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Yield Management in the Hotel Industry of Croatia

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Abstract

This paper will explore the profit maximizing method of yield management in the Hotel industry in Croatia. Yield management is a method that enables firms to increase their profits through allocation of their capacities to various customers for the right prices. For Hotels that means selling the rooms at different rate levels. Main goal of this paper is to examine if, and to what extent is the Croatian Hotel industry using this method for profit maximization. After a short theoretical background on yield management we will present the results of empirical research on the implementation of yield management in Hotels in Croatia.

Keywords: yield management, hotel industry, tourism, Croatia

JEL classification: L11

Introduction

Tourism plays such a significant role for the countries and it's well integrated in many economies. According to Cerović et al. (2017), tourism demand defines the growth of each tourist destination. Furthermore, it can significantly have an impact on the growth of a tourist destination. Tourist demand is usually interpreted as the amount of all goods and services that can be sold and used in the tourism industry. Those goods and services are sold under clearly defined rates (Vukonić et al. 2001). As Ferguson et al. describe (2014), the application of using the yield management developed gradually since the early 1990s. The implementation of it soon become an essential part in many businesses (Forgacs, 2010). In simple terms, yield management is a pricing strategy. In industries where the capacity is overly controlled, especially in the tourism industry, it enables to realize the best revenue (Appaw-Agbola et al., 2013). Those strategies of using yield management are not just implemented in the tourism industry, but also in many others industries such as car rental industry or in the airline industry (Haensel, 2011). Capacities not in use cannot generate revenue and are therefore defined as non-productive (Huefner, 2011). For example, unoccupied tables in the restaurant, empty hotels rooms or seats on a flight all clearly show what a term of non-productive capacity represents. For that reason is the main aim to have the capacity in use in order to achieve the optimal revenue. In this state, capacity is productive. The main purpose of the implementation of yield management is to increase capacity utilization and yielding profit. In many literature yield managements is known as revenue management. It alludes to selling goods and services to the consumers in order to achieve maximum profit. This practice is used in all service activities when making the most important business decisions. In the hotel industry, yield management

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pricing refers to selling the rooms and charging entirely different prices to different customers (Heo, 2011). According to Choi (2000), the key role of yield management is to provide hotel managers with an effective means to achieve maximum revenue in a changing market environment by allocating the sale of accommodations to different customer categories through a set of decision rules. Tourism demand is the starting point on which all tourism-related business decisions rest. Due to the failure to meet market demand, a lack of success is quite often. Since demand plays the main role of creating business profitability, it is very essential to approximate the expected future demand. Precise prediction of tourism demand is more than important for well-planned tourism-related strategies (Song, 2009). As Anderson (2010, p. 53) summarizes, any industry having relatively fixed capacity of a perishable product and facing uncertain demand where some consumers place orders in advance is amenable to yield management techniques. Not all the challenges in hotel industry are unique, but many are common in hospitality as well as in other industries. The main interest of the management in hotel industry is to create the best price, or more precisely, the right price. So, there must be a balance between the level of rates. High price might put off potential consumers and a low price will not lead to the optimal revenue. As Cross (2009) mentioned, yield management practice must work with more departments in the company when designing and implementing yield management strategies. What's more, it should be integrated into all aspects of the company's strategies. Since yield management is not an independent process in hotel operations, its full potential becomes apparent only when it is integrated into the remaining hotel management processes. Yield management is the practice of allocating the right prices of allocating the right space to the right customer at the right price at the right time so as to maximize revenue or contribution margin. In practice, yield management has meant setting prices according to predicted demand levels so that price-sensitive customers who are willing to purchase at off-peak times can do so at favourable prices, and price-insensitive customers who want to purchase at peak times likewise can do so. The application of yield management has been effective when it is applied to operations that have relatively fixed capacity, predictable demand, perishable inventory, an appropriate cost structure, varying customer price sensitivity and time-variable demand (Kimes, 2009, p. 83). Although customer satisfaction is essential for service survival, the main interest of every hotel management is how to increase the revenue. The activity of allocating the right price to the right customer is known as "yield management strategy". It is important to emphasize that the goal of yield management is not merely to increase room rates or occupancy. To be exact, it is to increase hotel's revenue per room and per night, forecasting room supply and demand. Bodea et al. (2009) describe how crucial is to incorporate all the steps in the hotel yield management strategy since every little mistake might finish with unsatisfied results. In hospitality business, the goal of every hotelier is to increase hotel room sales because this will drive revenue. More precisely, it means to sell all the rooms at the highest rate possible. Since this strategy might not be always achievable, it can result with vacant rooms. On the other hand, high occupancy and a low average rate rarely maximises an asset's potential. Due to obvious great value of the yield management practices in hotel industry, the main goal of this paper is to investigate the implementation of the same in hotel industry in Croatia. In accordance with this goal, two research questions are set. First question is: Are the managers of hotels in Croatia familiar with the concept of yield management. Second question is: Is yield management implemented in hotels in Croatia. In the next section the research methodology will be elaborated, followed by the results of the study and discussion. Finally, in the last section, the conclusions will be presented.

