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# Revenue Management as Competitive Advantage: Keep in House or Outsourse?

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**Rosen Research Focus** | Dr. Mehmet Altin

# REVENUE MANAGEMENT AS COMPETITIVE ADVANTAGE

## Keep in-house or outsource?

Even events such as golf tournaments need to be taken into account for revenue management.


*The hotel industry faces multiple pressures and effective profit maximization can make or break a hotel. Revenue management (RM) is a key tool in a responsible hotel manager's arsenal. But not all hotels have the skills or resources to implement this process effectively in-house. Dr. Mehmet Altin of UCF Rosen College of Hospitality Management, applies a resource-based view (RBV) to understand how hotel decision makers approach RM: do they invest in internal development or outsource the RM function?*


Profit maximization has become a key strategic challenge for the hotel sector over the past decade as short-term market pricing restricts returns in a very competitive market. Instead, hotels have adopted a strategic tool, revenue management, which was initially developed in the airline industry to dramatically improve performance. However, such is the significance of expert revenue management in the performance of a hotel that how the function is managed has become a strategic choice in itself. Dr. Mehmet Altin of the UCF Rosen College of Hospitality Management explores the decision-making process that determines whether a hotel chooses to manage the process 'in-house' or outsource to an external vendor.

### REVENUE MANAGEMENT

Revenue management is related to yield management, inasmuch as they are both methods which aim to maximize profit for a business. Revenue management is, however, far more in-depth as it relies on advanced data analysis to predict the industry's supply and demand.

This management technique was originally pioneered by the airline industry and was based on the application of the economic concept of 'what a customer is prepared to pay', which can differ according to each market segment. For example, leisure travelers tend to be more price sensitive but will usually book their flight several weeks in advance.

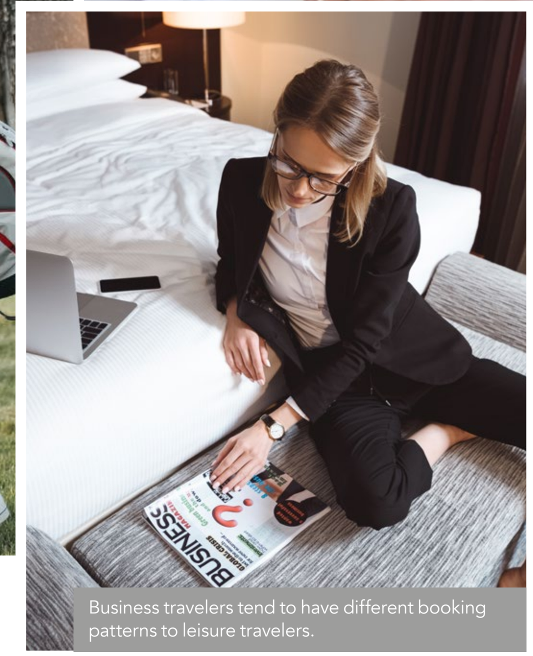
By comparison, business travelers will tend to book only a week or so before travel but are more likely to purchase a full-price or even premium seat.

The hotel industry is not dissimilar from the airline industry: it also has 'perishable inventory' since you cannot sell a hotel room once the night has passed; there is ready availability of lower cost competition; and there are wide swings with regard to balancing supply and demand.

Once a hotel business has decided to utilize revenue management it must make a further

> *ONCE A COMPANY HAS A STRONG UNDERSTANDING OF THEIR RESOURCES, THEY ARE THEN ABLE TO ADAPT TO CHANGING EXTERNAL DEMANDS MORE EASILY AND THUS IMPROVE THEIR CHANCES OF BEING SUCCESSFUL.*

Whether to keep certain processes in-house, or to outsource them is a key strategic decision.




Business travelers tend to have different booking patterns to leisure travelers.

decision: whether or not to keep the process in-house. Accurate and effective revenue management requires vast quantities of data, including items such as past and current bookings, weather forecasting and even events such as golf tournaments. This then needs expert analysis to create a predictive model that can inform decisions regarding pricing and supply strategies.

### ACCESSING THE POWER OF REVENUE MANAGEMENT

For many businesses, 'make or buy'—the decision to keep certain processes in-house, or to outsource them—is a key strategic decision. It can apply both to operational needs, such as components and materials, and also to essential, but non-core activities, such as HR, IT, or accounting. Increasingly though, outsourcing is seen as a potential option even when the component or service in question is critical to the overall performance of core operations.

To choose outsourcing as a strategy involves accepting a certain level of risk: you can become dependent on a vendor's own strategic priorities for continuity of supply; highly sensitive data may have to be entrusted to the outsourcing partner; or you might simply lose the benefit of being close to all aspects of your supply chains, markets, and customers.

The cost of setting up an internal infrastructure for what has become a highly advanced, data-processing task, requiring expert analysis to yield the optimum benefit, must be weighed against those risks. The cost of developing internal resources for revenue management may be a good investment for a large hotel or chain of hotels but might be beyond the financial resources of smaller operations.

