

Pricing in a Service Sector context: Accounting and Marketing logics in Irish Hotel Industry

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Abstract: Accounting texts usually argue that empirical evidence shows that cost-based pricing decision rules tend to predominate in practice. The assumption is that accounting data on costs will be routinely available while market data are both unreliable and costly to obtain. This paper argues that such a view is unduly accounting-centric and that in some industries, especially in the service sector where the role of accountants is historically limited, a marketing approach is actually more prevalent and it is cost data that are both scarce and unreliable. Some case study evidence from the Irish Hotel industry is presented which suggests that the pricing decision is an institutionally-influenced outcome of tensions between accounting and marketing logics.

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Introduction

Management accounting texts have been content to report on an apparent gap between (neoclassical) economic theory and practice (Lucas, 2003). For example, a study by Scapens, Gameil and Cooper (1983), based on a survey of 350 UK manufacturing firms, reported that many managers responsible for *pricing* decisions rely upon *routine information* provided by the accountant. This information tends to be derived from traditional accounting systems and is based on full absorption costing. Furthermore, a wealth of descriptive pricing studies (e.g., Hall and Hitch 1939; Edwards 1952; Pearce 1956; Kaplan et al 1958; Cyert and March 1963; Lanzillotti 1964; Skinner 1970; Baumol and Stewart 1971; Hague 1971; Andrews and Brunner 1975, Gabor 1977, Lere 1980 and Keating 1991), suggest that traditional accounting methods, such as the use of historic costs and the inclusion of fully allocated fixed costs in unit product costs, have been widely used for pricing decisions.

The observed predominance of cost-based pricing decision rules is partly explained by the assumption that accounting data on costs will be routinely available while market data are both unreliable and costly to obtain. This paper argues that such a view is unduly accounting-centric and that, in some industries, especially in service sectors where the role of accountants has historically been limited, a *marketing* approach is actually more prevalent and it is the *cost data* that are both scarce and unreliable. The paper looks at both the impact of accounting and marketing approaches and argues on the basis of case study evidence from the Irish Hotel industry that the pricing decision is an *institutionally-influenced outcome of tensions* between accounting and marketing logics. Case study participants operated in an environment of high uncertainty in which they adopted a number of coping mechanisms such as routines, derived partly from traditional practices and partly from calculative regimes prevalent in the industry. The paper argues that accounting texts

could develop an improved understanding of pricing practice by recognising that in certain sectors pricing was always “too important to be left to the accountants”.

The paper is organized as follows

2. Past research on the hotel industry and the relationship between marketing and accounting

There are sound technical reasons why cost data are difficult to obtain in the hotel industry. When a service is provided by a complex combination of labour and capital equipment, there tends to be a high proportion of costs (overheads) to be allocated. In hotels, which are service shops, there are high property costs and thus a pool of undistributed operating costs in the typical hotel accounting system. Some of these costs are perhaps related to the intangible aspects of the service in the hotel, such as its ambience. Therefore, the issue of volume of customers to be served and the amount of unallocated overhead cost pre-dispose the cost traceability issue.

The problem of tracing cost inputs to the cost object, the guest, (rather than to an operating department), is further complicated by heterogeneity of service processes and simultaneity of production and consumption. Guests in a hotel consume different mixes of services and, as there are multiple, heterogeneous, joint, inseparable services offered to customers, they may take different routes through the service process (Fitzgerald *et al* 1991). For instance, hotels offer food and beverage facilities to residents, but some may take breakfast only, some may want full-board and others want half-board. Therefore, tracing the cost of serving each person can be complex and time-consuming. The fact that the customer has control of the extent of service consumption is a factor emanating from the participation of the customer in the service process (Fitzgerald *et al* 1991).

Paradoxically, whilst high fixed overhead costs in hotels allows pricing discretion the cost structure prevents a clear allocation of costs to each guest or market segment, to derive profitability analyses. Service shops such as hotels and retail banks can compute the gross margin and the departmental profits for their major products, but do not trace overheads to each product. Indeed, there has been a practice in the hotel industry of only tracing material costs to rooms, food, beverage and other departments and leaving labour as part of unallocated overhead.

Collier and Gregory studied costing systems and summarised their findings on six hotel chains as follows:

The costing systems were found to be based on marginal costs, but often little effort was put into identifying marginal costs since margins were extremely high and there was an over-riding objective to maximise sales. The other characteristics were a departmental approach to the measurement of performance, a separation of costs into controllable and uncontrollable costs, and a focus on wage costs (1995, p.36).

The same authors report that the hotels in their study focussed on contribution and gross profit at the departmental level on the grounds that it assisted with the aim of maximising the yield from the facilities. This scheme 'did not readily permit break-even analysis because of the complicated cost and sales structure' (Collier and Gregory, 1995 p. 25). While there was little evidence of discontent with existing costing practices, there was some concern over the identification of the break-even occupancy percentage which 'proved elusive' (Collier and Gregory 1995, p.25).

The role of operating costs in pricing depends on the cost structure of the establishment and the time factor. As the level of fixed costs in hotels is very high, in the short run, they will remain unchanged; only variable costs change with the level of sales demand. Thus, in the short run, hoteliers have a lot of pricing discretion because, theoretically, they can price anywhere from variable cost up to what the market will bear. A range of possible prices is thus available to the hotelier which, in the short

run, should result in a net profit. The rule is: the higher the proportion of fixed costs in the total cost structure of the hotel, the wider the range of pricing discretion and *vice versa*.

Thus, in high fixed cost businesses, because of the wide range of pricing discretion, *in the short run* there is no direct relationship between the operating costs of the business and the selling price of its product / service, so pricing can be market-oriented. Contribution margin pricing, using the variable cost of the rooms department can act as a pricing floor and is used during periods of slack demand. The wide range of pricing discretion opens up the possibility of strong price competition between hoteliers.

Fixed costs do not remain fixed for ever so, in the long run, the sum total of prices charged and revenues earned must cover not only variable costs but all operating costs and be sufficient to yield the target profit level. Hence, the longer the time period, the more important the role of fixed costs in pricing.¹ However, the final room rate charged by the hotelier will depend on the market segment aimed at, what competitors are charging and the customer's perception of value for money. Therefore, the market, as well as costs, are taken into account in room rate pricing. Costs alone cannot determine the room rate pricing decision because the direct cost of accommodation bears no relationship to selling price in most hotels.

The low status of accountants in hotels

As well as the technical issues involved in cost tracing, another characteristic of the hotel sector is the low status of accountants and relative neglect of financial expertise.

As one manager put it:

...people only knew by their bank statement whether they were doing well . . . then they went into denial and quite often it was 12 to 18 months before the picture was finally unveiled that they were in trouble.

Even in many of the larger groups that use streamlined computerised accounting systems, the accountant is restricted to relatively low paid scorekeeping role. In some large groups where the accountant has reached the level of Finance Director, or in some cases where the owner is an accountant, there is more scope for the accountant to become involved in decision-making. However, the operational manager would appear to be perceived by hoteliers to create more value to the hotel than the accountant *at the same managerial level*. As another manager put it:

the traditional view might mean that the accountant is an overhead to be minimised and an administration cost, whereas perhaps the operational (front of house) manager would be seen as generating business and servicing the guests.

The neglect of new accounting techniques in the hotel sector

New techniques such as customer profitability analysis (CPA), Activity-based costing (ABC) and strategic management accounting (SMA) could be used for pricing decisions and for the measurement of the profitability of different markets that the hotel might serve. The application of these techniques would also serve to raise the influence of the accounting function and reveal insights into whether or not the manner of making decisions in hotels to date, has been well-informed. Yet there has been relatively little evidence for the implementation of new accounting techniques in the Collier and Gregory (1995) study. The only Irish study on this issue in hotels is that by Noone (1997). Noone (1997) found that three key decisions were made in relation to customers; pricing, marketing and capacity allocation (of room stock to different market segments). Neither cost nor revenue information by customer group was available for the decision-making process. These findings are consistent with

those of Fitzgerald *et al* (1990) who observed that only professional services appear to use costs routinely for pricing decisions.

