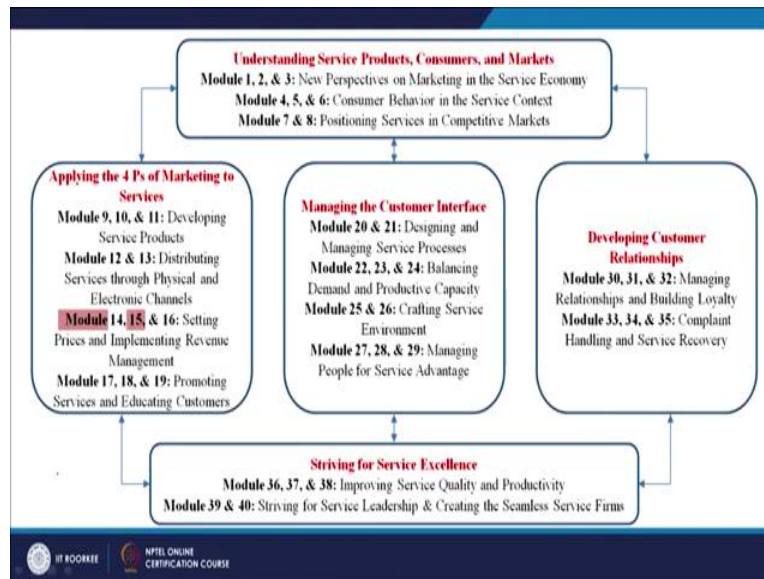


Services Marketing: Integrating People, Technology, Strategy
Professor Zillur Rahman
Department of Management Studies
Indian Institute of Technology, Roorkee
Lecture 15

Setting Prices and Implementing Revenue Management - Part II

Welcome to this course on Services Marketing. Now, we will talk about module 15.

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Now, as you know we are talking about setting prices and implementing revenue management. This topic is spread over three modules, the module 14, 15 and 16. We have talked about module 14 and now we will talk about module 15.

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SETTING PRICES & IMPLEMENTING REVENUE MANAGEMENT


MODULE - 15

3

MODULE OVERVIEW

1. Understanding the concept of net value and how gross value can be enhanced through value-based pricing and reduction of related monetary and non-monetary costs.
2. Describing competition-based pricing and situations where service markets are less price-competitive.
3. Defining revenue management and describe how it works.

4






And we will talk about the understanding the concept of net value and how gross value can be enhanced through value-based pricing and reduction of related monetary and non-monetary cost. We will talk about describing competition-based pricing and situation where service markets are less price-competitive. And we will define revenue management and describe how it works.

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INTRODUCTION

- Another leg of the pricing tripod is value to the customer.
- No customer will pay more for a service than he or she thinks it is worth.
- So, marketers need to understand how customers perceive service value in order to set an appropriate price.




  5



To start with the introduction, another leg of the pricing tripod is the value to the customer. No customer will pay more for a service than he or she thinks it is worth. So, marketers need to understand how customer perceive service value in order to set an appropriate price. So, now keep in mind that, before we start setting price, we have to see how is customer perceiving that service. And in relation to that, then we will set an appropriate price for our service.

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VALUE-BASED PRICING

- Understanding Net Value
- When customers purchase a service, they are weighing the perceived benefits of the service against the perceived costs they will incur.
- However, customer definitions of value may be highly personal and unique.



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Let us look at this value-based pricing. We will try to understand what is the concept of this net value. When customers purchase a service, they are weighing the perceived benefit of the service

against the perceived cost they will incur. However, customer definition of value maybe highly personal and unique. So, this customer value is a difficult concept and different customers may have different definitions of this value.

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VALUE-BASED PRICING

- Understanding Net Value
- Valarie Zeithaml proposes four broad expressions of value:
 - i. Value is a low price.
 - ii. Value is whatever I want in a product.
 - iii. Value is the quality I get for the price I pay.
 - iv. Value is what I get for what I give.




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And these are the four broad expressions of value. The first is value is a low price. So, for some customers may think or their concept of net value is that value is low price. Some other customers may think that value is whatever I want in a product. Then there may be some customers who think that value is the quality I get for the price I pay. And there may be a fourth category of customers, who may think that value is what I get for what I give.

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VALUE-BASED PRICING

- Understanding Net Value
- We will focus on the fourth category and use the term **net value**, which is the sum of all perceived benefits (gross value) minus the sum of all the perceived costs of the service.
- The greater the positive difference between the two, the greater the net value.




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Now, we will focus on this fourth category, that is value, those customers who think that value is what I get for what I give and use the term net value. So, we are focusing on this fourth option and we will use this term net value which is the sum of all perceived benefits. So, keep in mind that we are talking of perceived benefits, that is the gross value, minus the sum of all the perceived cost of the service. Again we are talking of perceived cost. So, these benefits and cost, they are not only tangibles or in real-time. So, we are talking of perceived benefits and perceived cost. The greater the positive benefit between the two, the greater the net value will be.

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VALUE-BASED PRICING

- Understanding Net Value
- If the perceived costs of a service are greater than its perceived benefits, then the service in question will possess negative net value, and the consumer will not buy it.



You can think of calculations that customers make in their minds as being similar to weighing with a pair of old-fashioned scales, with product benefits in one tray and the costs associated with obtaining those benefits in the other tray.

Figure: Net value equals perceived benefits minus perceived costs



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If the perceived cost of a service are greater than its perceived benefits, then the service in question will possess negative net value and the consumers will not buy it. So, keep in mind, if the perceived cost are more than the perceived benefit, so the customers will not buy it. So, now look at this on one hand we have these perceived benefit, on another hand we have the these perceived cost.


