



FACULTY/COLLEGE	College of Business and Economics
SCHOOL	School of Tourism and Hospitality
DEPARTMENT	Hospitality
CAMPUS(ES)	APB
MODULE NAME	Rooms Divisions & Revenue Management
MODULE CODE	RDR3AA3
SEMESTER	First
ASSESSMENT OPPORTUNITY, MONTH AND YEAR	Special Assessment Opportunity June 2022

ASSESSMENT DATE	2022	SESSION	
ASSESSOR(S)	Dr A Deen		
MODERATOR(S)	Dr R Minaar		
DURATION		TOTAL MARKS	100

NUMBER OF PAGES OF QUESTION PAPER (Including cover page)	9
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INFORMATION/INSTRUCTIONS:

- This is a closed-book assessment.
- Answer all questions and ensure to rule off after every question
- Read the questions carefully and answer only what is required.
- Number your answers clearly and correctly as per the question paper.
- Write neatly and legibly on both sides of the paper in the answer book, starting on the first page.
- Non-programmable calculators are permitted – only one per candidate

QUESTION 1: FORECASTING**[34]**

- 1.1 Explain the 4 types of historical data that must be taken into consideration when forecasting and provide the formula (12)

- Previous percentage of **no-shows** in historical data

Revenue managers and reservations note that **No shows** affect **Actual Reservations**

- Previous percentage of **Walk-ins**

Revenue managers and reservations note that **Walkins** affect **Actual Arrivals or Due in's for that day**

- Previous percentage of **Overstays**

It is noted that **overstays** affect **departures (due out guests)** for that day

- Previous percentage of **Understays**

It is noted that **overstays** affect **departures (due out guests)** for that day

- 1.2 The Sugar Hotel has 250 rooms to sell. The hotel reservation system shows the following information for the month of June:

Expected stay overs for the month:	3490
Reservations for the month	3800
Expected departures for the month	1500

This historical patterns are also expected to change with more walk-ins expected, whilst the number of no-show rooms are expected to drop due to guests having to make only guaranteed reservations.

No Shows	1%
Under stays	2%
Over stays	3%
Walk-ins	4%

Use the above information to calculate the expected % for June? (13)

Number of rooms	7500
OOO	(0)
Reservations	(3800)
Stay overs	(3490)
No Shows	38
Understays	30
Overstays	(45)
Rooms available	233
Total rooms	7500
Rooms available	(233)
Walkins	152
Rooms occupied	7419
%	98.92%

- 1.2 Hotels normally apply short-, medium- and long term forecasting for various reasons. Provide 3 uses for each of the above mentioned approaches to forecasting. (9)

Short term – Walkins, Reservations, Overbooking

Medium term – Staffing, Purchasing, Average Spend

Long term – Pricing, Marketing, Budgeting

QUESTION 2: PRICING

[30]

- 2.1 Define and explain the Hubbart Formula Approach (14)

The Hubbart formula is a method of establishing an average room rate for a new hotel. It is based on a calculation of total cost plus a desired rate of return. The figure is then divided by the number of anticipated room night that should be sold over a specific period.

$$\frac{(\text{Operating cost} + \text{Required return}) - \text{Income ex other departments}}{\text{Expected number of room nights sold}} = \text{ARR}$$

- Calculate the total amount invested in the hotel. (Share capital and long-term loans)
- Decide on the annual rate of return on the investment. (Dividends and loan interest plus estimated tax deductions)
- Estimate the overhead expenses for a year. (Interest, administration, water & lights, repairs etc.)
- Combine 2 and 3 to find the required operating income. (In other words the amount you need to make to cover your expenses and keep your investors satisfied)
- Estimate the probable profits from all sources other than rooms. (Restaurant, bars etc.)
- Deduct 5 from 4 to find out how much profit you need to make from room lettings.
- Estimate the rooms' departments' expenses for the next year, (Front office and Housekeeping wages, laundry etc.)
- Add 6 and 7 to find out how much money you need to make from rooms.
- Estimate the number of room night you are likely to achieve over one year.
- Divide 8 by 9 to find out the average room rate you should charge.

- 2.2 The Cost Per Room Night Sold (CPRNS) during June is R 400.00 per room which is a bit higher than normal due to all the complementary room drops that the Sugar Hotel expects to make. This hotel has a room compliment of 250 rooms to sell. Additionally, the hotel expects to make R 12 Million Return on Investment (ROI), whilst other departments will contribute R 1 Million to the revenue.

If the hotel forecasted an occupancy of 98.92%, calculate the Average Room Rate (ARR) this hotel should charge during this period. Also select a suitable methodology to calculate this. (8)

$$\text{Total rooms} = 250 \times 30 \text{ days (June)} = 7500 \text{ rooms}$$

$$7500 \text{ rooms} \times 98.92\% = 7419 \text{ rooms}$$

$$\begin{aligned} \text{Operating expenses} &= R400.00 \times 7419 \\ &= R2967\ 600 \end{aligned}$$

$$(R2967\ 600 + 1200\ 0000) - 1000\ 000$$

$$1496\ 7600 - 1000\ 000 = \frac{1396\ 7600}{7419}$$

$$= \text{R } 1882.68$$

- 2.3 It was stipulated by your Guest Lecturer, *General Manager Aqeelah Davids*, that “discounting” can be risky for established properties particularly during Covid-19. Differentiate these dangers for an established hotel and a new hotel that has entered the market? (8)

Rate cutting can be very risky, because the increase in % that is needed to offset the drop in revenue is surprising high.

What is perhaps more important is that unilateral cuts may begin a round if competitive rate cutting which could end up in everyone making losses and the weaker hotels going to the wall.

