YIELD MANAGEMENT: RESOLVING POTENTIAL CUSTOMER AND EMPLOYEE CONFLICTS

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ABSTRACT

Yield Management is a sophisticated form of supply and demand management that balances both pricing and inventory to maximize revenue for every available unit of capacity. In recent years, an increasing number of service firms have recognized the rapidly growing importance of yield management in their ability to increase sales, especially profitability. Steps have been taken to propel yield management initiatives out of the realm of information technology and into the center of marketing strategies and decision making. However, when a service firm that is fundamentally customer oriented also embraces yield management, a series of customer and employee conflicts can result and be detrimental to the firm’s long term success. This paper outlines the potential conflicts and explores various marketing and organizational strategies that can be used to resolve such conflicts.

INTRODUCTION

Many service organizations have built their success on being customer oriented - gearing the entire organization and employees toward delivering outstanding service, meeting customer needs and building long term customer relationships. In recent years, an increasing number of service organizations have also recognized the rapidly growing importance of yield management, also referred to as revenue management. As a result, they have taken steps to propel their yield
management initiatives out of the realm of information technology and decision science into the center of marketing strategies and decision making.

By using historical data and ongoing analysis of bookings, firms are able to market their services (e.g., seat on an aircraft, room in a hotel or hospital, rental car) as a perishable product, with different values at different stages of its life cycle, and to change continually the price to reflect its immediate market worth. It is, in effect, time customization of prices.

Most of the past research on yield management has focused mainly on forecasting and optimization models,¹ and more recently on adaptation of yield management to the specific needs in various service industries, such as hotels, car rental, transportation, and even health care services.² Surprisingly, although the service industry has been increasingly customer-centered and people in the industry believe that employee satisfaction is a major driver of customer satisfaction,³ both the customer and the employee seem to have been forgotten in this stream of research. Little work has been done to explore (1) the potential conflicts that arise from trying to integrate customer and revenue or yield management orientation, (2) the way customers and employees perceive commonly used yield management strategies, and (3) how those conflicts could potentially be minimized or resolved. The objectives of this paper are to provide potential solutions to these issues.

**YIELD MANAGEMENT ORIENTATION**

In this section, we contrast yield management with customer orientation, provide a definition of yield management, and outline its importance for service organizations. We also describe certain characteristics of service organizations that make them particularly suited for yield management, and then highlight conflicts that may arise from a yield management orientation.
Fundamentally, today’s successful service organizations tend to be customer and relationship oriented. Customer orientation means putting the customer at the heart of all marketing, operations and human resources decisions. A customer and relationship oriented firm monitors how customer needs evolve and strives to improve and maximize customer satisfaction by tailoring services and marketing strategies to satisfying customer needs, and align all marketing decisions to delivering superior value to its target customers.

**What is Yield Management?**

The idea that a hotel room or an airline seat might be treated as a commodity, and that it is perhaps as volatile as wheat on the futures exchange, or even the Indonesian Rupiah on the foreign exchange desk, has revolutionized the way many service industries manage their finite yet perishable capacity, and set prices.

In contrast to customer and relationship orientation, which are management philosophies focused on customer needs and retention, yield management is a sophisticated form of supply and demand management that balances both pricing strategies and inventory management. Its primary purpose is managing customer demand through the use of variable pricing and capacity management to maximize profitability. It is essentially the process of allocating the right type of capacity to the right customer at the right time at the right price. It focuses the service organization on maximizing profitability by applying disciplined tactics to forecast consumer behavior at the micro-market level and control inventory availability at each price level at any one time.  

The power of yield management programs to increase a service firm’s profitability is shown in the following examples. Robert Cross, President of Aeronomics, a leading commercial provider of yield management systems for the airline industry, estimated that on average, airlines increase their
American Airlines reported that the benefits of yield management were US$1.4 billion over 3 years, approximately 4 to 5% of revenue. Likewise, Hertz car rentals reports a 5% increase in average revenue per rental with its yield management system. In the hotel industry, Integrated Decisions and Systems International are so confident in the ability of their hotel yield management system, branded “IdeaS”, that they provide a money back guarantee should the system not achieve a minimum four percent increase in transient revenue. Finally, a 1997 study by Coopers & Lybrand showed that revenue management accounted for nearly one-fifth of the hotel industry’s 6.3% increase in average daily rate in 1996. With such laudable results in the airline and hotel industries, it is not surprising that the practice of yield management is rapidly catching the interest of other service industries such as shipping, performing arts, media and broadcasting services, professional services, car rental and even hospital services. Service firms, which employ a comprehensive yield management program, believe that it will help them to increase revenue and profitability, and to align the organization with a common focus on revenue maximization. Over time, a strong yield management culture and development of proprietary yield management systems can give a firm a sustainable competitive edge in its market.

