Editorial

The first anniversary of 11th September has reminded us of the deep sorrow caused by the terrorist atrocities.

It also reminds us that this is an uncertain world in which businesses must operate. For the airline industry, airlines that have sophisticated revenue systems have faced fierce competition from budget carriers and a major downturn in demand. In the aftermath of 11th September, the success of the budget carriers confirms that air travel has changed dramatically and very probably for ever. In the UK, low-cost carriers such as easyJet and Ryanair have seen massive increases in passenger numbers, and passengers' purchasing behaviour has, it appears, now radically altered. Even the premium business travel has seen a major switch to budget airlines.

Other industries have learnt from the dramatic changes that have happened in the airline industry. There are new and emerging business imperatives, and the commercial reality now facing RM suppliers, managers, vendors and researchers means it is essential for the industry to develop new pricing heuristics, algorithms and processes that reflect price sensitivity and changed patterns of consumer behaviour. In short, the revenue management industry must move from focusing on capacity-constrained applications of RM to providing pricing optimisation solutions. If it does not, then RM will suffer the fate predicted for operational research (OR) in the 1980s by Russell Ackoff (1979). Ackoff's criticism of OR is based on the values of OR, in which there was a risk of paralysis by analysis (Pidd, 2001). These criticisms were aimed at academic operational researchers, as he propositioned that the future of OR was bleak unless some major changes occurred.

Revenue management faces a similar fate if it fails to adapt to the profound changes affecting business. RM will no longer be able to offer tactical and strategic benefits to corporations; instead, it will be viewed as a limited range of mathematical techniques that have little or no relevance to the real world. Businesses such as transport, hospitality and other related industries which currently place revenue management in the front rank will downgrade the importance of the rational analysis offered by RM in the belief that its traditional solutions are inadequate for tackling the real-life problems presented in a chaotic and irrational world.

Clearly, in the aftermath of 11th September, the challenges facing both business and revenue management are far from simple, and they require solutions which are more than a mathematical equation. Revenue management must move towards an understanding of the terms 'management' and 'pricing' in a broader sense, rather than simply applying a positivist philosophy that is incompatible with a radically changing business environment. What is suggested is the development of new ways of thinking and approaches that turn universal laws of revenue management upside down and challenge some of our fundamental philosophies. Revenue management and pricing has to be more than a collection of analytical model approaches; it must seek to make an impact at a strategic level. Now more than ever, it is essential for the revenue management community not to stand still, but to continue to strive to change and grow.

It is the philosophy of this journal to push the boundaries of revenue management through the publication of new ideas and understandings. The *Journal of Revenue*

and Pricing Management must seek to address the potential shortcomings in RM that parallel Ackoff's criticisms of OR. The Journal will therefore continue to provide a forum for the debate and publication of a wide variety of opinion that reflects theories, practices, processes, tools and techniques with application to the real world. Our goal is to help the RM community build upon the past and not be slavishly tied to it.

RESEARCH PAPERS

It is with great sadness that we record the untimely death of Richard Freling on 29th January, 2002, at the young age of 34. Richard, whose work is published in this issue, spent a great deal of his time at the Erasmus University Rotterdam, first as a student, and, later, as a PhD candidate and an Associate Professor. Richard also worked at ORTEC Consultants and had a brief stay at the University of Lisbon, where he met his wife Teresa. Richard applied advanced OR techniques to the airline industry and the field of public transportation and understood the art of balancing theory and practice very well. He will be remembered as an extremely kind person with a deep interest in science and spiritual matters. He will be greatly missed.

The paper by Richard Freling and his colleagues studies decision rules for accepting reservations for stays in hotels based on deterministic and stochastic mathematical programming techniques. The paper demonstrates that booking-control policies based on deterministic models tend to overprotect the higher price classes.

Sheryl Kimes and colleagues examine dinner duration expectations for a casual restaurant, using an adaptation of a price-sensitivity measurement tool called 'Time Sensitivity Measurement'. The device is used to derive the expected dining time, and the optimal and indifference duration

points, and shows that there is a relatively wide spread of acceptable duration times for diners. Additionally, the optimal and indifference points in the study were significantly shorter than the mean expected dining time, suggesting that many restaurants may be able to shorten dining duration without compromising customer satisfaction.

Larry Weatherford and Stefan Pöhl's paper is based upon exploring different methods of forecasting unconstrained demand. Simulation analysis of many different scenarios of historical bookings was employed using simulation data to show that expectation maximisation and projection det truncation methods were the most robust. In addition, the authors demonstrate by means of actual booking data from a major US airline that upgrading the unconstraining process can lead to revenue gains of 2–12 per cent.

PRACTICE PAPERS

Goran Skugge of Veritec Solutions considers the problem of implementing an origin and destination (O&D) management system. The paper discusses the architecture of O&D systems, issues to consider when implementing such a system, and risks associated with system development and implementation. The paper provides a very practical and useful guide to anyone considering managing an implementation project.

Benson Yuen's paper tackles the thorny issue of group revenue management, explaining how groups can increase airlines' revenue and fill seats that would otherwise be empty. The paper suggests that airlines can enhance their group RM performance by exploiting and expanding group segmentation of the market and by adopting the right business processes, properly supported with an automated group revenue management system.

Louis Volpano and David Savitski

develop a proposal to test market pay-per-view events, to estimate how customer and attraction attributes affect customers' willingness to pay. A theoretical foundation is applied that tests a case where an event is priced differently in two markets. Their proposition builds upon our understanding of enhancing revenue.

FUTURE OF REVENUE MANAGEMENT

Steve Pinchuk's futures paper argues that 'revenue management' encompasses far more than 'revenue' and is doing much more than 'management'. Rather, it is evolving into a management science that is more accurately described by the words 'profit optimisation'.

REVIEWS AND EVENTS

In our reviews section, Una McMahon-Beattie reviews Thomas Nagel's and Reed Holden's book *Strategy and Tactics of Pricing: A Guide to Profitable Decision Making*, emphasising the need to focus on what creates value and how value can be transformed. This is followed by Gina Morello, who reviews the AGIFORS 2002 Reserva-

tions and Yield Management Study Group Meeting, identifying a thought-provoking agenda on some of the world's leading-edge ideas and techniques.

We are able and delighted to report that the Journal continues to grow, which is a reflection on the quality of papers published in this issue — and indeed the previous two. I should like to thank all those contributors and referees who have helped with this issue with a special thank you to Una McMahon-Beattie, whose tireless efforts keep me sane. Equally importantly, the Editors and Editorial Board hope to have your continuing support. We welcome your comments and (especially) your contributions in the form of papers submitted for publication.

Ian Yeoman
Editor

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- Ackoff, R. L. (1979) 'The future of operational research is past', *Journal of the Operational Research Society*, **30**, 189–199.
- Pidd, M. (2001) 'The futures of OR', *Journal of the Operational Research Society*, **52**, 1181–1191.