

Saimaa University of Applied Sciences
Business and Culture, Imatra
Faculty of Tourism and Hospitality
Degree Programme in Hotel, Restaurant and Tourism Management

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**The Effect of Holidays on Revenue of Hotels in
South Karelia Region of Finland within the
Context of Its Significant Impact on Revenue
Management**

Thesis 2014

Abstract

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Bachelor's Thesis 2014

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The purpose of this research was to examine the holiday effect phenomenon in the lodging facilities of South Karelian market. In other words, to figure out how particular holidays influence hotels' daily revenue. The idea of holiday effect phenomenon was presented in this study through the context of seasonality as essential element of it. Seasonality was viewed from the perspective of its significant influence on revenue management strategy.

In this thesis report a qualitative research method was used. For theoretical part desk study method was used which included reviewing appropriate and related academic literature. For empirical part semi-structured interviews with revenue managers of hotels of South Karelia region in Finland were conducted as data collection method.

As a result of this thesis, the key issues of revenue management strategy of hotels were determined and the effects of different public holidays on daily revenue of the hotels in South Karelia Region of Finland were identified. These findings can be used in developing marketing strategy of a hotel and improving overall revenue management techniques. The results can be useful for revenue managers as well as for professionals who are willing to make research concerning same topic but extend the observation period.

Keywords: Revenue management, seasonality, holiday effect phenomenon

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1 Introduction

In the modern world people experience the phenomenon of price variation more and more: when checking the cost of a hotel room or a flight ticket, the offered prices seem to be changing. Many people have found out that for the same hotel room one customer paid half as much as another one. This situation is a result of revenue management operations. Revenue Management, also known as yield management, is a relatively new discipline but it has caught major attention of researchers during the last few years. The techniques of revenue management have been an enormously important innovation in the service industries. Thus, I have a huge desire to research this subject in terms of the hotel industry. However, this thesis is not focused on the revenue management in hotels, in general, but on the holiday effect phenomenon and its significant impact on the revenue management through the context of seasonality. This allows narrowing the topic and at the same time I have opportunity to study a new proper issue. Moreover, in order to specify the topic, I have decided to make the research within the hotels of South Karelia region of Finland.

The topic chosen for this bachelor thesis is not a random choice. I came up with this idea after attending the course of revenue management in Saimaa University of Applied Sciences. Furthermore, I have worked in the hotel industry and dealt with revenue management already, which means I know the basic principles of its application in practice. I believe that studying this subject more deeply and doing research will have great input in my professional skills. Analyzing related literature and empirical results of the interviews will enlarge my knowledge in the field of hotel operations and benefit me because I would like to continue my career in the hotel business. In addition, I have not found any research related to the holiday effect held in Finland which makes this study relevant and worth to work on. I believe my thesis will be useful for future development of revenue management in hotels of South Karelia region and revenue managers can find several ideas which can be applicable for their hotels in particular.

This research is challenging to investigate because it is the first research of this kind held in Finland and there is a lack of sources concerning Holiday effect phenomenon.

Revenue management strategy is a relevant issue in the modern world as it is a fairly new technique that is not absolutely studied which makes this thesis report relevant as well. Revenue Management was spread to Finland only about 20 years ago which means that there is still a number of hotels which are not using this technique yet. Thus, this research can be a useful tool while developing revenue management strategy for such hotels.

1.1 Objectives

The main objective of this thesis is to work on the research concerning existence of holiday effect phenomenon and its effect on revenue management strategy, and analyse how particular holidays affect daily revenue of the hotels in South Karelia region of Finland.

The research includes desk study and semistructured interviews with professionals of the hotels. The aim for desk study is to identify and present the most important and the most relevant ideas about revenue management out of many different academic sources. On the other hand, there is a lack of sources about seasonality and holiday effect phenomenon, hence, the main goal for this theoretical part is to find existing studies, interpret them in this report and come up with new ideas on this topics. The purpose of interviewing managers of the hotels of South Karelia is to find out how revenue management is already being used by professionals and how holiday effect phenomenon is taken into consideration.

1.2 The Structure of the Thesis Report

The thesis report starts with introduction of the main idea and the whole work itself is followed by presenting objectives, research problem, research methods and explanation of their choice.

In the theoretical part, first of all, Revenue Management is defined as one of the key techniques to maximize revenue in the modern world; history background,

importance and conditions of revenue management are introduced. The following tools of revenue management will be clarified: market segmentation, differential pricing, forecasting, overbooking and cancellations. There is a big amount of sources concerning revenue management and my goal is to gather the right and the most appropriate information. Secondly, I will open up term of seasonality in the hotel industry because holiday effect phenomenon is directly connected to it. Baum (2001) describes two main forms of seasonality which are natural and institutionalized. One of the most common forms of institutionalized seasonality which affects tourism is public holiday. This statement leads to the topic of holiday effect. Moreover, it is well known that seasonality is an important factor in tourism industry but there is quite limited number of studies about it, which makes it challenging to work on. However, according to DeMicco et al. (2006), often anomalies in occupancy cannot be explained by seasonality. For example, weekly seasonality can be the result of holidays occurring during specific weeks. Holidays affect demand for hotel rooms that can be positive or negative depending on the nature of the specific holiday. That is why I concentrate on holiday effect phenomenon as it is not a well studied issue. Afterwards, I will give a brief description of the holidays that are included in my observation period and tourists' behavior during the period of holidays. It was taken into consideration that, according to the Statistics Finland database, the main target groups of hotels' in South Karelia are Finnish and Russian tourists. This fact has defined the choice of holidays I am going to observe. My research concentrates on main official holidays that are public holidays in Finland and/or Russia.

Figure1 presented below shows a brief structure of the theoretical part of this thesis report from author's point of view:

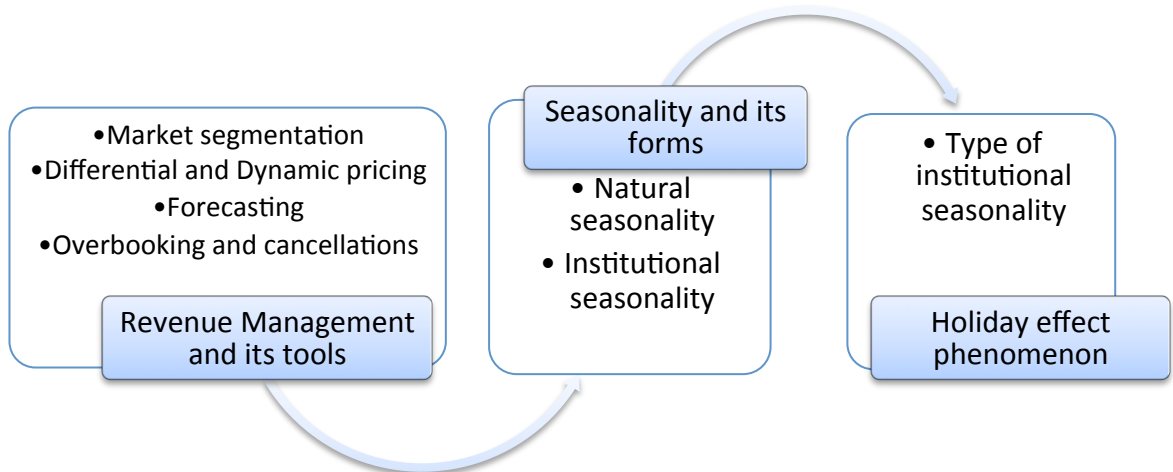


Figure 1. Structure of the theoretical part of thesis report.

