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An exploratory study of revenue management practice in Nigeria’s small and medium-sized hotels

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An Exploratory Study of Revenue Management Practice in Nigeria's Small and Medium-sized Hotels

ABSTRACT

This research investigates the adoption of RM theory in relation to its practice within small and medium-sized hotels (SMHs) in Nigeria based on the semi-structured interviews of 21 hotel managers. The concept of revenue management (RM) has developed since its inception in the early 1970s during the deregulation of the airline industry in America. It is now a common phenomenon in the service industry, particularly within the hospitality and tourism industry. This paper reveals that an adequate understanding and application of revenue management theory could maximise every aspect of operations in the hotel sector. This research involves a detailed investigation in the following key areas: the concept of revenue management, price determination, demand prediction and the effect of technology. The research methodology adopted a qualitative approach using semi-structured interviews. Data from the interviews were transcribed and thematic analysis was used to evaluate the findings.

Keywords: Revenue management (RM); pricing strategies; demand forecasting; technology; small and medium-sized hotels (SMHs).

Introduction

This research aims to explore the practice of revenue management within small and medium-sized hotels (SMHs) in Nigeria. Revenue management (RM) is an essential marketing management instrument in hospitality businesses. Denizci and Mohammed (2015), Queenan et al. (2011), Sarheim (2008), Strauss et al. (2018) and Yeoman (2016) assert that RM is a tool used by hotels to achieve the highest possible revenue per available services. This implies that a proper understanding and application of the RM system could maximise every aspect of operations in the hospitality business. The primary focus of RM is to assist firms in achieving the highest possible income. This can be attained by targeting pricing, demand prediction (forecasting) and market segmentation to market the limited capacity of a firm effectively (Ivanov and Ayas 2017; Ivanov and Zhechev 2012 and Ng 2007).

RM is an essential strategy to maximise the revenue of a limited capacity service (Berman 2005; Chiang et al. 2006; Ivanov 2014; Ivanov and Ayas 2017). Tranter et al. (2009) explain that capacity, supply and demand remain the three significant factors connected to price and availability, which are the drivers for the practice of RM. Liu et al. (2006: 545-546) note: 'Revenue management is the application of information system and pricing strategies to allocate the right capacity to the right customer at the right price at the right time.' Choi and Mattila (2006) state that RM is a demand-based pricing strategy used to forecast demand and optimise inventory levels. Noone, Enz and Glassmire (2017) and Yeoman (2016) explain that hotel RM includes multiple revenue sources, a deep understanding of customer value and a shift from top-line metrics to bottom-line measures to take into consideration distribution and operating costs. The key concept of RM is making smart choices about products or services so as to offer them at a desired price to customers.

Revenue management (RM) has developed since its inception and has been highlighted as an efficient tactical approach to maximise revenue by matching demand and supply. It is now a common phenomenon in the service industry. However, Ivanov and Zhechec (2012) highlight that it has received negligible attention in the hospitality industry. The hospitality industry is the fourth largest business sector in the world. It is a stable industry, which provides a steady return for investors worldwide. The hotel industry in Nigeria is thriving, contributing $30.9 billion to the economy in 2013 compared to $4.6 billion in 2009 (CBN 2016). Lock (2019) established that hotel revenue in 2018 was $252 million and is forecast to reach $445 million by 2023. The hotel industry in Nigeria accounts for about 7,000 hotels and approximately 245,000 standard rooms. There was an increase in the occupancy rate from 55% in 2013 to 65% in 2014 and a decrease to 50% in 2018. As a result of this fluctuating rate in Nigeria hotels, it is important to understand the practice of revenue management in maximising income from consumers, optimising inventory levels and real-time forecast demand. Hotels in Nigeria are mostly independent and privately owned, and about 99% fall into the category of small and medium-sized enterprises (Amadi 2008; Nwosu 2016; Sanni 2009). Jochemsen and Koole (2018); Lee-Ross and Johns (1997); Mohring, Keller, Schmidt and Zimmermann (2018) and Okumus (2004) emphasise that RM is more prevalent amongst large hotel corporations and that SMEs are lagging in the adoption of this methodology.

As the hotel industry operates in a dynamic and competitive environment, there is a need to understand how to maximise the organisation resources and strategies in order to offer the best services at the best price to the available customers. The primary aims of this research to gain an understanding of the practice of revenue management in Nigerian hotels and to answer the following questions: (1) Do small and medium-sized independent hotel managers in Nigeria understand the theories and approaches to RM methodologies? (2) What are the factors that influence revenue management in SMHs in Nigeria? (3) Are SMHs adopting a definite pricing policy?

This research paper is organised into four sections: The first section provides the introduction and the research objectives. The next part is an overview of the literature relating to the concept of revenue management and pricing strategy as it applies to hospitality businesses. The third section justifies the chosen methodology, and the final part provides a discussion of the research findings and a conclusion which gives scope for future research.

Literature Review

The Concepts and Drivers of Revenue Management

Ivanov and Zhechev (2012) highlight that RM has developed theoretically as a business practice. However, research in hotel RM is lagging. Areas for exploration include the evaluation of revenue management tools, such as pricing determination, demand prediction, customer segmentation, overbooking and the effect of technology on RM (Ng and Yip 2011; Queenan et al. 2011; Yeoman and McMahon-Beattie 2017). The diagram below shows the revenue management drivers within Nigerian SMHs which are investigated in this study.

INSERT FIGURE 1 ABOUT HERE

Figure 1: Revenue Management Drivers

Pricing Strategies

Pricing strategies, also known as revenue planning, involve price planning and customer segmentation, that is, knowing who your customers are and what their needs are or may be. According to Ng (2007), pricing strategies or revenue planning should be tailored to the type of market one operates in and frequently for a group of markets where there is a relationship between fares across them. The critical factors which influence pricing strategy are yield and market share. There are different pricing strategies used, such as flat fees and dynamic pricing. Dynamic pricing uses a stochastic approach. According to Vives and Jacob (2019) and Yeoman (2016), dynamic pricing aims to increase revenue and profit. Abrate, Nicolau and Viglia (2019), Anderson and Xie (2016), Boden and Ferguson (2014) explained that dynamic pricing is a common practice used to adjust prices to maximise profits, meeting customers' need base on what they are willing to pay.

