Saimaa University of Applied Sciences
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REVENUE MANAGEMENT OPERATIONS IN HOTEL CHAINS IN FINLAND

Bachelor’s Thesis 2011

ABSTRACT
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The aim of this study was to find out theoretical revenue management operations and their implementations in practice in hotel chains in Finland. The main idea was to create a theoretical background and compare the empirical results with theoretical part in order to get different or common sides of the theory and practice part. The theoretical part describes the main important operations of revenue management theoretically. In the empirical part partners and results are introduced secretly as it was agreed with them. Lack of volunteer partner was a restriction to take into consideration the variety of hotel chains in Finland.

A qualitative research method was used in this study. The study was implemented by using secondary data collecting method and semi-interview structure. In order to get reliable consequences experienced revenue managers were interviewed. The interview was done by sending a questionnaire to revenue managers in question. The theoretical part was completed by reviewing related literature.

The result of study showed that there are not differences between theory and practice in revenue management operations in hotel chains in Finland. The study also proved that future expectations of revenue management are the same for Finnish hotel chains as it is in theory. The paper shows that both partner revenue managers agree that revenue management is a hard and complex cycle for hotel management to manage. The study indicates that students who are eager to get in revenue management field in the future should be ready for challenges, interesting experiences, and economic responsibilities.

Keywords: Revenue Management, Hotel chains in Finland

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1 INTRODUCTION

This bachelor's thesis examines how revenue management operations are carried out in practice comprised with theory. Revenue management is introduced with its operations by explaining under every title step by step by giving examples and sometimes with figures. This thesis focuses on hotel chains only in Finland. The purpose of this thesis is to find out how Finnish hotel chains implement operations of revenue management in practice. The main idea is in this thesis firstly revenue management operations described in the theoretical part according to related literature and in the empirical part comparison of theory and practice part in terms of revenue management operations for Finnish hotel chains.

The idea of this thesis came from the revenue management course that I took at my university. The topic was interesting and challenging for hotel industry and also for writing thesis. As I am already interested in topic personally strategies of revenue management was worth of research for me. In order to narrow the topic we decided with my supervisor to focus on hotel chains. We also made it narrower and focused on hotel chains in Finland.

Qualitative research was used in data collection for this bachelor's thesis. Desk study was used for theoretical part. Related literature was reviewed and books, articles, documents were analyzed concerning revenue management. Semi-interview structure was used for empirical part in order to get valuable consequences in term of revenue management. Real revenue managers were interviewed. Unfortunately the interviews were not done face to face. We agreed with my partner hotels I sent them my questions via e-mail and they answered via e-mail. These revenue managers were really busy and they did not have time for face to face interview. The questions as you can also see in the appendix were general questions about revenue management. As revenue management is a secret strategy of the hotel, my partners were not willing to answer detailed question concerning their hotel.

As a result of this research, the study shows that there is no difference between theory and practice in hotel chains in Finland. The study achieved its purpose by this result. Finnish hotel chains implement revenue management operations as they are in theory. Revenue managers stated that revenue management is quite a complicated business tool to manage but when you manage it properly then you are successful.

This study achieved also to be a guide for students who like to be in revenue management field in the future. Different perspectives of revenue management are described by examples and figures in order for them to understand. In the empirical part revenue managers' suggestions took place to reach potential students to give hints about revenue management.

2 REVENUE MANAGEMENT

As this thesis will discuss operations of revenue management, it is useful to clarify the meaning of revenue management and what exactly revenue management is. Ranial (2008) identified revenue management as follows; Revenue management is an important tool for matching supply and demand by segmenting customers into different segments based on their willingness to pay and allocating limited capacity to the different segments in a way that maximizes company's revenues. Kimes and Wirtz (2003) also defined revenue management as "the application of information systems and pricing strategies to allocate the right capacity to the right customer at the right price at the right time"

When you stay at a hotel, sometimes check the price that you have paid with other guest for the same room. If she or he was a business visitor he could have paid well above €300 for the same room that you paid €180. It is also possible that they paid €120 provided for the same room when you had to pay €200 for it. Applying different price rates at hotels is the result of revenue management.

Revenue management is a whole process which could be completed with all these cycle operations. Revenue management may seem like some financial strategy which focuses on price and maximization revenue. Revenue management involves much more than just crunching numbers and adjusting points. According to Gabor Forgacs's (2010) explanation, it encompasses product definition, competitive benchmarking, strategic pricing, demand forecasting, business mix manipulation, and distribution channel management.

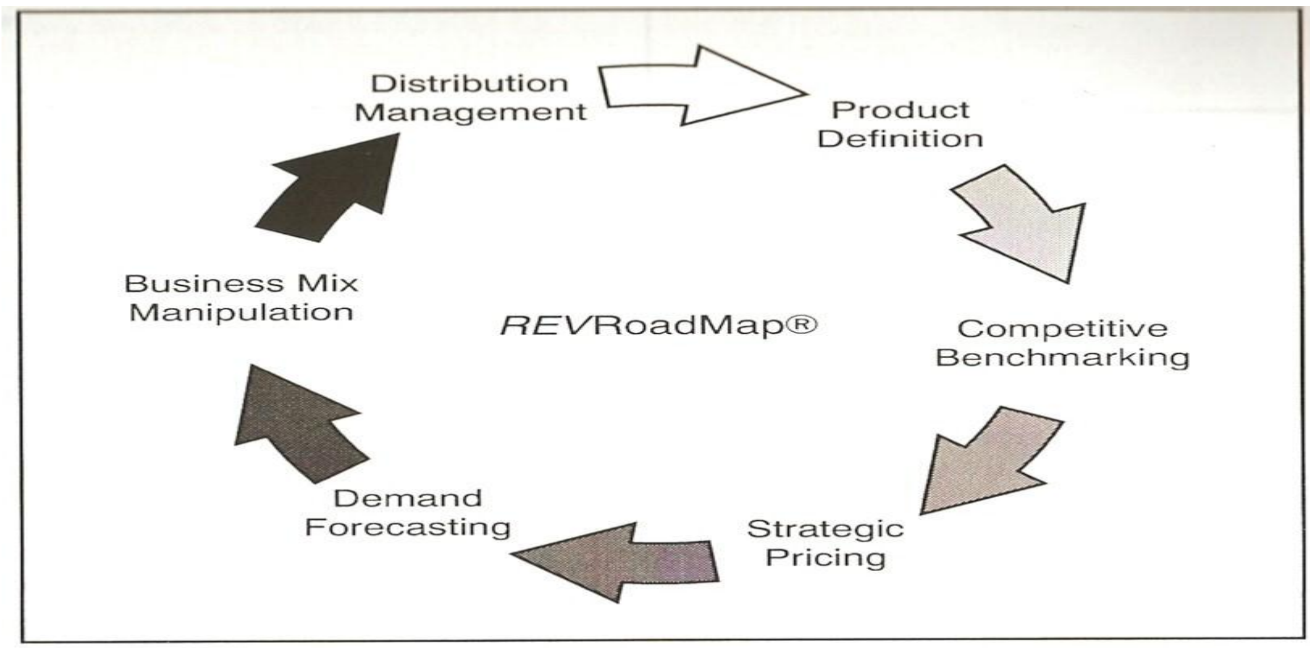

Figure 1: Revenue Management as a Business Process (Gabor Forgacs, 2010, p.4)

Operations of revenue management will be related and explained in this thesis according to this figure. Different strategies, tactical and strategic, will be identified based mostly on this figure. As it will start from the beginning with product definition, it will be based on how hotel industry realizes their products and life. By hand to hand as a chain, competitive benchmarking and competitive intelligence will create the main idea of tactical revenue management. Demand forecasting, Business and marketing mix and distribution channels will be the main objectives of strategic revenue management. Of course the relation of each step is a crucial point here. The main idea of that is to explain how all strategies go hand to hand and how they are important to apply effective revenue management.

Innovations, technologies, new trends have inevitable impacts on hotel revenue management. Customers' expectations and demand are conducted by these impacts. Yesterday's products which were highly demanded by customers may not have the same attraction tomorrow. Consumers' behaviour and purchasing habits are continuously changing. In this changing environment it may be sometimes hard to manage different revenue management operations effectively. If revenue managers realize and pursue every single activity in the cycle mentioned above, it would greatly help revenue managers to control and manage. Especially big hotel chains naturally have much more business activities internally and externally. For example when marketing strategies are done, big hotel chains need to take into consideration other big chains, they need to decide whether benchmarking is needed or not as well as if they need to consider customer demand, product definition, price strategy etc. Revenue managers who follow technological developments and apply them in their hotel would reach customer expectations and technological tools such as reservations systems, computer programs etc. would help to handle mix activities together as well.

Gabor Forgacs (2010) reminds us that the biggest chains traditionally take the lead on new initiatives in hotel industry. On the basis of technological developments, central reservation systems, technical and design facilities of hotel chains could be considered an initiative part. At the same time with these developments implementation of revenue management is a sufficient issue in hotel chains.

Customer satisfaction would come with professional implementations in revenue management systems and to know what customers want and in what way to provide their requests should be main question for hotel chains in terms of revenue management as it will bring successful financial results. In this case Kimberley (2009) stated that organizations need to gain a deeper knowledge of their customers to enable their sales and marketing teams to develop products and services that will satisfy the wants, needs, and desires of their most valued customers.

2.1 History of Revenue Management

Revenue management is much more important today than it was before, according to Kalyan T. Talluri's (2005) statement, Revenue management has gained attention recently as one of the most successful application areas of operations research. Revenue management originally comes from airline industry. American Airlines was the company who invented and implemented revenue management as a pioneer.

Gabor (2010) tells about the history of revenue management. Revenue management is a relatively new discipline that grew out of the airline industry's yield management initiatives of the mid1980s. Following the deregulation of the U.S. airline industry in 1978, drastic changes took effect. Low-cost suppliers appeared that aggressively carved out a growing share of the market. The legacy carriers had a hard time figuring out how to compete successfully with the charters and the discount airlines. By the mid-1980s, the threat became serious. Robert L. Crandall, CEO of American Airlines, fronted a new approach to tackle the problem: he used yield management to manipulate seat inventories by different fare classes on each flight.

