Saimaa University of Applied Sciences
Tourism and Hospitality, Imatra
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Visibility of Revenue Management as a Business Management tool in Company X

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Abstract

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The main purpose of this study was to find out whether a company was using revenue management as a business management tool. The plan was to study the theoretical aspects most important for a hotel business from revenue management and compare these to the practice in real life. The theoretical part discussed theories of revenue management. The empirical part introduces the visibility of these theories in a company which is kept in secret.

In this study the qualitative research method was used. Theory was collected through research on related literature. For the empirical section the hotel manager was interview. The interview was semi-structured and was conducted face-to-face.

The results of the study show that in some ways revenue management was implemented in the company studied. Based on the results, revenue management is difficult to implement in a smaller company with limited funds. The study suggests that parts of revenue management can be used to help in business management and to gain some success.

Keywords: Revenue Management, Inventory, Pricing, Forecasting, Distribution channels

Table of Contents

1 Introduction

The introduction chapter will give the reader an understanding of why this specific topic has been chosen by the student and by Company X. What makes it so important and current to be worth studying and what will the case company gain from this thesis. There will also be introduced the aims as well as the main topics discussed and used in the thesis. After this, the main questions and the process and structure of the project of the thesis will be introduced and explained.

Revenue management is a current topic when taking into consideration the economic situation now. Several private companies in the South Karelia region have done the best they can to cut down costs. Domestic tourism has been the highest it has been in ten years in Finland, but at the same time, the largest incoming group of tourist, Russians, in South Karelia has dropped with an overwhelming effect on hotels and stores. Large chains have the advantage of having revenue managers for example forecasting demand, managing inventory and pricing and pricing methods and strategies. For a privately owned medium sized hotel it is a battle every day, especially having only been open for a year and a half. How do you get the customers to choose your hotel instead of the competitors? What pricing methods should you use for Christmas season and what would be the best for summer? How do you make a good revenue with a poor economic situation stopping people from spending? What makes this topic important is the simplest thing of helping a private company improve their own revenue management without causing massive costs. The required changes might not need to be massive or huge alterations to the way things are.

Company X is a new private hotel that has been open for a year. There has been a clear difference in high and low seasons creating difficulties with pricing, getting the few customers to the hotel and creating a competitive position in the difficult market. As a new competitor in the market, customer knowledge of the hotel is minimum and finding the price to match the value has been challenging. After a year in business, it will be easier as there is one year of experience, a clearer vision of the company and its image, as well as feedback from customers.

As mentioned above, sales of the company have increased and decreased based on the season and on the economic situation. Staying up to date with competitors is difficult as most competitors already have a regular client base, revenue management staff, and are well known. Competition is high for some seasons as the level of customers drops drastically and since Russian tourists have nearly stopped coming. To keep a steady position in the market requires smart pricing strategies that will help bring in the customers. This brings us to the main purpose of the thesis for the company. We want to create a steady flow of profit and use revenue management as a guideline for this. This is a topic specifically requested by the hotel manager, but also a topic that is of interest to the student. For the case company it is vital to keep costs low during the low seasons, but this creates the complexity of still having a good product to sell and thus receiving revenue and return customers. To better the situation they requested a topic concerning revenue management, pricing or other similar topics. This brings us to the students' interest in this specific topic.

When it comes to the students' interest in the thesis we can state that the interest started from the revenue management course organized at the university. Revenue management has been a challenging topic in a positive way. The purpose is to help the student understand how a smaller company can gain a respected position in the tourism market and how much for example, pricing actually affects this. Also the knowledge gained will help the student see what the possibilities are with startup hotels in small areas. This thesis will be made with an objective view of the company, but still with a strong base of knowledge of its current position and of the past year and a half, with a strong want for the company to succeed. The thesis subject concerning the students' job might make it slightly harder at times to keep an objective eye on things but it will also keep the interest towards the thesis high. Thus the interest will stay throughout the thesis process and will benefit the student. The reason why the topic is interesting for the student is that there are various ways and options to use revenue management. After revenue management was created in the 70's, it has developed from being used only for airlines to being implemented in almost any industry and field. There are specific programs that forecast demand based on previous years. Companies have created positions specifically for revenue management to make sure that for example a hotels daily rate brings in the best revenue possible the best way possible. Revenue management is a complicated business management tool to use. What is the smartest way for a small private hotel to sell their rooms and to get fair revenue from it? This interests the student thus the topic of the thesis interests the student, which is why it has been narrowed down to revenue management and the implementation of it.

The thesis topic revenue management has not been studied that much yet as it is a quite new concept. Bibliography that has also been used for this thesis explains the basics of revenue management and also studies the various ways it can be used. Most of the newest bibliography that discuss pricing or marketing usually mention also revenue management as a business management tool. It is also often falsely considered different from yield management when actually they are the exact same thing. The subject has been studied and made into programs and equations that can be used to ease and speed up the daily use of revenue management. As mentioned before this is a complicated business management tool but well managed it will lead to success. The main authors of revenue management are David K. Hayes, David Pavesic and Robert L. Phillips just to mention a few. They have used each other's books as references when doing further studies on revenue management.

This thesis will add onto the long list of revenue management studies and research by being an easy read and a good introduction to revenue management. It will explain it the simplest way and show how it can be used even in a small business as a tool to success.

1.1 Aims and specification of the subject

The thesis will be a research based thesis as the aim is to study the way revenue management is implemented in Company X. More detailed information of the content and the schedule will be discussed in this chapter.

The main aim of the thesis for Company X is to help use revenue management as an efficient tool in the different season and events of the hotel. For example, competition based prices for seasonal events. This will help the company to create a stronger position in the current market, and give the different customer segments the best value for their money. The company is seeking a tool to help them keep their prices up to date and competitive. As a small private company there is no need for them to buy a separate revenue management service. The staff in charge of the prices needs to have a proper base and understanding of the method in use. The daily work load requires much of their time and it is important that this thesis will ease at least one of the important tasks. For the student the main aim is to gather more information concerning revenue management, pricing methods and a deeper understanding of the different values and returns of these theories and methods. Advising on how to improve the use of revenue management requires understanding of all costs that go into creating a product in the hotel industry. This is a topic that is of great interest to the student as it will help with future goals and with the current position in Company X.

The subject has been narrowed down to the revenue management of Company X and how they have used it in the past. The main question of the thesis is, how has revenue management been visible as a business management tool in Company X. Can it be seen in their pricing strategies? Have they used it when setting up various distribution channels? These questions and more will be answered by this thesis

1.2 Work methods and structure

The process will begin by getting introduced to the topic and theory of it. This will happen by general desk work by reviewing literature about revenue management, studying bibliography, articles, and websites. These theories will be specified to the following categories of revenue management, pricing methods and strategies, forecasting demand, price and inventory management, managing customer relations and distribution channel management. They are the most relevant categories when it comes to the current situation of the case company.

To gather as much information as possible to create a solid base for the thesis, the hotel manager of company X will be interviewed. This interview will happen in the middle of the thesis process after gathering theoretical information. The interview is semi structured to allow discussion to happen over the questions and to avoid yes or no answers. The interview concentrates on the past year of the hotel and how they have implemented revenue management. There will be questions concerning each category of revenue management to get a thorough understanding of their use or lack of use of it. As the student has the access to the main character of the hotel, it was simple to decide that the best way to get the wanted knowledge and data would be to interview him. A structured interview would cut out the possibility of a proper discussion and of gaining information or thoughts that cannot be gained from books. An unstructured interview seemed to slim down the chances of getting all the required information to make a thorough evaluation of the case company's revenue management. These thoughts lead the student to use semi-structured interview as a way to gain the knowledge of the hotel manager. Semi-structured interviews are mostly used when the topic that needs to be covered is known but there is need and want for a possibility of open discussion. As it is partially structured, it still guides the interview and discussion towards the right way and makes sure that all topics will be covered and the interview will not wander to the wrong direction. There is usually a so-called interview guide or a list of questions that will be covered and most often in a particular order. The guide is followed but the interview can still go many ways depending on the interviewee and interviewer. It is up to the interviewer to make sure that, all topics are covered and that the conversation does not stray (Miles, Gilbert, 2005).