Pricing strategy needs to take into account the types of customers targeted by the proposed fare (Ivanov and Zhechev 2012; Mohring, Keller and Schmidt 2019). Hospitality businesses have access to customers' data; this information can be used to customise the products, services and needs of their guests. Doing so will enhance customer segmentation and the ability to understand one's customers. Organisations have developed a customer-centric approach to meeting customers' needs, wants and desires in this era of mass customisation (Avinal 2004; Camilleri 2018; McMahon-Beattie et al. 2016; Tanter et al. 2009).

The RM approach in hotel services allows hotel managements to maximise profits on the smallest amount of services being offered repeatedly. This tactic is not necessarily measured by the robustness of the services offered but by its flexibility in availability for different customers' needs (Kimes 2010). Mohammed et al. (2020) and Nagle and Hogan (2006) state that RM can help to redefine pricing strategy and develop pricing tactics. Hotel pricing strategy aims to improve the revenue per available room (RevPAR) through two initiatives, which sometimes conflict with each other. The first of these is the development of a tariff structure to capture additional demand and drive volume with widely available base rates, supplemented with attractive discounts. The second is the market segmentation required to influence sell-up behaviour to improve yield. The sell-up practice is based on competitive rate availability and the associated rate rules (Abrate, Fraquelli and Viglia 2012; Liu et al. 2006).

For hotels to maintain relevancy in the marketplace, they should be able to respond quickly to a competitor's rate-altering actions. Hotels need to respond to competitors' rates, develop actions and have the new rates available through all channels of distribution. This can be typically addressed through automation and repeatable business processes (Tanter et al. 2009). Customers can be captured to occupy an appropriate slot of price or segment that could keep them satisfied at times of both high and low demands. This ensures that the hotel management is on course to maintain a balanced level of revenue generation by effectively managing a carefully structured revenue plan.

Demand Forecasting

As the practice of revenue management has evolved, an additional area of complication that has arisen is the aspect of meeting customer demand. This has become popular in hotel management. Revenues fluctuate a lot in hotel business because customers come in random patterns. Researchers such as Ivanov and Zhechev (2012) and Ng and Yip (2011) have applied various working models to tackle the problems of dynamic pricing, overbooking, cancellations and no-shows in hotels. However, revenue fluctuation due to random demands in different scenarios remains an issue of innovative hospitality in tactical revenue management. Hence, in this research work, the frequency of these problems occurring in hotel revenue management has become the subject of comprehensive study. How can innovative revenue management strengthen the entire practice of consumer requirements and demand as technology, the internet and e-commerce continuously envelop our daily activities?

Forecasting is defined as the act of predicting conditions for the future (Ferreira et al. 2011; Schwartz et al. 2016). Demand forecasting (DF) allows revenue managers to anticipate or project business rates, such as for reservations. Many hotels offer special rate packages for low occupancy periods: weekend rates, mid-summer breaks, New Year breaks and so on. Most hotel revenue management theories study the tactical problems of dynamic pricing, overbooking, no-shows and cancellations using statistical forecasting methods and mathematical optimisation techniques (Ng and Yip 2011; Strauss, Klein and Steinhardt 2018). Forecasting techniques help with booking decisions. So it is imperative to select the appropriate method for each specific forecasting problem. The decision-maker can use forecast demands to make decisions through mathematical models, such as dynamic programming and stochastic programming (Liu et al. 2006).

Lemke et al. (2013) explain that DF is an essential and critical part of RM. For demand forecast to be achievable, it is important for management to know the real demand for their products or services. Van Ryzin (2005) emphasised that RM should be adjusted from product demand models to customer behaviour models. This is required for management to understand customers' behaviours, patterns and trends in relation to the demand for their products or services. As much as RM seeks to ensure profits for the current dispensation of hotel services, revenue planning needs to equally be systematic in outlining the correct activities for operations and procedures (Kimes 2008; Kimes 2017). McMahon- Bettie et al. (2016) and Mohring et al. (2019) highlight how management awareness of total demand in the market helps to calculate rates for future dates and forecasts. Koupriouchina et al. (2014) and Wu et al. (2017) stress that DF in hotels is an underdeveloped area compared to its study in the airline industry. As such, there is a need for further study in this area.

Technological Advancement

Buhalis and O'Connor (2005) and Singh and Kasavana (2005) note that information technology (IT) has influenced the competitive nature of the hospitality business market. Technology has not only rebranded the operations of hotel booking and customer service satisfaction systems but demonstrated innovation within the industry. The innovative nature of technological development presents the possibility of a futuristic understanding of a market and, more significantly, customer relationships (Buhalis and Amaranggana 2013).

More accurate forecasting and reliable market demand predictions are building the confidence of managers and investors in the hospitality industry. This is not without several innovative technological applications, such as wireless technology, online reservation systems, online purchasing of hotel supplies and the adoption of data warehousing and mining technology. Noone et al, (2011) and Yeoman and McMahon Beattie (2017) emphasise that information technology can help to boost an RM system because the tool includes the ability to get, store, process and share information relevant to the management process. This means that RM needs customer relationship management (CRM) data, supply chain data, marketing and pricing information and consumer behaviour data to forecast future demand and customers' attitudes to products and services. As such, technology provides access to data, which helps with communication, networking and collaboration among different hotel systems and departments.

Singh and Kasavana (2005) further discuss how cost efficiency has been largely improved upon in hotel operations as technology has enhanced operational efficiency, such as check-in/check-out processing. The popularity of smart cards has also enabled cashless hotel transactions. Functional sections in hotels are getting more specialised as they have become outsourced.

Pan et al. (2012) and Schwartz and Cohen (2004) looked at the forecasting argument from another perspective when they attempted to logically play down the impact of the versatility of ICT on RM. They argued that despite how much ICT has modernised the RM practice, the essential nature of human reviews or judgments on forecasting was notably overbearing. Schwartz and Cohen (2004) suggested that computer-generated predictions may have elements of bias even when they seemed to be on target. This may then open a further argument on the choice of RM approach that an SMH should rely on. This is because an SMH's nature will continuously reflect the appetite for more growth as a function of the limited resources available. This understanding then exposes the need not only for installing the right technology but, even more so, the user interface and its design. Hence, SMHs may always need to base the approach of their revenue planning and management structures on the manager more than around the enabling technology.

