

# Revenue Management Strategies in the Hotel Industry during a Crisis

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## Abstract

*Strongly hit by the pandemic crisis, the hotel industry needs a comeback. After a long period of pandemic, hoteliers are forced to identify new ways to reinvent their business. Many hotels were put up against the wall, taking into account the fact that a serious component of income were the restaurants that were often included in the accommodation package, there was practically the meal supplement. As the return of tourism is still being questioned, hotel representatives need to understand that people need safety and hygiene, which requires increased attention to gain confidence. One way to recover can be Revenue Management strategies adapted to crisis or post-crisis situations. In the following we propose four types of Revenue Management strategies in order to diminish the effects of the pandemic crisis.*

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## 1. Introduction

The hotel industry has been and is one of the most affected industries in these times related to the Covid crisis - 19.

Along with transport, mainly air, the hotel industry, with its extension to the tourism industry, suffered huge losses from 2019 to the present.

Since the 1950s, the hotel industry has become an important component of the socio-economic development model. With the development of tourism, against the background of good times from an economic point of view, tourism and the hotel industry have become strong points of development and economic growth for countries around the world.

Tourism also plays an important role in the economy by generating new jobs, having, from this point of view, a major contribution to attracting the surplus of labor from other sectors and, implicitly, to alleviating unemployment. The

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relationship between tourism and the use of labor is manifested in quantitative and illicit terms, directly and indirectly.

Thus, the complexity of the tourism industry, the diversity of tastes and preferences of tourists, on the one hand, the need to individualize holidays, etc., on the one hand, and the relatively limited possibilities of mechanization-automation of tourism operations and high consumption of live labor reflects in the periodic proportion of those employed in the field of tourism, compared to the branches with close structure, at the same time, the development of tourism, materialized in the increase of the number of people who travel. The quantitative increase of those involved in the organization and development of the laurels, in the service of the tourists. With these developments and characteristics, there have been significant increases in the number of people working in hotels and restaurants, transport, tourism, leisure services, and administrative management of the historical apparatus. (Minciu R., 2005)

There are countries where tourism generates a significant percentage of GDP, countries whose economy is based on this sector.

That is why the SARS-Cov2 pandemic that has hit the world economy relentlessly has caused immense damage to countries where tourism was an important component of the economy.

The periods of lockdown at the beginning, the fear felt by ordinary tourists later, the travel conditions established later, as well as the lack of predictability of the pandemic evolution have left their decisive mark on tourism, implicitly on the hotel industry.

With a collapse of over 75% worldwide and almost 90% in Europe according to the UNWTO (World Tourism Organization) tourism has had to reorient itself to recover losses, which is ongoing even at this time, and will take a long time from now to return to where tourism was in 2019 before the pandemic.

Various ways in which different tourist destinations have reacted to the pandemic have been observed:

Reanalysis of target customer categories - A pandemic and its effects change the behavior of the tourist and change the structure of the sending tourism.

Thus, people willing to travel long distances and to destinations far from home will consider closer destinations. In other words, the preferences for group tourism may also change, and individual or small group tourism may take precedence in the future. There is a possibility of increasing the preference for domestic tourism to the detriment of international tourism.

Repositioning in the tourism market - There are categories of tourist destinations that in the event of a pandemic must be repositioned in the market. An example could be a destination whose main attraction is the organization of festivals, the rest of the tourist attractions being of secondary interest to most tourists before the pandemic. Or a tourist destination dedicated to sporting, cultural or religious events, which involve a large influx of guests for limited periods. These are just two of how the undersigned has been identified and analyzed by the undersigned in the paper "An Approach to Destination Management During the Pandemic" presented at

the conference. 6th Business & Entrepreneurial Economics Conference 2021, Plitvice, Croatia.

Regardless of how a destination decides to react, traditional customer categories have changed. As a result, hotels in the area have been and are forced to react.

In the following, we will try to devise some Revenue Management strategies that are used during a crisis can reduce its effects and increase the resilience of the hotel industry in case of other crises.

## **2. Revenue Management Strategies in the Hotel Industry during a Crisis**

### **2.1 The state of knowledge**

The hotel management deals with all the activities regarding the organization, control, and coordination, as well as with the planning of all the hotel activities for the efficient provision of services for the clients.

Hotel management is an area in which decisions are made based on data collected in the past, and for the future. It is the field in which the management decision is based more on the experience of the decision-maker, corroborated with results obtained in the past and conditioned by future expectations.

One of the most important components of hotel management is Revenue Management. It brings together all the components of setting the ideal rates over some time, or punctually, at a given time.