For this particular situation, there are several questions already listed (appendix 1). There is going to be required answers that explain more of the persons own insights and thoughts of the company's revenue management and the various subtopics of it. In addition, the questions will leave a chance for the interviewer to ask follow-up questions and lead it into a full discussion. For the interview to be more of a discussion is the best outcome of it as it will help the student understand and see the real points of view of the people being interviewed. As any direction is possible with the interview and most likely, a lot will be said and discussed, it will be recorded and the student will only write some main points down. This way no information will be lost.

Results and conclusions are based on the combined results of the theory learned and the information gathered from the interviews. This will show the possible improvements that can be made in the revenue management of the hotel.

2 Revenue Management

This chapter will explain the basics of revenue management as a business tool, the way that is has developed into its current position in the hospitality industry, what it actually is and what is the difference between yield management and revenue management. We will discuss the history of revenue management and the present situation of it and how it is being developed even further. Also the purpose of revenue management and the reasons why companies have created separate positions, teams and departments for revenue management that previously did not even exist, will be addressed.

2.1 Beginning of revenue management

Littlewoods first studies in 1972 introduced revenue maximization for a specific capacity instead of maximizing the occupancy rates of an aircraft. The managerial origins of yield/revenue management can be found in the 1970's when it was developed together with the airline industry in the United States. Deregulation in the airline industry caused the creation of numerous new companies and a larger competition than ever. This led to price wars where companies would drastically cut the prices. This usually followed by the others also cutting their prices having destructive outcomes for some companies. In yield management this would be avoided by finely tuned price variations which are planned by the customers' profiles, sales time periods and product types. From this the operators started thinking about optimizing the revenue generated by the sales made without trying to fill the plane 'at any cost' (Legohérel P., Poutier E., Fyall A., 2013, p. 2-3). Hotels use this system in a similar way. Hotels calculates rates, rooms and restrictions on sales in order to best optimize their revenue. Programs measure the level of demand and calculate which restrictions should be used for example, length of stay minimum two nights or non-refundable rate. Nowadays revenue management teams target the right distribution channels, control costs and have the right market mix as they know these have an important position in revenue management.

The essence of revenue management is understanding the value the customer perceives and based on that aligning the price, placement and availability for the right customer segment. When airlines had created yield management it was time for the hotels to follow. These two industries have several of the same issues: inventory is perishable, customers make reservations in advance, lower cost competition and wide swings regarding the balance of supply and demand. Marriott International followed suit and took yield management into use. As yield was an airline term and necessarily did not work for hotels, began Marriott International and other using the term revenue management. Marriott International invested in a revenue management organization and created systems that would automatically provide the daily forecasts of demand and make recommendations for inventory for each room at each Marriott brand. Following the example of the airlines they created the “fenced rate” which would allow them to target price sensitive market segments with specific discounts based on demand. With several other developments to revenue management, Marriot had successfully executed revenue management by the mid-1990’s and was adding up to $200 million in annual revenue.

The hotel sector has adapted the daily revenue management strategies well and they are very popular especially in the mature and large hotel markets such as in Western Europe and North America. The main terminology of revenue management which will be discussed more specifically later on, includes Occupancy Rate (OR), Average Daily Rate (ADR) and Revenue per Available Room (RevPAR). These can be tracked using a PMS program or by third party sources to follow competitors’ averages in demand and price. Supply and demand are relatively easy to forecast since the hotel industry is cyclic. It has also become a business management tool used in a variety of industries, not only industries similar to aviation and accommodation, but also several others. This business management tool has gone through a transformation as it has rapidly moved from excel spreadsheets to highly sophisticated programs driven by complex algorithms (Carol Verret, 2008, p. ix). It has given the companies a possibility to manage and predict their demand more specifically.

2.2 Purpose of revenue management

"Revenue Management has contributed millions to the bottom line, and it has educated our people to manage their business more effectively. When you focus on the bottom line, your company grows", this is Bill Marriott's, Chairman and CEO of Marriott International, statement on revenue management.

Stanislav Ivanov (2014) states that Revenue management also known as yield management is essential when combining supply and demand by separating customers into different segments based on their intentions of purchase and allocating capacity to the different segments so that it optimizes the revenue of the company. He also presents the results and thoughts of Kimes (1989), Kimes & Wirtz (2003), Landman (2011) and Hayes & Miller (2011) who simplify revenue management as a constellation of tools and actions, dedicated toward the achievement of an optimal level of the hotel's net revenues and gross operating profit by offering the right product to the right customers via the right distribution channel at the right time at the right price with the right communication. Some might even add, with the best commission efficiency. These statements entail that the revenue managers need to predict their consumer demand to optimize their inventory and price availability to maximize their revenue growth. This means not selling a room or plane seat today at a low price when it can be sold tomorrow at a higher price. On the other hand, it also means selling a room today for a low price if you do not expect higher demand. This is why revenue management is considered a complex business management tool as you need to be ready to say no to business if needed. It forces the companies to be proactive instead of reactive which usually is a response too late (Xotels Ltd., 2009).

Revenue management is not only for maximizing the revenues of the high season. The purpose of it is to also help stimulate the demand in low seasons without cutting the prices below the line of profitability. It is a long term strategy which takes all revenue with their profitability into consideration. This way a hotel can even sell rooms with low rates during high seasons. It requires all departments to agree on the same vision and objectives and to set short, medium and long term strategies together (Xotels Ltd., 2009). Revenue management will make staff more aware of the situation as is requires decisions to be made based on knowledge and not on feelings. This will help the company be more aware of their current position and possibilities in their market.

Hayes and Miller (2011) propose that the purpose of professional revenue management is to significantly increase company profits and owner's return on investment by using advanced revenue management and strategic pricing techniques. Hayes and Miller state that the main reason for being in hospitality industry is bringing value and profit through purchase to the customers. The techniques required in revenue management are always customer-needs driven. This brings us to the fact that revenue managements purpose is also to bring the best value and profit to the customers of hotels. They are the ones that need to be pleased to increase the revenue of a company making them the base of everything. Hayes and Miller suggest that revenue management is the entire set of strategies addressing the issue of value offered to customers. Strategic pricing is about setting the right price that communicates the value of the product to the customer. From this, we can state that the main reasons for using revenue management are satisfying the customers and increasing company revenue through that.

3 Forecasting

One of the main requirements for revenue management is forecasting specific factors from hotels past, present and future. Revenue Management requires forecasting various elements such as demand, inventory availability, market share, and total market. This chapter will discuss the various factors and levels of forecasting such as occupancy, demand, availability reports and misuse of forecasting. The main metrics of revenue management will be introduced as well as how they are calculated. These metrics are needed daily in the reception and are already programmed into the PMS.

Forecasting is a critical task and takes much time to gather, maintain, and implement. Hayes and Miller (2011) suggest that effective data analysis leads to an accurate assessment of demand. An assessment of demand leads to estimating the number of potential buyers which allows for accurate sales forecasts. For hoteliers, an accurate estimate of future room demand is essential to the effective operation of their hotels. Doing this will help with efficiently scheduling the staff needed, ordering the correct amount of supplies and managers can estimate the future profitability. When managers and owners have this information they can also make more informed decisions concerning the improvements and expenditures. Based on this information the revenue manager will be able to make better decisions concerning the modification and management of the prices of the products and services.

3.1 Elements of forecasting

Forecasting is often thought to be done only based on historical data when actually there are three elements that need to be looked at: historical, current and future data. Each of these will now be more clearly explained.