So perceived cost, it is not only the economic cost but also efforts and time we spent. So, you can think of calculations that customers make in their mind as being similar to weighing with a pair of old-fashioned scales, with product benefit in one tray and the cost associated with obtaining those benefits in the other tray. So, in this figure, the net value equals perceived benefit minus the perceived cost. So, if the perceived benefits are more as in this case it is heavier, so if the perceived benefits are more than the perceived cost, then it results in net value otherwise the value becomes negative.

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VALUE-BASED PRICING

- Understanding Net Value
- When customers evaluate competing services, they are basically comparing the relative net values
- As we discussed in previous modules, a marketer can increase the value of a service by adding benefits to the core product and by improving supplementary services, which typically entails enhancing the benefits while reducing the burdens for customers.



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So, when customers evaluate competing services, they are basically comparing the net, relative net value. When customers evaluate competing services, they are basically comparing the relative net value, where with which competitor they are getting more net value. So, as we discussed in previous modules, a marketer can increase the value of a service by adding benefits to the core product and by improving supplementary services which typically entails enhancing the benefits while reducing the burden for customers.

(Refer Time Slide: 05:16)

VALUE-BASED PRICING

- Managing the Perception of Value
- Since value is subjective, not all customers have the skills or knowledge to judge the quality and value they receive.
- This is true especially for credence services, for which customers cannot assess the quality of a service even after consumption.
- Marketers of services such as strategy consulting must find ways to communicate the time, research, professional expertise, and attention to detail, that go into, for example, completing a best practice consulting project.



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Now, let us see how to manage this perception of value. Since value is subjective, not all customers have the skills or knowledge to judge the quality and the value they receive. Because this concept of value is subjective. So, the customers may not have the skills or the knowledge to evaluate the value of this service. So, this is true especially credence services, for which customers cannot assess the quality of a service even after consumption.

So, there are some services which are high on credence quality and in that case, they are not able to assess the quality of a service even after they have purchased and consumed the service. So, marketers of service such as strategy consulting, might find ways to communicate the time, research, professional expertise and attention to detail that go into, for example completing a best practice consulting project.

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VALUE-BASED PRICING

- Managing the Perception of Value
- The invisibility of back-stage facilities and labor makes it hard for customers to see what they're getting for their money.
- Not surprisingly, customers are often left feeling they have been taken advantage of — take a look at Blondie's reaction to the plumber.



Blondie seeks her money's worth from the plumber

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The invisibility of back-stage facilities and labour make it hard for, the invisibility of back-stage facilities and labour makes it hard for customers to see what they are getting for their money. So, lot of things that go in the, at the back-stage and which are not visible to the customers, so they are not able to understand the value of that. Not surprisingly, customers are often left feeling that they have been taken advantage of.


Now, take a look at Blondie's reaction to the plumber. So, the look at this cartoon. So, there this person is a plumber and this is blondie. So the plumber is saying that I have fixed it all and blondie says, wow that did not take very long. So, the plumber is saying, that I know, but I still have to charge you for the entire hour.


Now, blondie says that in that case, how about helping me clear the table, because you are charging me for, charging me, you want me to pay you for one hour and your work is finished before that, so now you are supposed to clear this table. So, in this case, blondie seeks her money's worth from the plumber.

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VALUE-BASED PRICING

- Managing the Perception of Value
- To manage the perception of value, effective communications and even personal explanations are needed to help customers understand the value they receive.
- What customers often fail to recognize are the fixed costs that business owners need to recoup.
- The variable costs of a home visit are also higher than they appear. (e.g., 20 minutes spent at the house, 15 minutes of driving each way, five minutes each to unload/reload needed tools and supplies from the van)
- The firm still has to add a margin in order to make profit.





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To manage the perception of value, effective communication and even personal explanations are needed, to help customers understand the value they receive. So, in this previous case, the plumber will have to explain that the blondie has to pay for the skills that the plumber has, it is not about the time that he is charging.

What customers often fail to recognize are the fixed cost that business owners need to recoup. The variable cost of a home visit are also higher than they appear. For example, 20 minutes spent at the house, 15 minutes of driving each way, 5 minutes each to unload and reload needed tool and supplies from the van.


So, although the person maybe spending only 20 minutes on the job, but then he has also travelled to the location and he will have to travel back to the location, and then loading and unloading of the tools and supplies, et cetera. The firm still has to add a margin in order to make profits.

(Refer Time Slide: 08:31)

VALUE-BASED PRICING

(REDUCING RELATED MONETARY AND NON-MONETARY COSTS)

- When we consider customer net value, we need to understand the customers' perceived costs.
- From a customer's point of view, the price charged by a supplier is only part of the costs involved in buying and using a service.
- There are other **costs of service**, which are made up of the **related monetary and non-monetary costs**.



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Now, how to go about reducing related monetary and non-monetary cost. When we consider customer net value, we need to understand the customers perceived cost. From a customers point of view, the price charged by a supplier is only part of the cost involved in buying and using a service. There are other cost that are involved, which are made up of the related monetary and non-monetary cost.

(Refer Time Slide: 08:58)

VALUE-BASED PRICING

(REDUCING RELATED MONETARY AND NON-MONETARY COSTS)

- Related Monetary Costs
- Customers often incur significant financial costs in searching for, purchasing, and using the service, above and beyond the purchase price paid to the supplier.
 - For instance, the cost of an evening at the theater for a couple with young children usually far exceeds the price of two tickets, because it can include expenses such as hiring a babysitter, travel, parking, food and beverages.



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Let us look at this what are this related monetary cost. So, customers often incur significant financial cost in searching for purchasing and using the service, above and beyond the purchase price paid to the supplier. For instance, the cost of an evening at the theatre for a couple with young children usually far exceeds the price of two tickets, because it can include expenses such as hiring a babysitter, travel, parking, food and beverages. So, the price of the movie ticket is small percentage of the total cost that this couple will incur.



