

Revenue Management's Applications in Different Industries

Steven Pinchuk

Profit Optimization Strategies Inc
www.revenuemanagement.org

CEO and Founder

Profit Optimization Strategies

www.profitoptimization.com PROFIT OPTIMIZATION STRATEGIES ALL RIGHTS RESERVED
USE FOR ANY TRAINING OR COMMERCIAL PURPOSE BY INDIVIDUALS AND COMPANIES WILL BE PROSECUTED

Agenda

My perspective

Discussion topics

Trends

RM Principles

RM Theories and Applications

Key user objections to RM theories and systems

RM varies by industry

RM Needs a System

My Perspective – multi-faceted

I have a unique background that combines work in:

- Top RM consulting firms
- Sr. Management positions inside cruise lines, tour operators and resorts
- Economics background as advisor to Sr US Senator

A quick review of my background will show you my perspective.

My Perspective - Past positions

A Partial List of My Consulting Clients

CRUISE LINES

Carnival Cruises
Princess Cruises
Renaissance Cruises

TOUR OPERATORS

Club Med
Atlantis Adventures
PADI Travel Network

FERRIES

Brittany Ferries
Corsica Ferries
TT/TR Lines
Viking Line

CASINO/HOTELS

Caesar's Palace, Las Vegas
PGA National Resort & Spa

BROADWAY

American League of Theater
Owners and Producers

Discussion Topics

Identify the basic RM theories/applications that I have seen clients use in both travel and non travel industries.

The same RM theories are applied differently in different industries, and even different markets in an industry. Since it is an economic *theory* RM theory has more than one correct application.

Use the insight gained from other industries to see your RM efforts in a new light, and better understand the tools you are using and the tools you need.

Trends

Packages

Travel industries are packaging products and selling the packages, instead of just selling the core product.

The same items, packaged and/or sold differently, can create many different products in the market.

More profitable, allows invisible discounting, co-marketing – and total 1 stop satisfaction & service

Consumer Acceptance

RM is applied in our everyday life many times a day. However, consumers must accept its applications.

Trends (cont.)

Consumers accept dynamic pricing in RM, if the prices and products make sense to them

Distribution

Distribution is key to implementing dynamic pricing

Allows targeted pricing versus mass market pricing

Discrete, value added and co-marketing distribution requires multiple distribution channels

PRODUCTS ARE BECOMING VIRTUAL, AND ONLY DEFINED AT THE MOMENT OF THE TRANSACTION

RM Principles

Products can be created to sell as packages. Combine a core product, attach other package elements, a distribution channel, a marketing image/voice and a package price.

In an optimization system, packages may not be defined until the product sells in the market. Clients may “package on the fly.”

Distribution & “Time of Sale” creates different “products.” Don’t change your core product, first change the way it is packaged, priced, distributed and sold.

Customer response can vary by market segment & product for the same core item (packaging impact).

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

RM Objections Across Industries

Some RM ideas and perceived problems are key whatever industry you are applying RM to.

RM combines: market analysis, pricing, statistics, computers and an intelligent booking system into a dynamic organizational force

Sometimes stories tell a concept in a form that is more memorable than a plain explanation.

RM Objections - Pricing (cont..)

Proper pricing is required to use RM

One morning I was on a boat full of scuba divers heading out to a reef in Florida. Two divers were spear fishing and had decided to dive the bottom of the reef to look for lobster and other marine life that would only be found on the bottom instead of on top of the reef. They came up empty-handed from their dive. There had been nothing they could catch at the bottom of the reef.

As we came back into the harbor we saw a fishing boat, its many nets swaying off the side of the boat on their long holders. The boat was sorting through a large catch - and throwing the catch it didn't have room to keep in their refrigerated hull overboard. They had the luxury of deciding what to keep. I thought how similar this was to RM.

They knew where the game was from prior experience and analysis, had lowered many nets into the water at many depths to catch anything that was in their area. In RM terms they had placed many products in the market (variable prices, distribution and packaging) and this let them use RM to keep what they wanted, not just what had been caught first. They had the luxury of choice due to their strategy.

RM Objections In Story Formats - statistics (cont.)

