

EFFECTIVENESS ANALYSIS OF YIELD MANAGEMENT IMPLEMENTATION IN HOTEL ABC

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Abstract

Yield management is a popular application of total revenue maximization tactics in service industry. Hotel ABC located in Bandung already implemented yield management in 2008 but the management never assessed the effectiveness of the implementation. Therefore, the main purpose of this paper is to do assessment of yield management effectiveness in Hotel ABC, using the matrix created by Bernard McEvoy and comparison financial reports. The analysis was done with three methods: demand plotting, Bernard McEvoy's matrix and comparing financial statements. For a high/low cut off comparison, Horwath HTL had provided the figures of financial excerpt of Bandung hotels in 2008. The outcome of the analysis shows that the demand for superior, deluxe rooms in weak season and executive rooms in peak season are elastic. While for the other rooms, the elasticity didn't belong to any category. In overall, Hotel ABC's total revenue had increased significantly and 2008 revenue increase is higher than previous years' increase. Further analysis shows that Hotel ABC still can gain more revenue from sales room in a significant amount. However, Hotel ABC increased operating expenses, while in the same time other Bandung hotels decreased it. It was found that Employees' salary was the greatest increase in the operating expenses.

Keywords : *yield management, hotel industry, operating efficiency, demand plotting*

Introduction

In broad extent, Robert Cross defined yield management as an application of disciplined tactics that predict consumer behavior at the

micro market level and optimize product availability & price. Yield management can maximize revenue growth (Cross, 1997).

Furthermore, in the scope of hotel industry, Jauncey *et al* in 1995 stated that revenue management is concerned with the maximization of room revenue through the manipulation of room rates in a structured fashion, it is common that in this type of pricing strategy, the operator is provided with the list of the price/rates to offer to prospective consumers (Jauncey, Mitchell, & Slamet, 1995). For hotels and other firms operating in service industry, yield management is very important for them to maximize their revenue.

Although the concept of yield management is closely related to consumer behavior, marketing isn't the only backbone of the yield management. According to Tranter *et al* in 2008, the understanding and knowledge of finance, psychology and economics are also needed in order to advance in this concept (Tranter, Stuart-Hill, & Parker, 2008).

Bernard McEvoy in his article stated that financial results are the most important aspect of a firm. Furthermore, he added that revenue is the main thing considered substantial for both manager and investor. Since the investor construct an ultimate evaluation of the investment through its return, the investor review the applied yield management system by assessing management performance by analyzing the operating efficiency of the hotel, and the return on equity that the hotel made. The investor review the applied yield management system by assessing management performance or the operating efficiency and the level of risk of their investment is subjected. The level of risk usually

associated with the amount of both operational and financial leverage (McEvoy, 1997).

Operating efficiency is defined as the measurement of management ability in gaining profit and in reducing cost, can be calculated by dividing the hotel's income before fixed charges and management fee to the hotel's total operated departments' revenue. While return on equity is simply the return that the investors have from their capital invested on the hotel.

Operating efficiency, return on equity of a hotel is really influenced by the income the hotel received, so it is possible that yield management system will also influence the operating efficiency and return on equity of the hotel. Bernard McEvoy created a matrix model to assess the effect of yield management to the hotel's operating efficiency and return on equity. Furthermore, the matrix model also stood as a way to improve the strategy of the yield management, and served also as the analysis system to determine whether the hotel should increase its leverage or not.

Moreover, in order to strengthen the result of the yield management implementation evaluation, the demand analysis should also be conducted. Since yield management is very sensitive to demand, the demand analysis is becoming more important.

David Colander in his book Principles of Economics stated Elasticity is used by firms to describe the responsiveness of the consumers to an increase in price, and is extremely important to firms in making their pricing decisions (Colander, 2008).

Hotel ABC, a leading five stars hotel in Bandung, already implemented Yield Management for 1.5 years, and have never assessed the effect of its implemented yield management system to its operating efficiency and return on equity. By assessing the yield management system applied in Hotel ABC by add on matrix and demand analysis, we can assess its effectiveness and its effect to the hotel's operating efficiency and return on equity.

