

Revenue Management: Methods to Drive the Top Line

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Webinar Features and CPE Credit

Q&A

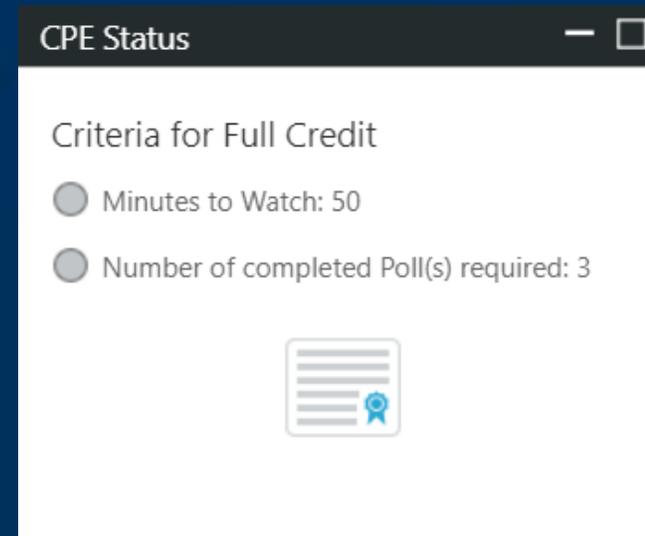
Asking Questions



Help



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Terry Mormile, CPA, CAE

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Featured Presenter

Monte Swain, Ph.D., CMA, CPA, CGMA
Deloitte Professor
Brigham Young University



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Monte Swain's Biography

- Professor Monte Swain is the Deloitte Professor at the Brigham Young University School of Accountancy where he has researched and taught management accounting since 1991. He is published in a number of scholarly and practitioner journals and is currently researching strategic performance measurement models and information presentation effects in balanced scorecards. In addition, he is an author of cases and textbooks in management accounting and writes and consults on the effective use of strategic measurement systems in organizations. Professor Swain took an academic leave from BYU in 1999 to serve as the Chief Financial Officer for Authorize.Net (an e-commerce payment processing service).
- In 2016, IMA recognized Professor Swain with the IMA Brummet Distinguished Award for Management Accounting Educators. In 2021, BYU awarded him the MBA Core Professor of the Year. He is the senior author of the Wiley CMA Exam Prep system.

Featured Presenter

Julie Harrison, Ph.D., MTaxS, MCom, FCA
Associate Professor
University of Auckland, New Zealand



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Julie Harrison's Biography

- Dr. Julie Harrison is an associate professor in the Department of Accounting & Finance at the University of Auckland Business School in New Zealand. Prior to joining academia, she worked as a transfer pricing advisor in public practice. She has published widely in academic and practitioner journals in the areas of revenue management, performance measurement, data envelopment analysis, transfer pricing and integrated reporting.
- Julie is the editor-in-chief of the Pacific Accounting Review and is a fellow (FCA) of Chartered Accountants Australia and New Zealand.

Learning Objectives

1. Describe how revenue management fits in the classic ROI model.
2. Recognize the key importance of customer segmentation to revenue growth.
3. Define the four revenue management levers.
4. Evaluate the need and opportunity for revenue management levers in your own organization.

Agenda

1) A Brief History of Management Accounting

2) The Four Revenue Management Levers

3) Revenue Management Intensity in Organizations

4) Should You Invest in Better Revenue Management?

Poll Question 1:

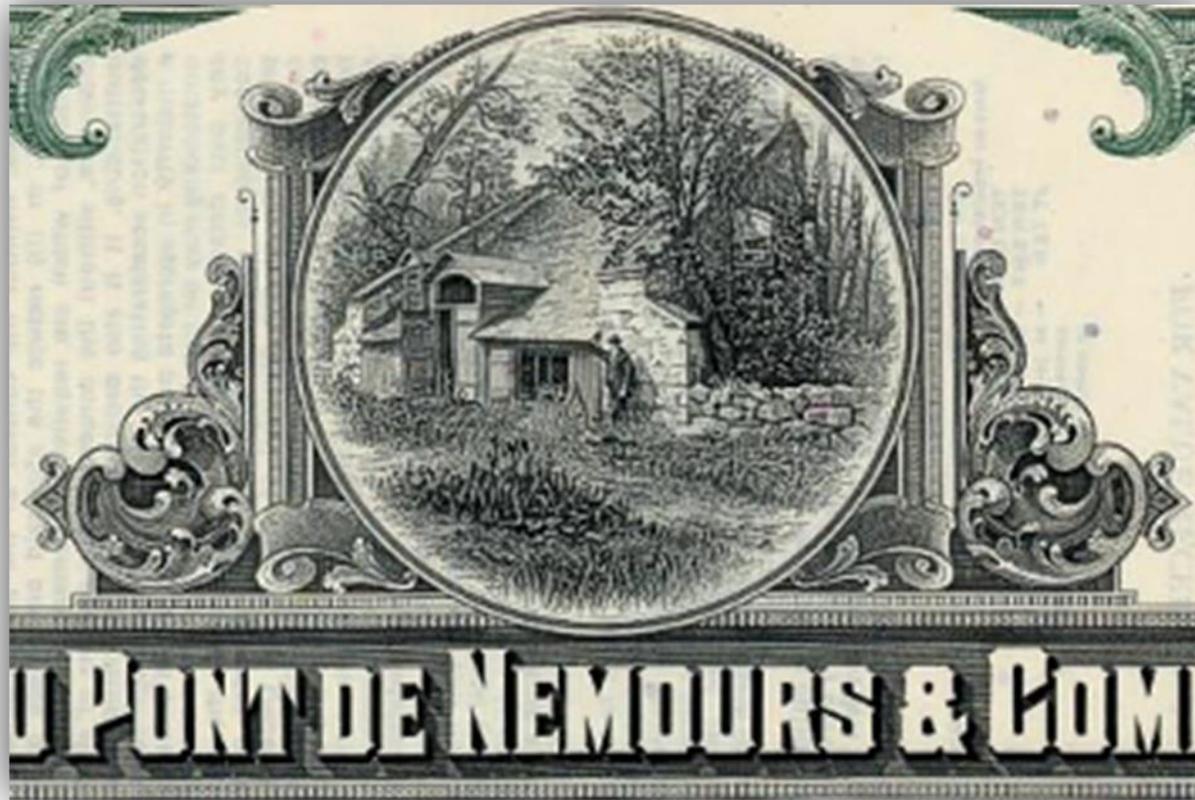
The main industry in which my organization works is:

