Taiwan Hotel Managers’ Knowledge, Practice, and Perceived Obstacles of Revenue Management (RM)

Dr. Chihkang “Kenny” Wu, Assistant Professor,
National Kaohsiung University of Applied Sciences, Taiwan

ABSTRACT

The purposes of this exploratory study were to investigate hotel managers’ knowledge, practices, and their perceived obstacles in revenue management (RM). A focus group panel discussion with hotel managers from International tourist hotels and general tourist hotels was conducted in Kaohsiung City, Taiwan. The results revealed that most panelists had limited knowledge in RM. However, while in their operation, they presented a significant difference in understanding the core concept of RM between the hotel managers who work in different types of hotel. The outcome indicated that most managers used some techniques that could be classified to be revenue management to increase their hotels’ total revenues through their professional experiences. International branded hotels used the RM system most skillfully among all the managers. However, most managers had limited (if any) formal training on RM as a professional management tool. The main obstacle of applying RM in operation lies with hotel owners and/or higher management lack of knowledge of revenue management.

INTRODUCTION

The tourism industry is recognized as one of Taiwan’s strategic industries for the 21st century. Supported by the federal government, every local government is actively identifying and developing local unique tourism attractions. This effort has shown a fruitful outcome. By the end of 2014, Taiwan’s inbound tourists have increased to 9.9 million, almost quadruple to the year 2000’s 2.6 million (Tourism Bureau, 2015).

As tourists increased, the hospitality industry is blooming in every city, county, and townships around the Taiwan Island. Because the prospects of the hotel industry are brightening, an increasing number of international and domestic brand is entering the market. The competition will eventually get fiercer in the future. How hotel operators maintain reasonable profits in a fiercely competitive environment has become a crucial concern for the lodging industry in Taiwan.

To maximize revenues, hotel operators typically offer different room rates for peak and off seasons, individual tourists and tour groups. During the off season, hotel operators offer discounts to attract tourists who are highly price-sensitive. During peak season, hotel operators offer the rack rate or the rack rate with service charges to consumers who wish to enjoy the season and are less price-sensitive, to make high profits. This practice is known as revenue management (RM). Revenue management is a management method developed by the aviation industry in the 1970s to maximize operating revenues. Marriott International first applied RM to operate hotels and obtained excellent results. Nowadays, RM has become an essential management tool used by international chain hotels.

The studies on the application of RM to hotels in Taiwan started with Wang’s (2000) first explored RM operations in tourist hotels in Taiwan and the factors that influenced the effectiveness of the RM operations. Very few researches were reported since then. This study explored the knowledge,
application, and the obstacles the hotel managers in southern Taiwan on RM. Specifically, the research questions are:

- How do Taiwanese hotel managers understand RM?
- How do Taiwanese hotel managers apply RM at their properties?
- What are the obstacles currently encountered by Taiwanese hotel managers in applying RM?

**LITERATURE REVIEW**

Revenue management, or yield management, refers to selling the right product to the right customer at the right price and the right time (Kimes 1989). It is a management tool first developed by British and American Airlines to optimize flight ticket sales to maximize revenue (Cross, 1997). To date, RM has been applied in many industries, including the aviation industry, the transportation industry, the hotel industry, the retail industry, and the food and beverage industry. For hotel operators, RM stands for adjusting hotel room rates according to market demands and room capacity to maximize revenues and profits (James, 1987; Carter, 1988; Larsen, 1988; Bodily & Weatherford, 1995; Wang, 2000; Chen & Liu, 2008).

**Functions of RM**

RM is a method for increasing revenues and maximizing. It is used to determine the product-related information and pricing strategies. Researchers and practitioners agreed that six tasks must be completed to effectively apply RM to maximize revenues: 1) Establishing a useful database (Kimes, 1997; Wang, 2000; Chen & Liu, 2008); 2) Adequately segmenting the market (Harris and Peacock, 1995; Kimes, 1989a); 3) Forecast the demand (Wang, 2000; Talluri and Ryzin, 2004; Chen, 2009); 4) applying price discrimination and dynamic pricing accurately based on market situations (Harris & Peacock, 1995); 5) applying appropriate inventory management system (Loverlock, 1984; Kimes et al. 1989; Harris & Peacock, 1995; Chen & Liu, 2008); 6) using technology (Donaghy, McMahon, & McDowell, 1995; Berkus, 1988; Griffin, 1997; Wang, 2000; Chen & Liu, 2008), and practicing educational training (Donghy, 1996; MacVicar & Rodger, 1996).