In the empirical part of the thesis I present the result, which I have got after interviewing managers of the hotels in South Karelia and analyzing second questionnaires which were sent to partners in the end of the observation period. I think that my findings are appropriate to the limit because research topic is narrowed enough. In my report I am not going to reveal the names of the hotels and actual figures how the revenue goes up or down on particular holiday but I will introduce summarized results. This allows keeping secrecy of partners' information because revenue management operations include some strategically important decisions.

In the final part I will interpret results, evaluate outcomes, make conclusions based on the theory and propose some suggestions. According to DeMicco et al. (2006), by understanding the impact of holiday effect, a marketing strategy can be developed by the hotel to maximize revenue to the hotel. This means that suggestions and conclusions that are found in this thesis report can be implemented by the real particular hotels taking into considerations adjustments to the certain circumstances.

1.3 Research Problem and Research Questions

The main question of this research is to examine the holiday effect phenomenon in the lodging facilities of South Karelian market; in other words, to figure out how particular holidays influence hotel revenue. The following sub questions will be answered as well:

- What is revenue management, its conditions and importance today?
- What are seasonality and its types?
- What is holiday effect as a part of the study of seasonality?

At the end of this report the impacts of a particular holiday on the daily revenue will be stated and some suggestions on how useful for partners' hotels the findings of the survey can be in order to improve revenue management strategy will be proposed. Gained experiences will be used in future development of the main idea.

1.4 Research Methods

Qualitative research was chosen for this thesis because it is the most appropriate one for this particular study due to concentrating on such questions as: "Why? How? What kind?" Mirola (2013) defines this method as follows: "Qualitative research is research undertaken using an unstructured research approach with a small number of carefully selected individuals to produce non-quantifiable insights into behaviour, motivations and attitudes". This method gives more freedom to adjust results and examine feelings and motivations of respondents. In addition, it is challenging to get any numerical information from the hotels because they are not willing to share revenue numbers publicly. That is why statistical numbers are not included thus quantitative approach is not applicable. In this case qualitative research is the only suitable one.

For theoretical part secondary data collection method was used. Secondary research is also known as desk study method and helps to figure out what studies have already been carried out on a subject. It includes different statistics, registers and databases produced and maintained by authorities and public organisations. (Mirola 2013.) Finn et al. (2000) describes secondary data

analysis as following: “the analysis of information for a purpose other than of the researcher – in this sense the researcher becomes the second user of the data”. Such analysis forces the researcher to focus on the theoretical aims and allows merging data from various sources in order to provide larger and more useable sets (Finn et al. 2000). According to this method, the academic literature was reviewed and the most appropriate and relevant to this thesis report theories were selected. The ideas were presented and opened up with the comments of the author.

For empirical part as data collection method semistructured interviews with revenue managers of hotels in South Karelia region of Finland were conducted in the beginning of observation period after New Year Holidays. Such type of interview relies on a certain set of questions but at the same time allows respondents some latitude and freedom to talk about what is of importance and interest of them (Hesse-Biber & Leavy 2011). The conversation during semistructured interviews flows more naturally and respondents feel more comfortable which helps to develop and explore new relevant topics. Interviews are supposed to determine the usefulness of theoretical strategies. Most of them were done face-to-face to get more valuable results. However, organizing all interviews face-to-face was a challenging matter because it depended on the scheduling and desire of revenue managers. In addition, to get more accurate results questionnaires were sent to the hotel managers in the end of observation period in May 2014.

2 Revenue Management

This thesis tends to examine holiday effect phenomenon in terms of its significant impact on revenue management thus it is essential to begin with defining revenue management as a strategy and discipline and its historical background.

2.1 Definitions of Revenue Management

It is important to understand the actual meaning of revenue management that is why several definitions are given below to look at the discipline from different approaches. Kimes and Wirtz (2003) described revenue management as the application of information systems and pricing strategies to allocate the right capacity to the right customer at the right price at the right time.

Ivanov and Zhechev (2012) define revenue management as an essential instrument for matching supply and demand by dividing customers into different segments based on their purchase intentions and allocating capacity to the different segments in a way that maximizes a particular firm's revenues.

Landman (2009) specifies definition of revenue management in terms of hotel industry: Revenue management helps to predict consumer demand to optimize inventory and price availability in order to maximize revenue growth. Revenue Management means not selling a room today at a low price to sell it tomorrow at a higher price but it also means selling a room at low price today if you do not expect higher demand.

2.2 The History of Revenue Management

Revenue management is considered to be a relatively new discipline. However, to be more precise, the idea itself is very old. Every seller in human history dealt with RM-type decisions. Which price to ask? Which offer to accept? When to offer higher or lower price or special discount? What is new and actual about revenue management is not the demand-management decisions but rather how the decisions are made. The true innovation of revenue management lies in the method of decision-making or, in other words, the intensely operational approach. (Talluri & Van Ryzin 2005.)

Science and technology used in revenue management are quite new. Nowadays companies recognize the need to be more dynamic in order to be more competitive, be able to keep a customer and deal with effects of globalization and the rapidly changing environment. That was the main stimulus

for trying to apply science and technology to revenue management and create new modern technique to maximize profit.

The first industry which implemented new technique was airline industry. The starting point for modern revenue management was the Airline Deregulation Act of 1978. With this act, the U.S. Civil Aviation Board (CAB) facilitated control of airline prices, which had been rigidly regulated based on standardized price and profitability targets. Passage of the act led to rapid change and a rash of innovation in the industry. (Talluri & Van Ryzin 2005.)

Charter airlines and low-cost suppliers appeared and aggressively took over a significant share of the market. The major carriers had a hard time figuring out how to compete successfully with new entrants. By the mid-1980s, the threat became crucial. Robert Crandall, American Airline's vice president of marketing at the time, recognized that a new approach was necessary in solving the problem. He used yield management to set purchase restrictions with a combination of capacity-controlled fares. (Gurbuz 2011.)

