**YIELD MANAGEMENT**

A hotel’s daily performance has been evaluated on the basis of either occupancy percentage or Average Daily Rate (ADR). But such one dimensional analyses fail to capture the relationship between these 2 factors and the room revenue they produce.

For example, a hotel may decrease its room rates, or ADR, in an effort to increase occupancy. This strategy, while helping to improve the occupancy percentage, fails to account for the revenue lost because of lower room rates.

In addition, it does not take into account the cost per occupied room, which can reduce overall profitability. Unless occupancy increases can overcome the drop in rate and the relatively stable cost per occupied room, profits may actually go down.

Similarly, increase in room rates, or ADR, may be accompanied by a decline in occupancy percentage. This means that some revenue will be lost because rooms that might have been sold at lower rates will remain unsold. Some hotel companies prefer to build occupancy percentage using low room rates to attract business, while others prefer to set a target average room rate and are willing to sacrifice occupancy to achieve it.

Yield management presents a more precise measure of performance because it combines occupancy percentage and ADR into a single statistic: the yield statistic.

*In other words, yield management is a technique used to maximize room revenues.* Yield management, sometimes called revenue management, takes into account as many of the factors influencing business trends as possible.

It is also an evaluative tool that allows the front office manager to use potential revenue as the standard against which actual revenue can be compared.

The concept of yield management originated in the airline industry. Most travellers know that passengers on the same flight often pay different fares.

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Super – saver discounts, three –day advance – purchase plans, stay – over-Saturday-night packages, and so forth have become the norm for airline pricing. Yield management has proven successful in the lodging, car rental, cruise line, rail road and touring industries –basically, in situations where reservations are taken for perishable commodity. The key to successful implementation is an ability to monitor reservations and to develop reliable forecasts.

Yield management is based on supply and demand. Prices tend to rise when demand exceeds supply; conversely, prices tend to fall when supply exceeds demand.

To increase revenue, the hotel industry is shifting from high- volume bookings to high – profit bookings.

By increasing bookings on low demand days and by selling rooms at higher room rates on high demand days, the industry improves its profitability.

In general, room rates should be higher (in order to maximise rate) when demand exceeds supply and lower (in order to increase occupancy) when supply exceeds demand.

**HOTEL INDUSTRY APPLICATIONS**

All hotel companies have a common problem: they produce a fixed inventory of perishable products that cannot be stored if unsold by a specific time. The commodity that hotel sells is time in a given space. If a room goes unsold on a given night, there is no way to recover the time lost and therefore the revenue lost. Therefore, these products are typically sold for varying prices that depend on the timing of the transaction and the proposed date of delivery.

In hotel industry, yield management is composed of a set of demand-forecasting techniques used to determine whether room rates should be raised or lowered, and whether a reservation request should be accepted or rejected in order to maximise revenue.

Front office managers have successfully applied such demand-forecasting strategies to room reservations, management information systems, room and package pricing, rooms and revenue management , seasonal rate determination, pre-theatre dinner specials and special , group , tour operator , and travel agent rates .

Front office managers have identified several benefits, including:

* Improved forecasting
* Improved seasonal pricing and inventory decisions
* Identification of new market segments
* Identification of market segment demands
* Enhanced coordination between the front office and sales divisions
* Determination of discounting activity
* Improved development of business plans
* Establishment of value – based rate structure
* Initiation of consistent customer- contact scripting (that is , planned responses to customer inquiries or requests regarding reservations )

Yield management seeks to maximise revenue by controlling forecast information in 3 ways:

* **Capacity Management**
* **Discount Allocation**
* **Duration Control.**

**Capacity Management**

Capacity management involves various methods of controlling and limiting room supply. For example, hotels will typically accept a statistically supported number of reservations in excess of the actual number of rooms in an attempt to offset the potential impact of early check – outs, cancellations, and no – shows.

