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**REVENUE MANAGEMENT WITHIN SWEDISH
HOTELS**

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ABSTRACT

“Revenue management is the key to making money” (Swedish Hotel Manager). The question is, whether hotels in Sweden practice what they preach. In today’s volatile business climate the management of revenue has become an ever increasing topic, especially for hotels. The growing interest is derived from professional consultants within the hospitality industry operating in Sweden as well as from larger hotel chains operating on a national as well as international market.

There seems to be the misperception that revenue/yield management is the same as simply offering discounted room prices. Further, it is believed that the concept would only be applicable to larger hotels and in market conditions where demand exceeds supply. The system is also linked to a decrease in guest satisfaction, dilution of brand and loss of goodwill.

Having undertaken fieldwork within hotels operating in Sweden, we suggest that in order to overcome the misperceptions and perceived boundaries of yield management, the system must be interlinked with customer, capacity, price, sales and marketing, cost, and human resource management, and that a proactive management style needs to be adopted in order to be financially successful in the long run.

Key words: Yield management, revenue management, hotel industry, proactive management

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1. INTRODUCTION TO REVENUE MANAGEMENT

1.1 The Situation Within the Hotel Market

In order to introduce the subject of revenue management within Swedish hotels it is reasonable to be familiar with the existing circumstances within the hotel market. It is stated that in order to match demand for hotel rooms a flexible room price is required and that it is beneficial to run special offers to increase occupancy (Andersson, 2004a). Nevertheless, it is also argued by Andersson (2004b) that lowering prices would not be beneficial in the long run. In the Swedish market in general, prices have decreased by 4% during 2004 as a result of increased room capacity among hotels in Sweden (Svenska Dagbladet, 2004a). Further, competition within the hotel industry is tough, new hotel operations are establishing on the market and increase the competition for business travellers. The new hotel operations tend to have technical solutions that older hotels do not match (Svenska Dagbladet, 2004b). In order to meet these prerequisites, it is suggested that one must be flexible in regards to pricing. However, the focus should be on what prices the customers are willing to pay rather than on the occupancy rate, hence lowering prices to increase occupancy is not seen as an option. It is clear that there are discrepancies and different opinions as to whether prices should be fixed or flexible in order to meet guest demand and manage revenue.

It should also be known that demand for hotel rooms is particularly sensitive to the state of the economy. In economic upturns, demand for hotel rooms tends to be strong, especially from business travellers since companies often expand their businesses and finds new business opportunities during flourishing times. On the other hand, during downturns in the economy business travellers are often the first to be cut off the budget (Fattorini, 1999). The intense competition in the hotel industry is likely to continue to increase (Greger and Peterson, 2000). Hence, competition could lead to excess capacity in the market. Further, hotel executives are confronted with a decline in leisure and business travel, severe short-term liquidity problems, and rising business failure rates (McMahon-Beattie et al., 1999). In this context, survival and profitability are essential and the management of revenue has become one way

to address this. As a result, it is vital for managers to understand where revenue is derived from within their business.

Morten Olsson, who works as a consultant within the hospitality industry in Sweden, has acknowledged that in the hotel industry today, taking a proactive approach towards influencing ones revenue does not seem to be a matter of course. Morten Olsson further points out that hotels do not seem to know how to manage their revenue. He states that hotels tend to stick to old routines and are reactive towards the management of revenue. Thus, since managers within the industry seem to take on a reactive management style, to a large extent this may create an obstacle for successful hotel operations as management does not identify opportunities and adapt their resources to meet and take advantage of opportunities. Hence, research on the subject of revenue management with the Swedish hospitality market as a base can be motivated.

During the past decades, the hotel industry has responded to changes and contingencies by adopting and developing different management techniques specific to the hotel industry (International Hotel Association, IHA, 1995). The array of hotel management techniques includes computerized reservation systems, forming strategic alliances, service quality management, and different pricing tactics such as yield management (IHA). Further, motivation to investigate how hotels manage revenue has been found in a report on the practice of yield management (YM) in the tourism industry, which was presented in 1997 by the European Commission (Arthur Andersen, 1997). The study had several objectives, all related to YM, and covered 17 member states of the European Economic Area (EEA). We, however, have chosen only to focus on the results for the Swedish market.

In the report, regarding the practice of YM in the tourism industry, the size and structure of the Swedish lodging industry was presented in terms of overall size. It is suggested that approximately 116 beds were the average size among city and roadside hotels, 68 beds among tourist hotels, and 54 beds among youth hostels. Also, in 1994, approximately 57% of the total demand within the industry was captured by hotels belonging to chains or marketing organizations. Further, Sweden is presented as primarily having a domestic

and business-orientated demand. Also, the use of sophisticated information technology was identified as being widespread. It was recognized that there was excess capacity on the market, that occupancy rates were low and that regional differences existed. The excess in capacity and economic recession has led to an increased cooperation with chains and marketing organizations in order to reach customers more effectively. Additionally, the conditions in the lodging industry differed a great deal between geographical areas and booking patterns were documented as very late or not present at all prior to arrival.

The report further presented the awareness and use of YM in Sweden and it was found that most companies were aware of YM. This meant that they had some knowledge of the system and practiced some basic techniques. Yet, the actual understanding of YM varied and only a few companies used the system fully. It was also discovered that the use of YM highly correlated to the size of the company and to its international orientation. Most small companies had little or no formal knowledge of YM but did use some techniques unconsciously. These techniques included limited and often unsystematic price differentiation based on day of the week, time of year, or on special events as well as overbooking to increase occupancy. Further, several internal as well as external obstacles to the use and effectiveness of YM were found.

The internal obstacles found were related to the awareness of YM, which was high but the knowledge of how to practice the system was low. Further, the costs involved in implementing the system in terms of consultants, computers, software, and training were recognised as a barrier. Also, hotels often have high staff turnover in the front office. A further obstacle is the structure and history of using price lists and catalogues where rack rates are presented in order to minimize customer complaints and confusion. Finally, there are misperceptions of YM and what it entails. The external obstacles found were that Sweden had few experienced professionals working within the industry. Further, the environment did not support market segmentations and finally privacy and data protection regulations hinder the use of YM.

The overall conclusion of the study was that it should be possible to increase profitability in the Swedish small and medium-size businesses through the use

of YM. It was recognized that there was large potential among smaller independent hotels, especially since the use of sophisticated computer systems are already in place and Sweden is relatively highly computerized.

Hence, according to the report, there seems to be potential in the Swedish lodging industry to develop and use YM efficiently. In regards to the decrease in demand and increased number of actors on the hotel market, the interest for YM should be stronger within the industry. Nevertheless, one of the large Nordic hotel chains recently has enforced their revenue management team with experts and consultants within the area of YM from the U.S.. These consultants and experts have been active on the U.S. market and will assist the hotel chain and the goal is to increase prices by 3-7% during the coming year (Waymaker, 2004). This should be achieved by working with revenue and yield in a structured way throughout the chain instead of in the single hotels, and by including all parts of the business such as the food and beverage, rooms and conference. One consultant stated that there is potential in the hotel business to develop revenue and yield management but that today it is still driven by gut feeling (Waymaker, 2004). However, managing revenue is based on risk calculations and is concerned with more than simply having the lowest price on the Internet, and there is much to learn from other parts of the hospitality industry and from the United States.

It is evident that there has been development within the area of revenue and yield management since the report made by the European Commission in 1997 was published. However, gut feeling and old routines still seem to be prevailing within the industry and therefore the extent to which the development of revenue and YM has taken is not clear. Consequently, it would be of interest to see how revenue is managed within Swedish hotels today. In order to be able to create an understanding of how revenue is managed in Sweden it would be valuable to be familiar with the Swedish hotel market conditions.

1.2 The Swedish Hotel Market

During the past ten years there has been a positive development within the hotel and restaurant industry in Sweden, although the past years have been

challenging (SHRa, 2004). Demand has not been increasing at the same rate as the supply of hotel rooms and the revenue derived has been less, therefore hotels have shared a smaller cake and thus a decrease in revenue per available room (RevPar) during 2003. According to Restauratören (2004) was a test for hotels. The downturn in the economy resulted in a decrease of business travellers as well as foreign visitors but this led to an increase of Swedish residents in hotels (SHRb, 2004). Stockholm, which stands for 20% of the total room sales, had a difficult year in 2003 when room prices decreased by 7%. Gothenburg, on the other hand, had a better year than Stockholm in 2003. The city had a higher RevPar, which could be the result of consistency in the supply of hotel rooms which was stable but is expected to grow in 2004. The number of days with high occupancy increased in Gothenburg to over 70% during 149 days while it decreased in Stockholm during the same time.

The economy started turning in 2004 but there were regional differences, and interestingly it was in Stockholm that the demand for hotel rooms developed and today it is stronger than in Gothenburg (SHRb, 2004). During the first eight months of 2004, the number of sold rooms in Sweden has increased, hence the average room rate has decreased and once again could be linked to the increase in supply of available hotel rooms. A further reason is that business guests have been replaced with private guests who in general pay a lower rate. Consequently, RevPar has decreased by 2,3% compared to the period January-August 2003. Stockholm has seen an increase in demand of 6% compared to 2003. Nevertheless, average room rates have decreased by the same percentage. What is interesting to note is that there has been an increase in demand but a decrease in price, which could be explained by supply which has increased by 4%. Gothenburg represents 10% of sold rooms in Sweden and is second to Stockholm. The number of sold rooms has decreased slightly compared to last year and the number of days with high occupancy has decreased 20%. Gothenburg, as a result of fewer sold rooms in combination with an increase in supply of rooms, has decreased the average room rate by 2% and RevPar by 5,5% (SHRb, 2004). The size and structure of the Swedish hotel market is characterised by a large number of independent actors of which the majority have less than 100 rooms. There is also a strong

presence of chains on the market even though independent hotels dominate the market in terms of numbers (Restauratören, 2004).

1.3 Managing Revenue

YM techniques have been adopted since the profitability of many companies depends upon their ability to extract the maximum possible amount of revenue from a fixed quantity of goods and/or services (Marmorstein et al., 2003). YM is generally defined as:

“Revenue management (also known as yield management) is used to find optimal inventory allocation and scheduling strategies as well as price setting for perishable assets so as to maximize revenue within the planning.”

(Lai and Ng, 2005, p. 1059)

YM techniques were adopted by hotels in the late 1980s and it was suggested by Kimes (1989) that YM is to become part of the standard operating procedures for many hotels. This was because YM is generally said to increase revenue and take away much of the guesswork for management and is a tool for rooms-management decisions. As a result, YM has become widely discussed within hotels. If there is one “buzz” word for which the hospitality industry is remembered in the 1990s it is YM (Huyton et al., 1997). Although YM became the catchphrase during the 1990s, and is now starting to appear in Sweden, the concept was introduced in the early 1970s in the United States as the federal government terminated price control within the airline industry (Kimes, 1989). This gave the airline industry the opportunity to set prices according to demand and thus maximize capacity utilization. YM in its present format has filtered its way down from the airline industry into many other service industries such as the hotel industry (Huyton et al., 1997).

In the year 1991, Ryanair became Europe’s first low cost airline shortly followed by EasyJet in 1995 (Gilbert et al., 2001). During the past years, a number of other low-cost airlines have emerged, and the spread of these low-cost airlines has become one of the most striking developments within the airline market (Gilbert et al., 2001). The success lies in taking advantage not only of YM, but also adapting a more proactive management style in order to

influence demand. The larger airlines were reluctant to change and did not view the low-cost airlines as competition or any major threat. Nonetheless, the tools, techniques and strategies used by the low-cost airlines were successful and the competition is now taken seriously by the larger airlines. The proactive approach of the low-cost airlines could be applied to hotels when managing demand within different market segments as a means for increasing revenue. Hence, the hotel industry should take the development within the airline industry into consideration since this has illustrated the importance of proactive thinking within a capacity restrained industry.

The purpose of YM and descriptions of the concept have been elaborated upon and explored in literature and will be presented in a literature review in Chapter Two. Nevertheless, most of the research within the subject has been carried out in the UK and in North America. Also, although YM is fairly widespread, it is somewhat less popular within small to medium size hotels as there seems to be a belief that the system would not be applicable to other operations than large ones (Lee-Ross and Johns, 1997). Thus, YM is practiced within larger hotel chains such as Radisson SAS, Hilton, and Marriott, which all have their major operations internationally. Although some of these hotel chains have operations in Sweden, the decision to practice YM was made elsewhere. Thus, it seems as if practice as well as research on YM within hotels operating in Sweden is limited.

YM is not the only tool which could be used to affect revenue. As stated earlier, the management of revenue is starting to be incorporated into operations in Sweden through the use of YM, but in fact, all areas within a hotel operation affect revenue directly or indirectly. Therefore, the research should not only include YM, but rather different areas in a hotel that may affect revenue and where the management of revenue could be applicable. As in any organisation, the hospitality operation, the organisation, is composed by a number of departments and according to Jones (1996) these are food and beverage, finance, chief engineering, sales and marketing, human resources, and rooms division. These departments influence, and are also influenced by the external environment (Zhao and Merna, 1996). The different departments can further be subdivided into different areas, and we have chosen to

concentrate on the following areas in our literature review and fieldwork: customer, capacity, price, sales and marketing, cost, and human resource management.

Management literature presents a great deal of different tools and techniques for managing the various areas of customer, capacity, price, sales and marketing, cost, and human resource management such as e.g. overbooking, discounts, and cancellation fees to deal with demand (Kimes, 1989; 1994). The purpose is to fit these techniques to the goal of the organization. Further, guest profiles could be used as a way of identifying and knowing the various customers, the cost structure could be linked to pricing, cost control procedures could be used to cut costs, rooms could be closed off during low periods of demand, and statistics could be kept in order to identify booking patterns and consumer behaviour. Further, many of these tools and techniques are also found within an YM system, which has the sole purpose of actually increasing revenue. Therefore, YM may be seen as an instrument which can be used in a number of ways and within the different areas with the intention of influencing revenue. As a result, YM can be viewed in a broader way than merely as a tool for rooms-management decisions such as the manipulation of prices. Widening the scope of YM and considering all revenue-influencing areas using a holistic perspective, a broad base for studying these practices in hotels is established.

Finally, the management of the areas, customer, capacity, price, sales and marketing, cost, and human resource management provides a way for hotel operations to meet the challenges posed by the external environment such as the broad based globalization of hospitality businesses, deregulation of industries and markets, privatization of state owned assets and revolutionary technological advances (Chekitan and Olsen, 2000). The Internet poses threats as well as opportunities and managers can embrace or ignore the role technology plays as the industry is at the beginning of a shift in the consumer decision-making process and buying patterns (Greger and Peterson, 2000). To further explain, technology is becoming a part of the operating procedures for both businesses and customers, yet customers still want human contact and personal service is still essential. As far as the macro-organization of the

future hotel industry, international hotel companies will maintain a dominant position in the market, but small independent hotel will continue to exist and flourish (Holjevac, 2003). Therefore, the environment poses threats such as competition, recession, changing consumer demand, and uncertainty. If business operators are to succeed in such an uncertain environment they need to anticipate those changes, analyze their impact and, where possible, identify opportunities (Chekitan and Olsen, 2000). Since the external environment influences operations, this area will also be covered in the fieldwork.

1.4 Research Questions

The contingencies discussed and presented in combination with the specific areas chosen for the hotel operations have directed us to the following research questions:

1. How is revenue managed in Swedish hotels?
2. a. What is the awareness of YM in Swedish hotels?
b. Is YM an effective and pragmatic tool to influence revenue and how can it be used within hotels in Sweden?

Several Swedish hotels of various sizes will be investigated and the purpose is to identify how revenue is managed and what the general practices are within the six areas that we have chosen, being: capacity, price, sales and marketing, customer, costs, and human resource management. The purpose will be achieved through two steps. The first step is to explore the practices and perceptions of YM together with hotel managers' awareness and practices of how the six areas influence revenue as well as to see whether there is an actual attempt to manage revenue, and the results will be presented using a descriptive approach. The second step is to establish how YM can be used as a tool for managing revenue in hotel operations and how this work should be done, which will be presented using a normative approach.

As a guide to the fieldwork, we established a comprehensive literature review based on secondary sources in order to explore the research area. From the literature review we have extracted the areas of interest. Further, these areas and issues were investigated through the method of collecting primary data. We conducted in-depth interviews with managers at different hotels operating in Sweden. Further, we collected available documentation in order to validate the information given during these interviews. In-depth interviews were considered to be the second best alternative since they are relatively fast, the setting is controlled yet flexible and there is a possibility for explanations and for asking complementary questions (Eriksson and Wiedersheim-Paul, 1997). A more in depth description of how our work is carried out can be found in Chapter Three, *Conducting Fieldwork*.

1.5 Limitations

Only hotel operations in Sweden are included in the research. However, some of the hotels are a part of chains or marketing organisations operating on an international level. Further, we have limited the research to YM as well as the areas that we have chosen in hotel operations that influence revenue; the management of capacity, price, sales and marketing, customers, costs, and human resource management. Nonetheless, there may of course be other actions and practices within a hotel operation that affect revenue but our research is concentrated on the six areas mentioned. We will study these areas mainly from an internal perspective - how they are managed and what practices are done. We have also taken some external considerations into account.

We are not including food and beverage operations in our research even though food and beverage represent a revenue generating area among many hotels. The reason for this is that the prerequisites within the area are somewhat different and that the management tools and techniques may be quite specific. We will conduct the study on a management level, thus, we will not examine how personnel on an operational level experience the management of revenue and how they practice it.

Finally, we will not consider technological aspects such as different computerised systems, even though it is suggested that technology assists in the use of YM. We will mainly focus on the human side of revenue management.

1.6 Outline of the Thesis

Having set the base for the research area in Chapter One, we continue our research by conducting and presenting a comprehensive literature review within the area of revenue management, in Chapter Two. The literature review aims to give a fuller description and deeper understanding of the background, purpose, and other aspects within the area of YM and RM. Further, a general overview of the literature within the areas of capacity, price, sales and marketing, cost, customer and human resource management is given in order to set the base and create an understating of how these areas influence revenue and how they are interlinked with YM. Chapter Two concludes with a brief structured analysis of the literature review presented.

Chapter Three explains and describes our research process and how we conducted our fieldwork. We present the research problem, our search for information, the field and how we handle the information. The chapter elucidates what was done before, during, and after the fieldwork.