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VALUE-BASED PRICING

(REDUCING RELATED MONETARY AND NON-MONETARY COSTS)

- Non-monetary Costs
- Non-monetary costs reflect the time, effort, and discomfort associated with the search, purchase, and use of a service.
- Like many customers, you may refer to them collectively as “effort” or “hassle.”
- Non-monetary costs tend to be higher when
 - customers are involved in production and
 - must travel to the service site.



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Now, what are the non-monetary cost that we are talking about and in many cases, this non-monetary cost, they may be more important than the monetary cost. So, non-monetary cost reflects the time, effort and discomfort associated with the search, purchase and use of the service. Time that you have spent, efforts made and the discomfort, that goes into these three things, purchase, search, purchase and use of that service.


Like many customers, you may refer to them collectively as effort or hassle. Non-monetary cost tend to be higher when, customers are involve in production and must travel to the service site. So, then again they have to hire a taxi or they have to spend money to reach that place, stay there and then come back.



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VALUE-BASED PRICING

(REDUCING RELATED MONETARY AND NON-MONETARY COSTS)

- Non-monetary Costs
- Services high on experience and credence attributes may also create psychological costs such as anxiety.
- There are four distinct categories of non-monetary costs:
 - i. time,
 - ii. physical,
 - iii. psychological, and
 - iv. sensory costs.



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Services high on experience and credence attribute may also create psychological cost such as anxiety. Now, there are four distinct categories of non-monetary cost. First is the time, second is the physical, the third is psychological and the fourth one are the sensory cost. So, these are the four types of non-monetary cost. Time cost, the physical cost, psychological cost and the sensory cost.



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VALUE-BASED PRICING

(REDUCING RELATED MONETARY AND NON-MONETARY COSTS)

- **Time costs** are part of the service delivery.
- Customers may even use similar terms to define time usage as they do for money; for instance, consumers talk about budgeting, spending, investing, wasting, losing, and saving time.
- Time spent on one activity represents an opportunity cost because it could be spent more pleurably or profitably in other ways.




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What is the time cost? So, time cost are part of the service delivery. Customers may even use similar terms to define time usage as they do for money. For instance, consumer talk about budgeting, spending, investing, wasting, losing and saving time. Time is spent on one activity represents an opportunity cost, because it could be spent more pleausurably or profitably in other ways.

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VALUE-BASED PRICING
(REDUCING RELATED MONETARY AND NON-MONETARY COSTS)

- **Physical costs** (such as effort, fatigue, discomfort) may be part of the costs of obtaining services, especially
 - if customers must go to the service factory,
 - if waiting and long queues are involved,
 - if body treatments are involved such as for medical treatments, piercing or waxing, and
 - if delivery is through self-service.



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Next important type of cost is the physical cost, such as effort, fatigue and discomfort. That maybe a part of the cost of obtaining services especially, if the customers must go to the service factory, one. Two, if waiting and long queues are involved. Three, if body treatments are involved such as for medical treatment, piercing or waxing, and the fourth one is, if delivery is through self-service.



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VALUE-BASED PRICING

(REDUCING RELATED MONETARY AND NON-MONETARY COSTS)

- **Psychological costs** such as
 - mental effort (e.g., filling in account opening forms requesting for detailed information),
 - perceived risk and anxiety (“Is this the best treatment?”),
 - cognitive dissonance (“Was it good to sign up for this life insurance, this annual gym membership?”),
 - feelings of inadequacy and fear (“Will I be smart enough to succeed in this MBA program?”)are sometimes attached to buying and using a particular service.




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Another type of cost are psychological cost. Now, that is slightly difficult and that includes, mental efforts, filing an account opening form requesting for detailed information, the second one is the perceived risk and anxiety. Is this the best treatment that I am getting? The third is cognitive dissonance. Was it good to sign up for this life insurance, this annual gym membership? So, when you reflect back and think that whether it was right that I have done or not. And feeling of inadequacy and fear. Will I be smart enough to succeed in this MBA program? These are sometimes attached to buying and using a particular service.

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VALUE-BASED PRICING (REDUCING RELATED MONETARY AND NON-MONETARY COSTS)

- **Sensory costs** relate to unpleasant sensations affecting any of the five senses.
- In a service environment, these costs may include putting up with
 - crowding,
 - noise,
 - unpleasant smells,
 - excessive heat or cold,
 - uncomfortable seating, and
 - visually unappealing environments.




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Then there are some sensory cost. They relate to unpleasant sensation affecting any of the five senses. So, in a service environment, these costs may include putting up with, crowding, noise, unpleasant smell, excessive heat or cold, uncomfortable seating and visually unappealing environment. So, if a person goes to a service factory and the service has to be delivered on the person, so these may be some sensory cost. He may have to wait, there may be noise, and crowding, et cetera, et cetera.


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VALUE-BASED PRICING (REDUCING RELATED MONETARY AND NON-MONETARY COSTS)

- As shown in *Figure*, service users can incur costs during any of the three stages of the service consumption model.
- Consequently, firms have to consider (1) **search costs**, (2) **purchase and service encounter costs**, and (3) **post-purchase or after costs**.



