

EUROPEAN INSTITUTE OF INNOVATION, ENTREPRENEURSHIP AND TECHNOLOGY

MODULE

Operations Management in Hospitality

Revenue Management in Hospitality: *Foundations, Application, and Ethical Limits*

Prepared by:	Kabindra Yadav
Roll Number:	206
Matric Number:	DE240206
Date:	26 November 2025
Word Count:	1600

1. Characteristics of Hospitality Products That Make Revenue Management Effective

Revenue management (RM) is defined as applying information systems and pricing strategies to allocate the right capacity to the right customer at the right price at the right time (Ivanov & Zhechev, 2012). This approach only works, however, because hospitality products possess a specific set of characteristics that make demand-based pricing both necessary and possible. Understanding why each characteristic matters explains why RM originated in airlines and travelled so naturally into hotels and restaurants.

Perishability

Hospitality inventory cannot be stored. An unsold hotel room, restaurant table, or flight seat generates zero revenue the moment its selling window closes; there is no way to sell "last night's room" tomorrow (Abdou, 2025). This matters because it removes the option, available to a manufacturer, of holding unsold stock until demand recovers. Since every unsold unit is a permanently lost sale, RM's core objective of selling as much inventory as possible before it expires only makes sense in a market where the inventory is perishable in the first place (IDeaS, 2005).

Fixed and Limited Capacity

A hotel cannot conjure an extra room once it is fully booked, and an airline cannot add a seat mid-flight; capacity is fixed in the short run (Abdou, 2025). This matters because it creates a genuine scarcity problem: managers must decide in advance which customer segment gets access to that fixed inventory, rather than simply producing more to meet demand. Without this constraint, there would be no allocation decision for RM to optimize.

High Fixed, Low Variable Costs

Because most of a hotel's costs the building, utilities, core staffing do not change much with each additional guest, the marginal cost of selling one more room is low (Abdou, 2025). This matters because it makes discounting rational even at a low price: as long as the discounted rate exceeds the marginal cost of servicing that guest, selling the room adds more to profit than leaving it empty, which is the basic logic behind filling off-peak capacity at reduced rates (Ivanov & Zhechev, 2012).

Fluctuating and Forecastable Demand

Hospitality demand varies predictably by day of week, season, and local events, and RM depends on being able to forecast that variation with reasonable accuracy (Abdou, 2025). This matters twice over: fluctuation creates the pricing opportunity, since prices can rise in high-demand periods and fall to

stimulate low-demand ones, while forecastability is what allows a hotel to set those prices in advance with confidence rather than guessing. Where demand truly cannot be forecast, RM theory concedes that constant pricing works better than dynamic pricing (Abdou, 2025).

Market Segmentation and Differing Price Elasticities

Because customers differ in why and when they buy a business traveller booking the night before differs meaningfully from a leisure guest booking three months out RM requires a market that can be broken into segments with different price sensitivities (Ivanov & Zhechev, 2012). This matters because price discrimination across segments generates more total revenue than a single uniform price ever could, but only if those segments genuinely respond differently to price changes; otherwise there is nothing to differentiate.

Differing Willingness-to-Pay and Advance Sales

Related to segmentation, different guests have different maximum prices they are willing to pay, and a uniform low price leaves money on the table (consumer surplus) that RM tries to capture through tiered pricing (Abdou, 2025). Advance sales matter because they give hotels a long selling window in which to track booking pace and adjust prices or availability well before the date of stay, rather than reacting only once demand has already materialised.

Product Characteristics: Intangibility, Inseparability, and Heterogeneity

Finally, RM in hospitality is shaped by the underlying nature of the service itself. Because hospitality products are intangible, guests cannot inspect a room before booking and rely instead on pre-purchase cues such as price itself, which becomes a quality signal in addition to a revenue lever (Abdou, 2025). Because service is inseparable, produced and consumed simultaneously with the guest physically present, there is no buffer stock to smooth demand spikes, reinforcing the perishability problem above. And because service is heterogeneous, quality varies with staff, timing, and conditions even within a standardised chain, which is why RM tools are paired with customer relationship management, monitoring guest satisfaction rather than treating pricing decisions as sufficient on their own (Ivanov & Zhechev, 2012).

Together, these characteristics explain why RM is not simply "a pricing trick" but a structural fit to how hospitality businesses actually operate: fixed, perishable, forecastable capacity sold to segmented customers with different price sensitivities is precisely the set of conditions under which dynamic, segment-based pricing captures revenue that a single fixed price would leave on the table.

References

- Abdou, M. (2025). Operations Management in Hospitality: Lecture 6 – Revenue Management [PowerPoint slides]. European Institute of Innovation, Entrepreneurship and Technology.
- IDeaS. (2005). The basics of revenue management. Integrated Decisions and Systems, Inc.
- Ivanov, S., & Zhechev, V. (2012). Hotel revenue management – A critical literature review. *Tourism*, 60(2), 175–197.