Capacity management (also called selective overbooking) balances the risk of overselling guest rooms against the potential loss of revenue arising from room spoilage (rooms going unoccupied after the hotel stopped taking reservations from a given date)

Other forms of capacity management include determining how many walk-ins to accept on the day of arrival, given projected cancellations, no-shows, and early departures. Capacity management strategies usually vary by room type.

That is, it might be economically advantageous to overbook more rooms in lower-priced categories, because upgrading to higher-priced rooms is an acceptable solution to an oversell problem.

The amount of such overbooking depends, of course, on the level of demand for the higher priced rooms. In sophisticated computerized yield management systems, capacity management may also be influenced by the availability of rooms at neighbouring hotels or other competing properties.

**Discount Allocation**

Discounting involves restricting the time period and product mix (rooms) available at reduced or discounted rates.

For each discounted room type, reservations are requested at reduced or discounted rates. For each discounted room type, reservations are requested at various available rates, each set below rack rate. The theory is that the sale of a perishable item (guest room) at a reduced room rate is often better than no sale at all.

The primary objective of discount allocation is to protect enough remaining rooms at higher rate to satisfy the projected demand for rooms at that rate , while at the same time filling rooms that would otherwise have remained unsold.This process is repeated for each rate level from rack rate on down. Implementing such a scheme requires a reliable mechanism for demand forecasting.

A second objective of limiting discounts by room type is to encourage upselling.

In an upselling situation a reservation agent, or front desk agent, attempts to place a guest in a higher rated room.

This technique requires a reliable estimate of price elasticity and/or the probability of upgrading.

(elasticity refers to the relationship between price and demand . if a small in price produces a dramatic drop in demand , the market is said to be price elastic . if a small increase in price produces little or no effect on demand , the market is said to be price inelastic )

**Duration Control**

Duration control places time constraints on accepting reservations in order to protect sufficient space for multi-day requests (representing higher levels of revenue). This means that, under yield management, a reservation for a one-night stay may be rejected, even though space is available for that night.

For example, if Wednesday is close to selling out but adjacent nights are not, a hotel may want to optimize its revenue potential for the last few remaining rooms on Wednesday by requiring multi-day stays, even at a discounted rate, rather than accepting reservation for Wednesday only.

Similarly, if the hotel is projected to be close to capacity Tuesday, Wednesday and Thursday, then accepting a one – night stay during any of those days may be detrimental to the hotel’s overall room revenue since it may block occupancy on the other days. Hotels facing such situations may require that reservations for projected full- occupancy periods must be for more than one night.

These strategies may be combined. For example; duration control may be combined with discount allocation. A three-night stay may be available for discount, while a one-night stay may require the rack rate. It must be cautioned, though, that using these strategies must not be apparent to the guest. It would be difficult to explain to a guest why he or she must stay three nights to get a discounted rate if he or she wants to stay only one night. Proper use of yield management relies on selling; it never divulges the yield management strategy being used.

**Rate averaging** simply averages the target rates for any multiple night reservation. A drawback is that the averaging does not apply to one night stays.

**Measuring Yield**

The yield statistic is the ratio of actual revenue to potential revenue. Actual revenue is the revenue generated by the number of rooms sold. Potential revenue is the amount of money that would be received if all rooms were sold at their rack rates. It i designed to measure revenue achievement.

**Formula 1: Potential Average Single Rate**

If the hotel had not varied its single rate by room type, the potential average single rate would equal its rack rate. When the single rate differs by room type the potential average single rate is computed as a weighted average. It is found by multiplying the number of rooms in each room type category by its single room rack rate and dividing the sum total by the number of potential single rooms in the hotel.

*Potential Average Single Rate= Single Room Revenue At Rack Rate Number Of Rooms Sold As Singles*

**FORMULA 2: POTENTIAL AVERAGE DOUBLE RATE**

It’s found by multiplying the number of rooms in each room type category by its respective double-room rack rate and dividing the sum total by the number of potential double rooms in the hotel.

