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Hotel Revenue Management: Today and Tomorrow

Sheryl E. Kimes Ph.D.
Cornell University, sek6@cornell.edu

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Hotel Revenue Management: Today and Tomorrow

Abstract

Hotel revenue management needs stronger support from human resources policies, according to this survey of 186 revenue managers. At the same time, respondents to the survey anticipate that revenue management will extend to other areas of the lodging business, including spas and function spaces. The principal human resources issue involves career paths for employees involved in revenue management. At the moment, the route to promotions for revenue managers is not clear. Some may move up from a single hotel to a group or division, but others may simply find employment in another lodging chain to move up. Moreover, many executives pointed to the difficulty of finding qualified revenue managers. With regard to the extension of revenue management to other hospitality areas, respondents commented that an integrated approach will be necessary. Although revenue management is largely viewed as a technical or quantitative process, pricing strategy and competitive tactics have become strong elements in revenue management. In all categories, respondents living in Asia thought revenue management techniques and issues were in greater need of improvement than did the revenue managers in North America. The dichotomy was particularly pronounced regarding human resources issues, but was also noticeable for technical issues, such as forecasting, optimization, and overbooking, as well as pricing and distribution.

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by Sheryl E. Kimes

Cornell University
School of Hotel Administration

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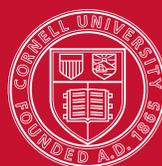
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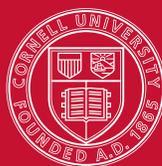
Cornell University
School of Hotel Administration

Hotel Revenue Management:

Today and Tomorrow

by Sheryl E. Kimes, Ph.D.

ABOUT THE AUTHOR

Sheryl E. Kimes, Ph.D., is Singapore Tourism Board Distinguished Professor of Asian Hospitality Management at the Cornell University School of Hotel Administration, where she has also served as interim dean (sek6@cornell.edu). In teaching restaurant revenue management, yield management, and food and beverage management, she has been named the school's graduate teacher of the year three times. Her research interests include revenue management and forecasting in the restaurant, hotel, and golf industries. She has published over fifty articles in leading journals such as *Interfaces, Journal of Operations Management, Journal of Service Research, Decision Sciences,* and *Cornell Hospitality Quarterly*. She has served as a consultant to many hospitality enterprises around the world, including Chevy's FreshMex Restaurants, Walt Disney World Resorts, Ruby's Diners, Starwood Asia-Pacific, and Troon Golf.

EXECUTIVE SUMMARY

Hotel revenue management needs stronger support from human resources policies, according to this survey of 186 revenue managers. At the same time, respondents to the survey anticipate that revenue management will extend to other areas of the lodging business, including spas and function spaces. The principal human resources issue involves career paths for employees involved in revenue management. At the moment, the route to promotions for revenue managers is not clear. Some may move up from a single hotel to a group or division, but others may simply find employment in another lodging chain to move up. Moreover, many executives pointed to the difficulty of finding qualified revenue managers. With regard to the extension of revenue management to other hospitality areas, respondents commented that an integrated approach will be necessary. Although revenue management is largely viewed as a technical or quantitative process, pricing strategy and competitive tactics have become strong elements in revenue management. In all categories, respondents living in Asia thought revenue management techniques and issues were in greater need of improvement than did the revenue managers in North America. The dichotomy was particularly pronounced regarding human resources issues, but was also noticeable for technical issues, such as forecasting, optimization, and overbooking, as well as pricing and distribution.

Hotel Revenue Management:

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by Sheryl E. Kimes , Ph.D.

Revenue management (RM) has been practiced in the hotel industry for over twenty years and has been adopted by nearly all of the major hotel chains and many independent hotels. That said, RM practices vary. Some hotels use highly sophisticated RM systems, while other hotels rely on simple spreadsheet models. Many hotels now employ revenue managers at the property level, some also have regional revenue managers, and nearly all chain hotels have a revenue management department or group at the corporate level.

Although RM seems to be well established in the lodging industry, I was interested in finding out what RM professionals think about current revenue management practices and what they see as the largest challenges and opportunities. To study this, I conducted an on-line survey of hotel RM professionals in Asia and North America. This study is a subset of a larger study done on RM professionals in a variety of industries.

