of Bed sold}}{\text{No of Bed available for sale}} \times 100$$

VARIOUS FRONT OFFICE RATIOS

Average Room/Daily Rate (ARR/ ADR):

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

Total Room Revenue

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 :

$$\begin{aligned} + \text{-Variance in revenue} &= \text{Actual Revenue} \\ &\quad - \text{Budgeted Revenue} \end{aligned}$$

VARIOUS FRONT OFFICE RATIOS

Variance in Arrivals :

$$\begin{aligned} \text{Actual Arrivals} - \text{Budgeted Arrivals} \\ = \quad + - \text{Variance in arrivals} \end{aligned}$$

VARIOUS FRONT OFFICE RATIOS

Overstay Percentage:

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

$$\frac{\text{No of Overstay}}{\text{Total no of schedule Departures}} \times 100$$

VARIOUS FRONT OFFICE RATIOS

Under stay Percentage:

(This is the percentage of those Guest who leaves before the schedule date of Departures)

$$\frac{\text{No of Under stay}}{\text{No of Stay Over}} \times 100$$

VARIOUS FRONT OFFICE RATIOS

No Show Percentage:

(This is the percentage of those Guest who did not arrive in spite of having Confirmed Reservation)

No of (DNA) Did Not Arrive Guest

----- X 100

No of Confirmed Reservation Guest

VARIOUS FRONT OFFICE RATIOS

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)

No of Foreign Guest in the Hotel

----- X 100

Total no of Guest in the Hotel (House Count)

VARIOUS FRONT OFFICE RATIOS

Rooms occupied by Foreigners :

= Total Rooms Occupied – 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)

VARIOUS FRONT OFFICE RATIOS

Available Capacity:

Available Capacity= Potential Capacity –

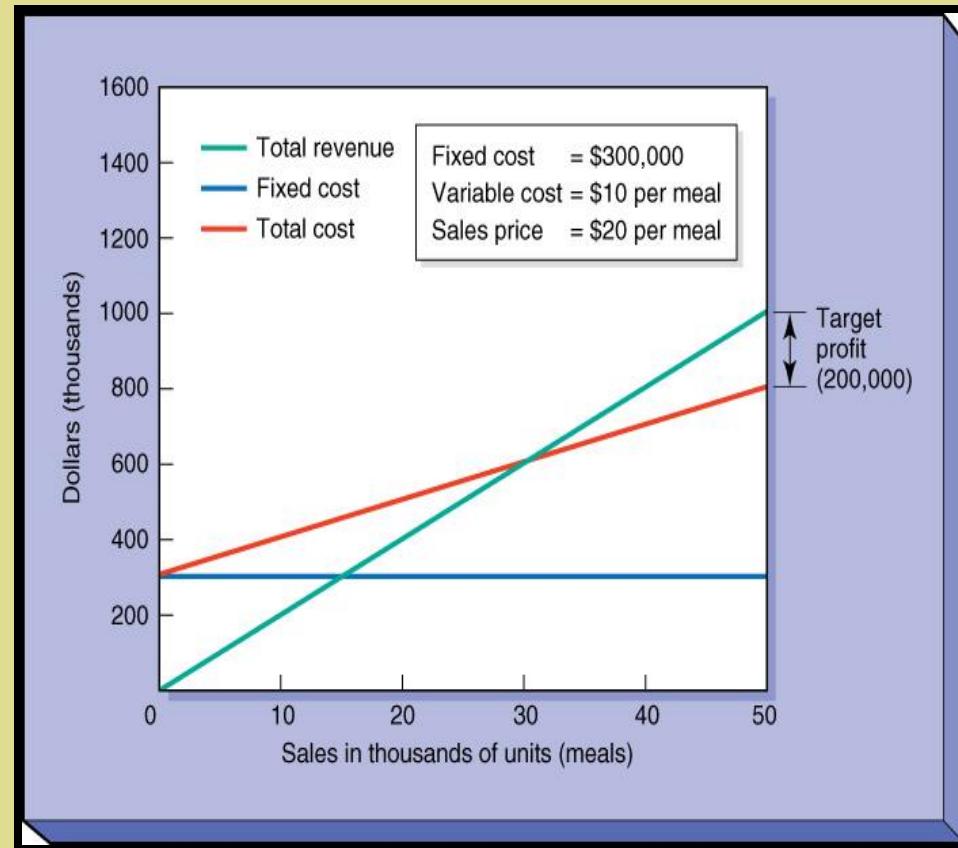
(Room under repair i.e. Out Of Order etc.)

