

FYI DYNAMIC PRICING

The adoption of revenue management in the hotel industry has brought renewed attention to the concept of dynamic pricing. During very high demand periods such as holidays, sporting events, concerts, conferences, and even college graduations when demand far exceeds the number of rooms available; hotel operators have implemented minimum stay requirements at significantly higher

prices. In these situations, minimum stays of two to three or four days at rates that are two or three times higher than normal are not uncommon. What has changed is that improvements in revenue management systems are allowing users to fine tune these stay and pricing decisions, on an hour-by-hour or even minute-by-minute basis, to generate even more revenues and profitability than previously recognized.

Other service suppliers such as theme park operators and restaurants have begun to use demand pricing to not only generate increased revenue, but also control demand and alleviate problems of overcrowding. Some say that these practices are nothing more than price gouging while others say they are smart business decisions leading to greater customer satisfaction and profitability.

Operational Considerations

Although revenue management holds the promise of maximizing revenues, it, like most other quantitative management tools, should not be used blindly. Factors, such as desired market position, customer satisfaction, employee morale, and demand for related goods or services, must be considered. As competition among transportation services increases and more governments privatize or eliminate subsidies to their airlines and passenger rail systems, revenue management techniques will grow in importance.

Mere possession of a revenue-management system does not guarantee success. For a company to be successful with revenue management, it must have a clear understanding of the needs and price sensitivity of its various market segments; it must be able to fully integrate its revenue management system with other computerized systems; it must be able to properly train and motivate its employees and managers; and it must be able to quickly respond to competitive pressures.²¹ (p. 138)

Additional benefits can be obtained from revenue management when it is combined with dynamic packaging and suggestive selling. Look at the benefits already gained from this approach by an innovative marketing leader in Web selling, Amazon.com. Any time you search for or purchase an item on Amazon, a message appears saying, “Other people who bought this item also bought . . .” Tourism service suppliers are beginning to use this same idea of suggestive selling, but the full potential of this sales tool along with cross-marketing and dynamic packaging have yet to be fully embraced.

Revenue Management in Practice

The following example will highlight the importance of revenue management techniques as they are used to enhance revenues and potential profitability in an airline setting. This same approach can be used by every other tourism service supplier. Revenue management allows service providers to reserve capacity for the highest revenue customers as they book reservations closer to the time of consumption.

For ease of understanding, we will use a smaller 37-seat aircraft in this example. The principles will remain the same for larger aircraft as well as in other settings, especially hotels and resorts, where tourism service providers are seeking to enhance revenues.

On a 250-mile flight between cities A and B, we know from past reservation data that we can sell all 37 seats on our flight to leisure travelers. These travelers would be willing to purchase all seats for advance purchase excursion ticket fares of \$117 each