- a. Manufacturing
- b. Service
- c. Merchandising
- d. Government/Not-for-Profit
- e. Other

Poll Question 1 Results: (Placeholder)

A Brief History of Management Accounting

E. I. du Pont de Nemours and Company (Founded 1802)



The DuPont Corporation

A Brief History

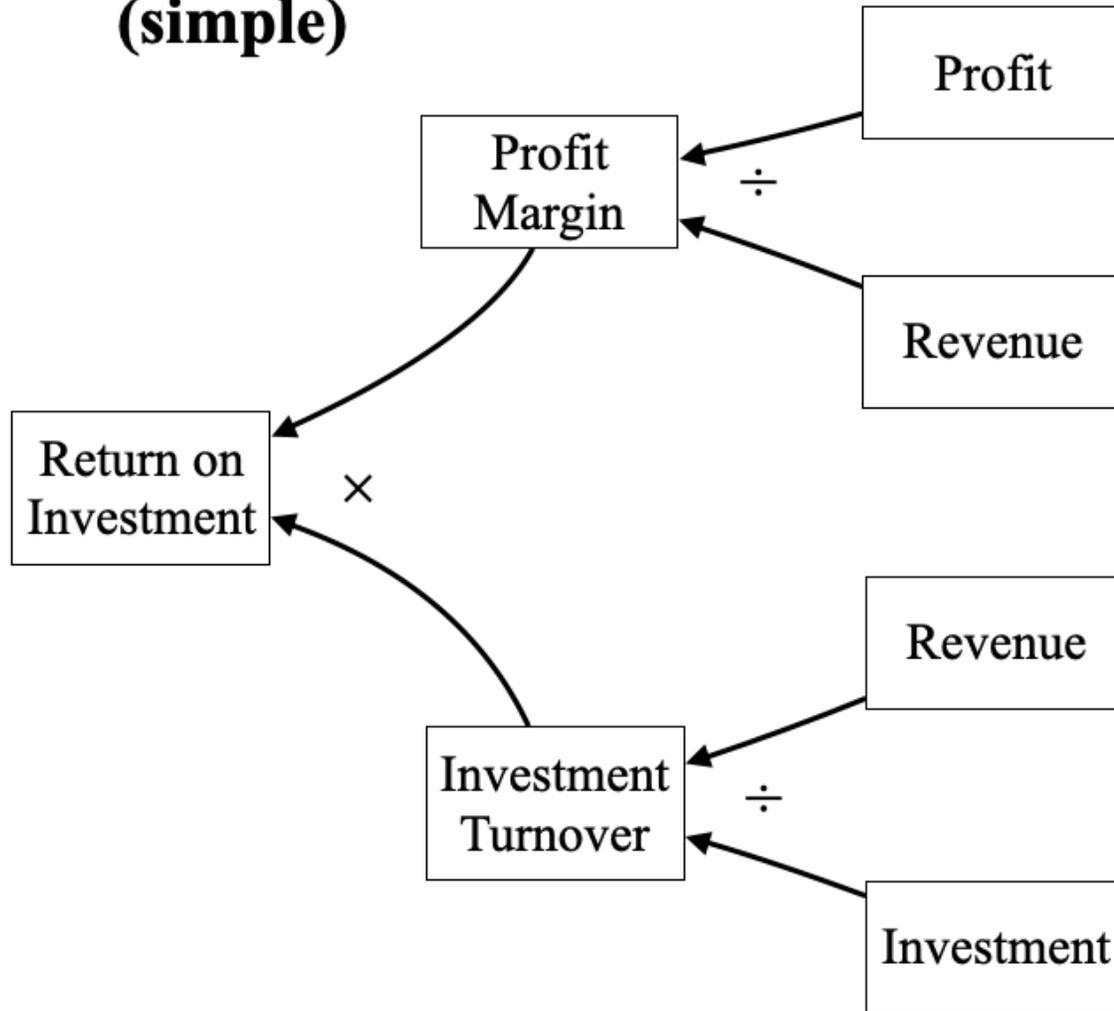
The DuPont Formula (simple)

$$\text{Return on Investment} = \text{Profit Margin} \times \text{Investment Turnover}$$

$$\frac{\text{Profit}}{\text{Investment}} = \frac{\text{Profit}}{\text{Revenue}} \times \frac{\text{Revenue}}{\text{Investment}}$$

[A Brief History](#)

