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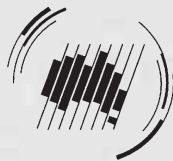
More  
than you  
imagine

YIELD MANAGEMENT FOR SMALL TO MEDIUM-SIZED  
ACCOMMODATION OPERATORS

# How to make *more money* from your accommodation business



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More than you imagine.



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TOURISM**  
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**TOURISM**

FINAL REPORT DECEMBER 1998

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# Background

This booklet reports the findings of a study designed to help small to medium-sized accommodation businesses to increase the yield from their operations, enhancing the viability and long-term sustainability of their businesses.

It provides some background on yield management, identifies critical factors impacting on yield, outlines a method for calculating yield for small to medium-sized operators and suggests some strategies for increasing yield.

Importantly, it is a practical document – the strategies and approaches for improving yield have recently been successfully tested ‘in the field’ by a study group of Tasmanian accommodation operators.

**The results were positive and highly promising – despite some fluctuations between properties, the average yield per room night sold improved by 15.56% over the 12 month study period.**

To assist other operators to assess and apply yield management techniques in their own businesses, an analysis of the strategies implemented by the Tasmanian study group is included in this report.

A guiding principle of the study has been that the information gathered and the lessons learned should be shared widely with all those who might find it useful. Having seen yield management strategies in action, we are confident that the findings of this final report will be of interest and value to others in the accommodation industry.

This interim report can be accessed via Tourism Tasmania’s internet site at [www.tourism.tas.gov.au](http://www.tourism.tas.gov.au)

Consultant David Reed can be contacted by email at [RMA@h130.aone.net.au](mailto:RMA@h130.aone.net.au)

We welcome feedback on the document – please email Debra Lewis at Tourism Tasmania at [dlewis@tourism.tas.gov.au](mailto:dlewis@tourism.tas.gov.au)

## What's in it for you?

This booklet offers a self-help approach to improving returns on your accommodation business using a practical and proven business analysis process – yield management.

Widely used in big business, yield management can also be applied to small to medium-sized operations like yours. You don't have to have an accountancy degree – this booklet gives you the tools you need.

The suggestions are based on a yield management study involving 15 Tasmanian accommodation operators. Over two financial years, they followed a common yield management approach to analyse their business, pinpoint problems and implement improvements to increase their financial return. The people involved in the study looked critically at a range of business aspects including fixed costs, bank charges, breakfasts, marketing effectiveness – issues faced by every accommodation business.

Yield management is working for them – and it can work for you.

**“Yield management taught us how to try and get more from our business.”**

**Geoff Butler, Queechy Cottages,  
St Helens**

More than ever, success in business relies on good information. Spend a few hours to study the principles and objectives of yield management – the knowledge and understanding you'll gain about your business will more than repay the time you invest.

## What is yield management?

Yield management is not a new software program for the hospitality industry – it is a system or method of analysing a business, with many elements that may be applied differently in different businesses.

Yield management first appeared in the aviation industry, when in the 1970s the deregulated industry began to maximise efficiency, ensuring all seats were occupied before take-off, and offering varied price structures to the consumer.

For the first time it was acknowledged that having passengers paying at least something towards operating costs was better than flying with empty seats.

The element that links aviation to the hospitality industry is that both inventories are “perishable” – once the plane takes off, there is nothing you can do about trying to sell any of the seats on the plane. Similarly, when a room is empty overnight, the opportunity for revenue is lost forever. A room has a 24 hour “shelf life”.

In the manufacturing and other retail industries, there may be capacity to keep the stock and put it on the shelf if not sold, but that luxury is not available to the hospitality industry.

It is easier to define the **objectives** of yield management rather than explain what it actually is – the outcomes are easier to understand than the process.

Yield management is about marketing mix, cost and price relationships and the distribution of product. It is a suite of components that, when working in harmony, will present the best opportunity to maximise returns.

Yield management takes a holistic view of the accommodation business, relating costs to prices,

establishing what variable costs there might be, defining the different ratios of the sales mix and setting targets for marketing.

These descriptions are particularly pertinent to the small accommodation operator, where there are constant battles with seasonal peaks and troughs, long lead times for pricing with wholesalers, location issues, marketing groups, regional activities and local pricing competition.

**Yield management is therefore the process of allocating the right accommodation to the right customer at the right price, with the objective of maximising yield.**

**“Armed with the information provided by yield management, I have become more aggressive in my approach to business.” Chris West, Erica Cottage, Latrobe**

## Occupancy requirements for yield management

In all the case studies it was evident that if an accommodation operator is running a business that has less than an average of 55–60% occupancy, then financial returns are marginal. This may be an acceptable situation if the owners are involved in the business for a lifestyle, rather than for profit.

Where the operation has significantly less than 50% occupancy, some decisions need to be taken about whether to even continue with the business at all, and if so, what elements will need to change to increase sales.

If it is decided to continue, some of the yield management techniques outlined here can assist in setting the targets for a sales campaign, so that it becomes easier to define what segments of the market – wholesale or retail – should be targeted.

## Location

It may be possible to have all the yield management techniques absolutely perfected, but a highway bypass could jeopardise the whole business. The issue of location is ever present and relates to signs, neighbours, competition, other attractions, ambience and a host of other influences on the business. Some say that the three keys to success are “location, location and location”.

## Capital, equity and finance costs

This booklet does not include finance costs. There are so many variables in finance, and the details are so personal that the yield management benchmarks have been conducted **exclusive of finance costs**.

There are some operators who choose to finance their operations to a high level of gearing to suit their tax obligations, and some who have no debt as a result of a lifestyle change/superannuation policy or a redundancy.

Although finance costs can overburden a business, and operators with substantial equity can better survive large increases in interest rates, the exclusion of finance costs provides a common yield benchmark that is universally applicable.

