

# Front office department yield management



**ASSIGN  
BUSTER**

## Chapter 1

### Introduction

The purpose of this chapter is to give an overview of the Front Office department and the yield management. The term “ Front Office” was introduced in the US, but now used in worldwide. Front Office is divided into sub-departments namely reception, concierge, switchboard, bellboys, reservations and guest relations. Nevertheless, as hotels vary in size and type, some of these sub-departments may not be present. Despite the size or the type of the establishment, the department is in many ways the “ nerves” of the hotel. One reason for this is that the sale of rooms generates more than 50 per cent of revenue and profit of a hotel, thus it is compulsory that Front Office department maximize its sales. For instance it might be through the switchboard, in the process of making reservation over the telephone, by entering the hotel to check-in or to make an inquiry. It clearly depicts that Front Office is a strong marketing tool that generates business for a hotel through guests’ registration. It is the center for guest activity. Front Office is in fact a hotel department where guests check-in, request information about services that the hotel provides and at the end of their stay they settle their bills and check-out. The Front Office as well generates profit or revenue indirectly, for other departments such as restaurant bookings and up-selling of the hotel in general. Normally, up-selling is done by the team members to increase profit by offering other services to the guests. When guests inquire about those services then it is an opportunity for the staffs to persuade them to purchase these facilities. It is important that the department sets goals and objectives to be able to manage and

control yield management so as to maximize sales revenue. The Front Office should however have its own mission statement for a successful management system.

**Aim:**

Planning and evaluating Front Office yield management for a better revenue management and for the success of the department

**Objectives:**

- Proposing a solution for an effective communication and how to eliminate all barriers
  
- Understanding the purpose of yield management and how to plan, manage and organize in the Front Office department
  
- Investigating the link between Front Office Operations and yield management: how it contributes in the department
  
- Implementing yield management in Front Office department
  
- Making Front Office department successful in controlling and calculating revenue obtaining from up-selling

**Problem Statement:**

There is an increase in communication barriers interdepartmentally concerning sales revenue. Messages are not passed accordingly to right person, to the right place and at the right time. It is noticed that employees are not convince to do up-selling owing to lack of training facilities and procedures. Thus, expectations are not met which results to a low revenue.

The fact that there is misunderstanding, conflicts may arise among staffs and supervisors to make decision on how to increase sales. The time scale does not allow the employees to properly plan, organise and implement their task if managers do not set objectives and guidelines. Finally, owing to a miscalculation or a decrease in revenue and sales, it minimizes the profits.

In general, team members do not take their planning of task into consideration thus result to ineffective, inefficiently and less productive. Updated information is not usually circulated. Thus, outdated data is given to guests concerning the selling price of the products and services at the hotel. If there has been carelessness, guests get compensation, for instance a dinner free of charge on the beach. In somehow, reducing the revenue and sales.

## **Chapter 2**

### **Front Office department**

Front Office department is one of the departments within the rooms division. It is the “ heart” center of the hotel and is the most revenue generating. Front Office is a noticeable department in a hotel with the greatest amount of guest contact and highly people orientated. It is designed as the first lasting impression.

The front office functions can be divided into six general areas:

1. Reception

2. Guest Relations

3. Bell service

<https://assignbuster.com/front-office-department-yield-management/>

4. Mail and information / Reservation

5. Concierge

6. Cashiers and night auditors

## **Front Office Structure**

A hotel's size and objectives determine the organizational structure of the Front Office. (Abbott, P. and Lewry, S. 1993)

A table of Front Office structures is shown below.

[Drawing]Front Office Manager

[Drawing]

Assistant Front Office Manager

[Drawing][Drawing][Drawing][Drawing][Drawing][Drawing][Drawing][Text Wrapping Break]

[Text Box][Text Box]

[Drawing]Reservation Manager

[Drawing][Text Box]

[Drawing][Drawing][Drawing][Drawing]

[Text Box][Text Box][Text Box][Text Box][Text Box]

[Drawing]

[Text Box]

## **Planning and evaluating operations**

There are seven management functions that have to be considered when planning and evaluating operations. These points are as follows:

1. Planning
2. Organising
3. Coordinating
4. Staffing
5. Leading
6. Controlling
7. Evaluating

### **Planning**

Planning is an essential function in the success of different office operations. It is a procedure of setting objectives, developing plans and outlining tasks and schedules to accomplish the goals targeted. An effective strategic planning is done for the contribution of a successful operation and to maintain higher or constant revenue in the Front Office operation.