All these aggressive market conditions affected low-cost and major airlines. At that time competition was really hard and low cost, and major airlines were trying to get as high a piece as possible from the market pie. According to Kalyan (2005) the major airlines had strengths that these new entrants lacked. He stated that major airlines offered more frequent schedules, service to more city pairs and an established brand name and reputation. According to his explanation major airlines had much more advantages in comparison with low-cost airlines because Kalyan (2005) stated that many business travelers, schedule convenience and service was (and still is) more important than price, so the threat posed by low-cost airlines was less acute in the business-traveler segment of the market.

The Civil Aeronautics Board (CAB) in The USA which controlled airline pricing, entry and exit deregulated rules during 1978. The Civil Aeronautics Board constrained in investment and operating decisions. Airlines were limited on competing only on food, cabin crew quality and frequency. (www.econlib.org) Governmental controls and deregulation of rules were the opportunity for low cost airlines to enter the markets.

According to Kalyan (2005) the problem was for the majors, a head to head, across-the-border price war with the upstarts was deemed almost suicidal; with their much lower costs, airlines like People Express could earn a profit at the new low prices, while most majors would lose money at a staggering rate.

Hotel industry also realized that revenue management is useful and a profitability source for the company when it is implemented effectively. Thus hotel chains try to adopt innovations such as central reservation system, franchising, do-not smoking floors, family rooms, business customer rooms, etc. According to Gabor (2010) the hotel industry now recognizes revenue management as one of the core competencies vital to profitability.

Shortly that is the history of revenue management which was invented by an airline company and expanded all over the world to every kind of business. Every single company naturally aims to make profit and on the basis of revenue management operations, they try to implement them their own organization as was mentioned above in cruise line, hotels, car rental companies etc.

2.2 Importance of revenue management

Revenue management uses differential pricing and other techniques to manage customer demand for a company's products and services, and incorporates those techniques and decisions based on knowledge derived from interfacing with current and potential customers to grow revenue through pricing and volume. Ronald (2008) states that effective management system focuses on these rights, and when right things are the revenue of hotel would automatically enhance. In fact, there are multiple sources of literature that outline the positive impacts of Revenue Management on a company level (Barth 2002; Cross 1997), In addition, Esse (2003) suggests that revenue management provides more benefits to customers and this leads to greater performance results. In its essence, other scholars conclude that revenue management encompasses activities that concentrate on proper allocation of resources by virtue of which better profits can be achieved

Hotel chains have a variety of products and the management of these products is relatively more complex than in normal size hotels. The structure of hotel products is also different from other industries as hotels have relatively high fixed costs such as electricity, labour, building, rent, etc. Chiang (2007) states that hotel industry is among the major areas of revenue management application as hotels' products are perishable, hotel's fixed costs are higher than the variable costs, and the demand varies over time .

In other words revenue management helps hotel industry to identify achievable and unachievable goals as well as to see high grow products or areas. Revenue management is a broad term covering the strategy and tactics a firm relies on to increase sales, make money and improve market share. (http://www.ehow.com)

Revenue management tools consist of technological developments, operating procedures, implementation of revenue management operations adequately. Another point in revenue management is personnel who are working and in charge for strategic decisions. Kimes (2008) stresses that revenue management professionals believe that the most important issues facing revenue management are related to human resources. Financial achievement could be fulfilled with skillful, educated and motivated staff. On the other hand hotels should be successful in providing career path for their staff in revenue management department. Revenue management brings staff satisfaction as well and provides better work environment by providing promotion opportunities and different positions for the staff. Revenue management is also a crucial point in income administration. Revenue management is integral to a company's long-term strategy. In financial point, in modern economies revenue management often comes from the school of nurturing investor relations. In other words, a company that adequately manages its income streams is generally the darling of security exchange players.

In understanding the importance of revenue management for the hotels, it would be useful to look at Robert Cross's idea. Robert Cross identifies and explains seven core concepts in understanding revenue management.

Focusing on price rather than costs when balancing supply and demand is the first issue in his seven core steps. This means adjusting prices, not costs, should be the first action taken when trying to get the supply/demand balance right. (Jonathan A. Hales, 2011) Replacing cost-based pricing with market-based pricing follows it secondly. This means focusing on demand and when demand is high, set prices higher. When demand is lower, offer discounts or lower prices to maximize revenues. ‘’The market (the consumer), establishes the price, and your job is to find the markets acceptable price points’’ (Cross, 1998, pp.70)

Thirdly selling to segmented micro markets, not mass markets, is the idea of micro markets and market segments. Micro markets or market segments are defined by demographics (e.g., age, sex, income, occupation, and education) or psychographics (e.g., attitude, personality, and lifestyle). ‘’Different segments demand different prices. To maximize revenue and stay competitive, prices must vary to meet the price sensitivity of each market segment. (Cross, 1998, pp.77)

In the fourth step Robert Cross’s idea supports the Cross’s concept; save your product for your most valuable customers. This suggests that your products or services may have different values at different times. These different times could be weekdays or weekends, the short term in days versus the long term in weeks, or availability of different levels of service. For example, a businessperson might be willing to pay a higher price at the last minute because of a recent change in his or her travel plans. Saving seats for a flight or rooms at a hotel at higher rates for these customers enable the airline or hotel to maximize room revenues and satisfy the needs of a specific market segment. (Jonathan A. Hales, 2011, pp.144)

The fifth thing to do is to make decisions based on knowledge, not supposition. This identifies using accurate and current information to make decisions. Modern computer systems collect and analyze massive amounts of data and using this information will result in better decisions. ‘’Forecast demand at the micro-market level to gain knowledge of subtle changes in consumer behavior patterns’’ (Cross, 1998, pp.85)

In the sixth step Robert Cross suggests to exploit each product’s value cycle which means understanding the value cycle of your products or services and adjusting the pricing and availability to each market segment. For example, Super Bowl T-shirts of the winner have their highest value the days immediately after the team wins Super Bowl. Weeks later, the same T-shirts will be significantly discounted. (Jonathan A. Hales, 2011, pp.144)

As the last step out of the seven, continually reevaluate your revenue opportunities. This means analyze your actual results and compare to expected results and make necessary changes to meet established goals and respond to changing market conditions. (Jonathan A. Hales, 2011, pp.144)

These seven concepts of revenue management will guide the hotel revenue managers to lead their business as effectively as possible. Importance of revenue management is in this point; it helps to handle different complex activities at the same time

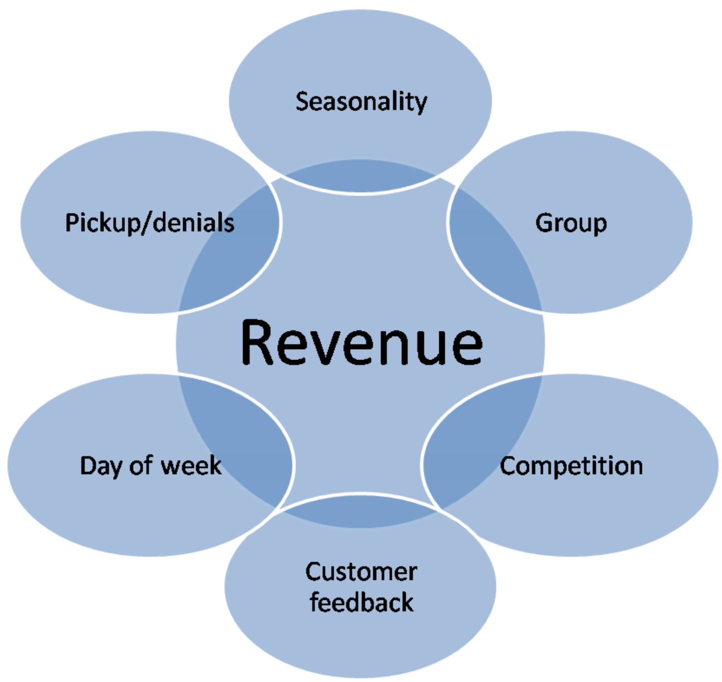

Figure 2: The challenge: How to manage complexity?

As a revenue manager, you will have so many responsibilities which you have to handle at the same time. It would be obviously too hard without following a system or any procedures. When everyone and especially your supervisor expect from you successful pricing, marketing, forecasting, supply and demand strategy, you will be able to manage it by following the core steps and main idea of revenue management, also adopting revenue management techniques to your own hotel will make operations easier and you will be aware of what you are doing. One of the most important things is that beyond of technical knowledge to be aware of situation and implementation of operations.

2.3 Conditions of Revenue Management

Xuan (2007) highlighted various conditions for a firm to be able to practise revenue management. These are relatively fixed capacity, perishable inventory, reservations made in advance, low marginal costs, variable demand and segmentable markets. Let us look at these conditions in terms of hotel revenue management.

Fixed-capacity is a significant constraint. (Gabor Forgacs, 2010, p.7) That means that hotels have limited capacity that they cannot sell more than their total capacity.

Perishable products**,** a hotel sells a time-sensitive product the privilege to occupy a given room for a given time. After the time expires, the hotel has the opportunity to clean, refresh and replenish the room and sell the privilege of staying there again to another occupant. Gabor (2010) suggests that tonight's room night has a short shelf life. Tonight's room night cannot be sold tomorrow. If a hotel cannot sell a room night and a room remains unsold, the hotel cannot store that unsold room in inventory and sell it later. Tomorrow, the hotel will sell tomorrow's room night.

Fixed capacity and perishable inventory provides a credible threat heightening acquisition risk, resulting in the existence of advanced demand for the practice of revenue management. Yet some revenue management literature has shown that revenue management could be practised even when there is not fixed capacity, or even with high cost of incremental capacity. According to Irene (2005) positive fixed capacity may encourage buyers to buy in advance because of acquisition risk, but threat of non-acquisitions (from the consumer's perspective) may also be generated through consumers' inability to afford higher spot prices.

Reservation made in advance and variable demand allude to a distribution of demand of consumption, so that there are variations in prices to manage, and segmentable markets ensure that the firm is able to discriminate on prices Irene (2007) states. Demand actually changes season to season and that affects consumers in decision making for reservations. Different seasons have different demands obviously and also different hotel types have different demand from the consumers. A warm resort hotel in Mallorca in Spain will have different seasonal demand fluctuations than an airport hotel in Finland. But the main idea is in this point that these both hotels can still identify their own main seasons, off-seasons and shoulder seasons.

In terms of business the environment has crucial points for hotels. Environmental changes have huge effect on management decisions. Revenue management can work with valuable data to identify and map out the seasonality of demand. Identifiable revenue patterns will help determine best-suited strategies and tactics to exploit revenue maximization opportunities. According to Gabor (2010) managers should find right tactics on right bases to arrive at optimal solutions in a constantly changing environment.

