6TH SEM - FRONT OFFICE

TIME SHARE OR VACATION OWNERSHIP

(Here we will study the concept, history of timeshare business. We will also look into the types of timeshares or classification of timeshares and options available to the timeshare owner while learning about the accommodation offered and the forms in which timeshare can be sold)

An advertisement released by a ski resort owner in the French Alps encouraging consumers to ‘ buy the hotel’ than ‘ rent a room’ started the revolution in the world of holidays and “ **the timeshare**” concept was born” .

The timeshare or vacation ownership strategy or concept has recently become very popular and timeshare properties are another preference of vacationers. It is an expanding part of the hospitality industry.

It is spread across 270 countries with the biggest brands being a part of the growth-

In the U.S:	* Hilton	* Mariott	*Hyatt
	* Disney	* Starwood.	
In Europe:	* Sol Melia	* Pestana Awana,	
In Malaysia:	* Berjaya	*Swiss Garden	
In South Africa:	* Southern Sun		

The World Tourism organization defines timeshare as: “ the advance purchase of time in holiday accommodation. The purchaser pays a capital sum to acquire the timeshare and then pays an annual contribution towards the maintenance of property. The period of time sold is usually based on modules of a week.”

A timeshare is a form of vacation property ownership. With timeshares, the use and costs of running the resort are shared among the owners. While the majority of timeshares are condominiums or cooperatives at vacation destinations, developers have applied the timeshare model to houseboats, yachts, campgrounds, motor homes, cruises and private jets.

Important features:

- These properties are normally found in resort areas – hills and beaches, etc. which offer attractive climate and a variety of recreational amenities throughout the year. Urban or city timeshares are also feasible if they are based in locations that can attract visitors throughout the year. Also, a corporate customer base can be a potential target market in city-based timeshare properties.

- Vacation ownership properties typically involve individuals who purchase the ownership of accommodation for a specific period of time- one or two weeks or more, in a year usually at a one-time price. The life time term of timeshares varies from 20, 25, 30, 50, or 60 years. This means, for example, the owner has the right to the property for one week every year for 25 years.

- The timeshare business is divided into 52 weeks and each week is a unit. The price of the unit depends on the season for which one is buying a unit. For different resort locations, the peak and low seasons will vary depending on the demand. In hill stations, the summer may be the peak while for a ski resort the winters will be the peak season. The seasons are usually designated with colour codes and a resort may use different colours to describe peak and low seasons.

- Typically the following colour code is used:

PURPLE:	peak season
RED :	best season, vacation time
WHITE :	Mid-season (shoulder period)
BLUE :	Off season

- These owners occupy the complex or ‘ unit’ - during the slotted time.

- Owners who cannot occupy the units or those who choose not to occupy the unit during their slotted time may decide to have the unit rented out.

- Here, the concept of ownership is fractional, i.e. the owner does not own a complex for an entire year but chooses to ‘ own’ the unit for a period only.

- An advantage is the ability to trade ownership time with another owner in another location of the same chain of timeshare properties. This allows the owners the opportunity to vary their vacations each year without giving up the benefits of ownership.

* **Condominium hotels** or units are similar to timeshare properties with the only **difference** being in the kind of ownership and the accommodation is usually in the form of apartments. Condominium hotels have only one owner per unit as opposed to multiple owners of a timeshare. When the ‘condo’ owner wishes to occupy the unit, he informs the management of his intent and they may rent out the unit for the rest of the year when it is vacant. When the unit is rented out, the revenue goes to the owner. The management takes the responsibility of the unit’s safety and the major portion of the rent is given to the owner. The management can also request the owner to rent out the unit in case of major conferences and earn a tidy amount by renting out the conference hall and providing catering services for the event.

In both timeshare and condominium properties management charges an annual maintenance fee on a pro rata basis to cover ongoing operational costs that includes the charges incurred for advertising, rental, housekeeping, landscaping services, and maintenance cost of the condominium etc..

Each unit normally consists of a living room, a dining area, kitchen facilities, one or more bedrooms with bathrooms.

PURCHASE MOTIVATION BEHIND TIMESHARES:

(ADVANTAGES OF PURCHASING TIMESHARE)

Major reasons behind buying a timeshare property are:

- **Flexibility:** this includes flexibility over when, where and how the guests vacation. The exchange opportunity has increased the popularity of timeshares over the past many years.
- **Economics (savings in vacation costs):** a general survey states that owners save a lot of money in the long run- no per head cost, no extra charges for guests, facility to cook, etc.
- **Certainty of quality accommodation:** there is certainty about the availability and quality of accommodation in popular resorts.
- **Resort location:** there is a wide variety of choices of resorts offered.
- **Availability of exchange options**: the number of choices has increased even more with the popularity of exchange options offered by Exchange Companies.
- **Safety & Security**: a very important aspect for family vacations – families feel secure in the resort area.
- **Vacation home at affordable prices:** the possibility of ‘owning’ a home, if even for a short interval, in a resort location which would otherwise may never have been possible.

So, a variety of options of usage are available to the ‘owners’ of the property. They can:

- Use their usage time
- Rent out their owned usage
- Give it as a gift
- Exchange internally within the same resort or resort group
- Exchange externally into thousands of other timeshare resorts

CLASSIFICATION OF TIMESHARES

TYPES OF TIMESHARE CONTRACTS:

Deeded vs. Right to Use: A major difference in types of timeshare ownership is that between deeded and right to use contracts.

A. With **deeded contracts** the use of the timeshare resort is usually divided into week long increments and these are sold as fractional ownership and are real property. As with any other piece of real estate the owner may use his or her week, rent his or her week, give it away, or leave it to his or her heirs. While this form of ownership can offer additional security to the owner as a form of physical ownership, deeded timeshare ownership can be as complex as outright property ownership in that the structure of deeds varies according to local property laws.

B. With **right to use contracts,** the timeshare purchaser has the right to use the property in accordance with the contract but at some point of time the contract ends and all rights revert to the property owner. In other words, the right to use contract grants the right to use the resort for a specific number of years.

C. **Timeshare ownerships (fee simple):** here, the purchasers jointly invest in a property, allocate interests to each owner, and employ a manger to run the unit which has attached amenities, services and recreational facilities.

D. **Club agreement**: this involves the ownership through purchases of shares of which shareholders receive points in proportion to the value of the investments. These points entitle them to the use of any apartment at any time of the year. This concept is very popular in Switzerland (Hapimag) and France (Clubhotel Timeshare Group which is part of Club Mediteranee).

FORMS OF TIMESHARES:

Resorts offer timeshare in a variety of formats. Over 90% sell interval interests in increments of one week of use each year or as point offerings. Various forms that timeshares are available in are:

1. **Fixed Week Ownership:** The most basic timeshare unit is a fixed week; the resort will have a calendar enumerating the weeks roughly starting with the first calendar week of the year. An owner may own a deed to use a unit for a single specified week. For example, week 26 normally includes the Fourth of July Holiday. If an owner owned Week 26 at a resort he or she could use that week every year.

2. **Floating:** Sometimes a timeshare is sold as floating weeks. The ownership will be specific on how many weeks the owner owns and from which weeks the owner may select for the owner's stay. An example of this, a timeshare may be a floating summer week where the owner may request any week during the summer season generally weeks 22 through 36. In this example there would be competition for prime holidays such as the weeks of Memorial Day, Fourth of July and Labour Day. The weeks when schools may still be in session would not be so high in demand. Some floating contracts exclude major holidays so they may be sold as fixed weeks.

3. **The Split Week option/ Split in time share:** is also now available where the owner can split his/ her week/period into smaller units, provided the cancellation of timeshare use has been made well in advance. A week' s holiday can be split in two parts for two different properties and locations for a period of 3-4 days each. In fact, a two weeks holiday can also be clubbed if the owner has not availed his vacations during the last year and he had intimated about his desire to club two weeks vacations during the year.

4. **Rotating:** Some timeshares are sold as rotating weeks. In an attempt to give all owners a chance for the best weeks, the weeks are rotated forward or backward through the calendar, so one year the owner may have use of week 25, then week 26 the next year and then week 27 the year after that. This method does give each owner a fair opportunity for prime weeks but it is not flexible.

5. **Points- based Programs**: Under a point based system, consumers at chain timeshare properties purchase a number of points that are redeemed each year for a number of accommodation nights that vary depending on the season, day of the week, size of unit and location. These points can be redeemed in any of the hotels and timeshare product base.

The number of points required to stay at the resort will vary based on a points chart. The points chart will allow for factors such as:

- The popularity of the resort;
- The size of the accommodations;
- The number of nights;
- The popularity of the season; and
- The specific nights requested.

Resort- based points programs are also sold as deeded and as right to use. Points programs annually give the owner an amount of points equal to the level of ownership. The timeshare owner in a points program can then use these points to make travel arrangements within the resort group. Many points programs are affiliated with large resort groups offering a large selection of options for destination. Many resort point programs provide flexibility from the traditional week stay. Resort point program members, such as Worldmark, may request from the entire available inventory of the resort group.

Exchange company point programs are not a method of ownership nor are specifically associated with one resort or resort group. With the exchange company points programs the members may be limited to exchanging for weeks deposited by other members.

A points program member may often request fractional weeks as well as full or multiple weeks stays.

There is flexibility as well as complexity in point programs. In fact, exchange of ownership is the biggest motivation for an owner. The bonus time (as when the number of nights was not redeemed) is rented at a highly reduced rate and the net proceeds usually go to the property owners association.

So, with most **point systems**, owners may elect to:

- Assign their usage time to the point system to be exchanged for airline tickets, hotels, travel packages, cruises, amusement park tickets;
- Instead of renting all their actual usage time, rent part of their points without actually getting any usage time and use the rest of the points;
- Rent more points from either the internal exchange entity or another owner to get a larger unit or more vacation time or at a better location;
- Save or move points from one year to another.

Some developers, however, may limit which of these options are available at their properties.

6. Vacation Clubs: Vacation clubs are organizations that may own timeshare units in multiple resorts in different locations. Some clubs consist only of individual weeks at other developer's resorts. They are sold both as deeded or right to use and club members may reserve vacation time at any of the owned resort units based on availability. Vacation clubs cater to a wide range of economic backgrounds and income levels.

So, in brief, the various options of ownership are:

❖ Deeded and right to use timeshare contracts
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❖ Fixed week time shares: allow members to buy a specific week only.
❖ Floating week timeshares: member may buy a week anytime within a given period.
❖ Combination option: weeks in high demand periods to be fixed and those in low demand periods to float.
❖ Point-based membership: here all members are given points that can be used to ‘ buy’ a stay in the resort.
❖ Split in time shares: holidays can be split in two parts for different locations and properties.
❖ Rotating time shares: rotating the weeks in the year for all members so that they can get a fair chance of experiencing all seasons.

Timeshares offer owners the possibility of exchanging their week, either independently or through several exchange agencies, to stay at one of the thousands of other resorts worldwide. Also, the mixed use concept of sharing facilities of traditional hotels and vacation resorts is gaining popularity. This global trend of **Mixed Use of timeshare resorts and hotels** has been given acceptance by the Ministry of Tourism in India as well.

Types of accommodation:

1. Apartments	2. Castles
3. Ski lodges	4. Bungalows

5. Condos	6. Villas
7. Campsites	8. Cottages
9. Restored farmhouses	10. Private residence clubs

Types and sizes of accommodations

These properties tend to be apartment-style units ranging in size from studio units (with room for two) to three and four-bedroom units. These larger units can comfortably house large families. Units normally include fully equipped kitchens with a dining area, dishwasher, televisions, DVD Players and more. It is not uncommon to have washers and dryers either in the unit or easily accessible on the resort. Kitchens are equipped to the size of the unit, so that a unit that sleeps four should have at least four glasses, plates, forks, knives, spoons, and bowls so that all four guests can sit and eat at once.

Units are usually listed by how many the unit will sleep and how many the unit will sleep privately.

- Sleeps 2/2 would normally be a one bedroom or studio
- Sleeps 6/4 would normally be a two bedroom with a sleeper sofa

OR

Studios:	For 3 adults or 2 adults + 2 children
One-bedroom apartments:	For 4 adults and with drawing room, dining room, bedroom, balcony and kitchen
Two-bedroom apartments	For 6 adults

These resorts tend to be strict on the number of guests per unit. Unit size can affect demand at a given resort where a two-bedroom unit may be in higher demand than a one-bedroom unit at the same resort. The same does not hold true comparing resorts in different locations. A one-bedroom with a great location may still be in higher demand than a resort with less demand. An example of this may be a one-bedroom at a great beach resort compared to a two-bedroom unit at a resort located inland from the same beach.

(In the next topic, we will discuss the advantages and disadvantages of timeshares; marketing and pricing of timeshares; the concept and role of Exchange Companies. We will also look into the growth of timeshare in India and the problems it faces here; the role of government in regulating timeshare and a list of domestic timeshare companies)

Assignment:

2/2. TIMESHARE OR VACATION OWNERSHIP

(Here we will discuss the advantages and disadvantages of timeshares; marketing and pricing of timeshares; the concept and role of Exchange Companies. We will also look into the growth of timeshare in India and the problems it faces here; the role of government in regulating timeshare and a list of domestic timeshare companies)

ADVANTAGES AND DISADVANTAGES OF TIMESHARE BUSINESS

Timeshare business is fast developing in the developed as well as developing world. In our country, it has started late but the concept is catching up with the world.

I. ADVANTAGES OF TIMESHARES:

Apart from the benefits of the hotel industry, it also reaps the following **benefits:**

a. Vacation ownership – a fast growing tourism brand
b. Promotes all types of tourism – inbound, outbound and domestic tourism
c. Theme-based leisure tourism that satisfies consumer needs
d. High potential for employment opportunities
e. Domestic tourism- the catalyst for India's tourism growth
f. Full potential of domestic tourism—to be exploited by industry and government partnerships

Advantages of timeshare can be broken down to benefits to:

a. Community **b. Developer** **c. Owners**

a. **To community -**

* Employment opportunities for locals
* Repeat visits, if not of same guest, then of exchange guests
* Improved economy- increased spending by visitors

b. **To developer-**

* Increased level of occupancy

* Overall profitability – through renting out

* Annual maintenance fee from each owner – each property being able to be sold 52 times (in 52 weeks)

c. **To Owners-**

* Options of new destinations every year

* Payment of maintenance fees guarantees that all community areas will be well maintained

* Enjoy spacious accommodation

* Can get friends & relatives without extra costs or ‘ per head’ basis as is valid in hotels

* Can sell their interests when they want

* Limits costs and expenses associated with ownership such as taxes, insurance, etc.

* Costs of maintaining the property are distributed over a larger number of owners reducing the worries and costs associated with it can have world-wide “ Bonus Time” available – these are extra weekends through Exchange Companies. These weeks require no payment of maintenance fees and can be used often and can be absolute bargains.

II. DISADVANTAGES OF TIMESHARES:

The biggest disadvantage of the timeshare business is that it is still **not well organised** and the **major portion of its cost is being spent on marketing.**

There is a rough estimate that of the actual cost/price of the timeshare unit, 18-20 % is the actual cost of the unit and the remaining is divided among sales and marketing (33%), maintenance, upkeep and other costs (27-30%) and the remaining 20 % is the profit. That means that a customer who buys the unit gets only 20% of the price value and is required to pay an yearly maintenance fee as well as daily service charges for actually staying in his own unit and using services like telephone, cable, swimming pool, common areas, etc.