**Characteristics of Service Organizations Suited for Yield Management**

Yield management seems to be particularly suited for industries with the following characteristics: (1) relatively finite capacity (once a car rental firm has rented out all its cars for the day, further demand cannot be met without substantial capital investment), (2) perishable inventory – a feature of all intangible services (revenue from an unused cinema seat, or hotel room on a given day, is lost forever), (3) microsegmented markets (hotels for example, are able to discriminate between a time sensitive business traveler and a price sensitive leisure guest. Likewise, based on the
perceived value of the flight, airlines treat last minute business passengers prepared to pay whatever it takes to get on a peak time flight, as a discrete segment), (4) fluctuating demand (theaters can use revenue management to increase utilization during slow demand periods and minimize discount availability during high demand periods), (5) services that can be sold in advance (service firms such as airlines, adopt reservation systems to sell capacity in advance), and (6) low variable to fixed costs ratios (this feature allows revenue management to ignore cost, and equates revenue maximization with profit maximization). Services that exhibit all or most of these features have much to gain from yield management.

**Potential Conflicts Arising from a Yield Management Orientation**

When a firm that is fundamentally customer oriented also becomes yield management oriented, a series of customer and employee conflicts can result and be detrimental to the firm’s long term success. For example, in the airline industry, regular customers might expect to be accorded priority seat allocation during peak times. Such a strategy aims to secure a stream of future revenue from the customer through building a long-term relationship and to gain loyalty, especially during times of low capacity utilization. In contrast, certain yield management techniques would allocate capacity based on maximum yield during a peak time. That means, not the most loyal, but the highest paying customers would get their seats confirmed during periods of excess demand.

In recent months in Australia, for example, this has become increasingly problematic for members of Qantas’ frequent flyer schemes who typically find that they are unable to redeem points on flights in peak periods. This is especially frustrating when call center operators inform the frequent flyer member that “Yes, seats are available, but there is no allocation left for frequent flyers redemption tickets.” And the reason for this is simple – yield management systems can fairly
accurately forecast not only the demand for any given flight, but the percentage of last minute business passengers who are prepared to pay full fare. Such high yielding passengers are the backbone of not only an airline’s profitability, but also the profitability of other key services that have fluctuating demand, finite capacity and a perishable service product such as advertising space on television and radio, rental cars and private hospital beds. This intermittent availability to the regular customer can cause them to become frustrated and angry, and put their loyalty at risk. A similar experience was encountered by one of the authors in a consulting project. Here, a sales representative of a radio station, who sells advertising time, which is perishable and of finite capacity each day, was interested in cementing a relationship with a valued client. However, the sales representative was frustrated when the revenue manager chastised him for offering a preferential price during peak times, resulting in employee conflicts. The sales representative was frustrated at continually being barred from offering volume advertising discounts, or discounted rates to regular, loyal radio clients.

Potential conflicts that may arise from a service firm’s yield management orientation can be broadly grouped into two categories. The first is customer conflicts, which deal with customers perceiving the firm negatively when it executes inventory and pricing controls. The second is employee conflicts, which deal with the conflicting demands placed on each employee, and the conflicts between groups of employees or departments as they strive to balance both customer satisfaction and revenue maximization. The next two sections look at potential reasons for these conflicts, and propose various marketing and organizational strategies that can be employed to reduce such conflicts.

POTENTIAL CUSTOMER CONFLICTS AND THEIR MANAGEMENT
When a service firm implements a yield management program that discriminates on price and inventory availability to different customers, and overbooks on capacity, conflicts with customers will invariably arise. Such conflicts would adversely impact customer satisfaction and ultimately harm the firm’s long term success.

We suggest that such customer conflicts can arise when a service firm implements any or all of these broad categories of revenue management strategies: (1) discriminatory pricing according to consumer’s willingness to pay, (2) seasonal pricing to smooth out peak/off-peak demand, (3) inventory control to keep spare capacity for the highest paying customer, (4) overbooking to compensate for no-shows and cancellations, and (5) discounting to attract incremental business during low demand periods.

We also suggest that the customer conflicts that may arise from the above comprise broadly of: (1) perceived unfairness or inequity, (2) perceived financial risk, (3) perceived price gouging, (4) perceived uncertainty, (5) perceived profiteering, (6) perceived lack of customer appreciation, and (7) perceived change in the nature of the service.

Combining past research and the practices observed in various service firms, the following subsections outline how each of the revenue management strategies may cause customer conflicts, and suggest marketing strategies that can be employed to help reduce these conflicts and integrate the firm’s yield management pursuits with its customer orientation. A summary of the potential causes of customer conflicts, and marketing strategies that are proposed to reduce them is provided in Table 1.