In Chapter Four we present the practice within the studied hotels. We give a short presentation of the hotels participating and describe how they manage the areas of customer, capacity, price, sales and marketing, costs and human resource management. We wrap up the chapter with a description how the respondents recognize the external environment followed by their perception on revenue management and their practices of YM techniques.

In Chapter Five we link the empirical findings and evaluate and correlate these in relation to the literature presented in Chapter Two. This is done through an analysis. The analysis illustrates if the studied hotels manage revenue effectively and how this is done. It is this analysis of reactive versus proactive management style that sets the base for Chapter Six.

Chapter Six presents our main findings and conclusions. These are based on the entire research carried through. Further, we give suggestions of areas which we feel could be further explored and investigated.

2. LITERATURE REVIEW ON REVENUE MANAGEMENT

2.1 Yield Management

Definition

In literature, many authors use the term revenue management (RM) interchangeably with yield management (YM). Some consider YM only to be related with revenue derived from accommodation whereas RM may encompass all areas of hotel revenue (Burgess and Bryant, 2001). Therefore, it is important to highlight the term YM and clarify its meaning for the purpose of this thesis.

Many definitions are available on YM, yield is calculated by taking revenue realized and dividing it by revenue potential (Jones and Val, 1993). Hence, yield can be explained as a way of calculating the effectiveness of a company in order to increase revenue. Further, YM is often associated with the following definition:

“The application of information systems and pricing strategies to allocate the right capacity to the right customer at the right place at the right time. “

(Kimes, 2000, p. 121)

YM is therefore related to how an organisation applies different tools, e.g. computer systems, in order to control the price so that it will be correct according to each customer and that the room sale takes place at the right time, in the correct way, and at the right place. However, Jauncey et al. (1995) have, through an analysis of literature, come up with what they call a “best fit” definition:

“An integrated, continuous and systematic approach to maximizing room revenue through the manipulation of room rates in response to forecasted patterns of demand.”

(Jauncey et al., 1995, p. 25)

A description of YM, according to Jones and Val (1993), is to apply basic economic principles to pricing and to control the supply of rooms for the purpose of maximizing room revenue. This would mean that in order to have an effective YM system in place one would need to understand the basic economics of supply and demand so that the right price could be set and increase room revenue for the company.

As discussed in the introductory chapter, the areas of capacity, price, sales and marketing, customer, cost and human resource management have a direct or indirect influence on revenue. Hence, these areas are linked to the management of revenue and also to YM. Nevertheless, as a starting point in this literature review, the history of YM and the relation to supply and demand will be presented.

The History of Yield Management

When looking at the literature from a historical perspective, it is the airline industry that has been credited with the development and refinement of YM following the deregulation of the U.S. airline industry in the 1970s (Kimes, 1989 and McMahan-Beattie et al., 1999). The resulting heavy competition led to a price cutting war. Nevertheless, managing inventory became an important part of running a successful business already in the early 1970s (Rothstein 1971; 1975; Bitran and Caldentey, 2003; Weatherford, 2003).

Managing inventory is a major component of YM and therefore it is interesting to see where the development within inventory management, and hence YM, started. As mentioned, the development started in the early 1970s. The focus was on overbooking policies and practices used within the airline industry at the time. It can be said that the underlying model is the basic economic model of supply and demand. Supply as well as demand depends on several factors. When the two are combined in a market with perfect competition, the market equilibrium is established. At this equilibrium, demand equals supply and the market price is determined (Andersson and

Ohlsson, 1999). At the given price there are just as many customers willing to buy as there are suppliers willing to sell.

Different models have been constructed on how to describe the market and its demand in relation to capacity management. Rothstein, one of the pioneers within YM, presented a model in 1971 on how airlines should determine their overbooking policies on their flights in order to gain more revenue. The basic notion of Rothstein's theory is that overbooking policies are constructed to either maximize revenue taking the cost of overbooked passengers denied boarding into account, or to maximize revenue, that is constrained by operating characteristics, namely the probability of denied boardings and the proportion of reserved passengers denied boarding. To obtain the right policy, the model uses a discrete time approach, the reservation process is viewed as a Markovian sequential decision process and the underlying transition probabilities are time-dependent. The system changes state from time to time based on passenger demand and other transition probabilities such as cancellations, no-shows and other issues. It is constructed in such a way in order for the airline to minimize revenue loss through overbooking and hence, maximizing capacity on their flights. One important aspect of the theory is that at that time price was not the critical factor, price was assumed to be fixed (Bitran and Caldentey, 2003). As a result of competitive circumstances, YM began to be adopted in the hotel industry in the middle of the 1980s as the industry was faced with excess capacity, severe short-term liquidity problem and increasing business failure rates (McMahon-Beattie et al., 1999).

Purpose of Yield Management

According to Jones and Hamilton (1992) among others, YM in the hotel business context tries to maximize guest room rates when demand exceeds supply and maximize occupancy when supply exceeds demand, even at the expense of the average room rate. Nevertheless, a vast amount of authors agree that the purpose of YM is the maximization of room revenue through the manipulation of room rates in a structured fashion, so as to take into account forecasted patterns of demand (Jauncey et al., 1995; McMahon-Beattie et al., 1999; Siguaw et al., 2001). It is a procedure that attempts to maximize profits

by using information about buying behaviour and sales to create pricing and inventory controls (Lee-Ross and Johns, 1997). The system consists of techniques that allow managers to gain more insight into customers' buying behaviour and consequently, to make adjustments in the marketing mix to maximize revenue and achieve significant increase in profitability through customer preferences (Siguaw et al., 2001). Hence, the ability to control rates is dependent on correct predictions of future patterns of demand. This involves modelling the rate and volume of predicted reservations over time, based on historical data.

It is stated in literature that YM consists of two separate but interrelated parts, room inventory management and pricing (Kimes, 1989; Brotherton and Mooney, 1992; Writs et al., 2003). Inventory management deals with how different rooms are to be allocated according to demand, and pricing procedures is about charging the best price. All the same, Weatherford et al., (2001) suggest that the two interrelated strategies that should be used in order to influence room revenue are pricing and duration of customer use. Duration of customer use involves controlling the length of stay. Also, price can be fixed or varied and duration is either predictable or unpredictable and involves controlling, predicting length of stay or service. According to Weatherford et al., (2001) and Kimes (2000) different industries use different combinations of variable pricing and duration control as illustrated in Figure 1.

Figure 1

		Price	
		Fixed	Variable
Duration	Predictable	<i>Quadrant 1</i> Movies Stadiums and arenas Convention centres	<i>Quadrant 2</i> Hotels Airlines Rental cars Cruise lines
	Unpredictable	<i>Quadrant 3</i> Restaurants Golf Courses Internet service providers	<i>Quadrant 4</i> Continuing care Hospitals

(Kimes. 2000. p.127)

The industries found in quadrant 2, such as airlines and hotels, are generally those associated with YM (Weatherford et al., 2001). That is because these industries tend to use variable pricing for services with a specified or predictable duration. Nevertheless, Donaghy and McMahon (1995) state that a successful application of YM techniques results in fluctuating room prices. YM therefore, consists of not two, but three separate, interrelated parts; inventory management, duration control, and pricing.

Information technology has enabled YM to be effective since it can store and analyze historical data necessary for accurate demand forecasting and the monitoring of actual demand in relation to the forecasted. Also, in combination with the communication of rate availability and restrictions to those making reservations, technology plays an essential role (Jauncey et al., 1995). Further, policies regarding pricing, discounting, overbooking reservation pick-ups, incentives, cancellations, advance payments, deposits and the setting of maximum and minimum length of stay must be developed in order for YM to be successful (Jauncey et al., 1995). Overbooking is also practised because of the prospect of no-shows and early departures (Toh and

Dekay, 2002). Hence, overbooking is not a practise used only in relation to YM.

As described by McMahon-Beattie et al. (1999), it should be remembered that there are boundaries to YM such as multiple night stays, which would mean that a guest could arrive on a low rate day and stay over a number of high rate days which consequently leads to the problem of determining the right rate. Further, if hotels only focus on the revenue generated from accommodation they may ignore ancillary spending, the multiplier effect is ignored which Noon and Griffin (1997) recognized. Compared to the airlines where barriers and restrictions are commonly known, hotels seem to lack a distinct rate structure. Also, there is the case of decentralized information which is explained by the fact that rooms in group hotels often are sold at too low rates because the central reservation system is not linked into the unit hotel's property management system (McMahon-Beattie et al., 1999). The long-term image of the firm could also be affected as a result of the perceived quality and the type of customer attracted (Marmorstein et al., 2003). Hotels may not be seen as luxurious and overall hotels may face the risk of a possible dilution of the brand name, company image, and customer perceived value. Further, contingencies to the use of YM could be the potential cost of having to walk a guest. Nevertheless, according to Lefever (1988), the cost of walking a guest is higher than the cost of underbooking, that is, if there were no no-shows or late cancellations.

Others have also investigated the cost of overbooking. Enhagen and Healy (1996) have identified the following six costs, some of these have also been accounted for by others such as Lefever (1988):

- The labour costs in finding alternative accommodation for the guest.
- Transportation costs in transferring the guest to the alternative accommodation.
- The actual cost of the alternative accommodation.
- The administrative and labour cost of preparing goodwill letters.
- The cost of premiums and coupons given out as a means of gaining customer appeasement.

- The staff-training cost that might be incurred in handling matters such as walking a guest.

It is important to be aware of the various boundaries and costs which might be derived from the practise of YM if informed decisions are to be made. Also, one has to remember that overbookings as well as other techniques are important tools in YM and without full use the system it is not likely to be used to its full potential.

2.2 Capacity Management

“Capacity management is the ability to balance demand from customers and the capability of the service system to satisfy demand. “

(Armistead and Clard, 1994, p. 6)

Capacity management places an emphasis on considerate understanding of the nature of demand by forecasting, and the options for managing capacity to meet the expected demand (Armistead and Clard, 1994). Hence, management must understand the composition of their capacity, the degree to which it can be changed, the speed of reaction, and the costs involved. Hotels are generally said to have relatively fixed capacity as the number of rooms cannot be changed according to demand. The two variables that managers have recognized in order to manage capacity are average room rate and occupancy rate (Lockwood and Jones, 1990). Further, as a result of fixed capacity and high marginal costs, hoteliers may determine the optimal guest mix by addressing the extent of demand from existing markets, the potential demand from additional segments and the compatibility of hotel resources with market demand (Donaghy et al., 1995).

Further, capacity management in service operations could be explained as a difficult activity for managers because of the complex nature of the hotel product and the involvement of the customers in the process (Armistead and Clard, 1994). This restricts the options open for controlling the process and matching supply with demand. Hence, managers need to encourage the

development of products and services to match customers' needs more accurately or to focus operational and/or marketing activities on customers whose needs match the hotel's resources (Vinod, 2004).

In order to utilize capacity fully, there is a need to find ways of controlling as well as stimulating demand (Inkpen, 1998). According to Kotas (1986), almost all hotel and catering operations have sales instability as a specific characteristic. The fluctuations, which occur in the volume of business, are according to the same source, of three kinds:

- The annual pattern. Seasonality is in general regarded as a problem within the hospitality industry.
- The weekly pattern. The volume of business fluctuates according to day of the week.
- Daily pattern. To narrow it down even more there are even differences between the levels of business depending on the hour of the day.

Thus, demand fluctuates annually, weekly, and daily posing difficulties in predicting demand. Consequently, when dealing with the issue of fixed capacity, a balance between occupancy rate and average room rate must be achieved in order to achieve optimal revenue. The focus must not only be on high occupancy rates, attention must also be paid to the revenue that is generated. Selling too many rooms at a low rate may not be a good solution (Inkpen, 1998).

When managing service operations, the heart of the planning and control process is the interaction between capacity management, quality management and resource productivity or efficiency management (Armistead and Clard, 1994). With that, managers are confronted with contingencies in managing supply and demand. These barriers will in return affect the ability to maintain quality standards while at the same time achieving productivity targets. The issues are threefold:

- The limited ability of the organization to alter capacity in terms of the extent of the change and the response time to make the change while at the same time having to deal with rapid fluctuations in demand.
- The need to deliver consistent levels of customer service.

- The varying degrees of uncertainty in demand.

There are four general strategies to manage these issues: altering capacity, holding inventory in anticipation of demand, requiring customers to wait for the service or influencing demand and holding it as an inventory. Hence, it is this element of service production that makes the matching of supply and demand very important, especially in hotels where the profitability of the operation is closely linked to the use of the current capacity and the prices charged (Armistead and Clard, 1994).

A further strategy when striving to utilize capacity fully is to identify and characterise demand variables per sector over time in order to forecast demand (Donaghy et al., 1995). To do this efficiently, historical data should preferably cover at least two years in order to predict peaks and off-peaks in demand, and to determine demand sensitivity relative to microeconomic and external factors. The more fragmented the data becomes the more useful is the information. No-show data is important in order to determine a sufficient overbooking policy (Donaghy et al., 1995).

Capacity management has been identified as an important tool within YM with the purpose of allocating rooms according to demand. Although capacity management has been separately discussed, it is clear that the management tools and strategies are similar to those of YM. Nonetheless, capacity management could be used without the use of YM. While effectively resolving the short-term problem of excess capacity, YM also has in some cases influenced the perceived quality of the service and hence, the long-term image of the firm (Marmorstein et al., 2003).

2.3 Price Management

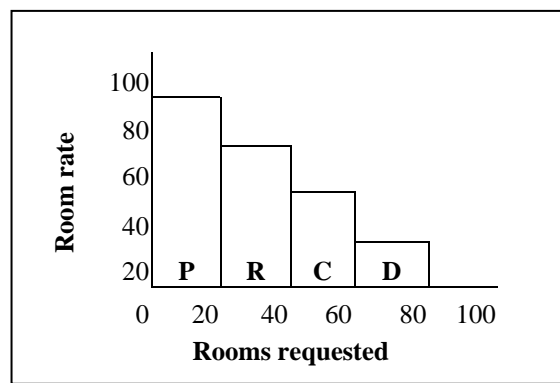
Price is one of the most effective variables that managers can manipulate to encourage or discourage demand in the short run. It is a tool that helps to regulate inventory and production pressures (Verginis, 1999; Bitran and Caldentey, 2003). The application of YM often provides the operator with a series of rates to offer to prospective customers, based on forecasted demand (Jauncey et al., 1995). At times of high demand only high rates are open in

combination with restrictions on length of stay and possibly pre-payment, as opposed to lower rates and fewer restrictions in periods of low demands in order to stimulate demand.

There are in general two main approaches to pricing, cost-based or market-based (Verginis, 1999). In cost-based pricing, the price is set in line with the cost of the product. In market-based pricing, the price could be set in line with competition and possibly according to demand. Often the term *rack rate* is used within hotels and it is the term given to the regular published room rate (Morrison, 1999). Nevertheless, rack rate has become a starting point for price negotiation between client and staff. Therefore, tactic or differential pricing has become more common and is used as a means of effectively managing the overall financial yield from hotel accommodation.

It is especially during tough economic times that the debate over whether hotels should discount room rates to boost financial performance is contentious (Enz et al., 2004). Figure 2 illustrates revenue expectations for multiple room rates and would explain why YM is used.

Figure 2



(Hanks et al., 2002, p.97)

P represents premium rate, R rack rate, C corporate rate and D discount rate. At premium rate 20 rooms are requested, at rack rate 40 rooms are requested, at corporate rate 60 rooms are requested and at discount rate 80 rooms are requested. Through this price segmentation different customers are charged different room prices, therefore capturing more room revenue (Hanks et al., 2002). More room revenue is captured since different market segments have a

diverse willingness to pay and the discounted rate market segment might go to competition if this rate was not available hence, capacity would not be utilized (Donaghy et al., 1995). One could say that the price segmentation should be according to the demand curve for the business in order to be as effective as possible and optimise room revenue.

The economic principles of differential pricing such as price discrimination, demand-based pricing, and off-peak pricing may cause the customer to view the transaction as unfair (Kimes, 1994; Wirtz et al., 2003). Therefore, it is very important that the business can justify the variances in rates. One way to deal with this is to increase rack rate and offer the other prices as discount prices (Wirtz et al., 2003). Another strategy is to use rate fences which can be either physical or non-physical in nature and represent the reason why customers pay different rates (Hank et al., 1992; Kimes, 2002). Physical rate fences, among others, include room type, view, room location, and presence of amenities. Some physical rate fences, most notably room type, can lead to reduced revenue since only so many of a particular room type exist. Non-physical rate fences include customer characteristics, transaction characteristics, and consumption characteristics. Customer characteristics restrict discounted rates to members of certain organizations, employees of certain companies, and certain groups of customers, e.g. frequent guests or employees. Transaction characteristics include restrictions on time of purchase, place of purchase, level of risk accepted, and limited availability. Time characteristic rate fences include day of week, time of year and length of stay (Kimes, 2002).

Regardless of which rate fences are used, managers must ensure that the rate fences are clear, logical, easy to communicate, and difficult to circumvent (Kimes, 2002). Otherwise, the use of fences could result in confusion and dissatisfaction among customers. Therefore, hotels should design rate fences carefully, thoroughly train reservation and front desk employees and ensure that the fences are integrated with the reservation system because well-designed rate fences offer hotels the prospect to customize their rates to better meet customer needs while at the same time increasing revenue.

Hotel room pricing also needs to be supported by a market segmentation strategy which identifies the varying needs and expectations of market sectors (Donaghy et al., 1995). The challenge is to take advantage of these market characteristics when provisioning, packaging and pricing the hotel product by matching different rates against different purchase behaviour. Thus, hoteliers have to implement rational restrictions which prevent inelastic price trade-downs. Therefore, the critical point is the manager's precision in establishing the respective needs of each market (Donaghy et al., 1995).

Those willing to pay a high rate will receive accommodation in periods of high demand and through this the company will receive higher revenues. This could be seen as unfair by those willing to pay less during the same period. Kimes (1994) explains that most customers feel that they are entitled to a reasonable price and that companies are entitled to a reasonable profit. From that principle Kimes (1994) states three hypotheses:

If price needs to be increased by a company in order to maintain a profit, this is fair - so if costs increase so should the price.

If the price is raised in order to increase profit, the customer thinks it is unfair.

If costs decrease, customers think that it is reasonable for an organisation to maintain the same price.

This illustrates how customers perceive price and it is important for hotels to understand how their customers perceive prices if they are to run and use YM successfully. Luxury hotels, for example, have been able to increase occupancy rates during slow periods by offering profound discounts. Nevertheless, these efforts have frequently had a negative impact on the perceived quality of the experience (Marmorstein et al., 2003).

