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Revenue management and India: rapid deployment strategies

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Abstract

Purpose – Revenue management has grown in popularity and is now a widely accepted discipline that has brought about significant improvements to businesses worldwide. With globalisation in recent times, there is now space for international hotels, fast food restaurants, automobile companies and other brands to offer their products in India. Educating people who are going to be part of such a process is a huge challenge. The aim of this paper is to present some of the challenges businesses and communities have to overcome.

Design/methodology/approach – The paper uses secondary sources to explore possible approaches to rapidly stimulate the uptake of revenue management through partnerships between hospitality and tourism businesses.

Findings – A growing middle class population and access to better education presents an opportunity to build a wider range of profitable services. Global brands with already established revenue management practices are in a position to share skills and knowledge with new and smaller players. Partnerships will be essential to rapidly and effectively develop the skills and knowledge required, starting with those in educational fields where the resources are already in place.

Originality/value – Revenue management has not been deployed widely in India. Being able to learn from the early adopters would allow Indian firms to leapfrog over issues and barriers, thus implementing practices more rapidly and effectively.

Keywords India, Revenue management, Yield management, Partnership, Education, Hospitality services, Business development

Paper type Research paper

Introduction

Revenue management works best in organisations that satisfy certain conditions, in particular, in the service sector where inventory is perishable (Schwartz, 1998). Retail stores apply their own versions of revenue management by, for example, using capacity optimisation strategies and/or loss leaders (to stimulate demand). Large supermarkets appear to be particularly good at capturing opportunities to either sell more, sell at high prices, or both. Other service organisations could quite easily apply similar strategies to help them optimise profits. Revenue management is applied widely in tourism as the sector mostly sells inventory that is perishable, has the ability to segment markets by customer needs, booking behaviour and willingness to pay and has products that can be sold in advance to incorporate hourly sales patterns into

Worldwide Hospitality and Tourism Themes
Vol. 4 No. 5, 2012
pp. 438-448
© Emerald Group Publishing Limited
1755-4217
DOI 10.1108/17554211211277879

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scientific forecasts (Hanks *et al.*, 1992). Yield management is at the heart of contemporary revenue management practices. It is the art of making frequent adjustments in the price and availability of products in response to certain market factors, such as demand or competition. More commonly known as selling the right inventory unit to the right customer at the right time for the right price (Kimes, 2002; Smith *et al.*, 1992). The application of this core revenue management practice was stimulated by the 1978 Airline Deregulation Act that gave airlines the autonomy to set fares based on demand (Berman, 2005). Delta and American Airlines were the first to foray into the field (Hayes and Miller, 2011); to equilibrate supply and demand and to obtain higher revenues (Berman, 2005; Kimes, 2002) using inventory and price control (Pinchuk, 2008). Some authors do not differentiate between yield management and the more complex, evolving discipline of revenue management (Chen and Kachani, 2007) which also includes distribution channel management and customer centric approaches, e.g. where customer relationship management and social media data is considered. The next section of this paper will explore yield management tactics and the skills and knowledge required to deploy both yield and revenue management effectively.

In the presence of high fixed costs, fixed capacity and peaky demand, profit erosion occurs and this challenges the ability of the firm to consistently make profit. Profit erosion occurs when a firm has to use profit made in "good" times (high or extreme demand periods) to cover fixed costs in "bad" times (when breakeven point is not reached). To reduce this phenomenon, yield management tactics (aka price allocation and inventory control) and levers; variable pricing and duration control can be deployed. Theoretically this should make products widely available in low demand periods, targeting a variety of behavioural segments and capturing optimal revenue opportunity in high demand periods, by limiting product availability (to premium only) (Harewood, 2006). A "product" is comprised of tangible and intangible attributes, which include booking conditions such as length-of-stay rules, payment rules and booking days in advance requirements. To implement yield management effectively, appropriate segmentation and a fairly accurate demand forecast is needed. This requires accurate, plentiful and relevant data (Poelt, 2011) that relates to historical and current booking data, product information as well as insights about possible future trends using both a macro and micro view of influencing factors. Data extraction technology raises efficiencies surrounding access to the relevant data (Oronsky and Chathoth, 2007) as the data available is often plentiful. This data is available through different sources such as property management systems, travel agent GDS reports and web analytic strategies (to evaluate online behaviour). An understanding of customer purchase and consumption behaviour leads to profit optimisation. Hence, the ability to detect/draw out the relevant/valuable elements is essential and depends on the ability of the revenue analyst to combine relevant data sets appropriately. Grouping customers by purchase occasion and their price sensitivity helps optimise the demand forecasts and thus rate allocation and inventory can be managed more effectively (Tranter *et al.*, 2009; El Gayar *et al.*, 2011).