Starting from historical data we can state that the errors of the past are there to help us provide wisdom for the future. When it comes to analyzing historical data in revenue management Hayes and Miller (2011) say that the most common factors included are:

- Number of reservations/ room nights booked per day
- Number of reservations/ room nights denied per day
- Number of daily reservation cancellations
- Total number of room nights canceled
- Number of check-ins
- Number of check-outs
- No-Shows
- Walk-ins
- Average Daily Rate achieved (total room revenue/ total rooms sold)

- Occupancy % achieved
    - By property
    - By room type
- Average number of guests per room
- Average length of guest stay

Each of the above mentioned factors will help the revenue manager to create a thorough forecast as many revenue managers aim to monitor and track these on a daily, weekly and/or monthly basis. These figures are based on the same information as listed above.

The next element of forecasting is current data. Current data is just as important as the past data as it can help estimate the room demand which then again helps in pricing the rooms. There are three main reporting areas: occupancy and availability reports, group rooms pace reporting and non-rooms revenue pace reporting. When it comes to occupancy and availability reports there are four key factors that are monitored. These are: number of rooms available to sell, number of rooms reserved, number of rooms held or blocked and estimated ADR (average daily rate) resulting from currently reserved or blocked rooms. With this amount of data to be monitoring it is essential that the company in questions has an effective PMS in use. Second factor is groups rooms pace reporting meaning a summary description of future demand for rooms. Many think that main room reservations in hotels are made by individuals but actually they are made by groups. Most bookings are made to large groups of individuals or to individuals reserving a large quantity of rooms for a specific group. Groups rooms pace reporting shows the rooms that have been reserved but not actually sold yet. This reports main questions are how many rooms have been sold at this point and how quickly will the rest of them be sold. The third factor mentioned by Hayes and Miller (2011) is the non-rooms revenue. This is important for hotels that get a large amount of their revenue from products or services other than rooms. A good example of this is meeting rooms as this is also what the case company has. These products might affect the room prices if there is an event that will also bring accommodation customers. When analyzing this there are some key questions that are suggested to think about. These questions also apply for restaurant, bar and conferences.

- Who are our key buyers of meetings?
- What is their lead time for reserving space?
- What is the role of price in converting a prospect to a customer?
- What is the best utilization of each meeting room?
- What is the most profitable configuration (set-up) of those rooms?
- What meeting business has recently been lost and why?
- What meetings or conference business has been denied and why?

The third and final element of forecasting mentioned by Hayes and Miller is the future. This is the essence of the revenue manager, to shape the future. It is said that it is difficult to exactly specify the factors that will most affect the future demand for any single hotel's guest rooms, but in the book Revenue Management for the Hospitality Industry they state the most common factors as follow:

- Demand generators
- Demand drains
- Strength and weakness of local/national economy
- Property addition or elimination of specific services
- Opening/closing of competitive hotels
- Predictable factors like planned construction or seasonality
- Unpredictable factors like severe weather, unplanned events
- Pricing decision made by the property competitors
- Pricing decisions made by property

Taking these factors into consideration a revenue manager must do three types of forecasting reports to be able to forecast demand: occupancy forecast, demand forecast and revenue forecast. An occupancy forecast looks up to 30 days and gives out daily, weekly or monthly percentage estimates. It helps improve employee scheduling as well as shows arrival and departure patterns.

Demand forecast identifies periods of 100 % and over as well as extremely low demand periods as far as 90 days out. This produces a weekly occupancy percentage and is used to create room rate selling strategies. Revenue forecast shows 30 or more days and estimates the RevPAR (revenue per available room) and matches the revenue forecast to pre-established budgets.

An effective revenue manager will have all these elements under control, monitored and managed at all times. To get a successful business management tool out of revenue management you need to create the best possible circumstances for the RM, but creating too much pressure can cause serious damage. There are cases where revenue management teams have been pressured by incentives that reward forecast of certain levels to create forecasts that are unrealistically low or high. This misuse of forecasts makes revenue management irrelevant as a business management tool.

3.2 Metrics

As mentioned before the metrics are formulas that are needed daily and if a hotel has a PMS program it will calculate them automatically. I consider it important for every employee of the reception and hotel staff in general to understand how these numbers are calculated and what they tell. Why they are included in forecasting is because they are the most used figures in collecting data from the past, present and future. The metrics or measurements are categorized in two main groups, internal and external measurements, when discussing in terms of revenue management. The most useful measurements have already been mentioned before a few times. They are the internal measurements which concern the most important product of the hotel which is the hotel room and the sales and revenue made with them. The internal measurements are Occupancy Percentage, RevPAR, Average Daily Rate, Revenue, Contribution Margin, Identical Net Revenue, GOPPAR and Net ADR yield. As for the external measurements, they calculate the hotel's overall market and competitive situation. External measurements are the ones that compare the hotel with its competition in the marketplace. These measurements are the competitive set, fair share and market share.

3.2.1 Internal measurements

We will start with a very basic statistic, number of room nights. It is the simplest statistic in the industry but it is the most useful one as it is needed in almost all the other calculations. Number of room nights is simply the number of rooms that have been occupied during a particular period. Amount of people in each room is not a factor.

Occupancy percentage is the most commonly used performance measuring formula in the hotel industry as it shows the proportion of rooms sold to total rooms. It is very easy to calculate as the formula is composed of total rooms sold divided with total rooms available. A hotel should usually get at least 50 % for it to manage.

$$\text{Occupancy percentage} = \frac{\text{Total rooms sold in a period}}{\text{Total rooms available for sale}} \times 100 \qquad (1)$$

RevPAR is an abbreviation from Revenue per Available Room. It is a performance metric and is calculated by multiplying a hotel's average daily room rate (ADR) by its occupancy rate. It can also be calculated by dividing a hotel's total room revenue by the total amount of rooms and number of days in the period being measured. For example, the RevPAR for the month of July for a hotel with 60 rooms and total room revenue of €100 000 would be €53,76. This would lead to considering higher room rates or creating more demand.

$$\text{RevPAR} = \text{Average Daily Rate} \times \text{Occupancy Rate} \qquad (2)$$

OR

$$\text{RevPAR for month of July} = \frac{€100\ 000}{60 \times 31} \rightarrow €53{,}76 \qquad (3)$$

ADR, Average Daily Rate simply calculates the average price payed for rooms sold during a certain day. The rates for rooms can vary quite much, but for this calculation, the main goal is to see what the average is. This is usually useful when comparing to past figures. It can also be done specifically for one room type. The formula for average daily rate is very simple as it divides the total room revenue with the number of rooms sold:

$$\text{Average Daily Rate} = \frac{\text{Total Room Revenue}}{\text{Number of room nights sold}} \quad (4)$$

The reason for revenue management itself is revenue. It is the amount of money the company actually receives during a certain period of time. It is the gross income figure from which the costs are taken out to determine the net income. Revenue is calculated by multiplying the price the rooms are sold for by the amount of sold rooms. The formula is:

$$\text{Revenue} = \text{Room Rate} \times \text{Rooms Sold} \quad (5)$$

Contribution Margin, or net room revenue for hotel industry, is a basic accounting concept that allows a company to examine the profitability of individual products. It refers to a per unit measure of a product's gross operating margin, calculated simply as the product's price minus its total variable costs. When the room revenue and variable costs are known, it is calculated as follows:

$$\text{Contribution Margin} = \text{Room Rate} - \text{Variable Costs} \quad (6)$$

Identical Net Revenue simply put calculates what occupancy rate would be required to generate enough to break even by changing the average rates (ADR). For example, if the ADR is € 120, variable costs are € 18 per occupied room and the occupancy at the moment is 65 % the calculations would show that with the new average rate of € 105, the occupancy rate, to generate the same net revenue, should be 76 %.

