Editorial

Measuring the profit impact of pricing & revenue management

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Chief executives increasingly pay attention to pricing (Liozu and Hinterhuber, 2013); the idea that pricing capabilities are an important source of competitive advantage is finding support from both qualitative and quantitative studies (Dutta *et al*, 2002; Hallberg, 2008; Flatten *et al*, 2014; Liozu and Hinterhuber, 2014a, b). The key question is, does an improvement in pricing lead to an improvement in performance? This special issue attempts to provide an answer.

On one side, although many companies struggle to effectively measure the return from marketing activities, they report that measuring marketing ROI is increasingly important (Stewart, 2009). Measuring the return from activities in pricing is even more challenging: in 2013 the results of a survey of 313 pricing and revenue management professionals around the world reveal that the vast majority (70 per cent) see the formal measurement of the returns from pricing and revenue management activities as important (Liozu and Hinterhuber, 2014a, b, p. 198). However, a majority of respondents (53 per cent) report not having a formal internal process for this measurement. This survey reveals serious gaps in the skills and capabilities required to formally measure the impact of pricing and revenue management (Liozu and Hinterhuber, 2014a, b, p. 202). When asked about the difficulties in measuring the impact of pricing and revenue management, most pricing professionals report difficulty measuring the overall incremental pricing effect for pricing initiatives, citing definitions, measurement and data collection as main obstacles.

On the other side, some studies document a relationship between initiatives in pricing, initiatives in revenue management and firm performance. In particular, Skugge (2004) finds that the introduction of revenue management translates to an average increase of revenues of 3–7 per cent. Liozu and Hinterhuber (2013) find that value-based pricing is positively linked to firm performance but that competition-based pricing is negatively linked to firm performance. Studies specifically concerned with new product pricing report similar findings (Ingenbleek *et al*, 2003; Ingenbleek *et al*, 2010). In a study of retailers, Khan and Jain (2005) find that simple models of quantity-based price discrimination at the chain level – as opposed to more-complicated models of price discrimination at the store level – substantially increase retailer profits. While all these studies suggest that pricing initiatives do increase firm performance, our understanding of the relationship between pricing initiatives and firm performance is incomplete. We have only a limited understanding of antecedents (Queenan *et al*, 2011), research on moderator and mediator effects is largely absent, and, finally, research on the psychological and behavioral foundations of profitable pricing strategies is fairly recent (Hinterhuber, 2015; Liozu, 2015).

We need more studies. If pricing and revenue management are to become a managerial practice that can influence the strategic direction of firms, we need more-rigorous academic

research that systematically links pricing and revenue management to profit performance. These needs motivate this special issue of the *Journal of Pricing and Revenue Management*. In providing an open platform to promote the subject of the profit impact of pricing and revenue management, we intend to raise pricing professionals' awareness and skills with respect to the need to measure the profit impact of their activities and programs. An exploration of the relationship between pricing, revenue management and firm performance is thus critically important for pricing practitioners, and it is equally important for research.

This special issue offers six papers that address the profit impact of pricing and revenue management. First, Stoppel and Roth study the consequences of usage-based pricing in industrial markets. They highlight the potentials of usage-based pricing and analyze the profit impact of such a pricing scheme compared with posted-pricing selling. Kellerman and Cleophas analyze the impact of revenue management on customer reference prices in the European long-distance railway industry. Qiu and Xu investigate how channel members collaboratively implement introductory pricing strategies to develop a market for an innovative product. They link these strategies to the concept of profit sharing with customers. Johansson, Keränen, Hinterhuber, Liozu and Andersson suggest that value assessment and pricing capabilities provide the foundation for value creation and value appropriation in business-to-business markets; they highlight opportunities for profiting from value created and delivered, and they outline important areas for future research. Next, Kunz and Crone propose an empirical analysis of the impact of practitioner business rules on the optimality of a static retail revenue management system. They provide an empirical analysis of the impact of commonly applied business rules of using (a) discrete price points, (b) maximum price moves, (c) corridor pricing, and (d) passive pricing on the size and quality of the problem's solution space and their monetary impact. Finally, Hinterhuber and Liozu discuss the relationships between pricing ROI, pricing capabilities and firm performance. They offer two contributions: they explore the concept of pricing ROI, and they document a positive link between pricing ROI and firm performance.

This special issue helps advance the topic of the profit impact of the pricing and revenue management disciplines. This issue is an important step, but clearly more work in this area is warranted: all papers in this special issue highlight the implications for practicing pricing and revenue managers and lay out opportunities to contribute to further research in this important domain. As co-editors of this special issue, we are dedicated to advancing the field of pricing and revenue management, and we strongly encourage researchers to demonstrate the profit impact of these disciplines. We hope that this call for more research will resonate in the practitioner and academic communities.

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