THE BASIC CONDITIONS FOR YIELD MANAGEMENT

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Yield management is the process of understanding, anticipating and influencing consumer behavior in order to maximize yield or profits from a fixed, perishable resource. Yield management has become part of mainstream business theory and practice over the last fifteen to twenty years. Whether an emerging discipline or a new management science (it has been called both), yield management is a set of yield maximization strategies and tactics meant to improve the profitability of certain businesses that focus on yield. It is complex because it involves several aspects of management control, including rate management, revenue streams management, and distribution channel management, just to name a few of them. Yield management is multidisciplinary because it blends elements of marketing, operations, and financial management into a highly successful new approach. Yield management strategists frequently must work with one or more other departments when designing and implementing yield management strategies.

Many scholars, such as Marta Treszl, Warren H. Lieberman, Robert Shumsky, Sevinc Goksen and others studied on yield management .

Thus, the purpose of the thesis is to define basic conditions for yield management.

Definitions of yield management often seem inadequate, failing to convey the true sense of the term. Perhaps this is because yield management comprises both a business philosophy that touches on a wide range of areas and a methodology that can be implemented in a variety of ways. Certainly, computer-based tools can be, and often are, a key component of a yield management program. The full range of yield management benefits will not be achieved without computer-based tools that forecast demand, cancellation, and no-show activity (as appropriate); evaluate the ideal number of discounted rates to sell; estimate the revenue displacement of transient demand caused by a group or other large-volume business transaction; provide sales personnel with up-to-date information on inventory that remains available for sale; and perform many other actions that cannot be effectively carried out manually.

There are three essential conditions for yield management to be applicable:

1. That there is a fixed amount of resources available for sale.
2. That the resources sold are perishable (there is a time limit to selling the resources, after which they cease to be of value).
3. That different customers are willing to pay a different price for using the same amount of resources.

If the resources available are not fixed or not perishable, the problem is limited to logistics, i.e. inventory or production management. If all customers would pay the same price for using the same amount of resources, the challenge would perhaps be limited to selling as quickly as possible, e.g. if there are costs for holding inventory.

Yield management is of especially high relevance in cases where the constant costs are relatively high compared to the variable costs. The less variable cost there is, the more the additional revenue earned will contribute to the overall profit. This is because it focuses on maximizing expected marginal revenue for a given operation and planning horizon. It optimizes resource utilization by ensuring inventory availability to customers with the highest expected net revenue contribution and extracting the greatest level of 'willingness to pay' from the entire customer base. Yield management practitioners typically claim 3% to 7% incremental revenue gains. In many industries this can equate to over 100% increase in profits.

Yield management has significantly altered since its inception in the mid-1980s. It requires analysts with detailed market knowledge and advanced computing systems who implement sophisticated mathematical techniques to analyze market behavior and capture revenue opportunities. It has evolved from the system airlines invented as a response to deregulation and quickly spread to hotels, car rental firms, cruise lines, media, telecommunications and energy to name a few. Its effectiveness in generating incremental revenues from an existing operation and customer base has made it particularly attractive to business leaders that prefer to generate return from revenue growth and enhanced capability rather than downsizing and cost cutting. To be successful, yield management implementation must be coordinated among a company's various departments. As firms improve their ability to integrate yield management into their long-range planning and tactical operations, yield management success stories should become more common.

References:

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