A. Marketing: since it is not an essential requirement of the buyer and it is an unconventional package holiday product not easily available for viewing, the marketing and sales techniques of the resort developer may be and have been aggressive, causing a lot of opposition in the market.

B. Damage to local societies and environment especially in overcrowded and undeveloped destinations.

C. Maintenance fees have to be paid annually and can keep increasing every year, the customer ending up with paying more than he wants or had assumed.

D. Resale of timeshare units is not very easy because the value of the unit depreciates quickly because of volatility of the real estate market. So, the owner may barely over his costs with no profits when he decides to sell his interests in the unit.

E. There may exist fierce competition for the most desirable locations and certain periods of the year so the client may be disappointed very often.

F. The client' s/owner' s money gets tied up in something he can' t use for the moment.

MARKETNG OF TIMESHARES:

The demographic characteristics of time share owners are:

- ✓ Upper middle income group
- ✓ Middle aged
- ✓ Married couples

Marketing of timeshares has proven to be very difficult because of the product itself and the aggressive and sometimes misleading means adopted by most timeshare marketing companies. As a product, timeshare is considered to be a luxury product that is not essential for the consumer, so there is no demand for it. This has made the marketing efforts to be rather aggressive and hard selling that discourages many prospective buyers.

Marketing of time-share usually has two major stages:

a. Lead generation b. Sales presentation

a. **Lead generation:** this embraces the steps taken to invite the prospective purchaser to the site to view the product. This may be done through:

i. Off-site personal contacts or off property contacts (OPCs)

ii. Direct mail iii. Tele-marketing

iv. Referral v. Print/electronic media

vi. Mini- vacations vii. Hotel lead generation

Out of these the most common are:

* **Direct marketing**, **through direct mail and telephone marketing** is usually used to generate leads. The marketing companies acquire potential customer databases in order to target them. The customers can be sent brochures, etc. while some my receive information of winning a free gift to be collected in person from the marketing office, where they can be exposed to the product or be given a sales presentation.

** **Off property contacts (OPCs**) can be used in on-site properties in the resort area. Marketing reps. can invite people at a shopping mall, bazaar, etc and invite them for a sales presentation where free incentives may be offered.

*** Offering **mini-vacations** are also a popular incentive used to create interest in the proposal. The buyer gets a chance to experience the product and survey the site up close.

b. Sales Presentation: following lead generation done by marketing, the sales presentation is conducted either in the company' s office or on site. The presentation may take 2 to 3 hours and includes visuals of the property and discussion where the sales rep tries to persuade the prospect to buy the product. The buyer must not only sign the contract but he must be satisfied with the purchase and continue with his payment obligation.

PRICING OF TIMESHARES: the pricing of timeshares depends on such factors as the resort location (beach, mountain, etc as well as country), time allocation and size of the unit.

These days most professional developers will prepare a full and detailed operating budget for a specific resort and apply a formula which allocates that budget fairly across the resort, by unit accommodation type. This ensures that the budget is fairly apportioned between units of different sizes and, by way of example the basis of allocation will often rely upon timeshare accommodation unit floor areas. The budget will also include a provision for a sinking or reserve fund to ensure ongoing maintenance of the timeshare accommodations over time as well as an annual management fee (something between 10% � 20% of the actual operating budget) as a margin to the professional manager.

Items such as property taxes, insurance costs, utility charges and so forth are usually factored into the annual maintenance fees as part of the detailed operating budget. Sometime annual management fees may include a once weekly or a twice weekly clean of a unit where the owners can avail themselves of additional cleaning services for a fee.

The owners also have to pay an annual maintenance fee. If they use the facilities of an exchange company, they will be required to pay an optional annual fee in order to use the exchange system arranged on a pay as you use basis.

EXCHANGE COMPANIES

The exchange system

The basic concept of timeshare allows the purchaser of a block of time to take holidays in the same apartment or other lodging, at the same time of the year for the duration of his agreement with the resort. The one drawback of the basic idea is its inflexibility.

The exchange concept allows the purchaser of a timeshare interest at one resort to exchange it for another interest owned by someone else at another time and or place. Access to an exchange system is widely recognised as one of the principal motivations for the purchaser of timeshare. In most cases, the purchaser of a timeshare interest usually becomes a member of an exchange company automatically after the purchase, which is when the developer enrolls him/her to the exchange network.

Two types of exchange exist: **internal and external**. An **internal exchange** takes place when an owner exchanges a week at his/her home resort for another week at the same resort. An **external exchange** occurs when an owner swaps the week at the home resort for a week at a different resort with which the owner has no direct connection. The exchange companies, using a system of equivalencies, administer both internal and external exchanges, the latter are the major part of an exchange company�s operation, and the resort developer or manager can also manage the internal exchanges. In the majority of the cases an exchange fee is payable for every week or reservation made.

The classic exchange system has been based on one week intervals, however the exchange companies have developed new systems to provide more flexibility to the timeshare product, such is the case of the Points system and holiday clubs.

There are many **Exchange Agencies**, of which the two largest are **Resort Condominiums International and Interval International (II - a subsidiary of USA Interactive)**. **Trading Places** is another international exchange company. They have resort affiliate programs and members can only exchange to affiliate resorts. It is most common for a resort to be affiliated with only one of the larger exchange agencies, but it isn't rare to find a dual affiliate resort. Together they have over 7,000 resorts. The timeshare resort one purchases determines which of the major exchange companies can be used to make exchanges. RCI and II charge a yearly membership fee and fees for when they find an exchange. They also bar members from renting weeks for which they already have exchanged.

For a resort to be affiliated with a holiday exchange company, it must fulfill certain criteria such as on-site facilities, quality standards, size of the units, on-site amenities, unit furnishings, and safety requirements. Owners are now opting for features such as large screen TV sets, fully furnished kitchens, balconies, Jacuzzis, Internet services, etc.

Resort Condominiums International (RCI) is a subsidiary of the firm Wyndham Worldwide (previously Cendant).

Founded in 1974, RCI has grown to become one of the larger brokers of timeshare trades. RCI has over 4,000 affiliated resorts in over 100 countries around the world. Its membership base is just over 3 million members worldwide. It has 30 vacation accommodation brands including vacation ownership condominiums, villas, cottages, city apartments and second homes, fractional interest and private residences clubs, etc and 50 worldwide offices. It has 37, 922 rooms worldwide and more than 7,50,000 owners worldwide.

Currently, RCI's biggest competitors in the timeshare market are Interval International and Trading Places International.

RCI provides the following services:

a. Exchange services

b. Rental programmes
c. Club services
d. Global advisory services

RCI Weeks

RCI Weeks is RCI's traditional exchange system. Vacation exchange adds flexibility and variety to vacation ownership by allowing timeshare owners to trade their Vacation Week for another similar unit.

a. owner buys seven day period to a specific home resort
b. owner buys a fixed week or floating week booked within a certain season based on the resort
c. owner deposits time with RCI each year
d. week exchanged for comparable week at another resort

To use the services of RCI it is necessary to hold a membership of the company which is valid for one to 5 years upto a maximum of 5 weeks at each affiliated resort. In order to process an exchange, a deposit has to be made in advance. Then an exchange request has to be made. This request can be confirmed immediately depending on availability. If unavailable, the request keeps pending for a stated period and if nothing comes up later as well, the deposited week remains in the spacebank and the member can add another request for future use.

For the exchange, the <u>trading power</u> of the unit depends on the size of the unit, the popularity of the location of the resort, the quality of the resort, and popularity of week or season. RCI keeps records of **seasons and demand and usage of a resort to appreciate its value.** <u>Bonus weeks</u> may be offered when there is a surplus in the spacebank and the members can enjoy an extra week as a bonus without depositing any week.

Exchanging weeks

If your home resort belongs to a Timeshare exchange organisation, then you have the option of banking your Timeshare week with the organisation and exchanging it for a week in another Timeshare resort.

Things become a little more complex now. Whenever a week is deposited in the spacebank, the exchange organisation gives it a value known as its Trading Power. This is calculated on five factors: **supply and demand**, (the greater the demand for your week, the more its Trading Power); the **resort's quality rating**, (based on holiday questionnaires filled in by those who have vacationed there); **the size of the accommodation** and how much **privacy it gives** to its occupants; your **"Red," "White" or "Blue"** holiday time band (denoting periods of high demand and low demand); and **how early the accommodation has been banked**;

You can **bank** your February 1, 2008 week on February 2, 2006, that is two years in advance. You can ask for an exchange up to two years before the start of your holiday. You can also get a **Bonus Week**, at a discounted price, if you have banked your week when the bonus becomes available, and your Trading Power is high enough.

Clearly, **therefore, the weeks with the highest Trading Power are the most expensive.**

RCI Points: The *RCI Points* program is RCI's global points-based vacation exchange system. When you join the *RCI Points* program you'll have the flexibility to customize the vacation that is perfect for you. As an *RCI Points* Subscribing Member you automatically gain access to the *RCI* Weeks affiliated resorts which include more than 3,700 resorts around the world. Plus, with the *RCI* Points Partner program, you can exchange Points toward other travel products and services such as airline tickets, cruises, hotel stays and much more.

The Registry Collection:

The Registry Collection exchange program is an international provider of services to the luxury leisure travel segment, with core competencies in exchange services, club operations, travel networks, concierge service, proprietary technology and quality assurance. The Registry Collection is offered by RCI Global Vacation Network, a subsidiary of Cendant Corporation (NYSE: CD), a global provider of travel and residential real estate services.

GROWTH OF TIMESHARE

Since it started in the1960s, timeshare has seen a terrific growth. The present distribution of the timeshare market is as follows:

North America	31 %	Europe	25%
Latin America	16%	Asia	14%
Africa	6%	Caribbean	5%
Pacific	3%		

TIMESHARE IN INDIA

Timeshare was a new concept in India 15 years ago, and many marketers entered the game to make a quick buck. To make things worse, there was no legislation to protect investors and as a result the timeshare concept in India had a negative connotation. However, in recent times, because of tighter regulations and protection to investors, the timeshare business is growing 25% year on year.

Facts and figures:

- Number of timeshare companies 40
- Number of resorts 80
- Timeshare memberships 200,000
- Annual additions 15,000
- Number of units 4000

Role of the government and industry:

The role of the government is that of enabling and introducing regulatory legislation for timeshares and condominium. There is a need to organise trade associations to endorse standards and codes of ethics. The industry must ensure self-regulation, code of ethics in business conduct and overall excellence in products and services.

The government must take the following steps in order to encourage the growth of timeshares:

- Industry recognition
- Project and operational incentives
- Regulatory framework
- Selective infrastructural support
- Utilise industry potential to drive domestic tourism

In India, in 1998, RCI and a group of leading resort developers got together and set up **AIRDA - All India Resort Development Association**, a national body that would work keeping in mind the long-term interests of the consumer and the Vacation Ownership (Timeshare) industry. This Association has systematised and implemented a code of ethics that are all-pervading and govern the vacation ownership industry in India.

The primary responsibility for AIRDA is to increase the share of timeshare in the hospitality industry-

- by getting more committed players
- by regulating consumer rights
- by getting more families to holiday
- by getting more families to holiday longer

All this has increased consumer satisfaction that nearly reaches 855 at present. AIRDA also ensures that the activities of its member resorts are ethical, fair and conducted with transparency.

Towards this goal, AIRDA has streamlined the Indian timeshare business practises along global guidelines and has been actively involved in resolving consumer issues to the mutual satisfaction of the vacation owner and developer. It has also introduced the Sales Contract- a formal document that captures the key aspects of the sale contract between the resort company and the buyer- to bring in more transparency to the proceedings as it offers a clear understanding of the terms and conditions to both parties.

So, the **key objectives of AIRDA** are to:

- ✓ Increase consumer awareness of vacation ownership or timeshare industry.
- ✓ Develop the vacation ownership industry by attracting new and committed players.
- ✓ Function as a self-regulatory body, ensuring that the activities of the timeshare industry are honest, fair and conducted with transparency.
- ✓ Safeguard interests of timeshare consumers
- ✓ Check and curb activities of unethical operators.
- ✓ Facilitate resolution of consumer and member issues.

Two major developments in 2005 are:

a. The approval of guidelines for project approval and classification of timeshare resorts in the country by the Ministry of Tourism. Under this the timeshare resorts will be classified in the category of 3/4/5 star and heritage properties. This will give the developers an opportunity to avail of the incentives and tax benefits which are currently applicable to approved hotels.

This move will catalyse the growth of the timeshare industry as consumers will be more ready to accept the product. It would also enable timeshare resorts to achieve benchmarking and standardisation of services for various categories of members and guests. It will also bring transparency to the consumer- he would know the value he is getting for his money.

b. AIRDA has successfully secured the approval of the Mixed Use of timeshare resorts and hotels. This will allow timeshare resorts and hotels to co-exist and optimise the services available to the leisure traveller.

At present AIRDA has 16 members who, among themselves, own 32 resorts located across the country. The average cost of timeshare ownership works out to Rs. 1 lakh for a 30-year period. In lieu of that, timeshare owners can enjoy a week's stay every year in any one of the affiliated resorts. The revenue generated by the industry in India is stated to be Rs. 200 crore annually.

TIMESHARE COMPANIES in INDIA (AIRDA members):

Avalon resorts
Best Western Resort Country Club
Mahindra Holiday Resorts Ltd.
Orphic Resorts ltd.
Golden Stables Lifestyle Centres Pvt. Ltd.
Hotel Green Castle
Ramapuram Holiday Resorts
Sheridan resorts Development
Vedic Village
Averina Beach Club
Clifftop Club
Himalayan Vistas
RCI India Pvt. Ltd.
The Luxury Club
Treasure Island
Lotus Suites
The Ffort Holiday Klub
Vista Do Rio

Other timeshares in India are:

Fort Radisson
Holiday Inn Goa
Kamat Group
Le Royal meridian
Royal Resorts
Sterling Days Inn

SOME INTERNATIONAL TIMESHARE PROPERTIES:

Disney Vacation Club
Florida Timeshares
Fairfield Resorts
Four Seasons Vacation Ownership
Westgate Resorts
RCI Resorts
Mariott Vacation Club International
Sunterra Corporation
Sheraton Vistana Resorts
Aruba Timeshares
Branson Timeshares
Las Vegas Timeshares
Hilton Grand Vacation Club
International Condominium Wholesaler
Starwood Vacation Ownership Resorts
Embassy Suites
Wyndhan Timeshare Resort group (Fairfield, Equivest, Trendwest)
Hyatt Vacation Club

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KEY TERMS IN YIELD MANAGEMENT

1. **Break even analysis (BEA)** = this analyses the relationship between costs, revenue, sales volume, allowing one to determine the revenue required to cover all costs.

2. **Contribution margin** = Sales less cost of sale for a department or given product. It represents the amount of sales revenue contributed towards fixed cost and profit.

