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Revenue Management for the Hospitality Industry

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BOOK REVIEW

REVENUE MANAGEMENT FOR THE HOSPITALITY INDUSTRY

David K. Hayes, Allisha A. Miller, John Wiley & Sons, Inc., Hoboken, New Jersey, 2011
Hardcover, 512 pages, ISBN 9780470393086.

Revenue Management in the Hospitality Industry is very timely book given the importance of the revenue management in the hospitality and tourism industry today. Although I have been teaching revenue management both in the undergraduate and graduate levels for more than four years, I was not successful assigning a suitable book. I opted for using a set of articles instead. The revenue management book by David K. Hayes and Allisha A. Miller seems to be the most suitable book in the market to be adopted by the hospitality educators as a course book.

The book is divided into four parts. First part, titled “Revenue Management Principles”, presents the building blocks of revenue management including introduction to revenue management, strategic pricing, value, differential pricing and the revenue manager’s role. Part two, titled “Revenue Management for Hoteliers”, delves into the application of revenue management including forecasting demand, inventory and price management, distribution channel management and evaluation of revenue management efforts in lodging. Part three focuses on revenue management for food service operators. The last part introduces readers to the specialized applications of revenue management in hospitality-related organizations and customer-centric revenue management strategies through inventory management and pricing.

The first chapter gives a very good overview of what revenue management is and how the book serves its purpose as a guideline that helps revenue managers charge prices as much as the customers are willing to pay. The first chapter also gives readers a good idea about what they should take away from each chapter. For instance, each chapter includes a chapter outline, chapter highlights, revenue management in action, revenue management at work, revenue management on the Web, essential revenue management terms, apply what you know and key concept case study sections. I am particularly happy to see a section on essential revenue management terms which teaches the readers important revenue management jargon. These terms are also repeated at the end of each chapter to serve as a reminder to the readers.

The second chapter presents strategic pricing which is the core of revenue management practices. This chapter explains what makes pricing strategic and discusses prices from buyers’ and sellers’ perspectives. The approach used is quite refreshing compared to the pricing approaches explained in traditional accounting and marketing books. The relationship between supply and demand is explained in a rather simple way. This chapter ends with cost aspect of pricing.

The third chapter continues the price discussion by explaining the concept of value. Buyers’ perspective on value is explained through the business model of Ebay which is interesting to

read and easy to understand. This chapter further discusses the relationship between quality and price, the relationship between service and price and the link between quality, service and price. The chapter ends with a section on the art and science of strategic pricing which explains the importance of data management and the role of the revenue director to bring insight to the pricing process.

Differential pricing concept is presented in chapter four. The idea of charging different prices to different types of customers is not a new one. In this respect, there is not much new information presented in this chapter. I think what is missing in this chapter is the discussion on demand based pricing which similar to value based pricing. This chapter also includes the application of differential pricing and its limitations.

The revenue manager's role is introduced in chapter five. This chapter mainly includes the job description of a revenue manager, legal and ethical aspects of revenue management. The discussion on the legal aspects of revenue management only applies to the United States. The best part of this chapter is the report by the Hospitality Sales and Marketing Association International on to whom revenue managers directly report. This discussion shows the place of the revenue management in different hospitality organizations.

Part two of the book starts with chapter six, namely 'forecasting demand'. This chapter is essential to the application of revenue management. The main discussion in this chapter is on the importance of demand forecasting and the data which is vital to demand forecasting. This chapter is nicely prepared with a lot of examples on booking pace and availability reports. Chapter seven is on inventory and price management. Inventory management is discussed in the context of room location, room size or type, bed configuration and package. Developing an overbooking strategy, establishing rate restrictions and classifying guests by market segment are also discussed in this section. Another important chapter related to the application of revenue management is the distribution channel management. Non-electronic distribution channels and electronic distribution channels are defined and explained. The main emphasis in this chapter is on central reservation system, global distribution systems and internet distribution systems. This is not surprising as the most important channel today is the internet distribution systems for many hotels all over the world. Last chapter in part two is on the evaluation of revenue management efforts in lodging. This chapter focuses on the different methods to evaluate revenue management teams' performance. The key performance measures included in this chapter are revenue per available room, total revenue per available room, revenue per occupied room, gross profit per available room and flow-through. Smith Travel Research's STAR report and competitive set analysis are also discussed in this section as revenue management performance indicators.

Chapters ten and eleven, which comprises part three of the book, are related to the application of revenue management to the food and beverage industry. Chapter ten discusses traditional food service methods versus differential pricing in the food service industry and makes a good case of why demand based pricing is also appropriate for this sector. Chapter eleven delves into the performance measures of revenue management in the food and beverage industry. These measures include revenue per square foot, revenue per labor hour and most notably revenue per available seat hour.

Part four is discussed in two chapters, namely specialized applications of revenue management and building better business. It is quite interesting that characteristics of organizations applying revenue management topic is discussed at the end of the book instead of at the beginning. I would think that discussing this topic at the beginning would be more appropriate as the readers need to understand what characteristics hospitality based tourism operations should have to apply revenue management practices. Another section in this chapter is about specialized revenue management duties. I think that this section would be more suitable to be part of chapter five, namely the revenue manager's role. The last chapter is a wrap up of all the chapters covered in the book. The main focus is on the keys to building better business, better business issues in moderate to strong markets and better business issues in weak or distressed markets.

As I have mentioned at the beginning of my review, I believe that this is the most suitable book in the market today to be adopted by the hospitality educators as a course book. I applaud authors' efforts to explain revenue management practices in the real world. Overall, the book is very easy to read and it includes up-to-date examples from the leading hospitality companies. As a textbook, it is a little short of the discussion on the application of revenue management practices to other parts of the hospitality industry such as theme parks, spas, cruises and golf industry. Nevertheless, it is the best of its kind.

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