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THE USE OF REVENUE MANAGEMENT
IN HOTEL ACCOMMODATION INDUS-
TRY IN EASTERN FINLAND

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ABSTRACT

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This research was done partly since the continuing building of new hotels makes the competition fiercer between hotels and there are more choices for the consumer. Furthermore there is a constant increase of special offers which in turn increases the competition. However, there are increases also in distribution channels which give in the same time managers a challenge to choose between the distribution channels suppliers.

The purpose of this research was to find out how the hotels are using Revenue Management in the hotel accommodation industry in Eastern Finland and to find out how seasonality and pricing affect hotels` pricing policies, and how hotels segment their target group. The purpose of this paper is to give the readers actual information of the use of Revenue Management in hotels as well as to give further information about pricing policies and seasonal variations in hotels and additional information of overbooking policies.

The theory part is based on theories of Revenue Management, such as pricing policies, seasonality fluctuations, and demand fluctuations overbooking policies and forecasting methods. For the Empirical part of the study I used theme interview.

The interview was recorded and the results analyzed from the transcriptions of records. Few hotels I had to send e-mail due to the lack of time. The essential observation in this study was the fact that customer behavior, seasonal fluctuations, demand fluctuations affect all in revenue management and its pricing policies.

After studying Revenue management and its use in the hotel business I decided to find out how much it is used in the Finnish hotels and if it was true

that the effective use of Revenue Management's various controls increases profit. My research findings proved that true.

TIIVISTELMÄ

Tämän tutkimuksen tehtiin osaksi siksi että jatkuvasti rakennetaan uusia hotelleja ja kilpailu käy yhä raadollisemmaksi hotellien välillä ja että on enemmän vaihtoehtoja kuluttajille mistä valita. Lisäksi on jatkuva kasvu erikoistarjoustensa. Myös jakelukanavia on lisätty joten johtajilla on edessään vaikea tehtävä valita jakelukanavien kesken, erityisesti Internet lisää hinta kilpailua. Tutkimuksen tarkoituksena oli saada selville kuinka hotellit operoivat majoituksen kannattavuuden suunnittelun kanssa.

Itä-Suomen alueella lisäksi kuinka hotellit segmentoivat asiakas kohderyhmänsä. Tämän tutkimuksen tarkoitus on antaa lukijalle ajankohtaista tietoa siitä kuinka majoituksen kannattavuuden suunnittelua käytetään itäsuomalaisissa hotelleissa kuin myös antaa lisä tietoa siitä kuinka hintapolitiikka, sesonkivaihtelut, ylivaraaminen, ennustaminen, kysynnän vaihtelut ja kuluttaja käyttäytyminen vaikuttavat majoituksen kannattavuuden suunnitteluun

Tutkimuksessani käytin teemahaastattelua. Nauhoitin haastattelun ja analysoin sen käyttäen nauhoitusmateriaalia. Tutkimustulos osoitti että asiakaskäyttäytymisellä, sesonkivaihteluilla, kysynnänvaihteluilla on vaikutusta kaikilla kun suunnitellaan majoituksen kannattavuutta hotelissa.

Tämä aihe oli itselleni mielenkiintoinen, sillä minua on aina kiehtonut tietää miten hotelli huoneiden hinnat muodostuvat. Lisäksi aiheesta ei ole paljontaan kirjoitettu. Opiskeltuani majoituksen kannattavuutta ja sitä kuinka sitä käytetään hotelleissa. Päätin ottaa selvää kuinka sitä käytetään itäsuomalaisissa hotelleissa ja kävi toteen että tehokas majoituksen kannattavuuden suunnittelun kontrollointi lisää voittoa yritykselle. Minun tutkimuksen löydökset todistavat tämän.

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1 RESEARCH PROBLEM AND RESEARCH QUESTIONS

This study investigates the use of Revenue Management in hotel accommodation industry in eastern Finland. In my thesis I focused on three main questions that are

- How Revenue Management is used in hotels in Eastern Finland?
- How does the pricing system and seasonality affect on hotel room pricing?
- What types of controls are used?

1.1 The structure of the study

The thesis starts with the introduction of the work and continues with a short overview of revenue definition and information of history of revenue management. The theory part starts with discussion how to use Revenue Management in hotels and after that are discussed segmentation advance sales, pricing and seasonality and demand fluctuations and types of controls. The three main issues related to my research question are e.g. general application on how hotels are using RM in Eastern Finland how does the pricing systems and seasonality affect on hotel room pricing and finally what types of controls are used. The second part in my theory part is investigating segmentation from a different point of view. It is followed by a discussion how to manage with advance sales and in addition both how pricing and seasonality affects on hotel room pricing policy. The theory part ends with short discussion on demand fluctuations and types of controls.

In the empirical part of the thesis I have analyzed five hotels from Eastern Finland from the RM point of view. The data was collected by making interviews with professionals who are working in these hotels. The idea is to link theory with practical examples within these hotels.

In the third part of my thesis I discuss my research methods and the validity and the reliability my thesis. Furthermore, I have a short conclusion. In this part I first explain how research can be divided into two parts i.e. a qualitative and a quantitative research and how I have understood this. In my thesis I have used qualitative research method because in my opinion it allows a more free examination. Information has been collected also by using literature sources and internet sources.

2 DEFINITION OF REVENUE MANAGEMENT

In this chapter the definition and history of revenue management is discussed. Definitions have been taken from different sources and history data has been collected from American Airline history.

2.1 The history of Revenue Management

Revenue Management was developed in the airline industry in the late 1970s, at that time revenue management controlled the price of seats`, states. The airline industry launched revenue management practices in the early 1980s. The first major users of Revenue Management was American Airlines and Delta Airlines starting in 1985. (Huyton 1997)

In their findings Ingold and Yeoman (1999) states that` in 1960s airlines had already discount fares like APEX (advance passenger excursion) which sells customers cheap flights Ingold & Yeoman (1999). Moreover, in their findings Ingold and Yeoman (1999) states that in the hotel industry the basic ideas of revenue management have been applied for years.

2.2 What is a Revenue Management?

In this chapter different definitions of revenue management and the concept of revenue management are discussed. Recent changes in the hotel business are discussed.

2.3 Definitions of Revenue Management

The definitions according to Albanese are presented and discussed. In his findings Albanese (2004) states that `` revenue management is an economic technique to calculate the best pricing policy for optimize profits which is contributed by the sale of product or service based on real time and forecasting of demand by customers behavior``. (Albanese 2004)

In a major study Albanese(2004) describes revenue like the following term ``revenue`` comes from the airline industry where it is known better as yield

management. The term yield “refers to yield (or revenue) per available seat mile. “The term is easily applied to other industries for example in hotel industry by varying it to yield (or revenue) per available inventory unit”, i.e. hotel room, states. (Albanese 2004)

Revenue management in the accommodation industry means “that hotel should not sell the room at a low price today, if they could sell it later at a better price”. “But the hotel could sell the room from their future capacity at a low price if they know these particular room in that particular time would not be sold later either “Albanese(2004). In this case revenue management in accommodation industry means that the hotel is trying to achieve the best revenue they can at that particular time to maximize the profit, states Albanese: (2004). So this means that if a vacation customer has booked a room at a special price and then there is coming a business customer who perhaps would pay more of that room than a vacation customer. In that case, “the hotel should think what price they give to each customer and consider if they can get a better price from the business customer”. In his findings Albanese (2004) states that, “on the other hand there could be a situation that the room remains unsold if for example the demand is very low in after Christmas holidays so it would be better for the manager sold out the room any way than remain it unsold”. (Albanese 2004)

Based on the definitions discussed above Revenue Management is a way of doing business that every department focuses on what they need to do to drive the total profitability of the organization. This involves housekeeping, food & beverage department, kitchen department, reception, facility services. Every firm has to have a goal to be a profitable the firm. Furthermore the firm has to provide special rate packages for periods of low occupancy and use overbooking policy to compensate for cancellation, and no-shows.

