Travelodge and budget hotels in the uk tourism essay

Travelodge is the first budget hotel launched in 1985 in UK. It operates 380 hotels with 26, 500 room in the UK. Travelodge is planning to grow 1000 more hotels by 2020. It employs above 5500 people and 87% of the booking are made online.

The UK hotel market is estimated around 700, 000 rooms (source: Melvyn Gold, " Qualification of serviced accommodation supply in UK", December 2007)

UK hotel market is segmented mainly into four categories, Brander full service which has 14% of the market share, branded budget 12% branded mid market 62% and unbranded independents 62%. the current economic environment has seen increase in drop out of unbranded independents and people prefer to book with branded budget due to network coverage, brand strength strong balance sheet and distribution.

Grant Hearn, Travelodge CEO, commented: " 2008 was another record year of growth for the

Travelodge brand with over 19% revenue growth". Room sold increased by 9 percent to 6 million

The growth of Travelodge has been incredible but company faced a few challenges and one of the major challenge company is facing is overbooking.

Overbooking is one of the important revenue management tool in hotels operation management to operate effectively and enhance profitability.

Revenue Management is seen as an important technique in the hotels' operation and therefore to maximize their revenues, hotels are increasingly implementing Revenue Management practices (Hwang and Wen, 2009). As a consequence of implementing such systems, many companies in the service sector such as hotels systematically overbook capacity in order to maximize the revenue at one particular point in time (Wangenheim and Bayón, 2007).

If overbooking is not implemented correctly it can result in loss of room revenue, loss of hotel reputation, decreased customer loyalty and decrease hotels profitability.

This report discusses the main characteristics of overbooking and its impact on the company in theoretical and practical prospective.

Theoretical insights of overbooking

One of the central concepts in Revenue Management is overbooking. The practice of overbooking can be defined as confirming more reservations than the hotels' available physical capacity to provide the service. (Ivanov, 2006; Ivanov, 2007; Chiang et al 2007; McGill, van Ryzin, 1999; Kamath, Bhosale, Manjrekar, 2008). Hence, the objective of overbooking is to improve the expected profit and instead of selling each room once, profit can be increased by selling it several times (Birkenheuer, 2009).

In fact, overbooking as an integral part of Revenue Management has received significant attention from literature. From a historical perspective, overbooking is present in the studies of Falkson (1969), Simon (1968), Vickrey (1972) and many others. The major objective of these studies was to outline a control practice for cancellations. Nowadays, overbooking has

become an emerging matter in industries with perishable products. It yields considerable impacts on companies' performance.

In terms of the hospitality industry, the profitability of hotels is largely dependent on their utilization of capacity. Conversely, demand for rooms and extensions of stay are very unstable and are hard to predict (van Ryzin, 2005). Hoteliers are challenged by how to determine the occupation of rooms for customers who are financially unequal and meanwhile – maintain a stable rate of demand given the hard to predict circumstances (Okumus, 2004). This is all possible utilizing overbooking, which enables proper allocation of resources and optimization of sales.

However, maximizing the number of sold rooms per night cannot be easily accomplished. One of the most challenging tasks of the hotel operation management is to deal with the unpredictable nature of the customers, because not all booked reservations will turn into real service consumption (Lai et al, 2005). To this end overbooking may entail a company from the hospitality industry not being able to serve all its customers properly because of lower number of initially expected people that do not appear as agreed. In this respect, overbooking may have both positive and negative impact. On the one hand, it may result in refusal to provide a service, but on the other, it can also take the form of compensation for those bookers, who cannot received the value package they have agreed on and paid for (Kimes and Wagner, 2001).

" From their practical experience managers know that all not bookings confirmed for a particular date will be really used" (Ivanov, 2006). There are

several possible scenarios that can cause this. Despite of their reservations, because of different circumstances some guests cancel their stay and terminate their reservations, some does not cancel their booking but fail to show up, or other guests reduce their stay and as a result the room remains unsold and hence capacity not utilize is lost forever (Ivanov, 2006, Talluri et al, 2004; Chiang et al, 2007; Hung, 2004; Bitran; Leon, 1989).

