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Yield Management – Literature review

Defining Yield Management

According to Kimes (2002) yield management can be defined as ‘a method that can help a form sell the right inventory to the right customer at the right time and for the right price’, Kimes (1989) however also suggested that this should be done in order to maximize the yield or revenue. According to a key word meaning study (Jauncey, Mitchell and Slamet, 1995) of different definitions on yield management and a survey conducted amongst 18 front-desk managers of London hotels the most returning concepts in yield management are: ‘Variable rates and prices’ 11 out of 12, ‘maximization of revenue’ 10 out of 12, ‘Structured process, way or procedure’ 8 out of 12, ‘management of a fixed and perishable commodity’ 8 out of 12 and ‘understanding patterns of demand and customer behaviour’ 8 out of 12. This definition analysis show us that yield management is a very broad concept revolving around the maximization of revenue. Jaucey, Mitchell and Slamet (1995) summarize it as : ‘ yield management is an integrated, continuous and systematic approach to maximizing room revenue through the manipulation of room rates in response to forecasted patterns of demand’. Therefore they conclude that yield management requires a close analysis of historical information in order to be able to predict this demand.

Yield management is used in many different areas of the service industry. It can be used in every situation where the following conditions are met (Kimes, 1989) : a relatively fixed capacity, segmentation into different market segments is possible, the inventory of the product is perishable, the products can be sold in advance (before they are actually consumed), there is a

fluctuating demand, the marginal sales cost is low and the marginal production cost is high. Examples of industries where yield management can be used are given by Kimes (1998) and include: hotels, airlines, rental cars, cruise lines, convention centers, stadiums/ arenas, movie and other theatres, internet service providers and golf courses. Originally according to Kimes (1989) the yield management principle was first developed in the airline industry.

The advantages of Yield Management

The most obvious advantage of yield management is reflected in most of the literature and is the maximization of revenue, by trying to sell at the highest price to each customer and by trying to make sure that all of the available capacity is used the total revenue can increase dramatically as shown by the airline industry. Seen from the perspective of the customer the implementation of yield management practices might be perceived as a disadvantage since on average the spending by all customers will go up. This has however not to be a problem assuming that (Gourville and Soman, 2002) 'customers are willing to pay the price for every product they are freely willing to buy and consume'.

The problems with Yield Management

Practical problems

The practical problems of implementing yield management are quite important as the implementation of a computerized yield management system is not that easy. It needs to be interfaced both with all the currently used automated distribution systems and the system that contains the actual total of reservations (in hotels the PMS). Apart from the technical difficulties installing a computerized yield management system the current systems do not provide the possibility to predict accurate prices for all consumer groups, especially when one customer will

take large parts of the inventory available at a certain time (e.g. tour operator contracts or large group bookings) the systems fail to provide us with accurate data (Varini, 2000).

Another question one might ask is where to put the yield management system and who to make responsible for it. According to Kimes (1989) all departments of a hotel should be involved in order to implement it successfully.

Other problems

Other problems include the reaction of the market towards the implementation of a yield management approach. According to Kimes (2002) the customer perceives a product price as fair for the price of a good to increase if the costs increase in order to maintain profit. They however don't feel that increasing the price in order to increase the profit is a fair practice. The question then can be asked as to how the supplier can try to increase profit without the consumer feeling that he/she is treated unfairly. Kimes (2002) states that there are four solutions to this problem. One is by giving the customer a higher reference price and then providing him with discounts is one way to go. The second one is to add additional services to the product and then increase the price, a third option is to sell the product as part of a package, fourth is to attach restrictions to the discounts as to make the discounts be perceived as being fair.

As yield management systems use differential pricing for the same product at the same time depending on the customer and demand (Kimes 1998) there should be something named rate fences and a proper price mix. A rate fence is one or a set of characteristics of the particular customer that allow him/her to qualify for a certain rate. These fences provide the supplier with a rationale as to why a certain customer is paying a certain price. The mix of prices on the other hand should be logical and make the customer perceive as being treated fairly.

The customer however is not the only one to be concerned about, according to Kimes (1989) also the employees morale might go down due to the fact that the yield management systems take away some of the responsibilities as to how to determine the price of the product. Therefore the system should allow for some latitude into the price setting so that the employee can use its own judgement of the situation. Some additional training for the employees will of course be necessary.

The groups sales department's reward scheme can according to Kimes (1989) also lower morale in this department since they will not be able to sell that much as the yield management system will prevent them from selling at a low price. These employees should therefore be compensated differently.

Conclusion

The implementation of a good yield management system can increase revenue when implemented with great care and consideration for all the different aspects. Care has to be taken with both employees and customers. It should not come in the place of a good service and should not be a substitute for marketing.

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