

Title – Operations management in hospitality industry

Table of Contents

1. What is revenue management, and why is it especially important in the hospitality industry?	3
Importance of revenue management in hospitality industry	3
2. How does segmentation help hotels optimize their pricing decisions?	4
References.....	6

1. What is revenue management, and why is it especially important in the hospitality industry?

Revenue management is one of the most strategic approaches of all in which data forecasting, data analysis and a series of pricing techniques are used in collaboration to make sure, right customer gets the right and best suitable product. And that too at right time and place, via suitable channel of distribution at that time (Guadix et al., 2009). The main key objective behind this approach is to maximize the level of revenue overall and often the profitability in business. And it is possible with the extensive level management of demands, and services capacity overall, especially when the resources are actually very limited and perishable (Guadix et al., 2009).

In the very first core base management of revenue involves a number of activities to perform such as analysis of historical datasets, analysis of market trends, identification of changing customer behaviour and patterns of demand according to the change in customer preferences, so that more informed decisions could be made in regards to the overall pricing of the product and services, long-term availability and inventory control overall (Guadix et al., 2009). Some most reliable techniques of all involves dynamic pricing, demand forecasting, customer identification and segmentation along with optimization of the distribution channels.

Importance of revenue management in hospitality industry

Revenue management is not specifically important in terms of any specific segment of industry but every single segment of hospitality industry such as hotels, airlines, resorts and restaurants as well. a number of unique characteristics are associated with these identified businesses of hospitality industry, due to which revenue management is crucial.

1. **Perishable inventory** – Due to high perishable properties present in products and services of hospitality industry, revenue management is important to manage. For instance, a room in a hotel left unsold couldn't be sold later or cannot be stored. The profit to be generated through that room is permanently lost for a specific night. This is where, revenue management plays crucial role by managing prices of rooms and availability in response to increasing or decreasing demands (McKenna, 2014).
2. **Fixed capacity** – As it is a fact, a hotel cannot increase their room capacity in short term and so as the airlines cannot increase their seat capacity, thus they are liable for generating profits from the already existing capacity (McKenna, 2014). Techniques of

revenue management can make sure to help the hospitality industry generating profits from the existing resources.

3. **Fluctuating and uncertain demand** – In the hospitality industry, demand fluctuates according to changing seasons, days, holidays and months, as a result of which it is complex for hotels and airlines to generate high revenue all the time. Revenue management techniques can enable the firms to simply forecast the demands first and then adjust the demands and pricing of their services accordingly (McKenna, 2014). For instance, they can charge higher in peak season and offer discounts when they are operating out of season.
4. **Customer segmentation** – As it is a fact, not every customer can pay the same for every service. For instance, business travellers are not price sensitive but leisure customers are price sensitive, thus they book flights in advance to get seats at discounted prices (McKenna, 2014). Whereas, business travellers might book seats during the time of travelling onsite. Revenue management systems can help the airlines and hotels to segment their customers according to high paying and more price sensitive customers category.

2. How does segmentation help hotels optimize their pricing decisions?

The term segmentation helps assessing and optimizing the primary pricing decisions, while understanding the exact differences in customer behaviour with the passage of time or due to any alternative product availability (Guo et al., 2013). The segmentation of customers helps the businesses in hospitality industry to make accurate decisions after identifying which customers are willing to pay higher and which are price sensitive. Instead of being constant with the pricing strategy for all the guests and travellers, hotels can tailor prices and packages of rooms according to the group of customers, in order to seeking for maximizing their profits (Guo et al., 2013).

1. **Understanding differences in willingness to pay** – For instance, the business travellers are less price sensitive because their travel and stay is paid by their employers, however the group of leisure travellers is more concerned about price of the room, as they are travelling on their own. Simply, hotels must segment these customers in 2 categories so that that they can offer low prices to leisure travellers and maximize their profits through business travellers in easier ways (Guo et al., 2013).
2. **Matching prices to booking behaviour** – Segmentation of customers might differ when it comes to “when and how” they book. The business guests and corporate sector

travellers book always in the nearest dates of travelling, whereas the leisure travellers seek to book hotel rooms in advance, airline seats in advance, so that they could get availability at discounted prices (Petricek et al., 2021). Segmentation could help the hotels and airlines in this way to keep their available service prices higher in the last minutes of booking. With this, capturing higher profits become easier.

3. **Reducing revenue dilution** – Without segmentation of customers, hospitality industry operates under a risk of offering discounts to those, who are even willing to pay higher for the available rooms in hotels. Due to this reason, hotels might lose generating high revenue. Segmentation is a technique which enable the hotels to put on rate fences on their customers according to their potential and will to pay (Petricek et al., 2021).
4. **Optimizing channels of distribution** – Every single customer book through different channels, as a result of which pricing of services might also differ. For instance, business travellers may book a hotel room while using corporate portal, on the other hand, leisure traveller may book the same using OTAs platforms (Petricek et al., 2021). Segmentation technique comes in and enable the firms to adjust their prices according to different channels.

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