**“As a result of this program, we have reviewed our freight and energy costs, with pleasing results.” Wolfgang Koch, Lemonthyme Lodge**

## A critical look at the business

### Pricing

When trying to establish their prices, most small accommodation operators in the study group did not really know their costs in detail. The Financial Data Sheet provides a good base from which to develop pricing strategies, by establishing accurate information on costs and indeed profit margins.

**“The financial template was used to prepare financial forecasts to expand our business. It was of enormous help.”**  
**Ruth Deans, Killynaught Spa Cottages, Boat Harbour**

Although operators are very conscious of what the market dictates and the pricing environment they are operating within (competition), without any yield and cost details, it may be possible to discount to such an extent that an operator may actually be losing money on specially priced off-season deals.

In the accommodation industry, there is a well-used phrase of “profitless volume” where all the rooms are full, but at such a discounted rate that after the yield is reviewed there is no profit available. Sometimes this is done purposely in a mixed business, where there are other profit centres to account for (gaming, dining or bar trade). However where the accommodation is the sole income source, be wary of heavily discounted specials.

A better option is to try to add value to the product, rather than just discounting the price to attract visitors.

### The market mix

One of the most significant issues in yield management is the market mix of the business, calculating all the various commissions and subsequent yield.

The business must view the whole range of prices that are being paid across all the market segments. For example, if the room retail rack rate is \$100, there may be rooms sold at \$75 to wholesalers, \$90 to corporate clients, \$85 to travel agents, an *off-peak special* at \$70, a *honeymoon 2 day retreat* at \$220 with dinner, and the direct booking at \$100.

The question arises – how many rooms actually got close to bringing in \$100 to the owner?

The following three simplified tables illustrate what happens when a business of five rooms of accommodation varies its market mix.

In Examples 1 & 2, the business increases the total occupancy from 60% to 70% through a new wholesaler, and while the average room rates drop marginally, there is a significant increase in revenue.

If the business had five rooms of accommodation and ran at 60% occupancy per annum, it would sell 1,095 rooms per year.

The market mix for this example may look something like:

**EXAMPLE 1 60% OCCUPANCY, 5 ROOMS**

| Market type       | Number sold  | %          |  | Price \$  | Receipts (\$) |
|-------------------|--------------|------------|--|-----------|---------------|
| Wholesale         | 504          | 46         |  | 75        | 37,800        |
| Corporate         | 55           | 5          |  | 90        | 4,950         |
| Travel agents     | 142          | 13         |  | 85        | 12,070        |
| Off peak specials | 88           | 8          |  | 70        | 6,160         |
| Honeymooners      | 33           | 3          |  | 110       | 3,630         |
| FOC famils        | 22           | 2          |  | 0         | 0             |
| Direct            | 251          | 23         |  | 100       | 25,100        |
| <b>Total</b>      | <b>1,095</b> | <b>100</b> |  | <b>82</b> | <b>89,710</b> |

In Example 1, although the rate for the accommodation is \$100 per room, the actual receipts show that the revenue generated per room was only \$82 (i.e. total receipts of \$89,710 ÷ 1,095 room nights sold).

An interesting position in Example 2 arises when occupancy rises to 70%, and all the extra rooms sold came through a wholesaler.

**EXAMPLE 2 70% OCCUPANCY, 5 ROOMS**

| Market type       | Number sold  | %          |  | Price \$  | Receipts (\$)  |
|-------------------|--------------|------------|--|-----------|----------------|
| Wholesale         | 687          | 53         |  | 75        | 51,525         |
| Corporate         | 55           | 5          |  | 90        | 4,950          |
| Travel agents     | 142          | 11         |  | 85        | 12,070         |
| Off peak specials | 88           | 7          |  | 70        | 6,160          |
| Honeymooners      | 33           | 3          |  | 110       | 3,630          |
| FOC famils        | 22           | 2          |  | 0         | 0              |
| Direct            | 250          | 19         |  | 100       | 25,000         |
| <b>Total</b>      | <b>1,277</b> | <b>100</b> |  | <b>82</b> | <b>103,335</b> |

The actual price per room only reduced by \$1 per room, and the revenue jumped by \$13,625!

However in Example 3, the market mix is out of balance – the occupancy is still at 60% for five rooms.

**EXAMPLE 3 60% OCCUPANCY, 5 ROOMS** (same as example 1)

| Market type       | Number sold  | %          | Price \$  | Receipts (\$) |
|-------------------|--------------|------------|-----------|---------------|
| Wholesale         | 733          | 67         | 75        | 54,975        |
| Corporate         | 22           | 2          | 90        | 1,980         |
| Travel agents     | 142          | 13         | 85        | 12,070        |
| Off peak specials | 120          | 11         | 70        | 8,400         |
| Honeymooners      | 11           | 1          | 110       | 1,210         |
| FOC famils        | 22           | 2          | 0         | 0             |
| Direct            | 44           | 4          | 100       | 4,400         |
| <b>Total</b>      | <b>1,095</b> | <b>100</b> | <b>76</b> | <b>83,035</b> |

Here it is demonstrated that the room rate has collapsed from \$82 to \$76 and the total receipts have dropped by \$6,675, but the operator has sold the same number of rooms, incurring the same costs.

Therefore, it is imperative for a successful operator to manage the market mix, and to get the ratios right between wholesale, retail and direct business.

In the study group, there was an average of 48% of room nights generated from wholesaling, which attracts a minimum of 25% commission. The range was found to be from 55% to 44%, depending on the individual business.

A higher percentage than that would need careful monitoring and control.

**“We now have a more targeted approach to our marketing.” Tammy Holmes, Potters Croft, Dunalley**

*Knowing your customers – customer research*

Some of the study participants had limited management and marketing tools, highlighting the lack of raw materials available.

*“The hotel must know the pattern in which customers book reservations, and must have good information on demand patterns by market segment.” Sheryl Kimes, The Business of Yield Management, Cornell HRA Quarterly.*

Marketing tools should be developed before good yield management techniques can be applied.

