

Concept of Up sell Gradient and its Utility in Rooms Division in Star Rated Hotels

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Abstract

Today, we find that the hospitality industry has flourished and become a major source of revenue generation all over the world. The growth of hospitality industry led to emergence of many hotel chains in India. The increasing competition and over supply of rooms has led to fall in the prices of room rates thus affecting the room revenue, average room rate and revenue per available room in all major cities of India. This condition has compelled the hotels to work on strategies and techniques to maximize the room revenue. Upselling is one such strategy. The paper will put light on the concept of upsell gradient in rooms division which will help us measure performance of upselling done in hotels and in terms profit.

Key words

Room revenue, Occupancy percentage, Revenue per available room, Rooms division, Room upselling, Upsell Gradient

Introduction

In India there is a drastic increase in number of star rated hotels over the past 15 years. As per HVS report on Hotels in India- trends and opportunities 2016-17 there has been a 300% increase in number of rooms in star category hotels in India. Room revenue has a major share in the total hotel revenue. Room revenue contributes up to 60% part of the total revenue. Considering the oversupply of rooms and increasing competition, the rates cannot be increased beyond a certain extend. The ever-increasing costs also need to be maintained and tackled. To

tackle this situation, the hotels, have to come up with various strategies to increase the room revenue.

One such strategy is upselling. Up selling is one of the easiest ways in revenue management to optimize the revenue. The cost involved in applying this technique is drastically low compared to other strategies and techniques. Many hotels use it as one of the methods is maximizing revenue. Maximization or optimization of revenue will in turn lead to high profit levels. But at the same time by just applying the method is not enough, performance measurement is also important. Like in order to check the effectiveness of entire revenue management process we focus on the revenue per available room, similar performance measure is required when we measure performance of up selling. Thus, the concept of upsell gradient will help us measure the effectiveness of the upselling which we are doing in rooms division section.

Literature review

As per HVS report on Hotels in India- trends and opportunities 2016-17, the average occupancy of hotels in India 65%. The remaining inventory generally goes unsold and nothing much can be done to increase the room revenue through these rooms. Due to increasing competition hotels generally adopt market based pricing and so prices of rooms cannot be extended beyond a certain limit. Hotels have their brand value, brand reputation and also a lot of costs are incurred- both fixed and variable. So, hotels fix a certain hurdle rate beyond which they cannot decrease the room rates in order to increase the occupancy. This necessitates the hotels to target additional

revenue from available share of business itself. Therefore, hotels are coming up with systematic plans and strategies to enhance the hotel room revenue. Up selling is one key for this problem.

According to Ghosh (2006), upselling is a process of selling a higher priced commodity to a guest than that a guest had actually requested. Ivanov (2014) says that upselling involves a sales technique by which the seller offers a more expensive product or service to already purchased goods or services. Whiting (2014) says that the implicit information which we possess impacts the upselling potential the most. Sharma (2015) believes that effectiveness of any upselling programme can be achieved by providing the right offer to the right customer at the right time when the guest is ready to buy the services. Owner-operator senior executive level, more than 80% senior executives consider up selling is vital for their business. More than 20% senior executives consider up selling is highly effective and more than 60% executives consider it is fairly effective in their respective organizations. More than 70% executives believe that up selling is fairly successful and 15% executives believe it is very successful in maximizing spend per head.

Concept of upsell gradient

Upsell in room division means selling of higher priced room to the guest who has booked a lower priced room. So, for upsell gradient has to be measured in terms of room revenue. The additional revenue which we earn by upselling is called the incremental revenue. Thus, upsell gradient can be measured by the total incremental revenue earned in a specific time period to the total room

revenue earned in the same specific time period. The time period can be a day, a week, a quarter, half year or full year. So, we can formulate it as

$$\text{Upsell gradient} = \frac{\text{Incremental room revenue}}{\text{Total room revenue}} \times 100$$

Illustration

Let us consider various cases in below table. An upsell gradient of 8 to 10% can be considered as a ideal one.

Case	Time frame	Room revenue	Incremental revenue	Upsell gradient
A	1 day	500,000.0	35,000.0	7.0
B	1 week	4,500,000.0	360,000.0	8.0
C	1 month	21,000,000.0	1,080,000.0	5.1
D	1 year	260,000,000.0	24,400,000.0	9.4

Fig 1- Illustration table for upsell gradient

We have taken 4 cases in which time frame of 1 day, 1 week, 1 month and 1 year is taken. We can see the upsell gradient in case B & D are matching the standards but for case A & C it is lagging and hotel needs to push up during this time period. In the illustration we can see that for a year the

hotel has performed well but on certain day and certain month it has underperformed. If the performance would have been at par, the hotel would have even crossed the magical figure of 10%. This is how we can calculate an upsell gradient.

Utility of upsell gradient in rooms division

- It will act as a performance indicator of the hotel compared to historical results. E.g. the hotel can compare the upsell gradient for a set period of time with the same period for previous year. Comparison can be done on up sell gradient of Apr 2017 and Apr 2018.
- It acts as a tool to measure performance of same chain hotels. E.g. If a hotel chain has 50 hotels in Asia pacific the upsell gradient of each hotel can be compared to other and the best performer hotels can be distinguished.
- The performance of individual employees in room reservations, front office and room sales in terms of productivity and efficiency can be measured by determining upsell gradient for each employee.
- Upsell gradient can act as a key performance indicator for duty managers, front office managers, revenue managers and general managers of hotels.
- It can be shown as a key performance area while giving a presentation to stakeholders.

Conclusion

Considering today's situation, focus on increasing the incremental room revenue is need of the day. Up selling is once such method to increase the incremental room revenue. Hotel managers thus need to focus on application of upselling in hotel operations at the same time the use of upsell gradient will give managers a clear picture on hotel upselling performance. Thus, utility of room upsell gradient in hotels will completely depend on hotel's view to use it or not.

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