Editorial

DEFLATIONARY POWER THREAT

Has revenue management introduced a culture which encourages customers to be price sensitive and is this, in turn, leading to an increased risk of worldwide deflation? Are we in danger of becoming the victims of our own success as revenue managers?

I ask these questions as the core industries of revenue management, transport and hospitality find themselves in an era of falling prices that seems here to stay. The risk is that we are set for a period of deflation as consumers become used to paying less for their goods and services. Clearly, an industry caught up in a deflationary cycle faces enormous problems. Japan's experiences over the last ten years or more show how difficult these problems can be. The value of property in Japan over the last ten years has decreased in real terms by 50 per cent, while in 2002 its wages decreased by 1.2 per cent in real terms and savers were offered interest rates of zero per cent.

Deflationary pressures for the airline industry first appeared to have arisen in the USA during 2001, a year when airlines were hit extremely hard by a variety of problems. And the rise of the low-cost carrier, of course, further accelerated the pressures. As consumers became used to low prices, they become educated in the processes of revenue management. At the moment, it seems highly unlikely that airlines will ever again be able to raise their prices to the levels of the 1980s and 1990s.

The challenge is how we manage price in a time of uncertainty and falling prices. Airlines are already faced with deflationary pressures and they and other traditional users of revenue management need to develop a new approach in order to create

value in this new economic cycle. Research and practice must focus on value and price sensitivity rather than capacity allocation. My own belief is that we shall see the emergence of a holistic approach that sees the use of pricing overriding traditional revenue management approaches and encouraging the emergence of a new breed of revenue managers.

PAPERS

Breffni Noone and colleagues at Cornell University introduce the subject of integrating customer relationship management (CRM) and revenue management as applied by hotels. Using a lifetime/profitability approach to customer segmentation, the authors identify the appropriate customer segments to target with CRM, and outline a supporting RM strategy for each segment. Jean-Philippe Côté and colleagues' paper on bilevel modelling tackles the problem of capacity allocation and pricing. The modelling technique used suggests it is possible to take into account the matters of customer segmentation; relationships to product attributes and the problem of overlapping routes.

Richard Zeni's paper on the value of the analyst highlights a study performed at US Airways, comparing the 'system' with the 'analyst'. The study produced a range of recommendations, which were of practical value to the organisation in improving business procedures. Among other interesting findings, Richard notes how the analyst added value when identifying levels of overbooking without increasing the risk of denied boarding.

Kate Varini and colleagues discuss the term of 'value' in managing revenue effectively and in so doing remind us that

revenue management is not just a technical subject. Kate's study analysed the pricing strategy in Swiss hotels. The basis on which these hotels price their rooms and other products is revealed as being quite different from the customers' perception of price in relation to the value they feel they receive.

Mark Hawtin deals with the still-emerging subject of retail revenue management, with specific reference to balancing price image with overall goals of strategy and market share. Mark's paper identifies the essential requirement for consistent business rules when applying revenue management principles to the pricing of goods in a grocery retail outlet. His paper includes a case study involving the application of an RM system to a category of produce for a US grocery chain, illustrating the impact of business rules on the achievement of profit and volume goals.

The paper on cargo revenue optimisation by John Billings and colleagues shows how the subject has now come of age and argues that, with the advent of automation, the cargo, freight and shipping industry is now equipped to deal with the challenges associated with profit optimisation. The paper highlights the specifics of cargo revenue management that require

good implementation, strategy and practice.

FUTURE OF REVENUE MANAGEMENT

Peter Lederer and Ian Yeoman discuss the importance of the customer in the design of revenue management processes. As Managing Director of one of the world's most famous hotels, Peter is able to outline Gleneagles' experience of revenue management which seeks to encapsulate excellence, quality of service and revenue optimisation.

REVIEWS AND EVENTS

We close this issue with an interesting and varied selection of reviews. Warren Lieberman reviews Richard Zeni's new book, *Improved Forecast Accuracy*, which makes a significant contribution to the technical literature on revenue management. Andrea Balfour and Benson Yuen review the PROS 9th Annual Pricing & Revenue Optimization Conference, Houston 2002; Paul Bessant reviews a conference that highlighted the growth of retail revenue management; and, finally, Steve Marchant describes the fairly recent launch of the UK's Revenue Management Club.

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