In my opinion revenue, management can put into practice in restaurants so that restaurants move customers to off-peak periods by offering discount coupons or charging reservation fees and by putting higher meal prices on

Friday and Saturday nights. Furthermore, revenue management can put into practice in many different industries and sectors like attractions by setting different admission charge levels provide joint-entry tickets, group discounts, coupons.

In resorts, the management can provide different service packages to attract different kind of customers. Furthermore a manager has to be able to find the right balance when selling the rooms and this is highly related to demand and supply. When the demand is high a manager is selling less room at the higher price and when the demand is low a manager is selling more rooms at the cheaper rate. In other words revenue management means that a hotel must sell the right product to the right customer, for the right price and at the right time.

3 THEORIES OF REVENUE MANAGEMENT

In this chapter I am going to discuss theories of Revenue Management. First, segmentation is present both from a customer point of view and from price segmentation. After that, I discuss pricing policy strategies, over-booking and forecasting and then in the end I focus on demand fluctuations.

3.1 How to use revenue management in hotels

It is obvious that the hotel has to have certain customer segmentation before they start to build up the pricing policy strategies. The first and primary step in hotel Revenue Management system is the identification of the various market segments for the hotel room followed by implementation of a differential pricing scheme. The objective in front of the hotel is increasing the market and motivating the customer to pay more than he/she will usually spend, especially among business customers. This Segment is less sensitive to higher prices as opposed to those in the vacation segment. (Bardi2003)

3.1.2. Segmentation

In his findings Bardi (2003) ,states segmentation is an important part of running the hotel. The management has to know ``what type of customers they are going to have and what the customers are ready to pay for the product.e.g the hotel room``. The objective pricing policy has to answer the question of how to determine the price for various customer groups and how to vary prices over time to maximize revenues or profits. The first question is whether it is possible for a company to use pricing strategies to maximise revenues. (Bardi 2003 Chap 1)

I have learned that segmentation can put into a practise by looking at different variables of customer behavioural pattern. In the hotel market, there are different target markets available. These markets contribute to each hotel`s available business mix. .The target market is formulated according to cos-

tumer purchasing behaviour combined with different hotel room types. Next, I am going to discuss this combination.

In my opinion, the customers nowadays are increasingly more making their travel decisions based on online offers and comparing offers between travel agencies. Furthermore, customers are having more knowledge due to the information that is found in the Internet.

Albanese argue (2004) that customers spend more nights away from home, because of distant working conditions for example. On holidays consumers stay at less expensive hotels and they want to use more all-inclusive special offers. Generally customers take more advantages of off peak season`s pricing. (Albanese2004)

In their findings Bardi (2003)), states that the hotels typically segment their market based on customer behaviour into a set of categories based on the price each category is willing to pay for the room. Typically, a category includes business travellers and vacation travellers. Because demand patterns for each of these categories may vary extensively, hotels find it difficult to satisfy all the segments and their demand at the same time, argues Bardi (2003). The example of this could be a typically comparison between the time bound business traveller and the price sensitive vacation traveller. (Bardi 2003 Chap1)

The business traveller is willing to pay a higher price in change of flexibility to be able to book a room at the last minute while the vacation traveller is willing to give up some flexibility for the search of more affordable room. Albanese (2004), states that the Revenue Management tries to maximise revenues by managing the feasibility between a low occupancy and higher room rate scenario for business customers versus a high occupancy and low room rate for vacationer customers. Such a strategy allows hotels to sell rooms that would otherwise be empty. (Albanese 2004)

3.1.3 Segmentation by Hotel type

Customer segmentation is creating according to the hotel type. Standard stay hotels target markets are comprised of the very same segments that made up the classification of service level product types. Customer behaviour determines which hotel they will choose and in addition their needs and motivations to buy the hotel room.

According to the theory of Bardi (2003) standard market is directed to those target market customers who seek economy, budget, mid-markets, upscale and a luxury room e.g. guests who are looking for a traditional hotel room with varying degrees of service. In addition, target markets are looking for different room product types that are different from the standard room type. As if these hotels are for customers who are looking traditional hotel room, but then customers can have extra ancilliary services like going to golf club or gym i.e. in their hotel room, they can have for example a kitchenette or saunas. (Bardi2003. Chap1)

Moreover, Bardi (2003) continues that the extended stay hotels provide their guests with service amenities and facilities that they want or need to facilitate a long term stay in one location. To varying degree, these services facilities can include, microwave, refrigerator, kitchenware, limited house-keeping service, business services (Internet connection), and limited recreation facilities. Usually the room rate at an extended stay hotel based on the length of the guest's stay in a hotel. The more nights a guest stay at a hotel the fewer rooms it must attempt to sell each night. This is seeing in a positive way when and if a hotel can book rooms with many multiple-night guests. (Bardi 2003 Chap 1)

Therefore, many extended stay hotels have to reduce the room rate for longer stays. A guest can rent a room a day, a week or a month. Business travellers at extended stay hotels may find that these hotels feel more like home, states (Bardi 2003 Chap 1).

In his findings, Bardi (2003) ,states that the all suite stay hotels is target to the customers looking for a hotel experience that is similar to the suites in upscale and luxury hotels. The charm of the suites can be more attractive to customers than extended stay hotels. Suites can have two or more rooms, varying service level, limited food and beverage facilities a free of charge breakfast and hospitable receptions. (Bardi 2003 Chap 1)

In additionally there are budget hotels that provide cheap accommodation and guesthouses that provide customers only bed and breakfast. (Bardi 2003 Chap 1).

3.1.4 Segmentation by buyer's behavior

According to Bardi (2003) the buyer`s behaviour is based on factors such as loyalty usage patterns. In order to obtain a discounted rate the buyer must belong to a certain group i.e. a loyalty card, airlines' frequent flyer card or a loyalty card i.e. Sokos Hotels, SAS Radissons. These customers have a fixed special price, but price does not apply during the high season, other groups can be cooperation's group where also a customer has special business price e.g. airline staff. (Bardi 2003 Chap1)

Furthermore, Bardi,(2003) states that the time of the year the time of the week even the time of the month influence on customer buying behaviour. The rate based on the time of the year, the week, the day and the month. For example in the summer months between July and August, the rate is higher than in low season i.e. February and March. In addition, the weekend price rate is higher when the demand is high. However, hotels have to consider customer`s purchasing patterns according to demand. (Bardi 2003 Chap 1)

3.1.5. Segmentation by Geographic location

I have learned from Bardi's (2003) theory that the geographic segmentation based on regional variables such as location i.e. climate and region. The pricing rates may vary in different geographic locations within a country i.e. in Finland there are different rate in North of Finland than in Western Finland. These rates are varying according to the demand labour costs and the level of rent. International hotel chains differentiate, their rates based on countries location i.e. Europe vs. Africa depending on the standard of living, and its economic situation. (Bardi 2003 Chap 1)

3.1.6 Segmentation by demographic

This segmentation based on demographic variables like age, gender, education, occupation, income and family status. For example, in the age category a youth traveller customer will choose a hotel where there are night-clubs and a hotel with the beach or the destination where there are big parties all night long, states (Bardi 2003 Chap 1).

