

## YIELD MANAGEMENT

### Elements of Yield Management

While developing a successful yield strategy, the following elements are very important:

- 1. Group room sales-** By studying group booking data, hotels can anticipate group behaviour and accordingly make provisions (for cancellations, modifications, etc.) in group reservations. The group's booking pace indicates the rate at which group business is being booked as per the historical trends. Anticipated group business helps watch out for repetitive group patterns and accordingly forecast the pressure on the market and hence adjust selling strategies. Group booking lead time is a measure of how far in advance of a stay the group bookings are made. This is very important in determining whether to accept an additional group and to decide the room rate to book the new group. A displacement of transient business occurs when a hotel accepts group business at the expense of individual guests. This might cause profitability problems and bad reputation.
- 2. Transient or individual room sales-** The front office management should monitor the booking pace and lead time of individual guests to understand how current reservations compare with historical and anticipated rates.
- 3. Food and beverage activities-** All local food and beverage functions should be viewed in the light of the potential for booking groups that need a meeting space, food and beverage service, and guest rooms.
- 4. Local and area-wide activities-** Even when a hotel is not in the immediate vicinity of a convention, individual guests and small groups, who have been displaced by the convention, may be referred to your hotel (as an overflow facility) and this may have a tremendous impact on the hotel's revenue.
- 5. Special events-** During special events (such as concerts, festivals, and sporting events), hotels might decide to benefit from high demand by restricting room rate discounts or requiring a minimum length of stay.

### **Benefits of Yield Management**

There are a lot of benefits associated with the use of yield management in the hospitality sector, especially in hotels. These benefits include the following:

- 1. Improved forecasting** Revenue management helps improve forecasting.
- 2. Improved seasonal pricing and inventory decisions-** It helps in deciding the season and off-season pricing for accommodation products and also in making important inventory decisions like renovation.
- 3. Identification of new market segments-** New market segments can be identified on the basis of yield management.
- 4. Identification of market segment demands-**The demands of the targeted market segments can be identified with yield management
- 5. Enhanced coordination between the front office and sales divisions-** Since the two divisions work together to forecast and manage revenue and yield, it helps enhance coordination between them.
- 6. Determination of discounting activity-** Yield management helps determine the amount of discounts to be offered, depending on the dates and periods.
- 7. Improved development of short-term and long-term business plans-** Revenue management helps develop business plans as the management can forecast the revenue that can be generated and take measures to generate those figures.
- 8. Establishment of a value-based rate structure-.** It helps define rates structures, based on perceived values.
- 9. Increased business and profits-** Good revenue management helps increase revenue and profits.
- 10. Savings in labour costs and other operating expenses-** Since most of the revenue management tools are computerized, it helps in saving labour costs and other operating expenses.

### **Yield Management Strategies**

Revenue management strategies differ during high- and low-demand periods.

**High demand-** During high-demand periods, as indicated by the forecasts, the management would use the following tactics:

1. Close or restrict discounts to generate more revenue.
2. Apply minimum length of stay restrictions carefully.
3. Reduce group room allocations as groups get very low room rates.
4. Reduce or eliminate 6 p.m. holds to avoid last moment no-shows or cancellations.
5. Tighten guarantee and cancellation policies to avoid last moment no-shows or cancellations.
6. Raise rates as consistent with competitors to generate optimum revenue.
7. Consider a rate increase for packages instead of giving more discounts,
8. Apply rack rates to higher category of rooms such as suites and executive rooms
9. Select dates that are closed-to-arrivals.
10. Apply deposits and guarantees to the last night of stay.

**Low demand** - During low-demand periods, as indicated by the forecasts, the management would use the following tactics:

1. Sell value and benefits like spa treatments.
2. Offer packages and special offers.
3. Keep discount categories such as advance purchase rates and corporate rates open.
4. Encourage upgrades.
5. Offer stay-sensitive price incentives.
6. Remove stay restrictions.
7. Establish relationships with competitors.

8. Lower rates to attract more guests and to generate more revenue for the hotel.

In order to implement these tactics, the management establishes the hurdle rate (ie.,the lowest rate for a given day) below which it is impossible to sell any room.

### **Challenges or Problems in Yield Management**

The yield management techniques and the models of overbooking, if applied aptly, would definitely maximize the revenue of the hospitality industry. However, there are some challenges or problems, which include the following:

1. **Measuring performance-** Occupancy rates and yield are measures that are affected by external competition. Therefore, an ideal measurement can be done using the opportunity model, that is, if the hotel segments the market and fixes different rates for different guests, then it has to see that the revenue is generated from those rooms and it has to be utilized ideally.
2. **Guest satisfaction-** Some guests do not like the practice of differential pricing. In evaluating the efficiency of yield management system, the trade-off between generating short-term profits and creating long-term guest loyalty needs to be studied carefully.
3. **Employee malpractice-** Revenue management may influence the employees to follow wrong practices. For example, hotels might offer incentives to the staff for selling higher category rooms and this might motivate the reservation agents to upsell while making reservations. Thus, the agents might not sell the basic category rooms and offend certain guests.