3 MEASUREMENTS

This part of the thesis discusses internal and external measurements in order to manage business effectively in terms of revenue management. The most effective internal measures will be about the primary product which hotel provides. This primary product will obviously be hotel room and sale of room and revenue generated from those sales. External measures identify hotel's overall market and competitive situation in business context.

3.1 Internal Measurements

While Jonathan (2011) states that meeting budgeted and forecasted targets in terms of internal measures by explaining that it is challenging for hospitality managers to maximize profits when a hotel is not meeting budgeted and forecasted revenue. According to Gabor (2010) in order to keep budgeted and forecasted level, revenue managers should pursue and apply internal measures properly. These internal measures are Revenue, Occupancy Percentage, Average Daily Rate, RevPAR, Contribution Margin, Identical Net Revenue, and GOPPAR.

3.1.1 Revenue

Revenue is the amount of money that a company actually receives during a specific period, including discounts and deductions for returned merchandise. It is the "top line" or "gross income" figure from which costs are subtracted to determine net income. Revenue is calculated by multiplying the price at which goods or services are sold by the number of units or amount sold (http://www.investopedia.com)

Room revenue will be taken into consideration as a primary profit of hotel. Once managers have good implementation in maximizing revenue for hotel, they could have chance to apply the same strategies also in other departments of the hotel.

The formula for determining room revenue is quite straightforward:

Room revenue = Room nights sold x Room rate charged (Gabor Forgacs, 2010, pp.14) (1.1)

For example, if a hotel sells 4,500 room nights at €100 per room, room revenue will be for that hotel -> 4,500x100=450,000

3.1.2 Occupancy Percentage

Occupancy percentage is one of the most common performance measures in the lodging industry. It expresses the proportion of rooms sold to total rooms. (Gabor Forgacs, 2010, p.15) An occupancy percentage is calculated by dividing the total number of rooms occupied by the total number of rooms available.

The formula is:

$$\text{Occupancy Percentage} = \frac{\text{Total rooms sold in a period}}{\text{Total number of available rooms}} \times 100 \quad (1.2)$$

(http://wiki.answers.com)

For example, let us assume 200-unit hotel which has sold 1,200 rooms nights in one week. The total room night available will equal 200x7 nights= 1400 room nights. The weekly occupancy of the hotel is 1,200/1400x100= 85%

3.1.3 Average Daily Rate

The Average Daily Rate, or ADR, is a hospitality industry metric measuring the average amount paid per room over the total rooms occupied over that period. (http://www.wikinvest.com)

The formula is, Average Daily Rate (ADR) is calculated by dividing room revenue by the number of rooms sold.

$$\text{Average Daily Rate} = \frac{\text{Room Revenue}}{\text{Number of room nights sold}} \quad (1.3)$$

For example a hotel’s revenue for a week is €110,000 and the hotel sold 1000 room nights that week, the ADR is 110,000/1000= €110

3.1.4 RevPAR- Revenue per Available Room

It combines room occupancy and room rate information to measure hotel’s ability to maximize total room revenue. It is the best measurement of maximizing total room revenue because it identifies the hotel’s ability to manage both occupancy (rooms sold) and room average rate in maximizing room revenues. A hotel must effectively manage both to maximize total room revenue (Jonathan A. Hales, 2011, pp.136)

There are two formulas for calculating RevPAR:

$$\text{RevPar} = \frac{\text{Room revenue for a period}}{\text{Total rooms available for that period}} \qquad (1.4)$$

RevPAR= ADR x Occupancy percentage (Gabor Fagorcs, 2010, pp.16)

For example, the first night, the hotel has 65 percent occupancy with an ADR €80. The second night, the hotel has 80 percentage occupancy with an ADR of €65. In this case the point is that revenue manager should know what to think and analyze of the situations which one would be beneficial for hotel. For ADR the first night is better, for Occupancy percentage the second night is better. One way to solve this conflict is to find out revenue per available room (RevPAR). In the example above, the RevPAr for the first night is €65x80%= 52€. The RevPAR for the second night is €80x65%=52€. So, in both scenarios the hotel has the same revenue. In the first scenario the hotel gets profit with high occupancy rate and low ADR. In this case revenue manager could think that having more customers would be a chance for the hotel to sell more other activities or products, such as restaurant, spa, golf, etc. In the second scenario the hotel gets profit with high ADR and low occupancy rate. In that case the hotel management can consider that the same profit is gained less room which means hotel will have fewer rooms to clean for the same revenue. In both scenarios it is very hard to decide which way would be more profitable for the hotel. This question actually does not have an answer. Because hotel revenue managers can identify their own selling strategies according to the way they consider more profitable.

3.1.5 Contribution Margin (Net Revenue)

Contribution margin, also called Gross Profit is the sales price received minus variable costs. (http://www.dynamicbusinessplan.com) This cost is not incurred for unsold rooms. When gross room revenues and variable costs are known, we can calculate the contribution margin or net room revenue.

The formula is:

Contribution Margin = Room rate- Variable Costs (1.5)

For example, if a hotel has a €110 room rate and variable cost for that room is €20, contribution margin will be 110-20= €90 for the hotel.

3.1.6 Identical Net Revenue

One way to apply the contribution margin is by analyzing scenarios with changing price points and occupancy levels. The objective of this calculation is to identify the occupancy percentages that will generate identical net room revenue at changing average rates (ADR) (Gabor Forgacs, 2010, p.19) For example a hotel has ADR €120 and the average variable cost is €20. If current occupancy is 75 percent, what occupancy would be required to generate the same net revenue if hotel lowered the ADR to €110?

The formula is:

$$\text{Required new occupancy} = \frac{\text{Current contribution margin}}{\text{New contribution margin}} \times \text{Current occupancy} \times 100 \quad (1.6)$$

(Gabor Forgacs, 2010, p.19)

$$= \frac{€120-€20}{€110-€20} \times 0{,}75 \times 100 \rightarrow 83.3\%$$

The calculation shows that this hotel would need 83.3% occupancy to generate identical net room revenue if the ADR were lowered by the hotel from €120 to €110 while variable cost per room stayed same at €20.

3.1.7 GOPPAR- Gross Operating Profit per Available room

Gross operating profit per available room (GOPPAR) is a measure of the profit made by hotels. It relates profit to capacity. Unlike RevPARit takes into account that the fact that hotels make much of their profit from activities other than providing rooms - food and beverage sales are particularly important. The biggest objection to GOPPAR is that the meaningful comparisons of GOPPAR between different hotels are even more difficult than comparisons of RevPar. The proportion of profits from food and beverage sales is much higher for more up market hotels. It will also vary with location and the facilities offered by a particular location. A large five star hotel in a rural location that appeals to tourists, is far better able to make food and beverage sales than a budget hotel in a city centre well supplied with bars and restaurants (http://moneyterms.co.uk)

GOPPAR, or Gross Operating Profit per Available Room, is defined as total gross operating profit (GOP) per available room per day, where GOP is equal to total revenue less the total departmental and operating expenses. (http://symphony.plumtreegroup.net)

The formula is:

$$GOPPAR = \frac{\text{Gross operating profit for a period}}{\text{Available rooms during that period}} \quad (1.7)$$

For example, a 250 unit hotel with an annual gross operating profit of €2,600,000 would have a GOPPAR of €2,600,000/ (250 roomsx365 nights)= €28,4

This measure assesses cost efficiency. While RevPAR is useful to measure revenue performance, there is a growing interest in evaluating overall profitability. Measuring gross profit can expose operational inefficiencies. It is one thing to be able to drive revenue and make the top line of an income statement look impressive. It is another to make the bottom line impressive as well (Gabor Forgacs, 2010, pp.20)

3.1.8 Overbooking and Cancellations

Overbooking is a well-known practice in the hotel industry which could be defined as confirming more rooms than the available capacity of the hotel. Overbooking also is seen as an important tool in order to optimize revenue in hotel industry.

It has attracted the attention of researchers who usually discuss the problem in the context of yield/revenue management. It seems that overbooking is risky strategy and in this point some managers may think if it is really worth doing or not. They may be worried about customer satisfaction in case of unexpected problems with overbooked reservations, but still it brings revenue to the hotels. For example reserved rooms may be cancelled on the same day that customers would come. On the other hand some overbooking was taken before in case of cancellation. In this case hotel will not lose any profit as customers can be accommodated in canceled rooms instead of customers who have already canceled. Negatively if there is not any cancellation and if there is still overbooking. Customers cannot be accommodated and they should be conducted to any other hotel to accommodate. Even though it is not a good image for the hotel, by conducting customers to other hotels and by helping them to find accommodation, the situation could be fixed in better way.

Overbooking method is a very common revenue management strategy. Most of hotels do not hesitate to apply it in order to get the highest revenue. 99 percent of hotels tend to overbook every night on the basis that someone will cancel at the last minute. When this happens, not only do they charge a cancellation fee but they have probably had an instant taker for the room so the revenue is suddenly increased. (http://www.hotel-assist.com)

It is possible to see different transactions and penalty fees in case of cancellation or no-show. It depends on hotel and hotel management system. When some hotels apply very strict and high fees some hotels may apply lower cancellation or no-show fees. According to Kalyan (2005), no-show rates in hotels range from 7 percent to 20 percent depending on the rate category. Cancellations and no-show depend on the time of booking (later bookings tend to no-show), credit card guarantees, whether the room is being shared, and so on. A cancellation happens not only when the customers calls to cancel but also if the customer decides to check out early. This means that the future capacity of the hotel is often uncertain.

Overbooking Policy and Control

According to Selmi (2007) ''the risk of customer refusal appears if the overbooking is not realized precisely''. In order to avoid complexity of overbooking policy hotels should have a clarified stated overbooking policy. Thus workers who are taking overbooking will know the exact statements of hotel as well as they will avoid getting a huge chaos. Optimal overbooking should be clarified in this statement clearly, the hotel will define optimal overbooking rate in each reservation type and hotel will take into consideration limits of overbooking. According to Hung (2004) there are some factors while setting overbooking limits such as; probabilities of cancellation and no-show, room demand distribution over time and conditions of length of stay; stay extension probabilities influences by the intended length of stay.

