



PROVEN PRICING & REVENUE
MANAGEMENT RESULTS

2010 Pulse on Pricing and Revenue Management Study



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Garnering senior executive support to fund pricing and revenue management initiatives may be one of the biggest obstacles facing revenue managers, but when technology and best practices are implemented the right way, these skeptical executives can become the best advocates for revenue management projects. That's because automated pricing and revenue management technology offers the kind of business benefits senior executives value most: rapid return on investment and a strong incremental revenue gain.

JDA Software recently queried 120 customers and prospects from various industries for its *2010 Pulse on Pricing and Revenue Management Study*. The goal was to identify the business impact that pricing and revenue management technology can have—and get a snapshot of the state of pricing and revenue management across a range of industries. Conducted at the annual JDA Pricing and Revenue Management 2010 Conference, the survey found that even though a large percentage of organizations had already implemented revenue management systems and experienced substantial payback from their deployments, there still remains a sizable number of companies that have yet to deploy pricing and revenue management systems due to a number of challenges, including executive buy-in.

Among those with revenue management systems, the study found that more than 75% earned at least 1% in incremental revenue gains as a result of their technology deployment, with close to a third earning more than 3% in incremental gains. As for returns, a whopping 96% of pricing and revenue management system users reported achieving a return on investment (ROI) within three years of deployment. In fact, more than 42% of those with deployed systems achieved ROI within the first year.

And those are just the hard numbers. Respondents with revenue management systems in place reported other positive benefits from their systems, including a reduced need for headcount, better and more objective decision making and better data and reports to support the business.

The study also found that 64% of those surveyed had no automated revenue management system in place. With such clear value driven by pricing and revenue management systems, the prevailing question remains: Why would an organization that could benefit from dynamic pricing not automate its processes?

When asked about the biggest barriers to acquiring and deploying automated pricing and revenue management systems, the response from participants was overwhelming. More than half of the participants cited their inability to attain senior management sponsorship and/or funding as their top obstacle.

Key Findings

The following key findings offer an interesting perspective on the state of pricing and revenue management within the average organization today. Clearly, the recognition of pricing and revenue management benefits is growing. Those who have implemented systems are experiencing a host of advantages. But there still remain those who must overcome a number of organizational challenges before deploying. Among all participants, there is also an expectation for the pricing and revenue management industry to evolve to meet changing market conditions with more advanced automated capabilities:

- 64% of participants have not yet deployed an automated revenue management system; 9% use an in-house revenue management system and 28% use a third-party revenue management system either from JDA or another vendor
- 57% of respondents agreed that pricing and revenue management was a well understood and important function of their business
- 60% of respondents reported that their current revenue management practices give them full flexibility in pricing decisions
- 75% of those with automated revenue management systems earned at least 1% in incremental revenue gains as a result of their technology deployment, with close to a third earning more than 3% in incremental gains.
- 96% of pricing and revenue management system users reported achieving ROI within three years of deployment
- 35% of revenue management system users reported that automation allows them to use fewer people to manage prices
- 35% of revenue management system users said the technology allows them to make objective decisions
- Nearly 18% of revenue management system users believe that their deployments give them better data and reports than a manual process would
- Only 15% of respondents believe that consumers understand that dynamic pricing is an effective means of balancing supply and demand
- 47% of participants said they still do not have good, usable competitor price information with which to make decisions

For a deeper dive into these findings and additional trends examined by the *2010 Pulse on Pricing and Revenue Management Study*, please continue on to the Detailed Findings section.

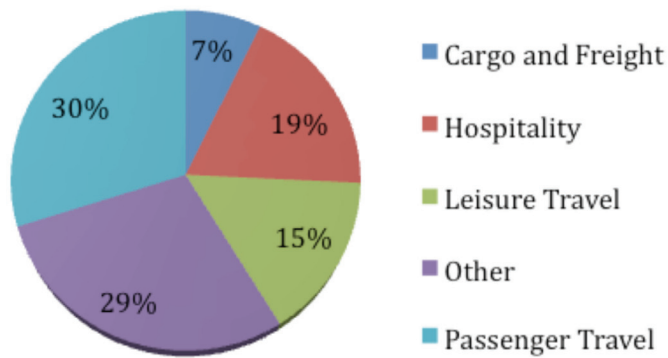
Detailed Findings

Profiling

A total of 120 external delegates attended the JDA Pricing and Revenue Management 2010 Conference on March 24, 2010. Following are just a few details about the participants:

- 72% of the participants are male; 28% of participants are female
- The largest number of participants represented the rail industry (28%), followed by hospitality (18%), tour operators (12%) and consulting (8%)
- 16% of the participants are currently using a JDA solution; 12% use software from another provider; and 9% of the conference attendees have an in-house revenue management system
- Approximately 64% of the conference attendees did not currently have an automated revenue management system

Figure 1: Industry Breakdown



Results Interpretation

1. Current industry practices around pricing and revenue management

Q: Do your current revenue management practices allow you full flexibility in your pricing decisions?

A: 60% of respondents agreed or strongly agreed with this statement, with those respondents representing companies from less regulated industries, such as leisure travel and hospitality, being the most positive. Those from industries where fare or price changes are more restricted, such as passenger rail, responded more negatively.

Figure 2: Total

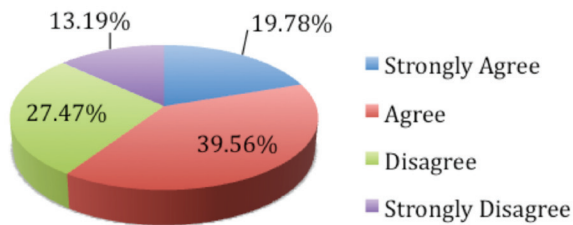
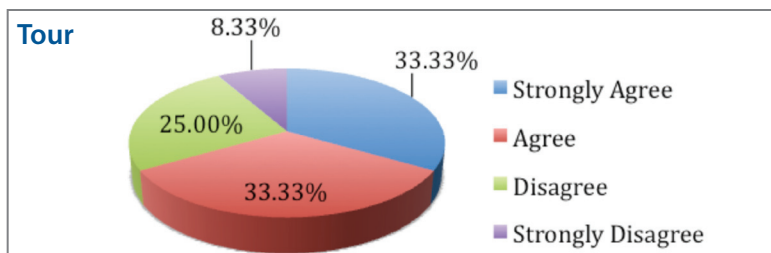
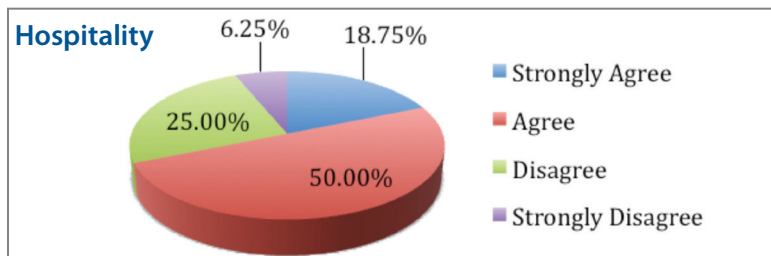
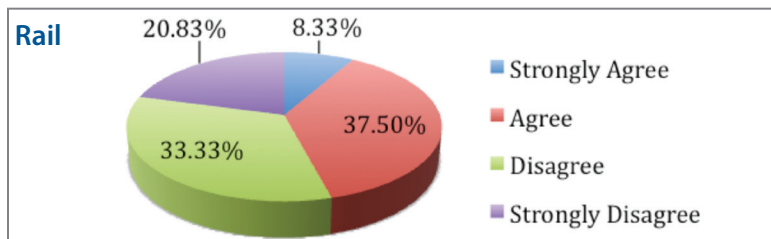
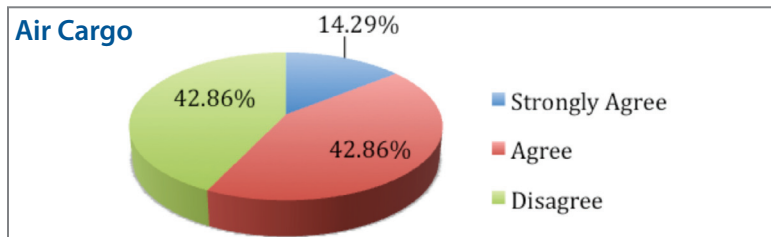


Figure 3: Response Breakdown by Industry



Q: In your industry and country what is the best description of consumers' perception of dynamic pricing?