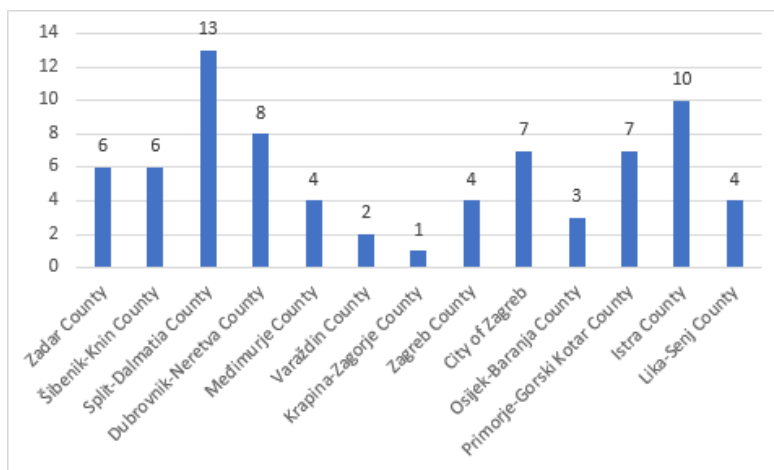
Methodology

In March and April 2019, a survey was conducted on a sample of 700 tourist objects in Croatia. The purpose of the survey was to investigate the implementation of yield management in hotel industry in Croatia. Research population includes hotels, heritage hotels, apart-hotels, tourist apartments, tourist resorts and camps. The survey was created and sent with Google Docs. The questionnaire was simple and required very little time. It consisted of eight questions: open-ended questions, dichotomous questions, multiple choice questions and semantic differential scale. After initial email, the response rate was quite low so a reminder was sent. A total of 75 managers answered the survey. The data gathered from this research were analyzed using the methodology of descriptive statistics.

Results

In this section the results of the empirical research will be presented. The goal of the first question was to explore the percentage of counties participation. The results are shown in Figure 1. Of the 21 counties in Croatia, 13 of them participated in the survey, most of them from Split-Dalmatia county (17.33%) and Istria county (13.33%).