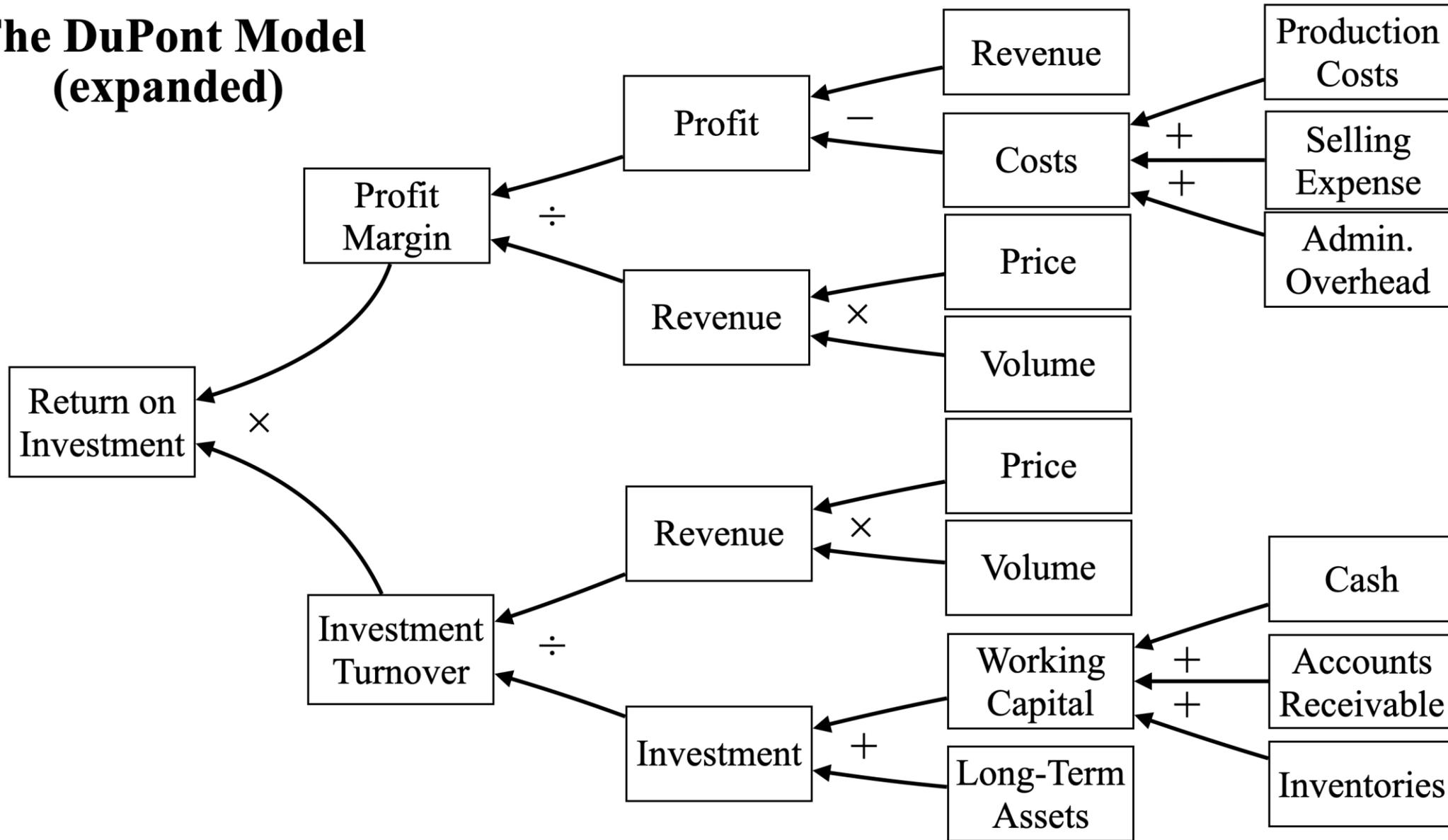
The DuPont Model (simple)



Source: Davis, T.C., 1950, "How the DuPont Organization Appraises its Performance," in AMA Financial Management Series No 94. (American Management Association, New York), p. 7.

A Brief History

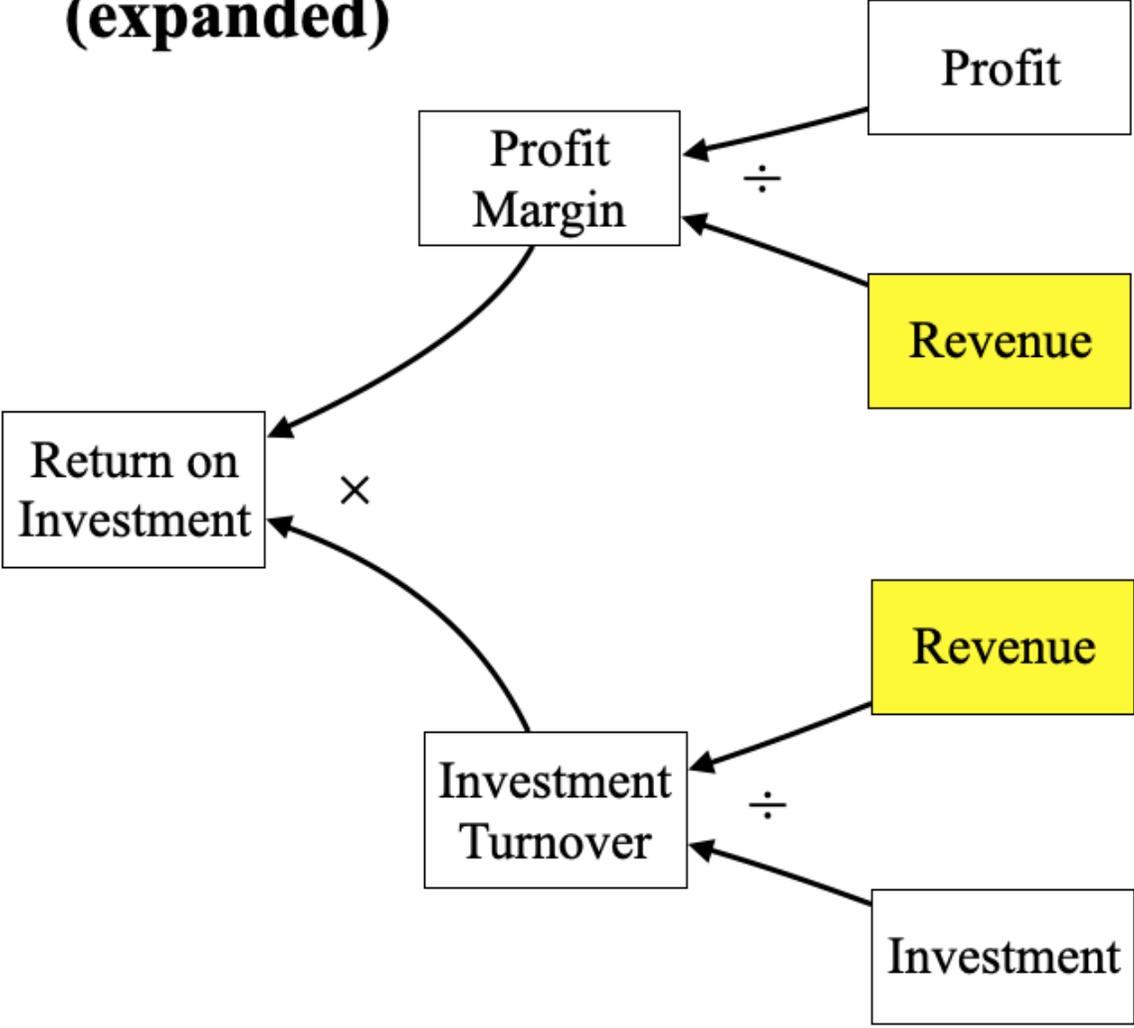
The DuPont Model (expanded)



Source: Davis, T.C., 1950, "How the DuPont Organization Appraises its Performance," in AMA Financial Management Series No 94. (American Management Association, New York), p. 7.