**This means that good records of customer profiles, guest satisfaction cards and comment systems should be maintained, as well as an understanding that the product matches the market requirements.**

**“This really made us think where our customers are coming from.” Dinky Jones, Daisy Bank Cottages, Richmond**

Records can be gained from guest registration cards and booking details, which can then be sorted into a database that segregates:

- Type of booking – direct, wholesale or agent
- Wholesaler’s name
- Agent’s name
- Geographic origin (postcode)
- Month of stay
- Package details.

A successful yield management program means that different marketing plans are required for **different types** of customers, but many accommodation operators cannot yet identify the different **customer types** within their own business.

## *Understanding distribution and market segmentation*

To effectively manage yield within the accommodation sector, a very high level of market segmentation is necessary. When the inventory level (number of rooms available for sale) is small, this point becomes even more critical.

The research discovered that apart from wholesale/retail differentiation, small operators were not clearly aware of the demographic profile of customers.

**Yet this is fundamental to any effective yield management strategies, and to compound the problem, such data will take time to build up and so any strategies that may be developed will naturally take longer to take effect.**

The distribution system is not mysterious, but simply an explanation of how customers actually buy an accommodation product.

There are a few options.

- The customer can either use a travel agent, a carrier (like an airline) or can book direct.
- The travel agent also has some alternatives as to which package most suits the customer's requirements, which wholesaler to use, or whether to call direct to the supplier.

At every level of enquiry there are different commission structures at work, and an understanding of those structures is essential to manage yield effectively.

For further information on tourism distribution systems please see "Connecting with your clients" available from Tourism Tasmania (phone (03) 6230 8138).

Generally speaking, when airlines or wholesalers include an accommodation operator in their system, they expect to receive a 25% commission on any sale. They might

also charge an upfront fee for participation within their program brochure.

A travel agent will seek a 10-13% commission for their handling of the booking.

## *Maximising the high season*

Many operators commented that they did not undertake any significant marketing activities for January, claiming that "it's full anyway". But closer analysis showed that the peak months often only ran in the 80% range, highlighting the opportunity to improve business by a further 5-10%. It's clear that some tactical marketing in the peak months has a much greater potential to work within a busy time than other strategies employed in the off-season.

## *Marketing expenditure*

In most of the teaching handbooks for hospitality management, a marketing budget of 5% to 7% of total turnover for the property is suggested as a sustainable level. There are of course variations, depending on where the business is within its product lifecycle. The first year of any operation is always horrifically expensive in launch, promotion and sales expenditures, but after a three-year time scale, expenditures usually reduce to the norm.

The study found that smaller accommodation operators are spending an average of nearly 12%.

This is probably because with such small inventories and therefore turnover, even printing a brochure or joining a chain becomes a significant percentage of revenue.

A major element in marketing is the monitoring of advertising expenditure. The old adage of "only 50% of advertising works – the question is which 50%?" is still true. There are so many advertising opportunities presented to tourism operators today that a monitoring

device for all programs is essential to track the effectiveness of the advertising expenditure.

**“The project provided a disciplined approach to our business – we are much more proactive about off-season marketing now.” David Dunkley, Islington Elegant Private Hotel, Hobart**

**It does point to the fact that the smaller operators would be better served by amalgamating with others or joining regional activities and sharing their marketing efforts in an attempt to gain a critical mass for marketing, and consequently reduce their high individual expenditures on marketing.**

## **How to find out your current yield per room night sold**

You will find yield management a useful diagnostic tool to monitor the success of your business.

Finding out the true yield of your business is simple. All you have to do is complete the series of templates provided and then do some straightforward calculations. These templates cover every element of your business.

This way, calculating the yield becomes an easy process rather than the complicated method it may at first appear.

But first of all, how often should you calculate your yield?

### *Frequency of yield management*

Yield management is usually conducted on a monthly or annual basis.

#### *Monthly*

There is no doubt that the more sophisticated

approach to yield management would entail a monthly review of the yield characteristics of a business. There is a lot of software available for accommodation businesses that will produce yield results on a monthly basis which can be used to allocate marketing resources by defining off-season promotions, and the prices and advertising dollars that can be applied.

#### *Annually*

However, such a detailed approach is unnecessary for most accommodation operators. The following information and templates, therefore, are based on annual figures.

### *Before completing the templates – information required*

Before starting to complete the financial templates, you should gather together some information to make your task easier.


These are what you will need:

- *Profit and loss statement (from the last year)*

If your accommodation business is within a mixed business, run in conjunction with a vineyard, pottery, or restaurant for example, then the relevant percentages attributable to those other businesses will need to be calculated.

#### **EXAMPLE**

**If a primary producer had three cottages of accommodation, then a portion of the total farm rates, telephones, and insurances would need to be attributed to the accommodation business. It is easy to assess this more on revenues than anything else. If the total businesses turnover is \$500,000 and the accommodation component is \$125,000 then attribute 25% of the overheads to the accommodation.**



This method can be used for restaurants, bars and bottle shops.

- *Sales breakdown – total room nights sold*

This is an essential piece of information.

How many were retail, wholesale, famil (FOC) rooms? This has been described previously as the “market mix”.

- *Monthly occupancy rate*

Another important piece of information needed to complete your business analysis is the seasonality element. Therefore you will need to find details about your monthly occupancy rate.

Finally, by completing the details of your accommodation’s monthly occupancy, you will see where opportunities exist for increasing business.

## *The templates*

The following templates will take you down two paths in a series of 10 easy steps. In the end, the information you have gathered along the way, followed by a simple calculation, will lead you to the current yield per room night sold.

