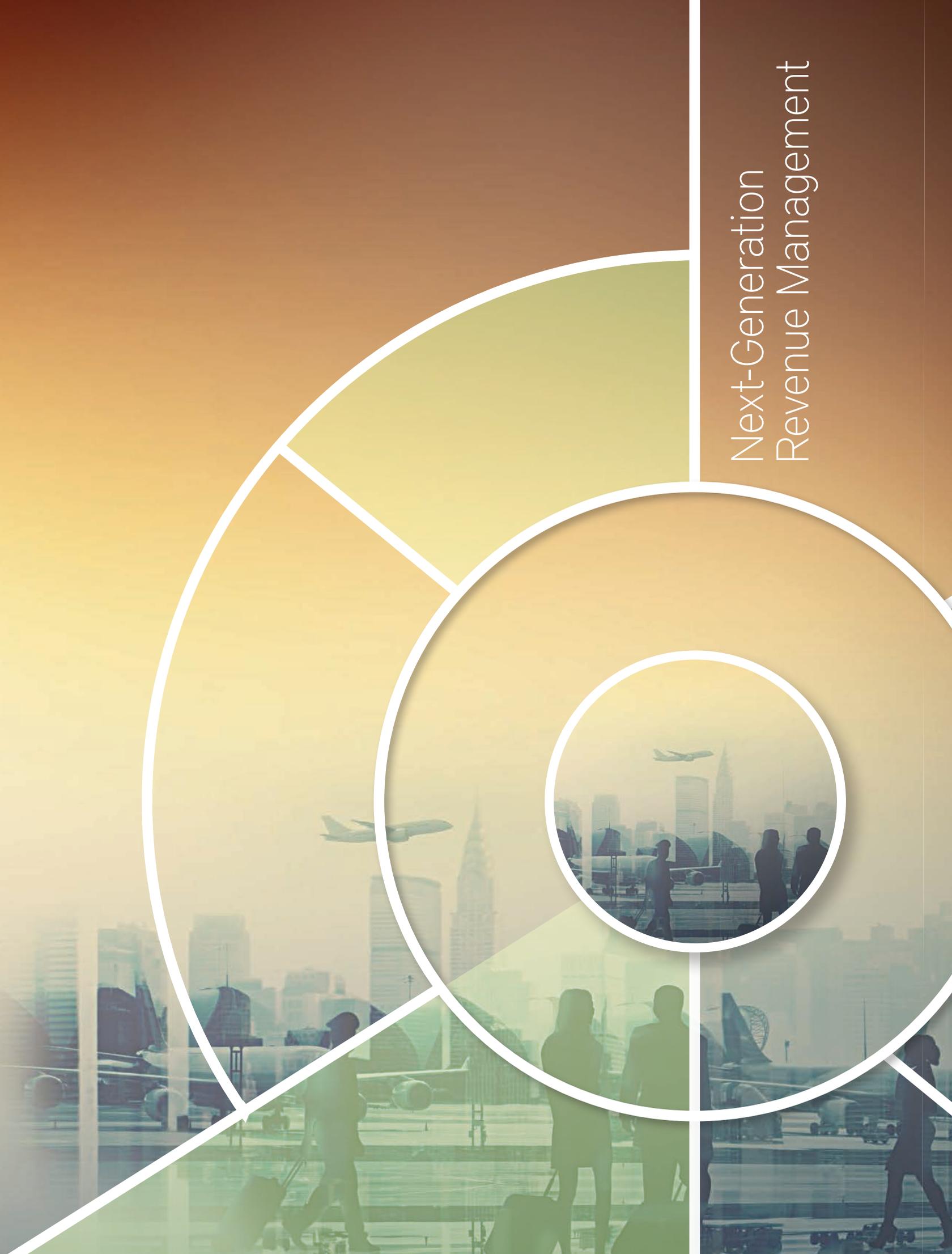


# Next-Generation Revenue Management



# The Revenue-Management Evolution

*A Conversation With Pramod Jain, Vice President Of Marketing And Solutions Management, Sabre Airline Solutions*

By Jade Owens



While the revenue-management systems of yesterday were once considered new and innovative, they have clearly run their course. Traditional revenue-management systems cannot keep up with an airline's need to find every possible source of revenue. In addition, revenue-management processes are largely outdated. For airlines to tap into every possible revenue stream, the entire revenue-management approach — from technology to industry best practices — must make a significant shift.

In doing so, airlines must look to the next generation of revenue-management technology and business processes. This means having access to real-time data, advanced analytics, retail decision-support and systems integration.

Today's most successful airlines will lead the charge by giving revenue-management analysts the level of automation and innovation they need to make educated decisions based on real-time data. In addition, this evolution will enable airlines to realize total revenue optimization, or TRO, a comprehensive, 360-degree approach to managing all sources of airline revenue by incorporating new data into the traditional revenue-management process to maximize revenue generation from all possible sources.

