An approach for enhancing hotel room revenue

Suresh. D[1], H.M. Moyeenudin*[2], A. Wilfred Lawrence[3], Mark Keith Faraday[4]

[1-4]*Department of Hotel & Catering Management, School of Hotel & Catering Management,
Vels Institute of Science, Technology and Advanced Studies, Pallavaram, Chennai, India*
mnudin.shcm@velsuniv.ac.in, y2k7suresh@gmail.com, wilfred.shcm@velsuniv.ac.in, faraday.shcm@velsuniv.ac.in

Abstract

Objectives: To identify the strategies used in hotel to increase the hotel room revenue and employ technology based assistance in enhancing the room revenue.

Methods: The preliminary research is conducted through the data collected from research articles, books, websites, in order to find the best procedure for enhancing room revenue of a star categorized hotel. This study is made by referring to published research articles along with various websites.

Findings: The strategies have to be developed by revenue managers while making decisions on enhancing room's revenue. It is compulsory for revenue mangers that they must be good in analytical skills about the competitors in competitive set. Application of tactical decisions comparing to other hotel in competitive set can enhance the hotel room revenue. Growth of technology in recent scenario contributes huge revenue through hotel room division sales.

Application: The software developed for a hotel management should be inclusive of revenue management interface that helps in increasing the revenue per available room through managing the capacity efficiently by giving discounts according to the requirements. Travel agents, tour operators and airlines play a major role in growth of a hotel through providing group check in regularly.

*Keywords***:** Room Revenue, Room division, Room operations, Reservations, Yield management.

1. Introduction

India has become one of the favorite destinations for international tourist from the past few decades and continued to be the preferred place as on 2018, which in turn made India to get rated as the sixth best tourism place in the world. Hotel room revenue through international tourist is one of the major sources for foreign exchange of this country, as tourism ranked in third place of foreign exchange earner for India. There is a huge growth in hotel sector, especially with star categorized hotels, in order to accomplish the needs of an international guest; hotels are equipped with various facilities to improve their revenue. The major hotel revenue is generated from room division when it is compared other departments of hotels like restaurants and bar. The performance of a hotel is measured by appraising daily room occupancy percentage, because it reflects in overall revenue of the hotel. Hotels have rack rate, which is the maximum selling price for rooms and that will not be stable when the room occupancy of the hotel becomes less and hotels calculate their revenue with Average Daily Rate (ADR). Although hotel cannot maintain the constant ADR due to the decline in room occupancy and that led to diminishing room rates and will reduce room revenue also reflects in ADR. There are various strategies followed in hotel to increase the room occupancy percentage in order to increase the ADR [1], hotels mostly adopt lower room rates to attract the business being in competitive set and always compare with competitors rates to keep the room occupied, Even though it may decrease the Room revenue of the Hotel. Revenue management is also known as yield management that is essential in enhancing the overall revenue of the hotel according to the high and low demand of rooms. The evaluation of occupancy can be done by seasonal demands and by prioritizing and allocating the room to the type of guest with number of days they stay in hotel, also by giving discounts to travel agents, tour operators, and corporate companies during group check inns. There are other factors which are influenced in improving the revenue of a hotel is adopting modern facilities according to the business trend [2]. A specific revenue evaluating tool can makes decisions according to demand in hotel, whereas the manual method form revenue a management is time consuming comparatively from an exclusive software application designed for managing the revenue of the hotel with accurate calculations and automated instructions.

2. Managing room division

The front office managers are concerned towards the room sales by using effective selling techniques. The fundamental aspect of successful sales is to sell right room according to the guest need and purpose. Most of the hotels are focused towards increasing room revenue along with food and beverages through room service, spa, fitness center, business center, Dispense bar and mini bar [3]. An information is needed to make predictions about competitive hotels in a particular location and also to understand about the market demand [4],to identify the strategies required to compete with other hotels in a nearby location by increasing and decreasing room rates, giving discounts, determining the packages for guest, offering buffet system, special rates for travels agents and companies to manage the hotel room efficiently.

