Revenue Management: Some Core Ideas

by Alf Kimms

Once invented for the airline industry, revenue management is nowadays applied to a universe of other fields. One of the basic problems is a capacity control problem. Imagine a non-stop flight from A to B. Airlines use price discrimination so that a seat in, say, the economy class cabin is sold for different prices. If customer request for a low-price ticket occurs, the airline may accept this request which, in the presence of a limited number of seats, bears the risk that a high-price request must be rejected later. On the other hand, the airline may reject the low-price request, but then, if no further high-price customer shows up, the seat may stay empty. The presentation will outline the basic methods that are used to support such decisions.