

Yield management: a successful technique?



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Yield management is gaining wide acceptance as a key marketing and pricing strategy in many firms. The phenomenal revenue gains attributed to yield management—typically in the range of 3 to 7 percent, virtually all of which drop to the bottom line—have prompted executives to investigate the potential applicability of yield management to their companies.

These executives, taking notice of how the airline industry has used yield management principles to its gain, are beginning to apply the same principles to generate millions of dollars in extra profits.

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Many of these companies, whether they manage cruise ships, broadcasting stations, caterers, or hotels, have decided that the potential gains of yield management programs warrant an active approach, yet the actual steps taken by these firms to launch or enhance their yield management capabilities differ.

Some firms have achieved much greater success than they anticipated. Not only have revenues increased beyond their initial expectations, executives have been

pleasantly surprised that effective yield management has also led to improved customer service. Other companies have received only a small percentage of the possible gains. In a few cases, the yield management systems even reduced corporate profitability. How can we explain such dramatic differences in yield management performance?

Our experience indicates poor performance is not caused by an ill-advised use of yield management concepts. Rather, it results from poor implementation, whether in the system design or in the actual application of yield management tools. After reviewing many successful and unsuccessful experiences, we have developed ten guidelines that greatly increase the likelihood of implementing a successful yield management program.

Yield

management

- getting more out of what you already have

SANJAY KAUL (2009)

ONE EXAMPLE OF the successful adoption of

yield management techniques is the airline

industry, which has developed

sophisticated price-discrimination strategies to

manage its two main customer groups. Business

travelers are relatively price-insensitive, especially

if the company is paying; but they have

less choice over travel arrangements. So airlines

reserve full-price seats for these passengers and

limit the number of discount seats. Leisure

travelers are more concerned about price but

tend to be more flexible, so the cheap seats have

conditions that make them unappealing to business

travelers; for instance compulsory

advanced booking, non-refundability and stopover restrictions.

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The Status of Yield Management in Service Organizations in the United Arab Emirates: Results of a Survey

Darwish Abdulrahman Yousef, Ph. D.

The sources of acquiring knowledge in YM for those who are aware of YM were as follows: practice, training, and reading books and journals. The results also show that respondents perceive that the use of YM influences efficiency, sales, profitability; improves productivity, competitive advantage, capacity utilization and reduces costs. Results also show that about 53 percent of the users have been using YM for five years or more and that the conditions required for the adoption of YM exist to some extent for most of the non-users organizations. Limitations, implications, and lines of future research are discussed.

Yield Management:

System or Program?

By Warren H. Lieberman

President, Veritec Solutions

To be successful, yield management

implementation must be coordinated among a

company's various departments. As firms improve their ability to integrate yield management into their long-range planning and tactical operations, yield management success stories should become more common. This in turn should prompt increasing numbers of companies to explore whether and how they can benefit from developing a yield management program. If such integration does not occur, yield management may become just another "flash in the pan."

YIELD MANAGEMENT FOR SMALL TO MEDIUM-SIZED

ACCOMMODATION OPERATORS

How to make

more money

from your

accommodation

business

FINAL REPORT DECEMBER 1998

More than you imagine.

factors

impacting on yield

The study has identified a number of critical

factors to consider when managing yield.

Maintaining records

The single most important factor was found to

be maintaining adequate records to build a

profile of your business.

Client profile Who the clients are

How they book

How long they stay

Their origin

Their travel pattern and

itinerary

Distribution profile Client mix ratios

Financial profile Cost details

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Pricing details

Finance, equity, leasing

Commissions

Business profile Planning levels

Strategic direction

Review processes for the

business

Operator profile Rationale for business

Hobby/primary/

secondary/way of life

Appropriate skills,

specifically targeted

High motivation to

access required skills

Accurate information about your clients, how

they book, costs and the financial position of

the business will help you to make informed

decisions about strategies to build yield.

Setting aside some time to review the

performance of the business, plan for the

future and reflect on your motivation for being

in the business can also prove to be invaluable.

Pricing strategies were a critical factor to

most of the participants in two ways:

First, the program was able to assist them make

decisions about price reductions for the offseason.

