

EUROPEAN INSTITUTE OF INNOVATION, ENTREPRENEURSHIP AND TECHNOLOGY

MODULE

Operations Management in Hospitality

Revenue Management and Performance Metrics in Hotels

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1. Revenue Management and the Role of Performance Metrics

Revenue management (RM) in hotels is the application of information systems and pricing strategies to allocate the right capacity to the right customer, at the right price, at the right time (Kimes, 1989, as cited in Ivanov & Zhechev, 2012). It segments guests by purchasing behaviour and price sensitivity, then prices and allocates rooms across segments to maximise revenue rather than simply filling them. RM suits hotels because of characteristics that make demand-based pricing both necessary and effective: perishable inventory, fixed short-run capacity, volatile demand, micro-segmented markets, advance reservations, and a low ratio of variable to fixed costs (Ivanov & Zhechev, 2012).

Performance metrics are essential to RM decision-making because pricing and allocation decisions are made under uncertainty and need an objective basis for evaluation. Without standardised metrics, a manager cannot judge whether a pricing change improved performance, compare results across periods, or benchmark against competitors. Hotels typically track several metrics at once rather than one figure, since no single metric fully captures performance, and the choice of metric shapes which decisions look successful (Remy, Boo, & Tee, 2023). Revenue-only metrics can mask whether that revenue was achieved profitably, which is why managers increasingly track cost-aware measures alongside traditional ones (Kimes, 2011).

2. Key Metrics and Their Managerial Significance

Occupancy Rate (OCC) is the share of available rooms sold during a given period (Remy et al., 2023). It does not by itself indicate financial performance, since rooms can be sold cheaply to inflate occupancy, but it signals underlying demand strength and is essential for staffing and capacity planning.

Average Daily Rate (ADR) is the average room rate earned per occupied room in a given period (Remy et al., 2023). It is simple and intuitive, showing how effectively rooms are priced, but it excludes ancillary revenue and can be manipulated by selling only a few rooms at a high price while leaving the rest empty.

RevPAR (Revenue per Available Room) equals room revenue divided by available rooms, or OCC multiplied by ADR (Remy et al., 2023). Combining occupancy and rate, RevPAR is a

superior single indicator of rooms performance and, given hotels' high fixed and low variable costs, a reasonable proxy for profitability (Remy et al., 2023). Its limitation is that it stays silent on costs and on revenue outside the rooms division.

GOPPAR (Gross Operating Profit per Available Room) extends this logic property-wide, dividing gross operating profit, net revenues minus the costs of serving guests, by available rooms (Remy et al., 2023). Because it accounts for both revenue and cost, GOPPAR gives managers a clearer view of overall performance and cost control than RevPAR alone, and industry surveys identify it as the measure expected to matter most in the future (Kimes, 2011).

Together, these metrics move managers from a narrow view of rooms sold and price to a fuller view of whether that activity translated into profit.

References

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