3.2 External Measurements

The increasing competition is one of the reasons which make performance measurement important. Nowadays financial and non-financial indicators can measure performance. However, financial measures only tell about a company's past performance while non-financial measures reflect the health and wealth-creating potential of the company. Profit indicators and return on investment are the main performance measurement in hotel industry nowadays. In principle they are significantly important but they do not provide a complete picture on their own. It is also important to look at various external measures. These are measures that compare the hotel with its competitors in marketplace. These important external measures are: the competitive set, fair share and market share and intelligence.

3.2.1 Competitive Set

When hotels identify their competitors they take into consideration different values. Kimberley (2009) points out that in the hospitality industry, most organizations determine their list of direct competitors based upon a variety of factors, including price, location, facilities, features, amenities, and level of customer service. Direct competitors are the main challenging factors for the hotels. When a hotel is choosing its competitors, these competitors should be direct competitors with whom they are in competition, not with whom the hotel already can compete. This critical point must be understood by hotel management correctly and competitor analysis should be done in terms of real and direct competitors.

Competitive intelligence is part of the competitive set for hotel industry. According to Kimberley (2009) competitive intelligence is the practice of conducting primary research and analyzing secondary research to understand the characteristics of competition .On the other hand national association which is called, Society of Competitive Intelligence Professionals (SCIP) identify competitive intelligence as "the legal and ethical collection and analysis of information regarding the capabilities, vulnerabilities, and intentions of business competitors" To understand the competitive set and competitive intelligence would help hotel managers to target realistic competitors, better external business environment analysis and to monitor the hotel's financial results.

3.2.2 Market Share

Market share reveals us actually how big the market is and if we think of the market as pie, what is our share from this pie. It is defined in literature; market share is the number of rooms in our hotel as a percentage of the rooms in our hotel's competitive market set. Market Set is the total number of rooms we are in direct competition with, within our area's market and/or segment (http://www.hotel-online.com).

There are many associations which are working on evaluating hotel's performance and their market position in the market. Gabor (2010) suggests that hotel may want to see their market position at regional or national level. Even professional help is possible for them. A multitude of firms offer services for macro-market information on national and regional data. They also monitor trends and provide forecast. The best known are STR (Smith Travel Research), PwC (PricewaterhouseCoopers), PKF (Pannell Kerr Forster) their big picture market reports and other publications are useful for hotels that serve a national or international clientele.

4 FORECASTING

Kimberley (2009) defines forecasting as an act of estimating, calculating, or predicting conditions in the future. Gabor (2010) adds that in this point forecasting is one of the cornerstones of revenue management. Some typical demand generators are corporate offices, convention centers, sporting arenas, meeting venues, resorts and recreational activities, government and military installations, shopping centers, and special events

Forecasting Methods

When forecasting demand in hotel industry, the hotels follow different forecasting methods in order to catch as many customers as possible. According to Gabor (2010) these methods are short-term forecasting, long-term forecasting, constrained and unconstrained demand.

Gabor (2010) states that a long-term forecast serves as a framework and a compass to anticipate which direction to turn to and how far one can expect to go. Structure of long-term forecasting is less detailed than short term forecasting. Long-term forecasting consists of current economic situations, growth rate, inflation etc. Jonathan (2011) adds that long-term forecasts, which are not as detailed as weekly and quarterly forecast, but are intended to give the general direction of expected business operations in the future.

On basis of long-term forecast in historical data, Kimes (2002) states that some companies use the number of the rooms or arrivals for the same day of the previous year to estimate the historical forecast, while other companies use the Holt-Winters exponential smoothing method to estimate long term forecast.

As long-term indicates to anticipation of future demand, there might be some changes in customer demand. Because the fact is that no one can guarantee that next year's demand will not change stronger, weaker, etc. The critical point is to anticipate in which segment changes will occur and in what way. Hotels can meet customers' demand by anticipating their expectations and segments beforehand.

Jonathan (2011) divides short-term forecasts into three groups such as weekly, monthly and quarterly. In his definition weekly forecasting indicates plans and detailed operations for each shift or department for each day of the week, monthly forecast reports are used equally as a management tool and to project expected financial performance. These are distributed inside and outside the company to interested stakeholders. According to his idea quarterly forecasts are primarily used to plan and project the financial performance for the next one or two quarters.

Other demand issues in forecasting method are constrained and unconstrained demands. According to Kimberley (2009) constrained demand may be defined as demand that is held back or confined by rules, restrictions, and availability. Gabor (2010) supports that idea and states that once demand levels rise above the hotel's capacity to meet it fully, demand becomes constrained. According to these two ideas constrained demand is based on capacity availability, restrictions and rules. If constrained demand occurs, that means hotel can meet only part of demand.

Unconstrained demand is when a hotel can fully provide the total demand. This typically happens in low seasons. These two ideas support the fact when hotels are able to meet total demand, they would not take into consideration capacity, restrictions or rules.

5 RATE MANAGEMENT

Every hotel in principle has their own rate prices. According to hotels' quality and services these prices change. On the other hand, hotel can offer different prices for different customers and groups in terms of revenue management. Difference rate structure brings out rate management with itself. Gabor (2010) assumes that many people consider rate management to be the heart and soul of revenue management. A hotel's tactical rate management should align with its strategic pricing.

Jonathan (2011) reminds also that rate structures are factors to reach different customer segments with different prices. They can be year-around or seasonal room rates. They are published and the hotel uses them to attract customers. Potential customers view the rates of a hotel and compare them with other hotels and choose a hotel to stay based on rate, experience, location, and the expected overall value of the service they will receive. Room rates generally set for one year. They are determined based on last year's actual room rate, marketing studies, inflation rates, competitor's actions, renovations or improvements, and the expectations regarding increase in total room revenues each year

From these perspectives we can imagine that hotels may offer different rates for the same room. For example hotel X may offer ten different rates for the same room, while Y offers eighteen and hotel Z offers forty. There is not any proof that shows hotel Z's forty offers work better than hotel X's ten offers. The question is here that hotel Z has really forty different clusters of customers who they can cater for or not.

Type of Hotel Room Rates

A hotel usually designs standard rate for each room. This rate is generally called room rate. Room rates are most of the time settled in times of registration (http://www.hospitality-school.com)

This means that room rates are standard prices for the customers, if customer does not have any special status for the hotel. These different statuses reveal different room rates for different customers. Rack rate is the highest rate charged by the hotel for a specific room. Although it is the highest rate it does not mean that a hotel gains most profit by this. Often selling a room for somewhat less price ensures repeat guests which are much more beneficial than normal rate price (http://www.hospitality-school.com)

Hotel also can give special price for their partners or co-operation companies. The Corporate Rate Hotel Directory's hotel database has thousands of listings of hotels that offer special discounted rates for the business traveler. As a way of procuring a cheaper hotel room, corporations often negotiate a corporate rate with a hotel (http://corphotels.idt.net/) In other words; the rate is designed for two kind of business people. One is for businessman who stays at hotel frequently per month or week. Another beneficial is guest from a company who has contract with the hotel ((http://www.hospitality-school.com)

One of the profitability comes from group customers(http://www.hospitality-school.com) Group rates depend on a number of variables, including the season of the year, the number of room nights wanted (based on group size and duration), other revenue (food and beverage, function room rentals, AV, golf, spa, etc.), and the group’s history. Group bookings are usually handled by the sales department, where agents and managers are highly specialized in dealing with this line of customer (Gabor Forgacs, 2010, p.43)

Government rates are reserved for travel on official government business only for federal employees. Military personnel, their dependents and members of several government/military associations are extended the rate for official and leisure travel (http://www.choicehotels.com)

Kimes (2005) states that variable pricing and demand based pricing strategies would be useful for revenue managers as they are really popular revenue management strategies. By demand based pricing strategy a hotel can segment the same room for different price for different kind of customer. The best available rate provides the hotel to offer the lowest price opportunity for its customers. Hotel can offer lowest price according to customers' demand.

As a result, instead of paying the same price for each room night, the guest would pay different prices each night. Understanding customers' perceptions of a Best available rate policy can help hotel managers better apply revenue management tools that maximize revenue without compromising guest satisfaction

6 DYNAMIC PRICING

Dynamic pricing in principle is to offer the right price to customers at the right time with the best available rate structure. According to Michael (2008) dynamic pricing was first introduced in the early 2000s by hotel groups such as Marriott, Hilton Hotels Corporation and InterContinental Hotels Group, primarily in the United States and some European countries. Gabor (2010) defines that dynamic pricing means that a hotel will change its room rates daily or even within a day if up-to-the-minute market information reveals the need for adjustments.

Hotels that use dynamic pricing replace their static rack rate by the best available rate (BAR) that fluctuates with supply and demand. Corporate customers can negotiate a fixed discount off the BAR if they have sufficient room-night volume, signing a contract with a single property or a chain. Alternatively, they can continue to negotiate a fixed rate, which most hotels still offer (Michael Mannix, 2008)

According to Buckhiester Management USA (2007) in fairness to the area of revenue management, the introduction of dynamic pricing was seen as an answer to rate integrity issues. In an environment of constrained supply and variable demand, static pricing across a wide range of segments was not realistic. If all other segment prices were going to fluctuate, both upward and downward with shifts in demand and if the corporate segment did not in turn rise and fall then there would be occasions when corporate clients would be charged more than unqualified business. The practice of dynamic pricing was seen as a reasonable solution.