However, if it is a new property that has entered the market for example the Brics Hotel in Cape Town opened its doors within the pandemic and is a year old, thus they were able to competitively discount their rates without the intensity of affecting their overheads. Hence market based strategies worked effectively for this property

QUESTION 3: MULTIPLE CHOICE**[32]**

3.1 Looking at the trends of the Hospitality Industry, which of the following is **not** true

- a) **No political influence**
- b) Increased use of technology and communication
- c) More comfortable travel
- d) Aging population and early retirement

3.2 Average room rate is calculated by the which following formula?

- a) **Total Rooms revenue divided by Total rooms sold**
- b) Total revenue divided by Total rooms sold
- c) Number of occupied rooms divided by Total rooms in the hotel
- d) Number of double rooms sold divided by Total rooms sold

3.3 Indicate if this statement is true or false. "Forecasting assists the reservations and front staff in decision making with last minute reservations in computerised units"

- a) True
- b) **False**

3.4 Indicate if this statement is true or false. "Forecasting gives the Food & Beverage department an idea what to expect in the breakfast rooms and dinner restaurants."

- a) **True**
- b) False

3.5 Guests who have a guaranteed reservation but don't arrive influences the following:
Please choose two answers.

- a) The number of departures
- b) **The number of due in guests that are guaranteed to arrive**
- c) Non guaranteed reservations
- d) **Reservations**

3.6 Indicate if this statement is true or false. "Medium term forecasting includes determining aspects of walkins and reservations."

- a) True
- b) **False**

3.7 Occupancy percentage is calculated by the following formula:

- a) Total number of rooms in the hotel divided by Total number of rooms sold
- b) Total revenue divided by Total rooms sold
- c) **Number of rooms sold divided by Total number of rooms in the hotel**
- d) Number of double rooms sold divided by Total rooms in the hotel

3.8 Indicate if this statement is true or false. "Stayovers is referred to the guests who were due out but changed their minds and decided to extend their stay."

- a) True
- b) False

3.9 The trend of overstaying guests impacts which of the following:

- a) Actual arrivals
- b) Expected departures
- c) Walk-ins
- d) Reservations

3.10 When forecasting data a revenue manager understands that walk-ins influences the following: Please choose three answers.

- a) Actual arrivals
- b) Reservations
- c) The expected numbers of available rooms to sell
- d) The expected number of occupied rooms to sell

3.11 Indicate if this statement is true or false. "Cost based pricing focuses on only how much it costs to sell a room to the guest."

- a) True
- b) False

3.12 Indicate if this statement is true or false. "Once a revenue manager establishes the ARR through an applied pricing approach, this ARR would be the actual price charged for the all the rooms predicted to be sold."

- a) True
- b) False

3.13 Indicate if this statement is true or false. "There are two fundamental approaches to pricing of accommodation."

- a) True
- b) False

3.14 The trend of guests who leave early influences which two of the following:-

- a) The number of due out guests
- b) The expected number of available rooms to sell
- c) The expected number of occupied rooms
- d) None of the available answers

- 3.15 Indicate if this statement is true or false. "The rate cutting is not a risky approach to reasonably increasing revenue as the occupancy increases."
- a) True
 - b) False
- 3.16 Indicate if this statement is true or false. "The hubbart formula does not consider the costs involved when developing a pricing strategy."
- a) True
 - b) False
- 3.17 Which is not a function of the accounting department?
- a) wage and benefit administration
 - b) payroll
 - c) accounts receivable
 - d) accounts payable
- 3.18 Rooms Divisions is made up of which three departments:
- a) Front Office, Housekeeping and Maintenance
 - b) Front Office, Security and Maintenance
 - c) Food & Beverage, Housekeeping and Room Service
 - d) Room service, maintenance and front office
- 3.19 Indicate if this statement is true or false. "The food and beverage area contributes more to the profitability of a hotel than any other department."
- a) True
 - b) False
- 3.20 Indicate if this statement is true or false. "The hotel's PMS simplifies the clerical tasks of the front desk."
- a) True
 - b) False
- 3.21 Indicate if this statement is true or false. "An occupancy rate of 70% means that, on average, the cost of a room sold was 70% of the posted rate."
- a) True
 - b) False
- 3.22 Indicate if this statement is true or false. "Basic market forces such as consumer demand drives the hospitality industry today and in the future."
- a) True
 - b) False

- 3.23 Indicate if this statement is true or false. "Changing demographics impact all sectors of the hospitality industry."
- a) True
 - b) False
- 3.24 The department that is found in a full-service hotel and not in a limited-service hotel is:
- a) The food and beverage department.
 - b) the engineering department.
 - c) security department.
 - d) housekeeping department.
- 3.25 Indicate if this statement is true or false. "Prestige product pricing looks at increasing the demand by exclusively decreasing their rates."
- a) True
 - b) False
- 3.26 When companies scout the market and identify their niche that interests them within the accommodation sector utilises this approach to start their pricing strategy. This is known as:
- a) Hubbart formula
 - b) Top down pricing
 - c) Rate cutting
 - d) Prestige product pricing
- 3.27 Indicate if this statement is true or false. "Price taking or price followership simply follow the rooms rates set out by their large competitors."
- a) True
 - b) False
- 3.28 When utilizing the hubbart formula in determining an appropriate rate, your operating costs plus the rate of return is generally referred to as:
- a) Gross profit
 - b) Total revenue
 - c) Net profit
 - d) Return on investment
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QUESTION 4: FILL IN THE BLANKS

[4]

- 4.1 Forecasting is often used as a management tool in order to improve future performance

- 4.2 With regards to prestige product pricing it is not always true that the demand may increase if a property's prices are lowered.
- 4.3 The rule of thumb approach approximately calculates a room cost

ONLINE PAPER: TOTAL MARKS 100