The formula shown below:

Required new Occupancy = <u>Current CM</u> x Current OR x 100 (7)

New CM

$$76\,\% \qquad = \frac{€\,120 - €\,18}{€\,105 - €\,18} \times 0{,}65 \times 100$$

If it is realistic to achieve is up to the revenue manager to decide.

GOPPAR, Gross Operating Profit Per Available Room is the best way to examine a hotels performance. It allows the revenue manager to look at what you are making and it demonstrates the profitability and value of the property as a whole.

$$\text{GOPPAR} = \frac{\text{Gross operating profit for a period}}{\text{Available rooms during the period}} \qquad (8)$$

Net ADR yield is a formula needed when calculating the profitability and suitability of a distribution channel. This formula calculates what is the percentage of the room rate after subtracting the costs and fees of a specific distribution channel. As an example, a hotel is selling a room for €130 through Booking.com. Booking.com takes 15 % commission for distributing the room but no other fees occur. The net ADR yield would then be 85 %. Formula is shown below.

$$\text{Net ADR yield} = \frac{\text{Net room rate}}{\text{Standard ADR}} \times 100 \qquad (9)$$

$$85\,\% = \frac{€\,130 - 15\,\%}{€\,130} \times 100 \qquad (10)$$

3.2.2 External measurements

As mentioned before there are three external measurements that tell the hotels position in the marketplace. Hesso (2013) states that to be able to run your business efficiently you need to know your competition and surroundings. The first external measurement is the competitive set. This basically means finding out who your competitors are. It is crucial to stay realistic about who you consider to be your competitors. Are they based by ratings, location, price level or by customer segment? Also it is important to know you online and offline competitors. There might be companies that you have not considered being placed right above or below you in the search engines. This might drive your guests to them and cutting into your market share (ValoremGroup, 2014). Competitive sets include a company's competitors based on coverage area, similarity of product, service or market segment and shared customer demographics. The ones that are not included are the competitors who are considered short-lived or seasonal. These sets are dynamic lists that change together with the market and customers (Marketing MO, n.d.). As for the market share, it examines the total sales of a company compared to the total industry sales. In other words, it calculates the sales percentage a company has of a market. This will help the company see their position compared to the competition and help the improve it. When it comes to fair share it suggests the share of the market that is rightfully a company's share. A company's fair share should always be 100 % and if it is not, it means that the competition has been able to steal a portion on the company's market.

4 Pricing

In this chapter we will discuss pricing as a part of revenue management tool and also as a business management tool on its own. Pricing can be used as a differentiator to acquire more demand or it can be used strategically to created higher revenue per room. Before revenue management, pricing was only considered as a part of the marketing mix's 4Ps. This will also be taken into discussion as pricing needs in revenue management need to be considered as an entity with everything else. As Gabor Forgacs (2010) says, the strategic approach sees pricing in a larger context and not just as a nightly race to the highest possible revenue.

4.1 Basics of pricing

When it comes to pricing strategies the key objective is to estimate the value created for customers and then set prices which reflect that value. A company might decide to price against their competitors, but the most valuable pricing strategies are the ones that follow the conditions and state of the market and the demand. In the hotel industry it is also very important to follow these factors at a segment level. As an example, price optimization as a tactic involves constantly optimizing multiple variables such as price sensitivity, price ratios and inventory to fully maximize revenue and gain from the value the customer perceives. A tactic which is successful and supported by analytics, can hugely increase a firms' profitability. Philip Kotler (2005) suggests that after setting the price for a product it has nothing to do with selling it. It is the value that sells the product and the price just needs to communicate the value to the customer. This is the essence of a good pricing strategy or tactic in revenue management.

Kotler, Keller, Ang, Leong and Tan (2009) introduce six steps to setting a price for a product. The steps are selecting the price objectives, determining demand, estimating costs, analyzing competitors' costs, prices and offers, selecting a pricing method, and selecting the final price. There are five major pricing objectives a company can choose from: survival, maximum current profit, maximum market share, maximum market skimming, and product-quality leadership. The names of the objectives are quite self-explanatory. It is important for the company to consider all affecting factors and which objective would be realistic for them in the current market. When it comes to determining demand it is essential to remember that each price will lead to a different level of demand. Here it is important for a revenue manager to take into account the historical, current and future data available as discussed in chapter 3. As for estimating costs it is relatively easy for hotels. The hotel industry is an industry with continuously high fixed costs making it also a slow process to get return on investment (ROI) for hotel owners. A new hotel takes approximately 7-10 years to create a proper ROI, depending on the size and success of the hotel. In the book Market Management, the fourth step, analyzing competitors' costs, prices and offers is quite vital as the hotel industry is highly competitive. It is important to be aware of what your closest competitor, in price or in location, is doing and how well they are doing. Every customer counts so as a new hotel you need to know why the customers are going to your competitor and not coming to you. Is it the price, service or location? The final step is selecting the pricing method. Kotler (2009) introduces six of them: markup, target return, perceived-value,

value, going-rate, and auction-type pricing. There is a simple model for price setting shown below.

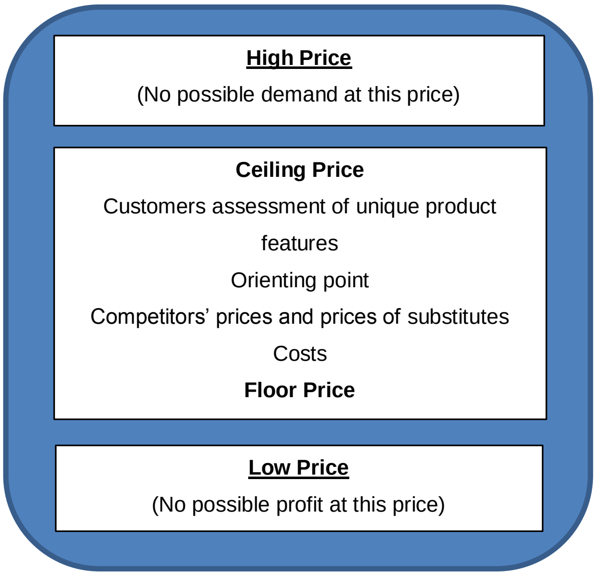

Figure 1. The Three Cs Model for price setting (Kotler et al. 2009)

4.2 Dynamic pricing

Dynamic pricing is a way for a business to get the most profit out of each customer. Lisa Magloff (2015) defines dynamic pricing as a method where the price is not firmly set; instead it changes based on changing circumstances, such as increases in demand at certain times, type of customer being targeted or changing marketing conditions. This type of pricing strategy is especially common in certain types of business, particularly those providing a service, such as airlines. Greg Petro states that dynamic pricing essentially is a practice of pricing items at a point determined by a particular customer's perceived ability to pay. This means basically that the price is ever-changing based on the customer profile the website generates in real time. "Every retailer, once you get to their website, they know where you are from because of your IP address. And they know that to the accuracy of a ZIP code, so they can know that you are from a more affluent area, for example," said Hana Ben-Shabat, partner for the Americas at A.T. Kearney, a global consulting firm (Petro, 2015).

The figure below shows that with a one set price the business will not have maximized their profit for each customer as some are willing to pay more. On the other hand, there would be customers who would not do the purchase as they would not pay as much. Having a so called floating price and being able to adjust the price according to the customer will help a business do more sales.