RM analysis predicts, and is not absolute - It doesn't have to be exact and is better than guessing.

RM analysis uses probabilities and ranges to determine trends and orders of magnitude, then it acts instead of waiting to react to the market.

I worked in Martin Marietta's Space Launch Systems on the Top Secret Titan rockets. The engineers had a "can do" attitude and a way of making things work as described in the story they told me.

RM Objections In Story Formats - statistics (cont.)

Exact results are not needed to use RM

One day the guidance counselor took all the High School boys who wanted to become Mathematicians or Engineers and placed them against the wall of the school gym. He placed the cheerleaders on the opposite wall and explained that each time he blew the whistle the boys could advance exactly half the remaining distance to the cheerleaders. The Mathematicians immediately left and said they weren't dumb, they would never reach the girls. The engineers patiently waited, realizing they would get more than close enough for practical purposes.

RM forecasts and models do not need to be perfect to do their jobs. They are not exact and do not have to be to determine the markets reaction and when to accept or reject a demand for a particular product. They can be much better information to base decisions on than gut feel or "lore of the clan."

RM Objections In Story Formats - tools (cont.)

Tools must be used properly

Man first found fire when lightening hit a tree. Then he learned to rub rocks together to get sparks. Next we invented matches, then lighters and today we have adjustable 99 cent disposable lighters.

Why are some people seen cursing their lighters as they try to rub them against rocks to get sparks?

A tool must be used right or it can have worse results and be harder to use than a manual approach

Many RM tools are not implemented or maintained properly

RM Varies by Industry – Airlines

- Developed & leads in RM application \$\$\$\$BIG
- Limited physical classes of service, *therefore*, created products using “discrete distribution” and “fences” to segment the market
- Bought as fungible price sensitive commodity – *therefore* little room to change product
- Requires many fences *due to* product limitations, fortunately market segmentation is natural
- New sophisticated network RM applications – *due to* interconnecting products duration control
- Strong seasonal, weekly and hourly demand cycles

RM Varies by Industry - Auto Rental

- Moving cars can change the supply curve either intentionally and unintentionally – therefore unique unknown supply as well as unknown demand for better or worse
- Fungible - the product is similar except for the extra service
- Can follow Airline sales – complimentary demand curves

RM Varies by Industry – Hotel/ Resorts

- Overlapping stays create blockage – duration control
- Strong seasonal, weekly and hourly demand cycles
- Many physical classes of service
- A great deal of value added and packaging
- Retention rates and no shows create overbooking possibilities – same for airlines and rental cars
- Demand can be “walked”
- Brand loyalty – same for airlines and rental cars

RM Varies by Industry – Ferries

- Many demand curves sub-optimize into one or more supply curves (deck space)
- End of duty free ended 1 value added market
- State subsidies destabilized market curves
- Combines business / leisure / cargo

RM Varies by Industry – Cruises

- Many classes of service allows upgrade
- Packages air, hotels, tours and cruise
- Single product timing (funnel effect)
- Limited ability to “walk” demand
- Large purchase - emotional, branding
- Packaging can control costs - air/sea

RM Varies by Industry – Others

- **Tours/excursions – priced by time & value added**
- **Gyms - reduced rates for non peak users**
- **TV/Radio – ads priced by demand & sold in packages**
- **Power generation & Utilities – priced by demand**
- **Vending Machines – priced by temperature**
- **Movie Theaters – priced by time & demand**
- **Restaurants – priced by time, coupons,**
- **Trains – many areas**

RM Varies by Industry – Others

- **Laundry/ Dry Cleaning – priced by return time, 2 for 1 Demand Curves**
- **Analysis finds the natural multiple curves**
- **Natural market segmentation & fences**
- **Various slopes, lengths and time frames**
- **Core of most RM actions - dynamic**
- **RM systems match expected and new demand to products and determines what to sell - by profit not by first come first served**
SCUBA

RM Needs a System - Manual or Automated

- A decision support system not a black box
- Too many decisions for manual processing
- Exception reporting leverages analysts time
- Models find trends analysts can't see
- Consistency required or RM looks random
- Requires fast analysis to react to market
- Requires support from top decision makers