Yield management requires the forecasting of unconstrained demand (Weatherford and Kimes, 2003). Constrained demand is often what firms evaluate to assess performance i.e. the volume of customers that bought products at a particular price (Hayes and Miller, 2011). However, for yield management purposes it is also important

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to consider the customers who were not served, due to full capacity or who changed their mind (because of a long wait, difficulties in using a web site and/or strict booking conditions). Adding this "frustrated demand" to realised demand would provide firms with data on their unconstrained or total demand (Thompson, 2005). However, using only constrained demand in the forecast is considered to be a poor strategy (Ratliff *et al.*, 2008) and it tends to lead to deployment of inappropriate or incorrect yield tactics. As well as enabling the timely control of inventory and price, the unconstrained demand forecast provides the information required to raise operational efficiencies by for example, scheduling the right number of operational staff during different demand periods or through better purchasing or enhanced cash flow prospects. (Hayes and Miller, 2011). The forecast indicates how many total units could be sold by segment (Guadix, 2011). Hence, once this has been developed in sufficient detail, well in advance of the period forecasted (six months to one year), yield management strategies can be applied.

Inventory management is applied by assigning the different types of units to the different market segments (Harewood, 2006; El Gayar *et al.*, 2011). Hence, it is crucial to know which customer should be targeted (Guadix, 2011). Inventory is controlled by assigning and changing the number of the products available, using a predetermined price ladder (range of prices divided into categories, aka buckets). The main purpose is to set limits on the number of reservations accepted for each segment (Harewood, 2006). The characteristics of inventory such as location, size and configuration, have to be identified. As soon as a unit is sold or cancelled the number of inventory units available should be updated. This may trigger price availability changes due to booking limits (Hayes and Miller, 2011). There is a range of approaches to inventory control (Vinod, 2006). The most commonly used is serial nesting control; appropriate when a high-revenue segment is sold out, or when the demand is high.

As the number of occasions when customers book but do not turn up is significant, overbooking is an important aspect of inventory control (Tranter *et al.*, 2009). Every double booked inventory unit features costs; however every occupied unit generates a certain profit. The aim is to find the right balance between both in order to maximise the net profit (Hadjinicola and Panayi, 1997). Advance reservations are a key aspect in the overbooking process (Mastroeni and Naldi, 2011) which can happen as a deliberate tactic or accidentally, when inventory controls are not implemented proactively and/or unexpected events occur, e.g. damaged units, which are placed out-of-order, staff errors, inventory availability errors due to reservation system errors or guests overstay. When this happens, customers may need to be offered alternative products or be relocated due to the scarcity of inventory units (Hayes and Miller, 2011). Before this happens, managers need to evaluate and then minimise the impact of such decisions by for example, coordinating with partners to relocate consumers causing a minimum of disruption. To pre-empt the issues arising, customer should be offered a better unit in the same location or the same unit in a similar location and with the organisation absorbing the cost difference (Varini and Li, 2011).

With inventory control, price allocation is the second element of yield management. Assigning different prices during different demand periods (restricting availability of cheaper products) is also known as price differentiation or discrimination (Phillips, 2005). The aim is to attract and retain the most profitable customers through the different approaches used in industries with different levels of price elasticity. Prices

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are also influenced by the customers' acceptance, competitor acceptance and the difficulty of implementing price changes (Metters and Vargas, 1999). The customer is the key; thus a variety of prices can be allocated to different customer segments for the same product and service or for different products and services (Phillips, 2005; Yelkur and DaCosta, 2001; Harewood, 2006; Choi and Cho, 2000).