Here is a summary of these steps:

### **PATH 1: INCOME**

- Step 1: Room nights sold and revenues
- Step 2: Total accommodation revenues (excluding commissions)
- Step 3: Breakfast revenue
- Step 4: Net accommodation revenue figure
- Step 5: Average revenue per room night sold

### **PATH 2: EXPENDITURE**

- Step 6: Fixed overheads for accommodation
- Step 7: Discretionary overheads
- Step 8: Costs per room night sold
- Step 9: Expenditure totals
- Step 10: **Yield per room night sold**

## Path 1: Income

### *Step 1: Room nights sold and revenues*

Complete the following template with the percentages as well as the actual numbers. This will show the total of room nights that were occupied for the period. This figure is called **A**.

#### **A: TOTAL ROOM NIGHTS SOLD**

| Item                          | Notes   | % room nights sold | No. room nights sold |
|-------------------------------|---|--------------------|----------------------|
| Wholesale nights              | Wholesale nights are those booked by a wholesaler. These attract a substantial commission structure.          |                    |                      |
| Agency nights                 | Agency nights are those booked direct by a travel agent to your property, and would attract a 10% commission. |                    |                      |
| “Specials” nights             | Specials would include a seasonal discount that may be applied in winter.                                     |                    |                      |
| Full rack rate                | Full rack rate is the direct bookings that do not have any discounts.   |                    |                      |
| FOC                           | FOC nights are those given away as famils, or to family.  |                    |                      |
| Corporate and groups          | The corporate and groups nights would usually attract a discount from the published rack rate.                |                    |                      |
| <b>Total room nights sold</b> |   |                    | <b>A</b>             |

## Step 2: Total accommodation revenues (excluding commissions)

The next step is to add up the total accommodation revenues for the business, and then deduct all commissions (figure A1).

### A1: TOTAL REVENUES EXCLUDING COMMISSIONS

| Item  | \$        |
|---|-----------|
| Total revenues from accommodation           |           |
| Commissions                                 |           |
| <b>Total revenues excluding commissions</b> |           |
|   | <b>A1</b> |

## Step 3: Breakfasts

Now note the costs of breakfasts (figure A2).

### A2: TOTAL COSTS OF BREAKFASTS SOLD

| Item   | Notes   | \$        |
|--|---|-----------|
| Total costs of breakfasts sold (only when included in accommodation) | <p>If the property is a B&amp;B, or if breakfast provisions are provided for the guests, make an allocation for the costs of the breakfasts. Say it was \$8 per room night (\$4 each person), then multiply the total rooms sold by \$8.</p> <p>This charge is what it costs you, not what you charge. If breakfasts are in a dining room/restaurant, they should NOT be included here, as they would be classified as food income.</p> |           |
|  |   | <b>A2</b> |

### *Step 4: Net accommodation revenue*

Deduct the costs of breakfasts from the total accommodation revenues, and this provides a net accommodation revenue figure, named **B**.

#### **B: NET ACCOMMODATION REVENUE**

| <b>Item</b>   | <b>\$</b> |
|---|-----------|
| Total revenues from accommodation<br>(excluding commissions) (A1) |           |
| Costs of breakfasts (A2)  |           |
| <b>Net accommodation revenue</b>                                  | <b>B</b>  |

### *Step 5: Average revenue per room night sold*

When you divide the net accommodation revenue (**B**) by the total number of rooms sold (**A**), you will discover your average revenue per room night sold. This is named **C**.

#### **C: AVERAGE REVENUE PER ROOM NIGHT SOLD**

| <b>Item</b>  | <b>\$</b> |
|--|-----------|
| <b>AVERAGE REVENUE PER ROOM NIGHT SOLD:</b>                                |           |
| Net accommodation revenue (B)<br>divided by total number of rooms sold (A) |           |
|  | <b>C</b>  |

You may like to compare this figure with the results from the study in section 8.

## Path 2: Expenditure

### Step 6: Fixed overheads for accommodation

This template captures the costs to the operation, regardless of the occupancy levels, and over which there is not a great amount of discretion.

These are **annual** figures.

If the business is a mixed business, and the turnover is divided into accommodation 35%, bottle shop 15%, bars 20% and meals 30%, then divide the annual fixed costs accordingly.

#### D: FIXED OVERHEADS FOR ACCOMMODATION

| Item   | Notes   | \$       |
|--|---|----------|
| Rates  | E.g. local government, council rates. Remember to only attribute the rates for the accommodation not the bottle shop, restaurant, house, woolshed etc.  |          |
| Insurances   | Include fire, public liability, burglary, etc.<br>Do NOT include workers comp, which is treated as wages/staff costs.   |          |
| Licences   | Costs associated with obtaining the statutory licences and permits required for the operation of your business.<br>These may vary from State to State.  |          |
| Repairs and maintenance                              | The amount spent on the accommodation in painting, repairs, plumbers etc.   |          |
| Communications                                       | Total annual costs of telephones, fax, mobiles including rentals, call charges, postage, fax paper etc.   |          |
| Accounting   | The amount spent on professional accountants.   |          |
| All staffing costs<br>(casuals, workers comp, super) | Do NOT include cleaning or laundry. These are costs covered within the “room nights sold” in Step 8.<br>Include staff in reception or front office, and include their super and workers comp. |          |
| Energy costs   | These costs relate to power costs outside of the accommodation itself (for example, if the reception is in the home).   |          |
| Sundry   | Any fixed costs that are not accounted for, e.g. security, or an insurance claim excess.  |          |
| <b>Total fixed overheads</b>                         |   | <b>D</b> |

## Step 7: Discretionary overheads

“Discretionary” does not mean that you should or should not make any expenditures on these items, only that the actual amounts spent are discretionary, or optional.