3. **Cost Per Occupied Room (CPOR)** = the variable or added cost of selling a product that is incurred only if the room is sold. It is also called marginal cost.

4. **Discount grid** = a chart indicating the occupancy percentage needed to achieve equivalent net revenue at various discount levels.

5. **Displacement** = this is the name of the phenomenon of turning away of transient guests (who would pay a better room rate) due to the lack of rooms, a situation created by the acceptance of group business (who would pay a lesser room rate/ discounted rat). It is also called non-group displacement.

OR the turning away of a guest able and willing to pay a higher room rate due to the lack of room availability because rooms have already been sold to guests who paid a lower price.

6. **Equivalent occupancy (percentage)** = given a quantum or actual change in the ARR, this is the occupancy percentage required to produce the same net revenue as was produced by the old price and occupancy.

7. **Market Share Index (MSI)** = a comparison of the hotel�s ARR or RevPAR against its competition to determine whether it is getting its share of the business in the market.

8. **Fixed cost** = the cost that remains constant in the short run even though the sales volume is variable (increases or decreases).

9. **Group Attrition/ Wash-down Factor/ Slippage** = under-consumption of or failure to achieve a committed number of group nights by a TA or company.

10. **Group Booking Pace** = the rate at which the group business is being booked.

11. **Hurdle Rate** = this means the lowest acceptable room rate for a given period. This is very variable and is set by the YM team.

12. **Minimum Length Of Stay (MLOS)** = a YM availability strategy requiring that a reservation must be for a specified number of nights in order to be accepted by the hotel. This is used in order to maximize yield on low occupancy days that lie immediately before or after a high occupancy day/days.

13. **Potential Average Rate (PAR)** = a collective statistic that effectively combines the potential average single or double rate, multiple occupancy percentage and rate spread to produce the average rate that would be achieved if all the rooms were sold at full rate.

14. **Revenue Management/ Yield Management** = A technique based on supply and demand, used to maximize revenue by lowering prices to increase sales during periods of low demand and raising prices during periods of high demand to increase revenue.

15**. Sell through** = Revenue management strategy that works as a MLOS strategy except that the length of the required stay can begin before the date the strategy is applied, i.e. any part of the stay duration should touch the specific date on which sell through is applied. (referred to as LOS or length of Stay in Fidelio)

16. **Stay- sensitive Hurdle Rate** = this indicates the lowest room rate is dependent on the period of stay of the guest. For example, the general hurdle rate applicable today is Rs. 2000/-. If the guest stays for a longer period, say, 3-4 nights, the minimum rate that could be offered could be reduced to say, Rs. 1000/-.

17. **Room spoilage** = rooms going unoccupied after the hotel stops taking reservations for a given date.

18. **Elastic market** = if a small increase in price produces a drastic drop in demand the market is said to be price elastic. Conversely, if a small increase in price produces no effect or little effect on demand the market is price inelastic.

19. **Price sensitive guests** = the guest who reacts to changes in room rates (usually FITs and holiday-makers) is said to be price sensitive. This is in contrast to corporate and company guests or other sponsored guest who are not price sensitive.

20. **Rate and Stay restrictions** = the term is used when applying or not applying discounts to guests on room rate and applying minimum length of stay when required- to improve yield.

21. **Guest mix/sales mix** = Mix of guest of the hotel that are from different market segments- corporate, FITs, leisure groups, convention guests, families, etc. Having such a guest mix ensures that the hotel is not dependent upon one market segment alone. So, in the event of one market segment being affected, the other guests still reserve at the hotel, thus not affecting its overall performance.

22. **Open and Closed rate**s = the hotel's YM team determines various rates for offering the guests according to their business value to the hotel or/and the market conditions (low/high seasons). For example, a discounted rate may be 'closed' during high season and 'open' during low season or a corporate rate may be 'closed' for a group or FIT guest while being 'open' for a company guest that gives the required business to the hotel.

23. **Booking Lead Time/ Booking Horizons** = describes a measure of time of how far in advance the bookings are made. For example, groups may make reservations 6 months ahead of arrival while an FIT may the reservation only a couple of days before arrival. Here, 6 month or 2-3 days would be referred to the lead time or booking horizon.

24. **Rate Fencing =** 'fencing' means that each market segment has a limited number of rooms available for reserving. Instead of taking as many categories of guests as request a room, the hotel decides how many rooms to open for each category for that period- day, week or month. So leisure groups may have only 10% of the total rooms available for booking while corporate groups may have 15% of the rooms and Fits will be given, say, 40% and walk-ins may be allotted 5% rooms, etc.

APPLICATION OF YIELD &EQUIVALENT OCCUPANCY FORMULAE

	No. of rooms Sold	Occupancy Percentage	ARR	Gross room Revenue	Total contr. Margin*	Yield %
Current	210	70.0 %	$ 80	$ 16,800	**$ 14,280**	**52.5%**
Identical	168	56.0%	100	$ 16,800	14,784	52.5%
Equivalent	162**	54.1%	100	$ 16,200	14,280	50.6%
New	150	**50.0%**	100	$ 15,000	13,200	**46.9%**
New	165	**55.0 %**	100	$ 16,500	14,520	**51.6%**

***= based on the marginal cost of $12. Since fixed costs are the same for all situations, the differences between total contribution margins will equal the differences between net room revenues.**

**** = rounded down from 162.3. based on this amount, net revenues would be $ 14,282.**

ELEMENTS OF REVENUE MANAGEMENT

Following elements, based on information collected, may be included while planning a successful yield strategy:

1. Group room sales:

a.Groups <u>already booked</u>: The manager should be able to assess such **figure of rooms** or the **wash factor**.

b. Group <u>booking pace</u>: the **rate at which the group business is booked**.

c.Groups <u>not yet booked</u>: e.g. **'series groups'**.

d.Booking <u>lead time</u>: The lead time + pace of booking, is important in determining how much additional group business should be accepted.

* If the current booking pace is low ---a lower rate may be offered

*** I**f demand is strong and group booking pace is ahead of the trends, discounts should not be offered.

e.<u>Displacement</u> of transient business:

Assume that a 400-room hotel has a <u>potential average rate of $100</u>, an <u>actual transient rate of $80, an actual group rate of $60, and a marginal cost of $15 per room.</u> Consider the impact of a group requesting a block of 60 rooms during these four days:

	Tuesday	**Wednesday**	**Thursday**	**Friday**
Room nights avail	400	400	400400	
Definite group demand	140	140	150	150
Expected transient demand	200	180	220	210
Available rooms	60	80	30	40
Suggested group	60	60	6060	
Transient displacement	**0**	**0**	**30**	**20**

(Revenue & yield calculations format)

	Tues.		Wed.		Thurs.		Fri.	
	- Group	+Group	- Group	+Group	- Group	+Group	- Group	+Group
Gross revenue	$24,400	$28,000	$22,800	$26,400	$26,600	$27,800	$25,800	$27,800
Contribution*	19,300	22,000	18,000	20,700	21,050	21,800	20,400	21,800
Yield **	61.0%	70.0%	57.0%	66.0%	66.5%	69.5%	64.5%	69.5%

* Based on a marginal cost of $15

** Based on potential revenue = $100 PAR × 400 rooms = $40,000

2. Transient Room Sales:

- Transient business is booked closer to the date of arrival than group business.

- Book <u>transient</u> business in city hotels 1-3 weeks before arrival;

  In resorts 1-2 years in advance.

- Hotels may classify rooms by their location, desirability, or size and charge more for better rooms.

- More desirable rooms may be classified as deluxe and have higher rates.

- Hotels may offer deluxe rooms at standard rates to attract guests, especially when demand is lower than expected. Then, when demand improves, the remainder of the better rooms can be sold at their full rack rates.

- Discounting for certain sources of business- corp, etc.

- <u>Very Imp to control discounts for optimal yield.</u>

3. Food and Beverage Activity:

- Catering for functions, reception, etc., generate revenue independently.

4. Local and Area- Wide Conventions:

5. Special events:

- example concerts, festivals and sporting events

- Take advantage of this by controlling discounts or requiring a minimum length of stay- say during Christmas, etc.

6. Fair Market Share Forecasting:

- ✓ To understand how well the hotel is doing in relation to the competition

- ✓ To know whether the hotel is actually getting its fair share of the available business in a market.

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

- **Market share analysis reveals how a hotel performed based on how it 'should have done' and reveals how much business a hotel'took' from competitors.**

Tools for this analysis are reports:

- e.g. Smith Travel Accommodation Report (**STAR report**) that giveshistorical information for review. Includes the **occupancy percentage, ARR, and RevPAR Index**, that tell how the hotel did vis-à-vis other competitive hotels.

- theTravelCLICK Reports including Hotelligence, Internet Hotelligence, and RateVIEW/ Phaser - draw their information from various GDS and Internet booking engines, thus, they look to the future and use actual reservation data.

USING REVENUE MANAGEMENT/ YIELD MANAGEMENT

1. THE REVENUE MANGEMENT /YIELD MANAGEMENT TEAM

Typically this consists of

- the **Rooms Division Manager,**
- **the Sales Manager and**
- **the Reservations Manager.**

The role of RM/YM team is four-fold:

- **To predict demand.**
- **To assign rooms to transient reservation.**
- **To open or close rates as seen fit.**
- **To conduct feedback sessions.**

Role of front office staff:

  - **Completely informed** of strategies * Understand the **logic**

  - **Better motivation** to apply them and

  - M**ore convincing** with the guest.

How to do motivate employees and make them more effective in YM?

- **Create a sense of competition**- show the staff reports and let them know how their competition is doing and encourage them to exceed them.

- **Give measurable and specific goals** such as budgets or occupancy data. They should know exactly what is expected of them- goals should be attainable while being challenging.

- Show them **how they impact the bottom line**. They need to understand the importance of their role in the organisation and its progress and profitability.

- Provide **incentives or recognition** for goal attainment. Coach staff members to correct problems and help along a slow achiever.

- **Train the staff**. Show them what exactly you expect from them. Follow up to make sure standards are being met.

- Keep them **informed of current** hotel status and strategies and how these impact profitability.

2. THE REVENUE/YIELD MANAGEMENT MEETING:

TRACKING YIELD daily and also for future days in order to put appropriate strategies in place in time- raising rates, applying discounts, minimum length of stay, etc.

In the case of **GROUP BUSINESS**:

- Sales managers make a <u>**group rate recommendation**</u> for each group proposal they bring and <u>compare</u> to the **budget and forecasts**.

For **TRANSIENT BUSINESS:**

- The hotel may assign corporate and government business the **standard category** of rooms.

- If demand is not strong, management may decide to sell the deluxe rooms at the standard rack rate to remain competitive.

- It is best to look at a **combined picture- group and transient business-** before making these occupancy and rate decisions.

- Also, it is important that historical and recent trends should be applied.

- Tracking business by **revenue source** will also help determine when to allow discounted business and when not to allow it.

The **GM, the Sales and Catering Manager and the Reservations Manager** attend the revenue meetings.

The RM/YM team can help the property determine :

- Whether past forecasts were accurate and

- May alert the FOM and Reservations Manager to significant patterns in group or transient behaviour.

- This can help develop action plans for interdepartmental communication and all departments can plan ahead:

    - Knowing the number of guests in-house can help F&B prepare.

    - Rate changes and changes in selling strategy help the Sales dept.

    - Occupancy percentages will affect housekeeping and uniformed services.

The RM/YM team meets **daily, weekly, and monthly**.

1. **Daily meetings:**15 minutes, does the following:

    a. Reviews the 3-days forecast and makes sure that previously agreed strategies and tactics are still in place and are communicated

    b. Reviews the **previous day's**occupancy, room revenue, ADR and yield statistic (using the Night Auditor's reports)

    c. Reviews the **booking pace** for the near-term business (the next 3 months or so). This has more relevance to reviewing group business than transient business unless the hotel is a seasonal hotel.

    d. **Reviews old** business.

    e. **Presents new** businesses- groups and transient.

    f. **Transient business changes daily** so it is important to monitor this closely and present any changes that may be seen.

        - This helps put strategies into place as soon as the changes occur.
        - Plans should already be plotted in advance for various contingencies so as to put in place as soon as the changes occur rather than wait for the meeting.

g. Discusses any **last-minute adjustments** that need to be made.

h. Determines **what information must be circulated** as part of the inter-departmental communication plan.

i. Reviews the **30-60 day outlook** and communicates any updates in those forecasts.

2. **Weekly meetings:** the team may meet **for an hour to** :

- Review forecasts for 30, 60, 90 and 120 days out

- Discuss strategies for upcoming critical periods.

3. **Monthly meetings:**

- Members discuss **issues that affect the larger picture**.

- They may look at **slow months to plan** for efforts to boost sales, such asadditional marketing, special sales force deployment, etc.

THE REVENUE/ YIELD MANAGEMENT SOFTWARE SYSTEM

e. An YM/RM software system **automatically makes yield management judgements** to determine the rate availability by length of stay to maximise overall revenues.

f. This system **analyses raw data** collected from in-house property management systems, and

g. Identifies certain booking patterns, **categorises** all the information and **prepares forecasting models in the form of straightforward reports.**

h. The advantage of using a computer for RM/YM is that it can **store, quickly retrieve and manipulate** great amounts of data on a broad range of factors influencing room revenue.

So, a RM/YM system does the following:

- ✓ Monitors and manages risk automatically
- ✓ Identifies dates that have low demand and/or revenue
- ✓ Provides optimal length of stay control
- ✓ Manages risk of overbooking
- ✓ Automatically highlights abnormal market behaviour
- ✓ Allows events to be entered before they occur
- ✓ Creates flexible reports for marketing programme evaluation
- ✓ Minimises data that must be reviewed
- ✓ Determines total transient and group demand displaced by a

potential group arrival

✓ Helps determine group availability and rates.

HOW DOES THE YIELD/ REVENUE MANAGEMENT SYSTEM WORK?

- **FORECASTING**
  - Demand patterns
  - Special events database
  - On-books information and the
  - Results of any user demand changes.

  - Based on this data, the software **forecasts transient demands** based on historical bookings and folio data.
  - The system will forecast **no-show and cancellation patterns, demand, and uncertainty in demand, according to market segments, room type, day of the week, length of stay and booking lead-time.**

- These transient forecasts are then fed into the opportunity cost optimisation aspect of the system.

- **ANALYSIS**

❖ **Initial analysis**

❖ Collected data is analysed for **patterns and exceptions**.

❖ These **patterns are then searched during the nightlyprocessing activity.**

❖ In running the nightly activity the system looks for:

- <u>Booking lead times.</u>

- <u>Demand patterns</u> such as average length of stay, no-shows, day of the week and seasonality.

- <u>Special events</u> where for any set of dates there is significantly different:

    ✓ Occupancy patterns
    ✓ Market segment patterns and
    ✓ Booking lead-time patterns.

- Hotel <u>booking patterns</u>, where bookings are sorted into suitableforecasting groups. (Market segments and rates

are translated into rate categories, as with rate fencing.)

- ❖ Operates**history databases,**and a **monitoring system** that surveys forecasts for significant **deviations** of actual bookings from anticipated levels.

- ❖ Operates the **overbooking system** that allows **'overbooking'** to make up for the no-shows, early departures and cancellations, whilst at the same time freeing rooms for additional guests.

