

Chapter 11

IMPLEMENTATION

While models and science form the core of a revenue management system, in practice RM success hinges critically on the quality of implementation. Implementation involves more than software and hardware, the most visible aspects of the system. It requires designing products, aligning incentives and organizational structures, changing business processes to support the firm's RM objectives, and training employees properly. In this chapter, we examine these and other RM system-implementation issues.

11.1 Segmentation and Product Design

Segmentation and product design are the first steps in a RM implementation. *Segmentation* is the process of classifying customers into groups (segments) based on observed—or inferred—characteristics, behaviors, and preferences. The objective of segmentation is to understand who is buying the product, how they buy, what attributes they value (and don't value), and what price they are willing to pay—and then to classify them into groups based on these characteristics. Segmentation is then followed by *product design*, the objective of which is to construct bundles of product/service features to target each customer segment. Correlating customers' willingness to pay with their preferences and purchase behavior is the key to good product design.

Segmentation and product design are not operational processes, in the sense that they are seldom done on a day-to-day, routine basis (although there is scope for some fine-tuning of products after they are introduced). This affords more time for off-line analysis, but it also means that design should be robust and sustainable for a reasonably long period.