Since the ultimate success of RM applications limits significantly the accuracy of demand predictions, hotel management at the SME level tends to recognise the central capacity of the revenue manager's bias while forecasting. This human factor (preference) could be a basis for the force and horizon of predictions around the revenue-management system user interface.

The ultimate advantage of technology in the practice of RM in the service industry is facilitating the speed of service with the best possible ease at all times (Brunger 2016; Pan and Yang 2017). The use of the internet and mobile communication devices have continued to give the customer more control over their purchased services even before the services are consumed. This directly boosts the confidence of customers in hotels even when they are SMEs (Kimes 2008).

Since the modern-day SMH must have considerable use of technology to derive its sought-after achievements from the application of RM, there is a need to perform financial calculations to justify the process. Kimes (2008) argues that within revenue management practice, company managers need to evaluate the cost of technology and be sure to offset the RM approach budget. Ultimately, consideration of the advantages in the practice by both the workers and customers still complements the justification of the profits derivable from it. Employees' perspectives and customers' opinions of the technologies in use and the ease of use of these technologies generally affect the success that is possible from using the RM approach (Kimes 2008).

Kimes (2008) and Kimes and Robert (2019) reveal that despite the success of the practice of revenue management in the service industry through the application of technology, there is still a considerable chance of misapplication. In order words, without keen attention being paid to the issues discussed above, the prospects of RM application as a successful means of generating and maximising profits are slim.

One thing the ICT advancement of this age has made possible in the modern practice of RM is maximising the use and understanding of inventory data in enhanced and convenient ways, which enable more accurate predictions of the service demands to be made. This is a realisation of the direct impact that demand forecast can exert on the process of service segmentation or allocation to different consumption categories. Ohlan (2018) emphasises that the significant role of IT in the hotel industry includes the ability to save time and gain cost efficiencies. It also impacts on customer satisfaction, improves service quality, reduces labour costs and enhances customers' experiences. Also, Stuart-Hill (2019) highlights how RM is becoming more sophisticated, with real-time information based on artificial intelligence (AI) algorithms and the spend profiles of targeted customers.

The use of advances in ICT in the application of RM has made competition among businesses more intense, but also more modern and fairer. Regarding hotel businesses, customers can now sit down with a mobile device and check their different prices and services. The speed and convenience with which this information now reaches the customer have greatly influenced precision in predictions and the systematic nature of having a revenue management plan in action (Guadix et al. 2010). Brunger (2016) emphasises that the development of RM can be attributed to technological advancement. Vinod (2010) believes that managers ought to gear up to the fast pace of evolving technology to achieve competitive advantage.

Customer Segmentation

Customer segmentation is the act and art of categorising different hotel services according to values, prices and offers. Hotel practitioners need to understand customers' needs and behaviour based on their demands. This will help to formulate effective strategies and increase their market shares. Customers have a different perception, attitudes and expectations in relations to different types of hotel. As a result of this, hotels need to make their niche market clear to attract their target customers. Siguawa et al. (2003) stressed that the success of RM depends on a sound understanding of customers' needs and price sensitivity.

Kotler (2003) explained that many organisations spend more money on acquiring a new customer than retaining existing customers. One of the principles of RM is selling to the right customer at the right price and time. Customer selection and segmentation are one of the crucial factors that contribute to organisation revenue management (Cleophas and Frank, 2011; Tsai and Chui, 2004). Ahmad et al. (2011) mentioned that customers within the service sector varied widely; as such, it is vital to understand what each category need to serve them.

Maximising revenue from customers is key to hotel businesses, especially with the competitive sensitive environment and constantly changing customer trends and demand. Hoteliers need to understand, anticipate and make the necessary adjustment to enhance hotel operations, performance and profitability (Ahmad et al. 2011; Bodie, Kane and Marcus 2008; Kimes 2002). Nica et al. (2019) and Victorino et al. (2009) established that segmentation is a process of the customer into several groups with the same characteristics and product needs. Shoemaker, Lewis and Yesawich (2007) classified customer into different segments such as geographic, demographic, psychographic, usage and price benefit. These segments define customers in term of residential locations, age, race, income, education, self-concept, opinion and beliefs. Further variables also consider business or leisure customers which depict their usage of hotel facilities. The price benefit classification is based on the benefit that customer seeks when comparing the service price to the satisfaction derived.

Frochot and Morrison (2000) explained that understanding these classifications, especially benefit segment, will help organisations to design their facilities and service quality to meet customers' desire. It has been argued by researchers such as (Chen 2011; Frochot and Morrison 2000; Kotler 2003 and Queenan et al. 2011) that customer segmentation is one of the most important concepts in achieving long term financial goals and minimising business risk. It is a distinguished driver of RM that can individually influence profit-making enormously under good and properly coordinated yield strategy management.

Zhang et al. (2011) categorised hotels customers into three different classes, luxury, middle-class luxury and economy. This classification justifies customers focus in terms of why a hotel service was craved and the expectation of purchasing another particular hotel service. Likewise, it is necessary to highlight that pricing and customer segmenting are integral facilitators of RM practice if not the motivators of it. Mohammed et al. (2020) espouse that for dynamic pricing, booking day or transaction date is one of the common ways to segment hotel customers. Licata and Tiger (2010) state that RM permits the service manager to place each customer on a 'service' versus 'price' sensitivity continuum. This signals that there is an average spot on the continuum of service around which the hotel management can offer promotional services conveniently and still be maximising profits as well as satisfying customers.