This program made them aware of

their cost structures, and when they did not

follow the market and sold fewer rooms at a

better yield, they ended the year with a better

financial result. Second, putting a range of

pricing options within the same property

provided good results.

Cost analysis was a significant factor in

providing a better result to many operators.

Although it is difficult to manage fixed costs to

any large degree, many participants made the

decision to manage their discretionary costs

better. This was mainly evident with

marketing expenditures, where the smaller

operators were much more focused on their

choices of advertising participation. There

were also significant efforts to monitor the

variable costs and wherever possible reduce

them without compromising quality.

Repairs and maintenance was the single

most influential factor to the bottom line.

Where R&M is not treated as a capital

refurbishment (in all of the cases studied) the

year that rooms are upgraded and improved

obviously has a huge impact on the financial

results. In some ways, it might have been better to ignore R&M as it skews results so much. It also needs to be amortised over three to five years rather than taken up as an expense in one particular year.

Analysis of Revenue Management Performance in the Hotel Industry

Dr. Danna Liang, Department of Hospitality Management, Ming Dao University, Taiwan

Antecedents to Success Literature

In a more general grouping, research concerning attributes which impact success of a new program, process or change,

consistently includes elements such as executive commitment and education and training. This literature spans across

disciplines and our review is by no means exhaustive, but representative of a consistent theme. A metaanalysis of

executive commitment shows positive influence of management commitment on program success (Rodger et al. 1993).

Similar evidence for a positive relationship between executive commitment and the success of a given program or

process is found in the research on total quality management (Ahire et al. 1996, Jun et al. 2006), enterprise resource

planning (King and Thompson 1996, Stratman and Roth 2002). Additionally, total quality management programs find

the same results (Ahire et al. 1996, Jun et al. 2006). This literature reinforces the necessity of both executive

commitment and education and training on new programs.

What risks are involved in its implementation?

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Advantages and disadvantages of yield management

The use of yield management has a number of advantages including facilitating decisions regarding the allocation of undifferentiated units of capacity to available demand in a way that maximizes revenue and the utilization of available capacity over time; improves sales through price discrimination; raises productivity through enticing more demand, and increases competitive advantage through capacity utilization and revenue generation (Larsen, 1988; Williams, 1987).

Although yield management has several advantages, as mentioned earlier, it also has a number of potential disadvantages such as unfairness (i. e.,

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customers perceive that firms behave unfairly), opportunistic behavior on the part of customer (i. e., increase customers price awareness and sensitivity and in turn not willing to purchase at normal prices) and perception problems (i. e., repeated use of price discount might give bad image of the firm and the quality of the service provided). (Marmorstein, Rossomme, and Sarel, 2003)

Obstacles to the use of yield management

As mentioned earlier, the adoption of yield management requires the presence of certain conditions. Accordingly, if these conditions are not met, then the adoption of yield management may be difficult. However, the European Commission (1997) classifies the obstacles to the use of yield management in small and medium sized enterprises into two major groups of obstacles: One is business internal obstacles which were subdivided into: First, attitudinal obstacles which include insufficient management skill or expertise, lack of awareness of yield management, and resistance to formalization of information and /or information technology. Second operational obstacles, which include lack of suitable communication/distribution channels, dependence on contract business with fixed prices, insufficient internal information, and cost of computer yield management systems. The other is environmental obstacles which are mainly infrastructural and include insufficient infrastructure to support diversification and market segmentation, insufficient sharing of information, lack of appropriate off-the-shelf computer yield management systems, and rigid seasonality of demand.

Wirtz, Pheng, and Patterson (2001) outline two potential forms of conflicts that might arise from the adoption of yield management in service firms. One is customer conflicts, which deal with those customers who perceived the firm negatively when practicing inventory and the second is pricing controls, and employees conflicts which deal with conflicted demand on employees. Jarvis (2002) discusses the reasons for the failure of yield management in new industries which include: lack of top management support, importing inappropriate system from another industry, taking insufficient account of yield maximizing processes, and taking insufficient account of yield management organization and skill sets.