On the other hand if a customer is at the age over 50 he or she prefers to have more like all inclusive holidays so the hotel has to offer also all inclusive services according to the customer's interest depending on what he or she wants to do in their holiday. If a customer is interested in culture than beach holiday, so she or he will rather choose the hotel also according to his or her interest, states (Bardi 2003 Chap 1).

3.1.7. Segmentation by purchase quantity

This offers discounts to larger volume orders, especially for business customers and group customers. In addition it can be also agreed on such as complimentary services e.g. for a group of 80 customers which can have 5 per cent discount for a dinner in the hotel restaurant, states Bardi (2003 Chap 1).

3.1.8 Segmentation by hotel room design

This is done by offering the customer simple variations in services that appeal to different segments, as the children are offered a room with special decorations i.e. Disney decorations, a children's room. Therefore, the price is according to the room decorations i.e. suites for adults. (Bardi 2003 Chap 1).

3.1.9. Segmentation by product

This involves i.e. a tour operator to compile products and service as a package. This provides a customer with a better deal than if the components are bought separately. On the other hand, a hotel can offer i.e. a special price for the customer where the use of sauna is free of charge. This kind of price segmentation is used alone or in combination. (Bardi 2003 Chap 1)

Naturally a bigger room with more facilities has a higher price than a smaller room with fewer facilities e.g. if there is a television and the other room does not have, or mini bar and smaller room does not have mini bar. Sometimes hotels have a weekday's higher price than during the weekends. This is directly linked to customer demand. (Bardi 2003 Chap 1).

3.2 How does price and seasonality affect on hotel room pricing policy

In their findings Kallyan and Talluri (2005) ,state that pricing has been around as long as people have done their business. These pricing techniques have a trend to be operational so that a seller has to know what price to offer when the next customer walks in the door. (Kallyan & Talluri 2005).

According to Gröönroos pricing is often regarded as the most important ‘P’ in the 4P’s view of marketing. Of all the P’s, price is the one that generates revenue. Therefore, the importance of the price cannot be over-emphasized. (Gröönroos 2004).

When a manager is making a pricing decision he or she has to think i.e. , is a customer ready buy for the price that creates a value for the product or service. In other words does the price really correspond with the i.e hotel room what a customer is looking for. Furthermore, pricing policy is highly affected by behavioral aspects of consumer’s decisions making process.

In their findings O`Fallon and Rutherford (2007) states that `` the price is obvious target for manipulation, and many hotels offers price related promotions and increase or change peak-period demand e.g. sales promotions``. A manager cannot change the room but the price is always worth of change. More manipulation of prices includes time- day pricing, day-off week pricing and price premiums and price discounts. (O`Fallon & Rutherford 2007.Chap 7.4)

3.2.1 Price Segmentation

The hotel must have a specific customer segmentation before they build a profitable pricing policy, management must know what the types of customers they direct their market. (Bardi2003). Hotels do compete with their price strategies in all price levels. However, such as a vacation customer will choose the low price level. For each customer segmentation there should be own price segmentation. For example for business customers and vacation customers. (Butcher 2009)

Next, I discuss on how the price segmentation and the price of hotel rooms are creating around physical and logical fences.

O'Fallon and Rutherford (2007), states the hotel room rates is creating by using physical and logical fences.

A physical fence determines the price for the hotel room i.e. high price or low price. The physical fences can be for example the view, which depends on whether a hotel room has in the sea view or street view, pool view or garden view. In the sense, the sea or pool view from hotel room has higher price than a street or garden view. (O'Fallon & Rutherford 2007 Chap 7.4)

In addition the size of the room determines if the hotel room price is higher or lower. The bigger the room with saunas and living room and kitchenette the price is higher than if the room is smaller with less facilities i.e. just a room and shower and toilet. The time also regulates the prices. So that weekday bookings can have higher prices than weekend bookings, thus revenue management regulates the prices on this according to demand. (O'Fallon & Rutherford 2007 Chap 7.4)

The hotel can also give the price according to logical factors that determines the price issue on the basis of loyalty cards, at the time of your purchase and duration of stay.

The length of stay is dependent upon the duration of the customer's stay in the hotel. You usually pay a higher price for a short stay, for a day or two, but the longer you stay the better price you can get. I have often booked a hotel room online and I have noticed that for five nights the price of a room per night is cheaper than that for only two nights.

In their findings O'Fallon and Rutherford (2007) state that on the other hand one night revenue can spoil three nights revenue if and when demand is high, like if a customer wants to stay in a particular room only for one night and there is a customer who wants to come and stay longer in that same room. (O'Fallon & Rutherford 2007 Chap 7.4).

Additionally, flexibility is very sensitive in connection with the logical fences. In high price situation, the cancellation and the rescheduling is allowing with low penalty. Whereas in low price situation the penalty is higher in cancellation and rescheduling as if a customer cancels a room which and he or she has had a special price, the staff has to find a new customer for that room otherwise revenue from that room has been lost.

The demand can be high and a hotel must get to sell out all the rooms to maximize its revenue. In a higher price situation a customer have no hurry to make their bookings, because there are of course plenty of rooms available anyway.

Time of purchase is also a logical fence. A customer who makes the booking closer to the arrival date and check in has to pay higher price for the room than a customer who has made her bookings quite early, but in this case also revenue management regulates the price. (O'Fallon & Rutherford 2007)

There are more privileges for the customers who had paid a higher price for the hotel room than those who had paid lower price, but nowadays there are some exceptions to this as it is possible to have certain privileges be in a low price category i.e. loyalty card, bonuses. Furthermore, in a higher price

rooms there are i.e. an airline cabin crew can always have a coffee maker, a sweet biscuit or if a customer is a loyal customer, he or she can have a bathrobe and slippers in his or her room. This is not available in low price room categories.

Table 1 PHYSICAL FENCES

Physical Fences	High Price	Low price
View	Pool view, ocean view, hill	Non-scenic view
Size of the room	Big room with living room , bedroom, kitchen, sauna (Superior room)	Small room less facilities, only one room , with bathroom .(Non-Superior room)
Temporal	Weekday bookings	Weekend Bookings

Table 2 LOGICAL FENCES

Logical fences	Higher Price	Lower Price
Length of Stay	Short stay , one or two days	Longer Stay
Flexibility	Cancel and reschedule with low penalty	High penalty with re-schedules and cancellations
Time of Purchase	Bookings made close to arrival time and check –in date	Bookings are made quite early
Privileges	Loyalty privileges , free service	Some privileges and advantages

3.2.2 Price Differentiation

Price differentiation means that a hotel can charge different prices for the same product. Like, different type of hotel room the price is different if the hotel room is single or double, states Kimes (1989). The price is different also if comparing hotel room prices according to geographic location i.e. in Helsinki and in Kuopio. The hotels have to develop logical differential pricing policies in order to use revenue management effectively.

According to Kime's hotels are using differential prices and charge customers using the same service at the same time different prices depending upon a customer and demand characteristics. (Kimes, 1989)

In his findings Butcher (2009) states that in this current global economic situation many hotel chains has been forced to left hotels with the high level of flexibility in their pricing decisions. It is essential to have knowledge of the local competition and customers and this must be integrated into pricing decisions process. (Butcher 2009).

