

## A Focus on Revenue Management

Customer relationship management (CRM); fine grain marketing campaigns (FGMC); loyalty management; churn reduction; customer acquisition, and many other management 'tools' and methodologies. are all activities that make up an overall business science termed Revenue Management. Cyst has, over the past number of years, successfully developed very effective applications that exploit Revenue Management strategies for the on-line gambling, banking, multimedia and cinema industries, the results of which continue to add measurable benefit to our client's bottom line.

Revenue Management can be described as any enterprise activity / strategy that is concerned with increasing the revenue of the enterprise, in a profitable manner. It is important to stress that Revenue Management does not seek to simply increase revenue, but moreover seeks to do so in a profitable way. *(the archetypical revenue management case study that went wrong was when Hoover miscalculated a promotional campaign [a derivative of the "two for the price of one" model] which was designed to sell old stock vacuum cleaners, which was highly successful in increasing revenues, but it also bankrupted the business).*

Certainly activities relating to the increasing of revenue have existed for millennia, since people first began to engage in commercial activity. The concept of Revenue Management gained recognition as a mainstream business competence during the late 1970's when the airline industry in the US was deregulated. This led to the predictable falls in prices due to the fierce competition and gross oversupply. Given that aviation regulation (e.g. around issues such as safety) blocked opportunities to cut cost (e.g. by specifying maintenance policies, or pilot fatigue hours etc.); and with very high fixed costs, competitors were forced to discover ways of increasing top-line in order to survive, and as a result concepts such as 'low cost no-frills' offerings were introduced; as were a host of variable pricing, packaging and loyalty strategies (e.g. late night flights, advanced booking fares, frequent flyer miles, etc.). The economic rationale of for example, variable pricing is illustrated below –

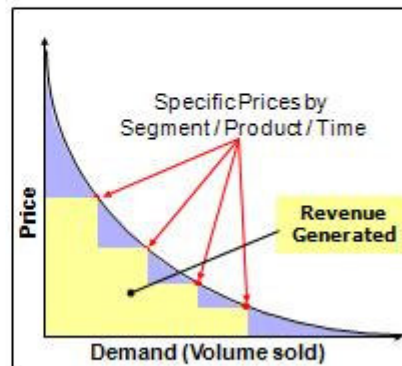
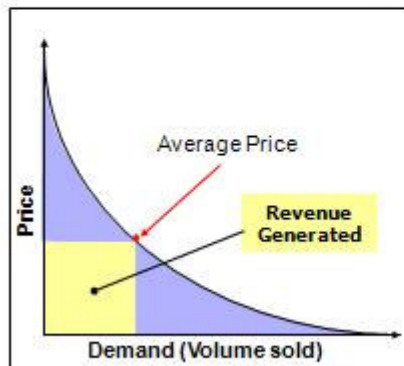
### Revenue Management – The Benefit of variable Pricing



The objective of RM is to grow revenue and profit

Revenue Management was borne out of the pricing crisis that came in the wake of deregulation of the airline industry in the 1970s in the US.