Benchmarking

Benchmarking is a continuous process of evaluation of products, services and practices with respect to those of the strongest competitors or of the enterprises recognise as industry leaders. Benchmarking has become a popular tool for organisational improvement. Choosing an appropriate comparator set contributes to organisational success (Wang and Huang, 2020). This allows an organisation to study the best methods, to adopt ideas and to become quickly and effectively the best. The benchmarking factor serves as an evaluation function in terms of how the revenue manager is performing per established guidelines relative to supply and demand patterns, rate sensitivity, and room allocation procedures, (Nasser 2012; Upchurch et al., 2002). It helps to achieve competitive analysis and improve organisational performance. Wu, Lan and Lee (2013) assert that hotel benchmarking is useful to ensure efficiency and effectiveness of revenue strategies.

For hotels to maintain relevancy in the marketplace, they should be able to respond quickly to a competitor's rate-altering actions. Hotels need to respond to competitor's rate, develop actions and have the new rates available through all channels of distribution. This can be typically addressed through automation and repeatable business processes (Tanter et al. 2009). Customers can be captured to occupy an appropriate slot of price or segment that could keep them satisfied at times of both high and low demands. This ensures that the hotel management is on course, to maintain a balanced level of revenue generation by effectively managing a carefully structured revenue plan.

In the hospitality business like the hotel industry, most organisations determine their competitors based on different factors such as price, location, facilities and customer-service level (Tanter et al., 2008). With the advancement in technology, there are different platforms (e.g. Smith Travel Research Global, Booking.com, Expedia, etc.) which are readily available to most hotels, even small and medium-sized hotels. Similarly, the use of variance analysis has proven to be a useful benchmarking tool because it allows organisations to consider the results of changes to a hotel's demand mix. The outcomes can sometimes be favourable or not to the organisation. Also, this approach has enhanced transparency in hotel pricing strategies (Anderson and Xie 2010).

Research Methodology

The research methodology adopted is interpretivist and qualitative in its scope. This is to enable the researcher to investigate practical opinions and experiences in achieving the research aim and objectives. Denzin and Lincoln (2011) state that qualitative research is concerned with qualities, processes and meanings, which are not experimentally examined or measured in terms associated with the quantitative approach, that is, in terms of quantity, intensity or frequency. Mason et al. (2010) explained that qualitative data analysis reveals the respondents' opinions; these may vary depending on the research problem and the information required. In addition, Creswell and Poth (2017) emphasise that qualitative research is conducted in a natural setting and that the researcher is a human instrument for data collection. It is the most appropriate approach for studying people's behaviours, opinions and feelings at an individual level. As this study aims to understand the practice of RM from owners' and managers' viewpoints, the qualitative approach is considered the most suitable tool for exploring their behaviours and beliefs in relation to the concept.

The study criteria are small and medium-sized independent hotels – with less than 100 bedrooms – in Nigeria. This is in agreement with Avcikurt's (2003) study, which used samples with 100 bedrooms or less as small and medium hotels. This research adopted a non-probability purposive sampling technique. Purposive sampling is when respondents are selected based on a key criterion or meet the criteria for the study. This makes it suitable for this study as the research seeks to identify and analyse the practices of revenue management within the operational and strategic management of 21 hotels. The respondents are required to be owners or managers of small and medium hotels, people who are involved in making strategic decisions relating to pricing, demand forecasting and revenue management in their organisation.

Qualitative research data are often recorded in a textual format using interviews and observations. In this study, interviews were the primary method of seeking opinions, further justifying some of the findings in the literature. The questions were semi-structured and open-ended in design, which allowed the researcher to dig deeper into the subject and gain more information about the practices, attitudes and understandings of the respondents about the study subject. This allowed for flexibility in revealing in-depth views and experiences and enabled the researcher to be open to new information from the respondents (Creswell and Poth 2017 and Easterby-Smith et al. 2018).

The researcher contacted 111 hotels through phone calls, physical visit and emails but only 21 hotel owners/managers agreed to be interviewed, which comprises 19% of the contacts made. The 21 hotel owners/managers willing to participate in the study were interviewed over the phone or in person. The study used three telephone and eighteen face-to-face interviews. Also, the interview periods ranged from 25 to 65 minutes, which gave the participants enough time to explain their practice of RM, using different examples as it related to their hotels. The table below shows the characteristics of the respondents, giving information about their gender, number of hotel rooms, years of experience, location and the interview methods used.

INSERT TABLE 1 ABOUT HERE

Table 1: Respondent characteristics

Seven of the 21 participants did not agree to be recorded during the interview, so the researcher made notes of the discussions. The interviews were conducted in eight states in Nigeria within the participants' hotel sites. The respondents' titles include owners, general manager and operational manager. The participants comprised 16 males and 5 female, with a range of experience spanning from 1 to 20 years. Also, the number of rooms varies from 18 to 80 rooms, indicating the different size of hotels in this study.

The interview recordings were transcribed, and along with the information from the note-taking, were analysed according to four themes: understanding of RM, pricing strategy, demand forecasting and technological impact. Also, some hotel managers/owners who had initially agreed to the study became sceptical about participating in it because of the title of revenue management; they were thinking about the implications for the tax authorities. This created a barrier that limited the number of participants in the research. As such, the study cannot be generalised to represent the views of all hoteliers in Nigeria. This study does, however, highlight the theory and practice of the revenue management system in the hotel industry in a modern-day competitive market.

Research Findings and Discussion

The research presents a thematic analysis of the qualitative data gathered during the fieldwork. According to Braun and Clarke (2006: 79), thematic analysis 'is a method for identifying, analysing and reporting patterns (themes) within data'. It is a complex process that helps to organise and describe the research data in rich detail. It involves reading the transcripts several times, coding data, developing themes and subthemes, and seeking to identify core narrative elements associated with each theme. To capture the hotel practitioners' perceptions of the concepts and practice of revenue management, an in-depth, semi-structured interview method was employed. Inferences and deductions from the interviews were analysed. This research used a manual approach to analysing the data. This was to make the research familiar to the researcher and not to be at a distance from the data and avoid being machine-driven. This is following Creswell's (2012) view that the use of computer software may result in a loss of meaning and inferences, distancing the researcher from the data. Based on the 21 interview transcripts and research notes, the revenue management concepts and drivers in practice were identified, grouped and summarised according to four themes, which are an understanding of RM, pricing strategies, demand forecasting and the use of technology. These themes are further explained in the section below. The thematic grouping of the data helped to set the focus of the research question. The conceptual framework in Figure 1 forms the basis for the research analysis and themes.

