THE USE OF YIELD MANAGEMENT WITHIN THE KINGDOM OF SAUDI ARABIA HOTELS

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Abstract

The airline industry has successfully adopted yield management (YM), particularly after the industry was deregulated in the late 1970s. In this study, YM is applicable to the hotel industry as a strategy to maximise profits. Thus, it involves the allocation of resources among various customers in hotel rooms relative to the existing market characteristics. In doing so, YM's core concept is the provision of the right service to customers at the right prices.

The aim of this study is to examine the practices and perceptions concerning YM as per the understanding and awareness of hotel managers. The study investigates several Saudi hotels of various sizes that use YM, and it identifies revenue management strategies and general practices within the hotel industry.

The investigation took place in seven key areas of the hotel industry: location, occupancy, pricing strategy, price-adjustment strategies, HR management, customer satisfaction and third-party websites. The study involved two steps to achieve its purpose. First, YM practices were investigated in comparison to the seven key areas that influence revenue. Moreover, there was an emphasis on determining whether there was an attempt to manage revenue within the hotel industry. The results from the investigation are presented using a descriptive approach. The second step involved establishing the use of YM as a tool for managing revenue in hotel operations. This shows how revenue management through YM should be conducted. These results are presented using a normative approach.

In the methodology, qualitative research is applied. Through this approach, 13 revenue managers and seven general managers from various Saudi hotels in Riyadh, the Eastern Province and Mecca were interviewed. Further, documents and direct observations were used to collect vital data to compare room rates through the use of direct and indirect distribution channels. Here, direct distribution channels involve making direct calls to hotels, as well as the use of official hotel websites. Conversely, indirect distribution channels involve the use of Booking.com and Agoda.com.

These different options were then compared to observe the option that was more efficient in revenue management. From the comparison, the results showed that the practices and perceptions of YM were reasonable in the cities' hotels. Of particular interest was the fact that respondents were aware of some key principles of YM. Consequently, many of these principles had been adhered to in room revenue management. For instance, almost all managers understood the significance of segmenting potential and current customers into various groups. This is critical, as these groups have different priorities, income levels and goals. As a rule, attention focuses on criteria such as ability and willingness to pay.

The study recommends strategies that can be adopted by Saudi hotels to overcome the misconceptions and perceptions of YM. For instance, the system must be interlinked with location, occupancy, pricing strategy, price-adjustment strategy, HR, customer relations and the Internet. Interlinking the system with these key concepts is essential to maximise profits in the hotel industry. In essence, this paper offers knowledge to further the research on the applicability of the YM concept within the hotel industry in Saudi Arabia.

Key words: yield management, revenue management, hotel industry, Saudi Arabia

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List of Abbreviations

ADR	average daily rates
AI	Artificial Intelligence
B2B	business-to-markets
B2C	business-to-consumers
CBD	central business district
CTA	closed to arrival
GDS	Global Distribution System
GOPPAR	gross managing profit per available room
HR	human resources
MLOS	minimum length of stay
OTA	online travel agents
RevPAR	revenue per available room
ROI	return on investment
RM	revenue management
SAR	Saudi Arabia Riyal
WTO	World Tourism Organization
YM	yield management

Chapter 1: Introduction

1.1. The Hotel Industry in Saudi Arabia

The hotel industry is an important part of the economy in Saudi Arabia, and researchers expect that this market may increase by 6.8 per cent during the period from 2011 to 2016 (Alpen Capital, 2012). However, fluctuations of demand affect the hospitality industry. For example, according to some estimates, room revenue is likely to decline during 2012 and 2013 (Alpen Capital, 2012). Those factors that could adversely affect the tourism industry in Saudi Arabia, and other countries in the Middle East, such as the political unrest in Egypt, Syria and Libya, must thus be taken into account. Certainly, this trend towards political unrest does not directly influence Saudi Arabia, but it shapes public opinion and the decisions taken by potential customers, especially tourists, who might be reluctant to travel in the Middle East (Andersson & Djeflat, 2013).

At the same time, other trends could favourably influence the hospitality industry in Saudi Arabia. For instance, the Saudi government intends to invest approximately $80 billion to improve the country’s existing infrastructure, including its railways, airports and roads (Alpen Capital, 2012). These efforts can be explained by the need to diversify the economy of the country and make it more agile (Cordesman, 2010). Further, through infrastructure development, the Saudi government is attempting to enhance the experience of people who go to Saudi Arabia for such purposes as religious pilgrimage, leisure or business (Cordesman, 2010). Moreover, these initiatives can be partly explained by the fact that the hospitality industry is vital for the creation of jobs in Saudi Arabia. This industry greatly contributes to the GDP of the country; at present, its share is 5.4 per cent (Alpen Capital, 2012). Thus, the hospitality industry of the country can rely on the support of the state, and this factor contributes to the development of the hospitality industry.

As at 2012, 69 hotel construction projects were being undertaken in Saudi Arabia by the government and private businesses, to meet the increasing demand for rooms (Alpen Capital, 2012). Market analysts expect there to be at least 260,000 rooms available to clients by 2016 (Alpen Capital, 2012). This indicates strongly that the hospitality industry in Saudi Arabia will remain sustainable, even if it faces some challenges in the near future.

In 2011, Saudi Arabia had 951 hotels, with 157,430 rooms (TIRC, 2012). These rooms earned hotels approximately $28 million (Alpen Capital, 2012). The decline in occupancy rate started in 2010, before settling for two years at 67.7 per cent. Alpen Capital (2012) reported that the revenue per available room (RevPAR) decreased from $176 in 2009 to $149 in both 2010 and 2011. Further, their report reflected declining average daily rates (ADRs), which reached $251 in 2009, before dropping to $220 in 2010 and 2011. This decline can be attributed to the political unrest in the Middle East (Andersson & Djeflat, 2013). In 2012, room revenue also diminished (see Table 1.1). Expectations indicate that RevPAR will drop to $143.7 in 2012 and then increase dramatically to $191.7 and $171.0 in 2014 and 2016, respectively. Therefore, although it is only useful in this industry to make three- to four-year predictions, the profitability of the hospitality industry is expected to increase in the long term (see Table 1.1).

Table 1.1

Hotel Occupancy, ADR and RevPAR Performance 2009–2016 (Source: Alpen Capital, 2012)

	2009	2010	2011	2012E	2014E	2016E
Occupancy	70.12%	67.7%	67.7%	66.2%	70.5%	74.2%
Average daily rate (USD)	$251	$220	$220	$217.1	$242.5	$258.4
RevPAR (USD)	$176	$149	$149	$143.7	$171.0	$191.7

1.2. The Peculiarities of the Hospitality Market in Saudi Arabia

Several drivers affect the hospitality industry in Saudi Arabia. In particular, pilgrims constitute approximately 40 and 25 per cent of international and domestic tourists in the country, respectively (Alpen Capital, 2012). The number of international tourist arrivals to the Kingdom of Saudi Arabia increased dramatically in 2011 to reach 17.5 million, and 24.5 per cent of domestic tourists visited Mecca and Medina in 2011 (Mariam, 2012). Further, the number of international visitors is expected to increase at a compound annual growth rate of 4.0 per cent to reach 19 million by 2016 (Alpen Capital, 2012). This trend comes partly from the fact that the world's Muslim population is increasing. At present, this population numbers at least 1.8 billion people (Alpen Capital, 2012), and many of these people strive to visit Mecca and Medina at least once. However, business travellers to Saudi Arabia also bring significant revenue to hotels. Catering to this high-income cohort, more than 50 per cent of Saudi hotels have four or five stars. The major international hotels operating in the country are Ritz Carlton, Movenpick and Kempinski (Alpen Capital, 2012). Thus, the Saudi hospitality industry is characterised by needing to cope primarily with both international and domestic pilgrims as well as high-income business travellers.

In Saudi Arabia, it can be identified several important characteristics. Different regions and cities attract different types of clients. For instance, Mecca is primarily visited by pilgrims from various countries. In contrast, the hotels located in Riyadh, the capital and the largest city of Saudi Arabia, serve the needs of international and domestic business travellers working in the country. Different again, the Eastern Province is more oriented to domestic tourists seeking leisure (Alpen Capital, 2012; Majid, 2012). This suggests that it is important to understand how geography shapes the hospitality industry in Saudi Arabia. This knowledge can help managers to better identify the needs of clients who have different values, opinions or attitudes.

The Saudi hospitality market is dominated by local organisations, with the presence of foreign companies being rather limited. However, this situation might change in the future; local hotels could face significant challenges. Further, the growth of the hospitality industry is slowing because it is difficult for some tourists to get entry visas to Saudi Arabia (Alpen Capital, 2012). This problem needs to be resolved. Each of the factors discussed in this section could have significant implications for the Saudi hospitality industry. They all affect the approaches that should be taken to the management of revenue in this industry.

1.3. Research Questions

This research is aimed at examining the use of yield management (YM) in Saudi hotels. In particular, it is vital to study the practices and techniques adopted by the managers working in these hotels. Further, this research should evaluate the degree of administrators' awareness about the implementation of YM. To achieve this, the researcher engaged in direct conversation with practitioners working in three regions in Saudi Arabia; namely, Riyadh, Mecca and the Eastern Province. This work is descriptive; it did not aim to test a certain hypothesis. However, based on an analysis of the relevant academic literature, several important questions should be addressed in the course of this research:

1) How do business administrators in Saudi hotels manage room revenue in their daily work?
2) Are these managers fully aware of using YM?
3) How is YM used as a tool for maximising room revenue by hoteliers in Saudi Arabia?

This research will investigate the practices adopted in different hotels operating in Saudi Arabia. These organisations will differ in terms of their size or profitability. Close attention will be paid to the ways in which they try to increase their revenue. In particular, the focus will be on location, occupancy, pricing strategies, price-adjustment strategies, human resources (HR) management, customer relations and the use of third-party websites. These issues are vital for understanding the applications of YM.

This study will involve several important stages. First, it will examine the views of Saudi managers towards YM. Secondly, it will determine whether the strategies of these managers are really related to the management of revenue. Finally, this research will demonstrate how the principles of YM can be best applied for the needs of the Saudi hospitality industry. Overall, this work will help to understand the application of YM within Saudi hotels.

The results presented in this paper are based on several sources of information. First, an extensive review of the relevant literature on the models and approaches to the management of revenue in hotels was undertaken. Books and scholarly articles give evidence-based examples about the application of YM. In addition, this study will strongly rely on primary data collected from managers working in Saudi hotels.

These professionals have in-depth expertise in such areas as the management of revenue and pricing policies. The primary data was collected via in-depth and semi-structured interview, which enabled the respondents to express their views about the use of YM openly. Secondary data was also collected. For example, it was necessary to examine documentation provided by hotels to give insight into their policies. Direct observation can also identify the use of various distribution channels such as third-party websites. Additionally, it was considered important to assess the effectiveness of the different distribution channels used and the hotels' room parity rates.

1.4. The Structure of the Thesis

The remainder of this thesis comprises six chapters. Chapter 2 will present a literature review regarding the main principles of YM and its application in the hospitality industry. It is vital to look at such issues as the pricing strategies adopted by hotels, occupancy rates, HR policies and the use of different distribution channels. Chapter 3 will describe the main methods used in the study, and explain the reasons that they were chosen. Close attention will be paid to the methods of data collection. Chapter 4 will describe the findings of the research; it will discuss the practices adopted by Saudi hotels. Chapter 5 will discuss the implications of the findings and the opportunities for further research. This chapter will also identify the limitations of the study and explain why its results cannot be generalised. Finally, this research terminates in Chapter 6 by outlining the core research results and some points for future research.

Chapter 2: The Literature Review

2.1. Introduction to Yield Management

2.1.1. Definition of yield management.

There are many interpretations of YM, focusing on its various dimensions. Initially, YM was applied for the needs of the airline industry, with the corresponding definition of being a method that maximises 'passenger revenues by selling the right seats to the right customers' (Yu, 1998, p. 69). YM was defined by Kimes (1989; Simith, Leimkuher & Darrow, 1992) as the implementation of information system and pricing strategy to segment the right fixed capacity to the right guest at the right place at the right time. However, these definitions do not accurately illustrate the complexity of this method and its uses. Moreover, these explanations suggest that before adopting YM techniques, hotel managers were not matching their product to customer needs. As Jones (2000) stated, prior to YM, hoteliers were able to manage room rates by segmenting their customers, offering discounts and forecasting demand patterns. Therefore, YM targets should be more clarified so that managers can increase their revenue.

Jones (2000) provides a different explanation of YM. He argues that it is a system that enables business administrators to increase the revenue of their organisations by assessing the profitability of market segments, establishing prices, giving discounts or applying the displacement rule (Jones as cited in Ingold, Yeoman & McMahon-Beattie, 2000). In his book, Abraham Pizam provides a slightly different definition of YM. According to this scholar, YM can be regarded as the process that is aimed at increasing gross room revenue by managing the number of rooms that were sold within a given period and ADR (Pizam, 2012). These definitions provide some insight into the concept of YM. However, they place too much emphasis on the goals of this method; namely, the maximisation of profits, which is too narrow a definition. Moreover, these explanations do not show how YM differs from other methods that were used by hotels in the past and this is their major limitation.

Other explanations can be very informative. For instance, according to the American Hotel and Motel Association (as cited in Ingold, Yeoman & McMahon-Beattie, 2000), YM can be defined as a ‘set of demand-forecasting techniques used to determine whether prices should be raised or lowered and a reservation request should be accepted or rejected’ (p. 86). This explanation shows that YM is closely related to forecasting. Additionally, the interpretation offered by Dreier et al. (2006) can indicate that YM is the activities that are aimed at understanding, predicting and responding to consumers' behaviour. This definition implies that YM strongly relies on the assessment of people’s behaviour, attitudes, opinions and values. This is the major strength of this interpretation. Overall, these definitions show that YM can take many forms. Yet, the understanding of this term is critical for hotel managers because these professionals have to find ways of increasing the profitability of their organisations.

2.1.2. History of yield management

YM has its roots in the airline industry in the United States in the 1970s (Smith et al., 1992). The development of YM practice can be divided into two periods: pre-1972 and post-1977.

Pre-1972 was the time of forecasting and overbooking (Humair, 2001). At the beginning of the 1970s, the airline industry started offering various fares for similar flights, leading to mixing passengers with differently priced tickets in the same cabin. British Overseas Airway Corporation’s (now British Airways) early-bird bookings were among the first offering of the kind. They sold seats with discounts to customers making reservations early (Treszl, 2012). In such a way, passengers received an opportunity to get a seat that might otherwise remain empty, but it was hard to decide how many seats should be left for customers who booked later at the full fare (Humair, 2001). If the number of seats were insufficient, the airline would lose full-fare passengers. However, if an excessive number of seats were booked, there was the possibility of flights departing with empty seats (McGill & Van Ryzin, 1999). This situation resulted in analysing the control rules of seat inventory, giving rise to YM, sometimes also referred to as revenue management.

Overbooking relates to the decision of how many bookings should be accepted for a specific flight with regard to predictions made. For a long time, overbooking was considered a secret, and airline industries often denied engaging in such practices (Humair, 2001). The main objective of overbooking was to admit the appropriate number of reservations to ensure full flights, given the possibility of no-shows and cancellations (Ross, 1995). As mentioned by Talluri and Ryzin (2004) ‘approximately 50 per cent of reservations result in cancellation or no-shows’ (p. 129). The main problem of overbooking and trade-offs was admittance of many requests, leading to excessive boarding or flying empty seats.

Forecasting problems emerged because of the inaccurate prediction of arrivals of different customer classes for flight requests. These elements of YM were the first to appear in this sphere. Hence, forecasting was connected with predicting and evaluating probability distributions of potential customers from the accepted reservations for boarding.

The last stage of the development of YM refers to 1977, when ‘the American Airlines’ super-saver fares’ were launched, right before the de-regulation of the American airline industry (Humair, 2001, p. 16). From 1977, the implemented systems were transformed from 'single-led flight control, to segment control, where multi-hop flights [were] considered to consist of separate segments with seat-level control applied to each segment, to finally origin-destination control' (Humair, 2001, p. 16). The introductions required significant investment to implement innovative and sophisticated information systems, as well as to carry out quantitative research.

Before 1978, United States' (US) airlines were limited in introducing fares and schedules because they were under the control of the Civil Aeronautics Board (Smith et al., 1992). At this time, fares were very high and flight reservations were a luxury. However, the period after 1978 was marked by significant changes following the Congress's passing of the Airline Deregulation Act (Treszl, 2012). The de-regulation process became the major force of introducing YM into the industry (Treszl, 2012). At this point, the airlines were able to decide which fares should be introduced and identify the flight routes. The event triggered a significant shift from a completely restricted industry to entire freedom (Treszl, 2012). The main purpose of this Act was to provide beginners in the business with new strategies and regulations. This process culminated, in 1999, with small airline industries initiating a renewed development process based on a new branch of YM.

YM is considered a powerful tool in pricing competition (Lieberman, 1993). The success of YM in the airline industry has been widely acknowledged and this has encouraged the development of new YM systems for a wide range of transportation and other sectors, including cruise lines, hospitality, Internet service provision and passenger railways (McGill & Van Ryzin, 1999).

The development of YM in the airline industry has fostered its adoption into the hotel business because these industries have similar operational characteristics. Specifically, both sectors cover a fixed number of goods and fares (airline seats and hotel rooms). This means that the room or seat cannot be resold if not sold for a certain flight or day (Bardi, 2010). Both the hotel and airline industries have variable demands with regard to different periods (e.g., weekdays and weekends, holidays and seasons of the year) that place the industries either in a favourable or unfavourable situation. Hotels and airlines can offer a variety of services and products from which customers can choose. Bookings allow managers to apply YM by using software to trace a list of products and services and process bookings. By means of computer technologies, managers have the possibility to take control of the selling process and plan it for up to 90 days by setting pricing and accepting reservations (Bardi, 2010).

Additionally, the application of YM assumes the availability of a common characteristic among airlines; that is, high fixed costs and low variable cost. This is particular relevant to many hotels (Chiang et al., 2007). O'Connor and Murphy (2008) stated that 'maximizing revenue is important for hotels because of their high fixed costs and their fixed capacity'. For instance, managers determine whether they should sell a particular item to a given client at a certain price. This task is particularly challenging when there are many customers (high demand) who want to use the services of hotels. Moreover, this issue is important because often businesses have limited resources.

Researchers have recommended a number of solutions to this problem. Firstly, hoteliers should set prices for their rooms depending upon changes in demand (Harewood, 2006; Schutz, 2008). Further, hoteliers should establish wide price ranges for their rooms to become sustainable (Harewood, 2006; Upchurch et al., 2002). In particular, they should be able to sell rooms at a higher price if the demand increases, and lower their prices when the demand declines. Moreover, businesses administrators should consider the approach of bid pricing, in which a certain item is sold to a client who pays the highest price (Harewood, 2006).

Despite the multiple similarities, there are certain differences between the hotel business and the airline industry that should be highlighted. Specifically, unlike hotels, airlines do not have the possibility to sell products outside the flight. In contrast, hotel clients can use services outside the hotel.

This section has given a brief overview of the history of YM to provide a better understanding of the reasons for and context of its emergence. In addition, the benefits of revenue strategies over the previous management processes have been identified.

2.1.3. Purpose of yield management

Researchers interpret the goals of YM in different ways. In many cases, YM is seen as primarily aimed at increasing the profitability of an organisation. This is why YM and revenue management are used interchangeably. However, this usage overlooks many dimensions of YM.

Jones and Hamilton (1992) argue that the main objective of YM is to increase guest room rates at times when demand is very high, and increase occupancy rates when demand is low. However, other researchers do not support this view of YM. For example, Cento (2008) believes that the goal of YM is to increase the operating revenue of an organisation since revenue is one of the most important performance indicators. Certainly, other scholars also attach importance to revenue; however, they take a different approach when describing the objectives of YM. For instance, Petzer et al. (2006) believe that managers should create 'the best possible combination of tourists in groups and tourists travelling by themselves that will lead to the highest possible number of rooms being occupied and the highest possible average price for rooms' (p. 452). This interpretation emphasises the role of the manager and the means by which he or she achieves his or her goals. Finally, price discrimination and optimisation are also inherent components of YM (Modica et al., 2009). In reality, all of these purposes of YM are valid and together further represent the complexity of YM.

YM comprises two parts: inventory management and pricing strategies. These two elements are closely interrelated, especially when they are used by hotel managers. First, inventory management determines how rooms should be allocated, especially in circumstances of fluctuating demand. Second, pricing strategies refers to the, often difficult, task of managers to charge the best price for a room. This price should appeal to the customer, who should believe that this price corresponds to the quality of the service (Glaesser, 2012). However, at the same time, the pricing policies of hotels should help them to increase their profitability. Revenue managers should take into consideration the duration of stay, which can be predictable or unpredictable, and the price, which can be fixed or variable. Kimes and Chase (1998) segmented different service industries into four groups based on value (fixed and variable) and duration (predictable and unpredictable), as shown in Table 2.1.

Table 2.1

Framework (adapted from Kimes and Chase, 1998).

		Price	
		Fixed	Variable
Duration	Predictable	Quadrant 1 Movies Stadiums and arenas Convention centres	Quadrant 2 Hotels Airlines Rental cars Cruise lines
	Unpredictable	Quadrant 3 Restaurants Golf Courses Internet service Providers	Quadrant 4 Continuing care Hospitals

As shown in Table 2.1, the hotel industry has the following characteristics: fixed capacity, predictable demand, perishable inventory, fluctuating demand and pricing structures (Li, 2011), and high cost and low variability (Chiang et al., 2007). The airline industry shares these features. Therefore, the best example of the implementation of YM can be found in the airline and hotel industries (Li, 2011).

Thus, YM has to achieve several objectives. It should help businesses to develop the most effective pricing policies (Modica et al., 2009), to meet their customers highly changing demands through price determination (Johns, 2000). To regulate this process, bookings should correlate with demand, sales patterns should be converted to fit with current demand and information should be made available for potential customers (Johns, 2000). YM should also increase businesses' awareness of clients' buying behaviour, so that they can adjust their marketing strategies to maximise revenue (Siguaw et al., 2001). In this respect, YM enables ultimate solutions in response to the challenges of constantly changing consumer preferences. YM predicts customers' needs, using this information to direct products to the right place, at the right price, at the right time.

2.2. Location and Room Rate

Location is one of the most crucial yet complex factors in hotel management. First, location is a fixed parameter; once one has selected the locale, one has no choice but to contend with the results that emanate from that area. Further, location has a direct effect on the premium that the hotel can charge for its services, and hence on its revenue (Kotler, 1999). Therefore, companies must understand how location can affect the marketability, and ultimately the pricing, of their service.

2.2.1. Proximity to the centre of the city.

The bid–rent theory explains the relationship between room rates and location. Proponents of this theory argue that hotels are able to charge higher prices for their rooms if they are centrally located or easily accessible (Bateman and Ashworth, 1981; Weaver, 1993; Taylor, 1995; Egan and Nield, 2000). They also believe that it is possible to differentiate between the rates of particular hotels if one knows the part of the city in which they are located. In this regard, it is assumed that the most expensive hotels are likely to be found in the middle of the city. Similarly, modestly priced hotels are likely to be found in suburban areas, while inexpensive or budget hotels are found at the edge of the city. The bigger hotels are able to outbid the budget hotels for land that is closer to the central business district (CBD). They can then charge more for those rooms because of their accessibility.

Bull (1994) demonstrated this in his research in a coastal town in Australia. He wanted to look at how prices changed in relation to the distance from the city centre. He found that room rates decreased by approximately \$3 to \$6 for the first kilometre away from the city centre. However, this increased to \$10.8 for hotels that were located 1.5km away from the city centre. His research supported the idea that spatial location in cities plays a role in determining how much a hotel can charge for its rooms.

Another analysis was carried out by Shoval (2006) in Jerusalem. He wanted to assess whether a relationship existed between the room rates in the city and their location from the CBD. He found that inner city hotels had higher room rates than those on the city periphery. Further, in Jerusalem, inner city hotels had a higher share of clients than those in external locations, revealing that asking price and demand for hotels is directly related. Yokeno (1968) explained that hotel guests are willing to pay more for greater accessibility, and this in turn, gives centrally located hotels the capital to bid for well-located land. Similar findings to these have been reported by Arbel and Pizam (1977), Carvell and Herrim (1990) and Mayo (1974).

2.2.2. Exceptions to proximity to the CBD

Juaneda and Raya (2011) carried out an analysis in Madrid in which they analysed the prices of hotels in the city relative to one central location. They found that as the hotels moved away from the selected central location, the price of their rooms increased. Hotels in Lloret charged 2.32 per cent more, the ones located in Calp increased their rates by 92.13 per cent, and the ones in Denia, Alcudia, Calvia and Argeles increased their room rates by approximately 20.5, 131.5, 132.94, 51.93 and 194.25 per cent respectively. The researchers explained that the inverse relationship between proximity to the CBD and room rates could be described by the market segments targeted by the hotels in those areas. Hotels with low rates targeted people from a low social-economic group, diminishing their demand. The rent–bid theory may not be applicable in all situations since issues of segmentation may alter it.

Another study carried out in Taipei, Taiwan also found an inverse relationship between room rates and proximity to the CBD (Ching, Fu & Rothschild, 2010). Using a hedonic pricing model, the authors determined the relative importance of location on price. They found that hotels located within the Taiwanese city centre, Taipei were 38 per cent cheaper than were those found outside the city centre. This inverse relationship was explained by the fact that most hotels outside the city are resorts. This increases their attractiveness and the corresponding demand. Additionally, the Taipei city centre had a relatively high number of hotels; and thus, competition would have acted to reduce the asking price for hotel rooms in the Taipei CBD substantially. Thus, sometimes the degree of competition plays a significant role in price determination.

2.2.3. Competition, location and price

To understand anomalies in bid–rent theory, the effective of location externalities on competition can be analysed, and hence price. Urtasun and Gutierrez (2005), Chun and Kalnins (2001), Deephouse (1999), Baum and Haveman (1997) and Thrane (2005) affirmed that hotels have the option of either conforming to competition or differentiating themselves. Those that choose to conform to their competitors will benefit from the positive externalities that spill over from operating in a similar environment, such as using similar suppliers or services. If firms choose to conform, then they will be forced to charge similar prices for their rooms.

Alternatively, hotels can choose to differentiate themselves from their competitors. Such hotels can offer their rooms at lower than average rates for budget facilities, or they can charge premium prices based on some additional service that they offer their clients. Differentiation is only possible when the resources used are heterogeneous.

Urtasun and Gutierrez (2005) found that hotels in Madrid did not follow a bid–rent pattern. The most costly hotels were found in the most heterogeneous locations.

Further, budget hotels were located in the city centre. The researchers explained that this was due to the positive externalities that the inexpensive hotels enjoyed from their peers. By conforming to others in terms of location, the budget hotels could minimise resource usage and thus offer lower rates for their rooms. Price competition within the Madrid area also caused many hotels to disperse away from the centre of competition, in this case the city. Thus, the most expensive hotels were located away from the city centre because they opted to differentiate. The issue of externalities has a tremendous role to play in understanding why proximity to the city centre is not directly proportional to room rate. Yang et al. (2012) called this factor the agglomeration effect: when hotels concentrate in one location to take advantage of suppliers or to minimise customers' cost of searching.

2.2.4. Airports and other factors

A number of other location-related factors affect hotel room rates. For instance, the closeness of the hotel to an airport, tourist destinations or railways may also contribute to the overall competitiveness or pricing of the hotel (Aguilo et al., 2001; Ashworth and Tunbridge, 1990; Arbel and Pizam, 1977; Coenders et al., 2003; Taylor, 1995; Wall et al., 1985).

Airport hotels have a distinct advantage over hotels located near other facilities because planes are the primary means of transportation for tourists. As such, these hotels can charge a premium price for this advantage (Barros, 2005). Lee and Jang (2010) wanted to find the relative effect of proximity to airports on hotel prices. After collecting data from hotels in airport cities in the US, the authors found that room rates decreased as hotels moved further away from the airport. The percentage decrease was approximately 2.9 per cent per unit of distance.

Given this finding, one may wonder whether proximity to airports is more important than proximity to the CBD when determining average room rates. Lee and Jang (2010) settled the matter in the same research by comparing the prices of the same hotels in reference to their proximity to the CBD. It was found that prices reduced by 3.4 per cent per unit of distance away from the CBD. Therefore, closeness to the CBD had a greater effect than did proximity to the airport. Premiums charged in airport hotels are much lower than are those charged in the CBD. The logic behind this pattern is that most tourists come to a certain destination to visit a CBD, not to stay close to the airport.

2.3. Room Rate and Occupancy

Room rate is the rental income gained from each paid for and occupied room. Hotel occupancy represents the percentage of rooms filled at a time in the more expensive hotels. For example, a 300-room hotel with 225 rooms occupied would have a 75 per cent occupancy rate. The occupancy rate helps a hotel's management to calculate their business's profits and determine whether their hotel has an opening for giving out available rooms to guests. The two variables of room rate and hotel occupancy are the most important in determining the amount of revenue generated by a hotel over a given period (Sanjay, 2009).

In the hotel industry, the average percentage of occupancy decides the price flexibility of a hotel's average room rate, and by how much it should be reduced when opportunities need to be filled at the last minute (Hayes & Ninemeier, 2006). The occupancy rate of a hotel thus greatly affects a hotel's profitability (Lieberman, 2011), especially for large hotels that contain a higher than average number of rooms. Taking a Saudi example, the Mecca hotel has a 300-room capacity and achieves 60 per cent occupancy annually. A slight increase in occupancy would result in a considerable rise in annual revenue. A 0.5 per cent increase would translate to almost an additional 550 room nights, which would be a .83 per cent rise in profits. An increase from 60 to 61 per cent would result in an increase of 1095 room nights, translating to a 1.7 per cent increase in revenue (see Table 2.2).

Table 2.2

Impacts of increasing occupancy rate (Source: Lieberman, 2011)

Increase occupancy from 60% to	Increase in room nights	Incremental revenue gain
60.1%	110	0.16
60.5%	548	0.83
61%	1095	1.7

Thus, the hotel management needs to have strategies to increase the occupancy rate of a hotel in a given time (Hayes & Ninemeier, 2006). In one study, it was found that magazine advertisement expenditures per month have the most favourable impact on occupancy rates, while interstate highway and radio advertisements have the least favourable impact on occupancy rates (Ellerbrock, Hitet & Wellst, 1984). However, as it is more than 20 years old, it is probable that the findings of this study would not be as relevant today. Currently, many people are connected through the Internet. Taking a cue from this, hotel management should use the power of the Internet to access a wider group of people (Gazzoli, Kim & Palakurthi, 2008).

The fast diffusion of the online generation has considerably modified the business economics of YM in terms of occupancy rates. Considerable new possibilities to exercise YM in a cost-effective way are now accessible. While the Internet provides great potential for enhancing success in service companies, amazingly few of them have taken full advantage of it (Marmorstein, Rossomme & Sarel, 2003).

2.3.1. Average daily rate and its effectiveness.

The ADR is the measure of the hotel's management efforts to sell the available rooms. When analysing a hotels ADR, questions might be asked as to why, for example, more rooms were sold at $75 rather than the rack rate of $109, or whether the revenue management department of the hotel designed eye-catching offers to provide the $75 rooms instead of depending upon the hotel desk employees to sell them at rack rates for walk-in visitors who are willing to pay. ADR is computed by dividing the total room sales by the number of rooms sold. For example, if a hotel has daily room revenue of $8000 with 80 rooms sold, the ADR is $100, calculated as $8,000/80= $100. In this example, the revenue manager was able to maximise the room revenue, since most of the rooms were sold at the rack rate, which is $109. Thus, there is a relationship between ADR and rack rates (Harewood, 2006). ADR is used in predicting hotels' room revenue (O'Neill & Mattila, 2006).

Occupancy rate and ADR measurements are important areas of YM, because they assist revenue managers to compete and to increase occupancy and room rates. Moreover, they aid revenue managers to manage occupancy and ADR. However, Harewood (2006) found no correlation between ADR and occupancy, suggesting that occupancy rate is not an essential factor when setting room rates (Harewood, 2006). Nevertheless, some scholars found a strong relationship between room rate and occupancy (Leong & Lee, 2010; Mattila & O'Neill, 2003)

Revenue managers manage occupancy after they have grasped how to use room types and trailing codes to assist their managerial functions towards the effective management of room occupancy and ADR. A hotel's director of sales and management team is most times seen as responsible for maximising the sales efforts of the hotel, while the revenue manager is responsible for the maximisation of hotel occupancy (Hayes & Ninemeier, 2006). The options available to them include tactfulness, which allows them to reach decisions that increase hotel occupancy levels by adjusting to the unique demand variations of the hotel. This is done through employing two different occupancy restraints: closed to arrival (CTA) and minimum length of stay (MLOS) (Talluri & Ryzin, 2005).

CTA is a restraint placed by the revenue management team on customers seeking to occupy the hotel on certain days associated with high demand for rooms. They are rejected in preference to those seeking to occupy the room the day before, so that they can stay on the day with CTA or longer than the two days (Talluri & Ryzin, 2005). The Riyadh hotel, for example, identified from its occupancy patterns that its rooms are in high demand on a given Saturday, due to an event happening on that day. In employing CTA, they identify weak demand before the high demand day, followed again by weak demand after this day. Similarly, the revenue manager at Veema Hotel imposes the CTA strategy such that a customer requesting to stay on Saturday is only allowed to book the room for two days, to stay on Friday and the target day, Saturday (Hayes & Ninemeier, 2006).

The second strategy is MLOS, whereby a hotel offers a restraint that a customer booking a room on a given day identified with high demand should continue to stay for a minimum number of days, such as two or three days (Gurbuz, 2011). Those requesting to occupy the room for a single night are rejected, while those requiring a two-night stay, for example, are accepted. In the case of identifying Saturday as the day of high demand, imposing MLOS would require that any customer seeking to stay for Saturday book the room for more than one night. This assists hoteliers to maximise total weekend occupancy (Hayes & Ninemeier, 2006; Wilson, 2001).

Noone and colleagues (2003) reiterate that the revenue obtainable from a single transaction is maximised by guests' length of stay, as well as by the strategy of CTA. However, in managing demand, they do not emphasise the varying lifetime value of a guest and as such do not provide a way forward on long-term profit maximisation. According to Shoemaker (2003), a customer may develop a negative perception or attitude towards a hotel when there is incorrect usage of YM in the management of the hotel with regard to customer service. This may adversely affect the business if it diminishes the loyalty of the customer. Incorrect usage of YM in customer service in the hotel business is a case of overpricing. Hoang (2007) posits that this overpricing may enable hotel businesses to realise higher revenue in the short term, but in the long term, the value of possible repeat customers is being ignored. Thus, poor YM loses the business future customers (Schuessler, 2010).

Managing ADR is used to adjust the rates offered per room with reference to anticipated demand levels. In employing this strategy, the hotel takes a number of variables into account, including anticipated occupancy, revenue forecasts and anticipated demand. For instance, during high-demand times, such as when there are games or graduation events to be hosted at neighbouring schools or colleges, hotels may require higher room rates from customers seeking reservations (Hayes & Ninemeier, 2006; Vallen & Vallen, 1996). Moreover, the lowering of prices below rack rates may not always affect the hotel's revenue positively. Rather, this strategy is often used during extraordinary times only, when rate is the most imperative consideration in choosing a hotel or room type. Ordinarily, price adjustment is affected with reference to other demand determinants; including hotel location, frequent guest programs, brand loyalty and brand quality (Hayes & Ninemeier, 2006; Oh, 1999).

The occupancy rate and average room rate efficiency indicators, when considered separately, represent incomplete measures of the sales efficiency of the hotel. Complete quantity of revenue from locations will not come from an increased occupancy percentage if the room rate has been disproportionately decreased. Similarly, an increased income from rooms is unlikely if there is an increase in the average room rate and a disproportionate decline in the occupancy percentage. Thus, another indicator has been developed to complement these two: RevPAR.

2.3.2. RevPAR.

The RevPAR ratio is commonly utilised to measure the financial performance of a hotel. This measurement, which is a function of both occupancy rate and average daily rate, is one of the most important ways to determine whether a hotel is maximising its total room revenue (Gurbuz, 2011). There are two methods to calculate the RevPAR of a hotel. The first is to divide the number of available rooms in a given period from the total revenue in the same period. The second is to multiply the average daily room rate and the occupancy rate of the hotel (Jones & Lockwood, 2004).

Let us consider the following results from the third quarter of Hotel ABC. The number of rooms is 100. The average room rate is $70. The average occupancy rate is 80 per cent. The total revenue is $504,000. From the last quarter, Hotel ABC had 70 per cent occupancy, with an ADR of $80. The total revenue also totalled $504,000. Yet, while room revenue was the same for both quarters, the last quarter may have shown better performance, as a lower occupancy rate means less cost (Gurbuz, 2011). However, Gurbuz pointed out that it is difficult to determine whether occupancy would gain better profit than revenue, or revenue would gain better profit than occupancy. The author emphasised that revenue managers should decide based on their own selling strategies. Some revenue managers may prefer the combination of higher room rates and lower occupancy rate to reduce the room service cost, whereas other revenue managers might prefer to achieve higher occupancy rate and lower room rates to maximise their revenue through food and beverage (Jones and Lockwood, 1989, cited in Brotherton & Mooney, 1992).

RevPAR is probably the most essential of all calculations used in hotel marketing development. It provides a practical overview of how well a hotel is filling its vacant rooms, as well as how much each room should cost (Hayes & Ninemeier, 2006). It should be mentioned that RevPAR, by description, is determined on a per-room basis. Therefore, one organisation can have a higher RevPAR than another, but still have reduced total earnings, if the second company has more rooms than the other.

Initially in YM, occupancy and ADR were the best measurements (Harewood, 2006). The phrase ‘heads in beds’ was used by every hotel manager and owner, with the reasoning being that higher occupancy would lead to more income. Through a constant and ongoing process of progression, YM techniques have changed significantly. New measurement achievements often appear, with ADR and even unique designs like GOPPAR (gross managing profit per available room) advocated by experts as the best measurements for identifying income management efficiency. However, it is well accepted that the best measure is RevPAR; a hotel that uses RevPAR as its leading income control technique is practicing YM best practice.

Gothesson and Riman (2004) argued that the measure of RevPAR includes no costs from the production of the product and services, and that it does not consider other non-room revenue that can be generated from hotels. They argued that RevPAR is a measure of only the output of the hotel and not the input of the hotel management. Gothesson and Riman (2004) emphasised the significance of holistic thinking, concluding in their study that to be successful the hotel industry should not focus on its revenue alone; costs should be equally assessed (Gothesson & Riman, 2004).

2.3.3. Overbooking.

Overbooking is important in YM, as it helps to maximise occupancy rate and revenue. It is also done to avoid penalising customers who cancel their reservations (Wirtz et al., 2001). Using this practice, companies encourage customers to make reservations beyond the hotel's maximum capacity in anticipation of late cancellations and no-shows (that is, people that cancel their bookings late, or who do not arrive at the agreed time, respectively). This process results in greater revenue (Humair, 2001).

