



# Demand & Revenue Management

Overview

## Are you a victim of...



- ...customers that have you on the pricing defensive?
- ...static segmentation that his costly to continually reinvent?
- ...of a pricing process that is costly, time consuming to implement restricting your ability to exploit minor changes in supply and demand
- ...making the effort to move price but never seeing it on the bottom line
- ...are you perennially on the under utilised/ over committed seesaw?

# Demand and Revenue Management



- Powerful new performance improvement initiative
- A new way to manage supply and demand
- Proactive not passive revenue strategy
- Dramatic impact on profitability

## DRM at its Simplest



- Focuses managers on examining in detail the buying behaviour of customers; and
- Incorporates this knowledge into the way we manage our offer and supply chain; giving us the
- Ability to make detailed price and availability adjustments to achieve significant revenue and profit gains

# Paradigm Shift



- One price does not fit all or fit the many
- Forget academic and theoretical segmentation - seek out your real micro-markets
- Treat these micro-markets as individuals
- Develop the capability to meet to and respond to value and price changes as close to real time as possible
- Use this capability to manage your supply chain and out manoeuvre your competition

# DRM Leverages Best Practice Pricing Principals

■ Best practice pricing is based on the following fundamental PRINCIPALS. Laying these foundations can deliver you ADVANTAGE in the marketplace.



- Structured collection of market intelligence
  - Market
  - Customer
  - Competitor
- Structured collection and analysis of price data
- Flexible and responsive systems to use price data
- Effective control and feedback of results

# Five Core Concepts of Revenue Management



1. Replace cost based pricing with MARKET based pricing
2. Sell to segmented MICRO-markets not mass markets
3. Make decisions based on KNOWLEDGE not gut feel
4. Exploit the FULL value cycle of your product
5. Continually REEVALUATE your price and revenue opportunities



# The Core Concepts

# 1. From COST to MARKET based Pricing



- Natural inclination to price based on the cost to make, distribute and sell a product
- Customers put a unique value of products/services based on their own unique needs, desires and alternatives
- Exploiting the uniqueness of the value assessment can allow us to harvest opportunities
- DRM focuses on delivering a price that will reflect value today, tomorrow and potentially every day into the future?

## 2. Sell to Segmented MICRO-MARKETS



- Faster, better, cheaper needs to realise that not all customers want the same thing
- The mass market or gross market segment is disappearing
- Micro-market segmentation is the new paradigm between
- So the question is:
  - “What is THIS customer/s willingness to pay at THIS point in time?”

### 3. Make DECISIONS based on KNOWLEDGE



- With ERP investments and computing resources most companies have a long trail of customer decision making
- Need to translate this information into knowledge to support price and availability decision making
- Possible to model demand elasticity with price changes at multiple levels and across time to create a forecast of customer buying behaviour
- Provide an unattached and unbiased view of the market to drive price and revenue decision making

## 4. EXPLOIT each products VALUE CYCLE

- Once you have a good forecast of your customers behaviour how do you make best use of it?
- How do you maximise the value of your product in the micro-market over time?
- About projecting revenue streams and knowing when to launch subsequent products and services to maximise the revenue stream
- Tracking, modelling and planning for the future



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## 5. Reevaluate, REEVALUATE, Reevaluate



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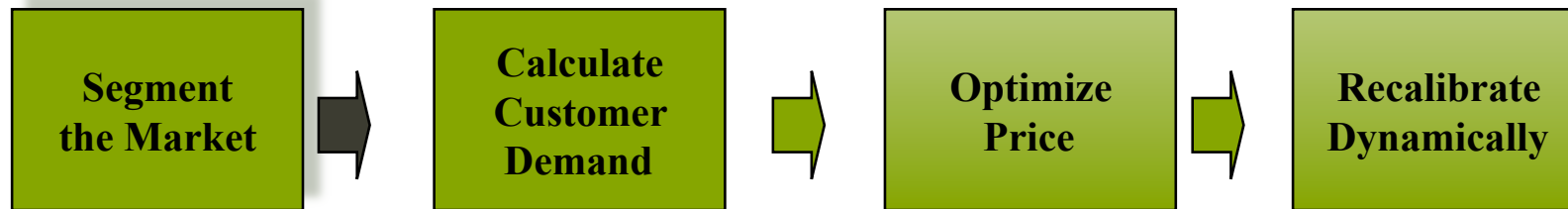
- Markets and micro markets are evolving faster and faster
- Opportunities to exploit opportunities are occurring in smaller timeframes demanding faster responses to capture the moment
- Information must be moved to those touching the customer at the micro market level
- Remove constraints to near real time pricing
- Real time allows us to respond to competitive and value altering circumstances faster



Optimising  
the  
Demand & Revenue Process

# Revenue Optimisation Technology

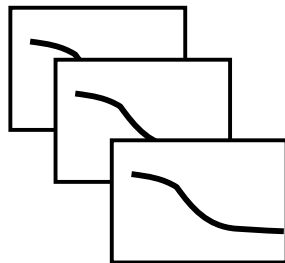
- The vast wealth of customer transaction are the basis for predicting how your customers will respond to a price and availability offer



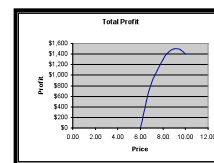
Statistically categorise customers based on buying behavior



Predict market response at different prices



Determine prices that maximize expected profit or other management goals



Monitor performance and update market response models



# Technology Implications



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- Technology and DRM processes now allow customers to more dynamically manage their revenue stream
- Able to customise prices (or promotions/markdowns) to meet specific demand/revenue/profit and capacity objectives by channel or segment
- Manufacturing companies are realising this is a tool to exploit the maximum value from production units
- Fashion and retailing customers can now shape demand to meet available inventories or shortening life cycles

# DRM and Manufacturing



- Practices traditionally reserved for hospitality or retail are now showing promise for industrial and manufacturing companies
- Recent research indicates:
  - Profit increases from 1 - 7%
    - Varies by demand type and variability
      - Higher for seasonal and decreasing mean products
      - Higher variability the higher the benefit
  - Sales variability reduces
- Usually price movements 1 in every three periods gives 80% plus of the full dynamic pricing benefit

# Summary



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- Demand and Revenue Management techniques have been used for over 20 years to improve profitability
- DRM exploits the wealth of ERP transaction data now available to businesses to aid management demand and revenue decision making
- DRM is the application of Best Practice pricing policies AND Optimisation technology
- This is the highest return business investment available with a potential to increase revenues of up to 5 - 8%.

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