The purposes of this research are :

1. To analyze the demand characteristic of Hotel ABC
2. To assess the effectiveness of the yield management strategies of Hotel ABC by analyzing the operating efficiency and return on equity

3. To evaluate the financial performance of the hotel in terms of profit maximizing compared to other hotels in Bandung
4. To help Hotel ABC decide new strategy to improve yield management and operating efficiency.
5. To suggest Hotel ABC a further strategy of debt structure decision

Theoretical Foundation

Yield Management Overview

Yield management or also famously known as revenue management has been defined into several definition by several experts. Liu et al in the article titled A Stochastic Approach To Hotel Revenue Management Considering Multiple Day Stays defined yield management as application of information system and pricing strategies to allocate the right capacity to the right customer at the right price at the right time, and has been used in for many years in hotel industry (Liu, Lai, Dong, & Wang, 2006). Fevzi Okumus defined yield management as a demand management that is applied because of the fact that the goods or services are supplied in a short time with a fixed level; thus making the producers aiming to maximally utilize the capacity and therefore, maximizing the revenues (Okumus, 2004).

Based on these definitions from experts we can conclude four key foundations for yield management; they are: revenue, demand, price-adjustment and time. Yield management is a process of maximizing revenue by adjusting the prices for right customers in the right time, and can be done by firstly analyzing the demand. These foundations link the process of demand analysis created by marketing team with pricing strategy in maximizing revenue by finance-related department.

Yield Management Core Concept

In his article titled Launching the Revenue Rocket, Robert Cross wrote the seven core concepts of yield management (Cross, 1997). They are seven things that should be applied in a service industry firms who implemented yield management, those things are:

- Focus on price rather than costs when balancing supply and demand; this concept basically mentioning the importance of focusing on price because to apply a good yield management implementation, the basic focus is on the price and didn't actually pay

attention to cost. The rule is to sell the rooms or seats before they perished.

- Replace cost-based pricing with market-based pricing; this concept stresses the significance of the market-based pricing in order to maximize the demand and in the end, maximize the revenue.
- Reserve sufficient product for your most valuable customers, in order to push the repeat-buying of those customers.
- Make decisions based on knowledge, not suppositions; this concept is actually very basic in decision making.
- Exploit each product's value cycle; in order to maximize the possibility of a transaction to actually happen.

Continually reevaluate your revenue opportunity, which means the hotel's revenue management team shall always check the market opportunities for the hotel in order to maximize the revenue.

Yield Management Practice in Hotel ABC

Hotel ABC, the leading five stars hotel in Bandung implemented yield management since 2007. Yield management practice in Hotel ABC is initiated by a revenue management team led by Revenue Manager who worked under Hotel's General Manager.

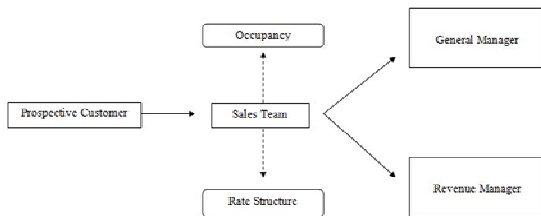


Figure 1. Framework of Yield Management Practice in Hotel ABC

The framework of yield management practice in Hotel ABC goes this way:

- a) The prospective customer goes in contact with sales team or front office staffs to discuss the detail of room reservation concerning room type; time and price.
- b) The sales team or front office staff will offer the price to the prospective based on the rate structure list that contains the price details of the hotel; the price range and price arrangement, corporate rate, published rate and other package rates of the particular year.
- c) In arranging the right price for the customer, sales team or front office staff will look at the occupancy rate of the hotel. If the

- Sell to segmented micro markets, not to mass markets; basically emphasizes the substantial impact of choosing the niche micro markets rather than mass markets in selling the product.

occupancy was low, then the staff might give a discount. For a regular 5% discount, the sales team or staff should consult with the revenue manager, for the higher discount up to 40%, the sales team or staff should ask the permission from Hotel's General Manager.