A request to complete the survey was sent to all members of the INFORMS revenue management and pricing section, members of the revenue management career track advisory board of Cornell University and the Cornell-Nanyang Institute, and to at least ten different hotel, distribution, and RM consulting firms. Posted on April 4, 2008, the survey had attracted 186 responses by late May. In addition, an RM Roundtable was held in Singapore in late May 2008,

EXHIBIT 1

Improvement potential of RM techniques
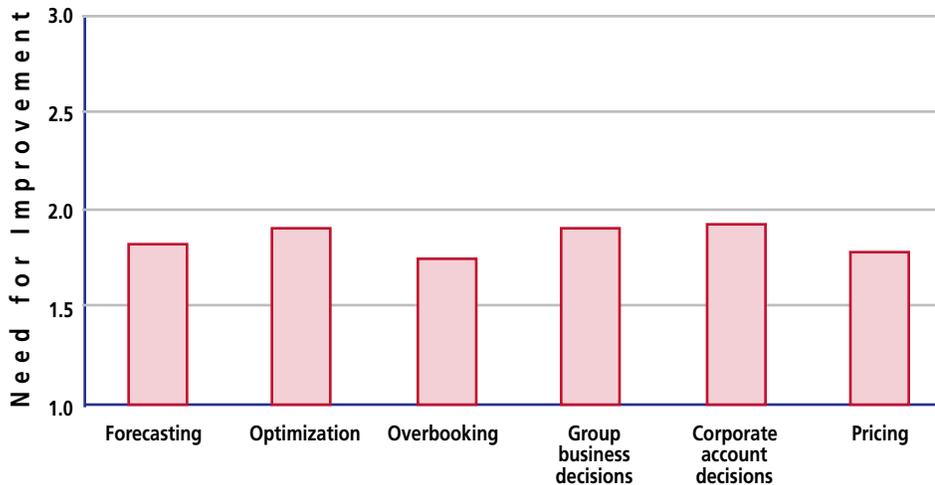
where the participants (comprising senior executives from Carlson, Fairmont, IDeaS Advantage, IHG, Langham, Marriott, Millennium Hotels, Minor Group, Raffles, Revenue Management Solutions, Swissôtel, and SynXis) conducted extensive discussions on the survey results. Selected commentary from the discussion is included in this report.

Survey respondents were asked to assess six technical revenue management issues, three pricing and distribution issues, and six people and management issues, as well as consider customer satisfaction and the extension of RM to other hotel departments and hospitality industries. For each question, respondents were asked to state whether they considered the methods to be well established, in need of some improvement, or in need of major improvement. They could also indicate that the method or issue was of no concern to them. In addition, the survey posed three open-ended questions, addressing major trends, major issues, and the future of RM. Finally, the survey recorded various demographic statistics including each respondent's job position, amount of RM experience, level of education, and geographic location.

Demographic Profile

About a quarter of the respondents (26%) served in an executive position in RM while just over half (53.3%) worked as a revenue manager. About 21 percent of respondents

worked as analysts. About 57 percent of the respondents worked in North America, and the rest in Asia. The respondents had considerable revenue management experience, with 41.3 percent having more than five years of experience (and 4.7% having more than fifteen years). At the other end of the scale, about one-fifth had been working in RM for less than two years. The respondents were highly educated, with 78 percent reporting that they held a college degree. About one-quarter of the respondents held a post-graduate degree.

Technical Issues

Respondents were asked to use a three-point scale to evaluate the need for improvement in the following six technical aspects: **(1)** forecasting, **(2)** optimization, **(3)** overbooking, **(4)** group decisions, **(5)** corporate account decisions, and **(6)** pricing on the following scale: 1 = the method is well-established; 2 = the method is in need of minor improvement; and 3 = the method is in need of major improvement.

I found little difference in the respondents' ratings for the six technical issues. Overbooking was considered the most developed area (average improvement score of 1.75), while corporate-account decisions (1.93) and group decisions (1.90) were rated as somewhat less developed areas. Almost one-fifth (18.7%) thought that techniques for making corporate account and group decisions were in need of major improvement (see Exhibit 1).