*Potential average double rate = Double Room Revenue At Rack Rate*

*Number Of Rooms Sold As Doubles*

**FORMULA 3: RATE SPREAD**

Rate spread is the mathematical difference between the hotel’s potential average single rate and the potential average double rate

*Rate spread = Potential Average Double Rate – Potential Average Single Rate*

**FORMULA 4: POTENTIAL AVERAGE RATE**

It is the collective statistic that effectively combines the potential average rates, multiple occupancy percentage, and rate spread.

It is determined in 2 steps.

* The first step involves multiplying the rate spread by the hotel’s multiple occupancy percentage .the result is added to the hotel’s potential average single rate to produce a potential average rate based on demand and room rate information.

*Potential average rate =*

*(Multiple Occupancy Percentage X Rate Spread) + Potential Average Single Rate*

**Formula 5: Room Rate Achievement Factor**

The percentage of rack rate that the hotel actually receives is contained in the hotel’s achievement factor (AF), also called the Rate Potential Percentage.

*Achievement factor = Actual Average Rate*

*Potential Average Rate*

The achievement factor is also equal to 100% minus the discount percentage.

**Formula 7 : Yield Statistic**

There are various ways to express and calculate yield statistic, all of which are equivalent

1. *Yield = Actual Room Revenue*

*Potential Rooms Revenue*

1. *Yield = Room Nights Sold X Actual Average Room Rate*

*Room Nights Available Potential Average Rate*

1. *Yield = Occupancy Percentage X Achievement Factor*

**Revpar**

*Revpar = Actual Room Revenue*

*Number of Available Rooms*

*Revpar = Occupancy % X ADR*

**Formula 8:Identical Yields**

Calculations of different combinations of occupancy and actual average room rate may result in identical room revenue and yield statistics.

*Identical Yield Occupancy Percentage = Current Occupancy Percentage X Current Rate*

*Proposed Rate*

**Formula 9: Equivalent Occupancy**

Identical yields can be ambiguous because they fail to take direct account of operating costs and non room revenues. A more effective way of determining whether a change in room rates is justifiable involves calculating an equivalent occupancy. The equivalent occupancy formula can be used when management wants to know what are other combinations of room rate and occupancy percentage provide equivalent net revenue. The formula takes into account marginal cost by incorporating grossprofit or contribution margin. The **marginal cost** (also called cost per occupied room) of providing a room is the cost the hotel incurs by selling that room. The **contribution margin** is that portion of the room rate that is left over after the marginal cost of providing that room has been subtracted out

*Equivalent occupancy =*

*Current Occupancy % X Rack Rate – Marginal Cost*

*Rack Rate X ( 1 – Discount % ) – Marginal Cost*

*Equivalent occupancy =Current Occupancy % X Current Contribution Margin*

*New contribution margin*

**Formula 10 :Required Non Room Revenue Per Guest**

A manager wanting some clear indication of whether a change in room rate will render more than anoffsetting change in net non-room revenue may find an answer using break even analysis. This approach involves calculating or estimating a number of elements

* The net change in room revenue due to room rate changes
* The amount of net non-room revenue need to offset any reduction in net room revenue ( when rooms are discounted ) or the amount of net room revenue needed to offset any reduction in net non-room revenue ( when room rates are increased )
* The average amount each guest spends in non-room revenue centres

The break even calculation is based on the weighted average contribution margin ratio for all non-room revenue

*CMRw=Total Non-Room Revenue – Total Non-Room Revenue Centre Variable Costs*

*Total Non-Room Revenue*

*Required non-room revenue per guest =*

*Required Increase In Net Non-Room Revenue ÷ CMRw*

*Number Of Additional Guests*

**ELEMENTS OF YIELD MANAGEMENT**

The fact that flexible room rates affect the no. of guests and associated revenue transactions help demonstrate the potential complexities of yield management. As demonstrated in the previous discussion, focusing attention on only room revenue potential may not present management with the comprehensive overview.

