

Pricing And Revenue Management

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Abstract

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1 INTRODUCTION

The role of pricing and revenue management systems is to optimise the product for different kinds of customers. Pricing and revenue managers use data-driven, yield management systems to allocate adequate and sufficient capacity to profitable customers. At the same time, they also meet the needs of price-sensitive customers. Hence, customer-centric, yield management systems forecast demand and availability, to maximise revenue by using differentiated prices, at the right time. Such price optimisation strategies suit each individual customer. For instance, the purpose of the airline revenue management systems is to optimise the passenger mix on each flight. In this light, this chapter explains the concept of yield management. It sheds light on the various factors which influence the pricing of travel products to different customers.

Yield management is a variable-pricing strategy which anticipates and influences consumer behaviour. It is intended to maximise revenue and profits from a fixed, time-limited resource (such as airline seats or hotel rooms). Pricing, revenue and yield management systems will support travel and tourism businesses as they sell products to the right customer, at the right time, for the right price. Very often, the yield management processes could result in price discrimination, as customers who are consuming identical goods or services are usually charged different prices.

As the customers demand for seamless, personalised travel experiences, airlines and many hotels are increasingly implementing pricing strategies that are aligned with their revenue objectives. Their revenue management systems provide accurate, real-time information in the

right format (Chase, 2007). They will enable them to improve their retailing, whilst responding to the shifting market dynamics (Talluri, 1999). At the same time, yield management systems could help businesses to maintain and expand their market share, and to increase their profits, on a day-to-day basis (Cross, 1997).

Yield controllers use highly-sophisticated computer systems to forecast the consumers' behaviours (Chase, 2007). Specifically, they could identify when customers purchase certain products, and determine at what prices they are purchasing them. This allows businesses to protect enough space for late booking, high-yield passengers or guests, whilst at the same time, allocating the remaining space to discount fares. Effective yield management systems provide differentiated fares to meet the needs, wants and expectations of different customers; whilst simultaneously ensuring that the business gets the highest possible revenues from each and every customer. Hence, yield management involves; setting differential pricing, as well as adopting non-pricing strategies, including overbooking management.