### E: DISCRETIONARY OVERHEADS

| Item                                 | Notes  | \$       |
|--------------------------------------|--|----------|
| Marketing                            | This includes all promotional costs, media, printing of brochures, affiliation costs to marketing chains and organisations, stationery, road shows.        |          |
| Subscriptions                        | Membership costs to tourism organisations, periodicals, newspapers.  |          |
| Training                             | The costs of any programs, the travel components, the wages involved, or professional development packages the owners or staff may have embarked upon.     |          |
| Travel and vehicle costs             | Leasing arrangements or depreciation allowances for vehicles attributable to the business, the conference costs and other discretionary travel components. |          |
| <b>Total discretionary overheads</b> |  | <b>E</b> |

## Step 8: Costs per room night sold

Note that the total costs per room night sold is the figure that only occurs when a room is sold – the costs would not be incurred if the room was empty for the night.

### F: COSTS PER ROOM NIGHT SOLD

| Item  | Notes  | \$ |
|---|--|----|
| Consumables   | Items such as shampoo, tea and coffee, soaps, complimentary port, that are used every time a room is sold. Divide the total spent on consumables for a year by the number of rooms sold. Note: DO NOT include breakfast materials, as they were included in Step 3.  |    |
| Wages<br>(cleaning rooms only)                                    | Wages ONLY for cleaning each room. This figure can be gained from the total wages for housemaids divided by the rooms sold, or in the case of an owner operator, an allowance for say one hour at a rate that equates to a senior housemaid. Even if the owner does some or all of the cleaning, a figure must be inserted to give some value to the work done. If the owner was sick for a while, how much would it cost for someone else to come in and do the cleaning? |    |
| Energy<br>(e.g. power, firewood, air conditioning for rooms only) | This is the energy costs of the rooms, NOT the costs of the laundry, the reception, the house or whatever as these were in Step 6. If the rooms are not separately metered, this will be a difficult figure to determine, but it will be covered in “Fixed Overheads”. Divide the total figure by the number of rooms sold. This is also the area where the firewood component is put. Divide the total spent on firewood for a year by the number of rooms sold.          |    |
| Laundry<br>(e.g. detergents, power for laundry only)              | This figure includes the total spent per year on detergents, gas or electricity costs (if metered separately) contract laundry services, linen replacements and any wages that are attributable. If the owner does all the washing and ironing, as with cleaning, estimate the hours spent per week, place a value on the hours and multiply by 52 for the year. When the total laundry costs are established, divide them by the number of rooms sold for the year.       |    |

**Total costs per room sold**

**F**

## Step 9: Expenditure totals

Now total the figures you ended up with in Steps 6, 7 and 8. Once these three are totalled, the total costs are exposed, named **G**:

### G: TOTAL COSTS

| Item  | \$       |
|---|----------|
| Fixed overheads - D (Step 6)  |          |
| Discretionary costs - E (Step 7)  |          |
| Total room costs - F (Step 8) multiplied by the total number of rooms sold - A (Step 1).<br>(Remember that the "costs per room night sold" were only for one room for one night, and what is required is a total for the year.) |          |
| <b>Total costs</b>  |          |
|   | <b>G</b> |

## Step 10: The yield of the operation

Now this simple equation can be applied to work out the yield of the property for each room night that is sold:

$$(B-G) / A$$

In other words, simply take the costs (**G**) from the revenues (**B**) which provide the surplus and then divide that surplus by the total room nights sold (**A**). The figure you end up with is the **yield achieved every time a room is sold**.

### Occupancy

Determine the seasonality of your business by completing the following template.

Just fill in the occupancy rate per month and calculate the total average for the year.

**Note: Make sure the occupancies relate to the same year as the financial figures.**

### OCCUPANCY

| Month  | % |
|--|---|
| Jul  |   |
| Aug  |   |
| Sep  |   |
| Oct  |   |
| Nov  |   |
| Dec  |   |
| Jan  |   |
| Feb  |   |
| Mar  |   |
| Apr  |   |
| May  |   |
| Jun  |   |
| Average<br><i>(add figures and divide by 12)</i> |   |

This information will help you determine the opportunities to increase business, and when in the calendar year they occur.

# Yield Management — Financial Data Sheet

| OCCUPANCY   | PATH 1: INCOME   |           | PATH 2: EXPENDITURE  |
|---|--|-----------|--|
| Note: Make sure the occupancies relate to the same year as the financial figures. | A: Total room nights sold  |           | D: Fixed overheads for accommodation ( <i>annual figures</i> ) |
| Month   | Wholesale nights   |           | Rates  |
| Jul   | Agency nights  |           | Insurances   |
| Aug   | "Specials" nights  |           | Licences   |
| Sep   | Full rack rate   |           | Repairs and maintenance  |
| Oct   | FOC  |           | Communications   |
| Nov   | Corporate and groups   |           | Accounting   |
| Dec   | <b>Total room nights sold</b>  | <b>A</b>  | All staffing costs   |
| Jan   | A1: Total revenues excluding commissions                                       |           | ( <i>casuals, workers comp, super</i> )                        |
| Feb   | Total revenues from accommodation  |           | Energy costs   |
| Mar   | Commissions  |           | Sundry   |
| Apr   | <b>Total revenues (excl commissions)</b>                                       | <b>A1</b> | <b>Total fixed overheads</b>                                   |
| May   | A2: Total costs of breakfasts sold   |           | E: Discretionary overheads                                     |
| Jun   | <b>Total costs breakfasts sold</b>   | <b>A2</b> | Marketing  |
| <b>Average</b>  | B: Net accommodation revenue   |           | Subscriptions  |
| ( <i>add figures and divide by 12</i> )   | Total revenues from accommodation  |           | Training   |
|   | ( <i>excluding commissions</i> ) (A1)  |           | Travel and vehicle costs                                       |
|   | Costs of breakfasts (A2)   |           | <b>Total discretionary overheads</b>                           |
|   | <b>Net accommodation revenue</b>   | <b>B</b>  | F: Costs per room night sold                                   |
|   | C: Average revenue per room night sold   |           | Consumables  |
|   | Average revenue per room night sold:   |           | Wages (cleaning rooms only)                                    |
|   | <b>Net accommodation revenue (B) divided by total number of rooms sold (A)</b> | <b>C</b>  | Energy (rooms only)  |
|   | G: Total costs   |           | Laundry (e.g. detergents, power for LAUNDRY ONLY)              |
|   | Fixed overheads - D  |           | <b>Total costs per room sold</b>                               |
|   | Discretionary costs - E  |           | <b>YIELD = (B minus G) divided by A or (B-G) / A</b>           |
|   | Total room costs (F multiplied by A)   | <b>G</b>  |  |
|   | <b>Total costs</b>   |           |  |

## Benchmarking the yield per room to the study results

So that the analysis of the business is not done in isolation, you can compare your completed financial data sheet with the results of the study group.