Overbooking in hotels, as a YM tool, is aimed at cushioning the hotel against unforeseen cancellations and no-shows by customers (Ross, 1995). Though the practice ensures the maximisation of profits because of a maximum utilisation of space, the practice can negatively affect the company's reputation in the event that it is unable to honour its promise to customers, and who may therefore feel inconvenienced (Harewood, 2006).

However, overbooking is advantageous to both customers and hotel companies. Through overbooking, the company incurs minimal or no losses because of cancellations (Badinelli, 2000). Customers benefit in that they are not penalised in the event that they cancel their reservations (Rothstein, 1985, cited in Harewood, 2006), as the hotel is able to fill their room with another customer. By not penalising customers because of cancellations, their goodwill is likely to be retained, and they are more likely to make future reservations with the company.

In some case, overbooking can cause problems for both the hotel and its customers. For this reason, overbooking must be implemented with care to avoid the potential for inconveniencing customers. In the event that bookings are dishonoured by the company, hotels incur some costs; namely 1) the cost of looking for an alternative hotel for the customer, 2) the cost of booking a room in another hotel for the customer and 3) the cost of attending courses relating to handling issues of overbooking (Enhagen & Healy, 1996). Further, customers whose bookings are not honoured may not seek the services of the company in the future (Wirtz et al., 2001), thus putting the company's future profitability at risk. Yet, despite this, overbooking is an essential component in the implementation of YM, as the benefits in terms of revenue protection are deemed to outweigh the negatives, provided it is done cautiously.

Rates of cancellations vary across different market segments and seasons (Jauncey et al., 1995). Therefore, the YM team should periodically analyse historical bookings data to predict cancellation rates more accurately (Jauncey et al., 1995). Further, advance notice might assist hotels to predict the correct number of cancellations. However, Selmi and Dornier (2011) emphasised the importance of adopting a YM system involving sophisticated mathematical models, which can significantly predict the number of cancellations, no-shows and walk-ins. These authors also highlighted that software is essential for hoteliers to achieve the best results from YM.

2.4. Price Strategy

A pricing strategy is a premeditated option from a number of substitute price schedules, employed towards maximising profits within a given duration, in reaction to a certain situation. A good pricing strategy is crucial in the hotel industry, mainly because of the industry's fixed capacity, perishable inventory, high fixed costs and minimal variable costs (Chen, 2010). This implies that cost-control cannot optimise the revenue and profits realised by hotels. Therefore, using an effective price strategy is the quickest and most reliable means by which a hotelier can maximise its profits and revenue (Kim, Han & Hyun, 2004; Schmidgall, 2002).

An effective price strategy can aid a manager by maximising the variables of price and demand. Price strategy has gone through a revolutionary process, especially after the hotel industry adopted the concept of revenue management as a strategy of pricing from the airline industry. The model has revolutionised the hotel industry over the past few decades. As a result, the revenue management pricing strategy has grown to influence YM practice in fundamental ways, not only because of its financial outlook, but also because of its strong attachment to different aspects of hotel administration and marketing strategies, like the forecasting of demand, controlling the rate of bookings and comprehending consumer price flexibility (Cross, 1997; Miller, 1999). The principal role of YM has resulted from the dynamic nature of revenue technologies in revenue management towards maximising revenue, which explains why price strategies are vital to all hoteliers. There are two types of pricing models, based on the dissimilar perspectives of researchers: the cost-based model and the market-based pricing strategy.

2.4.1. Cost-based pricing.

Though the economic analysis model is best for overall market usage for setting the prices of products, managers face difficulty in placing the cost of given goods and services, due to limited information. This is what happens when it is complex to project the quantity of a brand, which will be purchased at a certain price. Therefore, businesses tend to resolve the usage of cost-based pricing models. Although these models are easier in terms of usage, managers are required to apply flexibility when using them for different situations (Hambrick & Cannella, 1989; Sanket & Bowman, 2004). For example, marketers total all of the costs related to the delivery of the product to the market, including production, distribution, transportation and sales expenses. Above the total cost, they place an amount to cover expenses not previously accounted for, to accommodate the expected profit. The total of the two figures is set as the price for the product. In contrast, smaller ventures compute the mark-up as a ratio or a percentage of the total cost. For example, if the overall cost of maintaining a hotel room for a night is $100 and the management wants to set a daily rental price of 25 per cent above maintenance costs, the rental rate will be $100 add 25 per cent of 100, for a total of $125 per room (Auty, 1995; Reid & Bojanic, 2010). Cost-based pricing strategies include three different pricing methods: rule-of-thumb pricing, Hubbard formula pricing (Chen, 2009) and the cost-plus model (Blythe et al., 2005).

2.4.1.1. The Cost-plus model.

The cost-plus model is easy to apply, and is therefore used by many businesses, especially wholesalers and retailers. This approach is best for the hotel business for the pricing of unitary products or classes of products, for example beverages and menu items. In this case, the hotel may use a standard mark-up rate, which is added to the direct costs of the service or the product to be delivered (Gu, 1997). For the current hotel case, the mark-up rate to be used for food is 200 per cent and 150 per cent for beverages. For example, in setting the price of a beverage that uses ingredients worth $3.50, if the desired mark-up is 150 per cent, the price will be computed as follows:

Price (excluding GST) = $3.50 + (3.50 x 150/100) = 3.5 + 5.25 = $8.75.

The selling price of the drink, inclusive of GST, will be 8.75 + (8.75 x 15/100) = 8.75 + 1.31 = $10.06 (inclusive of GST) (Backman, 1953).

The cost-plus model is helpful in the computation of prices, as well as in making comparisons between the prices and quality of hotel services offered by competitors.

However, this model has some drawbacks, as it does not take into account market conditions (Holtzman, 2013). For instance, customers may be unwilling to pay a price computed by this method because it is high compared to the market.

2.4.1.2. Rule-of-thumb pricing.

The rule-of-thumb pricing principle has wide application, although it is not accurate or dependable for every circumstance. It is an easily used procedure for performing approximate calculations or denoting some value, aimed towards making a determination of usage value and prices. As applied to guiding the hotel business, the rule-of-thumb-based return valuation rule holds that hotel rooms should generate an average daily return of $1 per $1000 of value (Schmidgall, 2002). As per the building-cost-rate derivation model, a room worth $1000 should return at least $1 a day, without making any consideration to the current value of the hotel room in question. An example here is a hotel that has five rooms, estimated to be worth $10,000. Using this model, each of the five rooms is worth $2000. Thus, an ADR of $2 each day must be realised. The computation for this example is as follows:

1/5 x 10,000/1000 = $2 (Dopson & Hayes, 2009, p. 283).

In pricing the rooms of the hotel, no consumer should be allowed to use the hotel room without paying at least $2 dollars a day. Research on the hotel industry indicates that the model is reliable in predicting the future sale prices of hotel services. According to hotel industry research, the ADR rule of thumb is effective in being applied to the varied types of hotels, though the computation formula may vary from the general $1 per $1000 ratio (Dopson & Hayes, 2009).

2.4.1.3. Hubbart formula pricing.

The Hubbart pricing formula is used to set the rates of hotels rooms in a time when the hotel is to remain open or when the hotel is under renovation. The model was formulated by Roy Hubbart, the then authoritative chair of the Commission of the American Hotel and Motel Association, which was instituted towards the generation of a model for use in computing room prices. The following paragraph explains this model (Dopson & Hayes, 2009, p. 277).

The prices of rooms can be calculated through an estimation of the number of hotel rooms to be sold in a year, and the tabulation of the costs of business operation. A set amount representing the estimated return on investment (ROI) is added to the total cost of operations. The rate is computed as follows:

> Estimated operating cost + ROI – income from other revenue centres / the total number of rooms to be sold (Drucker, 1973).

An example here is the case of a hotel whose estimated operating cost is $10,000. The estimated ROI is $15,000, and the income from other revenue centres, including food and beverage sales, is $12,000. The number of hotel rooms to be sold is 100. The computation, which gives a rate of $130, is as follows:

> $10,000 + $15,000 – $12,000/100 = $130 (Dopson & Hayes, 2009, p. 277).

However, cost-based pricing, such as the rule-of-thumb model and Hubbart formula pricing strategies present a weakness during the pricing of hotel rooms. This is because they do not consider market conditions and changes, such as competition, demand and price elasticity (Chen, 2009). These market conditions are the characteristic traits of the hotel industry. They influence buyers and sellers of hotel services within the sector. Market conditions also include the number of business rivals (where a surplus may mean an oversupply of hotel rooms) and the number of buyers (where a surplus may mean that there is high demand for rooms). When supply is high, hotel management may need to offer discounts to increase room revenue

(Gurbuz, 2011; Jones & Hamilton, 1992). In contrast, during times of high demand, hoteliers should maximise their room revenue by setting higher prices (Gurbuz, 2011; Jones & Hamilton, 1992).

Hence, the complexity of market conditions causes competitors to change their pricing strategies, which may threaten businesses using cost-based pricing strategies. However, cost-based pricing strategies were generally used by hoteliers before the emergence of YM (Chen, 2009). Therefore, as Gu (1997) notes, the hotel industry requires pricing based on a quadratic room-pricing model that considers operating costs and the dynamics of the market environment, especially when operating in a highly competitive market.

2.4.2. Market-based pricing strategy.

Modern hotel managers take into consideration such factors as demand, the competition within the industry and the need for flexibility while developing their pricing policies (Pride & Ferrell, 2011). In most cases, revenue managers reject a model that takes into account only the operational costs of an organisation and ignores the economic aspects of supply and demand (Pride & Ferrell, 2011). The problem is that such cost-based pricing is not effective for increasing the profitability of a company, as it does not take into account demand and supply patterns or price elasticity (Chen, 2009). Instead, revenue managers give preference to market-based pricing strategies (Chen, 2009); although, as a rule, revenue managers adapt the prices of their organisations to changing demand, and market-based pricing strategies are only one of the approaches that they take.

In many cases, revenue managers can charge the same type of customers different prices for the same rooms (Choi & Mattila, 2005). This technique is called discriminatory pricing (Cunningham & Froschl, 1999), and it is vital to understand how this strategy can be applied by hotel managers. Further, revenue managers' pricing strategies often reflect the practices adopted by their company's major competitors. To some degree, this policy is adopted by the whole hospitality industry. The main principle underlying the work of hotel managers is that their product is perishable, and must be sold within a certain period (Harewood, 2006). This idea is closely tied to the principles of YM.

The market factors influencing market-based pricing strategies include competition, price-discrimination and dynamic pricing, and these will be discussed in the following sections.

2.4.2.1. Competition.

Each organisation has to take into account the prices that are set by their major rivals to remain competitive. In the hospitality industry, competitors usually share a variety of features, such as room rates, facilities, location, level of service and amenities (Tranter et al., 2008). Very often, companies decide to enter the so-called price wars, hoping that this approach will give them competitive advantage over others. The disadvantage is that, in the event that the hotels offers their rooms at rates comparable to those of the lowest offering hotels, they may not be able to meet their running expenses, and thus can incur losses (Myers, Cavusgil & Diamantopoulos, 2002; Reid & Bojanic, 2010). Further, in this way, existing companies might endeavour to create price barriers that prevent new businesses from entering the market (Gurbuz, 2011).

However, this strategy is only partially applicable in the hospitality industry (Gurbuz, 2011) since such a model can yield only short-term results because companies would have to reduce their prices on a regular basis, and their profitability would decline over time. Thus, the decision to enter a price war can be harmful for an organisation, and especially for a hotel (Gurbuz, 2011). Indeed, some research has shown that hoteliers that ignored a policy of under-pricing rivals fulfilled higher RevPARs (Gabor, 2010, cited in Gurbuz, 2011) because under-pricing is effective only in those cases in which the clients of a business are price-sensitive, at the expense of product or service quality (Crane, 2009). In contrast, hotels need to offer rooms at the same rate as their competitors, while also working on distinctive models of attracting customers (Monroe, 2002).

Businesses that are engaged in price war practices are less likely to develop innovative solutions or offer better products (Crane, 2009). This is the key drawback of competition-based pricing. Certainly, it is possible to use price-based incentives to attract customers. For example, many hotels give discounts to repeat clients, and this policy can be quite successful because many clients do appreciate the ability to save their costs (Crane, 2009). However, price differentiation should not be the only source of competitive advantage; service innovation and creative client management are also important (Humair, 2001). For example, to attract customers, the hotel could focus on improving its customer service abilities and upgrade its facilities (Lu, 1999). The usefulness to managers of considering their competitors is that this allows them to formulate creative strategies for generating competitive advantage for their business, to outweigh the associated value of their competitors (Govindarajan, 1989; Jacobson, 2007).

2.4.2.2. Price-discrimination.

Another strategy that is often used by hotel managers is price discrimination. This is premised on the principle that customers have different needs and purchasing power (Glaesser, 2012). Therefore, companies should set different prices to increase the number of clients they attract, thereby improving their profitability (Li, 2011).

Customers that do not have a high level of income would be most interested in hotel rooms offered at a lower price, and they would be willing to face several restrictions when making reservations in return for that cheaper price (Li, 2011). For example, they might need to book their rooms only in advance. The Novotel travelling group provides special offers for travellers that make their reservations 14 days in advance (Ng, 2008). They might also not be able to book rooms during weekends or choose rooms with scenic views (Ng, 2008).

In contrast, those clients that pay a higher price should have access to several privileges to make their experiences more fulfilling (Ng, 2008). For instance, they can book their rooms very close to the date of arrival and they can choose from the most scenic rooms, which is of great importance to many leisure travellers. The main benefit of this extensively used model is that it enables businesses to meet the needs of a diverse clientele (Glaesser, 2012), often with a high level of satisfaction on their part. However, this policy requires that hotels hire well-trained employees who know how to approach different clients. It is important that all customers, regardless of their room rate, be treated with equal respect and attention. If this requirement is not met, a hotel may not be able to gain the loyalty of its customers.

2.4.2.3. Dynamic pricing.

Hotel capacity is defined as an immaterial hospitality product; it cannot be stored or transported (Schutz, 2008). Moreover, hotel rooms are a perishable product, which means that hotel prices need to be easy to change in response to market demand, to ensure the product is supplied to customers to obtain maximum yields (Chen, 2009). The main advantage of dynamic pricing is its flexibility; this strategy can help businesses to derive some revenue at those moments when a business, or even the entire economy, is passing through a period of downturn (Talluri & van Ryzin, 2005).

Demand-based pricing is a well-known example of dynamic pricing. Dynamic pricing is defined as the updating of prices based on demand information and conditions. It can be used when both the buyer and seller can respond to supply and demand conditions (Ng, 2008). Therefore, during periods in which demand is low, prices are also low. Conversely, an increase in demand implies high charges.

With advances in technology, high-speed connectivity, a wide information network and high-speed data processing mean that more information is available in real time. Thus, now, room charges can easily be changed, and the updates made available across various distribution channels (Ng, 2008). It is vital to recognise that active price valuation implies that hotels will make changes to their daily room charges depending on market information.

To distinguish between dynamic pricing and prices based on market demand, there is a need to use some examples. For instance, if 150 rooms out of 200 in Riyadh hotel can be booked, the hotel can have two different prices situations. In the first situation, there is a group charge of $100 and a collective charge of $150. In the second situation, the hotel makes its low-demand charge $100, with other rooms sold at $120, $140 or $150. The charges will depend on the increase in the occupation rate. Table 2.3 below illustrates this.

Table 2.3Room rates comparison

	No. Room Available	No. Room Sold	Rate	Income	Occupancy %
Situation 1	200	100 50	$100 $150	$10,000 $7500	75%
				$17,500	
Situation 2	200	50 30 30 40	$100 $130 $140 $150	$5000 $3900 $4200 $6000	75%
				$19,100	

Making comparisons between the two scenarios, the second situation returns $1600 in extra revenue: a $5 increase in ADR and a RevPAR adjustment of $8. In the second scenario, the revenue officer stopped the low $100 charge after selling 50 rooms, setting the new rate at $130. After selling 30 more rooms, the charge was increased to $140 for the next available 30 room. After booking 110 rooms, the remaining units were charged at $150. The profits from selling the rooms using this strategy increased revenue by 7.4 per cent.

Dynamic pricing can be used to increase or decrease room charges. For instance, if a revenue manager predicts that 75 rooms will be booked at a price of $160, he or she might speculate on renewing the 10 per cent of rooms that are not booked (Schutz, 2008). By the end of the day, there are no further bookings. At 2 P.M., he or she settles on making interventions and reduces the charge to $139. At this point, people start making calls. By late evening, the rooms are 80 per cent booked. By checking at the market rate, she discovers that some hotels are booking their rooms at a higher price, indicating demand. The revenue officer then decides to make changes, and at 6:15 P.M., the discounted charges are stopped and new rates are put in place at $170 (Forgacs, 2010).

According to Forgacs (2010), active price valuation implies that hotels will make changes to their daily room charges depending on market information, with the aim of maximising their room revenue. However, the biggest challenge lies in determining the optimal price of a product at a given point in time (Forgacs, 2010). Manipulation of rates depends on correct predictions, increasing the complexity of the process (Jauncey et al., 1995). Therefore, daily and periodical future forecasts should be conducted that take into account multi-directional information, such as historical data, weather, events in the local area, competitors’ activities, overbooking policies and airlines' schedules (Huyton & Thomas, 1997). Historical data should include the number of reservations made and customers' satisfaction regarding reservation events for recent and past periods (Huyton & Thomas, 1997).

2.5. Price-adjustment Strategies

Price-adjustment strategies are used when regulating prices to account for consumer variation and changing considerations. The models used in price-adjustment strategies include discounting and segmentation. Discounting and allowance pricing are offered to reward customers for their credibility in the areas of purchase volume, timely payments and off-season purchasing. This can include length of stay discounts, which are offered to consumers who stay for extended periods; quantity discount, which is offered to guests who book a large number of rooms; function discount, which is offered to trade-channel parties; and seasonal discount, which is offered to guests booking rooms during off-seasons (Lockyer, 2007).

The advantage of price-adjustment strategies is that they result in an increased cash flow for hotel businesses, as customers are lured into making more purchases and becoming loyal to the hotel (Docters et al., 2004; Ingenbleek et al., 2003; Mattila & Choi, 2005). Another advantage is that the model allows businesses to become more competitive as compared to their rivals. The disadvantage of the model is that it reduces the revenue earned by the business from the services traded.

2.5.1. Discounting.

Providing discounts is a YM strategy that can be effectively employed by hotel businesses to improve their yields, especially when the demand for rooms is much lower than the supply (Gurbuz, 2011). However, it is crucial for hotel businesses to determine when and to what extent to offer discounts on their rooms for the greatest effect. According to Gurbuz (2011), partners or co-operation companies should be offered a special price. In this case, the goal of revenue managers is sometimes to have higher occupation of their available rooms and lower room rates to maximise their revenue through food and beverage sales (Jones and Lockwood, 1989, cited in Brotherton & Mooney, 1992). However, hotel management should take into account customers who are willing to pay higher prices when offered rooms with discounts (Li, 2011). As such, it is significant for hotel businesses to sell their available rooms at full rack rates. This is only possible when the hotel is confident enough that the demand for rooms will be much higher than supply. As such, if a hotel predicts that all of its rooms will be sold or are likely to be sold, it is unnecessary to offer discounts for customers to help secure their sale (Gurbuz, 2011). The hotel must take full advantage of demand to ensure 100 per cent room occupancy and improve its yield (Li, 2011).

Of course, hotels will not have demand for rooms outweigh supply 100 per cent of the time. As such, they will occasionally be required to offer discount rates, to help secure sales and improve their yield. Table 2.4 below outlines an example of a YM strategy, indicating the predicted demand for rooms in terms of percentage occupancy and the discount strategy rate to be offered to customers (Hayes & Ninemeier, 2007).

Table 2.4

The discount strategy

Forecasted Room Demand	Rate Strategy
Less than 50% occupancy	Offer discounts up to 30%
50–70% occupancy	Offer discounts up to 20%
71–90% occupancy	Offer discounts up to 10%
91–100% occupancy	Offer no discounts

Discount is a crucial strategy in YM. When the demand for rooms is very low (for instance, below 50 per cent) based on demand prediction, hotels are most likely to offer high discounts on their rooms to help secure their sale. Customers requesting room reservations at this discount rate would be accepted. However, this would not be the case when the demand for rooms is high (for example, between 91 per cent and 100 per cent). At times of intermediate demand, hotels offer discounts of, for example, 10 and 20 per cent, on a sliding scale, increasing the discount as demand falls (Hayes & Ninemeier, 2007).

However, discounting strategies are applied cautiously, to ensure that the reduction in revenue is recovered from the increase in sales volumes. Therefore, the use of this strategy in creating a larger market requires extensive market research in the area of customer dynamics and approach models. Further, the discounting strategy of market creation works better for new products, which are perceived to present better value for customers, as customers are also interested in trying new products.

It should be noted that discounting could present a threat to the business, in the form of cannibalising the existing business and market, as revenue used to attract new customers, is foregone for use in retaining existing customers. Therefore, this strategy should be used carefully to ensure it does not affect the business negatively (Reid & Bojanic, 2010). Reid and Bojanic (2010) also provided a chart illustrating the use of the discount strategy in the hotel industry, which is useful to reproduce here (see Figure 2.1).

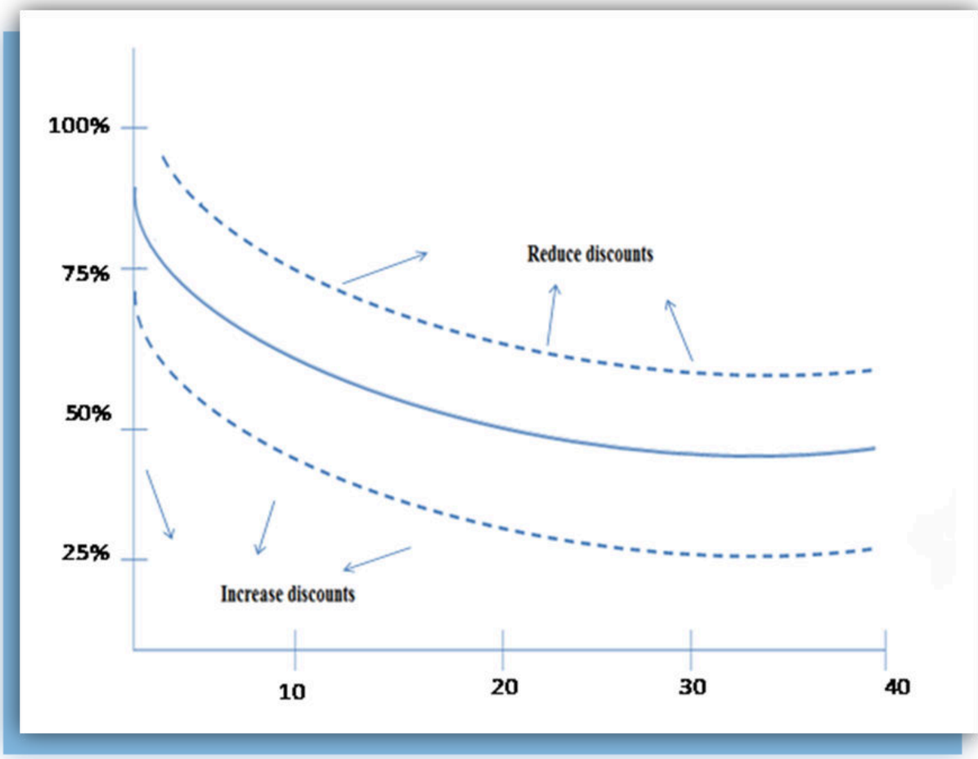


Figure 2.1 Booking pattern curve for a conference hotel (Source: Reid & Bojanic, 2010).

2.5.2. Segmentation.

Market segmentation is the categorisation of the different components of the market that are dissimilar from one another in terms of their needs, characteristics or behaviours, which implies that they will need dissimilar market mixes and products (Kotler & Armstrong, 2001). The criteria for market segmentation includes that the segments should be identifiable, substantial, accessible and unique (Lancaster & Reynolds, 2002), as this allows for distinctions. Through the identification of dissimilarities in the different portions of the market, hoteliers are able to satisfy the needs of potential consumers in an effective manner (Reid & Bojonic, 2009). As Kimes and Wirtz (2003) argue, revenue management involves the identification of the right capacity of products or services, to be offered to the right consumer at the right time, through matching demand and supply to different customer segments, towards maximising hotel revenue (Demirciftci, 2007). In the case of hotels, this means charging different rates for rooms, to attract a range of customer groups.

Segmentation is an important part of YM, and it is commonly used in pricing, whereby price discrimination is used to maximise revenue returns (Netessine & Shumsky, 2002; see Section 2.4.2.2). Market segmentation involves understanding the customer segments and their needs, to be able to satisfy their dissimilar needs, which cannot be addressed through using similar treatment and satisfaction models, as opposed to focusing on competition.

To understand the buying behaviours of the customer, and the market in general, sellers have two principle approaches to choose from—pursuing consumer markets or studying the business-to-business markets (B2B) (McDonald & Dunbar, 2004). It is also possible to study both aspects, which allows the hotel management to move to the next phase of classifying the different customer markets into different customer need segments (Gupta & Lehmann, 2005). From the study of the market, a business can arrive at a comprehensive understanding of how consumers make their buying decisions. Since consumers are not a heterogeneous group, this market-based information can be used to segment the customer population, to develop a fuller picture of a business's consumer base, to prompt planning by the business towards creating real value for them (Kotler & Keller, 2006).

Hotel market segmentation is useful for hotel revenue creation because the information provided can be viewed according to the effect of certain segments and their needs on average daily revenue, in order of highest to lowest effect. In this way, emphasis can be placed, for example, on those segments likely to buy rooms at high rates and in volume (Kaul, 2009). It also provides valuable information on the revenue drivers of the market segments in question. Some factors that determine customer segment are geographic area, demographics, income or price willing to spend, reason for travel (e.g., leisure or business) and spending patterns. Each of these factors is considered in the following sub-sections.

In the case of Saudi Arabia, the segmentation of customers based on religion is useful. According to the World Tourism Organization (WTO), an estimated 300–330 million pilgrims pay visits to major religious tourism sites of the world each year. The number of international tourist arrivals to Saudi Arabia increased dramatically in 2011, to 17.5 million from 10.9 million in 2010. In 2011, 40 per cent of international visitors came to pay visits to major religious tourism sites, such as Mecca and Medina ('Bytak for Researches', 2012). Of the domestic travellers, 24.5 per cent visited Mecca and Medina in 2011 (Mariam, 2012).

2.5.2.1. Geographic segmentation.

Geographic segmentation is premised on the assumption that people coming from the same geographic regions, city, town, part of city, even neighbourhood, will have similar buying preferences or attitudes (Smolyaninova, 2007). For the hospitality industry, this means that hotel managers can focus on such criteria as a regions climate conditions (Lamb, Hair & McDaniel, 2011), regional customs or the availability of transportation to predict the future decisions of clients or their expectations (Smolyaninova, 2007). Geographic segment of the client also affects the attractiveness of a certain tourist destination, based on the differences in climate, scenery or culture (Bennett & Strydom, 2001; Bowie & Buttle, 2012). For instance, South African tourists prefer large European cities to other destinations (Bennett & Strydom, 2001). Another important way in which geographic segmentation can help to improve hotel revenue is that, in the case that the majority of guests come from a particular country or region, the employees of the hotel should be able to speak the language of that clientele (e.g., English, German, French or Arabic). In this way, these organisations can gain competitive advantage over rivals, and even charge a higher price in response to the resulting demand for their services.

However, geographic segmentation also has several weaknesses. Often, the cultural differences within a particular country are overlooked (Holloway, 2004). For instance, the residents of the same city may have different ethnic, cultural or religious backgrounds. Additionally, hotel managers can focus too much attention on a particular geographic region or country, while overlooking the needs of other customers. Thus, to effectively use geographic segmentation, managers must be aware of the needs of customers and patterns of their purchasing (Paley, 2001).

2.5.2.2. Demographic segmentation.

Demographic segmentation is the most established basis for differentiating customer groups. It involves the division of the market into groupings based on gender, age, income, education level, ethnicity, size of family, nationality, occupation and religion (Armstrong & Kotler, 2005). An example of the impact of demographic factors on customer preferences is that clients of different ethnicities differ in their choice of hospitality services, while income level determines a client’s desired level of access to different hotel services (Kandampully, Mok & Sparks, 2001). The intense relationship between demographic segmentation and the marketing strategies of major market movers in the hotel industry includes the close linkage between customer preferences and the variables of age and income among others.

Demographic segmentation affects hotel revenue creation in a number of ways, including that it offers information on the major consumer groups that purchase substantial hotel services, thus allowing the hotel the opportunity to specialise in the provision of services to meet the needs of those groups. An example here is the MGM grand; the largest global hotel (Adams, 1993). Demographic segmentation also allows revenue managers to detect the groups or populations that cause trouble during the flow of service. An example from Las Vegas is the younger clientele visiting nightclubs, noted as being sources of loutish behaviour and security issues that are likely to affect the expectations of the older generation. Demographic segmentation facilitates decisions towards investing in certain customer groups in such a way as to hamper demand from other groups (Mackay, 1997; Thompson, Piney & John, 2006).

2.5.2.3. Price segmentation.

Price segmentation is a very common technique among hotel managers (Maxwell, 2008). Prices are determined by the behaviour of clients, the characteristics of the service to be provided, and the nature of the business's transactions (Stiving, 2011). Since price segmentation involves customers' needs and willingness to pay, hotel managers must allow their clients to classify themselves into an appropriate segment (Parasuraman, 1990, cited in Smolyaninova, 2007).

One of the most widely used criteria for price-discrimination used by hotels is the schedule and timelines that clients have to meet (Stiving, 2011). For instance, hotels can charge a lower price in those cases in which clients make reservations early or book small rooms with fewer facilities, or book rooms with high penalty for cancellation and schedule changes and so on (see Table 2.5) (Kamath, Bhosale & Manjrekar, 2008). In contrast, as also illustrated in Table 2.5, hotels can charge a higher price if a person makes a last-minute booking , makes a flexible booking and so on (Kamath, Bhosale & Manjrekar, 2008). There are several rationales for this policy. First, those customers that have to adhere to a certain schedule are more ready to pay a higher price for a room in a hotel. This issue is particularly important when one speaks about business travellers whose travel schedules are set by their companies. In contrast, those people that make advance reservations, should be allowed to save their costs.

Table 2.5

(Adapted from Kamath, Bhosale and Manjrekar, 2008)

Physical Characteristics	High Price	Low Price
View	Pool view, ocean view, hill view	No scenic view
Size	Bigger rooms with more facilities	Small rooms with fewer facilities
Temporal	Weekday bookings	Weekend bookings
Logical fences		
Length of stay	Short stay of one or two days	Longer stay
Flexibility	Cancellations and rescheduling are allowed at a low penalty	High penalty for Cancellation and schedule change subject to a high penalty
Time of purchase	Bookings are made very close to arrival date	Bookings are made quite early
Privileges	Are awarded loyalty privileges	No privileges
Size of business provided	Corporate business customers booking frequently	Self-funding vacationers booking rarely
Point of sale	Physical delivery and confirmations	By email or phone

It should be taken into consideration that this form of price segmentation can be particularly effective when hotels have to meet the needs of leisure and business travellers (Crossley & Jamieson, 1997). However, this model may not be useful when the target audience of a hotel is homogeneous. For example, the profitability of many hotels might depend primarily on leisure travellers, rather than on business travellers. Hotel managers must assess the strengths and weaknesses of price segmentation before adopting this policy in their organisations. Revenue managers should remember that the increase of revenue should not be made at the expense of customers whose loyalty can be more valuable for any hotel. Overall, diversity in prices helps customers to select an appropriately priced service for their needs.

2.5.2.4. Leisure travellers

When using YM, revenue managers focus on different types of customers and their needs. Often, leisure travellers are the most valuable clients of hotels. Therefore, it is important to understand what kind of things this group values. For example, their main goals are recreation and entertainment (Abdelghany & Abdelghany, 2009; Yeoman, McMahon-Beattie & Sutherland, 2001) and they usually make travel plans in advance, often at least a month before arriving at a hotel (Jones, 2012). This is their major difference from business travellers. Further, they generally want to forget about their daily problems, workplace conflicts or challenges—that is, they are looking for relaxation and convenience.

Leisure travellers can also have diverse expectations. Some may want only basic accommodation. Such preferences are typical of people who like active tourism. However, in many cases, leisure travellers expect a hotel to offer them entertainment opportunities, food or beverages facilities and so forth (Chon & Maier, 2009). Additionally, these customers place focus on the location of the hotel. They often look for the availability of natural or cultural sites, and the transportation services provided by the hotel. People are more likely to pay a higher price if the hotel can offer them these opportunities.

YM can be effective used when revenue managers understand the behaviour of leisure travellers. One of the trends that can be identified is that leisure travellers are usually more price-sensitive that are business travellers (Gattoma, 2003). Moreover, leisure travellers might be travelling with their children, and thus would pay more if a hotel had a playground for children. This factor might be considered by hotel managers to earn extra revenue for their organisations and to attract new clients from different cities. It is also helpful for revenue managers to categorise leisure travellers into segments; namely, individual and group leisure travellers and wholesale to maximise room revenues, as done by Fairmont Hotels and Resort (O'Fallon & Rutherford, 2010).

Overall, leisure travellers are diverse in terms of their needs and values. The most important aspect is that such travellers do not want to be disturbed by anything and they expect hotels to take care of their needs (Chon & Maier, 2009). If revenue manager and hotel employees can meet their expectations, the profitability of their organisations can be significantly increased. In most cases, leisure travellers are the most profitable segment of the market. However, the role of these customers in generating hotel revenue depends upon the location of the hotel. Mountain or seaside resorts depend mostly on leisure travellers, while hotels located in urban areas are dependent on different clients (Magee, 1998). Thus, hotel managers should use segmentation to determine what kinds of clients are most profitable for their companies.

2.5.2.5. Business travellers

Business travellers are another important segment of the market. These clients differ from leisure travellers in several ways. The travel expenditures of businesses can equal billions. Although these customers are not in the majority, they often bring more than 50 per cent of the revenue of a hotel business (Woodside & Martin, 2008). A study in 2008 indicated that at least 14 per cent of business people had to take international trips, and they usually prefer to stay at the same hotel if their needs are met (Woodside & Martin, 2008). Among these needs, they want to be connected to their business partners, friends and colleagues. This is why a free Wi-Fi connection is often a determining factor in their choice of hotel (Woodside & Martin, 2008). This preference is closely related to the goals of YM because hotels can include the provision of free Wi-Fi in their discriminatory pricing model when working with these customers (Callan & Kyndt, 2001).

Business travellers also attach much importance to the location of a hotel (Callan & Kyndt, 2001). They are more like to pay a higher price if the hotel is located near the city centre. Further, business travellers prefer to stay in hotels with conference halls (Callan & Kyndt, 2001). This facility is of great importance to many organisations, and they will pay more to those hotels that can support their professional activities.

Finally, business travellers are less sensitive to price changes, especially in comparison with families travelling for leisure (Smolyaninova, 2007). They often make last-minute bookings, and can change their plans (Donaghy et al., 1995). Further, they desire to receive a high quality of service, whereas leisure travellers accept various levels of service quality (Hanks, 2002). Business travellers tend to book their rooms for weekdays (Göthesson & Riman, 2004). By meeting the needs of these clients, hotels can significantly increase their profitability. In this case, they do not work only with individuals, but also with organisations that are willing to achieve their business goals. Business travellers are often critical for the profitability of a hotel business, and the use of YM can facilitate interaction between hotel management and staff and business travellers.

2.5.2.6. The spending patterns of the customers.

According to Harrah's Cherokee's case (Metters et al., 2008), customer segmentation and designations as business or leisure are not necessary, as the spending patterns of the customers create the relationship that differentiates the group that should be pursued and given focus in terms of the resources of the business. For example, some corporations and travel agents may wish to book some rooms for a long time, such as one or two years. Reinartz and Kumar (2002) presented a model in which customers are segmented into four dissimilar classifications (see Table 2.6). These segmentations are drawn based on the forecasted length of the business–client relationship and its level of profitability, which are used as variables defining the customers' level of loyalty. The strategic revenue management techniques towards maximising the profits realised from these relationships are then determined based on these classifications.

Table 2.6

Model for choosing a YM strategy (Source: Reinartz and Kumar, 2002)

	Short-term Customers	Long-term Customers
Low profitability	Strangers	Barnacles
High profitability	Butterflies	True friends

According to the framework created by Reinartz and Kumar (2002), these four segments of customers may be explained as loyal, depending on the model of survey applied in checking their characteristics. All four tend to show characteristics of repeat clients to varying degrees, but some of the classes do not contribute much profit to the business, thus not warranting hotel business strategies for pursuing them. Therefore, these different segments should be subject to different strategies, as explained in the remainder of this sub-section.

YM should not invest in the relationship with 'strangers' (the lowest profitability group). The customers within this segment rarely contribute much value and do not show other characteristics of loyalty. In the case that the share of wallet is down, emphasis should be placed on up- and cross-selling to this client group. However, where the size of the wallet is small, strict cost control measures should be imposed.

The clients under the 'barnacles' classification tend to generate low profitability. They value the business and its products and services, but contribute very little to increasing the value of the business. The ideal strategy for this group is attempting to sell to this group those products and services that are associated with what they already have. However, resources and dedication are more effectively directed towards other groups, as the business will continue to make revenue from the barnacles' accounts for as long as they remain active.

The clients under the 'butterflies' classification are profitable to the business, but they present less loyalty. Therefore, they should be intensely served while still interested in the services and the products of the business. Once it is apparent that the purchases from them have declined, investing effort and time in them should not be continued (Wyner, 1999).

In the case of 'true friends', on the other hand, the business should implement moves to delight this class of customers, so that they can be nurtured and retained for their continued long-term and profitable contribution. These clients should be greatly rewarded, offered high value and exclusive products and other attractive benefits (Reinartz & Kumar, 2002).

Using the formulation of the different categories of customers as presented in Table 2.6 above, Noone et al. (2003) identified four different strategies of customer-centric revenue management to serve the four categories of customers, including traditional revenue management, lifetime value-based price modelling, availability warranting and ad-hoc promotions, and short-term promotions These strategies are presented in Table 2.7 and detailed below.

Table 2.7

Segment-based revenue management strategies (Source: Noone et al., 2003)

Profitability Level	Category	Strategies
High profitability	Butterflies	Traditional RM, and short-term promotions
	True friends	Lifetime value-based pricing and room availability guarantee
Low profitability	Strangers	Traditional revenue management
	Barnacles	Small wallet share, traditional RM, ad-hoc promotions

Traditional revenue management is explained as the manipulation of room prices and the duration of stay at hotels towards realising effective inventory management and balance forecasted demand and its capacity, based on historical data and the present booking pick up (Noone et al., 2003). According to Schuessler (2010), revenue management is the continuous, integrated and systematic approach to the maximisation of room revenue, through the varying of room prices, with regard to projected demand patterns.