In a recent interview with *Ascend*, Pramod Jain discussed, at a high level, some of today's revenue-management challenges and the methods of solving them.

**Question:** *How has revenue management evolved for airlines during the last 20 years?*

**Answer:** Revenue management has gone through several changes since American Airlines launched the first revenue-management system in the 1980s. First, airlines realized they needed to maximize network revenue management instead of doing it per flight. Then, with increased distribution channels and fare restrictions removed, demand became

much more fluid. By coupling an inventory-management approach with an innovative variable-based pricing strategy centered on understanding, anticipating and influencing customer behavior, airlines were able to maximize revenue and profits from a perishable resource and compete directly with low-cost carriers (LCCs).

Today, revenue management is going through another transformation and airlines must focus on three main objectives:

1. Become better retailers rather than focusing solely on revenue per seat.
2. Become more customer-centric. There is a plethora of data available to help an airline better understand its customers and prepare personalized offers.
3. Become more dynamic by leveraging real-time information about their customers, enabling airlines to present the right offer, at the right price, to the right person, at the right time.

**Q:** *What were some key factors that brought about this revenue-management shift?*

**A:** The last decade bore witness to a lot of change in the airline industry such as restriction-free pricing, fare families, increased ancillary revenues and growth of connecting traffic flows with network alliances/codeshares and low-cost competitors. These changes affected the way airlines practice revenue management. In addition, the existing traditional revenue-management technology is not powerful enough or modern enough to support this evolving environment.

In addition, customer demands and expectations for lower fares have largely resulted in a commoditization of base fares, leaving airlines to focus their efforts on identifying and managing new opportunities to grow revenue, profit and productivity, and further differentiate their brands in the market place. The outcome of their efforts has identified new opportunities for airlines to further increase employee productivity and revenue expansion.

**Q:** *What are some of the major challenges airlines face when it comes to maximizing revenue?*

**A:** Airlines are constantly burdened with how they will increase revenue, productivity and responsiveness to market changes. Then, coupled with deregulated competition and the need to constantly exceed customer expectations, it is a constant cycle of overcoming current challenges while staying ahead to mitigate future ones.

Additionally, revenue sources are increasing, distribution channels continue to expand and more data than ever is available, and the gadgets of today continue to offer more capabilities and accessibility to information, all of which are great and create revenue opportunities. However, keeping up with these items without the proper systems is close to impossible.

The key to creating a competitive advantage for airlines in the 21st century will be their ability to consolidate data and insights regarding revenue potential and revenue performance. In addition, they need to become true retailers so they can make customer-centric decisions and, in-turn, distribute offers based on what, when, where and how the customer wants specific products and services. It's becoming more apparent that airlines need technology partners to stay ahead on future challenges and provide solutions that support their revenue goals.

**Q:** *We keep hearing the term total revenue optimization. What exactly is TRO?*

**A:** Total revenue optimization within the airline industry means being able to successfully identify and understand the profile of individual travelers, the

different segments they want to travel, and which products and experiences these travelers are seeking.

This reverts back to the motivation of why people actually travel. It is about an airline understanding how it is able to get more share of wallet, knowing what types of customers are traveling on its network, and being able to identify customer-buying patterns to follow and produce relevant offerings to generate the highest revenue returns.

TRO is also about airlines having a more holistic perspective of the revenue picture, including codeshare agreements and the implications their partners have on their network, as well as their overall revenue.

**Q: What role does data play in revenue management?**

**A:** Data plays a large role in successful revenue management. The airline industry has moved to a retailing mindset, and to properly attract and retain today's customers and impeded competitive nuances, data in the form of proactive, actionable information and communications is necessary.

Traditional revenue-management systems have relied on a batch-based, processing methodology and predefined data processing intervals. However, airlines need to be aware of market and competitive changes as they occur. Markets evolve dynamically, not according to intervals.

One of the greatest influences over the future success of an airline's business and competitive standing in the market is its ability to understand who is traveling across its network and how much each passenger spends across all revenue streams. Such detailed traveler information exists; however, airlines need the technology to make this data readily available and accessible to support accurate, real-time decision-making that provides an airline with a competitive advantage.

**Q: How can airlines do a better job of collecting and analyzing real-time data? What are the benefits?**

**A:** We live in world that is continuously connected with up-to-date information constantly at our fingertips, so it is completely unreasonable to expect a revenue analyst using any decision-support system to make decisions based on stale data.

To overcome this challenge, a revenue-management system with real-time capabilities is necessary. The modern system should eliminate data lag, compile data into one system and present the data in an easy-to-consume format that improves analysts' confidence in the data collected. The ability of a revenue-management system to support a quick response to all types of changes in the marketplace — big, small, internal and external — with real-time data is likely to be a game changer for the airline industry.

Furthermore, an airline cannot only focus on the frequency of data. It must also think about the volume of data the system can process. Utilizing scalable platforms that can handle complex data produces improved productivity from analysts because the time to review flights will decrease and the time spent on strategic initiatives will increase.

