



Question

How to optimize pricing and product availability?

Demand Forecasting

Four Core Concepts of RM

Overselling

What is revenue management?

- Based on **predicting** consumer behavior at the micro-market level
- By **managing** product availability and price
- In order to **maximize** revenue or profit

Yield management at American Airlines

- Pioneered by Robert Crandall
- Former Chairman and CEO of American Airlines
- In response to competition from PEOPLExpress in the 1980s





VS



Legacy carrier (founded 1926)

Low-cost carrier (founded 1981)

High cost per seat mile

Low cost per seat mile

High prices

Low prices

Complex fare structure

Simple fare structure

Advanced IT system

Basic IT system

How could American Airlines compete
with the lower costs and prices of
PEOPLExpress?



How American Airlines fought back

- Insight – AA has zero marginal costs for flights with many empty seats
- Use data to forecast demand accurately (advanced IT system)
- Offer very cheap tickets for flights with many empty seats
 - AA's "Ultimate Super Saver" fares were cheaper than PEOPLExpress fares

Restrictions / fences in the airline industry

- Two types of customers:
 - Business customers **pay more** but **book late**
 - Leisure customers **pay less** but **book early**
- Use **fences** to keep \$\$\$ customers from buying \$ seats
 - Advance purchase restrictions (at least 14 days before departure)
 - Non-refundable and non-changeable

Impact of AA's yield management system (1985)



+14.5%

revenue

+47.8%

profit



Profitable → losing money



Ceased operations in 1987

Applications of revenue management



Royal Caribbean Cruises Ltd.



Sales of TV Ads

