

## Concept of Yield Management

The concept of yield management originated in the airline industry. Most travellers know that passengers on the same flight often pay different fares. Super-saver discounts, three-day advance-purchase plans, stay-over-Saturday-night packages, and so forth have become the norm for airline pricing. What is not as widely known is the potential application of yield management to other service industries. Yield management has proven successful in the lodging car rental, cruise line, railroad, and touring industries – basically, in situations where reservations are taken for a perishable commodity. The key to successful implementation appears to be an ability to monitor reservations and to develop reliable forecasts.

Yield management is based on supply and demand. Prices tend to rise when demand exceeds supply; prices tend to fall when supply exceeds demand. Pricing is the key to profitability. To increase revenue, the hospitality industry is attempting to develop new forecasting techniques that will enable it to respond to changes in supply and demand with optimal room rates. The hospitality industry's focus is shifting from high – volume bookings to high – profit bookings. By increasing bookings on low – demand days and by selling rooms at higher prices on high – demand days, the industry improves its profitability. In general, room rates should be higher when demand exceeds supply. They should be lower (in order to increase occupancy) when supply exceeds demand.

## Application of Yield Management in Hospitality Sector

In the hospitality industry, yield management – sometimes called revenue management – is a set demand – forecasting techniques used to determine whether prices should be raised or lowered and whether a reservation request should be accepted or rejected in order to maximize revenue. Hospitality industry managers have successfully applied such demand – forecasting strategies to room reservation systems, management information system, room and package pricing, rooms and revenue management, seasonal rate determination, pre-theatre dinner specials, and special, group, tour operator, and travel agent rates.

## Benefits or Importance of Yield Management

Improved forecasting

Improved seasonal pricing

Identification of new market segments

Identification of market segment demands

Enhanced coordination between the front office and sales divisions

Determination of discounting activity

Improved development of short-term and long-term business plans

Establishment of a value based rate structure.

Savings in labour costs and other operating expenses

Planned responses to guest inquiries or requests regarding reservations.