- d) As we know, the prospective customer doesn't actually have a bargaining position, but in several cases, the prospective customer might bargain the price of the hotel.

Yield Management Formula

To simplify the formula of yield management, most hotels usually put the formula of yield management system as equated below.

$$\text{Revenue} = \% \text{Occupancy Rate} \times \text{Average Room Rate}$$

$$\% \text{Occupancy Rate} = \text{percentage of occupied room}$$

$$\text{Average Room Rate} = \text{average price of occupied room}$$

In a low occupancy situation, the hotel will lower the room rates by giving discounts. While in a peak season like weekends, long weekends, school holidays or other festive seasons, the hotel usually maximize the revenue by increasing the room rate. That's why the demand analysis is very important to maximize the implementation of yield management

The Law of Demand

In *Principles of Economics*, David Colander mentioned the law of demand "Quantity demanded rises as price falls, other things constant" (Colander, 2008). This law is the basic foundation of economics, and very logical even to people without basic economics knowledge. This law of demand concept can be understood better via its demand curve in Figure 2.

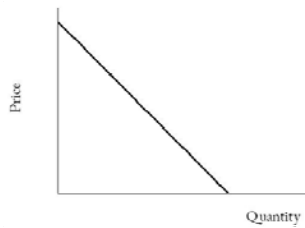


Figure 2. Demand Curve

As we can see from the curve above, the quantity of demand for a specific good will increase as the price decrease. The cheaper the price of the goods, the more quantity will be demanded.

Elasticity Concept

Tranter *et all* in *An Introduction of Revenue Management for the Hospitality Industry* stated “knowing the extent to which quantities supplied or demanded change when a price change is very critical to most organizations”. By knowing such information, the company can create specific strategy to address the changes in demand. The measurement of changes in quantity demanded as an impact of changes in price is termed as price elasticity, and is formulated as (Tranter, Stuart-Hill, & Parker, 2008):

$$Elasticity = \frac{\% \Delta QD}{\% \Delta P}$$

$\% \Delta QD$
= percentage change in demand quantity

$\% \Delta P$ = percentage change in price

Where QD is the quantity of goods demanded, and P is the price. For example, if a 5% increase in price caused the quantity demanded inclining to 10% more, then the elasticity is 0.5. For elasticity that is higher than one, the demand is elastic; elasticity that is equal to one is unit elastic, while the elasticity that is lower than one is inelastic.

Relationship between Total Revenue and Elasticity

The law of demand describes the relationship between price and quantity, where higher price will decrease the quantity of product sold, and a lower price will increase the amount of product sold. However, to know the exact effect of increasing or decreasing the price in the pricing strategy, one must know the net effect. Elasticity can help us to create a good strategy whether to

increase or decrease price. Thus, seeing the relationship between elasticity and total revenue is important for further analysis. (Colander, 2008)

Basically, the relationship between total revenue and elasticity can be described this way:

- a. Goods with elasticity equal to 1 is unit elastic, where a rise in price will not change the total revenue
- b. Goods with elasticity higher than 1 is elastic, a rise in price will lower the total revenue
- c. Goods with elasticity lower than 1 is inelastic, a rise in price will increase total revenue

Bernard McEvoy’s Matrix Overview

In the article, Bernard McEvoy stated that “owners of hotels and investors make the ultimate assessment of their investment in a hotel by assessing the hotel’s return. While the return itself will be strongly influenced by the revenue management implemented on the hotel”.

Furthermore, he added “in order to help assessing the effectiveness of the investment, reviewing the hotel’s yield management effectiveness becomes an important thing to do. One of the way in assessing it is by considering the relationship between efficiency and return in the context of the degree of leverage or risk by using matrix method” (McEvoy, 1997).