Therefore hotels adopt overbooking in order to protect against losses with no-shows and to offset the effect of cancellations and shortened stays (Hwang and Wen, 2009; Kamath et al, 2008; Selmi, 2008; Chiang et al 2007; Hung, 2004; Sulistio, Kim, and Buyya, 2008).

Impacts of overbooking on hotels' operation management

Apart from the opportunity of the hotel to minimize the effect of reservation uncertainties there are possibilities the number of cancellations and no shows to be less then the number of overbookings, then some of the clients will not be accommodated and should be walked to other hotels (Ivanov, 2006).

Thus, if a hotel decides to employ overbooking in its operations it should manages carefully not only the opportunity cost of the unsold room but also the overbooking costs for alternative hotel accommodation and transportation that the hotel has to pay in order to compensate a customer in case of overbooking (Ivanov, 2006; Hung, 2004).

Besides the evident financial costs occurring in case of walking a guest having already booked, " costs the lost hotel's goodwill and reputation and the risks of dissatisfaction, loss of trust, loss of future customer loyalty are

much more expensive for the hotel" (Selmi, 2007). Overbooking policy and control According to Selmi (2007), " the risk of customer refusal appears if the overbooking is no realized precisely". In this regard, Kimes (1989) emphasized on the importance of a clearly stated overbooking policy within the hotel operation management. The objective of overbooking policy and control is to find an optimal overbooking level to maximize the expected revenue and to minimize the potential risk of denied service (Chiang et al 2007). Netessine and Shumsky (2002) as cited by Ivanov (2006; 2007) proposed a basic mathematical model for calculating the optimal number of overbookings and according to his findings the optimal overbooking level is " inversely related to the amount of cancellation charges applied – the closer the cancellation charge to the room rate, the lower the missed benefit from the unoccupied room and the less stimuli to overbook". In case of presence of guaranteed and non-guaranteed bookings, Ivanov (2007) suggests that the optimal number of overbookings has to be set separately for each type. Alternatively, according to Hung (2004) factors that could be considered while setting overbooking limits include: probabilities of cancellation and no-show; room demand distribution over time and conditions of length of stay; stay extension probabilities influenced by the intended length of stay. Moreover Hung (2004) assumes that the proportion of cancellations depends on the customer category, intended length of stay, day of week of first stay over, and time until first stay over.

Impact of overbooking on customer behavior According to Talluri et al (2004) overbooking is frequently cited in customer complaints and remains the primary source of dissatisfaction. Moreover, results of an experiment made

by Wangenheim and Bayón (2007) confirm that the practice of overbooking is likely to be perceived as unfair by service customers. Wangenheim and Bayón (2007) analyze behavioral consequences of the fairness towards overbooking by proposing and confirming several hypotheses. According to their research the negative consequences of service failure arising from overbooking are stronger for the high – status customer than for the low – status customers and therefore, hoteliers have to carefully " overbook its high-values classes". Additionally, Wangenheim and Bayón (2007) emphasize on the importance that if a hotel ignores the log-run behavior consequences of overbooking, this may lead to negative consequences on its operations.

One such negative consequence is proposed to be a customer who faces a denied service due to overbooking and still remains hotels' client because of either high fixed switching barriers or current loyalty membership programs. However, in response to the service failure " the customer may adjust its investment into the exchange relationship not only by

decreasing the number of sales, but also by trying to take advantage of discount offers or purchasing lower level services from the hotel" (Wangenheim and Bayón, 2007).