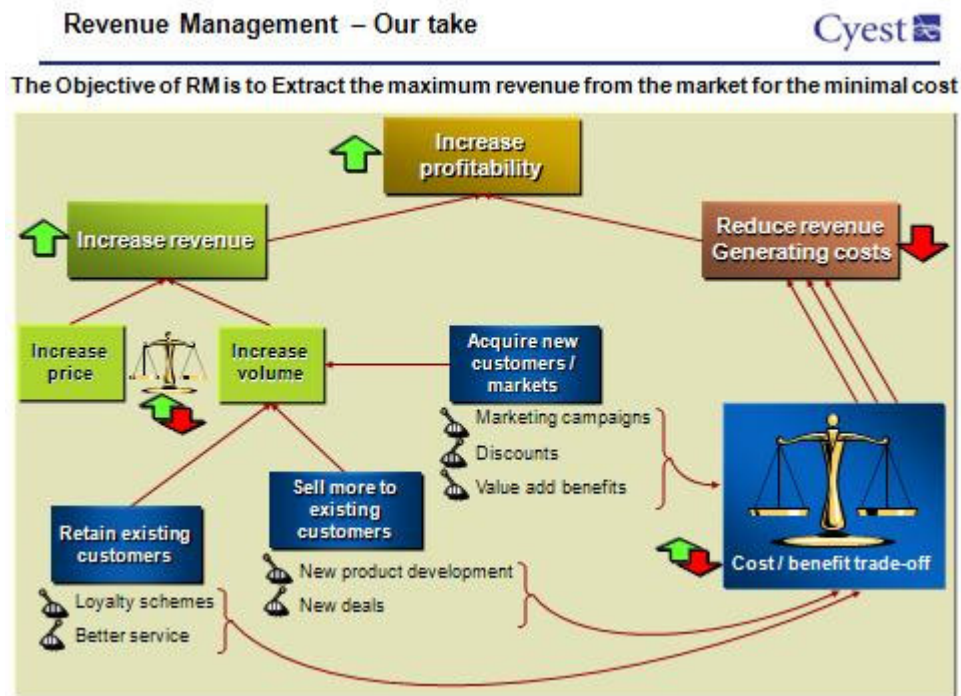
For Example - The Futility of Average Price



The ultimate objective of Revenue Management is to maximise profit by increasing revenue more than the costs incurred to increase the revenues. Simply stated there are two ways that revenues can be grown, either increase prices, and/or increase volumes (and there is a trade-off between these). Increasing volumes can be achieved in three ways –

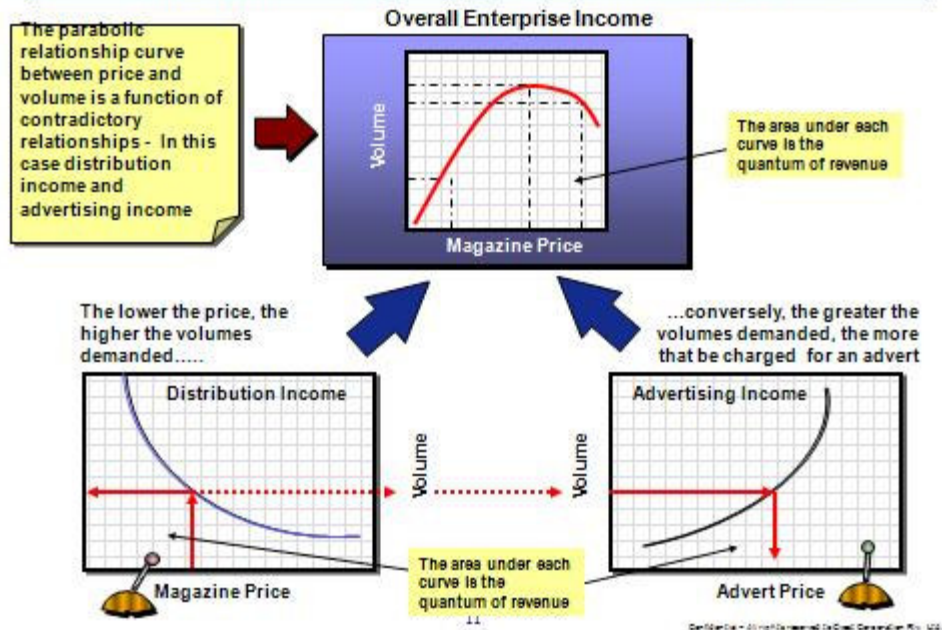
1. Increase the number of customers
2. Retain the customers you have
3. Sell more to the existing customers

Or, of course, any combinations of these three. Each of these three interventions to enhance revenue has a cost. This cost may be direct (e.g. the cost of a marketing campaign), or an opportunity cost such as the cannibalisation of existing markets. The overall concept of Revenue Management is illustrated below -



With this understanding it is clear to see how Revenue Management becomes a very scientific process where the cost of an initiative to increase volumes need to be weighed up against the predicted benefits. In the simple example below, the classic ‘publishers’ dilemma’, the notional publishing house has to in this case decide whether it is better to reduce price in order to increase volumes. Bearing in mind that a publication with higher volumes can charge higher prices for advertising space; as shown below -

## The Publishers Trade-off – A Revenue Management Classic Cyest



There are a number of obvious conventional management levers that can be used to increase revenue, for example –

- Marketing strategy (e.g. - advertising, channel management)
- Promotional campaigns (e.g. - loyalty schemes)
- Pricing tactics, (e.g. – discounting)
- Merchandising (e.g. product sourcing or development)
- Etc.

