



Operations Management in Hospitality

Assignment 10

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1. Revenue Management in Hotel and the Significance of Performance Measures

Hotel Revenue Management is a strategic tool of selling the right room to the right guest, at the right time, and at the right price, and using the right channel. Since the rooms of a hotel are perishable (a room that is not sold today can never be sold again), revenue management aims at predicting demand, price adjustments, and management of inventory to maximize the revenue and profitability (Kimes, 2011).

Hotel managers have to make decisions constantly, in their daily work: should they increase or decrease rates, in which segments of the market to focus, or what to do with the low demand. It is upon performance metrics that this would be necessary. Metrics transform volumes of operation data into understandable indicators that can be used to make decisions. Managers can base their performance assessment on metrics instead of solely relying on intuition to compare results over time and benchmark against competitors, as well as detect the issues at the initial stage (Hayes and Miller, 2011).

In the absence of these metrics, revenue management would be a guesswork. Hotels are able to do this with them, and the short-term and long-term are able to match up the pricing, marketing and operational strategies with financial ones to ensure both the short-term revenue maximization and the sustainability of the business over time.

2. The most important Revenue Management Metrics and Managerial Implications

Average Daily Rate (ADR): ADR is the mean revenue on per occupied room and it is calculated by dividing the room revenue by number of rooms sold. ADR assists managers to make knowledge on the viability of prices. Successful pricing strategies are usually indicated by an increasing ADR, and unsuccessful pricing strategies can likely be indicated by a falling ADR (Hayes and Miller, 2011).

Occupancy Rate: Occupancy Rate indicates the rate of available rooms which are sold at a specified time. It is a firsthand pointer of demand and market penetration. Occupancy is what managers rely on to measure the effectiveness of occupancy within the hotel and balance volume with price decisions, particularly during low demand time of the year (Cross et al., 2009).

Revenue per Available Room (RevPAR): RevPAR is a hybrid of price and occupancy since it is calculated as the amount of revenue earned by the rooms per room available in a hotel. It is determined by either $ADR \times Occupancy\ Rate$ or in total room revenue per available rooms. One of the most used performance metrics is the revPAR since it indicates the efficiency of the hotel in converting its room stock to revenue (Kimes, 2011).

Gross Operating Profit per Available Room (GOPPAR): GOPPAR does not only consider revenue but also includes operating profitability. It is the gross operating profit when compared to the available rooms. The metric is particularly useful to managers since it not only takes into consideration the cost control but also the revenue generation and thus

revenue management decisions are directly related to bottom-line performance (Forgacs, 2017).

Conclusion

To sum up, revenue management is an important aspect of ensuring that hotels compete and survive in a competitive hospitality market. Hotels can properly react to varying demand patterns and customer behavior by organizing their pricing and inventory control strategies. ADR, Occupancy rate, RevPAR and GOPPAR are some of the performance measures that give managers clear and quantifiable information on the effectiveness of these strategies. Whereas ADR and Occupancy Rate emphasise on pricing and demand performance, RevPAR provides a more moderate picture of revenue efficiency whereas GOPPAR connects revenue judgements with profitability. The combination of these metrics helps to make informed decisions, which allows hotel managers to minimize revenues, manage costs, and long-term business performance.

References

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