VARIOUS FRONT OFFICE RATIOS

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



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.

MARKET SHARE

- 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?

DISPLACEMENT

- 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

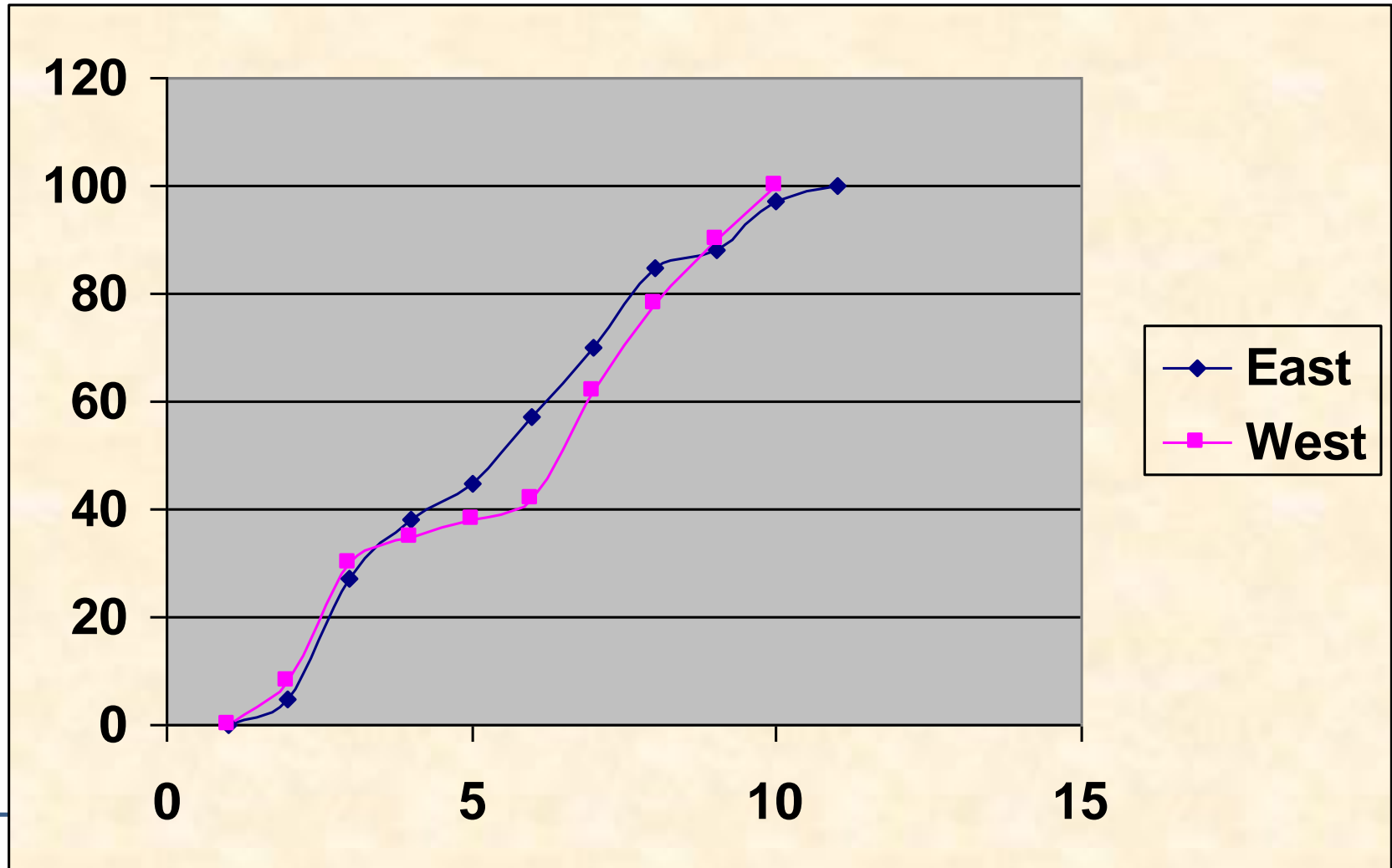
- The straight line represent the anticipated booking pattern, whereas the jagged one shows what actual happened. It tells us that booking were higher than expected some ten months before the date of arrival, whereas they sagged some what two or three months later before picking up again in the last 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 no 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



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
- Analyses 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

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

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

REVPAR FORMULAS

Formula #1

Actual Room Revenue

Available Rooms

Formula #2

Occupancy Percentage Average Daily
Rate

IDENTICAL YIELDS

Identical Yield Occupancy Percentage =

Current Occupancy Percentage \times Current rate

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



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