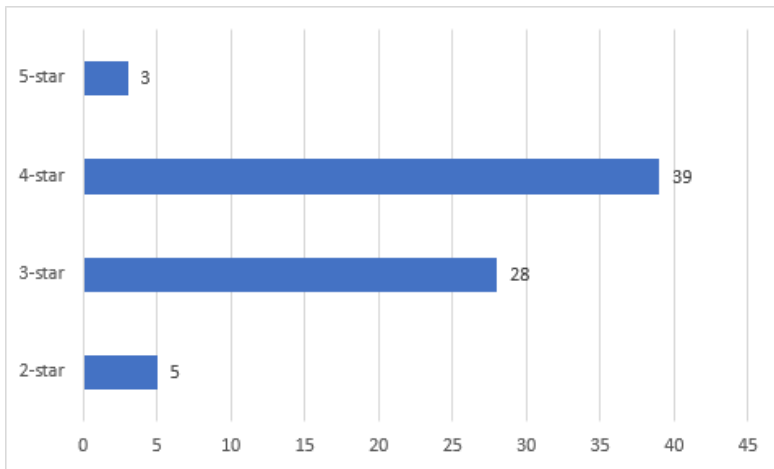
Figure 1
Participating Counties



Source: Authors' illustration

Since the hotel categorization is the basis for determining quality in the hospitality industry, respondents answered the question about the categorization of the tourist objects and the results are displayed in Figure 2. The results show that the 4-star tourist objects (52%) were the most involved in the survey, followed by 3-star tourist objects (37.33%).

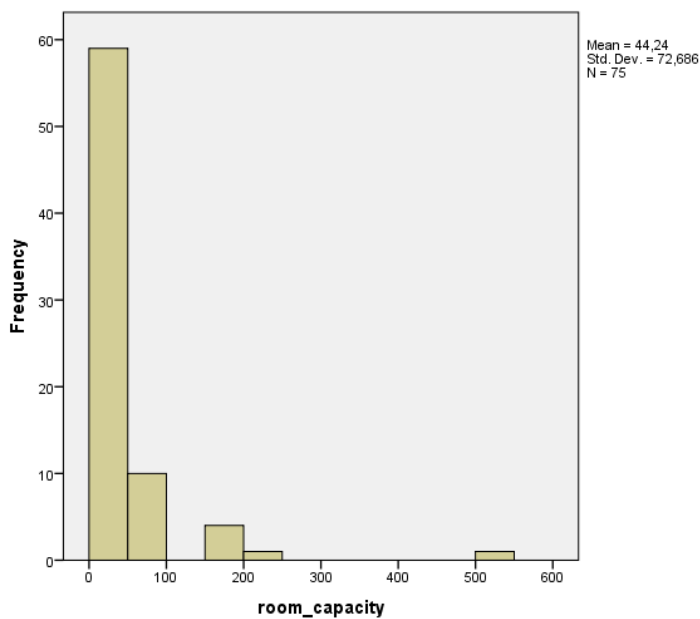
Figure 2
Categorization of Tourist Objects



Source: Authors' illustration

In Figure 3. we can see the histogram of accommodation capacity of the respondents. The research sample has about 44 rooms on average. Standard deviation of about 72 indicates a large dispersion of the capacity within the sample.

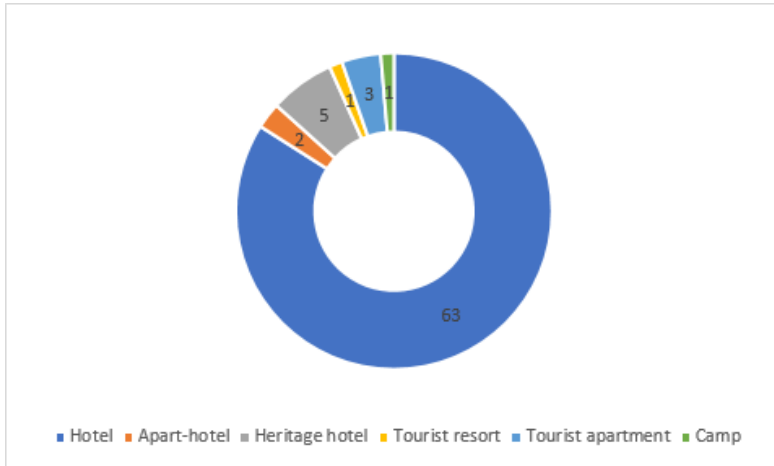
Figure 3
Accommodation Capacity



Source: output of SPSS

The participants of the study were asked about the type of their Tourist object. The results are displayed in Figure 4. Out of a total of 75 filled surveys, most of them refer to hotels (84%). The rest of the answers come from apart-hotels, heritage hotels, tourist resorts, tourist apartments and camps.