Understanding of RM Concept

It can be inferred that the small and medium-sized hotels in Nigeria have knowledge of the RM system. However, the RM system in place within individual organisations varied due to their different structures and modes of operation. All the case participants had an understanding of the concept of revenue and of revenue management being about cost and income. Some of the definitions provided are:

'Revenue management has to do with the inflow of cash, so it's how you can maximise your revenue properly and efficiently.'

(General Manager, Hotel 1)

'It is based on understanding, anticipating and influencing consumer behaviour to maximise revenue or profits from a fixed, time-limited resource.'

(General Manager, Hotel 8)

'It is the process of determining right hotel rooms pricing, a management strategy on staying on top in business and using extra facilities/activities to generate more revenue'.

(Owner, Hotel 6)

'Revenue Management is all about how you handle and manage the income that comes from the proceedings of the organisation that you are operating.'

(*General Manager, Hotel 12*)

'Revenue profile should include both the gross and the net amounts. Revenue management is based on the occupancy rate; another factor is the daily sales data.'

(*General Manager, Hotel 3*)

'Revenue management is about how one manages income, which comes in as the proceeds of the organisation that one is managing.'

(*Owner, Hotel 2*)

These definitions are similar to those of Tranter (2009), Cross et al. (2011), Talluri (2014), Yeoman and McMahon-Beattie (2017), Ivanov and Ayas (2017) and Mohring et al. (2018), that RM is an understanding of the consumer perception of service value by aligning prices, demand allocation and availability for each market segment. In that regard, this research summarises RM as a critical management practice that helps to optimise product and price despite the organisation's limited resources.

The understanding of the different revenue strands within hotels and their varied revenue management cultures is that there is no one person designated for the job and no training provided in that regard, but that it is considered as part of the operations management of the hotels. This is in agreement with Ivanov and Ayas (2017). The concept of RM consists of management knowing their customers, what they want and how they can be satisfied. Also, in practice, the cost implications of business activities are considered as part of the revenue management system. The key consideration is that, in terms of cost and revenue from all the different aspects of the hotels, income is maximised and customers satisfied. Also, the terminologies used by the hotel practitioners differ and are inconsistent with the literature and how business goals can be achieved. Creating an RM culture within an organisation requires everyone within the hotel understanding and embracing the culture. It is essential to develop an RM system that achieves organisational goals and competitive advantage. Setting up a revenue management structure is essential, and it is recognised as revenue planning. Revenue management responds to the impacts of variability and interactions between the service provider and the customer. Furthermore, the interviewees were asked about their revenue management systems. It appears that 15 out of the 21 hotels in this study had a specialised system in use while the others did not. RM software is not mainly feasible in small and medium-sized independent hotels because of the cost implications as opposed to large chain hotels. RM software is used to enhance operations from sales projections to revenue assessment, yearly performance and occupancy rates. All of the 21 interviewees in this study have a structured revenue management system, either electronic or manual, which is compiled regularly, that is, fortnightly and monthly. The evaluation process checks both staff and customers and helps business operations at the department and management levels.

It was also concluded that customer segmentation concepts and methods were understood and were in existence in all SMHs in the case studies. This coincides with Dolnicar's (2004) and Jakob and Marc (2010) studies, which highlighted how customer segmentation helps an organisation to adapt to changes and customise their product to meet the needs and wants of the targeted segment. One of the benefits of a customer segment is that it reveals the multiple perspectives of a product or service and helps management to design, specify and engage with existing and potential customer groups. This segmentation can be in the form of demographics and psychological traits. Eighteen out of the twenty-one participants explained that customers sometimes determined their price because of the market situation, as the customers paid the bills; without customers, there is no business. The other three hotels stated that they discouraged customers from dictating the price because this would affect their unit costs of production in areas such as banqueting and hotel operations. The findings are in line with Dolnicar (2004), who emphasised that customer segmentation can lead to an increase in productivity as hotels can adjust product mix, marketing strategies, distribution channels and pricing strategies. This relates to customer segmentation and pricing. Also, the use of price fences creates barriers between customer segments. The fences can be tangible or intangible. A tangible price fence can be in terms of location, room types or number and types of amenities in the property. Intangible price fences are membership, group booking, duration and time of stay. These two types of price fences are applicable to the hotels in this study.

Pricing Strategies

Price setting is one of the most crucial managerial decision-making processes within an organisation. The pricing policy is a statement of management attitude towards pricing decisions. These policies are part of long-term strategies and the ability to maximise profit consistent with corporate objectives. The pricing strategies used by all the participating hotels differ. The strategies are based on the facilities provided in the rooms and within each hotel, thus, resulting in the creation of different types of hotel rooms, such as superior, luxury and standard rooms, to meet customer demand. One of the challenges for hotel practitioners is developing the pricing algorithms or strategies that consider all the revenue streams in the organisation as opposed to finding just the room rates. This study is in line with the finding of Noone et al. (2017) that there is a need for hotel managers to embrace the use of total revenue management (TRM).

Hotels maximise their revenue by charging different prices to different customers, whether they be business or leisure ones. The participants also emphasised that price discrimination is a strategy of charging different prices for the same room type or a slightly different room type to different customers. This highlights that pricing and segmenting are integral facilitators of RM. The understanding of customer segmentation helps to predict hotel demand. However, the hotel management determines the prices charged to customers in line with yearly budgets and targets. The customer group explains their price sensitivity, which enables hotel managers to understand the meeting of customers' needs and the ideal types of room service. This is noted as the first step in revenue management, which concurs with Ivanov and Zhechev (2012) and Ferguson and Smith (2014). In addition, some hotel prices can be manipulated using software called Best Available Rate (BAR). This can be done by considering the competitors' prices, seasons and other environmental factors, such as events within the particular area. As this software is not available to all hotels, it makes it difficult to offer different prices at the same time to different customers. As a result of this, a flat price is mostly used by the hotels in this study. It now depends on the bargaining power of the customers and the discount strategies of the hotels to determine the room rate paid by customers. The hotel's room classifications should be explained to the customers to convince them to upgrade and upsell. Customers embrace product versioning if they are aware of the different price and room features.

