The role of professional budgeting

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The global financial crisis and recessionary aftershocks have been largely responsible for promoting an intensified scrutiny of personal outgoings and household budgeting to the top of the list of consumer priorities according to research by the Future Foundation (2013). Global economic downturn became an open invitation to consumers – even those inhabiting countries that avoided technical recession – to reinforce an element of personal control over finances. Moreover, as the research shows, this invitation has been accepted by *all* income groups, even the wealthiest. In many of the developing markets, a traditional habit of money saving has long existed. Large numbers of budgeters even claim to ‘enjoy’ sticking to personal budgets; the budgeting challenge is one to creatively overcome on a daily basis. The militaristic approach to managing finances has also been aided and driven by the significant amount of budgeting-related guidance/support available online; consumer empowerment websites and budgeting apps for tablets and smartphones are widespread. Today, the trend of *Professionalised Budgeting* has become such an integral and fundamental feature of modern society that it will endure well beyond a full return to sustained global economic health. In the context of budgeting becoming a more formal feature of modern lives, consumers will naturally endeavour to ‘maximize’ during the consumption process – that is, make a conscious and concerted effort to closely scrutinize the relative price and value of competing offers to ensure that personal budgets are left in a healthy state. What is happening is that consumers are using a range of acknowledgements and also the

wide variety of support tools, which can help them in their budgeting endeavours. These can include centralized money-saving advice websites and online portals devoted to discount codes, as well as countless examples of specialized software programmes for personal computers or apps for smartphone and tablet devices that help users track household incomings and outgoings with ease. Consumers are also able to install devices in their homes that allow them to closely monitor energy usage in real time, and hence the consumer is very aware of Revenue Management (RM), which is looking for maximized decisions and pre-plans more than ever. All of this has consequences for Revenue Managers and RM. The following papers are part of that debate from a business perspective.

The effective management of group traffic is required to minimize revenue dilution and enhance an airline’s market share. Group management is challenging from several perspectives – process, decision support and reservation system workflow for the management of group blocks. Vinod’s article discusses the various types of groups and the airline business model to manage group revenue. Heuffner and Largay III consider the issue of capacity analysis, as the topic is central to RM. They discuss the dimensions of capacity and describe the capacity analysis model developed by Computer-Aided Manufacturing International (CAM-I). Kuokkanen’s article presents a new RM concept targeted at businesses struggling to maintain profitability through the cooperation of several potentially competing service providers with the goal of overall profit maximization can offer

a solution for tourism destinations struggling to improve financial profitability. Haensel and Ger Koole observed that many industries run automated RM systems to control their sales processes. Customer requests are assumed to be relatively small and a single acceptance or rejection decision has a minimal impact in the total revenue. However, how should a company deal with arbitrary large requests, which can have fundamental revenue and capacity impacts? This article proposes evaluation methods to derive the least acceptable prices for the buyer or seller in a network RM environment through propose deterministic and stochastic models so different business and economic situations can use different evaluation approaches. They conclude with determining derive risk-averse formulations to enable decision makers to compare expected profit with underlying risks.

Von Massow's paper about reference price models allow for the explicit incorporation of inter-temporal effects of pricing decisions. Reference price represents the price a consumer uses to compare against observed prices in the market. It is used to determine whether the observed price is a 'good deal' or not, which may affect the quantity purchased by providing transactional utility (or dis-utility, if the price is higher than expected). The authors introduce a reference price model with thresholds within which there are no reference effects. For frequently purchased items such as groceries, a pricing action in this period may affect demand in this period and in the next period, and reference price models build that effect into

an expected price. Previous reference models have been structurally limited to either single-price or cyclical price strategies but not both. The incorporation of thresholds allows for both types of pricing strategies, depending on the specific parameters for the model.

Pricing of consumer credit was long considered to be straightforward. However, the recent financial crisis has shown that mispricing and misallocating consumer credit can have severe consequences for the global economy, which is the concept Philips addresses in his research paper. The pricing problem faced by providers of consumer credit as aspects of the problems that differ from other pricing settings – in particular, the non-linearity of incremental contribution in rate, the uncertainty of the return on a loan, the role of information and the interaction between pricing and risk. The author describes how these aspects can be incorporated into the determination of optimal rates for consumer credit. Moreover, finally, Davies and Shafer, Walt Disney leading Revenue Managers, speculate the skills of the future Revenue Manager in this future article – the skills of communications, creative complexity, compelling credibility and committed enthusiasm.

REFERENCE

Future Foundation. (2013) Professional Budgeting, <http://nvision.futurefoundation.net>, accessed 6 June 2013.

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