On the other hand, Hwang and Wen (2009) analyze the effect of the perceived fairness toward hotels overbooking and compensation practices by examining customers' reactions toward hotel overbooking. Some of their most vital findings from this study are that " women are more likely than men to feel that overbooking is unfair", customers' perceptions to the

fairness of overbooking is not affected by other customer variables including length of stay, membership status, payer source, reservation channel, and reservation time; participants' perceived fairness toward the hotel's overbooking and compensation policies were strongly correlated with positive word-of-mouth publicity. One of the most important results of the research shows that the perceived fairness of the participants toward the hotel's compensation policy is related to their loyalty. Therefore, Hwang and Wen (2009) propose that hotels should consider designing compensations that help positively influence customers' perceived fairness toward overbooking and that encourage customers' ongoing patronage and loyalty.

In a conclusion, issues like determining the optimal number of excess reservations, minimizing compensation cost, and dealing with the negative effects from customers facing a denied service are considered as the most challenging areas of the practice of overbooking and every hotel striving to maximize its profitability should not underestimate them (Sulistio, Kim, and Buyya, 2008).

Practical Implications of overbooking As the hospitality industry is evolving, hotel owners and hotel managers are constantly seeking to update their approaches in order to achieve optimal allocation of resources. Novelli, Schmitz and Spencer (2006) have discovered that hoteliers make every effort to employ contemporary technologies in their business. By this implication, hotel managers and owners do not only sustain competitive advantage, but also create new products and services. In view of this, it can be concluded that implementation of new technologies that create new products is a technological innovation (Evangelista, 1999).

On the other hand, the implementation of innovative technologies to a service company can have a significant influence in terms of operational efficiency (Freeman and Soete, 1997). Additionally, Porter (1990) supports the latter thesis by highlighting that the performance of a company is highly dependent on new technologies. In view of technological innovations today many hotels recognize the importance of overbooking practice and thus its implementation has become generally accepted step toward hotels' successful operations.

The practical application of Revenue Management and Overbooking incorporates the following integral elements (Vinod, 2004):

Figure 1 Revenue Management application

C: UsersamadDesktopCapture. JPG

Source: Vinod, B. (2004), Journal of Revenue & Pricing Management

Market segmentation: Segmenting customers according to their preferences and spending patterns is a must to make sure the most appropriate customers with perfectly fitted attributes are sold the proper rooms that can maximize revenues (Oliveira, 2003).

Defining rate classes (inventory pooling): Involves creating groups of the existing rates that close in terms of value (Vinod, 2004).

Demand forecasting: demand forecasting is essential to determine room occupancy. In the context of Revenue Management it is important as it can

control occupancy using the data of length of stay. This can be achieved by possessing data on rate class demand and duration of stay (Vinod, 2004).

Supply forecasting: earlier and late checkouts can also determine room occupancy, which is an element also involved in Revenue Management.

Overbooking control: encompasses sales of rooms exceeding the maximum available number of rooms to offset for no shows and cancellations. However, there are some risks associated with overbooking as it may result in grievances from unsatisfied customers who have received an inappropriate room. In such cases hoteliers offer compensations and fringe benefits (Smith, 1982). According to Vinod (1992) Revenue Management can bring 20% of the total revenues. Revenue mix control and exception processing: involves planning important future dates with discretion and matching them with overbooking levels (Vinod, 2004). Performance measurement and management reporting: closely scrutinizing the Revenue Management processes is essential to track down the data quality and future planning basis. However, in order to lead a hotel into a winning direction, overbooking has to be managed and controlled very carefully. Ivanov (2006) defines the management of overbooking as a set of " managerial techniques and activities connected with continuous planning, reservation and control" and he outlined two main groups of activities that should be performed in the daily hotel operation. The hotel managers should on one hand, to define an optimal number of overbookings for each date and continuously to modify it according to the market changes of the hotel and the specific demand and booking patters and on the other hand, to manage carefully decisions and operational activities related with walking guests with overbookings. In this