The right revenue management decision is the one that will decisively influence the final results of the managed objects. (Strategic and Tactical Price Decisions in Hotel Revenue Management | Elsevier Enhanced Reader, n.d.)

Revenue Management aims to determine the highest value of the fee that can be charged within the available costs and capacities and, at the same time, guarantee that all those customers who want to benefit from a certain product or service and are willing to pay the fee to can do it. (Stanciulescu, G., State O, 2013)

Revenue management works if:

- there is a fixed amount of resources available for sale
- sales resources are very perishable
- customers will pay different prices for using the same resources.

Although revenue management is largely viewed as a technical or quantitative process, pricing strategy and competitive tactics have become strong elements in revenue management. (S. Kimes, 2008)

A definition in popular terms refers to Revenue Management as the art of selling the right product, the right customer, at the right time at the right price, thus maximizing total revenue (Stanciulescu, G., State O, 2013)

As an extremely important part of hotel management, Revenue Management and the decision-making process in this management segment were, in turn, affected by the pandemic crisis.

For example, in the article “How economic crisis affects revenue management: the case of the Prague Hilton hotels” the authors propose a Revenue Management strategy in the current crisis to keep the prices priced until the pandemic and resistance to the temptation to grant big discounts: "Rate dilution and price wars in the market should be avoided to prepare for times of recovery." (Gehrels & Blonar, 2013) It is a position that can have long-term results, which we appreciate, but does not provide immediate compensation. On the other hand, discounting room rates positively affects hotels' performance recovery time from a crisis. (Kim et al., n.d.)

As you can see, opinions are divided. We will develop by adapting to the current crisis the Revenue Management strategies proposed in A MATHEMATICAL APPROACH TO REVENUE MANAGEMENT (Stanciu-Gorun, 2019).

## 2.2 Revenue Management Strategies

In the above-mentioned paper, we have stated a mathematical equation in which the most important indicators of hotel performance are included. The equation is to reach Break-Even Point in a hotel, where we know the income and expenses of a previous period:

$$ADR \times GO \times TVC = Rev PAR \times CCV \times TCV \times 100 \quad (1)$$

(Stanciu-Gorun, 2019),

where,

### **ADR - Average Daily Rate**

It is the income earned on a room sold in a set period (usually one year) in the past. This indicator is also called Real Average Room Rate, but in practice, it uses ADR, which is calculated as follows:

ADR = total accommodation income / total rooms sold during the set period.

### **Rev PAR – Revenue Per Available Room**

It is the average income obtained per available room (located in the tourist circuit) in a set period (one year).

Rev PAR = total accommodation income / total rooms available during the set period.

### **Degree of Occupancy - GO**

Represents the ratio expressed as a percentage of available rooms and rooms sold within a set period. Also called Room Occupancy Rate. For the accuracy of GO calculation, the cameras that are unavailable during certain periods are deducted from the total number of rooms.

There is a way to calculate the GO and also the relative number of available seats, of available beds. Given that there are currently rare cases of shared accommodation, ie two single tourists are accommodated in the same room, and because the units prefer to accommodate a single guest in the room, we will not use GO relative to the number of beds. used more by country statistics.

GO = Rooms sold / rooms available X 100

### **CRA - Cost per room available**

Represents the average cost of a room available (on the tour) per night, over a set period. It is calculated by dividing the total hotel expenses (strictly the accommodation activity) by the total number of rooms in the tourist circuit in a period (one year, in general)

$CCD = \text{Total accommodation expenses} / \text{total rooms available}$

CRS - Cost per room sold

Represents the average cost of a room sold per night over a set period.

$TRS = \text{Total accommodation activity expenses} / \text{total rooms sold}$ .

TRV - Total room revenues

These indicators are especially valid for the hotel industry. If we expand the area, we will discover several indicators in the hospitality industry, valid for the desired reference system, such as resorts, tourist complexes, and tourist destinations. (Yan, n.d.)

As can be seen from Equation 1, which derives from the condition of Break-Even Point, ie income equal to expenditure, all the indicators listed above are variable and mutually influential. Thus, at a high GO, the expenses will be higher, or at a low GO, Rev PAR will be lower and the examples can continue. It is essential that both ADR, Rev PAR, GO, CCD, and CRS are interdependent and the variation of one leads to the variation of the others (Talluri & Van Ryzin, 2004)

From this variation, we have identified some Revenue Management strategies that can decisively influence the financial results of a hotel.