Lifetime value-based price modelling offers prices to the clients, while placing focus on the lifetime value they draw from purchasing the product or service, towards maximising the business's long-term yield, from the continued long-term satisfaction of the customer (Noone et al., 2003). In addition, clients with an anticipated high lifetime worth may take complete advantage of availability guarantees during the times of high demand for the given service or product. Availability guarantees are the moves to warrant the supply of the services or the products of the company to the target consumers, especially those among high profitability groups. In this case, these target groups are guaranteed continued supply and access to the services, despite changes in demand, even where this may lead to an over-demand of the services (Noone et al., 2003).

From the case of Harrah's Cherokee Casino and Hotel as presented in Metters et al. (2008), it is clear that this business extensively invested in revenue sourced from electronic gaming devises. The business runs a 57-room property, restaurants, meeting grounds and 3400 electronic gaming stations. The 'true friends'-like group that has established the strongest relationship with the hotel, reflected through the profits they bring to the business through gambling, are rewarded the most. However, the Cherokee segments guests further into 10 dissimilar classifications according to expected wagering profit, 'which it calculates by multiplying historical 'coin-in'—the amount of money wagered—by the house percentage' (Metters et al., 2008, p.165; see Table 2.8).

Table 2.8
Harrah's Cherokee Casino & Hotel—segmentation summary (Metters et al., 2008)

Segment	Expected Wagering profit (US$)	Room rate
CS0	≥1,000	RFB1*
CS1	800–999	RFB2*
CS2	600–799	ROC*
CS3	400–599	ROC*
CS4	300–399	$125
CS5	200–299	$225
CS6	100–199	$325
CS7	50–99	$375
CS8	0–50	$425
CS9	Unknown	$450

*complimentary room, food and beverages: the first level (RFB1)
*complimentary room, food and beverages: the second level (RFB2)
*complimentary room (ROC)

The 'strangers'-like class (here, CS7–CS9) is given little or no consideration during room cost reduction, receiving a maximum price reduction of US $75 off the room price. Those under the barnacles' class (CS5–CS6) earn a maximum reduction of US $225 on room rates. The butterflies' class (CS2–CS4) is offered either a US $300 price reduction, or a service package that provides them with a complimentary room. The most valued customers are those that contribute the most to the revenue of the business—the 'true friends' (CS0–CS1) class. This group is offered a complimentary room, food and beverages at two levels of service quality. This is a clear example of the application of the segmentation framework (Metters et al., 2008).

2.6. Human Resources

In the implementation of YM, HR is a critical factor in achieving positive results from the system. According to Yeoman (1996), the YM system is functionless without human activities, reliant on a strong YM team and supporting staff. Yeoman and Watson (1997) echoed this opinion after further research on the contribution of HR in YM. Daigle and Richard (2000) had a similar perspective, in which they linked the relational approach YM system in hotels to HR. Hendler and Hendler (2004) similarly linked success in operating YM software to expertise among the managers and employees. Therefore, managers and employees should be knowledgeable for the success of YM in hotels. HR management practices should focus on strengthening the capabilities of managers and employees, including in how they implement, or support the implementation of, YM.

2.6.1. Developing and understanding yield management.

The risks inherent in the hotel industry led to the development of the YM system to curb loses. For example, the perishability of hotel services raises concerns on how best to get customers to use a hotel's services to maximise their revenue (Brothertoon & Turner, 2001). In addition, change in demand and supply of hotel services depends on various factors, such as weather, level of incomes and service, or competition. This leads to uncertainties in the future of hotel businesses, which need to be able to determine the number of customers that are likely to demand their services in the future. Hotels need to be ready to handle high demand, or to offer discounts to their customers during low demand periods. When customer numbers increase, hotels have many options in how they serve those customers based on, for example, the customers' past loyalty, the reason they want the service, and the length of time they want to stay at the hotel. Therefore, wise, YM-based decision-making remains fundamental in the hotel industry to eliminate the risks of low occupancy rates or overbooking (Choi & Cho, 2000).

Knowledge of market situations in terms of demand, supply, competition, technology, customers and HR is crucial in the development of YM systems. Future figures cannot guarantee the extension of past or present situations. Unexpected changes may affect business activities in the hotel industry. Plans and strategies focused in hotels against their competitors will shape the supply level. In addition, the human factor could be a consideration in shaping the demand for hotel services (Brothertoon & Turner, 2001). Computer-generated forecast cannot fully predict the future of a hotel in terms of demand and supply. Therefore, the management team must carefully attend to the forecasted figures generated electronically. In addition, the relevance of the forecasted figures will require the contribution of other staff members holding different levels in the hotel (Jones, 1999), making their inputs vital in the development of the YM system.

YM development starts with the development of a YM culture geared toward familiarising the management team and employees with the functioning of the YM system. Factors to consider at this stage could be the delegation of people to take charge of the system after its adoption in the hotel to ensure adherence to the requirements, and to advocate for the proper working environment with adequate supervision and enhancement of the employees (Donaghy, 1996).

Jones and Hamilton (1992) proposed five elements required to develop a YM culture. Firstly, the selected personnel for the YM team should exhibit knowledge in analysis and proficiency in working with computers, especially in information technology. The decision-making phase should include members at all levels to ensure the viability of the YM system. The major focus at this stage is to devise means to increase revenue to the organisation, and the nature of the contribution and participation of the employees and managers (Jones & Hamilton, 1992).

The second step of achieving a YM culture is the cultivation and enhancement of the yield strategy (Gamble, 1990). The YM system should focus on the goals set by the hotel as regards their performance against their competitors. The focus in this phase will be on how the hotel can increase their sales and the methods they prefer in booking their customers. The vital information required in this phase will come from an analysis of the market situation based on database information to project the future level of customers. This will determine the discounting procedures to be followed, to decide when to offer or withdraw discounts to customers. In addition, the yield strategy will determine when to raise the booking fee, depending of the prevailing conditions such as group bookings, length of staying and reason for booking (e.g., hotels prefer events holding because they generate more revenue). The yield strategy will help the company to offer the most competitive service to their customer for the greatest return in customer loyalty and satisfaction.

The next process in the building of a YM culture is inclusion forecasting and establishing a YM personnel requirement in the job description of the hotel. This will incorporate the professional requirement among the employees and managers toward the implementation of YM system, and ensure they have information on how to operate the system, to interpret and analyse the results produced by the system to make the best decisions. To improve the effective of the system, a forecasting committee should be established, constituted by managers from various divisions in the hotel. The divisions most affected by the YM system will be ‘reservation, sales, marketing, food and beverages, banqueting, and the front office’ (Huyton & Peters, 1997, p. 211). The forecasting committee should have the mandate to ensure perfect coordination among these divisions for best results.

It is important that, during this phase, the committee work to ensure a high level of customer satisfaction through offering services recommended by the hotel. In addition, the committee will have to ensure the employees’ wellbeing, to motivate them in their duties for better service delivery. This will in turn increase the number of customers being attracted away from the hotel’s competitors. At that point, the hotel has many options in rejecting or accepting reservations if the demand is higher than the number of rooms.

The final development phase of the YM system will incorporate the modification of the employees’ remuneration based on the goal to improve the operating performance resulting from YM. As the human factor is the determinant in the demand of the services offered by the hotels, employees must be willing in their duty to deliver the best inputs to the implementation of the YM system. Employee satisfaction is clarified in more detail in sub-section 2.6.5.

2.6.2. The yield management team.

The implementation of YM requires a strong YM team. This should be the first priority, even before the setting up of the YM system to ensure the effectiveness of the system. Formation of this team will be the major driving force to ensure the implementation and success of the system through regular meetings held to forecast business activities in the hotel.

Coordination among various departments and managers remains a challenging factor in the success of the YM system. Therefore, the YM team must comprise goal-oriented individuals that can reach conclusive decisions geared toward increasing business revenue. According to Kimes (1989), the shortage in revenue managers in the hotel industry poses a challenge, as hotel owners may fear future problems in revenue management.

Currently, challenges come from global economic changes, heavy market competition and pressure mounted by hotel owners to cut costs. As a result, any competent revenue manager in this field should exhibit high skills in analysis, leadership, negotiation and communication. Revenue managers are major contributors to the success and holistic process of the YM system (Crystal, 2007).

Various people from various hotel divisions constitute the YM team. They include the ‘room division manager, the sales manager, and reservation manager’ (Huyton & Peters, 1997, p. 210). This does not limit the contribution of other managers and employees, but by having fewer individuals, the team can enhance and speed up its decision making. Some variation may be found between hotels. For example, the team may involve the general manager of the hotel, or the front office manager may replace the reservation manager on the team. However, typically, the room division, sales and reservation managers constitute the YM team.

The major role of the room manager in the team is to control the room allocation with the aim to maximise the occupancy and revenue generated from these rooms. The sales manager’s role in the team relates to the sale of hotel bedrooms on a daily basis. The aim of sales is to maximise revenue; often by ensuring a high number of people visit the hotel rooms at the highest rate possible (Yeoman & Ingold, 1997). There is a close connection between the sales and marketing departments in a hotel, to keep the marketing team well informed about when demand for the hotel business's services is very high or low. Finally, the reservations manager oversees the bookings in the hotel, handles future bookings and keeps the details on past arrivals and the current occupants in the hotel. This information contributes to demand forecasting.

The YM team has a vital role to play in the success of the YM system, and all decision making among the members in the team should be consultative among the members. Therefore, the functions of this team include forecasting demand, making management decisions about room allocations, deciding upon room rates and conducting feedback sessions (Huyton & Peters, 1997).

To elaborate on these functions, demand forecasting or prediction forms the basis of the team's duties, given that the goal of the YM system is to increase revenue in the hotel. The team's ability to foresee future demand could be challenging because past figures may not fully predict future demand patterns. Moreover, using the predictions, the team must plan for obtaining maximum yields. One major concern is how the hotel can come up with a preferred market mix of the targeted group segment (Orkin, 1988).

These decisions on demand prediction will have to revisit some previous trends in the market to draw conclusions about the future expectations in the market. This will go hand-in-hand with consideration of future occurrences that could influence positively or negatively the booking of the hotel rooms. Therefore, the reservation department must consider these factors when assigning rooms. In addition, decisions on rates on the booked rooms will have to consider changes in the market and demand (Brotherton & Mooney, 1992).

Last, the team must reflect on the functioning of the YM system, to identify possible changes to be made to improve the level of revenue generation for the organisation (Selmi & Dornier, 2011). Customer feedback and suggestions made during their stay in the hotel provide data for reflection. The room manager can also contribute updated information on previous bookings to ensure good decisions are made on overbooking policy; that is, that the policy aims towards increasing revenue instead of increasing occupancy (Badinelli, 2000). Over time, changes to the YM system based on feedback, suggestions and bookings data will serve to make the hotel more profitable through informed decisions making.

2.6.3. Empowerment.

The efficiency of various organisations, including hotels, depends on the ability of employees to take initiative and solve problems without having to ask the permission of senior management. This is why business administrators have to focus on the empowerment of workers. In this context, the term empowerment can be defined as allowing employees to make independent decisions so that they can better cope with their workplace duties (Tschohl, 2003). Overall, this issue is of great concern for hoteliers who have to increase the revenue of their organisations and ensure their sustainability.

It is believed that this strategy can help companies establish better relationships with clients (Tschohl, 2003; Yukl & Becker, 2006). This issue is particularly important for service organisations like hotels that have to meet the needs of customers with different interests, values and attitudes. More importantly, employees have to take initiative to respond to the requests of clients as quickly as possible (Mohsin & Kumar, 2010). Further, it can be clearly seen that the policy of empowerment can be important for resolving or avoiding possible conflicts with customers (Baum, 2006). As a rule, guests can become dissatisfied with the quality of services if they see that it takes a hotel too much time to address their requests (Baum, 2006). By empowering employees, managers can minimise the risk of such problems.

In this case, the task of business administrators is very complex. On the one hand, they should establish rules to ensure the fair treatment of every client. This means that the welfare of a customer should not be ensured at the expense of other people because that could ruin the reputation of the hotel. However, some clients are more loyal to the hotel, and are thus more valuable for the organisation (Tesone, 2012). This is why employees can sometimes comply with some of their demands, even when compliance contradicts established rules (Barlow & Maul, 2000; Tschohl, 2003). Hoteliers must be able to reconcile these conflicting priorities, as this issue is vital for their profitability and customer relations.

This issue is often closely related to the pricing policies of hotels, which tend to vary prices for rooms to increase their occupancy rates and profitability (Chen, 2009; Sfodera, 2006), especially during periods of declining demand (Sfodera, 2006). The empowerment strategy can be successfully implemented if frontline employees are able to make decisions without asking the permission of their senior management. For example, they should be allowed to give discounts to returned customers. This is why empowerment is of great relevance to hoteliers. Overall, empowerment of workers can greatly improve the performance of hospitality organisations. Empowered frontline employees are much more effective if they have the opportunity to resolve problems on their own. In this case, hotel management can concentrate on attracting and retaining high value clients.

2.6.4. Training and education.

Staff training is very imperative in YM, as it affects productivity. Almost one-third (8.7 million) of the Saudi population (total 27.4 million) are expatriates. Three million expatriates work in the hotel and tourism industry (Sadi and Henderson, 2005). Expatriates need training and orientation on Saudi culture to work productively. For these workers to be productive, they need to master the Saudi culture and Arabic. Most of the hotels have orientation programs for their expatriate workers, where they assist the new workers to understand the way of life in Saudi Arabia, and the values and cultural norms that exist in the society (Hayes & Ninemeier, 2007). Most expatriates, especially those from Yemen, Egypt and Sudan, have at least a basic understanding of the Arabic language, which makes it easier for them to interact with the local people. However, those from East Asian countries such as India, the Philippines and Bangladesh may find it hard to learn Arabic and may not speak English, which would also be acceptable in the hotel industry, where English is spoken by many of the guests.

YM training focuses on increasing workers' skills for their implementation of YM systems, in this case in hotels. Both managers and employees must be properly trained in the technical, philosophical and cultural aspects that will support their implementation of YM systems (Guilloux cited in Selmi & Dornier, 2011).

Training in the hotel industry is very important for a number of reasons. First, there is an increased need for labour in the hotel industry in Saudi Arabia, because this country is a tourist destination for religious visitors to Mecca and Medina during Ramadan (the ninth month on the Islamic calendar) and Hajj (the twelfth month on the Islamic calendar) (Alamri, 2010). Most Saudi nationals do not have a high regard for ordinary jobs such as housekeeping, reservations, front office or attending visitors, preferring to work in either senior management or in a different industry (Sadi & Henderson, 2005). The hospitality industry therefore employs a large number of expatriate workers. These workers need training on how to handle visitors and operate in the new environment to the best of their ability, to maximise the hotel's revenue. Training these workers thus contributes to building and increasing the organisation's revenue (Mayo, 2001). Training workers is an integral part of HR management, and plays a vital role in YM, which ensures that the management practices exercised by an organisation result in the increased profitability of the business entity. A well-trained and efficient staff results in increased efficiency and productivity (Donaghy et al., 1997).

The following are some of the steps required to establish an effective in-house training program. In-house training is cost effective, mainly because it is an ongoing process and the workers have opportunities to implement the ideas they have learned from the training. The first step is assessing and establishing the training needs. This evaluation is imperative in formulating an effective employee-training program, to equip the workers with the necessary skills to increase production. This evaluation can be done by conducting an internal survey of employees' competency in which employees express how they feel about their competency and whether they could perform better if they received training. This step might also involve engaging a consultancy firm to assess the training needs of the organisation's employees.

After evaluation and identification of the training needs, the next step involves identifying the objectives of the training. Designing the objectives ensures that the training will meet the knowledge and skills gap existing in the organisation. In the hospitality industry, the objectives of YM include increased hotel revenue and increased employee competency, especially among reservation and front desk employees (Gothesson & Riman, 2004).

Once the goals and the objectives of the training are in place, the training is planned (Lockyer, 2007). This involves making decisions about whether the training will be departmental or general (Mayo, 2011). Departmental training is more specific and is aimed at ensuring that the training offered in the departments achieves the set objectives. For example, both extensive and specialist training are important for front office clerks, reservations staff and members of the sales department, all of who deal directly with room sales and inquiries on a daily basis (Donaghy et al., 1995).

After creating the training plan, a decision is made on how the training will be carried out (Lockyer, 2007); for example, where will it be held and what materials and resources will be used for training. This step also involves allocating time for the training. After this, the actual training can be conducted (see Figure 2.2).

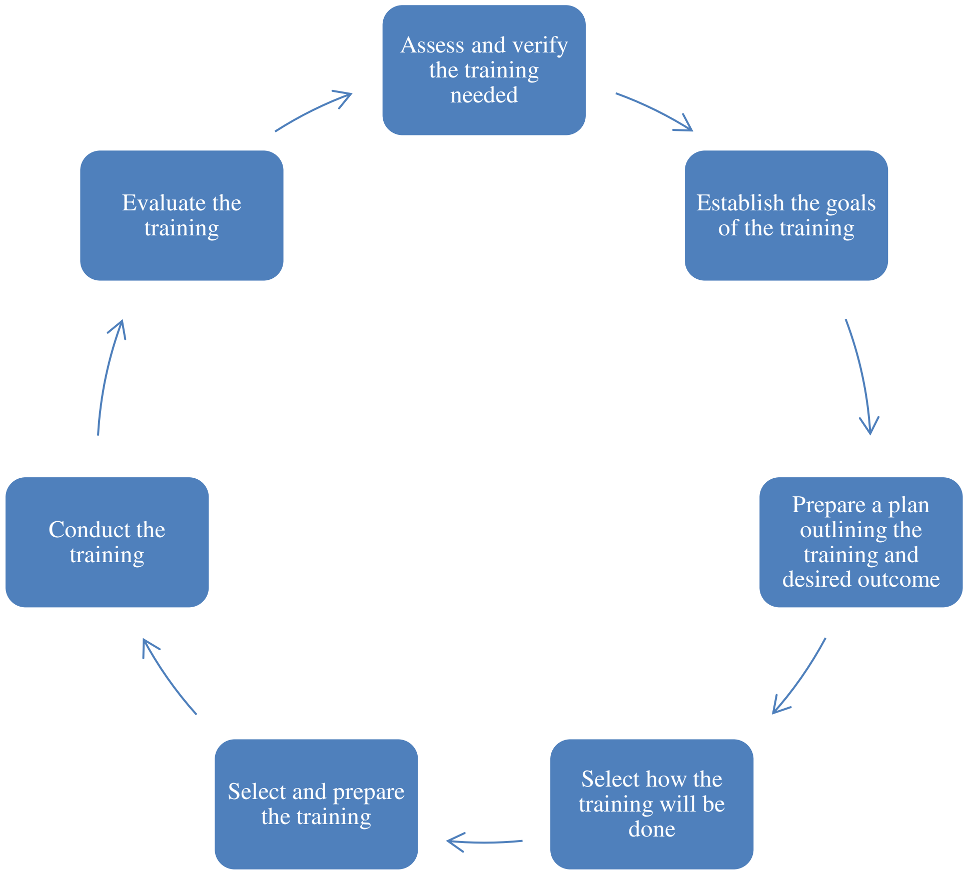


Figure 2.2.

Departmental training imparts skills that are relevant to people working in that particular department of the hotel. After the training, evaluation is conducted to assess its effectiveness. For this evaluation to be authentic, it must measure the effect of the training quantitatively in terms of ROI, and whether there was increased understanding of the concept of YM among employees (Donaghy et al., 1997).

It is also possible to conduct external training, although this is costly, usually taking the form of sending staff to conferences or seminars (Matzler & Renzl, 2007). These trainings expose employees to new ideas through the discussions, presentations and workshops held during the training. They also provide a networking opportunity for the staff. These trainings are particularly necessary because they assist in developing a positive attitude among the employees concerning their work. Ongoing training programs are another training approach. However, for the training to be effective, such as to instil best practices in the employees, it has to have a high level of continuity and repetition.

2.6.5. Employee motivation and satisfaction.

Employee motivation and satisfaction is another vital aspect in HR management, especially when discussing the contribution of HR to the appropriate application of yields management. Emeksiz et al. (2006) stressed that successful YM implementation should adopt appropriate incentives for employees who contribute to maximising revenue during peak periods and to increasing sales in times of low demand. Hence, revenue optimisation is dependent on staff motivation and satisfaction, as this determines the productivity of employees. Satisfied and well-motivated employees have higher performance than do dissatisfied employees.

In the hospitality industry, this is particularly applicable because employees interact directly with customers, and customer satisfaction is influenced by interactions with employees. Thus, 'positive changes in employee attitudes lead to positive changes in customer satisfaction' (Caterina, 2005, p. 2), while when employees are less motivated, service quality is, which results in customer dissatisfaction (Novikova, 2006). For instance, a study at Sears Roebuck & Co. found that five improved factors in worker attitudes resulted in an increase in both customer satisfaction and revenue (Caterina, 2005).

When employees are dissatisfied, they are unable to create a good experience for customers, resulting in low sales and low ROI. The other effect of low sales is on labour turn over. When the level of dissatisfaction among employees within an organisation is high, it results in high employee turnover, where employees leave to seek better employment opportunities. This is costly to the organisation because the management has to keep hiring and training employees to stay in business, which is expenditure that could be used elsewhere. The HR department must look for authentic ways of keeping employees motivated and satisfied. The following are some of the ways of motivating employees.

First, the company must offer material incentives to motivate employees. This might include medical insurance (Press & Linsenman, 2012), fringe benefits, providing them with appropriate salaries (Novikova, 2009) and making them feel like important members of the organisation. Most importantly, the company should have a good remuneration plan for its employees.

For the hoteliers to maximise their revenue, they can formulate an incentive program involving bonuses based on meeting sales target (Jones & Hamilton, 1992). However, Wirtz et al. (2001) emphasised that rewarding sales team based on maximising sales revenue may result in some staff ‘blocking inventory and securing sale at suboptimal prices even during peak periods to maximizing their own revenue, without regard for opportunity cost to the firm’ (p. 26).

The leadership style adopted by the organisation also has a bearing on determining employee’s motivation. In an authoritarian style of leadership in which the leader dictates instructions without considering the opinions of others, employee motivation is usually very low. In contrast, in organisations in which the leadership takes a participatory approach, with decisions made collectively and the leaders only serving as facilitators, employee performance is usually very high (Naseem et al., 2011). This is because employees feel that they are a part of the decision-making process, and that the management considers their contribution and opinions important (Matzler & Renzl, 2007).

The organisation's emphasis on goals is also a motivating factor. In an organisation in which the emphasis is on achieving particular targets with minimal supervision, the revenue-optimising employees are likely to work harder to achieve the targets, unlike in situations in which there is close supervision and the emphasis is not on goals, but on the procedures and the means of achieving those goals. Thus, to ensure that a hotel's staff is motivated and performing well, it is imperative for HR managers to have a well-defined set of objective for the business's employees (Lieberman, 2011), which should be formalised through well-formulated job descriptions and expectations (Brown & Lam, 2008).

Training also supports employee satisfaction and motivation because training makes employees feel competent and capable in the tasks assigned to them (Mayo, 2001; Salanova & Kirmanen, 2010). The competency provided through training fosters employee loyalty and satisfaction, as they are eager to implement and experiment with the concepts learned during training.

A final motivating factor for staff is moral rewards offering both social reputation and self-esteem (Skoog, 2000). Authority and empowerment are essential components of moral incentives (Lockyer, 2007), where revenue optimisation employees can make decisions concerning their work and resolve problems by themselves. Further, managers should create an environment free of interventions, to empower employees to make the right decisions (Huq, 2010). Wirtz et al. (2001) state that revenue and customer satisfaction are correlated with staff training and empowerment. They (2001) also warn that a lack of empowerment will reduce both revenue and front office staff morale. Gratitude certificates for employees are another possible form for moral rewards. Such rewards may reduce boredom and create increased enthusiasm.

2.7. Customer Management

When an organisation uses a YM program that differentiates on inventory and price availability to various customers and takes in customers beyond their capacity, conflicts with customers are inevitable. Such conflicts negatively affect the long-term success of an organisation (Wirtz et al., 2001). These conflicts often arise when an organisation applies discriminatory prices, demand-based pricing and off-peak pricing as described in Section 2.5 (Kimes, 1994; Mauri, 2007; Wirtz et al., 2001), or when the hotel management uses inventory control in preference of more highly valued customers (that is, 'true friends', as described in sub-section 2.5.2.6). Overbooking and discounting during low seasons are other potential areas of conflict (Wirtz et al., 2001). In these cases, fluctuations in price and service provided by revenue managers who apply YM can lead to dissatisfaction among customers.

Complaints can be prevented or lessened by educating customers in the use of YM (Kimes, 2004, cited in Lockyer, 2007). Hoteliers who implement YM should adopt marketing strategies to reduce customer conflict, such as fenced pricing, price bundling, categorising, highly published prices, the use of availability policies, properly defined recovery programs and spatially segregate customers (Mauri, 2007; Wirtz et al., 2001). Finally, professional applications in YM systems should involve guest's satisfaction, which will bring successful financial outcomes (Gurbuz, 2011).

2.7.1. Conflicts arising from the implementation of yield management.

As detailed in Section 2.5.1, YM requires the discrimination of price to maximise company revenue while also meeting customer demand. However, the result may be that some customers feel discriminated against or unappreciated (Mauri, 2007; Wirtz et al., 2001). Moreover, discounting during low seasons and increasing prices during high seasons may discourage customers due to price uncertainties (Wirtz et al., 2001).

Restricting the capacity of the business to address the needs of only the preferred customers as a selling strategy may be injurious to a company. For example, by using the capacity restriction mechanism to reserve room for the highest paying customers, and hiking prices with respect to the willingness of customers to pay for the services, may leave non-preferentially treated customers feeling unappreciated or unfairly treated (Harewood, 2006; Mauri, 2007), as in these circumstances, only the highest paying customers are provided with the services.

Similarly, although overbooking is an essential element of YM and is a common phenomenon in the hotel industry, those customers that are denied rooms as a result of overbooking may feel discriminated against (Mauri, 2007; Wirtz et al., 2001) and the conflict might result in goodwill costs (Harewood, 2006).

The use of fenced pricing is viewed by many as one of the most effective ways of dealing with customer conflicts (Mauri, 2007; Wirtz et al., 2001). Under the selling strategy, customers are segmented into groups based on their behaviour, their needs and their ability to pay for services. Using this technique, a hotel can effectively classify customers based on their purchasing power. The company may choose to offer certain priorities to some customers, while withdrawing the same from some, based on those customers' willingness and ability to pay (Lee-Ross & Johns, 1997). Price fences should be fixed, logical and easily understandable by customers, to bring about a sense of equality.

These 'fences' are not necessarily physical (Hank et al., 1992; Kimes, 2002). Physical rate boundaries include the kind of room, its location and its level of facilities. For example, a room without a view would be cheaper than one with a scenic outlook, as the latter is in higher demand (Ng, 2008). Non-physical rate boundaries include the personality of the customer, transaction features and consumer consumption characteristics (Ng, 2008). For example, discounted rates may only be offered to clients from given companies or organisations, and to frequent visitors. Based on transaction features, advance purchases and payment and whether the transaction is subject to refund penalties could determine whether a discounted rate is available to the client (Ng, 2008).

Price bundling is another preferred means of preventing consumer conflict (Mauri, 2007; Wirtz et al., 2001). The practice involves presenting or offering two or more products to customers as a single product (Lieberman, 1993). A hotel company can effectively use the technique to discount or increase prices. The extra services offered are often given at a relatively low price, or as complementary (Lieberman, 1993). The business segment, for example, can be charged high room rates, justified by offering them auxiliary benefits such as use of a health club or a room upgrade (Wirtz et al., 2001). Similarly, leisure travellers might be offered discounted or complementary family dinner, breakfast and transportation (Wirtz et al., 2001). The consequence of using this strategy is that it helps revenue managers to maximise room revenue and reduce customer conflict.

Categorising is an important means of reducing customer–company conflicts (Wirtz et al., 2001). This is used to justify differences in prices of the same commodity. Categorisation, according to booking classes, is one of the most common forms of ‘categorising’ in the hotel industry. Under categorisation, different classes are formulated, such as a rack rate, group rates, family rates, package rates, educational rates and commercial rates (Bardi, 2011). Categorising is applicable in hotels offering sport, theatre and other forms of entertainment. The setting of prices is because of the sitting arrangement, with those occupying front seats being charged a considerably higher fee than the rest (Wirtz et al., 2001). Categorisation of customers into such groupings is used to justify the differences in pricing of similar products. Categorising mechanisms should be presented to customers upfront to help them make sound decisions, and to promote a sense of equality.

Use of highly published prices in the hotel industry also helps to reduce instances of customer–company conflict (Wirtz et al., 2001). Firms operating in the hotel industry are required to set the prices they intend to charge for their services. Hotels are not expected to vary the prices of their services irregularly; rather, the set price acts as the highest price likely to be charged for the product (Weatherford & Kimes, 2001). Discounts can then be granted to customers by announcing price cuts off higher rack rates during times of low demand to increase occupancy (Ng, 2008). The discounts are also a sign of appreciation to customers. The practice is in keeping with the application of YM techniques, while at the same time addressing issues related to customer satisfaction.

The use of a loyalty program also helps to reduce customer–company conflicts (Mauri, 2007; Wirtz et al., 2001). Regular customers should be given the first priority in the delivery of services. To award customer loyalty, management should accord loyal customers with special treatment as a sign of appreciation (Noone & Renaghan, 2003). Reduced prices for regular customers serve as an effective means of awarding customer loyalty. To implement the policy, some hotels have introduced a bonus points system, whereby regular customers receive points, which they can then redeem for services (Oldshue et. al, 2008). Such customers are accorded special treatment during booking (Noone et al., 2003). Such loyalty programs encourage customers to seek out the services of the company in the future, thus enhancing the profitability of the firm in the long term.

Properly defined recovery programs are vital in the reduction of customer–company conflict (McColl-Kennedy and Sparks, 2003 cited in Mauri, 2007; Wirtz et al., 2001). Overbooking does not necessarily make hotels unfaithful to their customers. The manner in which the management responds to cases of over-commitment determines customer satisfaction. Advance notice should be given to allow the affected customers the time to seek alternative reservations (Wirtz et al., 2001). Customers likely to incur losses because of a mistake committed by a hotel should be adequately compensated (Gothesson & Riman, 2004). Substitute services should be availed to customers in the event that they cannot be served with their original request. Customers and employees should be educated on the advantages of overbooking to make the practice more acceptable (Wirtz et al., 2001).

Finally, a business operating in the hotel industry should segregate non-compatible customers to reduce customer–company conflict (Mauri, 2007; Wirtz et al., 2001). The practice is made possible through the differentiation of services (Gurbuz, 2011). Familiarising customers with benefits likely to be accrued from a certain change in service delivery will help them to adapt to the changes. In Saudi Arabia, for example, a general manager of an international five star hotel in Riyadh pointed out that:

> We put the locals on floors 4 to 6, and international business guests on 9 to 11 because the local custom is to party to the early hours of the morning and, in the past, foreigners have complained bitterly' (Wirtz et al., 2001, p. 16).

Overall, it is important that companies in the hotel industry operate at their optimal capacity to allow room for flexibility in service delivery (Mauri, 2007). This practice will allow them to respond to emergencies, or unforeseen changes in demand.

2.7.2. Customer satisfaction.

Professional applications in YM systems should involve guest satisfaction, which in turn brings successful financial outcomes (Gurbuz, 2011). Customer satisfaction is a significant tool in marketing, especially in the study of customer expectations, effort and satisfaction. 'Several studies have found that it costs about five times as much in time, money and resources to attract a new customer as it does to retain an existing customer' (Naumann, 1995, cited in Pizam & Ellis, 1999, p. 326). Customer satisfaction can be defined as an evaluative judgment conducted after the consumption of particular products and services. More specifically, it is the process of evaluation that distinguishes the expectations of a customer before purchase and compares these with the customer's perceptions of the business's performance throughout, and then after, the experience of consumption (Mattila & Choi, 2006).

Several studies on the direct and indirect effect on business results of customer satisfaction have evidenced a positive impact on the profitability of the business (Chand, 2010). Further studies have proved that customer satisfaction enhances customer loyalty, repeat business (Demirciftci, 2007) and a healthy word-of-mouth reputation. Several factors contribute to customer satisfaction, including the customers' emotions and needs, and the features of products and services (Gursoy, McClear & Lepisto, 2007).

Customer satisfaction determinants vary across industries. In hospitality, cleanliness, value for money, staff courtesy and security may greatly influence customer satisfaction (Huang & Chiu, 2006). The comfort of a room, its cleanliness and location may thus be the determinant factors for customer satisfaction. Some studies conducted by Lockyer (2000, 2002, 2003) identified cleanliness as the most important factor influencing customer satisfaction.

Giving customers the services they need is a starting point in the achievement of customer satisfaction. This requires asking the customers exactly what they need. In a hotel, for example, guest comment cards are used to this effect (Ladhari, Morales & Lakhal, 2005; Trusov, Bucklin & Pauwells, 2009). Guests are prompted to fill out these cards fully and without bias in return for incentives. Guests indicate which of the services offered was beyond or below their expectations, which services should be included and which should be removed (Ladhari, Morales & Lakhal, 2005).

Customer satisfaction is the basis of a healthy guest–organisation relationship. Healthy and positive relationships with customers guarantee repeat business (Wirtz, Theng & Patterson, 2001). To achieve customer loyalty and outperform other competitors, customer satisfaction must be achieved. Cherubini (1997, cited in Guzzo, 2010) proved that only 4 per cent of customers who are not satisfied directly complain, explaining their expectations. Those that do not complain go on to spread a negative word-of-mouth reputation to approximately 1000 people.

In the hospitality industry, repeat customer visits can be used to judge guest destination loyalty (Wirtz, Theng & Patterson, 2001). Repeat visitation often implies that the customer intends to continue purchasing the product or service in question or intends to purchase more (Kim et al., 2001). Research results conducted by Guzzo (2010) indicated that a hotel has achieved a good repeat rate when 20 per cent of its customers have previously stayed at the hotel.

However, a lower rate of repeat purchase may not necessarily represent a lack of loyalty on the part of customers. For instance, a tourist may not visit the same location not because it was not satisfying, but because he or she wants to visit other places to have a different experience. Loyal tourists, however, are likely to use the same airline and the same hotel chain when they travel. This aspect is sometimes overlooked when investigating a tourist's choice of travel destination (Kim, Vogt & Rummel, 2008). In another study, to measure a customer's loyalty to travel destination, a measure of their willingness to advocate a destination was used as a show of their loyalty (Riscinto-Kozub, 2011).

2.8. Third-Party Websites

The term YM in the hotel industry relates to selling the right room and other services to a targeted customer. This has to be done at the right time and at a reasonable (affordable) price. The main sense of 'right' in this definition means maximising the yield for hoteliers and maximising the value for guests (Choi & Kimes, 2000). Some authors have indicated that third-party websites are heavily relied upon to sell hotel's rooms (Toh, DeKay & Raven, 2011). However, third-party websites such as Expedia, Travelocity and Orbitz have affected the implication of YM because they claim high commissions (Toh, DeKay & Raven, 2011) and offer the room at a low price as the best price (Lockyer, 2007). As indicated by Demirciftci (2007), pricing discrepancies created by various distribution channels including third-party websites and hotel websites cause a significant problem for hoteliers. Even though online channels create some problems and have an effect on YM application, they also offer plenty of opportunities for revenue managers (Choi & Kimes, 2002). To avoid pricing discrepancies, all distribution channels should provide the same rate, known as rate parity, to avoid differences in room rates among these channels. In addition, hoteliers must adopt strategies to attract customers to their own websites (Toh, DeKay & Raven, 2011).

The advent of computer technologies has extensively affected the hotel industry, principally through the emergence of online customers. In 2000, Saudi Arabia registered more than 190,000 Internet subscribers; the highest increase of Internet uses as compared to the previous years. By the end of 2005, the number of Saudi Arabian citizens able to access the Internet had reached 2.52 million, representing an increase of 1,168 per cent (Werthner & Ricci, 2005). Currently, the number of Internet subscribers in Saudi Arabia is more than 12 million, which means that almost half of the population is now online. The introduction of Internet to business has enabled hotels to thrive by targeting customers that can now obtain their desired goods and services quickly and easily online. Several hotels are currently making their way into the Internet. Moreover, some hotels in Saudi have created their own websites to act as distribution channels for the products they offer, to take advantage of the fact that a significant percentage of the world's population is now computer literate (Hotel Online, 2004; Miniwatts Marketing Group, 2012).

As described by Demirciftci (2007), online consumers are more concerned about saving time than about saving money (Koch & Cebula, 2002). Murphy, Schegg and Qiu (2006) elaborated that in June 2005, Google indexed 8 billion pages, which complicated the online searching process. Meta search engines or shop bots can help overcome this obstacle facing online consumers. Kung, Monroe and Cox (2002) outline that shop bots make product prices and information from leading suppliers available to online consumers. This lowers the searching costs for consumers (Brynjolfsson & Smith, 2000), and reduces the misleading information between both parties (Kung et al., 2002). Kayak.com is an example of a search engine that enables consumers to search through numerous sites simultaneously to save time (Murphy et al., 2006, cited in Demirciftci, 2007).

Saving money, while not as important as saving time, is significantly influential in online buying, especially among travellers. PhoCusWright Inc. (2006) studies have shown that competitive prices are the main motivator for online customers. Moreover, O'Connor (2002) argued that 64 per cent of non-online consumers claimed that the chance to save money would influence them to buy online. A survey by Brewer, Feinstein and Bai (2006) indicated that a majority of business- and leisure-oriented travellers' valued online buying, as it facilitated better evaluation of travel and accommodation rates against others. Brewer et al. (2006) also found that consumers were interested in buying direct to save more money.

Many online customers embrace direct distribution channels. Apart from ensuring lower prices by direct distribution, hoteliers should embrace consistency to win customer's confidence. Hotels could also impose higher rates through indirect channels to push customers towards using their business's website to book their room. In 2001, a report by Forester Research showed that two-thirds of online travellers had enjoyed an offer posted online in that year (O'Connor, 2002, 2006, cited in Demirciftci, 2007).

Indirect distribution channels affect the decisions of revenue managers since their aim is to disseminate special offers (Lockyer, 2007), that may create a competitive market so-called war of prices. Third-party websites are used by travellers to find a comparison price list for products and services existing across various hotels. Third-party websites are also referred to as online travel agents (OTA). Examples of OTA include Orbitz, Expedia and Travelocity (Toh, DeKay & Raven, 2011). OTA encourage the use of two models of transaction: the agent model and the merchant model.

The agent model requires that, when signing a deal, the agent receive a third of the transaction made as a commission, depending on the terms of agreement with hoteliers. This model is largely carried out by airline companies, which are directly linked to hotel accommodation services. They provide their customers with rooms by selling them directly from the airport. Travellers in need of hotels are given identification numbers that are then presented to the hotel management on arrival (Toh, DeKay & Raven, 2011). When travellers arrive and pay for their stays, the hotel pays the OTA its commission. For instance, if the room rate is $120 and the commission is 20 per cent, the hotel will collect $120 from the customer and, from that, pay $20 to the OTA.

In contrast, the merchant model bases its business agreement on the wholesale price. This means that a hotel trades its goods and services with a merchant based on a contract that carries with it terms of payment imposed on the traveller and the merchant’s commission. For example, if the agreed upon price of a room in a hotel is $100, then a merchant will have to sell the room at a cost of $120. This means that after the transaction, the merchant will earn a commission of 20 per cent. No hotel room is given to a merchant until a traveller or any other visitor makes his or her payment.