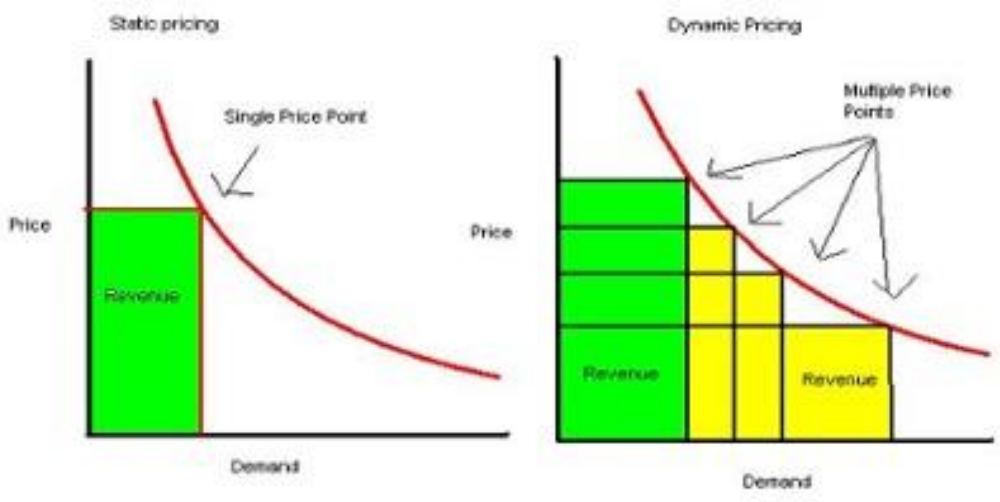

Figure 2. Dynamic pricing versus Static pricing (Campbell, 2014)

According to the Wall Street Journal, Orbitz used its knowledge of its customers' demographics to charge certain customers more for hotels. The online travel and booking site found that users who browsed on Mac devices were willing to pay up to 30 percent more for a hotel than Windows users. Orbitz took that information and automatically steered those more affluent users to more expensive options, leading to higher commissions for the lead and conversion (Petro, 2015).

The book Revenue Management for Hospitality and Tourism discusses specific rules for dynamic pricing. Customer segments need to reflect the various levels of price sensitivity. Hermetically-sealed segments meaning that each client is set to one segment, one price type and a specific service and needs to stay in that segment. For example, a businessman wants to buy a cheaper ticket which are reserved for the leisure clientele. The transport company will then specify that he will need to spend Saturday night locally and book several weeks ahead. As a businessman he is used to returning on Friday and because of his occupation he cannot make reservations that early. This kind of barriers and restrictions help keep the segments as they are. The third rule flexibility requires the price flexibility to be maintained as well as the reservation conditions linked to the flexible prices.

When this is done it is easier for the business to react to unforeseen events, market changes, or competition attacks. The last rule, degressive pricing, states that each price on offer should not be too far from the price above or the price below. This way if the specific price the client is segmented, to is sold out the client can move to the next price category with a limited additional cost. These rules need to be considered extensively as it is important that each client who is willing to pay a certain price should never pay less.

Lisa Magloff states that there are five different ways to implement dynamic pricing. These five types are segmented pricing, peak user pricing, service time, time of purchase and changing conditions. In segmented pricing some customers are charged more. This is based on their willingness to pay more for example businesspeople are often willing to pay a higher price for an airline ticket that allows them to fly mid-week or a hotel room that is in the center and close to their place of business. Peak user pricing is a strategy common in transportation businesses. As a good example the prices for airline tickets or train tickets are higher during rush hours and most commonly used flights and schedules. As for service time pricing the idea is to charge more for faster service. Augustin Manchon, of Manchon Consulting, suggests in a 2009 Financial Post article that service providers such as printers can boost revenue by charging more for jobs late in the day. This would most likely increase customer loyalty but not at the expense of the profit margin. When it comes to the time of purchase it is another strategy often used by airlines and hotels. The price of economy-class seats on a particular flight may change over time. Just like the price for a hotel room might fluctuate. This is often used through GDS sites such as Booking.com, last-minute reservations get a specific %-discount or the closer the day of gets the prices are lowered based on demand. Dynamic pricing can boost profits more under certain market conditions. When there is a lot of uncertainty in the market sellers can maximize profits by lowering the prices as sales fall and then raise them again as demand increases (Magloff, 2015).

So why use dynamic pricing? Based on researches, companies that use dynamic pricing and are flexible have been able to increase their profits by an average of 25 %. Legohérel, Poutier and Fyall (2013) suggest that pricing decisions also integrate all the opportunities and market characteristics changes such as event or demand changes and a competitor's action. When the price grid and flexibility is set, it becomes the rule.

5 Inventory management

This chapter will study the inventory management from the point of view of revenue management. This mainly means discussing the best ways to price and allocate capacity to gain the highest revenue possible for a company. In the hotel industry the primary item sold is the rooms. As a revenue manager, the inventory process is allocating the right amount of rooms with the right price through the right distribution channels. As Hayes and Miller (2011) state, inventory management is best viewed as the control of product availability and its non-availability.

A company can lower the prices of a product to increase the sales volume. A good example of this is a hotel that has mainly business clients who stay Monday through Friday and has low demand on weekends. To increase their sales and demand for the weekend they give a discounted price for the rooms Friday through Sunday. This way the rooms that would most likely have stayed unsold get sold even though the prices are lower. This strategy gains the hotel higher revenue than keeping the prices the same all week with lower demand.

Hayes and Miller (2011) suggest to characterize the rooms for optimum inventory management. Basic characteristics used by hotels are location, rooms size or type, bed configuration and package. For example, case company, Company X uses street/parking for location, double/twin for bed configurations, room types include single, triple, economy, standard and street view and finally there are rooms that allow pets. This assists inventory management as knowing the unique features of the rooms that make up the rooms inventory makes it possible to make these rooms available to the right guests. The factors affecting a customers' choice of room varies by location, service level and target market of the hotel but in most hotels guests can be divided into three market segments: transient, group or special contract and negotiated. Transient means simply anyone who does not belong to group or special contract and negotiated segments. These customers are often examined through their pre-arrival and upon arrival strategies. As for group reservations it is important to remember to check that the rooms that have been blocked also get picked. If this is not done it might happen that several rooms get unsold only because the available rooms that the group did not pick were not put for sale for other customers. The special contract and negotiated segments are for example companies that are regularly having employees staying at a hotel. These companies have usually negotiated a contract and a set price and company employees always know which hotel they will stay at and in what type of a room. The importance of a revenue manager comes when the contracts are made as there are facts that need to be specified. Will the same amount of rooms be held every day? Which room type or types are included in the agreed rate? Are there dates for example Holidays that are not included in the contract? Considering all these facts will help the RM manage the hotels inventory and market segments.

5.1 Overbooking

The Revenue Management for Hospitality and Tourism book suggests that overbooking is a common practice when it comes to hotels. Hotels often overbook in order to maximize revenue from full capacity. A good revenue manager will be able to allow this as they have done thorough research and can give a forecast of mixed uncontrollable consumer decisions such as not arriving on the booked date, customer cancels the reservation last minute or a customer leaves earlier than planned. Some hotels do require 100 % payment for the first night from a no show or late cancellations but often hotels do not follow up on this. Because of this, hotels overbook to protect themselves from possible revenue loss. Hayes and Miller (2011) remind that incase of overbooking and having to make a customer find alternative accommodation requires a lot of preparations and compensations. Before overbooking it is good to remember that in case there are no cancellations or changes in departures or arrivals, how the hotel will compensate for the customer. Most often the below mentioned are required from a hotel from the customers’ point of view:

- Securing alternative accommodation at a hotel of same or higher rating
- Paying in full for the guest's first night stay at the other hotel
- Paying the difference in rate if the alternative hotel is more expensive than the original one
- Providing or paying for transportation to the new accommodation
- Providing reimbursements for costs required to inform friends and relatives about the new hotel

When a hotel has carefully done their forecasting, overbooking should not cause excessive costs like above mentioned. The case of overbooking then again is not always planned as human errors happen with reservations all the time, which is why these compensations need to be planned and in everyone's knowledge in advance.