The huge volume of guestrooms will be increased by regular guest and group check inns; the record group's history is maintained to understand their behavior during reservation and cancellation. There some regular companies provide huge volume of business as well as the tour operators by knowing their previous performance, the sales can be predicted and will assist in adjusting occupancy according to the future needs.

The amount of guest occupancy is mostly generated by individual guest, such as tourist, business class guest is high, the occupancy through free individual traveler cannot be predicted so most of the hotels focus on the group bookings, airlines and tour operators, which has significance in increasing the volume of room sales to hotel.
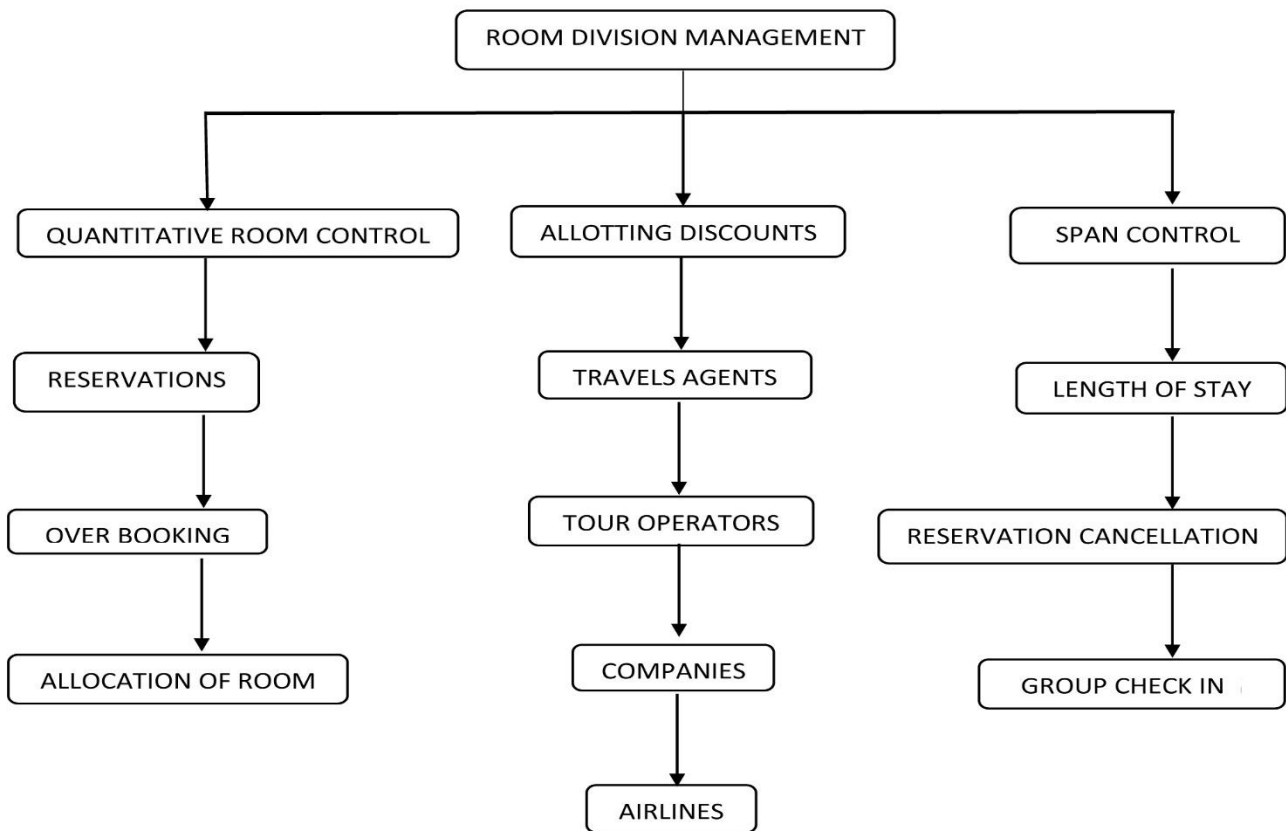
Figure 1. Room division management

Figure 1 shows the first strategy of controlling room occupancy according to the reservations, taking overbooking for cancellation and the next by giving discounts for travel agents, tour operators and corporate companies to attract the maximum check in, In addition span of stay will be increased by giving the priority to the guest who wish to stay more number of days and cancelling reservations made for one or two days to accommodate the group checking.