Yield management becomes even more complex when room rate discounting is granted on a selective rather than general basis, and when it involves selling rooms for which they may be competing buyers. Hotels frequently offer discounts to certain categories of guests (for eg. Senior citizens, govt. employees). Hotels must also decide whether to accept or refuse group business at a discounted room rate.

The following elements must be included in the development of a successful yield strategy:

* Group room sales
* Transient (or FIT) room sales
* Food and beverage activity
* Local and area wide conventions.
* Special events.

**Group Room Sales**

In many hotels, groups from the nucleus of room revenue. It is common for hotels to receive reservations for group sales from three months to two years in advance of arrival. Some international business hotels and popular resorts commonly book groups more than two years in advance. Therefore, understanding group booking trends and requirements can be critical to the success of yield management.

To understand the potential impact of group sales on overall room revenue,the hotel should collect as much group profile information as possible including;

* **Future group booking data**
* **Group booking pace**
* **Anticipated group business**
* **Group booking lead time**
* **Displacement of transient business**

**Group Booking Data:**Management should determine whether the group blocks already recorded in the reservation file should be modified because of anticipated cancellations, historical over estimations of the no. of rooms needed or greater demand than originally anticipated by the group leader. If the group has a previous business profile, management can often adjust expectations by reviewing the group’s booking history. Group’s tend to block 5% to 10% more rooms than they are likely to need, in optimistic anticipation of the no. of attendees. The hotels deletion of unnecessary group rooms from a group block is called the **wash factor.**

Knowing how many rooms the group utilised in the past gives a good indication of how they might do in the future. **Slippage** is the difference between the rooms booked and the rooms that actually arrives.

**Group Booking Pace:** The rate at which group business is being booked is called the group booking pace. For example: In the month of April of a given year a hotel has 300 rooms in group blocks for October of the same year. If the hotel had only 250 rooms booked for October of the same time the year before, the booking pace would be 20% ahead of the previous year’s pace. Once a hotel has accumulated several years of group booking data, it can often identify a historical trend that reveals a normal booking pace for each month of the year. Although this forecasting process appears simple, it can become complicated due to unanticipated fluctuations. Management should strive to maintain a straightforward method for tracking group booking pace. Booking pace can be an invaluable forecasting variable.

**Anticipated Group Business:** Most national, regional and state associations, as well as some corporations, have policies governing the locations of annual meetings.

For example: a group may rotate its meeting location among 3 cities, returning to each every three years. Although a contract may not yet be signed, hotel management may be correct in feeling confident that the group will return according to the cycle. Of course a group may not return to the same hotel in the area. However, even when it goes to other hotels, the group may displace other group and non-group business that will need to find alternate accommodations in the area. The hotel analyzing these data can then forecast the “pressure” in the market and adjust their selling strategies accordingly. In addition, tentative bookings can await the final contract negotiations should also be included in the yield management analysis.

**Group Booking Lead Time:** Booking lead time measures how far in advance of stay bookings are made. For many hotels, group bookings are made usually within one year of planned arrival. Management should determine its hotel’s lead time for group bookings so that booking trends can be charted. Booking trends can be combined with booking pace information to illustrate the rate at which the hotel is making group business compared with historical trend. This information can be very important when determining whether to accept an additional group and at what room rate to book the new group. If the current booking pace is lower than expected or lags behind the historical trend, it may be necessary to offer a lower room rate to stimulate increased occupancy. On the other hand, if demand is strong and the group booking pace is ahead of anticipated or historical trends, it may not be appropriate discount room rates.

**Displacement of Transient Business:** Management should consult its demand forecast when determining whether or not to accept additional group business. Displacement occurs when a hotel accepts group business at the expense of transient guests. Since transient guestsofften pay higher room rates than group members, this situation warrants close scrutiny. Transient rooms are guestrooms sold to guests who are not affiliated with a group registered with the hotel. Anon-group may also be called as FIT.