At the stage of planning, the Front Office manager determines the department's goals and objectives. Therefore, the Front Office manager uses these goals as a guide for planning most specific and measurable objectives. Finally, through these goals, the front office manager determines the strategies and procedures to reach these objectives.

These aims will thus discuss to the Front Office staffs so as to plan and organise their task efficiently for the success of the department.

## **Organising**

After setting the objectives, the Front Office manager organised the work to be done through dividing it among Front Office staffs. When organising the tasks, the work is distributed properly and is to be completed in a given period of time.

## **Coordinating**

Coordination and team spirit are vital. It involves togetherness and using the available resources to attain planned goals.

## **Staffing**

The right persons and experienced ones are recruited. It is important to introduce training to the employees for a better success of the department.

## **Leading**

Leading involves supervising, motivating, training, disciplining and setting an example for the Front Office department. Leading is important to maintain the effectiveness of the tasks.

## **Controlling**

Through controlling, it ensures that the concrete outcomes of operations closely match the plan results. Leading and controlling of task are mostly the duties of the supervisors.

## **Evaluating**

Through evaluating, it determines the extent to which planned goals and objectives are actually attained. Furthermore, it involves appraising and when necessary reviewing or helping to revise Front Office goals.

Moreover, to maintain the successful of the department, every task are planned in advance. The room allocations for arrival of guests are well planned. Before the arrival of guests, the registration card which is a legal form is prepared on the eve of the day as well as concerning the hotel information sheets. The cold towels and the cocktail juice are also prepared in the evening for the arrival of guests on the following day. The departure and arrival check list are prepared one day before. If there are any group arrivals, a planning is done on how to do the check-in. A daily event record is prepared every evening by the Guest Relation Officers; showing all detailed information about arrivals and departures of guests including total guests-in- house. A daily event report is shown in the annex. If there is any early arrival, then, the housekeeping department has to be advised to prepare the room earlier.

## **Establishing room rates**

The Front Office manager allocates to each room category a rack rate. In fact, the Front Liners are expected to sell rooms at rate unless a guest qualifies for an alternative room rate for example airline rate, commercial rate, group rate, day rate, package plan rate, complimentary rate, cooperate rate, promotional rate, incentive rate or family rate.



While establishing room rates management has to consider its operating cost, inflationary factors and competitions. In general, there are three well-known approaches to pricing room:

1)Market condition approach

2)Ruled-of-thumb approach

3)Hubbart formula approach

### **Market condition approach**

Under this approach management look at comparable hotels in the geographical market to verify the prices charging for the same products. Thus, “ charge only what the market will accept”. In contrary, this approach is endangered to some drawbacks as it does not take into account the value of the property and the strong sales effort to accomplish.

### **Ruled-of-thumb approach**

In this approach, the rate of a room is €1 for each €1000 of construction and furnishing cost per room, assuming a 70% occupancy rate. However, this approach does not consider the inflation term, the contribution of other facilities and services towards the hotel’s desired profitability. The Front Office manager must stay in contact with the General Manager and controller to monitor room rate effectiveness.

### **Hubbart formula approach**

This approach considers operating costs, desired profits and expected number of rooms sold, that is, demand. Generally, this approach lays emphasis on the factors such as operating expenses, desired Return on

<https://assignbuster.com/front-office-department-yield-management/>

Investment (ROI) and income from different departments in the hotel; to establish room rates. This method relies on the Front Office to produce income to cover operating expenses, overhead and ROI for the hotel operation.

According to Hubbart formula approach, the procedure of calculating a room rate is shown below:

- i. Measuring the hotel's anticipated profit by multiplying the desired rate of return (ROI) by the holder's investment.
- ii. Measuring pre-tax profits by dividing the anticipated profit by 1 minus hotel's tax rate.
- iii. Measuring fixed charges and management fees. This calculation includes estimating depreciation, interest expense, property taxes, insurances, amortization, building mortgage, land, rent and management fees.
- iv. Measuring undistributed operating expenses. This includes estimating administrative and general expenses and energy costs.
- v. Assessing non-room operating department income or loss, that is, Food and Beverages department income or loss, telephone department income or loss.
- vi. Measuring the required room department income which is the sum of pre-tax profits, operating department losses less other department incomes.

vii. Determining the room department revenue which is the required room department income, plus other room department direct expenses of payroll and related expenses.

viii. Measuring the average room rate by dividing rooms' department revenue by the expected number of rooms to be sold.

These methods are guidelines only. Room rates must frequently monitored with regard to market conditions of demand and supply.