EXHIBIT 2

Comparison of Asian and North American views of revenue management technical issues
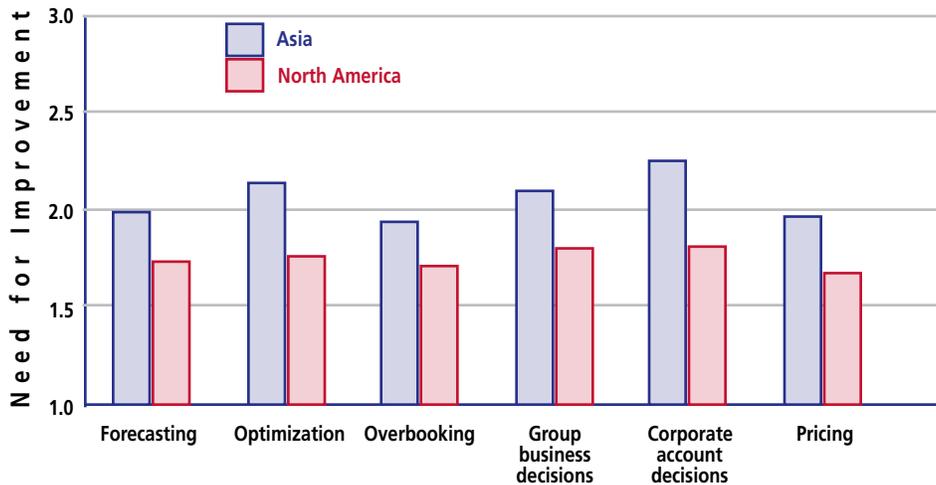
I did, however, find statistically significant differences between responses from Asia and North America (Exhibit 2).[1] Asian respondents were more likely to believe that the various technical aspects of RM were in need of improvement (average improvement score of 2.05) than were the North American respondents (average improvement score of 1.73). Given that the Asian and North American respondents were similar with respect to education, experience, and job levels, I suspect that the variations in their responses occurred because of the slower development of revenue management in Asia as compared to North America. This matter was not, however, explicitly addressed in this study.

Education had a statistically significant effect on attitudes toward group and corporate account decisions, as follows: more educated respondents were more likely to feel that these two areas were in need of improvement. In addition, more experienced respondents and those working in higher-level positions felt that pricing was in more need of improvement.

Pricing and Distribution

Respondents were asked to use the same three-point scale to evaluate the following three pricing and distribution issues: **(1)** competitive pricing, **(2)** rate fence development, and **(3)** distribution management. Mean improvement scores for these three items again were not substantially different. Competitive pricing was rated at 1.70, rate fence development at 1.82, and distribution management at 1.83. Again, though, differences between Asian and North American respondents were statistically significant (Exhibit 3). On

average, Asian respondents rated pricing and distribution issues as needing more improvement (average rating of 1.97) than did North Americans (average rating of 1.66). Education, amount of experience and job position did not have a statistically significant effect on responses.
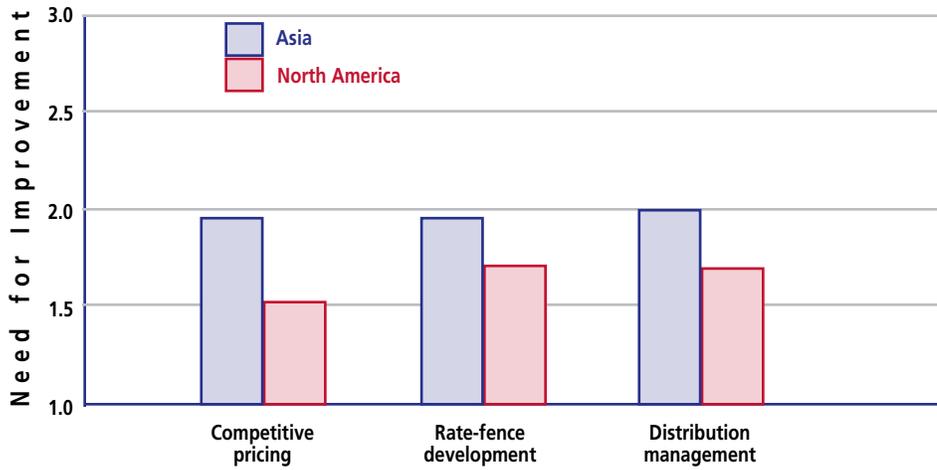
Human Resources Issues

With regard to the six human resource (HR) issues, respondents indicated a considerable need for improvement. The items are: **(1)** hiring, **(2)** training, **(3)** retention strategies, **(4)** career path development, **(5)** department in which RM is located, and **(6)** RM organization. Career path development was rated as the area most in need of improvement (2.31), followed by retention (2.10), training (2.05), and hiring (2.03). Forty-two percent of respondents rated career path development as in major need of improvement, followed by training (30%) and retention (24%).

Again, Asian respondents rated these areas as much more in need of improvement than did North Americans (mean score of 2.37 for North America vs. 1.82 for Asia). The top issues for both groups were similar, but Asian respondents were more likely to think major improvement was needed, particularly in career paths, retention strategies, hiring, and training, all of which scored above 2.40 (Exhibit 4). Once again, education, amount of experience, and job position did not have a statistically significant effect on respondents' view of the human resources issues in revenue management.

Customer Satisfaction

In contrast to human resources, respondents indicated that customer satisfaction issues were reasonably well established

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[1] One-way ANOVAs were used to test for statistical significance. All significant differences presented are at the $p < 0.05$ level.

