



## YIELD MANAGEMENT AND ETHICS; AN OXYMORON?

In last year's pre-Yield Management Conference abstract, Colchester Institute lecturer, David McCaskey, discussed the potential for conflict between yield management and relationship marketing. This year he will consider the potential for conflict between yield management policy and an ethical approach to business: are they mutually exclusive?

**T**his paper is intended as an opener for a debate. Last year's issue drew a substantial mailbag including the following comment from Francis Buttle of the Manchester Business School: 'Yield management (YM) is used arbitrarily to gouge the best price out of a customer.' Others felt that it had the potential to drive off tomorrow's customers, and there was general agreement that, because of the perishable nature of the service and inherent demand fluctuations from the various segments served, it was essential to develop policies which somehow could accommodate a range of conflicting criteria.

### Profiteers or pragmatists?

My research would tend to show that there are companies which use YM in the way described by Buttle - opportunistic price maximisers (profiteers?), whilst at the other end of the spectrum there are those who may simply seek a win/win situation where their excess capacity may be sold at a bargain price. It would seem that, whichever approach is taken, it is possible to identify and categorise the ethical stance of the organisation in addressing this key strategic issue and, indeed, the ethical stance of the organisation as a whole since their approach to other issues is usually found to be consistent.

### Do ethics matter?

Why should we consider an ethical stance? The customer today cares about more than just price, having the confidence to question internal corporate practices behind the products and services he or she

buys. This is a world where business leaders can no longer give the recalcitrant response that their business is entirely concerned with maximising profits for their shareholders. We are now seeing an enlightened appreciation of the value of corporate reputation as a competitive advantage. Indeed in an environment where the media is no longer afraid to name and shame it is astounding to find companies whose approach, when exposed, will inevitably engender disrepute both for the company and for the industry.

### Can we gauge ethics?

To help categorise the ethical stance of a company, Johnson and Scholes (1999) in their fifth edition of 'Exploring Corporate Strategy', identify four stereotypes to illustrate the range found in organisations:

#### 1. Short-term financial concerns

The extreme view is that short-term shareholder interest is paramount.

#### 2. Legal requirements only

The second suggests that while government prescribes, through legislation, the constraints which society chooses to impose on businesses in pursuit of their economic efficiency, organisations will meet these minimum obligations and no more.

Much of the legislation enacted for our industry, in areas such as hygiene, fire, employment conditions, display of tariffs, etc, has been brought about by the intractable approach of some companies, both large and small. I was a manager with J Lyons' Strand Hotels for some 12 years, and felt that their approach to hygiene and the work of their own labs, was far in advance of many of today's

Food Act requirements, some 20 years on. This approach is tempered by recognition of other stakeholders. For example 'shady' marketing practices might be avoided to prevent the need for legislation in this area.

At present there are significant calls by the Consumers' Association and from the UK's 'Watchdog' television programme, to bring legislation into the area of perceived 'Inducement Pricing'. This is illustrated where a number of rooms, flights, etc, are available and widely advertised at bargain basement prices, when the actual availability is known only to the operator. Many of the enquiries generated from such advertisements are, in reality, met by full price offers. Retail already has many laws concerned with sales and, whilst most operators may be entirely honourable, unless there is greater transparency and a willingness to openly declare the extent of the offering, this practice will continue to raise substantial doubts. There may be no intention to deceive in most cases, but what matters is customer perception. In the US this practice is referred to, in a rather unedifying manner, as Bait-and-Switch tactics.

#### 3. The Pluralist approach

The third category will often go beyond the minimum obligations of Corporate Governance. They argue that the performance of an organisation should be measured in a much more pluralistic way than just through the bottom line. In the fast growing budget hotel sector, the market leader, Whitbread's Travel Inns has adopted a pricing policy which is "MAINSTREAM, COMPETITIVE, UNIVERSAL, CONSISTENT, FAIR" and is easily

communicated. As a result of this, research shows them to be - 'The first choice in affordable accommodation'; price is not the focus, value is. Travel Inn's results fully endorse this approach - year round occupancy of 86.5% with a 77% repeat occupancy, gives them highest yielding UK hotel investment with an ROCE constantly in excess of 15%. Their three-tier price structure - roadside, city, London - is not subject to any discounts, no travel agent commissions are paid, there are no sophisticated Property Management Systems offering low season, weekend and location deals, and certainly no sophistry. Of course the price maximisers would see these results as a great opportunity to squeeze out another 5% to 10% profit; go for yield. Thank goodness the pluralists at Whitbread prevail, and will continue to do so given the changed customer environment.

#### 4. Ideological approach

The final category is an ideological approach where financial considerations are of secondary importance and, therefore, more appropriate to charities, etc. That American doyenne of writers on YM, Cornell's Sheryl Kimes, concluded extensively on the perceived fairness of YM (Cornell Quarterly Feb 1994), an essential read to all involved in the practice of yield management. She wrote, "If customers view yield management as unfair, the increased revenues resulting from yield management may be short term. On the other hand, nearly all capacity-constrained service firms should consider adopting a yield management system if customers can be persuaded that yield management measures are, in fact, fair."

#### Responsible future

As we enter a new Millennium, where the most successful and responsible companies strive for Corporate Citizenship, with its implied standards of social accountability, some of the more questionable and unscrupulous practices invoked under the banner of YM policy will thankfully disappear along with their practitioners. **H**