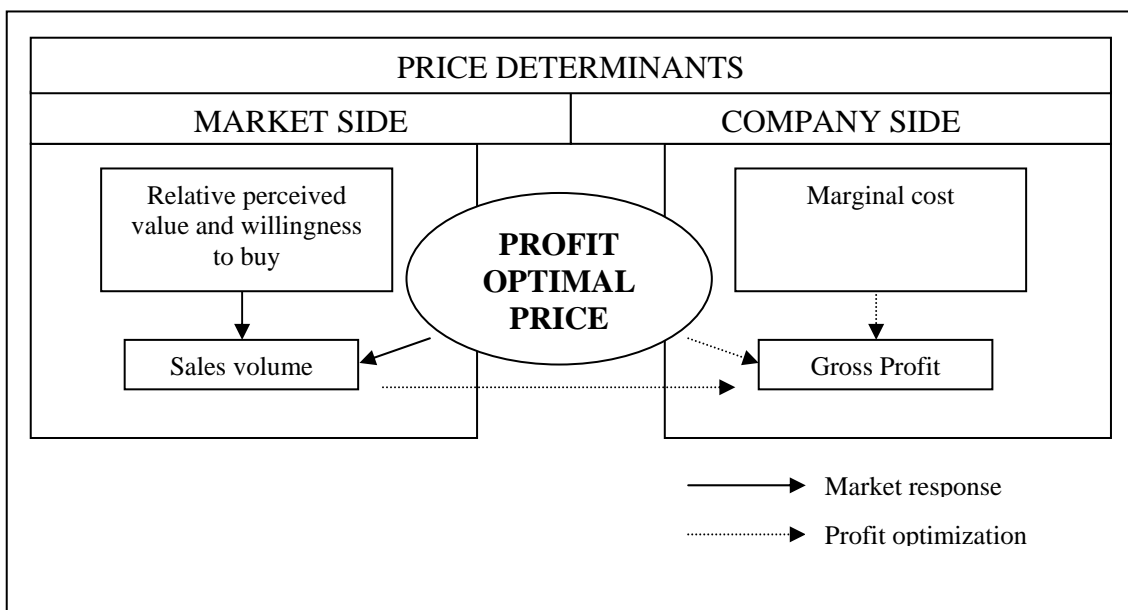
According to Jones and Hamilton (1992), YM in the hotel business context tries to maximize guest room rates when demand exceeds supply and maximize occupancy even at the expense of average rate when supply exceeds demand. Nevertheless, in an extensive study published by Cornell University in 2004, it was found that hotels with lower prices relative to their competitors did capture a greater market share but did not gain higher RevPar (Enz et al.,

2004). Therefore, those with higher prices relative to competitors had a lower market share but higher RevPar.

RevPar stands for room revenue per available room and it is a measure of hotel output. It includes occupancy rate and average daily rate (ADR) and it is the most widely used measure for productivity (Brown and Chekitan, 1999). Nevertheless, the measure of RevPar ignores the cost involved in producing the product and revenue generated from other areas than rooms. It is simply a measure of output, ignoring the input. This would highlight the importance of holistic thinking, realizing that revenue is not all and that costs need to be considered as well.

Figure 3 represents the key elements of pricing and therefore forms a very good way of understanding the economics of YM.

Figure 3



(Ingold et al., 2000, p.17)

Two elements of price are shown in the figure, the market side, or demand, and the company side, or supply. The market side represents consumers' willingness to buy. The purchase would be based on the customers perceived value, price and the resulting opportunity cost which is the next best thing. The company side represents the logistics of providing the product including costs of production and gross profit requirements.

It could be summarized that the overall strategy for a successful YM system is that price is dictated by demand (Donaghy et al., 1995). For management this involves activities such as setting the most effective pricing structure, limiting the number of reservations accepted for a given room night or room type, reviewing reservation activity to determine whether inventory control action is needed, negotiating volume discounts with wholesalers and groups, providing customers with the “right” product – both room type and room rate, and enabling reservation agents to be effective sales managers rather than order takers. Subsequently, in order for YM to be effective, managers and personnel must adopt a proactive approach to managing the transition from traditional accommodation techniques (Donaghy et al., 1997).

2.4 Sales and Marketing

It is important to have a clear understanding of the hospitality product in order to make informed decisions leading to a successful business. The dispute lies in the distinct nature of the product which is complex, the structure and composition of the product having the characteristics of three different kinds of business activities in a single arena (Harris and Brown, 1998). The selling of rooms constitutes a near pure service product containing a high degree of service elements, while the letting of a hotel room represents the sale or rental of space over time, an intangible commodity. The provision of beverages, for example, also represents a service product, but in addition incorporates a significant retail function such as purchase, display and merchandising of goods.

Marketing as a philosophy, according to the marketing concept, is that a firm should base all its activities on the needs and wants of customers in selected target markets (Grönroos, 1989). This is also called a marketing orientated view in contrast to a production orientation, where the firm’s activities are geared by existing technology, products or production processes. The objective of an accommodation operation’s marketing process is to influence consumer behaviour in a positive manner so that financial benefits as well as a sustainable competitive advantage are achieved (Morrison, 1999).

As a result, it is important for hotels to know and understand their market segments as understanding and knowing your customer is an essential part of running a successful YM system. Hotels need to be able to segment their markets into different types of customers (Kimes, 1989; Hanks et al., 1992). Consequently, the starting point in the marketing process, as well as in the running of YM, should be people and their characteristics, needs and wants since the customer represents the life-body of every hotel (Kimes, 1989; Morrison, 1999). Hotels are faced with a variety of different market segments and these segments have different needs, wants and willingness to pay (Vinod, 2004). The table below illustrates the differences between business and leisure travellers, probably considered to be the two of the most important and largest market segments within hotels.

Business Travelers	Leisure Travelers
Reluctant to make advance reservations	Tend to plan in advance
Destination stay of minimal length of time	Stays are frequently longer
Expectations of higher quality	Quality expectations vary
Pre-determined destinations	Destinations often flexible
Travel plans often change	Seldom alter travel plans
Price insensitive	Price sensitive

(Donaghy et al., 1995, p.146)

The needs of these two segments are somewhat different. Additionally, these segments may be further subdivided into even more segments having different wants and needs, and facing these differences is a test for hotel managers. Importantly, it must be recognised that regular customers may not like to interact with other customers attracted by lower rates and the needs and requirements of numerous segments may cause confusion on the hotel's resources and the ability to respond suitably (Marmorstein et al., 2003). A further obstacle with having different market segments is that when building customer relationships, staff need to be very flexible since each customer has different needs and wants.

The key in marketing is to ascertain, strengthen and develop customer relations where they can be commercialised at a profit and where individual

and organizational objectives are met (Grönroos, 1989). Existing and repeat customers are, according to Forsyth (1999), the life-blood of a business. Enhagen and Healy (1996) identified that the building of guest relations is no longer simply a good business practice; it is a matter of survival. That is since guest service, above any factor, will determine the success or failure of hospitality firms in today's economic climate. Added to this trend is the attempt by hospitality firms to gain guest loyalty through the use of incentives, personal attention and guest recognition. More than selling the tangible product or intangible service, hoteliers must focus on managing long-term relationships with their customers (Enhagen and Healy, 1996). As a result, many firms have implemented a relationship management program as a response to a decrease in guest satisfaction which was derived from businesses' lack of ability to match their resources with customer expectations (Dorsch, 2001).

The implementation of a yield driven system changes the traditional client/staff communication (Donaghy, et al., 1995). The change is that staff will sell hotel rooms at a price which is determined by just about everything other than room type, hence the operation becomes complicated to handle as guests will expect a specific rate per room type. Therefore, introducing YM necessitates commitment to internal cultural review and modification. Traditionally, sales staff was rewarded by the amount of sales they made and therefore the basic assumption was that all room nights were equally beneficial to the hotel regardless of rate (Donaghy, et al., 1995). Hence, a productive incentive scheme within the context of YM must incorporate incentives which are directly related to the sales generated on high, medium, and low demand days.

It was described earlier that one of the boundaries of YM is that the system ignores ancillary spending. This, however, does not mean that hotels should ignore additional sales or revenue generated from other areas within their business. In the hotel sector, guests are likely to spend money on food and beverage for example (Noone and Griffin, 1997). Therefore, the fact that different guests have different expenditure propensities must be recognised and ancillary spending must be taken into consideration in order to maximize

overall profit yield. A hotel should focus on retrieving revenue from all sources within their hotel.

2.5 Customer Management

One major difficulty for hospitality businesses has been finding and retaining valuable clients (Vinod, 2004). To maintain and gain a competitive advantage the practice of YM has become a major tactic. Customer satisfaction is the leading decisive factor for determining the quality that is actually delivered to customers through the product/service (Pizam and Ellis, 1999). Several studies have found that it costs about five times as much in time, money and resources, to attract new customers as it do to retain existing customers. Simply stated, customer satisfaction is essential for corporate survival. This creates the complexity of maintaining high levels of service, awareness of customer expectations, and improvement in services and product (Pizam and Ellis, 1999).

There are several ways to assess the quality of services and customer satisfaction through subjective, or soft, measures of quality, which focus on perceptions and attitudes of the customer rather than more concrete objective criteria (Pizam and Ellis, 1999). These soft measures include customer satisfaction surveys and questionnaires to determine customer attitudes and perceptions of the quality of the service they are receiving. Understanding consumers' service quality expectations is the key to delivering service quality (Bebko, 2000). Because the extent to which goods or services meet the customer's needs and requirements is the index by which quality is determined, customers' perceptions of service is vital in identifying customer needs and satisfaction (Pizam and Ellis, 1999). The key to success is customer satisfaction, and the satisfaction also depends to a large extent on the comfort a customer is given in a hotel (Adamo, 1999; Pizam and Ellis, 1999). In general there are two types of comfort: physical and psychological, physical being things such as access, heating, ventilation, light, etc., and psychological being safety, privacy and hygiene (Adamo, 1999).

It is suggested that hotel markets are characterised by an intolerance of room rate fluctuations and that any application of YM will therefore result in dissatisfied guests (Jauncey et al., 1995). Such opposing views may reflect the need to consider the characteristics of specific market segments, for different segments may differ in terms of their willingness and ability to pay different rates. Therefore, one important issue lies in that the business needs to segment their customers and recognize their differences and differentiate their products accordingly, an example being the recognition that not all customers has the same price elasticity (Vinod, 2004).

According to Noon et al. (2003), the hospitality industry has seen an increase in the use of customer relationship management (CRM) over the last five years. CRM is defined as:

“A management philosophy that calls for the reconfiguration of the firm’s activities around the customer.”

(Piccoli, et al., 2003, p. 62)

The goal is to align business processes and customer strategies for long-term customer loyalty and profitability (Noon et al., 2003). Strategies include binding the customer to the organization through, for example, clubs and loyalty cards. An organization must also establish a means of ranking their customers, identify the most valuable ones and service them differently, this being a fundamental component of CRM (Noon et al., 2003).

It should be highlighted that customer relationships are fragile: “Out of sight means out of mind” (Forsyth, 1999, p.123). Hence, keeping in touch and maintaining relations is extremely important. It is through effective management of customer relations that a firm may successfully influence the portfolio of resources that customers invest in the firm (Dorsch, 2001). At the same time, customers may realise a satisfactory return on those customer resource investments valued by the firm. When a firm’s portfolio of customer resources is developed in this way, there is increased potential for continued investment in the relationship by each party, and the building of a sustainable competitive advantage.

Some authors argue that YM is not in line with sufficient customer management and point out that there are downsides to the use of YM, such as a decrease in guest satisfaction and loss in brand recognition, if the system is not used carefully. According to Lieberman (1993), consistent pricing is often more important for repeat business than for occasional customers in order to sustain guest satisfaction. Kimes (1994) also recognizes that consistency in price is important although it is more important for repeat businesses than for occasional customers. Since YM often results in fluctuating prices, it is therefore important even when demand is high not to refuse a loyal customer's request for a normally available discounted rate since that guest might represent future sales (Lieberman, 1993). Also, Wirtz et al. (2003) highlight that YM and customer management can coexist if precautions are taken and as a result YM does not have to be incompatible with good customer service (Jauncey et al., 1995). However, as illustrated by Donaghy et al. (1995), different market segments (business and leisure) respond differently to changes in price and price elasticity is therefore not the same. When customers decide accommodation based on price and if prices fluctuate a hotel could lose its brand recognition or incur a decrease in guest satisfaction.

As the practice of YM can lead to a decrease in guest satisfaction it is important to have a good service recovery system which takes into account the possible failures. Service recovery is defined as "the actions taken by an organisation in response to a service failure" (Zeithaml and Bitner, 2003, p. 187). A service failure results in negative feelings and responses from customers and must be resolved efficiently to prevent this. In relation to YM, Bitner and Zeithaml explain that customers may perceive pricing as unfair and that they may feel alienated if they fall victim to for example overbooking practices. This must be addressed by having good compensation policies. Further, it is stated that good customer education is crucial for an YM system. Therefore, having good service recovery policies that are in line with the YM system is essential for good customer management. If YM is managed correctly, the use of the system does not have to lead to dissatisfied guests.

2.6 Cost Management

Regardless of demand, a large proportion of hotels' costs are constant or fixed (Kotas, 1986). Therefore, hospitality operations are said to be capital intensive (McEvoy, 1997). This applies predominantly to hotels and other residential establishments. Nevertheless, hotels differ from other forms of property investments in various ways. Some issues are that hotels are labour intensive businesses; they must resell the "leases" on their space each day and care for their customers twenty-four hours a day (Fattorini, 1999). Overall, it could be said that there is limited use to which hotel properties can be profitably put, the use of hotel rooms is restricted since there are not numerous substitute uses of the room.

Hotels also have a fixed supply and no substitute which contributes to high costs (Fattorini, 1999). Overall, approximately three-quarters of the total costs of a hotel are fixed and uncontrollable (Kotas, 1986). Only various labour costs could be reduced in periods of low demand and thus a need for effective marketing to generate room revenue is paramount in maintaining and improving profitability (Harris, 1992). As with many other service organizations, a feature of hotels is that they have low marginal sales costs and usually sell their perishable product to their customers in advance of consumption (McMahon-Beattie, 1999). As a result, hotels tend to be market-oriented, since the more customers you attract, the higher the contribution to fixed costs. The essence is that businesses with low fixed costs tend to be cost-oriented (Harris and Brown, 1998).

The objective of YM within a hotel environment is to achieve an optimal mix of group and transient business that will maximize occupancy and average room rate. Many YM management systems fail to address two critical issues: the cost associated with meeting guest demands and guest ancillary spending (Noone and Griffin, 1997). The costs associated with providing a product and revenue generated from other areas than room revenue is important because the customer contributing to higher room revenue does not have to be the same as the customer contributing to the overall revenue or even profit of the hotel. Since profitability is the key to the long-term survival and growth of

any private organization, those issues should be recognized and management should consider the net profit implication of the sales (Noone and Griffin, 1997).

So far, all costs mentioned have been tangible. Intangible costs such as loss in goodwill, loss in repeat business, decrease in guest satisfaction, and decrease in brand recognition should be considered as well. However, these issues have been mentioned in previous sections when discussing the different areas. Consequently, they will not be highlighted further, but it should be kept in mind that there is a wide array of intangible costs affecting operations.

2.7 Human Resource Management

The often repeated statement, “Our people are our most important asset” (Nickson, 1999, p. 203), offers a seductive blueprint for people management since it signals to employees that they are the central role within the organization and its mission to be successful. Human resource management (HRM) activities involve namely: recruitment and selection, orientation/introduction and socialization, flexibility and job design, training and development, remuneration and performance management/appraisals. Despite the growing interest and the recognition of the importance of HRM to organizational success, too often there is only a nominal commitment to the ideals of HRM (Nickson, 1999).

According to Oprea (1995), performance appraisal has long been recognized as an important HRM tool with the intention to enhance employee motivation and thus performance. Further, it is said to provide management with the control needed to achieve organizational objectives. Bill Marriott, Jr., Chairman of Marriott Hotels, argues that employees must be satisfied before customers will be satisfied. The argument is that if employees are satisfied, they will love their jobs and feel a sense of pride in the hotel and this in turn will lead to customers being well served and guest satisfaction is achieved (Gremler et al., 1994).

In close relation to HRM are different leadership and management styles. According to Chathoth and Olsen (2002), there is a need for leaders in the hospitality industry to be able to manage change. Since competition is intense and the external environment is constantly changing and inevitably affecting operations, a proactive management style is preferable in order to remain profitable and increase revenue. A holistic perspective uniting all revenue-influencing areas may be preferable. One style is characterised by, for example, having the ability to see changes in the environment as opportunities and having a vision and a passion as well as the ability to communicate this to others (Greger and Peterson, 2000). This could be said to be a proactive management style. The other management style can be characterised as being reactive, having the view that the outcome of operations is completely dependent on the environment, that outside forces are allowed to drive the business, and the management belief is that there is no way of influencing circumstances (Hughes, 2004). Hence, the reactive approach deals with the areas as a response to changes in the environment for example. The proactive approach, on the contrary, takes advantage of challenges and changes in the environment and therefore regards threats as opportunities in order to influence revenue.

Many authors within the subject of YM have highlighted the importance of “people” for the system to be efficient (Donaghy et al., 1995; Jauncey et al., 1995). The term “YM culture” or “yield culture” is often used to encompass these issues. Jones and Hamilton (1992) explain that the first stage in implementing an YM culture is to ensure that the phenomenon of YM is fully understood throughout the organization. This is supported by Brotherton and Mooney (1992) as well. However, they also emphasize that technology is overrated. This is explained by Donaghy et al., (1995) in a clear way: humans can run an effective YM system without artificial intelligence (AI) but AI cannot run an effective YM system without humans. Implementing a YM system requires that all staff, including management, are trained. Extensive and specialist training will be required for staff on the front line who deal directly with daily sales and inquiries (Donaghy, et al., 1995). Lack of employee training is recognised, however, as a risk when using YM and the

need for extensive training to make the system work is put forth (Zeithaml and Bitner, 2003).

