PRI-AIN769

by Plagi Check

EFFECTIVE YIELD MANAGEMENT IN HOTELS

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Introduction

Yield management is primarily concerned with an effective pricing strategy that is mapped out in order to accomplish more significant revenue within the hotel industry. This management process is often set up based on several factors such as anticipation and understanding of consumer behaviours. The primary goal is to leverage a high profit from a limited number of resources and timeframes. The necessity of enhancing the implementation of yield management is to create a proper balance between the demand and the supply. It facilitates the bookings of hotels at a higher price during peak seasons. This essay sheds light on the yield management concepts in the hotel industry starting from its advantages, and implementation to the challenges associated with yield management.

Main Body

Significance of yield management concept in modern hotels

Yield management in hotels is primarily associated with the pricing strategy of hotel rooms based on demand forecasting, and types of booking patterns of guests. Though yield management and revenue management seem quite similar, there is a huge difference between the two. Yield management offers to generate revenues based on occupancy or room charges, whereas revenue focuses on sales and selling prices rather than on occupancy (Viglia and Abrate, 2020). The concept of yield management performed within hotels refers to selling accurate hotel rooms to deserving target audiences within a limited timeframe and in a justified price range.

Yield management is widely used in the hotel industry as it is effective to gain larger profits in a rapidly changing business market. It also helps the hotel industry to forecast its demands and perform accordingly. As per the views of Wirya and Widiantara (2019), the revenue managers of the company play an important role to analyse industry trends. It offers modern hotels to forecast demand and set accurate prices for customers. Proper segmentation of the target audience along with demand forecasting is effective for modern hotels to set up a competitive price for rooms that drives the sales margin of hotels. During the peak seasons, yield management offers the hotel industry the opportunity to increase the rates of their rooms, which ultimately leads to the boosting of revenues, especially during the peak seasons.

Demand forecasting and forecast supply play an important role in the business market to mitigate the occurrences of pricing errors. According to Zaki (2022), prices are set based on demand forecasting, analysing consumer's behaviour, and booking patterns. Demand forecasting leads the hotel industry to become accustomed to innovative technology. Modern Hotels integrate software in their business operation that evolves the automating process of the company and collects real-time data, setting proper room rates without having any errors in algorithms. Depending upon the average daily rates of the hotel, the occupancy slabs are used in order to investigate the current rates of the rooms. The guest types are also determined in the occupancy slabs. As stated by Guillet and Chu (2021), the proper use of the PMS (Property management system) is useful for getting real-time data about the hotel. Furthermore, the use of the yield management system increases the capability of the OTAs that helps monitor the rates of the competitors. It identifies the current needs and the trends associated with consumer behaviour.

The yield management system plays an important role in order to analyse the booking patterns of the customers. Based on the booking behaviour of the customer, the hotels can implement accurate prices. For example, hoteliers can raise their price range of hotels for customers who book at the last minute (Sambodo, 2020). On the contrary, in this context, it can be specified that the room rates remain lower, and book the rooms at a fixed price when it is booked in advance. This type of dynamic price strategy is essential for hotels to set up their pricing based on time, peak season, and location. The implementation of Cloudbeds' PIE (Pricing intelligence engine) is essential as this helps set the proper booking rates for the rooms.

The yield management system supports the hotels by providing restrictions that include CTA (Closed to arrival) that are essential for the hotels to enhance the occupancy level. Besides, the pricing of rooms in modern hotels can be charged as per the locations, and views that require to have variety in the room rates. As opined by Dolasinski *et al*. (2019), this variety of rates is offered to the hotels based on the types of guests, along with their budgets that depend on staying time, packages, and rate of the weekend. Customers of hotels can manage to pay a higher rate during the time of peak seasons such as Christmas, and summer holidays. Through the help of the implementation of the variable scheme for pricing, this perceived value can be transferred to the consumer's mind. This motivates them to book their rooms in advance and implementation of a proper marketing strategy is beneficial to enhance the perceived value. Hence, this creates strong coordination between the marketing department

and the front office, which leads to creating effective business plans on a short-term and long-term basis.

Yield management offers alerts during the time of any changes in the market. The management completely relies on consumer behaviour hence, during any changes in the current market the hotels can easily understand the needs of the customers and perform accordingly. As per the belief of Lentz *et al*. (2022), the responsibility of a yield manager within a hotel is to implement such mechanisms within business operations that can control the price of rooms. Besides, the yield manager calculates the changes in the room rates based on the room type. This generates good visibility of the rate of the competitors and sets up accurate room rates. Understanding the customer's needs and preferences based on their booking behaviour leads a hotel to attain a better customer experience (Huang *et al*. 2019). Planned responses are also given with the help of yield management where the queries of the customers associated with reservations are solved rapidly. The use of yield management in this regard is effective for the company to reach the right target audience and make changes in the price based on customer preferences.

