

Above And Beyond

Moving The Dial In Revenue Management

By Jade Owens

Although business challenges continue to evolve for airlines, they still center on the need to increase profits, productivity and responsiveness to market changes while also improving customer experience. Overcoming these and future challenges requires a next-generation revenue-management solution with cutting-edge technology that supports airlines' path toward realizing total revenue optimization.

early four decades ago, American Airlines launched the revenue-management revolution with its yield-management strategy, an approach based on the fundamental premise that inventory was perishable and all customers were not created equal.

The carrier focused on maximizing revenue through an analytics-based inventory methodology in an effort to thwart an increasing threat in the market at that time — the advent of the low-cost, low-fare carrier. By coupling this inventory-management approach with an innovative variable-pricing strategy based on understanding, anticipating and influencing customer behavior, American Airlines was able to maximize its revenue and profits from a perishable resource (airline seats) and compete directly with low-cost carriers (LCCs). This methodology rapidly spread throughout the airline industry.

In fact, yield management was recognized as “the single-most important technical development in transportation management” for many years, as cited in the book “Revenue Management: Hard-Core Tactics for Market Domination.”

The airline industry has changed significantly during the last several decades, with LCCs now controlling more than 26 percent of the overall market, according to CAPA Centre For Aviation. This significant change has orchestrated customer demands and expectations for lower fares. These two factors 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. For example, having access to an easy-to-use, consumer-grade user experience coupled with seamless inventory and revenue-management business processes can drive productivity improvements for airlines.

Converting from today's batch-based processing systems to one that is event-driven and provides real-time data to improve response times will drive incremental revenue gains. And, by optimizing all available revenue streams, including those from partnerships, codeshares and alliances; ancillary sales; and fees and taxes, new possibilities will become available that will lead to subsequent financial gains for airlines.



To support these emerging opportunities and drive growth in productivity and revenue, a next-generation revenue-management solution is essential.

Pervasive market problems and the resulting business challenges are also presenting new hurdles for carriers, regardless of their geography, business model and/or size. These obstacles encompass the familiar areas of increasing profits, evolving distribution models, interpreting volumes of unstructured data and the need to offer a more personalized customer experience.

Furthermore, new distribution points have generated large volumes of data that hold valuable insights about airlines' customers. Airlines are now tasked with efficiently collecting, processing and analyzing this data and subsequently using it to sense and respond to shifting market dynamics. And customer demand for a seamless personalized travel experience continues to increase while airlines attempt to implement an integrated customer-centric business strategy that is aligned with revenue objectives.

**AIRLINES
NEED A FRESH
APPROACH**

that focuses
on revenue per
customer
rather than
revenue per
seat ...

To ensure future success, airlines need a fresh approach that focuses on revenue per customer rather than revenue per seat and provides the means to incorporate operational efficiencies into their business processes. In addition, it should encompass readily-accessible, real-time data that will improve retailing and customer-centricity strategies while overcoming competitive influences in the market place.

To accomplish this, airlines need to incorporate a next-generation revenue-management solution that goes above and beyond just the management of seat revenue. The solution must provide airlines with a much broader view of revenue data at the customer level, presenting information in real-time with an enhanced user interface that is broadly integrated across sales and service tools, including those supporting inventory and dynamic pricing.

In essence, airlines must become better retailers. In doing so, they will begin to understand the principles and value of total revenue optimization (TRO).

For airlines, all roads lead to total revenue optimization to help make sense of the jumble of revenue streams comprising non-seat revenue sources, including rapidly expanding codeshare and partnership arrangements and the sale of significant ancillary products.

TRO ensures revenue-management solutions consider the total value of each potential customer versus the value of the base fare. It provides a framework for airlines to face retailing challenges in today's environment and embrace business processes and solutions to utilize new, more detailed, real-time sources of information.

By embracing a TRO approach to support ancillary revenue management alone, revenue gains between .05 percent and 1 percent can be realized by an airline, according to a 2016 Sabre Airlines Solutions benchmark analysis.

