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Discussion paper

"Where you do it" matters: The impact of hotels' revenue-management implementation strategies on performance

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ABSTRACT

This study explores RM strategic implementation approaches, addressing the question of whether the RM function should be performed within the hotel property, or should be outsourced to an outside entity such as corporate, regional office or a third party. Using a random sample of 602 US hotels, the study analyzed the hotels' RevPAR Index over varying periods and the hotels' self-reported RM implementation strategy. The findings suggest that hotel characteristics such as size and scale affect their decision on where to perform the RM function. More importantly, we find that this strategic implementation decision impact the hotel's level of performance compared to its competitive set: corporate and centralized RM functions outperform in-house and third party. Interestingly, the findings indicate that a mixed strategy, one that combines implementation strategies, is associated with the highest RevPAR index.

1. Introduction

It is well recognized that the implementation of a strategy, that is, the phase which deals with the "who", "where", "when" and "how" activities, is as important as the strategic plan, and that it can generate a strategic advantage to the firm (Freedman, 2003). It is further acknowledged that the organizational structure is a key decision area within the implementation phase since the structure determines how the firm's resources are allocated, and how individuals and teams in the firm are coordinated (Rothaermel, 2015). This study explores how key structure implementation decisions affect the hotel's performance, empirically assessing the impact in the dynamic area of strategic Revenue Management (RM).

RM − the implementation domain of this study − plays an increasingly important role in determining the financial success of hotels and other hospitality organizations (Boyd, 1998; Cross, 1997; Cross et al., 2010; Geraghty and Johnson, 1997; Orkin, 1988; Salerno, 2010). At the same time, RM practitioners and scholars acknowledge that the role of RM is, and should be, strategic rather than a tactical one (Kimes, 2011; Van Roij, 2016; Vinod, 2004). Wang (2012a,b), Wang and Bowie (2009) and Wang and Brennan (2014) underscore the increasing importance of the strategic aspects of RM policies given that certain RM practices have the potential to negatively impact the hotel's long term relationship with its key clients, and the potential conflicts with the hotel's Customer Relation Management (CRM). It follows that establishing an effective RM systems and practices is a strategic endeavor, aimed to support the hotel in its quest to achieve, and maintain, a sustainable strategic advantage in the market. From a strategic perspective, RM is not different from the rest of the hotel's key strategic domains in that it is concerned with the strategic orientation needed to design new implementations (Okumus, 2001), and with developing and implementing the revenue management system as a key consideration to ensure financial success (Chiang et al., 2007). The area of RM activities is dynamically evolving and the lodging industry is still learning and exploring best practices (Buckhiester, 2011). As such, it presents an opportunity to study the question posed above, that is, the impact of strategy implementation on performance.

Specifically, we look at the level, and nature, of outsourcing and centralization, that is, we explore the "who" and "where" questions of implementation. These two questions refer to what entity(s) in the organization's structure should perform the RM function, and to the "internal vs. market" choice dilemma. As we outlined in the next section, the general strategy literature provides ample of clues as to the advantages and disadvantages of outsourcing and centralization levels of information technology based processes, as well as decisions in organizations. This study's main contribution is that it is first to test

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empirically how these structure implementation choices of outsourcing and level of centralization affect the hotel's financial performance. The following section begins with a background discussion on the strategic status of hotel RM, continues with a brief introduction to the practice of strategic outsourcing by firms, and ends with a discussion on outsourcing RM activities in the lodging industry.

2. Background

The lodging industry strategic view on RM systems has evolved considerably in the past several decades, moving away from the narrow view of capacity control-based yield management to the more encompassing profit maximization. This progression coincides with the shift from the earlier market-based short-term pricing approach to the current long-term strategic approach, and it manifested in a range of changes. In a recent article, Wang et al. (2015) summarize eight major paradigm shifts in the hotel RM domain: Revenue maximization to profit optimization; revenue-centric approach to customer-centric approach; demand-driven pricing to reputation and value-based pricing; short-term tactical RM to long-term strategic RM policies; rooms department focus to total hotel; distribution management to channel management; relying on historical and predicted demand analysis to capitalizing on the opportunities offered by big data; and educating RM leaders to foster RM culture throughout the organization. These, and other trends, have garnered some interest in the hospitality literature in recent years. For example, Anderson and Xie (2010) and Gregory (2012) explore the emergence of the Total Hotel Revenue Management school of thought and practices, while Schwartz et al. (2016) provide the analytical and emprical support for the need for stronger profit-based orientation and RM processes. Other discuss the integration with other hotel databases, such as CRM (Gupta, 2010; Mahmoud 2016), and Online Reputation Management systems (Hertzfeld, 2016; Leposa, 2014).

