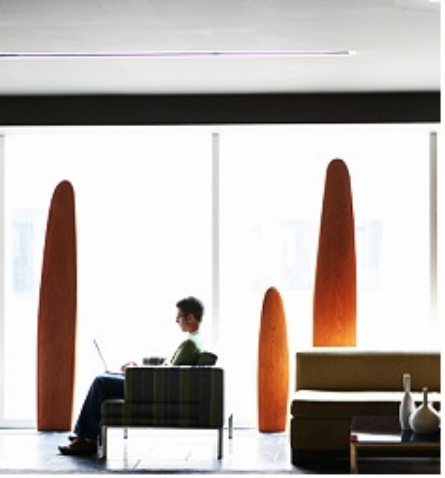

Accommodation Management

Introduction to Revenue Management

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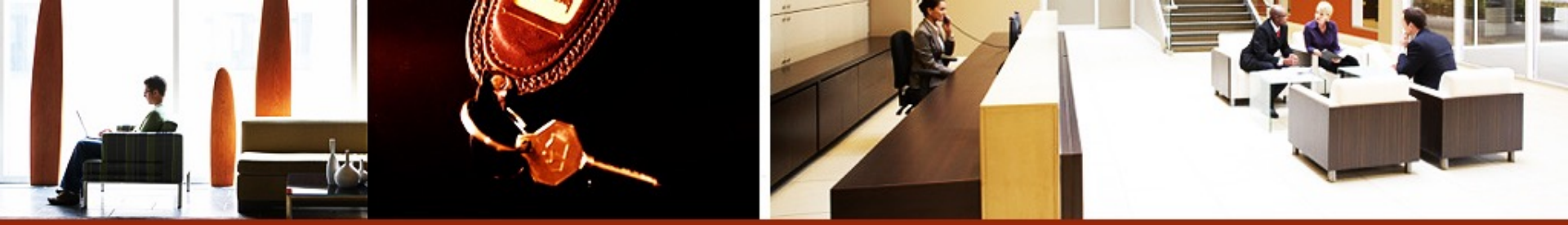


Revenue Management

What is Revenue Management?

What is Revenue Management (RM)

Revenue Management is traditionally defined as being the art and science of forecasting demand while simultaneously adjusting the price and availability of products to match that particular demand. **(Cullen and Helsel, 2006; Queenan et al., 2011)**

It is a **management tool** that has the objective of increasing sales revenues by manipulating the prices at which fixed products are made available for sale in relation to the current and forecasted demand.

Revenue management can be also defined as to sell:

- The Right Product
- To the Right Customer
- At the Right Time
- For the Right Price
- Through the Right Channel

Revenue Management

History of Revenue Management

The concept of RM originated in the airline industry, but has since proven successful in these industries:

- **Lodging**
- **Car rental**
- **Cruise line**
- **Railways**
- **Touring**

Revenue Management

Flexibility of Revenue Management

Once hotel managers began using RM strategies, they recognised that room rates could accurately be adjusted based on the demand of specific markets segments, for example:

- Business travellers booking less than 7 days prior to arrivals
- Leisure travellers booking 3 to 6 months in advance of arrivals
- Members of the hotel's frequent guest program
- Travellers making reservations over the internet
- Travellers making reservations at the hotel's website
- Travellers requiring ancillary services (car rentals, airline reservations, etc)

Revenue Management

Key to successful Revenue Management (RM)

The key to successful revenue management is:

- To sell the right product (guestrooms, banquets, etc)
- To the right customers (business, leisure, MICE, etc)
- On the right day (weekday, weekend)
- For the right price (rack rate, corporate rate, group rate, etc)

Revenue Management

RM is based on Supply (SS) and Demand (DD)

Prices tend to rise when DD exceeds SS, which is why RM seeks to increase revenue by focusing on high-profit bookings instead of high-volume bookings to high-profit bookings. This results to:

- By increasing bookings on low-demand days and by selling rooms at higher room rates on high-demand days, the hotels can improve its profitability.

- In general, room rates should be:
  - higher (in order to maximise rate) when demand exceeds supply.
  - lower (in order to increase occupancy) when supply exceeds demand.

Revenue Management

Importance of forecasting

All hotels share a common problem: they have a fixed inventory of perishable products and there is no way to recover the time and revenue lost.

RM strategies seek to address this issue by maximising the efficiency of the sales that are made, but this cannot be done without the ability to forecast effectively.