6 Customer relationship management

A revenue manager has to have knowledge on clients, pricing, events, history, competition, and distribution systems (Xotels Ltd., 2009). This chapter will cover the clients and managing the relations. How do you ensure that customer's leave your hotel happy or that they return to your hotel even after a bad experience? This chapter will discuss customer relations management (CRM) through the revenue managers point of view. Lynette Ryals (2005) points out that the important issue is not customer loyalty or customer retention specifically but profitable customer retention and profitable customer portfolio management.

Customer relationship management is a term that indicates practices, strategies and technologies that companies use to manage, analyze and study customer interactions. It also gathers the data throughout the customer's entire lifecycle. All this with the goal of improving business relations with customers, gaining loyal customers and increasing revenue. Vangie Beal (2015) states that CRM systems can help the sales teams' up-sell and cross-sell, close sales and better understand the wants and needs of the customer. These programs can collect information of the customer at every point of contact whether it is through telephone, live chat, direct mail, social media or the hotels website. This will inform the staff working with the customer the customers' detailed information such as purchase history, buying preferences, and concerns (Stoessel, 2015). The CRM software's have improved and suggest that with their CRM software strategies companies can better understand the customer, retain customers through better customer experience, attract new customers, win new clients and contracts, increase profitably and decrease customer management costs.

As hotel reservations and feedbacks are no longer only given face-to-face or on paper it has created a great difficulty to manage and reply to all of them. Customers spread the word of mouth through Trip Advisor, Booking.com, Expedia etc. and the word spreads wider than ever before. Revenue managers now have to manage something called the hotel's internet presence. It includes not only those internet pieces designed and placed by the hotel such as the website, they also have to monitor the reviews sites as mentioned before (Carol Verret, 2008).

Stowe Shoemaker points out in his article, Revenue Management and CRM: A Conflict of Strategies, that focusing on revenue management without regard to the customer often destroys loyalty. In the same way, focusing totally on customer loyalty without knowledge of the customer's worth can often have a major impact on revenue. He also suggests that these two will be able to work together without a conflict as long as the new definition is followed: “let me identify who you are, and then you tell me when you want to come and I'll tell you what to pay”. This is based on the important fact of knowing your customers and knowing what they are willing to pay. As each customer is different it is important to know which of them are loyal and which of them are not. There is a difference as loyal customers' will also spread a good word of mouth.

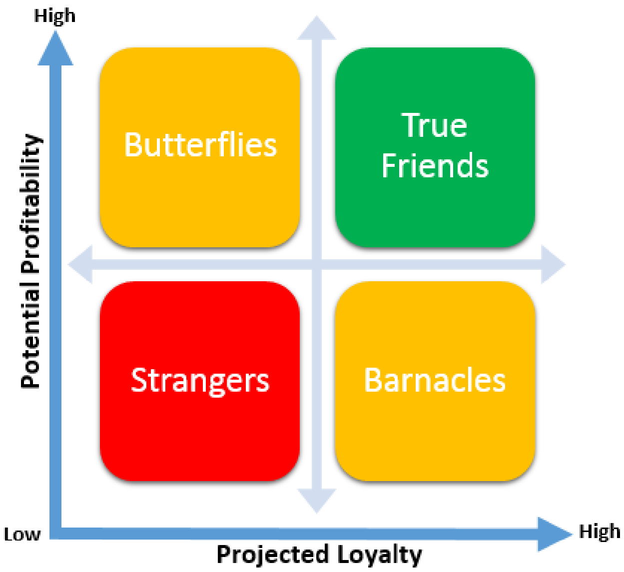

Figure 3. The Customer Relationship Groups Model (Marketing-Insider, 2015)

To classify customers there is a table based on the profitability and the length of their potential business relationship with the company. This table is shown in Figure 3. Strangers are customers who have the lowest spending and loyalty. The reason behind this is the large difference in what the customer wants and what the hotel offers. The customer relationship management that should be invested in them is none. There is no profitability in it for the hotel. As for the butterflies who are profitable but have low loyalty, should be enjoyed while possible. The needs and services match with the customer and the hotel but creating a relationship worth investing in for loyalty is rarely possible. There is profit to be made with them and it should be made when they are there. The third group is the barnacles who are in contrast to the butterflies very loyal. The marketing insider points out that they are extremely loyal but the profitability of them is so low and would barely cover the costs of maintaining them as customers that they are not that desirable. There are always the attempts of making them more desirable by up-selling and raising fees but usually these attempts go no-where. The final group of customers are the true friends. Compared to the barnacles they are willing to spend more in addition to being loyal. These are the ones that have a perfect fit with the company's services and products and enjoy coming back again and again. These are the ones that a company should invest in by satisfying their needs and delight them. This way they can be made into true believers. As the marketing insider says the true believer are the maximum value a customer can reach for a company as they come back regularly and spread word about their satisfaction and positive experiences with the company.

7 Distribution channel management

In this chapter the basic knowledge of distribution channels and their management will be studied and discussed. This chapter will also introduce the distribution channels used by hotels most often and what they gain from using them. There is more than just one way to do this but this chapter will concentrate on distribution channel management from revenue management's point of view.

A variety of distribution channels is vital for a hotel as they cannot reach optimal revenue through one channel. The simple theory behind this is that the more channels you have the more of a chance your customers will have finding you and asking about available rooms and services. The most basic channels these days are hotels own website, phone, e-mail, internet distribution systems (IDS) for example Booking.com and Expedia and walk-ins that come straight off the street without a reservation. In addition to all these, large hotel chains have Central Reservation Systems that then refer customers to the correct hotel. For smaller hotels, websites are essential to keep updated so that the customer can easily find the information they want and need. These various distribution channels are shown in figure 4.

Hayes and Miller (2011) define distribution channel management as a process by which revenue managers target customers by promoting room sales among their various selling alternatives and as a result optimize revenue. Managing distribution channels combines together two previously mentioned topics, dynamic pricing and inventory management. If hotels could sell rooms only through their own website, by phone and by having walk-ins and not use channels that charge for distributing their rooms it would be ideal, but there are only a few select hotels that can do that.

Figure 4. Hotel Distribution Channels (Hayes and Miller, 2011)

Jason Freed (2013) states that technology and how the various channels are evolving, is helping the revenue managers as channel and revenue management tools simplify the process of allocating and pricing inventory across a variety of channels. As for using different channels as competitive tools it is important to research where your competitors stand when it comes to online distribution. How does their website rank on Google search, for example? Are they using the third party websites such as Expedia or Hotels.com and how do they rank there? Xotels.com points out that the way you distribute your hotel is a vital part of your revenue management and it is important to remember the marketing possibilities websites and third party websites have. Take advantage of the marketing done for the area your company is situated in and expand your distribution to maximize your revenue (Xotels Ltd., 2010)

7.1 Distribution Channel Management in the 21st Century

David Hayes and Allisha Miller give a comprehensive list to follow when managing various channels in the hotel industry. Having so many channels to maintain, it is essential to remember to keep all updated and functioning with the same goal, bringing in revenue and customers. Each channel has its own part of the system and work differently but each channels should be just as effective.

This should be calculated with Net ADR yield and determined if it is a channel worth keeping or not. Should it be improved on and how? When calculating the various Net ADR yields it is also important to take into consideration what is the revenue generated directly through the hotel. The information given out from front office or sales department needs to be correct and create return customers. Front office can make new bookings for customers checking out with one question: “Would you like to make a reservation for your next visit?”. Standards have to be followed throughout the company. Secret shoppers have become a norm for keeping track of the performance of the staff. Secret shoppers test out the various distribution channels as a regular customer but reports the experience to management. This way the real experience will be known and improvements can be done on real experiences.