<Take in Table 1>
Managing Customer Conflicts Arising from Discriminatory Pricing

Most service firms cater to a variety of clientele groups. Each of these customer segments varies in their price elasticity of demand and willingness to pay for the same service. One of the key yield management strategies is to be able to set a multi-tier price structure that maximizes on each of the customer segments’ willingness to pay. For example, business and leisure clients use many airlines, hotels and rental car companies. Business clients are typically less price sensitive as their travel expenses are company paid, but ‘time’ sensitive as their necessity for particular service consumption is higher and more immediate, thus higher prices can be charged. Leisure clients, in contrast, are more price sensitive as expenses are self-paid and less ‘time’ sensitive, thus lower prices are required to attract this segment. In the American airline industry, where revenue management is practised to very sophisticated levels, thousands of daily fare changes may take place, creating a nightmare for customers. The changes and variations in pricing are so confusing and non-transparent to the customer that new services have started. For example, for a fee of $5, TravelFest, an Austin, Texas based travel agency will monitor client’s reservations and notify them if a lower fare becomes available.9

Likewise in the Australian domestic airline market, despite the absence of discount airlines (although Virgin Blue is about to start operating on major domestic routes), the price of an airline seat is as volatile as commodities on the futures trading floor. On a scheduled flight between Sydney and Melbourne, an economy class seat can range from around $149 return to $480. Whether passengers sharing the same row have paid $149, $259, $350 or $480 may merely reflect that fact that one booked a week earlier, was with a hotel or conference group, or was prepared to return at a later date, or stay over a weekend night. How do customers feel about such price discrimination
when they become aware of it? Imagine Ron, who is travelling on business and paid $320 for a hotel room, meets Kelly at the lounge and finds out that she had paid only $220 for essentially the same room because she had indicated that she was on holiday when making her room reservation. In another common scenario, the same hotel may adopt bargaining, where the published rack rate is offered first and then varying levels of discounts are given only when the customer ‘bargains’. Thus Sarah, who is also on leisure travel but paid $260 for the same room, later finds out from Kelly that she could have bargained for a lower rate. Both Ron and Sarah may well perceive that the hotel has acted unfairly. The principle of dual entitlement holds that most customers believe that they are entitled to a reasonable price and that firms are entitled to a reasonable profit. They believe that value to the firm should equal value to the customer. To assess a transaction’s fairness, customers often rely on reference transactions. Customers compare their price paid to their reference price, which tends to be the price that a consumer thinks is fair for that service. Reference price can consist of the price last paid, the price most frequently paid, and what other customers paid for similar offerings. For both Ron and Sarah, the above scenario may mean that their reference price has just been reduced to Kelly’s $220. Thus, both would view their higher room rates as unfair, because they believe that the hotel has charged them a higher price to reap higher profits without having increased the customer’s value.

Apart from perceived unfairness, Ron and Sarah may also perceive a higher financial risk attached to their next purchase of any hotel service. This is because multi-tier pricing makes the reference price difficult to assess, and people are thus uncertain whether they are getting a fair deal each time. Both, perceived unfairness and the increase in perceived financial risk, adversely affect the firm’s objective of increasing customer satisfaction and gaining customer goodwill.
When a service firm sets a multi-tier price structure for essentially the same service, in order to maximize revenue on each of its customer segments’ willingness to pay, it should be able to justify the price differentiation either by some purchase characteristic or service characteristic. Listed below are some marketing tools that can be employed to create these purchase or service characteristics.

**Fenced Pricing.** Airlines have been effective in discriminating purchasing characteristics through the use of “fenced pricing” – logical and rational rules designed to allow customers to segment themselves based on their willingness to pay, behavior and needs. Fences offer consumers discounted prices but impose rules and regulations at every level of discount to balance the perceived value for the different market segments. In order to be effective, perceived as fair and carry low perceived financial risks, fences need to be logical, transparent, upfront and fixed so that they cannot be circumvented. Types of fences include requirements for advance purchase, advance payment, cancellation and change restrictions, refund penalties, time of usage restrictions and minimum consumption quantity. For example, Ron above may have felt that his $320 was fair compared with Kelly’s $220, if Kelly had to prepay for her stay much earlier, was not allowed any refund nor change of date, and had to stay a minimum of 2 nights.

**Price Bundling.** Service characteristics can be modified through price bundling, the practice of parcelling two or more products and marketing them at one combined price. Bundling can be used to obscure both discounts and price increases. The price for a core product, e.g., a hotel room, can be increased for the business segment and justified by bundling it together with auxiliary benefits (e.g. use of a health club, a room upgrade and discounts for laundry and food) that often incur low or even zero incremental costs. Likewise, the price can be substantially reduced for the leisure
segment by offering a weekend family package where the cost of movies, family dinner, breakfast and transportation are all absorbed by the hotel. In both cases, bundling allows the service firm to offer various price tiers for the service, but makes it hard for consumers to compare prices, thus reducing the likelihood of perceived unfairness.

**Categorizing.** A service firm can also justify different prices for essentially the same product by simply categorizing the service according to some minor differing characteristics. For instance, a service firm can specify well-defined booking classes (“full-priced”, “group”, “premium” and “discount”) to customers. It is key that these characteristics are presented to the customer upfront and are transparent, logical, and perceptible. Theaters and sporting events, for example, not only increase revenue by carefully categorizing and pricing their seats according to view, but also increase total consumer satisfaction. This is achieved by enabling connoisseurs to secure their desired front row seats, and at the same time also allowing more price sensitive segments, such as students, to buy back row seats at affordable prices.
Managing Customer Conflicts Arising from Seasonal Pricing