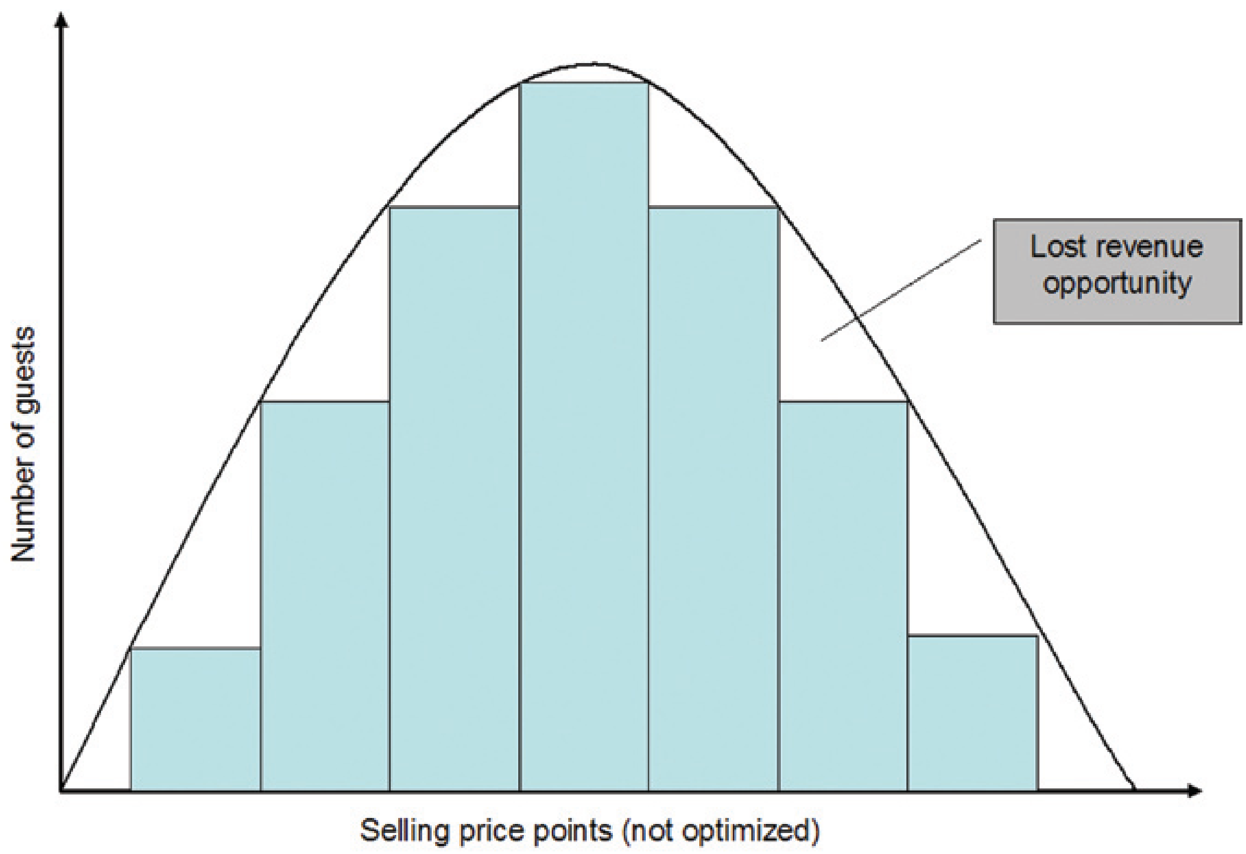

Figure 3: Normal distribution curve for guest-price mix (IBM Global Business Services)

In Figure 3 explains that if a hotel does not optimize the price and demand according to situation and if hotel does not offer the best available rate price in terms of dynamic pricing, figure show what the lost revenue opportunity will be. In this figure, the white section shows lack of applying dynamic price strategy by giving the best available offer to customer. In that case hotel will lose possible revenue opportunity by applying still the same demand situations, even though demand could change. Thus in this white section customer is not willing to pay the existing hotel rate.

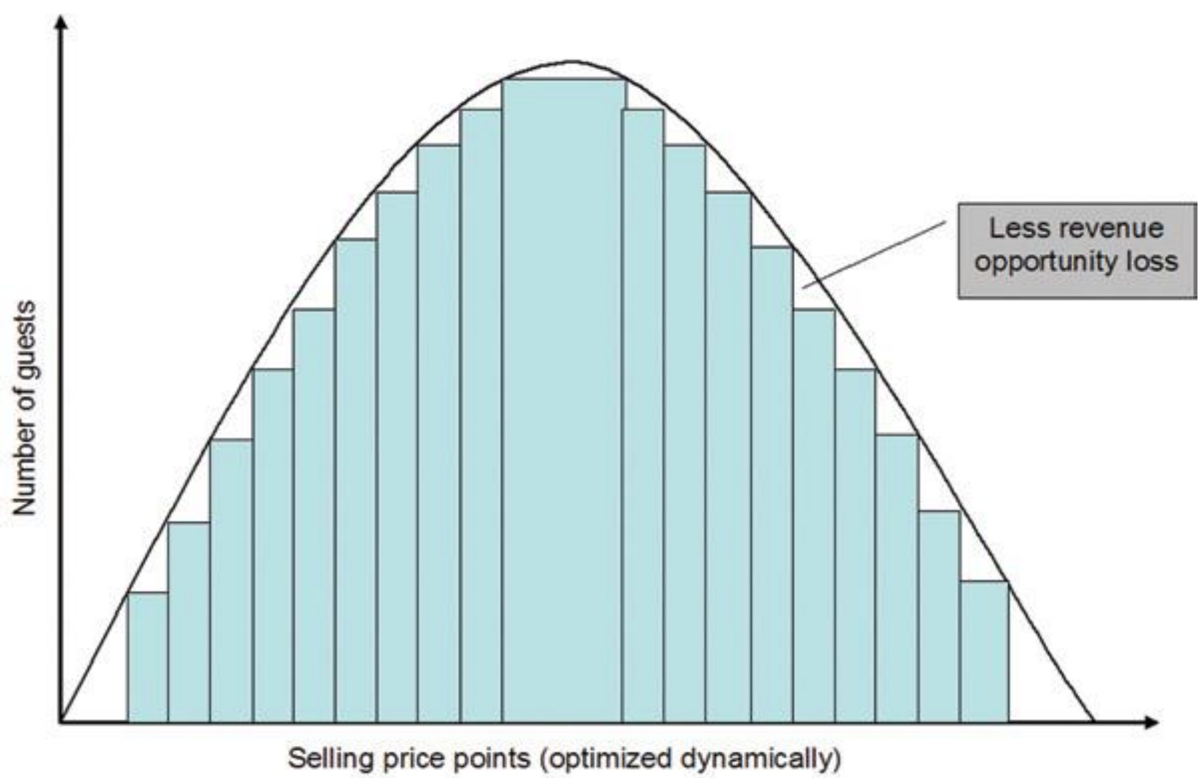

Figure 4: Normal distribution curve for guest-price mix with optimized prices (Source: IBM Global Business Services)

In Figure 4 you can see a hotel chain that is implementing dynamic price strategy according to customers' demand. This figure shows that hotel is sensitive in the best available rate offer for the customers and in presence situation hotel offers special rate to customers in order to optimize revenue, so that hotel would have less revenue opportunity loss in terms of dynamic pricing.

7 STAY (DURATION) CONTROL

Stay control is one of the revenue maximization tactics and involves selecting the highest yield reservations among all inquiries by managing the availability of the product. The assumption is that longer stays equal higher yields. Gabor (2010) states that the application of stay control means that instead of offering rooms on a first-come-first-served basis the hotel attaches conditions to its room offers. Duration rules and restrictions may apply to arrival dates, departure dates, and minimum length of stay. According to Kimberley (2009) there are several different stay controls that may be placed on inventory with the objective of optimizing the revenue potential of future sales. When no restrictions are in place, the inventory is said to be open for sale. When inventory is closed, it means that all inventories have been reserved and no more reservations are being taken

Kalyan (2005) states that hotel capacity controls follow the traditional nested allocation and bid price schemes of airlines, with a few important differences. A minimum length of stay is often used to accept only stays over certain duration.

While Kimberley (2009) discusses a maximum length of stay restriction, a guest may only stay a certain number of nights. A maximum length of stay restriction may apply to packaging, special discounted pricing, or the dates leading up to a big event where a group has reserved exclusive use of facilities, Kalyan (2005) states that a maximum length of stay control is the opposite; it sets an upper limit on the duration of stay, so lower revenue, long-stay guest do not displace higher revenue, short stay guests.

8 DEMAND GENERATION IN REVENUE MANAGEMENT

Demand generation is the art and science of creating, nurturing, and managing purchase interest in your products and services through campaign management, lead management, marketing analysis, and data management. (http://www.eloqua.com)

The idea of demand generation is to get most possible revenue from customer demand. Hotels would be able to decide which demand is high and which demand would be focused on in order to maximize revenue. Gabor (2010) states that using demand generation strategies, revenue managers can take a proactive rather than reactive approach to maximizing revenue.

Product Differentiation

Differentiation was investigated by various early economics researchers, notably Hotelling (1929) and Chamberlin (1965). Hotelling (1929) showed how firms choose their ‘locations’ in the product space so as to buffer themselves from direct price competition (Irene, 2007)

Product differentiation provides hotels to clarify their competing prices in certain products and in price elasticity. Heart of a product differentiation strategy lays consumer value. Hotels are able to increase revenue from introducing differentiated products primarily because these products can be distinguished from their rivals on attributes that are “meaningful, relevant and valuable” to consumers. However, the concept of value for services is usually more complex. This is because for some services such as a flight or a night’s stay at a hotel, the consumption of a service, commonly labeled as the service experience, lasts a meaningful length of time (Lovelock and Wirtz, 2003) and is subjected to various influences. Consequently, the value attained by the consumer is multi-attribute, incorporating both the core service (e.g. one night’s sleep) as well as the supplementary services (e.g. check-in, facilities etc.) Lovelock and Wirtz (2003) classify supplemental services into eight categories of information, payment, billing, consultation, order-taking, hospitality, safekeeping and exceptions.

Lovelock (2003) states that in fact, the very act of requiring consumers to be present in the consumption of a service would already guarantee that the service consumed is a differentiated one. It is widely recognized that services are inconsistently produced (heterogeneous). Hence, it is logical that the consumption of the same service by two customers will be perceived differently, even without the firm’s effort to differentiate.