- ❖ Operates the**group evaluation system**. This helps the property to place and **evaluate group demand** based on- **profitability, placement, displaced total demand and fair market rate.**

Sophisticated RM/YM software is available which can **integrate room demand and room price statistic,** and project the **highest revenue generating product mix.**

Such software **DOES NOT**make decisions for managers but merely provides them information and support for their decisions.

Where computer-based RM/YM has been applied, achievement of:

a) **Continuous monitoring**:

b) **Consistency**

c) **Performance tracking**

REPORT GENERATION:

- **Market segment report:** provides information regarding customer mix, which is important information for effective forecasting by market segment.

- **Calendar/booking graph:** presents room-night demands and volume of reservations on a daily basis.

- **Future arrival dates status report:** furnishes demand data for each day of the week to enable the discovery of occupancy trends by comparative analysis of weekdays and it can be designed to cover future periods as well.

- **Single arrival date history:** indicates the hotel's booking pattern trends in reservations. This report relates to the booking graph by documenting how a specific day was constructed on the graph.

- **Weekly recap report:** contains the sell rates for rooms and the number of rooms authorised and sold in marketing programs with special or discounted rates.
- **Room statistics tracking sheet:** tracks no-shows, guaranteed no-shows, walk-ins and turn-aways- all this will help in accurate forecasting.

FIDELIO REVENUE MANAGEMENT SOFTWARE:

- FIDELIO lets you make decisions by **flagging or marking your rates** as <u>open, closed, closed to arrival, day use only, or restrict them to a minimum length of stay</u> from 2 to 99 days and

- Defining strategies so that FIDELIO automatically sets the flags <u>based on occupancy projections</u>.

- FIDELIO is designed for **quick and accurate input of reservations**. The **rate query**(F5) shows the reservations clerk exactly which rate codes are available on which day and at what rate.

- Negotiating strategies and selling techniques are all built into the system. FIDELIO will **propose alternate rates or dates**.

- FIDELIO allows the front office manager to

    - close out a discount rate if occupancy reaches a certain occupancy percentage one week before arrival;

    - to start selling mid-week package three days in advance, but restricts it to a certain number of available packages;

    - to close all rates but rack rate- the highest room rate charged by a hotel- once a certain occupancy percentage is reached,

    - or allow FIDELIO to do it automatically by devising strategies once and FIDELIO takes care of the rest.

HOTEL INDUSTRY APPLICATIONS

WHEN IS USE OF YIELD MANAGEMENT APPROPRIATE?

When

1. Demand for the hotel can be divided into distinct market segments.

2. Each of these segments is prepared to pay different amounts of money for their room.

3. Room supply is perishable.

4. Marginal cost of selling an additional room is low.

5. The request for a room is ordered in advance of its use- is reserved.

6. Demand for the room fluctuates and cannot be predicted with any certainty.

7. The physically identical product can be sold to different market segments for different booking conditions.

BENEFITS OF YIELD MANAGEMENT:

- Improved forecasting.
- Improved seasonal pricing and inventory decision.
- Identification of new market segments.
- Identification of market segment demands.
- Enhanced coordination between the front office and sales division.
- Determination of discounting activity.
- Improved development of business plans.

- Establishment of a value-based rate structure.
- Initiation of a consistent customer contact scripting (standard phrases when dealing with guests in different situations).

So, Success of YM depends :

* Ability to monitor demand
* Ability to develop reliable forecasts
* Having a guest mix of two or more guest segments

HOW DOES YIELD MANAGEMENT MAXIMISE REVENUE?

Through

d) CAPACITY MANAGEMENT & SELECTIVE OVERBOOKING

- Controlling and limiting room supply
- Knowing how many walk-ins to accept on a day
- Varying strategy by room type- cheapest rooms overbooked more
- Keeping track of room availability locally
- Keeping track of group attrition – leisure, conventions, etc. segements

e) DURATION CONTROL

a. Putting time constraints for reservation requests

b. Multi-day requests preferred

f) DISCOUNT ALLOCATION

- Discounted rate is better than no room sale but

✓ Restrict time period (seasons) and product mix (rooms) available at discounted rates

✓ Protect forecasted rooms at higher rate; then discount the balance rooms in each rate category to fill vacant rooms

✓ This also is useful when upselling (depends on elasticity and inelasticity of demand)

andDIFFERENTIAL RATES/ MARKET SEGMENT PRICING

- Depending on how early or late the reservation is made /confirmed /gtd. (booking horizons)

- What market segment is reserving- leisure, corporate, associations and quantum of bookings/business

Rack rate

100% Single private and chance bookings

90% Travel agents, regular guest corporate sales and groups eligible for discounts

80%

70% Special corporate rates for larger multiple travel agencies and companies

60%

50% Very large national or international companies

40%

Some YM TERMS

* “**Rate Fencing”** element

*** BOOKING HORIZONS**

*** DISPLACEMENT**

Potential High &Low Demand Tactics are based on:

- **All elements** of yield management should be **viewed together** in order to make the appropriate decisions.
- Yield should be **tracked daily**.
- **Discounts** may be opened to raise occupancy or some discounts may be closed to raise average rate.
- Each piece of business must be looked at **individually** and compared with **historical trends** as well as to the budget
- Another factor is the **actual group booking pattern** already on the books or reserved.
- If **historical trends have been strong**, but **recent business has been weak**, management is smarter if planning for weak business and attempt to attract as much as possible through low rates.
- **Tracking business by revenue source** will also help determine when to allow discounted business and when not to allow it.

COMPONENTS OF YIELD MANAGEMENT MEASUREMENT

Yield is the percentage of income that could be secured if 100% of available rooms were sold at the full rack rate. It is the ratio of **actual revenue or revenue realized to potential revenue.**

$$\text{Yield} = \frac{\text{Revenue realized}}{\text{Revenue potential}}$$

g) Total rooms ×double occupancy rate (presuming that all the rooms were sold at the double occupancy rate), or

h) % Mix of rooms Single × single occupancy rate
Double × double occupancy rate

Note that (b) will be less than (a) but more realistic.

BASIC FORMULAE FOR CALCUALTING YIELD MANAGEMENT

For the following example, assume that the Educational Inn has

300 guestrooms, collects an average of $80 per room,

is currently operating at a **70% average occupancy**

offers **100 one-bed and 200 two-bed guestrooms**

Any one-bed room sold as a single is priced at $90:

as a double, it sells for $110.

Any two-bed room sold as a single is priced at $100;

as a double it sells for $120.

Formula 1: PASR (Potential Average Single Rate):

Room type	No. of rooms	Single rate	Revenue at 100% occupancy

1 bed- A	100	$ 90	$ 9,000
2-beds- B	200	$ 100	$ 20,000
	300		**$ 29,000**

Now, PASR = $\frac{\text{Single room revenues}}{\text{Number of Rooms}} = \frac{\$\,29{,}000}{300} = \$96.67$

Formula 2:PADR (Potential Average Double Rate):

Room type	No. of rooms	Double rate	Revenue at 100% occupancy
1-bed	100	$ 110	$ 11,000
2-bed	200	$ 120	$ 24,000
	300		$ 35,000

Now, PADR = $\frac{\text{Double room revenues}}{\text{Number of rooms}} = \frac{\$\,35{,}000}{300} = \$116.67$

Formula 3: MOP (Multiple Occupancy Percentage):

MOP = $\frac{\text{No. of rooms occ by more than one person}}{\text{No. of rooms occupied}} = \frac{105}{210} = 50\%$

Formula 4: RS (Rate Spread):

Rate Spread =**PADR – PASR** = $ 116.67 - $ 96.67 = $ 20

Formula 5: PAR (Potential Average Rate):

PAR = (MOP × Rate Spread) + PASR

= (50% × $ 20) + $ 96.67 = $ 106.67

Formula 6: AF (Room Rate Achievement Factor):

$$AF = \frac{\text{Actual average rate}}{\text{Potential Average rate}} = \frac{\$80}{\$\,106.67} = 75\%$$

The AF is also equal to 100% minus the discount percentage.

Formula 7: Yield:

a. $$\text{Yield} = \frac{\text{Revenue realised}}{\text{Revenue potential}}$$

b. Yield = $\dfrac{\text{Room nights sold}}{\text{Room nights available}} \times \dfrac{\text{Actual Average Room Rate}}{\text{Potential Average Rate}}$

c. Yield = Occupancy Percentage × Achievement Factor

So, Yield here = 70% × 75%, or 0.7 × 0.75 = 0.525 or 52.5%

Formula 8: Identical Yields

Identical yield = Current Occupancy % × $\dfrac{\text{Current rate}}{\text{Proposed rate}}$

$= 70\% \times \dfrac{\$ 80}{\$ 100} = 56\%$

EXAMPLE:

Number of Rooms sold	occupancy percentage	average room rate	room revenue	Yield
190	63.3	$ 88.42	$ 16,800	52.5%
200	66.7	$ 84.00	$ 16,800	52.5%
210	70.0	$ 80.00	$ 16,800	52.5%

Case 1 – least number of rooms sold - lowest operating cost - generate the highest ADR most profitable situation.

Case 3 - highest number of rooms sold - highest operating costs - lowest ADR. Non- room sales - highest in this case, so likelihood of highest total revenue (room revenue + non-room revenue).

Case 2 - a middle position in terms of number of rooms sold and ARR, where, operating costs and total revenue is also likely to be in an intermediate position.

Formula 9.RevPAR

$$\text{RevPAR} = \frac{\text{Actual room revenue}}{\text{Number of available rooms}}$$

Or

$$\text{RevPAR} = \text{Occupancy percentage} \times \text{ARR}$$

Formula 10: Equivalent Occupancy

8. Amore effective way of evaluating whether a change in room rates is justifiable

9. Can be used when management wants to know what other combinations of room rate and occupancy percentage provides equivalent **net revenue.**

10. Takes marginal costs into account by incorporating the contribution **margin**.

- **Equivalent Occupancy**

= Current occupancy % × Rack rate - Marginal cost

Rack rate × (1- discount %) - Marginal cost **OR**

2. **Equivalent** = Current occupancy %Current contribution margin

OccupancyNew contribution margin

Example: the Educational Inn is currently operating at **70% occupancy** with an average rate of **$ 80**but is considering raising its average rate to **$ 100**. Further assume that the marginal cost of selling a room is **$12**.

$$\text{Equivalent Occupancy} = \text{Current Occupancy Percentage} \times \frac{\text{Current contribution margin}}{\text{New contribution margin}}$$

$$= 70\,\% \times \frac{\$80 - \$12}{\$100 - \$12} = 70 \times \frac{68}{88} = 54.1\%$$

What is the equivalent occupancy to 70% with an \$ 80 average room rate if the average room rate is discounted by say, 20% (to \$64)?

$$\text{Equivalent occupancy} = 70\% \times \frac{\$80 - \$12}{\$64 - \$12} = 70\% \times \frac{68}{52} = 91.5\%$$

A **DISCOUNT GRID** can help management to evaluate discounting choices.

Formula 11: Required Non-Room Revenue per Guest

Involves calculating or estimating a number of elements:

- the net loss in room revenue due to room rate discounting
- the amount of non-room revenue needed to offset this loss
- the average amount each guest spends in non-room revenue centres
- the increase in occupancy likely to result from rate discounting

$$\text{CMRw} = \frac{\text{Total Non-Room Revenue} - \text{Total Non-Room Revenue Centre VC}}{\text{Total Non-Room Revenue}}$$

Required = Required increase in net non-room revenue / CMRw

Non-room revenue Number of extra guests

Per guest

For example, suppose a hotel has **400 rooms** and has $ 144.75Potential Average Room Rate (=$57,900 Potential room revenue).

Suppose the marginal cost per room is **$12** and the hotel is operating at **60%** occupancy, i.e. **240 rooms** are sold per night, and the **ARR** achieved is **$137.50**.

The manager thinks that by lowering rate to **$110** the occupancy can be increased to **75% (300 rooms sold** per night) and that **90%** occupancy (**360** rooms sold) can be achieved by further lowering the rate to$ **91.67.**

The room revenue in these 3 cases is same i.e. $ 33,000 and it appears that all three situations are similar. Let us also consider the factor of $12, the marginal cost per room and calculate the revenue for the above situations:

Level of	**rooms**	**No. of margin**	**Room contribution revenue**		**Total Occupancy**
60% ×	400	×	($137.50 - $12)	=	$ 30,120 (240 #s)
75% ×	400	×	($110 - $12)	=	$ 29,400 (300 #s) +60
90% ×	400	×	($ 91.67 - $ 12)	=	$ 28,681 (360 #s) +60

It is clear that the reduction of rate to $ 110 would get 60 rooms extra but the revenue loss will be $ 720. Similarly, a further reduction to $91.67 in room rate would bring 120 extra rooms, but revenue loss would be $1,439. To **offset** this loss of revenue each additional guest shall have to spend $12 on **non-room revenue contribution**:

$$\frac{\$720}{60 \text{ rooms}} = \$12 \quad \text{and} \quad \frac{\$1439}{120 \text{ rooms}} = \$12$$

If the non-room CMRw is found to be 0.25, the required non-room spending for each additional guest is:

Required non-room spending = $12 / 0.25 = $48

4/4. ELEMENTS OF REVENUE MANAGEMENT STRATEGY

*(Explains how revenue/yield management decisions are affected by: **group room sales, transient room sales, food and beverage activity, local and area-wide activities, special events and fair market share forecasting.** It summarises the role of the **revenue management team** and the typical **revenue meetings** and explains how **revenue management software** aids hotel managers)*

***Objectives** of this lesson:*

After completion of this lesson the learner will be able to:

- *Explain the **factors** that influence the achievement of successful revenue management practices*
- *Explain the **role and activities** of the revenue management team of the hotel and its meetings*
- *Explain the **importance and role** of the revenue management system*

Revenue/ Yield management becomes very complex when room rate discounting is granted on a selective basis and to competing buyers.

The following elements, based on information collected, may be included while planning a successful yield strategy:

- Group room sales
- Transient room sales
- Food and beverage activity
- Local and area-wide activities
- Special events

Note: the practice changes in each property and from season to season within a property

a) Group room sales:

Groups form the nucleus of room revenue and understanding group booking trends and requirements is critical to yield management. When a request comes for a group reservation the following points need to be considered:

- Does the group request fit into the hotel's strategy for the period?(the group requires 100 rooms, but that exceeds the group allocation for that period)
- Are there other groups who are interested in the same period?
- What meeting space will the group require?
- What impact will this group have on booking additional group business for the same dates?
- Do the f & b functions include catered events or will the group use the hotel's restaurants?
- What revenue can the hotel plan to earn for rooms, f & b and other sources?