A: Almost half of the respondents indicated that dynamic pricing was perceived as a trick by the operators to make more money, whereas one-third of the respondents agreed that consumers generally tolerated a dynamic pricing environment as a "fact of life." Interestingly, only 15% of respondents believed that consumers understand that dynamic pricing is an effective means of balancing supply and demand.

Figure 4: Total Response

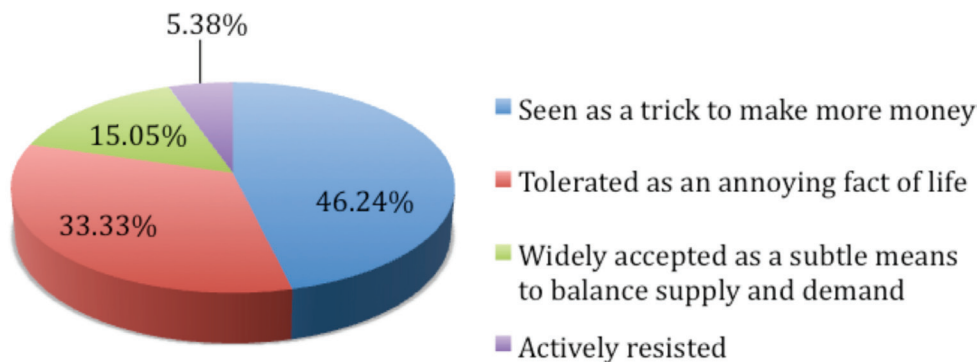
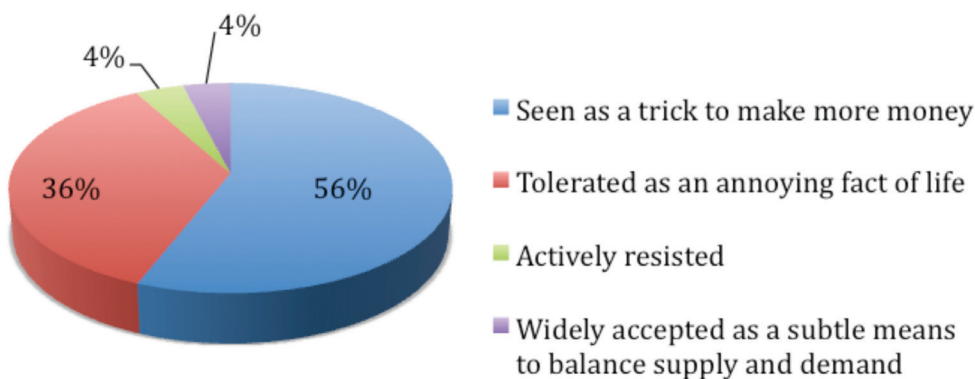


Figure 5: Rail Response (to illustrate the lowest level of acceptance in this industry)



JDA's Viewpoint

There is clear market evidence that products and services are being traded in a more dynamic and flexible pricing environment, with an increasing propensity toward greater price transparency and more frequent changes.

2. Understanding the importance of pricing and revenue management and the associated benefits

Q: My organization fully understands the importance of pricing and revenue management.

A: Across all industries, around 57% of respondents agreed that pricing and revenue management was a well understood and important function of their business. However, among companies that have recently introduced automated pricing and revenue management systems, almost 73% of respondents agreed.

