

Centralization and Decentralization Models in Revenue Management of Hotels

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Introduction

Revenue management becomes a tool that maximizes and increases income through the manipulation of prices of fixed products such as hotel rooms. The primary objective of financial management could be vending the proper commodity to the relevant customers at the best time with the right price. Such an approach helps to discover the product perception significance. Additionally, it helps the seller to understand the aligning prices and also the availability of the product to the consumers.

Most hotels use centralization and decentralization models to manage and generate revenue. This essay enhances the understanding of revenue management through the centralized and decentralized models applied. Additionally, revenue management in the hotel helps to predict the demands of a customer. Also, it challenges the resources in the aim to obtain information about the market. Moreover, several models used in hotels have benefits and disadvantages. Some of them increase the demand of the customer, thus increasing the market. There are components of revenue management as discussed below.

Components of revenue management

Pricing

It becomes a variable with a critical operational role in the hotel. The pricing act wants to correspond to choices of marketing, including placement or adaptation to customer segments (Ivanov, 2014). Besides, the positioning of these segments is done irrespective of price fluctuations that occur at diverse marketing stages of the products and services offered. Furthermore, pricing plays a crucial role in revenue management. Firstly, it facilitates the adaptation of services presented in the market environments and changing demand. The need for a full understanding of demand becomes significant in determining the best price and pertinent pricing variations to generate revenue. Pricing determines the profit and maximum revenue attainable in the hotel.

Besides, understanding the client's actions and attitudes concerning price and purchasing becomes a principal determinant in the success of revenue generation in the hotel. Also value analysis is the other component.

Value Analysis

Pricing analysis places as a financial sacrifice made by the clients and also, as one of the elements in the analysis of value. The way customers decide value may be private and subjective (Wang et al., 2015). Additionally, the cost resembles what one obtains for what one gives. Yoonjoung et al. (2015) used the expression net value, which is the sum of total seeming benefits, subtracting the sum of all the commodities costs. The more significant positive difference between the two indicated greater the net value. Therefore, the more the customers are willing to purchase the product, that causes greater the positive difference; the greater the final price. For one to determine the selling price, one needs to contemplate the entire situation. Also, one needs to know about market segmentation as an essential component of revenue management.

Market Segmentation

It is grounded on the entire set of fundamentals that indicate the client's expectations concerning the commodities and variables that show the consumption patterns. It is the practice of dividing or subdividing customers into clusters with related behavior. However, it indicates the capability to scan larger economic surroundings and understand the trends in the purchasing activity. Besides, they should incorporate vending prices in the overall analysis of cost benefits. Further, in the instances where less amount of variable price becomes more, the revenue adds to the total profit. For instance, in the case where a room in a hotel costs \$3 a night, a specific portion of the selling price is paid to cater for variables including cleaning and some guest amenities, among others.

Forecasting demand

The revenue management experts contemplate this approach as a core component. Different types of forecasts are used; for instance, in the hotel, a demand forecast takes into account the real number of reservations on hand (rooms booked) and totals the expected number of rooms that will be booked (Denizci et al., 2015). The demand forecast becomes used to apply the pricing and yield strategies and understand the demand. Additionally, demand changes over a period and becomes variable. The flexibility of demand in creating an optimum price point becomes significant in maximizing the revenue. The other component of revenue management is yield.

Yield

It is a stage that involves the application of inventory controls. Besides, it has a considerable effect on the ability of a corporation to raise income and profit potential. The tactics of yield enable commerce to increase revenue during the high demand periods. Furthermore, it enhances the occupancy prospect in low-demand times.

Revenue growth

The other component of revenue management is revenue growth. It primarily occurs by increasing the chances of income by understanding demand, flexibility, relationship, source, and pricing in pricing tactics. When a particular product gets finished in the market, less flexibility and inconsistency happen in pricing. However, during a change in demand, it becomes critical to adjust the forecast. Also, implement variable valuing fast to respond to the market and maximize returns. Besides, several requirements are adopted and developed in the hotel for revenue management.

Requirements Needed for Centralization of Revenue Management to be Implemented

Information and technology system

Digital systems include telecommunication tools, computers, and software applications used in storing, conveying, receiving, and manipulating information within the business context. (Abrate and Viglia, 2016). The [hotel industry](#) needs to access information to deliver good services. The hotel uses information technology in some ways; to access customer profile records, booking, and registration data, occupancy rates, forecasting the price, data collection, and analysis. Therefore, to appropriately manage all of this information, the managers of the hotel need updated information technology systems. These systems help to ease the work of the hotel employees. For instance, the computers reduce the workload by enabling the calculation of some guests arriving in the hotel and profits obtained.