To understand the potential impact of group sales on overall room revenue, the hotel should collect the following information:

a. Group booking data/ groups already booked: management must have information as to how many groups are already booked and how many rooms for each one of them are booked. On the basis of previous history of each group make estimate of how many rooms each one of them may cancel, because usually the group organisers book some extra rooms- about 5-10% extra, for their groups to avoid last minute problems. The manager should be able to assess such figure of rooms or the wash factor (hotel's deletion of unnecessary group rooms from a group block). This should be done carefully to avoid having to walk guests.

b. Group booking pace: the rate at which the group business is booked is called group booking pace. The rate at which initial agreement between the group organisers and the hotel takes place over a period of time- a month, quarterly, half-yearly, etc. is important for planning bookings. Example, in April, a hotel has 300 group bookings for a function in October. Last year the number of group rooms booked for October, in April, was 250. The booking pace would be 20% ahead of the previous year's pace. Variations may be caused by one-time events or unanticipated

c. Anticipated group business/ Groups not yet booked: sometimes the manager has to keep in consideration that business of group which has not even contacted the hotel yet but the manager is almost sure of this business since, normally the group comes to the hotel regularly after a particular period- e.g. "**series groups**". The hotel can forecast the "pressure" in the market and adjust their selling strategies accordingly.

d. Group Booking Lead Time: Lead time is the time interval between the date of booking and expected date of arrival. Small conventions may book a year in advance of the event while larger meetings may be booked as far ahead a 2 to 3 years. The hotel should fix the lead time for group bookings so that booking trends can be charted. The lead time, together with the pace of booking, is important in determining how much additional group business should be accepted. If the current booking pace is lower than expected, a lower rate to stimulate the business should be offered to get increased occupancy, and if demand is strong and group booking pace is ahead of the trends, discounts should not be offered.

e. Displacement of Transient business: displacement occurs when a hotel accepts group business at the expense of turning away transient guest or FITs. Since transient guests often pay higher room rates than group business, this situation should be carefully analysed. Transient rooms are guestrooms sold to guest who are not affiliated with a group staying in the hotel- usually business people or vacationers.

Assume that a 400-room hotel has a potential average rate of $100, an actual transient rate of $80, an actual group rate of $60, and a marginal cost of $15 per room. Consider the impact of a group requesting a block of 60 rooms during these four days:

	Tuesday	Wednesday	Thursday	Friday
Room nights available	400	400	400	400
Definite group demand	140	140	150	150
Expected transient demand	200	180	220	210
Available rooms	60	80	30	40
Suggested group	60	60	60	60
Transient displacement	0	0	30	20

If the group is expected, no displacement occurs on Tuesday and Wednesday, the hotel clearly benefits on these days because it sells rooms it did not expect to sell earning an additional $3,600 gross and $2,700 net room revenue each day. On Thursday and Friday, 30 and 20 transient guests, respectively, will be displaced. However, Thursday's room revenue will rise by $1,200 gross and $750 net if the group is accepted. Friday's room revenue will rise by $2,000 gross and $1,400 net if the group is accepted. So, accepting the group business will increase the hotel's yield for all four days. Since it also raises the hotel's occupancy, the group business will probably increase non-room revenue as well.

Several factors help determine whether a group reservation should be accepted. As seen here, the hotel should first look at revenue factors. A group should probably be accepted if the expected revenue gain (including that from non-room revenue centres) offsets the transient guest revenue loss. In addition, management must consider what happens to the transient guests who cannot be accommodated. Whether they are frequent or first time guests they may decide not to return after the way they are treated. The transient revenue lost may not be confined simply to the nights in question, if frequent guests choose not to return. On the other hand, turning away the group business may also result in the group not returning. So, management must also consider the long-term impact on future business.

2. Transient Room Sales:

Transient rooms are those sold to free independent travellers (FITs). **Transient business is usually booked closer to the date of arrival than group business.** A commercial hotel may book a majority of its group business 3-6 months before arrival, but book transient business only 1-3 weeks before arrival. At a resort hotel, group bookings may be established one to two years in advance, while transient business may be booked three months or so in advance. Here also, management needs to track the booking pace and lead time of transient business in order to understand how current reservations compare with historical and anticipated trends. This leads to the more complex subject of transient room pricing.

In order to maximise room revenue, front office managers may decide to classify rooms by their location, desirability, or size and charge more for better rooms. Rooms those are small, near noisy corridors, un-renovated or that offer poor views may be considered less desirable and be classified as standard rooms to be assigned the lowest rates. More desirable rooms may be classified as deluxe and have higher rates.

In order to build business, hotels may offer deluxe rooms standard rates to attract guests especially when demand is lower than expected. Then, when demand improves, the remainder of the better rooms can be sold at their full rack rates. In this case, management is clear that it wants to maximise room revenue, not just ARR or occupancy percentage. Discounting reduces the amount of business lost because of rate resistance and allows the hotel to sell rooms that would otherwise remain vacant.

3. Food and Beverage Activity:

Food and beverage activities, especially catering for functions, reception, etc., generate revenue independently. Such groups normally do not take up rooms in the hotel. The hotel should book such groups who also need catering services such as breakfast, lunch and dinner services, etc. along with conference rooms and other function facilities so as to get revenue from accommodation as well as food beverage. Special packages can be made and offered to such groups. Cooperation and coordination between departments is necessary to maximise revenue from all revenue centres. Also, certain market segments have a tendency to purchase more food and beverages than others and this factor must be considered to determine who is the most profitable customer to offer the reservation is. For example, groups are usually on an inclusive tariff, whereas business guests may use in-house food and beverage outlets.

4. Local and Area- Wide Conventions:

These can have a drastic effect on the yield management strategies of the hotel. Even if the hotel is not in the immediate vicinity of the convention, transient guests and smaller groups displaced by the convention may book at the hotel due to room availability. When this is the case, the front office manager should be aware of the convention and the demand for guestrooms it is creating in the area. If the demand is substantial, transient and group rates should reflect this fact to take full advantage of the opportunity.

Conventions may also make the trend analysis of group and transient room sales invalid. If the booking pace of either group or transient room sales alters significantly, the FOM should immediately investigate the matter. An increase in demand could indicate a convention in the area or a large booking at a competitor. A decrease could indicate a major cancellation at a competitor, which is now reducing its regular pricing to fill guestrooms.

Ethics and good business practices are involved. It is appropriate and legal for competitors to occasionally meet and discuss general business trends. However, it is not legal to discuss rates or the establishment (fixing) of room rates. There are other freely available sources of information that identify what is affecting business in an area. Under no circumstances should employees of two different hotels discuss rate structuring or any other hotel operating issue, which might be considered illegal.

5. Special events:

Special events such as concerts, festivals and sporting events are held in or near the hotel. The hotel may be able to take advantage of this by controlling discounts or requiring a minimum length of stay- say, during Christmas, etc. Guests wishing to stay over Christmas may be required to guarantee a 4- to 5-day minimum stay. Similarly, room discounts will be eliminated during this high demand period. Also, pre-pay or non-refundable packages may be put in place to guarantee the anticipated/ budgeted revenues. Both discounts and minimum lengths of stay should be managed carefully so the hotel does not lose frequent travellers/guests.

6. Fair Market Share Forecasting:

It is important to understand how well the hotel is doing in relation to the competition. This is known as the fair market share. It is important to know whether the hotel is actually getting its fair share of the available business in a market. **Market share is defined as a hotel’s occupancy performance in relation to other hotels within a predetermined competitive set. Market share analysis reveals how a hotel performed based on how it “should have done” and reveals how much business a hotel “took” from competitors.**

A primary tool for this analysis are the various reports made available by various professional companies, e.g. Smith Travel Accommodation Report (STAR report) in the US. These reports give historical information for review. Information included are the occupancy percentage, ARR, and RevPAR Index, that tell how the hotel did vis-à-vis other competitive hotels. If a hotel had a 100% percent RevPAR index, it would have received its fair share of business from the market. Of course, it must be kept in mind that since the RevPAR takes both occupancy and rate into consideration, a hotel may have a lower occupancy than its competition but still have a higher RevPAR index, because it maintained a higher ARR.

This information should also be used for forecasting the next several months and the same period next year. With clear on- and off-seasons, hotel management may find it easier to classify each month into a business season. These reports may be used to position rates for the coming month or develop next year’s budget, by season and help to show opportunities for rate improvement or rate repositioning. For example, looking at the reports for the last two years may show that June has a RevPAR index of 105% which could be an indication that they can continue to command higher rates in the coming year’s month of June as well. However, this condition can change if there is the opening of a new hotel scheduled to open around May which will very likely affect room sales and rates of the hotel.

Other useful reports are the TravelCLICK Reports including Hotelligence, Internet Hotelligence, and RateVIEW/ Phaser. The STAR report relies on information provided by the hotels who report their key statistics to the report producer and is historical in nature. The TravelCLICK reports draw their information from various GDS and Internet booking engines, thus, they look to the future and use actual reservation data.

USING REVENUE MANAGEMENT/ YIELD MANAGEMENT

All elements of yield management should be viewed together in order to make the appropriate decisions. While it is potentially complex, a failure to include relevant factors make yield management efforts less successful than they could be.

1. THE REVENUE MANGEMENT /YIELD MANAGEMENT TEAM

Typically this consists of the **Rooms Division Manager, the Sales Manager and the Reservations Manager.**

The Rooms Division Manager has the overall control of the department with targets for maximising both occupancy and revenue.

The Sales Manager is involved because it is they who go out on a daily basis to sell rooms and while they are fully aware of the need to maximise revenue, their primary focus is to get bodies into the hotel. So when working in a team, the S&M staff are fully aware as to the peaks and troughs of the hotels business.

The Reservations Manager is the person who has a complete understanding of all bookings, the future booking patterns and the histories of hotels arrivals and occupancies. He is most up-to-date with booking information.

The role of RM/YM team is four-fold:

- To predict demand.
- To assign rooms to transient reservation.
- To open or close rates as seen fit.
- To conduct feedback sessions.

Role of front office staff:

The front office staffs are essential to the success of revenue management efforts and are an indispensable part of the RM/YM team. They need to be completely informed of the RM/YM strategies in place and the logic should be explained so that they are better motivated to apply them and are more convincing with the guest. Some of the following will help:

- Create a sense of competition- show the staff reports and let them know how their competition is doing and encourage them to exceed them.
- Give measurable and specific goals such as budgets or occupancy data. They should know exactly what is expected of them- goals should be attainable while being challenging.
- Show them how they impact the bottom line. They need to understand the importance of their role in the organisation and its progress and profitability.
- Provide incentives or recognition for goal attainment. Coach staff members to correct problems and help along a slow achiever.
- Train the staff. Show them what exactly you expect from them. Follow up to make sure standards are being met.
- Keep them informed of current hotel status and strategies and how these impact profitability.

2. THE REVENUE/YIELD MANAGEMENT MEETING:

Tracking yield daily and also for future days in order to put appropriate strategies in place in time- raising rates, applying discounts, minimum length of stay, etc.

For **group business**, sales managers are expected to make a group rate recommendation for each group proposal they bring in. This rate needs to be compared to the budget and forecasts. Each hotel has a group sales target for each month and each group should be examined to see if it would contribute to meeting the overall profit budget. If a group has a room rate that falls below the budgeted room rate but its F & B functions will bring its total profitability in line with the budget, it may make sense to book it. However, if it will only give minimal revenue as opposed to the strong transient demand existing, it may make better business sense not to book it.

For **transient business** too, the same careful analysis is required. For example, due to discounts offered by the hotel, corporate and government business may be assigned the standard category of rooms. As these standard rooms fill, the hotel may only have deluxe rooms left to sell. If demand is not strong, management may decide to sell the deluxe rooms at the standard rack rate to remain competitive.

It is best to look at a **combined picture- group and transient business**- before making these occupancy and rate decisions.

Also, it is important that **historical and recent trends** should be applied. For example, if historical trends have been strong, but recent business has been weak, management is smarter if planning for weak business and attempt to attract as much as possible through low rates. So, also, if recent occupancy has been very strong, it is appropriate to follow that trend instead of a history showing lower demand.

Since the objective of yield management is to maximise revenue, **tracking business by revenue source** will also help determine when to allow discounted business and when not to allow it. Some hotels may decide to allow specific types of discounted business- corporate business, since they are responsible for repeat business. As the various sources of business are determined, each should be analysed to understand its impact on total revenue. Often, managers will take discounted business if it generates frequent customers since the long term impact is positive.

The GM, the Sales and Catering manager and the reservations manager attend the revenue meetings. The RM/YM team can help the property determine whether past forecasts were accurate and may alert the FOM and Reservations Manager to significant patterns in group or transient behaviour. This fore-knowledge can help develop action plans for interdepartmental communication and all departments can plan ahead:

- Knowing the number of guests in-house can help F&B prepare.
- Rate changes and changes in selling strategy help the sales dept.
- Occupancy percentages will affect housekeeping and uniformed services.

The RM/YM team meets daily, weekly, and monthly.

11. Daily meetings:
As short as 15 minutes, and the team does the following:

a. Reviews the 3-days forecast and makes sure that previously agreed strategies and tactics are still in place and are communicated to the concerned staff at reservations, sales, and central reservation offices.
b. Reviews the previous days occupancy, room revenue, ADR and yield statistic (using the Night Auditor�s reports)
c. Reviews the booking pace for the near-term business (the next 3 months or so). If the pace is below the plan action steps need to be taken to build business. If the pace is above the plan the hotel may need to consider additional revenue opportunities. This has more relevance to reviewing group business than transient business unless the hotel is a seasonal hotel.
d. Reviews old business.
e. Presents new businesses- groups and transient.
Transient business changes daily especially within a week of the day of arrival and so it is important to monitor this closely and present any changes that may be seen. This helps put strategies into place as soon as the changes occur. Plans must not be made at the last moment but should already be plotted in advance for various contingencies so as to put in place as soon as the changes occur rather than wait for the meeting.

- Discusses any last-minute adjustments that need to be made.
- Determines what information must be circulated as part of the inter-departmental communication plan.
- Reviews the 30-60 day outlook and communicates any updates in those forecasts.

12. **Weekly meetings:** the team may meet for an hour to :
- ✓ Review forecasts for 30, 60, 90 and 120 days out
- ✓ Discuss strategies for upcoming critical periods.

13. Monthly meetings: members discuss issues that affect the larger picture. They may look at slow months to plan for efforts to boost sales, such as additional marketing, special sales force deployment, etc.

THE REVENUE/ YIELD MANAGEMENT SOFTWARE SYSTEM

An YM/RM software system is a powerful decision-making tool that automatically makes yield management judgements to determine the rate availability by length of stay to maximise overall revenues. This system analyses raw data collected from in-house property management systems, and identifies certain booking patterns, categorises all the information and prepares forecasting models in the form of straightforward reports.

Quite simply, a RM/YM system does the following:

- Monitors and manages risk automatically
- Identifies dates that have low demand and/or revenue
- Provides optimal length of stay control
- Manages risk of overbooking
- Automatically highlights abnormal market behaviour
- Allows events to be entered before they occur
- Creates flexible reports for marketing programme evaluation
- Minimises data that must be reviewed
- Determines total transient and group demand displaced by a potential group arrival
- Helps determine group availability and rates.

HOW DOES THE YIELD/ REVENUE MANAGEMENT SYSTEM WORK?

FORECASTING

The forecasting element of the system prepares its forecasts by using:

- Demand patterns
- Special events database
- On-books information and the
- Results of any user demand changes.

Based on this data, the software forecasts transient demands based on historical bookings and folio data.