Extra figures, not part of the template, are also provided (average marketing costs, average percentage of wholesale business). These are easy to calculate for your own business, for comparison purposes.

**“The comparisons with other properties was a unique opportunity to measure our performance.” Max Buchanan, Old Bakery, Launceston**

The following table gives the aggregated results of the study. How does your business compare?

## Comments on financial results

The financial year 1997/8 developed good results for the participants across all business sectors. Revenues per room were up by 7.21% and all cost centres were down – but occupancy remained about the same (57%).

This can be interpreted as being able to develop better results from the same number of rooms sold – it is clear that the focus on yield had a positive effect. The participants certainly were more aware than before of their business ratios, costs and pricing options.

The end result was improved overall yield by 15% (from \$32.27 to \$37.30).

Interestingly, the wholesaler dependence reduced by a factor of 16%.

### **DISCLAIMER**

***It must be noted that the sample is VERY small, and therefore statistically not reliable. The purpose of this study was to gain a snapshot, and to measure not the actual figures, but the changes to business when yield management strategies are implemented.***

## Financial Results

|   | GROUP 1<br>1-5 ROOMS |        | GROUP 2<br>6-25 ROOMS |        | GROUP 3<br>25+ ROOMS |        | AVERAGE ACROSS<br>ALL GROUPS |              |              |
|---|----------------------|--------|-----------------------|--------|----------------------|--------|------------------------------|--------------|--------------|
|   | 1996/7               | 1997/8 | 1996/7                | 1997/8 | 1996/7               | 1997/8 | 1996/7                       | 1997/8       | Variance (%) |
| C = Average revenue per room night sold             | 84.56                | 99.17  | 83.71                 | 85.04  | 73.17                | 74.67  | 80.48                        | 86.29        | 7.21         |
| D = Average fixed overheads for room night sold     | 12.7                 | 14.36  | 26.52                 | 23.37  | 18.32                | 16.91  | 19.18                        | 18.21        | -5.05        |
| E = Average discretionary costs per room night sold | 15.18                | 13.77  | 8.02                  | 8.342  | 4.75                 | 4.49   | 9.32                         | 8.87         | -4.83        |
| F = Average costs per room night sold               | 27.47                | 27.99  | 21.92                 | 20.94  | 16.1                 | 14.74  | 21.83                        | 21.22        | -2.79        |
| <b>Average yield per room night sold</b>            | 30.83                | 39.85  | 31.99                 | 32.38  | 33.98                | 39.65  | <b>32.27</b>                 | <b>37.29</b> | <b>15.56</b> |
| <b>Average annual occupancy</b>                     | 54                   | 53.8   | 62.2                  | 61.2   | 54                   | 58.5   | <b>56.73</b>                 | <b>57.83</b> | <b>1.94</b>  |
| Average % marketing costs to total room revenues    | 11.69                | 9.34   | 5.99                  | 7.23   | 4.61                 | 5.27   | 7.43                         | 7.28         | -2.02        |
| Average wholesale % of total room night sold        | 45.8                 | 41.2   | 44                    | 44.4   | 54                   | 35     | 47.93                        | 40.20        | -16.13       |

## Strategy suggestions for practical implementation of yield management

The following practical strategies have been developed and are being implemented by the participants in the yield management study.

- The most important element that was considered within the study group was the strategy of offering the same product at multiple prices, differentiating the price by either length of stay, views, advance booking with deposits or some other characteristic. Put simply, selling the same rooms at different prices.
- The measurement of advertising results is a key point for small operators, who sometimes fall to the predatory nature of magazine and print sales staff. The requirement for the advertiser and the media to measure effect is a vital negotiating skill often overlooked by small operators.
- Re-financing to take advantage of lower interest rates, although not affecting the financial data sheet provided in this booklet, will have a significant effect on the bottom line.
- Reducing wholesaling dependence. Strategies to address this issue range from developing further corporate business, to establishing a higher priority on gaining an increased direct booking clientele from an existing client base.

To this end it is suggested that a database be used to collect names and addresses of customers and to contact them in the future with news and special offers in an attempt to gain loyalty and increased business.

Operators should review all previous clients with a view to contact and presentation of an offer, even just a brochure that they might refer on to family or friends.

- Join with other operators in an area to develop signage to improve profile of accommodation within a town precinct. Seek vantage points along highway intersections to improve profile, using Visitor Information Centres and other signs.
- Focus on symbiotic operators – antique traders etc. Colonial accommodation operators would have a good potential of securing accommodation bookings from antique hunters.
- Assess occupancy opportunity, maximise summer peak. Many accommodation operators do not achieve over 90% occupancy in peak months. Actions like stand-by rates and other incentives to the Free Independent Traveller may improve the occupancies in the peak months, with a significant impact on annual yield. This is the reason for completing the occupancy details in the financial data sheet.
- Re-visit reservation staff within wholesalers to gain top-of-mind profile for the property. Investigate marketing options within the wholesale network, like offering freesale opportunity, proactively offering famils.
- Seek opportunities to link with a local retailer for in-store promotions and to gain new potential client list. The local delicatessen is a major source of discerning locals and travellers alike. There are many opportunities to give away a dinner and accommodation package featuring their produce and your facility, to heighten profile within a local market.
- Develop a suggested itinerary to feature the location within a regional context.