9 MARKET STRATEGIES OF REVENUE MANAGEMENT

In terms of revenue management marketing is defined by Gabor (2010) in a way that marketing is closely related to most facets of revenue management. Revenue management does not teach (or re-teach) the discipline of marketing, but it builds on most elements of marketing and discusses some of them from the perspective of revenue optimization

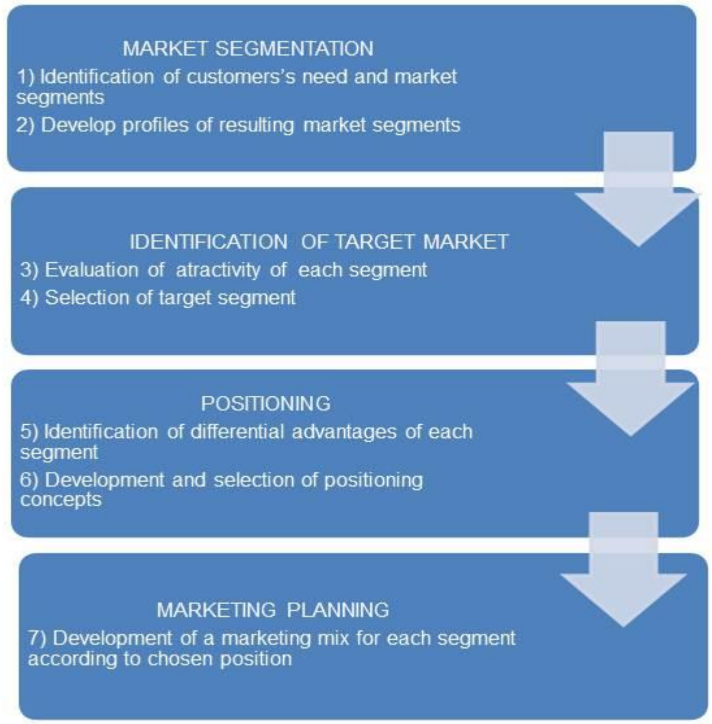

Figure 5: Marketing Strategy (http://www.scribd.com)

In this part marketing strategies of revenue management will be held by explaining four different steps of marketing which is shown in figure 5 Marketing segmentation, market target, market positioning and marketing mix.

9.1 Market Segmentation

Market segmentation is one of the most crucial points in revenue management. Market segmentation provides hotels to clarify their customers' group and act in customers' expectations way. Hotels should define their customer segment specifically and price strategies should be developed in order to meet customer segment's expectations. According to John (2006) the firm must be able to segment based on its differentiating efforts and target the segments to obtain discriminating prices. How then does a firm know how to segment consumers and how is the firm to know which consumer segments have a preference for what type of attributes.

Another point in customer segmentation is chances of consumer behaviour with trends, technology and new interests. In this case nowadays hotel revenue management faces to manage these changes in order to get high customer satisfaction. Weatherford (1992) states that yet much of the consumer market today is unpredictable. Merely 20 years ago, certain behaviours were often positively correlated with certain lifestyles, ages, income or even geographical location. In other words, the young behaved young, the old behaved old, people with money spent more, families had a father and mother and so on.

As a result of the fact that revenue management is getting harder to manage in terms of marketing strategies. Weinstein (1987) states that it seems ironic that in a world where so much information can be obtained, marketers are becoming less able to understand their customers. Thus hotels try focus on most beneficial customer segment order to manage customer expectations effectively by serving benefit customers. Increasingly, firms lean towards the practice of benefit segmentation. Benefit segmentation is widely acknowledged as one of the best ways to segment markets as it divides a heterogeneous population into relatively homogeneous groups on the basis of product or service benefits that consumers perceive as important. (Chang and Chen 1995)

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According to John (2006) all this means that although the ability to segment is a necessary element to be able to practise revenue management, the segmentation does not have to be performed by the firm. With an increasing amount of data available about customers, firms could provide a menu of choices that could be less costly than the traditional costs of targeting, coordinating and erecting rate fences.

9.2 Market Targeting

Gabor (2010) states that the objective of market targeting is to focus marketing efforts on a group that has the potential to respond to a marketing appeal and that the hotel is best able to serve The Process of evaluating different market segments for targeting should and consider a segment's size and growth potential, as well as its structural attractiveness. Structural attractiveness refers to such issues as age diversity, income brackets, geographic distribution, and whether it is easy to reach the segment through advertising channels

Target market is a business term meaning the market segment to which a particular good or service is marketed. It is mainly defined by age, gender, geography, socio-economic grouping, or any other combination of demographics. It is generally studied and mapped by an organization through lists and reports containing demographic information that may have an effect on the marketing of key products or services (http://www.scribd.com)

After the process of segmentation the next step is for the organization to decide how it is going to target these particular group(s). There are three targeting options an organization can adopt:

The hotel chains can differentiate their market strategies in a way they want. It depends on hotel's management system. The first option in principle is that hotel can implement undifferentiated market strategy which involves one product for a mass group strategy. As hotel chains have a variety of products, such as room, restaurant, spa etc., this strategy is implemented to sell one particular product and service to mass customer segment. Another possibility for hotel chains is differentiated market strategy. This strategy involves deciding to target several segments and develops distinct products/services with separate marketing mix strategies aimed at the different customer groups. The last strategy possibility for hotel chains is concentrated market strategy. In terms of this strategy hotel chains can create their niche market and as a result of niche market strategy they decide their specific one customer segment. Product development and promotion are done according to needs and expectations of this niche group.

9.3 Marketing Positioning

Positioning is a concept in marketing which was first popularized by Al Ries and Jack Trout (1981) in their best seller book “Positioning- a battle for your mind”. According to them ‘Positioning is what you do to mind of the prospect’. They iterate that any brand is valued by the perception it carries in the prospect or customer's mind. Each brand has thus to be 'Positioned' in a particular class or segment.

Brenda (2010) states that the key component to revenue management is identifying, understanding and maintaining the proper market position on a consistent basis. Most managers will agree with that statement, but when business drops, more often than not, all bets are off and rates drop like a lead balloon.

Gabor (2010) adds that once a hotel differentiates its value proposition, the next step is choosing a positioning strategy. A successful positioning strategy will be based on a set of possible competitive advantages that the hotel identifies. The chosen positioning needs to be communicated to target markets that are defined through segmentation.

Re-positioning/rebranding is one effective way to improve the revenue performance of underperforming hotels (Gabor Forgacs, 2010, pp.73) Repositioning involves changing target market or distinct positioning claim/differences advantages or both back into the limelight once again to survive safely and happily in the market. In some cases, the products that are faring well are repositioned. (http://www.scribd.com)

Changing branding or re-branding is also one of the ways to improve revenue performance. According to Gabor (2010) this effort frequently includes rebranding the property as well. The rebranding may include branding a non-branded hotel or switching brands. Some owners drop their brands and become independent through the repositioning, but re-positioning helps frequently

9.4 Market Mix Management

Each hotel can decide their most profitable customer group and they can still decide to which customer group will be their main target group in order to get high revenue from them in term of marketing mix management. When hotels target their market group, there are some important factors that they have to take into consideration in order to meet targeted customer segment's expectation. Gabor (2010) states about factors that the targeted market mix will be determined based on the individual hotel's capacity, location, classification, bed configuration.

Capacity is explained by Gabor (2010) by taking into consideration big size and small size hotels. Gabor (2010) states that small-size hotels should focus on a key segment of the market that they are suited to target because their marketing mixes management can be a lot simpler than that of larger hotels. He adds that mid size and large size hotels should focus on inventory allocation strategies as they have bigger market size.

The Importance of location is explained as the most important thing in the location of a modern hotel as accessibility; and this focuses the attention on the infrastructural facilities near the business. Gabor (2010) adds that geographic regions with special features (such as climate, scenic beauty, historic sites, etc.) that influence both the seasonality and the nature of demand for accommodation.

When it comes to classification each hotel can have different classified market groups. While some hotels focus on leisure group and allocate their inventories according to them, some hotels focus on group customers. At the same time hotel can focus on different customer segments. Hotels can focus on for example leisure customer group when it is low or off season and they can turn their route to business and group customers when demand is high.

In the marketing point of hotel management a hotel should have suitable bed configuration according to each segment. Gabor (2010) states that when a hotel decides to pursue family travelers they have to be able to offer cribs, cots, extra beds etc.

10 STRATEGIC PRICING

In principle price strategy is related to short term issues. They touch short term plans of the hotels for example the same day or the same week. Strategic pricing is has relatively different objective than normal price strategies. Strategic pricing targets long term goals and objectives to increase revenue by growing market share and position.

Competing on price

Gabor (2010) state that the most important issue in strategic pricing is that deciding whether a hotel will compete on price at all. The more a revenue manager knows, the less likely it is that he will recommend competing on price alone.

Moreover, it is discussed in literature if it is wise to compete on price alone or not. If you are competing on price alone, you will likely never achieve maximum profitability. You will be forced to ride the constant rate roller coaster, reacting to the market and actions of your competitors. If price is one of your advantages, that is great; but you need something that will sustain that advantage and secure your relationships for the future. (http://www.hotelnewsnow.com)

Gabor (2010) mentions that some managers mistake the value perception of customers for price sensitivity. The customers' perception of value is created by a number of product attributes other than price

Competing on price can also be an effective way to gain market share - particularly if your competitors have high cost structures or you believe they will be slow to recognize your actions or react to your more aggressive prices. Note that there are also ways to mask your lower prices through one-time discounts, coupons, promotions, etc. (http://www.persuasivebrands.com)

According to Gabor (2010) research has shown that hotels that hold their rates and do not pursue a strategy of under pricing competitors achieve higher RevPARs. If a hotel's strategic objective is to do anything to increase market share, then strategically positioning its room rates lower than those of the comp set will provide results (at the cost of financial performance).

A physical rate fence is if guests can clearly see the difference between room features, you have to differentiate them in your inventory. If you have products with different benefits and characteristics, you have to identify them and sell them in a different way. It will help you create "physical rate fences": justify higher or lower rates at different moments with competitive differentiation (http://www.xotels.com)

Examples; at a hotel include the size and location of a room, the view, bed configuration, equipment (hair dryer, robe, TV etc.)

Non-Physical rate fence; According to Gabor (2010) non-physical rate fences can also have an impact on price points. Examples include the season of the year, time of booking (same-day or advanced booking), membership (loyalty program, associations), form of payment etc.

11 DISTRIBUTION CHANNEL MANAGEMENT

Distribution channels are a very important revenue management tool in order to sell hotel's products effectively in market. Hotel revenue management has to choose correct distribution channel to reach potential and existing customers. Technological tools have very huge effect on it as third part sellers such as orbitz.com, Travelocity.com, ebooking.com etc. which have strong selling potential via the internet. According to Peter (2002) hotels use a variety of different distribution channels, including distributing through other properties within their chain joining marketing consortia or other type of affiliation organization or outsourcing to representation or third party reservation companies.

According to Gabor (2010) revenue managers work with a variety of distribution channels concurrently. The strategic objective of distribution channel management is three-fold. Managers try to obtain most of the hotel's revenue through those channels that are (1) the highest revenue producers, (2) the most cost-effective, (3) the most easily controlled.