There seem to be two major obstacles that personnel are confronted with when practicing YM; first the focus of senior staff is often on the minutiae of YM without a conceptual understanding and second, the increasing use of technology in YM has overshadowed the human resource element. Therefore, it is essential that the staff develops an understanding of YM as a corporate strategy of how the pursuit of YM affects their individual job. It is argued that the use of a computerized YM system contributes towards the de-skilling of staff (Kimes, 1989; Brotherton and Mooney, 1992). However, others argue that it empowers employees. Employee morale problems are seen as a challenge and risk when using YM, according to Zeithaml and Bitner (2003), since much guesswork and judgement is taken away from sales and reservations staff. Some employees may feel resented by the rules and restrictions. Others may, however, appreciate the guidelines a YM system provides. A yield culture should run through the organization from employees to top management (Brotherton and Turner, 2001). This means that those directly as well as those indirectly involved with YM, hence the entire organization, should have sufficient knowledge of the system, concept, and what it means to operate within a yield-driven environment. Another obstacle that deserves attention is that staff may be unhappy with the new demands and find it difficult to adhere to the high standards. These inconsistencies may affect staff behaviour during other periods (Marmorstein et al., 2003).

2.8 Summary

It has been established that YM is a tool used with the intention to increase revenue. The system has been adopted from the airline industry into hotels and is now used as a base to make informed decisions by managers within hotel businesses. It has also been established that YM consists of three interrelated management parts: price, inventory, and duration of customer use. The management of these parts should increase revenue but it should also be considered that the system could have boundaries such as decreasing guest satisfaction, loss of brand image, and a decrease in RevPar if the system is not managed effectively.

Capacity management is clearly interlinked to YM through the management of inventory and strategies such as allocation of capacity. Nevertheless, the management of capacity could take place without the practice and use of a complete YM system. When managing capacity, managers should have a clear understanding of their product in order to apply strategies for the best utilisation of rooms. Further, demand should be understood in terms of how it can be influenced as well as the time of reaction since it is demand that determines how supply can be maximised and greater revenue can be expected.

Price is clearly an instrument which could be used to manipulate demand. However, price is also a delicate matter since it has an impact on customers and therefore impacts on demand in various ways. Price differentiation would capture greater revenue but this also implies that each market segment's needs, wants, and willingness to pay are fully understood. Regardless, prices must be justified in a fair way to customers. Hence, strategies have been suggested in how to manage this. It is also highlighted that if these strategies are not managed correctly, an increase in occupancy at a lower price might lead to a decrease in RevPar. Pricing tactics could, as capacity management, be interlinked to YM. Nevertheless, the practice of YM in relation to only lowering prices could be questioned. Consequently, managers must adopt a proactive management style in order to match demand with supply without jeopardizing revenue.

Where sales and marketing are concerned, the importance of understanding demand and the different market segments is once again highlighted. This is important in order to run YM effectively, but also if customer relations are to be built. Customer relations are important since the cost in keeping current customers is lower than attracting new ones. Correlating to sales and marketing and customer relations, it is essential that employees have knowledge of their YM system in order not to confuse their customers with various rates and hence face the possibility of decreased guest satisfaction and potential future sales.

Within customer management literature, it is highlighted that all hotel managers should know that guest satisfaction is the leading key factor which is linked to the product sold. Strategies have been suggested in order to evaluate service quality and guest satisfaction. Also, the practice of customer relationship management has increased as a strategy to maintain guests. It is also clear that YM could be incompatible with customer management since literature presents a variety of areas where the system could fail. Nevertheless, there is no direct correlation and if YM and customer management are managed in close connection to each other, revenue should be gained.

The cost structure of hotels poses a barrier as many costs are fixed. This emphasizes the importance of viewing costs in relation to the capacity, price, sales and marketing, customer, and human resource management, since the management of these could increase marginal sales and thus contribution towards fixed costs would be gained. Further, it is not only tangible costs that should be considered. Intangible costs such as loss in goodwill could also affect future revenues.

The importance of employees is highlighted, especially since they interact with and influence customers and the overall profitability of the business within the areas of capacity, price, sales and marketing, customer and cost management. Also, a YM system could not operate without personnel. However, in order to be able to run a YM-system efficiently, there is a need for extensive education and for the implementation of a “yield culture” throughout the organisation. Finally there is a need for a change from the reactive management style, where operations are dictated by the external environment need to change to a proactive management style. This is because the proactive management style identifies opportunities and acts upon and communicates those as opportunities, which is required in order to be successful in the long run and if YM is to practiced effectively.

3. CONDUCTING FIELDWORK

3.1 Revenue Management as a Research Problem

Silverman (2001) argues that research should not begin from the practitioner's or manager's conception of a problem. Social science research should rather be driven by theoretical imperatives with the aim of offering new perspectives on the problems.

*“Problemising reality is the first step to knowledge and it is a step that cannot be omitted.”*¹

(Johan Asplund cited in Eriksson and Wiedersheim-Paul, 1997, p. 45)

Interest in the subject of YM in the hospitality industry was put forth by Morten Olsson working as a consultant to the industry in Sweden. The problem being that, practices within the area of revenue management were not well developed and managers are reactive instead of proactive in their management style. Hence, the first barrier was to transcribe the practical problem of YM into a research problem. The subject was addressed by gathering our previous knowledge of the area and our own impressions from the industry as well as reviewing recent literature on the development of YM. This led us to the extraction of a specific area of interest for our research, the area of revenue management within hotels in Sweden. The reason for choosing hotels specifically is to narrow the research area down to businesses with more or less similar characteristics and where YM could be applied in similar ways. The research problem was then formulated in our research questions; how is revenue managed in hotels in Sweden, what is the awareness of YM and how can YM be used? It was also established early on that the focus was not to be on the practices of any specific hotels, but rather on gaining a more general understanding.

¹ Authors' translation from the Swedish original: "Att problematisera verkligheten är det första steget till kunskap och det är ett steg som omöjligt kan överhoppas."

Having established our research questions, the next step was to decide upon which path to take when conducting the research - the appropriate research methodology was chosen. Designing research is a difficult task; each study has its own prerequisites and characteristics which must be accounted for. There are two main approaches to conducting research presented in almost any book on the subject; qualitative and quantitative research. Merriam (2001) describes qualitative research as being based on the idea that reality is constructed by individuals interacting with their social worlds and the aim is to describe how different components interact to create a whole. The research is concentrated on process, meaning and understanding leading to a final product that is very descriptive in its nature.

A qualitative approach was chosen as we were interested in gaining a deeper understanding of the underlying motives and practices within the hotels and how they acknowledge and perceive YM. This may not be gained using a quantitative approach. Also, we were to study and describe practices within hotels. Since the purpose of the study is of a descriptive nature, a qualitative approach seems to be the adequate method to use.

“Description is the foundation upon which qualitative research is built... Here you become the storyteller, inviting the reader to see what you have seen, then offering your interpretation.”

(Wolcott, 1990, p.27).

Among qualitative research, there are four main methods; observation, textual analysis, interviews and transcripts (Silverman, 2001). The practices of how revenue is managed within hotels may be approached using different methods. In each hotel there are several managers having an overall view of the processes and deciding upon how work should be carried out. Here interviews would be the adequate method since their practices may be more difficult to observe and many policies are made up “in their minds”. The policies and directions decided upon by the management are carried out throughout the hotel by different members of staff. To study these practices, observation would be best suited. Finally, the practices and policies are supposedly written documentation why textual analysis would also be an appropriate method to

use. To get the most complete picture it would be desirable to use all three methods; interviews, observation, and textual analysis. However, in our research setting it would not be manageable to undertake such an extensive three-way approach.

According to Silverman (1993), interviews are a good source of data giving access to how people view their reality. Further, Silverman states that an interactionist view of interviewing is that it produces an authentic insight into people's experiences; it gives the respondent the opportunity to define the world in their own unique way. The type of interview used to achieve this is an unstructured, open-ended interview. Since we do not only desire simple objective facts but want to describe the practice within the field as well as account for people's beliefs and perceptions, this type of interview was considered to be the most appropriate to use.

Conducting semi-structured interviews with managers that have an overall view of the practices was the method that best suited our study. Hence, it should be noted that observation may be the method that gives the most information and the most accurate picture of *what* is done. However, observations are more difficult to carry out since they are time-consuming and accessibility must be gained. Further, the opportunity to ask *why* things are done in a specific way is lacking. Therefore, our research area, how hotels manage their revenue, is of a descriptive nature and observation was not the best way since some of the concepts and practises would not be unproblematic to observe as they do not only depend on some people's actions and interactions. Further, textual analysis in the form of studying documentation was also considered a method that would be appropriate, giving us additional information and supporting what would be said during the interviews.

3.2 Searching for Information

Once the research problem and the means of addressing it were identified, the task was to decide what information would be needed to asses the problem and how to obtain that information. Simply put, it had to be known to us what information we needed to be able to answer our research questions.

Secondary Sources

Part of the need for information is the establishment of a review of appropriate literature. This was an ongoing process where secondary sources were investigated. The starting point was to find more general information about the situation of the hotel market and on the concept of YM in order to grasp this wide area and establish a definition of the concept. Subsequently, six specific areas of interest were derived from literature; capacity management, pricing, sales and marketing, customer management, cost management, and human resource management. More specific information about the areas of interest was investigated including how these areas are described in relation to hotel operations and YM. The focus lies on contemporary practices as well as recommendations for the future. Adequate literature was searched for in different databases, mainly in Business Source Premier and Emerald, as well as in academic journals such as Cornell Hotel and Restaurant Administration Quarterly and International Journal of Contemporary Hospitality Management, available at the Göteborg University Library. A lot of the literature has its origin in the U.K. or North America, describing practices and conditions in those countries. Conditions in Sweden may differ which is why it must be kept in mind that literature originating from other countries may not always be applicable in the Swedish setting. Swedish literature on the subject of YM was not found to any larger extent. When running a search within the area of YM in the Scandinavian Journal of Tourism and Hospitality Management, for example, no hits were found. Neither was any literature on YM published in Swedish found. This lack of literature shows the need for conducting more studies on the subject of YM based in Sweden.

Further, it is important to scrutinize and take a critical standpoint. The material collected should be evaluated in regards to validity, relevance, and reliability (Eriksson and Wiedersheim-Paul, 1997). In regards to validity, we feel that the secondary sources used fulfil their purpose. All sources have been chosen on a basis of relevance, they are essential and related either to the field of YM or to the other areas of hotel operations. Some more general descriptions of the external environment and the hotel market in Sweden have also been added to the sources since we believe that they set a frame for the study. The reliability of the sources is considered rather high since the majority of the literature was drawn from academic journals relevant to the research area. Some information

and statistics have also been retrieved from other sources such as Swedish newspaper articles, the Swedish Hotel and Restaurant Association (SHR), and Internet pages. This information may be seen as having less reliability, but it does reflect the current perceptions and practices in the Swedish hotel market.

The complete literature review was not established until after the empirical study was carried through. Thus, it gave us a combination of seeing how well literature fits the reality studied as well as finding literature that describes the reality studied. By having this two-way approach when linking theories and reality, some flexibility is added to the research process since it is not limited to any specific theories at an early stage.

Primary Sources

In order to answer our research questions, the area of YM has been widened to include practices within hotels that are believed to affect revenue in one way or another and six main areas of interest have been established; sales and marketing, customer management, capacity management, pricing, cost management and human resource management. Under each area, the information we needed in order to reveal what the practices within the specific area are and how they affect revenue was accounted for. Additionally, we wanted to establish hotel managers' awareness of the development in the hotel industry and their attitude towards the environment. Hence, we decided that general information, such as their background and conceptions of more general issues such as trends in the industry, not included in the six areas above, would be of interest.

Next, we established different possible ways of acquiring this information. While doing this, triangulation was the aim - to receive information from different sources and thus validating our findings. Although the method of interviewing had already been chosen, we took some other methods into account. The different means to acquire the desired information was seen as being interviews and documents acquired both from respondents and from independent sources. The Internet is an additional source of information which serves our purpose well. The reason is that the management of revenue is

linked to the Internet in the way that this channel is growing in importance when communicating prices, availability and offers to the customers. Hence, both the hotels' own web pages as well as the emerging sites offering search engines for hotel rooms are interesting to look at.

3.3 The Field

“Research interviews are the means to the end rather than the end itself.”

(Keats, 2000, p.7)

The process of interviewing may be divided into four phases: selecting respondents, preparation of the interviews, the interviews themselves and evaluation of the data acquired.

Choosing a Sample

Silverman (1993) states that when choosing cases, it is unlikely that they are chosen randomly, often they are chosen according to where access is allowed. For us, accessibility was a decisive factor when choosing our respondents, since gaining access and the willingness to participate were crucial issues to overcome. A large part of the companies were included in our study due to the fact that we received contact information from Morten Olsson facilitating the accessibility to a great extent. Three other companies were contacted but not through Morten Olsson. As Silverman (1993) points out, the problem that arises when a sample is chosen with accessibility as a basis is that the cases may not be representative of the population they are chosen to represent. Further, it may be argued that since many of the companies were contacts given by a third party this may have affected the selection and consequently the findings. However, without these contacts, the accessibility may have been much harder to gain affecting the study even more. Finally, it should be kept in mind that it is not the purpose of the study to make any general conclusions valid for the hotel industry, but to describe practices in a limited number of companies. Nevertheless, we believe that the hotel industry is standardised and hotels often share the same characteristics and thus routines.

The second choice to be made was who to interview in the different companies. The scope of the study is rather wide and the aim is to find out the relation between the areas sales and marketing, customer management, capacity management, pricing, cost management and human resource management, and the way these influence revenue. Further, we want to establish the level of knowledge and awareness of YM within the organisation. Finally, we are to establish if YM could and should be used and if so, how. Hence, the best scenario would be to interview a larger number of people in each company to gain the most accurate information. However, due to restraints such as accessibility, willingness to participate and limited time, this was not an option. Instead we found that a reasonable approach would be to contact one person having a general overview and understanding of the organisation as a whole. The result was that in all companies but one the interviews were conducted with general managers or revenue managers. However, in one company there were five interviews conducted with specialists within each area.

Preparation of the Interviews

At this point the issue of whether the companies and respondents should be anonymous was discussed. Treating all answers and data collected confidentially would increase the probability of receiving truthful and fully exhilarating answers as well as more documents that may not be accessible otherwise. Further, the aim of the thesis is not to describe any particular hotel or person but to try to make a more general description of tendencies within the industry; confidentiality would not pose a problem.

Contacts with the field started with establishing contact with the companies and respondents. In five cases telephone contact was established. If this was not possible, e-mail was used, which occurred in three cases. In the hotel where five interviews were conducted, the contact with the hotel went through one person who in turn established contact with the other four. A brief explanation of the aim of the thesis was made and a date for the interview was set.

In order to prepare ourselves as well as the respondents, an interview guide was constructed (see Appendix C and D). The interview guide does not treat every specific detail and every question to be asked, but rather provides an outline for further discussion. The six different areas of interest are covered in the interview guide as well as some other issues. For our own purpose we made sure we were very clear with exactly what type of data we wanted concerning each of the themes in the interview guide. The interview guide was sent out to the respondents approximately a week prior to the interview together with a letter (see Appendix A and B). This gave the respondents the opportunity to ponder the areas of discussion and to prepare themselves. This may be seen as being both positive as well as negative for the outcome. We considered the positive effects to outweigh the negative and further, some of the respondents did actually ask for an interview guide. Concerning the hotel where five interviews were conducted, the interview guide was somewhat adapted, more specifically divided into different parts corresponding to the respondents' area of specialisation.

Conducting the Interviews

All interviews were conducted at the different hotels the respondents represented. This was the most convenient solution for the respondents. Once at the location it was up to the respondent to decide upon an appropriate place to sit and all interviews were held either in an office or at a quiet location at the hotel. There was one exception however, where the interview was conducted while the respondent was actually performing her work which did not give us the ability to sit down. Here the outcome was clearly negatively affected, but we do not consider this to be of high concern to the study as a whole since we conducted four other interviews at the same company.

To secure that accurate and complete data were collected from the interviews, a tape recorder was used in all cases but two. However, notes were taken as well by both interviewers and served as a base when transcribing the interviews. Further, we also ensured that it was alright to contact the respondents again if we needed to clarify any part of the interview or if we needed further information in any area.

The wording of the questions varied, but the intention was not to ask any questions that could be answered by a simple *yes* or *no*. The interviews began by asking about the respondent's background and current responsibilities. This gave us a deeper understanding of the respondent while it may have made the respondent feel more secure setting off the interview. Further, it might also provide us with understanding for which management style was practiced by the respondent. We also asked more general questions about the hotel to get an idea of the prevailing work culture. Thereafter, the more specific subjects of interest were asked for, with the aim of understanding the respondent's view of what influences revenue and how. Attention was paid to avoiding specific concepts such as yield and revenue management. The aim was not to discuss these central issues until they were taken up spontaneously by the respondents themselves in order to display the awareness and relative importance of these concepts.

Evaluation

In total, twelve interviews were made at eight different companies. Once the interviews had been conducted the question whether we received the data we wanted to receive had to be asked. The interview material was sorted into the different areas of interest being capacity, price, sales and marketing, customer, cost, and human resource management to see whether we actually had retrieved enough information on each category and what kind of information it was. After compiling and reviewing the interview material we felt that we had sufficient information from all hotels on all areas. We were able to grasp the processes in work at each of the hotels and felt we had gained a good understanding of their practices and routines. Of course the information was given in somewhat different ways from different people, some were more strict and straight to the point whereas others used more narrative forms of describing their practices. However, we found the quality of the information to be good and it provided us with the adequate answers.

Some additional information that was not requested specifically, such as different views on recruitment processes and the history of the hotel industry

in Sweden, was also obtained. Due to the nature of open-ended interviews it is natural that different data appears in different interviews. We do not consider this a problem since what is important is to receive the information asked for. This additional data gives us a better understanding of what the respondent may view as being important, what they link to the management of revenue and what their perception and relation to the external environment is.

A large part of the data is of purely descriptive nature, describing how tasks and practises are carried out in the specific companies. We consider this data to be quite reliable and reflect what is actually done in reality. However, it must be remembered that respondents may have a tendency to give an idealized description of how work and practices are carried out, why all data must be screened using a critical lens and contradicting statements revealed. All respondents showed interest in the subject and were willing to talk freely and gave the expression of being honest and providing insight into the practices of their company. Some also expressed certain criticism towards their own company, which made us feel that they were actually giving us a good picture of reality. The level of openness did not vary substantially between the respondents and the level of transparency appeared to be quite the same at each location.