Talk with regional tourism representatives to develop itineraries.

- Contact sporting clubs and associations, schools and special interest groups with a view to them using your product.
- Develop individual packages, such as a two-night stay or add dinner provisions.
- Investigate special events within the region, and contact large hotels looking for overflow opportunities.
- Develop low season promotional strategy involving craft, arts and your accommodation; provide theme weekends etc.
- Develop a distinct regional focus with other operators to feature local attractions and themes for the low season, and promote cooperatively using a range of suitable media.
- Place small teaser ads in the local press classifieds.
- Advertise in touring magazines such as RACV and other AAA magazines to capture the touring market.
- Segment away from leisure market, develop corporate alliances with other hotels in other cities. Visit sister cities and meet city hotel operators to discuss opportunities for mutual advertising.
- Install a business centre with fax, email, computer etc. to attract business clients.
- Investigate airline frequent flyer programs to see if the property can be used for redemptions as well as earning points for staying. Seek out other loyalty programs, Fly-Buys etc.
- Clean customers' windscreens overnight as a point of difference for the property.
- Develop better relationships with professional conference organisers.
- Investigate the capital required and the pay-back time for an in-house laundry rather than contract laundry services.

- Send vouchers to previous guests for use as Christmas presents.
- Review fixed costs, especially bank charges, accountancy, management wages.
- Promote the region as the destination and offer different levels of accommodation – use a resort as an example.
- Investigate the opportunity to develop a health resort theme.
- Develop a menu of pricing for the front office staff, and train them in the art of sales.
- Seek further information on the coach market as well as the mainstream coach operators.
- Review your signage and compare to the local competition.

## **Analysis of strategies implemented by study group**

- One small property installed spas in the second financial year, giving a one-off huge fixed costs expense. Their occupancy and revenues stayed the same, but with the strategy of spa installation, the rack rate has increased by \$15 per night and revenues will improve over the coming years.
- One single cottage developed a new pricing strategy (improved by 20%) and concentrated on more direct business contributing to a much greater revenue base. With good cost control over all areas, this strategy provided an amazing improvement of 122% in the yield. It also demonstrates the benefits of not being price led within a competitive framework.
- One operator decided to withdraw from a major wholesaling program. Although the occupancy and revenues reduced, the costs



of being part of the program was much greater and the yield actually increased by 25%. This demonstrates the importance of the 'market mix' element within yield management, deciding the right ratios of wholesale, retail and direct business.

- A mix of strategies paid dividends for one small property. The occupancy level stayed exactly the same for the two years, but the operators decided not to discount in the off-season, with a corresponding 35% increase in revenue. Pricing therefore did not have the effect on occupancy in the off-season that was originally thought, and improved results came from an increased profile for the property gained from more targeted marketing. Increased revenue funded a higher but better targeted marketing budget, aimed at direct business.
- The yield management template was used very successfully in one instance to build a case to financiers to invest in the purchase of further units of accommodation. It was very easy to demonstrate that with little increase in fixed costs, and the same marketing and discretionary overheads, an improved positive bottom line could be achieved.
- In one medium-sized business of 25 rooms, a very satisfactory result developed from a lesser dependence on wholesale business. Even though the occupancy dropped by 5%, costs were well controlled and the yield of the business improved by 15%. The wholesale business represented over 70% of the turnover in the first year and was reduced by 9% to 62% in the second.
- A 27-room property had a good result from investing in marketing programs. The revenues improved at a greater percentage rate than did the occupancy, and the discretionary costs reflected an added \$19,000 in marketing programs. Often, such marketing initiatives will reflect on trading results in some years to come, so improved results should be expected. A good monitoring of costs ensured a yield improvement of 3.3%.
- In one very interesting case, all the business indicators (occupancy, revenues etc) were negative, but the yield had showed a massive improvement. The fixed costs were down due to a refurbishment program being completed within the first year of the project, and the discretionary costs reflect a smaller advertising component for off-season. Wages within the cleaning costs contributed to variable costs reducing, resulting in a large jump in the yield.
- One of the larger properties with 60 rooms did not increase the price over the year, but developed a menu of pricing options and packages, which greatly improved the off-the-road sales conversions. The yield improved by 14.6% with better revenue per room and a cost saving.
- The other large business has been steadily improving its performance. A marketing program to its own corporate clients paid dividends as well as a decision in the previous year to be less dependent on the leisure market generally. There was a significant efficiency gained in wages in room cleaning, dropping the variable costs by 10%.

## Critical factors impacting on yield

The study has identified a number of critical factors to consider when managing yield.

### Maintaining records

The single most important factor was found to be maintaining adequate records to build a profile of your business.

|                      |   |
|----------------------|---|
| Client profile       | Who the clients are<br>How they book<br>How long they stay<br>Their origin<br>Their travel pattern and itinerary  |
| Distribution profile | Client mix ratios   |
| Financial profile    | Cost details<br>Pricing details<br>Finance, equity, leasing<br>Commissions  |
| Business profile     | Planning levels<br>Strategic direction<br>Review processes for the business   |
| Operator profile     | Rationale for business<br>Hobby/primary/<br>secondary/way of life<br>Appropriate skills,<br>specifically targeted<br>High motivation to<br>access required skills |

Accurate information about your clients, how they book, costs and the financial position of the business will help you to make informed decisions about strategies to build yield.

Setting aside some time to review the performance of the business, plan for the future and reflect on your motivation for being

in the business can also prove to be invaluable.

**Pricing strategies** were a critical factor to most of the participants in two ways:

First, the program was able to assist them make decisions about price reductions for the off-season. This program made them aware of their cost structures, and when they did not follow the market and sold fewer rooms at a better yield, they ended the year with a better financial result. Second, putting a range of pricing options within the same property provided good results.

