REVENUES MANAGEMENT IN THE MARKETING OF SERVICES

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Abstract: In the evolution of pricing strategy, yield management gained a significant importance in the latest years. Revenue Management/Yield Management helps businesses selling services at the right time, to the right customer, at the right price. Revenue management can be applied to all service businesses and especially to those in which lower price units have a shorter availability. This system allows companies to personalize the price so that the customer receives exactly what he has paid for. In developing yield management systems, it is important that customer retention be included in the model. Maximizing revenue today has little value if this leads to customers switching to another company. Revenue management is becoming used more and more in the Romanian economy.

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The strategic approach concerning the pricing within an enterprise requires a proactive stance. This imply a continuous examination of the environment, anticipation and forecasting in accordance with the envisaged evolution, surveillance of the competition, correlation of the pricing policy with the other strategic objectives of the enterprise. Also, the strategic pricing require that the pricing decisions to be adopted at the highest level of the organization. The complexity of today's business operations, aggressive competition, and government controls have made the job of the manager increasingly difficult. As a result, effective decision-making regarding prices often requires the availability of information analyzed and summarized in a timely fashion (Bocean, 2006). The environment forces the companies to examine, to restructure and to redirect the activities in order to obtain strategic advantage (Scrioşteanu, 2005).

1. PRICING STRATEGY IN PRACTICE

Traditionally businesses have measured their performance in financial terms, profit, turnover, etc. These financial measures of performance have been the sole measures of a company's success. Performance measurement that has been based around financial measures has been deemed to be out of step with recent changes in industry, particularly relating to new technologies and increased competition (Crăciun, Gîrboveanu, Ogarcă, 2008).

Pricing strategy requires the coordination of marketing and financial decisions concerning the costs, the price reactions of consumers and of competitors on a certain market. Pricing strategy should be established well in advance of product lunch and it should be capable to allow sudden changes in accordance with the market evolution.

Pricing strategy can be represented as a linear process, in which there are many steps involved to reach the final decisions. In other circumstance pricing strategy is a more complex process that requires a network approach in gathering of information. The steps in the linear process are as following (Vrânceanu, 2006):

a) investigating the marketing environment in which the enterprise acts in order to evaluate and anticipate the evolution of different factors affecting the prices, emphasizing the costs, the technological, the economic and legislative environment;

b) establishing the objectives of the pricing strategy, this being in the conformity with the general objectives of the organization. The main objectives of the profit organizations concern the return of investment and yearly profit;

c) implementing the strategy, that is choosing the right path of implementation. This is also a dynamic and flexible process that needs constant adjustment in accordance with factors such as: structure of the offer, product life cycle, competition position;

d) setting the prices in using various approaches such costs driven methods, demand, competition or value driven methods;

e) selecting the tactics aspects of pricing policies, establishing prices for categories of consumers, geographical areas, time periods. The decisions from this category are directionated toward the importance of each aspect considered. Also in the sphere of tactical prices it is included the establishing of position of the department responsible for pricing, in the organizational structure.

One of the advantages of linear approach is that it permits a clear delimitation of phases in the process of establishing the prices, leading to more coherence, at least in the managerial phase. Another advantage is that a well defined structure is assigned to work with prices. A major disadvantage is that it does not permit a flexibility of the pricing policy in accordance with sudden modifications in the environment.

In establishing the pricing strategy one aspect that needs to be investigated is the attitude toward risk of the enterprise and of consumers, because unexpected situations can occur. A backup strategy should be considered to reduce the unexpected losses due to unforeseen situations. The demand can vary in time and this leads to sinusoidal price curves affecting the unprepared enterprises. The back-up strategy can diminish the risks associated with the disequilibrium between supply and demand.

Pricing strategy is strongly correlated with the other elements of the marketing-mix. Creating a market strategy should comprise all the elements of the marketing mix, because they have a common base (Popescu, 2009).

Within the price strategy we have to consider the degree of flexibility of strategies and of prices. This is especially important in order to negotiate prices for different categories of consumers.

The strategy of fixed prices means that the prices is the same for all categories of consumers regardless of the consumer type, its geographic locations or the amount of quantity purchased. Of course, prices can be discounted for loyal clients but the conditions for applying these discounts are well established. This strategy is effective when the enterprise holds a dominant position on the market – a monopoly. From the consumers perspective the fixed price strategy creates mixed emotions. Some consumers consider that this is an example of the enterprise honesty and that no consumer is advantaged by these prices. Other, instead fell that they are neglected by the company that is not able to reward their loyalty.

The strategy of flexible prices takes into consideration changing the prices according to various criteria: time, clients, negotiation power. This strategy can lead to improved results because there are approached different categories of clients and the offers are better customized for the needs of each client. Price flexibility does not always mean that the price is lower. The person in charge can ask for higher prices in accordance with the price sensibility of the client. This strategy has a maximum impact on the products category that is bought frequently, because the customers can learn from experience. On the other hand the fixed costs strategy works best in case of the transactional marketing when the purchasing act is infrequent.

