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ABSTRACT

Yield management is an approach to pricing that is often used by industries in which the marginal production cost is relatively high, while the marginal sales cost is relatively low. The hotel industry meets this criteria. Hoteliers have looked at the airlines and their claims of improving revenues by 2 to 5 percent, and have been enthusiastic about attempting to do the same.

Industry publications demonstrate a keen interest in the revenue-enhancing potential of yield management, but there has been little research on the extent to which this pricing technique is actually utilized by hotel general managers. One writer on the subject has concluded that "if you ask ten hoteliers what it is, you are apt to get at least five, and possibly ten, different answers."

Much of the existing research on yield management in hotels has concluded that there are distinct procedural elements that make up the practice. This paper tests the proposition that there are eight basic elements of yield management in hotels. The degree to which yield management is practiced is indicated by the extent to which the following eight elements are in place.

1. Customers must be segmented by their willingness/ability to pay.

2. Booking patterns for each segment must be determined.

3. Demand patterns for each segment must be determined.

4. Sales must be tracked and analyzed by segment.

5. Denials and regrets must be tracked and analyzed by segment.

6. Occupancy must be forecasted by segment.

7. The absolute price floor must be close to the marginal sales cost.

8. The hotel must utilize some optimal room allocation method.

A random sample of hotel general managers was surveyed to ascertain the degree to which they use each of these elements. The managers were divided into two groups:

those who perceive that they use yield management techniques extensively, and those who do not.

It was found that there is a positive relationship between a manager's perception of his or her own yield management utilization and the extent to which the 8 elements are used. It was also found, however, that while 76.9% of hotels claim to be utilizing yield management techniques extensively, very few are using all of the basic elements in their efforts to maximize revenue. The study found that large minorities, and in some cases a majority, of yield management practitioners do not practice individual elements of yield management.

The hotel industry in 1997 faces a very favorable supply/demand relationship. As the airline experience illustrates, it is precisely in such an environment that yield management produces the greatest benefits. It is ironic, however, that while general managers know about yield management and claim to use it, they are not using all of the tools available to them to maximize revenues.

This research has found that most hotel managers say that they are using yield management techniques extensively—and many are. When yield management is broken down into its component parts, however, there are some gaps between perception and reality. General managers seem reluctant to fully implement some of the elements of yield management.