

SECTION 3

T = Tutor
M = Mark
S = Susan

- T: OK, everybody, good morning! It's Mark's turn to talk to us today so Mark, I'll ask you to get straight down to business.
- M: Right!
- T: Now following on from what we were discussing last week in Susan's tutorial on approaches to marketing, you were going to give us a quick run down on a new strategy for pricing which is now being used by many large companies known as "revenue management" ... before we go on to your actual tutorial paper on Sales Targets. Is that correct?
- M: Yeah, OK, well ...
- T: So what exactly is revenue management?
- M: Well, it's a way of managing your pricing by treating things like airline tickets and hotel rooms rather more as if they were perishable goods.
- S: Yeah, I just tried to book a ticket yesterday for Perth and would you believe there are three different prices for the flight?
- M: Right! And what was the rationale for that?
- S: Well ... the travel agent said it depended on when you book and the length of the stay, like it's cheap if you stay away for a Saturday night, presumably because this isn't business travel and even cheaper if you buy a ticket where

Q24

Q25

- you can't get a refund if you have to cancel; in that case the ticket costs about half the price. You wouldn't think it would make that much difference, would you?
- M: Well it does, and that's basically because the airlines are now treating their seats like a commodity. You see — if you want a seat today, then you pay far more for it than if you want it in three weeks' time.
- S: That seems rather unfair.
- M: Well ... not really ... when you think about it, that's just common sense isn't it? Q26
- S: I suppose so.
- T: What this actually means is that in the same row of seats on the same flight you could have three people who have all paid a different price for their tickets.
- S: And is this just happening in Australia?
- M: No, no it's the same all over the world. Airlines are able to "market" a seat as a perishable product, with different values at different stages of its life.
- S: Well like mangoes or apples at the market.
- M: Yeah, it's exactly like that. The fact is that the companies are not actually interested in selling you a cheap flight! They're interested in selling the seats and flying aeroplanes that are full. Q27
- T: Mark why do you think revenue management has come about?
- M: Well, as far as I can see there are two basic reasons: firstly because the law has been changed to allow the companies to do this. You see in the past they didn't have the right to keep changing the prices of the tickets, and secondly we now have very powerful computer programs to do the calculations and so the prices can be changed at a moment's notice. Q28
- S: So you mean ten minutes could be critical when you're buying a plane ticket? Q29
- M: Absolutely!
- T: That's right!
- M: And I understand we have almost reached the stage where these computer programs that the airlines are using will eventually be available to consumers to find the best deals for their travel plans from their home computer Q30
- S: Heavens! What a thought! So the travel agent could easily become a thing of the past if you could book your airline tickets from home. Are there any other industries using this system, or is it restricted to the airline business?
- M: Many of the big hotel groups are doing it now. That's why the price of a bed in a hotel can also vary so much ... depending on when and where you book it Q31
- T: It's all a bit of a gamble really.
- M: Yes, and hire car companies are also using revenue management to set their tariffs, because they are also dealing with a "commodity" if you like ... so the cost of hiring a car will depend on demand. Q32
- T: Well, thank you, Mark, for that overview ... that was well researched. Now let's get on with your main topic for today...