According to the explanation by Talluri & Van Ryzin (2005), first, American Airlines designed discounts which, however, had significant restrictions for purchase, in order to prevent most business travellers from utilizing the new low fares. At the same time, they limited the number of discount seats sold on each flight: they capacity-controlled the fares. As a result American Airlines' estimates that its revenue management practices generated \$1.4 billion in additional growing revenue over a three-year period starting around 1988.

High level of competition and new circumstances which allowed price variations pushed companies to create new techniques how to operate in order to survive and keep a share of the market. Later on revenue management started to spread throughout the industries because companies understood that it was a crucial tool for achieving higher revenue.

Hotel industry also recognized the need of using new approach. It has all necessary conditions as a service industry to apply revenue management. Yeoman and McMahon-Beattie (2011) state that in the service industries where demand is variable and fixed costs are a high proportion of total costs, the

practice of Revenue Management through variable pricing has become widely accepted as a method for maximizing profit. Revenue management can be used in industries that have a relatively fixed capacity, perishable inventory, varying customer price sensitivity, time-variable demand patterns, high fixed costs, a low variable costs, the ability to inventory demand through either reservations or through waiting lists.

According to Tranter et al. (2009), the first company which applied the new techniques within the hotel industry was Marriott Corporation, and it generated an additional \$100 million in revenue annually.

2.3 Importance of Revenue Management

Revenue Management was a big innovation in the industries. Successful implementation of revenue management strategies had extremely positive effect on the companies. Since then more and more firms tend to apply it within different industries. The topic of revenue management is highly attractive to the researchers and there is big amount of academic literature that shows its importance nowadays. Furthermore, there are two academic journals concerning theory and practice of revenue management: Journal of Revenue and Pricing Management (since 2002) and International Journal of Revenue Management (since 2007) that recognizes the value of the discipline.

To understand the meaning of revenue management for service industries, it would be useful to clarify why and where it is practiced. Wirtz et al. (2001) points out the following characteristics:

- Limited capacity

Capacity means the number of customers that a company can serve within a particular period of time. For example, once a hotel has reached full occupancy for the day, further demand cannot be met.

- Perishable inventory

Product perishability means that the revenue from unused service on a given date is lost forever. It is a feature of all intangible services.

- Micro segmented markets

When market demand is not homogeneous, different marketing mixes for the different target segments can be applied. Hotels for example, are able to discriminate between a time sensitive business traveler and a price sensitive leisure guest.

- Fluctuating demand

Revenue management can be used by companies to increase utilization during slow demand periods and minimize discount availability during high demand periods.

- Services that can be sold in advance

Technology allows selling capacity in advance using different reservation systems.

- Low variable and high fixed costs

According to the description of Ivanov (2014), fixed costs are those that do not change according to the number of customers such as depreciation or debt service. Variable costs are those that change according to the number of customers such as food product cost, electricity, water. This feature allows revenue management to ignore cost, and equates revenue maximization with profit maximization.

Hotel industry can exhibit most of these features and thus it has much to gain from revenue management. Especially, due to highly perishable nature of hotels' core product revenue management techniques are highly important to hotel industry in particular. Hotel room demand has a tendency to vary from day-to-day every month, even in the low season. The principle of revenue management is to take advantage of the fluctuations in demand. Hotels can not

only make profit by using revenue management techniques but they are able to understand their customers better, study buying behavior and manage to retain customers. (Jäkälä 2013.)

Moreover, consumers nowadays are more powerful than ever. They are increasingly aware of prices and have great variety of choice because there are available tools and technology. Consumers are searching for better deals and the challenge of the hoteliers is to know what and when to offer. Revenue management is a way hotels can become pro-active in selling process and meeting consumers' needs. (Cross 2009.)

While revenue management is very well developed and its principles are easily applied within different industries, each industry has also specific characteristics that determine application in that particular company. The nature of the company plays significant role, thus, successful strategy used for airline industry will not be necessary successful and applicable for hotel industry.

Implementing revenue management system is a challenging and risky process. However, if it is done in a right way, it can significantly increase company's revenue and lead it to favorable outcome.

2.4 The Tools of Revenue Management

Revenue management is integrative because it combines elements of marketing, operations, and financial management into a extremely prosperous new approach.

Revenue management includes a number of components that should be taken into consideration while applying the strategy such as market segmentation, historical demand and booking patterns, demand forecast and displacement analysis, pricing and inventory management, overbooking and cancellations, information systems (Queenan et al. 2011; Ivanov 2014).

Review of the literature concerning revenue management and analysing of different approaches has helped to figure out the most important and relevant to

the hotel industry tools of revenue management. These tools are presented below.

2.4.1 Market Segmentation

Market segmentation can be considered as one of the essential tools of revenue management because it is hard for a single hotel to satisfy all customers and usually focus is made on a couple of segments. Hotels know their specialisations and choose target markets accordingly. (Jäkälä 2013.)

Ivanov (2014) describes segmentation as the process of dividing the consumers into distinct groups with similar set of wants, needs and preferences requiring the development of different marketing mixes by the hotel. From the revenue management prospectives customer mix of the hotel is important because it influences directly its profitability and revenue.

Market segmentation makes the most of customer heterogeneity through customers' differing willingness to pay and differing preference over time, allowing companies to charge different prices to different customers and maximize revenue (Talluri & Van Ryzin 2005).

The task of market segmentation is to split the market into individual sub-groups that have similar preferences, so that different marketing strategies can be applied to different groups of customers.

2.4.2 Differential and Dynamic Pricing

Vinod (2004) suggests that a key ability in implementing revenue management techniques effectively to maximize revenues is to segment customers based on their needs, willingness to pay, business constraints and customer characteristics. A pricing strategy to maximize the revenue potential requires customer segmentation based on the attributes of the customer base. Obviously, different market segments have different price elasticities. Price elasticity can be defined as a measure of the change in sales resulting from a change in price. Business customers are generally inelastic which means that small rate changes normally cause a small demand shift. On the other hand, leisure customers are elastic, whereby a small change in rate can result in a

significant demand shift.

Price is a very important component of a hotel's marketing mix as it is the only one connected with hotel's revenue directly (Ivanov 2014). As long with differential pricing approach dynamic pricing approach plays crucial role.

Dynamic pricing approach groups all similar rooms in one category, and applies a price that is constantly adjusted with time based on the supply and demand changes. The dynamic price takes into account the current and expected demand, and the hotel occupancy. Such approach is particularly prevalent in firms which allow online reservations. The online nature makes renewing the price periodically easier and quite manageable. (Bayoumi et al. 2013.)