Challenges Faced by hotel managers in effective yield management

Yield management, undoubtedly, has a significant impact on the hotel industry as this is a remarkable solution for hotels to forecast their demand and supply. There are multiple risks associated with yield management as businesses face multiple problems when they focus largely on financial return. As per the views of Garrido-Moreno *et al*. (2021), the major threat to yield management is that it often maximizes the actual profit which leads to the miscalculation in the financial statement of the company. The allocation, as well as prices, are often ignored and are taken into consideration. Therefore, yield management often forsakes the services that offer the hotel a competitive advantage on a long-term basis. In multiple scenarios, customers explored that they are reimbursing a higher cost for a room than other customers (Kuo, 2021). This is termed as an unfair pricing strategy that creates a reputational risk for the hotel's business operation and hampers its revenue margin. Hence, it is necessary to improve the customer's knowledge, market trends, and booking patterns of the customers properly before the price of the room. Besides, the differentiation that is observed in the price range should be explained and justified properly to the customers.

Another major problem that the hotels may face is the poor productivity of the managers due to the lower incentives rate and the incompatible reward system. It has been observed that

yield management does not offer adequate compensation to the managers. As stated by Méatchi and Camus (2020), incentives for hotels are given on the basis of the rate that is charged by the customers. In case, the prices of the rooms are lowered, it offers fewer incentives to the managers and does not give adequate rewards. Yield management requires skilled employees who can understand all the requirements of the customs and can calculate the price range properly based on the forecasted data. Besides, the employees within the hotels need to have a piece of deep knowledge of the purpose and functions of yield management. A better understanding of yield management promotes employees to make better decisions for the hotels and improve the sales margin accordingly (Smith and Wallace, 2019). In case the employees do not have deep knowledge regarding yield management, they miscalculate the entire financial data of the company.

Yield management works better when the centralized reservation is used. However, in many smaller hotels where hoteliers and guests are linked directly, the yield management system cannot function properly. As per the views of Lin and Lin, (2019), the primary role and responsibility of this system are to understand the ongoing market trend of the hotels. This creates strict barriers for the hotels to focus on any individual guest. For instance, in a scenario where a consumer is staying, the hotel finishes up with a larger payment than others for accessing the same service with the customer who booked the rooms long ago (Möhring, *et al*. 2019). This discrepancy within the price segment harms the brand loyalty of the hotel and affects customer satisfaction. This, in turn, leads the hotel to hamper its business growth. The pricing of the rooms varies on the seasons due to the application of yield management in the hotel industry. It has been observed that the guests of the hotels often need to pay higher bills during the peak seasons. As stated by Denizci Guillet (2020), it might be perceived by the guests that the high price is allocated based on the standard quality service and the cost of the accommodation. However, in case, the customer faces any kind of discrepancy during their service, it affects the experience of the customers. There might be a chance that the hotel may get bad reviews in return which can harm the brand image and brand reputation of the hotel. Besides, the price rate of the hotel rooms is set completely based on the current trends in the market of the hotel industry, and the seasons (Yoo and Yang, 2021). The existing and loyal customers of the hotels do not get any preferential treatment rather those customers had to pay the same as regular customers. This can harm the customer's experience of the company and leads to a serious downfall in the context of brand reputation.

There is always a possibility for the forecasting to fail as no forecasting can be perfectly accurate. As per the views of Pereira-Moliner *et al*. (2021), forecasting accurate data needs a

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proper analysis of the gathered data, and needs to organise it properly before applying it to the pricing system. There are multiple factors that manipulate the demand for a hotel such as expectations of the customer, the customer's income level, preferences, and the price of the rooms. Since this factor has a large impact on the demands, it goes against the ongoing market trends and manipulates the forecasted data as well. Therefore, it might have chances where the revenue and the profit margin of the company might be jeopardised.

Conclusion

It can be concluded that this essay highlights that yield management has a significant impact on the hotel industry to understand the preferences of the customers and setting of appropriate pricing mix. The primary responsibility of yield management is to forecast, control the inventory, and finally set up the accurate price based on the criteria of the rooms. In context to the advantages, yield management develops the revenue, enhances the value proposition, and attracts an accurate target audience having a minimal error. Besides, this study highlights the major threats associated with the yield management that includes lack of preferential treatment to customers, lack of skilled employees, and formulation of larger profit than the actual one. Therefore, it is required hoteliers to organise and gather hotel data properly and then implement yield management accurately within business operations to improve their revenues.

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PRI-AIN769