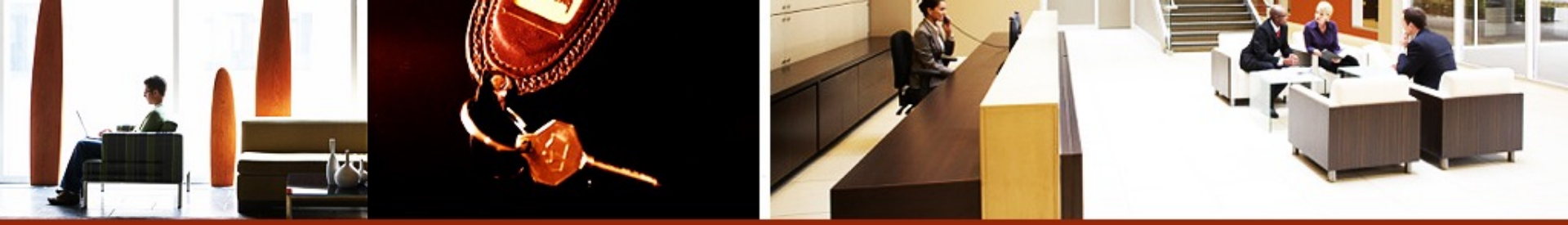
Managers need:

- Reliable information upon which to base their forecasts
- A good understanding of the property they manage and the market in which they operates
- To consider future events/variables in the markets that affect the business

Revenue Management

Benefits of Revenue Management

- Improved forecasting
- Improved pricing and inventory decisions
- Identification of new market segments
- Enhanced coordination between Front Office and Sales dept
- Determination of discount activities
- Improved development of short-term and long-term business plan
- Increase business and profit
- Savings in labour costs and other operating expenses



Rooms Division (RD) Revenue Management Formulas

RD Revenue Management Formulas

Occupancy Rate/Percentage

Occupancy rate indicates the proportion of rooms either sold or occupied to the number of rooms available for the selected date or period.

$$\textbf{Occupancy rate} = \frac{\textbf{Number of occupied rooms}}{\textbf{Number of available rooms}}$$

$$\textbf{Occupancy percentage} = \frac{\textbf{Number of occupied rooms}}{\textbf{Number of available rooms}} * 100$$

Example: Lux* Belle Mare is a 200 rooms hotel with guests in 150 rooms.

$$\textbf{Occupancy rate} = \frac{150}{200} = 0.75$$

$$\textbf{Occupancy percentage} = \frac{150}{200} * 100 = 75\ \%$$

RD Revenue Management Formulas

Multiple Occupancy Percentage

Multiple Occupancy percentage =

$$\frac{\text{Number of rooms occupied by more than one person}}{\text{Total room occupied}} * 100$$

Example: Lux* Belle Mare is a 200 rooms hotel with guests in 150 rooms. 133 rooms are occupied by couple and families and 17 are single rooms.

Multiple Occupancy percentage = $\frac{133}{150} * 100 = 88.6\ \%$

RD Revenue Management Formulas

Average Daily Rate

Average Daily Rate indicate the average daily income per paid occupied room

Average Daily Rate = Total Room Revenue
Number of room sold

Example: Lux* Belle Mare is a 200 rooms hotel. On 07 Jan 2025 177 rooms were sold as detailed below:

05 Villas sold at Rs 75,000 per night
96 Prestige Suites sold at Rs 25,000 per night
21 Family Suites sold at Rs 35,000 per night
39 Standard Suites sold at Rs 20,000 per night
16 Junior Suites sold at Rs 10,000 per night

RD Revenue Management Formulas

Average Daily Rate

05 Villas X Rs 75,000 = Rs 375,000
96 Prestige Suites X Rs 25,000 = Rs 2,400,000
21 Family Suites X Rs 35,000 = Rs 735,000
39 Standard Suites X Rs 20,000 = Rs 780,000
16 Junior Suites X Rs 10,000 = Rs 160,000

Total Room Revenue = Rs 375,000 + Rs 2,400,000 + Rs 735000 + Rs 780,000 + Rs 160,000 = **Rs 4,450,000**

Total Room Sold = 5+96+21+39+16 = **177 Rooms**

Average Daily Rate = $\frac{4,450,000}{177}$ = Rs 25,141.24

RD Revenue Management Formulas

Revenue per Available Room

Revenue per Available Room represents the revenue generated per available room, whether or not they are occupied.

Revenue per Available Room = Total Sales (Rooms)
Number of rooms available

Example: Lux* Belle Mare is a 200 rooms hotel categories as follows:

- 10 Villas
- 98 Prestige Suites
- 25 Family Suites
- 45 Standard Suites
- 22 Junior Suites

RD Revenue Management Formulas

Revenue per Available Room

Total Room Revenue = Rs 375,000 + Rs 2,400,000 + Rs 735,000 + Rs 780,000 + Rs 160,000 = **Rs 4,450,000**

Total room available = 10+98+25+45+22 = **200 Rooms**

Revenue per Available Room on 07 Jan 25

$$\frac{\textbf{4,450,000}}{\textbf{200}} = \textbf{Rs 22,250}$$

RD Revenue Management Formulas

Number of guest per occupied rooms

Number of guest per occupied rooms provide the number of guests occupied per room in the hotel.