Figure 6: Total Responses

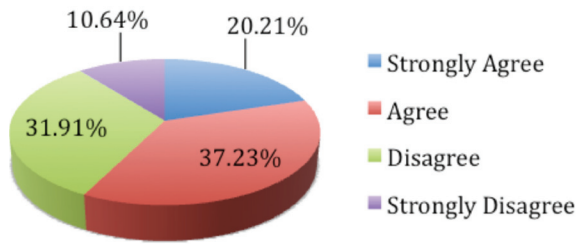
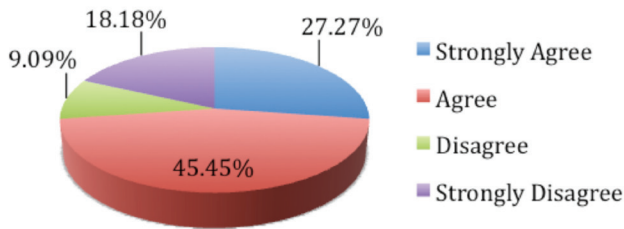


Figure 7: Respondents who've had a revenue management system for one to three years



Q: How much net financial benefit do you believe is generated by any pricing and revenue management automation you may have?

A: Among those who have automated pricing and revenue management capabilities, 30% of respondents expected or were achieving more than 3% incremental revenue gains, with one-third of those believing that benefits exceed 5%. Of the remaining respondents, 45% believe they are achieving between 1% and 3% incremental revenue from their automated systems. Interestingly, respondents agree that benefits among companies that have been using automated systems for more than three years are even greater.

Figure 8: Responses from those who have revenue management automation

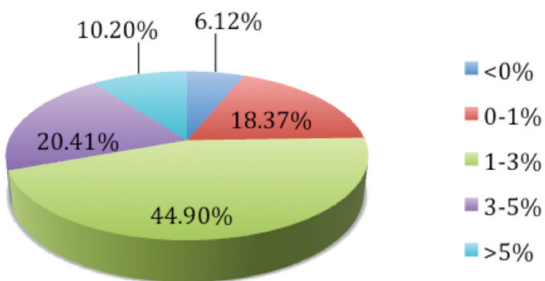
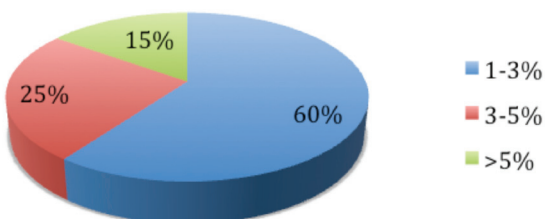


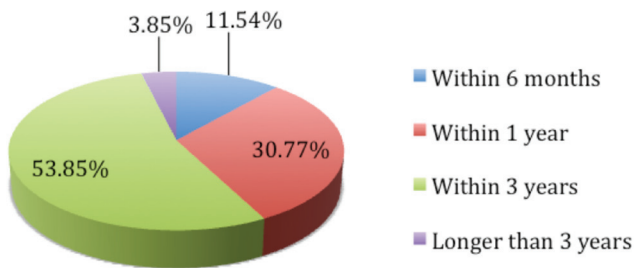
Figure 9: Responses from those with revenue management automation for longer than three years



Q: How long does it take to pay back the initial investment of implementing an automated pricing and revenue management system?

A: More than 40% of respondents representing companies that have implemented systems from third-party software vendors indicated that they achieved a return on investment within one year, with more than 96% of respondents achieving ROI within three years.

Figure 10:

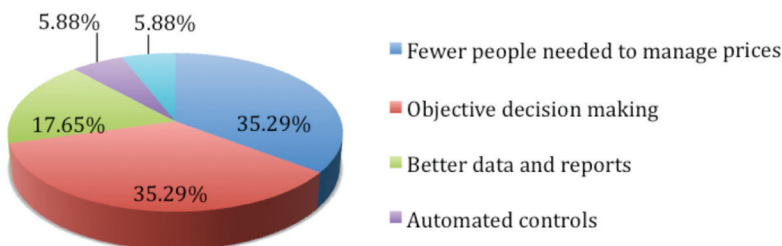


Q: Apart from financial gains, what do you see as the main benefit of automation?