Revenue Management has more potential if all its techniques are integrated with pricing. Price optimization involving competitive elements has been investigated in other industries for many years and revenue management professionals can bring both streams together. (Poelt 2011.)

2.4.3 Forecasting

Legohere et al. (2013) state that forecasting is at the core of the revenue manager's approach and underlies any effective revenue management system. It enables decision making based on what is known rather than what is supposed. It aims to anticipate demand, cancellations and no shows.

Successful application of revenue management requires hotels being able to forecast demand. Vinod (2004) notices that demand forecast accuracy has an impact already on the bottom line. High forecast errors will result in conservative inventory controls and increase the likelihood of lower revenue.

2.4.3.1 Importance of Accurate Revenue Forecasts

First of all, accurate revenue forecasts give the information required to buy necessary items in correct quantities. Secondly, the departmental staff can be scheduled more efficiently. Proper staffing guarantees that guests are provided with the service levels intended which increases customer satisfaction. In addition, the future profitability can be estimated which provides information

needed to make decisions related to capital improvements and capital expenditures. Accurate demand forecasts allow making better decisions about how to manage and modify the prices of the products and services. Figure 1 illustrates four components that are necessary to analyse in order to create accurate demand forecasts. (Hayes & Miller 2011.)

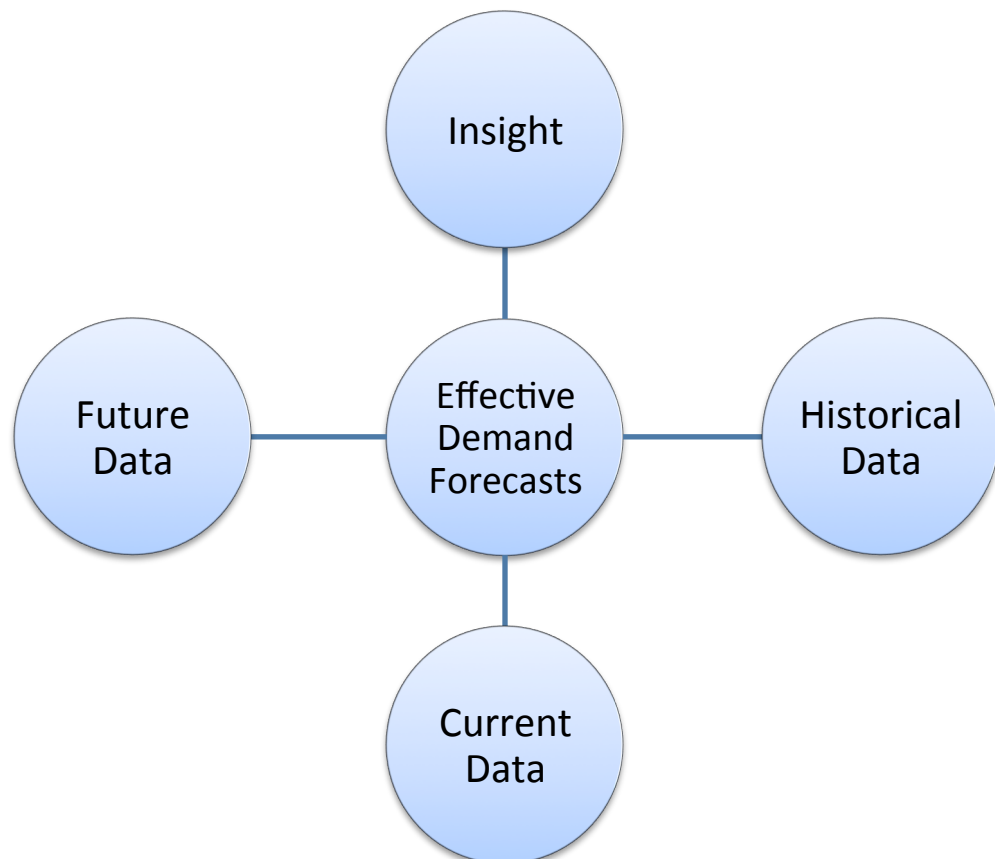


Figure 2 Four Components of Effective Demand Forecasts (Hayes & Miller 2011).

Historical Data

Hayes and Miller (2011) explain that understanding hotel's past performance is one of the best ways to make good decisions about future performance. Learning from mistakes of the past and being able to analyse occurred errors help to make wiser decisions in future.

The historical data that may be interesting and useful for revenue managers and thus should be regularly collected can vary somewhat by property but would typically include the following:

- Number of reservations / room nights booked per day
- No-shows
- Walk-ins
- Number of daily reservation cancellations
- Total number of room nights cancelled
- Number of reservations / room nights denied per day
- Number of arrivals and departures
- ADR achieved
- Occupancy rate achieved
- Average length of guest stay
- Average number of guests per room

Current data

Revenue Managers have to monitor everyday happenings and the most recent demand patterns since customer preferences change rapidly. All possible factors such as weather should be noted.

Future Data

This type of data includes information about future events that can affect potential customers. Future happenings which are premiere can be hardly predicted thus gathering data is a challenge.

Combining all information from each of the data forms, understanding and analyzing it, revenue manager applies his own insight to make more efficient revenue management decisions.

Netessine and Shumsky (2002) state the importance of all mentioned above data and, in addition, defines another natural problem that arises during demand forecasting which is censored data. This type of data means a situation

when company does not record demand from customers who were denied a reservation. However, in order to make appropriate revenue management decisions, all elements should be viewed together.

Chiang et al. (2007) underline that the accuracy of forecasting has a direct impact on the performance of revenue management. Nowadays researchers have developed a number of different models already to improve the performance of forecasts. In addition, advanced technology plays important role in this process. With the wide application of Management Information Systems, companies have gathered a huge amount of data. The computing power of computers has risen exponentially during the earlier decades, which allows researchers to make considerably more complex calculations. Equipped with these data, new technologies and models, experts are able to make more accurate forecasts than ever before.

2.4.4 Overbooking and Cancellations

Legoherel et al. (2013) define overbooking as process which “involves offering for a sale a capacity that is higher than the capacity actually available to anticipate the effects of cancellations and no-shows.”

Overbooking is based on the assumption that some of the customers that have booked rooms will not show up, others will cancel or modify their bookings last minute, while third will break their stay in the hotel earlier on (due to illness, personal reasons, traffic, force majeure or other reasons). In order to avoid losses the hotel confirms more rooms than its available capacity with the expectation that the number of overbooked rooms will match the number of no shows, last minute cancellations and modifications. This requires careful planning of the optimal level of overbookings. (Todorov & Zhechev 2010.)

