

## YIELD MANAGEMENT LESSON

### **ARIZONA SALES AND MARKETING STATE STANDARDS:**

- 2.0 Describe the effects of economics on marketing decisions.
- 2.1 Explain how scarcity of economic resources affects marketing decisions.
- 2.2 Explain how supply and demand relate to price and production.
- 2.3 Explain how marketing creates economic utility.
- 5.0 Examine the role of marketing in making business decisions
- 5.3. Explain how the marketing concept affects business decisions.

### **ARIZONA HOSPITALITY STATE STANDARDS:**

- 1.4 Examine the impact of technology on the hospitality industry
- 4.0 Examine customer service standards
- 4.1 Examine Reservation Systems
- 5.1 Schedule and assign work
- 5.3 Maintain records and forms
- 5.4 Perform general accounting skills
- 5.5 Analyze financial expenses.

### **ARIZONA STATE WORKPLACE STANDARDS:**

- 1.0 Students use principles of effective oral, written and listening communication skills to make decisions and solve workplace problems.
- 2.0 Students apply computation skills and data analysis techniques to make decisions and solve workplace problems.
- 3.0 Students apply critical and creative thinking skills to make decisions and solve workplace problems
- 4.0 Students work individually and collaboratively within team setting to accomplish objectives.
- 5.0 Students demonstrate a set of marketable skills which enhance career options.
- 6.0 Students demonstrate technological literacy for productivity in the workplace.
- 7.0 Students apply principles of resource management and develop skills that promote personal and professional well-being.

### **ARIZONA STATE TECHNOLOGY STANDARDS:**

- 1.0 Student develop the essential technology skills for using and understanding conventional and current tools, materials and processes.
- 4.0 Students understand the interrelationships of knowledge and how they are used to solve technology problems in school, the workplace and society.

### **ACADEMIC STANDARDS FOR LANGUAGE, SCIENCE, AND MATH AS ALIGNED TO THE ARIZONA AIMS TEST**

- 1LP4 Evaluate technical journals or workplace document for purpose, organizational pattern, clarity, reliability and accuracy, and relevancy of information.
- 3LP2 Deliver an impromptu speech that is organized and well suited to the audience and that uses resource materials to clarify and defend positions.
- 2MP2 Use appropriate technology (e.g., graphing calculators, computer software) to display and analyze data.

2MD1 Transform data to aid in data interpretation and prediction.

3SP1 Apply scientific thought processes and procedure to personal and social issues.

6SD1 Identify and predict natural hazards, using historical data.

**RESOURCES: *Equipment, Materials, Teaching Aids.***

=>Marketing for Hospitality and Tourism, Kolter, Bowen and Makens

=>Scenario cards

=>Calculators

**Lesson Plan for Course Title:** HOSPITALITY MARKETING  
**Day** Monday **Date and Year** December 2, 2002  
**Topic of Unit:** Pricing  
**Unit Lesson:** Ch 12 Pricing Products  
**Class Duration:** 90 Minutes

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**STANDARDS:**

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**LEARNER OUTCOMES:** *Instructional Objectives.*

Students should be able to:

- Understand how to apply pricing strategies for existing products.
- Understand how supply and demand relate to price.
- Understand how price affects pricing decisions.

**BELLWORK:** *Transition*

Have you ever purchased hotel or airline ticket? Where did you go or stay? What did you pay?

**INTRODUCTIONS:** *Focus and Anticipatory Set.*

Ask students if they have ever purchased hotel or airline tickets. What did you pay? How about you? Are the prices different? Why? (list answers) These different prices are part of the marketing concept, pricing. Price helps businesses segment the market and maximize their profit. It is the study of what the consumer is Willing and Able to buy at a particular time. It is the law of supply and demand at its best.

**INSTRUCTIONAL INPUT:** *Teaching Procedures and Student Activities.*

With existing Product Pricing Strategies there are 2 approaches: Product Bundling or Price Adjustment.

When you Bundle, you simply group together a hotel, airline, rental car and/or attraction for a lower cost than if it were purchased separately. You package them. This type of strategy avoids the price slashing war and gives the perception of having a high quality product, while hiding the actual costs of each item.

Pricing adjustments have 5 strategies: discount, discriminatory, yield management, psychological and promotional.

- Discounts are given on items purchase at certain times of the year or on volume.
- Discriminatory pricing is how companies maximize the amount that a customer pays for a product. The company sells a product at two or more prices. The difference in price is based on customer segment, timing, location etc. To discriminate successfully, the consumer must have different response to price; they must value the service differently.
- Psychological pricing uses aspects like prestige, and round figures to influence the customer.
- Promotional pricing is where the provider temporarily lowers the price for a special event to encourage customer to purchase and promotes a positive image for the company.
- Yield Management is an application of discriminatory pricing. The concept behind yield management is to manage revenue and inventory effectively by pricing differences based on the elasticity of demand for selected customer segments.

To help you understand yield management, listen to this story (or make copies ahead of time and hand out) and let me know how it relates to your experiences of purchasing an airline ticket.

Share "Buying Paint from a Hardware Store" story.

#### **BUYING PAINT FROM A HARDWARE STORE**

>Customer: Hi. How much is your paint?

>Clerk: We have regular quality for \$12 a gallon and premium for \$18. How many gallons would you like?

>Customer: Five gallons of regular quality, please.

>Clerk: Great. That will be \$60 plus tax.