*Includes all the cost categories

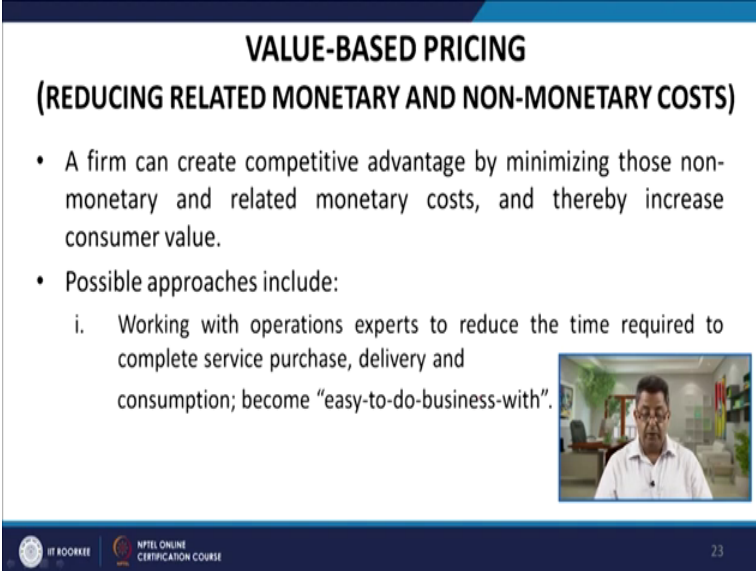


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Now, let us look at how to reduce related monetary and non-monetary cost. As shown in the figure below, service users can incur cost during any of the three stages of the service consumption model. Consequently, firms have to consider; first the search cost, second is the purchase and service encounter cost and the third is the post-purchase or after cost.

Now, let us look at this figure. On the left we have this search cost, then we move on to purchase and service encounter cost and the post-purchase cost. So, this purchase and service encounter cost include money, time, physical efforts, psychological burden and sensory burden. Post-purchase cost includes, necessary follow-up and problem solving. And this money cost will include the purchase price of the service, the operating cost and incidental expenses.

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VALUE-BASED PRICING
(REDUCING RELATED MONETARY AND NON-MONETARY COSTS)

- A firm can create competitive advantage by minimizing those non-monetary and related monetary costs, and thereby increase consumer value.
- Possible approaches include:
 - i. Working with operations experts to reduce the time required to complete service purchase, delivery and consumption; become “easy-to-do-business-with”.


The slide includes a video inset of a man speaking. The footer contains the IIT ROORKEE logo, the text 'NPTEL ONLINE CERTIFICATION COURSE', and the number '23'.

A firm can create competitive advantage by minimizing those non-monetary and related monetary cost and thereby increase customer value. So, what we are trying to understand is that by reducing these cost, non-monetary and monetary cost, the firm can create a competitive advantage, an advantage over the competition. So, possible approaches to this may include first, working with operation experts to reduce the time required to complete service purchase, delivery and consumption, become easy to do business with.

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VALUE-BASED PRICING (REDUCING RELATED MONETARY AND NON-MONETARY COSTS)

- ii. Minimizing unwanted psychological costs of service at each stage by
 - 1 – eliminating or redesigning unpleasant or inconvenient procedures,
 - 2 – educating customers on what to expect, and
 - 3 – retraining staff to be friendlier and more helpful.
- iii. Eliminating or minimizing unwanted physical effort, notably during search and delivery processes. (Improved signage and “road mapping” in facilities and on webpages)




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The second is minimizing unwanted psychological cost of service at each stage by, first one is to, eliminate or redesign unpleasant or inconvenient procedures. Second is to educate customers on what to expect from this service, and the third one is retaining staff to be friendlier and more helpful. The third thing that needs to be done is by eliminating or minimizing unwanted physical effort, notably during search and delivery process. For example, improved signage and road mapping in facilities and on webpages.

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VALUE-BASED PRICING (REDUCING RELATED MONETARY AND NON-MONETARY COSTS)

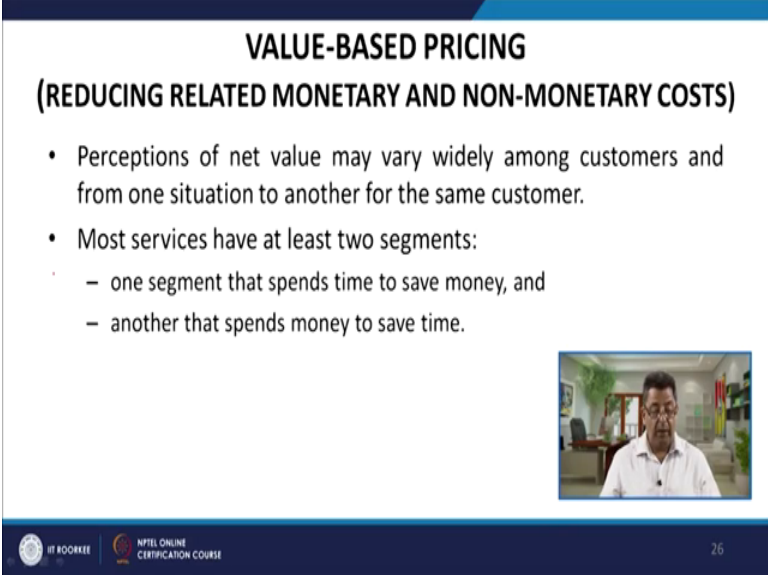
- iv. Decreasing unpleasant sensory costs of service by
 - creating more attractive visual environments,
 - reducing noise,
 - installing more comfortable furniture and equipment, and
 - curtailing offensive smells.
- v. Suggesting ways in which customers can reduce associated monetary costs, including discounts with partner suppliers (e.g., parking) or offering mail or online delivery of activities that previously required a personal visit.



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The fourth one is by decreasing unpleasant sensory cost of service, how? By creating more attractive visual environment, reducing noise, installing more comfortable furniture and equipment, and curtailing offensive smells. The fifth is to suggest ways in which customers can reduce associated monetary cost including discounts with partner suppliers. For example, parking or offering mail or online delivery of activities that previously required a personal visit.