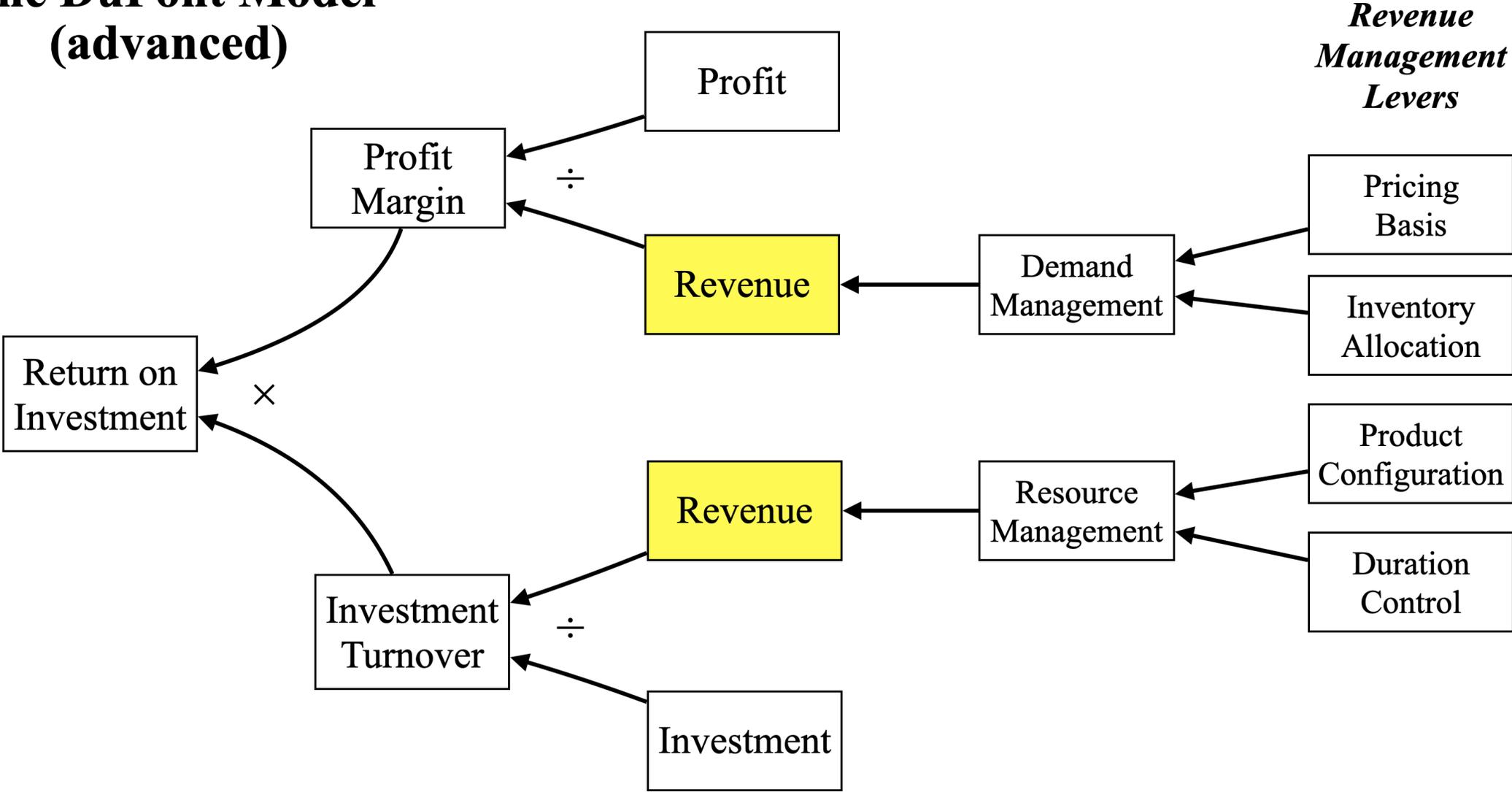
A Brief History

The DuPont Model (expanded)



Source: Davis, T.C., 1950, "How the DuPont Organization Appraises its Performance," in AMA Financial Management Series No 94. (American Management Association, New York), p. 7.

The DuPont Model (advanced)



Source: Harrison, J., F. Ng, P. Rouse, and M. Swain, 2020, "Revenue Management Fundamentals," *Statement on Management Accounting*, (Institute of Management Accountants, New Jersey).





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*Statement on
Management Accounting*