Most service firms experience fluctuating demand over time. Cinemas for example, may be sold out on weekend evenings but may be almost deserted during weekday afternoons. Resort destinations may face tremendous demand during the holiday seasons but can be close to empty during other months. Thus, another key yield management strategy is to employ seasonal pricing to smooth out demand. Singapore Airlines, for example, imposes surcharges onto their travel agents during peak seasons. Cruise liners are also fond of charging peak period surcharges. Charging a higher price for peak periods through surcharges may be perceived as price gouging by customers, who may feel that the firms have increased their profits without adding value to the consumer. Perceived price gouging during peak periods may alienate the customer and result in negative word-of-mouth publicity.¹⁴

High Published Prices. While raising prices for peak demand periods is generally viewed as unfair, eliminating a discount is widely seen as fair.¹⁵ This means that a firm should set the highest price it intends to charge as its published price, and then offer varying levels of discount from this price as appropriate. Anita, who patronizes her hair salon on Saturdays may perceive the saloon as profiteering, if she is faced with a weekend surcharge. However, Anita is likely to find her higher weekend price more acceptable, if the hair saloon advertises its peak weekend price as the published price, and offers a $5 discount for weekday haircuts. This would enable the firm to practise yield management, while simultaneously maintaining customer satisfaction - having a high published price also helps to increase the reference price, and thus a sense of equity or fairness. Also, customers who receive a discount during weekdays may feel that they are now being
rewarded for their weekday patronage. It is not unusual nowadays to find businesses that are selling up to 95% of their service on “discounted” prices.

**Managing Customer Conflicts Arising from Inventory Control**

Another fundamental yield management practice is to save inventory for the high yield customers – may they be regular or occasional customers. Such simplistic implementation of inventory controls may result in regular customers being turned away during periods of high demand, in favor of higher paying occasional customers. For example, a travel agent client who provides year round support to hotels or airlines may find himself facing limited inventory allocation during the peak periods when he most needs the capacity to service his own clients. This intermittent availability to regular customers is likely to result in customer dissatisfaction and endanger future repeat business. For example, a large Singapore hotel that withdrew all its low price travel agent allocations during good demand years, saw a backlash during weaker years when the hotel was virtually boycotted by several large and influential travel agents.

 Preferential treatment of higher yield customers may also cause dissatisfaction in queuing situations. For example, Benny in Jakarta has been on an airline’s waitlist for two months and later finds out that his colleague, who booked in Singapore, recently obtained an instant confirmation for the same flight. In Benny’s case, he may view first-come-first serve queues as the norm. In the same vein, Fournier et. al. (1998) recently reported in a rental car context the sense of unfairness, disappointment and anger of loyal customers who found less loyal, but ‘big ticket’ customers receiving preferential treatment by being chauffeured to their cars at airport long term parking lots – in full view of other loyal customers. Keeping inventory or bestowing overt preferential treatment for
higher paying passengers (or more profitable segments) may be viewed as opportunistic and thus unfair. Next, we discuss potential strategies to reduce these conflicts.

**Preferred Availability Policies.** Recognizing the high net present value of regular customers, yet facing difficulty quantifying this for yield management systems, many service firms have launched loyalty programs and built in policy rules to give preferential availability to these loyal or repeat customers. For example, some airline yield management systems have incorporated ‘Loyalty Multipliers’ to regular customers’ lower fares so that their reservation systems can accord preferred availability. Hotels offer loyal corporate accounts ‘Last Room Availability’ despite their lower negotiated rates. While such policies afford regular customers ‘special treatment’ status, it does not overcome the dilemma faced when members of a loyalty program cannot secure bookings in peak periods using their bonus points. Starwood, the 2nd largest hotel management company in the world, is now addressing this issue and has just relaunched its loyalty program boasting a policy of no blackout dates for free stay redemptions, after their guest surveys showed that blackout dates were a key dissatisfier quoted by regular guests.

**Managing Customer Conflicts Arising from Overbooking**

As part of their yield management regime, many service firms overbook to compensate for anticipated cancellations and no-shows. If a firm takes greater risks and increases overbooking, the reduced inventory wastage will bring higher revenue. The flip side is that the incidence of not being able to honor the reservations would also increase, and customers with bookings or reservations may be ‘bumped’ by their airline, or ‘walked’ by their hotel. This may lead to potential loss of future customer loyalty, and may adversely affect a firm’s reputation for integrity and customer service.
**Well Designed Service Recovery Program.** Overbooking is not necessarily incompatible with good service. Practice by many service firms shows that well-designed customer recovery programs to handle overcommitments can offset negative customer perceptions, and even result in higher customer satisfaction. Service recovery programs that handle unavailability of reserved capacity should have the following features: (1) They should be voluntary to capture the flexibility of some customers to defer consumption; and (2) pre-emptive, i.e., advance notice should be given to allow customers to make alternative arrangements. It should be pointed out that both the preceding strategies result in giving customers a sense of cognitive and behavioral control, thus increasing the chances of minimizing potential dissatisfaction; (3) generous compensation should be offered to offset the inconvenience of modified consumption; and (4) front line employees and customers should be educated about the benefits of overbooking. For example, Singapore Airlines makes it a practice to educate its front liners, and to communicate to passengers that overbooking is practised to enable more passengers to enjoy an early confirmation on their preferred flight. Finally, (5) a substitute service should be offered that minimizes customer exposure to a competitor’s service. For example, a Westin beach resort that has occasional oversales offers guests departing the next day the option of spending the last night in a luxury hotel near the airport or near the city at no cost. Guest feedback on the free room, the upgraded service, and a night in the city after a beach holiday has been very positive. From the hotel’s perspective the cost of the move incurs only a one-night stay in the luxury hotel (assuming that the hotel has to pay the sister hotel for that night) instead of turning away a multiple-night guest arriving that day.