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VALUE-BASED PRICING
(REDUCING RELATED MONETARY AND NON-MONETARY COSTS)

- Perceptions of net value may vary widely among customers and from one situation to another for the same customer.
- Most services have at least two segments:
 - one segment that spends time to save money, and
 - another that spends money to save time.



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Perceptions of net value may vary widely among customers and from one situation to another for the same customers. So, this perception of net value, the perceived value will vary from one customers to another customer that is the first thing. Second, it will also vary from situation to the situation for the same customers. Most services have at least two segments, one segment that spends time to save money and another that spends money to save time. So, in first case they are spending time and saving money and in the second case, they are spending money and saving time.

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VALUE-BASED PRICING

(REDUCING RELATED MONETARY AND NON-MONETARY COSTS)

- Therefore, many service markets can be segmented according to the sensitivity to time savings and convenience versus price sensitivity.
- Depending on the customer's priorities, non-monetary costs may be as important, or even more, than the price charged by the service provider.




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Therefore, many service markets can be segmented according to the sensitivity to time saving and convenience versus price sensitivity. Depending on the customers priorities, non-monetary costs may be as important or even more, than the price charged by the service provider.

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COMPETITION-BASED PRICING

- The last leg of the pricing tripod is competition.
- Firms with relatively undifferentiated services need to monitor what competitors are charging and should try to price accordingly.
- When customers see little or no difference between competing offerings, they may just choose what they perceive to be the cheapest.



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Another type of pricing is competition-based pricing. The last leg of the pricing tripod is competition. Firms with relatively undifferentiated services need to monitor what competitors are charging and should try to price according to what the competitors are charging. So, that happens only when we are talking of when your services are relatively undifferentiated. So, in that case,

this competition-based pricing is used. When customers see little or no difference between competing for offers, they may just choose what they perceive to be the cheapest one.

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COMPETITION-BASED PRICING

- Here, the firm with the lowest cost per unit of service enjoys an enviable market advantage and often assumes price leadership.
- One firm acts as the price leader, with others take cue from it.
- Price Competition Intensifiers: Price competition intensifies with:
 - i. Increasing number of competitors.
 - ii. Increasing number of substituting offers.
 - iii. Wider distribution of competitor and/or substitution offers.
 - iv. An increasing surplus capacity in the industry.

Handwritten note in red: } entry barriers are low / exit barriers are high.

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Here the firm with the lowest cost per unit of service enjoys an enviable market advantage and often assumes price leadership. One firm acts as the price leader, with others take cue from it. So, when price competition intensifies, then what needs to be done? The first thing that needs to be done is the increasing number of competitors. So, this price competition, what are the factors that intensifies this price competition.

The first is that the number of competitors themselves they are increasing. Second is the number of substituting, substitutes for this offer. Wider distribution of competition and or substitution offer and an increase surplus capacity in the industry. So, you see that in this kind of industry, the entry barriers are low. We can also say that exit barriers are high. So, competition keeps on increasing.

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COMPETITION-BASED PRICING

- Price Competition Inhibitors: Although some service industries can be fiercely competitive (e.g., airlines and online banking), not all are, especially when one or more of the following circumstances reduce price competition:
 - i. Non-price related costs of using competing alternatives are high.
 - ii. Personal relationships matter. (e.g., hairstyling or family medical care)
 - iii. Switching costs are high. (e.g., cancellation charges to cancel insurance policy before due date)
 - iv. Services are often time and location specific.




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What are the factors that inhibit price competition? Although some service industries can be seriously competitive, for example airline and online banking, not all are especially when one or more of the following circumstances reduce price competition. So, the first is non-price related cost of using competing alternatives are high. Second is personal relationships matter, for example hairstyling or family medical care. The third is switching cost are high. Cancellation charges to cancel insurance policy before due date and services are often time and location specific.

(Refer Time Slide: 20:21)

COMPETITION-BASED PRICING

- Firms that always react to competitors' price changes run the risk of pricing *lower* than what might really be necessary.
- A better strategy than to compare competitors' prices rupee for rupee and then seeking to match them is to take into account
 - the entire cost to customers of each competitive offering,
 - including all related monetary and non-monetary costs,
 - plus potential switching costs.



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Firms that always react to competitors prices, price changes, firms that always react to competitors price changes run the risk of pricing lower than what might really be necessary. A better strategy than to compare competitors price rupee for rupee and then seeking to match them is to take into account the following the first is, the entire cost to customer for each competitive offering, including all related monetary and non-monetary cost and the third is you add potential switching cost to that.

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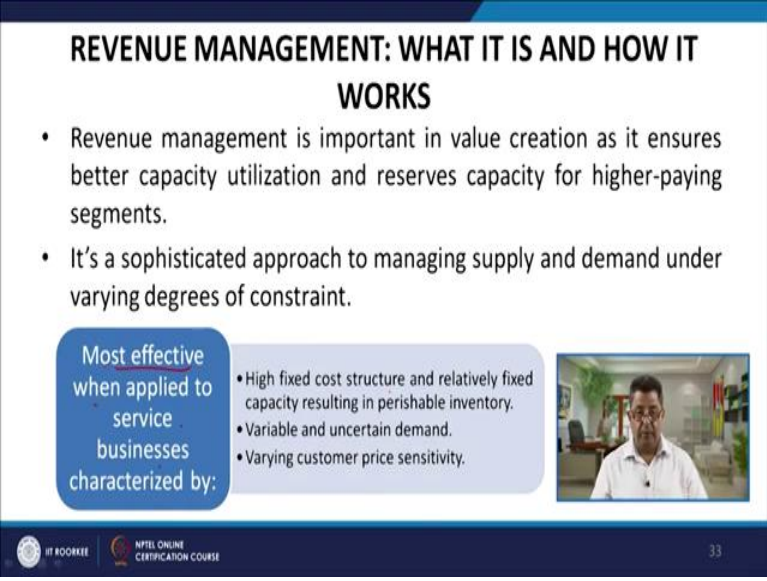
COMPETITION-BASED PRICING

- Managers should also assess the impact of distribution, time and location factors, as well as estimating competitors' available capacity before deciding what response is appropriate.