Furthermore, Butcher (2009) states that brand pricing policy has a negative effect on customer's decision process so that it gives a wrong opinion on customer perceptions and ultimately dissatisfaction.

In his findings Butcher (2009) states that ``there has been a research where customers did travel in international hotel chain and more than half of the customers believed that each hotel in the chain has its own pricing policy , but in reality all hotel were centralized, in their pricing policies``. (Butcher 2009)

3.2.3 Price sensitivity

According to encyclopaedia price is referred to as ``an important criterion on the customer's decision making process;'' Customer may find that prices rise, for example in a hotel room and, therefore, prefer to choose a cheaper alternative. According to Butcher (2009) customers have different reserva-

tion prices they are willing to pay for given goods or services. Price increases will probably cause a decrease in sales, and price decreases will probably have the turn round effect. (Butcher 2009)

For example, the busy time in a ski resort is likely to be the school holiday period and this gives the hotels the chance to take advantage of price sensitivity and maximise revenue at these times. Price sensitivity however is not just about charging high prices to maximise revenue. In his major study Butcher (2009) it was found that it might also make sense to cut prices sometimes dramatically so that it encourages people who may otherwise not be part of the market to use the services or goods being provided argues (Butcher2009).

3.2.4 Seasonal fluctuations

Strong seasonal fluctuations are one of the most complex issues to resolve in the tourism industry. In tourist destinations, should put more weight on that to maintain the existing seasons in the destination good and interesting and affordable, and in developing more new and interesting tourist destinations. This gives also new challenges to hotel managers when determining the hotel room pricing policies. (Baum and Lundtrop 2001)

In their findings Baum and Lundtrop (2001),states that `` Seasonal variations can be seen in different seasons, such as holiday season and the peak seasonal such has winter or summer. Furthermore, ``peak seasonal is seen as a variation dimensions in especially climate conditions, such as temperature, rainfall, natural catastrophes, snowfall and daylight''. In a major study Parrilla, Riera Font and Nadal (2007) have argued that ``certain characteristics patterns as weather, school holidays, and special events influence the seasonality''. Good examples of holiday seasonal variations are periods of holidays like school holidays other holidays like Christmas holidays. In addition, when planning the holiday ,the choose of a destination has a great impact. Furthermore, such as skiing or other leisure activities

influences on that how a customer choose his or hers destination. . (Baum & Lundtorp 2001). (Parrilla, & Riera Font & Nadal 2007)

In a major study, Baum & Lundtrop (2001) have argued that as ``seasonal variations is widely seen as a problem in hotel industry``. It is hard to predict the demand in hotels during the seasonality. Seasonal demand is seen as a short business due to fact that in a destination there could be for example ``force major``. Like in some destination a season can be short due to the rapid changing on wheatear which causes periods half of closing or reduced level of operations like in ski destinations if there is a really cold wheatear so the customers are not going on skiing. The problematic is also how to create a full year's revenue within a short operating season while serving fixed cost twelve months a year.

Furthermore, in a major study Baum and Lundtrop (2001) have argued that ``one unsold hotel room on a particularly any night have an economic value of zero``. Therefore, seasonal variation on demand causes major problems for the hotel industry. It can result in only seasonal employment for employees or under-use or even closing down facilities in a certain period. Many hotels have to have large marketing campaigns during the low season in order to achieve more or less profitability. (Baum & Lundtorp 2001).

3.3 Types of controls

In this chapter I discuss different controls types hotels are using to manage their profitability.

3.3.1 Availability of control

Availability of control is one of the revenue management strategies. It is based on the length of stay that customers are staying in the hotel. In his findings Kimes (1999), states that the minimum length of stay and maximum length of stay are closed to arrival controls and are counted as availability controls. Minimum length of stay controls are used during high demand times and are often extended to the days immediately before and after high demand periods. The idea of the minimum length of stay controls is to guarantee high occupancy during and surrounding the high demand periods. (Kimes1999)

Close to arrival controls means that i.e. a customer who will stay through that particular night has the possibility to stay in the hotel but the customer who is going to arrive on same night does not get this particular room because the room is occupied. (Kimes1999)

This is used in hotels when there is an extremely busy night and may be also used in oversold situations. In a major study (Kimes 1999) have argued that ``if this kind of situations are not carefully handled, closed to arrival controls can lead to a decrease of available rooms, revenue``. (Kimes 1999)

3.3.2 Allocation control

The next important step is the allocation of hotel rooms among different market segments. Allocation means that customer must get the room that he has booked with all modern conveniences. For example, a customer is like a family with two little children so the front office staff tries to give this customer a bigger room with specialization for children e.g. with a children's bed.

In a major study Bardi (2003) have argued that ``the allocating is appearing in hotel when managers are managing the hotel reservations``. If it is possible for a manager to sell a discounted room instead of a full price he has to measure in order to make the best decision. The manager would accept the request only if the discounted price is more than the expected price at which the room might be booked by the second customer. (Bardi 2003 Chap7.6)

The correct room type and location can be essential for granted customer satisfaction i.e if there are two customers interested in the same room a manager could offer the room to that customer who is paying a higher rate for the room. On the other hand a guest who checks in late and spends only one night in a hotel room might not be so concerned about the room view or location as long as she or he gets a good night`s sleep. (Bardi 2003 Chap 7.6)

A guest staying with her or his family or with a spouse will certainly want to have a room with a good location and a special view. Furthermore, frequent flyer membership guests have great impact on room allocation process, because they pay a good price and are staying in a hotel longer time. Many companies have introduced the reservation guarantee, examples including room type, bed type, smoking preference. Many hotels offer money compensation if the request is not fulfilled. (Bardi 2003 Chap 7.6))

3.3.3 Capacity Control

The objective of capacity control is to determine on how to allocate capacity of a resource or a package of different resources into a different classes of demand, so that the expected revenue or profit is maximised, in this case a hotel room. The hotel capacity management can be defined in such a way that how much the hotel has rooms available at a specific period of time for customers.

In her findings Kimes (1999) have argued that ``capacity control tries to allocate the hotel room capacity resource to different classes of customers i.e. in the hotel business customers and leisure customers``. For example, a customer may require a view of night at a hotel. (Kimes 1999)

3.3.4 Overbooking control

In their findings Tranter and Kimberly (2008) ,states that ``the overbooking is concerned with increasing the total volume of sales by selling reservations above capacity to compensate for cancellations and no-shows`` (Tranter & Kimberly 2008)

In their findings Ingold and Huyton (2000) have argued that ``overbooking system can increase capacity utilization if the cancellations of orders are significant``. The usual objective of overbooking control is to find ``an optimal overbooking level to maximise the expected revenue and to minimise the potential risk of unsold rooms``. (Ingold & Huyton 2000)

In their findings Ingold and Hyuton (2000),states that ``overbooking is the way of on purpose selling more rooms than are available in order to balance the effect of cancellations and no-shows``. In additionally in their findings Ingold and Hyuton (2000) have argued that ``overbooking is a strategy whereby service providers accept and confirm more reservations than the capacity they allocate for providing the service``. According to this in overbooking process it is important to ignore customer cancellations and new reservations requests. (Ingold & Hyuton 2000)

Two types of events affects the overbooking process i.e. cancellations and no-shows and are simply related to timing of events. In a major study Hayes and Ninemeier (2007) have argue that the cancellation is meaning that the reservation is withdrawn by the customer strictly earlier the time of service. By no-shows ``is meaning when a customer has not cancelled the

room or does not show up at the time of service delivery was stated`. Hayes and Ninemeier (2007)

While both result to the situation where a customer does not exist at the time of service delivery i.e. a cancellation or no-show. The hotel has the possibility to replace the cancellation by a new customer while with no-shows there is a little change to have a new customer, argues Hayes and Ninemeier (2007). In their findings Kalyan and Garret (2005) state that `service providers may find it profitable to overbook customers because of that a large number of reservation end up being not cancelled by the customers and on the other hand a small amount of customers simply do not show-up in a hotel`.