REVENUE MANAGEMENT FUNDAMENTALS

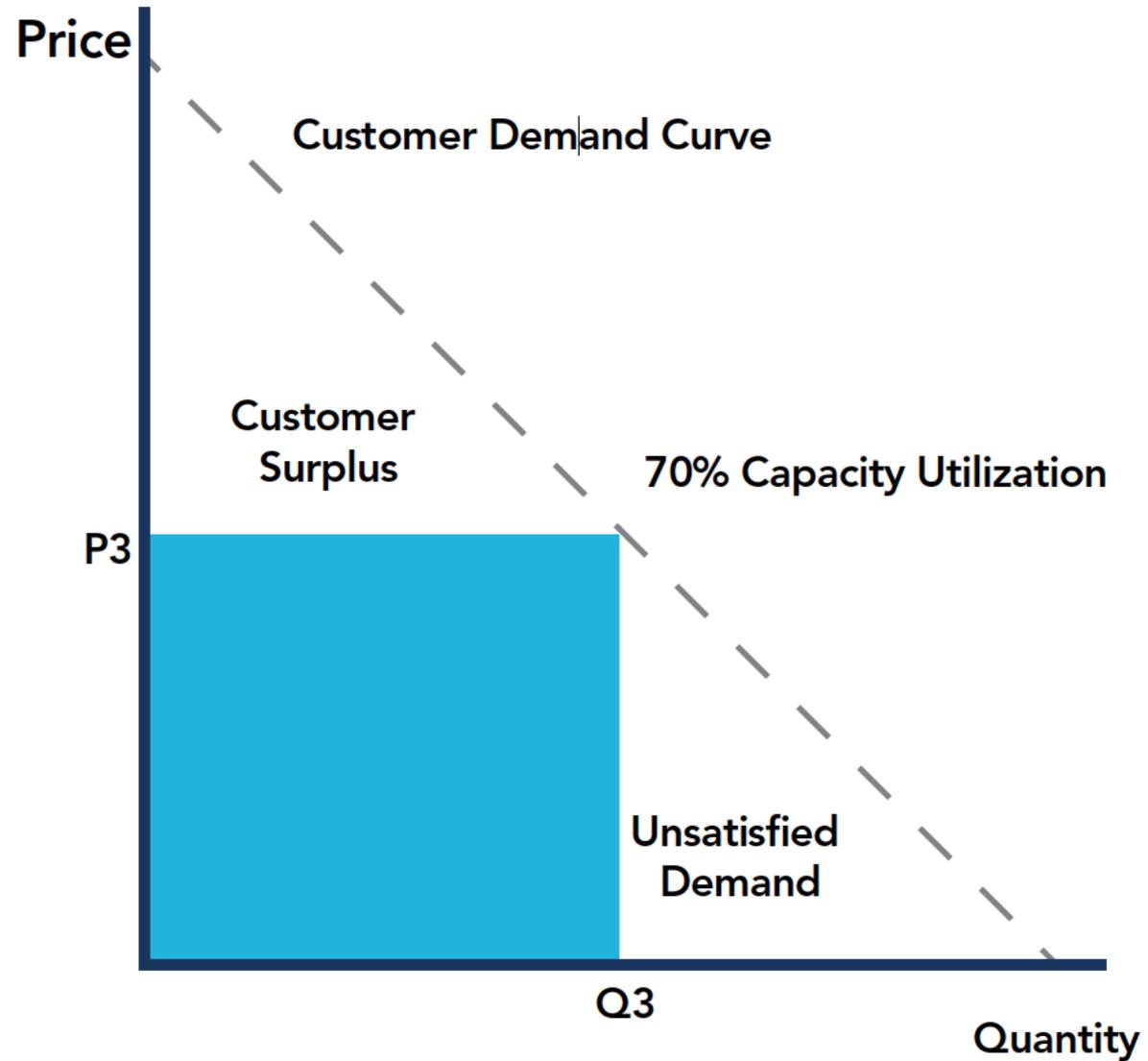
Julie Harrison, Fred Ng, Paul Rouse,
and Monte Swain (Oct 2020)