**Applications of RM**

Donaghy et al. (1995) indicated that an effective RM system can increase revenues and profits, spread manual handling tasks, reduce personnel costs, and enhance a hotel’s competitive advantage. Griffin (1997) indicated that a computerized RM system can increase revenues and profits, help make sales decisions, reduce employees’ workload, emphasize the importance of goal achievement, enhance the impression of computer techniques, gain employee recognition, improve asset position, and facilitate communication between the marketing and operations departments.

Lieberman (1993) indicated that Marriott International and Royal Caribbean International have obtained substantial benefits from applying RM. In 1991, the annual revenues of Marriott International increased by US$25 million to US$30 million, with an annual revenue growth rate of between 1% and 5%. After applying RM, Royal Caribbean International’s revenues increased by more than US$20 million within one year. In their report on the advent of the RM era, Lodging Hospitality (1997) indicated that RM could increase not only revenues but also stimulate asset sales.
RM Application in Taiwan Hotel Industry

Studies of RM in Taiwanese can be categorized into two types. One is related to theoretical development; in these studies, researchers used mathematical models to identify optimal solutions or establish models for multiple objective variables or functions. The other is related to the application of RM; in these studies, researchers commented on or explored the application of RM in various industries.

The studies on the usage of RM to tourist hotels in Taiwan started with Wang’s (2000) first explored RM operations in tourist hotels in Taiwan and the factors that influenced the effectiveness of the RM operations. Wang (2000) concluded that hotels with more business travellers are superior in applying RM to the hotels that focused on group tourists. In addition, the researcher also suggested that implementing RM decisions is difficult in Taiwan. RM was not commonly utilized in Taiwan due to hotel managers’ resistances. The top management believed that their flexibilities on room rates are limited; the costs of RM systems was high, and to acquire a custom-configure RM system could be difficult.

METHODOLOGY

Due to its exploratory nature, this study adopted a qualitative approach (Lin, Yan, & Chen, 2005) to explore hotel managers’ knowledge, perceptions, and applications of RM. A focus group session (Wang & Wu, 2003) was conducted.

Panel discussion.

The focus group discussion session was conducted at CU Hotel in Kaohsiung City, Taiwan moderated by a faculty member of the tourism management department. The panelists were former or current hotel managers who specialized in pricing and discount management in tourist hotels for more than five years. They were then coded using alphabetical letters to remain anonymous on the report.

The six focus group panelists were recruited from different properties in a metropolitan area in southern Taiwan; all of them have extensive experiences in hotel operations. Panelist A was the General Manager of a general tourist hotel. Panlist C served as Marketing Director of an International branded chain tourist hotel, and Panelist E was the Reservation Manager of a local (Taiwan) branded five-star hotels in Kaohsiung City. Panelist F was a Sells Manager of an independent resort in Kenting Township. In addition to the aforementioned four Panelists who were active in the hotel industry, two panelists (B and D) were full-time Technical faculty member teaching hotel management at Tourism/Leisure Management Departments in colleges. However, they had served as marketing directors at international tourist hotels for more than 10 years before they retired from the hotel industry. Besides professional expertise in marketing and pricing strategies, the panelists were invited to participate in the discussion due to their in-depth understanding of the local tourism market.

The three-hour discussion session was conducted in Chinese and was audio and video recorded. After the transcription process had been done, the content were analysed and being categorized according to the themes of questions (Wang & Wu, 2003). After the discussion session, the transcripts of the audio and video material were categorized according to the subject of questions. Based on research questions, the semi-structured panel discussion enabled panellists to discuss their professional experiences in an informal and relax setting. The moderator inquired their viewpoints related to their knowledge of RM, pricing strategies, and perceived obstacles of RM on their works. The panelists also answered questions pertaining to related topics, facilitating a deeper understanding of the subject matter.
General Knowledge of RM

This focus group discussion revealed that RM is a relatively new concept among the panelists. Among the panelists, only panelists C, the one who work at an international branded hotel, knew the term “revenue management.” She reported that her property has RM manager who is in charge of the revenue and rates according to the market demand. The RM manager would report the revenue and suggested the room rate at the regular managerial meeting. Other panelists said that they had not heard of RM before the discussion session. However, after briefly described the concept of RM, all of them agreed that their properties did practice some basic pricing tactics that could be considered as RM.

The managers employed at local brands stated that they had no previous knowledge on RM. However, after the moderator briefly explain the basic RM concepts, all panelists related their job responsibilities and professional experiences to fit the core concept of RM. They all agreed that they had practiced RM concepts to a certain extent according to the experience of “how things should be done. This initial discussion about managers’ knowledge on RM revealed that most of the managers in this panel and their associates were not sufficiently trained for RM. Nevertheless, once they were informed about the practice of RM as a management tool, they immediately relate their experiences to RM practices.