**Transient Room Sales**

Transient business is usually blocked closer to the date of arrival than group business. A commercial hotel may book a majority of its group business three to six months before arrival, while booking transient business only one to three weeks from arrival. At a resort hotel group bookings may be established one or two years in advance, while transient business may be booked three months in advance. As with group business, management must monitor the booking pace and lead time of transient in order to understand how current reservations compare with historical and anticipated rates. This leads to more complex subject of transient room rate discounting.

In today’s market there may be many reasons to price rooms differently. In order to maximize room revenue, front office managers may decide to classify rooms by location, desirability, or size and charge a premium for better. For example, rooms that are smaller, near noisy corridors, or unrenovated or that offer less desirable views are likely to be offered at lower rates. Therefore, these rooms maybe classified as standard and be assigned a lower room rate. More desirable rooms may be classified as deluxe and be assigned higher room rates.

In order to build business, hotels may offer deluxe rooms at standard rates to attract guests. This is especially true in times of low demand. Then, as demand improves to a predetermined threshold, any remaining deluxe rooms can then be offered at a full rack rate. Under this strategy, management attempts to maximize room revenue, not just average room rate or occupancy percentage, the reasoning is that lower demand creates a more competitive situation for the hotel. Discounting may reduce the amount of business lost because of rate resistance and allows the hotel to sell rooms that might otherwise remain vacant. An astute manager must know when to eliminate room rate discounts. If room rates are increased too soon, occupancy may be lost. If room rates are increased too late, some rooms may be sold for less than they could have been sold for.

Business ethics should be included in any discussion of yield management. If a guestroom is classified as standard, there is usually a very good reason for it. Therefore, it would appear unethical to sell the room at a rate higher than its rack rate just because someone may be willing to pay a higher rate. Even though demand may provide the opportunity for a higher rate, charging the rate just because the market will accept it for the period is not good business practice. Some hotels have done this and received criticism from the market for doing it. This is one reason many states require room rates to be posted in each room.

Another issue to consider in transient room sales is the discounting offered to certain sources of business. Discounts can be offered to corporate and government travelers, as well as senior citizens, military and airline personnel, travel agents, and others. Quite often, these discounts apply to a substantial portion of the hotel’s business. Therefore, controlling discounts is crucial to producing an optimal yield statistic. For example, if a hotel has very few rooms reserved over a holiday period, it may open all discounts to qualified callers just to attract business. As demand builds over the period, the discounts may be selectively closed. When the front office manager believes that rooms can be sold at a higher rate without an offsetting loss in occupancy, the discount should be closed. Some discounts cannot be closed off. Whenever possible, contracts for discounts should provide for flexibility when business conditions warrant.

**Food and Beverage Activity**

While banquet and catering functions are considered food and beverage revenue generators, they can have an effect on a yield decision. For example, if a banquet with no guestroom requirements are occupying the hotel’s ballroom, a group needing 50 guestrooms and a ballroom may have to be turned away. In most cases, the group needing both catering and guestroom space will produce more profit for the hotel. Therefore, local food and beverage functions should be viewed in light of the potential for booking groups that need meeting space, food and beverage service, and guestrooms. Cooperation and communication between hotel departments is important to yield management.

**Local and Area Wide Activities**

Local and area wide activities can have dramatic effects on the yield management strategies of a hotel. Even when the hotel is not in the immediate vicinity of a convention, transient guests and smaller groups displaced by the convention maybe referred to the hotel(as an overflow facility). When this occurs, the front office manager should be aware of the convention and the demand of guestrooms it has created. If the demand is substantial, transient and group rates may need to be adjusted.

Convention business may render a trend analysis of group and transient activity invalid. If the booking pace of either group or transient rooms sales is significantly altered, the front office manager should immediately investigate. An increase in demand could indicate a convention in the area or a large booking at another property. A decrease in demand could indicate a major group cancellation at a competing property, which is now reducing its regular pricing to fill its guestrooms.