Overbooking limits the risk of having empty rooms and that is why it is a part of revenue maximization. Hence, the objective of overbooking is to improve the expected profit and instead of selling each room only once, income can be maximized by selling it several times. (Birkenheuer et al. 2009.)

Overbooking remains one of the most delicate elements of revenue management and involves ethical issues for numerous clients. In order to anticipate inevitable revenue loss, service industries use cancellations and no-shows to adjust the number of available units.

The ability to overbook appropriately will to a great extent depends on the ability to forecast the possible no-show and cancellation patterns from the available data. Gathering no-show data is comparatively easy, as the “data point” is always the day of arrival. However, the cancellation patterns are more difficult to extract, as a cancellation can occur at any time between the booking date and the arrival day. One of the easiest ways to collect this information is to look at the number of bookings taken within certain period, for instance, the 40-day before arrival period for a range of dates into the future. This can be done by market segment or by groups of market segments, if time and resources allow. At least, a differentiation should be made between transient bookings and a group. (Mehrotra & Ruttlely 2006.)

Overbooking generates two types of costs. The first corresponds to the loss generated by unsold units remaining empty: this is the cost of waste. The second is the refusal cost, which includes two different types of costs: the financial cost of the compensation given to the client, including, for example, taxi ride, indemnity, etc., and risk related to company’s image. (Legohérel et al. 2013.)

Ivanov (2007) emphasizes that overbooking can cause inconvenience not only for revenue managers but for clients as well. He states that overbookings and other inventory control revenue management practices could be a reason of perceived unfairness or perceived lack of customer appreciation by clients. Hotel practitioners should collect detailed information on no-shows, cancellations, and last minute amendments in order to avoid the large financial costs, missed revenues and negative word-of-mouth associated with overbookings.

2.5 Analyzing the Performance

The analysis of revenue management strategy in a particular hotel is based on performance indicators of specific hotel and area. Firstly, academic terms should be explained.

Three calculations commonly used for the purpose of understanding a property and its revenue potential (Jäkälä 2013):

- Average Daily Rate (ADR) tells what the average rate paid was on a particular night.
- Occupancy Percentage tells what percentage of the guest rooms were occupied that night.
- RevPar (Revenue Per Available Room) tells how closely the property achieved its room revenue potential for that night.

The calculations are as follows:

$$ADR = \frac{\text{Rooms Revenue}}{\text{Number of Rooms Sold}} \quad (1)$$

$$\text{Occupancy Percentage} = \frac{\text{Rooms Sold}}{\text{Number of Rooms Available}} \quad (2)$$

$$\text{RevPar} = \frac{\text{Rooms Revenue}}{\text{Number of Available Rooms}} \quad (3)$$

The RevPar is a highly relevant indicator since it combines the average price and the hotel occupancy rates. It can be worked out in another way as well: through multiplying the occupancy by the average price. (Legohere et al. 2013.)

Besides three main revenue management metrics Ivanov (2014) ,additionally, suggests the following:

- Length-of-stay shows the average number of overnights spent by guests in the hotel

$$\text{Length - of - stay} = \frac{\text{Number of overnights}}{\text{Number of guests}} \quad (4)$$

- Total revenue per occupied room (Total RevPOR)

$$\text{Total RevPOR} = \frac{\text{Total revenues}}{\text{Number of roomnights}} \quad (5)$$

- Gross operating profit per available room (GOPPAR)

$$\text{GOPPAR} = \frac{\text{Gross Operating Profit}}{\text{Number of rooms available for sale}} \quad (6)$$

Legohere et al. (2013) states that each hotel analysis should be based on the following parameters:

- Changes in the key indicators: OR, AP, and RevPar.
- Occupancy rates/average price per representative time period including special event, ordinary, or holiday weeks.

- Clients mix in terms of representative week.
- Changes in occupancy rates and average price over the year.
- Assessment of the annual objectives.
- Importance of constrained days in terms of the representative week.

Such analysis helps to identify weak points, optimize certain market segments, fill rooms in certain days through the search for supplemental clients and to improve occupancy rates on event days.

3 Seasonality

Hotel industry is seasonal in its nature thus seasonality is an important matter to be considered by revenue managers. Seasonality causes the fluctuation in tourists and visitor numbers to a particular destination. Therefore, some destinations at certain times have more tourists and visitors than they are able to welcome, while at other times, there are too few tourists and visitors to the region. (Lee et al. 2008.)

Baum & Lundtorp (2001) describe seasonality as a temporal imbalance in the phenomenon of tourism that may be expressed in terms of the following dimensions: numbers of visitors, expenditure of visitors, traffic on highways and other forms of transportation, employment and admissions to attractions.

Professionals started to pay attention to seasonality in 1970's when the mass tourism had spread on many areas. Since then seasonality is usually perceived as a big problem for tourism industry. That is why the measures of seasonality were developed and the impacts of seasonality on destinations are widely studied. (Honkanen 2006.)

3.1 Forms of Seasonality

Baum & Lundtorp (2001) distinguish two main forms of seasonality that are natural and institutionalized. First one relates to usual temporal changes in natural phenomena (for example, rainfall, sunlight, temperature, snowfall) of which the implications for certain forms of tourism demand are easily understood. For example, water-orientated tourism activities require a warm

temperature whilst snow skiing requires low temperatures and an abundance of snow.

Second form of seasonality relates to temporal variations that are caused by human actions and policies regarding culture, religion or social life. Institutionalized seasonality includes legislated holidays, school and industrial holidays.

One of the most common forms of institutionalized seasonality, which affects tourism, is the public holiday. That is why it was chosen as the main focus for this thesis.

Unlike several decades ago, nowadays companies usually provide employees with breaks of longer duration which include public holiday and weekends, for instance. This allows people to have a short vacation that is a quite new trend in tourism industry. As a result of this domestic tourism is growing because it is easier for people to travel in their own country for a short period of time than to go abroad.

Thus, the impact of this form of seasonality to hotel industry increases and that is why it has to be taken into consideration while making revenue management decisions. This statement leads to the topic of holiday effect.