1. Quantitative room control

The hotels are started using revenue management software to monitor the room occupancy, reservations and group check inns to enhance the room revenue, which is pervasive in all departments of hotel with its unique features like evaluation, analysis and following strategies according to demand [5], when there is less amount of reservation and the availability of rooms are high, then room rates will decrease automatically, comparatively if there is more reservations and the room are fully occupied in hotel then the room rates will be increased. Hotel sector is trying to establish the demand tactics based on occupancy of seasonal demand, and through the predictions about the room occupancy, managers can make decisions on fixing the room rates in a profitable way. The room division management comprised with various activities, such as forecasting on seasonal rates, making decisions on inventory, fixing discounts, saving manpower and operating expenses allocation of rooms to the right guest [5].

2. Reservations

Hotels' main product is room; it is a most perishable commodity, because an unoccupied room led to loss in revenue. Reservations at front office are used to book the room prior to guest arrival; there are two types of reservations guaranteed and non-guaranteed reservation, making the guest to confirm their reservation by paying advance will led to guaranteed reservation. Simultaneously it reduces the last minute cancellation of reserved room, as non-guaranteed reservations can be cancelled at any moment [6]. The reserved room goes unsold due to various reasons; if it is unoccupied for a particular time then it cannot be recovered therefore a day lost will drive to lose the revenue. The reservation forecasts will assist in determining the room rates for a scheduled period and also aid in making decision for increasing and decreasing the room rates. Seasonal occupancy guides in taking reservation from travel agents, tour operators and companies according to demand.

3. Over bookings

Hotel adopt distinct approach to keep the hotel occupancy high by taking more number of reservation than the available number of rooms on a particular day, because the guest go with early check-outs, reservation cancellations. Managing the room division can be balanced by taking additional reservations. Determining the availability of room in nearby hotel will assist in reducing the risk through overselling guestrooms at times, when the early check outs and cancellation on reservation becomes less, then the rooms may not be available to reserved guest. In order to provide room to reserved guest by knowing and confirming a room with a hotel in same location becomes essential, as well as the revenue with unoccupied rooms will be adjusted with this approach [7].

4. Allocation of rooms

Hotels are categorized by size and facilities and mostly have multi story with multiple floors, during allocation of guest rooms, it is necessary to assign a rooms in same floor to minimize the electricity consumption at many floor, because the public areas like corridors, stairs consume electricity for air conditioning and lighting even if few rooms are occupied in a floor, as hotel se centralized air conditioning it is not possible to supply for particular rooms, the plant will be operated for whole floor, This situation can be controlled by assigning rooms to one floor after the complete occupancy in that floor, proceeding to the next floor [8].

5. Allotting discount

This technique is used to sell hotel rooms during no demand, designating discounts associated with a limited time period and it will vary according to the type of room. The rooms which are not occupied for a long time will be available at the discounted rate, even though it is lesser than the rack rate fixed by hotel. The hotel rooms are the most perishable products with the time, selling a room at a discounted rate is better than keeping it vacant. This discounted rate is established by forecasting and knowing the future demand, reduced room rates are mostly allotted to list of sources mentioned below.

1. Online Travel Agents
2. Tour operators
3. Airlines
4. Corporate Companies

These are the major sources for occupancy of rooms in hotel, as they provide group check inns hotel gives special discounts on rack rates, reduced room rates will also be available for free individual travelers during the seasonal low demand on room occupancy [4].

6. Span control

The span management will be a challenging task in managing room division, although rooms are available in hotel, taking a single night reservation becomes expensive comparatively from multiple days, due to acquiring high revenue to hotel. Here the single day or one night stay can be denied nevertheless rooms are available. The rooms are also better to be blocked at times for multiple day of guaranteed reservation. The span control is frequent approach followed in resorts during festival seasons [9].