**Special Events**

Quite often, special events such as concerts, festivals and sporting events are held in or near a hotel. The hotel maybe able to take advantage of such demand-enhancing activities by restricting room rate discounts or requiring a minimum length of stay. This is a common practice, for example, during the Christmas holidays at many Southern resorts. Guests wishing to stay over Christmas may be required to guarantee a four or five night minimum stay.

**USING YIELD MANAGEMENT**

All elements of yield management should be viewed together in order to make an appropriate decision. Since the objective of yield management is to maximise revenue, tracking business by revenue source helps determine when to allow discounted room rates.

**Potential High And Low Demand Tactics**

Hotels need to determine yield management strategies for both high and low demand periods. During times of high demand the normal technique is to increase room revenue by maximizing average room rate. Transient and group business market segment may each require a unique, specific strategy.

Below are some transient business tactics used during high demand periods.

1 .Try to determine the right mix of market segments in order to sell out at the highest possible room rates. This strategy is highly dependent upon accurate sales mix forecasting.

2. Monitor new business bookings and use these changed conditions to reassign room inventory. As occupancy begins to climb, consider closing out low room rates. Management must closely monitor demand and be flexible in adjusting room rates.

3. Consider establishing a minimum number of nights per stay. For example, a resort that always fills to capacity over Christmas Day weekend may require a three-day minimum stay in order to better control occupancy.

A number of group business tactics may be appropriate during high demand period. When deciding between two or more competing groups. For example, select the group that produces the highest total revenue. Management must rely on its experience with groups to develop sound yield management policies.

Given the focus on total revenue, it may be wise to sell blocks of guestrooms to groups that also book meeting space, food service and hospitality suites. A group that books ancillary space and services is likely to spend more time and money in the hotel. This tactic usually requires restricting access of local patrons, potentially more profitable groups needing such space; if these spaces are booked by local patrons, potentially more profitable groups needing such space may be forced to go elsewhere.

Another tactic for handling group business during high demand periods is to attempt to move price-sensitive groups to low demand days. In other words, if hotel forecasts high demand for a time when a price-sensitive group has already booked space, management may try to reschedule the group’s business to a period of lower demand. This tactic, which is often easier, said than done, allow the hotel to replace the lower room rate group with a group willing to pay higher rates. The underlying strategy for transient and group business during low demand periods is to increase revenue by maximizing occupancy.

Front office managers may find the following business tactics helpful.

1. Carefully design a flexible rating system that permits sales agents to offer lower rates in certain situations. Such rates should be determined early in the planning process in anticipation of low demand periods.
2. Strive to accurately project expected market mix. The precision of this projection will influence the eventual yield statistics.
3. Management should closely monitor group bookings and trends in transient business. Do not close off lower rate categories and market segments arbitrarily.
4. As low occupancy periods become inevitable, open lower rate categories, solicit price sensitive groups, and promote corporate, government, and other special discounts. Consider developing new rate packages and soliciting business from the local community ( for e.g. , weekend getaways for the local transient market)
5. Consider maintaining high room rates for walk-in guests. Since these guests have not contacted the hotel prior to arrival, they typically present an opportunity to increase the average rate through top-down up selling techniques.
6. A non-financial tactic involves upgrading guests to nicer accommodations than they are entitled to by virtue of their room rate. This technique may lead to increased guest satisfaction and enhanced customer loyalty. The implementation of this policy is strictly a management decision.

This list of suggested tactics is not exhaustive, but it is representative of industry strategies.

**Implementing Yield Strategies**

Once all of this has been organized and analyzed, the front office manager must determine what rates will be used on any given day. Rack rates are always left open, whether demand is high or low. Then, the front office manager must set the lowest rate for a given date. Rates that fall below this minimum will not be offered. This is sometimes called the **HURDLE RATE.**

Any room rate that can be sold at a rate above the hurdle rate is acceptable for that date. Any rate below the hurdle rate should not be offered.

Some automated yield management systems will not even display rates below hurdle rate, thus preventing their use. Hurdle rates can fluctuate from day to day, depending upon the hotel’s desired yield and market conditions. The hurdle rate usually reflects the front office manager’s pricing strategy to maximize yield. Sometimes incentives are offered to front desk and reservations agents for selling rooms above the hurdle rates.