Furthermore, some more formulae are depicted below:

-Doubles sold daily = double occupancy rate x total number of rooms x occupancy%

-Singles sold daily = rooms sold daily – number of double rooms sold daily

-Singles sold daily x X + doubles sold daily x (X + Y) = (average room rate) x (total number of rooms sold daily)

-Whereby: X = price of singles; Y = price differential between singles and doubles; X+Y = price of doubles.

### **Forecasting Room Availability:**

Forecasting room availability is to predict the number of rooms available for sale on forthcoming date. The kind of forecasting helps to manage the reservation process, guides the Front Liners for an effective room's management and is used as occupancy forecast. Therefore, it is useful in attempting and to roster the essential number of staffs for a planned size of a department.

In order to predict room availability, the following information is needed

-Number of expected room arrivals/ check-ins

-Number of expected room no-shows

-Number of expected room walk-ins

-Number of expected room stayovers

-Number of expected room overstays

-Number of expected room check-outs

-Number of expected room understays

The above mentioned information helps the Front Liners to conduct various daily operational ratios. The formulae to calculate No-show percentage, Walk-ins percentage, Overstays percentage and Understays percentage are as follows:

i. No-shows percentage = (Number of no-show rooms) divided by (Number of rooms reserved)

ii. Walk-ins percentage = (Number of walk-in rooms) divided by (Sum of the number of rooms arrivals)

iii. Overstays percentage = (Number of overstay rooms) divided by (Number of expected check-outs)

iv. Understays percentage = (Number of understay rooms) divided by (Number of expected check-outs)

The predicted number of rooms available for sale for upcoming date can be likely successful by using the formula shown below:

Forecasted number of rooms available for sale = Total number of guests rooms - Number of out of order rooms - Number of stayovers rooms - Number of reserved rooms + Number of no-show rooms + Number of understay rooms - Number of overstay rooms

Under non-automated and semi-automated systems, total of rooms available for sale forecasts are measured upon demands and needs which vary from three-day to ten-day forecasts. Nevertheless, under fully automated systems, forecasts are done at any instant for imminent period of time. For instance, on opera system, room forecasts are already registered and considered, thus eliminating monotonous labour work and human error margins.

## **Budgeting for Operations**

Hotels have to prepare annual budgets, which are profit plans that address all revenue sources and expense items for the next calendar year.

Furthermore, the hotel annual operating budget represents against which management can evaluate actual outcomes of operations. In the twelve-monthly budget preparation process, close coordination efforts of all management personnel are essential. The annual operation of a hotel budget is generally divided into monthly plans which in turn divided into weekly and even daily plans for a better control over the current consequences. In addition, while preparing the Front Office department annual budget, the Front Office manager has to coordinate with the financial department to

estimate only rooms' revenue and related direct expenses. The hotel controller and the General Manager, therefore, have to revise this budget.

### **Forecasting room revenue**

In order to predict room revenue, the Front Office manager considers the historical financial data such as past room revenue, past number of rooms sold, past average daily rate and past occupancy rates. Thus, compare and contrast for a better decision making.

### **Forecasting direct expenses**

Owing to the fact that the Front Office manager is responsible only for his or her department direct expenses, that is, variable costs; the Front Office manager consult past financial data showing variable costs to room revenue ratios, in order to estimate department expenses.

### **Refining budget plans**

If ever the external strong factors change considerably, in an unpredicted way, then the actual operating budgeted figures have to be revised.

### **Evaluating Front Office Operations**

A successful Front Office manager has to continuously evaluate the outcomes of the department activities on a daily, monthly, quarterly and yearly basis. While evaluating, the following items and tools have to be considered:

- Daily operations report; for example Room move report
- Occupancy ratios

-Rooms revenue analysis

-Hotel income statement; for example Early breakfast sale

-Rooms division income statement or schedule; for example up-selling of rooms

-Rooms division budgets report

-Operating ratios and ratios standards

## **Daily operations report**

This report is also known as the manager's report, the daily report and the daily revenue report. It encloses a summary of the hotel's financial activities during a 24 hour period. In addition, it assists as to reconcile cash, bank accounts and revenue and accounts receivable.

## **Occupancy ratios**

Occupancy ratios measure the enhancement of the Front Office in selling the hotel's guestrooms. Some common ratios that are used in the Front Office department are depicted below:

i. Occupancy percentage = (Number of rooms occupied) divided by (Total number of rooms available for sale)

ii. Multiple occupancy percentage = (Number of rooms occupied by more than one guest) divided by (Total number of rooms occupied)

iii. Average guests per rooms sold = (Total number of guests) divided by (Total number of rooms sold)

iv. Average daily rate = (Total rooms revenue) divided by (Total number of rooms sold)

v. Average rate per guest = (Total rooms revenue) divided by (Total number of guests)

## **Room revenue analysis**

One prime report to succeed control over room revenue is the room rate variance report, that is those rooms that have been sold at rates other than their rack rates, for instance, airline rate, corporate or commercial rates and so on... Another form is the yield statistics, which is the ratio of the current revenue to the sum of the possible potential revenue if all rooms are sold at rack rates.