The system will forecast no-show and cancellation patterns, demand, and uncertainty in demand, according to market segments, room type, day of the week, length of stay and booking lead-time. These transient forecasts are then fed into the opportunity cost optimisation aspect of the system.

ANALYSIS

When a hotel adopts a fully computerised RM/YM system an initial analysis of the property is conducted. After the data has been collected it is analysed for patterns and exceptions. These patterns are then searched during the nightly processing activity. In running the nightly activity the system looks for:

- Booking lead times.
- Demand patterns such as average length of stay, no-shows, day of the week and seasonality.
- Special events where for any set of dates there is significantly different:
- Occupancy patterns
- Market segment patterns and
- Booking lead-time patterns.

- Hotel booking patterns, where bookings are sorted into suitable forecasting groups. (Market segments and rates are translated into rate categories, as with rate fencing.)

The system also operates history databases, which keep track of all the detailed and summary information needed for forecasting as well as a monitoring system that surveys forecasts for significant deviations of actual bookings from anticipated levels.

Most systems also operate **two other operations. Firstly**, is the overbooking system that allows overbooking to make up for the no-shows, early departures and cancellations, whilst at the same time freeing rooms for additional guests. The **second operation** is the group evaluation system. This helps the property to place and evaluate group demand based on- profitability, placement, displaced total demand and fair market rate.

Sophisticated RM/YM software is available which can integrate room demand and room price statistic, and project the highest revenue generating product mix. Such software does not make decisions for managers but merely provides them information and support for their decisions. The advantage of using a computer for RM/YM is that it can store, quickly retrieve and manipulate great amounts of data on a broad range of factors influencing room revenue.

Where computer-based RM/YM has been applied, the following results have been achieved:

- **Continuous monitoring**: a computerised RM/YM system can track and analyse business conditions 24 hours a day, seven days a week.
- **Consistency:** software can be programmed to respond to specific changes in the marketplace, according to corporate or local management rules built into the software.
- **Performance tracking:** a computer-based system is capable of analysing sales and revenue transactions occurring within the business period to determine how well yield management goals were achieved.

RM/YM software is also able to generate any number of special reports the following are some examples:

- **Market segment report:** provides information regarding customer mix, which is important information for effective forecasting by market segment.
- **Calendar/booking graph:** presents room-night demands and volume of reservations on a daily basis.
- **Future arrival dates status report:** furnishes demand data for each day of the week. The information contained here enables the discovery of occupancy trends by comparative analysis of weekdays and it can be designed to cover future periods as well.
- **Single arrival date history:** indicates the hotel's booking pattern trends in reservations. This report relates to the booking graph by documenting how a specific day was constructed on the graph.
- **Weekly recap report:** contains the sell rates for rooms and the number of rooms authorised and sold in marketing programs with special or discounted rates.
- **Room statistics tracking sheet:** tracks no-shows, guaranteed no-shows, walk-ins and turn-aways- all this will help in accurate forecasting.

FIDELIO REVENUE MANAGEMENT software program:

- FIDELIO lets you make decisions where they count the most by flagging or marking your rates as open, closed, closed to arrival, day use only, or restrict them to a minimum length of stay from 2 to 99 days and defining strategies so that FIDELIO automatically sets the flags based on occupancy projections.
- FIDELIO is designed for quick and accurate input of reservations. The rate query shows the reservations clerk exactly which rate codes are available on which day and at what rate.
- Negotiating strategies and selling techniques are all built into the system. FIDELIO will propose alternate rates or dates.
- FIDELIO allows the front office manager to close out a discount rate if occupancy reaches a certain occupancy percentage one week before arrival; to start selling mid-week package three days in advance, but restricts it to a certain number of available packages; to close all rates but rack rate- the highest room rate charged by a hotel- once a certain occupancy percentage is reached, or allow FIDELIO to do it automatically by devising strategies once and FIDELIO takes care of the rest.

In conclusion, the revenue management software is a great help and fast becoming indispensable for the front office manager who needs current and accurate information in order to make instantaneous decisions that can improve revenue figures of the hotel.

(Addendum- Important revenue management **terms**)

Questions on RM 4/4:

- ✓ What are the factors that should be considered when planning revenue management strategies?
- ✓ How do the following impact development of revenue management strategies:
  - Group sales b. F&B activities c. Local and area-wide activities?

- ✓ What is the role of a RM team?
- ✓ Differentiate (briefly) between the activitites in a daily, weekly and monthly RM team meeting.
- ✓ What are the functions of the revenue management software?
- ✓ How does revenue management software prove to be **more useful** for hotels today in comparison to a manual RM system?
- ✓ In Fidelio, where would you employ the YM strategies? Show through a flow chart.

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3/4. COMPONENTS OF REVENUE MANAGEMENT MEASUREMENT

(Discusses common formulae used by front office managers to measure and manage revenue)

Objectives *of this lesson:*

After completion of this lesson the learner will be able to:

- *Define ways to measure Revenue management success*

Each part of revenue management feeds into a network, which supports the goal of maximizing profits for a hotel.

Definition of yield:

Yield is the percentage of income that could be secured if 100% of available rooms were sold at the full rack rate. It is the ratio of **actual revenue or revenue realized to potential revenue.**

Here, Revenue realized is the **actual** amount of room revenue generated by the number of rooms sold (number of rooms sold × actual rate).

Revenue potential (potential revenue) is the room revenue that could be received if all the rooms were sold at the full rack rates.

$$\text{Yield} = \frac{\text{Revenue realized/ actual revenue}}{\text{Revenue potential/ potential revenue}}$$

Calculation of **potential revenue** may be done in **two ways**:

- Total rooms × double occupancy rate (presuming that all the rooms were sold at the double occupancy rate), **or**

b. % Mix of rooms i.e. Single × single occupancy rate

Double × double occupancy rate

(Taking into account the percentage of rooms sold at both single and double occupancy)

** Note that the potential revenue in (b) is less than potential revenue in (a). It is possible to achieve and even cross (b), if demand for double rooms exceeds sales mix projections, but it is next to impossible to achieve (a) unless the property has identical single and double rates.

BASIC FORMULAE FOR REVENUE MANAGEMENT:

For the following example, assume that the Educational Inn has 300 guestrooms, collects an average of $80 per room, and is currently operating at a 70% average occupancy. The hotel offers 100 one-bed and 200 two-bed guestrooms. Management has established single and double rates for each type. Any one-bed room sold as a single is priced at $90; as a double, it sells for $110. Any two-bed room sold as a single is priced at $100; as a double it sells for $120.

Formula 1: PASR (Potential Average Single Rate):

If the hotel had not varied its single rate by room type (for example, if all singles were $90), the PASR would equal its rack rate. In this example, the single rate differs by room type, so the PASR is computed as a weighted average. It is found by multiplying the number of rooms in each type by its single room rack rate and dividing the sum total by the number of potential single rooms in the hotel.

Room type	No. of rooms	Single rate	Revenue at 100% occupancy
1 bed- A	100	$ 90	$ 9,000
2-beds- B	<u>200</u>	$ 100	<u>$ 20,000</u>
	300		**$ 29,000**

$$\textbf{Now, PASR} = \frac{\text{Single room revenues}}{\text{Number of Rooms}} = \frac{\$\,29{,}000}{300} = \$96.67$$

Formula 2: PADR (Potential Average Double Rate):

Similarly, the PADR is found by multiplying the number of rooms in each type by its respective double-room rack rate and dividing the sum total by the number of potential double rooms in the hotel.

Room type	No. of rooms	Double rate	Revenue at 100% occupancy
1-bed	100	$ 110	$ 11,000
2-bed	200	$ 120	$ 24,000
	300		$ 35,000

Now, PADR = $\frac{\text{Double room revenues}}{\text{Number of rooms}} = \frac{\$\,35{,}000}{300} = \$116.67$

Formula 3: MOP (Multiple Occupancy Percentage):

An important element in determining a hotel's yield statistic is the proportion of the hotel's rooms that are occupied by more than one person, i.e. MOP. This information is important because it indicates sales mix and helps balance rates with future occupancy demand. In this example, if 105 of the 210 (that is 70% of 300 rooms) sold are on average occupied by more than one person, the MOP is as follows:

MOP = $\frac{\text{no. of rooms occ by more than one person}}{\text{No. of rooms occupied}} \times 100 = \frac{105}{210} = 50\%$

Formula 4: RS (Rate Spread):

The determination of rate spread amongst various room types can be essential to the use of yield decisions in targeting a hotel's specific market. The mathematical difference between the PADR and the PASR is known as the rate spread.

Rate Spread = PADR – PASR = $ 116.67 - $ 96.67 = $ 20

Formula 5: PAR (Potential Average Rate):

This is a very important element in yield management formulation. A hotel's PAR is a collective statistic that effectively combines the potential average rates, multiple occupancy percentage and rate spread.

The PAR is determined in two steps:

The first step involves multiplying the rate spread by the hotel's MOP. The result is added to the hotel's potential average single rate to produce a potential average rate based on demand (sales mix) and room rate information.

$$PAR = (MOP \times \text{Rate Spread}) + PASR$$

$$= (50\% \times \$\,20) + \$\,96.67 = \$\,106.67$$

Formula 6: AF (Room Rate Achievement Factor):

The percentage of the rack rate that the hotel actually receives is contained in the hotel's **achievement factor,** also called **the rate potential percentage.** The achievement factor is found by dividing the actual rate the hotel is currently collecting by the potential average rate.

$$AF = \frac{\text{Actual average rate}}{\text{Potential Average rate}} = \frac{\$80}{\$106.67} = 75\%$$

The AF is also equal to 100% minus the discount percentage.

So AF = 100% - discount %

Formula 7: Yield:

The yield calculation incorporates several of the previous formulas and there are various ways to express the yield equation:

a. $$\text{Yield} = \frac{\text{Revenue realised}}{\text{Revenue potential}}$$

b. $$\text{Yield} = \frac{\text{Room nights sold}}{\text{Room nights available}} \times \frac{\text{Actual Average room rate}}{\text{Potential Average rate}}$$

c. Yield = Occupancy Percentage × Achievement Factor

So, Yield here = 70% × 75% , or 0.7 × 0.75 = 0.525 or 52.5%

Formula 8: Identical Yields:

Calculations of different combinations of **occupancy** and actual **average room rate** may result in identical room revenue and yields. Suppose the Educational Inn is currently operating at 70% occupancy with an average rate of $80 but is considering raising its average rate to $100. What occupancy percentage must it achieve to match the yield it currently achieves?

Formula for determining identical yield occupancy percentage is as follows:

$$\textbf{Identical yield Occupancy \%} = \text{Current occupancy percentage} \times \frac{\text{Current rate}}{\text{Proposed rate}}$$

$$= 70\% \times \frac{\$\,80}{\$\,100} = 56\%$$

Consider another example:

	Number of Rooms sold	Occupancy Percentage	Average Room Rate	Room Revenue	Yield
1.	190	63.3	$ 88.42	$ 16,800	52.5%
2.	200	66.7	$ 84.00	$ 16,800	52.5%
3.	210	70.0	$ 80.00	$ 16,800	52.5%

Though the above examples show identical yields there are some significant differences:

Case 1 involves the fewest number of rooms sold and is likely to have the lowest operating cost. It will also generate the highest ADR and may appear to be the most profitable situation.

Case 3 involves the highest number of rooms sold and hence is most likely to have the highest operating costs while having the lowest ADR. However, non-room sales also have to be considered which are likely to be the highest in this case, meaning in this case there is a likelihood of highest total revenue (room revenue + non-room revenue).

Case 2 represents a middle position in terms of number of rooms sold and average daily rate, where, operating costs and total revenue is also likely to be in an intermediate position.

Keeping the above example in mind it is clear that identical yields should not be assumed to show equivalent operating positions. Identical yields are undependable as they fail to take into account operating costs and non-room revenues. When identical yields are computed, judging which scenario is best requires property-specific information and management evaluation.

Formula 9: Equivalent Occupancy:

A more effective way of evaluating whether a change in room rates is justifiable involves determining an equivalent occupancy. This formula can be used when management wants to know what other combinations of room rate and occupancy percentage provides equivalent **net revenue.** The equivalent occupancy formula is very similar to the identical occupancy formula, but takes marginal costs into account by incorporating the **contribution margin**. The marginal cost of providing a room is the cost the hotel incurs by selling that room- cleaning supplies, etc.; this cost would not have been incurred if the room were not sold, as opposed to fixed costs which are incurred whether the room is sold or not. **The contribution margin is that portion of the room rate that is left over after the marginal cost of providing that room has been subtracted out.**

To find the **equivalent occupancy**, use either of the following formulas:

1. $$\text{Equivalent Occupancy} = \text{Current Occupancy Percentage} \times \frac{\text{rack rate - marginal cost}}{\text{rack rate} \times (1\text{- discount \%}) \text{ - marginal cost}}$$

2. $$\text{Equivalent occupancy} = \text{Current Occupancy Percentage} \times \frac{\text{current contribution margin}}{\text{new contribution margin}}$$

In the above example, the Educational Inn is currently operating at 70% occupancy with an average rate of $ 80 but is considering raising its average rate to $ 100. Further assume that the marginal cost of selling a room is $12. What occupancy percentage must the Educational Inn achieve to match the net room revenue it currently receives?

Equivalent = Current Occupancy × Current contribution margin

Occupancy Percentage New contribution margin

$$= 70 \times \frac{\$80 - \$12}{\$100 - \$12} = 70 \times \frac{68}{88} = 54.1\%$$

While rack rates are raised relatively infrequently, discounting is a common practice. What is the equivalent occupancy to 70% with an $ 80 average room rate if the average room rate is discounted by say, 20% (to $64)?

$$\text{Equivalent Occupancy} = 70\% \times \frac{\$80 - \$12}{\$64 - \$12} = 70\% \times \frac{68}{52} = 91.5\%$$

A **discount grid** can help management to evaluate discounting choices. For example, if the ARR of a hotel is $100 and its marginal cost is $12, a grid can be prepared that lists the occupancy % needed to achieve equivalent net revenue, given different discount levels, say, 5%, 10%, 15%, etc. To prepare this grid one must calculate the marginal cost of renting a room. Next, integrate this information into the equivalent occupancy formula and perform the calculations to fill in the grid. Applying the yield and equivalent occupancy formulas to the same alters their inferences.

Suppose that the Educational Inn is currently operating at 70% occupancy with an average rate of $80 and a marginal cost of $12. Would the Inn be better off with an average rate of $100 at 50% occupancy? What about $100 at 55% occupancy? In the chart that follows these data are presented and the yield and occupancy formulas are applied here.

	No. of rooms Sold	**Occupancy Percentage**	**ARR**	**Gross room Revenue**	**Total contr. Margin* =**	**Yield %**
Current	**210**	**70.0 %**	**$ 80**	**$ 16,800**	**$ 14,280**	**52.5%**
Identical	**168**	**56.0%**	**100**	**$ 16,800**	**14,784**	**52.5%**
Equivalent	**162****	**54.1%**	**100**	**$ 16,200**	**14,280**	**50.6%**

New	**150**	**50.0%**	**100**	**$ 15,000**	**13,200**	**46.9%**
New	**165**	**55%**	**100**	**$ 16,500**	**14,520**	**51.6%**

***= based on the marginal cost of $12. Since fixed costs are the same for all situations, the differences between total contribution margins will equal the differences between net room revenues.**

**** = rounded down from 162.3. based on this amount, net revenues would be $ 14,282.**

In the first case, observe that 50% occupancy falls below the 56% needed for identical yield and 54.1% needed to produce equivalent net room revenue.