In response to the question relating to discount structure, most of the interviewees replied that they offer special promotions and deals to customers during the off season to attract more of them, but no discounts during the peak season. There are weekend and weekdays rates. Another factor that affects the pricing strategy is the mode of booking available in these hotels. Most hotels offer telephone booking and on-site payment; this is because some hotel do not have a website and discourage online booking. They prefer customers to come to the hotel for their bookings physically. This affects the bargaining power of the customers and prevents early booking. Moreover, the prices of competitors are not readily available, leading to most hotels engaging in mystery shopping to gain insights into what competitors are offering.

Some other factors that affect room rates are the location of the hotels and the other facilities available, such as spas, gyms and function rooms. Many independent hotels do not have rate recommendation tools or an RM manager, so they rely on the hotel manager/owners to be creative and dynamic with their pricing strategy. Unlike large hotel chains, independent hotels do not have enough of a budget to manage their product distribution channels effectively.

Furthermore, the customers and market situations are seen to influence prices and revenue turnover within the independent SMEs. The facilities provided within the hotels determine the room rates, thus creating different types of hotel rooms. Seventeen out of the twenty-one participants said that discounts were determined by the managers or the owners of the hotel, offering between 20% and 30% of a discount depending on the group booking. Interestingly, one owner said that their hotel could give up to a 60% discount depending on the relationship with the hotel owner and the number of bookings. Five of the twenty-one hotels explained their discount structure using BAR software. This approach allows up to five BARs, providing different levels of discount. This shows that there is an understanding of the concepts and drivers of revenue management, but different hotel owners/managers deal with the issue differently depending on their level of experience and management style.

Demand Forecasting

The use of accurate DF is vital in setting the right goals to achieve a realistic expectation; forecasting is central to the entire market viability of a hospitality business. The more an

SMH can get its demand predictions right, the more it is capable of strategic development and likely to remain competitive in the market. The findings from this study concur with Mohnring et al. (2019) and Yeoman and McMahon-Beattie (2017), who state that optimising demand is an act of controlling and influencing demand flow. DF is vital in maximising hotel revenue. This helps management to plan and reflect on their pricing decisions, which allows them to learn from past mistakes and optimise pricing in the future. Hoteliers are not mathematically driven and do not want to know or understand all the statistical details of DF and dynamic pricing. As such, they base their method on a simple, easy and flexible approach, which suits their everyday activities. RM in practice, especially in SME independent hotels, faces challenges in terms of what to forecast, how to do it accurately and what the best forecasting measures are. Hotel demand is also influenced by external factors such as location and special events in local communities.

Despite the uncertainty in the country's security due to terrorist attacks from the Boko Haram group, the participants stressed that the demand for their hotel services had not been affected. All the hotels in this study use year-on-year comparisons and season comparisons and still have high occupancy rates. There has been a consistent demand pattern. If demand is not controlled, there can be a potential loss. This is in line with the study by Koupriouchina et al. (2014), which emphasises that DF helps hoteliers to sell rooms at the highest possible price in high season and rescue the best possible number of empty rooms in low season. As such, the respondents explained that their receptionists are trained to be aware of walk-in trade that can be taken advantage of daily. They need to be mindful of discount techniques, which may be in the form of a last-minute deal or bundle discounts. Last-minute discounts help to limit the number of rooms that will be lost and the amount of revenue unachieved.

Also, benchmarking competitors helped the hotel practitioners in the study to understand and predict the market. They conducted regular checks on competitors through mystery shopping and website checks. This helped them gain competitive advantage, determine prices and demand forecasting for the period and the season.

Technological Advancements

The use of automation to support their RM techniques should be embraced by small and medium-sized independent hotels. Hotels should try to find the right balance between the use of humans and automation. This study is in line with Buuckhiseter (2019), who found that the hospitality industry still struggles with technological limitations, such as the integration of systems and deficiencies in their functionalities. Also, technology investment decisions are difficult in terms of the complex business structure of the industry. Kimes' (2017) study emphasises that hotel revenue management is growing and changing focus to be all inclusive, aiming for total revenue management (TRM) with the help of technology rather than achieving revenue per available rooms. This is a similar finding to this study as developing countries such as Nigeria are just beginning to understand the concept of revenue management. It is also challenging to apply total revenue management to all revenue streams, especially the non-room aspect of the business. The participants explained the need for RM to move beyond room application; but such a system is not readily available.

Also, the use of technology is gradually advancing in Nigeria and has not fully affected hotel businesses. In that sense, customers are not taking full advantage of technology for booking and getting information or giving feedback through different platforms, such as TripAdvisor. Some hotels discourage online booking, preferring customers to walk in or book by telephone. The technology for booking and the supply chain is still in its infancy. There is difficulty in integrating an enterprise-wide system within the hotel industry due to cost and timing. As such, real-time information is difficult; tracking customer spend to profile also is challenging. Likewise, most of the hotels in this study did not use online distribution channels (OTAs) to maximise revenue.

Moreover, there is a trust issue with regard to online payment systems and this affected the revenue management process in the hotels. Half of the participants mentioned that their RM software 'helps with services such as checking out, efficiency in managing inventory, provides real-time information on sales. It helps with planning, pricing review'.

General Manager, Hotel 1, stated: 'technology helps to track every department to know if something goes wrong'.

General Manager, Hotel 3 mentioned: 'it would have been worse if we didn't have some automated environment'.

RM functions are going to become more central, with unique skills and tools required to carry them out. These will need resources which are not readily available in Nigeria SMHs.

INSERT TABLE 2 ABOUT HERE

Table 2: Summary of key findings

Conclusion

Although RM has grown tremendously over the last 50 years, the practice of it within the SMH differs, especially in developing countries such as Nigeria. Likewise, its research and application in Africa are limited to the academic literature. Implementing RM is not easy; it involves organisation cultural change and reliability on good sources of information to predict future demand. Stuart-Hill (2019) stresses that the role of RM will continue to evolve, and that changes to the sector as a result of RM will be evolutionary and revolutionary.