Having outlined the theoretical background of the study, it worth noting that the present study attempts to empirically investigate the existence of the elements mentioned in the theoretical background in a sample of UAE service organizations. In particular, this study, as mentioned earlier, aims at exploring the awareness, self-reported current usage of yield management as new technology, perceived usefulness of using it, length of time YM is being used, the reasons for not using it, whether the conditions required for the adoption of yield management exist in the organizations understudy, willingness to learn YM, the reasons for not willing to learn yield management and sources of acquiring knowledge in YM.

Yield management in budget airlines: The case of easyJet

Gerald L. Barlow

Obstacles and success factors

The barriers to the use of yield management in the airline industry are few, but the level of operation and sophistication

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Part II Understanding the Tourism Industry

will depend upon the complexity of the flight programmes and price structures. Table 8. 4W summarizes them.

Kimes (1989a) identifies seven key techniques necessary for the success of a yield management system.

1 Ability to segment: easyJet has identified two major segments within its operations.

2 Perishability of inventory: clearly airline seats, like hotel rooms, are a highly perishable commodity.

3 Product sold in advance of use: easyJet, more than most airlines, insists on 100 per cent sales and payment in advance, and offers no in-airport sales desks.

4 Fluctuation in demand: clearly with a number of destination and a number of flights at different times per day each day of the week, the demand for the product is

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subject to considerable variation.

5 High fixed costs: again, the cost of a 737-500 airline is relatively high compared to the ticket price.

6 Low marginal sales costs: here easyJet has a competitive advantage over most of its competitors, having very low variable costs.

7 High marginal production: here all airlines have a high marginal production cost. If the plane is full, and an extra seat is required for a customer, they are unable simply to produce one more seat and must decline, upgrade, provide an additional plane or compensate. It is here that easyJet, which operates a full-plane policy, with no standby and no interconnecting flights that can cause problems, has a cost advantage.

Kimes (1989b) also identifies five core requirements for the operation of a yield management system.

1 Booking patterns: yield management systems require

information on how the reservations are made for a specific date. It is from this information that the system tracks and creates a picture of the booking process in the future, and from the past for the future. It is through this process that easyJet is able to: (a) operate its online live reservation system, and (b) create the necessary historic bookings profiles.

2 Knowledge of the demand patterns by market segments:

as stated above, easyJet has identified, and operates with, two specific flight segments.

3 An overbooking policy: most airlines operate an

overbooking policy, which when it goes wrong results in upgrades and stand-down discounts. easyJet works with very tight margins, without the back-up of business or first-class upgrades to cover this situation, hence it operates to a pre-booked full-seat capacity.

4 Knowledge of the effect of price changes: the team in

charge of yield management need to know how changes in price will affect their customers, their occupancy and profitability. The major airlines change prices thousands of times a day, mainly in response to competitive pressure (Kimes 1989b). Clearly this level of yield management system is sophisticated beyond the current needs of easyJet.

5 A good information system: to match all the requirements of a successful yield management system, the operator requires a great deal of accurate information. It is in this area that the company has its greatest problem, since it is very young, and therefore lacks the indepth history of a company like British Airways. Additionally, the capturing of such data is very costly, in terms of both the methods used and staff time. This has resulted in easyJet only capturing information on actual bookings. The history on denied bookings is not recorded, an item which most writers (e. g. Orkin 1988; Kimes 1989a, 1989b; Jones

and Hamilton 1992; Lieberman 1993) suggest is a

prerequisite for successful yield management. However,

it is an area in which the company acknowledges

information is desirable, and hence this is more a

question of the cost of collection and the time involved.

The collection would need to be undertaken by sales

staff, whose job is designed to be as time efficient as

possible to help to maximize both the company's and the

employees' income.

Yield Management

A look at ten popular misunderstandings about yield management's role in and effect

on the lodging industry

By Warren H. Lieberman

**SUMMARIZE 10 MYTHS WHILE PRESENTINGV
THEM AS RISKS**

What is the future of yield management for business in general?

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As clear from Table 2, about 74 percent of the respondents are at least moderately aware (3 points on a scale of 5) of yield management. These results indicate that the majority of the respondents are aware of YM.