As rapid progress is made on the technological and information technology front, the contribution potential of RM systems continues to evolve with more sophisticated capabilities (Chiang et al., 2007; Kimes, 2011). At the same time, it is still maintained that RM is a set of tools and mechanisms designed to assist decision makers (Lieberman, 1993), and that the success of hotel properties lies within senior management's ability to adopt strategies that promote competitive advantages (Bolat and Yilmaz, 2009). In this sense, hotels make a variety of strategic decisions on how to, and what to, implement in their properties in order to improve performance, and their RM system and procedures are an effective tool they rely upon while performing this task.

The strategic importance of RM is discussed in a number of studies (Anderson and Xie, 2010; Bonnemeier et al., 2010; Cross et al., 2010; Kimes, 2011; Noone et al., 2011; Okumus, 2001). However, the academic literature is yet to address the question of what the best hotel RM systems implementation strategies are. Developing an effective implementation strategy requires an in-depth analysis of the hotel's environment. It includes identifying resources such as knowledge and skills available at the property level, assessing affordability and return on investment, and gaging the feasibility of the considered strategy. A main consideration in this regards, and a focus of this investigation, is whether to handle the RM process internally at the property level, or delegate some or all of the responsibilities to an outside entity (3rd party or other units within the chain).

Outsourcing − the act of contracting out in place of using an internal resource − is used extensively in many industries where the market choice is seen as more beneficial than an internal one. Today's business environment is complex and unpredictable due to rapid changes in technology and consumer taste, globalization, and increased competition (McIvor, 2008). This environment requires greater efficiency, making outsourcing a viable strategy because it allows firms to focus on what they do best. The initial allure of the outsourcing strategy was cost reduction − using external parties to handle non-core or routine business functions (Gottfredson et al., 2005). Outsourcing strategy has another remarkable potential benefit. Small and medium firms typically have relatively limited access to resources such as advanced technology and highly skilled employees (Kamyabi and Devi, 2011a) and outsourcing is often considered a viable solution for this type of challenge as well (Kamyabi and Devi, 2011b; Kotabe and Mol, 2009; Lamminmaki, 2008).

Aiming to improve their performance, more firms are now employing an outsourcing strategy across a wider array of functions previously done within a firm's boundaries. It is now considered an integral part of critical strategic decisions in firms, moving beyond the mere cost-saving consideration (Hoetker, 2005). This newer approach to strategic outsourcing is associated with better use of available resources, lower production costs, a more efficient use of various forms of capital, and most importantly, a focus on the core competencies of the business. Specifically, cost savings are due to reduced overhead costs, improved product or service quality, or a faster processing time resulting from specialization of the supplier. Moreover, outsourcing can create unique resources and tools that can make a firm more effective (Clemons, 1991; Mata et al., 1995) and release more resources to improve the core competencies of the firm. And finally, when outsourcing involves a stable, long-term relationship with a supplier, that supplier could also turn into a strategic partner (Mol et al., 2005; Quélin and Duhamel, 2003).

Outsourcing strategy is not risk free, even when the short-term advantages are clearly present. Hence, while outsourcing has become a very important part of the strategic decision process for many organizations, it is an opportunity as well as a challenge (Baden-Fuller et al., 2000). When firms outsource some of their functions, they might lose some strategic characteristics of the outsourced function (Espino-Rodríguez and Gil-Padilla, 2005), in addition to potential confidentiality challenges because private information is shared with outside suppliers. According to Group (2002), outsourcing's likelihood of success is 50 percent at best, and it is noted that the outcome of an outsourcing strategy might be problematic because the decisions are based on different circumstances for different firms (Watjatrakul, 2005). Furthermore, scholars argue that wrongful outsourcing decisions often result in failure due to excess exposure to risk, and a loss of competitive advantage over time (Lacity and Hirschheim, 1993; Loh and Venkatraman, 1992; Ngwenyama and Bryson, 1999). Accordingly, the potentially negative long-term impact on the firm's capabilities needs to be considered and monitored as well (McIvor, 2008).

Many in the lodging industry consider outsourcing of RM to be desirable due to the complexity, dynamic nature, and strategic importance of RM (Landman, 2010; Rheams, 2004). However, as Parker (2016) states "it is not for everyone", and indeed some argue that it is important and beneficial to keep the RM function in house (Cohen, 2004). Acknowledging the notion that outsourcing some, or all, of the RM processes to providers outside the hotel is a strategic decision that might have a long-term implications, and that there are no clear empirical indications on which strategy is preferable, this study sets out to test the relation between that implementation decision and the hotel's performance.

3. Methodology

3.1. Data

To explore the impact of the RM implementation strategy on performance, the study matched hotel records from two sources:

- the hotel's RM strategy implementation decision was solicited using an online survey
- the hotel's performance data was acquired from Smith Travel Research (STR).