3.4 Written Documentation

Silverman (1993) highlights that textual analysis is often overlooked in qualitative research and in organisational settings texts may very well be sources of rich data. Our aim was to collect as much written documentation as possible in order to support what was said during the interviews. A request for information in terms of marketing plans and training manuals was made at the bottom of the interview guide. Our standpoint was not to be too pushy regarding the material, but rather to see what material was given to us as a clue to the transparency of the organisation. The documentation received varies from case to case. The documents received were a budget including a marketing plan, a news magazine, annual reports, and a document summarising the hotel's quality system, work descriptions, pricing strategies, evaluations and occupancy rates. One hotel was very willing to give us written information while another hotel was very restrictive and did not want to give

away anything. When compiled it may be said that we did not retrieve as many documents as we hoped for and that the type of documentation varies in type. Evaluating the information we received from the companies, we believe that the information of internal nature, e.g. a budget, may be seen as quite reliable and authentic while information of a more external nature may be more biased to present the company in a good way.

3.5 Analysing the Findings

“Analysis brings moments of terror that there’s nothing there and times of exhilaration from the clarity of discovering the ultimate truth. In between are long periods of hard work, deep thinking, and weightlifting volumes of material.”

(Patton, 1990, p.371)

The concept of analysis entails ordering data and organising it into patterns, categories, and basic descriptive units (Patton, 1987). Hence the process of analysing the findings began already as we were writing up the findings from the field. In order to account for the empirical material in a structured and clear way, a pure field description was made, functioning as a pre-analysis. Here, similar patterns and practices were identified across the hotels. Also, practices that were specific for only one hotel were highlighted. At this stage, consciousness was high so as to not eliminate any important data and not to change the meaning of any response. To ensure this, the data was not translated from Swedish to English until the very final version of the empirical presentation was written.

Even though some initial reflections were made in the pre-analysis, the main weight was put on the actual analysis which followed the empirical description. The purpose of the analysis was to relate the findings to what was found in the literature. Thus, the interest was in comparing actual practices to theoretical practices and to detect the common practices on the management of revenue among the hotels. It should be kept in mind, however, that analysis is a continuous process beginning already before entering the field as the research problem is defined (Hammersley and Atkinson, 1995). Hence, when

compiling the final analysis all findings and impressions from the start of the research until the end were tied together and presented.

3.6 Reliability and Validity

“...the issues of reliability and validity are important, because in them the objectivity of (social scientific) research is at stake.”

(Peräkylä, 1997, p.201)

It is always important to scrutinize a research process and the results obtained in order to determine how valid and reliable the information was. Validity and reliability are important and concern about these issues should be constantly present through the entire research process. As Silverman (2000) puts it:

“Unless you can show your audience the procedures you used to ensure your methods were reliable and your conclusions valid, there is little point in aiming to conclude a research dissertation.”

(Silverman, 2000, p.175)

Reliability concerns whether there are any errors present in the research and if the same result is obtained if the study was conducted again. Reliability may be improved by the use of standardised methods to write field notes and to prepare transcripts (Silverman, 1993). In interviews, analyses of the same data done by different researchers may be used to increase reliability. According to Keats (2000), reliability can be obtained in two ways; either the interview may be repeated on a later occasion to see whether the same responses are obtained or whether the same responses are obtained if the same questions are given in different forms during the interview. Also, the use of audio taping, pilot studies and interviewer training will increase reliability.

With reference to our research, it is difficult to know whether or not other researchers would have reached the same results and identified the same practices within the hotels. The respondents may interpret questions differently and different interpretations of the respondents' answers might be

the result depending on the pre-knowledge and attitude of the interviewees. During the interviews we were as objective as possible and documented the answers as they were told in order to avoid our values and beliefs to affect our interpretation and hence the practices. Further, the use of a tape recorder ensured that we were able to verify the wording, answers and practices. Also, since we were two individuals involved in interpreting and analysing the material the reliability increases.

Another word for validity is truth (Silverman, 2000), and Keats (2000) presents two types of validity; construct validity which shows how well the measures reflect the underlying constructs and content validity which is concerned with whether the questions are actually showing what happens in the field or not. There are two main ways of ensuring validity and avoiding research errors (Silverman, 2000). First, triangulation may be used meaning that different types of data and different methods are used in order to see whether the same results are obtained. Interview and field data, for example, may be combined to make better sense of the other. Second, the findings may be presented to the subject studied in order to be verified, also called respondent validation.

Our study concerns a number of hotels working under specific circumstances in the Gothenburg area and in Stockholm and is thus not automatically valid for all hotels. Since issues such as competition and demand for hotel rooms are different in different locations, the situation of two similar hotels in two cities can be very different. Despite that the results might not be applicable to all hotels; the results might serve as guidelines for other hotels when implementing revenue management.

Furthermore, the selection of respondents might affect the validity. We chose to interview people in leading positions; hence the picture given of the organizations is from a management view. It is possible that other people in the organization might have other opinions and descriptions. Since the management of revenue is primarily the concern of the managers, we believe that the persons interviewed are those who can give the most accurate picture of how revenue is managed in the hotels. Also, in order to increase validity,

the aim in our study was triangulation, obtaining the same results and information from interviews, documents, and independent sources such as the Swedish Hotel and Restaurant Association (SHR).

4. THE PRACTICE WITHIN HOTELS OPERATING IN SWEDEN

4.1 Company Presentations

The description of hotel practice is based on material collected from eight hotels operating in Sweden. The size of the hotels varies from small privately owned to large operations working on a national as well as international basis. A number of the hotels are also part of other organizations or national and international chains. The market segments within the hotels are primarily focused on business guests during weekdays and leisure guests during the weekends, but there is also one hotel operating merely within the conference market.

All hotels have computerised reservation systems. The hotels that belong to a chain have a central reservation system, but in some cases reservations may be made directly with the individual hotel as well. Further, the reservation department is sometimes integrated with the front office, while in other cases these departments are separated. We have chosen to present the findings within the hotels through first presenting the practices within the areas of customer, capacity, price, sales and marketing, costs and human resource management. Following this is the presentation of how the hotels recognize trends, tendencies and the external environment and the perception on the management of revenue. Finally, the practices of YM techniques are acknowledged.

4.2 Guest Relations

Most hotels recognise different market segments and divide their guests accordingly. Also, various strategies such as weekend packages are used to capture the different segments. In one hotel the focus is purely on one segment while in others it seems as the hotels try to capture as many segments as possible. Regardless, the customers are more or less the same across the majority of the hotels. Weekdays are characterised by business travellers and weekends by leisure travellers. The exception is the conference hotel where

the focus is only on companies and the hotel is closed during weekends. One of the hotel managers highlights that business travellers are not only seen as business travellers, but also as potential leisure travellers. It is also mentioned that the leisure segment is increasing due to the fact that the business week is becoming shorter. In the same hotel they turn to many segments in the market and when asked the question of who their customers are, the spontaneous answer by the respondent is: "People like you".²

The importance of leisure versus business guests is viewed somewhat dissimilarly at different hotels. One of the respondents stated that there is a need of being twice as nice to the leisure guests since they are not used to staying at a hotel, you should make them feel recognised, use the guest's name, which makes them return. The same manager explains that they stand on four legs; business, conference, trade shows, and private in their hotel. This is the only respondent giving the impression that leisure guests are actually as important, or even more important, than business travellers.

The importance in guest relations is acknowledged by all respondents interviewed. Three point out that they have many regular customers and one also underlines this as being good since it is cheaper to maintain customers than to attract new. Within two of the smaller hotels, the respondents highlight the building and management of customer relations more specifically. One says that they really do try, and succeed, to build close relations through having promotions such as special nights for regular guests and special newsletters. The other puts forth the software, i.e. the staff, as very important when creating guest relations. It is much more important to have personnel that are engaged in the guests than bonus cards or point clubs since this is something that all hotels have today.

In the smallest hotel, the respondent describes the guests' expectations; guests want to be recognised and have a sense of personality of the hotel. Employees at the hotel know that these expectations are met based on repeat business. Another respondent at another hotel describes the feeling of being in

²"Såna som ni", authors' translation.

somebody's home as being the main expectation of the guests. It is not said how this is met or assured. Other expectations are good service and food. Yet another belief is that guests expect what they pay for. It is explained that for business travellers this is that everything should work accurately, smoothly and fast - time is important. The leisure traveller, on the other hand, wants an experience and time is not as significant.

Concerning the evaluation of whether expectations are met or not, questionnaires are the most common tool used. At two hotels, questionnaires are used in the rooms and it is stated that the outcome is quite good and the questionnaires are filled out by numerous guests. Two other respondents bring up that the partnership chain has questionnaires that are used for evaluation at their hotel. The manager at another hotel is somewhat critical to questionnaires saying that questionnaires tend to make many regular guests irritated since they have filled out the same questionnaire on several occasions. Nevertheless, questionnaires are still used for evaluation.

Guest surveys are another way of evaluating the guests' experiences used within the hotels. At one hotel, the practice is to conduct guest surveys twice a year to ensure quality and is included in the hotel's quality system. Guest surveys are also used at another hotel on occasion, but it is claimed that guest surveys give too little feedback. Instead, the best way of evaluation is through repeat business. Internal evaluation to ensure guest satisfaction is only mentioned by one respondent, all others are concentrated on external evaluation, i.e. the guests. At one of the hotels, no other form of evaluation except for questionnaires provided by their partnership chain is used.

The following approach to service recovery and guest satisfaction is presented by one of the managers interviewed: "*A guest must never leave the hotel dissatisfied.*"³ It is further explained that staff should immediately fix errors and the aim is to get the guest to return to the hotel in order to show the product again. At three more hotels the managers give their employees the authority to do whatever it takes to turn a dissatisfied customer into a satisfied one before departing.

³ "En gäst får aldrig lämna hotellet missnöjd.", authors' translation.

A pattern can be identified in three other hotels where the employees have certain authorities within restricted limits; at one hotel employees are allowed to compensate up to 2,000 SEK. What is interesting, though, is that in none of the three cases is there a clear policy on when and how much guests should be compensated. Also, it is mentioned by one respondent that a manager should be brought in when handling complaints while at another hotel a discrepancy report should be filled out. Finally, in one hotel it is stated that employees have no authority to give any compensation at any time and therefore no service recovery strategy is in place.

The possibility that guests may take advantage of the system to get compensation is brought up by several of the respondents. One of the respondents goes as far as to say that during the past years there has been a change and today the militant consumer may be discerning. Nonetheless, the impression is that guests who take advantage of guarantees should not be compensated and further there is a possibility to identify this behaviour and prevent it. Although in the long run one respondent admits it is better to give the guest compensation since it pays off in the end.

4.3 Dealing with Capacity

“There is not much to do, you have what you have.”⁴

This statement was given by a hotel manager in the smallest hotel. The capacity restraint at the hotel is that they have few double rooms in relation to single rooms. The issue is dealt with by trying to sell single rooms as double rooms by using an extra bed. Also, there is an aim to attract single people by selling different packages, such as party packages. Further, the main concern within the same hotel is to have adequate staff to match actual capacity.

Flexibility is highlighted at the conference hotel where the conference facilities restrict capacity. Hence, the hotel often has empty rooms since there is not sufficient conference capacity. In order to meet guests' needs and

⁴ ”Inte mycket att göra, man har det man har.”, authors' translation.

demand they have the possibility to transform larger conference rooms into smaller group rooms. Another difficulty within the hotel is to have high occupancy all four nights of the week, often three nights are full and the fourth is only half-full, the limit being that there are not enough conference rooms. They try to allocate capacity in order to have full occupancy all nights. Additionally, new conference rooms are being built and the belief is that with the additional capacity it should be possible to fill all four nights. Finally, it should be noted that the hotel does accept day conferences; they only sell complete packages with accommodation including meals, because that this is where the money is made.

At the larger hotels there seems to be a lack in focus on the matter of capacity. One manager states that they are almost never fully booked, only occasionally, and at times when they are fully booked they have cooperated with other hotels to increase capacity. At two other hotels the respondents highlight that they are aware of the fact that rooms not sold today may not be saved for tomorrow, but no solution as to how this issue is or should be managed is given. One manager highlights that they have many contracts and this has led to some locked capacity. The Internet is put forth in one case as being of use when handling capacity as it gives the advantage of being able to work with last minute deals to fill the hotel. A downside is mentioned, being that there are many prices on the Internet and employees may not be able to keep track of all prices and they also do not know whether an additional rise has been made to the hotels original price or not. Only one respondent states that capacity management is a direct part of revenue/yield management. It is further highlighted that hotel rooms are perishable goods and if not sold the potential revenue for that room on that night is lost. Costs must be adapted to capacity and the right price must be set. The crucial question is said to be what the right price in relation to occupancy is.

There is great variety in how overbooking is carried out within the hotels. At the smallest hotel they do not overbook very often. Instead they call the guests in advance when fully booked to assure that guests will arrive, thereby minimising the risk of empty rooms. At the conference hotel overbooking is practiced. Nevertheless, no clear policy is in place, it is done on “feeling – do

it in a smart way”.⁵ One reason for this is that they are familiar with many of the companies they sell to and therefore know who usually books more rooms than required. Hence, the possibility to allocate capacity differently and solve things if overbooked is put forth as a good solution. One more respondent points out that they overbook based on feeling and this is done quite often. At another hotel they confirm reservations through e-mail and rarely have to walk customers. It is not suggested whether this is due to better overbooking policies or if they are seldom fully booked.

There are some differences regarding no-shows and whether customers are charged or not among the hotels. The most common approach is that customers are charged. There is flexibility to some extent, as one manager puts it, “nothing is the absolute truth”⁶, one has to find out what has actually happened, and whether the no-show is due to an internal error or external, i.e. the customer. In general, contract customers are not charged to the same extent as private customers. At the conference hotel, practices are rather strict; no-shows as well as cancellations are always charged.

There seems to be quite limited statistics kept on booking procedures within the hotels. Nevertheless, some statistics are kept on booking behaviour but not on cancellations, early departure, no-shows, or walked guests. The most extreme case is where no statistics are kept at all. However, at this hotel trends are discerned subconsciously instead.

4.4 Pricing Strategies

When pricing, the most common way acknowledged within the hotels is to look towards competitors and the price level on the market, such as using RevPar. At four hotels the respondents mention comparison of RevPar as being the starting point of their pricing strategy. It is seen as being necessary to follow the trends and to be situated more or less around the average price on the market. As one manager put forth, the environment directs prices and one has to act accordingly and be flexible. This is linked to the fact that hotels used to raise prices twice a year but this is not done anymore. It is also mentioned

⁵ ”känsla – gör det smart”, authors’ translation.

⁶ ”ingenting är absolut sanning”, authors’ translation.

that prices have gone down during the past years due to September 11th and increased competition. Nevertheless, at two hotels it is mentioned that prices increase on an annual basis, between two and five percent per year.

Apart from looking at competition, one manager states that they set prices by looking at the expected occupancy and costs for the coming year, which gives them their break even. At another hotel the strategy starts at a price needed to pay expenses, from here it is relevant to adjust to the pressure on the market, be “musical”⁷ making small but continuous changes; “the map does not always correspond to reality, therefore one has to be as flexible as possible”⁸. It is further emphasised in this context that they are not looking for short-term profit but work on a long-term basis. A distinct approach is given at one hotel where the product is divided into the following parts: quality, brand, service, and location, and this is the starting point for their pricing. Since this hotel is part of a chain, they have centrally set percentages between the different price levels, but the price itself is set locally. Therefore, even if pricing is done at each hotel there are directing guidelines.

One manager highlights that different market segments demand different prices. Hence, they look at how many customers there are in each segment when pricing. It is not said how and if this is carried out in practice. A wish for more flexible pricing is expressed by another respondent; “The best would be to have price according to demand”⁹. As the case is today, they have promotional rates to stimulate demand. The revenue manager is in control of which rate should be used and visible. Also, the front desk may lower prices to walk-in customers; “It is foolish to have an empty room”¹⁰.

That regular customers may be affected by changing prices is seen as a possible problem within one hotel. At the same hotel prices tend to change daily and depend on the booking channel. However, it is also stated that many customers do not care since they do not pay themselves. Also, a large part of the guests have a set contract price which does not fluctuate. The amount of

⁷ ”musikaliska”, authors’ translation.

⁸ ”kartan stämmer inte alltid med verkligheten, därför måste man vara så följsamma som möjligt”, authors’ translation.

⁹ ”bäst hade ju varit att ha priset efter efterfrågan”, authors’ translation.

¹⁰ ”Det är ju dumt att låta ett rum stå tomt.”, authors’ translation.

different prices that may be found on the Internet is met through a strategy preventing the hotel from having other distributors offering lower prices than themselves.

At another hotel the respondent frankly states that they are not flexible when pricing. The lowest price is rack rate and they do not see themselves as having to lower their prices according to demand. Further, they do not work actively with packages and/or discounts; this is only done through their partnership chain. The only occasion when prices might be lowered is when contract prices are given. Prices are also raised when there is potential to be fully booked by increasing rack rate or having different event prices. At the same hotel the respondent explains that they have plans to introduce a super low rack rate that should only be offered to guests that have already discarded all other rates and this rate should not be official.

Finally, at the conference hotel it is stated that they have limited price differentiation. They have a price list which is valid year-round, few contract prices, and do not give many discounts. During periods of low demand, when not closed, there may be a discount or an extra activity included in the package. However, the starting point of their pricing policy is that all guests should pay the same price. If prices are different, how much service should those who pay less receive in relation to those paying full price? It is explained that having differentiated prices makes it more difficult to keep focus on running a good business. Still, it is admitted that a room may be sold at a lower rate closer to an arrival date.

4.5 Marketing and Selling the Hotel Product

The efforts put on marketing and the size of the sales and marketing department is directly related to the size of the hotel. The smaller hotels have one or two persons working with these issues while the larger hotels have as many as ten people in this department. The conference hotel, however, does not have a sales and marketing department, the word “salesman”¹¹ is not seen as a positive word. The focus in all hotels except

¹¹ ”säljare”, authors’ translation.

the conference hotel is on sales rather than on marketing activities. What is also seen in the smaller hotels is that they have the least belief in marketing; “Marketing is a difficult part, where should one concentrate?”¹² is stated by one respondent. One hotel admits that their marketing is weak, the department is quite passive and is working mostly as order takers. What is also brought up at the smaller non-chain hotels is that the chains have more money and therefore an advantage in marketing. At one smaller hotel it is said that it is hard to measure the outcome of marketing, “One simply has to believe”¹³. Another respondent puts forth that it is difficult to see whether marketing gives any results, but admits that they could be better at following up their marketing. Within the majority of the hotels, evaluating marketing is not seen as a difficulty. Campaigns are commonly evaluated through coupons or when the customer states a code at the time of booking.