#### **BUYING PAINT FROM AN AIRLINE**

>Customer: Hi, how much is your paint?

>Clerk: Well, sir, that all depends.

>Customer: Depends on what?

>Clerk: Actually, a lot of things.

>Customer: How about giving me an average price?

>Clerk: Wow, that's too hard a question. The lowest price is \$9 a gallon, and we have 150 different prices up to \$200 a gallon.

>Customer: What's the difference in the paint?

>Clerk: Oh, there isn't any difference; it's all the same paint.

>Customer: Well, then, I'd like some of that \$9 paint.

>Clerk: Well, first I need to ask you a few questions. When do you intend to use it?

>Customer: I want to paint tomorrow, on my day off.

>Clerk: Sir, the paint for tomorrow is the \$200 paint.

>Customer: What? When would I have to paint in order to get the \$9 version?

>Clerk: That would be in three weeks, but you will also have to agree to start painting before Friday of that week and continue painting until at least Sunday.

>Customer: You've got to be kidding!

>Clerk: Sir, we don't kid around here. Of course, I'll have to check to see if we have any of that paint available before I can sell it to you.

>Customer: What do you mean check to see if you can sell it to me? You have shelves full of that stuff; I can see it right there.

>Clerk: Just because you can see it doesn't mean that we have it. It may be the same paint, but we sell only a certain number of gallons on any given weekend. Oh, and by the way, the price just went to \$12.

>Customer: You mean the price went up while we were talking!

>Clerk: Yes, sir. You see, we change prices and rules thousands of times a day, and since you haven't actually walked out of the store with your paint yet, we just decided to change. Unless you want the same thing to happen again, I would suggest that you get on with your purchase. How many gallons do you want?

>Customer: I don't know exactly. Maybe five gallons. Maybe I should buy six gallons just to make sure I have enough.

>Clerk: Oh, no, sir, you can't do that. If you buy the paint and then don't use it, you will be liable for penalties and possible confiscation of the paint you already have.

>Customer: What?

>Clerk: That's right. We can sell you enough paint to do your kitchen, bathroom, hall and north bedroom, but if you stop painting before you do the bedroom, you will be in violation of our tariffs.

>Customer: But what does it matter to you whether I use all the paint? I already paid you for it!

>Clerk: Sir, there's no point in getting upset; that's just the way it is. We make plans based upon the idea that you will use all the paint, and when you don't, it just causes us all sorts of problems.

>Customer: This is crazy! I suppose something terrible will happen if I don't keep painting until after Saturday night!

>Clerk: Yes, sir, it will.

>Customer: Well, that does it! I'm going somewhere else to buy my paint.

>Clerk: That won't do you any good, sir. We all have the same rules. Thanks for painting with our airline.

Is this similar to what you experienced? Does this type of pricing really work? Does it maximize profit? And if I completely sell out an airplane, do I maximize my profit?

If I completely sell out an airplane, do I maximize my profit? Let's see.

#### **ASSIGNMENT:**

(This can be done individually or in groups)

You, The Student, are in charge of maximizing revenue for a 100-seat airplane. You can only overbook by 10% and you lose \$300 for any seats that you have overbooked at the end of the game. You will have a series of groups interested in booking in the next 30 days. You must book the flights and maintain your profit while doing so. Remember, you only have 100 seats and can only overbook by 10%. Get out your paper and a calculator.

## ***The Airline Game***

### ***30 Days Out***

*From the following list of potential clients, choose the groups or persons that you want to book on your airline. Remember that you can overbook by only 10%, but any seats that end up overbook cost you \$300 at the end of the game.*

*60 High School Students at \$125 each  
 15 Nurses at \$375 each  
 4 Frequent Flyers @ no charge and you must take them.  
 40 seniors at \$200 each  
 Moore family of 4 @\$175 each  
 Davis family of 6 @\$150 each  
 Couple on Honeymoon @\$375 each*

### ***20 Days Out***

*Now you make these adjustments from the phone calls today. Remember that you cannot go back and make changes from 30 days out.*

*Church group of 60 @\$200 each  
 Smith Family of 5 @\$160 each  
 Oaks Family of 8 @\$135 each  
 Reunion group of 15 @\$400 each  
 High School Students call and cancel 20 people so they now have 40 students @\$125  
 The nurses add 5 more people @\$375*

### ***10 Days Out***

*The High School groups now calls and adds 10 more @\$125 each  
 Volleyball team of 20 @\$200 each  
 Fleming family of 4 @\$200 each  
 Thompson family of 8 @\$175 each  
 Smith family cancels all 5 @\$160*

### ***Day of Flight***

*The senior tour cancels All 40 @\$200  
 The nurse group cancels 8 people @\$375  
 Thompson family of 8 cancels @\$175  
 Kline Couple @\$500 each  
 3 Business Travelers @\$575 each  
 DECA group of 50 @\$100 each*

### ***Now calculate your money.***

*How many seats did you sell?  
 How much money did you make?  
 Who make the most money?*

**CLOSURE: *Lesson Summation and Learner Participation.***  
***(Use total engagement tools)***

Ask at the end of class the objectives

**RESOURCES: *Equipment, Materials, Teaching Aids.***

=>Marketing for Travel and Tourism, Kotler, Bowen and Makens

=>Skip Thompson, Continental Airlines

=>Calculator

**My comments about the class, timing and schedule changes etc.**