#### ***2.2.1 Strategy based on increasing GO - reducing ADR***

It will be a strategy by which BEP will be achieved and overcome by increasing GO. This is most easily achieved in terms of Revenue Management by reducing ADR. That is, giving discounts, which is exactly what is not recommended in the aforementioned paper that does the case study on hotels in Prague. (Gehrels & Blunar, 2013)

From our point of view, it is a strategy that can be adopted both by hotels at the beginning of the road, those that reopen, but also by hotels that have had a period of crisis with stopped activity. And it is somewhat like things when you want to regain customers - valid in all three cases listed - not to try to sell very expensively.

The turn will be the one that will reach Break-Even Point. But the Revenue Manager will have to be very skilled because a big GO will increase the cost per room sold. The discount mustn't fall below the TRS, taking into account not the previous CRS, but a projection of the TRS increase proportional to the GO increase.

#### ***2.2.2 Strategy based on increasing RDA***

If the previous year produced a satisfactory GO, the revenues can be increased by increasing the tariffs, so that at the end of the year a higher ADR and a

GO will be obtained at least at the level of last year. If both are in excess, the increase will be higher.

This is probably not the happiest decision after a crisis. However, depending on the financial situation at the resumption of the activity, or the resumption of the activity, it can be adopted. One thing is for sure, the costs will not be higher, respectively CRS will remain the same, of course excluding possible increases in costs with utilities, consumables, and labor. This is because GO remains constant. It is a courageous decision of the Revenue Manager, which involves a lot of skill and gives special weight to the marketing component of the management process. Respectively, we will have to convince / re-convince customers to come at higher prices than before.

### ***2.2.3 Strategy based on increasing Rev PAR***

It is less used and has many variables. At the end of the period, it may have results with higher ADR and lower GO or lower ADR and higher GO. It is quite risky and requires increased skills of the Republic of Moldova and very frequent evaluation of the financial result.

Rev PAR is an indicator of the conclusion or consequence of a financial year, which is usually considered at the end of the financial year. But it can be predicted or followed. Most often, the pursuit of Rev PAR growth at any cost has the consequence of removing some rooms from the tourist circuit. In this case, both GO and ADR will increase and costs will decrease.

Although the decision to remove some rooms from the tourist circuit seems strange, we have examples of hotel complexes that preferred to operate with reduced accommodation capacity in 2020 and 2021: Hotel Deva and Sarmis in Deva, where Hotel Deva is still in conservation after the pandemic, or the Commander-Admiral-Orpheus Complex in Mamaia, where the Orpheus Hotel was not opened this summer.

### ***2.2.4 Strategy based on increasing ADR and increasing GO***

It is ideal and can be the result of a combination of factors: investments in rooms, increased tourist traffic in the area, the efficiency of the marketing department, many scheduled events, major corporate contracts, etc.

It can be applied even after the crisis, especially if during the period of non-operation the owner has invested in the hotel.

There are many examples in which the owners took advantage of the lack of tourists and invested heavily in renovations and reconstructions of their properties. An example would be the Panoramic Complex - Amphitheater - Belvedere in Olympus, which reopened in 2020 after a major renovation, with very high market demand, despite the high prices.

### 3. Conclusions

Certainly, the four proposed strategies are working. They were proved by the undersigned in normal situations. In a crisis, probably the first strategy, based on increasing GO by offering lower rates, maybe the most plausible and easy to implement.

However, taking into account the particularities of each tourist destination and how the pandemic affected it (total lockdown, partial reduction of tourist traffic, seasonality, etc.) each of the four proposals may be appropriate.

The decision is in the hands of the Revenue Manager. Many times, he can be considered the most important person in the management structure of a hotel. Unfortunately, many times, especially in Romania, his actions are taken over by the General Manager. Which has many other extra responsibilities.

The Revenue Manager should be a person with analytical, leadership, and communication skills followed by formal training in the field and strong negotiation skills and training in sales and marketing. (S. E. Kimes, 2011)

We do not claim that these four proposed Revenue Management strategies are the only ones available. These are the ones we identified, verified in normal times, and foldable in the post-pandemic situation.

We reiterate that the first proposed strategy, which aims to increase GO by reducing ADR, maybe the most quickly applicable in this situation, the one that offers the least risk and provides fast and convenient results.

According to the dynamics of pricing, as shown in his works (Piga, 2015) and (Su, 2007) very important is the time of booking. This is when the Revenue Manager needs to choose the price at which to sell. It will do this by considering all the variables.

The client's desire to pay, how much the client wants to pay, how much we want to get on the room sold, how many requests we have for the same period and the enumeration can continue.

With so many variables waiting for the Revenue Manager's decision, if we at least know that we previously decided to sell cheaper to have more buyers/tourists, the decision will be much easier.

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