So the managers must sell the empty rooms to avoid such situations that there is going to be unsold rooms. This way when using overbooking managers make sure that there will not be any unsold rooms left in that particular time.

3.3.5 Forecasting control

In a major study Harris (1999) it was found that `forecasting is a critical part of revenue management. The revenue management decisions such as pricing, capacity control and overbooking depends on an accurate forecast`. On the other hand forecasting is `a process of analysing current and historical data to determine future trends`. Due to seasonality demand and the unstable global situation it is hard to predict any demand in hotel industry. (Harris 1999)

In a major study Baker (2000) found that forecasting the demand causes big problems because of cancellations and no-shows. `The data used in forecasting can be based on historical arrivals or bookings. In additionally forecasting must be settled with a special event, i.e. holidays`. `Revenue management forecasting includes demand forecasting, capacity forecasting and

price forecasting, each of which has its specific requirements` (Baker 2000). Seasonal patterns of tourism demand and the effects of various influencing factors on this demand tend to change over time. To forecast future tourism demand precisely requires suitable modelling of these changes.

In a major study Burgess (2001) found that forecasting can be regarded as a `type of budget, but it is more accurate than a budget which often is prepared months ago`. Forecasting allows `planning of selling strategy, staffing, maximization of occupancy and rate , open vs. close policy for outlets, purchasing and storage (particularly perishable products), and cash flow`. (Burgess 2001). In addition Burgess (2001) states that forecasting can be done daily, weekly, monthly or seasonally, mainly in the fluctuations where business volumes change much. (Burgess 2001)

Furthermore, in a major study Harris (1999) found that the hotel can forecast `rooms sold and average rate, food and beverage covers and spends other revenue, cost of sales, payroll and expenses leading to a projected profit and loss statement`. The hotel forecasts because it is key to managers to have more effective revenue management`. Moreover, a hotel can forecast the hotel rooms sold. For example, if there is a big festival in a destination it can be forecast beforehand on how many rooms will be sold in that particular period time. A manager can keep bookings in a database and looking from there the previous year bookings. By selling strategy a hotel can forecast the peak selling points for example, if in a destination is a concert it will rise the selling volume. On high season period a manger can forecast how much staff will be needed. By reservation strategy the staff can manage with overbooking policy and forecasting on how much will the overbooking percent be.

In their findings Huyton and Peters (1999) state that `the information which the management can use when forecasting are based on ; historical data and other factors i.e. customer purchase behaviour , both recent and past year on the number of bookings. It could be good the management to

have data from customer purchasing behaviour from last year if the demand has been low i.e. in a certain holiday so in the current situation the demand can be different because it varies a lot year by year. (Huyton & Peters 1999)

Other factors that the management have to take into account when forecasting are: weather, so that if in previous years it has been for example two months very cold climate in the coming year the weather could be in that season warmer so maybe managers can expect more customers coming. Events in local areas for example a music concert or house fair , the demand will be then higher than maybe in previous year. Managers should be aware of the competitors in local area and know the price level. For example, nowadays in Kuopio there is one hotel being renovation and because of this the other hotels are competing on their price level and with customers.

Airline schedules can affect so that for example nowadays there has been many strikes in the airline industry and the rapid wheatear changes nowadays cause many problems for the airline industry , for example in Kuopio when there was a strike in Helsinki there were not any airline staff members in accommodating. Limitations of the property is when there are some rooms under renovation for example so these rooms are left unsold in that period of time.

To plan the promotions managers should check and looking statistical data from the previous year when the demand has been very low and compare that with this year and then if there is a need make some promotions. Over-booking policies is an issue that managers should be aware of that in the whole year and looking statistical data from the previous years.

Unfortunately the consumer behaviour is changing in every year. It does not always help managers to look previous years book keeping as the behaviour is changing according to trends. What the managers should think all the time develop new packages for the consumers.

3.4 Demand Fluctuations

In a major study O'Fallon and Rutherford (2007) it was found that demand fluctuations is affected by customer purchasing behaviour, seasonal patterns, time of purchase, the types of customers. Other dimensions such as location or channels also effect on the nature of demand. (O'Fallon & Rutherford 2007).

However, the price we sold at today will affect the pricing policy we sell at in the future. For example, if a hotel chain has its markets in Lapland and in Helsinki the demand is very different in product and time and also on purchase behaviour. In addition purchase decisions of a given customer has an effect on future purchase decisions so that if a customer has bought a hotel room with a good sea view for example he or she would tell that also the next customer and the future customer is going to buy that same room in this hotel, because of the positive feedback. This kind of examples really motivates revenue management in hotels and is key links to demand and RM.

One of the key issues is also that on high demand days the average room rate maximises to increase revenue and on low demand day's average room rate maximizes occupancy. On high demand days the management will plan for reservations for that guest who is not a part of a group booking. (O'Fallon & Rutherford 2007).

In hotel accommodation industry demand fluctuations is mainly seen like time-varied demand and seasonality varied demand because of seasonality it is very difficult to estimate and forecasting demand beforehand. The RM helps this way managers estimate the demand and pricing policy by giving the right price in the right time for right customers. (O'Fallon & Rutherford 2007, Chap 1.6)

The more demand varies over time due the seasonality, shocks and the more uncertainty one is for future demand.

In a major study Kallyan and Talluri (2005) it was found that the time varied demand is meaning that customers demand varies by time of the year, time of the week ,time of the day. However, for some hotels demand may be higher also by time of the weekends, during the summer months, or at particular time of the day. However, the managers must be able to forecast time-related demand so that they can make effective pricing and allocation decisions to manage the peak periods around the high-demand. A manager should also to predict the length of customer is staying at a hotel room (Kallyan & Talluri 2005).

In her findings Kimes (1999),states that challenge is to predict potential capacity, and developing a pricing strategy that will encourage maximum capacity and revenue. In order to achieve the maximum profit ``managers need to evaluate several millions of decisions, which requires a significant investment of skills, hardware and time``, states Kimes (1999)

In addition, the high raw competition in hotel business and global economic situation has had an effect on that hotel have to mange to find new ways to handle this situation to operate in a maximum profit level. Based on this hotels have to manage capacity to accept the fact that demand is unusual. (Kimes 1999)

In a major study (Albanese 2004) ,states it was found that in order to handle the situation managers in hotels ``should sell the services in this case hotel rooms, as far as own capacity is in available``. In reservation and selling situation ``there is rarely taking in consideration customers individual ability for payments and neither customers reservation or buying behaviour, thus staff takes reservations on a belt`` like reservation are taken and taken and not consider consequences. (Albanese 2004).

