International Journal of Hospitality Management 57 (2016) 132–142

Contents lists available at ScienceDirect

International Journal of Hospitality Management

journal homepage: www.elsevier.com/locate/ijhosman

Meeting revenue management challenges: Knowledge, skills and abilities

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ARTICLE INFO

Article history:
Received 23 December 2015
Received in revised form 28 June 2016
Accepted 28 June 2016
Available online 15 July 2016

Keywords:
Revenue management
Yield management
Challenges
KSAs
Revenue managers

ABSTRACT

Hospitality industry increasingly recognizes importance of integrating revenue management into their operations and significance of their staff to do so. Yet revenue managers face major challenges from both internal and external sources. Hence revenue staff dealing with several sophisticated problems should possess various knowledge, skills and abilities (KSAs) to enable them effectively overcome these obstacles. However which specific capabilities are required to what extent are not clear. Therefore this study aims to match the challenges that are faced by hotel revenue managers with KSAs required in managing inventory and prices. A two step qualitative method is adopted; first 14 revenue managers were interviewed and secondly a focus group with eight participants was conducted in order to identify challenges and competencies required in improving revenue management effectiveness. Thus this study offers a typology of challenges faced by revenue managers and it also identifies KSAs that are required by revenue management staff.

1. Introduction

Revenue management (RM) is a strategy deployed by service companies with perishable inventories to maximize their revenues. The term RM is used to describe a variety of strategies that allocates limited inventory (e.g., hotel rooms) among different customer segments (e.g., transient customers). Application of RM has been widely discussed scholarly in various service contexts such as airlines (e.g., Smith et al., 1992), hotels (e.g., Cross et al., 2009), car rental companies (e.g., Geraghty and Johnson, 1997), restaurants (e.g., Susskind et al., 2004), spas (e.g., Kimes and Singh, 2009), casinos (e.g., Hendler and Hendler, 2004), resorts (e.g., Pinchuk, 2006), bars (e.g., Bujisic et al., 2014), movie theaters (Choi et al., 2015) and entertainment events (e.g., Volpano, 2003). RM continues to attract increasing attention from both industry and academia alike due to the financial advantages it yields to organizations.

Sophisticated RM techniques' contribution on profits has been acknowledged in the literature and RM is proven successful in a range of industries (Cross et al., 2009) including hospitality (Deighton and Shoemaker, 2001). Working within a RM culture allows hospitality organizations to develop a greater understanding of the dynamics of demand. Such discipline puts the hotel in a position to be able to take advantage of opportunities that may exist to deploy rate and inventory restrictions on rooms when demand is high. Additionally, systematic observation of booking trends and benchmarking allow hotels to make more informed decisions regarding the rates that are offered, products and the channels of business that are opened for sale. Thus hotels are able to generate incremental revenues using RM. In other words, RM has become a fundamental strategic instrument for hospitality industry managers.

Despite the advantages RM offers to hotels, various obstacles prevent lodging industry to adopt and effectively use RM solutions. Some of these complications are handled by revenue management office (e.g., rate restrictions), some others need organizational involvement (e.g., business strategy) and the rest require external intervention (e.g., regional demand). The dynamic, competitive and multi-dimensional structure of the industry creates problems concerning such issues as pricing, management of distribution channels, forecasting, developments on ICT, knowledge management, integration with other systems and strategies, sheer volume of data to be processed for better decision making, price fairness, human resources, long term contracts, allocations and so on. Hence revenue managers dealing with various sophisticated problems should possess different skills (e.g., social), abilities (e.g., cogni-

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http://dx.doi.org/10.1016/j.ijhm.2016.06.008

tive) and knowledge (e.g., budgeting) to enable them effectively overcome these obstacles (Yeoman and Watson, 1997).

Literature on hotel RM is focused on different models (e.g., RM systems, optimization, forecasting, pricing models), implementation of RM strategies or demand side of the concept (e.g., perceptions of customers, distribution, CRM) and has so far neglected the overall perspectives of professionals involved in RM decision making process (Beck et al., 2011). Managing revenue is both a science (e.g., algorithms) and an art (e.g., intuition) (Cullen and Helsel, 2006). Despite developments in forecasting, pricing and other RM systems, human judgment is still a crucial factor in managing revenue (Chiang et al., 2006). Although the technical infra-structure and processes of RM were extensively discussed, RM as an expertise and profession received less attention (Kimes, 2011). The scope of RM is not fully understood by the management, as the RM department is most qualified to identify the correct timing for events, promotions, discounts and offers, and a lack of communication between departments and lack of understanding of RM principles lead hotel managers to make uninformed decisions (Hendler and Hendler, 2004).