The first matrix that McEvoy created in his article was the matrix model step one. It contains the general operating efficiency percentage of the hotel and the return on equity percentage of the hotel. Furthermore, this matrix places the hotel position compared to the average of operating efficiency of other hotels in Bandung in the specific year. The position of the hotel in the matrix will determine the action recommendation for the hotel. Table below is the example of the matrix model step one.

Table 1. Matrix Model Step One (McEvoy, 1997)

		Efficiency GOP %	Return ROE %	Action Recommended
	High	>24.6	>15.0	
	Low	<24.6	<15.0	
S		High	High	Simulate and/or reproduce
		MH-20.7	MH-18	
T		Low	High	Target and reconfigure
E		High	Low	Exit or reconfigure
P		Low	Low	Purge and reconfigure or exit

The matrix continues with the matrix model step two. This matrix contains Risk Assessment Debt to Capitalization and Degree of Combined Leverage. This matrix will help us to determine the next strategy for the hotel's debt structure, whether the debt should be increased, or in reverse should be decreased. However, the

second matrix has a tight relation with the first matrix since the result from first matrix will be used again on the second matrix to determine the position of Hotel ABC in terms of Risk Assessment Debt to Capitalization and Degree of Combined Leverage. Following table is an example of the matrix model step two.

Table 2. Example of Matrix Model Two One (McEvoy, 1997)

		Risk assessment debt to total capitalization		Risk impact degree of combined leverage (DCL)		Action Recommended
Classification		High $\geq 75\%$	Low $\leq 75\%$			
Efficiency and return	SH	High	Low			Maintain current operation
	TH	High	Low			Consider additional leverage, combined with step one additional (DCL helps quantity)
Step one classification	TL		Low	MH-61.1%	MH-7.3%	Consider additional leverage, combined with step one action. Potential for yield management (DCL helps quantity)
	EH	High	Low			Consider reducing leverage, combined with step one action
	PH	High	Low			Maintain current leverage, combined with step one action
	PL	High	Low			Reduction in leverage will probably be forced
						Maintain current leverage, combined with step one action

Research Methodology

There are six steps done in order to finish the research for this paper, they are : *first*, Research Objectives Construction. The objectives of the research is constructed, and became the foundation of research purposes.

Second, Literature Review. The research used the paper of Bernard McEvoy titled *Integrating Financial and Operational Perspectives using Yield Management Techniques: an add on matrix model*, as the benchmark of the research. The matrixes created by McEvoy will be used as a tool for the process.

Third, Data Collection. The related data that will be needed for further research will be collected in this step. The financial data and daily sales statistics of Hotel ABC is provided by Hotel ABC, while the additional data for Bandung Hotels' Average Operating Efficiency is provided by Horwath HTL on its Bandung Hotel Industry 2009 edition.

Fourth, Matrix and Diagram Creation. The matrix is based on Bernard McEvoy's article and is developed after collecting the related data from sources. The diagram of demand will be plotted by using the data from daily sales room statistical data.

Fifth, Data, Diagram and Matrix Analysis. The data collected plus the diagram and matrix constructed will be analyzed by using several theories and principals.

Last is Conclusion. The analysis will come into a conclusion and will be concluded in this step.

Based on the result of the analyses, there will be some recommendations for further development of the implementation of yield management in Hotel ABC.

Data Analysis

Demand Plotting Diagrams

By using the daily statistics data from every day in 2008, we can plot the average daily price reduction to average daily occupancy rate diagram, this theory is a development of law of demand that plot the price to demand quantities. The statistical data from weak season will be separated from peak season.

The demand plotting shows that only 3 room types aligned with the law of demand, those rooms are :

Superior Rooms During Weak Season

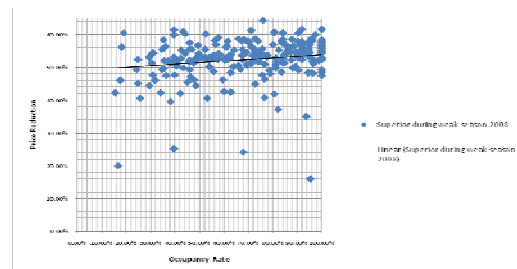


Figure 3. Plotting Diagrams during Weak Season 2008

Table 3. Calculation during Weak Season 2008

Highest Price Reduction	
Percentage	65.38%
Average Room Rate	Rp. 268,341
Occupancy Rate	35.14%
Lowest Price Reduction	
Percentage	15.99%
Average Room Rate	Rp. 651,082
Occupancy Rate	95.29%

season the revenue manager and his team shall lower the price. This decision is taken from the perspective of the theory of relationship between total revenue and elasticity.