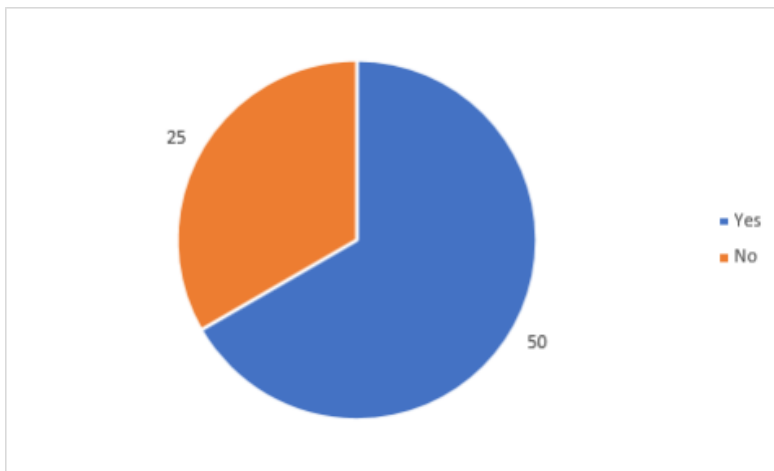
Figure 4
Types of Tourist Objects



Source: Authors' illustration

Figure 5. shows the percentage of the managers that are familiar with the concept of yield management. The presented results show that most managers (66.67%) are familiar with the term yield management, while 33.33% are not familiar with this term.

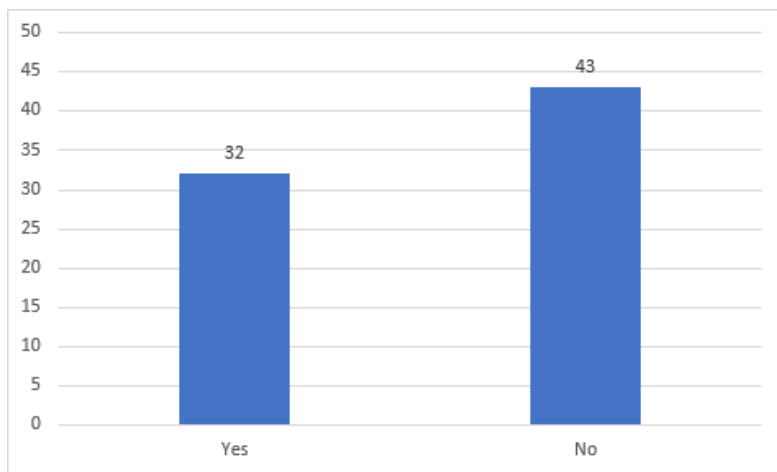
Figure 5
Term of Yield Management



Source: Authors' illustration

The participants of the study were asked about the implementation of the yield management tools in their business. As shown in Figure 6, of all respondents 43 of them are applying the concept of yield management in their business, which is 42,67%. However, 57.33% of respondents are not using this strategy tool at all.