The difference between the two models is that the merchant model allows the OTA to calculate its commission before giving the remaining cash to the hotel management (Toh, DeKay & Raven, 2011). Conversely, the hotel management calculates the agent model’s commission after the room has been booked and pays the money to the OTA (Thompson & Failmezger, 2005).

Looking at the commissions offered, the merchant model imposes a higher rate when making an agreement because all of the risks related to the business, such as fraud cases, are settled by deducting a $3 to $5 for any transaction made (Toh, DeKay & Raven, 2011). Demirciftci (2007) further evaluated the consequences of the merchant model using the Smith Travel survey regarding the financial outcomes of hotels in the US. From the study, it was found that online buying cost US hotels $676 million dollars in 2003 (Smith Travel Research, 2009). The following year, the loss reached $30 billion. This was attributed to overwhelming credit card fraud affecting online commerce. This subjected hoteliers to a bigger problem, which was further worsened by a general decline in demand (Watkins, 2004). In addition, Watkins (2004) demonstrated that online suppliers increased prices for their products by a margin of between 20 and 30 per cent (Watkins as cited in Demirciftci, 2007).

Hotel chains tend to negotiate for a smaller commission because they have an already established market (Toh, DeKay & Raven, 2011). Hotels depend on third-party websites, while at the same time advertising their products and services on their own websites. Unlike the large hotels, small hotels have to bear the high commission rates for their businesses to flourish because they have less negotiating power (Toh, DeKay & Raven, 2011). Their payments go beyond 23 per cent, to be on to the top of the search list on the third-party website.

When compared to the situation for airline companies, fragmentation of a hotel contributes to increased commission rates (Toh, DeKay & Raven, 2011). The main reason for this is that small businesses depend on OTA. They need exposure to help them to market their services (Gazzoli, Kim & Palakurthi, 2008). However, in terms of demand, O'Connor and Murphy (2004) suggested that a counter measure has to be applied to counteract changes in demand. Relative to rising demand, third-party intermediaries should be eliminated to give room for first parties. When demand falls, intermediate channels should be employed to maximise sales, regardless of cost. In simple terms, fewer parties should be involved when demand is rising, whereas when demand is lower, more intermediate channels should be employed (O'Connor & Murphy, 2004). More expensive rooms attract a higher commission that would influence the room revenue. This means that a hotel will gain lower room revenue since these channels require a commission for selling the hotel's rooms (Demirciftci, 2007). Further, if a hotel wants to be ranked at the top of a website list, an additional commission charge is incurred (Toh, DeKay & Raven, 2011). OTA in Saudi Arabia can also come into an agreement with hotels and lower the commission rates if the two parties decide to partner.

Overall, using an OTA is a useful tool for a well-established hotel, which always has room to negotiate the commission to be paid. In contrast, for small hotel businesses, it is better for them to use their own websites to sell their products and services worldwide than to use OTA (Toh, DeKay & Raven, 2011).

2.8.1. Rate parity.

According to Toh, Dekay and Raven (2011), rate parity is a significant aspect to consider especially in all online suppliers, like the travel agencies, since consumers hugely rely on the prices comparison from several suppliers. Although the consumers make a comparison from several channels, their search is limited by the searching cost, which is the time factor (Toh et al., 2011). For instance, if a consumer identifies a similar product with a differing rate in one of the suppliers, dissension arises forcing the consumer to make a comparison with other suppliers. As stipulated by O'Connor (2003), this is attributed to lack of patience that is triggered by misleading information particularly if differentiation of the products is not enough. On the contrary, consumers are patient with changes attributed to the demand instead of similarity based on different suppliers/channels. From a hotel perspective, rate parity is emphasized in all the suppliers. According to the investigations made by O'Connor (2003), rate parity varies more or less equally amongst many channels.

Due to Gazzoli, Kim and Palakurthi (2003), evaluation of rate disparities in a different hotel channels had showed that rate disparities influenced consumer's perception triggering the use of several search engines and shop bots to find fair prices. Earlier research recommended the hotel online suppliers to stick to a consistent price strategy (Gazzoli et al., 2003). Rate parity involves the formulation of similar price structure by all the suppliers. The revenue management sector is held responsible for enhancing rate parity that signifies prevalence of integrity (Gazzoli et al., 2003). This is instrumental in ensuring that consumers become loyal to a particular online supplier brand. Moreover, maintaining consistence in pricing across all suppliers in order to win customer's loyalty. Apart from ensuring fair rates, rate parity is also crucial as a control factor. It facilitates rate control as well as brand erosion for all distribution channels. Pricing inconsistency is a theoretical aspect resulting from perceived fairness (Kimes, 2002). Kahneman, Knetsch and Thaler (1986) used 'transaction and prices reference' concepts to evaluate fairness practices in online pricing. The 'reference transaction' concept relates to the customer's influence on setting sale of commodities, such as hotel rooms, while 'reference prices' target cost of product or service. 'Reference pricing' is influenced by posted prices, market prices and past experiences. For instance, considering a certain case in one of New York's hotel (market price) based on the earlier standard charges (past experience) and the current price through hotels website, let say $150, the posted price becomes the 'reference price'. Consequently, if the 'reference price' is $l30 in other online suppliers, this will trigger the notion about the unfairness in consumers causing a breach of customer's dual entitlement (Kimes, 2002).

In accordance with Kahneman et al. (1986), customers' dual entitlement is directly related to fairness. Firms are motivated by profits to be gained, while customers are driven by reference transaction. There are two hypotheses upon which dual entitlement is based. First, price increases should be directly proportional to production cost. Customers tend to agree with this relationship. The next hypothesis pertains to the indirect proportionality of the two factors, commodity prices and production cost. For instance, price increases whereas the production cost is constant. Customers are strongly opposed to this hypothesis (Kahneman et al., 1986).

In relation to the hotel industry, the rates of rooms may rise because their setup cost increases. In addition, the increment increase should be consistent in all hotels. This is acceptable to customers. However, inconsistency in the proportionality between prices to cost increase, or with other similar services offering the same service, is deemed unfair. By offering varying prices and charges for similar products and services to cheaper providers, consumers can come to hold a negative perception of the offending company. The concept of fairness has been much investigated where it is collectively agreed that it is a contemporary and significant aspect determining loyalty and the satisfaction of consumers, as well as companies' profitability (Kimes, 2002).

Over the years, rate parity has evolved as an average measure in the hospitality industry, despite being viewed as the fair rate surety. To date, hotels have not been able to unlock the stalemate involved with rate disparities. Online pricing remains a problem for hoteliers, prompting further research into this area from a global perspective. Hotels in the US offer the lowest price rates through their own websites; that is to say, moteliers in the US perform better when compared with their international counterparts in respect to rate parity, price rates and accommodation availability through their websites.

Nevertheless, rate parity remains a challenge facing most US hotel businesses. This is due to the coexistence of the hotels' own websites with the indirect channels of distribution. Despite a majority of US hotels adapting to direct channels of distribution, indirect channels still represent a larger portion in their entire online reservation process. To overcome this margin by indirect channels, hotels must devise strict rate parity measures in their direct channels to ensure best rates are guaranteed. This can promote efficacy due to the direct business-to-consumer (B2C) relationship. The B2C relationship increases bonding and thus enhances consumer loyalty. In addition, B2C helps in reducing overreliance on third parties, and thus attracting more profits to hotels with the help of their own websites (Wolff, 2004).

2.8.2. Hotel own website.

Regarding online pricing benefits, hotels are attracted to online pricing rather than ordinary travel agencies. This is attributed to the fact that travel agencies' charges are extremely expensive, leaving little or no profits to the hotels. With the introduction of online commerce, many firms have benefitted, not only the hospitality industry.

Online commerce ensures high Internet traffic, which means that the majority of consumers can be reached. It enables easy and fast distribution. For example, when Best Western International employed telephone technology for making reservations, it came to contribute over half of its business (Wolff, 2004). However, the situation changed drastically when the Best Western website overtook telephone reservation as the favoured booking technology, with telephone reservations falling to 28 per cent of total bookings. Through Best Western website, the firm's revenue elevated to over $1million on a regular basis (Demirciftci, 2007).

The Marriott's website, www.marriott.com, with its online commerce facilities, triggered a drastic upswing in the company's ability to attract bookings. Reservations and revenues increased by 38 per cent and 48 per cent, respectively. The revenue achieved was twice higher when compared to the industry average. In terms of gross revenue, in 2005, $2.7 billion were yielded from the online commerce and online call centre services (Demirciftci, 2007). Wolff (2004) noted that high revenue and low running costs influenced companies to adopt online commerce. The Hilton hotel's online site achieved 530,000 reservation in February 2004, which was a 34 per cent increase compared to the figures in the previous year. For the Fairmont hotel, reservations also increased by 35 per cent in 2002 using its direct Internet site, Fairmont.com. In addition, its inventory control became more effective. As to 2004, one-fifth of its online commerce was facilitated by indirect (third-party) intermediaries (Wolff, 2004).

According to Carroll and Siguaw (2003), hotels opted to use electronic distribution to forego the cost of selling through indirect intermediaries, instead developing their own online sites. In this way, hotels are able to eliminate commissions from travel agencies and global distribution system (GDS) fees. The commission ranges from 5 to 10 per cent, whereas the fees are from \$3 to \$5 per transaction, respectively (Demirciftci, 2007).

The most significant and effective channel of distribution is the direct channel; it is also the cheapest marketing strategy. In reality, making a reservation through GDS costs \$24, and from \$8 to \$12 using a call centre (Demirciftci, 2007). In contrast, hotels only spent between \$3 and \$3.50 to achieve reservations through their own websites. PhoCusWright Inc. (2006) carried out research on the fees charged in making reservations in Hyatt Hotels. It cost \$3 to use either call centres or direct online reservations through the Hyatt website. The charges were similar for other hotels such as the Marriott and Six Continents. The direct channel of distribution is thus of much importance, as it eliminates overreliance on indirect channels like intermediaries and discounters.

Finally, Toh et al. (2011) portrayed the online sales breakdown using the 2009 Travel CLICK statistics featuring about 30 international hotels in 2008. The statistics showed that 75 per cent of online sales came from hotel websites, 16 per cent came from travel agencies, while unknown sites catered for the remaining percentage. From the statistics, it was found that hoteliers embraced the significance of applying appealing strategies to attract customers to their online sites (Toh et al., 2011).

To attract potential customers, hotels use several strategies to market their own online sites. Most often, data mining is the strategy most employed by hotels. This strategy involves merging the entire customer's information obtained from previous visits. Thereafter, follow ups are made to those customers through sending them invitational mail. These invitation mail contain attractive offers and bonuses to lure invitees back to the hotel. Additionally, hotels can employ a best rate guarantee to attract customers. The best rate guarantee assures that customers get reduced prices as recommended by their OTA (Schultz, 2008). Schultz (2008) reported that a particular hotel guaranteed to offer free accommodation twice plus a gift worth $100 to their customers who returned to counteract any lower rate from their competitors. He further noted that harmonisation of better rates on different distributions channels could be achieved using the best rate guarantee.

To enhance the search stability of their websites, the majority of hoteliers employ Google 'pay by click' Internet sites, among other search engines such as OTA websites. Often, large hotels and their affiliates find themselves at the top of the search list on OTA websites. This is because large hotels have the capacity to negotiate for low commission rates, while smaller hotels do not. Although, OTA services provide broad alternatives ensuring effective searches based on prices, location and other criteria, this also poses a great challenge to hotels aiming to attract customers to their own websites. Therefore, hotels must properly evaluate the online search they are using and the effect it has on their own website.

Another approach that can be employed to lure customers is call centres and onsite toll-free telephone services. These options are meant to lure customers using their free offers such as parking, movies, breakfast and Wi-Fi, among others. Hotels train their customer service personnel to use tricks to attract more customers. These tricks are aimed at directing their customers to the hotel's website to complete certain actions. To win customers' loyalty on their websites, hoteliers upgrade their sites frequently with their adjusted rates. This is because customers concentrate more on rates. However, hotels need to employ more creativity in the provision of free service offers such as free parking and free Internet (Schultz, 2008).

The introduction of the Internet to the global market is a blessing to many businesspeople. The Internet has provided travellers from all around the world with an easier and more convenient way to choose a service and make a reservation. OTA websites are a key player in this improvement for customers (Gronflaten, 2009). However, to attract customers to a hotel's own website, a lot of creativity is required when designing these websites. Hence, if a hotel company wants the consumer to favour their site above others, they need to make their site attractive.

Basing on the issue of rate parity or similar rates, most hotel companies in Saudi Arabia have not made their room rates constant. This factor has hindered these hotel companies from securing a maximum profit. For a hotel to achieve maximum profit, direct and indirect distribution channels have to be involved (Schultz, 2008). The policy of aiming to attain maximum control of customers without depending on OTA services is another way of generating more income for the hotel. It helps to establish a relationship with those guests that frequently use the hotel services.

2.9. The Kingdom of Saudi Arabia

The Kingdom of Saudi Arabia is the largest Arab country in Western Asia. This state can be regarded as a monarchy; however, this form of government allows for local municipal elections (Alshamsi, 2010). Arabic is the official language of this country; however, English is also widespread, especially in the financial and business sectors. Saudi Arabia is an Islamic country, and the declaration of belief called Shahada is embedded in the country's national flag (Conserva, 2006).

Close attention should be paid to the major cities of the country. In particular, one should first focus on Riyadh, which is the capital of the country, and its current population is 5,250,000 (Central Intelligence Agency, 2013). Riyadh is the administrative centre of the Kingdom. Second, it is necessary to mention that Mecca is the place where the Prophet Muhammad was born. This city attracts at least two million pilgrims from all over the world. During the month of Dhu al-Ḥijjah, this city can become the most populous place in Saudi Arabia. In turn, Jeddah is the commercial centre, where a large number of for-profit organisations operate. Further, Damman is the centre of the Eastern Province, and it is where many ministries and other governmental organisations are located. Each of these cities is very important to the country's economy and to its hospitality industry.

2.9.1. Size, location and population

Saudi Arabia is located in Southwest Asia. The country occupies approximately 865,000 square miles (Federal Research Division, 2004). Further, its territory includes almost 80 per cent of the Arabian Peninsula (Federal Research Division, 2004). Researchers believe that the geographic location is vital for the economic development of the state (Federal Research Division, 2004). One should take into consideration that the country has access to the Indian Ocean, and this opportunity is critical for trade. Further, Saudi Arabia borders African and Asian states, which act as the partners of Saudi Arabia (see Figure 2.3). This location enables the country to play a vital economic and geopolitical role. In this case, much importance is attached to the trade opportunities that can be derived from its geographic location.

Figure 2.3 Location of Saudi Arabia (http://www.mapsofworld.com, 2013)

Saudi Arabia shares borders with Kuwait, Iraq, Kuwait, the UAE, Yemen and Oman, as shown in Figure 2.4. Additionally, in the west, the country has access to the Red Sea, which is important for the economic development of the state. Currently, the population is around 27,136,977 people (Central Intelligence Agency, 2013). Moreover, the annual growth rate is estimated to be 2.31 per cent (Central Intelligence Agency, 2013). However, when concentrating on the geographic tendencies in the country, one should note that more than eight million people living in this state are the citizens of foreign countries, and they currently work in Saudi companies. As a rule, these people are highly skilled professionals. Another factor that is important in describing the demographic situation in Saudi Arabia is that people under 20 years of age comprise about half of the population (Long, 2005). To a significant extent, this structural composition of the Saudi population can influence the country's culture and economy. For instance, this demographic peculiarity can affect the labour market or the adoption of new technologies.

Figure 2.4 Saudi Arabia map presenting international boundaries, province boundaries with their capitals, the national capital and other important cities (adopted from http://www.mapsofworld.com, 2013)

2.9.2. The Culture of Saudi Arabia.

When discussing the culture of a country, scholars may focus on different components, such as beliefs, values and norms. These components suggest that culture can be regarded as a system of ideas that affects the behavior of an individual (Peterson, 2004). In this case, one should focus on the norms that a person believes to be indispensible. Moreover, such a notion as culture is closely related to art, including common myths, philosophical or literature works, and cinematography. To a significant extent, they also form a complex set of ideas that are recognised by the members of a specific group (Nanda & Warms, 2010). Finally, it is important to keep in mind the material culture of a country, including the use of technologies, economy and industry. These are the main aspects that must be examined because they are vital for understanding the legal and economic regulations that exist in the country.

The culture of Saudi Arabia has several vital elements. Special attention should be paid to the crucial role of Islam, as this religion shapes the norms, obligations, values and attitudes of people living in the country. To a significant extent, it provides the basis for interactions between individuals within the state. More importantly, Islam affects a large number of rituals. In this context, the term 'ritual' should be understood as one of the daily practices adopted by people; for example, the dress code adopted among women. Further, Saudi Arabia is characterised by strict adherence to the Islamic law called Sharia (Otto, 2010). For example, Islam stresses the importance of avoiding alcohol and pork (Otto, 2010). Therefore, Islam is a critical component of culture in Saudi Arabia and, to an extent, it affects the hospitality industry.

Saudi Arabia is currently populated by more than eight million foreigners who come from various parts of the world (Shoult, 2006). Further, many foreign companies have established partnerships with Saudi organisations. Overall, these individuals and organisations bring new businesses and economic models to the country, and they help to promote the implementation of new technologies. This means that Saudi Arabia incorporates elements of the Islamic culture and innovations from Western civilisation. This detail has attracted the attention of scholars and sociologists, and it should not be overlooked by business administrators working in the country.

In addition, one should keep in mind the legacies of the tribal system that can still influence interactions between individuals (Kéchichian, 2012). Kinship can affect the social status of an individual, and tribal kinship can determine the income level of an individual and his or her career (Kéchichian, 2012). Certainly, this system has been eliminated at an official level, but it can shape many decisions and choices that people make (Kéchichian, 2012). These are the main cultural aspects of life in Saudi Arabia, and these peculiarities should be considered by the managers of hotels or other hospitality organisations that intend to operate in the Kingdom of Saudi Arabia.

2.9.3. The Economic Development of Saudi Arabia.

Another aspect that should be examined is the country's economy. Saudi Arabia is a state in which the government controls and closely regulates many economic activities (Rajhi, 2012). The recent economic crisis did not produce extremely adverse consequences on the state, in part because of the oil revenue that the country generates (Rajhi, 2012). Further, policy-makers attempt to reduce the state's dependence on the extraction industry. This is one reason why policy-makers attach importance to the hospitality industry, as it makes the national economy stronger. Moreover, significant attention is paid to the employment of young people. This task becomes particularly important at a time when a significant proportion of the country's workers are foreign nationals. This is one of the main issues that should be considered by managers and senior executives in hospitality organisations.

The reforms that are aimed at diversification stress the importance of tourism, as this industry can attract significant revenue to the country through tourists, business travelers and pilgrims (National Commercial Bank, 2009). The efforts of economists and entrepreneurs are affected by several important factors. First, the conservative aspects of culture in Saudi Arabia; for example, the prohibition of alcohol sales. These restrictions can negatively affect the attitudes of tourists even if they want to visit natural and cultural sites in Saudi Arabia. Second, difficulties in obtaining visas;

this bureaucratic obstacle can prevent many foreigners from visiting the country for leisure or business (Shoult, 2006; Janin, 2003). This issue was particularly important before 2008, when the government began to simplify the procedures for obtaining a visa. The developments that have been described in this section can have profound implications for many Saudi hotels and their profitability.

2.9.4. The Role of the Hospitality Industry in Saudi Arabia.

The hospitality industry can be viewed as one of the drivers that contribute to the development of the economy of the country. This can be attributed to several factors, such the growing number of pilgrims to Mecca and Medina (Cordesman, 2009), and the increasing inflow of tourists to Riyadh and the Eastern Province (National Commercial Bank, 2009). Several aspects can be identified. First, the number of four- and five-star hotels has dramatically increased within the past decade (National Commercial Bank, 2009). To a large extent, this trend can be attributed to the growing demand for hospitality services among local and foreign clients. It should be noted that the room capacity of Saudi hotels has grown by more than 250 per cent in the past 13 years. In 1988, there were only 249 hotels with a capacity of 22,616 rooms, while in 1999, there were around 41,028 rooms (National Commercial Bank, 2009). In 2011, Saudi Arabia had 951 hotels with a capacity of 157,430 rooms (TIRC, 2012). These data indicate that the hospitality industry is developing at a fast rate, and this rate is not likely to be reversed in the future.

At present, the capacity of deluxe hotels is around 11,400 rooms (National Commercial Bank, 2009). Among these hospitality institutions, there are many international hotels chain operating, including Westin, Le Meridian, Hilton and Ritz Carlton. These hotels have successfully established their status in the local hospitality market. Further, statistical evidence suggests that the hotel industry in Saudi Arabia is not concentrated in one particular region. Certainly, a large number of hotels are located in Mecca or in close proximity. Currently, visitors to this area can choose from more than 600 hotels that can appeal to highly prosperous or middle-income people. Other parts of the country are also important for the development of the hospitality industry in Riyadh and the Eastern Province (Walker, 2010). These organisations can suit the needs of people with different income levels (Walker, 2010).

2.9.5. The Most Important Events that Affect the Hospitality Industry

It is possible to identify several events that directly affect the financial performance of hotels in Saudi Arabia. For instance, the Jenadriyah Heritage and Cultural Festival is held annually in Riyadh (Anderson, 2009), and it is aimed at exhibiting various aspects of Saudi culture. During this two-week festival, numerous artisans, such as potters and blacksmiths, have a chance to display their works (Anderson, 2009). This is one of the largest festivals that is now organised in the country. The event increases the occupancy of the hotels located in Riyadh, and business administrators should be aware of these events while developing their strategies or the pricing policies of their hotels.

Further, one should focus on events such as Hajj and Umrah, as they can profoundly influence the occupancy rates of hospitality organisations located in Mecca. There are some differences between these events; Hajj is one of the most important pillars of Islamic faith, and this pilgrimage must be made at least once by every Muslim person. More importantly, it must be done during a certain time of the year. The Hajj period is five days per year, and it starts from 8 to 13 Dhul Hijjah (the twelfth month on the Islamic calendar). During this time, Mecca can be visited by more than three million people from around the world. Umrah also requires a visit to

Mecca at any time of the year except for the five days of Hajj. However, Islam stresses the importance of Umrah in Ramadan (the ninth month on the Islamic calendar).

One of the main factors is the number of pilgrims, especially during Hajj, and this issue affects many companies that represent the service industry, for example, travel agencies, airline companies and hotels. These organisations should be ready for the inflow of pilgrims.

2.10. Chapter Summary

The aim of YM usage is to increase revenue. The YM system was retrieved from airline industries and incorporated by hotel managers to make informed decisions in their businesses. Arguments have been stipulated to relay that YM is partitioned into three managerial sections: price, inventory and duration of customer use. These partitions should raise revenue. However, it is vital to acknowledge that there are system boundaries, such as guest dissatisfaction, brain damage and less RevPAR (revenue per available room) in cases of ineffective YM.

Location is relevant to price depending on a range of factors. The most important one is the proximity of the hotel to the CBD. The closer it is to the CBD, the higher the room rates. Proximity to airports and other public services or facilities is another important factor. However, room rates are found to be significantly higher when a hotel is far from a CBD compared to an airport. Studies show that certain factors may counter the price-bid theory, such as the presence of competition, diversification of services, star rating, existence of a franchise or hotel chain in the location and the degree of urban development.

The management of occupancy and room rates are interconnected with YM via managerial strategies such as occupancy restraints, overbooking and cancellations.

The complete application of YM is not fundamental or critical for occupancy management, which requires that managers attain an acumen of their products to facilitate the application of strategies for best room uses. Expectation of greater revenue is also reliant on demand. Consequently, there must be a clear and concise understanding of various factors of demand, how it is affected and its time of reaction.

Price has consequential effects that enhance the variation of demand. Additionally, price variation is delicate due to the repercussions it imposes on customers, leading to demand manipulations in several ways. A market-based pricing strategy has the potential to attain significant revenue. However, this achievement must involve management that understands demand and competition in the market. Researchers have stipulated that a cost-based model is weak when setting the room rates of a hotel. The weakness arises because of the model's failure to account for market variations and conditions, including competition, price elasticity and demand. The adoption of proactive managerial strategies is therefore critical when regulating demand and supply without deteriorating revenue.

Price adjustment strategies have been identified and highlighted through the understanding of discounts and different segments of the market. Hotel businesses could apply discounts in their YM proceedings. Discounts increase the yield achieved when demand is low or when supply is higher than demand. However, setting the discounts should be performed strategically, by stating the amount and the time to discount. In addition, segmentation is a critical factor in increasing revenue returns. This is apparent in price discrimination, which receives more income from the hotel and/or service centre. The basis of segmenting the market entails applauding customers and their requirements with dignity and hospitality. This facilitates the implementation of strategies to satisfy the different needs of customers through different treatments and models of satisfaction that are contrary to competition.

Implementing YM is reliant on human resources to facilitate the attainment of positive results. Yeoman (1996) identified that the system of YM was obsolete without the intervention of human activities. The team operating hand in hand with the employees is a critical part of evaluating the activity of humans. Similarly, Daigle and Richard (2000) relate the activities of humans and their approach to the YM system. In addition, Hendler and Hendler (2004) identified a relationship that depicts the successful use of YM software by managers and employees. Consequently, employees and managers should be encouraged, trained and motivated to strive for the successful establishment of YM in hotel businesses.

The use of the YM program to differentiate the inventory and availability of prices to customers lead to conflicts. These conflicts deteriorate the long-term goals of an organisation. Conflicts are bound to occur when an organisation imposes discriminatory prices, demand-based pricing and off-peak pricing in accordance with customers' ability to pay. However, some strategies have been identified by scholars to solve these conflicts, including fenced pricing, price bundling, categorising, use of availability policies, highly published prices, properly defined recovery programs and spatially segregated customers.

In the hotel industry, YM relies on selling rooms and delivering other services to customers. Performing these tasks requires correct timing and setting affordable (considerate) rates. In this case, 'right' refers to the essence of hoteliers' yield maximisation and maximisation of guests' value (Choi & Miles, 2000). According to stipulations made by some authors, websites play a critical part in selling rooms (Toh, Delay & Raven, 2011). However, third-party websites such as Expedia, Travelocity and Orbitz have influenced the target of YM due to their high commissions (Toh, Delay & Raven, 2011). Additionally, websites present the lowest prices as the best options. Consequently, revenue managers must pay attention to the risk associated with the websites and the room rates' efficacy.

An overview of the Kingdom of Saudi Arabia involves general information about the country, which is important for understanding its political culture. Further, this section presents geographical, demographic and cultural issues that may affect tourism and hospitality. The developments of the economy that have been described in this section can have profound implications for many Saudi hotels, and their profitability. Additionally, the roles of hospitality and special events were discussed.

Generally, effective and proper implementation of YM techniques defines the failure or success of a hotel. Managers must therefore develop the acumen to deliver services and interact with employees adequately in a bid to achieve success. The professional application of YM has the potential to raise the revenue of a hotel. Otherwise, the unprofessional application of YM could result in the disintegration of the overall production and thus termination of the hotel's goals. Therefore, it is necessary to be cautious in this consideration.

Chapter 3: Methodology

YM is a technique that enables service industries to understand and predict the behaviour of customers to increase their revenue (Jagels, 2006). This method has been widely used in the hospitality industry (Reid & Bojanic, 2009). This research is aimed at examining the use of YM within Saudi hotels located in Riyadh, Macho and the Eastern Province. To study YM in these organisations, different research methodologies were possible, although the one chosen needed to rely primarily on empirical evidence. Thus, it is necessary to discuss the research methodology chosen, especially in regards to the data collection procedures and techniques for analysing these data. It is also vital to evaluate the strengths and weaknesses of the methodology and explain why it was selected among others.

The research philosophy that underlies this study will also be discussed in this chapter, as will the main objective. In addition, the issues of validity and reliability and, in particular, the means by which the accuracy of the results will be ensured will be addressed. Finally, a discussion is made of the ethical considerations of this study related to such issues as the confidentiality of information and the identity of respondents and obtaining their informed consent.

3.1. Research Philosophy

Several paradigms can be applied to the hospitality industry, including positivism, interpretivism and the critical social school (Henn, Weinstein & Foard, 2009). The differences between these approaches relate to their perceptions of knowledge, objectivity and the goals of social research (Henn, Weinstein & Foard, 2009). Each of these frameworks has its advantages and disadvantages, and it is vital to evaluate these models and their applicability to the present study.

Researchers that work in the field of social sciences prefer the positivist paradigm. It holds that a study should focus only on those phenomena that can be accurately measured and represented using data (Henn, Weinstein & Foard, 2009). This paradigm is aimed at achieving maximum objectivity (McNabb, 2010, p. 16). As a rule, positivism implies that a research should rely on quantitative methods such as statistical surveys or controlled experiments. This approach is particularly suitable in those cases in which one is examining the relationship between dependent and independent variables (McNabb, 2010).

Interpretivism is another research philosophy, often applied in the study of hospitality organisations. According to this approach, scholars should first focus on the opinions, perceptions and values of subjects (Henn, Weinstein & Foard, 2009). Interpretivism presupposes that a researcher should be able to identify people's understanding of their social world and their behaviour. The advocates of this paradigm usually give preference to qualitative research methods because they are usually more suitable for investigating the attitudes and beliefs of respondents.

Finally, the critical social research model differs dramatically from positivism and interpretivism in that it attaches much importance to the goals that academic studies should achieve and the ethical responsibilities of scholars (Alvesson & Deetz, 2000). The supporters of this paradigm believe that researchers should identify the drawbacks or different forms of injustice existing in the modern world (Alvesson & Deetz, 2000). The critical task is to understand the challenges that individuals face and develop ways of overcoming these problems (Henn, Weinstein & Foard, 2009). This approach does not set specific requirements for the research methods that should be used. They can be either quantitative or qualitative, or both.

3.1.1. The chosen research philosophy

The proper selection of a research paradigm is critical for the success of any study. At first, one should pay attention to the goals of the research. The main objective of this study is to explore the use of YM in hotels located in Saudi Arabia, and in particular, to examine the ideas and practices of the managers that use this method. No hypothesis is being tested, and it is not necessary to trace a relationship between different variables. Moreover, this research is not aimed at eliminating different forms of social injustice or finding solutions to a certain problem. For these reasons, this study will rely on the interpretivist paradigm because it helps to examine the attitudes, opinions and views of respondents. In this way, this methodology is expected to provide insights into the following research questions:

1) How do business administrators in Saudi hotels manage room revenue in their daily work?
2) Are these managers fully aware of using YM?
3) How do hoteliers in Saudi Arabia use YM as a tool to maximise room revenue?

Thus, the interpretivist framework was deemed to best serve the purposes of this research. This methodology is explained in more detail in the following sub-sections.

3.1.1.1. Qualitative research

The interpretivist paradigm strongly relies on the use of qualitative methods (Phillimore & Goodson, 2004), premised on the assumption that certain social or behavioural phenomena cannot be measured quantitatively (Decrop, 2006). Common qualitative techniques include observation, unstructured interview and textual analysis (Decrop, 2006). These methods help scholars to understand people’s attitudes, beliefs and opinions (Decrop, 2006), which often cannot be measured effectively in a quantitative way. The choice of a quantitative data collection method implies that a researcher wants to analyse the data provided by respondents and identify the themes or problems to which the participants refer. This process, while aimed to be as objective as possible given the conditions, cannot be as objective as quantitative research, and thus objectivity cannot be the main goal.

In this study, unstructured interview was chosen to provide insight into the opinions, perceptions and ideas of managers who work in Saudi hotels. In particular, the researcher wanted to understand how these professionals apply YM on a daily basis. By pairing this method with textual analysis to examine official documents illustrating the applications of YM, it will be possible to identify the common experiences and opinions of hotel managers working in Saudi Arabia.

Strengths

The qualitative approach has several advantages that strongly appeal to researchers working in the social sciences. It is particularly appropriate in those cases in which a scholar wants to investigate a certain problem or question from different perspectives (Rubin & Babbie, 2009). In these cases, qualitative methods greatly assist researchers to construct a hypothesis, which can then be tested using quantitative methods. Thus, the qualitative approach has the following strengths:

1) It enables scholars to evaluate and understand the nuances of people's opinions, behaviours and attitudes (Rubin & Babbie, 2009). It gives a depth of understanding that cannot be offered by quantitative research methods.
2) This framework helps scholars to examine a certain phenomenon in a natural setting, and respondents will not have to be disturbed from their work.
3) This technique helps the researcher to ask specifying questions to collect responses that are more accurate (Lewis-Beck, Bryman & Liao, 2003). This is

particularly important in unstructured interview (Fly, 1991), and it highlights the flexibility of the qualitative approach.

4) This method can identify problems or questions not previously considered. Qualitative research methods do not limit the responses of a person, who can freely express his or her opinions.

Weaknesses

Qualitative research has several limitations, largely related to the possible subjectivity of the researcher (Hatch, 2002):

1) Findings based on qualitative data can often accommodate several interpretations. It is therefore possible for a researcher to distort data to fit his or her theory (Hatch, 2002, p. 9). In this way, if used inappropriately, qualitative techniques can lead to bias.
2) It is time-consuming, and not convenient for either researchers or respondents, who do not want to be disturbed from their daily activities.
3) It is possible for a researcher to overlook some of the details provided by a respondent (Keegan, 2009).
4) Qualitative research implies direct contact between a researcher and respondents. The problem is that individuals can easily change their behaviour in the presence of unfamiliar people (Adler & Clark, 2010).

This research will involve different methods; namely interview, textual analysis and observation. Textual analysis will be used to examine the documents related to the application of YM, while interviews and observation will be used to study the opinions and attitudes of managers who claim that they apply the principles of YM. Throughout the data collection and analysis process, the limitations of the method will be attended to, to avoid the potential for bias as much as possible.

3.2. Data Collection Procedures

The choice of data collection procedures is critical for any empirical study, because researchers must make sure that their methods can help them to gather relevant and accurate information about people's behaviour, their decisions and attitudes. This task is particularly relevant for the examination of organisational behaviour. Improper methods can invalidate the entire study. Qualitative researchers prefer the following techniques: 1) direct and participant observation; 2) the study of archival documents; 3) interviews; and 4) the study of physical objects (Merriam, 2009, p. 231). This research comprised three of these: interview, textual analysis and direct observation.

As noted in the previous section, these are particularly suitable procedures for collecting data on people's work practices, strategies, experiences and opinions. The following sub-sections elaborate on how these methods were used in the course of this study and how they increased the study's validity and reliability.

3.2.1. In-depth interview.

In-depth interview is one of the most common techniques used in qualitative studies (Hatch, 2002, p. 23). This method is primarily suitable in those cases in which there are a small number of respondents and an interviewer can explore their ideas, experiences and opinions in more detail (Hatch, 2002, p. 23). The main advantage of this technique is that it can provide insight into different dimensions of a certain problem or questions. Participants can sometimes even raise issues that a researcher had not considered prior to starting the data collection phase (Hatch, 2002, p. 23). Hence, this method was deemed highly suitable for this exploratory study.

Interviews can be structured in different ways; for example, structured surveys, open-ended interviews and semi-structured interviews (Carter-Carter, 2009, p. 7).

Each of these techniques has its advantages and disadvantages. A standardised or structured interview is based on a predetermined set of questions, and very often respondents only have to choose a certain option while answering them (Carter-Carter, 2009, p. 7). This approach is suitable in those cases in which a researcher has to survey many subjects, and it is vital to meet rigid timelines. In contrast, an unstructured interview enables a scholar to modify his or her questions depending on the responses of the subjects (Carter-Carter, 2009, p. 7). The main strength of this technique is its flexibility. This study used a semi-structured interview, which combines the strengths of the above two methods. One of the most important attributes of a semi-structured interview is its flexibility because an interviewer can formulate questions in different ways or clarify them. However, having some structure, using in the form of guiding questions or points to be covered, can help a researcher to stay focused on the issue for examination (Carter-Carter, 2009, p. 7).

The semi-structured interview technique proved very helpful for the study of YM in Saudi hotels. In particular, the interview illustrated the way in which managers used this technique to maximise their revenue and increase the occupancy rate of their hotels. The interviews also identified some of the challenges faced by Saudi hoteliers; indeed, semi-structured interview is particularly suitable for examining the work of professionals who have to cope with challenges and problems (Bryman & Bell, 2007, p. 474). This is why this technique is often used in business studies (Bryman & Bell, 2007, p. 474).

In the course of the interview, the researcher asks various open-ended questions, and the respondents can share their ideas about the implementation of YM. They also have the opportunity to explain how they resolve different problems, such as disadvantages related to location, and how they improve the work of their organisations. In this way, in-depth interviews best corresponds to the needs of this research.

Some challenges were encountered in implementing the research method that should be mentioned. First, this data collection method is very time-consuming because respondents spoke about a variety of issues and it was not always possible to control the time of the interview. This is the main weakness of a semi-structured interview in comparison with standardised interviews (Anderson, 2004, p. 148). It was also necessary to translate the text of the interviews from Arabic into English, since some of interviewers were not able to speak English fluently, and the interview was instead conducted in Arabic. Therefore, the researcher had to ensure that the translation reflected the ideas expressed by these respondents. It was important for him to remain objective and unbiased while working with the transcripts of the interview. Finally, in-depth interviews is only beneficial if an investigator has well-developed communicative skills (Anderson, 2004). If a researcher does not have these skills, the respondent may not feel comfortable, or may even decide to end an interview (Anderson, 2004, p. 148). Fortunately, this researcher's experience enabled him to avoid any communication problems during the interviews with the hotel managers.

3.2.2. Sample

This study involved the interview of 20 revenue and general managers working in 20 Saudi hotels, located in Riyadh, Macho and the Eastern Province. The hospitality industry in Mecca is dominated by religious tourism (Raj & Morpeth, 2005, p. 100), and Mecca is the main driver for tourism industry in Saudi Arabia (Alpen Capital, 2012). Riyadh is the capital and the largest city in the Kingdom, and almost 70 per cent of tourists to this city are businesspeople. The Eastern Province, on the other hand, is a coastal area preferred by leisure travellers (Alpen Capital, 2012).

The managers selected for the study reported significant experience with YM. It was necessary to make preliminary phone calls to arrange meetings with these hotel managers, for whom time was at a premium. During these interviews, the examiner endeavoured to explore themes related to various issues such as the location, occupancy and room rate, pricing strategy, price-adjustment strategies, HR, customer management and third-party websites. As already mentioned, most of the interviews were conducted in Arabic, since some of the respondents did not speak English fluently. Finally, follow-up calls were made to clarify some of the responses that were unclear. These follow-up calls were important for increasing the reliability of the study.

An interview guide was developed for use during the conversation with hotel managers (see Appendix C). This document did not contain every detail of the interview, but it did give a list of themes to be discussed with respondents. Each of the interviewees received an information sheet so they could better prepare for the conversation (see Appendix A). It was important for the investigator that each respondent had a good idea about the questions to be asked before the commencement of the interview, to ensure productive communication with managers.