Therefore one would expect that the future of YM in the UAE is promising, in the sense that those who are currently aware of YM and not using it, may start doing so in the near future. This, of course, would increase the acceptance and adoption of YM in the UAE service organizations. For instance, Brotherton and Turner (2001) cited that building awareness and the development of yield culture are critical issues influencing the success, or otherwise, of yield management implementation.

Table 3 shows the degree of willingness to learn yield management on the part of those who ar

The majority of YM users perceive that the use of YM has high levels of influence on increasing efficiency and sales , on improving productivity, profitability , competitive advantage, capacity utilization and finally on reducing costs. Undoubtedly, if non-users of YM are aware of these benefits they might adopt YM in their organizations. Therefore, efforts should be directed towards publicizing the usefulness of using YM in order to motivate non-users of YM to use it in the near future.

The analysis of the collected data indicates that lack of knowledge in YM and lack of appropriate computerized software are perceived as the most

important reasons for not using YM. Lack of top management support and lack of financial resources rank second in terms of importance as reasons for not using YM followed by both the lack of data required to use YM and the insufficient management skills or expertise. Therefore, encouraging the wide acceptance and adoption of YM requires educating individuals in YM, the provision of the necessary software packages, top management support, and the availability of funds and data. As mentioned earlier, management support directly affects perceived usefulness, hence improving perceived usefulness and in turn increasing the chance of adopting and using yield management require top management support. Top management support might include encouraging individuals to use it, providing the necessary help and resources to enable people to use YM, providing good access to hardware resources and to various types of software.

Yield Management:

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By Warren H. Lieberman

President, Veritec Solutions

Yield management is much more than a

“ decision support system” designed to enhance

a variety of business functions. Yield

management also involves:

. Education and training of staff (and

possibly customers).

. An appropriately designed and delivered product (i. e., the product must be sold in a way that is consistent with yield management principles).

. Corporate policies and procedures that encourage revenue enhancement.

. An understanding of customer needs and buying behaviors

By recognizing the role each of these areas has, individually as well as in combination with one another, in the firm's ability to sell its product, yield management helps companies identify opportunities to achieve increased profitability.

Making Yield Management Work for You: Ten Steps to Enhanced Revenues

by Warren H. Lieberman

Summarize the 10 points in the article for the future

The Conning of

Knowledge-Based Business

The importance of data as an economic factor

first became apparent in the 1950s and 1960s, when

room-sized computers made it possible to collect,

sort, and store vast amounts of data, which then

had to be programmed by users to produce information.

With the advent of electronic computers, including

the microprocessor and standard software,

that process became more sophisticated and more

useful, to the point where the information a business

produced often became more valuable than the

business itself. Computer-generated airline guides and reservation systems such as American Airlines' SABRE are well-known examples of information that often is more profitable than the businesses it was created to serve.

Yield management is another example of how information can enhance or even transform a business.

In the airline industry, yield management allows carriers to maximize revenue on a fixed asset by varying prices-which is why there can be 20 different prices for the coach seats on a single flight. In agriculture, yield management can provide benefits for the farmer-and it created a new business for tractor manufacturer Massey Ferguson.

Farmers used to guesstimate the average yield of an entire field, but with Massey Ferguson's yield mapping system they can practice small-scale

farming on a large scale and maximize the yield of each square yard in every field. The system links the farmer's tractor to a satellite-based Global Positioning System, which records the latitude, longitude, and yield of every square yard. The traditional harvesting operation does not have to change in any way. The data are automatically sent to the farmer's desktop computer, which generates yield maps showing where variations are above or below target. Armed with this specific information, the farmer can investigate selected areas and pinpoint the reasons for the variations (soil compaction or nutrient imbalance, for example), quantify them in financial terms, and find out if it is economical to implement remedies. Soil sampling, for example, can be much more selective than it is using traditional random methods. Today this knowledgebased system is being used to provide a competitive

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edge. In the future, it may be worth more than

Massey Ferguson's primary business.

