



Asset Optimization According to Customer Preference: The Necessary Evolution of Revenue Management

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From the initial applications of revenue management in the airline industry approximately 60 years ago, the hospitality segment has since clamored to adapt the concept of forecasted demand to pricing strategies in hotels, restaurants, golf courses, casinos, sporting events, and theme parks. Through a review of 25 years of published research on revenue management, Anderson and Xie [1], identified that the evolution of revenue management has moved beyond the focus of revenue measurement at the unit level, i.e., average daily rates in hotels, to a more comprehensive view of total revenues or profits generated by the inventory at the enterprise level, i.e., RevPAR (revenue per available room), GOPPAR (gross operating profit per available room); each of which has its comparable measure in the various industry segments, i.e., RevPASH (revenue per available seat hour in restaurants).

However, because traditional revenue management practices of dynamic pricing are rooted in an environment of excess demand, and because current data suggests that increased rates and occupancies may be inversely related to customer satisfaction, a revenue management approach that goes beyond the unit level, to one that considers the value that the greater enterprise can offer may be more appropriate. In other words, once the tipping point for pricing at the unit level is identified, rather than retreating to discount strategies or suffering decreased market share, the new revenue management should move beyond the traditionally focused unit level of rooms, seats, rounds, and ticket holders to an asset optimization view. Identifying existing assets (services, facilities, amenities, etc.) that are not proactively incorporated into the product offering may assist in identifying areas of opportunity for increased customer value and corporate revenue. In this way, the enterprise may find that a less aggressive strategy of unit pricing focused on filling capacity may very well improve revenues, profits, and operating efficiencies through a focus on attracting customers who value what the firm has to offer in totality, beyond the unit level.

Trade off analyses are an effective way to identify consumer willingness to pay for products based on attributes including varying levels [2,3]. With the basis of consumer willingness to pay being

grounded in utility theory -- consumers will pay an equivalent value to the expected utility of a given product or service--one can propose a more precise way to determine consumer willingness to pay through attribute utilities derived from conjoint analysis [4]. Consumer willingness to pay has been measured in a variety of ways from open ended stated values provided by the respondent or categorical choices of pre-established amounts.

The generally agreed upon issue with these approaches is that stated preferences generally yield lower, and perhaps unrealistic amounts. Therefore, a more appropriate measure of willingness to pay may be gathered by employing price as a product attribute [5,6]. Varying the price within reasonable limits for the consumer allows the researcher to determine the utility of the price attribute in conjunction with or related to the various other attributes being examined.

Conjoint analyses have been employed in a variety of industries to address a multitude of business issues. For example, Microsoft utilized conjoint analysis to conduct benefits research, improve job satisfaction and reduce turnover and hold down costs. In his book, Orme [5] identifies a variety of industries using and applications for conjoint analysis. Marriott International employed conjoint analysis to identify what attributes business travelers valued most in hotels. Through this analysis, they developed and implemented their Courtyard hotel brand. Yale University conducted a study in cancer treatment wherein conjoint analysis was employed to determine the proper course of treatment based on consumer preference. General Electric has used conjoint analysis to better understand how top executives evaluate financial deals; thereby providing their sales team with tools that improve chances of getting deals approved.

Historical data and analytical models using that data do have a part in revenue management. However, for revenue management in the hospitality industry to advance, the practice must evolve to a strategy that optimizes all of the assets of the enterprise, not just the units. Optimizing inventory considers all the aspects of the inventory, understands where value lies, and prices accordingly. At the core of this optimization is the knowledge and understanding of consumer-perceived value and a strategy that recognizes all inventory or aspects of the inventory that can or should be monetized. If revenue managers can understand where consumers place value and how much consumers are willing to pay for certain product features, as well as they have understood historical trends, the practice of revenue management will evolve to the science of asset optimization.

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