When the demand is high this causes the problems that staff has to say customers that no rooms are available and then customers has to find another hotel. There are also a negative side of this that a hotel cannot answer in demand during the high period.

However, many hotels are facing the situation that they have rooms which have not cancelled by the customer and this causes a *no-show* situation, like the cancellation is coming in a last minute and then the room remains in no selling situation. (Albanese.2004).

3.5 Advance Sales

Advance selling occurs when buyers make purchase commitments before the time of service delivery. In return for an advance purchase commitment like tickets, vouchers, passes, the buyer receives some benefit. (Shugan and Xie,2004).

In their findings Shugan and Xie, (2004) was discussed that advance selling theory is referring ``to marketing practises which the seller is offering to its customers before customers start to use the hotel room``. ``Hotels have to have enough margins to regulate room prices based on the variation between realized bookings and expected demand``.

Furthermore, the service providers can advance sell services for example vacation packages and hotel rooms for that, or other special event. If sold the room at the same time the hotel does not have the flexibility to adjust prices rising if demand picks up later. Thus it is important to deliver the service or product e.g. hotel room in a specific time and period for customers. (Shugan and Xie,2004).

In a major study Shugan and Xie (2004) it was also found that the adjustment occurs when a manager is faced with the option of accepting an early reservation from a customer who wants a low price, or waiting to see if a higher paying customer will eventually show up. Shogun and Xian (2004) have also state that ``the conditions which are necessary for profit advantage

from advance selling is far more general than have been thought in previous`. For example, price discrimination is often implemented with revenue management system. (Shugan & Xie 2004).

3.6 Fixed Capacity

In their findings Hongren and Sundem (2007) argued that `a hotel capacity is relatively fixed, therefore it is nearly impossible to add or remove rooms based on fluctuations in demand`. On the other hand if all hotel capacity would be flexible there would not to be any need to manage capacity. An example for this is that according to Kimes (1999:5) `change the size of their planes or a car rental firms can change the size of their fleet`, but hotels have fairly fixed capacities. In his findings (Kimes 1989) states` that a hotel who wants to successfully use revenue management must have, fairly fixed capacity and time bound demand and perishable inventory units`. (Horngren, Sundem, 2007);(Kimes,1999)

3.7 Low marginal costs

In their findings Harris and Mongiello (2006) argued that `the marginal costs are the change in total costs that arises when the quantity produced change in one unit`. On the other hand marginal a cost at each level on production includes any additional costs requires to produce the next unit. According to Kime's managers should possess a cost structure that features relatively high fixed costs and fairly low variable costs. (Harris & Mongiello 2006) (Kimes 1999)

4 RESEARCH METHODS

Research can be divided into two basic categories; quantitative and qualitative. Quantitative research gives answers for how many, how much, how often, and how important something is. Quantitative research method is based on careful sampling and the results are numerical such as percentages, amount of money, amount of items. etc. Qualitative research is deeper research and it helps understand the respondents thinking behavior. Qualitative research methods give answers to what and how. This research method can be used to small amount of respondents and its written report gives an image of respondent`s behavior and thoughts. (Hirsijärvi&Remes.2007)

In their findings Altinay and Paraskevas (2008) qualitative data comes in various forms. In many qualitative hospitality and tourism studies the data comes predominantly from interview transcript; however there is no limit in what could constitute a qualitative data. (Altinay& Paraskevas 2008)

4.1 Methods in actual study

I have chosen the qualitative method for my study because it allows a more free evaluation. Since my research is quite limited I consider that it can be better for my study as this method will give more flexibility regarding answers and questions.

I used the contact information from the Internet to get in contact with the persons working with revenue management in hotels in Eastern Finland. It was quite easy to take contact as most of the hotels have their e-mail address.

I wrote them an e-mail stating my purpose of writing my final thesis and that I wanted to make an interview with them about revenue management. I asked the contact person for their permission in involving the venue in question in the thesis. The cover letter of my email to the hotels is in Appendix 1. Some hotels I contacted by calling. This resulted in a visit and I included altogether 5 hotels for my thesis.

The hotels were visited during week 42 in October, 2010. I made appointments with the representatives according to their schedules. The meetings lasted around 30 minutes sometimes the schedule was rather busy. The basic questions were the same in every place (Appendix 2.) and during the conversations additional questions to support the existing information were made. I recorded the interviews and then made my own analysis about the interview from transcription of the interview.

According to Hirsijärvi an Interview is unique because an interviewer can interact with the people he or she is able to have face to face contact. Furthermore, it is possible to change the issues with the interview so that you can change the order of questions for example. On the other hand when interviewing a person there is more possibilities to interpret the answers than for example in post inquiry. If the issue during the interview is more or less unknown area for the researcher it is more or less difficult to know what the answers will be. (Hirsijärvi & Remes 2007).

In an interview there is a possibility to see the respondent's reactions in visually and hear and feel how she or he reacts whereas in the inquiry which is sent by e-mail it is hard to see the respondent's reactions in visually. An interviewer knows it by advance that the interview will produce answers as well. Moreover, if he or she wants to clarify more the answers so in interview it is easier than in an inquiry sent by e-mail. When making an interview it can be also possible that we want to have deeper answers so that we make follow-up questions.

According to Hirsijärvi those people who have planned to be interviewed is as well usually possible to have in interview with. On the other hand Hirsijärvi argues that an interview is like a coin which has two sides. An half hour interview hardly exists. If the problem is solved in half an hour it can be good also to send an inquiry. When planning to make an interview it must be carefully planned and organized. Margin of an error is also big, if

the respondent has a bad experience she or he feels oneself irritated or uncomfortable in one way or other when he or she is in the interview.

5 REVENUE MANAGEMENT IN HOTELS

In this chapter the reader will find results on how RM is used in hotels in Eastern Finland. In this analysis five hotels in Eastern Finland are studied. The case hotels which have participate in this research are situated in Kuopio, Kuusamo, Tahkovuori and Savonlinna in Eastern Finland.

5.1 Overbooking in hotels

According to the theory overbooking is concerned with increasing the total volume of sales by selling reservations above capacity to compensate for cancellations and no-shows.

In all the hotels in question the overbooking is ongoing process. On the other hand some hotels use overbooking is used more than others. ``If you know that there is going to be an event in local area, the situation can be forecasted by control selling and this way overbooking situation is avoided``.

Furthermore, overbooking can be used in everyday because each days are different and the situation is ongoing process. ``If you know beforehand that there will be overbooking in that particular day for example in new Years Eve , it is possible to leave without selling few rooms because there will be demand anyway``. According to the theory seasonal demand affects overbooking really highly. Overbooking in all hotels is approximately 5-20% per year but if the revenue management is in effective use overbooking can be controlled.

``Like last summer when there was a big Housing Fair, the demand in all hotels in Kuopio was really high with occupancy 100%``.

``After Housing Fair the occupancy is an average 65% in all hotels in Kuopio despite that if there are a some special occasions or such as an event like for example, Kuopio Wine Festival, when it is known in advance that the hotel will be full and the overbooking would be quite minimal``.

In general ``when a customer is making a reservation the reservation is guaranteed by taking the credit card number and the three security numbers..``The aim is to guarantee all the bookings.

In *no show* situations all hotels follow the terms of reservations and have guaranteed reservations. According to the theory cancellations of bookings can increase capacity utilization. Furthermore ``according to terms of reservations she is forced to cancel her reservation in that particular day by six o'clock pm``. In now show situation if possible ``the unsold room would be sold to the next customer depending on demand the hotel tries to sell out all unsold rooms``.

