

Yield Management - Management of Income in Touristic Enterprise

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Abstract

A touristic market characterizes, first of all, with concentration of demand in time and space, that is with considerable seasonality during a year, month, week, and even day and concentration of demand in so called attractive touristic regions, and also with considerable dependence of demand on accidental factors (the weather, terroristic attacks, fashion). However, on the side of supply on a touristic market there is a close relationship between an enterprise and supply with space, that is, dependence of an enterprise on its location, stiffness of supply and the lack of the possibility of current, considerable increase of service abilities under the influence of changing demand, a risk of sale connected with features of service, and in peculiarity with the lack of possibility of their storing. Taking into consideration these features of a market touristic enterprises have worked out the whole scale of methods and tools of operational management to be able to react at once on changes in touristic demand and prevent from the loss of receipts.

Key Words

yield management, touristic enterprise.

1. Introduction

Every touristic enterprise should analyze currently its market situation, and especially the assortment of offered products on the market, their quality, tourists' segments, channels of distribution, or prices. Activity of every touristic enterprise should be directed towards the sale of an offer of a suitable quality to a concrete group of purchasers, in a suitable place and time for an accepted price. When one of the elements disappoints or is not fully used, gaps can appear on the market and their implementation (fulfillment) by a given enterprise quicker than rivals gives it a chance of development and better utilization of own service ability. Market gaps can have a quantitative, qualitative, assortment, segment, time, distributional

and price character. Their early recognition and a skilful reaction to them give an enterprise the possibility of improving its market situation and increasing profitability. Measures showing the ability of enterprise adjustment to requirements put by tourists are, first of all:

- receipts from sale,
- contribution in the market,
- profits,
- breakeven point¹.

2. The Notion and Principles of *Yield Management*

Touristic enterprises are interested in applying varied methods of operational management, which will enable them to maximize receipts from their activity. A suitable steering the price of offered services is one of such methods. In literature of the subject this technique is called *yield management* or *revenue management*. Yield management can be defined as a technique of leading a price policy, whose purpose is optimization of income from the sale of impossible to store services on the bases of predicting demand undergoing incessant hesitations and suitable adaptation to its prices which are different in different periods and for different market segments². In the United States more and more often yield management is defined as a name '4 C' as a shortening for: 'calendar' - date, 'clock' - hour, 'cost' - cost and 'capacity' - service ability. In practice with the technique of yield management we meet very often. Airways as first ones started to use it, which in dependence on time of arrival, a class of flight, or the time of booking apply different prices for the same service which is a flight on a definite route.

In practice we meet very often with yield management technique. The airlines as one of first has began applying it, which depending on deadline of flight, the class of flight or the time of making reservation, apply different prices for the same service, which is the flight for definite rout. *It is so-called dynamic yield management* basing on the principle "first minute" awarding these passengers, who has made reservation in considerable advance, thus, giving the certainty to the carrier of use places in an airplane. However people who decide on flight in last o moment the most often are forced to this because of unforeseen random situations. Knowing that, they are prone to pay much higher price, the carrier has used this to sell much more expensive tickets. What is more, because the carrier

¹ *Przedsiębiorstwo turystyczne w gospodarce rynkowej*. Praca zbiorowa pod red. A. Rapacza. Wrocław: Wydawnictwo Akademii Ekonomicznej 2001, s.190.

² P. Zygarłowski: *Yield management jako technika zarządzania ceną w przedsiębiorstwie hotelarskim*. Prace Naukowe AE we Wrocławiu Nr 735, s. 116-122.

knows that in December, which is the holiday period and demand is very big, he does not give additional income up and gives high prices, without taking into consideration earlier reservations. Prices of less popular night flights are also usually lower.

A similar strategy is also used by travel agencies which more and more often are organizing promotion actions selling touristic events in the month July already in January at so called prices *first minute* which being much lower than catalogue prices encourage tourists to make decisions about the purchase of an event half a year earlier. In March and April when the number of decisions about going on holidays and making reservations is the highest, prices of events are catalogue prices and the most often they do not take into account any discounts. However, in the month June, when on particular events remain single, final places to sell, they are again sold at considerably lowered prices, so called prices *last minute*.

The technique of *yield management* is applied also by hotel subjects which differentiate prices of their services mainly with regard to a period of stay in a hotel, the length of stay and the size of an order. In large municipal centres, where in hotel objects are mainly guests from a segment of business tourism, from Monday to Friday utilization of hotels service ability is high. Problematic are periods of weekends and holidays, when there is lack of guests from a business segment. Hotel objects apply, therefore, much lower so called weekend prices which are to encourage to stay in a hotel during a period of weekends and holidays. These prices are to encourage to use the service of a hotel object also by these market segments which normally cannot afford to use an offer of such a type of hotel objects, e.g. students of non-stationary studies coming to big city centers at weekends. In a typical touristic rest centres a strategy of working of hotel objects is quite the opposite. Knowing that tourists arrive to rest mainly at weekends and holidays, in these periods prices of hotel services are higher. At the beginning of the week prices go down.