The highest average daily price reduction of 94.38% occurred in Tuesday, June 17th 2008 that resulted in average daily occupancy rate of 65.38%. While the lowest average daily price reduction also occurred in Tuesday, December 30th 2008 with average price reduced of 2% that resulted to 57.18% of average daily occupancy rate. These two outcomes serve as outliers.

However, nonetheless, the upward trend of the curve shows us that the price decision of yield management in determining price or rates for deluxe rooms in weak season is already effective.

a) Executive Rooms during Peak Season

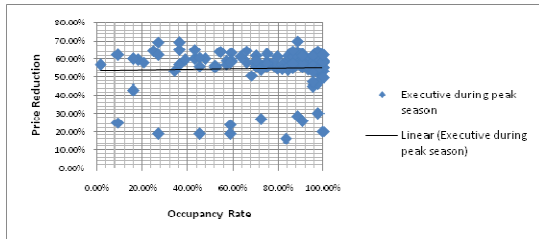


Figure 5. Plotting Diagram during Peak Season

Table 5. Calculation during Peak Season

Highest Price Reduction	
Percentage	69.98%
Average Room Rate	Rp. 360,191
Occupancy Rate	88.64%
Lowest Price Reduction	
Percentage	16.19%
Average Room Rate	Rp. 1,005,738
Occupancy Rate	83.18%
Lowest Occupancy Rate	
Occupancy Rate	1.44%
Average Room Rate	Rp. 518,989
Highest Occupancy Rate	
Occupancy Rate	100%
Elasticity	1.034340091

As we can see, the elasticity is higher than 1, so it means that the demand for executive rooms during peak season is elastic. As the price getting higher, the demand for executive rooms will

Lowest Occupancy Rate	
Occupancy Rate	15.68%
Average Room Rate	Rp. 447,062
Highest Occupancy Rate	
Occupancy Rate	100%
Elasticity	1.812250816 (Elastic)

From the calculation, we can see that the demand for deluxe rooms in weak season is elastic, which means that in order to maximize the total revenue for Hotel ABC from deluxe rooms in weak decline. That is why the perfect strategy to maximize the total revenue is by decreasing the price. This decision is taken from the perspective of the theory of relationship between total revenue and elasticity. With average daily price reduction of 55.01% and average daily occupancy rate of 75.74%, Hotel ABC's average daily price reduction on executive rooms in peak season can be called success.

In peak season, the demand is high, with two lower rates rooms being occupied faster; the hotel needs to also sell the rooms in executive level. However, if the hotel doesn't reduce the price more, the prospective guests might choose other hotels with cheaper rates rather than stay in Hotel ABC's executive rooms with higher rates. The average daily price reduction of executive rooms is making the average rates of executive rooms closer to deluxe rooms.

However, the upward trend proving that yield management of pricing decision for executive rooms in peak season is already effective.

Operating Efficiency Comparison

As we can see from the numerical figures above, the operating efficiency is volatile, ranging from around 20% to 35%. The lowest operating efficiency occurred in 2006, which is 20.36%. To deepen the analysis of the volatile result, the financial statement will also be studied, and is attached in the appendix.

Table 6. Operating Efficiency Comparison

Operating Year	Income before fixed cost (rupiah) I	Total Revenue (rupiah) II	Operating Efficiency (%) I ÷ II
2005	40,249,094	146,028,073	27.56
2006	32,049,056	157,375,012	20.36
2007	58,459,725	165,464,665	35.33
2008	69,820,719	188,599,747	37.02

Judging from the financial statement the low operating efficiency in 2006 didn't occur due to a decreasing outcome in revenue, because the revenue showed an increasing trend from year to year, in fact, the main reason behind this is the

high expenses that occurred in 2006, especially in general and administration fees.