It is not easy to differentiate between an effective versus an ineffective application of yield management tactics. Traditional financial reporting does not measure and/or evaluate relevant aspects such as opportunity cost, revenue dilution and profit erosion. Only recently have some firms started to "flow through" to evaluate the impact of yield management decisions on gross operating profit, and this is only apparent after some time. Moreover, a revenue manager must practice yield management within a much broader context that also involves channel management, customer relationship management and social media management. As controller of the commercial strategies of the firm, a revenue manager can very quickly turnaround a business or conversely negatively impact competitive advantage by damaging customer frames of reference, brand reputation and commercial business relationships. Allowing a revenue manager to practice without having first validated their skills and knowledge could be as risky as allowing a frequent traveler to fly a commercial jet or drive a coach full of passengers. Just because they know how to travel does not mean they will be able to fly/drive the aircraft/vehicle safely! When evaluating the skills and knowledge of a revenue manager, it is important to differentiate between a "revenue management role" and being a (junior, middle or senior) "revenue manager". Most frontline staff have a revenue management role as they in some way influence the ability of the firm to optimise revenue. Hence, the need for the revenue manager to have the soft skills required to drive a revenue management culture throughout the business and to promote the success of proposed revenue management tactics. The different levels of revenue manager require a different portfolio of skills. At the senior corporate level advanced soft skills are needed such as the ability to listen, manage change, self-develop, motivate, lead (Varini and Burgess, 2010). Regional/ Cluster Revenue Manager positions require both interpersonal skills as well as technical skills. At the junior level, although communication skills are essential to maintain the revenue management culture, more technical skills are required to develop and validate forecasts, interpret system reports, manage channels and outlier (exception) days and to set and maintaining rates (Gregory and Beck, 2006). At the unit level, hotel revenue managers are often promoted from operational areas, usually front office or reservations (Upchurch *et al.*, 2002; Kimes, 2009).

Issues arising in leading firms in India

In the early 1990s Indian markets were opened up to a larger proportion of private enterprise and foreign investment. This meant that consumers had more choices and there was open competition between companies. With globalisation in recent times, there is now space for international hotels, fast food restaurants, automobile companies and other brands to offer their products in India. Whilst airlines and major hotel chains have successfully implemented revenue maximisation strategies, the penetration of the science is still very insignificant compared to the opportunities that exist. We present here some of the challenges businesses and communities have to overcome.

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Social and political scene

India is a vast country with an array of states and a variety of cultures served by a number of political parties that have been formed in the last two decades in support of different social classes. Some of them exist only at a local community level or, at best, they are restricted by the politics of a particular state. Given this diversity, it is quite usual to find that the objectives of different groups do not always align with a common goal. In fact, businesses sometimes bear the brunt of political change and have to adapt to the ever-changing needs of local communities and/or political leadership. A classic example is the Indian Railways, which is owned and operated by the Government of India. Services or infrastructure improvements occur in the state or local constituency of the minister who is in charge of the Railways. Whilst demand generally exceeds capacity, numerical analysis is often overlooked prior to making a decision to introduce new trains in a particular state or region. External factors such as political appeasement tend to slow down commercial progress and can be detrimental to introducing a culture of revenue management.

Threat of terrorism

The Indian subcontinent has always lived with the threat of terrorism. India has suffered heavily due to the changing nature of terror for a long time. The spate of attacks in 2007 and 2008 has especially put people off travel. Whilst the economy has continued to grow amidst these setbacks, the rate of growth slowed down significantly after the 2008 Mumbai attacks and it has been estimated that businesses are still recovering from the negative effects arising from these events. Given the very volatile political scene in the region, the threat continues to this day and the level of related uncertainty hurts businesses looking to improve.

Lack of infrastructure

Despite a high rate of growth and a booming economy, India still lags behind in developing infrastructure to match the rate of growth. A lack of roads and basic amenities in certain parts of the country discourages business penetration. Partnerships between private enterprise and public bodies have only recently started to take shape in order to create or improve infrastructure and there is still some way to go. Businesses have traditionally looked at the big metros to setup offices, primarily because of better facilities in these cities. Hence, other cities, mostly known as Tier-2 cities, have not had the best infrastructure to attract new businesses. This also means that there is migration to the metros and with it comes new issues around housing, roads and planning. In view of this, infrastructure projects need to be accelerated by the removal of unnecessary red tape for obtaining clearances for such projects. If not, businesses will be discouraged from investing.