A: For those respondents representing companies with existing automated capabilities, the following key themes emerged as important factors:

- (a) Fewer people required to manage prices
- (b) Better and more objective decision making
- (c) Better data and reports

Figure 11: Respondents with revenue management automation

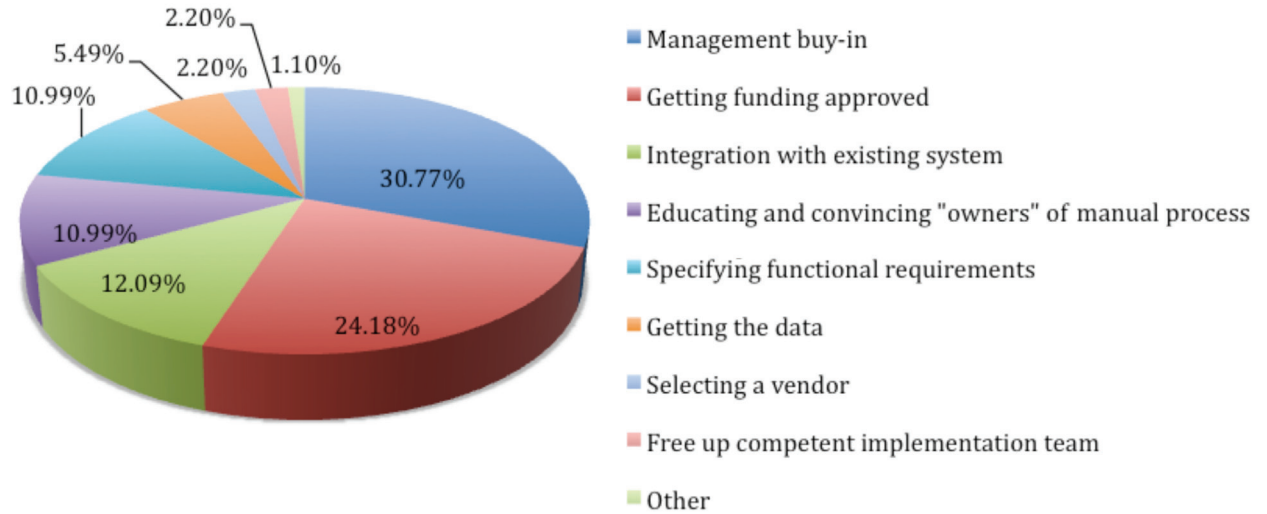


3. Embarking on automation of pricing and revenue management functions

Q: What are the biggest hurdles to a successful acquisition and implementation of an automated pricing and revenue management system?

A: Conference participants believed that the biggest hurdles to the successful implementation of an automated pricing and revenue management system are senior management sponsorship and funding.

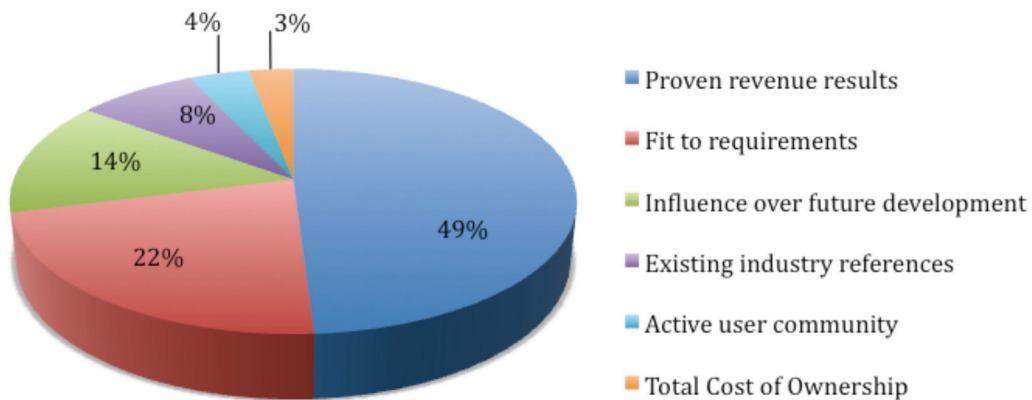
Figure 12: Total Responses



Q: What is the most important factor in selecting a revenue management system?

A: Nearly half of the survey participants (49%) believed that proven results are the most important factor when choosing a revenue management system, followed by business fit (22%).