Marketing and accounting as alternative logics

Wilson(1999, p.19) notes that accounting builds from an analysis of internal financial data, whereas marketing builds from the diagnosis of external market situations. Accounting typically records the costs, revenues and profits of past activities- the *ex post* approach. Marketing typically tries to assess the financial implications of a proposed course of (marketing) action, that has been identified as a possible prospective opportunity in the organisation's environment – the *ex ante* approach.

The respective perspectives are literally poles apart (Simmonds, 1981). Marketing views profits as accruing from a firm's differential advantage relative to its competitors, and not related to arbitrary financial periods. Accountants may not comprehend this and often fail to link his/her own financial measures to either market share or changes in market size. Among the explanations for this difference in perspectives is the idea of there being a “cultural lag” between accounting and marketing. The values that accountants espouse are as a consequence of their training and are cultural signs of accountants that distinguish them from say, marketing specialists, who espouse different values. The cultural lag occurred in Wilson's opinion, through the failure of marketing knowledge to be applied to or integrated with accounting in areas of theory and practice (for example room rate pricing), where accounting and marketing elements are interdependent and face common problems.

Even as far back as 1970, Simmonds (1970) saw both disciplines as being capable of contributing to the specifics of a management task, and therefore argued for the professions of accounting and marketing to fuse, rather than to be kept apart. Once

informed by a broader business training, this should help accountants to provide more relevant information for decision-making. By contrast, marketing professionals, needing salient data for efficient marketing, would find it available from accounting.

Boulding (1956) mentioned the characteristic of “specialised ears and generalised deafness” as being endemic in the specialist world of advanced economies. Wilson concludes :-

The risk of specialised ears and generalised deafness is always present [at the interface between accounting and marketing], given the emphasis on manufacturing that is characteristic of accountant’s training and the aversion to financial matters that is widespread among both established and aspiring marketers (1999, p. 24).

Yield Management as the key calculative routine for hotel managers

One of the key calculative routines for hotel managers is known as *yield management* (YM). YM tries to achieve the best possible return on the space available, be it bedroom, restaurant, leisure or conference space. To achieve this objective requires managing the demand for space, products and services. In hotels, yield management manages the demand through understanding and interpreting the particular demand patterns and trading the rate with occupancy, according to fluctuations in demand for the space. The yield is computed as the product of occupancy and average room rate, further refined by converting it into the yield percentage, which divides the actual revenue by the total revenue that would have been achieved had all the rooms been sold at rack rate.

YM is a technique that assists in the maximisation of revenues from the sale of a product or service with the following characteristics: perishability; and fixed capacity (Harris, 1992). Clearly, hotel rooms fit this profile. Ideally, hotel managers would like to sell all rooms at the highest (rack) rate, but a trade-off develops between the desire for high occupancy and the desire to sell rooms at the rack rate. The problem becomes

one of determining how much to sell, at what price and to which market segment, so as to maximise revenue or profit. The resolution lies in the process of yield management which means control over rates (being price restrictive at times of high demand and more flexible at times of low demand) and restrictions to occupancy (blocking of rooms in advance) in order to achieve the maximum possible overall gross revenue per period of time. Thus, yield management is a combination of capacity utilisation/inventory management and pricing efficiency.

YM was first tried in the airline industry, with some success (Belobaba, 1987). The airlines use YM to decide how many discount fares to sell, while at the same time making sure that they have enough seats left for full-fare passengers. Kimes (1992) reviewed the academic literature on YM. Some salient issues are summarised here. The firm must segment its market into different types of customers. A hotel must know its market segments and the purposes of the guests in their need to stay and develop appropriate marketing strategies for each market segment. A reservation system is one of the capacity management tools that service businesses use, selling units of inventory in advance of actual use. But when the product is sold in advance, the manager is faced with a dilemma, i.e., whether to accept an early reservation at a low price, or wait and see if higher paying customers will appear later. *Thus, the time-dependent and uncertain nature of the room rate decision is evident.*

Disadvantages of Yield Management: Yield Management does not work as effectively in hotels serving a single market segment or in those with 50 rooms or less, because smaller hotels, serving one market segment only, do not facilitate the mixing of occupancies and rate classes that are the tactics of the YM technique. Also, companies using YM with its emphasis on maximising revenue/ yield, may develop an undue focus on short-term profits and ignore long-term profits which could result from attention to delivering good service.

There may be customer resistance to YM. In industries where there are a large number of competitors, such as hotels, a customer may not like paying different prices

for the same room simply because it was booked a few weeks later and so may decide to book with the competition the next time. Finally, YM systems may take some of the judgement out of the jobs of reservationists so may be met with some resentment. Reward systems for all staff should be changed to the yield earned, rather than the occupancy or average rate earned.

CS2 The Elms Hotel:-

The General Manager married a daughter of the founders of "The Poplars Hotel Group", a chain of five family run hotels in the West and North West of Ireland and worked in group marketing for a number of years for the chain. With the help of his father-in-law, he bought over The Elms Hotel from another group of hotels in 1995 ("Acorn Hotels" Ltd) and brought it into The Poplars group/chain, as from 1995. This chain is a recognised brand for its friendly and homely atmosphere, apart from high standards of accommodation, comfort and cuisine. The location of the hotel is a prime selling point, being in a popular scenic part of the West of Ireland and accessible by train. The region hosts a thriving community of artists.

In the past, the hotel has been owned by three different hotel groups, two of which were indigenously owned family run chains and one was a Northern Irish group of hotels. A sole North American owned the hotel for about three years in the mid-seventies, but since its foundation in 1968 by an Irish family chain, apart from the short period of owner/manager ownership, it has been owned by family hotel chains. There are major competitors situated within a 50 mile radius of the hotel. The hotel has received EU grant aid for the construction of new bedrooms and the refurbishment of existing ones, extension of the restaurant, construction of a new lobby, kitchen and banqueting room.

Under the previous owners, the hotel had a good turnover, but its labour costs were too high (42 to 43 % of weekly turnover compared to the industry average of 25 to 29%). All decision-making had been done in Dublin. The previous owners however, were inhibited by high interest rates in the early 1990s and could not re-invest. The new owners shed the accountant, some administration staff and the hotel laundry. Revenues have trebled and the number of full time staff has increased from 15 to 35. Due to the amount of change in the hotel, it will take some time for staffing levels to be normalised.

The most important developments planned for the hotel in the future are the addition of de luxe suites, construction of a leisure centre (open to non-residents) and the installation of a computerised front office reservation system, which will compute a budgeted and forecasted yield as well as an actual yield figure on a daily basis, as the year progresses. This system will also tie up yield variables with other definable cost variables such as food cost as a percentage of actual sales, bar stock as a percentage of actual sales and labour costs as a percentage of actual sales. Once the central reservations system has been installed, the General Manager intends to set up a separate marketing company with his father-in-law. This company would comprise a

central telemarketing sales office, with a central reservations system, both of which would cover all five hotels in the group.