Additionally, the respondents were assured that their confidential data would not be disclosed to any third parties and that the research would not reveal information that could threaten the competitiveness of their hotel or harm their professional career. Participants were told that the goal of the study was not to discuss a specific hotel or manager. Rather, it was aimed at identifying the general tendencies of Saudi hotelier regarding the use of YM. These issues were addressed before the start of the interview, because in this way it was possible to avoid misunderstanding and to reassure the respondents, allowing them to feel more relaxed. After having the nature of the research explained to them, all participants were asked to sign a consent form before starting the interview (see Appendix B).

The selection of the sample is important when using the interview technique. In this study, the most important criterion was the accessibility of participants for the study (Gerrish & Lacey, 2010, p. 277). The size of the sample also had to be limited because it used a time-consuming interview technique and observation. It is true that the hotels chosen for the research might not represent the best practices adopted in the Saudi hospitality industry, and the interviewees might not be familiar with the best use of YM. However, these limitations do not invalidate the study, as the research purpose was to describe the mean by which the managers maximise their revenue and occupancy rates using YM, rather than to develop the best models and applications of YM. The most important task was to ensure that the respondents could speak freely about their application of YM, and to expand upon the raised issues to illuminate the research subject.

This study selected managers to interview based on the view that they would be experienced in different aspects of YM. As the study aimed to explore a wide array of YM issues such as the location of the hotel, its occupancy and room rates, pricing strategies, price-adjustment strategies, HR, customer management and third-party websites and the way these influence revenue, the interviewees had to be experienced in different fields. The recruitment procedure was affected by time constraints and the limited number of available people, hence the small sample size of only 20 participants. However, the limited sample did not prevent the study from achieving its goals.

3.2.3. Interview procedure

The interviewees chose the time and place for the interviews, most of which were carried out at the hotels at which the respondents were employed, either in their office or in a quiet place in the hotel. One interview was conducted in a coffee shop because the revenue manager preferred to be outside the hotel for the interview.

In the course of the conversation, the managers could speak about different issues such as their job responsibilities, customer management, the adoption of YM in their daily work and occupancy rate. Careful attention was paid to covering the topics in the interview guide, and these questions prompted interviewee to express their ideas and opinions about the use of YM. The interviews were critical for understanding the culture of the hotels, the background of the managers in YM, their daily tasks and their approaches to the YM.

The interviews lasted from 35 to 50 minutes depending upon the responses of the managers. The interviews were recorded, provided that the participants agreed. Unfortunately, some participants did not agree for the interview to be recorded. Despite this, all of the participants seemed greatly interested in the research and willingly shared their ideas with me.

3.2.4. Evaluation of results

After the researcher conducted a series of interviews with the managers, he reviewed the answers provided and evaluated the information. One of the most important tasks was to identify some of the common responses and ideas expressed by the interviewees (Tesch, 1990). First, the responses were grouped according to certain criteria, such as whether they related to location, occupancy rates, pricing strategies, HR practices, customer management, price-adjustment strategies or the effect of third-party websites. In this way, the researcher endeavoured to determine whether the answers of the interviewees were relevant to the purposes of the research. Overall, the examination of these data showed that the interviews achieved their goal, and the examiner had collected sufficient information about the application of YM in different Saudi hotels, although not all of the responses were directly relevant to the practices of managers.

Many of the participants strongly relied on narrative forms while describing their use of YM, which resulted in some diversions from the questions set. However, this is typical of qualitative studies that involve in-depth interviews. Moreover, additional information can help to understand aspects of hotel managers' work and their daily challenges. Further, these stories provide insight into the attitudes and beliefs of these professionals. This is why the narratives of the respondents should not be disregarded. In many cases, these responses can be even more informative than straightforward answers.

Often, the interviewees preferred to give descriptive responses that were aimed at explaining their major activities and tasks. This information is very valuable because hotel managers explained how they resolved different problems and applied YM. However, in this way, interviewees avoided speaking about their limitations and mistakes. Therefore, their responses may represent an inaccurate description of their experiences and use of YM. This illustrates the necessity of reviewing participant responses from a critical perspective. However, overall, they did not appear to try to conceal anything while talking about the practices adopted in their hotels. Indeed, the respondents did not differ significantly in terms of their openness or willingness to share ideas. Therefore, their attitude improved the accuracy of this research.

3.2.5. Direct observation

The main goal of observation was to compare the room rate parity of various distribution channels. The researcher intended to examine the relations between YM practices and room rate parity in various hotels, which was deemed best accomplished through direct observation. At first, the researcher focused on the most popular third-party websites used by people travelling to Saudi Arabia. Direct distribution channels associated with the particular hotels were also accessed, including hotels' websites and central reservation systems. The third-party websites were Agoda.com and Booking.com, which were chosen based on a small, one-question survey, which was distributed to 400 users of those websites. The questionnaire was distributed to 400 participants in the three regions of Saudi Arabia, namely Riyadh, Eastern Province and Mecca. 50 per cent of the questionnaires filled in King Khaled internal Airport in Riyadh and the rest distributed in Mecca and the Eastern province evenly. In Mecca and Eastern province, questionnaires were filled near the Mosque and in hotels by travellers respectively.

The result was that 48 per cent of travellers to or in Saudi Arabia preferred to book their rooms through Booking.com as compared to Agoda.com (35 per cent). The remainder of the participants (17 per cent) preferred other websites, such as Expedia. It was necessary to look at room rates for a specific room in each hotel. Observations were made during the period between 13 December and 17 January. This interval was chosen because, during this time, there were no important events in Saudi Arabia that could have affected the behaviour of tourists. Thus, on Thursday 13 December, the room rates were checked for the first four Thursdays (13, 20 and 27 December and 3 January). In the second week, on 20 December, the rates for that day and the next three Thursdays were checked (20, 27 December and 3, 10 January). The process was repeated on 27 December (rates checked for 27 December, 3, 10 and 17 January). Thursday was chosen because it is part of the weekend in Saudi Arabia. The main reason of making the weekend on Thursday and Friday is Friday prayers where all Muslims go to perform the prayer on the afternoon of Friday.

Overall, the use of observation as a method was of great use because in this way the examiner was able to collect data on the room rate parity in various hotels as conveyed through direct and indirect distribution channels.

3.2.6. Documentation

The textual analysis of documents can be successfully incorporated into qualitative studies (Buchanan & Bryman, 2009, p. 202). Very often official documentation that describes the practices of companies can illuminate issues not mentioned during the interviews (Buchanan & Bryman, 2009, p. 202). Many business administrators are reluctant to provide relevant documents, in part because they are afraid of disclosing confidential information. The researcher had to address this issue before the start of the interview.

To this end, the researcher made a request for documents to be provided at the end of the interview guide, which was sent to hotel managers to allow them to prepare for the interviews. In particular, he wanted to investigate work descriptions, loyalty programmes, market surveys, annual reports, training schedules and other relevant documents, such as information about YM software. Unfortunately, the policies of many hotels did not permit outsiders access to confidential data, especially if it was closely related to their internal operations. However, some of them did allow the researcher to examine their annual reports, and these data were of great value to this study.

While studying these documents, it was important to recall the peculiarity of reporting standards in many hotels that sees the information that hotels provide to external stakeholders often giving a slightly idealised description of the organisations. In contrast, the internal documents gave a more objective assessment of these hotels and their performance. Overall, textual analysis did help to improve the quality of the study, but its benefits could have been greater if more hotels had allowed access to their internal data.

3.2.7. Analysis

Analysis is probably the most important part of any qualitative study. It is aimed at identifying common patterns, themes or responses within the collected data (Grinnell & Unrau, 2011, p. 448). In this way, a scholar can draw relevant conclusions and find answers to the questions set at the very beginning. The analysis of information was particularly challenging for this study because nine of the interviewees did not agree to be recorded. However, all these participants' answers were written down during the interview, and all answers were repeated back to participants to ensure the accuracy of the information. Another complicating factor was that most of the revenue and general managers preferred to speak Arabic due to their lack of fluency in English. Therefore, it was necessary to translate the transcripts and other data from Arabic to English, while ensuring that the managers' meanings were retained.

When analysing data, the coding approach helped to identify the common categories and themes. This procedure was essential for identifying the most common ideas that the respondents expressed. Additionally, thematic analysis was relied upon to single out some of the main issues raised by respondents during the conversations.

3.3. Ethics

The activities of researchers can profoundly influence a great number of stakeholders, especially respondents and the organisations that they represent (Chorlian, 2008, p. 25). It is therefore critical to ensure that the rights of every participant are well-protected (Chorlian, 2008, p. 25) through a sound ethics process. In this study, issues such as participant anonymity, the protection of confidential information and the accuracy of the findings derived in the course of the study were very important. Particularly when doing business research (Chorlian, 2008, p. 25), care must be taken not to harm the professionals or companies participating in the study.

This study was reviewed and approved by the Faculty Human Research Ethics Committee. Informed consent was gained by giving the interviewees an information sheet prior to the commencement of the study, informing them about the objectives of the research and the main points to be covered. Consent forms were then signed by participants, without coercion. Additionally, respondents were allowed to review any notes taken during the course of their interviews and remove those sections that they did not want mentioned in the study. This is important for empirical studies because participants should give their informed consent to a researcher (Klenke, 2008, p. 50).

To maintain the participant's anonymity, pseudonyms were also assigned to each of the hotel managers to ensure their anonymity. To protect the participants' private data, the results of my textual analysis were not accessible by any third party. Electronic data were stored in a secure folder, not available to other people. My main goal was not to disclose any information that could harm the reputation of the hotels or the career of managers.

3.3.1. Validity and reliability (trustworthiness and dependability).

Validity and reliability must be of concern for any researcher in designing their study and analysing the results. Specifically, attention should be paid to the application of the research methods and the interpretation of the data. The concept of reliability means that the results of the research can be replicated if the same study is carried out (Rubin & Babbie, 2009, p. 88). Qualitative studies also have to meet certain reliability standards, whereby other scholars interviewing the same hotel managers might receive similar responses (Rubin & Babbie, 2009, p. 88). Overall, business researchers adopt several strategies to increase the reliability of their studies; for instance, they prefer to conduct follow-up interviews during which they ask similar questions. They might also look at the answers provided by the subjects and compare their new findings to the initial ones.

Unfortunately, these precautions could not be taken during this study because many of the hotel managers were not able to participate in the follow-up interviews because of their tight schedule. Further, other researchers might not achieve the same results while analysing the data, due to the potential to take a different approach when analysing the answers of respondents. However, some measures were taken to increase the reliability of findings. For example, a tape recorder was used to record the verbatim answers of hotel managers. This strategy is very helpful because in many cases the responses of interviewees can be distorted (Smart, 2008). Later, this strategy helped to examine the answers of hotel managers in more detail, even though nine of the interviewees did not agree to be recorded. However, all these participants' answers were written during the interview and all of their answers were repeated back to them to check the accuracy of the information. Further, while looking at the text of the interviews, the researcher attempted to set aside his opinions, values and views of YM.

Validity is also critical for the success of any qualitative study. Very often, validity is used to refer to the soundness of the evidence and conclusions that the researcher provides (Polit & Beck, 2009, p. 106). Validity implies that the research questions set by a researcher can prompt respondents to give relevant answers (Goodwin, 2009, p. 132). This concept is equally relevant to both quantitative and qualitative studies. Scholars take different precautions in an effort to increase the validity of their methods. This research used triangulation, which is when the researcher collects data from multiple sources or using a combination of different research methods (Bross, 2008, p. 101). In this case, interviews, direct observation and textual analysis were used to increase the validity.

Additionally, close attention was paid to the selection of the interviewees, who were selected based on their occupying leading positions in their hotels because it was assumed that they would be aware of the various challenges that their organisations face and know how YM is applied in their business to maximise revenue and occupancy.

3.4. Chapter Summary

This chapter describes the research methods used and the way in which the data were evaluated and analysed. This research used semi-structured interview, textual analysis and direct observation as its main data collection techniques, as part of a qualitative exploratory research method. These techniques were important for the reliability and validity of the study. Further, several steps were taken to protect the confidential data and anonymity of the participants.

Chapter 4: Results and Findings

4.1. Introduction

The implementation of research results fundamentally relies on the conclusions that can be derived from the results. The findings may assist hoteliers to understand, develop and adopt YM strategies in order to prosper in their day-to-day work situations. Thus, this section describes the data collected within Saudi Arabia in the research of YM use. The presentation of the findings will include a strategic description of the location, occupancy, pricing strategies, price-adjustment strategies, human resources, customer management and third-party websites. These areas will assist in illustrating the perceptions and practices of YM techniques.

The data were collected from 20 Saudi Arabian hotels in Riyadh, Mecca and the Eastern Province in the form of interviews, documents and direct observations. The research considered a variety of hotel sizes ranging from small, private hotels to large, operational hotels at the national and international levels. In addition, some hotels are part of organisations that have hotels located and operated in other countries. The target markets of hotels in Riyadh and the Eastern Province hotels are business guests during the weekdays and leisure guests on the weekend (Thursday and Friday). In contrast, hotels in Mecca primarily host leisure guests.

Most of the interview participants possessed at least some knowledge of YM. For instance, eight were fully educated in universities where they took courses on YM while nine had attended training courses and read articles about YM. Three participants who did not have these qualities had gained sufficient experience by working in international hotels such as the Hilton. In addition, a high proportion of the participants were not citizens of Saudi Arabia; in fact, 50 per cent of the participants were from Egypt. All five-star hotels use YM software, whereas hotels of other levels do not use YM computer programs. Additionally, most of the hotels employ revenue managers in their revenue management department or reservations department.

This research gathered information regarding the readiness to exploit the available opportunities in the local area of each hotel. The responses obtained from the participants represent distinct strategic actions. Most hotels relied on advertisements as their key source of information. News proved to be the most common way of advertising. The providers of the services included media stations, newspapers, magazines and websites. Some hotels gathered information about their competitors in the market; participants stated that they contacted other hotels to enquire about upcoming events. In addition, hotels stay updated by conducting market research using questionnaires or other strategies. Experience is the other outrageous and unexceptional strategy that was pointed out by the participants. The managers have adequate experience in their location of work. Therefore, they are able to determine the market patterns of the area and probably hold meetings to establish new events through discussion and information sharing. Lastly, statistics could act as a way of dictating proceedings. For instance, the trend of the previous years could provide an estimate for expectations in the current year. In addition, some hotels subscribe to other companies for statistical information regarding demand and room prices.

4.2. Location

Researchers identified that the central location of hotels and easy accessibility facilitates high pricing (Egan & Nield, 2000; Weaver, 1993; Taylor, 1995; Bateman & Ashworth, 1981). The data collected in this research imply that hotels located in the city centre and near tourist attractions charged higher prices for their services. This postulation is further supported by the findings that hotels located in the city centre had higher occupancy rates and higher revenue. One revenue manager stated that 'location is a very sensitive and important aspect in pricing the room. We are located on the main street in Riyadh. It is also near the airport and in the city centre, which have a significant role in the occupancy process and the revenue' (participant #2). In contrast, some hotels that are located further away from the city centre have low occupancy rates and request support from hotels within the city centre. A general manager pointed out that '… the hotels located far from the city centres have a lower occupancy as they usually ask us to send customers to them and they shall pay commission to us' (participant #9). Consequently, they sign contracts with other hotels and companies to receive assistance to improve occupancy rates.

Riyadh's city centre is the location of many government institutions, private sectors and commercial sectors. Therefore, businesspeople and other guests within the country prefer using these hotels because they are close to their centre of operations. Why are prices higher towards the town centre? A manager from a four-star hotel in Riyadh pointed out that 'it will meet the desire of businessmen for time saving, especially as movement inside Riyadh usually take a great deal of time due to its size and crowded traffic' (participant #1).

The findings of this research provide evidence regarding the high prices in the city centre. Hotels in Riyadh's city centre are able to improve their revenue due to the demand for rooms. Participants showed that their main targets are businesspeople from governmental institutions. Participants who work in Mecca hotels presented a clear picture that they rely on the Holy Shrine. One manager stated that 'we are in front of the most important building for Muslims which affects room pricing' (participant #19). He stated that rooms that overlook the mosque also save effort for older guests, as they can perform holy rites inside their rooms. Hotels located close to the holy shrine have high prices, segmented rooms and high occupancy rates. In contrast, hotels that are located further away have difficulty increasing their room rates. This is supported by a participant who stated that '… location has unhelpfully affected room pricing. This is due to about 5 km distance from the Holy Mosque, though we offer best services and lower prices by 40 per cent compared with other competitors' hotels close to the mosque' (participant #20).

However, this manager pointed out that there are two solutions to this problem. First, the hotel has a skilled sales team '… This team could book all hotel rooms for six months for the Iranian community and 15 days for the Jordanian'. Second, the hotel provides free transportation. Therefore, if a hotel is located centrally, it will be in high demand and establish a competitive foundation. Initially, we were able to establish that hotels built far from the city centre or tourist attractions survive low occupancy and room rates. One manager stated that 'there are hotels which offer better services than the kind of services offered by hotels in the city centre, but their occupancy and room rates are less' (participant #1). This problem depicts the roles of hotel management in finding sophisticated solutions that would help them maximise revenue. Possible solutions to maximise their revenue include adopting a skilled sales team, lowering prices, providing transportation, differentiating their services and providing offers. A general manager who works in the Eastern Province noted that 'The location has negatively affected the prices … However, we were able to go beyond this problem by providing buses transporting clients to the city centre. In addition, we have future plans to attract customers through special distinguishing services' (participant #14).

This research's findings show an interest of hotels to be located near hospitals, airports, ministries, private organisations, government institutions, beaches and a holy shrine. As most of these components are found within cities, it results in higher room rates. This supports Yokeno (1968), who stated that guests are willing to pay more for greater accessibility. This shows that a hotel's success can be achieved through strategic positioning. Thus, building a hotel is a single component of profit making; to facilitate significant profits, location must be considered. A manager narrated an example to explain this: 'For example, there is a hotel nearby to one of the biggest hospitals in Riyadh with a room rate about 600 SAR, whereas another hotel located in an ordinary area in Riyadh has a room price of almost 300 SAR. Thus, a location study should be maintained before going on to construct the hotel in addition to recognition of targeted customers' (participant #7). Thus, the market segment targeted by the hotel management results in a higher room rate.

4.3. Occupancy and room rate

Occupancy rates and room rates are fundamental aspects of a hotel's revenue. Ideally, as Hayes and Ninemeier (2006) pointed out, hotel management should establish strategies to increase the occupancy rate of a hotel in a given time. The research's findings show that 19 out of 20 hotels in the study had occupancy rates of 50 per cent and over. Thus, it can be stipulated that there are control mechanisms in place to improve occupancy. One five-star hotel had an occupancy rate of 30 per cent, and the revenue manager alleged that '… the cause for occupancy percentage decrease is that the hotel has been constructed recently, and all rooms are not yet fully operating' (participant #3).

The occupancy rate of new hotels would probably increase to match established hotels. This could be possible because the rate for a standard room is higher than its competitors' rates for a standard room: 1900, 1800 and 1818 SAR respectively, even though its competitors have a better location. However, one of these competitors has a similar average daily room rate (1288 SAR compared to 1300 SAR).

The average daily room rate for all types of rooms was compared with the hotel occupancy rate. There is a correlation between the average daily room rate and occupancy because the sig. (2-tailed) value is less than .05. Further, there is a relationship between the average daily room rating and the rack rate, as the sig. (2-tailed) value is less than .05. There is a strong correlation of 0.8413 between the rack rate and the average daily room rate. Only one hotel showed a significant difference between these two factors. In this case, the room rate is set at 1100 SAR, while the rack rate is 3200 SAR. The other hotels depicted an increment ranging from 40 SAR to 600 SAR.

Ellerbrock, Hitet and Wellst (1984) identified magazine advertising as having the most favourable effect on occupancy rates, while interstate highways' billboards and radio advertisements have the least favourable effects. However, hotel management continue to devise other strategies to reach customers. One manager indicated that ‘There are several points which can help raise the occupancy rate and revenue: advertising through television, newspapers or websites …’ (participant #8). Although many hotels do not use magazine advertising, they have the same occupancy rates as those that use magazines when advertising.

Shoemaker (2003) identified that customers develop negative perceptions of hotels where YM is used inappropriately in relation to providing services. However, seven hotels persist in using similar techniques including minimum length of stay or closed to arrival to increase their profits. Ninety per cent of Mecca hotels applied these strategies due to Hajj and Umrah, where the demand is very high. For instance, a manager stated that ‘there are some factors that would help in raising occupancy and revenue percentages … Apply restricted residence strategy for 3–4 days during seasonal times’ (participant #14). Moreover, a revenue manager stated that the hotel implements strategies such as length of stay with stimulation. For example, ‘from 20th to 27th in Ramadan (Islamic calendar), the occupancy rate reaches 100 per cent, while from days 27th to 30th the rate is about 60 per cent. Therefore, we make special offers for visitors who book the last 10 nights of this month, such as free night and breakfasts for the 10 days’ (participant #16). A hotel that was in high demand in the Eastern Province applied the strategy of closure to arrivals (participant #13).

Noone and Colleagues (2003) reiterated that the revenue obtainable from a single transaction is maximised by guests’ length of stay, as well as the strategy of closure to arrivals. However, in managing demand, they do not emphasise varying the lifetime value of a guest. In addition, they do not provide a way forward on maximising profits in the long term. All managers stressed the importance of long-term contracts, which leads to a dramatic increase in room revenue. A revenue manager recruited in a four-star hotel in Mecca declared that the sales team ‘could book all hotel rooms for six months for the Iranian community and 15 days for the Jordanian’ (participant #20). This strategy is better than the length-of-stay strategy, which can assist hotel management to maximise room revenues in the long term.

RevPAR, which measures the financial performance of a hotel, identifies whether a hotel maximises total room revenue (Gurbuz, 2011). Investigating the variation of financial performance uses the average daily room rate and the occupancy rate. Participants described their improvements or depreciation of the room rating by dictating the factors that lead to their success. Pricing, supply stability, demand, advertisement, segmentation, overbooking and offers appear to be the most influential factors towards the increment of room rates. For instance, a Riyadh hotel manager quoted that:

> Rooms revenues were increased over last years for many reasons, both external reasons … And internal a) Application of the approach (YM), although we didn't fully implement it because we have no computer program related to yield management. In fact, new programs associated with yield management would help hoteliers to apply such approach, as I had been working for a big hotel which implemented a yield management program to easily determine prices and make predictions of future bookings besides providing a quantity of various other reports. b) An increased number of contracts with companies for long periods assisted in price rise' (participant #7).

Conversely, a number of reasons dictate the reduction of room rates. However, competition appears to be the largest threat to most hotels. This is clearly depicted by the statement that 'There is a reduction of revenues because of competitive power has increased extensively during last three years, increase of offers delivered by hotels …' (participant #5). Other fluctuating events that affect room ratings include political events in Arab countries, lack of maintenance and an increase in businesspeople, foreign delegations and local tourists. However, data collected for room ratings in the past three years was not fully rooted because several participants worked in new hotels.

The evaluation between the category of importance between occupancy and revenue established strong basis of considering the two in the hotels' operation. Fourteen managers were interested in manipulating both occupancy and revenue. For instance, a manager said that 'Both occupancy and revenue … When income is low, we attempt to increase the percentage of occupancy and when occupancy is high we concentrate on maximising our revenue' (participant #12). In addition, this quotation shows the divisions: 'Occupancy is more important than revenue … but when work portion increases, revenue becomes necessary' (participant #1). Two managers agreed that occupancy is more important than revenue; however, this does not apply in three five-star hotels. A five-star hotel manager stated that 'Revenue is the most important because we have a five-star hotel with high services. Therefore, the income factor is considered more essential than occupancy' (participant #13). Another revenue manager of a five-star hotel agreed with this perspective. He stated that revenue is the most important because one room sold at 400 SAR is better than two rooms sold at 200 SAR each (participant #5).

Controlling room rates and occupancy rates seems to be the most crucial strategy for hotels. Some hotels raise their revenue through rooms, coffee shops and restaurants, while others raise revenue to attain high room revenue. For example, 'When the demand exceeds the supply, the revenue will be more important than occupancy. On the other hand, the occupancy will be more important if the supply exceeds the demand' (participant #16). Finally, a Mecca hotel manager stated that 'We concentrate on (RevPAR), which focuses on revenue and occupancy at same time' (participant #17). This further stipulates that revenue and occupancy can be controlled by RevPAR to maximise revenue. This is the only participant who emphasised the importance of RevPAR to determine whether the revenue is more important than occupancy.

It is important for all managers to define their strategies of maximising occupancy rates and revenue. This research investigates the strategies considered by hotel management to increase their revenue. The research found that hotels in the study use the following strategies:

1. contracting with corporations, government institutions and travel agents for a long time
2. advertisements

3. providing varieties of rooms
4. marketing strategies
5. providing quality services and ensuring customer satisfaction
6. segmentation
7. providing offers
8. exploitation of seasons
9. using application strategy restriction; for example, by providing the minimum length of stay
10. evaluating customers
11. utilising overbooking.

Although these strategies are used to maximise revenue and occupancy, contracting with corporations, government institutions and travel agents for a long time appears to be the most basic means. All managers considered agreements in relation to maximising revenue and occupancy. One manager who considered agreements stated that looking for companies that reserve some rooms for around one year increase both revenue and occupancy: ‘For example, we have a branch in one city where almost 45 per cent of the rooms have been sold to a company, which undoubtedly raised the per cent of occupancy and revenue’ (participant #7). However, hotel management should use this strategy carefully because it might negatively affect room revenue. A revenue manager who worked in hotels in the Eastern Province indicated that ‘Revenue has noticeably decreased, although occupancy rate has increased outstandingly. Revenue percentage has declined 15 per cent due to an agreement with Saudi Airlines to rent a number of rooms with acceptable discounts offered for them’ (participant #13).

Some hotels identify the strategies of handling overbookings and cancellations. Eleven out of 20 participants (55 per cent) were interested in using the overbooking strategy. For instance, one manager stated that ‘Since there are flexible reservations during the period where the demand is high, the occupancy percentage should be over 100 per cent. The percentage that can be over 100 per cent should be tied to several factors, such as the number of flexible reservations and the cost of reservations’ (participant #13). Participant 11 declared that ‘In the high season, the occupancy rate reaches to 110 per cent due to cancellations and no-shows’. However, all participants acknowledge and fear the repercussions of overbooking, which include dissatisfied customers. A revenue manager proclaimed that implementing overbooking can be financially and administratively costly (participant #18). This respondent revealed that ‘There is also another tactic helping us to significantly maximise room revenue. As the most of Mecca visitors come by aviations, we attempt to find out their arrival times because their booked rooms may sell for guests whom flights are in the evening or midnight. So, we can charge these visitors who want to stay after checkout time three or four hours, per hour’.

Conversely, 45 per cent of respondents avoided overbooking by adopting professional software, restricting reservations in high seasons, confirming reservations after 24 hours and having emergency rooms. One manager stated that they do not adopt professional software that can predict the number of cancellations and no-shows. The overbooking strategy may enhance room revenue, but its improper use may result in problems such as increased costs and customer dissatisfaction. ‘I mean if all customers show up, we must reserve some rooms in another hotel, which may cost us more than fees collected from guests. In contrast, we attempt to restrict the reservation where traveller cannot change the date or refund fees’ (participant #6).

One revenue manager indicated that 'during seasons where occupancy percentage becomes high, confirmation won't be obtained before 24 hours until we can know the number of cancelled bookings' (participant #8). Another manager avoids overbooking, as 'hotels have a policy that two emergency rooms can't be rented out in any way … Because we have high-class customers, such as princes' (participant #1).

In relation to cancellations, all hotels prefer using penalties to discourage customers from cancelling and to cover any losses they might incur. A high proportion of hotels impose a penalty if a cancellation is made after 24 hours. A manager confirms this: '… pertaining to cancellation of booking, if demand is high, cancellation should take place within 24 hours, but if demand is low, such cancellation should be within 48 hours from arrival time' (participant #4). A manager at another hotel explained that 'the customer has the right to cancel booking within 48 hours; otherwise, a half amount of booking rate will be deducted for first night. After 24 hours, a full night will be deducted if there is no call or email' (participant #11).

4.4. Pricing strategy

The research demonstrates how room rates are set and what the foundation is for pricing strategies. Using an effective price strategy is the quickest and most reliable way that a hotelier can maximise profits and revenues (Kim, Han & Hyun, 2004; Schmidgall, 2002). Consequently, the strategies that determine price are location, competition, demand, cost, wholesale discounts and purchasing power. Ninety per cent of room rates were set based on market demand and competition. One manager said that prices are set after adopting a marketing analysis process and determining the proportion of demand and the purchasing power of customers. In addition, they take into account the room rates provided by competitors—especially those who deliver similar services and quality. Thus, they strive for the hotel room rates to be the same price as published by their rivals (participant #10). Another participant illustrated that prices are set based on the market: 'Occupied room numbers are compared with prices and both demand and supply, and through this process we can set our prices. This study is done each quarter year' (participant #16). Another participant declared that the process of room pricing must involve competition and demand. In relation to competition, the hotel liaises with a website to receive information, including the average room rates of competitive hotels and their occupancy percentages (participant #3). Conversely, two hotels located in Riyadh and the Eastern Province set their prices based on the cost plus a desired profit. One participant stated that the hotel has no fixed costs, as the building was rented annually; therefore, they must focus on costs so that the hotel management can increase profits (participant #8). Another participant attributed using the cost-plus method to the negative location of the hotel, which decreases the room rates. Consequently, the hotel management agreed with the owner to set the room rates according to variable costs plus a profit percentage (participant #14). However, the room rates ranged between four and 10 for specific types of rooms.

All participants indicated that room rates were significantly affected by the market, hotel facilities, seasons, location, unexpected events, false information and future pricing plans. Gu (1997) noted that pricing should be set based on a quadratic room-pricing model that considers operating costs as well as the dynamics of the market environment—especially when operating in a highly competitive market. Fluctuating competition and low demand are the main obstacles in pricing room. In some seasons, the occupancy rate is only 10–15 per cent, which affects the room price (participant #7).

Two revenue managers described the future pricing plan as the largest factor in setting room rates. The first manager stated that if there is an unforeseen problem in the short-term pricing process, the pricing plan for short-, mid- and long-term prices needs to be amended (participant #5). Another revenue manager pointed out the frequent change in pricing plans drawn due to unexpected events. For example, the number of visas issued has decreased due to the political problems in some Arab countries. Thus, hotels should create remediation plans, as the delay may significantly affect revenue (participant #19).

One revenue manager emphasised that false information is sometimes a key obstacle that affects room rates. For example, some travel agents promoted rumours that the Ministry of Tourism was going to stop issuing visitors with visas due to the swine flu, which contributed to reducing prices, although the Ministry had issued many visas. Therefore, it is crucial to ensure that YM knowledge is used to evaluate the performances of all hotels.

Finally, 20 per cent of participants stated that furniture is the primary obstacle in pricing rooms.

Pride and Ferrell (2011) stated that revenue managers reject models that only consider the operational costs of an organisation and ignore the economic aspects of supply and demand. Consequently, this research established the basis of this argument by investigating the hotels' follow-up policies. 14 hotels had policies that influenced, controlled and targeted future bookings. In fact, one participant said that 'there are monthly meetings regarding future bookings. Usually, booking, sales and front office mangers meet to discuss all matters concerned with future bookings' (participant #2). Conversely, other hotels have no policies in connection with future bookings—particularly two- and three-star hotels. What effect does this have on the success of these hotels? What chances do they miss? Presumably, they do not need to consider these policies because they have a small number of rooms compared to five-star hotels, which have between 200 and 700 rooms. All hotels offer between three and 14 types of rooms to facilitate diversity and meet guests' needs, and to increase revenue.

4.5. Price-adjustment Strategies

4.5.1. Discounting.

A questionnaire related to discounting was distributed to the study participants in Riyadh, the Eastern Province and Mecca. Table 4.1 illustrates the results for all participants by descending mean. The items with the highest mean indicate the percentage of times that the company undertakes the action. For example, the highest mean was 27.60 for 'Offer discounts for company that prefers to book some rooms for long'. Thus, this was the most selected option by participants. The item with the second highest mean was 'Offer discount for a room in low season', while the lowest mean was 'Offer discounts when the occupancy percentage is between 90–100 per cent'. It is important to note the way in which the mean changes as the occupancy changes from 50 per cent to 50–70 per cent, 70–90 per cent and 90–100 per cent. This indicates a direct relationship between the occupancy and the offering of discounts.

Table 4.1

Discounting in Riyadh, the Eastern Province and Mecca

	Mean (%)	Std. deviation (%)
Offer discounts for company that prefers to book some rooms for long	27.60	11.56
Offer discount for a room in low season	19.75	8.66
Offer discounts when the occupancy percentage is less than 50 per cent	17.75	10.45
Offer discount for a guest who always stays with you	13.75	9.72
Offer discount for a guest referred from another	10.25	12.82
Offer discounts for customer who wants to book five or six rooms	9.75	10.94
Offer discount for someone who wants to stay one week	6.85	7.11

Offer discounts when the occupancy percentage is between 50 and 70 per cent	5.50	8.09
Offer discount for a guest who has sometimes stays with	5.00	6.69
Offer discounts when the occupancy percentage is between 70 and 90 per cent	1.75	3.73
Offer discount for a guest who arrives after 6 pm	1.50	3.28
Offer discounts when the occupancy percentage is between 90 and 100 per cent	0.50	2.24

To investigate whether there is a significant difference in situations in which the participants offer discounts, an analysis of variance (ANOVA) was used. Only one was statistically significant at the level of $t<0.05$. ‘Offer discount for a guest who always stays with you’ (Riyadh mean = 7.78, Eastern Province mean = 16.00, Mecca mean = 20.89). As a result, the analysis indicates that for Riyadh hotels, there is a statistically significant indication that they will offer a discount to those who ‘always stay with them’.

The survey participants were asked a series of questions about their opinions on discounting. The survey used a five-point scale with (1) very important, (2) important, (3) not sure, (4) unimportant or (5) very unimportant. Table 4.2 presents the results. Note that the lower mean indicates a higher level of importance. As illustrated, items with the three lowest means were ‘Low overall occupancy’ (mean = 1.20), ‘Length of stay’ (mean = 1.20) and ‘Location’ (mean = 1.25). ANOVA was used to evaluate whether there was a difference according to the location of the hotel. The results indicate that there was no statistically significant difference.

Table 4.2

Discounting in Riyadh, the Eastern Province and Mecca

	Mean	Std. deviation
16. Low overall occupancy	1.20	0.410
19. Length of stay	1.20	0.523
23. Location	1.25	0.444
18. Seasonal demand	1.55	0.605
17. Loyal customer	1.65	0.988

15. If the number of reservations is low for the day	1.70	0.801
20. Number of rooms to be booked	1.85	0.745
13. Revenue flew	1.90	0.968
24. Age of your property	1.90	1.294
25. Discount offered by competitors	2.20	1.056
14. Marginal cost of selling the room	2.70	1.218
21. Number of people in the group	2.70	1.174
22. Not giving discount	3.10	1.119

4.5.2. Segmentation

Segmentation is a critical tool of YM to classify customers into their respective categories. This would allow business and leisure travellers to rent their favourite rooms within a hotel. In addition, it allows travel agents, corporations and government ministries to receive identical accommodation for their travellers' and employees' needs and wishes. For this reason, hoteliers must satisfy the needs of potential consumers in an effective manner (Reid & Bojonic, 2009) to maximise room revenue.

Hotels in Riyadh appear to group customers into business, geography, corporation, leisure, governmental institutions and airlines. According to Netessine and Shumsk (2002), segmentation is used when setting prices. They postulated that the discrimination of prices could maximise hotel revenue. This research affirms the postulation by gathering information regarding price dissimilarities that arise from segmentation. One manager from a four-star hotel described how segmentation influences prices in Riyadh hotels: 'the hotel has six types of rooms that vary in price from 600 Riyals to 1,400 Riyals. There are businessmen who prefer to get the most expensive room … Conversely, there are some corporations that book the cheapest rooms for a long term' (participant #1). Most hotel managers have identified this technique of price segmentation (Maxwell, 2008).

It is important to acknowledge that geographic segmentation might assist in predicting customers' behaviours. Smolyaninova (2007) identified that customers originating from one geographic region may possess similarities in attitudes and preferences. However, only one five-star hotel manager identified its necessity in segmentation. The manager articulated that the hotel segments customers based on geography because Riyadh is a capital city (participant #5). Finally, it can be concluded that all Riyadh hotels opt to concentrate on businesspeople and corporations. Further, all these hotels have agreements in place with some corporations to reserve a certain number of rooms for an entire year.

Most hotels in the Eastern Province have a distinct strategy of segmentation, except for one five-star hotel. Two hotels do not have a clear policy of segmenting their customers. For example, the hotel manager pointed out that, 'We pay attention to all customers generally and companies particularly' (participant #11). Some hotels segment their customers based on 'walk ins', E-booking, business during weekdays, leisure during weekends, groups, sports and corporations. However, similarities arise from segmentation strategies in Riyadh and the Eastern Province. The five-star hotel segments customers according to the strategies recorded under Riyadh hotels in the previous paragraph.

Segmentation depicted on all hotels from Mecca implies the reliance of individuals and groups travellers. Individuals comprise domestic and international religious visitors, whereas groups include travel agents, wholesalers and companies. A five-star international hotel manager segmented individuals into a) those who are able to pay the least price (common rooms) and b) those who are able to pay the highest price (special rooms, such as those that overlook the Holy Shrine), whereas groups were segmented into travel agents, companies and wholesalers who take a quantity of rooms and sell them to individuals. Hotel management obliges them to sell the room at the same, or a higher, rate than that published by the hotel (participant

#18). Others assume a specialised strategy involving the identification of percentage intake. For example, a revenue manager allocated 60 per cent and 40 per cent of rooms for groups and individuals respectively (participant #16). Thus, all participants highlighted the importance of corporations, government institutes, wholesalers and travel agents in assisting them to simultaneously maximise occupancy rates and revenue. Harrah Cherokee's case stipulated that customer segmentation and designations as business or leisure are not necessary. Cherokee argued that the results of customers' spending patterns create a relationship to differentiate the groups that should be pursued and focused on in terms of business resources (Metters et al., 2008).

The results show that long-term bookings are the key factor that determines the discounts that are offered. The groups that were identified to receive these discounts as a result of long-term bookings include travel agents, companies, corporations, government institutes and wholesalers. It is important to note that a longer stay results in higher revenues from selling products such as food and beverages. When a customer stays for a long period, there are expectations of continued revenue. Facilitating their length of stay by reducing the room rate increases the revenue of other hotel operations such as restaurants, coffee shops and food and beverages. The manager of a four-star hotel in Mecca affirmed this, stating that 'The biggest discount is provided for groups or communities who book rooms for long period'. He also stressed that 'it is easy to compensate the cuts through the restaurant and laundry revenues' (participant #20). A five-star hotel in the Eastern Province stated that the best discounts are preserved for 'any group which books a great number of rooms for long term, such as Saudi Airlines' (participant #13). Other hotels offer discounts for long-term bookings during the non-season periods. A four-star hotel manager from the Eastern Province pointed out that ‘Corporations which book during non-seasonal times, as this assists to maximise the hotel income’ (participant #10), receive significant discounts. Therefore, it is apparent that leisure travellers cannot receive these types of discounts. Their ultimate goals are recreation and entertainment, which require movement and reallocation (Abdelghany & Abdelghany, 2009; Yeoman, McMahon-Beattie & Sutherland, 2001). Consequently, they cannot remain fixed to one hotel to enjoy discounts.