As mentioned before, websites are major when it comes to sharing updated information especially for smaller companies that do not have brand affiliation yet. They need to be up to date and easy to access. As customers become more Internet oriented with their reservations and feedbacks, Web 2.0 becomes a more valuable tool than ever. Hotels own websites can include blogs, Facebook and Twitter accounts become more sought after for companies and pictures are shared almost where ever you go. For a hotel not to take advantage of this is ludicrous. Be a part of it and courage your customers to share their own experiences and reply to them.

Bookings through Internet have gone up which is why it is a valuable tool as more and more IDS companies come up. Best way to use these IDS partners is to seek those that are commission based. The costs will be based on what is sold and nothing else. Usually it is suggested to avoid the ones that require manual upload of inventory but for a smaller company it would be the best option. You have the chance to manage the dates and amount you sell and possibility to change the prices depending on seasons, events or if a day is selling out easy you can easily raise the price and increase revenue. These channels can never be completely gotten rid of but you can always minimize their use by creating campaigns and strategies to direct the customers to book straight from the hotel or at least through a cheaper channel.

8 Revenue Management Summarized

This thesis has introduced only a few of the tools used in revenue management and even these tools could be looked into more. When it comes to small businesses, specifically small and medium sized hotels that have minimum staff and funds to use it is essential that each aspect of that business is thought of carefully. Considering these simple facts bring us to the five elements mentioned in the previous chapters. Each of them is a theory on how to create a successful business, but they are all also entwined in each other. You cannot implement dynamic pricing without forecasting and inventory management requires at least both pricing and forecasting to function. Customers are the heart of the business even if you are running the business with profit in mind. Lastly, customers will not come if the product is not distributed to them. As mentioned in the beginning, revenue management is a very tricky and difficult business management tool to use, but already knowing the basics mentioned in this thesis will help you improve your business management.

9 Presentation of partner, Company X

Company X is a privately owned hotel that opened in spring 2014. It has a medium capacity of 68 rooms varying from single to triple rooms. Owners of the hotel have strong experience in the restaurant, camping and hotel industry. Together with the hotel there is a night club, a restaurant and a pub which were separate companies in the beginning but have now merged together with the hotel. Originally the hotel was part of a small chain but this changed after the benefits of being the same corporation with the restaurant became clearer. This has made cooperation easier and has benefitted both customers and the company. Also usage of staff on both sides of the hotel and restaurant has become more flexible making it easier to plan schedules and be more cost efficient.

The building where the hotel is located has been used in the hotel industry for over 30 years by different companies. After the previous hotel closed there has been some updates and renovations made to the rooms and other facilities bringing it back up to date. Some of the facilities have been left untouched thus not usable, creating confusion with customers as they remember staying at the previous hotel. As an older building it creates its own obstacles to maintain a secure level of quality as there are some larger issues that cannot be dealt with now, or that are up to the property owners to take care of.

When it comes to the property owners, we can say that they are more involved than usually. They require information on sales, costs and plans for the coming seasons. This is so that they know that the private company renting the property from them is succeeding. When needed, they bring in ideas on where to improve and save. Because of this they are considered to be also stakeholders and will benefit from the outcome of the thesis as it will improve the seasonal pricing method and hopefully bring in more customers and profit.

10 Interview

Chapter 10 will bring the theory of revenue management to a practical level by discussing the topic with the hotel management staff. The plan was to interview the hotel manager and the hotel owner but unfortunately the hotel owner could not be reached after several attempts. This would have been a valuable person to interview as he concentrates on the number and revenue side of the business the most. In addition, he is the one keeping in contact with the stakeholders, property owners, who are very hands on when it comes to the revenue of the hotel. As a result, there is only interview material from one person. It is not the amount expected but conclusions can and will be made based on this and the knowledge of the reception manager, the student.

The person interviewed is the hotel manager and he will be called the HM from now on to avoid repetition. In his words, there is nothing that is not included in his job description. When discussing the basic knowledge and information of revenue management, he states that he does not use it per say but is familiar with the topic from his previous work with Restel. In the 90’s Restel already had revenue management teams for hotels, but HM never got to familiarize himself with the methods and systems more closely. As for using revenue management in his everyday work, he says that he concentrates and manages the things that are current and in need of attention at the moment. HM is clearly aware of the basic methods such as forecasting but cannot state which kind of data is currently collected in Company X. In his opinion it should be used more compared to the current situation but there is also the difficulty of being a new company and only open for a short time. In his words the first year has gone by learning and getting to know the best way to do things so forecasting has not been used as well as it could have been. Also the situation of having a reception manager that was not willing to listen to her superiors on pricing during the first six months, sold the rooms on prices that could never create proper revenue. During this time, HM was repeatedly telling her to increase the prices when demand is high and decrease when it is low, trying to implement some revenue management methods. Originally the prices were set based on competition. Company X wanted to be much cheaper than the high level hotel right next door and slightly cheaper than one of the cheapest hotels in the area. This would help them enter the market as a new hotel and completely unknown. Unfortunately, the economic situation caused a big drop in the incoming Russian tourists creating tremendous consequences for hotels, restaurants and retail shops. In HMs opinion the start for Company X was rough and quite bad because of this.

Pricing has always been a tough topic to figure out which is why it was vital to add it into the interview. Dynamic pricing has not really been used despite HM want and suggestions to use it more in various ways. The previous reception manager was in charge of the prices that went on Booking.com, Expedia, and the daily variability of prices also. Since she did not understand the possibilities of floating prices, there has not been dynamic pricing in use. As all managers, HM also states that any sales, offers or campaigns that bring room sales away from online reservations sites is great. To do this there has been discount coupons in use and packages which make it more difficult for the customer to realize the actual price of the room.

As for the customer relations management it can be said that its upkeep is minimum and needs work. HM keeps on contact with the already existing business travel clients, but is not aware of all the new companies and how their relations are handled. In addition to this, he did not mention the leisure customer base until asked. HM reads all feedback received, but does not for example reply to them as there are only a few that check the box “please reply” on the feedback forms. There is no customer reward program but previously there was vouchers that granted the customer € -7 from their next reservation. These vouchers were given to all customers who had reserved from online reservation sites. When it comes to the distribution channels it is clear that there has not been any proper strategy or management between the reception managers. Same goes for the hotels website. Originally it was the responsibility of the HM, then the responsibility of the reception manager mainly and after she left the websites were slightly forgotten. When asked about the amount of distribution channels the answer was surprising. In the eyes of the HM the hotel only has online reservation sites and direct sale at the counter.

As for the hotels competitive position it was clearly stated that for the quality and value served for the customers, Company X has a pretty good standing in the market. One competitor had to close shop recently and helping by redirecting customers to Company X. The biggest competitions in the area are chains with more services and companies with higher capital. The position has improved due to being open and becoming more visible for customers. In addition, the feedbacks and comments have been taken into considerations and been improved for higher value for customers.

As for the importance of revenue management it is very clear that the HM considers it a valuable tool in business management and that the main ideas of it should be taken into better use in Company X. Why would it be known and used all over the world if it was not useful? To improve the use of it is up to the reception manager as she has a more hands on position and access to all data required. Most importantly the pricing issue needs to be dealt with and redirecting customers to reserve directly from the hotel.

11 Conclusions

This chapter will combine the information gathered from the one interview and the theory that has been studied. It will explain and discuss how the subtopics of revenue management are currently visible in Company X. Conclusions chapter will go through each of the subtopics in their own chapters in the following order: forecasting, pricing, inventory management, customer relationship management, and distribution channel management. As the amount of information collected from the interview is not as sufficient as hoped for the student will also add her own knowledge being the reception manager. The research question of the thesis is studying whether or not revenue management is used as a business management tool in Company X. This is answered in each of the following subtopics. To get the answer searched for, the student studied the most important and valued tools of revenue management from newly released online articles, books concerning marketing, business finances, pricing and revenue management in general. Having gathered most of the information on theories, the student begun to schedule the interviews but as mentioned above was able to schedule only one.