**Managing Customer Conflicts Arising from Change in the Nature of the Service**
Yield management is also focused on discounting during off-peak periods to attract incremental business and fill unused capacity. Customer conflicts may arise when such discounting practices attract inappropriate segments that change the nature of the service core target customers have come to expect. For example, the business clientele of a classy restaurant may resent the noisy tour groups that have been attracted to lunch at greatly discounted prices.

The focus of yield management to maximize capacity usage may also result in over-stretching of capacity, such as crowding business class or first class cabins through upgrading of overbooked passengers or making consultants work overtime on additional assignments. Stretching beyond a certain level of capacity often changes the nature of the service and may result in inferior quality and customer dissatisfaction. A number of potential strategies to reduce these conflicts are discussed next.

**Spatially Segregate Customers and/or Differentiate Service Benefits.** Spatially segregating the main customer segment and/or offering them exclusive and perceptible service benefits may help to offset their negative perception towards any change in the nature of the service. For example, restaurants can seat business clientele in a private section, and hotels can set aside dedicated check-in facilities and selected high floors for preferred guests. To illustrate, the General Manager of an international five star hotel in Riad in Saudi Arabia explained to one of the authors that “We put the locals on floors 4 to 6, and international business guests on 9 to 11 because the local custom is to party to the early hours of the morning and, in the past, foreigners have complained bitterly.

**Determine and Set Optimal Capacity Utilization.** Lovelock (2001) differentiates between maximum capacity and optimal capacity. The former is the physical limitation of the number of
customers that can be accommodated at any one time. The latter is the ideal level of capacity utilization in which demand and supply are well balanced and customers receive the promised service level and experience. For example, a plumbing company should not plan to be fully scheduled all the time as there is no slack to allow for unexpected, last minute and urgent demand, where a price premium might be charged. A hotel that is frequently running at 100% occupancy would mean that many guests may not get the type of room that they requested (smoking versus non-smoking room, king bed versus twin, etc.). A service firm must determine its optimal capacity utilization that balances revenue and enables it to deliver a level of service that meets or exceeds client’s expectations. This optimal capacity level must then be set as a guideline for revenue management practices.

POTENTIAL EMPLOYEE CONFLICTS AND THEIR MANAGEMENT

Top management’s current fancy with the promising concepts of yield management, and the race to implement revenue enhancing programs have put substantial pressure on a broad spectrum of sales and service frontliners. They are expected to embrace a relatively new organizational orientation, that is at best hazy to them, and at worst contradictory to their basic instincts to provide good customer service. As a result, employees experience stress, confusion, role conflict, and dissatisfaction. Furthermore, inter-departmental conflicts may arise when employees try to meet the multi-faceted demands placed on them by a firm’s simultaneous revenue and customer orientation.

Employee conflicts can arise from (1) lack of employee understanding of revenue management; (2) non-compatible organizational structure; and (3) non-compatible employee incentives. Combining past research and practices of service firms, some organizational strategies
that can help reduce such employee conflicts and integrate both the firm’s customer orientation and yield management pursuits are outlined below and summarized in Table 2.

<Take in Table 2>

**Managing Employee Conflicts Arising from a Lack of Understanding of Yield Management**

Yield management with its armory of techniques and concepts can be very complex. Its implementation can often result in misconceptions and misunderstandings, and often lead to employee confusion and job dissatisfaction. Furthermore, many sales and frontline employees are hired based on their customer orientation and ability to interact, service and hence please clients. Empirical evidence exists to indicate that salespeople, with few exceptions, are more customer oriented (i.e., focused on assisting customers to satisfy long term wants and needs) than selling oriented (i.e., focused on maximizing revenue). Furthermore, customers themselves apply pressure on salespeople to meet their unique needs and maximize their satisfaction. Many firms may come to realize that their traditional employees are not sufficiently revenue savvy, and have difficulties reconciling between yield management practices and customer servicing. Below, we list some of the most common employee misconceptions of yield management.

**Yield Management is Incompatible with Customer Servicing.** Employees indoctrinated with the need to deliver excellent customer service at almost all costs are likely to perceive that yield management practices are meant to systematically abuse customers by charging them high prices, and thus, are incompatible with good customer service. Such employees view yield management
practices with suspicion and may undermine them in the belief that they are being customer-oriented. For example, it is not unusual that maximum discounts are often accorded by sales staff in the misperception that low prices equate value for customers. Frontliners, like airline check-in agents and hotel reservation agents, often waive purchasing restrictions (price fences). Sales staff may hold “ghost blocks” or circumvent inventory controls to accommodate their clients. Similarly, interdepartmental conflicts may arise when guest servicing departments have to handle complaints arising from yield management practices, such as overbooking or perceived queue jumping.