Interviewees

CS2/A General Manager, male, aged 30-40. He is the *fifth generation* of his own family to be involved in the hotel business, having grown up in his father's small family run hotel. He is married to one of the daughters of the owner of the Poplars Group of hotels. He has many years of experience as a hotel manager both in the US and in Ireland. He holds a Degree in Hotel Management from Cathal Brugha Street, Dublin and a Diploma in Marketing. He has pursued some training courses with CERT on a part-time basis. He previously carried out marketing for The Poplars Group of hotels, before acquiring The Elms in 1995. The General Manager of The Elms now handles the marketing for the whole group of hotels. He is assisted by two graduates, both of whom have degrees in marketing and one of whom is pursuing a post-graduate degree in marketing.

CS2/B. Senior Assistant Manager, female, aged 20-30. She has worked as Assistant Manager at The Elms for three seasons, 1995, 1996 and 1997. She holds a Diploma in Hotel Management from Athlone IT, a degree in Tourism and Management from UCG and a Masters in Local Regional Development from DIT, Bolton Street. Prior to her roles at The Elms, she was a full-time student, but she did some summer placement work in hotels and restaurants.

CS2/C. Two accounting staff in the hotel. Both are female; one looks after Creditors, Wages, Food Stocks and Bank Reconciliation and the other looks after Debtors' Control, Bar Stocks and the analysis of sales and occupancy figures in the hotel on a weekly basis. At the time of the interviews in November 1997, the two staff members had been employed by The Elms Hotel for two years and eighteen months respectively. The person looking after Creditors had seventeen years' experience in hotel reception work; the person looking after Debtors' Control had fourteen years' experience of accounts work in a bank, building society and small companies.

CS2/D. The researcher drafted a letter to the firm of chartered accountants who prepare the accounts of The Elms Hotel, for audit. For reasons of client confidentiality, this letter was sent to the General Manager of the hotel, so that he could request the information from his accountant. The letter basically probed into the level of management accounting information provided to the hotel by the accounting system in place. For cost-cutting reasons, at the time of acquiring The Elms, the new owner (CS2/A) did not retain the in-house accountant. Due to the lack of an accountant in-house, the researcher decided to probe into the level of assistance given by the external accountants in the running of the hotel and into their level of familiarity with room rate pricing decisions and with marketing strategy in the hotel.

CS2/E : Ms.S, Marketing Manager, aged 25-35 years, holds a degree in marketing and is employed in the position of Marketing Executive, with special responsibility for tours and brochure advertising.

Within-Case Themes

Theme 1:

Ownership and Capital structure; Organisation and Accountability structure; Business Orientation -Cost structure dimension and Sales Mix/ Hotel Product dimension; Competitive strategy;

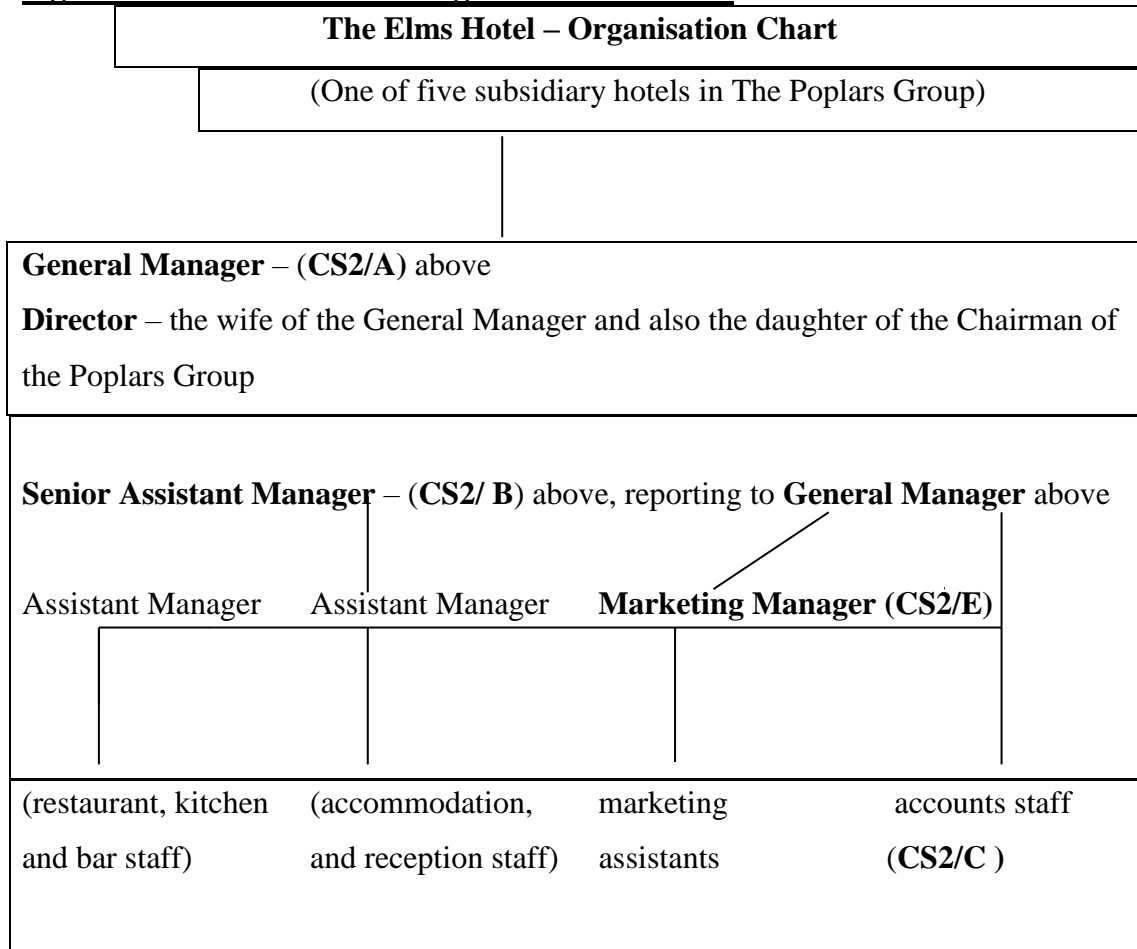
Ownership and Capital Structure

The Elms Hotel is a private limited company and is a 100% subsidiary of "The Poplars" group of hotels. The management of the hotel and its holding company is indigenous Irish and there is no foreign management or ownership at all. There is a family tradition of fifty years or so in the hotel business, which has been carried on by the total involvement of family members in the chain to this day. The funding structure of "The Elms" hotel is comprised of an inter-company loan from the General Manager's father-in-law. See Figure 7.3.

Figure ?? Ownership Structure of The Elms Hotel, part of The Poplars Group

The Poplars Group of Hotels – Organisation Chart
Chairman – original founder of The Poplars Group of hotels Director- wife of the founder of The Poplars Group of hotels Managing Director – same person as General Manager of The Elms Hotel Company Secretary – the wife of the General Manager of the The Elms Hotel* * she is also the daughter of the Chairman / founder of The Poplars Group of hotels and his wife

Figure 7.4 The Elms Hotel – Organisation Structure



Organisation and Accountability Structure

The organisation and accountability structure is set out in Figure 7.4. The absence of an in-house accountant is compensated by the use of an external firm of accountants, who prepare accounts quarterly and annually. The General Manager controls the information flows and also meets regularly with his father-in-law for advice on major decisions concerning The Elms or the family chain, The Poplars.

Business Orientation-Cost Structure/Operating Leverage dimension

The precise cost structure was confidential, but the hotel, being 3-star, was similar to other 3-star hotels in the area and per HBC report, fixed costs will predominate. In addition, towards the end of the empirical work, a leisure centre and a new lobby had been added, thus increasing the fixed cost base. The hotel is very revenue-orientated, but also controls costs tightly, in view of the previously excessive labour costs.