Number of guest per occupied rooms = Number of guests / Number of occupied rooms

Example: On 07 Jan 2025 Lux* Belle Mare accommodated the following type and number of guests:

- Business travellers - 28
- Honeymooners - 107
- Couple without kids - 156
- Family - 86

RD Revenue Management Formulas

Number of guest per occupied rooms

Total number of guests = **28+107+156+86 = 377 Guests**

Total number of occupied rooms = 5+96+21+39+16 = **177 Rooms**

Number of guest per occupied rooms = $\frac{377}{177}$ = 2.1 guests/room

RD Revenue Management Formulas

Total Revenue per available rooms

Total Revenue per available rooms assesses the total income a hotel generates on a per-available-room basis

Total Revenue per available rooms = Total Net Revenue
Number of available rooms

Example: During the period of December Lux* Belle Mare has generated revenue as follows:

- Food & Beverage Dept – Rs 6,000,000
- Rooms Division Dept – Rs 10,000,000
- Spa – Rs 800,000
- Golf – Rs 2,000,000
- Others – Rs 9,000,000

RD Revenue Management Formulas

Total Revenue per available rooms

Total Net Revenue for Dec = 6,000,000 + 10,000,000 + 800,000 + 2,000,000 + 9,000,000 = **Rs 27,800,000**

Total Revenue per available rooms=$\frac{\text{Rs 27,800,000}}{200}$ = Rs 139,000

RD Revenue Management Formulas

Potential Average Rate

Potential Average Room Rate assesses the potential revenue from rooms sold at rack rate.

Potential Average Rate = (Multiple Occupancy Percentage X Room Rate Spread) + Potential Average Single Room

Example: Lux* Belle Mare has 200 rooms and offers 120 double rooms and 80 twin rooms. The rack rate offered by the management are as follow:

Double Rooms

Single occupancy sold at Rs 10,500

Double occupancy sold at Rs 12,500

Twin rooms

Single occupancy sold at Rs 9,800

Double occupancy sold at Rs 10,000

RD Revenue Management Formulas

Room Rate Spread

Room Rate Spread is the mathematical difference between the hotel's average single rate and potential average double rate

Room Rate Spread = Potential Average Double Room - Potential Average Single Room

= Rs 11,500 – Rs 10,200 = Rs 1300

RD Revenue Management Formulas

Potential Average Rate

Potential Average <u>Double</u> Room = Total revenue as room sold as double at rack rate / Number of rooms available

Total revenue as room sold as double at rack rate = (120*12,500)+(80*10,000) = Rs 1,500,000 + Rs 800,000 = **Rs 2,300,000**

Number of rooms available = **200 Rooms**

Potential Average Double Room = <u>Rs 2,300,000</u> = Rs 11,500

200

RD Revenue Management Formulas

Potential Average Rate

Potential Average Single Room = Total revenue as room sold as single at rack rate / Number of rooms available

Total revenue as room sold as single at rack rate = (120*10,500)+(80*9,800) = Rs 1,260,000 + Rs 784,000 = **Rs 2,044,000**

Number of rooms available = **200 Rooms**

$$\textbf{Potential Average Single Room} = \frac{\text{Rs } 2{,}044{,}000}{200} = \text{Rs } 10{,}220$$

RD Revenue Management Formulas

Potential Average Rate

Potential Average Rate = (Multiple Occupancy Percentage * Room Rate Spread) + Potential Average Single Room

= (88.6% X Rs 1300) + Rs 10,220

= Rs 1,151.8 + Rs 10,200

= Rs 11,351.8

RD Revenue Management Formulas

Room Rate Achievement Factor

Room Rate Achievement Factor is defined as the rate/percentage of the Rack Rate that the hotel actually receives by selling their rooms

Room Rate Achievement Factor = Average Daily Rate*
Potential Average Rate

= Rs 25,141.24 = 2.21
Rs 11,351.8

****Average Daily Rate – Refer to earlier calculation***

RD Revenue Management Formulas

Activity

Refer to attached PDF

References

Cullen, K. and Helsel, C. (2006), Defining Revenue Management, Hospitality Sales and Marketing Association International, McLean, VA

Queenan, C., Ferguson, E. and Stratman, K. (2011), "*Revenue management performance drivers:an exploratory analysis within the hotel industry*", Journal of Revenue & PricingManagement, Vol. 10 No. 2, pp. 172-188.


THANK YOU
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