Panelists A stated: “Higher-level management is responsible for revenues; general employees do not know about it.” If hotel employees can be hierarchies into general managers, high-, mid-level managers, and front-line employees, higher ranked managers understood RM more deeply than the others did.” ....“ in the RM course, supervisors should be presented with real figures and the RM concepts should be taught. In Taiwan, supervisors at property level do have the RM concept to a certain point.” ...”Front-line employees do not know RM as well as middle- and high-level employees; their job is to provide services to customers. They are not involved in setting rates.” Panellist A said: “Employees should be adequately taught relevant RM concept as they provide services to the customers.” Therefore, front-line associates would be trained by middle- and high-level managers at work on how to use of RM functions to increase sales.

According to Donaghy et al. (1995), the management team is responsible for forecasting, determining rate structure, monitoring hotel reservation activities, and controlling the number of hotel bookings. All team member should be trained with RM knowledge and skills in order to help making management decisions and necessary adjustments. However, this is not the case in Taiwan. Most top management in Taiwan’s hotel business rarely has formal training or understanding of RM concept. Panelists E indicated: “in Taiwan, only about half of the hotel owners have some hotel business background. Others are mostly construction company owners. They do not understand hotel operations and most of them are not around the properties. They just build a hotel on their land and set up a hotel company to run a hotel without having any systematic, complete education and/or training in hotel management.” These property owners do not understand the hotel industry; therefore, they hire professional managers from the hotel industry for the operation. “Nevertheless, the owners and/or their family members usually assume the top management positions to oversee and control the daily operations.”

Status of Applying RM by Hotel Operators in Taiwan

Most international and general tourist hotels adopted RM concepts and skills (even though they do not call it RM) to increase profits based on their professional experiences. The panelists indicated that
the market had to be segmented when considering maximizing revenues. Typically, the hotel divides customers into two segments, free independent travellers (FIT) and group inclusive tours (GIT) and ask different rates to each segment. In addition, on-line booking had emerged as a lucrative contributor to the overall revenues. Panellist D: “if we want to practice RM, the customer base must first be considered… generally, it is divided into FIT and GIT. Rates offered to GIT tourists are typically lower than the rates offered to FIT tourists. By applying RM, the proportion of GIT tourists must be controlled; the revenues should increase as the number of FIT tourist increases. However, in our property, 75% of the customers are contracted tour organizers (GIT clients) while the FIT tourists account for merely 25%.”

In addition to the traditional segmentation of FIT and GIT, online reservation has begun to be an important contributor to hotels’ revenue. Panellist F said: “I am… responsible for online reservation services, international reservation services, contract companies, and official Web sites. I set different rates for customers in different regions; for example, higher prices are set for overseas customers through online travel agents (OTAs), without affecting domestic demand. … In three to five years, OTA will become a niche that increases revenues; therefore, the official Web sites will be designed to allow customers in various regions to be presented with different rates.”

In RM practice, market segmentation must be conducted thoroughly (Kimes, 1989). Consumers should be carefully categorized according to their unique characteristics (not just business and leisure travellers or GIT or FIT tourists) to provide suitable products to customers. Panelist B: “We categorize customers into many groups, for example, contract companies and travel agents. Travel agents are further divided into domestic travel agents, inbound travel agents, and online travel agents, such as www.ezTravel.com.tw and www.ezfly.com.tw. Also, we have our official Web site that attract individual tourists. General leisure hotels often collaborate with shopping platforms, which cover another type of customers. Of course, there are conference groups.”

This discussion revealed that market segmentation is important to the hotel operators. Hotels segment the market to FIT and GIT and applying differential rates to these segments. Moreover, besides traditional segmentation of GIT and FIT, on-line booking and other segmentations have become a major revenue contributor to Taiwan’s hotel market.

**Computerized RM System**

A computerized RM system is an essential tool for implementing RM in the hotel industry (Cross, 1998). To the international tourist hotel, the RM systems are properly operated. Panellist D expressed that: “International hotel chains have RM managers and computerized profit management systems.” Panellist C, a marketing manager for an international hotel chain, further explained how the international hotel that she works effectively applies RM. “We use two hotel reservation systems, OPRA and DELFY; the OPRA system can clearly discriminate among various segments. By examining operational information throughout last year’s, we could identify which segment exhibited optimal business performance. Therefore, my report indicates the performance of the exact segment to be improved. Following the assessment of the economic situation, we conduct a professionally performed analysis and make predictions. After that, I determined whether to shift the focus to another market segment according to the goals of this year. Based on these result, I reported to supervisors at weekly meetings regarding revenues and profits. I can accomplish these tasks only with the information acquired from our computerized booking and revenue system.”