Business Orientation -Sales Mix / Hotel Product Dimension; Competitive Strategy

The hotel's main products are accommodation, food and drink as well as smaller functions such as weddings, christenings, conferences and Christmas parties. Room sales predominate in the total revenue mix. The competitive strategy is to constantly differentiate, package and bundle the product in different ways and price the packages keenly to the market segments, mindful of cost control issues.

Theme 1 Conclusion :

The Elms is part of an indigenous family chain of hotels, based in Western rural locations and is part financed by an inter-company loan. It has distinguished itself from its competitors by its reputation for hospitality and by the quality of its activity packages.

Theme 2

Strategic products, cross-subsidisation and price bundling / Key success factors / Profit determinants

Strategic Products/ Cross-subsidisation/price bundling

CS2 : The family market is the most strategic product for the hotel as it is the most profitable product, because the room rate charged is close to the rack rate. It almost invariably leads to full occupancy during the high season of July and August.

CS2/B stated that despite the above comment, that a lot of the services cross-subsidise each other, so that it is hard to pick out one strategic service or product. For example, the restaurant and bar revenues are tied to the room revenues in the special packages on offer to guests for three, four, five or more night stays. Frequently, entertainment in the bar is provided to guests on weekend packages and non-residents are allowed access to the bar. The bar sales in fact cover the cost of the entertainment and so subsidise the package price. Cross-subsidisation is driven by the type of product package on offer and the likelihood of non-residents being attracted to the package, as well as the time of the year. For example, non-residents are only admitted to the bar at the weekends and the bar only has bands during the (low) season of activity breaks. At The Elms, the activity breaks such as set dancing and bridge weekends are heavily subsidised by the admittance of non-residents (locals from the area) to the workshops. The instructor's cost and the cost of the band would be covered by the non-residents' entry fee. Some breaks such as gardening breaks are by nature expensive to stage and do not attract non-resident interest, so they are used by the General Manager for season extension only, as they are not that profitable for the hotel, nor can cross-subsidisation be applied to this break. The hill-walking break would comprise a group of 20 and then one room would be given free to the instructor, plus food. Given that a

free room is usually given on parties of 20 or more, the hill-walking package is profitable to the hotel.

Cross-subsidisation is an established pricing routine. **CS2/B**: "the cover fee on the door to non-residents and the increase in bar sales ...it's cash in the door, as good as selling a room".

Key Success Factors :

CS2 : The hotel has a *customer data base*, segmented according to type of holiday pursued by the guest in the past. *Direct sales calls* are made by the General Manager with a range of business-generating sources¹. Through mailed questionnaires to past customers, as well as attendance at trade shows and Irish Hotel Federation meetings in the region, the General Manager does market research on changing consumer tastes, to ensure updated *matching of product to guest expectations*.

CS2/B listed : The *quality of customer care* is very high, bringing in a lot of *repeat business*. The achievement of full occupancy in the high season which relies on *good management of bookings* by the reception staff; the *checking of provisional bookings* by reception staff (3 times) from ten days prior to the date of arrival, so that staff have some knowledge of how confirmed the booking is, as the date of arrival approaches and so will know when to release the room. A *booking deposit* is taken which is non-refundable for late cancellations and "no shows", unless there is a very good explanation. *Good market segmentation* due to the *inherited business base* from the previous hotel chain, the *connection* of the General Manager with the Gaelic Athletic Association (GAA). *Good marketing plans done six months ahead* of the relevant season, but more importantly the actioning of these plans through active advertising to pull in the occupancy. The lead time is tight, being only 6 months. The *marketing of off-peak markets* to boost occupancy is also very strategic, especially during the difficult shoulder season.

Surprisingly, **CS2/B** did not refer to the positive impact of belonging to a well-recognised branded chain of hotels, which must rank as a key success factor, not least because of the synergy created from the branded group identity.

Views of Key Informants :

CS2 :-

CS2/B: "The most profitable and strategic aspect of the hotel's operation is to maximise yield and manage the seasonality of the trade".

Theme 2 Conclusion :

¹ While there was a family connection to the GAA and a good base of customers before the take-over in 1995, the General Manager has built up other contacts with active retired associations (for the Golden Years segment) and he makes direct sales calls to tour operator travel agents, so keeping a good business profile for his hotel.

Theme 3

Market segmentation and price sensitivity of market segments /existence of customer database /knowledge of customers; Marketing plan, marketing strategy and changes in strategy, budget and supporting information; Relationship between accounting and marketing functions;

Market Segmentation and Price Sensitivity of Market Segments

Market segmentation is a very serious issue for the hotel – to manage the yield from the rooms, the correct mix of market segments must be obtained. Once the market has been segmented by seasonality, it is also segmented into family/active retired/tours/mid-week or weekend health/activity breaks or packages/corporate and other such as special functions and weddings. These holidays will only sell if they appeal to the customer, therefore their needs must be met and knowledge of their tastes is vital.

Family packages cover July and August where the rack rate is earned. Golden Years and Tour business would come in May, June, September, October and November, with a higher percentage of hotel rooms allocated to tours in May, June and particularly September. In October and November, the hotel takes what tours it can get. It is important not to mix older retired people with families with children, as their needs are different. It is also important to provide entertainment in the hotel for the tours, but this may not suit those guests on a Golden Years break. Therefore, the hotel markets Golden Years for times opposite to when families would be in the hotel.

Weekend and mid-week activity breaks are used to pull in occupancy during the low season. Typically specific dates in late February, March, April, October, November and the first two weeks of December would be covered by a variety of activity-based breaks. These are marketed by means of a mail shot of brochures (to customers on the hotel's data-base), giving a listing of all such packages, their referable dates and prices.

Existence of Customer Database/Knowledge of Customers

A lot of market research is carried out in order to build up a profile of the market segments and the type of guest who will be attracted to the product concept. The General Manager devised his own system of market research, using mailed questionnaires and by talking to the guests. He then re-designed the original inherited (1995) database to give a complete guest history. Due to this re-design, an inquiry procedure can be done to list out the guests who pursued certain types of holiday packages as well as co-listing what postal code in Dublin they reside in or if outside Dublin, what was their county of residence. Whether they pursued a bridge, gardening, painting, hill-walking, murder mystery break and at what time of year and at what price, and for what length of stay can be determined. Thus, historical information plays a part in the market research endeavour.

The database of about 23,000 names and addresses, is updated daily by a marketing assistant who takes the information from the guest registration forms. This "home-grown" database has proved to be cost effective, because the previous use of

purchased external databases had created some difficulties as regards measuring the results of the marketing effort. Tracking the outcome of the marketing effort is vital², since it highlights what type of holiday package will sell and to whom it can be sold. It is also expensive for the hotel to operate a freephone service and to advertise. New prospective customers are reached by advertising packages in the national press, as well as by the use of third party databases.

Marketing Plan, Strategy, Budget and Supporting Information

The marketing plan is drawn up annually by the General Manager, the Senior Assistant Manager and one of the marketing graduates, with input from all employees. The hotels in the group each prepare a marketing plan and present it to the Group Marketing Committee. **CS2/B:** “The marketing plan drives the marketing strategy, which determines the market which is then priced, which is then actioned by promotion, and then adjusted and discounted and re-promoted and re-promoted”.

Active re-planning takes place; during the season, the staff would meet in their departmental groupings to discuss how the business is performing and customer care issues. Changes and adjustments to the marketing plan for each hotel happen this way and are filtered through to the Group Marketing Committee which meets once every fortnight during the season.

Trends in the business are monitored via the “Sales Analysis”, “Forward Book” and “Tour Book”. The General Manager also acquires valuable market research information about tour business when he meets tour operator travel agents at trade shows and holiday fairs. He also supplements his market knowledge through his travels abroad on holidays and through reading.