**Overfocus on Average Yield or Capacity Usage.** The original term ‘yield management’ has resulted in the common misperception that revenue management is all about maximizing the average yield (i.e., average price paid per customer), forgetting that the fundamental objective is to maximize revenue (i.e., balancing both average price paid and capacity usage to maximize revenue). For example, it is not uncommon for sales employees to believe that ‘we cannot offer promotional prices to this new market segment, because it will dilute our average yield,’ without understanding whether the revenue is incremental, or whether higher utilization may enhance the service experience (e.g., a full football stadium will stimulate the players and encourage audience participation).

The flip side of overzealous discounting to pursue incremental business during soft demand periods is an equally common problem with revenue management programs. This practice may inch down the price structure of the firm, attract disproportionate discount business and significantly change the nature of the service over time. Such systematic discounting practices may begin to create a new reference price in buyers’ minds, which makes it difficult to attain higher prices again in the future. Further, it may generate a “wait for sale” mentality and delay future bookings. In the long
run, total revenue can be seriously eroded. It is not sufficient in the long run just to generate marginal contribution towards fixed cost.\textsuperscript{20}

Both common mis-focus of any yield management implementations described above are likely to result in lower revenue, and cause employees to experience confusion, role conflict and distrust of yield management practices.

\textit{A Bird in Hand is Always Better}. Many employees believe in the inherent fairness of first-come-first-serve when it comes to capacity allocation among customers. Sales employees are also likely to feel that ‘a bird in hand’ is always better than keeping capacity for future anticipated demand. For example, advertising sales managers are likely to say “But surely confirming this advertising slot in advance is better even at a lower price. Who knows for certain, whether the anticipated strong demand for Murphy Brown slots will really materialize later.” Yield management on the contrary, will keep aside capacity for the anticipated most valuable customers rather than the first or earlier customers. This lack of understanding of displacement cost can cause much conflict between sales and revenue managers.

There are many elements that need to be in place in order to ensure that the various employee misconceptions about yield management discussed in the preceding subsections can be minimized. The key elements are elaborated below.

\textit{Top Management Commitment}. The first key element is for top management to demonstrate that they believe yield management and customer satisfaction can work in tandem and to give both a balanced focus. For example, top management of Hilton International constantly monitors their yield management and customer satisfaction indices simultaneously in their balance scorecard. The firm
believes that the two orientations are compatible, and should be pursued in parallel. This message is constantly relayed to staff, thus permeating the entire organization and filtering down to the frontliners.

**Develop a Yield Management Culture.** The next step to integrate yield management into a service firm (and one that is often overlooked) is to develop a yield management culture throughout the organization. All employees who have a role to play, including frontliners and sales staff, must be trained and educated in the aim, fundamental practices and nuances of their company’s yield management program. Key staff in each department must understand and buy into the yield management concept. A yield management committee that includes managers from marketing, customer service, sales and operations should be set up to make yield management decisions and determine policies. Data from yield management analysis should be shared and discussed with the frontliners, as talking and listening to those who are closer to the customer can vastly improve the quality of analysis.21 Such open regular forums ensure that there is constant learning and alignment of yield management concepts among all employees throughout the organization. For example, a sales manager of Westin Singapore highlighted that a large IT conference would be held at a nearby competitor conference center. This information enabled the revenue manager to forecast for a spillover demand effect, and price higher to maximize revenue in better anticipation of excess demand. Likewise, this information was shared with the corporate meeting teams handling IT companies so that they were able to package better value corporate packages that could fetch higher revenue and profit, and yet not appear to be price gouging.
**Employee Training.** Employees at all levels must be trained and educated in the concepts of yield management. Employees should understand that yield management is not about systematically abusing the customer, but is about creating win-win situations by providing different price and value balances to allow a broader spectrum of customers to self-segment and enjoy the service. It needs to be emphasized that time customization of prices simply reflects its immediate worth to different customer segments. The employee’s role is not simply to sell the lowest price, but to work with the customer to find the price and benefits (value) balance that best satisfies his/her needs, while at the same time achieve increased revenue for the firm. For example, mobile phone service sales staff who undergo training in upselling (selling a higher priced mobile phone service package) are first taught how to ask probing questions to determine customer needs, before offering the appropriate service package. Such training helps employees execute yield management practices, while maintaining their customer focus, and thus aiding staff job satisfaction.

The necessity of consistent rules and unavoidable fences should be explained to frontliners. They may not realize that breaking the rules for a few customers may lead to perceived unfair treatment of other customers and damage the firm’s reputation for integrity in the long run. Simultaneously, these strict policy rules should be tempered with empowerment in order that employees do not feel powerless to act in compassionate cases. Likewise, employees must be made aware that holding inventory blocks in anticipation of selected customers who do not show up, not only sub-optimizes revenue but is also a disservice to other customers who were unable to get their preferred service.