**Cost analysis** was a significant factor in providing a better result to many operators. Although it is difficult to manage fixed costs to any large degree, many participants made the decision to manage their discretionary costs better. This was mainly evident with marketing expenditures, where the smaller operators were much more focused on their choices of advertising participation. There were also significant efforts to monitor the variable costs and wherever possible reduce them without compromising quality.

**Repairs and maintenance** was the single most influential factor to the bottom line. Where R&M is not treated as a capital refurbishment (in all of the cases studied) the year that rooms are upgraded and improved obviously has a huge impact on the financial results. In some ways, it might have been better to ignore R&M as it skews results so much. It also needs to be amortised over three to five years rather than taken up as an expense in one particular year.

## Glossary

### BENCHMARKING

Comparing business results with other similar accommodation operations or assessing the business against an industry average.

### COMMISSION

The dollar amount given to organisations for selling an accommodation product to the customer. Wholesalers and travel agents operate on a commission basis.

**Wholesalers** are accommodation warehouses – they provide comprehensive brochures outlining a large range of holiday options for a destination, and they distribute those brochures to networks of travel agents around Australia. Wholesalers (for example, Qantas Holidays, Tasmania's Temptations Holidays and Jetset) have a commission structure of 25% off the rack rate.

**Travel agents** are accommodation retailers, dealing directly with customers. If the customer is sold a wholesaler program (eg a Qantas Holiday), then the wholesaler (Qantas) pays the commission to the travel agent. If the travel agent books the accommodation direct, the commission is paid by the accommodation operator. Travel agents usually take a commission of 10% of the value of the customer's purchases. Major Australian travel agencies include Harvey World Travel, RACV, UTAG and American Express Travel.

### DEMOGRAPHIC PROFILE

A set of information about customers that can be used to understand their buying/travelling preferences. Characteristics include details on home, age, gender, income, education, occupation and others.

### DISCRETIONARY COSTS

(Also see OVERHEADS)

Costs over which the operator has some degree of control and choice – for example, advertising and marketing initiatives, staff salary/wages, training courses, vehicle and travel costs.

### DISTRIBUTION

There are many ways that a customer can purchase a night of accommodation. They can visit a travel agency, phone an airline, contact their credit union, use the phone book or just drive until they decide to stop. All these ways, as well as the way wholesalers work, are described as the distribution system.

Accommodation operators need to understand how the product is sold within the distribution system, and make sure they are represented where they need to be.

### FAMILS

Familiarisation tours of travel agents or journalists. Accommodation operators are expected to host (FOC) the accommodation so that the agents or journalists gain an experience of the product – and will most likely then recommend it to their clients, or write articles in appropriate media.

### FIT

Free(wheeling) Independent Traveller – visitors who have not pre-purchased packages.

### FIXED COSTS

(Also see OVERHEADS)

Costs that do not vary with the occupancy rate, and over which the operator has little or no control. They may include rates, licence fees, maintenance and repairs, accountancy costs and insurance premiums.

## FOC

Free of charge – complimentary.

## FREESALE

Some wholesalers wish to have a facility to make instant reservations directly with customers, without having to confirm the booking with the accommodation operator. This means the operator must allocate a certain number of rooms exclusively to the wholesaler, and give authority for the wholesaler to sell those rooms direct to customers. Freesale rooms can only be sold by the wholesaler, not the operator.

## INVENTORY

The number of rooms that an accommodation establishment has for sale.

## MARKET SEGMENTATION

A method of defining the market by dividing it up into separate, easily identifiable segments. Of the many visitors to a particular destination, it may be possible to segment the market according to age, family or couples, state of origin, transport options (coach or hire car), length of stay, reason for visit (conference, holiday), style of travel (packaged holiday, independent traveller), to name but a few.

## OCCUPANCY RATE

The number of rooms sold per annum against the total room nights available, expressed as a percentage.

## OVERHEADS

The costs, both fixed and discretionary, that are not directly attributable to the cost of goods/services sold. Fixed overheads include items such as rates, licences, repairs and maintenance. Discretionary overheads would include marketing, vehicle and travel, subscriptions and training.

## PCO

Professional conference organiser.

## PRODUCT LIFECYCLE

A tool that can be used to relate an accommodation business to its current market. Identifying the product lifecycle stage of a business is a valuable aid to future planning decisions – for example, carefully-planned new investment in an ageing business can rejuvenate and relaunch it, placing it on an earlier stage of the product lifecycle.

There are five identified product lifecycle stages for an accommodation business.

### *Stage 1 – Introduction*

The business in its infancy, seeking to establish a market place, creating awareness with a heavy advertising and promotional budget.

### *Stage 2 – Conservative expansion*

Developing a successful product, for example from two units to four.

### *Stage 3 – Rapid expansion*

Often when mistakes are made – the business appears to grow rapidly, but marketing groups may grow too large, or operators may become over-committed.

### *Stage 4 – Plateau*

Volume levels out, competition may be increasing, occupancy rates remain static, market share needs protection.

### *Stage 5 – Turning point*

Decision time to either sell, or invest in new products (for example, install spas or build new units.)

## PROFIT CENTRE

Can be loosely described as any place where there is a till. In a hotel the profit centres could include public bar, lounge bar, bottle shop, counter meals, restaurant and accommodation sales.

## RACK RATE

(Also known as Gross Rate, Full Rate or Published Retail Rate)

The rate set for one night of accommodation, not affected by specials and discounts – the rate that customers would find advertised in a brochure rack. (The shopping equivalent is the recommended retail price.)

## SEASONALITY

Business variations across the seasons. For most accommodation operations, winter is the off-season. A large seasonality means that the highs are very different from the lows.

## YIELD

The dollar amount generated from one night's accommodation after deducting all the fixed and variable costs and expenses associated with the business.

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