2. IMPLEMENTING REVENUE MANAGEMENT

Many service organizations have built their success on being customer oriented – managing the entire organization and employees toward building long term customer relationships and delivering outstanding service, meeting customer needs. Total quality management philosophy needs to be rethought and recreated in the context of recent global transformations that make the shift to global quality management (Sitnikov, 2008). In recent years, an increasing number of service organizations have also recognized the rapidly growing importance of yield management, also referred to as revenue management. As a result, they have taken steps to propel their yield management initiatives out of the realm of information technology and decision science into the center of marketing strategies and decision making.

A large number of service enterprises are focusing on strategies that can maximize the returns generated by the existing production capacity. This is especially true for the enterprises that require high investments in the fixed capacity leading to high fixed costs. The management of the revenues is an improved and perfectionnated form of offer and demand management. The aerial companies, hotels and those who rent cars have established this system, by allowing various charges according to time, to space and customers characteristics. The challenge is to cover a large part of the fixed capacity without refusing the clients that are willingly to pay more. As a consequence the lower prices are used to ensure full employment of the fixed capacity.

In practice, the management of revenues consists in fixing the prices according to the demand of each market segments. The customers that are willingly to pay more are buying close to the purchase date, therefore the enterprises must reserve a part of their capacity to the last moment purchasing decisions, instead of acting to the logic of first to come – first to serve. For example, concerning the flights by airplane, businesspeople reserve places in the last moment while the tourists book the tickets in advance. A good system of revenue management is capable to determine in advance and rather precisely the number of clients that are willingly to use the service at a specific moment and in this way to block the necessary capacity at each level.

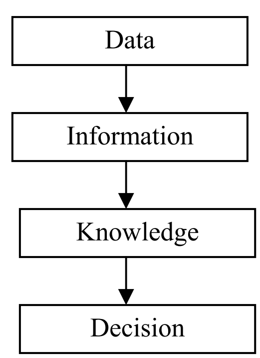
By using historical data and ongoing analysis of bookings, firms are able to market their services as a perishable product, with different values at different stages of its life cycle, and to change continually the price to reflect its immediate market worth. It is, in effect, time customization of prices. Most of the past research on yield management has focused mainly on forecasting and optimization models, and more recently on adaptation of yield management to the specific needs in various service industries, such as hotels, car rental, transportation, and even health care services.

The challenge is to reserve a large part of the capacity to the clients that are using a high potential. The services companies are using complex models to analyze the demand of various groups of customers. The demand is also compared with the temporal demand and, as a consequence, adjustments are being made to establish a proper equilibrium between offer and demand. This fine tuning can deliver improved results concerning the balance between the two sides. Of course, there are situations in which the high fees cannot be all cover, but it is important not to have a higher demand for these places, a demand that cannot be fulfilled.

If the rhythm of reservations for a high prices segment is significantly higher than initially prevue, a larger capacity taken from the low prices segments is allocated to the high prices segment. The objective is to ensure the full cover of the capacity, each place being sold at the highest price. This system is more efficient if it is applied to the operations that have a high fixed capacity, high structural costs, a perishable stock, an uncertain demand and variable price sensitivity of the customers.

The revenue management is also strongly correlated with the competition prices. If an enterprise will offer its services at a lower prices, then its services will be booked at a faster rate, and as a consequence less high price will be available to last moment clients. In this case, the customers inclined to pay more will turn to the competition. If the starting prices are higher than the prices of the competition, the last moment high prices are not enough to cover for all the fixed costs and the prices will decrease at the last moment thou affecting the overall profitability. The revenue management system works well if there is appropriate price elasticity. In this respect it is highly important that the manager knows the price elasticity of various market segments. This can be acquired either by statistical studies or by market research studies.

Despite talk about the value of knowledge, few people understand the direct link between knowledge and revenue. Decision makers have numerous options, even when they know with a high degree of certainty what the market will do. Wisdom guides the decision, maximizing the possible revenue. And better than any other tool or process, Revenue Management enables companies to convert data into information, information into knowledge, knowledge into wisdom, and wisdom into revenue. The progression from fact to wisdom is integral to and exemplified by the practice of Revenue Management: and, it may be added is at the core of Relationship Marketing (figure no. 1).



Source: adopted after: D. McCaskey, Yield Management vs. relationship management, available at http://www.wivenhoe.gov.uk/people/McCaskey/YIELDMGT.pdf, *last visited 26.03.2010.*

Figure no. 1 Importance of valuable information in revenues management decisions

If the company is newly established market research studies are the only opportunity to find out 1) the market segments; 2) the price elasticity of each segment; 3) the prices of the competition. An additional study must determine or to predict the probability that the competition will adjust their offer to the prices of our company, in response to eventual lower prices.

One important item to bear in mind is that, when conducting the research studies the customers might adopt an optimist or a pessimist approach and this can lead to false results. The customers should not be interviewed only for time vs. money elasticity but also to competition prices.

3. TIME VS. MONEY EFFECT IN THE REVENUE MANAGEMENT

We have to say that there are customers for which the time is more important than the money in certain circumstances. Business managers must take quick decisions and therefore are inclined to last moments changes more easily than the regular customers.