### THE RESOURCE-BASED VIEW PERSPECTIVE

Dr. Altin's study considers an additional factor relevant to the sourcing decision: the resource-based view (RBV) perspective. In effect, RBV poses the question, 'why do some firms perform better than others?', and then answers this by focusing on the internal resources that a company has. These resources include both material and abstract assets such as human capital, equipment, and employee training or skills.

When a firm aims to implement strategies to achieve sustainable, competitive advantage, RBV approaches this as a problem that should first be tackled by identifying the unique resources of the firm, instead of evaluating the external circumstances and then trying to exploit an opportunity in the market. These internal resources are most valuable when they are not easily replicable by competitors, and require time to build up, e.g., employee training. Once a company has a strong understanding of their resources, they are then able to adapt to changing external demands more easily and thus improve their chances of being successful. This can also reflect on the choices made by the company on whether to outsource certain processes or keep them in-house. RBV would indicate that a company that lacks the ability to provide their own process in-house should therefore choose to outsource in order to improve their capabilities without investing large amounts of time and capital.

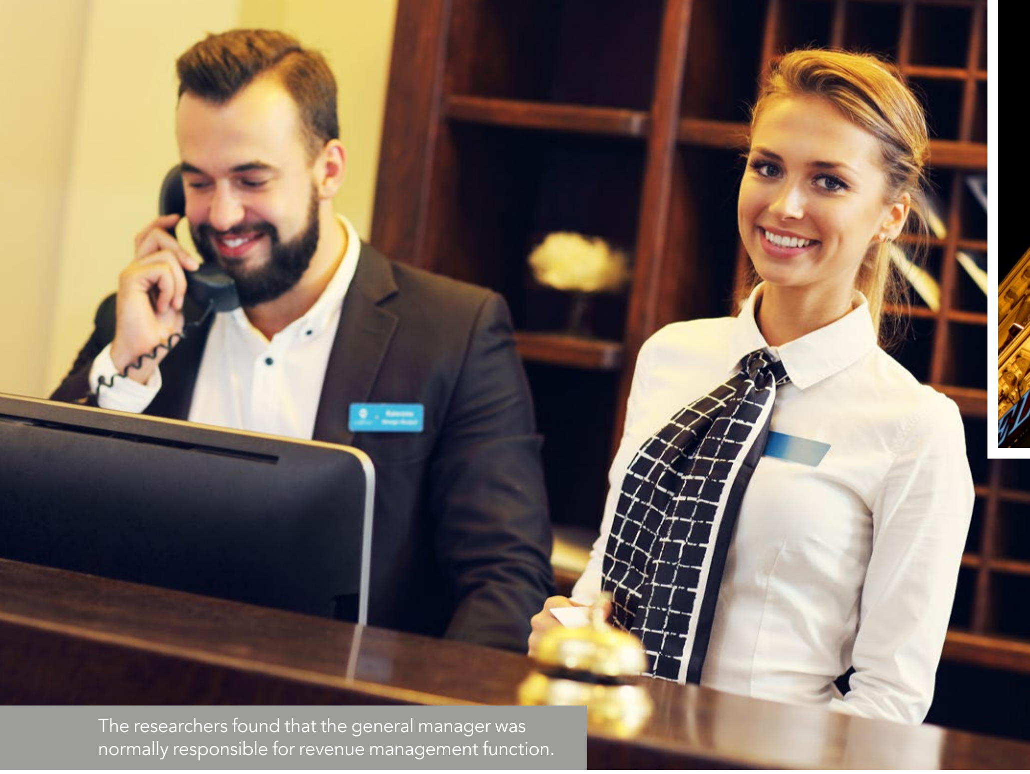
Dr. Altin also drew on Barney's VRIN (Valuable, Rare, Inimitable, Non-substitutable) framework (1991). To achieve advantage, an organization's resources should be:
Valuable – they must be a source of greater value than similar resources in competing firms, in terms of relative costs and benefits. This is strongly related to the perception of the decision makers, and whether they feel that a resource has inherent value to the company.
Rare – the resource must be scarce in relation to demand for its use or what it produces. A valuable resource that is widely available to many other companies is merely another tool in a company's chest.
Inimitable – very difficult to effectively imitate. If a resource is easily duplicated, then it loses value in the eyes of the decision makers.
Non-substitutable – no obvious functional alternatives to the resource should exist. If an alternative exists, then competitors could simply use that.

Unless the resources have these characteristics, they are not going to provide the company with comparative operational and strategic benefits.

### METHODOLOGY

Dr. Mehmet Altin's study aimed to understand the connection between RBV and the outsourcing of revenue management (RM). Prior to undertaking the research, Dr. Altin developed four different hypotheses:

- **H1: Valuable is negatively related to outsourcing intention of RM function.** If hotel managers view RM as a valuable resource in terms of their success, then they are more likely to want to maintain control over this function.
- **H2: Rarity is positively related to outsourcing intention of RM function.** Decision makers at the hotel might be more likely to outsource RM if they perceive RM as



The researchers found that the general manager was normally responsible for revenue management function.


a rare resource; for example, if RM suppliers' resources are rarer than hotels.