In the second case, both approaches are in conflict and illustrate the superiority of the equivalent occupancy formula. At 55% occupancy, the Inn falls short of the 56% needed for identical yield. If the yield formula is used, the Inn appears to be worse off. However, the 55% is higher than the 54.1% needed to produce equivalent net room revenue.

So, according to either approach, the Inn would be worse off with 50% occupancy and a $100 ADR.

With the equivalent occupancy formula, the Inn would be better off. A close look at the total contribution margin column- which shows that contribution, and therefore net room revenue- would rise, reveals that the equivalent occupancy formula provides more accurate and useful information. However, the net gain in room revenue would have to be weighed against the potential loss of non-room revenue caused by lower occupancy.

Formula 10: Required Non-Room Revenue per Guest:

Both equivalent occupancy and yield fail to account for changes in non-room revenue due to changes in occupancy. The manager, wanting some clear indication of whether a change in room rate will render more than an offsetting change in non-room revenue, may find an answer using breakeven analysis. This involves calculating or estimating a number of elements:

- the net loss in room revenue due to room rate discounting
- the amount of non-room revenue needed to offset this loss
- the average amount each guest spends in non-room revenue centres
- the increase in occupancy likely to result from rate discounting

The break-even calculation is based on the weighted average contribution margin ratio (CMRw) for all non-room revenue centres. The formula is as follows:

$$\text{CMRw} = \frac{\text{Total Non-Room Revenue} - \text{Total Non-Room Revenue Centre Variable Cost}}{\text{Total Non-Room Revenue}}$$

Knowing the CMRw and the average amount that guests spend in non-room revenue and having estimated the probable change in occupancy, the FOM can determine whether the net loss caused by discounting room rates is likely to be more than offset by the net gain in non-room revenue. The formula is as follows:

$$\text{Required Non-room revenue Per guest} = \frac{\text{Required increase in net non-room revenue}}{\text{Number of extra guests}} \;/\; \text{CMRw}$$

The FOM can compare the result of this equation with the actual average non-room spending per guest. If this number is higher than the actual average non-room spending per guest, the hotel is likely to lose net revenue by discounting, that is, the additional guests brought in by discounting will not spend enough to offset the net loss in room revenue. If the amount needed per additional guest is lower than the actual average amount spent, the hotel is likely to increase its net revenue by discounting.

For example, suppose a hotel has 400 rooms and has $144.75 potential average room rate (or $ 57,900 Potential room revenue). Suppose the marginal cost per room is $12 and the hotel is operating at 60% occupancy, i.e. 240 rooms are sold per night, and the ARR achieved is $137.50. The manager thinks that by lowering rate to $110 the occupancy can be increased to 75% (300 rooms sold per night) and that 90% occupancy (360 rooms sold) can be achieved by further lowering the rate to $91.67. The room revenue in these 3 cases is same i.e. $33,000 and it appears that all three situations are similar. Let us also consider the factor of $12, the marginal cost per room and calculate the revenue for the above situations:

	Occ %		Rooms		Room contribution margin	Net revenue
1.	60%	×	400	×	($137.50 - $12)	= $30,120

2. 75% × 400 × ($110 - $12) = $29,400

3. 90% × 400 × ($91.67 - $12) = $28,681

It is clear that the reduction of rate to $110 would get 60 rooms extra but the net revenue loss will be $720 ($30,120 -, $29,400). Similarly, a further reduction to$91.67 in room rate would bring 120 extra rooms, but net revenue loss would be $1,439. To offset this loss of net revenue each additional guest shall have to spend $12 on net non-room revenue:

$$\frac{\$\,720}{60 \text{ rooms}} = \$12 \quad \text{and} \quad \frac{\$1439}{120 \text{ rooms}} = \$12$$

If the non-room CMRw is found to be 0.25, the required non-room spending for each additional guest is:

Required non-room spending= $12 / 0.25 = $48

So, if the hotel guests spend an average of more than $48 per day in the non-room revenue centres, the hotel is likely to increase its total net revenue by offering either room rate discount.

(*Revenue management continues in the next topic, 4/4, Elements of revenue strategy which explains how revenue management decisions are affected by:* ***group room sales, transient room sales, food and beverage activity, local and area-wide activities, special events and fair market share forecasting.*** *It summarises the role of the* ***revenue management team*** *and the typical* ***revenue meetings*** *and explains how* ***revenue management software*** *aids hotel managers*)

Questions on RM ¾:

14. Define yield and give the three formulae for it.
15. Give the formulae for:
    - PASR b. PADR c. Rate Spread d. Achievement factor

    e. PAR

16. What is the difference between identical yields and equivalent occupancy for the YM planner? Also, give formulae for both.
17. What is a discount grid? How is it useful to the FOM? What formula is used here?
18. Explain the terms- marginal cost and contribution margin. Give an example of each.

19. What is the importance and formula for calculating required non-room revenue per guest? What is the importance of this for the YM planner?

YIELD MANAGEMENT

HISTORY OF YIELD MANAGEMENT - Airlines industry late 70s to mid 80s

CONCEPT of YM:

- **sell right product**
- **to the right customer**
- **on the right day**
- **for the right price**

YIELD MANAGEMENT CYCLE

The yield management cycle is as follows:

YM usually involves the following steps:

- **Forecasting demand**
- Strategies and tactics □ to **optimise demand**
- Systems and procedures- to **control demand**
- Feedback- to **monitor demand**

a. FORECASTING BOOKINGS:

Time series analysis or moving average forecast

$$F(y+1) = \frac{D(y) + D(y-1) + D(y-2) + D(y-3)}{4}$$

Where: **y** is the current year

F is the forecasted demand

D is the actual demand for the equivalent night in

the year indicated.

b. STRATEGIES AND TACTICS- optimise demand:

“When demand is high, maximize rates; when demand is low, maximize room sales” (Orkin).

Reacting to variations in demand in order to maximize yield:

1. Open or close particular rates

2. Allocate blocks of rooms to particular rates, and then switch these around to meet changing circumstances.

Example:	No. 1 (highest rack rate)	100 rooms
	No. 2	50 rooms
	No. 3	40 rooms
	No. 4 (lowest rate)	30 rooms

BLOCK OUT PERIODS

Blocking of certain days when potential guests must commit to a certain length of stay or face refusal of accommodation - MLOS

Potential high and low demand tactics for:

- ✓ Transient business

- ✓ Group business

c. SYSTEMS AND PROCEDURES- to control demand

By using :

an automated system, training staff and having an ear to the ground

d. FEEDBACK- to monitor demand

From guests, employees, and statistics in reports (turn-aways, cancellations, no-shows, etc.

Note: same cycle is followed by the Revenue management Software also.

COMPONENTS OF YIELD MANAGEMENT MEASUREMENT

Yield is the percentage of income that could be secured if 100% of available rooms were sold at the full rack rate. It is the ratio of **actual revenue or revenue realized to potential revenue.**

$$\text{Yield} = \frac{\text{Revenue realized}}{\text{Revenue potential}}$$

5. Total rooms × double occupancy rate (presuming that all the rooms were sold at the double occupancy rate), or

6. % Mix of rooms Single × single occupancy rate
Double × double occupancy rate

Note that (b) will be less than (a) but more realistic.

BASIC FORMULAE FOR CALCUALTING YIELD MANAGEMENT

For the following example, assume that the Educational Inn has 300 guestrooms, collects an average of $80 per room, and is currently operating at a 70% average occupancy. The hotel offers 100 one-bed and 200 two-bed guestrooms. Management has established single and double rates for each type. Any one-bed room sold as a single is priced at $90: as a double, it sells for $110. Any two-bed room sold as a single is priced at $100; as a double it sells for $120.

Formula 1: PASR (Potential Average Single Rate):

Room type	No. of rooms	Single rate	Revenue at 100% occupancy
1 bed- A	100	$ 90	$ 9,000
2-beds- B	200	$ 100	$ 20,000
	300		**$ 29,000**

]

Now, PASR = $\frac{\text{Single room revenues}}{\text{Number of Rooms}} = \frac{\$\ 29{,}000}{300} = \$96.67$

Formula 2: PADR (Potential Average Double Rate):

Room type	No. of rooms	Double rate	Revenue at 100% occupancy
1-bed	100	$ 110	$ 11,000
2-bed	200	$ 120	$ 24,000
	300		$ 35,000

Now, PADR = $\frac{\text{Double room revenues}}{\text{Number of rooms}} = \frac{\$\ 35{,}000}{300} = \$116.67$

Formula 3: MOP (Multiple Occupancy Percentage):

$$MOP = \frac{\text{No. of rooms occ by more than one person}}{\text{No. of rooms occupied}} = \frac{105}{210} = 50\%$$

Formula 4: RS (Rate Spread):

Rate Spread = PADR − PASR = $ 116.67 - $ 96.67 = $ 20

Formula 5: PAR (Potential Average Rate):

PAR = (MOP × Rate Spread) + PASR

= (50% × $ 20) + $ 96.67 = $ 106.67

Formula 6: AF (Room Rate Achievement Factor):

$$AF = \frac{\text{Actual average rate}}{\text{Potential Average rate}} = \frac{\$80}{\$\ 106.67} = 75\%$$

The AF is also equal to 100% minus the discount percentage.

Formula 7: Yield:

a. $\text{Yield} = \dfrac{\text{Revenue realised}}{\text{Revenue potential}}$

b. $\text{Yield} = \dfrac{\text{Room nights sold}}{\text{Room nights available}} \times \dfrac{\text{Actual Average room rate}}{\text{Potential Average rate}}$

c. Yield = Occupancy Percentage × Achievement Factor

So, Yield here = 70% × 75%, or 0.7 × 0.75 = 0.525 or 52.5%

Formula 8: Identical Yields

$\text{Identical yield} = \text{Current Occupancy \%} \times \dfrac{\text{Current rate}}{\text{Proposed rate}}$

$$= 70\% \times \frac{\$\,80}{\$\,100} = 56\%$$

EXAMPLE:

Number of Rooms sold	occupancy percentage	average room rate	room revenue	Yield
190	63.3	$ 88.42	$ 16,800	52.5%
200	66.7	$ 84.00	$ 16,800	52.5%
210	70.0	$ 80.00	$ 16,800	52.5%

Case 1 least number of rooms sold - lowest operating cost - generate the highest ADR most profitable situation.

Case 3 - highest number of rooms sold - highest operating costs - lowest ADR. Non-room sales - highest in this case, so likelihood of highest total revenue (room revenue + non-room revenue).

Case 2 - a middle position in terms of number of rooms sold and ARR, where, operating costs and total revenue is also likely to be in an intermediate position.

Formula 9. RevPAR

$$\textbf{RevPAR} = \frac{\textbf{Actual room revenue}}{\textbf{Number of available rooms}}$$

Or

$$\textbf{RevPAR} = \textbf{Occupancy percentage} \times \textbf{ARR}$$

Formula 10: Equivalent Occupancy

- A more effective way of evaluating whether a change in room rates is justifiable

- Can be used when management wants to know what other combinations of room rate and occupancy percentage provides equivalent **net revenue.**

- Takes marginal costs into account by incorporating the contribution **margin**.

- **Equivalent Occupancy**

$$= \text{Current occupancy } \% \times \frac{\text{Rack rate - Marginal cost}}{\text{Rack rate} \times (1\text{- discount }\%)\text{ - Marginal cost}}$$ OR

2. $$\textbf{Equivalent Occupancy} = \text{Current occupancy } \% \times \frac{\text{Current contribution margin}}{\text{New contribution margin}}$$

<u>Example:</u> the Educational Inn is currently operating at **<u>70% occupancy</u>** with an average rate of <u>$ 80</u> but is considering raising its average rate to <u>$ 100</u>. Further assume that the marginal cost of selling a room is <u>$12.</u>

$$\text{Equivalent Occupancy} = \text{Current Occupancy Percentage} \times \frac{\text{Current contribution margin}}{\text{New contribution margin}}$$

$$= 70\% \times \frac{\$80 - \$12}{\$100 - \$12} = 70 \times \frac{68}{88} = 54.1\%$$

What is the equivalent occupancy to 70% with an $ 80 average room rate if the average room rate is discounted by say, 20% (to $64)?

$$\text{Equivalent occupancy} = 70\% \times \frac{\$80 - \$12}{\$64 - \$12} = 70\% \times \frac{68}{52} = 91.5\%$$

A **DISCOUNT GRID** can help management to evaluate discounting choices.

Formula 11: Required Non-Room Revenue per Guest

Involves calculating or estimating a number of elements:

- the net loss in room revenue due to room rate discounting
- the amount of non-room revenue needed to offset this loss
- the average amount each guest spends in non-room revenue centres
- the increase in occupancy likely to result from rate discounting

CMRw =

$$\text{CMRw} = \frac{\text{Total Non-Room Revenue} - \text{Total Non-Room Revenue Centre VC}}{\text{Total Non-Room Revenue}}$$

Required Non-room revenue Per guest = $\frac{\text{Required increase in net non-room revenue}}{\text{Number of extra guests}}$ / CMRw

For example, suppose a hotel has 400 rooms and has $ 144.75 potential average room rate (=$57,900 Potential room revenue). Suppose the marginal cost per room is $12 and the hotel is operating at 60% occupancy, i.e. 240 rooms are sold per night, and the ARR achieved is $137.50.

The manager thinks that by lowering rate to $110 the occupancy can be increased to 75% (300 rooms sold per night) and that 90% occupancy (360 rooms sold) can be achieved by further lowering the rate to$ 91.67.

The room revenue in these 3 cases is same i.e. $ 33,000 and it appears that all three situations are similar. Let us also consider the factor of $12, the marginal cost per room and calculate the revenue for the above situations:

Level Occupancy		No. of rooms		Room contribution margin		Total revenue contribution
60%	×	400	×	($137.50 - $12)	=	$ 30,120 (240 #s) +60
75%	×	400	×	($110 - $12)	=	$ 29,400 (300 #s) +60

90% × 400 × ($ 91.67 - $ 12) = $ 28,681 (360 #s)

It is clear that the reduction of rate to $ 110 would get 60 rooms extra but the revenue loss will be $ 720. Similarly, a further reduction to $91.67 in room rate would bring 120 extra rooms, but revenue loss would be $1,439. To offset this loss of revenue each additional guest shall have to spend $12 on non-room revenue contribution:

$$\frac{\$720}{60 \text{ rooms}} = \frac{\$1{,}439}{120 \text{ rooms}} = \$11.9\ (\$12) \text{ and}$$

If the non-room CMRw is found to be 0.25, the required non-room spending for each additional guest is:

Required non-room spending = $12 / 0.25 = $48

ELEMENTS OF REVENUE MANAGEMENT

Following elements, based on information collected, may be included while planning a successful yield strategy:

1. Group room sales:

a. Groups already booked: The manager should be able to assess such figure of rooms or the wash factor.

b. Group booking pace: the rate at which the group business is booked is called group booking pace. The rate at which initial agreement between the group organisers and the hotel takes place over a period of time- a month, quarterly, half-yearly, etc. is important for planning bookings.

c. Groups not yet booked: group which has not even contacted the hotel yet but the manager is almost sure of this business on the basis that the group comes to the hotel regularly after a particular period.- e.g. "series groups".

d. Booking lead time: lead time is the time interval between the date of booking and expected date of arrival. The lead time + pace of booking, is important in determining how much additional group business should be accepted.