Business Intelligence

Business intelligence is the process of converting data into useful facts and even knowledge. According to (Abrate and Viglia, 2016) business intelligence includes the skills and processes that allow individuals at an organization to acquire and analyze data. It becomes a requirement that facilitates the businesses to discover and exploit the information at hand turn it into the knowledge that impacts the performance of the enterprise. Business intelligence includes software like enterprise resource planning, customer relationship management, and decision provision systems.

Characteristics of the Hotel Adopting Revenue Management

Some hotels are associated with very high profitability. Moreover, features such as the degree of seasonality, ownership and also some market segments of the hotel determine the revenue management implemented. The main influential factor becomes the identified number of the segment

hotels. Further, hotels that contain more than six segments become the adopters of revenue management. Besides, the type of demand becomes another characteristic. For the hotels that have steady and stable demand all the year-round shows that, that particular hotel is an adopter of revenue management.

Organizational culture

Organizational factors determine and contribute to the success of information technology. The corporate culture influences software superiority in projects more than other aspects. The organizational beliefs set the standards and morals that facilitate the appropriate [decision-making process](#). Moreover, it brings substantial consequences on technology accomplishment. (Bodea and Ferguson, 2014) review indication that shows structural culture as a fundamental element in shaping a company's skill to influence its information systems incomes to enhance the company performance

Performance Metrics

The primary performance metrics in the hotel include tenancy rate, average daily amount, returns per existing room, and gross functioning yield per room. Further, each of these parameters offers a means for a manager to comprehend the revenue and tenancy of the hotel. The Gross operational profit per available room aims at both revenue and operating cost to offer the correct profit accounting.

Finance Management

Revenue management is a guide used by managers or anyone in the hotel industry. Finance management is a complicated way of demand and supply that assists an enterprise in exploiting revenue. It is achieved through balancing pricing and record controls (Mauri, 2013). Besides, revenue management in respect to the hospitality industry defines the selling of the right opportunity to the appropriate consumer at the proper time.

Predicting and optimization become the crucial functions of income management.

When management focuses on the hotel finance administration, they try to evaluate demand by using the current reservation approach and the previously collected data (Mauri, 2013).

Professionals divide the forecasting approaches into three major types: ancient, combined forecast, and advanced models. Additionally, the hotel revenue administration uses a range of predicting models. Furthermore, the exponential flattening, moving average models, and pickup models give strong forecasts. Mauri (2013) indicates that excellence projection needs to be followed to maximize revenue perspective. Nevertheless, the optimization of demand in the industry is critical to the

revenue administration scheme. After the generation of the forecast, value and inventory management strategies are produced via optimization systems. The systems allow for room allocations created within different rates of classes and discount levels to increase total projected revenue.

Finance Management Systems

These systems involve computer software essential for managing industrial revenue. The revenue management techniques are more and more sophisticated. Resultantly, the revenue managers face a challenge in pricing rooms when the channels of distribution are many and during high completion. Therefore, the revenue management systems chip in to assist the hotel managers. It gives proposals on inventory control, channel management, and even pricing.

The two different types of Revenue Management Systems used in the hotel include a property-based system that embraces all software and hardware in the locations that the system serves. Additionally, it is possessed and managed by the hotel. Antiquity, the systems used 16 to be the norm; however, the advances in technology facilitated to development of new types of RMS that utilize the cloud. Besides, Software as a service is a cloud computing podium where data are stored and computation commands are brought to consumers through a network (Laudon and Laudon, 2016). Additionally, the modern generation of revenue management systems currently uses Software as a Service to provide their software to the customers. When using cloud-based applications, a client does not need to purchase external tools except the ordinary computers in the office. Further, another kind of Revenue Management System uses Application Service Provider systems (ASP) which offer the right to use the seller's software and hardware. The variation between Application Service Provider and Software as a Service becomes as ASP brings old-style client-server uses. Besides, the software gets fitted onto the client's personal computer. In contrast, Software as a Service utilizes the internet, and one accesses it by a website browser. Additionally, hotel manager uses the ASP (application service provider) with older software. The ASP is a better scalable tool unlike the Software as a service tool.