``When a customer is making a booking she or he is clearly informed that the cancellations has to be done according to terms of reservation for example 6 o'clock``. ``If the cancellation is made the hotel tries to sell the room with the same price as it was before``.

According to the theory regarding overbooking it is problematic because every hotel has different regulations about overbooking, and every staff member in the hotel must obey the terms of overbooking. ``The hotel routinely overbook rooms to compensate for *no-shows* in addition consequently an empty room in a hotel means a loss of revenue to a hotel``.

When possible ``the hotel is full the hotel is taking the waiting list in case there were any cancellations and the room becoming available the customer will be contacted to check if he or she still needs a room``.

In all hotels the general terms of reservation is used. In practice hotels try to sell every room according to demand and some of the rooms over the capacity. One hotel gives a good example of how they manage overbooking.

``The President of the Republic will visit in July at a popular opera day, the hotel is already fully booked, but we have to reserve 10 rooms surprisingly, this group. Already booked customers can arrange accommodation for example, summer hotel, and offer them for example, lunch or dinner``. In *no show* situations. ``We fully charge the first night from him or her , that is why we will always take contact information from the customer``.

5.2 Forecasting in hotels

According to the theory forecasting is a process that analyses current and historical data to determine future trends. Due to seasonality demand and the unstable global situation it is hard to predict any demand in hotel industry.

In all hotels it was clear that the global economic situation has effect in a way or other in hotels profitability and the way of doing in business.

“In the predominant economy situation it has been occasionally hard to predict the demand and the natural catastrophe affects on demand, like when it was this ash cloud in the air there was few cancellation from abroad”.

In one case good and effective marketing is a way of manage forecasting. Furthermore, the seasonal demand effects on high on forecasting “the demand in on control by using revenue management”.

According to the theory this is exactly so in high season the prices are high and in low season the prices are a bit lower. In all hotels forecasting does not show any problems but if there are for example.

“An artist in a nightclub and she or he has cancelled her or his show , so this causes cancellation also in reservations”. On the other hand the weather can be reason for cancellation and has influence also on forecasting. “when it was this ash cloud in the air there was few cancellation”.

In low seasons “the demand in hotel rooms is not so effective so the hotel tries to increase the demand in low season by using revenue management”.

In one hotel they gave an example on how they answer the demand forecasting. In high season at pre-booking

“A customer is sending an invoice after the reservation date and unpaid reservations will be cancelled and a hotel can sell the room again, in addition to fixing the room limit at six o. clock pm”.

According to the theory different natural catastrophes and wheatear situations can be a disadvantage for forecasting. It is also possible to use a certain booking system which has data from the previous year in the hotel. The information sources i.e. the booking data from previous year when forecasting are; historical data and other factors i.e. historical data both recent and past year based on the number of bookings and knowledge of how transient customers and groups behave with regard to booking events and or accommodation `` with this booking control system from previous years a hotel can see the current situation to compare it to the previous years and control the room capacity i.e. by promotions or other discounting``.

In one case it was pointed out also that a ``customer behaviour is changing a lot and will change`` so hotels have to develop new packages and products according to customer behaviour.

In Force Major situations all hotels had the same opinion that it is an unstable situation and sometimes hard to manager, especially if the defect is caused by the hotel. ``It is the situation that a manger cannot do anything about the defect is on hotels side``. ``But if the customer has cancelled the room and the cancelation is under the terms of reservation the hotel tries to sell the room forward``. ``If there is for example a water problem in the room the hotel has some kind of insurance for that and the cancellation is done for the customer without the costs``.

5.3 Types of controls in hotels

In this chapter the different types of controls are discussed and investigated in the case hotels. Every hotel should use different types of controls to manage their revenue effectively.

5.3.1 Pricing Control

In all case hotels there is the basic price level which is being used. Pricing may vary according to seasonal demand, and customer behavior. ``The price control has to be active so that in the low season a hotel can offer very good prices for the customers``.

According to the theory the hotel room situation affects on pricing and view from hotel room i.e. is it a street view or a lake view so that the standard room price is higher. In addition non-scenic view is of course much cheaper than scenic view. If the hotel is a chain hotel the price is determined for the management. All hotels have special offers in the Internet on their web pages.

``a hotel keeps an eye all the time the reservation situations and they update the pricing according to demand``. On the other hand ``a hotel actively follows the demand so that on high season the prices are high and in low seasons lower``.

5.3.2 Price Category Control

I argue that there are different rates in hotel room pricing policies. Most of the case hotels have rates according to customer segmentation so that there are package rates, co-operate rates, holiday rates etc. All hotels have their price categories on the Internet Web page. On the other hand there can be different ``price categories according to season and also sub categories outside season``.

“Hotels updating their price categories according to demand”. As I conclude in the previous chapter on high season the prices are high and in low season the prices are lower.

Furthermore a hotel can have “different price categories according to season, in addition, between the seasons there can be sub price categories depending on demand”. “The price is getting higher the closer the season is but if the demand does not increase the hotel is not using this kind of strategy”.

In one hotel they use the best available rate which is flexibility rate which is available for all the customers and includes two single beds, no smoking, the room is smaller and the room has , balcony with lake view, and full breakfast is included. Furthermore, there are available Scandinavian 1 night holiday Special or Scandinavian 2 night holiday special, Christmas package Early Web Special etc.

All these rate categories included breakfast and a standard room type single or double room. In this time after Christmas the room price was in this hotel 80 € per night for the single room. If a double room the price in standard room varies between 90 € and 110 €. In Ski holiday week the prices in a single room is 70 € per night and in double room 79 € per night. These prices are standard rates. With European Senior rate a customer can have 10 % off from regular prices. Then the price is 63 € per night. If a customer takes a 14 day advance purchase rate there is no cancellation. In addition, if a customer is taking an early web special there is no cancellation. <http://book.bestwestern.com/bestwestern/priceAvail.do?propertyCode=9110>
5

In Kuopio the situation in the period of Christmas was for single room between from 88 € to 108 €. For double room 103 €-218 €. This price is a price per room and for the night. In addition, in this hotel the breakfast was included in the room price. Furthermore, in one hotel the prices were a little bit lower varying between 71€ to € 91 € depending on if the room was a

standard room or superior room. Standard room includes minibar, hair dryer, TV , radio, shower few rooms have sauna , iron and parquet floor. Superior room includes coffee and tea machine, double bed , bathrobe and slippers air condition , parquet floor shower iron. In the ski holiday season the price is 91€ per night <http://www.scandichotels.fi/Reservation/Select-Hotel/>.

If comparing the occupancy of the rooms in between the five hotels the demand of rooms in Savonlinna and in Kuopio has been higher than elsewhere after Christmas due to Russian travellers' holidays.

In Kuusamo the price was 175€ in a standard room and this price includes max two persons. In superior room the price was 215€ and this includes max three adults or two adults and two children. The prices are from the beginning of January 2011. In the Ski holidays there are special packages for families but one single room as a fix price of 120 € per night. <https://sreservations.shotels.fi/onlinebooking/holidayclubhotels/room/select/FIHCKU>

Thus in all hotels the price management is centralized and a big part of all bookings is made through the Internet.