EXHIBIT 3

Comparison of Asian and North American views of revenue management pricing and distribution issues

EXHIBIT 4

Comparison of Asian and North American views of revenue management human resources issues
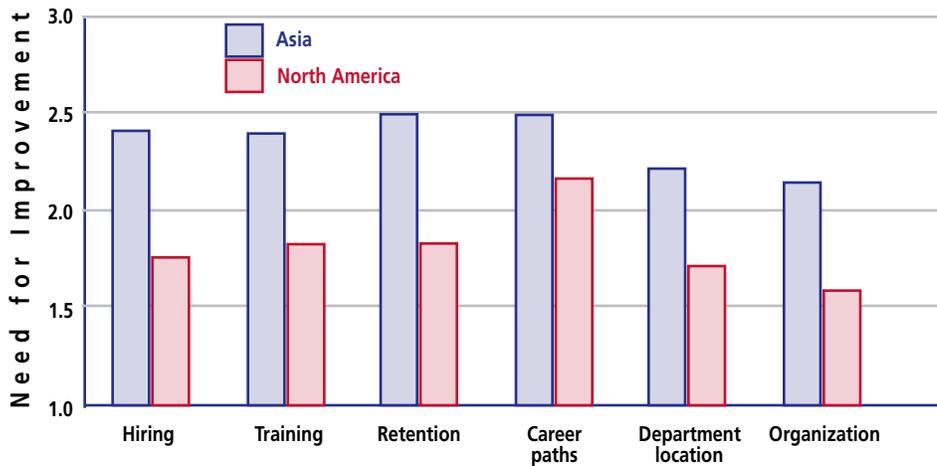
(improvement rating of 1.60), although the disparity continued between Asian respondents, who were more likely to see this as an issue, and North Americans (1.87 for Asians and 1.44 for Americans). Only 5.3 percent of respondents rated customer satisfaction issues as needing major improvement.

Extension of RM Practices

The extension of RM practices to other hotel departments and to other industries was considered to be an area in need of considerable improvement (2.29). Nearly one-third of respondents (32.7%) felt that RM extension was in major

need of improvement. Asian respondents saw this as an area needing significantly more improvement (2.47) than North American respondents.

Trends

Nearly 70 percent of the respondents answered the question regarding the latest trends in revenue management. By far the most mentioned trend was the extension of RM into other parts of the hotel such as function space, spa, and food and beverage (45.6% of all comments). The second most mentioned trend was improvement in human resources
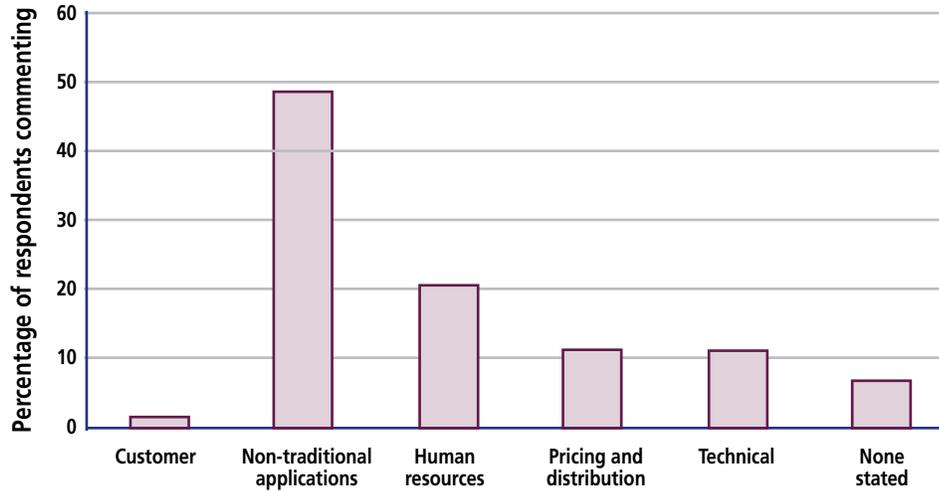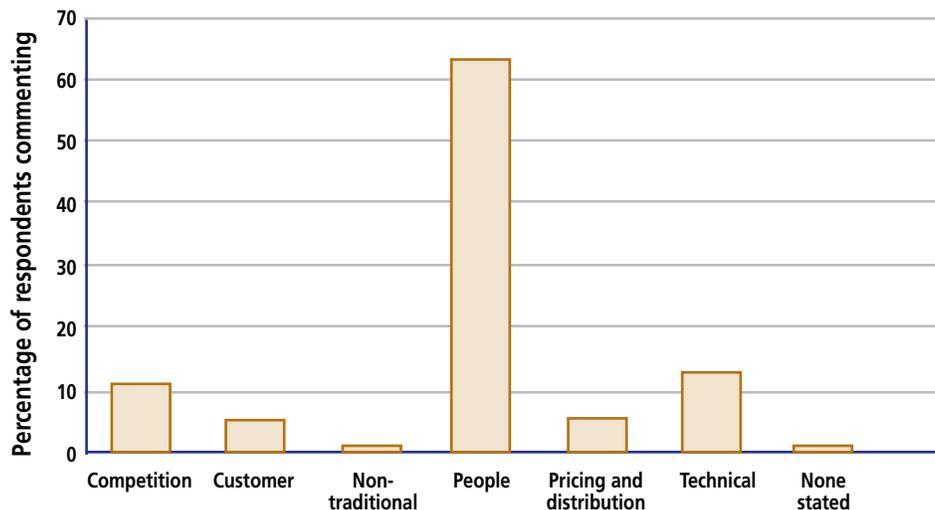
EXHIBIT 5