The decentralization of revenue management to be implemented the hotel managers need to meet some requirements. These include: strong statistical and [analytical skills](#) that offer fundamental virtue. The robust interpersonal and persuading abilities for the revenue managers encourage other areas of operation to work in a good manner. Further, the functional, emotional and behavioral characteristics assimilated in revenue management lead to its success. The client needs to maintain a feeling of choice in the hotel. Therefore, intelligent barriers and packaging of the commodities should enable the consumers to segment themselves.

The models explained above have different benefits and drawbacks to revenue management in the hotel. Several disadvantages exist.

The benefits and drawbacks of the models include;

Firstly, there is a limited number of supply in hotels, explained as hard supply. The hotel contains a fixed number of rooms that can accommodate all the guests. Therefore, a hotel will be forced to increase supply to meet the demand. For instance, a hotel or restaurant increases the number of seats in the room, but until the clients come and spend some monetary, no revenue is collected. Another disadvantage is the high fixed cost. The increased cost in the provision of the commodities and products or services becomes a drawback. Besides, the price of operating a hotel is always high regardless of the number of guests that use it.

The demand forecast model facilitates the understanding of the unconstrained demand. The financial forecast enables the managers to understand future revenue and other costs, together with identifying the losses incurred. Moreover, the operating forecast is needed to finish the errands of operations. Also, the hotel manager understands the extended period income performance and the conditions of the market. However, inadequate and incorrect forecasting can generate high expectations in the hotel, which may not be met. The expectations lead to losses of revenue incurred due to improper budgeting (Laudon and Laudon, 2016). When the hotel business does not understand and know the people coming to the hotel, therefore, forecasting remains a challenge. Additionally, inaccurate forecasting leads to increased operational deficits if the enterprise fails to anticipate the client's wants.

Additionally, in the business, inaccurate and incorrect pricing of products and services leads to loss of revenue. Also, higher pricing of products in the hotel makes customers run away to other competitors who probably offer cheap services. These lead to an essential impact on operating efficiencies and revenue. Pricing discrimination augments the development of adverse attitudes by the consumer towards a particular product. All these factors increase the drop and loss of revenue generated. Besides, pricing offers some benefits to the industry. Firstly, the tactics involved during pricing determine how the hotel industry capitalizes upon the perceived value. The strategies such as ranking the prices against the company's competitors make the manager aware of the computing environment. Therefore, the hotel managers gain knowledge and know how to cope with competitors. Secondly, through pricing, the hotel can account for the maximum profit and income gained after selling a particular product or service.

Additionally, several drawbacks arise during market segmentation. Predicting the needs of people so that a manager can group into segments remains a greater challenge. Also, understanding the customer's potential buying behavior is more and more difficult. Therefore, it facilitates revenue management not to work efficiently (Mvondo et al., 2014). However, accurate market segmentation lets a hotel aim at developing the desired market segments, emphasize subordinate sections arising during distressed times, and even move away from the segments that don't bring profits. Furthermore, another benefit includes; understanding the net success of every section and ensuring that the focus of deals and selling efforts is on attracting the right enterprise at the necessary time.

Further, incorrect marketing and sales activity can reduce the revenue of the hotel. The hotel may waste essential resources in the process of enticing new business that does not meet desires. Therefore, that individual in the sales and marketing area needs to focus on sections that help the hotel to meet its goals.

Some other benefits of using and implementing Revenue Management Systems include: maximizing the overall profit and revenue. According to (Sofian et al., 2015), the primary benefit of RMS is to maintain occupancy levels and lead to improvements in the performance of the hotel. Besides, it leads to an increment in rates of tenancy, especially during the low season. Also, the revenue management system offers an advantage over its stiff competitors. Through the use of a revenue management system, a hotel focuses on optimizing features such as price and market segment which are implements needed to outdo its competitors. Besides, a revenue management system contains elements that have the capability to process huge databases due to the software in it. (Saeidi et al., 2015) Note that the revenue management system assists in the easy examination of the performance of promotions to enable future decision-making in the hotel. Furthermore, the changes in the marketplace get identified very fast.

Conclusion

The assessment focused on discussing the concepts that concern revenue management, its components, and system selection. The models help in shaping the topic of revenue management to make the managers get to know the process of selecting a system. Revenue management forms part of the above discussions, including most of its critical aspects, such as benefits and drawbacks. Therefore, through this, the managers become guided on implementing the best revenue management that oversees them making more profits in the firm.

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