This study builds on the extensive theoretical literature in four areas: RM theories, pricing strategies, demand forecasting and the influence of technological advancement. Therefore, this paper gives a glimpse into the understanding and practice of RM within Nigerian SMHs. It used both telephone and face-to-face interviews for the primary data collection as well as to justify some of the findings seen earlier in the reviewed literature. The data from the interviews were collected and a thematic analysis technique was used to evaluate these. The interview from the 21 participants highlights the technicality and practicability of informed revenue management in the hotel industry in the modern-day competitive market.

The paper contributes to the understanding of RM practice in Nigeria SMHs. It shows that the careful building of a revenue management plan and process in business operations makes it applicable to the SMH sector. This research outcome is organised around the key themes identified, the understanding of RM, pricing and demand forecasting strategies and technological advancement and influence on business operations. The study reveals that the relationship between these themes have an impact and enhances RM practice within SMHs. Hotel owners and managers need to embrace the contribution of evolving technology to business operations. Figure 2 below demonstrates how these themes filter through to the practice of RM in the participating hotels.

INSERT FIGURE TWO ABOUT HERE

Figure 2: Revised framework

As this study was focused on small and medium-sized hotels, there was a consistently high degree of consensus among the study participants about demand forecasting strategies. The result shows that demand for hotel services is increasing. This was evaluated using hotel trends, considering previous years' booking patterns to inform future planning. This also impacts on pricing strategies, discounting methods and benchmarking with competitors.

More so, this study agrees with Ivanov and Zhechev (2012: 190), who state: 'hotel RM practice is far more developed than the RM research literature'. This study contributes to the existing literature, which shows that the theory and practice of revenue management is advancing. But there has been limited research carried out in this area, especially in Africa – including Nigeria – and within small and medium-sized hospitality businesses.

In recent times, the practice of RM has extensively employed the use of demand forecasting in the process of pricing an organisation's capacity and services as technology continues to evolve. The estimation of service values and advance buying has become increasingly convenient for managers. This study found that issues such as customer cancellation, no-show, early check-out and random demand are factors that influence the success of revenue management in the hotel industry. Managers have to be very fast in responding to this dynamism and increasingly have to rely on the use of evolving technology. Innovation revenue management has become a new practice for generating revenue, with a customer approach to pricing and demand forecasting being used. The practice of revenue management is also evolving and becoming popular, even in independent small and medium-sized hotels.

It was obvious from this study that hotels resort to overbooking as a maximising tactic when their forecast of demand is either inaccurate or unreliable. This revenue management tactic is useful in situations of customer no-shows or late cancellations, as it minimises losses as much as possible. However, overbooking itself does not take into account the measure of its impact on customers' satisfaction and perceptions of it.

Also as Ferreira et al. (2011) suggest that management structure, formalisation, size and age are variables of strategy, style of management and level of resources, which determine the growth and developments of SMEs in the service industry. This then explains the extent to which RM can be applied at different developmental stages and how successful it can be. In the hotel business, such as in this case, RM as an inference of these considerations, however, may not be applicable at every stage of business growth.

This research also gives the managerial perspective of RM practice, suggesting that RM can be seen as part of the operations management of hotels, where there is no one allocated to the role of the revenue manager. The RM task is part of the responsibility of the front office staff, general manager and marketing manager. This is similar to Ivanov's (2014) and Ivanov and Ayas's (2017) findings in Bulgaria and Turkey. RM can be downscaled to the operations of small and medium-sized hotels. The findings also reveal that respondents' understanding of RM is diverse, which affects the practice among different hotels. Despite the knowledge of the benefits of RM, some respondents are still sceptical about implementing it because of limited resources, time and lack of manpower. Furthermore, with the limited technology in the country, hoteliers are not maximising its benefit and opportunities for their operations, which makes the management approach labour intensive and means there is limited availability of real-time information.

It can be concluded that the application of RM is suitable for service business operations because of the continuous advancements being made in technological developments. This has been discussed as a perfect opportunity for small and medium-sized hotels to adopt the practice of RM as an appropriate tool for generating maximum profit. The success of RM in an SMH management structure in the modern age is, therefore, a reflection of how the hotel services has responded to the performance of RM. Hence, the ability of an SMH to plan, generate and manage revenue successfully stems from the application of various management tools, to which technology is central.

Research Limitations and Recommendations for Future Study

This research is not without its limitation; the study focused on 21 hotels, and this does not provide a holistic picture of the sector and is not enough to make generalisations on RM practice in Nigerian SMHs.

Future research might try to find ways to motivate owners/managers to participate in a study to achieve a larger sample, which would help with the generalisation of the practice of RM. This could be achieved by networking with hospitality associations and local hotel networking events. There is also a need for further qualitative research to explore the practice of the concept and the impacts of revenue management and total revenue management approach on hotel performance. More so, studies on differential pricing and price fairness from the customer's perspective should be considered as dynamic pricing is introduced or used in Nigerian hotels because most hotels still use a flat price system. Lastly, RM practice in other African countries could be explored and compared to establish if there are cultural implications for the RM approach.

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RM List of Figures.