Marketing Strategy and Changes in Marketing Strategy

The *type of market* that the hotel can serve is the main factor influencing marketing strategy. At the most basic level, the market splits into the *high season* - June to the end of September and the *low season* - October to end of May, with perhaps Christmas, New Year and the few days between Christmas and New Year, Easter and Valentine’s weekend and bank holiday weekends being specialised "mini-seasons" of

² When a package has been advertised, all freephone telephone inquiries to the hotel are logged in a diary; a review is then carried out to see what inquiries transpired into business for the hotel and from what telephone codes the business came. Such a correlation of inquiries versus actual business taken from them, can reveal attitudes among customers. For example, an analysis of telephone codes of freephone inquiries one month revealed that 60% of all such inquiries came from Dublin, but 30% of all actual business came from Northern Ireland. This information could be used to re-focus advertising of other similar packages. If replies are received using the pre-paid business reply service, a post-audit is carried out to check the counties (if outside Dublin) and the Dublin postal codes of the postal replies. Using this information, it will be possible to target certain postal districts and counties more efficiently, when promoting again.

their own. During January and the first ten days of February, the hotel would be closed.

Most of the changes in marketing strategy would be caused by *uncontrollable factors* such as the weather, seasonality or shocks, such as unexpected world events such as a bombing or an airline strike. But in some instances, the hotel might have launched a *poor product concept* and it would have failed to capture the public's imagination. In other instances, the concept was a good one, but the *marketing of the package did not target the correct market*; advertising may not have been focussed correctly to reach likely customers. Finally, the marketing strategy may have failed because the *price was too high*. Rarely would the marketing strategy have to be changed due to an administrative error or lack of sales ability or errors on the part of the reception staff.

Marketing Budget

A lot of money is spent by the hotel on advertising and staff at The Elms monitor historically what advertising worked and what did not (see earlier discussion). This information feeds into the marketing plan.

Once the central reservations system has been installed, the General Manager with his father-in-law, intends to set up a separate central marketing company for the group. This company would comprise a central grant-aided tele-marketing sales office with a central reservations service which would do the marketing for all five hotels. *Through the use of IT*, this office will link up to the front office systems in all five hotels, so as to keep an up-to-date picture of *bookings across the group*. This will mark a cultural change in marketing for all the hotels, because control of marketing will be retained within the group itself .

Relationship between Accounting and Marketing Functions

The accountant was removed at the time of the take-over by the current management in 1995 and replaced by in-house accounting clerks. The expertise of external accountants who act as advisors to The Elms, is requested for the completion of year-end financial accounts and to compute tax liabilities. The General Manager (CS2/A) views in-house accountants as an overhead to be minimised and prefers to pay external accountants for specialised services as required. He would use the latter's tax planning expertise and knowledge of grants and financing sources, but would rarely consult them in relation to room rate, customer, occupancy or marketing decisions of the hotel.

Theme 3 Conclusion

The interface between marketing and accounting functions is poorly developed and the accounting role is largely score-keeping; operational decision-making would appear to be driven by general management, supported by the marketing function.

Theme 4

General routines of pricing; pricing objectives; pricing calculations/method; locus of decision-making

Pricing objectives

Pricing involves pricing of accommodation, both de-luxe and standard rooms and conference rooms plus that of ancillary services such as telephone and video films, restaurant food and room service food, beverages and soon, leisure facilities. Room rates will vary depending on the type of market segment and the time of year, therefore, pricing objectives will vary depending on the market segment and seasonality.

The General Manager must price (1) to cover loan interest repayments (see their inclusion in Figure 7.5 calculations of budgeted yield) and (2) the required yield must be priced into the package and (3) the competition for that market must then be assessed, before a firm price can be set. For each market segment, the General Manager would take account of (4) last year's price and then (5) using his judgement on competitor prices, and (6) facilities on offer in his hotel, he would then set the price for that market segment, then promote the product for it and market to it.

Therefore, the ultimate factor influencing price is the market.

As regards pricing of packages, **CS2/B** said :

pricing objectives would be ...not to compete within the group, price the same as a sister hotel in a nearby region ...to price for occupancy, to price to attract the punter you want and get them to stay a couple of nights ...as well as pricing for profit ... in addition, pricing must be to get the best rate and to try and sell without discounting ... to do [the latter] you have to have good marketing and good marketing plans

The pricing method is based on a cost plus approach first of all, to determine the required budgeted yield to cover the annual costs and the required profit for the hotel per annum. Then customer and competitor factors are taken into account in pricing the various packages, in the light of the base yield that must be generated. The market/going rate method finally prevails. This calculation (see example in Figure 7.5 below) would be done say for the year 1997, mindful of experience of costs, profit and occupancy in the hotel over the three prior years, 1994, 1995 and 1996.

Figure 7.5 Sample Calculation of Budgeted Yield at The Elms Hotel

	IR £
Total Costs applicable to accommodation service – say	650,000
Required Profit	<u>200,000</u>
Total Revenue required	<u>850,000</u>

Expected Occupancy :

111 rooms for 1997 * 300 days (allowing for the fact that the hotel will only be open for 10.5 months and that 15 days of the 10.5 months would be very quiet slack time)

Total maximum occupancy = 111 * 300 = 33,300 roomnights

Historic expected occupancy level = 60%
So expected occupancy = 33,300 * 60% = 19,980 roomnights

Budgeted Yield = $\frac{£850,000}{19,980}$ = £42.54 per room per night and 60% occupancy.

- This is a broad average for the hotel and takes no account of sleepers.
- This is net of vat and for the room only and not per person.
- This is the average daily rate per occupied room (ADR) required.
- It is a base yield and is independent of the type of room. Obviously, higher rates would build up from this for the de-luxe rooms and the forthcoming suites. De-luxe rooms can yield around £65 to £73 per night, but only for about 7 weeks of the year and at Christmas.
- The rack rate of £92 is the top price and is registered with Bord Failte and published on the bedroom door and it provides an upward limit on the yield. It is only achieved on about 5 or 6% of the total lettings.
- To an extent, the General Manager (**CS2/A**) felt that when the number of bedrooms had significantly increased in 1997 compared to previous years, projections of occupancy (which form part of the pricing formula in Figure 7.5 above) were done based on a "gut feeling". The trends in occupancy are hard to predict for the forthcoming hotel year; historical data is used but weather and a certain "fashion" element are uncontrollable factors that may affect the 1997 year, despite prior market research carried out by the hotel with previous guests.
- He also mentioned the possibility of lowering the budgeted yield by charging a lower room rate and having less profit, but compensating for this by taking in more volume. He would like to see a break-even analysis exercise and a contribution margin analysis per segment; but has not had time to do this.

Locus of decision-making

Major decisions such as development work on any of the hotels, group purchasing and group marketing as well as funding decisions would be referred to the fortnightly group meetings, where the final approval would come from the Chairman of The Poplars group. The pricing of hotel rooms in the short-run and tactical marketing decisions (such as what discounts need to be offered to obtain optimal occupancy and

the matching of staffing levels to occupancy) are classified as operating decisions and are the sole responsibility of the individual hotel managers within the group. These decisions do not need approval at group level.

The reception staff are not empowered to deviate away from the brochure price on any pre-priced and advertised package, unless and until the actual bookings are low on a particular package. The brochure rates are for individual business, meaning for groups of under 20 in number. The General Manager has also given the staff bands of rates and indications of the lowest rate to sell at, for groups of over 20.

The balance of the business needs to be tracked and would need the judgement of the General Manager (as regards whether to discount and when) and any inquiry at reception which involves more than 15 rooms is automatically referred to the General Manager for a price.