Inflation and taxes

High growth results in higher than usual retail price inflation and value added taxes. As income levels rise, demand for goods increases and so the costs of manufacturing, transporting and selling goods also increase. Food inflation has been as high as 13 per cent in recent times. Given this impact on the day-to-day lives of people, some have had to curb their spending. The recent recession has also had a negative impact on people's thinking as economic and political uncertainty looms. Small and medium enterprises

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tend to suffer the most in times like these and so the incentive to start-up or make improvements that require significant investment is undermined.

Bureaucracy

Indian bureaucracy is infamous for the delays it causes with a myriad of paperwork and processes. Added to this is the other foe of corruption, which impacts nearly all departments of Government. Setting up a small store takes months owing to approvals that take a long time. Obviously, this has a negative impact on businesses and discourages new ones.

Revenue management education

Educating people and/or businesses is an activity that should be encouraged by mature businesses like airlines and big hotels. Universities should also play a part in introducing the subject as part of the curriculum in order to generate interest at an early age. The long-term benefits of practicing the concepts are manifold and senior stakeholders should be made aware of them. Businesses also have to respond with equal seriousness in order to maximising their revenues by investing time and money in the implementation process. Another challenge against aspect of RM is the presence of a number of local businesses that cater to a specific region or city or even just a given neighbourhood. For example, there are a number of coach operators providing intercity transport and the primary objective for them is to fill up all the seats on the coach rather than maximising the yield. Railway and coach operators are the biggest transporters of passengers and freight and as long as these service providers continue with their current practices, it will be a challenge to popularise revenue management. There are other challenges like the availability of qualified people, labour turnover etc. and the immediate action plan should be to facilitate development in these and other sectors in terms of licensing and authorisations first and then with regards to managing the supply chain, costs and profits so that a profit optimisation strategy can be implemented.

What should practitioners do?

The opportunities available in a rapidly growing economy like India are tremendous and technology should be used to harness these. The recent recession was short-lived as the country recovered relatively quickly and is back on a growth path. Despite some of the challenges discussed above, India continues to provide numerous opportunities for development. As the technology is not effective without first establishing a solid revenue management culture, and specifically where the frontline understand their revenue management role, it is not advisable for firms to move too swiftly towards fully automated yield management. Manual approaches can be quite effective (although time consuming), and the firm can benefit from encouraging collaborative approaches to price allocation and inventory control. Social media offers firms a range of opportunities to build distinctive relationships with consumers by inviting them to participate in the creation of product offerings and thereafter to provide feedback on improvement possibilities, This kind of social media interaction also helps to build a better understanding of price sensitivity. Social media can also be used to inform consumers about the benefits of desirable behaviour during the sales process such as advance booking, adherence to the firms' policies and volunteering for a civic duty. Social media user-generated content can also be converted into activity that relates to

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the values and interests of consumer groups. Honesty and respect are valued highly, as is aiming to attain a high level of professionalism using consumer feedback as an integral part of the improvement cycle (Varini and Sirsi, 2012).

Align yield management with other commercial strategies

From the firm's perspective, it is wise to reward any behaviour that contributes towards improving and maintaining the firm's long-term profitability. To facilitate this, the functions of sales, marketing, pricing and revenue management might need to be grouped under one umbrella to facilitate the definition of a common mission for all the parties involved. Influencing factors include:

- Learning how to use yield management techniques to enhance purchase related experiences, gain and retain more consumers and to demonstrate better value than competitors using appropriate tactics. These include: Locational benefits, better long-term benefits (availability, inclusions, free nights), the chance to share loyalty points/complimentary inclusions/ frequent stay benefits, guaranteed satisfaction.
- Overseeing the alignment of social media, revenue management and pricing activities so as to ensure seamless communication between departments. If there are separate inventory management personnel involved, they should be engaged as well.
- The integration of pricing and revenue management functions so as to ensure that the organisation has the right infrastructure in place to handle large volumes of data.
- The integration of applications with operational strategies (once the infrastructure is in place).
- Web site redesign to facilitate enhanced revenue management (e.g. the creation of a one-stop shop where consumers can see user generated content, online reputation results, videos etc.).