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So, managers should also assess the impact of distribution, time and location factors, as well as estimating competitors available capacity before deciding what response is appropriate.

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REVENUE MANAGEMENT: WHAT IT IS AND HOW IT WORKS

- Revenue management is important in value creation as it ensures better capacity utilization and reserves capacity for higher-paying segments.
- It's a sophisticated approach to managing supply and demand under varying degrees of constraint.

Most effective when applied to service businesses characterized by:

- High fixed cost structure and relatively fixed capacity resulting in perishable inventory.
- Variable and uncertain demand.
- Varying customer price sensitivity.

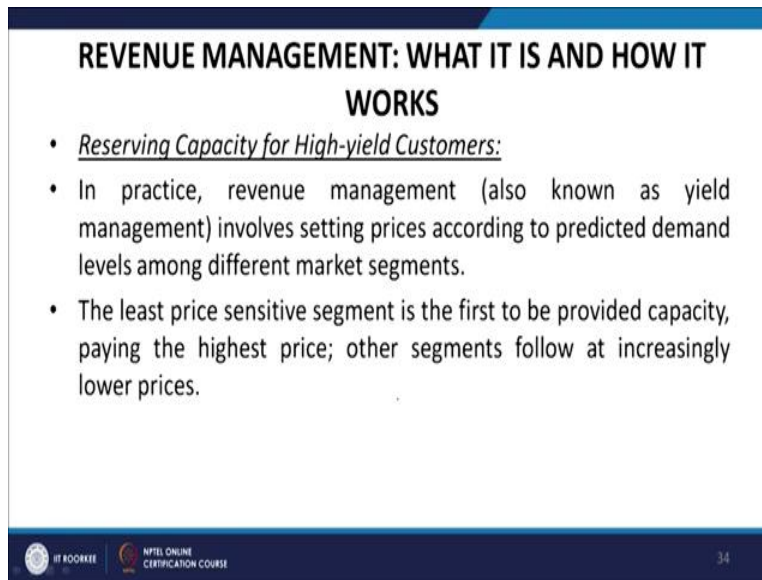


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Next important thing that we will talk about in this module is revenue management, what it is and how it works? So, revenue management is important in value creation as it ensures better capacity utilization and reserves capacity for higher-paying segments. It is a sophisticated approach to manage supply and demand, under varying degrees of constraints.

So, now look at how on this left-hand side, most effective when applied to service businesses categorized by, high fixed cost structure and relatively fixed capacity resulting in perishable inventory. And when there is variable and uncertain demand and customer price sensitivity is varying.

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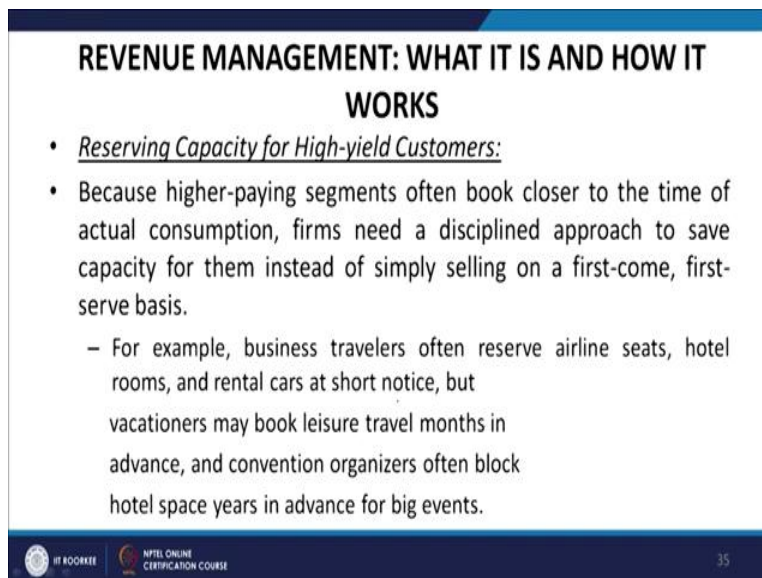
REVENUE MANAGEMENT: WHAT IT IS AND HOW IT WORKS

- Reserving Capacity for High-yield Customers:
- In practice, revenue management (also known as yield management) involves setting prices according to predicted demand levels among different market segments.
- The least price sensitive segment is the first to be provided capacity, paying the highest price; other segments follow at increasingly lower prices.

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So let us look at each one of them in detail. Reserving capacity for high-yield customers. In practice, revenue management also known as yield management, involve setting prices according to predicted demand levels among different market segments. The least price sensitive segment is the first to be provided capacity, paying the highest price, other segments follow at increasingly lower prices.