RM also requires technological support such as forecasting tools, optimization algorithms and data mining. Revenue managers' roles are continuously becoming more strategic and technologically driven (Kimes, 2011). When every leading firm in an industry has access to the same technology resource (e.g., state of the art RM software package), knowledge management (Cooper, 2006) and personal skills (Bilgihan and Wang, 2016) determine competitive advantage (Hallin and Marnburg, 2008). Previous studies highlight that managerial capabilities influence the way technology used in hospitality and tourism organizations (Yuan et al., 2003). Success of RM in the lodging industry is supported by development and sharing of knowledge, and appropriate management skills. Revenue managers have a critical role in hospitality as they are responsible for ensuring the hotel prices match guests willingness to pay while minimizing consumer surplus. They need to understand concepts such as value, supply and demand, forecasting by following the trends in the marketplace. They also need organizational, strategic and leadership skills, ability to collect marketing intelligence, educate and motivate staff.

Perspectives of revenue managers are important for a better design of overall revenue management process. It should also be acknowledged that for a successful deployment, RM must be integrated into all aspects of hotel management, marketing and operational activities (Mauri, 2012). Thus, the slow adoption of RM in the lodging industry is also a reflection of challenges and barriers that revenue managers face. In order to survive in an increasingly turbulent and aggressive competitive environment, hotels need to manage change by identifying potential barriers and develop strategies to overcome them (Okumus and Hemmington, 1998). Identifying potential barriers, offering solutions to challenges and developing certain KSAs would help hotels to better adopt RM strategies. Hinterhuber and Liozu, (2012) also discuss pricing power as a learned behavior rather than a destiny.

In sum, while RM is important for hospitality profitability and there are forces driving hotels to implement RM strategies, on the opposite side, there are factors that hinder a hotel's effort to adopt RM practices which this paper aims to discuss. Previous research on RM with similar objectives mostly focused on algorithms, systems, marketing and strategy and neglected the people element. Therefore, this research aims to investigate the challenges and later explore the personal competencies required for effective hotel revenue management. The flow of this paper is as follows; first, it discusses the concept of RM, and then introduces previous research on RM challenges and KSAs. That section is followed by a description of the study design and data collection. Study results are then presented and discussed. Finally, it concludes with both theoretical and practical implications, and proposes future research directions and limitations.

2. Theory

The core of RM is the concept of maximizing revenues through demand-based variable pricing (Choi and Matilla, 2004) based on forecasted demand (Emeksiz et al., 2006). It is the art and science of selling right products and/or services to the right customers, at the right prices (Cleophas and Frank, 2011), at the right time, using the right channels (Choi and Kimes, 2002). Managing pricing and availability strategies, understanding and predicting demand, achieving rate accuracy, allocating capacity (Berman, 2005), organizing rate structure effectively, employing consistent, proper reservation terms and conditions and following up with competition are considered difficult tasks (Carroll and Siguaw, 2003). The complexity of decisions and variables that need to be treated and aligned are too many, sophisticated, time consuming and usually irreversible (Vinod, 2004). Hence revenue managers are faced with various complications that prevent them from reaching the optimum pricing.

RM has evolved from a focus on variable demand for those products offered for sale to a focus on how customers and channels respond to pricing and how to use that information to direct and shape consumer behavior. Different computer programs and solutions have been developed to assist revenue managers in their demanding decisions. Yet these software still need constant attention and are far from resolving problems on auto-pilot. Staff involvement is also required to overcome most of these challenges. Despite complex RM software, heuristic tools still impact RM decision (Berman, 2005) and hotels might improve RM effectiveness by investing on specific KSAs of RM staff. Bergen et al. (2002) also refer to human capital as a required asset for effective pricing. RM cannot be run only by the systems and it demands well-trained, skilled and competent staff with expertise on products, services, customers, competitors, suppliers and the overall macro environment. These challenges and required competencies are discussed below.

2.1. Challenges with revenue management

Various authors have explored challenges with RM and their resolution. Some of these challenges are handled by the revenue department such as reducing customer's surplus, achieving rate accuracy and availability (Carrol and Siguaw, 2003), collecting and analyzing marketing intelligence, data analytics, forecasting and budgeting (Kimes, 2011), designing and employing rate restrictions (Guillet et al., 2014), managing distribution channels and rate parity, preventing cannibalization, bundling (Bergen et al., 2002), communicating pricing strategy, allocating capacity and overbooking, monitoring performance of different markets, educating and motivating various actors, managing RM systems and their integration with other processes, integrating ancillary spending with pricing (Noone et al., 2011), opportunity cost (Baker and Collier, 1999) and insufficient time in doing all these (Yeoman and Watson, 1997).

Mainzer (2004) discusses several organizational pitfalls to effective RM, these are factors that RM has less power to change. Yet the impact of these obstacles can be modified indirectly to some extend by the RM because they are usually rooted in organizational structure and strategies. These are internal politics and conflict (Bergen et al., 2002), ownership structure of the industry (Mainzer, 2004), numerous ICT systems, systems integration issues, data integrity (Baker and Collier, 1999), lack of RM expertise in HR market, guest confusion and dissatisfaction (Choi and Mattila, 2004), lack of skills,