Grow the business in local markets

The diverse nature of India means that a large number of sub-cultures exist and these host small and medium enterprises (SMEs) which cater to local communities. Along with developing infrastructure outside the big metros, big firms can grow their business in tier-2 cities and towns. This results in the creation of jobs and enables people from small towns to actively participate. They can form alliances or partner with multinational organisations and in so doing derive benefits from more advanced penetration of knowledge and technology. Destination Management Organisations (DMOs) could be established to provide a chance for small businesses to promote their brand. These firms can team up with local tour operators and offer packages that are competitively designed to attract new customers. Such initiatives would also help to introduce more sophisticated revenue management approaches.

Partner in developing infrastructure

India's absence of infrastructure in tier-2 locations is a significant challenge though there is wide recognition that it needs to be enhanced so as to enable tier-2 cities to develop. There is encouragement from the government – both state and central – to

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establish Private Public Partnerships (PPP). Here, businesses can partner with government agencies and infrastructure developers to part-invest or support the development. It is in their interest to do so and it further supports the development of local communities at the same time.

Niche marketing

Certain service industry sectors have started to attract tourism of a different kind. Wedding tourism is one of them. India provides an opportunity for couples looking to get married with pomp and ceremony at a very affordable cost. More and more people from the west have started to plan their weddings in India and other South-Asian nations. Specialists providing these services can design packages to suit different styles and attract couples to their properties. Medical tourism is another sector thata took off very well in the last decade or so. Given the expensive nature of surgery and treatment of certain ailments in Western countries, people in need of treatment are heading towards India to make use of some of the excellent health facilities available at affordable rates. Hospitals and health institutions have developed packages to cater to patients from abroad. Organisations in these sectors and other service sectors that are able to develop niche markets such as these will also benefit from implementing the principles of revenue management.

Demand political stability, tax write-offs

Political stability has always been a challenge in India. Numerous regional parties and coalition politics have characterised the last two decades. At times, volatility in politics has contributed to slower economic growth and uncertainty but globalisation has brought new opportunities and services are now in a better position to reap the benefits. Stable politics and government will encourage multinational companies and generate confidence in terms of locating their business operations in India. In the past couple of decades, the government has allocated marked areas of land as Special Economic Zones (SEZs), to encourage foreign firms and other local businesses to setup their units. These zones are given tax benefits and awarded special economic status. In return, these establishments have created tremendous employment opportunities in local communities and attracted skilled workers from across the country. More such zones and tax write-offs are certainly needed, especially in tier-2 cities.

Conclusion

The continued strong economic growth in India is an indicator of advances in foreign investment, investor confidence and strong private sector growth. A growing middle-class population, and access to better education for more and more people means that the market is heading in the right direction. It is an opportune time for practices such as yield management, dynamic pricing and revenue management to be introduced to many more services. Implementing revenue management is more challenging today due to the impact of increasing competition, falling margins, and evolving consumer behaviour. However, firms in India can rapidly learn best practice with regards to the use of new tools and approaches so as to optimize revenue. Although new technology provides options to bypass manual approaches, it is still advisable to start applying yield management strategies from the ground up, investing time in building a sound revenue management culture through collaborative

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discussion. Yield management is the core of revenue management, the outcomes of which are complemented by distribution channel management and customer relationship management. Complementary strategies can be adopted more rapidly, however, there is a need for expert guidance to maximise the return on time and money invested in data warehousing, web site, channel management and customer relationship management. In these domains, new technology and analytics can be rapidly deployed to harness profit opportunities.

The airlines and international hotel brands have already established sophisticated revenue management systems that could be shared with new and smaller operators. Partnerships between hospitality and tourism businesses will be essential to rapidly deploy these concepts, starting with those in educational fields that already have the resources to develop the skills and knowledge required. Partnerships between small hotels and local attractions, in the short term, could lead to consolidation in the long term. Government agency partnerships and infrastructure developers could also support the development of revenue management education and organisations operating in niche markets could sponsor educational events so that others can learn from the application of revenue management to sectors such as wedding and medical tourism. To conclude, firms that are seeking to implement revenue management should first aim to create a solid online reputation so as to facilitate the implementation of yield strategies. Experienced businesses can run events to help educate others about the benefits of revenue maximisation. This kind of scenario will naturally yield itself to the popularisation of revenue management as a better way of doing business.

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