There are several cost components caused high amount of general and administration in 2006, they are:

- a) Allowance for doubtful accounts (per available room), increasing from Rp 6,910,017 to Rp 16,857,467.
- b) Office equipments (per available room), increasing from Rp 127,888 to Rp 359,097.
- c) Human resource training (per available room), increasing from Rp 63,587 to Rp 988,855.
- d) Employee’s accommodation for office trip (per available room), increasing from Rp 186,814 to Rp 328,272.

The four components above caused the total expenses to raise, thus decreasing the total income before fixed and management cost, and in the end, lowering the percentage of operating efficiency in 2006. Comparing all the operating efficiency in 2005, 2006, 2007 and 2008, we can see that 2008’s operating efficiency is the highest. Although in the term of operating efficiency the gap of difference from 2007’s and 2008’s wasn’t too wide which is only 1.69%, but looking at the difference between total revenue from room in 2007 and 2008, the gap is wide. The revenue per available room from room sales in 2007 is Rp 94,605,887 while in 2008 is Rp 112,320,062 increasing about 18.72%. This percentage is the highest compared from 6.12% of increase in 2006 from 2005, and 5.51% of increase in 2006 to 2007. The huge difference outcome from room revenue shows that the implementation of yield management has given a good outcome in room revenue.

Bernard McEvoy’s Matrixes

The position of Hotel ABC in the first step matrix is in T or target and reconfigure. It means that Hotel ABC has a lower operating efficiency compared to most hotels in Bandung, so Hotel ABC should improve it by operate in a more efficient way. To increase the operating efficiency, Hotel ABC should first evaluate the operational decisions in the hotel, let it be the persons or workers, Standard of Operations or even yield management implementation.

Table 7. Bernard McEvoy’s Matrixes (1)

Operating Efficiency %	Return on Equity %	Action Recommended
High	> 47.25%	> 9.48 %
Low	< 47.25 %	< 9.48%

Hotel ABC's position is Low in Operating Efficiency, and High in Return on Equity

S	High	High	Simulate
T	Low	High	Target and reconfigure
E	High	Low	Exit or reconfigure
P	Low	Low	Purge and reconfigure or exit

Moreover, we can also see that the return on equity invested in Hotel ABC is much higher than investment in risk free rate investments. Therefore, the only thing Hotel ABC should concentrate is in increasing its operating efficiency.

Overall, we can conclude that the yield management implementation in Hotel ABC is still not optimum, since Bandung Hotels’ total revenue is higher than Hotel ABC’s. Although the difference between total revenue of Bandung Hotels average and Hotel ABC isn’t too wide; Rp 193,540,032 compared to Hotel ABC’s Rp 188,599,747, which is just 2.61% different, the fact that most hotels having more revenue than Hotel ABC is a red light signal for Hotel ABC to maximize its yield management. Furthermore, to improve its profitability and operating efficiency, Hotel ABC should really reconsider its daily operations and cut its operational expenses. We will assess further via financial statement analysis. The data for Bandung Hotels Average Operating Efficiency is provided by Horwath HTL in Bandung Hotel Industry 2009.

Table 8. Bernard McEvoy’s Matrixes (2)

Classification	Debt to total Capitalization		Degree of Combined Leverage	Action Recommended
	High >75%	Low <75%		
SH	High			Maintain current operation and leverage Consider additional leverage
	SL	Low		
TH	High			Maintain current operation and leverage Consider for additional leverage
	TL	Low	21.17%	
EH	High			Consider reducing leverage Maintain current operation and leverage
	EL	Low		
PH	High			Reduction in leverage Maintain current operation and leverage
	PL	Low		

The position for Hotel ABC in second step matrix is at TL, it’s because Hotel ABC has the long term debt to total capitalization as much as 31.05%, which is much smaller than the average percentage of hotels of 75%. This situation means that with its relatively low debt compared to other hotels, Hotel ABC already gaining profits with lower debts.