4.6. Human Resources (HR)

HR is a basic component of all business institutions that aim to make a profit. Yeoman (1996) stipulated that YM systems cannot function without HR. Humanity is the control factor that has an ability to evaluate issues critically in all situations; for this reason, HR is a fundamental factor in maximising occupancy and revenue. In hotels, HR refers to the employees and employers who work to sell the right room to the right person.

Three branches of HR include the front office, reservations and sales employees. The successful application of YM is tied to the efficiency of these employees. Poor management in the front office leads to poor services and customer dissatisfaction. Therefore, it is not surprising when a four-star hotel manager states that ‘Front office staff are the heartbeat of the hotel’ (participant #9).

This research shows that fifteen hotels allow front office and reservations workers to make decisions regarding prices and discounting. For instance, a manager of a five-star hotel stated that ‘they are empowered to issue decisions related to prices, in addition to discounts. The most important of the hotel’s policies is to assign responsibility to its employees and let them be entitled to decide’ (participant #3). Other hotels allow employees to bargain in accordance with the customer’s willingness and segmentation. A three-star hotel manager states that 'they can select one of three rates based on guest's willingness' (participant #14). Another manager states that 'Front office staff have right to raise or decrease prices by 25 per cent of the rack rate based on the type of a customer standing before him' (participant #11). Finally, one manager stated that front office employees have the ability to choose from three prices to assign to the customer (participant #5).

Conversely, five managers do not empower their employees to participate in the price-making process. A manager of Riyadh hotels states that 'front office and reservations employees have no responsibility to modify the price. Such decisions are liable to lead to reverse results; therefore, we as an administration have the responsibility to control prices' (participant #2). Ideally, such cases may establish harsh working conditions that do not allow employees to bargain and assume favours for customers. This could lead to the loss of customers as a result of their low bargaining power. When customers feel that they have the ability to argue the room price down, they acknowledge it as a discount from the marked price. This satisfies the customer and thus maximises room yield.

The research revealed that five hotels did not involve employees in the room pricing, and three of those hotels are classified as five-star hotels. The other 15 hotels described in this research showed that they involve customers in the decision-making process. However, in one case, a manager could not make decisions for the hotel. Although other managers make decisions and accept responsibility for the outcomes, this manager is still struggling to attain this power. The manager stated that 'Unfortunately, I don't have the authority that empowers me to take some important decisions, and I should convince the general manager until I get the approval' (participant #18).

Controlling HR and providing proper working conditions is vital for goal attainment. For instance, front office, reservations and sales employees could attend different training courses regarding the proper implementation of YM. For instance, a Riyadh five-star hotel manager revealed that, regarding hotel staff development, a three-month course is provided to newly appointed employees. For example, employees assigned to YM team organisation attend courses related to YM and work-team directives. These courses are usually internally organised. External courses are provided for all staff members every six months (participant #2). Moreover, a revenue manager emphasised that applying YM is the key factor in maximising revenue. Hence, the YM team attended a one-week software course (Ideas) that helped them to correctly apply YM (participant #19). According to the document, this course was managed in Jeddah by a British team. The team periodically follows workflow to ensure the quality of the YM application. Training courses were not only confined to YM, but they also included language. The sales team's efforts have contributed to maximising the hotel's yield. The sales team travels abroad to sell hotel rooms for some Muslim communities. Thus, the hotel management has a contract with the British Institute to teach English to their employees who frequently communicate with foreigners (participant #20).

These strategies will satisfy the employees and motivate them to provide high-quality services; employee satisfaction results in customer satisfaction. A hotel manager stated that 'if our employees are happy, customers will be more than happy' (participant #2). Almost all participants implied that front office, reservations and sales employees should attend training courses. Furthermore, 15 participants implied that the front office plays a significant role in price setting. Therefore, this department requires extensive and specialised training for clerks who negotiate prices and handle enquiries (Donaghy et al., 1995). However, one participant stated that training programs are not used due to their cost (participant #12).

A four-star hotel manager said that ‘without a satisfied staff you will never get satisfied guests’. He stated that YM and field reservations, as well as front office and sales employees, influence the prices of rooms. Customer satisfaction is therefore a tool for success. To enhance satisfaction, the hotel provides incentives to workers, including offering financial rewards during festivals, supporting staff members who want to marry, providing allowances, engaging employees in decision-making processes and clarifying their labour policy (participant #18). Further, the manager stated that ‘we offer material and moral rewards. Material incentives, such as medical insurance, promotions and bonuses, and moral incentives such as issuance of gratitude certificates for employees’ (participant #12). This motivates workers into working tirelessly to achieve these rewards in order to upgrade their working class.

Other hotels are able to divide workers’ payments in accordance with their work efforts. The manager said that his hotel is the only one that provides monthly earnings to its staff. These earnings are usually distributed to all employees, but the proportion of dividends varies depending on employees’ efforts. Financial rewards are distributed to the heads of departments and their employees, such as sales management and front desk staff who achieve a certain percentage of sales (participant #19). In contrast, a two-star hotel manager indicated that the hotel offers rewards for employees every three months based on profit gained. He stressed that several hotels offer monthly bonuses and that this strategy does not reflect the actual efficiency of employees to maximise revenue due to the seasonal periods (participant #7). All hotel management provide different types of incentives, such as promotions, allowances, bonuses, updating the salary scale, medical insurance, doubling salaries during festivals, training courses, decision-making and gratitude certificates.

4.7. Customer Management

Conflicts arise when a hotel applies discriminatory prices in relation to a customer's ability to pay and when the hotel controls inventory by overbooking that takes into account the number of no-shows and cancellations (Wirtz et al., 2001). However, some customers who have YM expertise and knowledge do not negotiate the prices. One manager stated that the hotel targets a certain category of customers—businesspeople—as they usually have the potential to pay. In addition, they do not negotiate to reduce the price. Most customers are aware of YM policy, which is also seen with airline agents who offer different prices for the same flight; those who book early receive a lower price (participant #5). Three hotel managers also agreed with this point of view. However, the differences in prices should be explained. Management cannot simply raise the price for one customer and lower it for another without an explanation.

Conversely, 50 per cent of managers explained the issue of price discrimination and overbooking. A two-star hotel manager said that most customers compare room prices and the quality of services. If the price is reasonable compared to the service quality, customers will not object to the offered prices. Additionally, front office employees usually explain to customers that a room price is fixed, but that there are special offers and discounts for those who book earlier, book via the website or book in times of occupancy rates. With regards to overbooking, there are hotel chains in Riyadh, so if one hotel is overbooked, it can send customers to another branch (participant #7). Further, one manager stated that they implement various methods to boost revenue and attain customer satisfaction. For example, they advertise cheaper rooms that are non-refundable and have non-changeable times, whereas rooms with higher prices are flexible and the reservation can be cancelled 24 hours before the check-in date. In addition, they offer special prices for students, as there is an agreement between the hotel and the Ministry of High Education. Lastly, they have an overbooking policy to avoid customer dissatisfaction, although the hotel occupancy rate did not exceed 100 per cent (participant #3). The issue of price discrimination requires staff intervention because it can lead to dissatisfied customers. Further, the staff member who handles this issue must be ready for any embarrassment that could arise. A five-star hotel manager explained this by narrating that:

> … the discriminations of prices put the reception staff in embarrassing situations. For example, a front office employee encountered an embarrassing position where two international customers booked the same type of room but the first one booked it at SAR 700, whereas the second one booked it at SAR 850. The last one asked why I paid higher fees. The employee replied convincingly where he said this guest booked on 31/10/2012 and you booked on 15/11/2012. He explained to her that the hotel provides discounts for earlier bookings (participant #13).

This shows that there is a need to enlighten customers about the application of YM within hotels. For instance, if the later customer had identified that there were discounts for early bookings, he or she might have booked earlier to enjoy the discount. One manager stated that the hotel adopts a clear policy concerning price discrimination and overbooking. First, the same prices are published by the front office, reservations and on all websites. Second, earlier bookings have a lower price. Third, hotels provide different types of rooms at varied prices. Further, companies that have contracts with hotels usually receive the lowest prices. Finally, hotels adopt clear policies regarding overbooking, including booking rooms with cooperative hotels and paying transportation fees (participant #18). A general manager confirmed that they usually declare the rack rate for rooms and, during non-seasonal periods, front office staff can provide some discounts and explain to customers that the rack rate is 690 SR but during this period they can offer the standard room rate for 490 SR. Additionally, in the case of non-refundable fees, the price will decrease by 80 SR (participant #9).

A hotel that successfully applies YM would retain its customers and expand its territory due to these retentions. Gurbuz (2011) emphasised that the professional application of YM systems should involve guest satisfaction, which will result in successful financial outcomes. A five-star hotel manager described how the hotel ensures satisfaction by satisfying customers with their distinguished services. Most customers repeat their visits to the hotel due to the services offered to them, including the quality of room equipment, cleanness, food and beverages, restaurants and other services.

Further, he stressed the importance of loyalty programs offered to permanent customers (participant #2). With regard to loyalty programs, a revenue manager in Mecca hotels indicated that they offer guests a filled card with 50 points for every day. If he or she receives 500 points, his or her room will be upgraded from a standard room to a junior suite or from a junior suite to a royal suite. If he or she receives 1,000 points, he or she will be given two free nights. The cards are categorised as gold, silver and diamond and they each have different benefits (participant #17).

Similarly, according to a five-star hotel manager from Mecca, customers are treated differently according to their category. The manager stated that they divide customers into four categories. a) loyal customers, who have a special card that offers a discount and a confirmed booking, and they receive messages of congratulations in all events; b) continuous customers, who receive emails including discounts during unseasonal times and congratulations in all events; c) discontinuous customers, who receive messages of congratulations in all events; d) new customers, for whom there is nothing (participant #15).

However, only 20 per cent of Saudi Arabian hotels implement loyalty programs. These hotels were asked about the percentage of returning customers, and they observed percentages ranging from 20–30 per cent. YM should strategise to improve customer satisfaction based on the statement that 'Greater customer satisfaction leads to greater organisation of revenue' (participant #10). This implies that if hotels pay attention to customer satisfaction, it would increase profits in the long term. To attain this satisfaction, hotel employees must learn to not to argue, because 'a customer is always right' (participant #12). The consequence of customer satisfaction and retention may lead to maximising hotel revenues in the long term.

The research identified strategies that help management to determine when customers are satisfied. One of the strategies involves the use of questionnaires that allow customers to rate hotels' services. In reference to this, a manager stated that there are questionnaires in each room; every questionnaire includes the services provided, conduct of the front office staff, quality of furniture, prices and overall satisfaction (participant #1). The results of these questionnaires provide adequate information to rate the workers. A general manager emphasised that questionnaire results are analysed on weekly basis. The questionnaire mainly concentrates on prices, services and quality of food, such as breakfast and dinner. The questionnaires assist in identifying problems that exist among the staff members. For instance, if several customers complain about a certain staff member, the management must address the issue because it depicts the presence of problems when providing services. This could also be conducted by providing suggestion boxes (participant #6). Almost 80 per cent of hotels used a questionnaire to measure customer satisfaction.

4.8. The Internet

In regards to third-party websites as the centre of hotels' occupancy rates, a two-star hotel manager stated that 'Third-party websites are the main engine for the room' (participant #7). As evidence, the manager said that the websites achieved revenue of 1,150,000 SR and an approximate commission of 172,500 SR in 2012. He asserted that the value of this commission is suitable compared to the revenue generated. In addition, if this amount had been paid to a marketing company, it could not attract the same number of customers as third-party websites (participant #7).

Some researchers have indicated that hotels rely on third-party websites when selling hotel rooms (Toh, DeKay & Raven, 2011). For instance, a manager identified that the advantages of third-party websites outweigh the disadvantages. Advantages include: a) payment of a room's commission is about 15 per cent from sales, which is considered a minor portion compared with advertisements via other media channels; b) third-party websites can appreciably increase the occupancy rate; c) hotel management can make decisions associated with prices (participant #4). However, the manager also identified some disadvantages: a) increased competition, as some hotels have price reductions imposed on them to match other hotels that offer equivalent services; b) some websites stipulate that room prices displayed in the front office should be higher than those on a website (participant #4).

When asked whether online travel agents negatively affect them and their decisions, all participants answered 'NO'. Further, all managers emphasised that these websites have increased both occupancy rates and revenue. However, One manager warned of the danger of these websites in the future, stating that they will negatively affect hotel marketing due to the expectations of a rise in the number of rooms in the market, which will lead to fierce competition (participant #8).

All hotels pay a 15 per cent commission to Booking.com and Agoda.com, except for one hotel, which pays a 20 per cent commission for Booking.com. The revenue manager justifies this increase because the hotel receives special privileges, such as having the hotel displayed on the first page and paying the commission in 45 days rather than 30 (participant #16).

In the matter of overbookings, the respondents at fourteen hotels highlighted that if there is an increase in reservations, they block all distribution channels and focus on individuals rather than groups, as well as ‘walk ins’ rather than other travellers. One manager highlighted that ‘In the seasons where occupancy rate reaches 80 per cent, we sometimes stop all sales channels and we only focus on ‘walk in’ to increase revenue’ (participant #11). One respondent stated that they apply a strict policy regarding overbookings: ‘We stop receiving groups when occupancy per cent gets to 75 per cent and we try to sell 40 per cent for individuals because we have many rooms; so, we should take into account that there are cancellations and no-shows by 15 per cent’ (participant #15). In contrast, a Mecca hotel manager mentioned that if reservation rates increased, prices are increased to maximise room revenue and ‘we should continue showing rooms via all channels to attain highest occupancy as well’ (participant #19).

Regarding the development of hotel websites, some hotels have policies while others do not. According to a five-star hotel manager, the hotel has a website to show rooms. The hotel management made some developments on its site and tried to change customers' view towards the hotel's websites which was complicated when dealing with bookings. As a result, some customers decided to book through other websites that could secure their reservations process. Therefore, the hotel made an agreement with a company to develop the website and use the best tools to enable a customer to make a booking and receive confirmation. The reservations department gets in touch with a customer immediately after the booking is made to reconfirm the reservation and express gratitude for using the website (participant #4). A revenue manager pointed out that 'bookings made through the hotel's website were 56 per cent and those via other websites were 54 per cent' (participant #16).

Unfortunately, 20 per cent of hotels have not managed to create a website to broadcast their activities. One five-star hotel manager justifies this by stating that 'Customers seldom look for the hotel's websites, as most travellers are businessmen who navigate through websites which provide a wide series of hotels with varied prices. In my opinion, the hotel's website is not very important' (participant #2). For instance, a hotel that was new did not have a website at the time. The hotel management will probably consider implementing a website in the future. The manager involved stated that, 'Unfortunately, there is no website for the hotel at this time' (participant #1).

4.9. The Result of Direct Observation

4.9.1. Introduction.

Direct observation is used to evaluate the parity of room rates under various distribution channels. Gazzoli, Kim and Palakurthi (2003) evaluated rate disparities in different hotel channels and showed that they influenced consumers' perceptions, triggering the use of several search engines and shop bots to find fair prices. They identified that the use of direct observation could be the best strategy to accomplish the task. The initial focus was on the most popular third-party websites, which were regarded as Booking.com and Agoda.com. These websites were used significantly for travelling to Saudi Arabia. In addition, the researcher studied direct distribution channels related to a particular hotel. It is possible for an individual to distinguish between hotel websites and central reservation systems among the direct channels.

This research observed the trends in Riyadh, the Eastern Province and Mecca. The researcher found it necessary to assess the room rates for particular rooms in each hotel in the study. Consequently, the observation started on 13 December and commenced on 17 January, as there were no distracting events during this period. The behaviours of tourists were not affected by events that could cause abnormal deviations. During the first week of the study, the researcher checked the room rates for the first four consecutive Thursdays (13, 20 and 27 December and 3 January). When the second week started on 20 December, the researcher identified the rates for the first four Thursdays (20 and 27 December, and 3 and 10 January). During the third week (27 December), room rates for the first four Thursdays were observed. Thursday was used as the best day for the research because the researcher identified that people would be free on a weekend (Thursday is part of the weekend in Saudi Arabia). Using this strategy, the researcher was able to assess the room rate parity in various hotels among direct and indirect distribution channels.

4.9.2. Rate parity.

After conducting this research, the researcher observed rate parity among 55 per cent of the hotels studied and two third-party websites (Booking.com and Agoda.com) in the first week of the observation. For example, hotel #2 offered its room at 1,655 SAR in all channels and on all days observed in the first week. Hence, it can be concluded that the prices among direct and indirect channels are equal. Toh et al. (2011) observed that distribution channels should provide similar ratings in order to prevent differences in room rates according to the channels.

Table 4.3

First week												
	Today Day (SAR) 13 December2012			**Seven days advance (SAR)**			**14 days advance (SAR)**			**21 days advance (SAR)**		
No.	Hotel (website or call centre)	Booking. com	Agoda. com	Hotel	Booking	Agoda	Hotel	Booking	Agoda	Hotel	Booking	Agoda
1	600	700	700	600	700	700	600	700	700	600	700	700
2	1655	1655	1655	1655	1655	1655	1655	1655	1655	1655	1655	1655
3	1400	1400	1400	1300	1600	1600	1300	1600	1600	1300	1600	1600
4	700	500	500	700	480	500	700	500	500	700	500	500
5	1255	1255	1255	1255	1255	1255	1255	1255	1255	1255	1255	1255
6	460	462	462	460	462	462	460	462	462	460	462	462
7	260	260	260	260	260	260	260	260	260	260	280	240
8	500	555	550	400	400	400	400	400	400	500	555	505
9	491	491	491	491	491	491	491	491	491	491	491	491
10	575	500	500	575	500	500	575	500	500	575	500	570
11	700	800	800	700	800	800	700	800	800	1000	0	0
12	350	325	325	350	325	325	350	325	325	450	375	375
13	800	855	855	800	855	855	800	855	855	745	855	855
14	200	200	200	200	200	200	200	200	200	200	200	200
15	4500	4500	4000	4500	4500	4500	4500	4500	4500	4500	4500	4500
16	1075	1075	1075	1050	1050	1050	1000	1000	1000	850	850	850
17	1500	1500	1500	0	0	0	0	0	0	1466	1475	1475
18	380	400	400	380	400	400	380	400	400	380	400	400
19	10000	10000	10000	10000	10000	10000	10000	10000	10000	8900	8900	8900
20	200	220	220	200	220	220	200	220	220	200	200	200

Notes: 0 means there are no available rooms

According to Gazzoli et al. (2003), the departments that handle revenue management are responsible for facilitating rate parity to depict the prevalence of integrity. However, 45 per cent of the hotels show that there is no channel parity. Three hotels offered their rooms through direct channels at higher prices compared to the rooms offered by Booking.com and Agoda.com for all four days. For example, hotel #10 depicts that its rooms were offered at 575 SAR in the direct hotel channel, whereas Booking.com and Agoda.com presented the same room at 500 SAR on 13 December, seven days advance and 14 days advance. In contrast, six hotels' rates were lower than third-party websites, and the data for one of these hotels represented a situation where Booking preceded the hotel's direct channels and Agoda. Hotel #6 offered its room at 460 SAR and 462 SAR via its direct channel and indirect channels respectively. It can be clearly seen that the hotel's aim is to offer the lowest price through its direct channel, as the difference between the direct and indirect channels is only 2 SAR.

Two hotels were used as examples to display the different charges for the period imposed by the hotel's direct channel as well as the two third-party websites. Figure 4.1 shows the presence of rate parity for seven and 14-day advancements among the direct and indirect channels. In contrast, the rates of third-party websites such as Booking.com and Agonda.com were higher than the hotel's website on that day and 21 days in advance. Further, the room rate displayed by Booking.com exceeded the prices displayed by the hotel direct channel and Agoda.com.

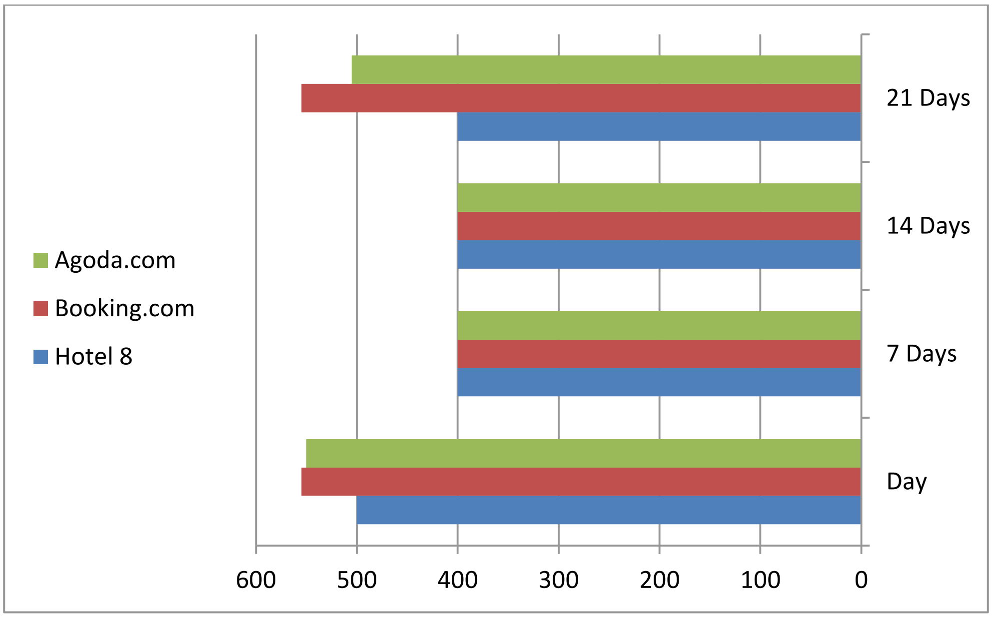


Figure 4.1 Hotel #8's rate parity among direct and indirect channels

Conversely, Figure 2 shows the lack of parity between the direct and indirect channels because hotel #4 had higher prices than those offered by Booking and Agoda on the four days. However, there was rate parity among third-party websites on all days except seven-days advance, in which Booking.com offered the lowest price, and the room rate was different in all channels.

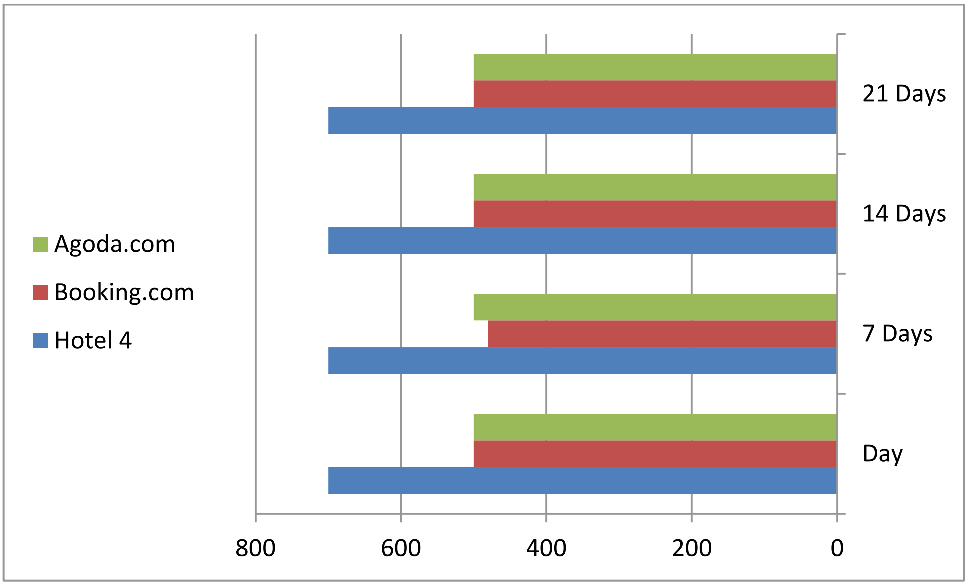


Figure 4.2 Hotel #4's rate parity among direct and indirect channels

Table 2 shows almost no rate parity among the hotel's direct and indirect channels in the second week, including Booking.com and Agoda.com. twelve out of 20 hotels presented different rates in all of the observed channels. Three out of 12 hotels published higher room rates on their websites and in call centres compared to Booking.com and Agoda.com. In contrast, about 60 per cent of the hotels that showed no rate parity among all channels demonstrated that the room prices offered via direct channels exceeded the hotels' rates for the same rooms. Conversely, 40 per cent of all hotels were able to control the room rate through all channels. For example, for all four days, hotel #9's room rate was stable at 491 SAR in all channels. Additionally, hotel #15 had the same rate structure across all distribution channels 14 and 21 days in advance, whereas on 20 December, the hotel was fully booked. For seven days in advance, the room chosen for observation was not available across all hotels' channels.

Table 4.4

Second week												
	Today 20 December 2012 (SAR)			Seven days advance (SAR)			14 days advance (SAR)			21 days advance (SAR)		
	Hotel	Booking	Agoda	Hotel	Booking	Agoda	Hotel	Booking	Agoda	Hotel	Booking	Agoda
1	700	700	700	700	700	700	700	700	700	700	700	700
2	1655	1655	1655	1655	1655	1655	1655	1655	1655	1655	1655	0
3	1300	1300	1300	1300	1300	1300	1300	1300	1300	1300	1300	1300
4	600	500	500	600	500	500	600	500	500	600	550	500
5	1255	1255	1255	1255	1255	1255	1255	1255	1255	1255	1255	1255
6	460	462	462	460	462	462	450	450	462	450	462	462
7	260	260	260	260	260	260	260	300	300	260	300	300
8	400	400	400	400	400	400	500	550	555	500	550	555
9	491	491	491	491	491	491	491	491	491	491	491	491
10	550	500	500	550	500	500	550	500	500	550	500	500
11	700	800	800	700	800	800	700	0	0	700	0	0
12	400	499	499	450	499	499	450	499	499	450	499	499
13	745	850	828	745	850	800	745	850	800	745	850	800
14	0	0	0	200	200	200	200	200	200	200	200	200
15	1	0	0	1	0	0	4500	4500	4500	4500	4500	4500
16	0	0	0	0	0	0	1	1	1	900	900	900
17	1308	0	0	1308	0	0	1361	1625	1625	1272	1445	1445
18	380	0	0	380	400	400	380	0	0	380	0	0
19	0	0	0	10000	0	0	1	0	1	1	0	0
20	220	220	220	220	220	220	200	200	200	200	200	200

Notes: 0 means there are no available rooms; 1 means there are different types of rooms offered except for the room chosen to be observed

Two hotels were used as examples to display two different cases of change across all channels. Figure 4.3 shows the presence of rate parity for all advancements across indirect channels. In return, there is an obvious absence of fair prices on all four days through all channels, as the hotel’s published rate of 550 SAR exceeded the room rates published by Booking.com (500 SAR) and Agoda.com (500 SAR). Lockyer (2007) emphasised that indirect distribution channels affect the decisions of revenue managers, as their aim is to disseminate special offers.

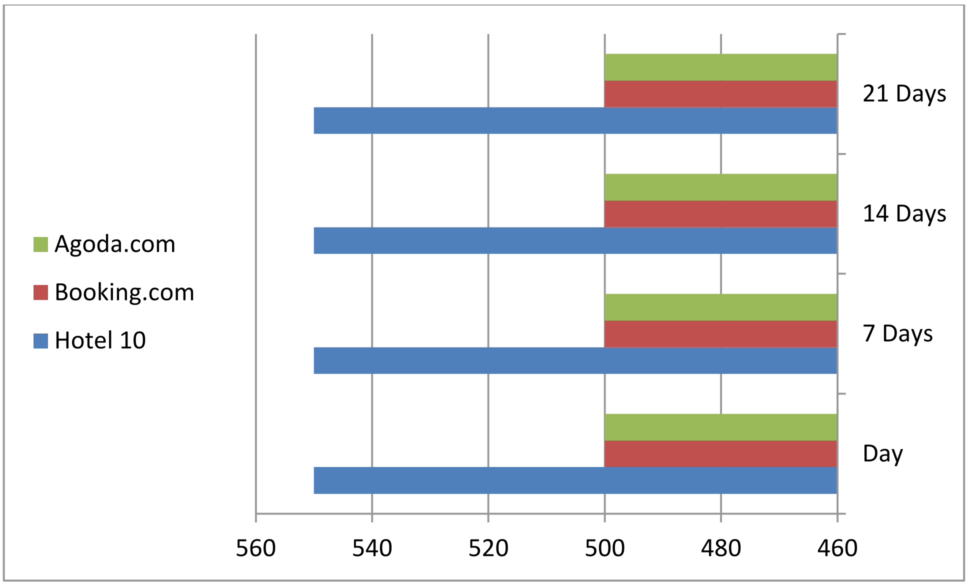


Figure 4.3

Similarly, Figure 4.4 provides a clear picture of price fluctuations across all distribution channels. Further, there was no rate parity among indirect channels involving Booking and Agoda. It can be clearly seen that indirect channels offered the same room at higher rates compared to the hotel's direct channel (i.e. its website or call centre) on all four days. Further, Booking exceeded both Agoda and the hotel's pricing on all days at 850, 800 and 745 SAR respectively. Additionally, the hotel's direct channel recorded the lowest price compared to other distribution channels during periods observed in the second week. It can be concluded that the revenue manager of this hotel is not interested in price equality across all distribution channels. Gazzoli et al. (2003) stressed the importance of enhancing rate parity for integrity.

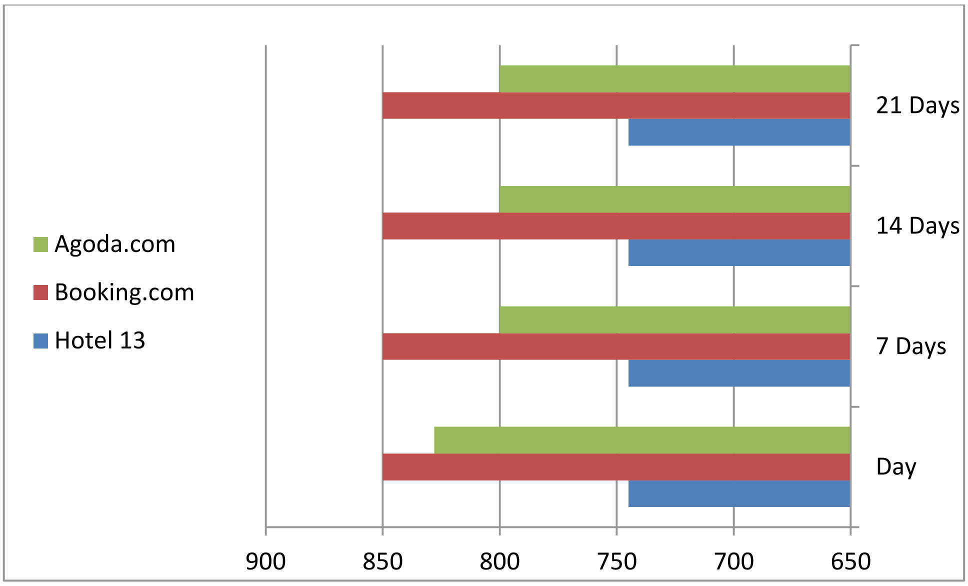


Figure 4.4

The third week of observations recorded the best rate parity compared to the first two weeks. Seventy per cent of hotels were keen to offer rooms at the same price through all distribution channels. One hotel closed both indirect distribution channels and preferred to sell its rooms via direct channels. However, 25 per cent of all hotels illustrated different rate charged in almost four days observed. Nevertheless, there was rate parity among Booking and Agoda on all four days. Three hotels' prices exceeded Booking and Agoda prices on all days except 21-days advance, where the hotel preferred to dispense with selling rooms via third-party websites. In contrast, 10 per cent of all hotels set their prices lower than Booking and Agoda. Thus, it can be concluded that most hotels worked to reduce the price differences across multiple distribution channels.

Table 4.5

Third week												
	Today 27 December 2012 (SAR)			**Seven-days advance (SAR)**			**14 days advance (SAR)**			**21 days advance (SAR)**		
	Hotel	Booking	Agoda	Hotel	Booking	Agoda	Hotel	Booking	Agoda	Hotel	Booking	Agoda
1	700	700	700	700	700	700	700	700	700	700	700	700
2	1655	1655	1655	1655	1655	1655	1655	1655	0	1655	1655	0
3	1300	1300	1300	1300	1300	1300	1300	1300	1300	1400	1400	1400
4	600	550	550	600	550	550	600	550	550	600	550	550
5	1	1255	1255	1255	1255	1255	1255	1255	1255	1330	1330	1330
6	460	462	462	460	0	462	460	0	462	460	0	462
7	0	260	260	300	300	300	300	300	300	300	300	300
8	400	400	400	400	550	550	400	550	550	500	550	550
9	491	491	491	491	491	491	491	491	491	491	491	491
10	600	500	500	600	500	500	600	500	500	600	500	500
11	800	800	800	1000	0	0	1000	0	0	1000	0	0
12	450	325	325	450	325	325	450	325	325	500	0	0
13	745	855	855	745	855	855	745	855	855	745	855	855
14	200	200	200	200	200	200	200	200	200	200	200	200
15	1	0	0	1	4500	4500	1	4500	4500	1	4500	4500
16	0	0	0	1000	1000	1000	1	1050	1050	1150	1150	1150
17	0	0	0	1725	1725	1725	1725	1725	1725	0	0	0
18	400	0	0	500	0	0	500	0	0	500	0	0
19	0	0	0	1	10000	10000	1	8900	8900	1	8900	8900
20	220	220	220	200	200	200	200	200	200	300	300	300

Notes: 0 means there are no available rooms; 1 means there are different types of rooms offered except for the room chosen to be observed

In the third week, the researcher selected two hotels to show how room rates were dissimilar across hotels' channels and third-party websites. The first hotel offered its room at 600 SAR, whereas Booking and Agoda presented the same room at 500 SAR on all four days. Although the room rate was different between direct and indirect channels, the room was published at the same rate among the indirect channels. Conversely, hotel #13 shows that the revenue manager desired to sell hotel rooms at 745 SAR by its channel, whereas the same room was offered at 855 SAR by both Booking and Agoda on all four days.

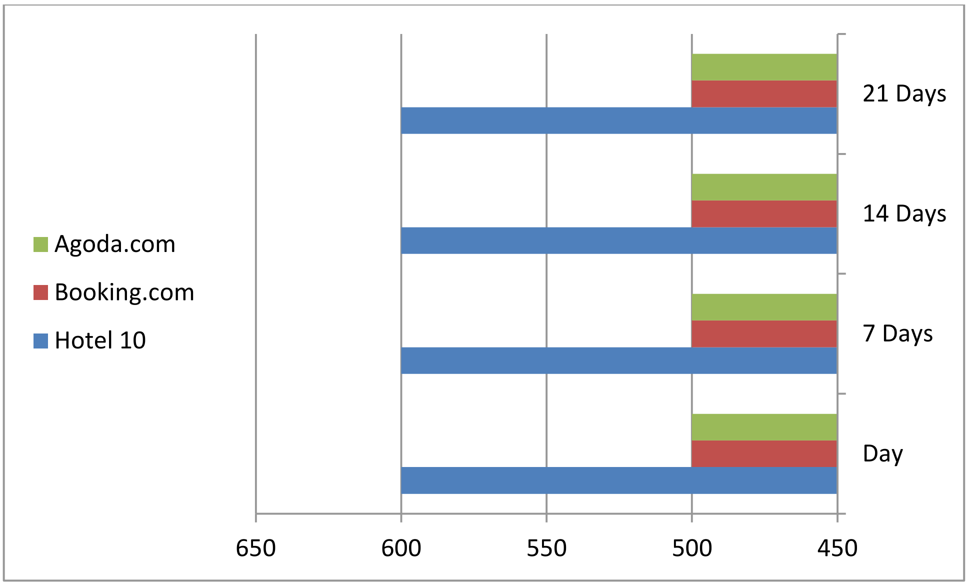


Figure 4.5

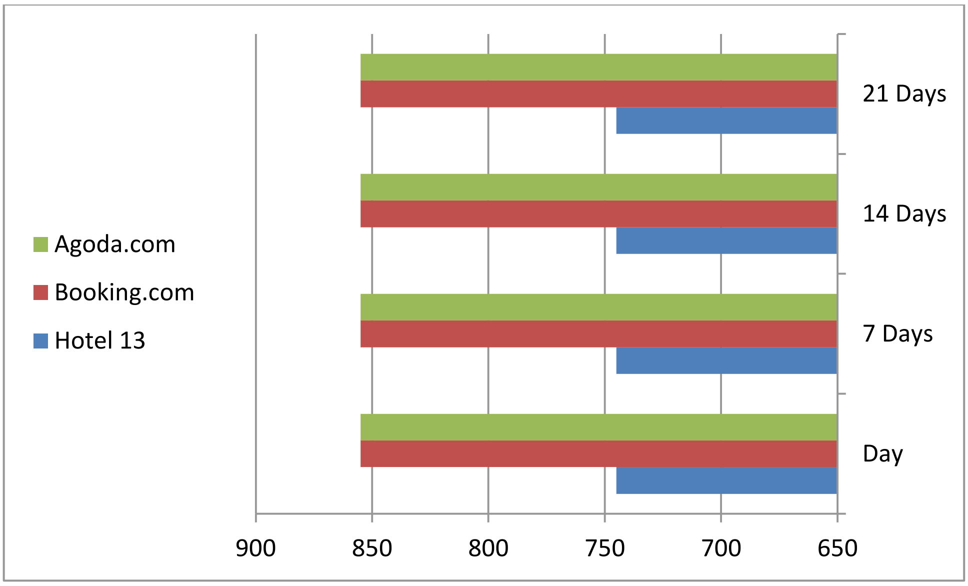


Figure 4.6

Finally, in the first week of the observation, 55 per cent of all hotels were able to control the room rate across all channels. In contrast, the second week illustrates that there is a weakness in price control, where more than 10 hotels' prices were not fixed among all distribution channels. However, the last week recorded the best rate parity through multiple distribution channels, namely hotels' websites or call centres, Booking and Agoda. It was concluded that general managers and revenue managers who work in hotels #2, #5, #9 and #20 endeavoured to publish the same rate structure for a hotel through all of their distribution channels in all three weeks. In contrast, hotels #4, #10, #12 and #13 offered rooms at different rates across channels in all three weeks. Finally, the rest of the hotels offered rooms at different prices on some days in the observation period, and they were offered rooms at the same prices on other days.

Chapter 5: Discussion

5.1. Introduction

This research targets the use of YM in Saudi hotels. Consequently, this chapter discusses the results obtained from researching Saudi Arabian hotels. The arguments will critique the earlier findings of other researchers to establish a firm foundation and reasoning in relation to current hotel services. This chapter has been divided into: Section 5.1, location; Section 5.2, occupancy and room rate; Section 5.3, pricing strategy; Section 5.4, price adjustment; Section 5.5, human resource; Section 5.6, customer management; Section 5.7 third party websites; Section 5.8, chapter summary.

