

# Preface

This book discusses the relatively new topic of revenue management from a general management viewpoint, and particularly brings finance and accounting perspectives to the subject.

Revenue management is a set of techniques to influence customer demand for the products and services of an organization. Differential pricing is a primary revenue management tool. This book explores this emerging field. It describes various types of pricing and other demand-influencing techniques, and suggests approaches to evaluating and managing their effectiveness. Revenue management should be a task of every top executive. Focusing on growing the top line (revenues) is essential to the ultimate success of the bottom line (profits). Familiarity with evaluating proposed revenue management actions and measuring the success of past revenue decisions should be part of the role of financial and accounting managers. This book speaks to both audiences.

Revenue management originated as a specific discipline in the mid-1980s. Its origin is usually credited to American Airlines, which sought to develop pricing approaches to counter the competitive threat of new, low-fare carriers. After meeting its initial goals, revenue management (then known as yield management) continued to serve as a methodology to fill as many unsold seats as possible. These techniques soon spread to other service industries that had characteristics similar to airlines, namely a fixed and perishable service capacity, high fixed costs, and demand that might be influenced by pricing. Revenue management has thrived in these service industries, such as hotels, restaurants, golf courses, theaters, and the like.

Gradually, revenue management has moved beyond the service industries to become a management tool for all types of organizations, both business and not-for-profit. This book provides a guide for managers, in general, and for finance and accounting managers, in particular, to this emerging area of management practice.

## Organization of the Book

Chapter 1 defines revenue management and places it in the structure of management topics, including its relationship to business strategy, marketing, finance, and accounting. Chapter 2 relates the history and development of revenue management and describes several early applications as well as more recent, emerging applications.

Chapter 3 introduces tools for the financial analysis of revenue management decisions, including contribution margin, cost structure, and opportunity costs. Chapters 4 through 6 provide a review of elements of pricing, a variety of revenue management techniques that apply across a wide range of organizations, and findings on the reaction of customers to revenue management techniques.

Chapter 7 discusses additional analytical tools to help implement and evaluate revenue management decisions, including elasticities, in the context of analyzing and evaluating revenue management approaches. Chapter 8 focuses on the critical importance of capacity analysis, applying the Computer Aided Manufacturing-International (CAM-I) capacity model. Chapter 9 discusses the applicability of the theory of constraints to revenue management.

Chapter 10 addresses the relationship of revenue management to providing customer value.

Chapter 11 considers the assessment of customer profitability and the decision to retain customers, and Chapter 12 reviews revenue management decision making.

Finally, Chapter 13 addresses emerging issues in the field of revenue management. A set of references to the broad-ranging revenue management literature follows.