

Revenue Management: A Business Discipline, Not A Project



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Everyone does pricing. Some do it by intuition, others do it in a more sophisticated way. Every seller knows that you want the price to be just right—not so high that you put off potential buyers and not so low that you lose out on potential profits.

Self-storage operators face pricing decisions every day: which unit to sell, how much to ask for it, when to drop or increase the price, when to offer a promotion, how to respond to competitors, when and how much to increase the in-place rent, how fast to lease a new store, and more. Anyone facing such decisions knows the uncertainty involved.

Revenue Management (RM) is the discipline that helps business owners take the guess work out of pricing. It uses advanced data-driven algorithms to consistently find the optimum price for a product under multiple market conditions. As data becomes ubiquitous, RM is becoming a mainstream management discipline, upending entire industries by altering the way prices are set.

Yet, for all its momentum, many self-storage operators have yet to deploy the full power of RM. In fact, the number one competitor of RM is still intuition or gut-based decision making. These are popular because they are cheap and readily available. However, the capacity of RM far exceeds that of the human brain in processing large amount of data. We humans are also lousy forecasters; we tend to interpret information in a way that confirms our own preexisting beliefs or hypotheses.

To overcome some of these biases, self-storage operators have begun to invest in RM. However, many still see it as a project rather than an ongoing process that involves wide range of tactics, decisions, methods, and technologies. Done right, a great RM program will contribute to customer satisfaction, loyalty, and retention—key drivers of long-term value.

So, what distinguishes a great RM program from an average one?

For starters, RM is not about pricing dynamically for sake of being dynamic; you must be able to justify why prices are changing. Second, RM is not about following competitive prices blindly; you must be able to measure the impact of competitive price changes to your own demand. Third, RM is about pricing based on customer preferences—not based on your product lineup or your own preferences. Finally, moving forward with RM means that you need to stop living in the past. What just happened at your property is less relevant than what is about to happen. You must then be able to forecast demand and price accordingly.

When successfully implemented, an RM solution is truly transformative. It is never a “plug and play” solution. It requires enterprise-wide changes in business processes, mindsets, culture, work roles, responsibilities, and how a business operates.

This mindset change starts with management viewing RM as a business discipline instead of a project that has a beginning and an end. After all, a price is just a number and setting a price is an event in time. Optimal pricing is an ongoing journey.