5.2. Location

Kotler (1999) observed that location has direct effects on hotel premiums. Riyadh and Eastern Province hotels located within the city centre have an advantage of charging high prices for their services. This supports the arguments of several researchers, who believe that the ability to charge high rates is dependent on accessibility and central location (Egan & Nield, 2000; Weaver, 1993; Taylor, 1995; Bateman & Ashworth, 1981). These hotels have access to customers from various sources, such as government institutions, the private sector, corporations and businesspeople. As these people usually have business in the city centres, there is high occupancy within the centre and low occupancy away from the centre. This finding is consistent with earlier research by Shoval (2006), who stated that centrally located hotels receive a higher proportion of clients than those at the periphery. It is rare for customers to prefer to stay in accommodation far from the city or their working area unless they cannot afford to stay in these hotels.

Ching Fu and Rothschild (2010) stipulated that there is an inverse relationship between room rates and proximity to the central business district. Hotels that are located 5 km from the centre could reduce their charges by 40 per cent. However, room rates for these hotels result in extra transport costs. The agglomeration effect enhances supply and shortens the distance that customers have to move during their daily operations (Yang et al., 2012). Finally, it can be concluded that hotels located in sensitive areas take into account the importance of exploiting the site to maximise room revenue.

Hotels have defined strategies of regulating room rates according to demand. This study shows high room ratings where demand is high, while there are low room ratings in instances of low demand. The demand for rooms is high within the city centre and near the holy mosque. For this reason, management has increased the room rating to maximise revenue. At these locations, hotels do not have to make an effort to increase the occupancy rate because they have many customers. Increment of room rates when demand is high allows a hotel to maximise its revenue. When demand is low, these hotels lower room rates and concentrate on maximising occupancy, which becomes the only strategy to increase revenue at that time.

In contrast, hotels that are located further from the city centre pay more attention to occupancy than revenue. They charge low rates to maximise room revenue, and they provide quality services that high-demand hotels do not offer. This attracts customers to fill the hotel rooms and results in higher revenue. For these hotels, it does not matter whether demand is high or low because occupancy remains an issue to handle. Therefore, we can conclude that hotels exploit their income depending on the demand provided by their location.

We can support the argument of Juaneda and Raya (2011), who stated that hotel prices have an inverse relationship with the distance from the centre. This challenges hotels that are further from the city centre. When challenges arise, solutions are found in order to prevent losses. Consequently, three hotels have defined some strategies to accommodate the challenge of occupancy.

First, they have reduced their prices to draw customers into their hotels. This allows for competition with the hotels located at the points of high demand. As a result, some customers decide to book rooms in the cheaper hotels that are located further from the city centre. Customers can choose to lodge in hotels with quality furniture and other additional services rather than a place in which the individual is not acknowledged and appreciated.

Second, two hotels in Mecca and the Eastern Province provide free transport, which controls for the factor of distance and additional costs due to travelling. This reduces the effects of distance such as that experienced by businessmen or religious visitors when travelling each day to the point of activities or the Holy Shrine.

Third, all three hotels provide offers in order to increase room revenue. One hotel located further away from the Holy Shrine sold all hotel rooms to Muslim communities for more than six months in 2011 and 2012. This is evidence of the efficiency of the hotel management in selling all rooms despite the location of the hotel.

Segmentation is another tool used to maximise room revenue. A hotel located away from the city centre and next to one of the largest hospitals in Riyadh could charge higher prices due to the market segment. Juaneda and Raya (2011) conducted an analysis in Madrid. The researchers explained that the inverse relationship between proximity to the city centre and room rates could be described by the market segments targeted by the hotels located far away from the city.

Finally, recreation facilities are included in future plans by one of the hotels to attract travellers away from the city. Sriyam (2010) emphasises that outdoor recreation facilities involving fitness, swimming pools and spas help to attract customers and maximise revenue. These factors attract customers and improve occupancy, which in turn increases room revenue. It could therefore be stipulated that hotels that are located further from the point of high demand try to initiate strategies that assist in maximising revenue.

5.3. Occupancy and Room Rate

According to the investigations conducted by Harewood (2006), no correlation exists between average daily room rates and occupancy. Although it cannot be stated that occupancy percentage is not an essential factor when setting room rates, this research proves that occupancy and room rates are affected by other factors such as location. Occupancy and room rates possess some relationships that are controlled by demand within a hotel. For instance, when occupancy is high, managers choose to increase room rates. Conversely, managers reduce room rates when occupancy is low. O'Neill & Mattila (2006) identified room rate and occupancy as vital elements of a hotel's revenue. For instance, high occupancy would signify high income from other facilities within the hotel.

There is a strong correlation between the rack rate and ADR (Harewood, 2006). The results show that almost all rack rates were higher than the ADR by 40 SAR to 600 SAR. These differences show that revenue managers and general managers took into account the demand patterns to maximise revenue by capturing as many customers as possible with different demand. In addition, almost all rack rates and

ADRs were convergent; however, one hotel depicts a significant difference between these two factors. In this case, the room rating is set at 1100 SAR while the rack rate is 3200 SAR. This difference may lie in the hotel's desire to attract customers when they compare the rack rate and the prices offered. It can therefore be assumed that differentiating ADR and rack rates is an important factor that facilitates room selling. Moreover, Jones and Lockwood (1989) stress that some revenue managers prefer to achieve higher occupancy rates and lower room rates to maximise their revenue through food and beverages (cited in Brotherton & Mooney, 1992) and other operations. In contrast, it may indicate a lack of efficient administration; for example, its inability to sell the right room to the right person or not taking its competitors' prices into account.

The rise of information technology (IT) has established systems that facilitate faster and more efficient communication than in the past. Ellerbrock, Hitet and Wellst (1984) applauded the use of magazines advertising in affecting occupancy rates. However, technology has made magazines inferior. Information can travel thousands of miles within one second. In contrast, magazines must be printed and transported for days or months before reaching the target. Tourists have able to transact with hotels around the world. In fact, Gazzoli, Kim and Palakurthi (2008) stated that Internet advertising reaches a wider group of people. Ideally, as Hayes and Ninemeier (2006) recognised that there must be strategies to increase occupancy rates, IT has defined strategies that link countries through media, the Internet and websites. For these reasons, current hotels in Saudi Arabia have different and efficient strategies for advertising. Some hotel management have used the media to attract customers and maximise both occupancy rates and room rates. Further, several revenue managers offered hotel rooms on third-party websites to increase occupancy and revenue.

The use of closed to arrivals (CTA) and minimum length of stay (MLOS) are vital factors in all hotels, especially when demand is high. According to Talluri and Ryzin (2005), these strategies play a fundamental role in maximising revenue. CTA refers to a customer who requests to stay on Saturday but can only be allowed to book the room a day before, so they can stay on Friday and the target day, Saturday (Hayes & Ninemeier, 2006). MLOS is when a customer who is boarding in a room on a given day—usually identified with high demand—should continue his or her stay for a minimum number of days, such as two or three days (Gurbuz, 2011). This research identified that a critical situation may arise where arrivals must book more than one day during periods of high demand. These strategies are utilised to increase room revenue by four hotels in Saudi Arabia—especially in Mecca hotels, where the demand is high during Ramadan and Hajj. Gurbuz (2011) noted that length of stay is a crucial factor in maximising revenue. Additionally, Noone et al. supported the same stipulation by stating that a combination of CTA and MLOS maximises the revenue attainable for a single transaction. However, Shoemaker (2003) stated that customers have a negative attitude towards hotels that incorrectly use YM with regard to customer service. Thus, a revenue manager in Mecca hotels indicated that they try to entice customers to stay for 10 days with offers such as one night free, including breakfast. One hotel in Mecca used a better strategy than length of stay, as the hotel management sold all hotel rooms for about six months in advance, which would assist hotel management to maximise room revenue in the long term.

Determination and maximisation of daily revenue partially rely on revenue and occupancy. Gurbuz (2011) found it hard to identify whether occupancy or revenue plays a fundamental role in profit increments. Similarly, the results of this research identified that managers were not able to choose one. Instead, hotels valued occupancy and revenue in accordance with the seasons of demand. However, the results depict that hotels located further from the central business district focused more on occupancy. As mentioned previously, these hotels rely on occupancy to increase the revenue earned from other facilities such as foods and beverages (Jones & Lockwood, 1989; Brotherton & Mooney, 1992). The researchers further pointed out that three managers prefer low occupancy and high room rates, which reduce service costs. This could explain why some hotels decide to charge high rates even when occupancy is low. However, fourteen hotels emphasise regulating revenue and occupancy according to demand. This strategy are supported by some researchers (Gurbuz, 2011; Jones & Hamilton, 1992). When the demand is high, the emphasis will be on the yield. In contrast, the focus will be on occupancy in the event that demand is low.

As a YM tool, overbooking is aimed at cushioning hotel companies against unforeseen cancellations and no-shows by customers (Ross, 1995). Wirtz et al. (2001) stipulated that overbooking is a critical tool to handle cancellations and avoid penalties. In this research, some managers used overbooking to cover cancellations and no-shows. Therefore, the allegation made by Humair (2001) that overbooking warrants maximum utilisation of the high seasons is true because all rooms would be full, leading to high hotel revenue. All five-star hotels in Saudi Arabia implement overbooking, as they adopt YM software. However, only 55 per cent of all Saudi Arabian hotels with their different sizes applied an overbooking policy to maximise room revenue during periods of high demand, whereas 45 per cent of hotel management—especially small-sized hotels—justified the avoidance of using this strategy for several reasons, including not adopting an integrated YM system, which assists in accurately reaching the percentage of the cancellation and non-attendance.

Selmi and Dornier (2011) emphasised the importance of adopting a YM system involving sophisticated mathematical models. These models can significantly predict the number of cancellations, no-shows and walk-ins. The authors also highlighted that without software, hoteliers will never achieve the best results of applying YM (Selmi & Dornier, 2011). Moreover, some hotels demonstrated that overbooking leads to negative effects on customers. Harewood (2006) stated that overbooking might inconvenience customers due to ineffective bookings that do not deliver the services they promise. Finally, regardless of these justifications, hoteliers must find appropriate solutions for the application of overbooking so that they can maximise their yields.

5.4. Pricing Strategy

YM is the strategy of regulating the outcomes of any profit-making organisation. Pricing strategies were a fundamental aspect of this research. Running a hotel relies significantly on the income that arises after delivering a service and renting rooms. According to Chen (2010), pricing is a critical tool for running and regulating a hotel. Chen argued that hotels depict fixed capacity, perishable inventory, fixed high costs and minimal variable costs. For this reason, it can be argued that optimum revenues and profits do not arise from cost-control. Therefore, the effective use of a pricing strategy is the quickest and most reliable path that hoteliers can follow to maximise revenues and profits. In fact, the previous discussion evaluated the effects of room cost and noted that cost has obsolete effects on revenue in the market. Among other factors, changes in events and technology have altered the earlier rate of efficacy and performance strategies. Managers must strive to remain updated due to continuous changes around the world. According to Pride and Ferrell (2011), hotel revenue managers have an obligation to pay particular attention to flexibility, demand and competition. Hence, 90 per cent of room rates in this research are set in accordance with the market. Additionally, managers adopted a strategy to analyse the market to determine demand and supply. Nonetheless, there were some exceptions to this rule; some business administrators paid attention to criteria such as the cost of the service and expected profitability.

It should be taken into account that scholars also provide various recommendations about the most optimal pricing strategies. For example, the so-called cost-plus model implies that managers should take into account the operational expenses of a hotel and its expected profitability (Pride & Ferrell, 2011). This model was adopted by two business administrators interviewed during this study. Nevertheless, researchers can argue that this framework does not consider the fluctuations in demand and supply (Pride & Ferrell, 2011). By relying on it, the opportunities for increasing the profitability of the hotel can be missed since it neglects demand patterns, competition and price elasticity (Chen, 2009). Further, this strategy cannot help a hotel to avoid losses. Further, researchers pay attention to the factor of competition. In their opinion, hotel managers should remember about such issues as the pricing policies of other hotels and the intensity of competition in the field (Chen, 2009; Pride & Ferrell, 2011).

Demand and supply relate at different instances of the hotel's proceedings. When demand is high, there is a price rise in the market. This implies that the prices will rise for most Saudi hotels in accordance with demand. We can therefore state that price elasticity is practical to these hotels. For instance, high demand could lead to a price rise of 10 per cent. This would apply to all the hotels in the market. However, a drastic change of event is likely to occur when the price-making hotels achieve 100 per cent occupancy. At this point, the hotels might decide to take charge of the prices.

Some hotels in this instance would not increase their prices further. However, hotels that have empty rooms attain the capacity to increase their rates unconditionally at this point. These strategies align with Forgacs' (2010) identification that a change in prices relies on market information. Further, daily and future forecasts should be conducted periodically and must also consider multi-directional information such as historical data, weather, events in the local area, competitors' activities, overbooking policies and airlines' schedules (Huyton & Thomas, 1997). Historical data involve the number of reservations and customer satisfaction regarding reservation events for recent and past periods (Huyton & Thomas, 1997). The results of this research demonstrate that the same strategies, including market information and forecasts, were applied by most Saudi hotels.

Researchers were able to stipulate that competing hotels have a variety of similar traits in common (Tranter et al., 2008). The hotels then initiate a price war that facilitates competition. In this research, it is apparent that most hotels reduce their prices to improve occupancy rates. In fact, some hotels that have low demand or that are located further from the city centre offered high-quality services and segmented their customers to maximise room revenue. In the city centre, there are regulations that control prices to prevent significantly low prices. For instance, it would not be expected that hotels would provide prices that are very different to similar hotels in the same area. The results revealed that only a slight difference existed in hotels with a similar location. Unless guests could pay for costly rooms due to their social class, it is unlikely that they would prefer expensive hotels to cheaper hotels that are located in the same area and that offer similar services.

Overall, the respondents are familiar with the recommendations offered by scholars. In some cases, they may not necessarily use the concepts that researchers mention in their work. However, in most cases, they are aware of the challenges discussed by scholars. For instance, they usually avoid pricing policies that are based only on organisational costs. Further, they are not willing to enter into price wars with other hotels. As a rule, these professionals are familiar with the practices adopted at other hotels.

5.5. Price-adjustment strategies

5.5.1. Discounting

Discounting is an intricate factor in adjusting hotel prices. It factors out customer conflicts related to price discrimination by providing concrete explanations. Lockyer (2007) identified the discrete sections that complement discounts. In Lockyer's research, four distinct types of discounts were noted. Discounts related to the period of stay appeared to present a critical consideration in this research. Companies were able to exploit this opportunity by booking many rooms for a long period. It is logical to stipulate that people/companies who/that wish to book for longer periods warrant the hotel's occupancy for that period. Apparently, the hotel is assured of continued income from food and beverages in addition to the revenue attained within a single transaction. Consequently, the results of this research describe that all hotels tend to offer discounts to partners booking for long periods.

Concurrently, evidence depicted the necessity of discounting during the low seasons. According to Lockyer (2007), discounts are related to seasons with their distinct demands. During high seasons, the occupancy of hotels increases and calls for increments on revenue. For this reason, discounts become obsolete due to the rapid variations of room prices. Therefore, it is a rare incident to find discounts offered during the high season.

However, customer loyalty is always appreciated in most hotel businesses. The discounts offered to these customers are independent. Loyal customers had cheaper access than the rest, and this was more evident in Riyadh than the other two cities. When we compare Mecca and Riyadh, it is noticeable that Riyadh hotels rely on many and different types of customers who always visit Riyadh, and their occupancy rates are also low compared to Mecca. Further, the hotels located within Mecca target maximise room revenue as they have high occupancy rates and seasons, such as Ramadan, Hajj and different holidays.

The research conducted by Gurbuz found that discounts have the role of attracting customers during times of low demand. This research approves the articulation by identifying that discounts lead to high occupancy rates, which in turn improves the overall hotel revenue from other sources than rooms. Earlier researchers identified the strategy in which customers use occupancy to improve hotel revenue earned from other activities such as swimming, drinking and eating. However, we must consider that some customers are willing to pay more for the hotel's services (Li, 2011). Therefore, it is crucial to be cautious and monitor the goal of YM to increase revenue by all possible means. In fact, Li (2011) noted that hotels were eager to exploit the advantage of 100 per cent occupancy.

The results depicted inverse the proportionality between hotel occupancy and the discount that was offered. During high demand, customers are available and occupancy is self-sustaining. At this point, no attraction is necessary; hence, no discounts are offered. Conversely, low demand calls for competition and a necessity to attract customers. This leads to the implementation of discounts that offer customers lower prices. For these reasons, the discounts are limited and controlled by the level of demand. Lastly, it is vital to acknowledge that discounts play a role in adjusting the price in accordance with demand. Proper YM strategies are potential driving factors for successful, acceptable and revenue-regulating results.

5.5.2. Segmentation

At this point, it is important to examine whether the approaches and models of hotel administrators are consistent with the recommendations offered by scholars. On the whole, there is no sharp discrepancy between theory and practice. The findings of this study indicate that the managers working in Saudi hotels attach significant importance to different forms of segmentation, and this procedure significantly influences the pricing policies of these organisations. For example, according to the answers of the respondents, many hotels have six types of rooms that differ in terms of price. To an extent, this approach is aimed at increasing the revenue and occupancy rates. It can be argued that hospitality organisations in Riyadh and the Eastern Province choose to concentrate on individual business and leisure travellers and corporate clients. In contrast, the hotels located in Mecca pay attention to the needs of separate pilgrims, travel agents and wholesalers. These organisations serve clients who have different needs and values. It is possible to say that these hotels may avoid dividing clients into business or leisure travellers because they speak about corporate clients, governmental institutions, travel agencies or airlines that are willing to reserve a high number of rooms for the long term. This approach can help to develop pricing strategies. To an extent, this strategy is supported by academic literature. For instance, the Harrah Cherokee case shows that hospitality institutions should pay more attention to the spending patterns of clients and the degree of their loyalty to a hotel (Schuessler, 2011). It is believed that these indicators can be more informative.

The respondents attempted to adopt this approach in their daily work. In particular, they pointed out that they provided the best discounts to organisations that continuously used the services of the hotels. For instance, travel agencies rely on the services of hotels for the long term. In contrast, individual leisure travellers are more likely to pay a higher price. This approach to YM is supported by scholars (Abdeighany & Abdelghany, 2009). Hotel managers choose to give discounts to people who prefer to stay for a longer period. These managers must reduce the price of a room, but at the same time, they can increase the revenue; for example, through restaurants or coffee shops. This approach is also discussed by scholars who study the work of hotels (Yeoman, McMahon-Beattie & Sutherland, 2001). Thus, some evidence backs up the practices of these professionals. The main rationale for this strategy is to increase the occupancy rate and profitability of hotels at a time of low demand.

One of the main trends that can be identified is the different approaches to segmentation. Many scholars believe that the needs of clients should be the main criterion for dividing the market into different groups. This task is critical for hotel administrators who have to offer services that best suit the clients. There are different approaches to this task; for instance, geographic compensation. In this case, managers should focus on the place that clients come from (Smolyaninova, 2007). This model is not widely adopted by practitioners because it cannot always provide accurate information about clients' preferences.

In addition, both practitioners and scholars emphasise price segmentation as one of the strategies for increasing the profitability of hotels. Overall, close attention should be paid to the needs of clients and their ability or willingness to pay, as these criteria are vital for determining the choices that clients make. The interviews conducted for this study and the academic literature indicate that hotels can maximise their revenue by adopting flexible pricing policies. In this way, they could attract people with different income levels. For instance, hotel managers are more likely to charge a higher price if customers are concerned about the urgency of the schedule, the size of rooms, amenities or booking dates (Stiving, 2011). These opportunities are of great importance to many prosperous clients. As a rule, these customers are allowed to enjoy more privileges while using the services of the hotel. In turn, people who ask for price reductions can be deprived of several advantages, such as last-minute bookings or changes to the schedule. In the opinion of practitioners, this approach is particularly beneficial when the major customers of a hotel are not homogeneous and when the level of demand fluctuates. The managers who were interviewed for this study use this method.

Further, researchers and hotel mangers inevitably pay attention to the classification of clients. Managers tend to divide potential clients into two major groups such as leisure and business travellers (Smolyaninova, 2007). It is often believed that these people have very different needs, values and priorities. For example, some hotel managers state that the customers belonging to the first group pay more attention to food, beverages or entertainment opportunities, which can make their experiences more fulfilling. In contrast, business travellers are more concerned with amenities as such as Wi-Fi connections or the ability to make a last-minute booking. To some degree, there are some differences between these customers. Nevertheless, this distinction cannot capture the complexity of clients' behaviour and their purchasing decisions. The main issue is that the preferences of these people can be very similar, and conventional classifications may not be applicable. Again, it should be referred to the Harrah Cherokee case because it shows that hotel managers should concentrate on such a criterion as the loyalty of clients, because in this way, they can better develop the pricing policies (Schuessler, 2011). For instance, some of the organisations continuously use the services of the hotel. In contrast, there are people who do not visit hotels on a regular basis (Schuessler, 2011). Moreover, they do not distinguish hotel among other hospitality organisations. Further, there are some customers whose potential value for companies cannot be accurately determined. As a rule, hoteliers do not know much about the buying preferences of these people. These differences in the behaviour of clients indicate that hotel managers should design strategies that can retain loyal clients and attract new ones. Thus, in this case, it is not appropriate to divide them into tourists or business travellers. One should take into account that the strategies of hotel managers should pay attention to the long-term results of their policies. For instance, they need to think about the lifetime value of clients for the hotels. In this way, they can better ensure the profitability of their hotels. It is possible to argue that this issue is not overlooked by managers working in Saudi hotels. They realise that the loyalty of clients is vital for the long-term profitability of their organisations. Certainly, they do not always adhere to the models advocated by scholars, but their methods are consistent with the principles of YM.

Overall, it is possible to make several important arguments. First, the managers of Saudi hotels attach great importance to corporate clients, airlines, wholesalers and travel agents because these clients are important for increasing occupancy rates and profitability, as they are willing to book rooms for the long term. In addition, 90 per cent of managers focus on price-segmentation because this policy helps them attract a great number of clients and maximise revenue. To a large extent, the work of these professionals relies on theoretical assumptions about YM. These are the main trends that can be identified from the results of the research and the review of the academic literature.

5.6. Human resources

The efficiency of YM techniques depends on the skills of hotel employees. Provided that these people lack expertise or motivation, it is unlikely that their organisations will be able to increase their profitability or maximise their occupancy rates. Thus, hoteliers should pay close attention to the HR practices that are supposed to enhance workers' performance. The respondents who were interviewed for this study recognised the importance of HR practices, which is why one manager argued that front office employees are vital for the sustainability of a hotel. Moreover, business professionals attached significant importance to the allocation of duties because this issue is vital for the good organisational performance of a hotel.

The results of the interview indicate that many professionals focus on the empowerment of workers. The interviewees regarded empowerment as the ability of employees to take the initiative in order to address workplace issues. In their opinion, they should have an opportunity to set different prices depending on customers' willingness or ability to pay. For example, some business administrators allow frontline workers to increase or decrease the price per room by 25 per cent. This is one of the most widespread practices. This initiative is supported by scholars who examine the benefits of empowerment (Mohsin & Kumar, 2010). From their standpoint, this strategy can help hotels better retain clients and maximise revenue (Mohsin & Kumar, 2010). However, hoteliers note that empowerment can be beneficial if employees are knowledgeable in various aspects of YM, such as the segmentation of clients or pricing strategies. Still, these respondents have a positive attitude towards worker's initiatives.

Nevertheless, this policy was not supported by every professional that was interviewed in the course of the study. Some respondents did not allow workers to set prices independently. They had to ask permission of the managers if they wanted to lower the price of a room. However, the analysis of findings suggests that this approach is not widespread among Saudi hotels. This policy can lead to adverse consequences such as the failure of workers to meet the demands of clients. Even the most competent managers cannot cope with every workplace task, and they must delegate some of their authority to ensure the good performance of the organisation and its sustainability. Therefore, a lack of empowerment can result in potential conflicts with clients and a failure to increase revenue (Baum, 2006).

One of the ideas emphasised by managers during the interview was the importance of providing training to frontline, reservations and sales employees whose competence is critical for the sustainability of a hotel. For instance, the business administrators argued that employees had to understand the principles of YM and various applications of this technique, which is why some hotels organised courses for the workers. Additionally, these organisations hired consultants who showed how one could use various software applications related to revenue management. Thus, training was important for the majority of hotels that were studied. It should be noted that this policy is also supported by researchers. In their view, the investment in training can significantly benefit hospitality institutions that should meet the requirements of both individual and corporate clients (Kimes, 2008). As stated earlier, the policy of empowerment can only be possible in cases when an individual has in-depth expertise in different aspects of the hospitality industry. This is one of the main arguments that scholars put forward. Business administrators should pay close attention to the development of courses that can assist employees in developing relevant skills (Lockyer, 2007). These are the main recommendations that can be derived from academic literature. Therefore, the responses of hotel managers are in line with the opinions expressed by researchers, and their strategies are justified.

Another important issue identified by hotel managers is the satisfaction of frontline, reservations and sales workers. Emeksiz et al. (2006) emphasised that successful YM implementation should adopt appropriate incentives for employees who contribute to maximising revenue during periods of high demand and to increasing sales during periods of low demand. Therefore, this element is critical for their excellent performance and good relations with customers. Additionally, the respondents stressed the connection existing between employee satisfaction and motivation. The interviewees believed that frontline workers could cope with their duties effectively if they felt that their contribution was valued by senior management. This condition is important for their loyalty to an organisation, their self-esteem and their long-term performance. It should be noted that these professionals relied on monetary and non-monetary rewards to compensate employees for their contributions; for example, financial bonuses or promotions that were supposed to increase workers' commitment to organisational goals. In some cases, these bonuses were based on the financial performance of a hotel during a certain period (e.g. three months). This approach is supposed to enhance the willingness of personnel to improve their work, especially if one is speaking about relations with clients. Overall, employee satisfaction and motivation are a priority for the hoteliers interviewed during this research.

This strategy is also advocated by scholars who examine the relations between employee satisfaction and organisational performance (Tesone, 2012). In particular, they argue that an individual who is unsatisfied with his or her work is unlikely to take the initiative to meet the needs of clients. This person will have practically no incentive to improve his or her performance (Tesone, 2012). In addition, researchers note that a lack of satisfaction leads to high turnover rates within an organisation. As a result, the hotel will not be able to train the personnel or help them develop their professional skills. This is another point that should be taken into account by business administrators. Thus, hoteliers should remember that incentive programs motivate workers to increase the profitability of a hotel. Therefore, many of the practices identified during the interview are supported by academic literature.

This discussion shows that managers in Saudi hotels focus on such aspects as the empowerment of employees, their skills development and their work satisfaction. These strategies can be regarded as the prerequisites for the good organisational performance of hotels—especially their ability to increase revenue. In addition, they are important for maintaining good relations with customers, as customers' opinions of the quality of services are important for hoteliers. These are the main aspects that hotel managers are aware of. In most cases, their practices are consistent with the strategies advocated by scholars.

5.7. Customer Management

Customer satisfaction is a vital element in the long-term goals of a hotel (Wirtz et al., 2001). The use of YM that will discriminate between customers is wide of the mark. However, discrimination must not lead to dissatisfaction. What happens to a customer who pays less than another? Customers who encounter favours due to their loyalty and strategic booking knowledge are satisfied and appreciated. Thus, we can assume that the customer will return to the same hotels in a bid to receive lower prices. Customers who appear for the first time will learn about this difference in prices as offers. In fact, the research results imply that some customers are able to learn the policies that regulate pricing strategies. However, this does not imply that this discrimination is fully justified or appropriate. Conflicts are prevalent where customers realise that they are being charged different prices for the same product or service. It must be explained to customers in a coherent way to facilitate their understanding. Hoteliers must recognise that customers have a tendency to feel inferior and unappreciated during the first booking. However, it should also be noted that the second booking will be more favoured for the customer since he or she cannot choose other hotels due to the guaranteed recognition in the hotel. Previous researchers described that the conflicts arise due to discriminatory pricing, demand-based pricing and off-peak pricing (Kimes, 1994; Wirtz et al., 2001).

The most humiliating factor is discrimination involving the use of customer's ability to pay as the tool of initiating the different prices. Should a hotel rely on the customer's ability to pay and acceptance as the tools of setting prices? What would happen after the customer realises that he or she paid a higher price than a fellow customer? According to Kimes (2004), the best strategy to cover this issue is providing education of YM to customers. Four managers stated that their customers were educated on YM. They assume that customers will not speak about room prices, while 50 per cent of hotels pointed out that they use marketing strategies to reduce customers' conflicts. This assumption is depicted in the research of Mauri (2007), which dictated that the adoption of marketing strategies such as fenced pricing will reduce conflicts. This strategy depicts professionalism in the use of YM. It has been noted by Gurbuz (2011) that YM professionalism is reliant on the satisfaction of the customer.

Applying overbooking, a hotel's management must pay attention and consider the factor that could lead to customer dissatisfaction. When customers book rooms, they trust the hotel to provide them with a room at the time or day stated. Failure to provide the room would lead to dissatisfaction of the customer (Mauri, 2007; Wirtz et al., 2001). Consequently, caution is vital in order to regulate the repercussions of overbooking in YM. Recovery programs are vital in the reduction of customer-company conflicts (Wirtz et al., 2001; McColl-Kennedy & Sparks, 2003 cited in Mauri, 2007). Overbooking does not necessarily make the hotels unfaithful to their customers. The manner in which the management responds to cases of over-commitment determines customer satisfaction. Therefore, researchers and some hotel mangers inevitably pay attention to hotel management should adopt great compensation policies when the hotel applies overbooking (Gothesson & Riman, 2004).

Fenced pricing is a key factor that could be utilised when dealing with customer conflicts (Mauri, 2007; Wirtz et al., 2001). This research was able to identify that segmentation is a vital factor to solving conflicts and dissatisfaction. It was observed that all hotels had a tendency to provide different prices for different rooms. They have a wide range of room types that accommodate people according to their needs and willingness to pay. Scholars and revenue managers agree that a room overlooking the street would be cheaper than one with a landscape or an ocean view (Ng, 2008). This allows different prices for rooms and prevents conflicts. However, this does not imply that customers did not apply strategy price discrimination. It cannot skip the use of CTA and MLOS application within hotels. Managers can also use these strategies of fenced pricing. Kimes (2002) postulated that length of stay could lead to discrimination. Some managers in Saudi hotels—especially in Mecca—depicted that customer who stay longer provide the hotels with a higher income with a single transaction. These hotels could therefore discriminate against customers who want to stay for shorter periods and give priority to those who stay longer. In addition, both the time of purchase (including advance purchase and advance payment) and the area of purchase and the limited liability (such as refund penalties) assist in reducing conflicts (Ng, 2008). Therefore, all hotels that participated in this research applied this strategy.

The policies of a hotel regulate the activities and the decisions that a hotel undertakes. Customer management must be based on policies. For instance, conflicts involving higher prices for some customers than others could be solved by providing the hotel policies on loyalty programs. Loyal customers are accorded special treatment (Noone & Renaghan, 2003), such as reduced prices. However, the most prevalent strategy involves the use of point allocation. Four hotels in Saudi Arabia implemented this strategy to reduce customer conflict (Wirtz et al., 2001), and it may encourage guests to repeat their visit.

Quality services are fundamental factors that satisfy the customer. Several managers stated that quality services play a significant role in attracting customers. For instance, uniqueness qualifies a hotel to be a choice for customers without implementing price discrimination. Lockyer (2003) identified that cleanliness is a crucial factor in implementing satisfaction. In addition, Huang and Chiu (2006) found that services offered by a hotel have consequential effects on customer loyalty.

How does a hotel know the needs of customers and their attitudes towards room rates? A famous tool used to retrieve information and suggestions from customers are guest comment card (Trusov, Bucklin & Pauwells, 2009). This strategy was used by 80 per cent of the examined hotels. For instance, managers stated that there are questionnaires in each room; every questionnaire includes the services provided, conduct of the front office, quality of furniture, prices and overall satisfaction. In this way, the hotel management is able to identify the problems encountered by the customer and evaluate both the services and prices offered.

Managers should have the acumen to determine what suits the customers when they have not made any suggestions. Healthy and positive relationships with customers guarantee repeat business (Wirtz, Theng & Patterson, 2001). The research of Cherubini (1997) proved that these repeats do not happen when a customer fails to comment. The research showed that only four per cent of customers who are not satisfied complain directly to the organisation to explain their expectations. Those who do not complain create a negative word-of-mouth to 1,000 people. In contrast, satisfaction facilitates repeat business, which implies that the customer will continue purchasing the services. Both the research results conducted by Guzzo (2010) and this research's findings indicate that some hotels achieved a good repeat rate, with 20 per cent of customers having already stayed at these hotels in the past.

5.8. Third-party Websites

Since the emergence of third-party websites, the room rates were affected because of competition. Hotels are marketed by displaying the prices and services offered on a screen. Customers are therefore able to compare the services and choose a hotel that offers low prices and/or those that meet their needs. This has affected the application of YM because it advocates maximising rooms' profits. Researchers identified that the maximisation of revenue and room rates have relationships with the application of third-party websites (Choi & Kimes, 2000). They incur high commissions and initiate a competitive environment that leads to lower room rates. Demirciftci (2007) stated that third-party websites lead to significant problems for hoteliers. Thus, the managers of some hotels refuse to use these websites. However, a survey performed by researchers revealed that businesses and tourists rely on third-party websites to enact online buying (Toh, DeKay & Raven, 2011). In this research, all managers agreed that these websites did not affect their decisions concerning room rates. Further, they emphasised the importance of indirect channels on maximising occupancy rates and room revenue, although many scholars believe that these websites influence the room rate because their goals are to provide special offers and the lowest prices to attract customers. The difference of perspectives may lie in the difference of markets. For example, the number of hotels in 2011 that were authorised to operate in the Saudi hospitality market was only 951 hotels with 157,430 rooms (TIRC, 2012). This number is small compared to the number of residents of the Kingdom of Saudi Arabia, which is about 30 million people. In 2011, there were around 17.5 million international tourists (Bytak for Research, 2012). Thus, the lack of competition helps hotel management to control room rates. In Saudi Arabia, there is a limited number of third-party websites used to offer rooms, which may reduce the intensity of competition between these third-party websites. One participant warned of the danger of these sites in the future, as the expected increase in the number of rooms will lead to fierce competition.

The commissions for the service incur extra costs for the room rates. Consequently, room revenue is stretched by commissions and competition (Demirciftci, 2007). This research noted that hotels undergo a commission of about 15 per cent for Booking.com and Agoda.com. In Saudi Arabia, all hotels relied on websites for bookings, although these hotels applied face-to-face, use call centres and their own websites. Hotels should try to forego the cost of selling their services through indirect intermediaries when the demand is high. Therefore, demand changes trigger some strategies to regulate selling rooms by third-party websites. According to O’Connor and Murphy (2004), counter measures are initiated to cater for the changes in demand. For instance, it is expected that when demand is high, customers will be available to accommodate the hotels without the need to incur extra costs on third-party websites. In contrast, third parties are critical when demand is low to increase the occupancy and facilitate price rises. Fourteen hotels in this study had the acumen to disengage the use of third parties when demand was high. Only one manager stated that the hotel continues to offer its rooms via third-party websites when in high demand. This undoubtedly affects the yields of the rooms as long as there is a commission on sold rooms. Why would hotels forego these fast and efficient websites? The principles of YM are to increase room revenue. In fact, this research identified that most hotels in Saudi Arabia made a decision to implement these websites for advertisements and the provision of other services.

According to Carroll and Siguaw (2003), hotels choose electronic distribution in order to forego the cost of selling through indirect intermediaries and come up with their own online sites, which cost $3 for each reservation (Demirciftci, 2007). As a result, hotels are able to eliminate commissions from travel agencies and Global Distribution System (GDS) fees. Therefore, hotels try to determine whether websites play a vital role in revenue generation. Toh et al. (2011) tried to determine the effect of websites on the occupancy of a hotel. Their research found that 75 per cent of the online sales arose from websites, while about 15 per cent arose from travel agents. From the statistics, it was found that hoteliers embraced applying these strategies to woo customers to their online sites (Toh et al., 2011). Eighty per cent of hotels in this study offer their rooms through their own websites, even though some managers believe that third-party websites are more capable and effective of selling hotel products than the hotel’s own website. However, some hotels have made efforts to attract customers to their websites. One manager reported that more than 50 per cent of sales came through the hotel's own site. It can be concluded that a reasonable proportion of Saudi hotels are adopting strategies to attract customers to their own websites.

5.8.1. Rate parity.

Scholars in the literature review attached much importance to elements of revenue management as rate parity, as it can affect the profitability of an institution and its client relations. Business administrators should consider that customers can make reservations using various distribution channels. In many cases, hospitality organisations rely on online resources to promote their services to potential buyers. These websites are critical for attracting new customers due to the information offered, including the hotel locations, customer feedback and photos galleries. As a rule, hoteliers attempt to ensure the consistency of prices across different distribution channels. This issue is particularly important where these different channels create disparities in prices that affect room revenue.

This consistency is significant for travellers who seek a fair price across direct and indirect channels. The results of this study show that only four managers endeavoured to offer rooms across all channels at the same prices in all three weeks. In particular, these managers emphasised the parity of prices between direct and indirect channels. In this case, one of the main tasks is to ensure that clients have a positive attitude towards the hotel, and that the hotel can achieve its goal, where buyers know that an organisation can charge the same fees for the same service among all distribution channels. Nevertheless, in many cases, managers prefer to be dependent of intermediaries. Scholars believe that hospitality institutions should decrease their reliance on third-party websites because this strategy does not enable organisations to increase customers' affiliation to a hotel (Boyes & Melvin, 2012).

In contrast, 80 per cent of the hotels using direct and indirect distribution channels published rooms at different rates, even though 11 managers were able to publish rooms at the same rates on the same days of the observations. Gazzoli, Kim and Palakurthi (2003) stated that the evaluation of rate disparities in different hotel channels showed that rate disparities influenced consumers' perceptions, triggering the use of several search engines and shop bots to find fair prices. Further, Gazzoli et al. (2003) suggested that hoteliers should stick to a consistent price strategy and that revenue management is responsible for enhancing rate parity among all channels. The concept of fairness has been investigated, where it was collectively agreed that it is a contemporary aspect that determins loyalty and customer satisfaction, as well as business profitability (Kimes, 2002).

One of the tendencies that can be observed is that in almost every case where there are rate disparities, the price published on a hotel's website does not exceed the price published on Agoda.com or Booking.com. This strategy is based on the assumption that customers should first look for the services of a hotel without relying on intermediaries. Business administrators should attract customers with the help of websites that belong to their hotels. This policy is supported by Demirciftci (2007), who studied distribution channel parity and YM application. The researcher emphasised that hoteliers should offer the lowest prices on hotels' websites, and indirect channels should publish the highest rates.

Finally, professionals must reconcile two priorities, namely the needs of customers who want to pay a fair price and the necessity of maximising revenue. Nevertheless, at the same time, they want to promote the distribution of their services with the help of intermediaries. One of the main trends that can be identified is the effort of revenue managers to reduce the discrepancy in prices that often exists between direct and indirect distribution channels. Further, they should understand the importance of promoting websites that are directly affiliated with their hotels.