The most overlooked aspect of revenue management is the inner workings of the primary distribution channels, like travel agents, wholesalers and merchant model resellers. That is why it is essential for hoteliers to understand the basics and dynamics of this important area. (http://www.hospitalityupgrade.com)

Kimes (2009) discusses that the emergence of Internet-enabled distribution has created both opportunities and challenges to hotel revenue management practices. The cost of the new distribution channels tends to be much lower than traditional distribution channels, which has made hotel managers conscious of the need to maximize contribution (room revenue less distribution costs), rather than revenue. The point that is here revenue managers have to anticipate how new channels will have impact on their revenues.

Hotel revenue manager should also decide very carefully which distribution channel would be suitable for them to market their products. According to Gabor (2010) it is important to identify which distribution methods and channels are able to reach a hotel's target market. The cost per booking also must be factored in when the net revenue is affected by the distribution channels.

Some hotel chains invest in direct connections between their central reservations system, such as Hilton's OnQ CRS, and third-party booking channels. In turn, the CRS manages the booking profiles, rates, and inventory and revenue management synchronization with the hotel property management system. http://smarthoteliers.com)

Hotels use different distribution channels in order to reach customers. Some of these channels are traditional and some of them a new trend. But in general Global Distribution System and the Internet channel would be best example of that. According to Gabor (2010) Global Distribution System was used before the Internet. According to Bill (2001, 2002) Global Distribution system currently account for an estimated 15% percent of hotel revenues.

Kimberley (2009) states that Global Distribution System and Internet Distribution System are two common model of electronic distribution. He adds that Global Distribution system is computerized reservation system facilitating the sales of hospitality products and services primarily to organizational buyers such as travel agents. Gabor (2010) supports the idea by defining Global Distribution Systems as hotel revenue managers use to connect with travel agencies and other demand collectors. According to Gabor (2010) Global Distribution System was made in airline industry in 1970 in order to increase transactions speed and was started to use it on hotel industry in the 1980s.

According to Kimberley (2009) the four major Global Distribution Systems are Sabre, Amadeus, Galileo, and Worldspan. Kimberley (2009) states that now travel agents are able to book a variety of products and services from a variety of different providers through each Global Distribution Systems.

Internet Distribution System has a significant impact recently on hotel industry. Gabor (2010) states that it took a number of years for the hotel industry to unlock the potential of the internet, and the learning curve was steep. Kimberley (2009) defines that Internet Distribution System is an electronic system that facilitates purchases of hospitality products and services which is referred by consumers.

The Internet has offered excellent opportunity for third party sellers. It has grown day to day and customers started to search hotels by using these third party sellers. Kimberley (2009) classified these third part sellers as online travel site, such as Expedia, Orbitz, and Travelocity etc. According to Kimberley (2009) these third party sellers are an intermediary between customers and hotels.

According to Gabor (2010) and Kimberley (2009) Internet Distribution System comprises of a variety of components, such as Proprietary site, Merchant model, Retail operations, Hybrid model and Opaque site.

According to Kimberley (2009) hotels create their own websites and central reservations system so that they can reach customers directly via their website as well as can offer the customers all the hotel's different products.

Gabor (2010) states that Merchant model, based on agreement between the hotel and the e-merchant allows the online agency to take a hotel's negotiated capacity allotment with a cut-off date at the best available rate and mark it up to resell it to customers. Gabor (2010) also states that the most successful examples are Expedia.com, Travelocity.com, and hotels.com.

Kimberley (2009) states that retail operators sell products and services of various hospitality providers at the prices set by the providers. They may maintain both an online presence and brick and mortar stores. An example could be for that is a travel agency that promotes their products both its physical and its website. Their commission is usually 10% percent. When it comes to Hybrid model, Gabor (2010) states that Hybrid models is a combination of the merchant and retail model. Online agencies or retails may choose to offer a package of products with somewhat lower mark-ups and certain strings attached for customers. These kinds of packages are usually non-refundable payment on booking, minimum three-day in advance purchase and no changing on booking. In order to explain Opaque site, Kimberley (2009) states on Opaque channel either the price or the product is hidden to customers. For examples a customer may be seeking for a hotel in Paris at the rate of €200 per night. On Opaque sites such as Hotwire, Travelocity customer let to give his or her seeking criteria and she or he has to pay before seeing what kind of hotel they have got in. Gabor (2010) states that because of initial anonymity, hotels can dump distressed inventory on opaque sites to pick up incremental business without damaging their rate integrity.

12 THE REVENUE MANAGEMENT TEAM

The revenue management team is very a crucial point in implementing operations of revenue management in hotel industry. The complex structure of revenue management makes it hard to apply it properly. In this point hotels should have skillful and educated revenue management staff. Kimes (2008) states that revenue management professionals believe that the most important issues facing revenue management are related to human resources. According to Kimberley (2009) the revenue management team is a part of strategic revenue management.

Gabor (2010) adds that when a new position is created for a revenue manager in a hotel, the hotel should create a list of desired candidate qualifications as well. Gabor (2010) suggests that the hotel should take into consideration their reservation manager for the new revenue manager's position. He indicates that the hotel should search the candidate from inside the organization as the revenue manager will not need orientation time in order to familiarize with the hotel.

When it comes to organizational chart of revenue management, corporate headquarters organizational chart suits hotel chains. Because in this kind of organizations there is a headquarters' Vice President of Distribution and Revenue Systems, Regional Director of Revenue Management and Property Directors of Revenue Management. (see figure 6)

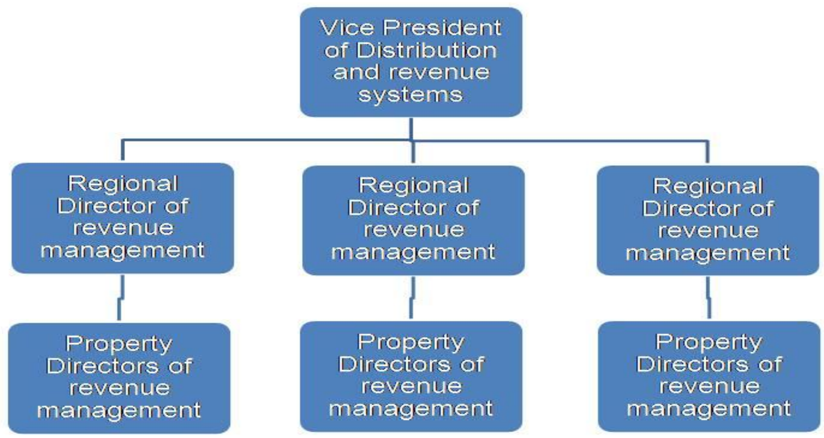

Figure 6: Corporate Headquarters Organizational Chart Kimberley (2009, pp. 159)

In Figure 6 revenue management has been divided into regions. The Vice President of Distribution and Revenue Systems is in charge and it is responsible for whole organization. Regional Revenue Managers' report to the Vice President of Distribution and Revenue Management Systems when Property Directors report to Regional Director of Revenue Management.

Beside all this structural form, revenue management team's motivation and morale have a significant impact on the implementation of revenue management. According to Kimes (2008) hotels should provide some opportunities to their staff such as career path development, training, hiring and retention strategies. Kimes (2008) adds that succession planning (career paths) is a key human resource issue pertaining to revenue management. For example in hotel chains the manager could move to a larger hotel, be given responsibilities for several hotels. According to Kimes (2008) ideal revenue managers could be educated with hiring and training within the hotel. Especially hotel's own sales managers are suitable for new revenue management’s position in order to also enhance personnel’s retention to the hotel.

13 FUTURE OF REVENUE MANAGEMENT

The main question in revenue management is the future of revenue management. In the strategic point of revenue management Kimes (2010) states that the first issue in the future of revenue management is that revenue management professionals believe that revenue management would become more strategic in nature and that it would encompass all revenue streams within the hotel. They believe in that revenue management would become a tactical approach to all departments of the hotel such as marketing, finance, and operating strategies instead of only room revenue management. According to Kimes (2010) the second issue is technology playing strong role in the future of revenue management.

On the other hand Kimes (2010) states that some other issues would be competition, improvements in forecasting and other analytic techniques, and changes in consumer behaviour.

Kimes (2008) states that new trends will take an important part in the future of revenue management. According to Kimes (2008) revenue management would implement regularly in function space, food and beverages, and spas.

When it comes to challenges in the future, Kimes (2010) studies that a shortage of qualified revenue managers, changes in global economy, increased competition, and pressure from owners and cut costs would become major challenges of future revenue management. Kimes (2010) also states that pricing would become much more analytical and detailed with time. Revenue managers who have analytical skills, leadership skills, communication skills, negotiation skills would be needed more than today.

14 RESEARCH METHODS

In this thesis qualitative research method was used. As I followed secondary data collected structure and semi-interview structure, qualitative method was useful for the study. Qualitative research is of specific relevance to the study of social relations, owing to the fact of the pluralization of life worlds (Flick, 2009). This is quite suitable for the aim of this thesis. As qualitative research methods reveal real life situation it was a great opportunity to find out the difference between theory and real life situation of revenue management by using qualitative methods. Another issue is that as it was mentioned before this thesis did not include any numerical data. The fact is that it is hard to find out statistical numbers about revenue structures of the hotels. The lack of numerical information was one of the main reasons to choose qualitative data. Qualitative methods can be used for pragmatic reasons, in situations where formal, quantified research is not necessary or is not possible (Veal, 1997) Quantitative research was another option to use in collecting data but it was not possible to get numerical data as revenue management is a strict form of business for hotels and it involves secret strategic structure of the hotels. On the other hand my partner hotel revenue managers also did not agree to share any revenue number publicly.

Data collections were divided into two parts. The theoretical part of thesis is based on secondary data collection. Secondary data are data which already exist ad which were collected for some other (primary) purpose but which can be used a second time in the current project - the researcher is the secondary user (Veal, 1997) Typically combine data collection methods by collecting information from sources such as archives, interviews, questionnaires and observations (Huberman, 2002) Archives, the Internet, books, articles etc. were used in order to get secondary data for the theoretical part. When data were combined the main criteria was how fresh information is and how it is reliable and relevant to the subject. According to that qualified articles and authors' books were used to get data.

