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## INTEGRATION OF REVENUE MANAGEMENT IN TOURISM INDUSTRY

*This paper gives an overview of Revenue Management and the main requirements companies have to meet to apply it. We will look through the history of Revenue Management, how it evolved from Yield Management, originally used in Airline industry to Revenue Management. We will give few examples of results of Revenue Management implementation, analyze benefits of multiple pricing compared to price decline and see positive effects of Revenue Management both for the company and for the customer.*

*Keywords: yield management; revenue management; revenue management systems.*

*Статья посвящена методу управлению доходами и обзору необходимых условий для внедрения его компанией. Рассмотрено историю управления доходами в процессе эволюции от Yield Management (метод управления, имеющий своей целью улучшить отдачу от продаваемого продукта или услуги) до Revenue Management. Приведены конкретные примеры результатов применения метода управления доходами в различных сферах индустрии туризма. Проиллюстрировано как многоуровневое ценообразование может быть более эффективным, чем простое снижение цен. Рассмотрены положительные аспекты управления доходами не только для компании, но и для клиента.*

*Стаття присвячена методу управління доходами та огляду умов, необхідних для використання даного методу компаніями. Розглянуто історію управління доходами в процесі еволюції від управління надходженнями (Yield Management) - методу управління, метою якого є збільшення віддачі від продажу послуги або товару, до управління доходами (Revenue Management). Наведені конкретні приклади використання методу управління доходами в різних сферах індустрії туризму. Проілюстровано як багаторівневе ціноутворення може бути більш ефективним ніж просте зниження цін. Розглянуто позитивні аспекти управління доходами не тільки для компаній, а й для клієнтів.*

*Ключові слова: управління надходженнями, управління доходами, система управління доходами.*

*Introduction.* Over the past two decades, more and more research is done on the topic of Revenue Management. Revenue Management can be viewed as the art and science of revenue and profit optimization through dynamic pricing. The key challenge of Revenue Management is to sell the right product to the right customer at the right price and - at the right time - with the help of dynamic and differentiated pricing. It is about allocating the capacity to different fare classes. Revenue Management is an innovative knowledge field gaining much attention and growing rapidly.

Concept of revenue management is applicable in various sectors. Most commonly it is used in tourism industry as a method of allocating scarce resources such as hotel rooms or seats on a plane, among the various segments of consumers (business or leisure tourists). By regulating distribution, companies can optimize their total revenue (or income).

Companies applying Revenue Management differ, but they have to meet 4 requirements:

1. The seller is selling fixed stock of perishable capacity;
2. Customers book capacity prior to the time of service (e.g. in case of an airline company the time of service is the moment the plane departs);
3. The seller manages a set of fare classes, each of which has a fixed price (at least in the short run)
4. The seller can change the availability of fare classes over time [1].

*History of Revenue Management.* Before the introduction of Revenue Management, BOAC (now British Airways) experimented with differentiated products by offering capacity controlled «Early bird» discounts to stimulate demand for seats that would otherwise remain empty. In the early 1980's Yield Management urged the deregulation of the US airline industry. People Express, one of the—emerged airlines that, offered customers a low-priced ticket with minimal comforts. Major Airlines, for instance American and United, decided to compete with People Express by offering a few seats at even lower prices but maintaining higher prices on the rest of their seats. In this way they attracted the price-sensitive People Express customers while still maintaining their higher-paying passengers. As a result, many People Express passengers switched to the major carriers, and People Express eventually became bankrupt. Former People Express chairman Donald Burr blamed many of People Express's problems on the lack of a Yield Management system [1].

Other industries took note of American's success and implemented similar systems. Cruise lines, car rental agencies and hotel companies started to evaluate the benefits of adopting Yield Management as a business strategy. Early adopters in the hotel space included Marriott International, Holiday Inns Worldwide (now InterContinental Hotels Group), Hilton Hotels Corporation and ITT Sheraton. Organizations with centralized information systems and management structures adopted centralized systems. More decentralized organizations sought property-based ones. Marriott International had many of the same issues that airlines did: spoilable inventory, customers booking in advance, lower cost competition and balancing supply and demand. Since “yield” was an airline term and did not necessarily refer to hotels, Marriott International and others invented the concept of Revenue Management [1]. Such companies established Revenue Management organization and invested in automatized Revenue Management systems providing daily forecasts of demand and inventory recommendations, for each of Marriott's 160,000 rooms in particular. Marriott's successful execution of Revenue Management added between \$150 million and \$200 million to the annual revenue. [2]. By 2000,

virtually all major airlines, hospitality companies, cruise lines and rental car firms had implemented Revenue Management Systems to predict customer demand and optimize available price.

*Revenue Management results.* Several authors report «success stories» on effective Revenue Management in practice. For example, in 1989 The Carlton Beach Hotel in The Hague has successfully introduced and implemented own Revenue Management system, designed to serve its specific needs of the Hotel. Since the implementation, the hotel reported an increase in revenues by 20% and the profits by 17% [3].

Another example of successful Revenue Management system is British Airways. Among the reasons of company success reported in 1992 there were cost cutting and sophisticated Yield Management. The company attributed its success to being «a low-cost and high-revenue carrier» [4].

The next successful Revenue Management example is represented by the Austrian Airlines company, which has been one of the most consistently profitable airlines in Europe during the past decades. The Gulf War caused profits of the most airlines to decline, however, the Austrian Airlines experienced its «twenty-first consecutive year of profits» [1]. The company proved its capability to perform effectively during extremely cyclical periods and reasoned its success by smart investment choice in favour of the Revenue Management and decision-support computer system. Such a system helped to monitor all historical data on the company flights as well as enabled flights forecasts up to a one year period with high precision. Moreover, the new Revenue Management system allowed the company management to look for future business opportunities by supplying it with decision-making tools in order to forecast future flights demand. In addition, this system allowed to keep prices at stable level while other companies were trying to survive by lowering their flight prices [1].

*Conclusions.* The examples provided above demonstrate that the effectiveness of Revenue Management should be company or industry specific. While companies have a lot of common features being important for the Revenue Management (for example, demand for customers, operating costs), they differ in offering various products and services. Those product and services (depending on the industry) require specific attention while implementing the Revenue Management system. Revenue Management is not based on setting and updating prices, but on setting and updating availability of price classes, given that each class has an associated price that remains constant through the booking period [5]. Finally, Revenue Management is not based on maximizing revenues either. Besides the benefits for airlines and hotels Revenue Management has advantages for customers. Indeed, they make use of various offers. Customers, for whom a seat or a service is very important, are happy to get it not dependent on the price.

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