3.2 The Factors Influencing Seasonality

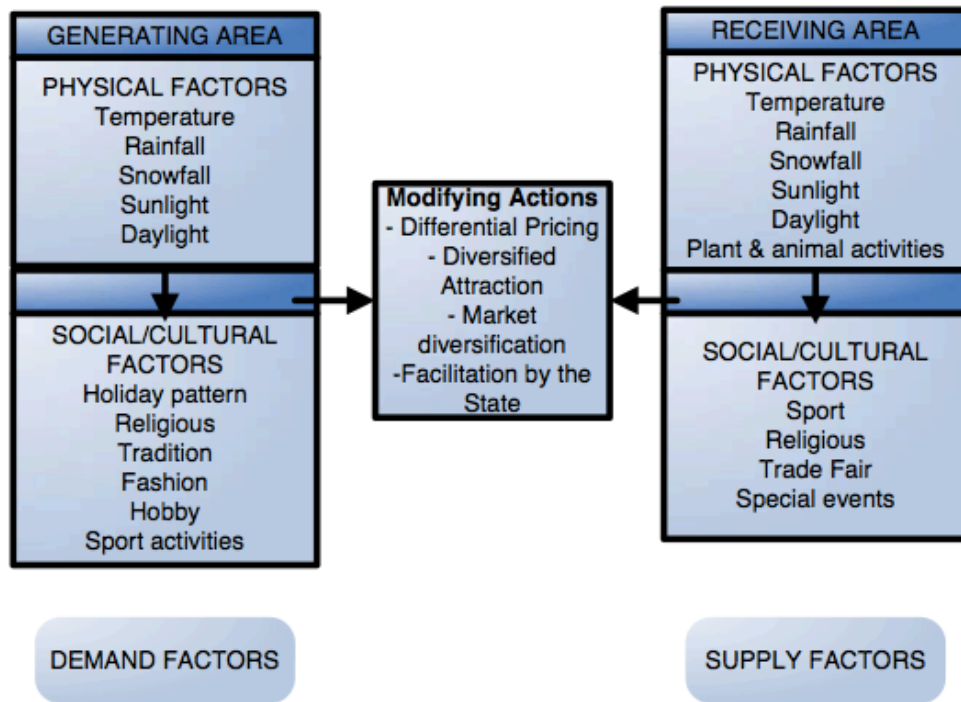


Figure 3. Factors of Seasonality in Tourism (Lee et al. 2008).

According to Lee et al. (2008) there are demand and supply factors influencing seasonality which are displayed in Figure 3. Such approach perfectly shows these factors are grouped based on two main forms of seasonality. So, understanding of the forms can give clear insight of phenomena. However, the profiled dimensions do not fully explain the overall multidimensional nature of the seasonality. The reason is that the factors that influence seasonality in tourism are interrelated and the interactions between them are complex. In the middle table of Figure 3 modifying actions are presented. These actions are important for revenue managers to consider because they can help with diminishing the negative effects of seasonality. Especially, differential pricing is applicable for hotel industry.

4 Holiday Effect Phenomenon

The holiday effect is an essential part of the study of seasonality. “The term “holiday”, within the context of seasonality in tourism, has typically assumed a period spanning several days (even weeks or months) compared to shorter (single-day) application in finance and economics” (DeMicco et al. 2006).

Holiday effect is a phenomenon much studied in fields such as retail, economics and finances. However, there is evident holiday effect in hospitality industry and in the hotel business in particular. Different holidays influence daily hotel revenue positively or negatively. (DeMicco et al. 2006.)

If a company is aware of different impacts of holidays on customer behavior, it can develop more targeted strategies.

4.1 Russian and Finnish Holidays

This research tends to identify specific impact of major Finnish and Russian holidays on revenues of the hotels in South Karelia. The choice of the holidays was not random. It can be explained by the significance of the holidays and degree of its impact on customers' behavior.

According to the Statistics Finland database, the border interview survey showed that Russian citizens are the biggest group of foreigners who come to Finland as travellers. Therefore, Russian tourists are important potential clients for hotels in South Karelia. There is a constant increase in amount of Russian tourists coming to Finland from 2.3 million in year 2008 and to approximately 3.6 million in 2012 and this number is assumed to grow.

Moreover, after interviewing managers of the hotels in South Karelia it was confirmed that significant amount of hotel guests are Russians. Finnish tourists as well are an important segment for Finnish hotels.

The facts mentioned above defined the choice of selected holidays. The observation period was half a year which allowed comparing and analyzing the effect of the most important holidays of both nationalities.

The following Finnish holidays were observed: Christmas Eve (Jouluaatto, 24th December), Christmas Day (Joulupäivä, 25th December), St Stephen's Day (Tapaninpäivä, 26th December), New Year's Day (Uudenvuodenpäivä, 1st January), Epiphany (Loppiainen, 6th January), Easter (20th April), May Day (Vappu, 1st May).

In Finland comparing to Russia the most important winter holiday is Christmas which falls on 25th December. Finnish people, in general, prefer to celebrate Christmas with their families at home. It is a peaceful holiday when all family members gather together. Easter and May Day are widely celebrated as well.

The following Russian holidays were observed: New Year's Day (1st January), New Year holiday (2nd - 8th January), Christmas Day (7th January), Defender of the Fatherland Day (23rd February), International Women's Day (8th March), Spring and Labor Day (1st May), Victory Day (9th May).

In Russia New Year is a big celebration that can be proved by the number of days off officially given for this holiday. From 1 to 8 of January 2014 people have opportunity to rest and travel. Finland is becoming a more and more attractive destination for Russian tourists due to neighboring location, good qualified services and beauty of untouched nature (Jakosuo 2011). Winter holidays is a perfect time to use for travelling purposes and the idea of spending New Year and Christmas abroad is today's trend. Moreover, Finland offers after Christmas sales which makes it an attractive destination for shopping.

May holidays are the next ones people like to take advantage of and travel around. For example, in 2014, 1st May which is a one-day holiday was on Thursday but due to proximity of weekends people were allowed to have Friday off as well. Some people use such situations for travelling purposes. 9th May in 2014 was Friday but 8th May was a short working day when people could leave earlier because it was a pre-celebration day.

Defender of the Fatherland Day is still a public holiday but nowadays it is not celebrated widely in Russia. The tendency of travelling during this holiday is not so evident.

In contrast, International Women's Day is a very popular holiday in the country. Short trips may occur if it falls on the day of week closer to the weekends such as Friday or Monday that allows people to have 3 days off in a row.

This research includes more date specific holidays which fall on different days of the week. It is important to understand the limitation of this research. Results may vary depending on which day of the week the holiday falls.

5 Results

In the modern competitive world revenue management is a private issue of a company because it is one of the key components of its whole business strategy. That is the main reason why the names of the hotels which participated in this research are not revealed. The author of this report can only mention that those hotels are the main six hotels in South Karelia region. They have been chosen in order to have the most valuable results because they are the key players in the market. All the hotels have used revenue management for five years or more.

The semi-structured face-to-face interviews with revenue managers were held. It allowed getting more detailed answers and interesting thoughts of professionals. The questionnaire which can be found in appendix included general questions about revenue management as well as specific questions about the impact of one or another holiday.

