

Malte Rücker

Revenue Management Integration

*The Financial Performance Contribution of an
Integrated Revenue Management Process for Hotels*

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Abstract

The diploma thesis assesses the opportunity to implement an integrated approach to revenue management in order to meet the challenges of the competitive tourism environment, which are particularly stemming from the increasing importance of the internet. It is proposed that effective and efficient coordination of the disciplines of revenue management, marketing, sales and e-commerce leads to Revenue Management Integration (RMI), which has a positive effect on financial performance and competitiveness. The thesis aims at identifying key linkages among the disciplines and creates a guideline of how the integration may be achieved. Using multivariate regression, it is tested with 30 hotels, affiliated to eight of the largest hotel chains in Germany, whether Revenue Management Integration is positively related to financial performance. The study showed that integrated revenue management is positively related to RevPAR performance in hotel properties, while the relationship to other profitability measures, such as Return on Equity (ROE) and Operating Profit Margin (OPM) did not yield clear results.

Keywords: competitive tourism environment, internet, disciplines, Revenue Management Integration (RMI), financial performance, RevPAR

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1. Introduction

An integrated approach to Revenue Management (RM), which spans over various disciplines, has frequently been proposed for tourism companies providing perishable products of fixed capacity, such as hotel chains, to fully capture the potential of total profit optimization (Ng, Maull & Godsiff, 2007, McGuire & Pinchuk, 2009). Kimes and Wagner (2001) defined the general strategy of revenue management as the practice used by service firms with fixed capacity to match the supply of a perishable commodity with forecasted demand via strategies that manipulate price and time of consumption (as cited by O'Connor & Murphy, 2008). Furthermore, revenue management and pricing programs have commonly been praised to have the potential to increase revenues by 3 to 8 % which can in turn result in 50 to 100 % profit improvements (Skugge, 2007). This thesis proposes a departmental and functional integration of various activities to arrive at an integrated revenue management approach that is viewed as the necessary reaction to changing market environment conditions.

Information and communication technologies (ICTs) have been changing the tourism industry structure globally, while developing many new opportunities and threats (Buhalis & O'Connor, 2005). In this new environment, revenue management becomes as important and challenging as never before and to operate effectively, skills are required to combine several knowledge areas steadily and creatively to make profit from the process (Henriksson, 2005). Consequently, it is proposed that particularly due to the modern tourism environment, companies have to make use of strategic integrated revenue management to offset the threats and take advantage of opportunities that the modern tourism environment represents.

An integrated approach to revenue management spans the disciplines of yield management, pricing, marketing, sales and e-commerce distribution and seeks to identify linkages to effectively and efficiently coordinate activities in the different areas to arrive at total profit optimization (McGuire & Pinchuk, 2009). The thesis is designed to illustrate how Revenue Management Integration (RMI) could be achieved, and the research part aims to assess whether hotel chains that embrace a higher degree of Revenue Management Integration operate at higher profitability.

1.1. Research Questions

This thesis is designed to evaluate whether an integrated revenue management process provides benefits in terms of financial performance to tourism companies selling perishable inventory such as hotel chains, in particular in a changed and more competitive tourism environment. Consequently, the following research questions guide this thesis:

- a. Does the integrated revenue management process have a positive impact on financial performance of hotels?
- b. Is an integrated revenue management process crucial for competitiveness given the changed modern tourism industry environment?

1.2. Research Contribution

The research is useful since the topic of integrating revenue management achieved increasing interest in the academic field as well as in the practical application in recent years (Tranter et al. 2009, McGuire & Pinchuk, 2009, Pinchuk, 2007, Ng et al., 2007). According to Skugge (2007), future improvements of profitability for companies will be by filling gaps and optimizing current revenue management programs rather than investing in new more elaborate computer systems. As a result, companies have to optimize their revenue management procedures and processes within the company, and it is proposed that this can be achieved by taking a holistic view and integrating various disciplines to come to total profit optimization. Roll (2009) argued that “we only have limited knowledge about the impact of the pricing organization within a company on profitability” (p. 397). Thus, the research fills a gap that gives companies not only a guideline how the integration can be achieved but especially whether it has an impact on financial performance and should be pursued and invested in.

1.3. General Objective

The general objective is to find out whether it is worthwhile to invest into the implementation Revenue Management Integration (RMI) due to its contribution to financial performance and/or competitiveness.

1.4. Specific Objectives

1. Assessment how the tourism value net, with the internet at the centre, changes the tourism industry structure.
2. Assessment of how the integration of the revenue, marketing, sales and e-commerce departments is best achieved and identification of linkages and key challenges.
3. Assessment what companies may gain from an integrated revenue management process in terms of profitability.

1.5. Hypotheses

The following working hypotheses are derived for the thesis:

1. Revenue Management Integration (RMI) in hotels is positively related to financial performance.
 - a. Revenue Management Integration stands in positive relation to Revenue per Available Room (RevPAR).
 - b. Revenue Management Integration stands in positive relation to Return on Equity (ROE).
 - c. Revenue Management Integration stands in positive relation to Operating Profit Margin (OPM).

1.6. Research Design

The research design sets out the framework in which data is collected and analyzed for the purpose of testing the hypotheses. A cross-sectional design is chosen to determine the relationship between financial performance and Revenue Management Integration (RMI) of hotel chains. According to Bryman and Bell (2003), cross-sectional design is suited when the research is looking for variation between many cases and for that purpose, from each case observations on several variables are made. Olsen and St. George (2004) emphasized that the cross-sectional study design takes the observations at a single point in time, thus change in observations cannot be measured. In cross-sectional design it is crucial to have a standardized procedure based on quantitative data to measure the variation between cases, which also results in a study of high replicability (Bryman & Bell, 2003). Therefore, sound research methods are crucial for an effective study of cross-sectional design.

1.7. Research Methodology

Several research methods are used in the study. First of all, a literature review lays the theoretic foundation for the research and provides a comprehensive illustration of Revenue Management Integration (RMI). Additionally, questionnaires were used and structured telephone interviews conducted, as the primary means to collect relevant data for the study and statistical evaluation. The statistical method used for data evaluation is a multivariate regression analysis, designed to determine the relationship between financial performance and Revenue Management Integration. Secondary data is used for control variables of the statistical modeling and finally, sampling methods are considered to identify the appropriate population for the research study.

1.7.1. Literature Review.

First of all, the literature review gives an overview why integrated Revenue Management within an organization is regarded as more crucial than ever due to economic forces particularly triggered by the modern tourism value net with the internet technology, representing a new medium that is not to be underestimated in its influence. More importantly, the literature review then sets out the theoretic foundation for the research by illustrating the Revenue Management Integration (RMI) between various functions and departments. It will be assessed how the integration may be achieved and which major changes are necessary to reach true integration within the organization. From the theoretic illustration key indicators for the integration are derived and transferred into a questionnaire, intended to measure the Revenue Management Integration in hotel properties and across hotel chains.

1.7.2. Structured Interviews.

The questionnaire derived from the literature review was filled out by conducting structured telephone interviews, which were identified as being most suited for the cross-sectional research design used. According to Bryman and Bell (2003), structured interviews are standardized whereby each interviewee receives the same questions in the same order, and the same way. Due to the standardized character, any differences in responses are due to real variation and not due to inconsistency of interviewer conduct. Consequently, a structured interviewing approach is best suited for quantitative research where responses are to be