2. Applying Revenue Management at Marriott and Its Ethical Limits

Marriott International, chosen here as a familiar and well-documented hotel group, illustrates both the revenue opportunity that revenue management (RM) creates and the reputational risk it carries if applied without regard to guest fairness.

Applying Revenue Management at Marriott

Marriott's scale across dozens of brands gives it an unusually rich basis for market segmentation, the precondition for effective RM (Ivanov & Zhechev, 2012). A Marriott property could apply dynamic pricing by adjusting room rates in real time based on booking pace, day of week, and local demand drivers such as conferences or seasonal tourism, raising rates as a property fills and lowering them to stimulate bookings during predictably slow periods (Abdou, 2025). Because most of a hotel's costs are fixed regardless of occupancy, discounting an otherwise empty midweek room to a price above its marginal servicing cost still adds to profit, which is the basic economic logic RM relies on (IDeaS, 2005).

Segmentation could go further than simple day-of-week pricing. Marriott could allocate a portion of its fixed room inventory specifically to advance-purchase, non-refundable bookings at a discount, capturing price-sensitive leisure travellers who book early, while reserving flexible-rate inventory at a premium for business travellers who need to book or change plans close to arrival and are willing to pay for that flexibility (Ivanov & Zhechev, 2012). During high-demand periods, such as a citywide conference or a local event, Marriott could apply minimum length-of-stay requirements, a non-pricing RM tool, to avoid filling scarce rooms with low-value one-night stays when multi-night bookings are available at a comparable or higher total rate (Abdou, 2025). Forecasting demand accurately, using historical booking pace, local events calendars, and competitor rate tracking, would let Marriott's revenue managers decide these allocations weeks or months in advance rather than reacting only once a property is already full or half-empty (IDeaS, 2005).

Ethical and Reputational Risks of Over-Reliance on Revenue Management

The same tools that generate incremental revenue can damage guest trust if applied carelessly. Research on hotel RM ethics identifies price discrimination and overbooking as the two practices most likely to generate guest grievances (Ivanov & Zhechev, 2012). If two guests discover they paid noticeably different prices for what feels like an identical room, and neither understood in advance why, the perceived unfairness can outweigh whatever incremental revenue the price difference generated. The literature is specific about what separates acceptable from unacceptable practice here:

guests generally accept price differences when they are clearly explained in advance and tied to a genuinely different product or condition, for example a lower weekday rate or a discounted advance-purchase rate with stricter cancellation terms, but they react badly to insignificant discounts offered in exchange for disproportionately strict cancellation conditions, or to booking terms that change after a reservation has already been confirmed (Ivanov & Zhechev, 2012).

Overbooking carries a comparable risk. Marriott, like most large chains, likely overbooks selectively based on historical no-show and cancellation rates to avoid empty rooms caused by guests who fail to arrive (Ivanov & Zhechev, 2012). This is a rational hedge against lost revenue, but when the forecast is wrong and a guest with a confirmed reservation is denied a room or relocated to another property, the damage to that guest's trust, and to word-of-mouth reputation, can exceed the value of every marginal booking the policy protected. Because hospitality services are inseparable and consumed in real time, there is no way to quietly correct an overbooking mistake after the fact the way a retailer might issue a refund for a manufacturing defect; the guest experiences the failure directly and immediately.

Over-reliance on RM also risks treating pricing purely as a short-term optimisation problem when guest relationships are inherently longer-term. Revenue management and customer relationship management have different time horizons RM is short-term by design, while customer loyalty depends on guests feeling fairly treated across many stays so a hotel that maximises every individual transaction's revenue without regard to how the pricing pattern looks to a repeat guest risks winning the booking but losing the relationship (Ivanov & Zhechev, 2012).

Balancing the Two

For Marriott, the practical implication is that RM tools should be paired with transparent communication of rate conditions and consistent enforcement of stated policies, rather than opaque, constantly shifting terms. Guests who understand why a rate varies, and trust that the conditions attached to it will not change after booking, are far more likely to accept the same pricing tactics that would otherwise feel exploitative, meaning the ethical safeguard and the revenue-maximising strategy are not actually in tension once fairness is built into how the pricing is communicated.

References

- Abdou, M. (2025). Operations Management in Hospitality: Lecture 6 – Revenue Management [PowerPoint slides]. European Institute of Innovation, Entrepreneurship and Technology.
- IDeaS. (2005). The basics of revenue management. Integrated Decisions and Systems, Inc.
- Ivanov, S., & Zhechev, V. (2012). Hotel revenue management – A critical literature review. *Tourism*, 60(2), 175–197.