Discussed above cases are examples of applying the *yield management with the use of a price*. However, not always this technique can be applied. For example, in some gastronomy institutions so called promotion '*happy hours*' are applied. It is known that the largest number of customers appears in restaurants and bars for dinner between 1.00 and 3.00 p.m. Therefore, to encourage customers to earlier or later eating dinner, the same dishes are sold between 12.00 and 1.00 p.m. and between 3.00 p.m. and 5.00 p.m. at considerably lower prices. This often leads to misunderstandings, when e.g. a customer entered a restaurant before 1.00 p.m. and ordered a dish at a promotion price finishing consumption after 1.00 p.m. has to pay for it a higher price. Gastronomy institutions, therefore, apply more and more

often *yield management with the use of time*. It is done so that in peak hours they can reduce to minimum both time of waiting for customer and time of a service itself done for them. The time of servicing guest is dependent on labour consumption put in preparing dishes, accessibility of semi-manufactured articles, schedule of covering during a day, guests habits and time they spend in a restaurant for different meals. Reduction of waiting for a customer time and time of service cause increase of the rotation coefficient per one consumption place, which gives the possibility of serving at the same time a larger number of consumers and increase of income per one consumption place during a day. Table 2 shows existing in this sphere possibilities and solutions.

Table 2. *Yield management* in gastronomy institutions with regard to time of service.

Activities	After peak hours	During peak hours
Reservations of a table	Reservations without conditions. For being late there are not any consequences.	Reservations under conditions – being late causes annulment of reservation or a customer is charged with a stable reservation payment from a credit card. A number of a credit card is required at a moment of reservation.
Offered menu	Accessibility of all dishes from menu. Dishes are prepared on a particular order. Full range of services.	Only some dishes in the menu – so called ready dishes.
Service	Full waiters' service.	Beverage, desserts and salads in a form of a self-served buffet.
Payment	A bill is brought after finishing consumption.	A bill is brought automatically with the main dish. Payment in advance.

Source: own study.

Touristic enterprises - mainly airways and hotel objects - aiming at maximization of receipts quite often apply a technique of *overbooking*. Knowing that some part of reservations is not realised - passengers do not appear at a check-in desk and hotel guests do not arrive to stay – often book a larger number of places than they possess to provide. In a case of annulment of reservation this gives then the possibility of minimizing losses in receipts, however, in a case when all reservations are realized, conflicts are born which businessmen try to soften at any ways.

The main principles of *yield management* in the hotel industry, the gastronomy, airlines and travel agencies has been presented in table 3. It follows that depending on the kind of touristic enterprise, various methods of influence on a size of income from running such activity, can and should be applied.

Table 3. Main principles of *yield management*.

Main principles of <i>yield management</i>.	
Hotel	<ol style="list-style-type: none"> 1. Control currently demand for services reacting with differentiation of prices. 2. Do not give any discounts to those customers who do not ask about them. 3. Accept reservations from such segments which are eager to spend more on additional services. 4. If you can choose, accept group reservations and for longer periods, not individual reservations. 5. Do not give discounts to guests without reservation. <p>Cards of regular consumers and loyalty programmes tie.</p>
Restaurant	<ol style="list-style-type: none"> 1. Control currently demand for services with differentiation of prices. 2. Shorten time of servicing a customer. 3. Differentiate a card of dishes in dependence on a part of a day. In the evening customers sit longer and spend more. 4. If you can choose, accept group reservations. 5. Organize events at a restaurant. 6. Serve beverage without any delay. Before a customer finishes consumption, he will order another drink. 7. Offer desserts.
Airways	<ol style="list-style-type: none"> 1. Control currently demand for services with differentiation of prices. 2. Encourage to earlier reservations through lower prices – a principle <i>first minute</i>. 3. Take additional charges for additional services e.g. too much luggage, meal on the board, confirmation of reservation, a printed ticket. 4. Who is forced to use a service, is inclined to pay more – do not lower prices of tickets in periods before holidays and in a peak season. 5. Just before departure a ticket is expensive –the principle <i>last minute</i> is not applied.
A travel agency	<ol style="list-style-type: none"> 1. Control up-to-date demand for services, reacting with diversity of prices- long weekends, holidays and any breaks are periods of increased demand 2. Encourage to earlier reservations, by cutting prices – the principle <i>first minute</i>. 3. Shortly before the event, it is better to sell the offer cheaper, paying changeable costs and a part of solid costs, than “ to carry the empty places”-the principle <i>last minute</i>. 4. Offer discounts on packets-together with the main event sell optional trips and various services –customer will buy more. 5. Apply family discounts- child free or for half price. 6. Reward regular customers-discounts and presents tie.

Source: own study.

3. Summary

The method *yield management* is quite a young method in touristic enterprises. These enterprises, particularly classified as small enterprises apply the technique of differentiating prices completely subconsciously, often not knowing that they use the principle of *yield management* in their activity. This often causes a lot of mistakes in establishing prices and loss in receipts. It is necessary to underline that effective applying *yield management* requires continuous observation of the market and changes in demand. These observations should have a long-term character, because only on the basis of long-term observations it is possible to detect tendencies in exchanges of market demand and effectively qualify seasonal hesitations. Therefore, many enterprises use professional computer programmes which enable to carry out a detailed analysis of demand and draw correct conclusions. Thus, it is necessary to state that usually only large touristic enterprises, in which are created special sections or positions responsible for analyses of demand and steering prices, can afford to apply *yield management*.

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