Four hotels (all smaller ones) belong either to a partnership chain, a mother company or a trade association. The implication for marketing in these hotels is that a lot of marketing activity is done through other channels instead of locally by the hotels themselves. This may limit the advertising and the influence over it at a local level. At another hotel belonging to a large chain the manager says that much of the marketing is done centrally, all promotional material and all ads. This is seen as being sufficient, not more is needed. Locally, however, a marketing plan and above all SWOT-analysis are used when forming marketing activities. This could be seen as somewhat contradicting.

Marketing activities carried out share the same goal but the focus is different across the hotels. Events are viewed as important at one place, while workshops together with other actors in the travel industry such as car rental firms are considered essential by another. One focuses on bringing potential customers to the hotel, two focus on visiting the customers themselves, and two do both somewhat equally. One respondent also brings up that selling via e-mail is a good way to sell since it is cheap.

¹² ”Marknadsföring är en svår bit. Var ska man satsa?”, authors’ translation.

¹³ “man får bara tro”, authors’ translation.

The focus however, within the majority of hotels, is on sales and in several cases it is highlighted how good their sales personnel are.

A hotel manager at a smaller hotel mentioned satisfied guests as being a marketing tool and states that the most important part of marketing is to have satisfied guests, since nine out of ten guests come because of the recommendation of others. This hotel is the one that does not have a marketing department. Guests are, however, also mentioned by another respondent, saying that it is important to start out with what you want to know about the customer – who, which country, who pays, how many times stayed there, and how much spent before conducting any marketing activities. Hence, the starting point is not from the product but from the customers when developing marketing activities. Further, it is also said that the role of sales has changed; today you know who your guests are.

The level of attention given to in-house sales varies between the hotels. At one hotel the focus is mainly on food and beverage. They do not work actively to get a guest to switch to a larger room, it is better to book a larger room at the point of booking than having the front desk staff working with this. The booking department has undergone education for this. Upgrading does occur but it does not result in that the guests booking a more expensive room during the next visit, hence it is seen as having no real point. Another respondent describes that recently a guest relations manager had been hired to work as a sales person towards in-house guests. The main task is said to be decorating and making sure that the hotel's messages are communicated to guests. Among other staff, the department of housekeeping is seen as being important since they are "in the guest's bed"¹⁴. At a third hotel the respondent was first somewhat confused when asked about additional sales. "How do you mean?" was the first response. But yes, they do try to get the guests to spend more money once at the hotel with campaigns designed to get the guests to come to the hotel's restaurants among other things.

At the conference hotel, staff have been trained how to accomplish additional sales within food and beverage and other activities. Before a guest arrives it is

¹⁴ "i gästens säng", authors' translation.

the job of the reservation staff to work with additional sales, at arrival the front desk takes over. How much is sold in additional sales is measured separately and displayed on a notice board where all employees can see the result. There are certain goals to work towards, and if these are reached a reward such as a trip for the entire staff will take place. The concentration on additional sales has shown good results compared to last year. Further, the respondent considered it important to make everyone understand how important it is to sell. The entire staff should know about numbers and turnover and this should be talked about freely.

4.6 Hotel Costs

At four hotels, personnel costs are identified as being either the largest or one of the most important costs by the respondents. Only within one hotel were personnel costs seen as being a fixed cost, all others perceive staff as being a variable cost. Rent is put forth in two cases as being the major cost while in two other cases it is seen as one of the major costs. Other costs mentioned are costs of raw material, electricity, operational costs, property costs, and costs for keeping the rooms updated. The perception of the cost structure seems to vary somewhat between the hotels. In one hotel the respondent mentioned that there is a need for a more flexible cost structure to match the lower price level on the market. This is the only hotel where the respondent makes a link between costs and price. The need for a cost structure that is made up of as few fixed costs as possible is mentioned by another respondent. However, at this hotel they do have a cost structure that is mainly fixed. In one case the respondent admitted that the cost of one room is not known by heart and the front desk personnel do not know it. It is further stated that when pricing it is good not to go under this level. The case is the same in another hotel where the front desk is not aware of how much a room costs.

Making sure that staffing is adjusted to actual occupancy is mentioned as one of the most important way to keeping costs down by one respondent. Also, having good routines for keeping track of consumption is important. At one hotel they have weekly meetings to see how much the hotel has booked and therefore how staff should be adjusted. In another hotel they say that they have extremely good cost control and that before buying anything they ask if it is

actually needed. At a third hotel, a monthly traditional cost control is performed. The main ways of saving are seen as cutting down on running expenses, finding better and cheaper suppliers and working effectively with the consumption of raw materials. Putting pressure on suppliers is also highlighted by two respondents as being of great importance when managing costs.

Only at two hotels are efforts put in to try to cut costs through closing floors off when occupancy is low. This makes it possible to save on heating and facilitates cleaning among other things. Of the hotels that do not close off parts of the hotel, only one respondent admits that “they let the fire go up the chimney to a certain extent”¹⁵. Finally, at the large hotel chain they have their own “bible” for what should be done and how in order to manage costs. It is also mentioned that there has to be a balance between whether one should have many guests and large costs or few guests and lower costs.

4.7 The Employees

Common for all hotels but one is that they do not have a separate HRM department. Instead, each department is responsible for their own staff and their competence. In several cases, the head of departments are responsible for further education. In the case of the large chain, each hotel has its own HRM policy. There is, however, a common policy throughout the chain as well that influences the work locally. Finally, appraisals are said to be offered at all hotels for all employees. Additional education is in most cases contracted from outside sources. At one hotel this is viewed as giving the education more strength since staff tends to pay more attention to outside sources than to the manager. The best education is considered to be to meet people from other companies holding similar positions. The importance of personnel was highlighted in various ways; employees are as important as guests, the organisation should be characterized by a positive spirit, employees should have fun at work, and the workplace should be open and everyone should have their say. One respondent identifies that staff is important in making guests feel satisfied, even more important than the physical features of the hotel.

¹⁵ ”man eldar för kråkorna en del”, authors’ translation.

Therefore, it is important for the staff to play their role well and they perform a show for the guests; “staff entrance = stage entrance”¹⁶ is stated. At one of the larger hotels they work according to a triangle principle in which the importance of employees, guests and investors are considered. In the one hotel where employees were not highlighted the operation was identified through the expression of putting out fires. At this hotel, as the others, the respondents identified their hotels as having a flat organizational structure where co-operation and flexibility was important. One respondent, however, made the remark that even though hotels have a flat organisation they are still constructed hierarchically.

Perceptions about employees and their influence on revenue vary. At one hotel the staff that affects revenue is said to mainly be the front desk staff and staff in the restaurant. Incentives used include occasional sales competitions. It is admitted, however, that the front desk staff is not good at additional sales. At another hotel, the respondent states that the employees who influence revenues are those at the front desk. At one hotel it is stated that staff must be well trained and know what the differences in price are, and not be afraid to overbook. The training they get for this is on-the-job training.

In two other cases all employees are said to influence revenue. In one of these two cases it is said that revenue is influenced on a daily basis by the way they work and their way of being. The respondent also explains that the employees are conscious about the fact that they affect revenue and this is communicated above all during the hotel’s yearly kick-off. Additionally, the reservations manager, housekeeping manager, and front desk manager receive further education within the area of revenue. Above all, it is important that all employees are involved in, and understand, not only revenue but costs as well. Another respondent highlights the importance of creating a link between being nice to guests and generating revenue. It is said by another respondent that the training of staff is important to increase revenue. The aim within one hotel is above all to have satisfied customers. In general, the area of revenue is not linked to the hotels’ employees to any large extent. Finally, one respondent

¹⁶ ”personalingång = sceningång”, authors’ translation.

stated that the most important thing is to increase your revenue, but to do this one must like people, staff as well as guests since this reflects in the revenue.

4.8 Trends, Tendencies and the External Environment

When the subjects of the external environment, trends and tendencies were brought up the majority of respondents highlighted the importance of knowing the competition. One respondent was particularly involved and interested in the external environment and tried to see the market place from a global perspective. Hence, benchmarking was done on a national as well as international basis, terrorism was identified as a threat, and a challenge for the industry is that the status of working in the service sector must be raised. One respondent also emphasised the importance of the City of Gothenburg in order to attract customers and stated that in the short-run other hotels are seen as competitors but that in the long-run it is financially feasible to cooperate”.

The Internet was mentioned by respondents in four of the hotels, however one did not see themselves as influenced in any way. Within three other hotels, the Internet was recognized as having an influence on operations, especially in relation to the information available such as prices to customers. The following statement illustrates this: ”It is like having built a house of only windows. Maybe it is time to pull down the curtains”¹⁷. As a result of the information and prices available on the Internet, price wars and YM were identified as a consequence. There is a potential to keep track of changing prices on the Internet; “It is easy to see which hotels practice revenue management”¹⁸.

The importance of chains was pointed out as being positive as well as negative by respondents. The pros were the cooperation within marketing and sales but this was seen as a con within another hotel since the chains are believed to have better finances for these practices and can reach the market more effectively than individual, independent hotels. Branding was mentioned as being one of the major trends, but the respondent felt that customers were

¹⁷ ”Det är som att ha byggt ett helt hus bestående av bara fönster. Kan vara dags att sätta upp gardiner/persiennor.”, authors’ translations

¹⁸ ”Det är lätt att se vilka hotell som använder revenue management.”

getting bored of brands; customers would “rather have a local cheese-store than a 7eleven”¹⁹. Finally, there was a recognition of the importance of constantly finding new profit potentials. If revenue is not increased there will be no profit. What drives the business is a combination of cost, revenue, and the market. In the end, however, it is profit thinking that is decisive. Other respondents within the hotels saw the economic climate as an influence on revenue and links were drawn to the market segments for their hotel. One manager mentioned that they were not so influenced by a recession since the majority of their customers were derived from the public sector. Nevertheless, “our industry is the first in and last out of a recession”²⁰ was stated by another respondent who also pointed out that customers have become more price-conscious and demanding. As a result costs must also be managed and more flexible.

YM was recognised as an influence in three hotels. One respondent acknowledged the importance of understanding that the hotel room is a different product every day and that the hotel industry has not been as successful in the practice of YM as the airline industry. YM was also recognised as a trend that started in the early 1990s.

4.9 Perceptions on the Management of Revenue

That revenue management is the key to making money was stated by one respondent who at the same time said that many hotels do not have the tools for YM. Further, it is explained that it is also important to compare your own hotel with others in order to find the conditions of the market. One respondent highlights that it is important to remember that YM should be used in two ways, one should not take too low or too high prices; it should be seen as regulating revenue both ways. Further, the same respondent believes that the essence of working with YM is that it “removes the humps of the week”²¹, and pricing is made in conjuncture with availability. In another hotel the respondents’ perception of YM is that YM is something everybody in the business works with and that it entails having the same product but different

¹⁹ ”vill hellre ha en lokal ostaffär istället för 7eleven”

The above are the authors’ translations

²⁰ ”vår bransch är först in och sist ut ur en lågkonjunktur” authors’ translation.

²¹ ”tar bort pucklarna på veckan”, authors’ translation.

prices, and that YM would work only during high season and in times of prosperity. It is also said that YM is best suited for larger hotels having at least 300 rooms and at this specific hotel the respondent therefore believes that they are too small for YM to work efficiently. Prices will be more varied according to demand, one respondent stated, but hotels are waiting for the trends from the U.S. to arrive in Sweden. Additionally, the perception is that there is a lot of theory on YM that must be transformed into practice and the industry is getting close but that it is not there yet. It is never the hotel business that is innovative, they simply follow the airlines.

A pose of “sensing the wind” was made by one respondent as the topic of how hotels manage their revenue was brought up. Nevertheless, the respondent said that managing revenue is about charging the right price and having the right room sales and that is where sales are. One other respondent acknowledged the fact that the same guest may pay different prices which may lead to problems and dissatisfied guests. On the other hand it is often possible to give an explanation for the price difference, e.g. that the booking was made at two different occasions. Actually, very rarely are the lowest prices used. This issue was recognised by another respondent claiming that the obstacle seems to be how to explain to a customer that they may not book a room Tuesday through Friday for example, but that there are rooms available Monday through Friday instead. Further, consumers are not stupid and it has become a “little of a sport”²² to sell a room at an expensive price. “Everybody affects revenue”²³ is stated by one respondent who hopes that employees are aware of this and understand. It is further explained that it is important that everybody on the team does their part. The different departments have to understand that they are part of a greater whole. In the smallest hotel, keeping track of all revenue and having good routines for this is the most important issue since “every little bit helps”²⁴. Another important aspect is that one must not have empty rooms; you must fill your capacity. Finally, in one hotel it is stated that above all one has to have long-term planning – look at last year and budget accordingly.

²² ”lite sport”, authors’ translation.

²³ ”alla påverkar intäkter”, authors’ translation.

²⁴ ”alla bäckar små...”. authors’ translation.

There are no rules on how revenue should be managed, instead it is brainware that is used.

4.10 Practices of Yield Management Techniques

In one hotel it is stated that they do not have a computerised YM system but a human one. This was also the case among the majority of hotels. One respondent stated that they had neither a technological nor a human YM system. Instead, the focus at this hotel is on additional sales in order to increase and manage revenue. At one hotel the employees in the reservation department had been to seminars about YM and they have “a very good sense”, they know if they should book days separately or a longer stay. The price must be optimised, but it is capacity that is managed rather than price. If needed, prices are lowered. If it is the same morning or even the same night, the prices may be lowered even more. This work is carried out in cooperation between the central reservation department and the front desk. At the same hotel, work is also done actively to fill the hotel during the weekends, but this is mostly done through offering different packages. One respondent recognised that a hotel must be flexible at all times and that it is dangerous to form categories, e.g. A and B prices. Finally it is said that prices are never raised (which contradicts the earlier remark), only lowered and business travellers all have contract prices and are not affected by price changes. At another hotel it is found that they have not dared to introduce different room rates for different days, but the respondent believes that they will soon. In a further hotel it is said that the front desk “yields” in order to fill capacity and it is becoming more and more important. One must keep track on a daily basis and this thinking has existed for a long time but today it certainly cannot be overlooked. The hotel does not have a computerised YM system, the front desk runs this manually when they take the reservations. The approach is to start out with a high price and then lower it. The employees at the front desk have worked there for a long time, which facilitates that YM work. If they detect that many bookings are coming in on a certain date they look to see if there is anything special going on that date, e.g. a trade show, and then adjust the price. They have discussed having more of an YM system but have not done anything about it. A reason for not having a computerized YM system is that they are too expensive, according to two respondents. It is explained by

one of the respondents that instead, the reservations manager also has the function of revenue manager and manages this intensively. As a result, the reservations manager has small tricks to handle YM in practice, although these are not revealed.

5. ANALYSIS – REACTIVE VS. PROACTIVE MANAGEMENT STYLE

5.1 Market-Orientated or Product-Orientated

Dividing customers into different market segments and understanding the customers' different needs and wants is basic for the hotel business. The hotels studied seem to be fully aware of this since they have divided their customers into different market segments. Hotels should also base their activities upon their market segment's needs and wants, however whether this is the practise within the hotels studied is not clear. Simply, the hotels could be basing their market segments upon their product, hence the hotel product. The segmentation could also be a result of common practices and tradition in the hotel sector. As a result it is not clear whether the customers match the product.

In all hotels but one the hotel product is differentiated to some extent and in relation to this, it is important to remember that with a variety of customers comes a variety of needs and wants and thus a risk of loss in focus. Overall, there seems to be a general view that marketing activities are not as important as sales activities, which is peculiar since marketing activities are to influence consumer behaviour in order for the hotel to gain financial benefits. Further, sales can only take place effectively if sales activities are in line with marketing activities. The impression is that the majority of the hotels studied have a product-orientated view rather than a market-orientated view when marketing and selling their product. That is, the focus seems to be in matching the customers with the existing product rather than the adapting the product according to the needs and wants of the customer. Basically, only one respondent highlighted that the marketing activities should be developed based on customers' needs and could therefore be linked to the market orientated view. Further, as it is not clear that the product matches the needs and wants of the customer within the majority of hotels, their market approach does not appear to be market-orientated. Further, one respondent did not know who to market too, which illustrates that there is a lack of knowledge of who their

customers are and if their product matches their customers. Additionally, the hotels that are part of other organizations, and therefore are influenced in their marketing activities, should recognize the risk in losing track and focus of their product and hence their customers.

The confusion found within the hotels in regards to which customers to market to also illustrates a lack of awareness as marketing activities should focus on current and old customers since it costs five times more to attract new customers. A further way of identifying where to focus activities is to evaluate current activities. It is through evaluation that hotels can identify external opportunities and internal strengths. The approach towards sales is found to be quite traditional within the hotels. Not many respondents put focus on in-house sales or upselling, which is an additional source of revenue. There seems to be no link between sales departments and in-house sales, hence there is no holistic view on sales-related issues. Upgrading guests within hotels and the potential benefits that can be achieved from that is that the procedure could lead to exceed customer expectations. Exceeding customer expectations have been highlighted as important for long-term survival and within customer management, and should therefore not be neglected.

5.2 Customer Management Practices

Customer relationship management is recognized by the majority of respondents and all hotels but the conference hotel have loyalty programs, bonus cards and so forth in place. Nevertheless, customer relations do not seem to be a main objective in marketing activities for the hotels, which is interesting since customer relations is said to be one of the key marketing activities as it is less expensive to maintain customers than to attract new ones. Further, existing and regular customers represent the “life blood” of a business, which further highlights the importance of customer relations within hotels and is why it should not be mistreated.

The respondents within the majority of hotels seem to have an understanding of what their guests expect, which is very important if guest satisfaction is to be achieved. Questionnaires are a soft measure of quality, service, and guest

satisfaction and are used to a large extent within the hotels. Nevertheless, there is no point in using a soft measure of guest satisfaction if the information retrieved is not evaluated and no action is taken. The amount of feedback and information retrieved from the different forms of evaluation varies greatly among the hotels. The impression is, however, that there is not sufficient attention paid to follow-up on these issues and that questionnaires are used merely because one should use them. Hence, the use of these tools has become legitimised and routine.

Service recovery strategies are in place within the hotels, but the extent varies. The respondents want to give the impression that their employees are empowered and a guest should never leave dissatisfied. Nevertheless, the point of having a service recovery strategy is not that the customer ought to always be right, but that the customer should always be satisfied, and this is fundamental for long-term survival. The difference is not recognized by any of the respondents and in several cases the service recovery policies give the impression of being quite rigid even though the managers articulate that they are flexible.