Chapter 6: Conclusion

6.1. Introduction

This chapter will present the major findings, as well as the recommendations that business administrators may consider in order to improve the performance of their hotels. Moreover, this chapter will investigate the limitations of this study and opportunities for further research.

6.2. Conclusion

The objectives of this research were to answer the following questions:

1. How do business administrators in Saudi Arabian hotels manage room revenue in their daily work?
2. Are these managers fully aware of using YM?
3. How do hoteliers in Saudi Arabia use YM as a tool to maximise room revenue?

The first question sought to understand the strategies used by administrators to manage room revenue in Saudi hotels. The results indicated multidimensional responses to this question. Managers considered several aspects when managing room prices, and these aspects will be discussed in terms of location, occupancy and room rate, pricing strategies, segmentation, customer management and third-party websites.

The findings of this research proved that location leads to variations in room prices. Researchers have stated that accessibility influences the demand for a hotel (Egan & Nield, 2000; Weaver, 1993; Taylor, 1995; Bateman & Ashworth, 1981). For instance, hotels in the city centre could charge higher rates than those located further from the city centre. Concurrently, a low demand for hotels located further away results in hoteliers managing their room revenue by lowering their room rate, which in turn leads to high revenue from other services offered in the hotels. In this case, room prices were determined by demand.

Room revenue was also managed by regulating occupancy. In particular, 14 hoteliers attempt to manipulate both occupancy and room rates in order to increase the profitability of their organisations. Additionally, these professionals take into account that the room and occupancy rates should be based on principles such as the need to respond to changes in the market. For instance, it was stated that occupancy was a key reliance for hotels where the demand was low and vice versa. Therefore, they had to lower their prices to accommodate many customers, whereas when demand was high, the prices were at their highest because there was no need to pay much attention to occupancy. At this point, the administrators took advantage by raising their prices to the maximum price. In contrast, three five-star hotel managers stressed the importance of revenue even if the occupancy rate is low. For example, one manager stated that revenue is the most important because one room sold at 400 SAR is better than two rooms sold at 200 SAR each. However, Gurbuz (2011) found it hard to identify whether occupancy or revenue plays a fundamental role in profit increments. Some scholars pointed out that some revenue managers aim to increase the occupancy rate, which leads to an increase in the revenue earned from other facilities such as food and beverages (Jones & Lockwood, 1989; Brotherton & Mooney, 1992). Conversely, these researchers pointed out that some revenue managers prefer the strategy of low occupancy and high room rates, which reduces service costs.

Eighteen out of 20 hotels set their room rates based on market competition, demand and price elasticity. Pride and Ferrell (2011) mentioned that hotel revenue managers have an obligation to pay particular attention to demand, competition and flexibility. Chen (2009) contended that revenue managers are more interested in setting room rates in accordance with the market-based price because the strategy of cost-based price neglects the patterns of demand and competitors. However, two business administrators paid attention to criteria such as the cost of the service and expected profitability.

Further, 90 per cent of managers understood the significance of segmenting potential and current customers into different groups, as these individuals can have different goals, income levels and priorities. As a rule, they focus their attention on criteria such as ability and willingness to pay. This enables hotels to identify the routes that could be followed to sell the right room to the right customer at the right place at the right time. For instance, it allowed for the accommodation of very important customers who might prefer to pay more to stay in a state room with additional services. In addition, the focus is on leisure travellers at the weekend and on businesspeople on weekdays. As mentioned by Smolyaninova (2007), business administrators tend to divide potential clients into two major groups: leisure and business travellers. However, Metters et al. (2008) emphasised the importance of segmenting the spending patterns of the guests by creating a relationship that differentiates the group that should be pursued and given focus in terms of the businesses resources. For example, all hotels that participated in this study were more interested in applying this segmentation because corporate clients, governmental institutions, travel agencies and airlines in Saudi Arabia are willing to reserve a high number of rooms for the long term.

Wirtz et al. (2001) stressed that the implementation of YM can result in customer conflict, and customer satisfaction is a vital element in a hotel’s long-term goals. Fifty per cent of managers adopted marketing strategies to satisfy guests’ needs, including fenced pricing, price bundling, categorising, highly published prices and the use of availability policies. Moreover, this research identified that customers' satisfaction was a key factor in determining whether customers would return to a hotel. Consequently, the research identified that 80 per cent of managers regulate employees and receive customers' feedback to evaluate the quality of the services they offered. Ensuring customer satisfaction determined whether a customer would prefer a hotel in the future. Consequently, managing customers had potential influences on the room revenue. For example, Guzzo (2010) and this research's findings indicate that four hotels achieved a good repeat rate, with 20 per cent of customers having already stayed at these hotels in the past.

Lastly, it was stated that room revenue was highly affected by third-party websites. In addition, the costs undertaken by these websites led to increments in room rates and/or less revenue. However, all hotels used these websites in their daily operations, and they strongly believe that the indirect distribution channels were able to maximise room revenue. One manager stated that the third-party websites achieved revenue of 1,150,000 SR and an approximate commission of 172,500 SR in 2012.

In relation to the second question of this research, it was identified that managers possessed at least some knowledge of YM. However, the study could not confirm whether all managers were fully aware of YM. There were reports that some managers defied the rules of YM. This section evaluates the aspects that marked awareness of YM and unawareness, or deviations, from YM.

The findings of this research showed that all managers had some knowledge of YM. Some were fully educated in universities where they took courses on YM. Others had attended seminars and read articles about YM. The few participants who did not have these qualities had gained sufficient experience by working in international chain hotels such as the Hilton. However, it can be concluded that managers' perception's of using YM by examining some managerial practices relating to YM, such as pricing strategies, overbooking and cancellations, segmentation, HR and the Internet.

The most basic aspect of YM is to ensure that a hotel's revenue is maximised. The findings of this research proved that the respondents are aware of some of the core principles of YM, and they adhere to these principles while managing room revenue in their daily work. Eighteen out of 20 managers attach importance to the flexibility of pricing policies as a way of increasing revenue and attracting clients. For instance, hotel #10's prices were set after adopting a marketing analysis process and determining the proportion of demand, competitors' rates and the purchasing power of customers. The findings also pointed out that 70 per cent of the hotels attempt to manipulate both occupancy and room rates in order to maximise room revenue. Moreover, 18 out of 20 hotels categorised customers into different groups, including leisure travellers, businesspeople, geography, corporation, governmental institutions, airlines and travel agents.

As a YM tool, overbooking is aimed at cushioning hotels against unexpected cancellations and no-shows by guests (Ross, 1995). Fifty-five per cent of managers were interested in using the overbooking strategy. For example, participant #13 emphasised that the hotel should use overbooking because it offers flexible reservations at higher prices during periods when demand is high. It is also used to avoid penalising customers who cancel their reservations (Wirtz et al., 2001). Although 45 per cent of hotels avoided overbooking, they use some strategies, namely professional software, restricting reservations in high seasons and confirming reservations after 24 hours. For example, all managers prefer using penalties to discourage customers from cancelling and to cover any losses they might incur.

Hotel managers can identify other factors that can maximise both occupancy and revenue. In this case, all managers make efforts to sign long-term contracts with government institutions, companies and travel agents. A questionnaire related to discounting indicated that the highest discounts are for companies that book rooms for long periods. Further, almost all Mecca hotels applied the length of a customer's stay or closed-to-arrivals strategies for Hajj and Ramadan, when the demand is very high.

Moreover, 75 per cent of these professionals understood that the principles of YM cannot be successfully implemented without the best HR practices. In particular, they attach importance to aspects such as training and the empowerment of workers who are responsible for attracting and retaining clients. To a great extent, they justify this policy by arguing that it can eventually increase customers' satisfaction with the services of a hotel. Judging from the responses of the participants, their organisations enable workers to take initiatives. Moreover, they have the opportunity to develop new skills in the use of YM when they have to overcome a particular challenge.

Additionally, 15 professionals understood that websites can be a powerful tool for attracting clients. In most cases, the practices of hoteliers are consistent with the recommendations that can be found in academic literature and empirical studies examining this issue. Further, when in high demand, almost all hotels worked to block all distribution channels and to focus on individuals rather than groups, as well as 'walk ins' rather than other travellers.

Conversely, the participants did not always use the concepts or terminology adopted in academic literature; nevertheless, it can be argued that the principles of YM profoundly affect their work. There were some exceptions to this argument. For example, 25 per cent of the interviewees stated that hotel management does not recognise the importance of empowering employees and revenue managers. Further, 10 per cent of hotels adopted a very rigid cost-based pricing model, although YM stresses the importance of market-based pricing, which takes into account patterns of demand, competitors and price elasticity. In addition, all managers were strongly in favour of the use of third-party websites and were unaware of their effect on the prices of rooms. Some researchers emphasised the seriousness of third-party websites—especially their goal to offer hotel rooms at the lowest prices to attract customers. Moreover, four hotels do not have a website, which will undoubtedly reduce room revenue when customers are forced to book through indirect channels that require higher commissions. Further, 80 per cent of hotels show no rare parity across direct and indirect distribution channels. Overall, 55 per cent of managers were almost fully aware of YM, as they were able to apply YM techniques in their managerial approaches. 25 per cent of managers were able to implement some YM techniques, such as pricing strategy and segmentation whereas these managers who priced their rooms based on the cost and focused on all customers without segmenting them into different groups had a lack of understanding of YM's principles.

The last question sought to understand how YM participated in maximising room revenue. It was found that YM has played a critical role in the maximisation of revenue. In a bid to show this, the following paragraphs describe some of the strategies in which YM has been used to ensure revenue maximisation.

YM allows businesses to evaluate the conditions surrounding business proceedings. The hotels being studied are surrounded by factors including location and customer satisfaction. It is identifiable that elasticity of demand was considered in room rates. For instance, low seasons led to low prices while high seasons led to rises in room rates. This depicted the proper application of YM, where demand determines prices. It was also clear that hotels located at the periphery considered lowering their prices in response to low demand. Some considered applying YM techniques such as providing transport and offering quality services to enable room revenue maximisation.

Another strategy of YM depicted in the findings is segmentation. This strategy allows customers to choose rooms in accordance with the allotted prices and services. This ensures that only a few customers are turned away because they cannot afford to pay the prices. It is also worth mentioning that this technique provides solutions to conflicts related to price differences.

We cannot assume the significance of customers' willingness to pay. Some managers allow front office employees to choose among several prices. They also give them the mandate of bargaining and providing discounts to customers. This is a fundamental step that allows employees to weigh what a customer can afford to pay. In some cases, the customer could be willing to pay more, but in other cases, a customer could have an amount that differs slightly from the marked prices. In the first case, the employee will facilitate the entry of a higher income. The customer will be allowed to book at a lower cost instead of terminating the transaction. The two cases allow the hotel to avoid loss of income.

When the occupancy of hotels reaches about 100 per cent, 11 hotels endeavour to receive more reservations because they offer fixable bookings at higher rates. Humair (2001) alleged that overbooking warrants the maximum utilisation of high seasons because all rooms would be full, leading to high hotel revenue. This application of YM achieves the highest possible income from room revenue. However, this strategy was determined to possess some characteristics that could significantly affect revenue. Therefore, nine hotels chose to avoid overbooking because it could lead to customer dissatisfaction and losses associated with finding another hotel for the customer.

Therefore, rules were set to regulate cancellations and no-shows to ensure that hotels do not suffer consequential losses. Finally, it can be concluded that YM is employed by general managers and revenue managers to maximise room revenue.

6.3. Recommendations and Industry Implications

Overall, it is possible to identify several practices that can help hotel managers to be fully aware of using YM to maximise room revenue in their daily work. There are seven practices that are closely related to revenue management. In particular, business administrators should focus on location, occupancy, pricing strategies, the application of price-adjustment strategies, HR management, customer management and the use of indirect distribution channels. If a business administrator manages these elements, he or she would be able to increase the revenue of the hospitality institution and its competitive strength (see Figure 6.1). These factors should be regarded as a set of interrelated practices that must be implemented by business administrators. At this point, it is important to pay attention to Figure 6.1, which shows these elements in more detail and how they would drive the successful application of YM.

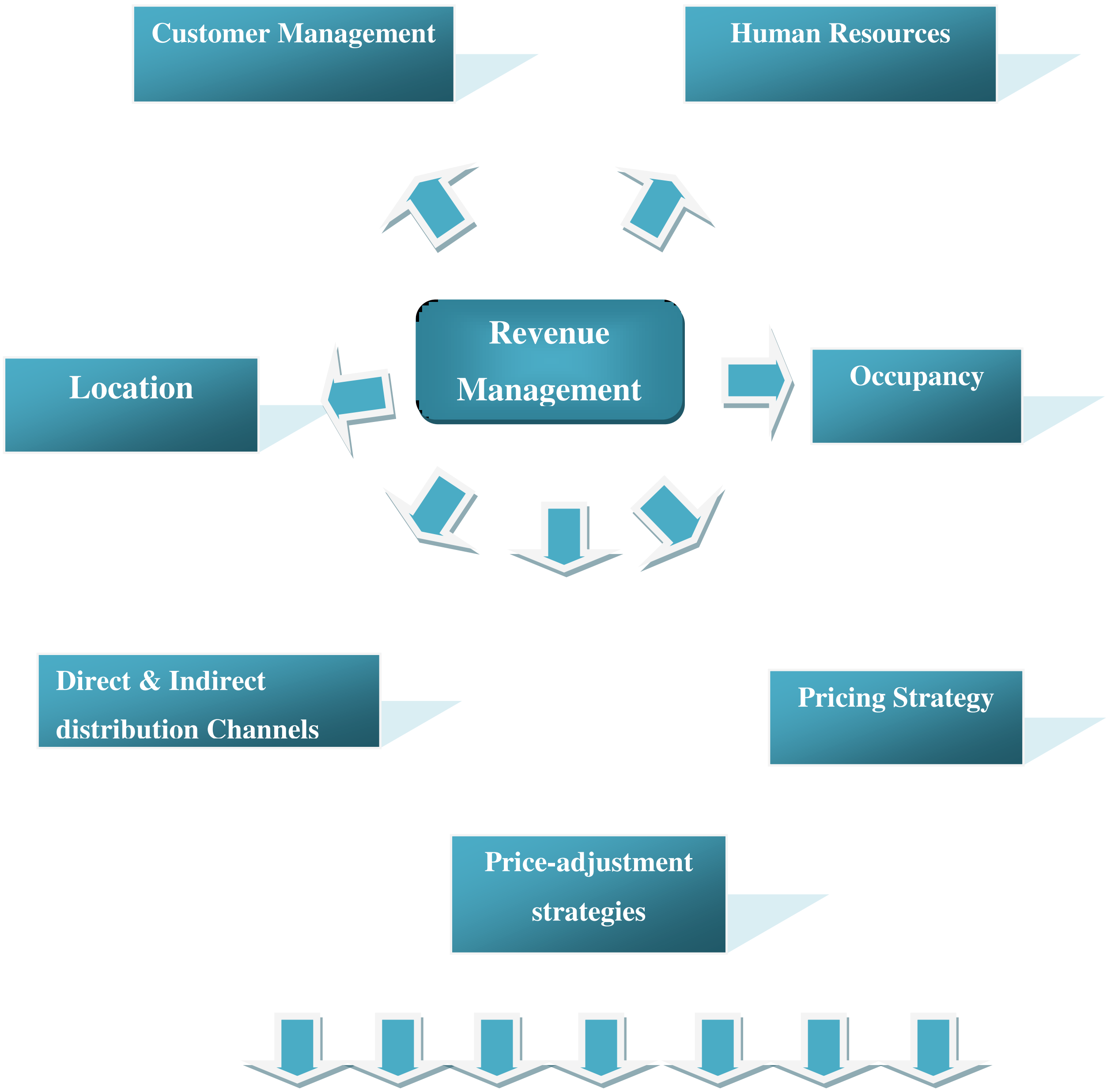

Customer Management
Human Resources
Revenue Management
Location
Occupancy
Direct & Indirect distribution Channels
Pricing Strategy
Price-adjustment strategies

Figure 6.1

A) Location

The first element that affects the work of hospitality institutions is the location of these organisations, which is closely tied to hotel revenue. One of the main goals is to ensure that customers do not experience any discomfort that can be attributed to the location of the hotel. In some cases, organisations can offer free transportation services to clients to improve their experiences and retain them for the long term. Further, these organisations can emphasise the superior quality of their services, which cannot always be offered by hotels located in urban centres. For instance, they can provide more recreational facilities such as spas or swimming pools. In some cases, the managers of these organisations can charge a high price for their services when large hotels located in urban centres cannot meet the demands of all customers.

B) Occupancy

Another factor that should be considered is occupancy rates within hotels. In particular, hotel managers should pay attention to contracts with governmental organisations and companies. These clients can dramatically raise occupancy rates in hotels—particularly during periods when the number of guests declines. Nevertheless, hoteliers should determine the number of rooms that should be available to these customers. The problem is that hotels can face a dilemma when occupancy rates are high, but the profitability can decrease because organisations ask for significant discounts. Such a problem occurred with one of the hotels participating in the study—where the hotel managed to increase occupancy when Saudi Airlines booked some rooms for the long term. However, revenue dropped by 15 per cent compared to previous years. Thus, quotas should be based on the quantities of rooms that corporate customers can acquire. This is one of the first points that should be made. Another technique that can be applied is overbooking. This method is premised on the assumption that many customers cancel their bookings. Therefore, many rooms can remain unused and an organisation can fail to make a profit. Thus, hotels allow more customers to reserve rooms, even if the number of clients exceeds the capacity of the hotel. This practice can be acceptable; however, hoteliers must avoid situations when a hotel cannot find rooms for clients. They can employ several techniques. First, the CTA strategy means that a customer can easily make a reservation for a certain date; however, he or she should also arrive at the hotel one or two days before this date. Finally, the MLOS means that a client is required to stay for a certain number of days. In this way, managers can increase the profitability of their hotels.

C) Pricing

Further, business administrators should attach importance to pricing strategies. In particular, they should give preference to market-based pricing models that enable the management to respond to the changes in demand and supply. According to this approach, hoteliers can raise or decrease prices by a certain percentage. The main advantage of this technique is its flexibility, which enables managers to increase the profitability of hotels during low demand. Further, they need to consider the practices of their competitors. For example, they need to understand why their rivals can set certain prices on their rooms. In some cases, hotels can increase or decrease their prices in order to respond to the policies of their rivals. However, it is not reasonable to enter into price wars with other hotels, as it is more likely to result in losses for hospitality institutions. Moreover, dynamic pricing can significantly benefit many institutions because this approach considers various data about the market. In particular, hoteliers should consider such data as weather forecasts, expected local events and historical sales records. The main strength of technique is that it makes a hospitality institution more responsive to the changes in the external environment. By combining these approaches, hoteliers can maximise hotel revenue and increase occupancy rates. Further, business administrators should avoid cost-based pricing, which usually prevents hotels from maximising their revenue. Overall, these strategies are vital for the long-term sustainability of many hospitality institutions in Saudi Arabia.

D) Price-adjustment

Price-adjustment methods are vital components of YM. It should be noted that hotels must interact with different clients who may not have the same value for an organisation. Moreover, these customers differ in terms of their ability to pay. One of the policies that can be advocated is the use of discounts, s this approach can increase occupancy rates during low demand. Additionally, managers could use the technique of client segmentation. Some of them regularly use the hotel services and prefer them to other hospitality institutions. Therefore, a hotel manager or front office employee can reduce the price per room when interacting with returned clients. The recommendation is particularly applicable when one speaks about corporate clients who make frequent reservations. Moreover, it is vital to remember the distinction between business and leisure travellers who have different priorities and needs. For example, some business travellers may be ready to pay a higher price for amenities. Thus, hoteliers can maximise revenue by meeting the requirements of these clients.

E) HR practices

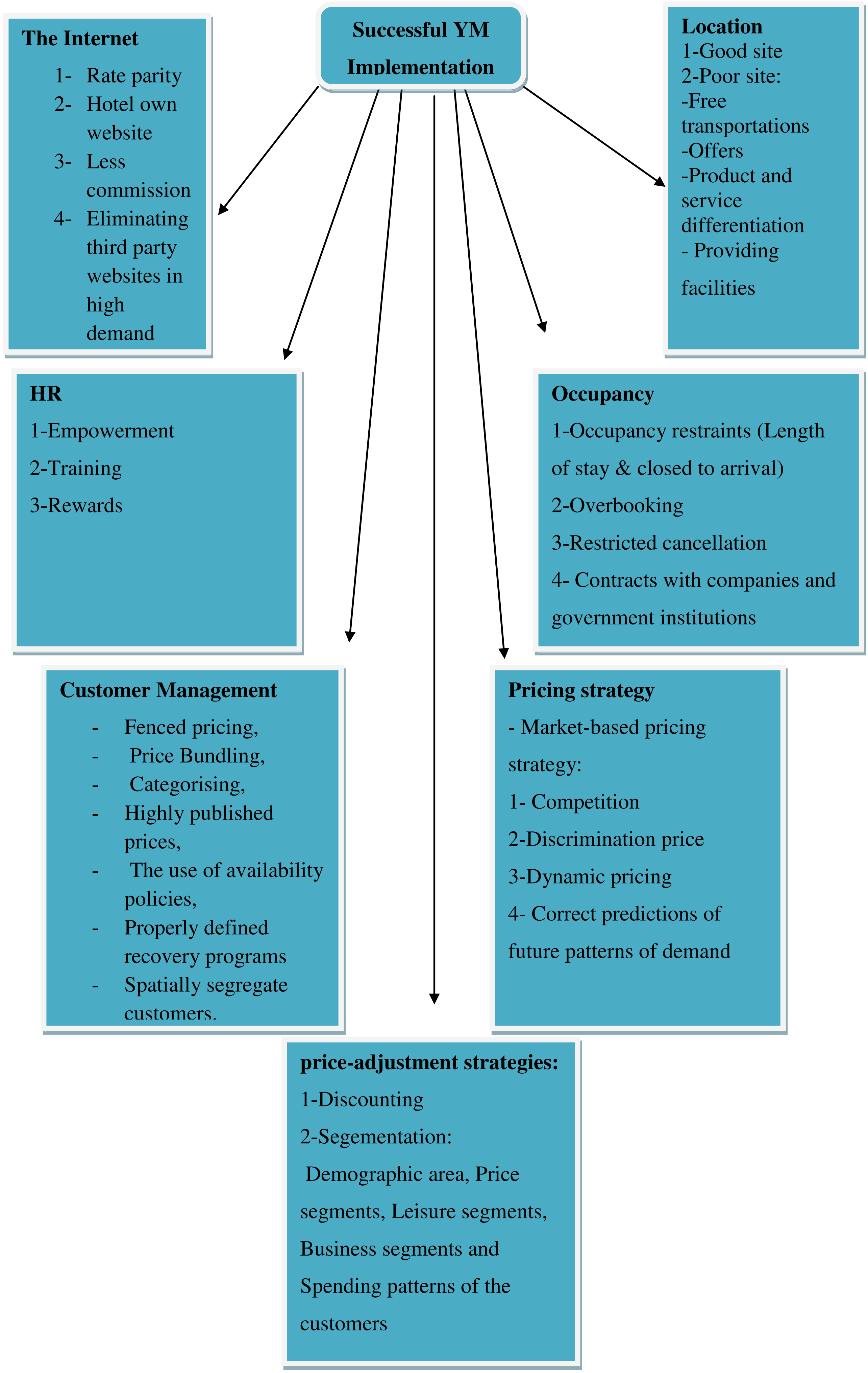
One should also focus on HR practices. The strategies described in the previous part should be put into practice by frontline employees who should have expertise and motivation. Hoteliers should attach importance to such activities as the empowerment of employees, training frontline personnel and appropriate compensation to motivate workers. For example, hoteliers should allow frontline employees to raise or lower the price for a room. This strategy is important because it ensures that workers can effectively meet the needs of clients. These activities can increase the effectiveness of YM. Further, the practitioner should develop performance appraisal programs that offer compensation that corresponds to the contribution of each employee, who will see. that their effort is appreciated and awarded by the management; otherwise, they will have no incentive to improve their work and acquire new skills. This principle can be implemented by giving employees bonuses that reflect the annual financial performance of the hotel. Finally, frontline employees should attend courses or programs in order to understand how YM can be applied. Overall, these guidelines can help hoteliers to make their organisations more profitable. Further, they are essential for establishing good relations with clients.

F) Customer management

Customer management is vital for the sustainability of many hotels in Saudi Arabia and other countries. Several practices can be identified, including fenced pricing. This approach implies that clients can choose from a range of prices. Nevertheless, they face some restrictions if they choose to pay a lower price. In particular, they have to make the reservation in advance, and they may face stricter fines if they cancel their bookings. However, these customers will be aware of these restrictions. The main advantage of this approach is that it helps customers with different income levels. Additionally, hoteliers can rely on price bundling, which means that clients purchase different services at a single price. This technique is beneficial because it enables hospitality institutions to differentiate themselves among their rivals. While interacting with clients, hoteliers should bear in mind that these people can differ in terms of loyalty and potential revenue. They should first focus on the needs of people who continuously use the services of the hotel. Finally, practitioners should avoid conflicts that can arise due to the use of YM. These conflicts occur in cases when hotels apply discriminatory pricing and overbooking. Therefore, managers should use marketing strategies to avoid customer conflicts, as shown in Figure 2.

G) Internet

One should also consider the use of information technologies, especially the Internet, which has now transformed into a powerful marketing tool for many organisations. One of the most important elements is rate parity. This means that the price of a hotel’s services can differ depending on the distribution channel that a hotel uses. If a third-party website helps a hotel to attract more clients, the website can have a rate advantage. Nevertheless, hoteliers can avoid the use of third-party websites during times of high demand. Instead, business professionals should concentrate on the development of their own websites in order to differentiate themselves among their major competitors. Overall, this approach can enable hospitality institutions to avoid intermediaries. It should be considered that these recommendations might not be applicable to every hospitality institution.


Successful YM Implementation
The Internet
1- Rate parity
2- Hotel own website
3- Less commission
4- Eliminating third party websites in high demand
Location
1-Good site
2-Poor site:
-Free transportations
-Offers
-Product and service differentiation
- Providing facilities
HR
1-Empowerment
2-Training
3-Rewards
Occupancy
1-Occupancy restraints (Length of stay & closed to arrival)
2-Overbooking
3-Restricted cancellation
4- Contracts with companies and government institutions
Customer Management
- Fenced pricing,
- Price Bundling,
- Categorising,
- Highly published prices,
- The use of availability policies,
- Properly defined recovery programs
- Spatially segregate customers.
Pricing strategy
- Market-based pricing strategy:
1- Competition
2-Discrimination price
3-Dynamic pricing
4- Correct predictions of future patterns of demand
price-adjustment strategies:
1-Discounting
2-Segementation:
Demographic area, Price segments, Leisure segments, Business segments and Spending patterns of the customers

6.4. Limitations

Several limitations of this research should not be overlooked. First, the study only included hotels that were located in Mecca, Riyadh and the Eastern Province. Therefore, the researcher cannot generalise the recommendations offered in the previous section. They may not be applicable to the entire industry, which may include organisations with different pricing policies, target audiences or resources. Some of these organisations represent large hotel chains that can take approach to marketing.

Further, this research was supposed to focus on seven areas, namely pricing strategies, customer management, price-adjustment methods, the use of third-party websites, HR practices, occupancy and room rates, and location. However, other activities or factors may affect hotel revenue. For example, one should not forget the provision of food and beverages; however, these activities can profoundly shape the opinions of clients. This is another drawback that should not be overlooked by business administrators.

Further, this study was not supposed to examine the influence of technology on YM. In turn, one should consider that various software solutions can make the application of YM techniques much easier. Again, hotel managers should consider each of these points; nevertheless, it was not possible to include them in the study. These practices were not discussed in this research due to time constraints.

In addition, it should be taken into account that this study examined the application of YM from the perspective of hotel managers who often act as the main decision-makers. Nevertheless, this research did not involve frontline personnel, whose responses could have thrown a new light on the application of YM because they may not agree with the ideas of the senior officers. Nevertheless, if the opinions of frontline personnel had been explored, the research would have become more time-consuming because it would have been necessary to interview more people. This is a primary limitation of the study and should not be overlooked.

In addition, it was only possible to survey a small number of intermediaries. In this case, only two travel agencies cooperated with some of the Saudi hotels. If the number of intermediaries was larger, the study could have obtained slightly different results. These are the main weaknesses that should not be overlooked, and it is the reason why the study's findings cannot be generalised. Nevertheless, despite these limitations, this research can throw light on the perceptions of hotel managers who apply various principles of YM in their work.

6.5. Suggestions for further research

This study explores the perceptions of managers working in Saudi Arabian hotels. The results highlight the importance of applying YM as a strategy for maximising revenue. Some findings may be considered by business administrators. In addition, this investigation can give rise to further research. It will be possible to conduct a quantitative study that will investigate different aspects of YM in Saudi Arabian hotels and to test specific conjectures about ways to maximise revenue in modern hotels. Under such circumstances, it may be reasonable to use a statistical survey.

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Appendix A: Information Sheet

THE UNIVERSITY OF WAIKATO
Te Whare Wānanga o Waikato

" THE USE OF YIELD MANAGEMENT WITHIN SAUDI ARABIA HOTELS " Information Sheet

<u>Overview</u>

research is conducted as partial requirement for the Master Degree of Tourism and Hospitality. This project requires the researcher to conduct research on his thesis through two techniques (surveys and interviews).

What is this research project about?

This research is to investigate how revenues is managed by Saudi Arabia hoteliers and what the general practices are within the seven areas that I have chosen, being: location, occupancy, price, segmentation, human resource, customer satisfaction and the third party websites.

What will you have to do and how long will it take?

In most cases, the researcher will want to either interview you or have you complete a survey questionnaire (or, in some cases, both). This should take about 30- 40 minutes in most cases and the survey about 5- 10 minutes. The researcher may ask for relevant documents or sources accessible for this research. The interview may be recorded. You will be asked to give consent prior to the interview, and maybe asked to also give consent at a later stage.

What will happen to the information collected?

The information collected will be used primarily by the researcher to write a research report for the credit of a specific paper (TOMG594). It is possible that articles and presentations may be the outcome of the research. Only the researcher and supervisor (if applicable) will be privy to the notes, documents, recordings and the paper written. Afterwards, notes, documents will be destroyed and recordings erased after one year. The researcher will keep transcriptions of the recordings and a copy of the paper but will treat them with the strictest confidentiality. No participants will be named in the publications and every effort will be made to disguise their identity.

Declaration to participants

If you take part in the study, you have the right to:

- Refuse to answer any particular question.
- Ask any further questions about the study that occurs to you during your participation.
- Be given access to a summary of findings from the study when it is concluded.
- withdraw from the study at any time before 25th of December 2012.

Who's responsible?

If you have any questions or concerns about the project, either now or in the future, please feel free to contact either:

Researcher: Rumaih Alrumaihi	**Supervisors: Tim Lockyer**
The University of Waikato	**The University of Waikato**
Department of Tourism and Hospitality	**Department of Tourism and Hospitality**
Mobile No. : +64 211545622 ,+966501166617	**Phone at (+64) 7 856 2889 Ext: 6321**
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Appendix B: Consent form

Consent Form for Participants Consent Form for Participants

Waikato Management School
Te Raupapa

THE UNIVERSITY OF WAIKATO
Te Whare Wānanga o Waikato

(THE USE OF YIELD MANAGEMENT WITHIN SAUDI ARABIA HOTELS)

Consent Form for Participants

I have read the **Participant Information Sheet** for this study and have had the details of the study explained to me. My questions about the study have been answered to my satisfaction, and I understand that I may ask further questions at any time.

I also understand that I am free to withdraw from the study before **25/12/2012**, or to decline to answer any particular questions in the study. I understand I can withdraw any information I have provided up until the researcher has commenced analysis on my data. I agree to provide information to the researchers under the conditions of confidentiality set out on the **Participant Information Sheet**.

I agree to participate in this study under the conditions set out in the **Participant Information Sheet**.

Signed: ______________________________

Name: ______________________________

Date: ______________________________

Contact details: ______________________________

I agree/ do not agree to my audio recording being used.

Signed: ______________________________

Name: ______________________________

Date: ______________________________

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Appendix C: Interview Guide

THE USE OF YIELD MANAGEMENT WITHEN SAUDI HOTELS:

INTERVIEW SCHEDULE FOR MANAGERS

[1. INTRODUCTION]

Hello (or good morning, good afternoon, etc). I'm _______________. First of all, I would like to thank you for agreeing to participate in this research project. Your help is very much appreciated.

As previously communicated to you, the purpose of the interview is to research Saudi managers' feelings, opinions, and experiences regarding the application of yield management. I'm doing this research as part of my thesis for Master degree in Tourism and Hospitality. But before we start the interview, I would like you to read this information sheet. [Hand information sheet to participant.] It provides further details regarding the project, such as what it's about, how the information gathered will be analysed and used, what your rights as a participant are, and so on. Please feel free to ask questions if there's anything you're not clear about.

[You might want to go over the information sheet with the interviewee, if appropriate. Answer any questions.]

I'd like to reiterate that the information you give will be treated confidentially and collectively, not individually. There are no right or wrong answers—I am interested in your own experiences and opinions. So please be as honest as you can in your responses.

I am required to obtain your consent formally and so I'd appreciate it if you would please sign the consent form. [Provide two copies of the consent form. Give one to the interviewee to keep—your contact details should be on it. Bring the other one back .]

[Set up your recording equipment. Check that it's working. Record the name, date, and time on the tape and on your note paper.]

[Collect your copy of the consent form.]

Shall we begin?

[Don't forget to record the interview's start time.]

[2. BACKGROUND INFORMATION AND SCALES]

1. [If not already known] What is the size of your hotel?

2. Is your hotel part of a chain of hotels?

3. [If not already known] What is your position or job title?

4. How long have you been in this position [or specify the title]?

5. How do you keep up to date with events in your local area?

6. Does your hotel practice yield management?

7. What is your background in yield management?

8. What is your nationality?

9. Do you mind telling me how old you are, for statistical purposes?

   [Prompt] [If the interviewee seems reluctant] You don't need to be precise if you don't want to. You could say only that you are in your early thirties, late forties, or something like that if you like.
   [If participant is still reluctance, I'll say say "That's okay" and leave it.]

10. How many people are there in your organisation?

    [If the organisation is large, the interviewee may not know. They could just give *an estimate, for example, a couple of hundreds, etc. That's fine.]*

[Transition] Before we get into the topic of yield management application, may I just ask you to please complete a questionnaire focusing on your opinion about the use of discounting in hotel industry?

[Give interviewee the sheet containing the scales. Take the sheet back once both scales have been completed.]

I. DISCOUNTING

11. Below are 11 situations in which a manger might choose to provide or not to offer discounts. Presume you have completely free choice. Indicate the percentage of times you would choose to offer discounts in each type of situation.

______ % 1. Offer discount for a room in low season

______ % 2. Offer discount for someone who wants to stay one week.

______ % 3. Offer discount for a guest who has always stays with you.

______ % 4. Offer discount for a guest referred from another.

______ % 5. Offer discount for a guest who has sometimes stays with.

______ % 6. Offer discount for a guest who arrives after 6 pm.

______ % 7. Offer discounts when the occupancy percentage is less than 50%.

______ % 8. Offer discounts when the occupancy percentage is between 50-70%.

______ % 9. Offer discounts when the occupancy percentage is between 70-90%.

______ % 10. Offer discounts when the occupancy percentage is between 90-100%.

______ % 11. Offer discounts for customer who wants to book five or six rooms.

______ % 12. Offer discounts for company which prefers to book some rooms for long

stay (one or two years)

12. The following 13 statements concern your opinions about the discounts. In the space provided to the right of each item, indicate how important each item to offering a discount to guests which the statement applies to you by marking whether the issue (1) very important, (2) important, (3) not sure, (4) unimportant, or (5) very unimportant. There are no right or wrong answers so please be honest. Record your first response to each statement.

		1	2	3	4	5
1	Your revenue flew					
2	Marginal cost of selling the room					
3	If the number of reservations is low for the day					
4	Low overall occupancy					
5	loyal customer					
6	The seasonal demand					
7	The length of stay					
8	The number of rooms to be booked					
9	The number of people in the group					
10	Not giving discount					
11	Your location					
12	The age of your property					
13	Discount offered by your competitors					

13. Do guests who come to your hotel generally ask for discounts on room rates?

❑1 Never

❑2 Seldom

❑3 Sometimes

❑4 Often

❑5 Always

14. Do you agree that today we offer more room rate discounts than three years ago?

❑1 Strongly disagree
❑2 Disagree
❑3 Not sure
❑4 Agree
❑5 Strongly agree

[TRANSITION] Thank you very much for doing this survey. I would now like to ask you some questions about the application of YM.

[3. location and room rate]

15. Describe how your hotel's location affects the premium that the hotel can charge for its services?

16. How are rooms rates affected by the proximity or the distance from the city centre or tourist attractions?

[4. occupancy]

17. What is your room occupancy level in percentage term for 2012?
____________________%
18. What is your average daily room rate for 2012?
____________________$
19. What is your rack rate for standard room for 2012?
____________________$

20. In general terms has your hotel room rate increased or decreased over the past three years?
21. For your hotel what is more important occupancy or revenue?

22. How can you manage the occupancy and average daily room?

23. How can you maximize hotel occupancy and revenue?

[5. Price Strategy]

24. Explain how your prices are set and what the foundation is for your pricing strategies.
25. Does your hotel have more than one rate for any particular room?
26. What do you believe is the biggest factor in the setting of room rates?
27. How do you work with overbooking, cancellations and overbooked?

[6. Segmentation]

28. Describe how do you segment your customers?

29. Which group of guests do you offer the greatest discount to?

[7. Human Resource Management]

30. How do you develop your employees as well as the business as a whole?

31. Are front office and reservations employees given the ability to set room prices?

32. As a manager do you have the authority and accountability for decision-making?

33. Which personnel influence your revenue? How are employees trained and motivated in order to influence revenue and how much time and money is set aside for this?

[8. Customer Satisfaction]

34. Describe your customers.
35. As you utilize the concept (YM). How do you satisfy your customers?

[9. Third-Party Websites]

36. How do online travel agents influence you as a manager and your decisions?
37. Does the hotel have a website? if yes How do you try to attract guests to your website?
38. How much does the hotel pay a commission for third party websites?

[10.Miscellaneous]

If possible, I would like to receive documentation that describes the areas above such as segmentation plans and training manuals. I would also appreciate the following financial information: personnel, , training costs and percentage of commissions for travel agents**.**

[11. CONCLUSION]

38. What advice would you give to a manager who is considering using yield management?

39. We're coming to the end of the interview now. Is there anything else you would like to add that would be useful for my research? Are there things that I should have asked but didn't?

Thank you very much for your time. You have been wonderful in sharing with me your experiences of and feelings about application of YM in your organization. Your help is greatly appreciated. If you think of anything else, or if you have any questions, please feel free to contact me. My contact details are on the information sheet and the consent form.

[Record the time the interview ends.]

[Complete the interview profile as soon as possible after the interview.]