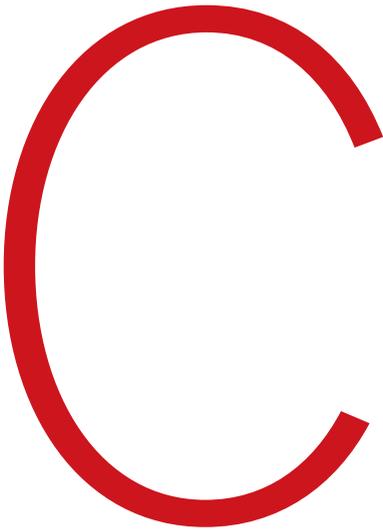


CONTRACTED BUSINESS OPTIMIZATION

MEASURING AIRLINE CONTRACT EFFECTIVENESS

BY DAVID JAQUA

CONTRACTED BUSINESS IS ESSENTIAL TO AN AIRLINE'S SUCCESS AND BOTTOM LINE. THEREFORE, AN AIRLINE'S SALES ORGANIZATION SHOULD BE EQUIPPED TO GAUGE ITS EFFECTIVENESS AND THE IMPACT IT HAS ON THE AIRLINE. IT CAN DO SO BY USING SPECIFIC KEY METRICS FROM PRISM'S ROBUST CONTRACTING SOLUTION THAT DETERMINE PERFORMANCE LEVELS AND PROVIDE RICH DATA TO ENHANCE THE BUSINESS STRATEGY.



Contracted business represents one of the most valuable components of an airline's overall sales. Contracts between airlines and customers represent commitments to do business together and create a baseline of loyalty on which the airline can build its forecasts.

Given their importance to an airline's sales strategy, it is vital for the sales organization to measure its impact and effectiveness using key metrics that identify good performance and exceptions, as well as suggest actions for overall strategy optimization.

In doing so, the sales organization must have access to the most effective

measurement metrics in the industry, including contract effective discount, market share and share premiums, percent of fulfillment, and profit and margin.

Effective Discount

The effective discount measures the amount and percent of discount paid to customers for every ticket they have purchased. It reflects the effective rate, taking into account premium cabins that may have higher per-ticket discounts and heavily discounted published fares that may receive no or nominal discounts.

Changes in effective discount are important because they illustrate key changes in market behavior. They may be driven by changes in:

- The types of tickets customers purchase,
- Increased discipline on how discounts are offered to customers,
- The "bidding up" of contract discounts as a result of other airline or RFP (request for proposal) competition.

Market Share And Share Premium

Market share and share premium measures a customer's actual market share at a market level or aggregated across all of the customer's markets. Similarly, many or all customers can be

aggregated to measure the contracted portfolio's market share. When an airline's fair market share numbers are added to the equation, an airline can compare the actual share to the expected market share. Without the tools that apply proper weighting, it is nearly impossible to create an accurate aggregation of actual share and fair market share.

Market share changes are important because they indicate changes in competition. Increasing actual share may or may not indicate a good trend, depending on how it interacts with share expectations. Sometimes, share may appear to be improving when, in fact, it is not increasing as quickly as fair market share because of changes in competition.

Percent Of Fulfillment

Best-practice contracting principles call for customers to make commitments in exchange for the discounts they receive. This measure shows how close to the requirement a contract (or portfolio of contracts) performs. A very high or very low percent of fulfillment may be an accurate reflection of customer performance, or the requirements may not have been set appropriately. Most contracts have many terms with different requirements, so an airline needs the right tools to aggregate these requirements to get an overall percent of fulfillment.



◀ CONTRACTED BUSINESS IS VITAL TO AN AIRLINE'S OVERALL SALES DUE TO THE COMMITMENT CORPORATIONS MAKE WITH AIRLINES TO DO BUSINESS TOGETHER. THESE BUSINESS AGREEMENTS ARE ESSENTIAL TO AN AIRLINE'S SALES STRATEGY, THEREFORE, IT IS CRUCIAL FOR THE SALES ORGANIZATION TO MEASURE ITS IMPACT AND EFFECTIVENESS USING KEY METRICS THAT IDENTIFY SOUND PERFORMANCE AND EXCEPTIONS.

Profit And Margin

Costing information is the final input that makes contract performance measurement complete. When an airline combines the actual, fully loaded cost of transporting those contracted passengers with the revenue they generate and discounts they receive, the airline sees the full impact of its contracts in a simple profit-and-loss form.

Then, an airline can determine if there is a disparity between the discount paid to a customer and that customer's overall contribution to the airline's profit. If so, sensible adjustments can be introduced more reasonably to the customer. Additionally, as with the other measures, taken in aggregate, an airline always knows the profitability of its contracted business.

Taken individually, it is difficult to make judgments about contract effectiveness and the marketplace using only one of these measures. It is important to analyze

Therefore, all levels of the sales organization and senior management will benefit from using these key measures to manage the airline's contracted business. Further, each of these managers and executives can and should be prepared to explain variances in the measures from period to period, either at an individual contract level or in aggregate.

Airlines using PRISM's robust contracting tool to its full potential have ready access to these measures. The solution, which serves more than 40 of the world's most successful airlines, alliances and joint-venture partnerships, sets the standard for managing airline contracts using the highest quality data sets and patented technology to create expert systems for both buyer and seller. The company also offers consulting services to assist an airline in integrating effective contract measurements into its management.

With a thoroughly-analyzed expla-

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them in concert to realize the market dynamics fully.

For example, a contract may have a low percent of fulfillment but a high effective discount. Generally, this is not the best contract. It is also important to monitor fair market share in relation to contract fulfillment to determine if the requirements are still appropriate. As the length of contracts increase, airlines increase their risk if performance is not optimized continually throughout the life of the contract.

nation, determining the best actions to optimize the portfolio strategy becomes simpler. ASCEND

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