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REVENUE MANAGEMENT: WHAT IT IS AND HOW IT WORKS

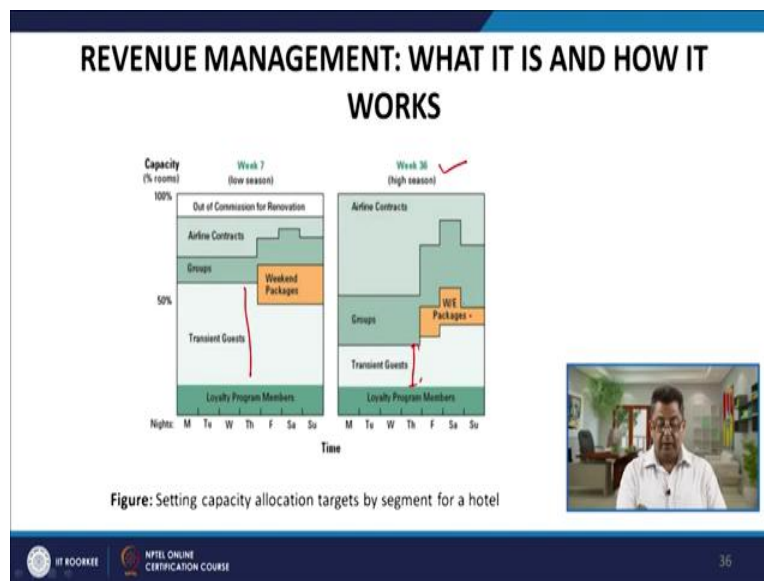
- Reserving Capacity for High-yield Customers:
- Because higher-paying segments often book closer to the time of actual consumption, firms need a disciplined approach to save capacity for them instead of simply selling on a first-come, first-serve basis.
 - For example, business travelers often reserve airline seats, hotel rooms, and rental cars at short notice, but vacationers may book leisure travel months in advance, and convention organizers often block hotel space years in advance for big events.

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Because higher-paying segments often book closer to the time of actual consumption, firms need a disciplined approach to save capacity for them, instead of simply selling on the first-come first-

serve basis because, in that case you will lose out on this high-yield customers. For example, business travellers often reserve airline seats, hotel rooms and rental cars at short notice, but vacationers may book leisure travel months in advance. And convention organizers often block hotel space years in advance for big events.

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So, now look at we are talking about this capacity. So, night and 50 percent and 100 percent. So, capacity percentage of room from 50 to 100 percent and then we have those nights Monday, Tuesday, Wednesday, Thursday, Friday. So, now this shows the seating capacity allocation targets by segment for a hotel. So, loyalty program members, then there are transient guest, weekend packages, groups, airline contracts and out of commission for renovation.

So, this is week 7 low season, now look at week 36 high season. So, loyalty program number are still there, but then you see that this transient, this gap has come down to this much. Here weekend packages have also decreased, groups have increased, airline contracts have increased.

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REVENUE MANAGEMENT: WHAT IT IS AND HOW IT WORKS

- A well-designed revenue management system can predict with reasonable accuracy
 - how many customers will use a given service
 - at a specific time
 - at each of several different price levels
- and then block the relevant amount of capacity at each level (known as a **price bucket**).




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Therefore, a well-designed revenue management system can predict with reasonable, with reasonable accuracy how many customers will use a given service, at a specific time and at each of the different price levels. So this is important that we are to device this kind of revenue management system, which can predict how many customers will use a given service, at which point in time and at what price points. And then block the relevant amount of capacity at each level known as a price bucket.

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REVENUE MANAGEMENT: WHAT IT IS AND HOW IT WORKS

- Sophisticated firms use complex mathematical models for this purpose and employ revenue managers to make decisions about inventory allocation.
- This information can also be used to predict periods of excess capacity with the aim to increase usage through promotions and incentives.
- The objective is to maximize revenues on a day-to-day basis.




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Sophisticated firms use complex mathematical models for this purpose and employ revenue managers to make decisions about inventory allocation. This information can also be used to predict periods of excess capacity with the aim to increase usage through promotion and incentives. So, when we have this, the knowledge about this inventory allocation, then we can understand that in which periods there is excess capacity left, so that we can utilize those capacities through promotion and incentive or reduction in prices. The objective is to maximize revenues on a day-to-day basis. So, we are to maximize revenue on every day basis.

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REVENUE MANAGEMENT: WHAT IT IS AND HOW IT WORKS

- Measuring the Effectiveness of a Firm's Revenue Management
- Many capacity-constrained service organizations use percentage of capacity sold as a basic indicator of success.
 - For instance, airlines talk of “load factor” achieved, hotels of “occupancy rate” and hospitals of “census”.
- However, these percentages by themselves tell us little of the relative profitability of the business attracted, since high usage rates may simply be a reflection of heavy discounting.




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How to measure the effectiveness of a firm's revenue management. Many capacity constraint service organization use percentage of capacity sold as a basic indicator of success. For instance, airline talks of load factor achieved, hotels of occupancy rates, and hospitals of census. However, these percentages by themselves tell us little of the relative profitability of the business attracted. So, we know that the load factor is high and the occupancy rates are high but what is the profit? Since high usage rate may simply be reflection of heavy discounting.

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REVENUE MANAGEMENT: WHAT IT IS AND HOW IT WORKS

- Measuring the Effectiveness of a Firm's Revenue Management
- Therefore, success in revenue management is generally defined as maximizing the revenue per available capacity for a given space and time unit (RevPAST).
 - For example, airlines seek to maximize revenue per available seat kilometer (RevPASK); and
 - hotels try to maximize their revenue per available room-night (RevPAR)




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Therefore success in revenue management is generally defined as maximizing the revenue per available capacity for a given space and time unit. For example, airline seeks to maximize revenue per available seat kilometre, and hotels try to maximize their revenue per available room-night.

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REVENUE MANAGEMENT: WHAT IT IS AND HOW IT WORKS

- Measuring the Effectiveness of a Firm's Revenue Management
- These indices
 - show the interplay between capacity utilization and average rate or price achieved, and
 - can be tracked over time and benchmarked across operating units within a service firm (e.g., across hotel properties in a larger chain) and across firms.



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So this indicate, these indices, they show the interplay between capacity utilization and average rate or price achieved. And they can be tracked over time and benchmarked across operating


units within a service firm. For example, across hotel properties in a larger chain and across the firms.

