

Alessandro Capocchi

Economic Value and Revenue Management Systems

An Integrated Business Management
Model

palgrave
macmillan

Preface

This book is the result of intensive research carried out over the last ten years in order to analyze and observe a complex business phenomenon in both Italian and international contexts. The last decade has seen a profound change in economic dynamics, thanks to the growing diffusion of web-based technologies. The spread of new technologies has been accompanied by the emergence of new forms of entrepreneurship, which have changed the paradigms of doing business. Today, while on the one hand the complexity of doing business has increased, on the other hand new technologies represent not only threats, but also important opportunities for all who are able to grasp them. For example, think of the potential for sharing and disseminating information via the Web; think of the new forms of access to credit and capital-raising with the use of international crowdfunding platforms. The change in economic dynamics also has an impact on how new generations approach entrepreneurship, on the role of universities, and on where new entrepreneurs are born or should be born: it is evident that the Web is replacing the factories, and the new entrepreneur is no longer born in the factory.

Hence, there is a need to reread some fundamental studies of Italian business-economics science in which it is stated that the company is a lasting phenomenon over time, separated from the life of the founder and aimed at achieving conditions of lasting economic equilibrium. The economics and business literature has focused on the systemic nature of the

company and on the opening of the system to the surrounding environment to grasp the dynamic drives that will guide the company in adapting to changes in the environment and, preferably, in anticipating these changes.

The vision of the company as an open and dynamic system is even more real and relevant today, thanks to the phenomena that characterize the sharing economy and the nascent contamination economy.

Within this vision it is important to recapture some fundamental elements of the business phenomenon. These include continuity over time and the need to achieve and maintain conditions of lasting economic equilibrium. Only by maintaining such conditions can the company create social value and contribute to the satisfaction of human needs.

The issue of economic equilibrium also assumes a central role today in the analysis of various business phenomena. Such equilibrium has to be associated with the theme of continuity of the business phenomenon over time. Hence, it is important to understand how, with the increasing complexity of competitive dynamics, the conditions of economic equilibrium have undergone changes over the years. These changes have guided companies to read non-accounting data associated with accounting data that make up financial statements and company reports. The changes have driven companies toward attempts to better understand the habits of their customers and potential customers through customer relation management tools and through the implementation of managerial tools that are increasingly based on mathematical-statistical models on which corporate strategic policies and marketing policies are based. Finally, the changes have brought the customer to the center of competitive systems by attributing increasing relativism to other variables, such as the technical characteristics of the product/service and the price.

In this new competitive context, the price is no longer tied to the market (i.e., the relationship between supply and demand) or to the company's economic constraints (i.e., the costs that the company sustains for production). The price, according to the theory of value creation by M. E. Porter, is increasingly linked to the satisfaction of the client or potential customer, their ability to pay increasing prices, and their willingness to pay. Companies today cannot produce to sell, but must sell at the maximum price that the individual customer, at a given moment and

in a particular place, is willing to pay to buy a unit of product/service. In this new context, the price is not static, but is strongly dynamic. The dynamism of price concerns not only service companies, whose output is intangible, but also manufacturing companies, and more generally the entire economic sector.

The dynamism of the price is consistent with the centrality of the customer. However, this does not detract from the issue of technical efficiency that must guide any business phenomenon. For many years, the issue of sustainable economic equilibrium has been studied only from a financial and economic point of view, neglecting aspects of corporate productivity. Today, thanks to the greater dynamism of the markets, technical efficiency has become more important as it is a necessary, though not sufficient, condition to guarantee maximization of the company's profitability.

The links between technical efficiency and profitability, and between profitability intended as value creation for continuity of the business phenomenon and price dynamism, are summarized in modern revenue management systems.

It is for these reasons I decided to write this book. I wanted to show that, in the greater competitive context, companies—*all* companies—must develop integrated management systems that are able to respond to the logic and principles of revenue management. In fact, revenue management systems are the only ones capable of leading the company toward greater technical efficiency and maximization of profitability based on management of the available production capacity and on the dynamism of the price lever.

This book aims to help the new generations in understanding the essence of the business phenomenon; explain how the continuity of the business phenomenon is closely linked to the ability to create and maintain long-lasting equilibrium conditions; reveal how the creation and maintenance of the conditions of lasting equilibrium are linked to the implementation of complex management systems in which accounting data are added to non-accounting data related to company productivity and knowledge of the customer and potential customer; make it clear how competitiveness today is strictly linked to “customer ownership”—that is, the ability of companies to acquire, maintain, and manipulate

their customers, pushing them to maximize their willingness to pay at any time; explain how complex and integrated management systems must respond to the logic and principles of revenue management; and, finally, facilitate an understanding of revenue management from a management point of view, and not as a mere tool based on mathematical-statistical models.

The business-economics reality is very dynamic, and when this book comes out, the reality will probably already have moved on. This is why I have committed to continuing my clinical analysis of the complex business phenomenology and to guiding and orienting new generations to the dimension of entrepreneurship.

Milan, Italy

Alessandro Capocchi

Acknowledgments

Writing this book involved ten years of work, but also ten years of relationships with people I was lucky enough to meet and get to know, and from whom I had the good fortune and the ability to learn. I cannot thank everyone by name, but I want to underline the many phases of my professional life. Each phase was accompanied by someone who taught me. I have been lucky to encounter so many masters, and my hope is to continue to meet people from whom I can learn.

I also hope to be able to pass on my love of learning to my three sons, Edoardo, Giorgio, and Vittoria Luisa, and my students.

Learning is a demanding, time-consuming activity, at the base of which there must be curiosity, listening, observation, and passion. You learn always and everywhere. Personally, I have also learned a lot in my travels by train, during which I have met different people with very different stories.

Curiosity has always guided me throughout the years, and will continue to guide me in future. I hope that the new generations grow increasingly curious and are not content with limiting their quest for answers to the screen of their smartphone.

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