Theme 4 Conclusion

Pricing in both case sites is market determined in the final analysis, but cost-plus calculations are done to work out the budgeted or required yield. This yield is a mid-point and rates above and below the yield will apply, depending on market segments. The staff have the discretion to do deals in CS1, but rules apply to the extent of discounting allowed. New travel agents and groups of more than 15 people, must have the rate fixed by the General Manager. In CS2, the General Manager sets the brochure prices to include the budgeted yield. The rest of the business being ad-hoc deals, especially those involving more than 15 rooms, is under his control. Discounting and the setting of the budgeted yield is very closely controlled by the General Manager in both case sites.

Theme 5

Specific routines of pricing –conceptualisation/ categorisation of pricing, occupancy, marketing and customer-related decisions; primary pricing decisions (rack rate and budgeted yield); secondary pricing decisions –discounting and deals; room allocation/occupancy and customer-related and marketing decisions;

Specific routines of pricing –conceptualisation/ categorisation of pricing, occupancy, marketing and customer-related decisions

CS2/A commented on the *seasonal and time dependent aspects* of the room rate pricing mechanism, as his way of conceptualising and categorising the decision. This mechanism is more important in the winter months; pricing needs to be planned for and one has to discount and get involved with different mixes of business and sell promotions and packages that suit the location of the hotel. In the high season “one can hold out and get the best rate without discounting much”; it is much easier to get

high-yielding business in the high season. CS2/A also commented revealingly on the thought processes behind the pricing decision, pricing and marketing strategy :

... a lot of it is gut, it's knowledge of what is going to work ... historical information is very important ... we tend to look back and see what happened in the prior year and what worked and what rates we got ... we use the "Forward Book" and the "Sales Analysis" book ... we analyse four years in one, the future and the last three years ... although about 60% of my business can be sold without me having one bit of knowledge of it, through the brochures etc. It's that other 30% or 40% that needs a new approach, to keep a good track on it.

Primary Pricing decisions- Determination of Rack Rate and Budgeted Yield

Primary Decision -Rack Rate

Rack rate is about £92 and has been incrementally built up from a rack rate historically inherited at the time of the take-over in 1995. It is a function of the regional location and grade of hotel, popularity of location, facilities as well as historical trends in the region. Since 1995 any increase in the rack rate has been guided by discussions with other hoteliers at IHF regional meetings. The rack rate is only achieved on the last 5 or 6 rooms in the high season and it would be through tourist office clients who are referred to the hotel, when everywhere else in the town is full, or quoted to people who ring up looking for a room. The rack rate is not contentious; it would be charged if a person comes for just one night, but deals are done. If they stay four nights, they will be charged less than the rack rate. The rack rate is also priced into the de-luxe room packages, which comprise 50% of the hotel rooms in the high season.

Primary Decision – Budgeted Yield

A copy of the budgeted yield calculation (done by the General Manager, CS2/A) was shown and explained to the researcher (see Figure 7.5). It would be done say for the year 1997, mindful of experience of costs, profit and occupancy in the hotel over the three prior years, 1994, 1995, 1996.

Literature : Collier and Gregory (1995 p.34) reported that in all six case studies, little cost information was provided by management accounting for the determination of either rack rates or bargain breaks. This finding is consistent with the observations of Fitzgerald *et al* (1990) in their study of service sector firms, who reported that costs would not be routinely used for pricing decisions, except in professional services. Hotels are service shops.

Secondary Pricing decisions-brochure prices, discounting and deals; room allocation and occupancy decisions; customer related and marketing decisions

It should be noted that once the price of the high season family packages and the off-season weekend / mid-week packages or specials are computed by the General Manager and advertised in the brochures or in the newspaper in the case of specials, then 60% of the business is already pre-priced and so the selling of the package is deployed to the marketing staff and the reception staff. The brochure rates are for individual business, meaning for groups of under 20 in number. He has also given the staff bands of rates and indications of the lowest rate to sell at, for groups of over 20. Managerial judgement must be applied to the policy of discounting in the high season. There is a *time dependent* aspect to the discounting, as the General Manager explained:-

CS2/A: You cannot discount 2 or 3 weeks away from the start of the high season [or you will have a lot of upset already-booked guests], you can do it a year before if you book in lower-spending tours ... if a leisure centre is being provided, that should be a good marketing tool to help me keep my price up and this means not taking as many tours, as these are low spending and get discounted rates

Discounting is also used as a reactive device to poor occupancy figures or to react to low take-up on the brochure packages, which can happen for many reasons, some uncontrollable by the hotelier, such as poor weather or economic, political shocks or terrorist attacks as well as business being taken by competitors.

To quote **CS2/A**, the General Manager :-

There are 4 or 5 people in reception and they can send off the brochures and they can't deduct and they sell all the individual business, which is probably 60% of our business. 60% of our business should be sold at those rates or specials we advertise. The brochure is set, those rates are set a year in advance and a lot of things could happen. If the weather is bad, or if the competition are undercutting you, you have to start getting reactive.

In Theme 7, the whole area of changes in pricing strategy, the impacting factors and what MIS reports are used by the management are explored.

Room Allocation and occupancy decisions

To a large extent, the *judgement* of the General Manager is applied to historical data in deciding what percentage of rooms to allocate to tours and to golden years business and at what time of the year. For example, based on historical information, a judgement was made not to take tours in July and August 1998, as the hotel could be filled with families, without any tours at all.

The growth in the number of hotel bedrooms and the change in quality in hotel bedrooms is a factor that affects occupancy and this impacts upon pricing strategy. As

the hotel gets bigger, it is possible to achieve the budgeted yield, but the occupancy rate may in fact, have decreased. In situations like this, a sleeper analysis is called for. Historically, the sleeper rate was 1.5 times the roomnight occupancy. The mix of business in the hotel, configures the sleeper profile; for example Golden Years holidays largely comprise single occupancy. To react to falling occupancy levels, one has to attract more double occupancy to the hotel. This can be achieved by pricing lower to attract “budget business”, where the rate is quoted per person and three to four people can occupy the room. The larger number of guests however, tends to cause cost to increase; average yield is increased due to higher sleeper rate, occupancy and revenues earned, but costs also creep up and profitability may in fact be affected. To summarise, actions to increase occupancy would be based on “gut feeling”, such as when CS2/A would decide to restrict single occupancy to say 20 rooms on one particular night.

Customer-related and marketing decisions

The policy on booking deposits can be very vital, but can sometimes be a negative selling point. Unless the customer is well-known, a booking deposit of £25 per person is required, usually by credit card, at the provisional booking stage. During the high season on a bank-holiday weekend for example, full pre-payment would be insisted upon, unless the customer was known to the staff. This is because the hotel is likely to fill. If on the other hand, there would be rooms available, only the booking deposit would be required for the provisional booking. All bookings of groups involving 30 or 40 rooms would require a deposit. Whether any deposit is refundable or not in the event of someone not turning up, is a marketing and a customer decision.

Good follow up by the reception staff of provisional bookings in the last 10 days prior to arrival, to see if these bookings are being confirmed helps to clarify the likely picture and assists them in deciding when to release a room. The hotel also covers itself by overbooking usually to the extent of 10%.

Another marketing decision would be the acceptance (or not) of vouchers from customers who are travelling around the country on say an Aer Lingus fly-drive holiday. In 1997, a strategic marketing decision was made not to take these vouchers on a pre-booked basis, but only subject to availability³. This means that the hotel protects its yield through choice of customer; these vouchers imply a standard charge for room rate across the country in three star hotels. Taking these vouchered clients on a pre-booked basis attracts a high opportunity cost in the high season, as the hotel could have filled the room with a higher room rate. If occupancy levels dropped unexpectedly in the high season, the hotel might change its policy mid-season and take all pre-booked vouchered clients.