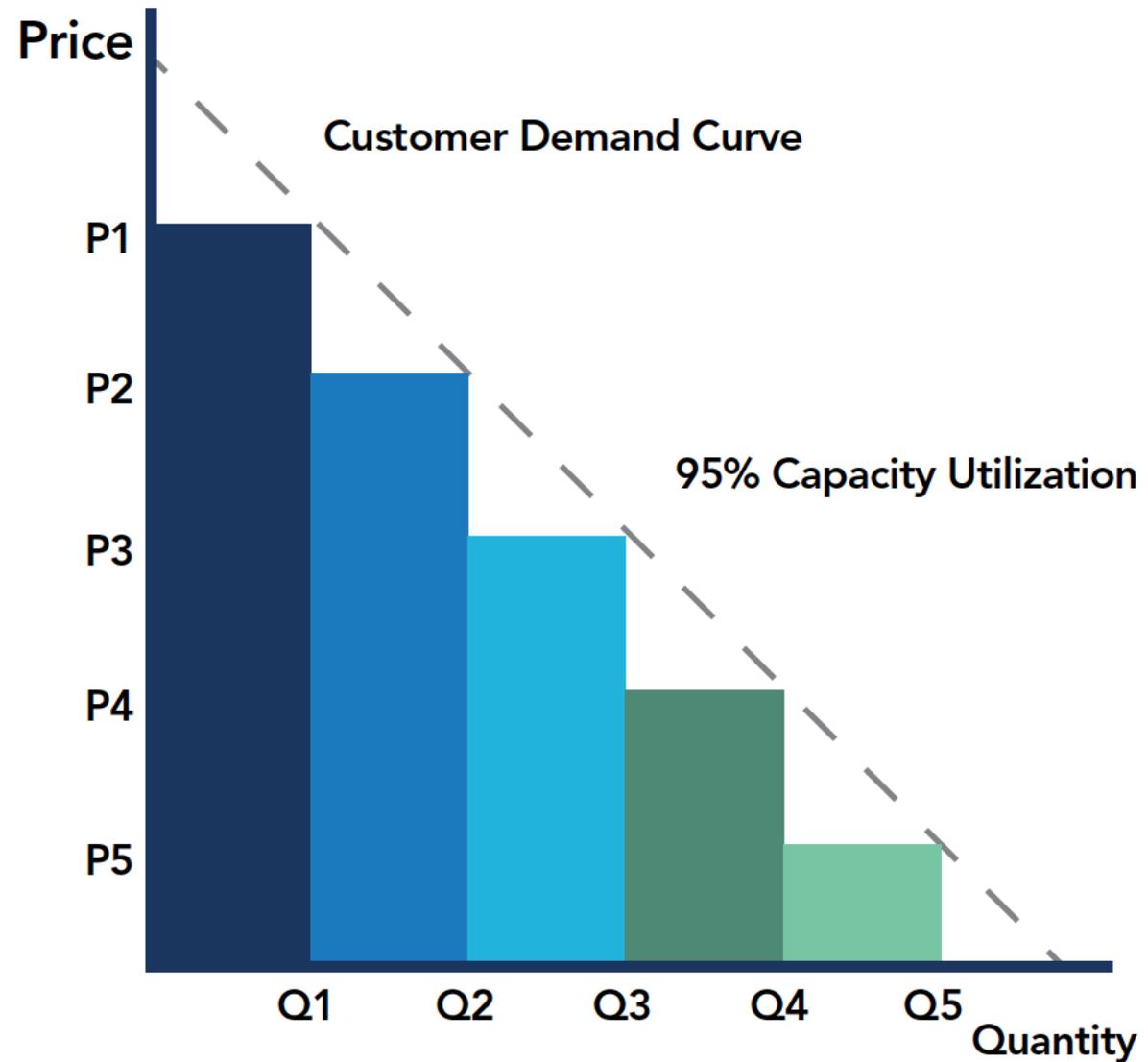
The Four Revenue Management Levers

Customer Segmentation and Yield Management





One Price - No Segmentation



Several Prices - Segmentation

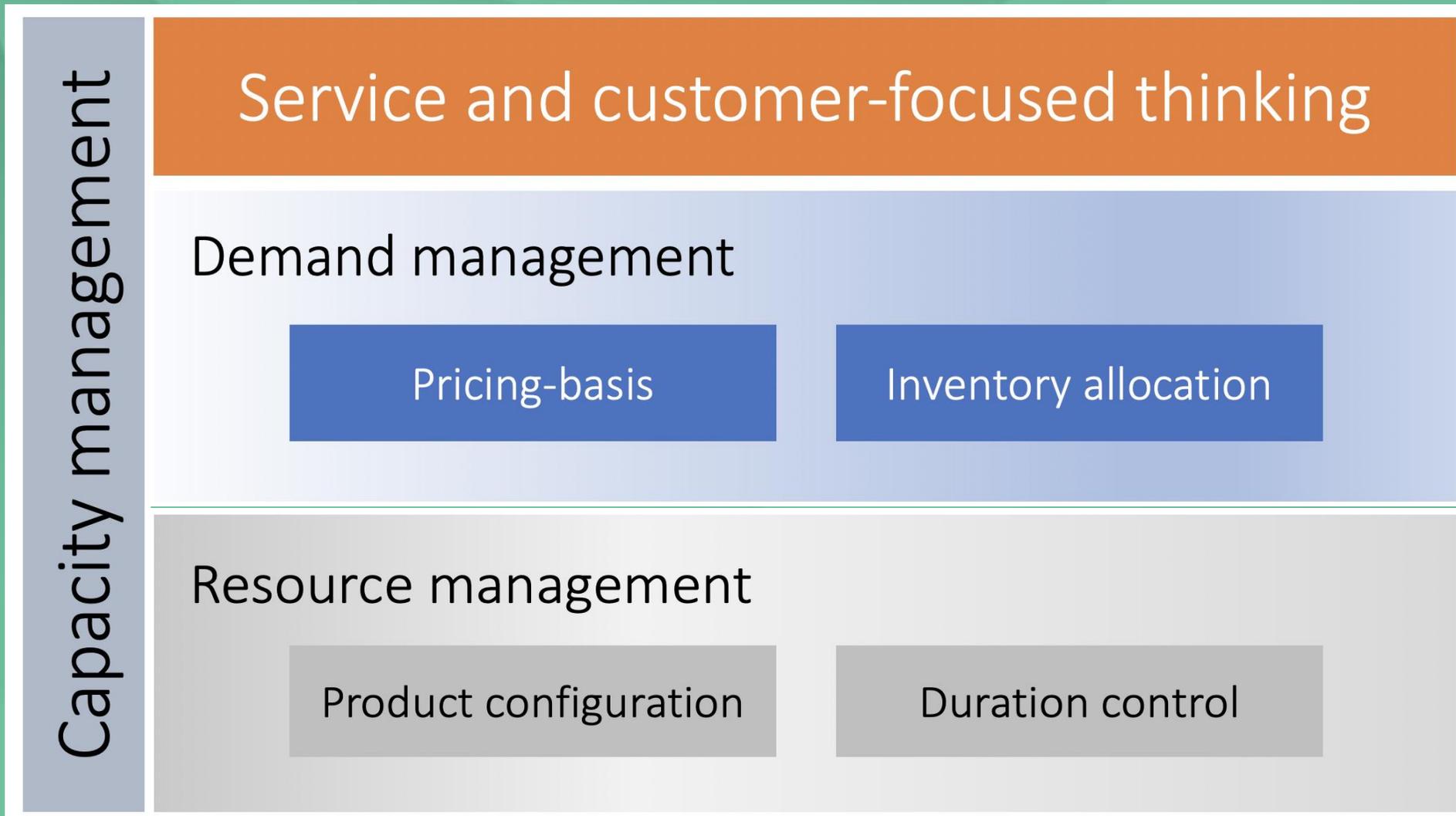
Poll Question 2:

I would describe customer segmentation for my organization as follows:

- a. Largely nonexistent
- b. Some effort to work with different customer patterns
- c. Pricing is adjusted based on certain customer traits or expectations
- d. Significant strategic prices and processes in place for customer segments

Poll Question 2 Results: (Placeholder)

Revenue Management – Four Levers



Revenue Management Intensity in Organizations

Intensity of Revenue Management Practices

Revenue Management Lever	Lower Intensity (Level 1)	(Level 2)	(Level 3)	Higher Intensity (Level 4)
Pricing Basis	<p>Resource Focused</p> <p>Pricing is primarily based on costs or is following not-for-profit objectives.</p>	<p>Pricing follows market standard prices. Limited variation in prices among different groups or area trends.</p>	<p>Pricing is strategic, aimed at a price point relative to the market. Pricing captures differences among groups area trends.</p>	<p>Customer Need Focused</p> <p>Pricing is based on the value of specific product attributes. It captures differences among customer segments.</p>

Organization	Pricing Basis
International Airline Carrier	Intensity Level 4 Pricing bands, termed fare classes, that satisfy different customer segments are based on market behavior and strategic importance.
Stand-Alone Entertainment Retail Store	Intensity Level 2 Due to the take-it-or-leave-it nature of small retail, pricing is cost based. If popular, price increases take place only when item is restocked. No customer segmentation.
Government-Funded Homecare Services	Intensity Level 3 A case mix system is used to sets fee-for-service pricing that varies according to standard needs of different client groups (case segments).