Trends in revenue management

EXHIBIT 6

Representative comments on trends in revenue management

Trend	Representative Comments
Non-Traditional Applications (49%)	For Asia Pacific, more application of non-room revenue management (e.g., F&B, spa).
	The gambit of revenue management would and should eventually include all aspects of revenue earning within the organization—be it hotel, airline, or function space management, as well as balance the cost and revenue output to maintain these centers
	Revenue management in my hotel is focused on rooms, as other revenue generating departments operate on a smaller scale. However, I think that the trend in general is for revenue management to be involved in other operating departments like food and beverage and spa.
HR Issues (21%)	Due to the sophistication of many new yield systems and RM tools, plus the analytical and strategic skills needed for a successful revenue manager, the future will see more revenue managers from business and finance majors than from the traditional hotel and travel and tourism programs.
	Lack of talent.
	Revenue management will be taken seriously in hotel industry, especially the room revenue management, revenue manager position will be also important to the management team.
Pricing and Distribution (11%)	To be more involved in channel management, especially online channels.
	Moving away from fixed corporate rates to retail rates.
	Revenue management trends would change in our country as compared to the West as customers are getting used to internet vis a vis making reservation through a travel agent or a mediator.
Technical (11%)	360-degree optimization, where we manage guest revenue based on their total profitability for a resort.
	More sophisticated computer models to take the guess-work out of the process.
	Evolution to more fact-based decisions. Systems' "friendliness" now exceeds "accuracy." We need to be more scientific in several areas, forecasting and incrementality in particular.

EXHIBIT 7

Issues facing revenue management

related activities (18.4%), followed by more of a focus on profit instead of revenue (10.7%) and advancements in pricing and distribution (10.7%). Exhibit 5 shows the percentage breakout, and Exhibit 6 gives representative comments on revenue management trends.

Issues Facing Revenue Management

A similar percentage of respondents (72%) commented on the major issues that they see facing RM (Exhibit 7). Human resources issues were seen as the greatest issue facing RM (63.0% of comments), followed by technical RM issues (13.0%) and economic and competitive issues (11.1%). Exhiibit 8, on the next page, gives representative comments on the issues facing revenue management.

Future of RM

Again, 70 percent of respondents offered projections on the future of revenue management. Just over 30 percent anticipate an increased reliance on technology, while just under 30 percent mentioned that they thought RM applications would be seen in other departments of the hotel, such as function space, spa, and food and beverage. Just under 15 percent stated that they thought that the human resources function of revenue management would evolve into a much more organized structure (Exhibit 9, on the next page). Exhibit 10, also overleaf, gives representative comments on the future of revenue management.

Discussion

This study found that the most critical issues facing revenue management are related to human resources, and that the

application of RM approaches to non-rooms departments was becoming increasingly important and necessary. As I explain below, the roundtable participants held similar views. By contrast, survey respondents thought technical, pricing, and customer satisfaction issues associated with RM were considered to be fairly well established or in need of only minor improvement.

Human Resources Issues

The four HR issues that respondents said were in need of improvement are obviously interrelated (to review, career path development, training, hiring, and retention strategies). I will, however, address each in turn.

Career path. Respondents and roundtable participants alike commented that most hotel companies have not yet developed a clear career path for employees working in revenue management. This may be partly related to the department in which the position is located and the newness of the RM field. Succession planning (or career paths) is a key human resource issue pertaining to revenue management. Some roundtable participants mentioned that departments such as sales and marketing or finance had well established human resources practices to develop staff and to define career path opportunities within the organization, but such practices seem to be lacking for RM departments.