Since the percentage is still too low compared to the average percentage of hotels in 75%, Hotel ABC still can increase the long term debt to total capitalization, which in hope for a higher return.

The potential of leveraging up is signified by the presence of degree of combined leverage of 21.17%, which means that the effect of combined leverage (*both financial and operating leverage*) is exists. Where for 1% of change in sales will result in an increase of earnings per share of 21.17%, assuming the cost remains the same.

In hotel industry, the presence operating leverage is very clear to be seen, because many parts of the cost that occurred everyday are fixed costs. Whilst the financial leverage, particularly in Hotel ABC's case, is also exists because of the presence of debts.

The result of the matrix recommends Hotel ABC to increase the amount of debt, which is hoped to help the hotel increase the return if the additional property is being marketed properly.

Financial Performance Comparison

There is a significant change 17.4% change in revenue that increase from Rp 30,041,892,282 to Rp 35,268,152,720. Breaking down the revenue component, we can see that room sales give the highest revenue with 18.72% increase, while food and beverage give 12.41% increase. On the other hand, revenue from other departments are decreasing 10.89%.

Table 9. Financial Component Comparison

Component	2007 (rupiah) I	2008 (rupiah) II	Percentage (%) [I - II] ÷ II
Total Revenue	30,041,892,282	35,268,152,720	17.40
Room Sales	17,691,300,889	21,003,851,579	18.72
Food and Beverage Sales	10,545,636,733	11,853,878,536	12.41
Other Revenues	2,704,954,660	2,410,422,605	-10.89
Total Expenses	20,009,923,769	22,211,678,326	11.00
Administration & General Total	2,950,355,587	4,210,145,208	42.70
A&G: Salaries	2,018,196,037	3,490,704,680	72.96
Marketing Total	876,384,970	1,010,529,799	15.31
Maintenance Total	6,223,536,726	5,445,584,871	-12.50

In the same time, the distributed operating expenses of Hotel ABC are increasing for about 15.92%, and 6.13% in undistributed operating expenses. The expenses for room is increasing 38.02%, while for food and beverages is increasing 5.38%, and for other departments are increasing 11.45%.

From this we can see that room sales is increasing with a good manner, it is true that the

percentage shows a higher increase in expenses rather than in revenue, but if we take a look at the numbers, the amount of money increasing in sales is massive. In 2007, Hotel ABC generated Rp 17,691,300,889 from room sales while in 2008, Hotel ABC generated Rp 21,003,851,579, increasing about Rp 3,312,550,690. In the other hand, expenses from room of Rp 3,088,878,022 in 2007 is also increasing to Rp 4,263,195,624 in 2008 or increasing about Rp 1,174,317,602. The ratio of increase in revenue to increase in expenses is 2.82, for every 1 Rupiah increase in expenses; the sales will increase 2.82 Rupiah.

It means that by implementing yield management, Hotel ABC could increase room sales highly compared to 2005's Rp 15,798,084,399 or 2006's Rp 16,767,449,714. This is an incontestable proof that Hotel ABC's yield management implementation has boosted the sales of rooms with a significant amount.

Yield Management Strategy Change

Based on the data from budget plan 2008, we can see that the management of Hotel ABC has continued to improve the yield management with new strategies that are in line with the core concept of yield management. They are:

- a) Focusing on price rather than the cost. Comparing the 2007 and 2008 result of room sales and departmental cost, we can see that Hotel ABC were focusing more on the room price rather than cost. The cost was increasing 15.92%, but the sales from room were about 18.72%, higher than the cost increase. It means that Hotel ABC concentrates more in selling the rooms rather than cutting the cost in order to maximize the revenue.
- b) Hotel ABC had chosen to concentrate more in the corporate market which is a nice market, and this is align with other core concept of yield management of choosing niche markets as the target
- c) The integration of internet booking integrated with corporate website for the strategy in 2008 is a part of yield management strategy of technology enlistment, and is align with the common yield management tool
- d) The increase in budgeting for 2008 marketing expenses especially the expenses related to advertising and direct communication with the prospective customers are also another strategy in Hotel

ABC to boost its room sales that is in line with the core concepts of yield management.