Formula of Yield statistic is shown below:

Yield statistic = (Actual room revenue) divided by (Potential room revenue)

## **Hotel income statement**

This statement provides vital financial data about the outcomes of hotel operations for a given period of time.

## **Room division income statement**

The room division income statement also known as a schedule has to be referenced on the hotel's income statement. Furthermore, the room division schedule has to be prepared by the hotel's financial division not by the hotel's Front Office accounting agent, that is, the Night Auditors.



## **Room division budget reports**

These reports are monthly budget form comparing to current revenue and expenses figures against budgeted amounts depicted both in Euro values and percentage variances.

## **Operating ratios**

Operating ratios for instance occupancy ratios, yield statistics... assist managers in evaluating the success of the Front Office operations. In addition, for the ratios to be meaningful they should be compared against proper standards such as prior periods, competitors or budgeted ratios.

## **Front Office Operations**

A need for communication exists to communicate with other managers and staffs working other shifts. The reservation area is the sales department of the Front Office, thus a revenue center for the department in the sense that reservations determine on occupancy levels.

The Front desk staffs must compulsory alert the guests when their credit limit is exceeding. Lastly, the Front Office staff should take the check-out as an opportunity to offer the guest supplementary services; for example, proposing the guest to book a room in the hotel for the future. (Vallen, J. J. 1985)

Night audit, reception and Guest Relation are an essential element of Front Office department and claimed to be revenue generating department. The Guest Relation Officers have to convince the guests to accept upgrades. (Jones, C and Paul, V. 1993). There has to be a control process system to

monitor the performance objectives targeted. Furthermore, the Front Office controls its cash or revenue sales.

## **Interdepartmental Communication**

The Front Office staffs cooperate with all departments of the hotel including marketing and sales, housekeeping, food and beverage, banquet, controller, maintenance, security and human resources. Each department has a different kind of communication with the Front liners. These departments view the Front Office as a communication connection in providing guest services. The Front Office is a clearinghouse for communication activities.

## **Marketing and Sales department**

The marketing and sales department depends on the Front Office to provide data on guest histories or concerning guest's prior visit. The guest history is a valuable resource for marketing and sales as it uses the guest registration information to target marketing campaigns, develop promotions, prepare mailing labels and select appropriate advertising media.

## **Housekeeping department**

Communications between the Front Office and the Housekeeping department is vital as it revolves around room status. Team members of the Housekeeping department provide a room status report to the Front Office department. Thus, follow-up can be done easily through this report.

## **Food and Beverage department**

There are handovers which are used to communicate a charge to a guest's account. It is essential that the Food and Beverage department communicates with the Front Office department to know the meal plan of the  
<https://assignbuster.com/front-office-department-yield-management/>

guests. This is to charge the guests accordingly prior to their meal plan they paid for.

Through interdepartmental communication, information is spread out to all the departments so as to communicate effectively for an enhancement situation of the hotel and to increase revenue. It is also essential for a better planning of work.

### **Intradepartmental communication**

Communication within the department is essential for a better planning of work. After planning the goals and objectives for the success of the Front Office operation, it is important that all the Front Liners work together and communicate effectively to deliver a proper task. Through effective communication, the Front Liners may achieve their aims and increase their revenue in the operations. The team spirits and understanding are the prime factors to be considered for the enhancement of the Front Office department. There has to be an interaction between the Front Office manager, the supervisors and the Front Liners so as to determine the root of the problem and therefore find solutions to remedy the situations.

Interdepartmental exchange of information is crucial to attain goals and objectives.

### **Barriers resulting to a decrease in sales revenue**

Decrease in sales revenue leads to unsuccessful operations of the hotel. There is lack of co-operation between departments which results to barriers of communication. A decrease in arrival of tourists results to a negative outcome concerning a raise in revenue. That is, a low demand leads to low

revenue for instance, a decrease in room sales, products and services revenue. The problem root comes primarily from the reservation department. There may be barriers in departments such as Financial department, Food and Beverage department and housekeeping department relating to sales. For instance, if a guest has an Half Board voucher and that on the opera system it is All-inclusive it creates confusion to the departments concerned. The All-inclusive minibar and that of the Half Board is completely different. If the Housekeeping, Food and Beverage and Financial departments are not advised or change the guest's meal plan on the system by the Front Liners, may create loss in revenue. Lack of training procedures concerning up-selling will not increase sales revenue. The lack of skills does not convince the employees to make upselling. There may as well conflicts in different tariffs charged to guests for example; a Front Liner may charge a guest Rs 200 instead of €200 resulting to a huge decrease in sales revenue.