In addition, an airline's revenue analysts are ultimately the critical component, as the front-line stakeholders, ensuring the enterprise generates as much revenue as possible. As such, revenue analysts need to focus their efforts on specific activities that drive value rather than on actions that may compromise the accuracy of revenue optimization.

Revenue-management tools should be process driven and guide analysts to the most effective interaction with decision-support models. Analysts should be able to comfortably allow the revenue-management system to operate on autopilot, allowing them to spend more time focusing on strategic analysis of the data. And since the data collected in real-time is stored and used for historical analysis, it can provide much richer insights into market and passenger behaviors.

Not only will airlines see incremental productivity gains, but real-time data availability will lead to competitive advantage, increased customer satisfaction and, ultimately, incremental revenue gains. Airlines will no longer be reactive in the market. They will be proactive, becoming smarter about when and how they send offers to their customers, as well as which offers they present to them.

**Q: What approach to solving these challenges works best?**

**A:** Total revenue optimization offers an opportunity to turn this avalanche of real-time information into additional opportunities to enhance and expand a carrier's capabilities to consistently please its customers and generate revenue from all possible sources. For airlines, all roads lead to TRO to help make sense of this jumble of revenue streams comprising various revenue sources. While a TRO approach can be realized in multiple ways, one aspect I'm currently focused on is in the revenue-management space.



▲ Pramod Jain, Vice President Of Marketing And Solutions Management

The airline industry is in the midst of an evolution, and revenue-management solutions must evolve to not only support these changes but also bring innovation to the industry. Using revenue-management systems of the past can no longer achieve long-term profitability because they lack real-time, accurate, customer-focused capabilities.

Today, a next-generation revenue-management solution that uses a complete view of total passenger value, as well as network partner data, is required for an airline to gain real-time insight into total revenue with every flight, every market and every departure date. Such a solution provides accurate, up-to-the minute forecasting and optimization logic for each market that incorporates the potential revenue impact from the vast array of codeshare, partnership and retailing options.

Success in today's industry requires a next-generation revenue-management solution that is rich with robust technology and provides airlines with more accurate, real-time information in an easy-to-consume format. Most importantly, a state-of-the-art solution will lead to increased revenue opportunities and improved customer satisfaction by promoting a seamless passenger journey with every preference or need met along the way.

Additional information about Sabre's approach to next-generation revenue management is available via its live streaming event, where Sabre experts visited with airline executives and industry experts and showcased its next-generation revenue-management solution, Sabre Revenue Optimizer.

To learn more about next-generation revenue management, continue reading the special section, which offers insight into the evolution of revenue management, real-time data, integration, retailing and advanced analytics. ASCEND

Jade Owens is Sabre AirVision product marketing manager for Sabre Airline Solutions. She can be contacted at [jade.owens@sabre.com](mailto:jade.owens@sabre.com).

# THE EVOLUTION OF REVENUE MANAGEMENT

What is the value other industries are realizing with revenue management?

**Revenue Management and its benefits of analytics in other industries**

price optimization → 10% cost  
supply segmentation → 20% cost

advanced forecasting → 2x accuracy  
network optimization → 10% cost  
mark down analytics → 10% profit

**How is the airline industry evolving to realize the same benefits?**

**THEN** It all began in the 1980s when airlines wanted to maximize revenue through inventory control. But airlines were left with **empty seats**.

As non-seat revenue sources continue to increase it is becoming **increasingly complex** for airlines to successfully optimize revenue & more important for them to enable a NGRM solution — **Ancillary revenues alone grew 18.8%** from 2014 to 2015.

Today, airlines are focusing on **revenue per seat**. But today's revenue systems aren't built for data — almost 90% of data is thrown out and decisions are made based on stale, **inconsistent information**.

**NEXT** Airlines need **flexible, better, real-time** and focus on **revenue per customer**. In order to do so, airlines need revenue management systems that will support real-time data, portfolio integration, advanced analytics and retail decision support.

REVENUE MANAGEMENT AND ITS BENEFITS OF ANALYTICS IN OTHER INDUSTRIES

**Next-Generation Revenue Management**

**Real-time Data**  
Enable analysts to make decisions based on current, event-driven data.

**Advanced Analytics**  
Improve analyst confidence and accuracy by deploying state-of-the-art revenue opportunity modeling.

**Portfolio Integration**  
Get your revenue data together with a better view of your customers, inventory, and fleet.

**Retail Decision Support**  
Become a better retailer, respond to competition, and management schedule and operational changes by using more data, smarter.

Realize about **0.3% increase** in total revenue.

At least a **50% increase** in productivity.

Realize up to **10% improvement** in revenue spoilage.

Use **100%** of accessible data.

Today's batch processing can take up to **24 hours** until data is available.

Next-Generation Revenue Management systems will make it available in **5 minutes**.

**Value Of A Next-Generation Revenue Management Solution**

Up to **2%** incremental revenue gains

Up to **40%** improvement in efficiency

**Sabre**

