

Concept of Room up Sell Index and its Utility in Rooms Division in Star Rated Hotels

Prof Pratik R Satpute

Assistant Professor, Suryadatta College of Hospitality Management and Travel Tourism, Pune, Maharashtra, India

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ABSTRACT

Today, we find that the hospitality industry has flourished and become a major source of revenue generation all over the world. The growth of hospitality industry led to emergence of many hotel chains in India. The increasing competition and over supply of rooms has led to fall in the prices of room rates thus affecting the room revenue, average room rate and revenue per available room in all major cities of India. This condition has compelled the hotels to work on strategies and techniques to maximize the room revenue. Up selling is one such strategy. The paper will put light on the concept of room up sell and room upgrade. On basis of these parameters we will study the concept of up sell index and finally present its utility in rooms division in star rated hotels.

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Keywords: Room revenue, Occupancy percentage, Average room rate, Revenue per available room, Room up selling, Room Upgrade

INTRODUCTION:

The term 'hospitality' was coined in the modern era; however, it was in existence centuries before it. Business tourism is concerned with people traveling for purposes which are related to their work. As such it represents one of the oldest forms of tourism, man having traveled for this purpose of trade since very early times. Business activity has been going on for longer than we often imagine and each new piece of archaeological research seems to indicate that its history extends further back in time. Now, it is also evident that business tourism was not restricted to any one continent. Evidence of it has been found in terms of artefacts discovered by archaeologists that could only have been produced elsewhere, all over Africa, the Americas, Asia, the middle east and Europe. There is evidence of trade taking place in all these countries.

In India there is a drastic increase in number of star rated hotels over the past 15 years. As per HVS report on Hotels in India- trends and opportunities 2016-17 there has been a 300% increase in number of rooms in star category hotels in India. Room revenue has a major share in the total hotel revenue. Room revenue contributes up to 60% part of the total revenue. Considering the oversupply of rooms and increasing competition, the rates cannot be increased beyond a certain extend. The ever increasing costs also need to be maintained and tackled. To tackle this situation, the hotels, have to come up with various strategies to increase the room revenue.

What is room up selling and room upgrade?

The word up selling is basically meant to describe the activity of the hotel front office and reservations staff being able to sell a higher priced room to a guest who might have come with a concept of hiring a comparatively a lower category room. It is also called sell high. Room upgrade is when a guest books a lower category room but hotel provides a higher category room at the same price due to various reasons. These reasons vary from hotel to hotel but the major reasons for room upgrades are service recovery, overbooking of lower category rooms, bedding configuration issues etc.

A room up sell is of two types-

1. Up selling of a higher room category
2. Up selling of a room rate plan

Up selling a higher room category is when a guest has booked a basic room and we compel him to go ahead with a higher category room by paying additional incremental money. E.g. when a guest has booked a standard room and we up sell him a premium room say at an amount of INR 2000, it is an up sell of a higher room category. Up selling of a room rate plan is when a higher rate plan is up sold by the hotel. There are four basic room rate plans in the hotels-

- European plan(EP)= Room only
- Continental plan(CP)= Room + Breakfast
- Modified American plan(MAP)= Room+ Breakfast+ Lunch or Dinner
- American plan(AP)= Room + Breakfast + Lunch + Dinner

Guests generally book rooms on EP & CP and hotels try to up sell them the MAP and AP packages. This is up selling of higher rate plan.

On similar grounds, the room upgrades are of two types namely- upgrading to higher room category and upgrading to higher rate plan. The only difference is that the upgrades are provided from the hotel end and the guest is not charged the additional incremental amount.

Need for up selling

As per HVS report on Hotels in India- trends and opportunities 2016-17, the average occupancy of hotels in India 65%. The remaining inventory generally goes unsold and nothing much can be done to increase the room revenue through these rooms. Due to increasing competition hotels generally adopt market based pricing and so prices of rooms cannot be extended beyond a certain limit. Hotels have their brand value, brand reputation and also a lot of costs are incurred- both fixed and variable. So, hotels fix a certain hurdle rate beyond which they cannot decrease the room rates in order to increase the occupancy. This necessitates the hotels to target additional revenue from available share of business itself. Therefore, hotels are coming up with systematic plans and strategies to enhance the hotel room revenue. Up selling is one such strategy.

