# Revenue Management in China's Hotel Industry

adapted from: *http:www.ipedr.com*

China's hotel industry has flourished in the last decade and is seen to have a great potential for future development. The World Tourism Organization has predicted that China will be the world's number-one tourist destination by 2020 with annual arrivals of 130 million. In order to meet the growing demand from both international and domestic travelers, China's hotel industry need to expand and develop much more. However, China's hotel companies are relatively small and immature when compared with foreign multinational hotel companies. In order to survive in the face of strong and skilled competition, China's hotel industry needs to adopt advanced operational management methods. Among these methods, revenue management is one of the most important ones.
The objective of revenue management in hotel industry is selling every room at the highest possible rate, while at the same time, not having any room unoccupied. In order to achieve this goal, the basic and key elements of revenue management include pricing, overbooking, room inventory control, and duration control.

## A. Pricing

Pricing Revenue management is a kind of price discrimination. The hotel needs to classify customers and charge them different rates based on their different needs and behavior. This kind of pricing strategy adopts some rational rules and restrictions to differentiate between guests who want and can pay higher prices from those who would like to change their behavior looking for a lower price.  For example, price-sensitive customers can enjoy a lower price, but with some restrictions including booking a certain period of time, being subject to a no deposit refund, or having limited room options. Customers who can pay full price, on the other hand, can book at anytime and select any kind of room. The advantage to this kind of segmentation is that the hotel can sell the discounted rooms to one customer segment without losing any income from the other segments.

## B. Overbooking

It is common that customers have made a room reservation in advance, but they may cancel the reservation or not to come because of various reasons. This will lead to the room being vacant and the hotel losing the chance to make a profit. In order to protect the hotel against the possibility of no-shows, overbooking is common practice of hotel industry. However, overbooking also carries a risk: if all of the customers arrive at the reserved time, the hotel may not have enough rooms for them all. So it is important to consider the optimal overbooking rate. Generally, this can be calculated according to the following equation:

**Amount of rooms overbooked** = Number of predicted rooms canceled + number of predicted no-shows + number of rooms predicted to check out in advance – number of rooms predicted to extend to check out.

## C. Inventory control

In general, some hotels accept as many reservations as possible even if some reservations are made far in advance. This may guarantee occupancy; however, the hotel may lose the opportunity to capture more potential income in the future. The earlier the customers make their reservation, the greater the discount they ask for. If all rooms were sold at a low price, the customers who would pay full price will not be able to reserve a room near the date that they will come. Therefore, hotels should try to sell the room near the arrival date at the highest possible price. The hotel must decide how many rooms will be sold in advance and how many rooms should be kept.
The objective of room inventory control is to limit the number of discounted rooms. Hotels should keep the rooms for customers who can pay a higher price so as to capture more profit as well as satisfy various customers' needs.

## D. Duration control

One particular problem hotels have is that the customers may stay for more than one night. Even if customers who stay for more than one night will bring more revenue than those who only stay for one night, the question is based on the customers' demand level and on the rooms available at that time.
To have optimal duration control, the hotels need to calculate the demand level at different time periods.

For example, a hotel with lower demand on Wednesday and higher demand for Tuesday and Thursday could require a customer who arrives on Tuesday to stay for at least two days and reject those who want to stay for one night only. In this way the hotel will take full advantage of small capacity while limiting the time between one customer's departure and another one's arrival.

## A) Decide if these sentences are true (T) or false (F)

| | T | F |
|---|---|---|
| **1.** China will be the most important tourist destination in the next few years | T | |
| **2.** People who want to spend less must accept some limitations to their reservations | T | |
| **3.** The overbooking is the reservation of hotel rooms for a period of time that is longer than required by the customer | | F |
| **4.** People usually book a room in advance in order to have better discounts | T | |
| **5.** The inventory control is the system used by hotels to sell their rooms in advance but at lower prices | | F |

## B) Match these words with the definitions

**a.** *price-sensitive* – **b.** *rate* – **c.** *refund* – **d.** *no-shows* – **e.** *check-out*

**1.** an amount or level of payment ...b...
**2.** to leave a hotel after paying and returning your room key ...e...
**3.** people who are expected but do not arrive ...d...
**4.** sales are influenced by price rather than quality ...a...
**5.** an amount of money that is given back to you, especially because you are not happy with a product or service that you have bought ...c...

## C) Choose the correct words to complete the sentences

**1.** Pricing Revenue management is an operation of price ...a...
**a.** *distinction* – **b.** *inequity* – **c.** *perception* – **d.** *solution*

**2.** Overbooking is a common practice to prevent hotel from having ...a...
**a.** *empty rooms* – **b.** *small rooms* – **c.** *big rooms* – **d.** *sea-view rooms*

**3.** Hotels should keep the rooms for customers who are not interested in ...b...
**a.** *category* – **b.** *rates* – **c.** *location* – **d.** *staff*

**4.** To have optimal duration control, the hotels need the number of specific time periods ...a...
**a.** *requests* – **b.** *rooms* – **c.** *availability* – **d.** *prices*

## D) Fill in the gaps using the given words

**a.** *segmentation* – **b.** *rooms* – **c.** *internet* – **d.** *years* – **e.** *tolerance*
**f.** *guests* – **g.** *facing* – **h.** *occupancy* – **i.** *profitability* – **j.** *strategy*

Proper market ...segmentation... can make all the difference to a hotel's revenue management ...strategy... By dividing the market into corporate bookings, ...internet... bookings, association groups, and so on, managers can effectively determine the maximum rate ...tolerance... for each segment. This would of course change based on location, type of hotel, franchise/independent, number of ...rooms... and many other factors. Using data collected over the ...years..., hotels can also consider seasonal interest and estimate periods of high and low ...occupancy... . A number of other potentially lucrative aspects, such as a superior view, can also play a big role in optimizing the hotel's pricing strategy. ...guests... are usually ready to pay more for a room under certain conditions, like periods of high occupancy or a sea ...facing... room. Contrary to the common opinion, high occupancy is no indicator of profitability – in fact, a hotel medium occupancy can experience better ...profitability... with a proper revenue management strategy than a fully booked hotel!