GAIN MORE KNOWLEDGE
REACH GREATER HEIGHTS

PRESIDENCY UNIVERSITY, BENGALURU
SCHOOL OF MANAGEMENT

Max Marks: 100 Max Time: 180 Mins Weightage: 50% **Set A**

COMPREHENSIVE EXAMINATION

II Semester 2016-2017 **Course: MBA A 124 Revenue Management** 08 June 2017

Part A

(4 Q x 5 M= 20 Marks)

1. What is Revenue Management?
2. What are the Primary Goals of Revenue Management?
3. Write and explain the formula of Revenue Computation/ Calculation.
4. A company makes a product with a selling price of Rs 200 per unit and variable costs of Rs 120 per unit. The fixed costs for the period are Rs 400,000. What is the required output level to attain breakeven point?

Part B

(2 Q x 5M + 3Q x 10 M= 40 Marks)

5. XYZ is a Car manufacturing company. It has 2 product variants: A and B. The Price of A = 3.5 Lacs. Product A is the cash cow and contributed 80% of total revenue of FY 16-17. In last financial year (FY 2015-16) 10,000 units of 'A' were sold.

   This year (Year 2017) one of XYZ's competitor introduced a product very similar to 'A' with additional features, which resulted a 20% decline in 'sales' of product 'A'. As the demand of mid segments was in rise the XYZ introduced a new product 'B'.

   The design of Product 'B' was attractive. The plant set-up costs was Rs 36.00 Crores. The variable cost of manufacturing of product B is Rs 300, 000.00/ Unit. The standard Dealer's discount is 30% plus 5% promotional costs. The market research team of XYZ suggested that product 'B' must have 40% margin of the variable costs (same as product 'A'). Product B was well received by the market. It was able to cover up the loss of revenue due to the decline of sales of product 'A' and maintained the turn over as same as of the previous financial year (i.e. FY 2015-16), but failed to attain the break-even point.

   Based on the above facts calculate the followings:

   a. The Turnover of XYZ in FY 2016-17? 5 Marks
   b. Revenue Contribution of Product 'B' in FY 2016-17? 5 Marks
   c. Sale Price (MRP) of Product 'B'? 10 Marks
   d. The Break-Even Volume/ Quantity of 'B'? 10 Marks
   e. The Sales Volume of 'B' in FY 2016-17? 10 Marks

Part C

(4 Q x 10 M= 40 Marks)

6. Assume that you are the General Manager (GM) of a Hotel named Royal Orchid Limited (ROL). ROL has 100 rooms. After you have studied the local market, your brand, and your competitors, you are convinced that the typical travelers to your city are willing to pay a room rate varies between Rs 1000.00 to Rs 3000.00 per night for a room of the quality you offer and with the services you provide. The arrivals of the tourists varies significantly from time to time. The price has significant impact on rate of occupancy.

   The accountant of ROL informed you that the average maintenance cost per night (variable room costs) incurred for of one room is Rs 400.00. Other miscellaneous operational cost of the hotel per night is Rs 10,000.00.

   Being GM of ROL your primary goal is to maximize the yield (i.e. maximize revenue collection per night). However the typical problem hotel revenue management is managing uncertainty of customers' arrival and finding the right pricing policy. You have to decide the bestselling (pricing) alternatives in a given situation. Your **concerns are**:

   - Which selling price will, in all likelihood sell all 100 rooms each night, result 100% occupancy?
   - Which selling price, in all likelihood, would maximize ROL's income?
   - How much revenue per night ROL must earn to avoid loss?

   You were told that there are 4 different segments of customers. Each segment's Willingness to Pay (WTP) for a room per night would be different. The higher income group would be ready to pay for a special Room as high as Rs 3000.00 per night. If all the rooms are sold at this price, ROL would earn the maximum revenue. But the probability of arrival of higher income group customers is 40% (i.e. expected rate of occupancy would be 40%). If the room selling price is fixed at Rs 2000 per night, probability of arrival such category of customers is 70% (i.e. expected rate of occupancy would be 70%). Similarly, if the room selling price is fixed at Rs 1500.00 per night occupancy rate most likely to be 90%. And if the selling price is fixed at Rs 1000.00 per night the occupancy rate would be 100%.

   a) Calculate the 'Revenue Per Available Room (RevPAR) = (Revenue Earned ÷ Total Room Available) of all the ***Four*** Pricing Options.

   b) Calculate the 'Possible Yield = (Revenue Earned ÷ Maximum Revenue Earning Capacity of the Hotel) x 100' of all the ***Four*** Pricing Options.

   c) Scrutinizing the RevPAR and the Yields of all the four pricing options, which pricing option you will select and why? Explain the rationale of your choice.

   d) Finally calculate the minimum revenue per night that ROL must earn to recover its daily operational cost and specify the sales target in Rupees that the ROL must attain to remain financially healthy.

*** Good Luck ***