7. Length of stay

If rooms are reserved consequently on Monday, Tuesday, Wednesday and Thursday then it is better to be blocked on Saturday and Sunday. Since giving a single day room occupancy on Saturday or Sunday will disturb the reservation starts from Monday [9]. There is a another way to get lengthier stay is giving discounts on multiple day reservations as guest may get confused why to reserve a room for three day to avail the discount, when the requirement is one day.

8. Reservation cancellation

There are some strategies followed to enhance the revenue of a hotel, mostly by cancelling unguaranteed reservations and the reservations made for one day, hotels can assign the rooms for potential guest who wish stay for multiple days. Cancellation of reservation may lead to the dissatisfaction of the guest, asking guest to confirm their reservation by paying advance which will reduce the no-show; and cancelling the reservation made for one day by telling it is not confirmed will allow the potential guest to occupy [6].

9. Group check inns

Hotels receive group arrival through tour operators, airlines and corporate companies. The benefit with group arrivals will be the higher span of stay [8-10]. The guest through tour operators will be under a group package and their stay will be often more than three days. This helps in maintaining the stability of room occupancy and acquiring consistent revenue to hotel. Providing rooms for group check in should be done by block a set of room before the arrival of a group.

3. Conclusion

High percentage of revenue is generated from room occupancy of a hotel; applying strategies is crucial while implementing due to the satisfaction of guest who stay in hotel. The advancement in technology has come with revenue management software, which will assist in achieving hotel aims and objectives. The tactical decisions on enhancing rooms' revenue are made by revenue managers. It is imperative that the revenue mangers must be good in analytical skills about the market, while making tactical decisions and strategies to enhance the revenue through room division. The hotel management software are equipped with revenue management interface that helps in increasing the revenue per available room through managing the capacity efficiently by giving discounts according to the occupancy of a hotel.

4. References

1. M. Erdem, L. Jiang. An overview of hotel revenue management research and emerging key patterns in the third millennium. *Journal of Hospitality and Tourism Technology*. 2016; 7(3), 300-312.
2. S. Ivanov, V. Zhechev. Hotel revenue management – a critical literature review. *Tourism*. 2011; 1-35.
3. S.E. Kimes. Hotel revenue management: today and tomorrow. Cornell University School of Hotel Administration, [Electronic article]. Cornell Hospitality Report. 2008; 8(14), 1-20.
4. H.A. Aziz, M. Saleh, M.H. Rasmy, H. Shishiny. Dynamic room pricing model for hotel revenue management systems. *Egyptian Informatics Journal*. 2011; 12(3), 177–183.
5. M. Pullman, S. Rodgers. Capacity management for hospitality and tourism: A review of current approaches. *International Journal of Hospitality Management*. 2010; 29(1), 177–187.
6. T.A.Maier. International hotel revenue management: web-performance effectiveness modelling – research comparative. *Journal of Hospitality and Tourism Technology*. 2012; 3(2), 121-137.
7. N. Phumchusri, P. Maneesophon. Optimal overbooking decision for hotel rooms revenue management. *Journal of Hospitality and Tourism Technology*. 2014; 5(3), 261-277.
8. C.M.F. Tang, B.E.M. King, N. Kulendran. Estimating future room occupancy fluctuations to optimize hotel revenues. *Journal of Travel & Tourism Marketing*. 2015; 32(7), 870-885.
9. A. Riasi, Z. Schwartz, X. Liu, S. Li. Revenue management and length-of-stay-based room pricing. *Sage Journal*. 2017; 58(4), 393-399.
10. G. Santoro. Evaluating performance in the hotel industry: An empirical analysis of Piedmont. *Journal of Investment and Management*. 2015; 4(1-1), 17-22.
11. T. Demirciftci, I. Kizilirmak. Strategic branding in hospitality: case of Accor hotels. *Journal of Tourismology*. 2016; 2(1), 50-64.