Reservations and front desk agents may elect not to offer lower rates that provide fewer incentive points, even though they are above hurdle rate. While they are building incentive points, they may actually be turning away business.

Incentives may also be provide for longer guest stays. For example a guest staying 3 nights may qualify for a lower rate than a guest staying for 1 night. This is a stay-sensitive hurdle rate.

Reservations agents may receive incentives for booking a 3 night stay, even if it is a lower rate, because the total revenue generated from the reservation will be greater than the revenue of a 1 or 2 night stay.

Communicating hurdle rates can be done in various ways. Some hotels post the rate strategies in the reservations office and at the front desk where the agent can see them but the guest cannot. Some computer systems, as stated above, automatically display acceptable rates only. Whatever the communication method, it is essential that reservation information be kept current. Yield strategies can change several times a day and all front desk and reservations agents must know when a change occurs.

**Availability Strategies**

A **minimum length of stay** strategy requires that a reservation must be for at least a specified number of nights in order to be accepted. The advantage of this strategy is that it allows the hotel to develop a relatively even occupancy periods. It is common for resorts to use this approach during peak occupancy periods. The use of minimum length of stay requirements is intended to keep an occupancy peak on 1 day from reducing occupancy on the days before and after the peak. Minimum length of stay requirements need to be controlled carefully. Because the hotel may be turning down profitable business of shorter duration, the reservations office would be wise to track reservation requests for shorter stays that were denied due to this restriction.

A **closed to arrival** strategy allows reservation to be taken for a certain date as long as the guest arrives before that date. For example, if the front office is expecting a 300 room check-in on a given date, the front office manager may decide that more than 300 rooms checking in may be too much of a strain on the front desk and its related departments. Therefore, guests arriving before that date and staying through the date will be acceptable. However, additional arrivals on the peak arrival date will not be accepted. As with a minimum length of stay strategy, the reservation office should track the number of reservation requests denied due to this restriction.

The **sell-through strategy** works like a minimum length of stay requirement except that the length of the required stay can begin before the date strategy is applied. For example, if a 3 night sell-through is applied on Wednesday, the sell-through applies on Monday, Tuesday, and Wednesday. Arrivals on each of those days must stay for 3 nights in order to be acceptable. A sell-through strategy is especially effective when one day has a peak in occupancy and management does not want the peak to adversely affect reservation on either side of the peak day. Hotels use a sell-through strategy as a technique to overbook the peak day. By properly forecasting no-shows, early departures, and reservation cancellations, management may be able to manage the peak day so that the overbooking is reduced and all guests with reservations are accommodated. Without such a strategy, the days before and after the peak may have reduced occupancy because the peak may block extended stays.

**Modified Length of Stay Restrictions** is a hybrid of MLS and CTA. It is similar to MLS in that it requires a certain number of nights and resembles CTA in that new arrivals are restricted. For eg. Assume that a hotel is full on Tuesday, Wednesday and Saturday. A modified length of stay restricts Tuesday arrivals unless the guest is staying more than two nights. This way, the hotel will also receive demand on Thursday night, which might be needed. But the same strategy will not allow the reservation to extend past Friday night because Saturday night is sold out.

**Yield Management Team**

The yield management team consists of rooms division manager / front office manager, reservations manager and sales manager. The rooms division manager has the overall control of the department with targets for maximising occupancy and revenue. Reservation manager has a complete knowledge of booking patterns, past histories and trends etc. and sales dept. Brings business to the hotel.

The role of the team is to predict the demand of rooms, and to assess whether to take transient or groups etc. ie allocating the right number of rooms to various market segments on the basis of discussing, reasoning and possible revenue generation calculation.