According to the summarized results, it can be stated that all the hotels pay attention to the revenue management and find such techniques essential for gaining better revenue. Professionals told that revenue management indeed is a great tool in increasing revenue if you know the right approach how to apply it.

The interviewed managers have agreed that implementing revenue management is challenging because there are many elements that need to be considered. Every day operations include considering all components of revenue management together that have been covered in the theoretical part of this thesis.

Seasonality has appeared to be a big issue for hotels in South Karelia. There are obvious peak and off-peak seasons. High season is summer, more specific from 22nd June till 17th August, and the first week of January that is Russian New Year holidays. Low season is winter, especially second part of January. Each hotel develops its own strategy how to overcome consequences of seasonality and how to get the most profit even during low seasons.

At the end of observation period the second more specific questionnaire was sent to the hotels. As a result of research concerning holiday effect, some of the holidays have noticeable positive impact on hotel revenue, whereas some do not. It means that each holiday is unique and has different impact on tourists' behavior due to particular nature and origins of a holiday.

The overall results are displayed in the table below for more convenient understanding of the impact of different holidays including days of the week and ability to compare them.

	Year 2013 / 2014	
Holiday	Day of Week	Effect
Christmas Eve	Tuesday	--
Christmas Day	Wednesday	--
St Stephen's Day	Thursday	--
New Year's Day	Wednesday	+
Russian New Year's Public Holidays	From Thursday (2 Jan. 2014) – to Wednesday (8 Jan. 2014)	++
Easter	Sunday	++
Defender of the Fatherland Day	Sunday	x
International Women's Day	Saturday	+
Spring and Labor Day/ May Day	Thursday	-
Victory Day	Friday	-

Table 1. Effects of Holidays.

In the Table 1 in the “Effect” column the meaning of the signs are following:

(++) There is an evident positive impact on hotel revenue

(+) There is a slight positive impact on hotel revenue

(x) The revenue on that day remained same

(-) There is a slight negative impact on hotel revenue

(- -) There is an evident negative impact on hotel revenue

As it can be seen from the table above, Finnish Christmas Eve, Christmas Day and St Stephen's Day have big negative impact on hotel revenue which even forces some hotels to close for these dates. Moreover, they have negative pre-holiday and post-holiday effects as well.

However, hotels experience positive effects of New Year's Day and Russian New Year Public holidays. Russian New Year Public Holidays is an eight days period of time which is considered by hotels as high season but actually it is positive post-holiday effect of New Year's Day. Epiphany falls on the same time period as Russian New Year Holidays that is why it is hard to predict its own impact on hotel revenue.

Easter at first sight had a great impact on revenue and had positive pre-holiday and post-holiday effect in 2014. However, such effect was not caused by the holiday of Easter itself but by the 2014 IIHF Ice Hockey U18 World Championship, which was held in Imatra and Lappeenranta. This case shows that revenue managers can not focus just on one aspect such as holidays but have to see the whole picture and in this case take into consideration another type of seasonality which is caused by special events.

Defender of the Fatherland Day does not have any effect at all. This can be explained that nowadays this holiday loses its value and people do not have big celebrations. No pre-holiday or post-holiday effect has been noticed.

International Women's Day had a slight positive effect on hotel revenue. However, in 2014 there was no change during the days around. The holiday fell on Saturday which is weekend thus in Russia Monday 10th March was public holiday as it was transferred from Saturday and on 7th March was a short workday.

There was a slight negative effect on Spring and Labor Day/ May Day. Moreover, this holiday seemed to have minor negative both pre-holiday and post-holiday effects.

As for Victory Day, a slight negative change has been noticed. However, no pre-holiday or post-holiday effects occurred.

To sum up, holidays that had significant impact on revenue in 2014 are Christmas, New Year and Russian Public holidays. International Women's Day had a slight positive impact.

6 Conclusions

Revenue management is a relevant discipline and there is a big amount of literature concerning this topic. The purpose of this thesis report was to overview main important sources and present the most interesting ideas which can give readers clear understanding of the discipline. However, because the focus of this thesis is not revenue management but one of the forms of seasonality - holiday effect phenomenon, revenue management was described briefly. The main objective of this study was to examine holiday effect phenomenon in hotels of South Karelia region of Finland. By interviewing professionals working in hotels it was possible to identify the days with extremely large or small revenues in comparison to the general tendency.

In their impacts on hotel revenues holidays showed different patterns. Besides the effecting revenue on the actual day, holidays can effect the days around. In 2014 some holidays had pre-holiday effects, some holidays had post-holiday effects, some holidays had both pre-holiday and post-holiday effects, and some holidays did not have any effect at all.

Finnish Christmas Eve, Christmas Day and St Stephen's Day had big negative impact on hotel revenue. They had negative pre-holiday and post-holiday effects as well.

In contrast, New Year's Day and Russian New Year Public holidays, and Easter had big positive impacts on hotel revenue. Pre-holiday and post-holiday effects were also positive. However, in terms of holiday of Easter, the actual effect could not be predicted because it contemporized with IIHF Ice Hockey U18 World Championship 2014.

Defender of the Fatherland Day did not have any effect at all.

International Women's Day had slight positive effect on hotel revenue but no pre-holiday or post-holiday effects were noticed.

Spring and Labor Day/ May Day and Victory Day had slight positive effect. May Day seemed to have minor negative both pre-holiday and post-holiday effects but Victory Day had no pre-holiday or post-holiday effects.

Understanding the impact of holiday effect helps to develop a strategy in order to maximize revenue to the hotel and to forecast demand to control inventory more efficiently. Sales and marketing departments can use the holiday effect proactively. For example, International Women's Day has already slight positive effect but no pre-holiday or post-holiday effect, consequently, hotels can develop theme packages to attract women or families which offer to stay for the whole weekends including a holiday itself. Some small gifts related to the holiday theme would be a good idea such as flowers in the room or spa-coupons for females.

Successful implementation of revenue management techniques can bring significant profit to the company. However, there is no single effective revenue management way because it depends on particular market, products, competition, culture, corporate mission and constraints. Each hotel has to consider all elements of revenue management and apply to the particular unique circumstances.

SWOT Analysis presented in Table 2 overviews the research and gives structured evaluation to the findings from four different perspectives.