5.3 The Management of the Hotel Product

Regarding capacity management, no distinct approach to how hotel rooms are managed is identified. Several respondents realized that they have a complex product, which may not be stored, and this is an explanation why capacity is difficult to manage. Hence, there is consciousness of the fact that revenue not retrieved one night is lost forever. Yet, there seems to be no apparent understanding of the composition of capacity, the degree to which it can be changed, the speed of reaction and the costs involved. Nor is it realized that altering capacity is difficult for hotels, since more or less rooms may not be produced according to demand and a hotel room only has limited alternative uses. Nonetheless, at one hotel they do try to alter capacity in periods of high demand by cooperating with others and therefore increasing the supply of rooms. An opposing strategy practised in a few other hotels in periods of low demand is to close off different areas or floors of the hotel in order to cut

costs, thus, supply is decreased. The hotels are, therefore, subconsciously aware of the difficulty in managing fixed capacity.

As hotels are faced with sales instability and demand fluctuations, this is another reason why capacity is important and tricky to manage. The relation between the management of demand as a central part in capacity management was not recognized by any of the respondents in terms of the interrelation between demand and capacity. However, when practices are taken into consideration, measures are taken to influence demand such as specials and promotion offers. When managing capacity within the hotels, focus is on adapting existing capacity to demand and less attention is paid to trying to adapt demand to one's existing capacity. The complexity is the matching between capacity and demand, and why these two approaches should be carefully balanced in order to gain financial benefits.

Size seems to be a decisive factor when managing demand. It was in the smaller hotels that the respondents foremost emphasized the allocation of capacity as important while in the larger hotels the focus seemed to be more on simply having a high occupancy rate. The aim is of course the same in both cases, but due to the smallness of some operations, one empty room represents a greater relative loss in revenue than for a large hotel. However, in the smaller hotels the managers did not see capacity management in a broader perspective and did not link it to other practices such as YM. Further, it was not mentioned explicitly by the respondents that price and occupancy rate were two variables which could be used to manage capacity, even though the variables are used within the majority of hotels.

5.4 Reservation Procedures Based on Passive Knowledge

There appears to be a general lack of guidelines, structure and policies and it is difficult in any one hotel to discern a distinct approach for booking procedures. Reservation procedures involve how reservations are taken, on what grounds, the practice of overbooking and management of no-shows to name a few. The overall impression is that procedures seem to be based on "feelings" although some attention is paid to the allocation of reservations. Overbooking is only used in order to utilize capacity fully at the conference

hotel. It is used to a minor extent within the other hotels, but the impression is that it is used rather randomly and not in a structured fashion. This must not be a negative aspect though, since having too rigid policies may not be in line with good customer management since each individual's needs and wants might not be considered. The lack in overbooking among the hotels could also be a response to a decrease in demand or increase in supply or a combination between the two within the Swedish hotel market.

There appears to be a fear for having to walk a customer within the hotels and this could be viewed in a positive way taking into account that there are costs involved: it costs more having to walk a customer every day than it does to underbook a room a day. Therefore, the low practice of overbooking may be encouraging since the hotels decrease the risk of incurring intangible costs such as loss in goodwill as a result of having to walk a customer. Nevertheless, it should not be forgotten that overbooking is a central part of YM and the prospective barriers could be overcome.

How no-shows are managed within the hotels varies, the overall notion is that procedures are somewhat clearer than overbooking procedures. The approach is that no-shows are charged. Nevertheless, each case is looked upon separately. This is in line with good customer management and might prevent a potential loss in future sales since each individual's needs and wants are considered. Also, one hotel recognized that the no-show could be the result of an internal error, or personnel, and should be acknowledged. A more strict approach is found within the conference hotel, which is probably due to the fact that their customers are businesses and companies. Also, the conference hotel gave the impression that they know their customer's booking behaviour.

5.5 Flexible or Fixed Price

Market- and cost-based pricing are the two most common ways for hotels to set their prices and it was found that the majority of hotels used what is known as market-based pricing. This is based on that the majority of respondents refer to looking at their competitors when pricing. The hotels also benchmarked themselves through comparison and the most common way to do this is through RevPar. Nevertheless, there might be a danger in paying too

much attention to one's competitors when pricing since all actors on the market have different prerequisites. Also, the comparison of RevPar could be misleading in the sense that the highest RevPar does not have to mean the most profitable. To give an example, one does not know the costs involved for competitors, and only one side of the coin is seen. Other factors considered and involved when pricing were market conditions such as trends and demand fluctuations. Costs were only recognised in a minority of the hotels.

A result of variable prices may be that one attracts customers from different market segments. This could cause a dilution of the brand and staff may also be confused regarding which level of service to provide since the market segments are mixed. Further, the customer might also feel inferior to others since different market segments are gathered under the same roof; the mix of customers that may be attracted to various prices should be considered. Offering different service levels as a result of variable price is recognized as a problem by the conference hotels since some of the possible implications were highlighted. Nevertheless, there does not have to be a problem with variable pricing or differentiated pricing; it may rather be seen as a barrier which should be met and can be overcome if each customer's needs, wants and expectations are fully understood and as a result of being managed efficiently, additional revenue may be gained.

An opportunity to retrieve greater revenue is through price differentiation and this was recognized within several hotels. Also, demand in Sweden might require a flexible price as a result of market conditions. Nevertheless, there is a lack of knowledge in how to manage price differentiation and as a result there is a fear that it would not be in line with good customer management or human resource issues. It is not recognised that guest profiles and other strategies could identify repeat customers and thus they would not be posed with various rates as repeat customers see different prices as unfair. Therefore, keeping guest profiles and offering regular customers a set rate could be a strategy to avoid customer dissatisfaction. Further, statistics on consumer behaviour would provide personnel with knowledge about each customer's expectations. Nor has it been recognised within the hotels that the use of rate fences, physical and non-physical, would prevent price differentiation to

intervene with customer management. Price differentiation might actually be viewed by customers as a positive matter since each customer's willingness to pay is taken into consideration. Hence, good customer management is practiced and customer relations are established.

A somewhat different approach to the management of price differentiation was identified in the hotel where the respondent explained that they were assuring that the customer would get the lowest rate through reservations directly with them. Hence, the example illustrates that precautions can be made. Rack rate is said to be a starting point for price negotiation and that this is sometimes expected by customers. Therefore, the hotel keeping rack rate as the lowest rate might therefore be opening themselves to a decrease in demand or a potential loss in revenue unless this is what their customers expect.

5.6 Market-Oriented or Cost-Oriented

Businesses are either market-orientated or cost-orientated and due to the nature of business, hotels tend to be market orientated as the profitability is directly linked to demand on the market, or the number of guests purchasing the product. A further reason why hotels and other residential businesses are considered to be market-orientated is explained by the fixed capacity, and thus great portions of hotel costs are fixed. This is confirmed by the cost structure in the hotels investigated, however, there was no link made by the respondents that they were market-orientated, that marginal sales would contribute to fixed costs.

In general, costs within the hotels are not considered flexible nor linked to revenue. Costs seem to be viewed as an isolated area which is predominantly linked to personnel and not demand. Nevertheless, hotels are characterized as being labour intensive where labour costs are significant. This is also the case in the hotels studied since personnel costs are identified by all respondents as representing a large portion of their costs. The recognition that costs could be managed through the matching of the level of employees with the occupancy level is found in some hotels. Further, although some of the respondents were aware of the cost of their hotel rooms, this information was, according to the respondents, not always known by the staff in front office. This would

interfere with the opportunity to increase profitability through marginal sales as costs must be known in order to do this.

5.7 Employees

Employees are seen as being valuable assets within the hotels. In relation to costs, though, personnel were in all cases seen as costs that may be cut. This is contradictory to being valuable as assets. The hotels use the tool of appraisals, which is said to motivate personnel if carried through in a correct matter. The course in which appraisals were performed within the hotels studied was not established. The approach towards education also differs throughout the hotels. In some, education is said to be mainly for the benefit of the employees and in other cases it is also linked to the benefit of the hotel. At one hotel it is believed that it is better to have outside sources conducting training as employees would pay better attention to them. Besides, education is likely to be more specialized if outside sources were used.

5.8 The Management of Revenue

Consideration of the external environment is a crucial factor for long-term survival, especially in order to identify opportunities and take advantage of them as well as recognising threats and taking precautions. Different issues have been highlighted in relation to trends and the external environment and how this would affect revenue. There is not one major trend or tendency that is highlighted by all hotels, even though some issues are mentioned by more than one. The reason for this is likely to be that all hotels see themselves as individual hotels and recognize only what seems important to their operations. Only at two hotels was the impression given that the external environment has a direct impact on operations and the relationship to success in the long-term is made. Technology also plays an important role for operations and this was also identified by some of the respondents through the impact of available information of prices on the Internet.

YM was said to be a tool used by some of the respondents and they recognized the airline industry as being a forerunner. The United States is also mentioned by several respondents as being forerunners of YM and there is an anticipation

of coming trends. Interestingly, it seems as though trends from the U.S. are starting to arrive since one of Sweden's major hotel chains is starting to work with professionals within YM that have been active in the U.S. market.

The perceptions on revenue and YM illustrate that the hotels seem to have a varying degree of knowledge within the area. There seems to be a misperception that YM is about offering different prices for the same product and that the system would only be of use for larger establishments. Nevertheless, it could be argued that smaller hotels would have more to lose if not utilizing capacity. Perceptions on customer influence when practicing YM also differ. Nevertheless, it seems as if the respondents are already aware of rate fences, i.e. the explanation of different prices. The knowledge of rate fences and how to manage customers can be overcome through training employees who need to have a full understanding of the YM system and also over customers' reactions to prices and price changes. Customers do not see fairness in businesses increasing price in order to increase profits, hence the remark made at one hotel that the practice of selling rooms at expensive prices has become a sport shows a lack of knowledge in YM and having this approach might be risky. The hotel where the approach is to lower prices in order to fill capacity or increasing price with demand as a result of current events could also be said to be a risky approach towards the management of revenue as it is likely to create confusion among customers as well as personnel. Pricing strategies need to be structured. It should also be emphasised that rate fences should be constructed with care and past and present customer behaviour and the market should be analyzed in order to predict future customer and market behaviour. Overall, the hotels gave the impression that they were responding to changes in the market place and in some cases it seemed as the respondents were expecting and waiting for changes, hence being reactive as opposed to proactive.

5.9 Yield Management

Having studied the empirical findings and the literature, some practices of YM techniques can be identified within the hotels. Therefore, it is important to see how capacity, price, sales and marketing, cost, customer and human resource management are linked to YM. Knowing and understanding the different

market segments is the starting point in running a YM system as well as in any sales and marketing activity, and the hotels are segmenting their market to some degree although it is not clear if the segmentation is based on the hotel product or the customer. Further, when dealing with new, current, and old customers it is essential for sales personnel to have a clear understanding of YM and all that it entails in order to avoid confused and dissatisfied customers. That is because YM is all about selling the right product to the right customer at the right price, time, and place. Some of these tools and techniques were identified although the respondents did not put these in the context of YM.

YM consists of three separate but interrelated parts; room inventory management, pricing, and duration of customer use. Room inventory can be linked to and seen as a part of capacity management and is of essence since revenue lost for one night cannot be retrieved at a later date. The fact that one hotel uses single rooms as double rooms would mean that they are altering capacity. The transformation of larger conference rooms to smaller conference rooms also involves the altering of capacity; room inventory management is practiced to some degree although not deliberately. There are also attempts to influence demand through special offers and special events. The examples of practices within the hotels could be linked to either inventory management or duration of customer use, resulting in YM.

Price is another of the three major components of YM and it has been stated that price is a tool to stimulate demand and therefore to capture greater revenue. That the hotels have recognized that different market segments have different willingness to pay is a starting point in running an YM system. It would be risky not to have a clear pricing strategy and price structure and simply start at a high price and then lower it until an offer is accepted, which appeared to be the practice within one hotel. Further, rate fences were found to be used among the hotels, physical aspects such as room type and non-physical aspects such as customer and transaction characteristics through special rates for contract customers, employees and time of purchase. However, the structure of these could be improved.

Further, the hotels should consider that when dealing with price differentiation, the costs involved should not be forgotten since fixed costs represent the greatest portion of a hotel's costs. Therefore, having too low prices, although these might contribute to fixed costs, might not be successful in the long run, only in the short run. It should be highlighted that discounts do not equal efficient YM, but can lead to a decrease in RevPar. The comparison of RevPar between the hotels could therefore be somewhat misleading as different hotels have different cost structures.

The practice of overbooking has been highlighted as an essential tool for efficient YM as part of inventory management and price. Nevertheless, overbooking is also a tool to use in capacity management. Overbooking is practiced by the hotels, although to a limited extent, and would need to be further developed if YM is to be incorporated. At least guidelines for overbooking procedures should be constructed since market conditions in Sweden might not provide a need for overbooking in the hotels. Further, there is a lack of statistics on booking behaviour such as lead-time, early departures, cancellations, overbooking, walked customers and no-shows. The lack of recording information is a negative aspect if YM is to be, or is, practiced since past consumer behaviour and market conditions are analyzed in order to predict future behaviour. Finally, the need of good policies where all different booking procedures are interlinked and carefully designed to match each other as well as the needs of the hotels and its guests is also crucial to success.

For the purpose of YM, it is also essential to know and understand the cost structure of your product and business because the system uses the ability to contribute to the fixed costs through marginal sales. Hence, price as well as capacity should especially be linked to costs which does not mean that the areas of customer, sales and marketing and human resource management should be neglected. It is important to view these issues as interrelated and dependent upon each other to gain the highest revenue possible. In two hotels, it is admitted that the cost of one room is not known by the front desk staff which decreases the opportunity to work efficiently with YM.

The current practices and knowledge within the majority of the hotels would not be enough if YM was to be practiced. A reason is that all employees at all levels within the organization must have a clear knowledge of YM. Hence, a yield culture should run through the organization. In order to achieve and implement this yield culture, training and development has to be undertaken by professionals at all levels. It should also be emphasized that there has to be a balance between technology and personnel because a YM system could not run without employees but and YM system can be run without technology. However, since it was found that all hotels have computerized reservation systems already installed, the use of these could probably be extended. Employees are also essential in relation to customer management since it is the performance of employees that influences guest satisfaction.

One of the hotels investigated has a computerized YM system. The YM practices are carried out by the revenue manager. Those handling reservations do not have to be aware of the YM system, they only get the appropriate rates on their computer screen. This would imply that when having a computerized YM system the knowledge of employees in direct contact with customers might not need to be as extensive as those running a human YM system. This could be viewed as a de-skilling of personnel. However, as it is important that all staff understand the concept of the YM system in order to decrease the risk of confused customers. YM could also be viewed as empowering. This was not the case in the hotel that practices YM, as it was put forth by the respondent that employees do not have to know what lies behind the different rates or why they are different. This approach may pose a barrier if employees are to give good customer service.

Further, occupancy at this hotel is maintained but revenue has decreased as a result of decreased prices. This brings the dilemma of having either high prices and low occupancy or low prices and high occupancy. The view of which scenario is preferable differs among the respondents at the hotel. One claims that it is better to have high occupancy in order to keep all staff busy. Another respondent is of the opinion that higher prices and lower occupancy is preferable since this leads to lower costs. The opposing views illustrates that the hotel seems to lack in their general YM strategy, or that communication

channels within the hotel are failing. Nevertheless, allocating the right capacity to the right customer at the right time, at the right price is practiced on various levels by the hotels and could be said to be an unconscious use of YM tools.

5.10 Proactive Management

The success of YM lies in the ability to analyze past data in order to predict the future, i.e. a proactive management style needs to be adopted. Information on guest behaviour and profiles needs to be further fragmented in order to provide a fair view of future behaviour within the hotels. Most of the hotels studied did want to illustrate themselves as having a proactive management style by emphasizing different aspects in relation to their own management and to their interest in the external environment. However, a reactive management style would better fit the description of their management when relating it to the different areas that have been discussed. Only one hotel admitted that they were reactive in their actions, they were mostly “putting out fires”. This allegory, however, could be applied to all hotels in the study to some extent.

6. CONCLUSIONS

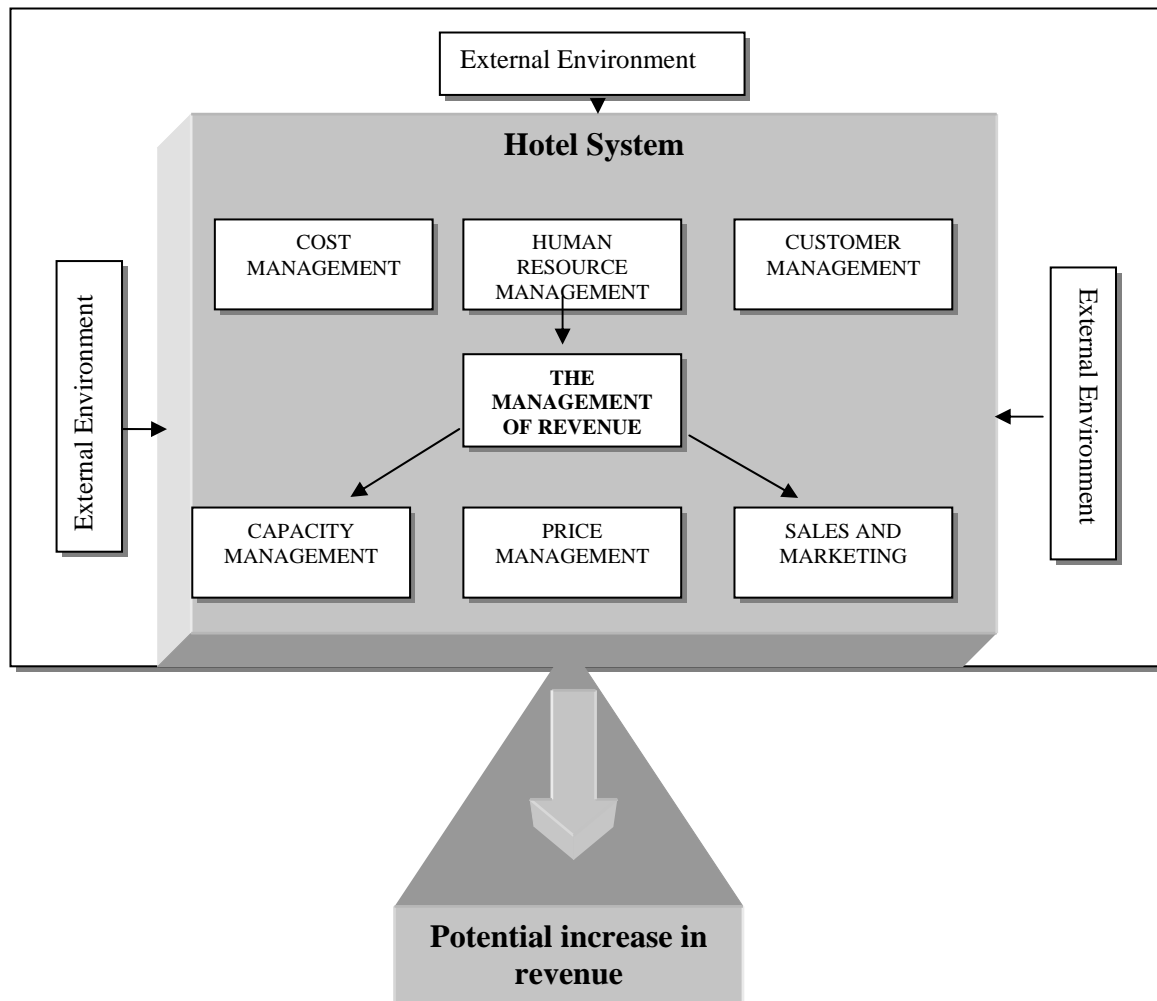
6.1 The Management of Revenue

The issue of proactive and reactive management styles within Swedish hotels was raised by Morten Olsson at the outset of the study. The areas identified, studied, and analysed do not seem to be evidence that managers take on a holistic view, hence a proactive management style, but the reactive management style still seems to prevail. The external environment is not recognised as a tool to influence revenue as actions are taken due to changes in the environment. The areas of capacity, price, sales and marketing, costs, customers and human resource management seem to be more or less dealt with as separate units and they are not managed to actually influence and/or increase revenue specifically.