Overtime, those who cannot comprehend yield management concepts despite training will have to be replaced by a new breed of employees who are more revenue savvy, comfortable with
negotiating and able to achieve win-win transactions with customers. Both selling and customer servicing dispositions will have to be included as part of the job description when hiring.

Agreed Yield Management Guidelines and Policies. To minimize interdepartmental conflicts, yield management guidelines and policies such as walk-in rates, pricing leeway, overbooking and upgrade levels, should be set jointly by managers from a broad spectrum of departments. For example, a revenue manager should seek the agreement of housekeeping to increase late shift staffing based on predetermined overbooking levels, in order to facilitate the front office team with maximum room availability for check-in. Another example is upgrading policies for specific periods. For example, during periods with low business guests, lower priced room types for leisure markets can be heavily overbooked. Guests in overbooked lower priced rooms can then be easily upgraded, as business demand is weak. Upgrading policies for such periods should be pre-agreed between the revenue manager, front office and housekeeping teams, as they involve special upgrading and assignment procedures in order to be carried out effectively.

Quantify the Impact of Employee Actions. Performance measurement tools must be put in place to communicate the cost and to quantify the benefit streams arising from specific employee actions. Quantifying both the revenue and customer satisfaction impact will enable employees to make more informed judgements in balancing customer servicing and yield management. Providing regular feedback on yield management and customer satisfaction indices to front line staff, combined with employee training, empowerment policies and agreed guidelines will go a long way towards getting the staff commitment so essential to effective implementation.
**Well Designed Service Recovery Programs.** As yield management involves forecasting future demand, the lack of certainty means that customers may occasionally not get their expected level of service. It is important to anticipate and back up the yield management program with well-designed service recovery procedures, a standardized response to customers, and staff empowerment policies to ease the burden on frontline staff. Effective service recovery procedures are particularly important. This involves the firm demonstrating to affected customers: (1) a sense of procedural fairness (i.e., policies and rules for dealing with the problem that are perceived as fair), (2) interactional fairness (i.e., how employees treat the customer during service recovery), and (3) perceived fairness of outcomes (i.e., compensation, apologies and other outcome remedies).23

**Making the Organizational Structure Compatible with Yield Management**

When the organization structure is not compatible with the combined drive for both customer satisfaction and yield maximization, role conflicts will arise. The most common problems surrounding the organizational structure and their potential solutions are presented below.

**Decentralized Final Pricing (to Balance a Centralized Yield Management Function).** By and large, the yield management function is centralized in most service firms, understood by only a handful of highly skilled revenue managers, and tends to be simplistically heralded by the implementation of a sophisticated computer system. Such centralized implementation is likely to result in an overfocus on technology, reporting and analysis. Revenue managers may take over all pricing and inventory decisions. This lack of empowerment can lower sales and frontliner morale. Resentment and conflicts can surface between them and revenue managers, leading to high levels of employee stress and turnover, and ultimately poor customer service. Without pricing flexibility, sales
managers may find it difficult and cumbersome to meet customers’ price thresholds, resulting in both
lost business and lower customer satisfaction.

One solution of course is to decentralize final pricing decisions. While inventory control and
overall pricing guidelines should remain centralized with revenue managers, the final pricing should be
decentralized to give sales managers the flexibility to meet customer requirements. Provided systems
are in place to provide constant status reports, employees should understand that yield management
programs are not there to take decision making away from them, but instead, to offer regular
demand analysis, recommendations and guidelines for the sales managers to make better decisions.
It also monitors the consequences and provides feedback for employee learning.

**Structuring Sales Force by Market Segment (not by Product).** Structuring the sales force by
product instead of market segment can create internal competition, as the sales managers of each
product may target the same market segment and inadvertently cannibalize each other’s sales. For
example, two sister hotels located side-by-side in a central business district were both targeting the
same corporate clients. Although under one management, each hotel product was presented by
different sales teams with slightly different positioning. Much cannibalization took place between the
two properties, as they discounted against each other. The end result was that average price
decreased and conflicts arose between teams of sales managers, and customers did not have a one-
stop point for servicing.

To remedy such situations, sales teams should be assigned by market segment. This ensures
that any one customer is likely to be serviced by only one sales manager from the firm, who then has
better ability to negotiate the most optimal product-price grids with the customer and can trade off
between sales of substitute products. The firm gets to maximize the total purchase potential of the customer and the customer enjoys one-stop servicing.

**Making Sale Force’s Incentives Compatible with Yield Management**

Sales managers are often rewarded on the basis of maximizing their own sales revenue. Self-interest may thus cause sales managers to circumvent yield management guidelines by blocking inventory and securing sale at suboptimal prices even during peak periods to maximizing their own revenue, without regard for opportunity cost to the firm. Equally likely is the flip side where sales managers may be ‘forced’ to give up low revenue business by yield managers, leading to employee frustration.