Consider a property level revenue manager, for instance. Clear guidelines are absent on how that person is to progress through his or her career. The manager could move to a larger hotel, be given responsibility for several hotels, or jump to a regional level job or perhaps even to a corporate level position. Without a clear path to follow, it is difficult

EXHIBIT 8

Sample comments regarding Issues facing revenue management

Topic	Representative Comments
People (63.6%)	Personnel! As our data access improves, we need more analytical people than we have now and have had in the past. We need to establish career options, and make the discipline more appealing to non-traditional people.
	Finding and keeping the best people.
	I think that there is not enough training established to become a successful revenue manager. There is basic training through schools, hotel chains, but it's lacking continued training to truly get your arms around profit optimization. All management within an organization (including hotels) need to understand revenue management and embrace the culture.
Technical (13.1%)	Some major issues I see are that being able to forecast out further, as well as be able to make the right long term group decisions.
	Forecasting accuracy.
	System issues that prevent proactive yielding and accurate forecasting. For example, the need for direct connectivity for tour operators. Optimal mix is a challenge as this is a debatable measure based on market conditions. However, without careful monitoring high revenue displacement can occur.
Competition (11.2%)	Uncertain economic slowdown and effect on reduced travel and group meetings. Increased competition all bidding on the same group business which may and can cause a driving of the group rate downward.
	Proper forecasting techniques are required.
	In a declining economy, with declining demand, it may be tougher for a revenue manager to show an ROI on the position. Revenue management must move beyond just slowing days down when they get busy.

EXHIBIT 9

Future of revenue management

Exhibit 10
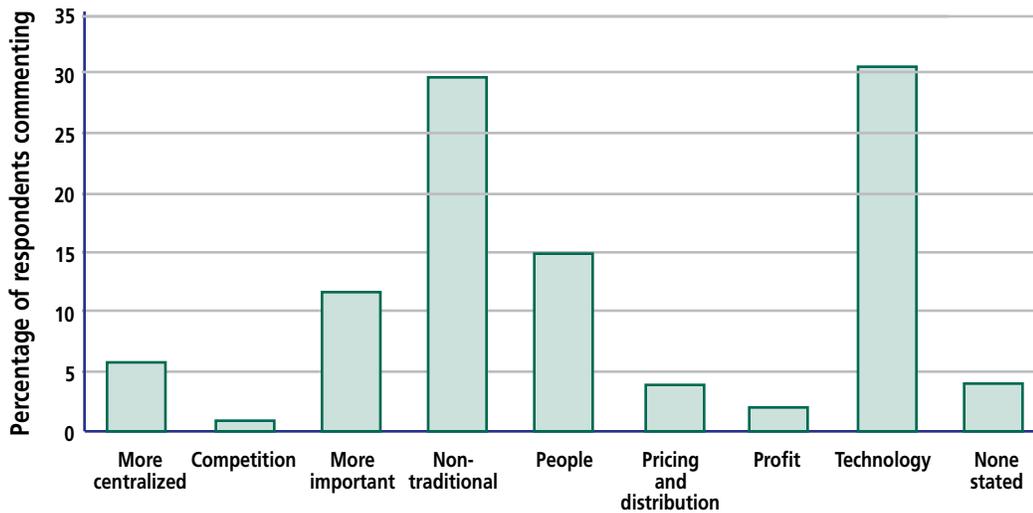
Sample comments regarding the future of revenue management

Topic	Representative Comments
Technology Improvements (31.0%)	Technology will be more advanced. The human element to interpret and intervene will remain the same.
	Automated system with major human influence. More organizations will be using a revenue management system as it will be more and more affordable. More will be practicing dynamic pricing.
	Complexing and outsourcing may have to become a serious consideration as RM resources become more scarce and more hotels open. For ease of inter-company transfers, best practices and consistency of tools will have to be improved and more streamlined.
Non-Traditional Applications (30.0%)	RM will encompass all aspects of revenue earnings and growth of the organization. It will be directly answerable and responsible for results
	The role of revenue management will continue to expand to catering, restaurants, spas, etc.
	More hotels realize the importance of revenue management and moving from traditional room revenue management to total hotel revenue management.
HR Issues (15.0%)	Revenue management and sales will likely overlap more than it does today.
	More of a team effort vs. being a single body entity in the business process of the hotel. Perhaps director level; executive level positioning on the management team. Remaining the same: lack of connection to the overall guest experience.
	I believe that the industry is placing a greater emphasis on revenue management whereby it is becoming such a vital role within hotels that revenue managers will soon be considered executive committee members, if they already are not...
RM Will Become More Important (12.0%)	I think it will be an even larger area for hotels and will help drive more profit to the bottom line.
	I think it will have even more of a presence than it does now. I think it will become more on the property level rather than some corporate office. I think the key is, whether tomorrow or ten years from now is to have someone monitoring your revenue.
	Will stay about the same as changes in the hotel industry in general are very slow compared to other industries. However, revenue management will continue to increase its importance.

for some revenue managers to plan their career. Some seek other job opportunities altogether.

