

Price—Yield Management Pricing



The Situation

Yield management pricing is a form of pricing in which companies segment customers into groups willing to pay different prices for the same product, such as airplane seats and hotel rooms. The Commodore Hotel is sold out on some nights but nearly empty on others. It is losing money. The hotel's General Manager thinks yield management pricing may be the answer.

Your Role

You have been hired to a new position, Revenue Manager, at the Commodore. Your task is to use yield management pricing principles to get the highest possible revenue on sold out nights and to bring in customers on the nights that are nearly empty.

Learning Phase

In this phase, you will work on a 'practice' hotel. Step-by-step instructions will guide you through a review of market demand in your region and occupancy levels (number of rooms sold) at your hotel during the last several weeks. Based on that data, you will change room rates for several days of the week and observe the results. You also learn to adjust rates on the day of a special event and measure the effect on revenue.

Challenge Phase

As Revenue Manager for the Commodore, you are now tasked by the hotel's general manager to set rates for the rest of the month. The demographics of your customer base and occupancy pattern differs from the Learning Phase. Your success is based on total room sales revenue for the month. The General Manager has set a specific target for you.

At the option of your Professor, you may be able to retry the Challenge Phase multiple times. Only your best grade will count.

Yield Management in the Simulation

This hotel simulation includes a vast variety of simulated guests looking for rooms. They are continually evaluating your offerings, with an acute eye on price. Because the simulated guests' needs vary (when they need a room, what they are willing to pay, how long they want to stay), you have the ability to sell the same room to different guests at different prices at different times. This is the essence of yield management pricing. In general business travelers are modeled as less price sensitive than leisure travelers and demand by these guest types vary greatly by day of week.

Discussion Questions

How does pricing hotel rooms differ from pricing groceries?

What industries besides airlines and hotels use yield management pricing?

How do you think computers help real revenue managers set rates? What data do you imagine computer programs use to set rates?

How might minimum stays (2 nights, 3 nights) help maximize revenue in a hotel?