How revenue is managed varies to some extent, yet there are similarities. One of the core issues is the management of demand. In order to increase demand the practice is to use special offers and packages. Tools such as variable pricing and discounting are used to some extent as prices vary between market segments. The allocation of capacity is practiced as the hotels try to be flexible. In order to make sure that customers are satisfied, questionnaires and different service recovery strategies are practiced and bonus cards are a part of customer relationship management. Nevertheless, in many cases these tools seem to be practiced because they should be and have become legitimised rather than being tools used to actually evaluate and improve operations, guest satisfaction and hence the overall profitability.

HRM practises and training in relation to how employees influence revenue seem more or less non-existent. Yet, most practices seem to be based on feelings and passive knowledge rather than on the analysis of past behaviour in order to predict the future. Hence, revenue within hotels does not seem to be managed in a structured method. Figure 4 illustrates our findings on how the management of revenue within the hotel system is carried out as a response to the external environment.

Figure 4



It can be seen in the figure that the hotel system only seems to identify capacity, price and sales and marketing as areas to manage as a response to changes in the external environments, which gives a potential increase in revenue. The other areas, cost, customer, and human resource management within the management system are mistreated or at least not recognised as areas that are manageable in order to influence revenue. Nevertheless, personnel costs were sometimes linked to occupancy and with that some costs were taken into consideration.

The fact that the airlines practice YM seems to be common knowledge among hotels and it seems as if the Swedish hotel market is about to start adopting a more structured method of revenue management and YM. The hotels studied gave the impression that they were waiting for YM to become a standard operating procedure but did not take action to learn about or implement the

system. Since one of the largest hotel chains in the Nordic countries now is about to strengthen their revenue management through YM, maybe others will follow. Even though there is an awareness of YM and what it entails, there are numerous misperceptions. The most common misperceptions are that simply offering various prices equals the practice of YM, that the system involves complicated theory, and YM results in a decrease in guest satisfaction and dilution of the brand. Also, the perception is that the system is only applicable to larger hotels operating within market conditions where demand exceeds supply and that it requires expensive technology.

6.2 Yield Management - an Effective and Pragmatic Tool

Having established how hotels seem to manage their revenue and the awareness of YM, it would be of interest to show whether YM can be used as an effective and pragmatic tool to influence revenue and how this could be achieved. It has been recognised that some of the tools within YM are practiced within the hotels studied, however not as a result of the practice of YM. Hence, there is potential to further develop YM and use it effectively within hotels in Sweden.

Regardless, it should be noticed that the size and structure of the Swedish hotel market, with mostly domestic business travellers, regional and seasonality differences might pose difficulties to manage revenue efficiently. Small hotels may have more at risk and more to lose if not utilising capacity fully, and as there are many small actors on the market it should be emphasised that an YM system is not applicable only to larger hotels where demand exceeds supply. Therefore, the structure of the Swedish hotel market could be seen as a further motivation and reason to use a YM system in order to maintain or increase profitability.

Further it should be understood that YM does not have to mean complicated and expensive computerized systems. It should be remembered that when practicing and implementing YM hotels should have a human or computerized system custom made according to their own structure, size, objectives and

other prerequisites. If the hotels studied desire to practice efficient YM, the following considerations should be made:

The market segmentation within the hotels needs to be more specific and fragmented in order to provide sufficient information. Also, each market segment needs to be fully understood in terms of needs, wants and willingness to pay. Further, it is of essence that the product offered matches the market segments. Hence, activities and resources should be placed to match the needs of customers.

Having established the market segments, the sales and marketing activities should be in line with the characteristics of those customers. Further, activities should be used as a tool to influence demand in order to utilize capacity. Also, when studying customers, individual behaviour should be considered. The highest paying customer might not be the most profitable one as ancillary spending, the multiplier effect, costs and potential future sales need to be recognised

Customer relationship management is recommended to be interrelated with YM since it would identify repeat business and special requirements. This would decrease the risk of selling the wrong product to the wrong customer at the wrong price and time.

The measurement of guest satisfaction and use of service recovery strategies should be further developed and incorporated into YM. These tools should also be properly evaluated so that mistakes could be learnt from and also to identify customer expectations. This would provide more detailed information which would strengthen the hotels' knowledge of the market.

The management of capacity needs to become more proactive. Hotels should try to influence demand rather than letting demand influence the hotel. The altering of capacity should continue but a clear understanding of the capacity should be strived for in order to adopt appropriate techniques and take advantage of changes in demand.

Clearer pricing strategies have to be set in order to match and influence demand. Through differential pricing, greater revenues could be achieved. Also, other than analysing competitors' prices, tangible and intangible costs should be considered in order not to jeopardize the long-term profitability of the hotel. Statistics on booking behaviour such as lead-time, early departures and cancellations would make the YM system more efficient.

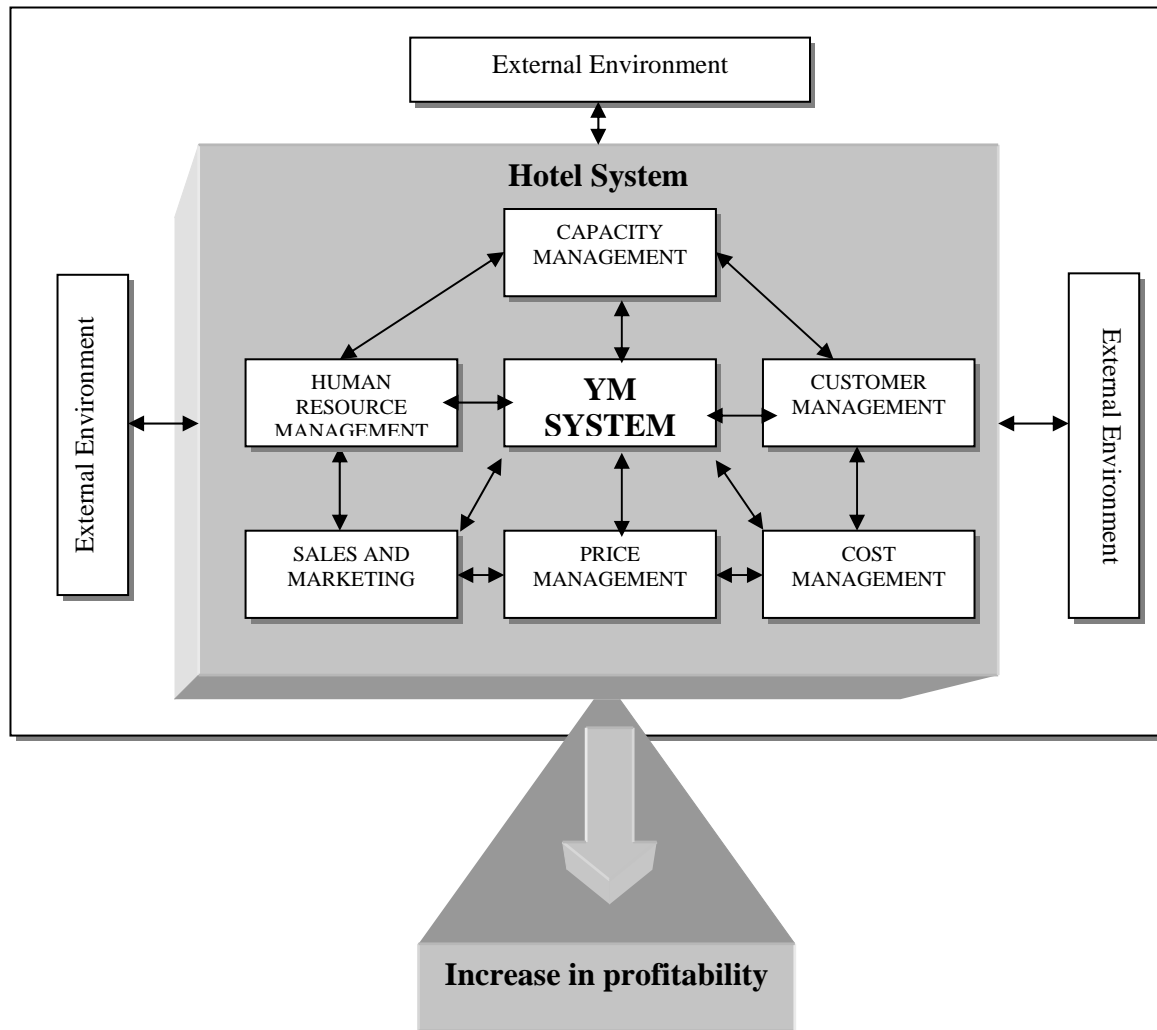
The cost structures need to be fully understood in order to be able to set prices, make the right sales and satisfy customers. Hotels have the ability to influence profitability through marginal sales and this should be used. Also, costs and especially employee costs are to be matched with occupancy. Further, allocating capacity to the same floors in periods of low demand would provide the opportunity to make personnel more effective and also save on utility costs.

In order for YM to run successfully it is essential that a "yield culture" is implemented into the organisation. All employees and especially those in contact with new, current and old customers need to have a comprehensive understanding of the system. Thus, education and training needs to be undertaken throughout the organisation. Finally, hotels should consider the involvement of outside sources to further educate the business within revenue-related issues.

6.3 Beyond Yield Management

Having presented the management of revenue and YM as a tool to influence revenue, it would be interesting to see how YM could be interlinked and used as the centre point to the areas of capacity, price, sales and marketing, customer, cost and human resource management and further how the system influences and is influenced by the external environment. Figure 5 illustrates the our view of a proactive management style using YM as the centre point of the hotel system.

Figure 5



Within the hotel system the areas capacity, cost, customer, price, sales and marketing and HRM interact and are all influenced, controlled and interlinked with each other as well as with the YM system. These are in turn influenced by the external environment but also more importantly, the hotel system influences the external environment, or demand. The proactive management style with YM as the centre point therefore takes advantage of opportunities and creates opportunities within its own organisation as well as within the surrounding environment within which the system operates. This will in turn lead to an increase in revenue and increased profitability.

6.4 Areas for Further Research

The area of how the practice of YM may affect guest satisfaction should be investigated. As the base of YM is about knowing and understanding each customer's needs wants and willingness to pay, this should give an

opportunity to increase guest satisfaction. Hence, the guests' perspective on YM could possibly play an important role in the future development of YM.

More research and literature with the Swedish market as a base as well as literature in Swedish is clearly underrepresented today. If revenue is to be managed effectively and YM implemented, there is a need for Swedish literature in order to make the concepts applicable for Swedish businesses and their employees. Finally, there has to be an opportunity for managers at different levels to learn and overcome the current misperceptions about YM.

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Appendix A – Original Version of Introductory Letter

Hej!

Vi talades vid i telefon i för ett tag sedan där vi avtalade en tid för en intervju DATUM. Genom detta brev vill vi ge dig lite mer information om syftet med vår uppsats samt om de ämnen vi vill diskutera under vårt möte.

Vi skriver uppsatsen på uppdrag av Morten Olsson, Resurs AB. Främsta syftet med uppsatsen är att kartlägga hur hotell styr sina intäkter. Utgångspunkten är att följa upp en EU-rapport från 1997 om yield management. Undersökningen utförs genom att intervjua ansvariga på cirka tio hotell med verksamhet i Sverige. Målet är att uppsatsen ska kunna fungera som underlag för framtida beslut inom hotellnäringsen.

De områden vi är intresserade av är främst:

- Prissättning
- Kapacitetshantering
- Försäljning/marknadsföring
- Kostnader – struktur och styrning
- Customer management
- Hantering av omvärldsfaktorer, risk, svängningar i efterfrågan
- Hur involverad och medveten personal är i deras påverkan på intäkter

En mer detaljerad intervjuguide finns i den bifogade filen. Vi har valt att ha en öppen intervju där de bifogade frågorna är underlag för diskussion. Vi är även tacksamma för om vi kan få olika typer av skriftlig dokumentation, såsom arbetsbeskrivningar, marknadsplan, finansiell information (går bra i procentsatser) mm, som kan ge oss ytterligare information om områdena ovan.

Vårt syfte är att göra en generell kartläggning, inte att beskriva enstaka hotell. All information vi får kommer att behandlas konfidentiellt och varken hotell- eller personnamn kommer att förekomma i uppsatsen.

Har du några frågor eller funderingar, hör gärna av dig till oss. Vi ser fram emot att träffa dig DATUM.

Vänliga Hälsningar

Susanna Riman och Leyla Göthesson

Appendix B – Translation of Introductory Letter

Hello,

During our telephone conversation some time ago we made an appointment on DATE for an interview. Through this letter we would like to provide you with some more information about the purpose of our thesis as well as the different subjects that we would like to discuss during our meeting.

We are writing our thesis on behalf of Morten Olsson, Resurs AB. The main purpose is to map how hotels manage their revenue. The starting point is to follow up on a report from the European Commission from 1997 about yield management. The research will be carried through by interviewing managers in approximately ten hotels with operations in Sweden. The goal is that the thesis should be able to assist as material for future decisions within the hotel industry.

The areas of foremost interest are:

- Pricing
- The management of capacity
- Sales and marketing
- Costs – structure and control
- Customer management
- The management of external factors, risk and fluctuations in demand
- How involved and aware are the employees of their influence over revenue

A more detailed interview guide is found in the enclosed file. We have chosen to have an open-ended interview, hence the enclosed questions will be used as a base for discussion. We would also be grateful if we could get different types of written documentations such as work descriptions, marketing plan, financial information (percentages is fine) etc., which could provide us with additional information about the above areas.

Our purpose is to make a general description, not to describe individual hotels. Therefore, all information retrieved will be dealt with confidentially and neither hotel nor individual names will appear in the thesis. If you have any questions or queries, please do not hesitate to contact us. We look forward to seeing you on DATE.

Yours Sincerely,

Susanna Riman och Leyla Göthesson

Appendix C – Original Version of Interview Guide

INTERVJUGUIDE

Bakgrund

Vad är din bakgrund i hotellbranschen?

Beskriv den position du har samt vilka arbetsuppgifter och ansvarsområden den innefattar.

Beskriv er produkt samt företagskultur och arbetssätt.

Omvärld

Hur ser du på den generella utvecklingen inom hotellindustrin samt utvecklingen inom prissättning, kostnadsstruktur och marknaden?

Hur påverkas ni av omvärlden?

Försäljning/marknadsföring

Beskriv hur ni arbetar med försäljning och marknadsföring.

Customer Management

Beskriv era gäster.

Hur gör ni era gäster nöjda?

Kapacitetsstyrning

Hur hanterar ni det faktum att ni inte kan variera er kapacitet (antal rum)?

Prissättning

Förklara hur ni sätter era priser och vad ni baserar er prissättning på.

Hur arbetar ni med överbokning, avbokning och erbjudanden?

Kostnader

Beskriv er kostnadsstruktur samt hur dessa kostnader styrs och kontrolleras.

Personal

Hur utvecklar ni era anställda samt företaget som helhet?

Vilken personal påverkar era intäkter? Hur utbildas och motiveras de för detta samt hur mycket tid och pengar avsätts

Övrigt

Om möjlighet finns, tar vi gärna del av dokument som beskriver områdena ovan som t.ex. marknadsplan och utbildningsmanualer. Vi skulle även uppskatta om vi kunde få följande finansiell information: personal-, marknadsföring/försäljnings-, utbildnings- och driftskostnader i förhållande till omsättningen.

Appendix D – Translation of Interview Guide

INTERVIEW GUIDE

Background

What is your background in the hotel industry?

Describe your position, your duties and areas of responsibility.

Describe your product, work culture and your way of work.

External Environment

How do you see the general development within the hotel industry as well as within pricing, cost structure and the market?

How are you affected by the external environment?

Sales and Marketing

Describe how you work with sales and marketing.

Customer Management

Describe your customers.

How do you satisfy your customers?

Capacity Management

How do you handle the fact that you cannot alter your capacity (the number of rooms)?

Price Management

Explain how your prices are set and what the foundation is for your pricing strategies.

How do you work with overbooking, cancellations and special offers?

Cost Management

Describe your cost structure and how these costs are controlled and managed.

Human Resource Management

How do you develop your employees as well as the business as a whole?

Which personnel influence your revenue? How are employees trained and motivated in order to influence revenue and how much time and money is set aside for this?

Miscellaneous

If possible, we would like to receive documentation that describes the areas above such as marketing plans and training manuals. We would also appreciate the following financial information: personnel, sales and marketing, training and operational costs in relation to turnover.