On the other hand, domestic branded hotels do not have RM module installed in their computerized booking system nor stand-alone RM system. They use computerized reservation systems
to store, retrieve, and compare data. Panellist A said: “At present, such analyses cannot be performed. Managers in the hotel industry should endeavor to understand market development and be prepared to respond to emerging situations.”

The acquisition costs, language barrier, and hard to customize are the main reasons that hotels resist to acquire and to use stand-alone or auxiliary RM system to their reservation systems. Professional RM systems are expensive and mostly developed in English interface. Panellist E said that the interface of OPRA system is English. Panellist C expressed that: “The problem is whether people adapt to an RM system; the FIDELIO system is only partly in Chinese…” Panelists A further points out “most of my associates have problems in reading English on a computer screen, and I do not have much time to train each one of them.”

Another reason is that a suitable computerized RM system is hard to acquire. Panellist C: “General computer software companies provide many products, but they hardly understand the unique requirements for individual hotel operators. We have to tell the computer software company our needs for them to cater their products to fit our needs.” These reasons explain why many hotel operators are resisting using professional RM systems (Luciani, 1999).

Technology plays an important part in hotel reservation. However, incorporating RM module into a reservation system encountered two major hurdles, cost and interface. A professional RM module is expensive to acquire. The English-based interface creates problems to the reservation operators to cope to.

**Obstacles in Implementing RM**

In Taiwan, general hotels encounter two major hurdles to applying RM similar to that of the other areas (Luciani, 1999). One relates to the enterprise per se, and the other is the difficulties in the environment. Panellists indicated that the attitudes of hotel owners could be a barrier to effectively applying RM in the operations. In Taiwan, most financial investors are owners of construction companies. They have a substantial influence on the hotel operations. If hotel owners do not understand RM, hotel managers would have a tremendous problem in implementing RM in their properties.

The attitudinal problems that the panellists encountered were a lack of understanding of RM of the hotel owners, a lack of RM skills and expertise of top management, and resistance to using auxiliary RM technology. Panellist C said: “as mid-level managers, we were sent to training and professional development courses… the courses were excellent. However, I believe bosses should be required to attend these classes first. Any changes in my standard operating procedures or adopting new operation procedures require funding. We shared what we learned at the training session with our colleague and tried to make some differences. However, the power of adopting the concept or procedures that we were trained lies in the hands of bosses- people who did not attend the training course. If they do not endorse our efforts, I can do nothing. We need to spend a long time to persuade them (the bosses) to consider RM practice. Of course, requesting high-level bosses to attend the course is not easy.” Panellist E said, “the HR department is usually responsible for education and training, but HR personnel in Taiwan are unfamiliar with profit management.” Panellist B said, “I think the problem lie in the corporate owners. Most corporate owners consider their business and management concepts are optimal. They are not thrill if we tell them that their SOP needs to be modified.” “I think the general managers should attend the training courses provided by government and pass what they have learned to the entire hotels.” Why the lower-level employees would not work? “Because they must spend time to persuade their bosses to consider the changes when they come back. If general managers attend the training, they could implement their new knowledge immediately.” “If RM cannot be implemented top-down, the outcome...
would not be as significant as it ought to be.”

Another Obstacle related to the environment in the hotel industry. How a hotel identifies its competitive advantages and to generate profits are guarded as business secrets. To secure their competitive advantages, hotel managers rarely share their trade information among each other. Panellist F, “Hotels in Taiwan are conservative and care only about themselves. The information does not circulate.” Competition exists between hotels in the same area. Hotels rarely cooperate with one another. Occasionally, Hotel might coordinate pricing to maintain their financial interests; however, this practice had been considered to be illegal due to the anti-trust regulation. Therefore, the successful methods and factors for implementing RM in the hotel industry could be difficult to replicate among hotels in Taiwan.

Besides technology, panellists agreed that the owners and top management should initiate RM strategy and pass down to the entire hotel to make RM a business strategy in their properties. Another issue is the sharing of trade secrets. Most hotel managers expressed the reluctant of sharing their pricing strategies to the competitors.

CONCLUSION

A focus group panel discussion was conducted to investigate the knowledge, application, and obstacle of RM in Taiwan hotel industry. The outcome suggests that although most hotel managers have a vague idea about RM, they eventually use some of the RM tactics in their operations to increase revenue. This study also reveal that to the marketing managers had some frustration trying to communicate what they had trained to the top management. Fully utilize RM to maximize revenue, hotel higher-rank management must acknowledge the importance of RM and acquire RM knowledge first and set up a pricing strategy.

REFERENCES