- **H3: Inimitability is negatively related to outsourcing intention of RM function.**
  Uniqueness and rarity rely on the resource being difficult to copy, so as RM is a complex and involved process, a firm may prefer to keep this process in-house to protect their competitive advantage.
- **H4: Organizational capability is negatively related to outsourcing intention of RM function.**
  If the organization believes that it has the capability to carry out the RM function in-house, it will be less likely to outsource.

After developing these hypotheses, Dr. Altin reviewed previous literature in order to collect previously validated scales to use as measurements for the current study. Study scales from previous works were adapted to reflect the RM context, and additional questions were written to collect information about the hotel's physical properties—e.g., room capacity, and ownership—and the nature of the respondents—e.g., job title, age and years in the hotel industry. The focus of Dr. Altin's novel research was hotel managers in the U.S., and so a randomly selected list of potential candidates was obtained from Smith Travel Research who had a 2015 census with over 50,000 hotel properties on it. After eliminating all the candidates who had incomplete or non-email-based contact details, 3166 emails were sent out.

During October 2014, the data was collected through an online survey system called 'Qualtrics.com':

347 (11%) useable replies were received. It wasn't possible to analyze the nonresponse bias regarding the managers who didn't respond as the properties' details were kept masked due to privacy concerns.

Each questionnaire was made up of five constructs: outsourcing intention; and then three from the VRIN framework, valuable, rare, and inimitable; the final construct was organizational capability. Against each construct respondents were asked to indicate their understanding and belief in response to a number of questions.

**RESULTS AND ANALYSIS**

The majority of the respondents to the questionnaire were general hotel managers, and over half were aged between 35 and 54. Approximately half of the respondents were educated to bachelor's degree level or higher. Interestingly, nearly 62% of the participants had been in the hotel industry for over a decade, although 58% of the participants had been with their current company for less than five years.

Regarding the hotels, 86% were independently owned and 91% were associated with a brand. Normally the general manager was responsible for RM function, barring the properties which had a dedicated revenue manager.

All the responses were subject to a rigorous and academically robust analysis. The hypotheses were tested against the data, which was tested for robustness using three different multiple regression analyses. Once the data was fully analyzed, all the hypotheses were supported.

**CONCLUSIONS**

Dr. Altin concluded that a hotel decision maker's intention to manage the RM function in-house or to outsource was determined by how those managers perceive the function and their hotel's capability.

Some managers, he identifies, see RM as a valuable and essential part of the hotel management process, while others might view it as a 'cumbersome process' that detracts from the traditional competencies of a hotelier.

By considering Barney's (1992) VRIN model of resource-based competitive advantage, Dr. Altin believes that, if managers believe they do have the internal capability, and they believe that the RM function has the qualities of being 'valuable, rare, and inimitable', then their intention will be to build and operate the function internally.

However, Dr. Altin does recognize some limitations to the conclusions; for example, considering the wholly U.S. sample, these conclusions may not be more widely generalizable where cultural or other norms may influence the decisions differently. He also recognizes the issue of using 'perception' (in this case the perception of in-house capability) as a measure and that a more objective and standardized measure would be preferable.

This research sheds light on how hotel managers make key strategic decisions. It also highlights the growing importance of revenue management for the hotel industry.



# RESEARCHERS IN FOCUS

## RESEARCH OBJECTIVES

Dr. Mehmet Altin analyzes the factors that influence hotel managers with regards their decision to outsource revenue management.

## REFERENCES

**KEY PAPER:** Altin, M., 2019. Does resource-based view explain outsourcing intention: Revenue management perspective. *Tourism Economics*, 27(2),292-306. https://doi.org/10.1177/1354816619891318

**BACKGROUND INFO:** Barney J (1991) Firm resources and sustained competitive advantage. *Journal of Management*, 17(1): 99–120.

## PERSONAL RESPONSE

***In the case of smaller independent hotels in particular, how could they objectively assess their existing approach to revenue management and whether they are currently optimizing their performance?***

" Budget and time constraints make revenue management (RM) challenging for smaller independent hotels. RM can be as simple as forecasting based on historical booking records. However, the RM function's cost increases when complex factors such as booking curves, demand functions, dynamic pricing, optimizing many channels, etc. are included. In addition, the second challenge pertains to both large and small hotels, which requires a thorough assessment process, which is not easy to achieve unless we do before and after tests for specific RM actions and policies. "

## Dr. Mehmet Altin

Dr. Mehmet Altin is an Associate Professor in the Department of Hospitality Services in the Rosen College at the University of Central Florida. His scholarly research focuses on strategic management, revenue management, performance analytics, competitive intelligence, and entrepreneurship with a goal of helping practitioners with guidance and usable results while advancing theory in the hospitality and tourism sector that integrates recent insights from finance, management, economics and 'big data' analytics.

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*DR. ALTIN CONCLUDED THAT A HOTEL DECISION MAKER'S INTENTION TO MANAGE THE RM FUNCTION IN-HOUSE OR TO OUTSOURCE WAS DETERMINED BY HOW THOSE MANAGERS PERCEIVE THE FUNCTION AND THEIR HOTEL'S CAPABILITY.*