Airlines are moving beyond traditional partnership models, developing equity partnerships where costs are shared and cooperation includes joint inventory and optimized revenue management of capacity. However, their inability to make accurate revenue-management decisions due to the lack of data available from partners leads to inaccurate forecasting models and diminished revenue returns.

In addition, newer revenue sources such as baggage, premium seating and other ancillary fees are managed manually or without significant automation, as limited technology has been available to drive forecasting and optimization.

As non-seat revenue sources continue to increase (ancillary revenues alone grew 18.8 percent from 2014 to 2015, with revenue for 2015 estimated at US\$59.2 billion, according to IdeaWorksCompany.com's "The CarTrawler Worldwide Estimate Of Ancillary Revenue Forecasts"), it is becoming increasingly complex for airlines to successfully optimize revenues, and inherently more important for them to support TRO opportunities with their revenue-management solution.

TRO, the approach used by Sabre Airline Solutions, offers an opportunity to turn this avalanche of real-time information into additional opportunities to enhance and expand a carrier's capability to consistently please its customers and generate revenues from all possible sources.

In addition, TRO is key to an airline's ability to reach its growth potential. 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 have real-time insight into total revenue for 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 ancillary options.

Real-time Data Approach

In today's highly competitive business climate, time is of the essence. The emergence of an on-demand economy has altered the way information is used to make accurate and timely business decisions, particularly in customer-centric industries such as aviation. To properly attract and retain today's customers and impede 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, a cost-efficient, albeit progressively archaic, means to process high volumes of data. However, airlines need to be aware of market and competitive changes as they occur. Markets evolve dynamically, not according to intervals. Airlines that do not have access to real-time, actionable data are delayed in their decision-making, resulting in uncompetitive product offerings, lost revenue and decreased market share.

Integration Is Imperative

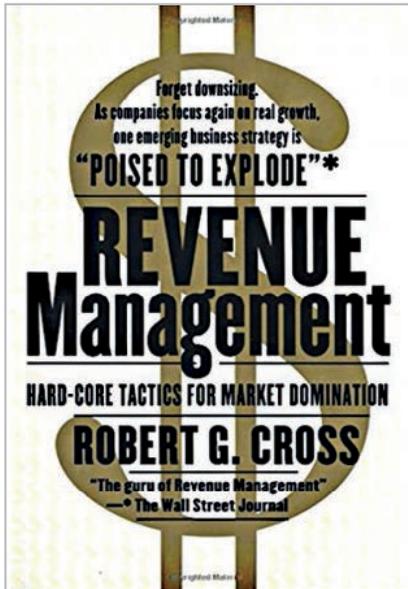
One strategic area of focus for airlines today is the synchronization of their systems throughout their operations. Unfortunately, traditional business functions and their supporting technology, which generate volumes of disparate and complex data, have been "siloed," hindering the accessibility of comprehensive information airlines need to proactively sense and respond to rapidly changing market conditions. The result is lower total revenue, lost market share and uncompetitive product offerings.

Enhanced portfolio integration is playing a heightened role within revenue management. Airline analysts who have to look at disparate data sources to understand their inventory, fare, schedule and codeshare information lead to fragmented decisions.

Revenue-management processes rely on the inherent capabilities of an integrated system to manage all business rules impacting availability and eliminate potential conflicts. A best-in-class, next-generation revenue-management system supported by seamless inventory and business-process integration can increase an airline's revenues by more than 1 percent. Without proper integration and access to all relevant commercial-planning data sources, forecasts are inaccurate and analyst productivity deteriorates.



▲ TOTAL REVENUE OPTIMIZATION OFFERS A COMPREHENSIVE, 360-DEGREE APPROACH TO MANAGING ALL SOURCES OF AIRLINE REVENUE BY INCORPORATING NEW DATA INTO THE TRADITIONAL REVENUE-MANAGEMENT PROCESSES. THIS ENABLES AIRLINES TO ACT AND REACT IN REAL-TIME SO THEY CAN MAXIMIZE REVENUE GENERATION FROM ALL POSSIBLE SOURCES.