Figure 13: Total Results

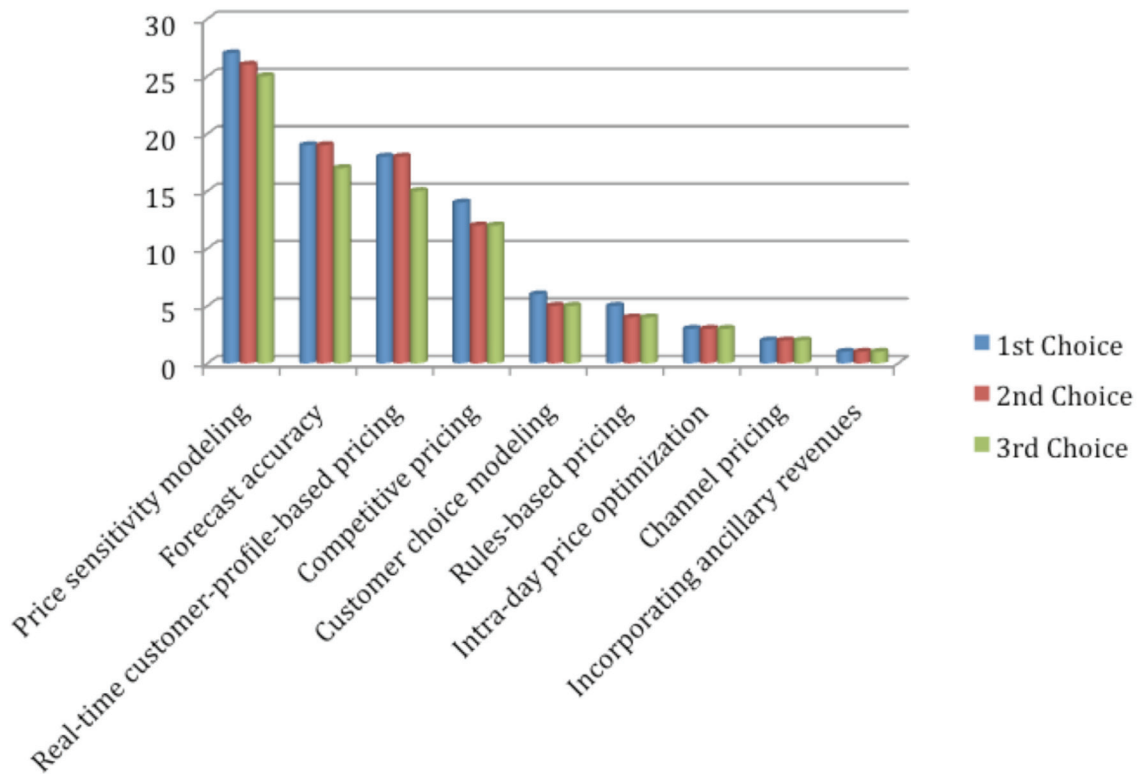


4. Most important features of future revenue management systems

Q: Which concepts hold the greatest promise in terms of future pricing and revenue management development?

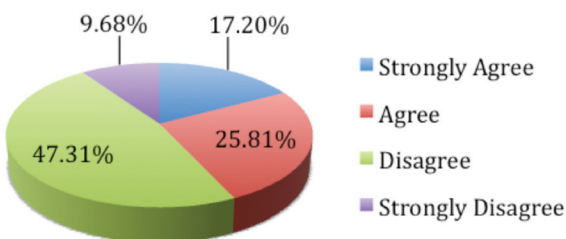
A: Survey participants believed that price sensitivity modeling, forecast accuracy, real-time pricing and competitor pricing are the top four areas for future innovation for successful pricing and revenue management systems.

Figure 14: Important Future Revenue Management Concepts



Q: I have "good" usable price information about my competition.

Figure 15: Total Responses



Conclusion

In looking closely at the findings from the *2010 Pulse on Pricing and Revenue Management Study*, it becomes clear that organizations are increasingly realizing the benefits of implementing revenue management technology and best practices. However, automated deployments are not without their challenges and risks, and some revenue managers are still figuring out how to overcome objections to gain senior executive support and funding to adopt and implement pricing and revenue management systems.