### **Ways to remedy the barriers relating to a decrease in sales revenue**

Through effective communication, there may be an increase in sales revenue and a successful department. It is important to maximize rates when demand is high but if demand is low, special promotional package has to offer to guests to increase the demand. The Front Office manager has to well-trained the Front Liners to understand the meaning of yield management and how to increase sales or ensure sales revenue. The Front Office management has to set objectives to increase sales revenue and thus discuss with various departments of the hotel. Through these strategies,

there is co-operation among the departments for successful revenue generated.

Front Liners have to communicate effectively and efficiently to departments such as Food and Beverage, Financial and Housekeeping concerning the guests' meal plan.

Training allows team members to be successful in delivering good sales techniques. It is vital that each department provides training facilities and procedures to the employees so as to learn the methods to increase the sales revenue. The employees should be product knowledgeable; thus promote more profits and the staffs have to be attentive when taking payment from guests. Questions have to be asked properly concerning the booking for accommodation and meal plan when guest reserved a room. It is important to keep a record concerning the financial transactions so as the Financial department may evaluate the ways to remedy the barriers relating to a decrease in sales revenue.

“ It's not always easy and often takes a lot of determination. But making an effort to remove the obstacles – tangible and intangible – that stand in our way, can be the key to building relationship that really works” – by Eric Garner

## **Yield Management**

Yield Management is a demand forecasting technique used to maximize room revenue that the hotel industry borrowed from the airlines. It is based on the economics of supply and demand, which means that price rise when demand is strong and drop when demand is weak. Thus, the purpose of yield

<https://assignbuster.com/front-office-department-yield-management/>

management is to increase profitability. Yield management allocates the right type of aptitude to the right customer at the right price so as to maximize revenue or yield per available room. (Kimes, S. E, 1989)

Yield management will monitor reservations and based on previous trends. Existing demand determines the number and type of rooms to sell at what price to obtain the maximum revenue. The yield management program will monitor the demand and supply and recommend the number and type of rooms to sell for a given day including the price for which to sell each room.

### **Planning sales revenue**

The Front Office plays a vital role in promoting sales and the Front Office manager has to develop and implement a plan to the utmost to increase sales opportunities to the Front Office agents. This plan focus on areas of promotions, developing objectives and procedures, incentive programs, training program for staffs, budgets and tracking systems for employee feedback and profitability. Moreover, planning yield management includes setting up objectives, evaluating alternatives, drawing up budgets and developing an evaluation tool for feedback. The plan has to be discussed with the General Manager, department managers and Front Liners from different department to attain goals and objectives. The team members have to ensure that the profitable plan is accordingly developed.

According to Narula, (Feb 1987), some goals were provided to the Front Office employees to increase sales. The following are depicted below

-Sell rooms to the guests who have not make prior reservations.

-Upgrade is to be made to the guests so as to boost the customers to purchase higher priced product or service; to those guests having former reservations.

-Maintain the record of the rooms.

-Convey information about the product facilities available in the premises for sale, for instance, Food and Beverage and other facilities. The objective of the Front Office employees is to sell all facilities and benefits available at the hotel.

-Ensure that the maximum revenue is generated from the sale of rooms by prominent a stability between overbooking and a full house.

-Achieve guest feedback

Planning can only be started if there an increase of communication between Front Liners and Marketing and Sales department. It is essential to formulate an effective marketing strategy when there is a change in the market conditions. The eventual goal of a sales-oriented Front Office is to increase revenue from room sales, Food and Beverage sales and sales in various departments. The Front Office and other departments of the hotel have to plan on how much to increase revenue to accomplish the objectives set. Before decision making, several questions have to ask for a better planning of revenue management. Each moment new objectives has to plan for future months to generate revenue.

When developing and implementing a program to increase sales activities, the Front Office manager along with other department managers and

<https://assignbuster.com/front-office-department-yield-management/>

employees, have to identify products and services to promote. A list of services and products to be promoted is shown in the annex.

## **Evaluating sales – Yield management in Front Office Operations**

The Front Office team members have to determine which concepts to produce in order to increase sales re