Regular customers prefer to spend more time in finding a suitable price offer, scanning the offers of various companies. If the regular client, by making an early decision he or she will get better prices, than he or she tries to act accordingly in order to save money: he or she will book an early fees on air companies, he or she will plan holidays well in advance.

However, no matter how rational customers are, there will be last moment changes that cannot be predicted. In fact, different price categories are only valid for a short period of time, until the full use of the places. After that, the company starts the new higher prices, regardless of the time. For example, an airline company, if the low-seats tickets are all booked six months in advance, then even within 5 months time from date of departure the remaining tickets will be as expensive as in the last 5 days (figure no.2).

Tickets/Fees/Fares at low cost 1/3	**Tickets/Fees/Fares at medium cost 1/3**				**Tickets/Fees/Fares at high cost 1/3**
Present 1st January	February	March	April	May	Date of service delivery 30th June

Figure no. 2 Price categories according to time of booking

As a consequence, if there is no price elasticity the differentiated prices play no role in adjusting the offers to consumers.

It is important to draw a line for the two types of demand for which the elasticity can be determined: primary demand (at the level of a product category) and derived demand (for the products of a certain brand). The price elasticity at the market level is the response of demand in accordance with the changes of all producers. The elasticity at the brand level is the response of demand to the changes of prices of that particular producer. Whenever the market is characterized by a fixed demand, the company can induce a larger elasticity by targeting different customers segments.

4. PRICE PERSONALIZATION

In order to enable a good revenue management, an enterprise can use different price personalization, that is a price suited for the particular consumption characteristics of each individual. In practice, explicit price personalization is forbidden. You cannot ask a person to pay how much he considers for a product. As a consequence there must be identified a way to target and segment your clients in accordance with the value they perceive your product will give to them. Basically there should be set a barrier between the customer who favor higher prices and the customers that appreciate lower prices (Lovelock & co., 2004).

Price personalization will enable a client to pay as much as he considers for the value he receives. In this way the customer satisfaction will be enhanced. For the company, price personalization will create superior income. This will be an excellent method to see what customers value more the products of the company. As we explained above, in practice, pure price personalization resemble more with a donation and customers and enterprises hide their intentions when engaged in commercial transactions.

The personalization of prices can be done at the level of core product and at the level of supplementary services. For example, let's consider the prices of a room for a same hotel. They differ according to the size of the rooms and their equipment. The same thing is with the price of the tickets at a tennis game, where the best viewing seats have the highest prices.

If more supplementary services are associated with a product or a core-service, there is evident that the price will go higher, in accordance with the propensity of an individual to accept those services. For example, large companies can have a dedicated person at a bank office to perform all the operations related to that company.

The characteristics of customers can also be used to distinguish among various groups of customers. For example the frequency and the volume of consumption can be used to distinguish among customers. The prices for those who are members of a club, and as a consequence they pay a fixed fee on a regular basis, is lower than the prices for a occasionally purchase. The fans of a football club who have seasonal tickets are required to pay less for an international game than for those who don't have season tickets.

5. THE CLIENT PERSPECTIVE IN REVENUE MANAGEMENT

From the consumers point of view the risks are associated with the possibility to find the products in similar locations at lower prices at the same time, or that the prices will vary in time leading to huge loses for some customers. For example after the economic crisis of 2008-2009 the prices of the apartments in Romania dropped up to 50% leaving many buyers with huge credits to be paid.

Another approach is to wait until the price of a commodity will drop to a lower level after a period of time or after a new model was launched. For example the prices of cars and mobile phones are lower at the end of the year. Prices will not only drop but they can also increase after a period of time, making the period of waiting to be considered a supplementary cost. Consumers can protect against prices variations by engaging in bets against their desired outcome. This cannot cover the all loses but attenuate and sweeten the situation (Barbu, 2009).

Clients are always careful about spending their income but they lack the knowledge to understand market trends. Few of them have the economic insight to know when to spend and when to save for the future. Most of the people want immediate consumption and this is affecting their possibility to get better prices.

Anther aspect to consider is time vs. money effect.

The intrinsic difference between time and money as currencies of exchange lies in the estimation of the respective opportunity costs. Money is highly liquid and storable for future use, which makes the estimation of opportunity cost relatively straightforward and consistent over time and context. Time, on the other hand, is not as liquid and furthermore highly perishable which makes the opportunity cost more difficult to estimate and more dependent on context. The valuation of money remains relatively fixed while the valuation of time is flexible (Okada, Hoch, 2003).

6. Conclusions

As a conclusion, we can say that the revenue management is a superior and improved version of financial management. It requires a perfect understanding of the needs and preferences of the consumer and of its payment will and possibility. The product manager and the revenue manager can work together to set up a unique perceived offer for each client, adapting the core-product and the additional services. The revenue management is a powerful tool to generate more incomes for the companies that are aware of the importance of the clients, and for those companies that regard customers as a resource and not as a target.

Each customer is unique and the benefices that a client is bringing to a company is unique. Therefore companies must reward their clients with prices that reflect the value of the customers. Income management allows the companies to personalize their offer and to serve each client in order to give the maximum possible value.

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