Another instance of good marketing decisions would be charging a single supplement only at weekends, when the hotel is likely to be full and lifting it during the week. The decision not to charge a single supplement can sometimes to particular market segments, such as Golden Years holidays, which attract a lot of widowed people. This

³ **On a night in the high season if there were 4 or 5 rooms left in the hotel at say 8 o'clock in the evening, then the reception staff would take the vouchered client.**

concession, as well as selling it as a four night package, with the fifth night free, is a strong selling point, in the General Manager's opinion.

Theme 6. Use of Yield Management

Because of the *increase* in the number of bedrooms in both The Elms Hotel and in The Poplars Group as a whole, the focus of the management must be *on yield management* ; selling at a cheaper rate cannot guarantee full occupancy because of the enlarged number of rooms. Thus, the installation of the new front office reservation system is a matter of urgency. There would be a maximum number of rooms allotted to single occupancy. Without any computerised YM system, the decision on the latter is a total "judgement call" made by the General Manager and operationalised by the reception staff. **CS2/A** : The use of the "Sales Analysis" book, the "Forward Book" and the "Tours Book" (see Theme 7 – MIS Reports) are vital management tools for pointing up trends in the business. However, he must be *reactive* in responding to any downturn in business and given the pace of change in the marketplace and changing consumer trends, he is installing a computerised front office yield management system, to give him more real-time information on actual yield to date and forecasted yield. This will give him these key variables much more quickly than the manual calculation from the "Sales Analysis" book.

Therefore it may be deduced *that pricing strategy is affected by the speed with which insight can be gained into how successful the current season is.* The quicker the real picture on yield and occupancy is revealed, the quicker the manager can react by changing his pricing and/or marketing strategy. Therefore the computerised yield management system will confer a competitive advantage in formulating pricing and marketing strategy.

Impacting factors on room rate pricing/ pricing strategy

When asked to rank order *the factors that would impact on room rate pricing strategy*, the following was the listing prepared by **CS2/B** :-

- Competition, the need to cover the cost of constructing the Leisure Centre; the type of market segment to which the hotel was selling.
- Repayments to be made on loans to finance the hotel, plus an awareness of the approximate total per annum cost of a room.
- Upgrading of technology in the bedrooms and the new reservations systems in the hotel; the location of the hotel.
- Market changes, perhaps due to a fashion element such as if the Far East became more attractive to European tourists than Ireland, discounts would have to be given.
- Firm size.

- The product profile on offer and the way in which the firm competes and jointly also this rank includes the degree of competition in the market, to include the degree of uncertainty in the market.
- Shocks in the sector, such as changes in exchange rates such as D-mark to punt or Sterling to punt which will affect the likely numbers of tourists as a whole coming to Ireland and may force a cut in prices at The Elms ; or a ban on say German tourists if Germany carried out nuclear testing, or interruption in the Peace Process as well as budgetary changes in VAT, Corporation Tax rates as well as changes in capital allowances rates.
- The length of the product life-cycle.
- The degree of technological advantage, meaning the computerised yield management and central reservations system.
- Meetings with other members of the Irish Hotel Federation can give guidelines as to permissible increases in the rack rate from one season to another for the region and the grade of hotel.

Changes in room rate pricing strategy

It is important to be *reactive in pricing during* the season as well as having planned *pro-active* parameters/prices available *before* the season. The latter comprise the mid-point budgeted yield, seasonal rack rates and the floor price, which are computed, deduced or guessed respectively.

As discussed in Theme 4 and as illustrated in Figure 7.5 above, the *budgeted yield* may be computed before the season, using some pricing method. This budgeted yield then spawns various *seasonal room rate* prices (for the various types of rooms/suites in the hotel) as well as the *brochure packages*, all of which are priced in advance of the season to which they relate and would be deemed to be pro-active prices, as the latter consciously build in the budgeted yield. *Tour and bulk prices* would be set well in advance of the season and would be agreed in advance with the tour operators, so they would be pro-active even though they would usually be discounted from the budgeted yield, in order to bring in large numbers.

Before the season, *seasonal rack rates* would be struck and registered with Bord Failte, having been deduced via discussion with local managers and by use of the hotelier's own judgement on the facilities, grade, location of his hotel and the amount

of agent business it attracts. In the case of the *floor price*, it can be guessed based on whether it roughly equates to the marginal cost of letting and cleaning a room. However, the budgeted yield is only a mid-point and the ceiling seasonal rack rates and the floor price are purely guiding benchmarks on a *spectrum of possible prices* from the ceiling to the floor.

During and while the *uncertain reality* of the season unfolds, the hotelier must look ahead and consider carefully *each day (whether expected to be high or low occupancy) in each week of each season*, then react by designing product offerings for certain dates, then work out how best to market them and finally set reactive discounted prices to pull in occupancy from specific market segments, to whose needs the product should be well matched. He may also have to react to disappointing sales on activity/ brochure packages by doing special offers. However, as noted earlier, the hotelier has to very careful about when, why and by how much h/she discounts, as there are time dependent and equity-to-the-guest aspects to it.

The hotelier may not have always have a lot of advance planning or thinking time to consider his pricing strategy. Due to the uncertainty of demand and/or unanticipated shocks such as foot and mouth disease, a terrorist bombing, economic recession, bad weather as well as changes in consumer tastes, he may simply have to react and price and instinctively. Pricing in this scenario is therefore reactive, because h/she is unsure of the state of the market, or indeed advance bookings may be so bad, that opportunistic (rule of thumb pricing and ad-hoc deals) and altruistic or charitable pricing may apply.

Therefore, marketing and pricing strategies are dynamic in the same way that consumer tastes are fickle and shifts in the tourism industry occur as often as every year. Changes in marketing strategy have already been discussed in Theme 3. To summarise, changes in room rate pricing strategy occur :-

- (i) When the hotel moves from high-season to low-season;
- (ii) When the hotel moves from one year to the next ;
- (iii) In the off-season months of February, March, April, October, November and December, bargain weekend and mid-week activity breaks or packages are

advertised for particular dates at rates that are competitive compared to high season prices.

- (iv) As the bookings come in and the dates of the package on offer get nearer, there may be unsold rooms at the package price and frequently the price is adjusted, special offers are launched and the package is re-sold in order to capture the last few room sales. Advertising in the newspaper is expensive and is left until about 3 weeks before the package date. At this stage, the hotel would know what the likely take-up on the package is and whether it needs the "extra push" through newspaper advertising, in order to clinch a few late bookings. To retain equity between earlier and later bookings, "limited availability" is placed in the later advertisement for the package (as the price is dropped as the dates to which the offer applies draws nearer), but to retain equity, the evening meal may not be available to the last minute guests. Alternatively, instead of discounting on the original brochure price, the hotel may offer added value, such as free use of the leisure centre to all late booking guests.
- (iv) Changes in price are also made if there is a trend towards falling occupancy levels. The hotel may switch to contribution pricing where the price will be pitched at or above the floor price, but will be a lot less than the budgeted yield guideline. This reactive price may be necessitated by bad weather, shifts in consumer tastes, a collapse in tourism numbers, shocks in currencies, catastrophic world events such as bombings or by a poor product concept, poor marketing or an incorrectly pitched original price on a package say.
- (v) A sleeper analysis might be done, which would indicate the need to increase double occupancy in the hotel. Because of the inter-dependency of room rate and occupancy decisions, any action on occupancy invariably requires a change in the room rate. This can be achieved by offering family accommodation and not charging for children, or by charging per person on the standard rooms and not just for the room. For example, charging £92 for a room is more difficult to sell than charging £46 per person sharing per night. The decision to charge per person or per room is made by the General Manager only and is a matter of judgement based on the time of year and the likely competing business for the room, to see what is the best pricing strategy.

