

Demand Management: Beyond Revenue Management

Chris K. Anderson
Cornell University

Bill Carroll
Cornell University

Introduction

Think of yield or revenue management (RM) as the base of a funnel where the demand for services pours into the top is managed using price, terms and conditions, layovers, and length of stay controls to optimise revenue. That process can be carried out with a sophisticated RM system or in a more limited way with an intelligently developed and applied set of pricing and organisational practices.

Demand management can be envisioned as both RM and keeping the funnel continuously and cost-effectively full of potential business. Formally, demand management has been defined by Larry Hall, President and CEO of Hotel Booking Solutions as, 'the art and science of dynamically managing demand to optimise distribution and maximise customer relationships'. More generally, think of demand management as extending the tactical tools of RM to a more strategic level of not just managing demand but creating and directing demand. Used effectively, demand management has the opportunity to create value and avoid the increasing commoditisation of services.

Channel and Segment Management

Demand management involves dynamically managing overall demand by optimising the use of distribution channels to reach target customer segments, leveraging and enhancing existing customer relationships, and taking effective RM actions.

Demand for rooms, seats, cars, and services by business, leisure, and group customers come from a variety of sources. These include loyal, or repeat customers, corporate customers with negotiated rate programmes, and professional and casual event planners. Business from these segments may come directly, through a brand or contracted reservation centre/website or through online and offline intermediaries. Individual consumers may learn about the service from previous customers or as part of destination or travel experience shopping (ie, search). Intermediaries accommodate the wishes of individuals or influence their choices, usually for compensation. These intermediaries may also

combine services of more than one travel service in packages designed to meet consumer travel experience needs. Applying demand management concepts involves tracking the propensity of customers to use each distribution channel and promoting services effectively through those channels to reach targeted customer segments.

The role of the internet in demand management is just starting to be realised as firms, across air, hotel, and rental car are finally directing more bookings to supplier-based sites versus online travel agents like Expedia, Orbitz, Travelocity, etc (OTAs). While many customers are still using OTAs to shop, they are increasingly buying offline or online with suppliers directly. The increasing role of paid search and pay-for-position plays a potentially critical role in demand and channel management. As GDS (global distribution systems) follow the lead of OTA and start to provide preferential listing for a fee, firms will not only need to focus on the cost of a reservation but also on the cost of acquisition of a reservation.

Demand management includes tracking channel path accesses. Did customer access come from a search engine, an online (guidebook or other intermediary) web site, a destination (tourism) site, an affinity site, or some other site? Did they use a travel agent, a travel management company (TMC), or a professional event planner? Was the access made by a loyal customer?

With such information, the most important demand management activity is possible: testing various demand sources to determine if access volume can be generated and if that volume produces incremental net contribution. Expenditures on intermediary sites (including fees and merchant margins) and on services marketing activities must produce (or retain) incremental customers (and/or effectively promote brand, image, and reach to attract future customers) to be worth the investment.

Managing Customer Relationships

For the purpose of generating future demand (ie, keeping the demand funnel full), demand management involves marketing to past customers and encouraging them to recommend others. It also means treating loyal customers differently (more favourably) when implementing yield management. Operationally, this includes identifying when 'loyal' customers are seeking services. It may mean during peak periods setting aside capacity for them as part of the yield management forecast and availability process. It does not necessarily mean discounting rates or relaxing conditions for loyal customers at all or specifically during peak periods.

Demand management could also mean reaching out to past customers in personalized ways in off-peak periods with attractive value driven packages and programmes. Finally, it certainly means maintaining control over availability posted with intermediaries during peak periods and directly controlling the reservation process so that 'loyal' customers can be treated differently or customers can be directed to less-costly distribution channels during higher demand periods. In a parallel way, it involves tracking and rewarding customer representatives or search engines who steer their clients to a property, brand, or chain.

Keeping the demand funnel full requires understanding where both loyal and new customers shop for and book services. In the case of the loyal customers, this involves understanding how customers want to book and making that process easier. It also means encouraging customers to book directly by phone, in person, or online. This enhances the opportunity to treat loyal customers differently (ie, more favourably) from the start of the shopping and booking process. It also means avoiding intermediary costs or fees that can deplete potential revenue unnecessarily. Operationally, demand management activity includes allowing loyal customers to selfidentify at the point of delivery or reservation in an easily accessible loyal customer database.

Characterising Demand Management

As a way to characterise the significance and scope of demand management, consider the cells in the Table 1. Each cell represents some combination of customer segmentation and distribution channel. From a yield management perspective, each cell must be optimally managed including:

- measuring and managing unconstrained demand across cells;
- accurately measuring net revenue to include channel costs;
- accurately estimating demand response influenced by both customer segment (ie, traditional price elasticity) and channel characteristics such as type of user, display position, and constraints; and
- executing rate and availability control across a complex distribution network.

From a demand management perspective, the distribution network represented in the table must be understood, tracked, and optimized from a both a promotional basis — driving business into the top of the funnel and a customer relationship basis — keeping customers returning to the funnel and having them satisfied when passing through it.

For illustrative purposes, some of the cells in the table are highlighted in grey to suggest areas of opportunity for demand managers. In these segment and channel cells, managers can execute more control over demand in general (ie, keep the funnel full) and direct traditional RM activities (ie, control demand at the funnel's neck) in ways that jointly meet objectives of near term revenue optimization and long-term sustainability. For example, note that the direct channels — online and offline, for nearly all segments are highlighted. This suggests that when a supplier has the opportunity to interact directly with the customer, they increase the chance of capturing more bookings when needed (eg, by responding more effectively to customer's specific needs or using a customer relationship to secure the booking). In peak periods, inventory can be set aside for forecasted loyal customers who identify themselves or alternative arrangements (eg, other properties, routes, etc) to meet the demand.

Loyal customer and small group segments are also areas where the opportunity to exercise demand management is greater. As indicate above, loyal customers, when identified, can be treated differentially to enhance and reward their allegiance in both peak and off-peak demand periods. Small group is an area where demand managers can more effectively execute yield management and influence longer-term allegiance and brand value. Serving this market requires defining the segment as a behavioural one (ie, multiple households booking a gathering); developing hospitality service packages for the segment; and better executing yield management for multiple rooms/seats on a more seamless and real-time basis for the customer. Moreover, such actions might help properties, clusters, and chains retain control over such options through service differentiation and system functionality as third parties like OTAs and search sites such as Groopie (www.groopie.com) inexorably look to serve small groups as logical extensions of their service offerings.

Alternatively, cells highlighted in black suggest areas where the demand manager has less of an opportunity to exercise control due to the ability of an intermediary to control information displays seen by the customer or to make or influence decisions for the customer (or account).

Conclusion

Broadly speaking, customers are seeking more information than ever before in their travel experience as the internet affords this acquisition with considerable ease. This information is increasingly being provided by third parties whom are indirectly compensated as the actual reservation, unlike traditional travel agents, is often a separate transaction. This indirect compensation often falls under the marketing arm of firms but needs to be explicitly included in RM process.

Demand management is a logical expansion of traditional yield management. It raises the level of responsibility and activity of users from merely controlling demand at the bottom of the demand funnel to cost-effectively keeping the funnel full placing a more concerted effort on the marketing aspects of RM in an attempt to thwart the commoditization that exists owing to price transparency. Moreover, its application conditions how yield management is executed at the bottom of the funnel.