**Market Share**

The [market](http://hotelmule.com/wiki/Market) share is a useful indicator that helps identify the various positions (according to [inventory](http://hotelmule.com/wiki/Inventory), sales or revenues) of one company towards its direct or indirect competitors. The calculation can be a broad [industry](http://hotelmule.com/wiki/Industry) scope or a set of companies similar in [product](http://hotelmule.com/wiki/Product) offerings, category, geographical [location](http://hotelmule.com/wiki/Location) or target markets.  
  
The hotel industry uses the inventory of the number of available rooms as a basis for its fair market share calculation.   
  
Fair market share is the first basic indicator that gives the competitors’ positions in terms of capacity (total number of hotels, outlets, rooms, beds available), sales or revenue that the company should achieve based on its available production capacity. Unless new competitors arrive on the market or there is a [change](http://hotelmule.com/wiki/Change) of available products (new building, additional rooms, inventory closed for refurbishment), that number should not vary over the years.   
  
**Fair market share (theoretical market share) – FMS**  
  
Number of rooms available per competitor  
----------------------------------------------------------------------  
Total rooms available within the defined competitors' market  
  
Beside the importance of a company’s production capacity, the fair market share analysis (FMS) does not give much information regarding its profitability. However, it becomes the standard for comparison with the market share of the actual production ([profit](http://hotelmule.com/wiki/Profit), revenues, room nights, seat sales . . .).   
  
**Actual market share (realized market share) – AMS**  
  
Number of rooms sold per competitor  
------------------------------------------------------------  
Total rooms sold by the defined competitors' market  
  
**Penetration ratio – PenRatio**  
The penetration ratio will give further an immediate indication of the company’s performance on its market, by combining the two results that were obtained previously. A figure exceeding 1 or 100 indicates that the company is stealing market shares from one or more competitors. Any figure under 1 or 100 indicates on the contrary that the company is losing market shares to its competitors.   
  
Actual market share of a given company  
----------------------------------------------  
Fair market share of that same company

**Yield Management Computer Software**

Sophisticated yield management software is available that can integrate room demand and room price statistics and can simulate high revenue producing product scenarios .yield management software doesn’t make decisions for managers which merely provides information and support for managerial decisions . a computer can store retrieve and manipulate large amounts of data on a broad range of factors influencing room revenue .decision models are based on historical data forecast and booked business

In those industries where computer based yield management has been applied the following results has been observed:

* Continuous monitoring : the computerised yield management system can track and analyse business conditions 24 hours a day 7 days a week
* Consistency: software can be programed to respond to specific changes in the market pace with specific corporate or local management rules resident in the software .
* Information availability : yield management software can provide improved management information which help managers make better decisions more quickly
* Performance tracking : computer based system is capable of analysing sales and revenue transaction occurring within a business period to determine how well yield management goals are being achieved

Yield management software is also able to generate an assortment of special reports. The following are representatives of yield management software outputs

* Market Segment Report: provides information regarding customer mix. This information is important to effective forecasting by market segment
* Calendar / Booking Graph: presents room-night demands and volume of reservations on a daily basis
* Future arrival dates status report: furnishes demand data for each day of the week. This report contains a variety of forecasting information that enables the discovery of occupancy trends analysis of week days. It can be designed to cover several future periods.
* Single arrival date history report: indicates the hotel’s booking patterns (trends in reservations). This report relates to the booking graph by documenting how a specific day was constructed on the graph.
* Weekly Recap Report: contains the sell rates for rooms and the number of rooms authorised and sold in marketing programmes with special and/or discounted rates.
* Room Statistics tracking Sheet: tracks no-shows , guaranteed no-shows, walk-ins and turn aways. This information can be instrumental in accurate forecasting.

Since management is interested in revenue enhancement, computer based yield management has become a popular hospitality industry software application.

**Recommended Reading:**

**Managing Front Office Management by Michael L. Kasavana**

**Front office Operations and Management by Ahmed Ismail**

**Assignment:**

**Find out what a ‘discount grid’ is.**

**Get information about Yield Management Computer Software**

**How is the concept of Yield Management used in Hotels?**