Organization Examples of Intensity

Intensity of Revenue Management Practices

Revenue Management Lever	Lower Intensity (Level 1)	(Level 2)	(Level 3)	Higher Intensity (Level 4)
Inventory Allocation	Ad Hoc No change or infrequent changes in price and customer priorities. Is often informed by unstructured judgment.	A fixed schedule determines how prices and priorities change over the year. These are across-the-board changes.	Periodic review to inform price and priority changes. Changes target groups of products and broad time periods.	Systematic Constant review to inform price and priority changes. Changes target individual products and specific time periods.

Organization	Pricing Basis	Inventory Allocation
International Airline Carrier	Intensity Level 4 Pricing bands, termed fare classes, that satisfy different customer segments are based on market behavior and strategic importance.	Intensity Level 4 Pricing bands are opened and closed daily based on highly-structured demand analytics. Tactical promotions are also employed to move seasonal inventory.
Stand-Alone Entertainment Retail Store	Intensity Level 2 Due to the take-it-or-leave-it nature of small retail, pricing is cost based. If popular, price increases take place only when item is restocked. No customer segmentation.	Intensity Level 3 Slow-moving items are effectively “Dutch Actioned” over several weeks. Order sizes are small to minimize waste due to incorrect estimates.
Government-Funded Homecare Services	Intensity Level 3 A case mix system is used to sets fee-for-service pricing that varies according to standard needs of different client groups (case segments).	Intensity Level 4 District health boards are established to determine resource allocation. Resources are then allocated based on customer needs within case segments

Organization Examples of Intensity

Intensity of Revenue Management Practices

Revenue Management Lever	Lower Intensity (Level 1)	(Level 2)	(Level 3)	Higher Intensity (Level 4)
Product Configuration	<p>Physical Differences</p> <p>Offerings are made using diverse inputs and processes. Product range does not aim to segment customers.</p>	<p>Offerings vary in either inputs or processes. Radical new products are introduced as tactical responses.</p>	<p>Offerings are built from a set of core inputs and processes. Occasional use of radical new products. The product range is structured around add-ons.</p>	<p>Nonphysical Differences</p> <p>New products are regularly created using existing core inputs and processes. Product range is structured around restrictions and add-ons.</p>

Organization Examples of Intensity

Organization	Pricing Basis	Inventory Allocation	Product Configuration
International Airline Carrier	Intensity Level 4 Pricing bands, termed fare classes, that satisfy different customer segments are based on market behavior and strategic importance.	Intensity Level 4 Pricing bands are opened and closed daily based on highly-structured demand analytics. Tactical promotions are also employed to move seasonal inventory.	Intensity Level 4 Many product options are created using nonphysical differences, such as ticket terms, quantity purchased, or restrictions on amenities.
Stand-Alone Entertainment Retail Store	Intensity Level 2 Due to the take-it-or-leave-it nature of small retail, pricing is cost based. If popular, price increases take place only when item is restocked. No customer segmentation.	Intensity Level 3 Slow-moving items are effectively “Dutch Actioned” over several weeks. Order sizes are small to minimize waste due to incorrect estimates.	Intensity Level 2 A deep catalogue and the customer exploration experience is used to provide product differentiation. Secondhand stock provides additional unique variation.
Government-Funded Homecare Services	Intensity Level 3 A case mix system is used to sets fee-for-service pricing that varies according to standard needs of different client groups (case segments).	Intensity Level 4 District health boards are established to determine resource allocation. Resources are then allocated based on customer needs within case segments	Intensity Level 2 Case mix data are used to tailor service levels to client group needs, resulting in different core service products that are matched to customers within case segments.

Intensity of Revenue Management Practices

Revenue Management Lever	Lower Intensity (Level 1)	(Level 2)	(Level 3)	Higher Intensity (Level 4)
Duration Control	<p>Reactive Improvements Initiatives target overall improvement or to speed up internal processes as problems arise without focusing on reducing customer variation.</p>	<p>Initiatives detect and alleviate bottlenecks. The focus is on internal activity, with indirect effects on reducing customer variation.</p>	<p>Initiatives actively mitigate the internal effect of customer variation. There is limited focus on changing customer behavior.</p>	<p>Stabilizing Usage Initiatives help regulate customer arrivals and discourage bespoke requests with a strong focus on changing customer behavior.</p>

Organization Examples of Intensity

Organization	Pricing Basis	Inventory Allocation	Product Configuration	Duration Control
International Airline Carrier	Intensity Level 4 Pricing bands, termed fare classes, that satisfy different customer segments are based on market behavior and strategic importance.	Intensity Level 4 Pricing bands are opened and closed daily based on highly-structured demand analytics. Tactical promotions are also employed to move seasonal inventory.	Intensity Level 4 Many product options are created using nonphysical differences, such as ticket terms, quantity purchased, or restrictions on amenities.	Intensity Level 4 Constant innovation to reduce time and cost of check-in and boarding process. Customers that demand more flexibility are charged higher prices.
Stand-Alone Entertainment Retail Store	Intensity Level 2 Due to the take-it-or-leave-it nature of small retail, pricing is cost based. If popular, price increases take place only when item is restocked. No customer segmentation.	Intensity Level 3 Slow-moving items are effectively “Dutch Actioned” over several weeks. Order sizes are small to minimize waste due to incorrect estimates.	Intensity Level 2 A deep catalogue and the customer exploration experience is used to provide product differentiation. Secondhand stock provides additional unique variation.	Intensity Level 1 Little attention paid to how customers are browsing the store. Point-of-sale transactions and product inquiries can create backlogs due to limited staff time.
Government-Funded Homecare Services	Intensity Level 3 A case mix system is used to sets fee-for-service pricing that varies according to standard needs of different client groups (case segments).	Intensity Level 4 District health boards are established to determine resource allocation. Resources are then allocated based on customer needs within case segments	Intensity Level 2 Case mix data are used to tailor service levels to client group needs, resulting in different core service products that are matched to customers within case segments.	Intensity Level 3 Duration of care is defined by case segment category and client need. Providers then design service packages appropriately.