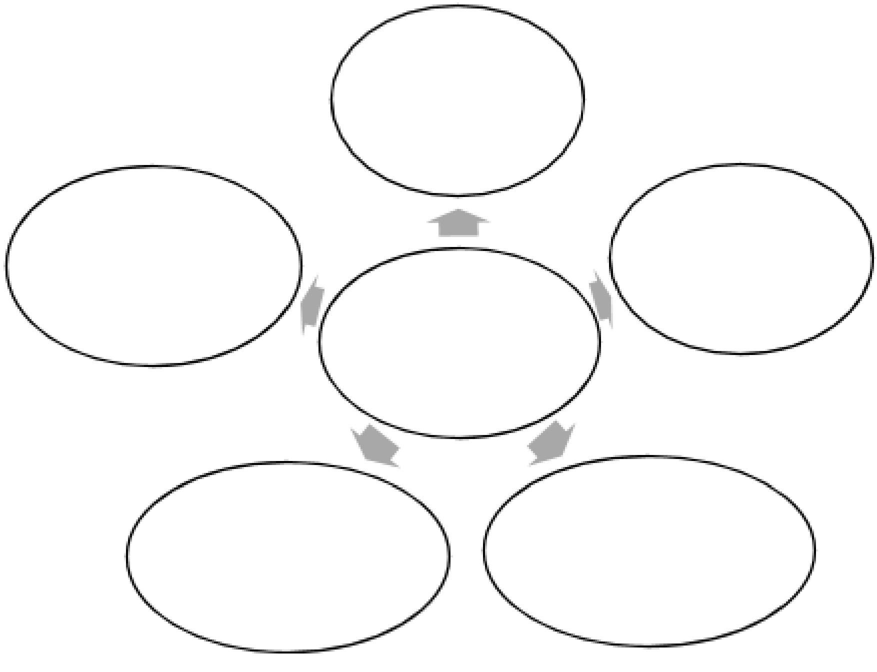

Figure 1: Revenue Management Drivers

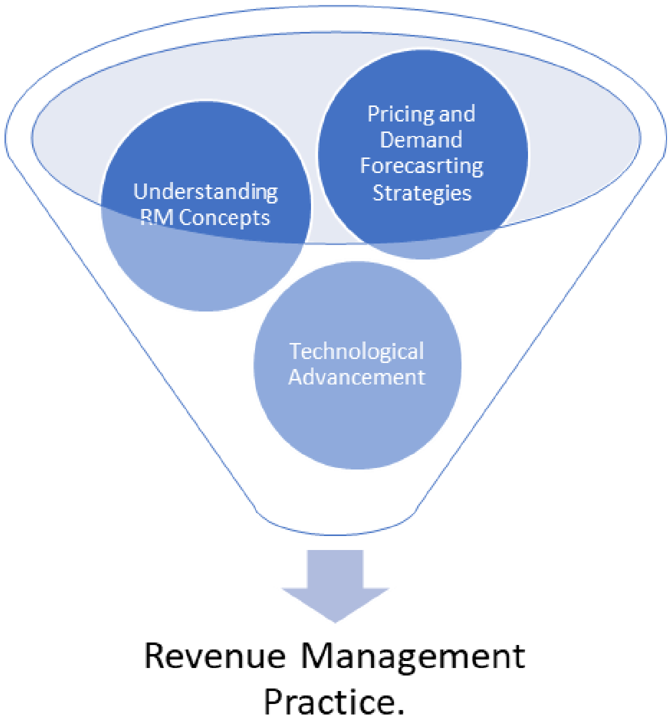

Figure 2: Revised Framework

Table 1: Respondent characteristics

Hotel	Position	Gender	Number of Rooms	Years of Experience	State	Interview method
1	General Manager	Male	78	10-15	Kwara	Face to face
2	Owner	Male	32	10-15	Abuja	Telephone
3	General Manager	Male	52	10-15	Delta	Telephone
4	General Manager	Male	64	1-5	Lagos	Face to face
5	General Manager	Female	56	5-10	Lagos	Telephone
6	Owner	Female	35	5-10	Ogun	Face to face
7	General Manager	Male	72	1-5	Abuja	Face to face
8	General Manager	Male	68	5-10	Benue	Face to face
9	Owner	Male	62	10-15	Lagos	Face to face
10	General Manager	Female	18	1-5	Ogun	Face to face
11	General Manager	Male	46	5-10	Lagos	Face to face
12	General Manager	Male	80	10-15	Lagos	Face to face

13	Operations Manager	Male	35	1-5	Oyo	Face to Face
14	Owner	Female	28	5-10	Oyo	Face to Face
15	General Manager	Male	47	5-10	Oyo	Face to Face
16	Owner	Male	52	15-20	Edo	Face to Face
17	Operations Manager	Male	41	5-10	Edo	Face to Face
18	Manager	Male	34	10-15	Edo	Face to Face
19	Manager	Male	44	5-10	Kwara	Face to Face
20	Owner	Female	56	5-10	Kwara	Face to Face
21	General Manager	Male	30	10-15	Ogun	Face to Face

Table 2: Summary of key findings

Themes	Findings	Inferences
Understanding Revenue Management	● RM helps to optimise product and price; ● The hotels in this study have a revenue management system to help with projected sales, quarterly and yearly plans to access revenue bases and performance of the organisation; ● Some of the hotels have systems that enable the real-time maximisation of revenue; ● There is a structured revenue management system, which is compiled regularly, on a fortnightly and monthly basis.	It can be inferred that SMHs understand RM; however, the RM system in SMHs varies due to different structures and modes of operation. RM software is used by SMHs to enhance RM operations, such as sales projection to revenue assessment, yearly performance and occupancy rates.

Pricing Strategies	• Customers and competitors influence price strategies; • Room rates are determined by the prevailing rates in the locality and hotel facilities; • Room rates are controlled using the best available rate (BAR). • Most hotels still use flat-rate pricing, not a dynamic pricing strategy; • Bookings are made mostly through phone calls, a few through the internet and some by walk-in customers; • Hotels offer discounts and special promotions to improve sales.	Customers, competitors' room rates, discounts and promotions are some issues that affect pricing, which was a significant part of the revenue management strategies in operation within the SMHs investigated.
Demand Forecasting	• Most hotels have reservation and cancellation procedures; • Bookings made with deposits are charged on failure to show up. Reservations made without deposits are not guaranteed and are not charged;	Despite the uncertainty in the country, the demand for hotel services is soaring and managers are adopting a flexible approach to DF. Reservation, cancellation

	• Rooms and sales forecasts are done by considering the seasons, political and local issues and events; • Competitors' facilities are checked out and used as a benchmark for improvement and changes.	and overbooking policies are in place.
Technological Advancement	• The hotels consider that the effect of technology on revenue management is very big; • Online bookings are considered to be fewer than telephone bookings; • It also helps with forecasting. • It would be worse without some kind of automated environment.	Technology is impacting the hospitality sector. It is used for improving services, such as checking-in/out and efficiency in managing inventory. It helps to provide real-time information on sales, planning and pricing reviews.