In the empirical part two major hotel chain revenue managers were interviewed. Semi-interview is the interview/questionnaire system which was done with revenue managers who are already in business and who have empirical experiences. The Interview was done by questionnaire. Questions were asked revenue managers who are in question and they returned their answers via e-mail. Qualitative research is not unaffected by the digital and technological revolutions at the beginning of the twenty-first century (Flick, 2009) Semi-interviews normally are done in a meeting set of questions in advance. Due to lack of time of my partner revenue managers we had to have interview via e-mail. I sent them the main questionnaire which I created and they answered me. In an online interview you could try to do the same by sending a set of questions to participants and asking them to send back the answers (Flick, 2009)

The questionnaire touched the main perspective of revenue management in hotel chains. Unfortunately there was some limit to ask them question because of the sensitive form of revenue management. As revenue management is related to internal and external strategies of the company, the questionnaire was limited to ask detailed questions. But still main perspective answers were received by these two revenue managers. After data collection the results were evaluated in presentation of the partner by explaining implementations in the theoretical and empirical part.

15 PRESENTATION OF PARTNERS

My partner hotel chains will not be mentioned in this thesis at all. As I mentioned above, the operations of revenue management touches sensitive internal and external strategies of the hotels. It would be an opportunity to my partner's competitors to find out strategic information by reading this thesis that they cannot get anywhere else. To respect and keep secrecy of my partners' information they will not be mentioned in this study.

These two partners are two major hotel chains in Finland. They have significant market share in terms of revenue management. One of them had 754, 3 million euro revenue in 2010 while the other had 357 million euro revenue. The headquarters of these hotel chains are located in Helsinki. They are totally Finnish-based ownership hotel chains and while one of them has a specific revenue manager of the hotel chain, the other one has front office manager in charge of revenue management. Both revenue managers' duties are the same in their chains. They are responsible for increasing room, restaurant and spa revenue. As a critical point of revenue management they analyze the income statement of the hotel and decide the selling strategy according to it. On the other hand they should pursue internal and external measurements such as RevPar, occupancy rate etc. One of them is at a hotel in South Karelia and the other is responsible for East and Central part of Finland.

As I am dealing with operations of revenue management in hotel chains in Finland, the size of hotel chain, reputation, history and financial achievements of the hotel chains were important for me as well as that they were Finnish hotels, not international hotel chains in Finland. Because the idea of this thesis is to come up with Finnish hotel chains' revenue management applications, I tried to reach all these kind of hotel chains in Finland by sending them e-mail to reach their revenue managers. I sent e-mail to ten big hotel chains but I got answer from only two of them. This states that I received 20 percent answer. On the other hand the historical background of these revenue managers was also a crucial point for me. Their experiences would tell about the operations of revenue management to compare with the theoretical part as the idea of this thesis is to find out the difference between theoretical and empirical part applications of revenue management.

After I had answer from the revenue manager I tried to get a face to face interview with them. Unfortunately as they had very strict schedule this was impossible and that is why we decided to have semi-interview structure with them instead of face to face interview. This created also my research method type.

At the beginning of February the questionnaire was sent to them. At the same time desk study was continued for the theoretical part. I received answer from revenue managers within the following three weeks.

The results showed that there are not any differences between empirical implementation and theoretical part of revenue management. As a result of that my partner hotel chains in Finland according to my research, implement exactly the same issues as they are in theory. The main idea was that if there were any differences between them, to find that out and compare with theoretical part why it was not so. The results show that there are not any differences in theory. It made sure revenue management applications are the same and they are applied exactly in the same way in hotel chains in Finland as in theory. The result came from their evaluated answers as below.

The idea of my questionnaire came from book which is revenue management, maximizing revenue in hospitality operations Gabor Forgacs (2010). In his book there is a questionnaire which is only related to the general perspective of revenue management. I thought that it would be quite suitable for my thesis to ask overall questions as I was not able to ask detailed questions. I was inspired by this questionnaire and for future students I also created extra questions.

The revenue managers of my partner chains agreed with challenges of revenue management as it is in theory. They stated that revenue management is hard to handle as it has so many functions to manage at the same time. You can see this definition at the beginning of this thesis in the definition of revenue management.

They also agreed and believed that all big hotel chains in Finland have revenue manager in order to achieve financial goals as it is again in theory.

They supported the theoretical idea where revenue management is facing strong competition, marketing challenges, economic situation and distribution channels. As you can see from my thesis's theoretical part, these issues were explained as challenges and hard to manage for revenue managers. (Jonathan H. Ales, 2009) Partner revenue managers also confirmed that.

My partner revenue managers again agreed with same issue that revenue management should be applied to all of departments as a part of these departments. They indicated also the future of revenue management as it is in theory. They answered exactly in the same way as it was in my future of revenue management in the theory part. They believe that those customer behaviors, pricing, knowledge of revenue manager and technology will have crucial effect on revenue management in the future. They stated that they will take into consideration these kinds of issues when they are forecasting and budgeting (Gabor, 2010)

They answered, the question ''do you think that revenue management applications are applied and understood properly in hotel chains in Finland'', according to their experiences yes, it is understood and applied by hotel chains in Finland and one of them stated ''As we are pioneer hotel chain in Finland in revenue management, we believe that other major hotel chains also strongly focus on revenue management''.

According to my partners, courses on sales and marketing, financial economics, marketing, pricing etc. course would be helpful for students who are eager to become a revenue manager in the future. In this point we can see that they agree with the theoretical part that future revenue managers should be skillful, educated and have leadership skills. They also stated that revenue management is challenging, interesting, rewarding and quite a new area in hotel chains in Finland, so that student should take that into consideration.

When it comes to the thesis structure and writing, first of all the structure was divided into small titles in every section, but according to supervisor's comment and suggestion it was divided and explained with general titles as it is now. Under every title the idea was to reach main idea of operation in theory with different references.

16 CONCLUSIONS

The main idea of this thesis was to find out differences between theory and practice in hotel chain revenue management in Finland. This was achieved at the end by comparing interview results with theory part and it is seen that there is not any difference between theory and practice. Revenue management issues are quite new for hotel industry in Finland according to revenue managers. It was important to find out how hotel chains' revenue managers look at the topic and what they preferred to do. As they are in charge of revenue management their experiences and ideas supported very well the consequences. On the other hand it was very important for me to find out about subject as clearly as possible. In the beginning I was afraid in case of unclear situations between theory and practice, but everything went very well and I managed to come up with the actual results without hesitating to explain the situation.

Revenue management is a very important part of hotel management, in this point I am also personally interested in revenue management. The consequences and operations of revenue management have created a general picture of revenue management in my mind. Because there is not any hotel chain that survived without financial achievements this thesis comes up with impact of revenue management on financial achievements. This encouraged me to get in the field in the future. I got enough theoretical information which can affect my professional work life and it also gave me an idea from which point should I start to be very good revenue manager. On the other hand my partners also benefited from it by reading this thesis and they are able to see that they are doing as it is in theory.

Every important section of revenue management is attained to mention under every title separately. Under each title the situation is explained mostly by examples and figures to make it clearer. The visual perspective takes into consideration the skill of different people in terms of learning or understanding. The aim was to have everyone understood clearly this thesis.

The theoretical part is explained by using the professionals' materials as well as the best available sources about revenue management. Four main books were used which are accepted by revenue management, and professionals' articles were benefited in order to get reliable information for the thesis. In my opinion this was achieved because authorities' books and articles were used in relation to revenue management.

With the empirical part I am very satisfied because I got two major hotel chains' revenue manager for interview and I believe that their experiences and answers were 100% related to revenue management and Finnish hotel chains as they have experience of revenue management and the Finnish market.

I had opportunity to design of structure of the thesis as I was given freedom how I would like to do it. I am satisfied that I have created my own structure for revenue management operations in hotel chains in Finland.

On the other hand this thesis will be the first research about revenue management in my university (so that it has named the first thesis about revenue management.) I strongly believe that as the first thesis it will be quite good guidelines for students who would like to read about revenue management or who would like to write thesis about revenue management. In the last part as I mentioned future revenue manager candidates, students will find beneficial issues for their future and critics of revenue management.

When it comes to challenges to write this thesis, the main gap was to find out empirical information and a partner. Because revenue management cannot be a public issue for researches in empirical term with statistics and actual figures as it is secret strategy of the company. That is why students who would like to research on revenue management they should take these issues to consideration. In the theoretical part there was not any problem in finding sources, but mainly some specific sources are available and even though you try to find out different perspectives of revenue management, it is mostly the same in literature. Another gap was the language. As I am not native speaker of English sometimes I had to translate most words into my language. But still I strongly believe that I came up with useful information for my partners and for future researchers. I hope that this thesis will be a pioneer thesis about revenue management in my university and most students will benefit from it to write more about revenue management.

Figures

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1) WHAT IS YOUR NAME, COMPANY NAME, AND TITLE?

2) WHAT ARE YOUR MAJOR RESPONSIBILITIES IN YOUR CURRENT POSITION?

3) HOW DOES REVENUE MANAGEMENT FIT INTO YOUR ORGANIZATION / CHAIN? (I.E. NUMBER OF STAFF FOR THE DEPARTMENT ETC…)

4) WHAT ARE SOME OF THE GREATEST ISSUES FACING REVENUE MANAGEMENT PROFESSIONALS TODAY?

5) HOW DO YOU THINK, REVENUE MANAGEMENT FIELD EVOLVE FOR THE FUTURE?

6) HOW DO YOU THINK, REVENUE MANAGEMENT SHOULD BE TOTALLY SEPERATED PART THAN OTHER HOTEL MANAGEMENT SYSTEMS IN A CHAIN OR NOT? WHY?

7) DO YOU THINK THAT REVENUE MANAGEMENT HAS BEEN UNDERSTOOD PROPERLY AND IS BEING APPLIED CORRECTLY IN HOTEL CHAINS IN FINLAND NOWADAYS?

8) DO YOU THINK THAT REVENUE MANAGEMENT IS AN ISSUE WHICH HAS TO BE APPLIED TO LEAD THE MARKET AND ACHIEVE COMPANY'S GOALS AS A CHAIN IN FINLAND? OR IT COULD BE ACHIEVED ALSO WITHOUT REVENUE MANAGEMENT?

9) WHICH COURSES OF STUDY (I.E. FINANCE, SALES&MARKETING, PSYCHOLOGY, ETC.) WOULD BE MOST BENEFICAL TO STUDENTS EAGER TO ENTER TO REVENUE MANAGEMENT FIELD?

10) WHAT ADVICE CAN YOU GIVE STUDENTS WISHING TO ENTER THIS FIELD?