5.3.3 Capacity Control

According to the theory the capacity control must respond to customer demand so that the customer must get the room he has booked in the hotel and then on the other hand the hotel has to be enough hotel rooms available for the customer. An aim is that ``a hotel tries to sell the whole capacity 100% in a given day and time if in the evening there is free capacity the price can be a little lower``.

The demand regulates the price so that when demand is high so are the prices high and demand in low so are the prices lower.

``Even so it is hard to sell anything if all capacity is in use. The capacity control can be managed so that different price levels is followed actively and are used in balance with the demand and capacity control. On the other hand ``demand has to respond to capacity. ``

5.3.4 Demand Control

As I said in the previous chapter the demand regulates the capacity and pricing policies. When the demand is high so the prices are high when the demand is low the prices are lower. On the other hand a hotel may update the demand so effective, that it is easy to make special offers to a consumer. Special offers are discussed especially in low season when the demand is low.

I have explained that the seasonality has high effects on demand. In addition, consumer behavior affects on demand because of ``it is changing rapidly nowadays``. Demand fluctuations are high related to time ,place and day. Furthermore, ``demand and the capacity control has to be in balance with each other so that if the demand is high there should be enough rooms what to sell to the customer``.

In practice ``the prices are not dumping so down whatever the demand is low or not``. This means that there is a certain lower limit in prices and the prices must not get lower than this.

5.3.5 Overbooking control

This finding is in accordance with Kimes (1999) overbooking control is an optimal overbooking level to maximise the expected revenue and to minimise the potential risk of blocked service. In general all case hotels are trying to sell just little over capacity so that they minimize the overbooking risks. There are always a risk to fully overbook in all hotels. On the other hand hotels where revenue management is in high level of use they said that no overbooking is occurring. Furthermore in one hotel they ``take the reservation on linen and take customers phone number and contact the customer if the room release after six p.m``. (Kimes.1999)

For walk-in customers in all the case hotels they try to give as good price as possible or try to arrange an alternative accommodation.

6 FINAL DISCUSSION

I found in my study that implementing revenue management in hotels depends on many things, seasonality, pricing, customer demand and all these are linked together. The demand determines on which price hotels sell the room and seasonality arises the demand. When demand is high so the prices are high and when demand is low so the prices are lower.

Nowadays and also in the future many happenings in a destination or city effects on customer demand. Like my respondents have said in each hotel it is really hard to predict the demand because customer behavior patterns are changing really rapidly. Customers want to have different packages for different occasions.

Many hotels are developing new packages and wellness centers and other activities for the customer that they can have as many customer as the capacity can reach. Hotels have to find more profitable ways to manage in the competition. In low season there are a lot of rooms unsold and every unsold rooms is a loss in room revenue.

Each hotel tries to get as many customers as they can in low season by finding a good price level. Any hotel cannot dump their prices so low they have to think about profitability. I found also that in those hotels where revenue management is in effective use there are much less overbooking situations than in those where revenue management is in effective use.

In addition, customers are coming more and more direct to hotels and asking for accommodation or the reservation is done beforehand through the internet, where all the hotels have their current offers. Customers somehow know that there are rooms left in hotels so they make their reservation quite late and using Internet. There is very rarely customers who are calling to hotels and ask for the room. But the price if customer is coming direct to the hotel or making reservation on line is not quite the same.

Further research would be needed to obtain more accurate information on some aspects of the use of RM in my case hotels. It would be ideal if a researcher had an access to the statistics of the use of RM in these hotels provided that the managers were on the first place obliged to record its use and its success and failures. However, it is unlikely that the hotels would be willing to release written documentation as they would be afraid that competition hotels also might be able to use the information to their own benefit. In addition it could be more effective if a hotel can provide a research for a student considering their revenue management so that a student would take this hotel as a case in her thesis.

6.1. Validity of research

I argue that the methods I have used in my study are well covered in my research. My research measures on what was supposed to measure the use of revenue management in five hotels in eastern Finland. A factor that lowers the validity in this research was the inadequate time limits. I have designed my questionnaire so that respondents were able to give me answers with both personal interview and a letter sent by email. The questionnaire was based on the theories of the use of Revenue Management. The interviews worked mostly rather well and I was also able to make follow-up questions. Even though, the results was not perfectly similar at all because of every hotel using different policies in overbooking and pricing and have different types of customer segmentation. As a conclusion I argue that the Empirical part information corresponds the theory I have used in my thesis. Qualitative research uses a naturalistic approach and seeks to understand phenomena in context-specific settings, such as "real world setting. In my opinion in my research I have used `` a real world setting``, because of I have had examples from the hotels which uses Revenue Management and the examples are practical examples.

6.2. Reliability of research

Regarding the reliability and thus the validity of my study there are a few matters which could have affected that. Firstly, I could not be sure if some respondents did really understand the concept of RM even though information regarding my study was sent to them beforehand. Perhaps they do not use effectively RM or they have not worked as professionals on the field of RM. Secondly, as some respondents were short of time due to being busy running the hotel they did not perhaps care the importance of accurate answers for my study. Thirdly, it is difficult to know if the respondents were quite honest in their answers. They might have avoided such answers which could harm the reputation of the hotel. In addition I argue that my information has been credibility , neutrality and conformability.

I found the concepts in the RM interesting and doing my research of it a challenge. I hope this knowledge of RM will benefit my work in the future.

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APPENDIX 1

Cover Letter

Minna Ahonen

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10.10.2010

COVER LETTER

Dear Sir or Madame,

I am a Finnish student at Vaasa University of Applied Sciences. At the moment I am writing my final thesis in order to complete my Bachelor's Degree in Tourism Management.

During my studies in Vaasa University of Applied Sciences I have taken part a course called Revenue Management. This had gave me a challenge to start to write my thesis also with this subject.

This is a reason why I choose to write my final thesis about revenue management

I have chosen to interview some professionals of the revenue management in Eastern Finland to gather professional and current comments on revenue management in general and on country level. Please find enclosed a questionnaire in this email as a word attachment. I would be very pleased if we can organized time and have a face to face interview with you and you could confirm a time suitable for you.

The answers will be statistically analysed and I will use them to support my theory part in my final thesis. This questionnaire will be sent only to professionals. The management of the hotels in Eastern Finland will have their own questionnaires.

I would be very grateful if you could take contact me before 18.10 2010

Yours Sincerely

Minna Ahonen

APPENDIX 2

Questionnaire

Questions for Revenue Management Hotels in Kuopio, Kuusamo, Tahkovaari, and Savonlinna

- 1) What kind of overbooking system do you use in your hotel ?
 - a) How the overbooking is used in a hotel?
 - b) How do you handle the overbooking situation?
 - c) How many overbooking situations do you have in the year on average?
- 2) In what situation have you been forced to use overbooking system?
- 3) How do you control the situation if the customer just for one reason or other is not coming into a hotel?
- 4) How do you predict the demand in your hotel ?
 - a) Does forecasting cause any problems and if yes what kind of and if no why not?
 - b) How do you operate when you have ``Force Major``?
- 5) How do you use the following controls in your hotel?
 - a) Pricing control:
 - b) Price rates
 - c) Capacity control
 - d) Demand Control
- 6) How do you control Walk-In customers?
- 7) How well can you adjust to respond capacity to demand?
- 8) How do you control the situation if there is not capacity?
- 9) How do you see the revenue management in accommodation industry in the future?
- 10) What will be the competition strategy like in the future?