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REVENUE MANAGEMENT: WHAT IT IS AND HOW IT WORKS

- How Does Competitors' Pricing Affect Revenue Management?
- Because revenue management systems monitor booking pace, they indirectly pick up the effects of competitors' pricing.
 - For example, if an airline prices a flight too low, it will experience a higher booking pace, and its cheaper seats fill up quickly.
- That is generally not desirable, as it means a higher share of late-booking as well as high fare-paying customers not being able to get their seats confirmed, and therefore fly on competing airlines.




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How does customer pricing affect revenue management? Because revenue management systems monitor bookings pace, they indirectly pick up the effect of competitors pricing. For example, if an airline price a flight too low, it will experience a higher booking space, it will experience a higher booking pace and its cheaper seats fill up quickly. This is generally not desirable, as it means a higher share of late booking as well as higher fare-paying customers not being able to get their seats confirmed, and therefore fly on competing airlines.

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REVENUE MANAGEMENT: WHAT IT IS AND HOW IT WORKS

- How Does Competitors' Pricing Affect Revenue Management?
- If the initial pricing is too high, the firm will get too low a share of early booking segments (which still tend to offer a reasonable yield) and may later have to offer
 - deeply discounted “last-minute” tickets, or
 - reverse auctionto sell excess capacity.




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If the initial pricing is too high, the firm will get too low a share of early booking segments, which still tend to offer a reasonable yield and may later have to offer, deeply discounted last minute tickets or revenue auction to sell this excess capacity.

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REVENUE MANAGEMENT: WHAT IT IS AND HOW IT WORKS

- Price Elasticity:
- For revenue management to work effectively, there need to be two or more segments that attach different values to the service and have different price elasticities.
- The concept of elasticity describes how sensitive demand is to changes in price and is computed as follows:

$$\text{Price elasticity} = \frac{\text{Percentage change in demand}}{\text{Percentage change in price}}$$


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Then what is this price elasticity? For revenue management to work effectively, there need to be two or more segments that attach different values to the service and have different price elasticities. The concept of elasticity describes how sensitive demand is to changes in price and it

can be computed as given in this equation, price elasticity is equal to the percentage change in demand upon percentage change in price. So, how much percentage of change in price has brought what percentage of change in demand that is price elasticity.

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REVENUE MANAGEMENT: WHAT IT IS AND HOW IT WORKS

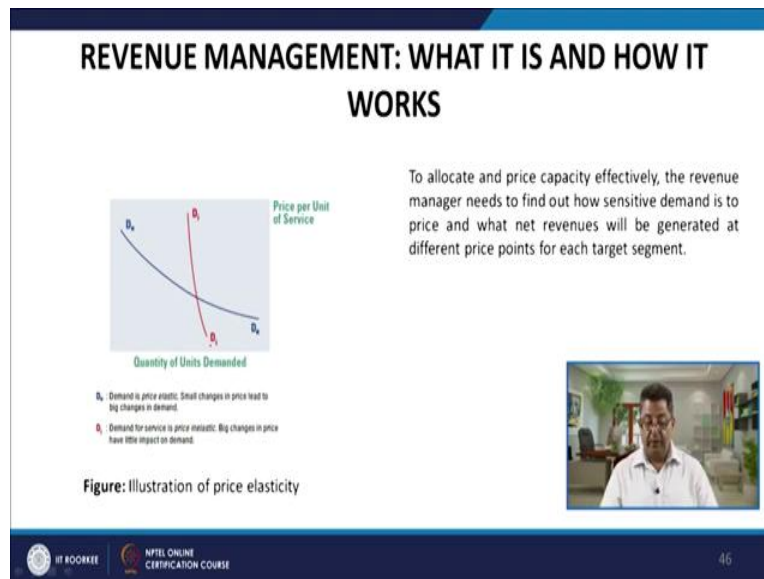
- Price Elasticity:
- When price elasticity is at "unity," sales of a service rise (or fall) by the same percentage that price falls (or rises).
- If a small change in price has a big impact on sales, demand for that product is said to be **price elastic**.
- If a change in price has little effect on sales, demand is described as **price inelastic**.



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So, when price elasticity is at unity that is one, sales of service rise or fall by the same percentage, that price falls or rise. If a small change in price has a big impact on sales, demand for that product is said to be price elastic. If a change in price has little effect on price, on sales, demand is described as price inelastic. So, when the prices, change in price do not bring about similar change in sales, so then we can say that the demand for that service is price inelastic.

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So, this figure show illustrates price elasticity. So, here you have quantity of units demanded on this X axis and on Y axis you have prices per unit of service. This blue D_e demand is price elastic. Small changes in price lead to big changes in demand. So, there is small change in price, but the demand has changed drastically. And this red one shows demand for service is inelastic. Big changes in price have little impact on the demand.


So, you see that this curve is less, this is more of a straight line kind of thing. So, even if the prices are have increased the demand has not. So, to allocate and price capacity effectively, the revenue managers need to find out how sensitive demand is to price and what net revenues will be generated at different price points for each target segment.

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CONCLUSION

- In this module, we covered the concept of net value.
- We also understood how gross value can be enhanced through value-based pricing and reduction of related monetary and non-monetary costs.
- Competition-based pricing and situations where service markets are less price-competitive were also described.
- We also covered the concept of revenue management and how it works.




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To conclude this module, we have covered the concept of net value. We have also understood how gross value can be enhanced through value-based pricing and reduction of related monetary and non-monetary cost. We have talked about competition-based pricing and situations where service marketers are less prices, we have talked about competition-based pricing and situations where service market are less price-competitive were also described. And we have also covered the concept of revenue management and how this work, and how this concept of revenue management works.

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These are the three books from which the material for this module was taken. Thank you.