Poll Question 3:

My organization clearly employs the following revenue management levers: (please select all that apply)

- a. Pricing basis
- b. Inventory allocation
- c. Product configuration
- d. Duration control

Poll Question 3 Results: (Placeholder)

Should You Invest in Better
Revenue Management?

Self-Diagnostic Questions

Business Context Demand for Revenue Management Practices

Demand Variation	<ul style="list-style-type: none">• Are there periods when you have too much capacity and periods when you have too little capacity?• Do you experience wide variation in customer demand across time periods?
Customer Variation	<ul style="list-style-type: none">• Does your business serve a wide variety of customers who vary in their needs and willingness to pay for your product or service?
Perishability	<ul style="list-style-type: none">• Is it difficult to store your finished product or delay the availability of your service?• Do the market deliverables of your business lose value over time?

Invest in RM?

Self-Diagnostic Questions

Engaging the Four Revenue Management Levers

Pricing Basis	<ul style="list-style-type: none">• Do you tend to charge the same price for your products or services to all customers?• Are your prices based mainly on costs or are in direct response to competitor price movements?
Inventory Allocation	<ul style="list-style-type: none">• Do you sell your product or provide your service on a first-come, first-served basis?• Do you charge the same price for your product or services during both high- and low-demand periods?
Product Configuration	<ul style="list-style-type: none">• Does your product or service range require a wide variety of different resources to produce?• Does your product or service innovation usually involve radically new products?
Duration Control	<ul style="list-style-type: none">• Do you have the same operating procedures during both busy and slow periods?• Do you accept variation in customer behavior as given?

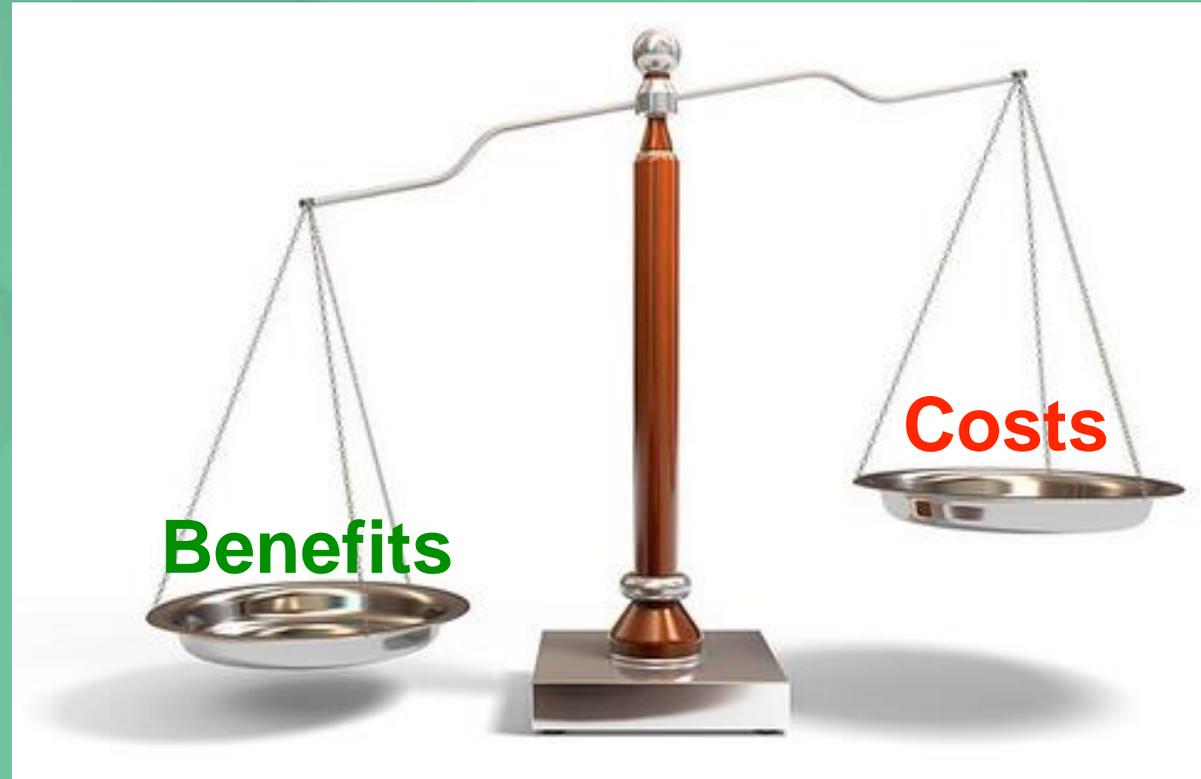
Self-Diagnostic Questions

Potential Role of Accounting for Revenue Management

- Do business functions such as marketing, sales, and distribution consider your cost information irrelevant?
- Do your business functions work on different strategic goals with limited coordination?
- Is the accounting information provided for decision making in your business primarily focused on costs or budget targets?

Determine Your Intensity

REVENUE MANAGEMENT PRACTICE	LOWER INTENSITY (LEVEL 1)	(LEVEL 2)	(LEVEL 3)	HIGHER INTENSITY (LEVEL 4)
PRICING BASIS				
INVENTORY ALLOCATION				
PRODUCT CONFIGURATION				
DURATION CONTROL				



Invest in RM?

Poll Question 4:

In my organization, accounting and finance provides the following revenue management functions: (please select all that apply)

- a. Reporting revenue budgets and actuals
- b. Data capture and data analytics on revenue patterns
- c. Identifying and assessing customer segment data
- d. Deploying and reporting on key revenue performance measures
- e. Assessing revenue effectiveness of key assets
- f. Designing control processes for at least one revenue management lever

Poll Question 4 Results: (Placeholder)

Questions and Answers



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Thank you to Our Featured Presenters!



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Final Reminders

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