The consensus was that hotel companies need to develop several career paths for revenue managers to follow. For example, one route might be to start as a revenue manager at a small hotel, and then to move to a similar position at a larger and more complex hotel. The next move would be to a cluster where the manager would have responsibility for several hotels and eventually to a regional level position. Another route might be to start as a revenue manager at the property level, then become director of sales and then possibly move to a general manager position. Regardless of the actual steps, it is essential that hotel companies develop a reasonably clear career path for its revenue managers. Failure to do so is likely to lead to the loss of key RM personnel.

Hiring and training. Many respondents mentioned how difficult it is to find qualified revenue managers. Roundtable participants discussed at length the attributes of the ideal revenue manager, with the realization that revenue management was largely perceived to be focused on numbers and driven by spreadsheets and analysis. They further considered that the challenge and importance of the revenue manager's role involve analyzing data to make a business case for recommended strategies and to align the strategies with business goals. They agreed that this job description is not adequately communicated, nor is it yet appreciated by executive management, as reflected in remuneration levels.

Revenue managers have traditionally risen from the reservations department, but the scope of the position has changed and revenue managers now require sound analytic and leadership skills, including an ability to perceive and adjust to market conditions and to make effective decisions that can be translated into actions. "Revenue managers need a level of assertiveness," observed Greg Albertini, regional vice president revenue strategy, Asia Pacific, with Marriott International. "They need to bring an entrepreneurial spirit to the job," agreed Klaus Kohlmayr, managing director of IDeaS Advantage. Given this desired skill set, it is no wonder

RM professionals believe that the most important issues facing revenue management are related to human resources.

that many hotels have difficulty in attracting and keeping qualified revenue managers.

Based on the study results and the roundtable discussion, I believe that the hotel industry has the following three ways to attract the right sort of people into RM: **(1)** develop more and better internal training programs to help develop employees who are interested in working in RM, **(2)** offer revenue managers higher salaries, and **(3)** develop structured career paths for revenue managers. Improved training can help both existing and new employees by giving them the necessary skills, and educational institutions could focus courses on revenue management to prepare graduates to take on the challenge of a revenue management position. Along that line, higher salaries will attract more qualified applicants for revenue management positions. When solid remuneration is combined with improved training and a clear career path, the industry should see higher performing revenue managers and improved profitability. A more structured career path will not only help attract qualified applicants, but should also entice them to stay within the company.

Retention. Retention is strongly related to the lack of a clear career path and to revenue managers' salaries. If a revenue manager cannot see a clear career path, he or she is more likely to seek out other opportunities. In addition, if salary growth is limited, successful revenue managers may search for and accept other, better paying jobs. Roundtable participants thought that the lack of a clear career path appears to be a contributing factor to the migration of revenue management staff to other organizations, as revenue managers forge their own career paths by seeking new job opportunities.

In summary, hotel chains and hotel managers need to concentrate on addressing the HR issues associated with RM. Understandably, the focus so far has largely been on acquiring or developing technical systems for using RM. While the technical systems are still not perfect, they are well developed and are considered by most RM professionals to be fairly well established or in need of only minor improvements. What is needed in the future is more emphasis on

developing the revenue managers themselves. Without a systematic approach to addressing these issues, hotels will continue to have difficulty in attracting and retaining strong revenue managers and their revenue performance will suffer.

Extending Revenue Management

The survey respondents considered the extension of RM to other parts of the hotel to be both a great need and a trend. Given that function space, food and beverage, and spas provide a substantial amount of revenue to many hotels, it seems appropriate to apply to these areas the same sorts of RM practices that have been used for rooms. However, participants at the roundtable said they were unlikely to apply RM to other departments until they had exhausted the revenue opportunities available from rooms, since the profit potential from rooms is much higher than that from food and beverage and meeting space.