regard, Ivanov (2006) proposes that factors such as length of stay, rooms rates and client status have to be considered by hotel managers while dealing with walking a guest with confirmed reservation. Additionally, Kimes (1989) analyzes several managerial concerns essential for an effective overbooking practice and states that " top management cannot assume that Revenue Management will just happen, it requires careful planning and training". Thus employees have to be intensively trained in order to clearly understand the aim and characteristics of overbooking. Moreover, employees who are directly dealing with overbooking decisions have to be periodically trained how to behave in possible customer conflicts and " to take their own decisions in an unfamiliar situation" (Ivanov, 2006). In order to be minimized the possible customer dissatisfaction in case of overbooking, it is vital for the hotel to establish service recovery programmes with standardized procedures and to make employees to be aware and follow them (Ivanov, 2006)

For a profitable applied overbooking in the hospitality industry, hotels must understand not only consumers' behavior but also to consider the impact of competition and the currently economic situation that imposes significant supply and demand fluctuations. As hotels compete with each other in order to attract more customers, Revenue Management decisions of one hotel inevitably influence the demand for other hotels in the same region or area. However, recent trends propose that hotels should collaborate with is competitors that result in increased number of formed alliances with each other to maximize their revenue (Chiang et al, 2007) Revenue Management's challenges in the hospitality industry As explained before,

Revenue Management finds application to two significant industries: hospitality and airline. The first one, however, is much more complex in terms of industry saturation and rooms management. This creates hurdles for the optimal operation of Revenue Management techniques. In the hotel industry Revenue Management can be applied either locally or via centralized system. The second one involves gathering data and taking decisions from a focal site for other properties. In practice only a limited number of hotels and hotel chains are able to manage centralized data processing and therefore the majority of players on the hospitality industry opt for property based Revenue Management.

Recommendations for future research

Despite of the acknowledged importance of overbooking as one the most effective successful Revenue Management techniques used in hotel operation and widely discussed topic in research literature, there are no current studies discussing the overbooking management of Bulgarian hotels and its impact on their operation. Therefore, future research may focus on the possible application of Revenue Management techniques to the Bulgarian hospitality industry. Future studies may also focus on the demand side of Bulgarian tourism as the country has witnessed fluctuating visitor rates during the past two decades despite the growing profits generated by the particular industry.

Conclusions

In order to survive in the furious competition and to generate more revenue while using the same amount of recourses it is necessary and critical to the hotels operation management to use effectively its reservation inventory and

to increase its occupancy rate (Hung, 2004). Revenue Management techniques and the models of overbooking if applied appropriately would maximize the revenues of hotels (Kamath et al, 2008). However, the possibilities of customer dissatisfaction, and risk of loss of reputation because of denied service, force many hotels to avoid the practice of overbooking. Therefore, before hotel managers to deicide whether or not to implement overbooking they should first consider what Birkenheuer (2009) explained " the best estimation of risk and opportunity will provide the best profit". In this study we have outlined the dynamic nature of service industries and have demonstrated the importance of Revenue Management and most notably – one of its most significant aspects – overbooking. We have narrowed the scope of this research down to the hospitality industry and have found major differences in the demand patterns towards such companies in the former industry. Some customers prefer flexible cancellation terms, while others are not much attentive to that. Hoteliers offer differential pricing to their own advantage to hedge against fluctuating demand. We have also found that substitution is one of the most effective method of managing overbooking practices, but yet a cost/benefit analysis must be performed in order to track down the real consequences. Essentially, within the current dynamic decision making situation in the hospitality industry, overbooking levels have been found to have significant revenue maximizing properties. In view of this, through this study we have discovered some of the chief management objectives that could be achieved through overbooking in the framework of Revenue Management: profit maximization; capacity allocation; maximization of average revenue per customer; maximization of net present value; and minimization of customer

grievances. Finally, as hospitality industry on a global scale is a mass volume-driven business, overbooking has become an emerging topic as vacant rooms do not bring any profits. However, perhaps even more significant remains the problem how to manage customer disappointment, in cases they cannot be relocated to similar hotels as a result of overbooking.