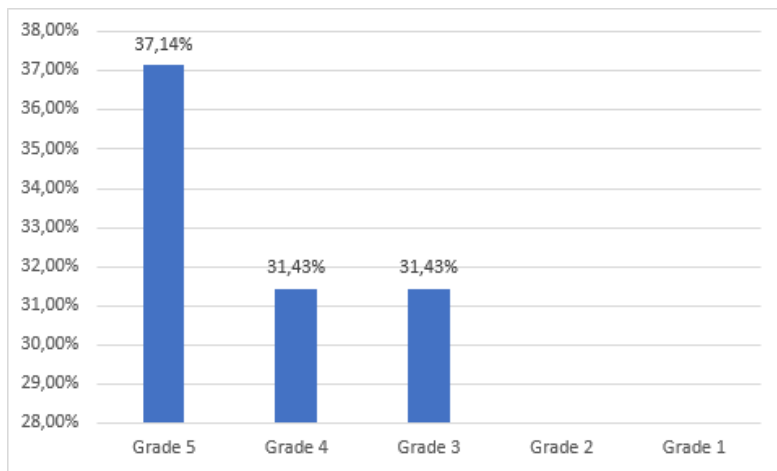
Figure 6
Implementation of Yield Management



Source: Authors' illustration

In the last question, the respondents who implemented yield management had to evaluate its usefulness using a scale of 1 to 5, with 1 being the lowest grade and with 5 being the highest grade. The results are displayed in Figure 7.

Figure 7
Yield management assessment



Source: Authors' illustration

It is clear that the largest number of respondents (37.14%) rated the implementation of yield management with grade 5, while others rated it with grades 4 and 3 (both 31.43%).

Discussion

The aim of this paper was to answer two research questions. The first question was whether the managers are familiar with the concept of yield management. The results of the study show that most managers (66.67%) are familiar with the term yield management, while 33.33% are not familiar with this term. The second question was about implementation of the concept in their business. Of all the respondents, 43 of them are applying the concept of yield management in their business, which is 42,67%.

However, 57.33% of respondents are not using this strategy tool at all. Also, the largest number of respondents (37.14%) rated the implementation of yield management with grade 5, while others rated it with grades 4 and 3 (both 31.43%). The results of the study lead to conclusion that there is room for improvement in Croatian hotel industry that might lead to greater competitiveness. This study is unique in Croatia and it opened opportunities for further research in the field. Further research might include interviews with the managers about the reasons behind the relatively small percentage of the business using the yield management tools or the research on revenue generated through its implementation.

Conclusion

Today, industries like hospitality and tourism face a constantly changing customer landscape, wherein seasonal opportunities like events, contingencies and trends rapidly come and go. Leveraging these opportunities to maximize revenue is only possible with a well-planned yield management strategy. Since competitor price, customer preferences, budgets and demand levels keep changing, a variable pricing strategy also called as dynamic pricing is used to tweak room rates in accordance with the said factors. Hospitality is an industry that runs on repute. Accurate forecasting decreases pricing errors. In this paper two research question were answered. The results of the study showed that 66.67% of managers are familiar with the term yield management. Also, 42.67% of total respondents are applying the concept of yield management in their business. Some of the recommendations for further research involve interviews with the managers about the reasons behind the relatively small percentage of the business using the yield management tools or the research on revenue generated through its implementation.

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About the authors

Damira Đukec was born on June 06, 1982 in Čakovec. She graduated from the Faculty of Economics in Zagreb in January 2006. That same year she enrolled in the postgraduate master's study in Political Economy Development - Economics and Development at the Faculty of Economics in Zagreb. In 2010, she started her doctoral study at the Faculty of Management in Tourism and Hospitality in Opatija. She successfully defended her doctoral thesis "Measuring and evaluating labour productivity in tourism" on March 27, 2012. She is currently employed at the University North. The author can be contacted at ddukec@unin.hr.

Vesna Čanadi was born on 24.04.1986. in Čakovec. She graduated in 2015. with a Professional Bachelor of Economics – Tourism and Management at the Polytechnic of Međimurje in Čakovec. With nine years work experience in Hospitality industry, she has job experiences related to the front office department, overbooking management and yield management. 2014 she received the prize as the best receptionist, within the project "Man - a key to success in tourism". In 2017 she enrolled at the University of Vienna and received the Austrian Government Scholarship. In 2018 she enrolled in a graduate degree at the University North in Varaždin. The author can be contacted at vesna.canadi@gmail.com.