ACCORDING TO THE 1997 BOOK TITLED “REVENUE MANAGEMENT: HARD-CORE TACTICS FOR MARKET DOMINATION,” FOR MANY YEARS, YIELD MANAGEMENT WAS CONSIDERED “THE SINGLE-MOST IMPORTANT TECHNICAL DEVELOPMENT IN TRANSPORTATION MANAGEMENT.” TODAY, OF COURSE, THE PRACTICE IS STILL CRITICAL TO ANY AIRLINE’S SUCCESS; HOWEVER, EQUALLY IMPORTANT IS NEXT-GENERATION TECHNOLOGY THAT TRANSCENDS REVENUE MANAGEMENT OF THE PAST.

Redefining The User Experience

Revenue-management systems have often been a source of frustration for analysts. They typically provide analysts with an unintuitive and complex user interface requiring manual intervention to complete transactions, which compromises department effectiveness and productivity.

To keep pace in this highly interactive and competitive environment, users need an intuitive, consumer-grade tool that delivers actionable insights and causal analysis information to the user in an efficient and easy-to-navigate manner. This will enable airlines to respond faster and more accurately to competitive conflicts and take advantage of market opportunities as they occur, leading to increased revenues and analyst productivity gains.

Enhanced portfolio integration is playing a heightened role within revenue management. Airline analysts who have to look at disparate data sources to understand their inventory, fare, schedule and codeshare information lead to fragmented decisions.

Advanced Analytics

Revenue-management systems that provide analysts with recommendations but offer no insight as to why a particular suggestion has been made address only the problem at hand and are of little long-term value to airlines. Analysts are left to question the recommendations and may even take cumbersome manual steps to intervene when data is not presented in a constructive and insightful manner.

Consequently, analyst productivity decreases and confidence diminishes. A next-generation revenue-management solution overcomes these challenges with integrated, enhanced analytics that forecast holistic and proactive views across multiple segments, revenue streams, markets and regions of the network with targeted and intuitive workflows. It accurately interprets large volumes of disparate data and delivers actionable insights and relevant analysis to users.

In addition, the availability of pertinent information needed to understand the recommendations drives confidence in the solution. Analysts’ productivity improves as they manage revenue by “exception,” and focus their energies and resources on completing more strategic initiatives for the airline.

Customer Centricity

The airline industry is moving toward a retailing mindset. The focus on fare classes and fare rules continues to regress, replaced by an emphasis on customer-centric knowledge with real-time data analytics and communications expertise.

One of the greatest influences over the future success of an airline’s business and competitive standing in the market is the 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, current revenue-management solutions have not incorporated the technology or the integration required to make this data readily available and accessible in a practical manner to support accurate, real-time decision-making that provides an airline with a competitive edge.

Demand is growing for a next-generation revenue-management system that enables airlines to provide decision-support for the retailing facets of their operations and assists airline personnel in understanding their passengers’ requirements. At the same time, a next-generation solution allows for quick responses to competitive price, schedule and operational changes.

Revenue Management Evolution

Today’s airline industry is in the midst of an evolution, and revenue-management systems must evolve to support these changes. Using revenue management to manage seat inventory and marketing promotions is no longer considered a best practice or a strategy for long-term profitability.

Success in today’s industry requires a next-generation revenue-management solution that combines advanced technology with more accurate, real-time information in an easy-to-understand and interpret format is the clear way forward.

Additionally, it should provide performance enhancements for an airline and productivity improvements for its employees. Most importantly, it should lead to increased customer satisfaction by promoting a seamless passenger journey. ASCEND

Jade Owens is Sabre AirVision product marketing manager for Sabre Airline Solutions. She can be contacted at jade.owens@sabre.com.