

Operations Management in Hospitality

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Outline:

- 1- Hotel Revenue Management Metrics
- 2- The Significance of Hotel Revenue Management Metrics
- 3- Pricing Hotel Revenue Management Tools

1- HOTEL REVENUE MANAGEMENT METRICS

1- Hotel Revenue Management Metrics

- Measure the effectiveness and efficiency in generating revenue
- Evaluate the overall performance of the hotel
- Support decisions in pricing, capacity allocation, and demand management
- Help revenue managers track results, identify problems, and adjust strategies

2- Hotel Revenue Management Metrics

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2- Hotel Revenue Management Metrics

A- Number of Overnights:

- Simplest and most basic hotel metric
- Measures rooms occupied over a period
- Forms the basis for other revenue metrics



2- Hotel Revenue Management Metrics

B- Occupancy Rate:

- Measures utilization of hotel's physical capacity
- Indicates how much of available inventory is sold



2- Hotel Revenue Management Metrics

B- Occupancy Rate:

- Can be calculated using:

➤ Overnights

$$\text{Overnight occupancy} = \frac{\text{Overnights}}{\text{Beds available}} \times 100$$

➤ Roomnights

$$\text{Roomnight Occupancy} = \frac{\text{Roomnights Sold}}{\text{Rooms Available}} \times 100$$



2- Hotel Revenue Management Metrics

- Factors Affecting Occupancy Rate:

- Day of the Week
- Season / Period of the Year
- Market Segments
- Special Events



2- Hotel Revenue Management Metrics

C- Average Daily Rate (ADR):

- Average price charged per overnight or roomnight
- Measures the hotel's ability to generate revenue from higher rates rather than more rooms sold
- Can be calculated per room type or for the whole hotel



2- Hotel Revenue Management Metrics

C- Average Daily Rate:

- Can be calculated using:

➤ Overnights

$\text{ADR Overnights} = \text{Room Revenues} \div \text{number of Overnights}$

➤ Roomnights

$\text{ADR Roomnights} = \text{Room Revenues} \div \text{number of Roomnights}$



2- Hotel Revenue Management Metrics

- Factors Affecting ADR:

- Day of the Week
- Season / Period of the Year
- Market Segments
- Special Events
- Contract Conditions
- The types of rooms booked by customers



2- Hotel Revenue Management Metrics

D- Length-of-Stay (LOS):

- Shows the average number of nights guests stay at the hotel

Typical patterns:

- Transit/airport hotels: 1 night
- Business city hotels: 2–3 nights
- Leisure hotels: 5–7 nights



2- Hotel Revenue Management Metrics

D- Length-of-Stay (LOS):

Longer stays:

- Reduce variable costs (laundry)
- Increase opportunities to sell additional services
- Lower front office and housekeeping workload
- Hotels often offer discounts or free nights for longer stays



2- Hotel Revenue Management Metrics

D- Length-of-Stay (LOS):

- Can be calculated using:

$$\text{LOS} = \text{Number of Overnights} \div \text{Number of Guests}$$



2- Hotel Revenue Management Metrics

E- Total Revenue Per Occupied Room (Total RevPOR):

- Measures the average total revenue generated per occupied room
- Includes room revenue plus all ancillary services
- Reflects the hotel's ability to generate additional income beyond the room itself



2- Hotel Revenue Management Metrics

E- Total Revenue Per Occupied Room (Total RevPOR):

- Can be calculated using:

$$\text{Total RevPOR} = \text{Total Revenues} \div \text{number of Roomnights}$$



2- Hotel Revenue Management Metrics

F- Revenue per Available Room (RevPAR)

- Combines ADR and occupancy rate to measure room revenue efficiency
- Reflects revenue generated per available room, not just sold rooms

Important because:

- High ADR or high occupancy does NOT mean high revenue
- Considered one of the most important hotel metrics



2- Hotel Revenue Management Metrics

F- Revenue per Available Room (RevPAR)

- Can be calculated using:

$\text{RevPAR} = \text{Room Revenues} \div \text{number of Rooms available for sale.}$

$\text{RevPAR} = \text{ADR roomnights} \times \text{Occupancy roomnights}$



2- Hotel Revenue Management Metrics

G- Total Revenue per Available Room (Total RevPAR):

- Includes total hotel revenue, not just room revenue
- Best metric to analyze revenue management effectiveness
- However, does not consider costs
- High revenue may not mean high profit



2- Hotel Revenue Management Metrics

G- Total Revenue per Available Room (Total RevPAR):

- Can be calculated using:

$\text{Total RevPAR} = \text{Total RevPOR} \times \text{Occupancy Rate}$

$\text{Total RevPAR} = \text{Total Revenues} \div \text{Number of Rooms Available for Sales}$



2- Hotel Revenue Management Metrics

H- Gross Operating Profit per Available Room (GOPPAR):

- Considers both revenues and costs
- Most useful metric for measuring overall profitability
- Helps revenue managers assess efficiency and make informed decisions



2- Hotel Revenue Management Metrics

H- Gross Operating Profit per Available Room (GOPPAR):

- Can be calculated using:

$$\text{GOPPAR} = \text{Gross Operating Profit} \div \text{Number of Rooms Available for Sales}$$





3- PRICING HOTEL REVENUE MANAGEMENT TOOLS

3- Pricing Hotel Revenue Management Tools

- Pricing and price strategy are seen as a basis for creating sustainable competitive advantage.
- Pricing revenue management tools include:
 - Price discrimination
 - Dynamic pricing
 - Lowest price guarantee
 - Price presentation
 - Price parity



3- Pricing Hotel Revenue Management Tools

A- Price Discrimination:

- Means different prices for the same room
- Segments have different price sensitivities
- Business travelers pay more than leisure travelers



3- Pricing Hotel Revenue Management Tools

B- Dynamic Pricing:

- Adjust room rates in real time based on demand, occupancy, and market conditions
- It aims to maximize RevPAR and overall yield.

- How It Works:

- Monitor demand and occupancy
- Adjust rates
- React to market changes



3- Pricing Hotel Revenue Management Tools

C- Lowest Price Guarantee

- It is a commitment by a hotel to offer customers the lowest available rate.

- Purpose of Lowest Price Guarantee:

- Builds customer trust
- Encourages direct bookings
- Protects brand value



3- Pricing Hotel Revenue Management Tools

D- Price Presentation:

- The way a price is communicated to customers.

Forms:

- Direct low price
- Discounted price



3- Pricing Hotel Revenue Management Tools

E- Price Parity:

- Price parity means maintaining the same room rate across all distribution channels

Purpose of Price Parity

- Prevents channel conflict
- Protects brand integrity
- Maintains competitiveness



Thank you



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