We at Cyest consider revenue management to be applicable to almost any industry. In addition to these conventional levers, Cyest utilises many new revenue management practices (that have evolved of late, partly driven by technology advances) to ensure that not only effective but efficient strategies are deployed in order to grow revenue. Examples of these include –

- One-to-one marketing fine grain campaigns.
- The creation of lifestyle communities, icons and market ‘cults’ (Harley Davidson make more money from merchandising sales than from motor cycles, or online gaming communities).
- loyalty schemes, and affinity marketing etc.
- Tailored and frequent communication (SMS and email)

Theses and other similar concepts have always been implicit to marketers; Revenue Management has now made them more explicit. Crudely put, marketing is evolving from ‘glitz and good feeling’ to become a more precise art; for example: - in addition to simply targeting the general mass market with huge marketing awareness campaigns (e.g. bill boards); Revenue Management would seek to identify precise segments, and to create specific campaigns for them where the returns can be monitored accurately. In this regard Revenue Management requires a more intimate understanding and a closer relationship with

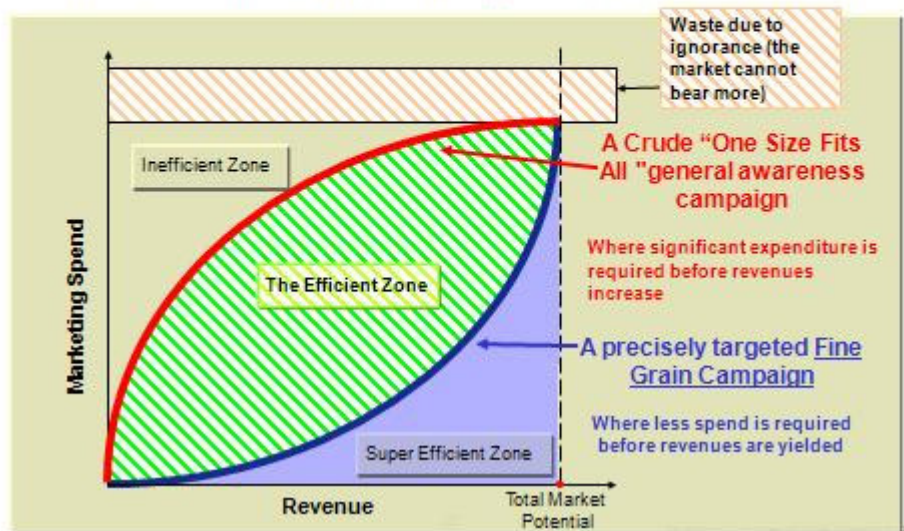
'individuals' in order to inform for example "Fine Grain Marketing Campaigns" FGMC, which will in turn yield a very efficient revenue generated vs. spend curve as demonstrated below -

### The Quest to discover the Efficient Zone



The CRM Formula –

$$\text{Revenue Management Efficiency} = \uparrow \text{in Revenue} - \downarrow \text{Cost of Generating Revenue (Campaign)}$$



There are three key questions in the formulation of a Revenue Management initiative –

2. **Whom do I target?**
3. **With what offering / communication?**
4. **And when (how often)?**

.....In order to grow revenues profitably.

The answers to these questions require sophisticated analysis, which in turn has profound implications for Business Intelligence. For example, analytic functionality to –

- enable advanced segmentation,
- data mining algorithms (e.g. CHAID analysis) to discern patterns in the market that will inform prediction of response,
- market and campaign risk/reward modelling functionality,
- etc.

As mentioned above, exploiting combinations of the above tools, we have successfully developed very effective strategies and applications that leverage this functionality for the on-line gambling, banking, multimedia and cinema industries - the tangible business results of which have (and continue to be) both significant and measurable.