**Using Displacement Cost for Sales Incentives.** To minimize the conflicts outlined above, employee incentives must recognize and reward employees for maximizing firm revenue as well as individual revenue. A useful tool is to capture displacement cost in the sales incentive. Different units of capacity have different displacement cost attached. Additional rewards to bring in incremental revenue during weak demand periods will help to convey the concept of displacement cost. Another method is to make employees ‘purchase’ inventory at various displacement cost before selling. This will reveal the true value of each dollar of sales revenue at different points in time. Such incentive schemes will naturally motivate the sales manager to push for sales during weaker periods, and make displacement costs during peak periods more transparent, thus enabling the sales manager greater ability to negotiate for a service alternative that both enhances revenue and customer satisfaction.
SUMMARY AND CONCLUSIONS

Every price has a life, which is especially true for services because of their perishability. The concept that a product or service should be treated as a commodity, which is as volatile as potatoes or oranges in a greengrocer or the Indonesian Rupiah on a foreign exchange desk, has revolutionized the way many service organizations set prices. Airlines, cargo shipping lines, car rental companies and hotels are able to continually change the price of their product to reflect its immediate value in the marketplace via the utilization of sophisticated yield management systems. Yield management practices have been widely adopted in service industries, where the service has a limited shelf life and a predictable sales pattern often supplements historical data on sales. However, yield management practices are not without their problems.

This paper has addressed the issue of the fundamental conflicts that arise when a service firm simultaneously adopts customer orientation and yield management practices. Because yield management is usually implemented with direct revenue and profitability goals in mind, its indirect impact on other crucial organizational initiatives is frequently overlooked. Both, customers and employees seem to have been relatively forgotten in the rush to implement yield management initiatives. We argue in this paper that practising various forms of yield management strategies may leave a firm’s customers with the perception of unfairness, price gouging, financial risk, profiteering, lack of customer appreciation and even a change in the very nature of the service. Employee conflicts may arise out of lack of employee understanding of yield management, non-compatible organization structures and employee incentives, and the innate characteristics of traditional sales and frontline employees. Such conflicts have the potential to undermine many of the service firm’s wider marketing efforts.
We then outlined a series of actions that firms can implement if yield management programs are to avoid undermining the firm’s crucial customer orientation efforts and front line employee morale. In other words, these various orientations can co-exist, but only if top management acknowledges potential conflicts and is prepared to commit resources to rectify the problems. We emphasize ‘top’ management because pricing is typically the domain of a sales and marketing division, customer service and with it a heavy focus on customer orientation often rests with operations, and employee issues typically are the domain of human resources management. To successfully resolve the conflicts outlined in this paper, each of these functional groups must understand the need for an integrated approach, and must be involved in implementing and practising yield management.
# TABLE 1

**STRATEGIES TO REDUCE CUSTOMER CONFLICTS CAUSED BY YIELD MANAGEMENT**

<table>
<thead>
<tr>
<th>REVENUE MANAGEMENT PRACTICE</th>
<th>POTENTIAL CUSTOMER CONFLICTS</th>
<th>MARKETING STRATEGIES TO REDUCE CONFLICTS</th>
</tr>
</thead>
</table>
| Discriminatory Pricing According to Customer’s Willingness to Pay | • Perceived Unfairness  
• Perceived Financial Risk                                             | • Fenced Pricing  
• Bundling  
• Categorizing                                                          |
| Seasonal Pricing to Smooth Out Demand                            | • Perceived Price Gorging                                           | • High Published Price                                           |
| Keeping Inventory for the Most Valuable Customer                 | • Perceived Uncertainty  
• Perceived Lack of Customer Appreciation                           | • Preferred Availability Policies                                 |
| Overbooking to Compensate for No-Shows                          | • Perceived Unfairness  
• Perceived Profiteering                                              | • Well Designed Customer Recovery Program                          |
| Discounting to Attract Incremental Business During Low Demand Periods | • Perceived Change in the Nature of the Service                    | • Physical Segregation and Perceptible Extra Service  
• Set Optimal Capacity Utilization Level                             |
<table>
<thead>
<tr>
<th>Employee Conflicts Can Arise From:</th>
<th>Organizational Tools To Reduce Employee Conflicts:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of Employee Understanding of Yield Management:</td>
<td></td>
</tr>
<tr>
<td>• Yield management is incompatible with customer servicing</td>
<td></td>
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<tr>
<td>• Overfocus on average yield or capacity utilization</td>
<td></td>
</tr>
<tr>
<td>• Advance sales are always better</td>
<td></td>
</tr>
<tr>
<td>Non-Compatibility Organizational Structures:</td>
<td></td>
</tr>
<tr>
<td>• Centralized yield management function</td>
<td></td>
</tr>
<tr>
<td>• Structuring sales force by product</td>
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<tr>
<td>Non-Compatibility Sales Force Incentives</td>
<td>• Decentralize Final Pricing</td>
</tr>
<tr>
<td></td>
<td>• Structure Sales Force by Market Segment, not by Product</td>
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<tr>
<td></td>
<td>• Use Displacement Cost for Sales Incentives</td>
</tr>
</tbody>
</table>
ENDNOTES


15 Kahneman et. al., , “Fairness as a Constraint on Profit Seeking: Entitlements in the Market,”, op. cit.