* If the current booking pace is low ---a lower rate may be offered

*** I**f demand is strong and group booking pace is ahead of the trends, discounts should not be offered.

e. Displacement of transient business: displacement occurs when a hotel accepts group business at the expense of turning away transient guest or FITs..

Assume that a **400-room hotel** has a **potential average rate** of $100, an actual **transient rate** of $80, an actual **group rate** of $60, and a **marginal cost** of $15 per room. Consider the impact of a group requesting a block of 60 rooms during these four days:

	Tuesday	Wednesday	Thursday	Friday
Room nights avail	400	400	400	400
Definite group demand	140	140	150	150
Expected transient demand	200	180	220	210
Available rooms	60	80	30	40
Suggested group	60	60	60	60
Transient displacement	0	0	30	20

(Revenue & yield calculations format)

	Tues.		Wed.		Thurs.		Fri.	
	- Group	+Group	- Group	+Group	- Group	+Group	- Group	+Group
Gross revenue	$24,400	$28,000	$22,800	$26,400	$26,600	$27,800	$25,800	$27,800
Contribution*	19,300	22,000	18,000	20,700	21,050	21,800	20,400	21,800
Yield **	61.0%	70.0%	57.0%	66.0%	66.5%	69.5%	64.5%	69.5%

* Based on a marginal cost of $15

** Based on potential revenue = $100 (PAR) × 400 rooms = $40,000

2. Transient Room Sales:

- Transient business is booked closer to the date of arrival than group business.
- Book <u>transient</u> business in city hotels 1-3 weeks before arrival;

  In resorts 1-2 years in advance.

- Hotels may classify rooms by their location, desirability, or size and charge more for better rooms.
- More desirable rooms may be classified as deluxe and have higher rates.
- Hotels may offer deluxe rooms at standard rates to attract guests, especially when demand is lower than expected. Then, when demand improves, the remainder of the better rooms can be sold at their full rack rates.
- Discounting for certain sources of business- corp., etc.
- <u>Very Imp to control discounts for optimal yield.</u>

3. Food and Beverage Activity:

20. Catering for functions, reception, etc., generates revenue independently.

4. Local and Area- Wide Conventions:

Even if the hotel is not in the immediate vicinity of the convention, transient guests and smaller groups displaced by the convention may book at the hotel due to room availability.

5. Special events:

21. example concerts, festivals and sporting events

22. Take advantage of this by controlling discounts or requiring a minimum length of stay- say during Christmas, etc.

6. Fair Market Share Forecasting:

- **Compare a hotel’s occupancy performance in relation to other hotels within a predetermined competitive set.**

- Market share analysis reveals how a hotel performed based on how it “**should have done**” and reveals how much business a hotel “**took**” from competitors**.**

- Various **reports** made available by various professional companies, e.g. Smith Travel Accommodation Report (STAR report) is historical in nature. TravelCLICK Reports including Hotelligence, Internet Hotelligence, and RateVIEW/ Phaser (in the US) use various GDS and Internet booking engines, thus, they look to the future and use actual reservation data.

- These include the occupancy percentage, ARR, and RevPAR Index, that tell how the hotel did vis-à-vis the competitive set.

USING YIELD MANAGEMENT

Check

Revenue meeting

YIELD MANAGEMENT TEAM

Consists of the Rooms Division Manager, the Sales Manager and the Reservations Manager.

The role of YM team is four-fold:

- To predict demand.
- To assign rooms to transient reservation.
- To open or close rates as seen fit.
- To conduct feedback sessions.

THE YIELD MANAGEMENT SOFTWARE SYSTEM

an YM system:

- ✓ Monitors and manages risk automatically
- ✓ Identifies dates that have low demand and/or revenue
- ✓ Provides optimal length of stay control
- ✓ Manages risk of overbooking
- ✓ Automatically highlights abnormal market behaviour

- ✓ Allows events to be entered before they occur
- ✓ Creates flexible reports for marketing programme evaluation
- ✓ Minimises data that must be reviewed
- ✓ Determines total transient and group demand displaced by a potential group arrival
- ✓ Helps determine group availability and rates.

HOW DOES THE YIELD REVENUE MANAGEMENT SYSTEM WORK?

I. FORECASTING Demand

- Demand patterns
- Special events database
- On-books information and the
- Results of any user demand changes.

These transient forecasts are then fed into the opportunity cost optimisation aspect of the system.

II. ANALYSIS

The system looks for:

- Booking lead times.
- Demand patterns such as average length of stay, no-shows, day of the week and seasonality.
- Special events where for any set of dates there is significantly different:
  - Occupancy patterns
  - Market segment patterns and
  - Booking lead-time patterns.

- Hotel booking patterns, where bookings are sorted into suitable forecasting groups. (Market segments and rates are translated into rate categories, as with rate fencing.)

Where computer-based YM has been applied, the following results have been achieved:

- **Continual monitoring**: a computerised YM system can track and analyse business conditions 24 hours a day, seven days a week.

- **Consistency:** software can be programmed to respond to specific changes in the marketplace, according to corporate or local management rules built into the software.
- **Performance tracking:** a computer-based system is capable of analysing sales and revenue transactions occurring within the business period to determine how well yield management goals were achieved.

The YM system generates any number of special reports:

- **Market segment report:** provides information regarding customer mix which is important information for effective forecasting by market segment.
- **Calendar/booking graph:** presents room-night demands and volume of reservations on a daily basis.
- **Future arrival dates status report:** furnishes demand data for each day of the week. The information contained here enables the discovery of occupancy trends by comparative analysis of weekdays and it can be designed to cover future periods as well.
- **Single arrival date history:** indicates the hotel's booking pattern trends in reservations. This report relates to the booking graph by documenting how a specific day was constructed on the graph.
- **Weekly recap report:** contains the sell rates for rooms and the number of rooms authorised and sold in marketing programs with special or discounted rates.
- **Room statistics tracking sheet:** tracks no-shows, guaranteed no-shows, walk-ins and turn-aways - all this will help in accurate forecasting.

****

1/4. YIELD MANAGEMENT (REVENUE MANAGEMENT)

*(Explains the **concept** of yield/revenue management and the **process** used for maximising yield in hotels)*

***Objectives** of this lesson:*

After completion of this lesson the learner will be able to:

- *Define the history associated with revenue management*
- *Explain the cycle of revenue management process and the various stages thereof*

Yield management is a process of planning to achieve maximum room rates and most profitable guests- guests who will spend money at the hotel�s food and beverage outlets, gift shops, etc. It encourages front office managers, general managers and marketing and sales department to target sales period and develop sales programs that will maximize profit for the hotel.

It is now, commonly known as �**REVENUE MANAGEMENT**" (a term which we will use in this chapter).

(Actual **difference** between **revenue management** and **yield management**= Whereas Revenue Management involves predicting consumer behavior by segmenting markets, forecasting demand, and optimizing prices for several different types of products, Yield Management refers specifically to maximizing revenue through inventory control.)

Yield/Revenue management (YM/ RM) is a more precise measure of performance than ARR or occupancy alone, because it combines both of these into a single statistic- the yield statistic. It is used to maximize revenue. It is also an evaluative tool for the FOM to compare actual revenue against potential revenue.

CONCEPT OF YIELD MANAGEMENT & HISTORY

Airlines (specifically, American Airlines) were the first to use YM in the late 1970s-early 80s. They blocked out certain time periods when seats on flights were priced at certain levels; the potential customer either booked the flight at the prices quoted or found other means of transportation. This policy faced some problems but managed to establish the economic structure of airfares. This is now popular with car rental firms, cruise lines

Hotels share similar operational features with airlines. Each has a fixed number of products- hotel room and seats- which if not sold on a certain day or flight, cannot be resold. Airlines and hotels have various rates for guests to choose from. Each industry has demand periods (holidays, weekdays and weekends) that place the provider in a favourable position. Reservations are the key operational concept that allows managers to use RM effectively. By using computers to track a database of products and to process reservations, each has the ability to look at a sales horizon of 45-90 days and set price and reservation policies that will allow managers to predict profitability.

The key to <u>successful implementation of revenue management</u> is based on:

23. The ability to monitor demand and to develop reliable forecasts
24. The ability to sell the **right product** (guestroom, banquet) to the **right customer** (business, leisure, convention, etc.) on the **right day** (weekday, weekend) for the **right price** (rack rate, corporate rate, etc.)

One of the major differences, however, is how YM/RM is used in airlines and hotels. At the hotel the guest will also spend money within the hotel for various products and services- the airline passenger does not have the same scope. Due to this difference, hotels have to consider the **revenue potential** of one prospective guest over the other when determining reservation policies. For example, one group who is requesting to block a group of 500 rooms with a $50,000 value may also want to book banquets, and other food service events which total $25,000, while another group may want to book a block of 600 rooms with a value of only $60,000.

In the hotel industry, revenue management is used to determine selling rates for rooms, occupancy levels, etc. through demand-forecasting techniques. **It is based on supply and demand**. The hotel industry�s focus is shifting from **high-volume bookings** to **high�profit bookings** to improve profitability. By increasing bookings on low demand days and by selling rooms at higher rates on high-demand days, the industry can improve its profitability.

2. THE YM/REVENUE MANAGEMENT PROCESS

The YM/revenue management cycle is as follows:

As can be seen from the cycle, RM usually involves the following steps:

- **Forecasting demand**
- Strategies and tactics � to **optimise demand**
- Systems and procedures- to **control demand**
- Feedback- to **monitor demand**

a. <u>FORECASTING BOOKINGS- for forecasting demand</u>

If a hotel wants to take effective action in avoiding turning away of attractive bookings for the less paying ones it must be able to forecast the final level of bookings. Experience suggests that the best approach is to predict the total number of guests expected and then break this down into different market segments keeping in mind the previous experience. Forecasting must be done on a regular basis, a minimum of once a week during normal occupancy periods and possibly daily during high demand periods and it must encompass more than 30- or 60-day projections.

The information required are historical data- recent and past years- on the number of bookings, the type, group, transient, airline, corporate, etc; information regarding cancellations, no-shows, walk-ins, overstays and under-stays; and all this day-wise. This information will give details on lead times, wash down factors, high and low demand periods, etc. from which the RM team will formulate the rates to be offered.

Time series analysis or moving average forecast tries to smooth out the inevitable random fluctuations by assuming demand to be equal to the average of the equivalent nights in the past- about the past 3-4 years. The equation is:

$$F(y+1) = \frac{D(y) + D(y-1) + D(y-2) + D(y-3)}{4}$$

Where: y is the current year

F is the forecast demand

D is then actual demand for the equivalent night in the year indicated.

The problem most hotels face is that because demand is not only seasonal but varies from one day of the week to another; the only real basis for analysis is the same night the year before or year before that. Each night is thus 12 months apart and a lot can happen in that period.

Fluctuations can occur thus:

- Changes in the economic environment such as booms or slumps;
- Fluctuations in exchange rates;
- Security threats, real or imagined;
- Major exhibitions or sports programmes;
- The hotel's marketing activities such as advertising campaigns or special promotions;
- A change in the competitive position, such as the opening of a major hotel in the city or nearby.

So often the revenue management team the front office manager, the sales manager and the reservations manager-look at statistical techniques and modify this in the light of the new factors listed above.

As mentioned earlier, forecasting room sales is an important feature of revenue management. Orkin suggests using a daily-decision orientation rather than a seasonal decision-making scheme in developing a strategy. For example, if a hotel has group business reservations for 95% of available rooms, seeking transient business with promotional packages would be inadvisable. If the period following the group business is low, then such advance knowledge will allow for marketing and sales to develop special promotional packages aimed at the transient or local market.

In addition, there are **psychological problems** to be overcome when using this approach. Usually front office staff tends to see a full house as their main measure to success. The revenue management approach may require the reservation clerk to use the phrase Im sorry, we dont have rooms available. when dealing with a low- rate customer even when she knows that there are rooms still available. It also takes courage to turn away good business in the expectation that higher yield bookings will turn up. Management needs to carefully train staff and conduct regular review and feedback sessions. **The staff needs to be told that the objective is yield, not occupancy per se.** They should know how yield is calculated and how turning some bookings away can actually raise it.

2. STRATEGIES AND TACTICS - to optimise demand

A simple policy for developing strategies to implement revenue management is: **when demand is high, maximize rates; when demand is low, maximize room sales (Orkin).** He says when demand is high restrict availability of low-rate categories and packages to transients (guests), require minimum length of stays and commit rooms only to groups willing to pay higher rates. When demand is low, provide reservation agents with special promotional rates to offer transients, solicit group business from organizations and segments that are characteristically rate sensitive and promote limited-availability low-cost packages to local market.

Note: * The tactics employed by hotel management for maximizing yield are discussed later in detail.

3. SYSTEMS AND PROCEDURES- to control demand

A front office manager should use an automated system that will process reservations, track demand and block out room availability during certain time periods. Manually, this would be a huge job and virtually impossible, especially for a large hotel. Training of staff to understand and use revenue management systems is also important. Most importantly, the front office manger should be adaptable to changes in demand and incorporate flexibility in the RM strategies to accommodate regular guests in order to maintain goodwill for long-term guests. Establishing block out periods will also require an ongoing marketing effort by the hotel to ensure sales in projected low-demand periods.

4. FEEDBACK- to monitor demand

A record of the date and amount of **turn-away** business is vital to assess the viability of yield management and to update all strategies in use. It also forms the subsequent month and year�s historical data. It gives an indication of the responsiveness of the organisation�s reservation system to the strategies and also effectiveness of the strategies in response to market demand. Guest feedback or staff reports of chance guest comments as to why the stay was curtailed, etc. may help. Feedback also serves as a mechanism for praise and assessing individual and departmental performance.

In conclusion, yield management is the process used by hotel management (the front office) to ensure optimum yield by employing accurate forecasting methods in order to develop appropriate strategies for enhancing yield while controlling demand with the aid of revenue software and training of FO staff and maintaining regular feedback of elements that impact the forecasts and strategies such as turnaways, cancellations,etc. and of guests.

(*RM continues in the next topic 2/4* ***'Applications of YM/Revenue Management'****, where we will discuss the uses and benefits of yield/ revenue management and how front office managers can maximise revenue/yield by using forecast information in* ***developing strategies*** *of* <u>*capacity management, discount allocation and duration control*</u>**)**

Questions on 1/4 Yield/Revenue Management:

- ✓ Explore the history of yield management/revenue management on your own and write.
- ✓ Define YM. What could be the difference between yield management and revenue management?
- ✓ Why can RM be successfully used by hotels and airlines?
- ✓ Draw the RM cycle. Briefly explain each stage of this cycle.

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