

**MODULE IV****YIELD MANAGEMENT****YIELD MANAGEMENT**

The concept of yield management was introduced by the airline industry. Yield is the revenue generated per statistical unit. For example, an airline's yield would be stated as the average revenue per mile per paying passenger. In 1985, American Airlines launched Ultimate Super Saver fares to compete with a low-cost carrier. This was a very successful scheme. The airlines operators realized that their product (i.e., seat in the flight) was highly perishable as a seat left unoccupied in a flight results in a loss of revenue of that seat forever. To maximize the revenue generated from selling the seats in a flight, the airlines adopted a technique based on demand and supply.

Thus, yield management or revenue management is the process of understanding, anticipating, and influencing consumer behaviour to maximize revenue or profits from a fixed, perishable resource (such as airline seats or hotel rooms). The challenge is to sell the right resources to the right customer at the right time for the right price. This process can result in price discrimination, where a firm charges different prices from customers consuming identical goods or services. Airlines charge different airfares from travellers who are travelling in the same class of the same flight, depending on the number of days in advance the tickets have been booked.

**Formula for calculating Yield**

**Yield = No of Rooms sold/ No of Rooms Available × Actual Average Room Rate/ Room Rate Potential**

## **Tools of Revenue Maximization**

### **1. Selective Overbooking or Capacity Management**

Capacity management involves various methods of controlling and limiting room supply. The availability of rooms plays a vital role in taking advance booking of hotel rooms. Hotel managers, based on their experience and historical data available, often take chances to book more rooms than the total inventory of rooms in the hotel. Overbooking is the practice of intentionally selling more rooms than available, to offset the effect of cancellations, no-shows, and early departures. For example, though the total number of available rooms in a hotel is 200, 220 rooms may be booked on a certain day. Since the probability of exactly 200 guests turning up on a day is low, the income from the additional guests generally compensates the loss of revenue. The availability of rooms increases in the following situations:

- **Early departure or understay-** When guests leave the hotel before their expected date of departure, the number of vacant rooms increases. If a provision is not made, the newly vacated room will remain unsold, which would result in the loss of revenue. To avoid this situation, hotels generally discourage early departure.
- **Cancellations-** Cancellation is another major factor that increases the availability of rooms. The guests are free to cancel a booking made before a stipulated time. There are times when guests cancel their reservations after the stipulated time, which increases the number of available rooms. If a provision is not made, this would result in unsold rooms and loss of revenue.
- **No-shows-** It is a condition wherein the guests with confirmed bookings do not turn up at the hotel on the expected date of arrival, without any prior intimation. This also leads to the increase in the inventory of rooms. In case of non-guaranteed reservations, if the guest does not arrive on or before the cancellation hours (generally 6:00 p.m.), the room is released to wait-listed guests or walk-ins. In case of guaranteed reservations, if the guest does not arrive, the room is kept vacant and one day charge is levied on the guest and adjusted against the advance deposit. However, no-shows result in increasing the room availability of the hotel, which leads to the loss of revenue in case the room is not sold.

In order to avoid the loss of revenue from any of the aforementioned situations, hotels generally prefer overbooking. Overbooking is not done by mere guesswork but selective overbooking is done by considering the following factors:

- Past history of data such as cancellations statistics, understay statistics, No show Statistics, Turn away Statistics.
- Activities in town such as sports events, cultural, business, protest and emergency.
- Experience of the reservation manager will show how many of the reserved guest will turn up.

## **2. Differential Pricing or Discount Allocation**

Price of goods or services may be defined as 'the value of the goods or services expressed in terms of money'. Price is a major criterion for a guest while choosing a hotel for stay. The pricing of a hotel's accommodation products is based on its demand in the market. Yield management attempts to get the right sales mix. It is impossible for a hotel to sell its rooms at rack rate at all times. A hotel must therefore have a sales strategy that will allow it to sell the maximum number of rooms at the best rates (to satisfy the projected demand for rooms at that rate), while at the same time filling the rooms that would have otherwise remained unsold at a discounted rate.

### **For example:**

The Cricket World Cup final match is being organized at Mohali's (town adjacent to Chandigarh) PCA stadium in the month of February. This is the peak season to visit north India. Moreover, during the month of February, Chandigarh celebrates 'Festival of Gardens'-a three-day extravaganza that is flooded with various cultural programmes. During this period, hotels also sell packages for marriages.

From the aforementioned situation, we can expect large number of people to visit Chandigarh such as the following:

- People (Indians and foreigners) to watch the cricket match
- Tourists, as it is the peak season for visiting the place.
- People to visit or participate in the Festival of Gardens.

- People to attend marriages

This will lead to a high demand for rooms in Chandigarh during the aforementioned period. In this situation, hotels may not offer any discount on room tariff and will prefer to charge the rack rate as they are confident that the demand for rooms would be more than the supply of available rooms.

### **3. Duration Restriction or Duration Control**

Duration restriction is another tool of yield management. Duration control places time constraints on accepting reservations, to protect sufficient space for multi-day requests. For example, a hotel may refuse a reservation request for one-night stay, even though rooms are available for that night, as accepting such a reservation will block occupancy on adjacent days. Hotels located in a city generally witness lean occupancy during weekends and high occupancy during weekdays. The situation is reverse for resort hotels at vacation destinations.

Normally, a hotel practices minimum length stay restrictions in case of a special event happening in the city. suppose there is a mega show on Saturday.

The hotel's occupancy will adversely suffer on Sunday when the guests, who have come especially for the event, leave. The hotel may exercise a minimum three-day stay restriction to take a booking for Saturday. This will bring down the imbalance of occupancy during the week. The hotel may also put restrictions of minimum and maximum lengths of stay to make a balance of occupancy throughout the duration. Therefore, hotels may implement duration restriction on room bookings to protect the rooms for multi-day reservations and thus higher levels of revenue.