Function space. Some chains have begun to develop function space RM systems that are integrated with room systems. Other hotels have even hired space revenue managers to oversee this function. The key with function space RM is to measure occupancy and revenue performance of each meeting room, gather information on the different market segments, their booking patterns, and their revenue contributions, and to develop appropriate prices and length-of-stay controls.[2]

Restaurants. Restaurants have also begun to use RM. As with other RM applications, one of the first steps is to identify peak demand periods and to determine ways in which to maximize the revenue potential during those times.[3]

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[2] For a detailed discussion on how to apply RM to function space, see: Sheryl E. Kimes and Kelly A. McGuire, "Function Space Revenue Management: A Case Study from Singapore," *Cornell Hotel and Restaurant Administration Quarterly*, Vol. 42, No. 6 November 2001), pp. 33-46; or Eric Orkin, "The Emerging Role of Function Space Optimisation in Hotel Revenue Management," *Journal of Revenue and Pricing Management*, Vol. 2, No. 2 (2003), pp. 172-174.

[3] For a detailed discussion on how to apply RM to restaurants, see: Sheryl E. Kimes, "Restaurant Revenue Management," *Center for Hospitality Research Report*, Vol. 4, No. 2 (Cornell University, 2004).

Spas. Another possible extension is to spas. As with function space and restaurants, the initial task is to identify busy and slow demand periods and to develop pricing and duration controls to help maximize revenue. Spa revenue management could take the form of offering higher prices during peak demand periods,[4] reducing the amount of time between customers, or using price and promotion to build demand for off-peak times.[5]

Golf. Golf represents another fertile ground for RM application. Walt Disney World Resorts has developed an RM system for its golf courses in Orlando, and Troon Golf, a large U.S. golf management company, uses RM at many of its courses.[6] As with other departments, the first step is to identify busy and slow demand periods and develop pricing and other strategies for each. For example, a golf course may be able to charge a higher greens fee on busy weekend mornings, may be able to enforce a minimum party size during these times, might decide to use marshals to help regulate the speed of play, or might offer discounts during slow times.[7]

Study Limitations

As with any study, this one is not without limitations. Most to the point, I surveyed only RM professionals, since I was interested in how they viewed the current state and future of RM. While non-RM professionals were not included in this study, it would have been interesting to see how their responses vary from those working in RM.

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[4] Lisa M. Starr "Squeezing the Sponge," *DaySpa*, July 2007, pp. 54-62; and Leslie Lyon, "Spa Revenue (Yield) Management," 4Hoteliers.com, January 2008, www.4hoteliers.com/4hots_fshw.php?mwi=2735.

[5] *Ibid*. For a detailed discussion on how to apply RM to spas, see: Sheryl E. Kimes and Sonee Singh, "Spa Revenue Management," *Cornell Hospitality Quarterly*, forthcoming, 2009.

[6] "Troon Unveils Management System," *Golf Course News*, July 2002; Trent Bouts, "Racking Up," *Golf Business*, 2007, www.golfbusiness.com/pageview.asp?m=6&y=2007&doc=1690.

[7] For a detailed discussion of how to apply RM to golf courses, see: Sheryl E. Kimes, "Revenue Management on the Links: Applying Yield Management to the Golf-Course Industry," *Cornell Hotel and Restaurant Administration Quarterly*, Vol. 41, No. 1 (February 2000), pp. 120-127.

Although I tried to distribute the survey as widely as possible, the sample is self-selected and not representative. Survey respondents may be different from those who did not complete the survey or who never saw it. In addition, some of the respondents may not have fully understood the questions asked of them. Despite these limitations, I believe these results are of use to RM professionals and to those who work with them.

Conclusion

RM professionals believe that the most important issues facing revenue management are related to human resources. HR issues such as career path development, training, and hiring and retention strategies were considered to be in major need of improvement. Over 60 percent of respondents identified HR issues as the greatest concern for RM in the future. Asian respondents thought all aspects of revenue management needed more improvement than did managers from North America. This difference of opinion over the need for improving revenue management was significant.

RM professionals also indicated their belief that revenue management should be expanded to other hotel departments such as function space, restaurants, and spas. Along that line, expansion of RM was seen as the strongest RM trend. Many respondents talked about the need for a more holistic view of RM. Rather than focus only on maximizing rooms revenue, they thought that RM should be used to maximize total hotel revenue.

Finally, respondents expected that RM systems would become more centralized and automated as RM assumes an even larger role within the hotel. This implies that hotels will need to continue to invest in both their RM systems and in the RM professionals who manage them.

In summary, RM professionals and hotel executives should concentrate on improving the human resources activities associated with RM and should begin to think about how to apply RM to other parts of the hotel. At the same time, they should be thinking of and investing in ways to further automate some of the more routine functions of RM. I plan to conduct this survey on an annual or biennial basis to track changes towards RM over time. ■

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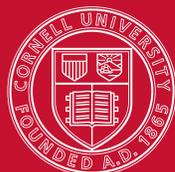
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