Strengths	Weaknesses
<ul style="list-style-type: none"> • Findings are relevant as they are based on face-to-face interviews with revenue management professionals • Results can be used for developing marketing and sales strategies for upcoming year • Topic is up-to-date • First research of a kind in South Karelia region in Finland 	<ul style="list-style-type: none"> • There are number of limitations to this study (short observation period, specific area of South Karelia region of Finland)
Opportunities	Threats
<ul style="list-style-type: none"> • Future research can be done based on the results and ideas of this research • Observation period can be extended • Results of the research can be implemented to the actual hotels that do not use revenue management yet 	<ul style="list-style-type: none"> • Findings can become irrelevant if public holidays are cancelled • Economical crisis and exchange rate fluctuations • Tensed relationships between Russia and Finland which can lead to decrease in amount of Russian tourists coming to South Karelia region in Finland

Table 2. SWOT Analysis of the research.

6.1 Limitations

This study has some limitations that have to be mentioned. First of all, the time interval of the data is only half a year which means that each holiday was observed only once. Future research can be conducted using wider sample of observation that allows monitor holidays several times. During different years same date specific holiday will fall on different days of week that gives opportunity to differentiate the impact of days of week. Secondly, this research was focused only on the South Karelia region of Finland where main customer segments are Russian and Finnish customers. The results in another part of Finland may vary because customer segments are different and therefore behavior patterns are different. Future research can focus on holiday effects on hotel revenue in another area.

This thesis report is the first research of a kind concerning holiday effect phenomenon in the hotel industry in Finland. More studies can be done in the future in other areas and from other perspectives with existing results.

7 Evaluation of the Research

This thesis report and the whole process of writing it and researching the topic was challenging but useful and educating. First of all, this particular research required much effort from the partners because it was necessary to monitor every single holiday and, moreover, its post-holiday and pre-holiday effects. To keep contacting partners was the hardest as it could be irritating for them. Secondly, revenue management is a topic of commercial sensitivity that is why I had to concentrate more on overall questions and compare change of revenue in percentage even though actual numbers would give me more understanding of the holiday impacts. Thirdly, there is lack of sources concerning holiday effect phenomenon which made this research unique but demanding.

The research was done within the timeline that was set in the beginning of the whole thesis writing process.

The structure of the report was my own idea which is to open up the topic of holiday effect phenomenon within the context of seasonality and seasonality as an essential part of revenue management strategy. In this case a reader can understand the topic fully because he/she knows the base. The term of revenue management, its history, importance and its tools have been described because they are essential in understanding why we need to study holiday effect phenomenon and how it can be used by the hotels.

In spite of some limitations mentioned earlier, findings of this research are valuable and can be used not only by revenue managers but by the students or professionals who are interested in developing this concept as well. Further research can be done using the same idea but during the longer time period such as three to seven years in order to be able to observe same holiday during different days of the week.

To talk about quality indicators of this research such as validity and reliability, they are not easy ones to measure. Validity involves determining the extent to which researcher's findings about knowledge correspond to reality. Validity in qualitative research more precisely means whether or not a researcher gets a true picture of the process or behavior being examined. (Klenke 2008.) The findings of this study give a realistic image of how different holidays effect hotels' daily revenue. The impact of one or another holiday on hotel revenue in positive or negative way can be explained by certain reasons such as behavior patterns of each nationality during different celebrations. Therefore, it can be stated that validity of this research is high.

The results of this research can be measured as reliable to the limit. Reliability is high when similar results can be obtained by different questions about the same topic or by different measurements (Mirola 2013). At the beginning of observation period interviews were conducted face-to-face with professionals of hotels in South Karelia region of Finland. Later on the questionnaire was sent to partner hotels and statistics were checked. Same questions were overviewed from different dimensions. These facts prove that the findings are reliable. Klenke (2008) distinguishes external reliability which describes whether the findings can be generalized beyond the research context. In this case, it is

important to mention that it is an area specific research thus it can not be generalized for the whole Finland because of the nature of the study but it is reliable within South Karelia region.

In conclusion, in my personal opinion all objectives that were set in the beginning of my work were achieved in this thesis report and I tried to make it understandable and clear for readers. The topic was fully opened up from theoretical approach as well as from practical approach. This thesis gave me some valuable learning outcomes such as expanding knowledge on the topic, improving academic English writing in a report form, interviewing professionals in the field I am interested in. Similar kind of study was conducted in the United States and findings were published in Journal of Hospitality and Tourism Research. This fact proves the current importance of the topic.

Figures

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Appendices

Appendix 1 Questionnaire

- 1) What is the name of the hotel?
- 2) What is your current position?
- 3) How long have you been using revenue management strategy?
- 4) When is the high/low season for your company?
- 5) How many professionals are responsible for revenue management department in your company?
- 6) How do you take into consideration the effect of holidays while making decisions concerning revenue management?
- 7) How did the revenue change one day before/ one day after and on the following holidays (in percentages):
 - Christmas Eve (Jouluaatto, 24th December)
 - Christmas Day (Joulupäivä, 25th December)
 - St Stephen's Day (Tapaninpäivä, 26th December)
 - New Year's Day (Uudenvuodenpäivä, 1st January)
 - Epiphany (Loppiainen, 6th January)
 - Easter (20th April)
 - Defender of the Fatherland Day (23rd February)
 - International Women's Day (8th March)
 - Spring and Labor Day (1st May)/ May Day (Vappu, 1st May)
 - Victory Day (9th May)

8) How did the revenue vary during the public Russian New Year holiday (2nd – 8th January)?

Appendix 2 Second Questionnaire

Holiday	Effect on hotel revenue				
	Revenue is higher than normal		No change	Revenue is lower than normal	
	Big positive change	Slight change		Slight change	Big negative change
Pre-holiday effect (23 December)					
Christmas Eve (Jouluaatto, 24 December)					
Christmas Day (Joulupäivä, 25 December)					
St Stephen's Day (Tapaninpäivä, 26 December)					
Post-holiday effect (27 December)					
Pre-holiday effect (31 December)					
New Year's Day (Uudenvuodenpäivä, 1 January)					
Post-holiday effect (2 January)					
Russian Public Holidays (3-4 January)					
Pre-holiday effect (5 January)					
Epiphany (Loppiainen, 6 January)					
Post-holiday effect (7 January)					
Russian Public Holidays (8-10 January)					
Pre-holiday effect (19 April)					
Easter (20 April)					
Post-holiday effect (21 April)					
Pre-holiday effect (22 February)					
Defender of the Fatherland Day (23 February)					
Post-holiday effect (24 February)					
Pre-holiday effect (7 March)					
International Women's Day (8 March)					
Post-holiday effect (9 March)					
Pre-holiday effect (30 April)					
Spring and Labor Day (1 May)/ May Day (Vappu, 1 May)					
Post-holiday effect (2 May)					
Pre-holiday effect (8 May)					
Victory Day (9 May)					
Post-holiday effect (10 May)					