11.1 Implementation of Forecasting in Company X

Company X has only been open for less than two years. The amount of data is minimal but as mentioned before in chapter 3, the hotel cycle is circular. The Hotel Manager has knowledge of the data and experience of the previous hotel in the same property. Based on this, Company X should be able to use forecasting better than they currently are doing. Data collected from the past includes occupancy rates, ADR, monthly profit, daily coverage etc. The current and future data collected includes upcoming events for example New Year and Russian Christmas and the occupancy rates for these days. The actual use of the data collected every month is not visible enough in the prices or in the planning of the current and future strategies.

The essentials of forecasting are missing from Company X. These are the analysis of the data collected and using it to determine prices, inventory and other crucial facts for the present and future. From the reception managers' point of view, all the data required to improve the use of forecasting is right in the PMS program, but the problem is the lack of time. Even if the data would be collected the amount of time required to analyze it to gain advantage from it, is too long. Not using forecasting can be seen throughout all the other tools of revenue management. Improving this part of revenue management would assist with other management tools and create a good basis to improve revenue management in general.

11.2 Implementation of Pricing in Company X

When discussing pricing it was very clear that the original prices were set by the management to enter the market cheaper than the competition. From this point onward the prices were the responsibility of the reception manager. When the sales plummeted in the beginning of Fall 2014 the prices were dropped and again in the beginning of 2015. The prices were drastically low not bringing in profit even though it brought in some of the few customers in the area. Floating prices were suggested to be used based on capacity but for some reason it was fought against. From this we can point out that the management would have taken dynamic pricing in use from the first day but it was not implemented. Hence they already had the understanding of the theory mentioned in chapter 4 and the want to implement it. Prices are the same no matter which channel you reserve through and no matter how many rooms are sold or unsold.

The new reception manager changed the prices for 2016 quite drastically implementing dynamic pricing the best way she could. First of all, the prices were increased slightly to bring in more profit but not to scare off the customers after affordable accommodation. In addition, there are clear price groups for example Company Rates, Booking.com and Expedia and seasonal rates. These rates are not mandatory to be followed but can be pushed up or down depending on the occupancy rate. As for the online reservation channels that require 15% commission on all reservation, they have slightly higher prices to help lure the customer’s to reserve directly from the hotel.

11.3 Implementation of Inventory Management in Company X

Inventory management is a tricky tool to use for a hotel with 68 rooms. Each room has been categorized and specified with their unique types. They are marked with location either with a view towards the street or parking, bed types twin or double, room types single, for two or triple. Rooms for two are categorized as Economy, Street View and Standard. Economy is the smallest and cheapest room available. Street View is slightly bigger but has a view to the pedestrian street which is very popular. Standard room is the largest available room for two and differs in interior decoration. In addition, there are some rooms that have a couch which is also marked in the room descriptions. Having rooms categorized does not mean that the use of inventory management is efficient or that it is even used.

Rooms are added on sale in various distribution channels every time the rooms sell out and the prices are not changed even though the amount of sold rooms would suggest to increase the prices. The best rooms for the best customers are not saved, but instead rooms are sold out based on online reservation channels and customers placed in rooms what are left. Because of this, customers are staying in higher quality rooms than what they are paying for. This goes completely against the foundation of inventory management theory mentioned in chapter 5. Even the lack of forecasting can be seen as overbooking cannot be allowed as explained in chapter 5.1. There are no back-up plans in case of overbooking and no facts and analysis to rely on that the overbooking will even out. Inventory management should definitely be revised and considered to be implemented in better ways than just through room categories.

11.4 Implementation of Customer Relationship Management in Company X

Customer service is the heart of a hotel but even good customer service cannot save from bad customer relationship management. Feedbacks are crucial for a hotel to know what needs to be improved or what already is great. Company X receives feedback through forms from the rooms, online reservation sites and face-to-face. As mentioned before in the Interview chapter, most customers do not check the box “please reply”, making it hard to compensate for a bad experience. Based on the interview it seems as most complaints are thought as just someone trying to get compensation and freebies. There are those who try this tactic, but customers who do not at least receive an apology or an explanation might or will not return.

Replying to feedbacks is one thing, but making a customer feel as if they are wanted as a guest and valued as a customer is another. Each customer arriving at the hotel receives a coupon for a free drink at the restaurant when they order a main course. Last year each customer received a coupon for € 7 discount from their next reservation as long as they reserved directly from the hotel. When the pub begun their membership program, each hotel customer visiting the pub received a membership card for free. These are small things, but affect the customers use of services when staying at the destination and when returning for another visit. Based on these facts we can state that small aspects of customer relationship management are implemented in a very basic level. To gain the loyalty and trust of the customers it would be essential to improve communication between the company and customers. Previously the largest customer segment coming to the area were Russians who brought profit to each business in the area. These days the hotels they want to reserve need to be cheap, but still the same quality. Are these customers worth keeping in the first place? Loyalty and profitability of each customer needs to be thought of before dropping the prices too low for them. Which customers are true friends and most valuable customers? The theories mentioned in chapter six need to be considered to gain actual value from customer relationship management.

11.5 Implementation of Distribution Channel Management in Company X

As mentioned in chapter 7, hotels always have several distribution channels even though they might consider only having a couple such as online reservation sites and email reservations. This was also noticeable when interviewing the hotel manager. Walk-in customers, telephone reservations, face-to-face reservations and hotels website are not considered as distribution channels and they are not considered as something that need to be managed the same way as email and online reservation sites. The management of online reservation sites has always fallen on the reception manager, but when the last one quit there was no-one to manage them and actually consider which strategies suggested by the sites would be useful and profitable. The current reception manager has updated both sites. Problems arise when it is required to also keep the hotel websites updated in Finnish and English. Consequently, the English site has not been updated for over six months.

As mentioned before, the prices for rooms were the same no matter which channel the customer used. This shows lack of management considering the various costs from each distribution channel. The room prices in each channel has to cover the costs caused by the use of that channel and still make the same profit a room sold from the front desk would. With the current way of using the various channels, none of them is paying for themselves and the amount of inventory sold through online reservation sites is too high compared to direct hotel reservations. The problem comes when you are not considered to be a hotel in business, if you are not on one of these sites. The sites have developed from helping hotels sell rooms and services to forcing them to be on the site making high profit. The real challenge in distribution channel management is to use and take advantage of each channel you can, but do not let the channels dictate which ones you need to use and at what quantity.

The aims of the thesis were reached as the main aim was to study revenue management and its possible use of it in the case company as a business management tool. The research was thorough, but as the topic of revenue management is vast it was impossible to include everything known of each subtopic. For a smaller company the gathered information and knowledge gained creates a reliable base to analyze the theories implemented in actual business such as the case company. All conclusions of implementation of revenue management are based on real knowledge and updated information on theories as well as knowledge of the company. This is a good start for the use of revenue management as a business management tool in Company X, but only a start. This thesis is a foundation for improving revenue management for smaller companies. Which tools should a small company concentrate on? What is the best way to arrange the use of these tools without having to hire a revenue manager? What can smaller companies gain from revenue management?

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Appendices

Appendix 1 Questionnaire

1. What is your position in Company X?

2. How are you using revenue management in your current position in Company X?

3. What kind of experience do you have in revenue management from previous work positions?

4. How have you used forecasting with the business being open only a year and a half?

5. Which data is collected from the past, present and future and how?

6. What system have you used to determine the prices?

7. How familiar are you with dynamic pricing?

8. What is the method used to controlling and managing the customer relationships?

9. Which distribution channels are used and how are the prices determined for them?

10. Do you consider the company to be in a competitive position compared to the other similar companies in the area?

11. Do you consider revenue management a valuable tool for business management and why?

12. Should revenue management be improved in Company X and how?