

REVENUE MANAGEMENT (RM)

HOW RM APPLIES TO YOUR BUSINESS

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Agenda

- Your Industry
- What is RM?
- The RM Process
- RM Components
- Questions

Your Industry

Products can be differentiated by their service levels

Prices are almost all the same like a commodity

Client demands required allot of new work on services like faster service, tracking, rerouting, etc.

Your Industry

However, these additional service levels have not been translated yet into product differentiation with dynamic pricing, and their revenues optimized using RM

Complex optimization and logistics models have been built to optimize the supply side of the business, however, this has not been used on the demand or marketing side of the companies.

What is RM?

A systematic and formal process that assures you sell the right product to the right customer at the right price.

Process of segmenting the market along a price and service continuum

Proactively deciding who gets your products and when.

Breaking the market's first-come-first-served nature

The RM Process

RM is a process of optimizing profits by:

segmenting the market using

fences based on different product requirements (time, price, service level)

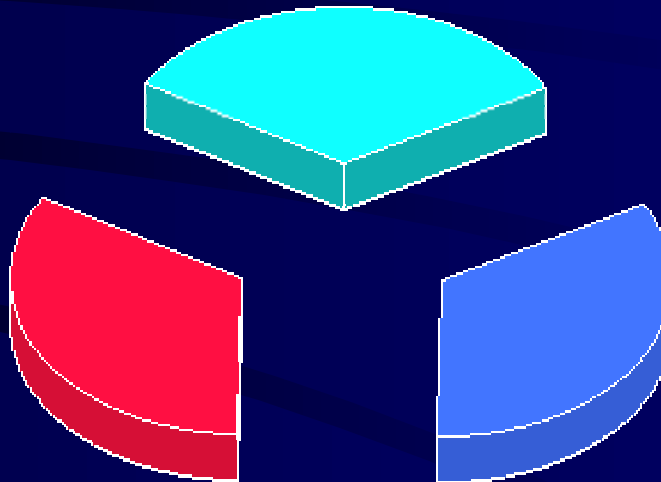
use dynamic pricing (different prices for products)

forecast unconstrained demand for each product/price point

determine in advance what demand to reject and accept to optimize revenues across the network.

RM COMPONENTS

DECISION SUPPORT



**MARKETING/PRODUCT
DEVELOPMENT**

CONTROLS

Theories & Applications

Theories

Variable supply
Substitute products
Price Elasticity
Demand cycles
Network Optimization
Product differentiation
Market segmentation
Classes of service
Fences
Value added
invisible discount

Applications/Tools

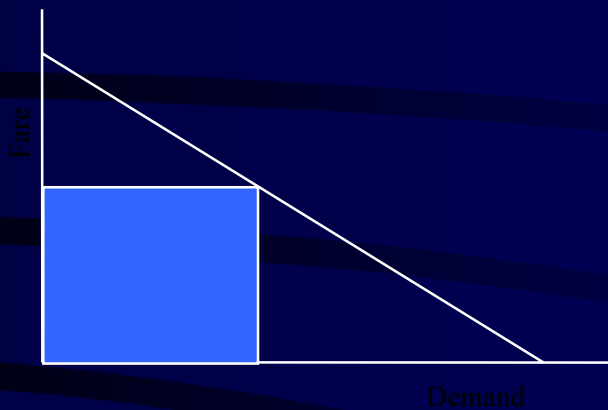
Alarms
Exception reporting
Retention & no-show rates
Forecasts
Product differentiation
Displacement costs
Thresh hold price
Overbooking levels
Market analysis
Promotion analysis
Historical database

Airline Industry

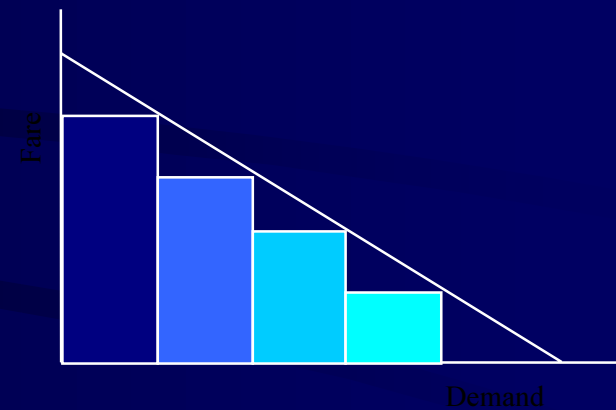
- Old days
 - 50% load factors
 - High fares
 - Profits
 - Whole market segments excluded
- Then
 - Competition
 - Pressure on margin
 - Drive to attract new market segments
- Dilemma
 - How to keep yields from existing segments while accommodating demand only prepared to travel at lower yields ?

Pricing and Revenue Management - Tactics

Stimulate shift of demand in time on peak - off peak
Differentiated pricing



Maximum Revenue single fare



Maximum revenue - 4 fare tiers

Generate additional demand
Adjust production levels and specifications
Selective selling

Pricing and Revenue Management - Tactics

Product Aspects

Ticket Conditions

- Ticket Price
- Advance purchase
- Weekend fares
- No change allowed
- Not refundable

Availability

- Per flight
- Per O&D
- Per subclass
- Per Point-of-Sale

Network

- Schedule
- Connections
- Elapsed travel time

Physical product

- Business Class
- Tourist class

Brand value

- Brand image
- "Circle of Contact"
- Loyalty program



First / Tourist / Economy
Business



Market segments

Business

- Higher fares, less restrictions
- Late booking

Leisure

- Individuals
- Tour operating
- Lower fares, restrictions
- Early booking

"Spot market"

- Special offers during short period
- Swansational
- Click and Go

Geography

Transportation Industry

- Billionaire shipping his 3 Ferraris to Europe for his vacation
- Shipper who needs same capacity consistently every week
- Shipper who needs rush service
- Shipper who can wait for space available
- Shipper who needs a certain route

How does Revenue Management affect shippers and transportation providers ?

The implementation of revenue management processes systematically leads to a more efficient and effective distribution of scarce resources.

Available capacity and different levels of service becomes much more closely matched to existing demand.

Shippers will find more consistent and appropriately priced transportation capacity.

Transportation providers will be selling the right product in the right place at the right time, leading to less wasted or sub-optimized capacity and higher profits

If shippers understand Revenue Management can they negotiate better deals with suppliers that use it ?

**Yes, but better does not necessarily mean
cheaper. The improvements can also be found in:**

- Availability**
- Consistency**
- Timing**
- Planning**

**This makes them more reliable suppliers to their
end customers.**

What impact does Revenue Management have on marketing, pricing and product development ?

Revenue Management is a key element in the whole value chain.

Pricing is a key driver in steering demand to available capacity. Control over pricing and discounting is an essential part of effective revenue management.

A very strong link exists to product development given the fundamental roles that demand forecasting and pricing play in both fields.

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