Chapter 19
Ethical Yielding

ABSTRACT

Customer Profitability Analysis (CPA) is a procedure that provides management with information related to customers that will allow them to manage revenue from a profit perspective. The data attained from CPA will assist with decisions regarding marketing, product development, and capacity management to create a customer mix, which will provide the best profit results. BAR means the best available rate, in which a regular customer is charged in case he has approved to reserve. The various stages of yield management include: 1) grow a profit culture, 2) study the overall demand, 3) create price value relations, 4) form suitable market segments, 5) evaluate the pattern of demand, 6) find the failures and denials, and 7) assess and review the system.

INTRODUCTION

The purpose of every business is to generate profits. Perhaps the two most basic ways of increasing profit are maximizing revenue or minimizing cost (or both). Several strategies may be taken in order to achieve that end. Yield management is one of the strategies adopted to maximize profits. Yield management was first used in 1978 after the deregulation of the U.S airline industry. In fact, American Airlines was the first company to introduce a true Yield Management system that used historical and current booking patterns in order to adjust fare prices. This pricing strategy was given its name by Robert Crandall who was the former chairman and CEO of American Airlines. The latter described it as "the single most important technical development in transportation management since we entered deregulation". Barry Berman (2005) describes Yield Management pricing as "a broad term that describes how a service provider can secure higher revenues from its relatively fixed capacity". The general rule of thumb of Yield Management pricing is that the company must continuously endeavor to adjust and alter its prices based on reconciling reservations for future purchases in a specific time slot against the projected demand for that time slot (Berman, 2005). The application of yield management requires four main conditions which are:

1. **Certain Demand Characteristics:** Demand must be capable of being segmented, must be variable across time periods, and the differences of elasticity across the demand segments must be considerable.

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2. **The Existence of Reservations:** The service provided by the company can be reserved by the consumers at several time intervals before its consumption, and the demand for those services is fairly predictable.
3. **Certain Cost Characteristics:** The fixed costs must be high, and the costs of marginal sales must be low in comparison to marginal revenue.
4. **Capacity Limit:** The capacity is relatively fixed and perishable (i.e. the revenues from unused services are lost forever).

Yield management is the process of understanding, forestalling and prompting customer conduct in order to make the most of yields from a fixed, delicate resource. There are 3 important settings for yield management to be pertinent:

1. Certain amount of resources accessible,
2. The resources sold are delicate, and
3. Diverse consumers will pay a different price for the same amount of resources.

BACKGROUND

Tourism industry has always found ways to maximize its profit while delivering not only a service but an experience to its clientele. Yield management is defined as the process of understanding, forestalling and prompting customer conduct in order to make the most of yields from a fixed, delicate resource (such as airline seats or hotel room reservations).

Yield management has become part of mainstream business theory and practice over the last fifteen to twenty years. Some consider it as an emerging discipline and others as a new management science. Today, Yield Management systems are being applied primarily in the service industry. More specifically, in hotels, restaurants, airlines, cruise-lines, car-rentals, as well as entertainment companies (Okumus, 2004). The conditions mentioned above apply to these industries, making Yield Management systems especially viable. In fact, Okumus (2004) states that "These service organizations therefore aim to ensure that their capacity is fully utilized and that revenue from it is maximized". In concurrence with Berman's claim regarding the prime conditions of Yield Management, Okumus explains that "an empty seat in an aero plane or an unoccupied room in a hotel represents an opportunity cost due to the perishable nature of the product. The marginal cost of selling another seat in an aero plane or a room in a hotel is far less than the marginal revenue. It therefore makes sense to sell more seats or rooms at discounted rates as long as the revenue is greater than the cost of the service". Yield Management offers many advantages to the service company if applied correctly. Berman identifies three central advantages of the Yield Management pricing strategy which are:

1. Yield Management allows companies to better compete against low-costs providers.
2. Yield Management pricing is a good tool in allocating a service provider's fixed capacity.
3. Yield Management is a more effective alternative to creating discounts.

Moreover, a study conducted in 2006 by Canina and Enz on U.S hotels revealed that there is a significant association between Yield Management and better than average profitability which is reason to believe that hotels that use Yield Management systems are better off financially than those who do not.

However, Yield Management does possess some pitfalls and can sometimes be difficult to correctly implement. In 2004, Okumus investigated

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