AGIFORS special edition: Driving the cycle of innovation

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Do you want to know what the future holds for innovation in revenue and pricing management? Look no further than the AGIFORS conference, which brings together the brightest minds in airline revenue management, including practitioners and researchers. During the conference, the delegates discuss the latest advances in revenue management and facilitate the dissemination of new ideas and thought leadership in the industry. After the conference, the community progresses on the new ideas by advancing the research, prototyping and testing, which follows the typical cycle of innovation. When the ideas are further developed and tested, the topical results are often published in the *Journal of Revenue and Pricing Management*. Once the results are proven in practice, development and implementation in the marketplace occurs. While some innovations result in new products or new industry standards, others are incremental changes to current industry models and practices. Both types of innovation are important to advancing the theory and practice of revenue management. This process is the genesis of airline industry innovation.

It is with the cycle of innovation in mind that I present the AGIFORS Special Edition of the *Journal of Revenue and Pricing Management*. Together AGIFORS and its liaison with the *Journal of Revenue and Pricing Management* are driving the cycle of innovation. Although not all presentations from AGIFORS are contained in this issue, several of the key themes from the conference are represented.

This special issue begins with an overview of the ever-changing landscape of airline

competition as outlined by Scott Nason, who was the keynote speaker at the AGIFORS Revenue Management Conference 2008. This paper discusses several challenges in the airline industry, namely the Six C's, and makes some observations about the implications for airline revenue managers and some of the requirements it will impose upon revenue management systems.

Implementing best practices in airline pricing can increase revenue and boost profit margin. Ben Vinod, Chittur Narayan and Richard Ratliff from Sabre present a new framework for analytical decision-making in both tactical and strategic pricing. This new methodology is based on demand models and competitive impacts to assist in the daunting task of rapidly responding to competitor actions to remain competitive in the marketplace.

Air Tahiti Nui is frequently affected by large fluctuations in the currency exchange rate between the US dollar and the euro. Jean Michel Chaupis and Matthew Bechonnet elaborate on how revenue managers can monitor exchange rate when fluctuations are more than the relative spread between the average fare of consecutive fare classes, and propose a process to combat the fluctuations to mitigate the risk.

The science of revenue management has been implemented in software systems for more than 20 years in the airline industry. Professor Larry Weatherford of University of Wyoming is the first, of which the editor is aware, to have surveyed the airlines to assess their satisfaction with the current systems. The results indicate

overall satisfaction with the revenue management system and vendors, but offer some key insights into areas of improvement.

Catherine Cleophas, Michael Frank and Natalia Klierer present a simulation-based framework approach and corresponding key performance indicators to evaluate the quality of airline demand forecasting. The performance of forecasting is evaluated through the system output in terms of revenue and bookings, as well as through common error measurements. This paper also empirically confirms a number of assumptions connected to the spiral-down effect and forecast accuracy.

In addition to the papers from which the genesis was AGIFORS, there are several additional innovative revenue management research papers in this issue from outside the airline industry.

A novel application of revenue management to the parking industry is presented by José Guadix, Pablo Cortés, Jesús Muñuzuri and Luis Onieva from the Organization Engineering Group. The application of this technique to parking lot management is analysed, for application to both individual and subscribed drivers, and accounts for their differing uncertainty.

While China's economy has grown significantly in recent years, the service sector has been slow to adopt revenue management principles. The paper by Wei Yang *et al* surveys the latest development of revenue management in China. Wei Yang *et al* describe recent strides in the application of revenue management in China, and delineate some of the challenges that have dampened its adoption rate both in the airline industry and across other industries both in research and in practice.

Dynamic pricing research in the specialised area of project-oriented production has been limited based on current pricing and revenue management techniques. Sherrer tackles the problem with a new heuristic that exploits the flexible capacity of project-oriented production, and computational results are presented for its performance over a range of dynamic pricing environments.

As for future predictions for revenue management, Hugh Dunleavy and Glen Phillips discuss business model changes since the early days of revenue management. Today's business model is more competitive, more transparent, more commoditised and more complex because of longer booking horizons. These authors argue that these four changes in the business environment need to be incorporated into revenue management models in order to adapt to this changing business environment.

Finally, Ian Yeoman reviews the book *Buyology: How Everything We Believe About Why We Buy Is Wrong*. In the book, Lindstrom relates studies using *MRI* to understand thought and decision-making processes within the context of an array of consumer products and experiences. The author explores whether there is a disconnect between consumers' thought processes and actions. This is a non-technical and easy-to-read book, providing useful insights and analysis for the layperson.

The editor thanks those who contributed to the AGIFORS Special Edition of the Journal of Revenue and Pricing Management, as well as the speakers who participated in the conference itself. The author is especially grateful to Shiang Ja, Jean Michel Chaupis and Matthieu Bechonnet. Special gratitude is extended to the conference sponsors Sabre, PROS, JDA, ITA and IBS whose support enabled the non-profit group to meet and foster the exchange of ideas on the industry's current issues.

For additional information about the AGIFORS Revenue Management conference and future conferences, please contact the author or visit the conference website www.agifors.org. You may request the full proceedings from the conference by first becoming a member at http://www.agifors.org/member_common_register.jsp

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