Conclusion

Based on the analyses done in previous subchapters, we can conclude that Hotel ABC has already maintained a good yield management, but still not maximum. Other important conclusions are:

- a. Based on the demand plotting that describes the relationship between room occupancy and price reduction, we can say that the demand for superior, deluxe rooms in weak season plus executive rooms in peak season, are elastic, therefore, in order to maximize the total revenue, the revenue manager should decrease the price.
- b. The elasticity of other type of rooms is still uncountable due to the unmatched outcome of the graph from the principal of demand.
- c. The implementation of yield management has a good impact to its operating efficiency that is increasing from prior implementation, with revenue from room growing about 18.72% from prior implementation; the highest escalation compared to previous years' average 6%.
- d. However, the operating efficiency of Hotel ABC is still below the average of Bandung Hotels, therefore, Hotel ABC should increase its operating efficiency. This is worse than in 2007 where Hotel ABC had better operating efficiency than average of Bandung Hotels. After breaking down the component, it is clear that Hotel ABC has a massive increase in cost compared to Bandung Hotels' average. Overall, we can say that Hotel ABC has applied a good yield management that generated massive 18.72% increase in room sales, highest than previous room sales increases with average of 6%. However, cost component was also increasing, to make it worse, most hotels in Bandung actually decreased its expenses, making Hotel ABC looked inefficient.
- e. Nevertheless, in terms of return on equity, Hotel ABC had a significant return 38.76%.
- f. The great increase in percentage of room revenue from 2007 to 2008 is the indisputable proof of the good impact of yield management application, or in the other words, the implementation of yield management has already effective in Hotel ABC. Moreover, the yield management implementation in Hotel ABC already help the hotel to increase its operating efficiency, despite of the fact that Hotel ABC's operating efficiency is still under the operating efficiency average of Bandung Hotels with the gap of 10.57%, which is still high. However, this differences mainly caused by the high expenses occurred in Hotel ABC which is Rp 57,038,823 per available room compared to Bandung Hotels average which Rp 42,967,680 per available room. In terms of revenue, the gap between Bandung Hotels average and Hotel ABC is not that wide with 2.6%.
- g. Furthermore, we also can interpret the result from Bernard McEvoy's matrixes as a signal for improvement for Hotel ABC. The matrixes results aren't the best but its result is a proven success. The second matrix suggested Hotel ABC to invest in property or facilities. In order to invest property, Hotel ABC could borrow more money. More debt is riskier but the return is higher.
- h. Hotel ABC's strategy in yield management is mostly related to marketing improvement, niche market expansion and online reservation system application. We should emphasize on the expenses of marketing department. It increased for about 15.31% from 2007's marketing expenses. By breaking down the cost component from marketing, the highest expenses occurred in advertising and publication with 15.17% increase. The cost for marketing and sales trip also increased 74.27%. Greater advertising budget was Hotel ABC effort to improve marketing plan and it is aligned with core concept of yield management implementation
- i. In overall view, Hotel ABC had already implemented an effective yield management strategy, because of great increase in revenue from room sales. In 2008 Hotel ABC had the greatest revenue increase.
- j. Although Hotel ABC had already implemented a good yield management, and had great increase in revenue compared to other Bandung hotels, its operating efficiency was lower than operating efficiency of Bandung Hotels' average. Other hotels in Bandung had lowered operating expenses, while Hotel ABC had increased operating expense significantly. From breaking down the cost, we can see that the employees' salary was the highest cost component. Compared to other hotels, Hotel ABC has been investing more on its

people. Employees are important in a service industry, because happy employees will serve the guests happily.

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