As these examples suggest, businesses that generate

information often begin as adjuncts to the

"real" work of the company, and the information

Conclusion

Yield management in budget airlines: The case of easyJet

Gerald L. Barlow

Theoretically yield management as a management tool in

the airline industry has an enormous potential to increase

the financial performance of the airline. Sir Colin Marshall

(1992) attributed BA's success to cost cutting and sophisticated

yield management. However, for a newcomer and a

low-price airline, it is not going to be easy. However, easyJet

has created a successful system within a short time. It first

flew in November 1995, and has seen its market share

grow from 0 per cent in June 1996 to 29 per cent by

December 1997 on the UK-Nice market (Nice Airport

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1997). There are many lessons that companies, not just in the airline sector, can learn from easyJet's dedication and belief in the systems, which were necessary if it was to become truly successful. The findings presented here show how with determination and belief companies operating in a number of sectors could create and use a yield management system, suited to their specific needs to help create more successful operations. The system developed by easyJet perhaps has more in common with some hotel operations than many of its airline competitors, and certainly a number of them could learn from the easyJet experience. As Porter (1985) has pointed out, success comes from innovative products and service, often introduced by a competitor new to the industry.

Review of literature

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Although, the majority of western literature reported the use of yield management in service industries such as airlines and hotel industry, few reported the use of yield management in other industries such as health care (e. g., Chapman and Carmel, 1992), broadcasting (Cross, 1998), golf course industry (Kimes, 2000), internet service provision (Nair et al, 1997; Paschalidis and Tsitiklis, 1998) and nonprofits sector (Metters and Vargas, 1999). However, to the best of the researcher's knowledge, there is no published work on the present topic in the context of any of the Arab countries including the United Arab Emirates (UAE). As it is known, the UAE economy as well as the economies of most of the Arab countries rely heavily on service industries. For instance, the contribution of service industry in the UAE's GDP for 2003 was 42. 5% (AMF, 2004). Thus, one would expect that yield management would gain wide acceptance and usage in these countries.

The issue of accepting and adopting new technology and the factors influencing its acceptance and adoption also received considerable attention in the western literature.

Analysis of Revenue Management Performance in the Hotel Industry

**Dr. Danna Liang, Department of Hospitality Management,
Ming Dao University, Taiwan**

Operations Management Literature

The operations management field has made significant improvements in capacity allocation algorithms,

improving from single-leg (Littlewood 1972, Belobaba 1989, Curry 1990, Wollmer 1992, Brumelle and McGill 1993,

Robinson 1995, Van Ryzin and McGill 2000) to network control (Dror et al. 1988, Curry 1990, Talluri and Van Ryzin

1998, Cooper 2002). Modelers in this area continue to produce more complex and complete models. Some airlines

incorporate aspects of these advanced models into practice (Vinod 2006).

This literature stream indicates that capacity

allocation plays an important role within RM systems. However, most hotel RM systems today use EMSR-b (Belobaba

1989), a method developed by Belobaba in the 1980's, instead of a more advanced method (Steve Swope, personal

communication, February 2006). It has been proposed by some RM experts that many hotels have not adopted updated

allocation algorithms because potential return on other investments is larger than potential return on upgrading

algorithms. This stream guides us to examine how capacity allocation impacts RM performance.

Pricing in revenue management is also a large and growing research stream. Bitran and Caldentey (2003) summarize

analytical modeling research in this area. The core model assumes price is a function of inventory (or capacity) and time

until the product perishes (Bitran and Caldentey 2003). From these basic assumptions, researcher has discovered how to

optimally price products given constraints on pricing functions for a single product with deterministic demand (Bitran

and Caldentey 2003).

Marketing Literature

RM crosses two functional disciplines: operations management (OM) and marketing. The marketing function

within firms typically controls pricing decisions and bases these decisions on the firm's strategy. A firm may want to set

prices to survive, or to maximize profit, revenue, sales growth, or market skimming (Kotler 1998). Depending on the

firm strategy, upper and lower price bounds may be set to accomplish these strategies. Within these bounds, a firm must

consider three C's in order to set an actual price: cost, competitors' prices, and customers' assessment of the product

(Kotler 1988).

Many firms do not possess the knowledge and processes to consistently translate these factors into optimal or

near-optimal pricing decisions (Cressman 1997, Smith 1995, Ross 1984) and therefore pricing can be a key competitive

advantage (Monroe 2003, Dutta et al. 2003).

Marketin