A room up sell helps in increasing the room revenue and in turn the profitability. On the other hand, a room upgrade reduces the opportunity to earn more room revenue and thus hampers the profitability. Up selling does not require any additional investment or cost. The current human resource available in front office, reservations and sales department can be trained and motivated to imbibe up selling as a task in their daily operations. Thus the incremental revenue earned will help us cover the variable and hidden costs and enhance profitability. Also there are mandatory room upgrades which are necessary to be given E.g. room upgrades are part of loyalty program benefits and need to be provided to the loyalty card holder. This upgrade is an opportunity lost to do an up sell. If hotel develops a culture where up selling is a part of the daily operations, the revenue lost due to such upgrades can be recovered by the up selling initiative.

Concept of up sell ratio

The hotels are currently using revenue per available room as a performance measure.

RevPAR= Average room rate x Occupancy percentage

$$\text{Average room rate (ARR)} = \frac{\text{Total Room Revenue}}{\text{Total no of rooms sold}}$$

$$\text{Occupancy percentage} = \frac{\text{No of rooms occupied} \times 100}{\text{Total no of rooms available for sale}}$$

If we see the above concepts, the revenue per available room takes into consideration the average room rate and occupancy percentage that is it considers both the room revenue and room nights.

Up sell ratio is comparison between room up sells and room upgrades. On similar grounds to RevPAR, the up sell ratio will consider both room nights and incremental revenue earned. The formula for up sell ratio will be-

Room up sell Ratio

$$= \frac{\text{No of up sell room nights} \times \text{up sell room revenue earned}}{\text{No of upgrade room nights} \times \text{upgrade room revenue loss}}$$

Today most of the hotel used various property management systems to run the operations of the hotel. These PMS are capable of providing reports on room nights and room revenue earned in case of an up sell and room nights and room revenue lost in case of an upgrade. On putting this information in the formula will give us an up sell ratio. There will be 3 cases for the up sell ratio-

Case 1- Up sell ratio < 1

In this case, the number of upgrades is more and hotel is under performing compared to its potential to up sell

Case 2- Up sell ratio= 1

In this case the number of up sells and upgrades is same and hotel is performing in par

Case 3- Up sell ratio > 1

In this case the number of upgrades is more and hotel is performing well and effectively using up selling as a technique to increase the room revenue.

Similarly, the up sell ratio can be calculated for a day, week, month, quarter or a year. The only information a hotel has to collect is the number of room nights in terms of up sell and upgrade and the revenue earned and lost due to an up sell or upgrade respectively.

Concept of Up sell Index

Hotels use the concept of RevPAR premium to compare and measure their performance with respect to competitors or the city as a whole.

$$\text{RevPAR Premium} = \frac{\text{RevPAR of hotel}}{\text{RevPAR of city}}$$

The value will be either less than 1, equal to one or more than 1. If value is less than then hotel is under performing. If value is 1 then hotel is having its fair share and if it is more than 1 then it is performing above par.

On similar grounds we can develop a formula for up sell index to compare and measure the performance of the hotel.

$$\text{Room Up sell Index} = \frac{\text{Room upsell ratio of hotel}}{\text{Room up sell ratio of city}}$$

The up sell index will be a numerical value with 3 cases

- Case 1- Up sell index < 1
 - In this case the hotel is under performing compared to city
- Case 2- Up sell index = 1
 - In this case the hotel is at par with its city
- Case 3 Up sell index > 1
 - In this case the hotel in performing well compared to city

On similar grounds the denominator can be changed to room up sell ratio of any competitor hotel to have a comparison with the respective hotel.

Utility of up sell index in rooms division

- It will act as a performance indicator of the hotel compared to historical results. E.g. the hotel can compare the room up sell index for a set period of time with the same period for previous year. Comparison can be done on up sell ratio of March 2017 & March 2018
- It acts as a tool to measure performance of same chain hotels. E.g. If a hotel chain has 70 hotels in Asia pacific the up sell index of each hotel can be compared to other and the best performer hotels can be distinguished.
- The performance of hotel and its productivity and efficiency can be measured by determining room up sell index compared to the city.
- Room up sell index can act as a key performance indicator for front office managers, revenue managers and general managers of hotels.
- It can be shown as a key result area while giving a presentation to stakeholders.

Conclusion

Considering today's situation, focus on increasing the incremental room revenue is need of the day. Up selling is once such method to increase the incremental room revenue. Hotel managers thus need to focus on application of up selling in hotel operations at the same time the use of room up sell index will give managers a clear picture on hotel up selling performance. Thus, utility of room up sell index in hotels will completely depend on hotel's view to use it or not.

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