
Yield Management: System or Program?

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Discussions about yield management, by those who have recently been introduced to the subject as well as by "yield management experts," often focus on the wonders and value of computer tools and systems. Such discussions appear to be inextricably linked to computer systems and their capabilities of forecasting demand, optimizing reservation-inventory allocations, and limiting discount availability.

Despite this tendency to focus on the "system" aspects of yield management, most business executives would agree that yield management is neither a computer system nor a mere set of mathematical techniques. Rather, it is a programmed approach to increasing revenues and improving customer service by responding to current and expected demand—a process, a way of conducting business. Many companies that develop or enhance their yield management capabilities find that their current procedures become more systematized, improving their ability to obtain new business as well as capture revenues that previously went to competitors.

Definitions of yield management often seem inadequate, failing to convey the true sense of the term. Perhaps this is because yield management comprises both a *business philosophy* that touches on a wide range of areas and a *methodology* that can be implemented in a variety of ways. Certainly, computer-based tools can be, and often are, a key component of a yield management program. The full range of yield management benefits will not be achieved without computer-based tools that forecast demand, cancellation, and no-show activity (as appropriate); evaluate the ideal number of discounted rates to sell; estimate the revenue displacement of transient demand caused by a group or other large-volume business transaction; provide sales personnel with up-to-date information on inventory that remains available for sale; and perform many other actions that cannot be effectively carried out manually.

For example, the sales staff members of a broadcasting network were competing among themselves to sell commercial time. Each

sales person had clients who were willing to pay different amounts for the same commercial slots. To increase their own compensation levels and receive improved performance evaluations, sales agents often sold commercial slots to their clients even when a client of another sales agent would have paid more for the same commercial slot. At many hotels, a similar situation exists, whereby a sales agent often reserves rooms for a group, even if that group will prevent another sales agent from reserving rooms for a group that would be willing to pay more. (Reserving rooms for the group may also prevent the hotel from accepting reservations from individuals who would pay a higher rate.)

The major factor preventing the hotel and broadcasting network from losing potential revenue was manual management review of sales opportunities. In both cases, high sales volume and lack of decision supports to assist management review resulted in numerous missed opportunities to earn greater revenues. Computer-based decision support tools can and have improved the performance of companies in these situations. But other yield-management processes can be implemented with little or no investment in computer resources. Revised performance measures, upselling programs, enhanced scripting for reservations agents (or other sales personnel who respond to customer inquiries) enabling them to be more effective sales agents, more informative reports (both pre- and post-decision), and marketing programs and packages that produce incremental revenue gains have also led to additional benefits.

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. When viewed this way, yield management itself becomes a business process that can always be improved. This also helps to explain why some companies have had great successes with yield management while other companies have struggled with it. Business processes can be carried out well or poorly; the same holds true for yield management. One technique, conducting a "yield management operational audit," has been extremely successful in helping firms identify the best means for executing yield management. For example, operational audits have provided companies with "road maps" that have helped them determine the best ways to develop and enhance their yield management programs. They have also enabled a firm's staff to better understand short- and long-term pictures of yield management at their company—and with better understanding comes improved implementation.

Yield management works best when pricing, sales, reservations, operating, and marketing departments understand how and why it is being used. When such staff members possess only an abstract or conceptual understanding of what yield management is, or how it is practiced by their firm, yield management is likely to encounter grave difficulties. In addition, effective communication between yield management staffers and these departments is a must. Otherwise, the following example may occur.

The pricing department of a major domestic airline developed a discount pricing initiative intended to radically stimulate demand for heavily discounted fares. The element of competitive surprise in launching the new program was considered to be so essential that the airline's yield management department was not informed of the program's development. In fact, the yield management staff was informed of the discount program at the same time as the public. But the public was able to make reservations faster than the yield management department could change its inventory controls (e.g., overbooking levels, discount fare levels), resulting in significant revenue losses and nonrefundable bookings that were well in excess of airplane capacities. Operational disasters were only avoided by massive efforts to contact customers in advance of their flights and switch them to flights that were available—some of which were competitive flights.

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."

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About the Author

Dr. Warren Lieberman is President and co-founder of Veritec Solutions Incorporated. Veritec's business mission is to be the world's highest quality provider of pricing and revenue management solutions, including systems development, educational workshops, strategic consulting, and implementation support.

Dr. Lieberman began his career in yield management at American Airlines in 1984. A pioneer in expanding the pricing and inventory control concepts of revenue management to different industries, he is recognized internationally as perhaps the world's leading expert in non-traditional implementations of revenue management. Prior to forming Veritec, Warren led the Travel and Hospitality Industries Consulting Practice for Talus. Dr. Lieberman has provided design and technical leadership in the development of revenue management systems in a variety of industries, including cruise line, timeshare exchange, and car rental.

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