Getting the most from revenue management

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Received: 14th April, 2003

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ABSTRACT

KEYWORDS: revenue management, organisational and managerial issues, key success factors, implementation, performance measurement, pricing

Reviewing the literature on revenue management, it becomes fairly clear that the vast majority of articles are focused on the technical aspects of the subject. Demand forecasting probably receives the bulk of this attention, and after this comes optimisation. On the non-technical or less quantitative side, areas that have received attention include case studies describing the use of revenue management in various industries, customer reactions to revenue management, specific elements of revenue management programmes (eg groups, performance measurement, overbooking, differentiated pricing structures), and discussions of the applicability of revenue management’s concepts under different types of business conditions. What appears to be missing, at least at a detailed level, is informative discussion of the managerial and operational issues that affect the success of a revenue management programme.

Kimes made the observation over 10 years ago, and it still holds true. For example, there is widespread recognition that commitment from senior management is critical to the success of a revenue management programme. But exactly what does this mean? What actions do companies take that actually reflect whether or not senior management support is sufficiently high? Consider, also, training and educational efforts. While no one might doubt the need for such programmes, what topics should be included? It is difficult, if not impossible, to find much in the literature that addresses such questions. Based on the author’s experience of working with companies in a variety of industries, it is also clear that revenue management programmes are often less effective than they might be, as companies fail to take appropriate managerial and organisational actions. This paper attempts to lay some of the groundwork regarding implementation factors that affect the success of a revenue management programme. Although the treatment of the subject is meant to be comprehensive, there are clearly many more managerial, organisational and operational issues than can be discussed in a relatively short paper. The items reviewed are those that are considered particularly important
in a variety of industries and are also those that many companies are struggling to address.

INTRODUCTION
Why do some companies have successful revenue management programmes, while other companies struggle with theirs? Why do some companies invest significant resources (time, manpower and money) in installing and implementing a revenue management system, but then fail to get much value from it, while other companies use the same system and obtain extraordinary benefits? Drawing on experiences over the past 20 years, this paper reviews the factors that tend to separate the winners in revenue management from the ‘also-rans.’

It has long been recognised that achieving success with revenue management requires far more than having the right technology. There are a variety of managerial and organisational factors that have an enormous influence on the level of benefits obtained from a revenue management programme. Indeed, there have been a number of articles written and presentations made at revenue management conferences that highlight key factors in revenue management success (Bacon, 1989; Kimes, 1989: 360–361; Lieberman, 1991; Baldanza, 1997; Cross, 1997: 221–228; Donaghy et al., 1997: 198–199). Yet very little has been written on the details behind these concepts and, from work with many companies in this area, it has become increasingly clear that many companies are struggling to address the managerial and organisational issues.

The goal of this paper is to provide greater detail than is typically included in such papers and presentations. Many of the concepts discussed are relatively simple and straightforward. Yet, the reality is that these concepts are often overlooked or ignored by many companies — reducing the benefit levels of their revenue management programmes. Through a more detailed discussion of success factor criteria, the points will be made more tangible and, ultimately, practitioners of revenue management will be given specific ideas on how to increase the success of their revenue management programmes.

CRITERIA FOR SUCCESS
Drawing on experience in a variety of industries, key elements of successful revenue management programmes include:

1. measuring performance;
2. developing supporting business policies and processes;
3. ensuring decision-making authority and accountability;
4. integrating revenue management with other departments;
5. knowing the limits of your revenue management system;
6. providing for career path support and progression: life during and after revenue management.

While the first four areas have been noted in the previously cited references, the author is not aware of any papers or presentations that discuss the fifth and sixth elements.

An issue that is recognised as important but not treated specifically in this paper, regards how to improve the success of a revenue management programme during periods of market instability. Market instabilities can result from either fundamental shifts in customer behaviour and demand or from changes in the competitive environment. The current state-of-the-art of most revenue management systems, and in particular their forecasting capabilities, assumes a certain level of historical continuity. When such conditions are not present, the systems are not sufficiently self-correcting that they can provide satisfactory results under the level of investment and attention that companies have been accustomed to making. This issue will be discussed in a future paper.