Clearly, more organizations than ever see the value in adopting revenue management technology. More than half of the participants said their revenue management practices are valuable to their organizations. If presented to a similar group a decade ago, only one-fourth of respondents may have answered that way. Yet, there still remains a large contingent of organizations (64%) that still have not automated revenue management processes. Additionally, participants reported that communicating the value of pricing and revenue management solutions to senior executives, gaining their buy-in and securing project funding remains the biggest obstacle.

It is our belief that participants seeking to overcome executive objections should connect with those study participants who have already deployed solutions to gain an understanding of best practices on building a business case. The JDA study revealed achievement of rapid ROI among those surveyed who had deployed an automated revenue management system (96% achieved payback in three years or less). Those respondents also indicated a significant gain in incremental revenue as a result of implementation (1 to 3% gains were shown to be most common).

But the survey also confirmed that even as companies look to adopt technology to introduce more flexible pricing and gain these benefits, they understand there is a challenge in communicating the benefits to their key constituents. These challenges exist because many organizations believe customers will react negatively toward significant movements in prices, perceiving that movement as some kind of trick to squeeze money out of their pocketbooks. Though this is a well-understood practice within the airline industry, in other industries, such as rail, there is still a perception problem. Interestingly, this perception lag is changing as price transparency increases across the travel, transportation and hospitality sectors. The perceived risk associated with automated deployments also causes concern. Survey participants seeking new pricing technology reported that above all other factors, they were looking for a system with proven results within their given industry, even above considerations as to whether a solution has all of the right features to suit their businesses.

With good evidence that pricing and revenue management systems offer proven results, more and more organizations across the travel, transportation and hospitality industries are likely to build a case for moving to an automated pricing and revenue management. Because even with just a 2% increase in incremental revenue as a result of deploying a system, a \$1 billion organization stands to add \$20 million to its bottom line with negligible added cost; revenue management revenue uplift has no cost associated with it, so it goes straight to profit.

There is an obvious upside in the adoption of pricing and revenue management technology in terms of revenue improvement, business performance and companies can respond to their consumers. The downside is that these systems are rarely perceived as mission critical, especially compared with big-ticket items such as maintenance and upkeep of equipment like trains and airplanes. If you don't implement automated pricing and revenue management, business will carry on as it always has, just less profitably.

This year's study also found that as market forces change, pricing and revenue management technology and practices will continue to grow in importance. The means by which customers are acquiring tickets to travel is forcing the dynamic pricing environment to become much more of a reality. As multiple sales channels open up for various services, the marketplace will feature almost complete price transparency in the coming years.

There will also be a vast number of different channels to market, and consumers will have access to a tremendous variety of sources and product variations for the same services. Understanding how to manage your own pricing in an era of competitive price transparency will be of paramount importance for organizations. In most situations we've observed that the technology capabilities of pricing and revenue management systems are very much leading the way. These capabilities can help companies move from a traditional revenue management model to a comprehensive pricing and revenue management model that includes fluid dynamic pricing and dynamic competitive pricing that enables accurate demand forecasting, pricing and revenue optimization.

As the stakes rise, so do the requirements that organizations have for their future pricing and revenue management systems. Our study also examined what participants will expect of future pricing and revenue management technology to meet market demands. We heard loud and clear from those we queried that the four most important requirements for successful pricing and revenue management systems of the future include:

- Price sensitivity modeling
- Forecast accuracy
- Real-time pricing
- Competitor pricing

While not considered mission critical in the past, we believe that as conditions change, pricing and revenue management technology will become a must-have within the next few years. JDA stands committed to helping companies achieve the comparable results illustrated by this latest study.

About JDA Pricing and Revenue Management Group

JDA Pricing and Revenue Management Group, a global business unit within JDA Software, is a leading provider of Price Sensitive Revenue Management™ solutions that help companies improve profits by balancing supply and demand through innovative forecasting, pricing and revenue management. For more than 25 years, companies in the travel, transportation, hospitality and media industries have benefited from the ongoing innovation and deep domain expertise from JDA. To learn more about JDA, please visit www.jda.com/revenuemanagement.



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