PEARSON HAM GROUP

THE PRICING SPECIALISTS

Revenue Management

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Five misconception about revenue management

Revenue management is known to boost turnover by up to 10% a year. Many businesses remain wary believing that it's too costly or complex to set up and run.

In this article, we set out to dispel these and other common misconceptions about revenue management and help you capitalise on the potential.

All products have a shelf-life and the pressure to make the sale is especially acute when that product is highly perishable.
Revenue management seeks to maximise the chance of a sale, while optimising the price, revenue, and return. It uses analytics to match anticipated demand, availability, and the price the customer would be prepared to pay at any given time.

The technique was pioneered in the airline industry in the 1970s as the antidote to deregulation and was advanced through the emergence of digitally led, low-cost carriers.

Now, revenue management is applied to any time-dependent offerings across a wide range of industries. The advertising minute, the concert seat, the hotel bed, the restaurant table, and the bowling alley to name a few.

However, revenue management still doesn't have the take-up we would expect. Some businesses like the familiarity of annual price increases, seasonal sales and ad hoc discounts.

Others have been put off by the misconceptions that have built up around revenue management. Let's look at these and hopefully dispel some of the myths.

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Revenue Management is too complicated for my organisation

Only if you let it be. Most businesses have an experiential bias rooted in their use of airlines and hotels. Industries that have developed revenue management over decades. At the simplest level, revenue management asks whether it would be better to have two prices or two products rather than one. It starts there and it should never get so complex that the revenue manager can't explain what they are doing.

Revenue Management requires expensive systems with impenetrable algorithms

Don't be put off by the language. An algorithm usually does no more than tell you that "if this happens then do that". A clear case in point here is if sales are rising rapidly, then it would make sense to put up your prices. As with any algorithm-driven system, there' is a risk of creating an unfathomable 'black box'. The big danger is not being able to understand the links between the system's inputs and outputs.

That's why it's so important to choose a set of processes and too that you understand and trust.
In our experience, simple and understandable trumps complex and opaque every day, and it can be just as effective as a neural network or other more advanced counterpart.

As a starting point, we advocate revenue management based on pen and paper, or spreadsheets. You can then introduce more advanced capabilities as expertise within the business develops.

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My forecasting needs to be 100% accurate

You may not even need a forecast. If you do, there's a difference between accuracy and precision, especially if striving for the latter becomes a needlessly costly and time-consuming end in itself.

All that's needed is a good enough forecast to make the right pricing decision. The forecast doesn't have to be 100% accurate to do that. Indeed, by definition, the forecast will always be wrong.

Your focus should be on whether you're making the right pricing decisions the quality of the decisions that are being made and whether they are helping your business to make the most of its revenue potential. It's the outputs that matter.

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Revenue management: "Isn't that what marketing or sales do?"

Maybe, but the typical sales and marketing skill set is unlikely to maximise the value from revenue management. In many industries, their focus isn't even on the same product. It's important to recognise the difference between what the customer buys and what they consume. Making the reservation and taking the flight are two distinct customer experiences, for example.

Marketing and sales are focused on why the customer should choose the product offered by the business. Revenue management ensures that the sale is converted at the right price and at the right time.

Set up and run well, revenue management puts pricing at the centre of commercial activity and joins the dots to sales, marketing, and finance. The benefits include the effective management of discounting and providing finance teams with reliable income forecasts.

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I'll lose control over my price policy

The reality is exactly the opposite as you can update the policy whenever you want. Good revenue management puts you in control with the ability to take and manage commercial risk.

It' is as much about the reporting and management of the decisions as the decisions themselves. The more you can monitor, the more decisions you can make, while using parameters and thresholds to step in as and when needed.

Think of it as an autopilot on an aeroplane: punch the flight plan in and let the plane do the work, You can correct the course correct as things change - and you should always be able to take over the controls manually.

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Tell us what you think

Having read this, we would love to know if you're reassured about revenue management and willing to give it a try. Or are you more sceptical than ever?

Either way, we can help. We're here to make revenue management simple, manageable, controllable and repeatable to put you in charge of your top line growth.

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