MIS reports and Key Performance measures used to monitor the business

Several reports trigger managerial action to change rates and/or to react to low occupancy:-

- *Trends in the business* are monitored. Every week, an analysis of sales is carried out and recorded in the “*Sales Analysis*” book by the reception staff and one of the marketing graduates. The analysis notes what business was taken by recording the guest’s name and noting whether there was a specific reason for the business, so management can assess the likelihood of it being repeated. It also notes what business was refused and the reasons why. This “*look back*” facility helps to inform future rate, occupancy and customer/marketing decisions.
- In another book, called the “*Forward Book*”, the cumulative bookings taken to date at the present time of the year are noted week by week, month by month and a record is shown of the total bookings to date at the same stage of the year, for the three previous years. This provides market research information as to whether the current year’s bookings are up or down compared to the past three years. *This “look forward” facility can prompt corrective action by the General Manager, through activating marketing decisions.*
- Finally, *market research information about the tour business* would be obtained by the General Manager when meeting tour operators at trade shows and holiday fairs. This is followed up by an analysis in the “*Tour Book*”, of all tours booked or provisionally booked in the current year. A critical part of the analysis is to include an analysis of actual tour bookings for the same time, but in the *previous year*. This helps the manager in deciding whether to take tours at the time requested by the operator, or defer them to a period of lower occupancy, or indeed whether to take tours at all.

Note: All the above books are manual and very time consuming to prepare and will be superseded by the computerised MIS. The researcher inspected the actual Sales and Forward and Tour books in use during her research visits to “The Elms”.

Key Performance Measures

“The focus of the General Manager is on yield management, customer care and marketing, rather than on accountancy and cost analysis”. The hotel uses USAH

which reports departmental profits and losses for rooms, food and beverage, and other supplementary income departments, after deduction of direct expenses, but before undistributed operating expenses and fixed charges (see Appendix 1).

At The Elms, the most important performance measurement was the monitoring of room occupancy and average room rate. These were measured weekly using the "Sales Analysis" book. The comparative figures for the same week in the previous year and the year to date position for the current and the previous year are checked. These figures are reported to the Chairman of "The Poplars Group" .

The time delay in computing the yield is expected to be remedied by the installation of the new front office system, which will report the yield daily. As regards quality of service, the hotel has incorporated a comment sheet for feedback from guests, plus a guest questionnaire is randomly offered to some guests when checking out and completed on the spot. Internal benchmarking is carried out on labour and food costs, within the group. As regards innovation, the hotel carries out some market research to establish what type of holidays will sell in the future, but a more formalised procedure will be necessary. The leisure centre marks an innovative step and was supported by the preparation of a business plan. There are plans to upgrade some bedrooms to suites for the wedding business and to provide a technology room for corporate clients.

Theme 7 Conclusion :

The room rate pricing decision and strategy is impacted upon by many factors which hoteliers do recognise, in line with the literature and the views of key informants. However, if (1) the hotelier lacks the information and/or the technology to "do the sums" quickly and accurately before the season (to compute the guiding parameter of the budgeted yield) and in the season (say on receipt of an inquiry from a prospective guest) then h/she may be unable to properly reflect these factors (of which he is cognisant to one degree or another) in the budgeted yield or in the room rate quote respectively, so leading to sub-optimality. If (2) h/she does do calculations, but they are not valid, because they are not guided by real-time information on yield and occupancy achieved to date, sub-optimality will also occur. This conundrum is caused by the uncertain, time dependent, inter-connected and complex nature of the room rate decision and in reality is handled by the hotelier's general and specific pricing routines.

Role of the Accounting Function and use of new accounting techniques

Due to the integrated nature of activities within the hotel, the high margins, the market-based nature of pricing and the fact that such a large percentage of total costs are fixed, activity based costing is *not used* at The Elms. CPA, Life Cycle Budgeting, SMA are not used either.

The Irish hotel industry has not adopted ABC, Life Cycle Budgeting, CPA or SMA. Despite the fact that the industry is quite open, SMA is not used in Irish hotels, unlike the UK where SMA is used, although not for pricing. The accounting function scorekeeps (prepares the accounts for fiscal purposes), but rarely seems involved in

either room rate decision-making or in the presentation of information for such decisions. The reasons for this may lie in a certain lack of power in the function, compared to general management and marketing professionals. As noted in Chapter 3, poor pay scales and a certain disenchantment on the part of hoteliers with the function, dating back to the recession of the 1980s' may explain this inertia.

Cost control

When occupancy is low, the ability to make labour into a flexible cost can assist cash flow in the hotel. The General Manager would like to see multi-skilling at all levels (so for example a waitress could take over as receptionist) plus a greater return from administration work on an hourly basis. Effectively he is aiming to convert labour from a fixed cost into a more flexible labour cost such as a semi-variable cost. This may be possible to achieve in the long-run. He has employed a consultant from IBEC to look at the industrial relations aspect of any change in terms of employment in the hotel, which is a unionised environment.

Literature : In all 6 case sites in the Collier and Gregory (1995) study, a prime objective of management was the control of labour costs to ensure that these varied with the level of activity. Some of the case study companies had sought to achieve this, through altering conditions of service and employing part-time staff.

Product Life Cycle Issues

The Elms Hotel has a life cycle in relation to standards of décor and facilities in the bedrooms; theme restaurants and bars may need to be updated, but the most important life cycle is that of the hotel product itself - the manner in which the hotel packages its facilities into holiday ideas that will attract market segments. To quote the General Manager :-

Product life-cycle is very cyclical. If you are looking at the business as a whole, as life-cycle, I would say that when we took over the hotel, it was ... very over-mature and it needed some kind of development and we are probably in the growth stage now of the whole group. We have developed our rooms, we are upgrading the older ones, which were too old-fashioned. They were out of touch with the three-star standard. ... The reason it was mature was because maybe it was too old ... there was no development. We brought it back to the beginning, I would say, again. The business that is in the hotel, is quite cyclical ...and we want it to grow again. We are on a growth stage and we will be on a growth stage [in the business overall] for the next 5 to 6 years ... and then we will probably steady out

Cost control is an important, though secondary issue to revenue generation in Irish hotels, in common with literature guidance. Hoteliers are aware of product class and product form life cycles and re-invent the latter, when they become over-mature. Thus, they ensure that their product remains relevant to changing consumer expectations and market trends.

Industry Level Policy – changes and challenges

Reconciling marketing and accounting logics in the hotel sector: cost management rather than cost measurement in the hotel sector

While traditionally the individual hotelier exhibited the craft of hospitality and gastronomy, the industry is increasingly being influenced by the techniques of mass production, which originated in early twentieth century US manufacturing industry. In the context of the hotel industry, the concept of mass production means a drive to reduce the long-run unit costs of accommodation by constructing standardised mass produced units for bedrooms, reducing unprofitable spaces such as large foyers and a drive for maximum occupancy levels. The lower unit costs achievable in this way are only of value if guests can be found to fill the hotel to the optimum level in a systematic, continuous way. The capacity to mass produce is limited by the capacity of the marketplace to absorb the production. In an industry which has no capacity to create or maintain stocks, mass production also provides an imperative to pre-sell accommodation space by the marketing of inclusive tours and groups travel. This trend drives the industry away from the tradition of the craft and service towards the model of a hotel as a business first and foremost, with hospitality considerations secondary.

¹ In the Hubbart formula in Table 3.3 (Appendix II-B), all costs, both fixed and variable, of the hotel accommodation department as well as central undistributed operating expenses and fixed charges plus the target profit, are taken into account in calculating the average room rate required.