



Pricing & Revenue Management in the airline industry

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- **My background**
- **Airline Pricing**
- **Revenue Management**

My background

- **BA 1970-94 mostly in RM, Manager Nth Eur then Nth Atlantic**
- **Virgin Atlantic 94-97 Head of RM & Pricing**
- **Re-joined BA 1997-2001 RM**
 - **O&D project and Oneworld partners RM projects**
- **2001- 2025 M.D. of PR RM Ltd:**
 - Independent RM Consulting to small to medium sized airlines and airline software providers
 - Editorial board member of the Journal of Revenue and Pricing management journal
 - Worked with over 50 airlines short or long-term
 - Frequent speaker at global airline conferences
- **Travelled to over 115 countries**
 - Bangladesh 2 years, Abu Dhabi, Nice, Latvia and Trinidad 1 year in each, plus numerous short-term stays



OVERVIEW OF AIRLINE PRICING

Why do airline fares have so many conditions attached?

- **Customers will still shop around for the lowest price they can get, but you can encourage “trade up” to the more expensive seats as you approach day of departure.**
- **“Anti-marketing” : or how to make your product less attractive to the late-booking high-yield customer.**
- **Differentiate by Product e.g. First, Business, Premium Economy and Economy cabins.**

Fare Class Fences

- Booking rules and restrictions designed to force purchasers into specific market segments, to buy the products designed and priced for them
- Prevents “trading down” when many fare classes are open
- Permits selling excess capacity at the lowest discount fares to passengers who are considered marginal demand or to Groups

Traditional methods of “Price Fences”



Market awareness

- **Traditional full service carriers monitor and respond to other carriers web based fares.**
 - All traditional carriers file their fares via ATPCo and belong to IATA, hence they can see each others fares which number hundreds of thousands!
 - Low-cost carriers don't file fares using the same distribution channel as traditional airlines, Web is only channel for most LCCs.
 - Web fares are highly visible, prices will reflect demand.
 - Fare sampling using robotics are used to monitor and compete effectively.



THE HISTORY OF REVENUE MANAGEMENT

Revenue Management History

- **R.M was born from the deregulation of the USA airline industry in the early '1970s.**
 - Pioneered by AA and followed by other “Mega airlines” who could fund the R&D costs who instigated first systems = DL, KL, SK & BA
- **“People express” inn the USA was forerunner of LCC airlines in the 1980s and Laker in the UK were the first casualties of “ US/UK Price Wars” they did not have any RM capability or Pricing sophistication.**

Revenue Management History

70s - "Reservations / Space control"

- **Basic control systems**

Simple pricing with Few fares in the market place.,
Focus on space not yield, Reservations staff
resourced, US deregulation starts.

Early 80s- "Basic Yield Control"

- **Better inventory systems**

26 selling classes evolve, European regulation
continues hence little competition.

Mid 80s - "Better Yield Control"

- **RM systems introduced**

Yield focus through class hierarchy, deregulation &
new aggressive competition emerge!

Revenue Management History

- **Early 90s - "Revenue Management"**
Route Inventory & Sales Area Pricing begin to merge,
Sophisticated RM systems now available
- **Mid 90's - "Improved Revenue Management"**
Quantum leap in technology - POS introduced, SBP /
Heuristic BP introduced , Codeshare abounds, more
carriers enlisting R.M.
- **2000 – today Advanced RM/Integrated Pricing**
 - Majority of major airlines have a RMS, RM & Pricing
depts merged , focus on costs, profit.
 - Greater awareness on competitors especially LCCs.
 - Willingness to pay the new driver in RM systems!

What is Revenue Management?

MANAGEMENT OF SEAT FACTOR

- Overbooking an aircraft's capacity to ensure maximum seatfactors with minimal offloads and downgrades.

MANAGEMENT OF REVENUE MIX

- Cabin mix via market segmentation
- Seat access & Group acceptance.

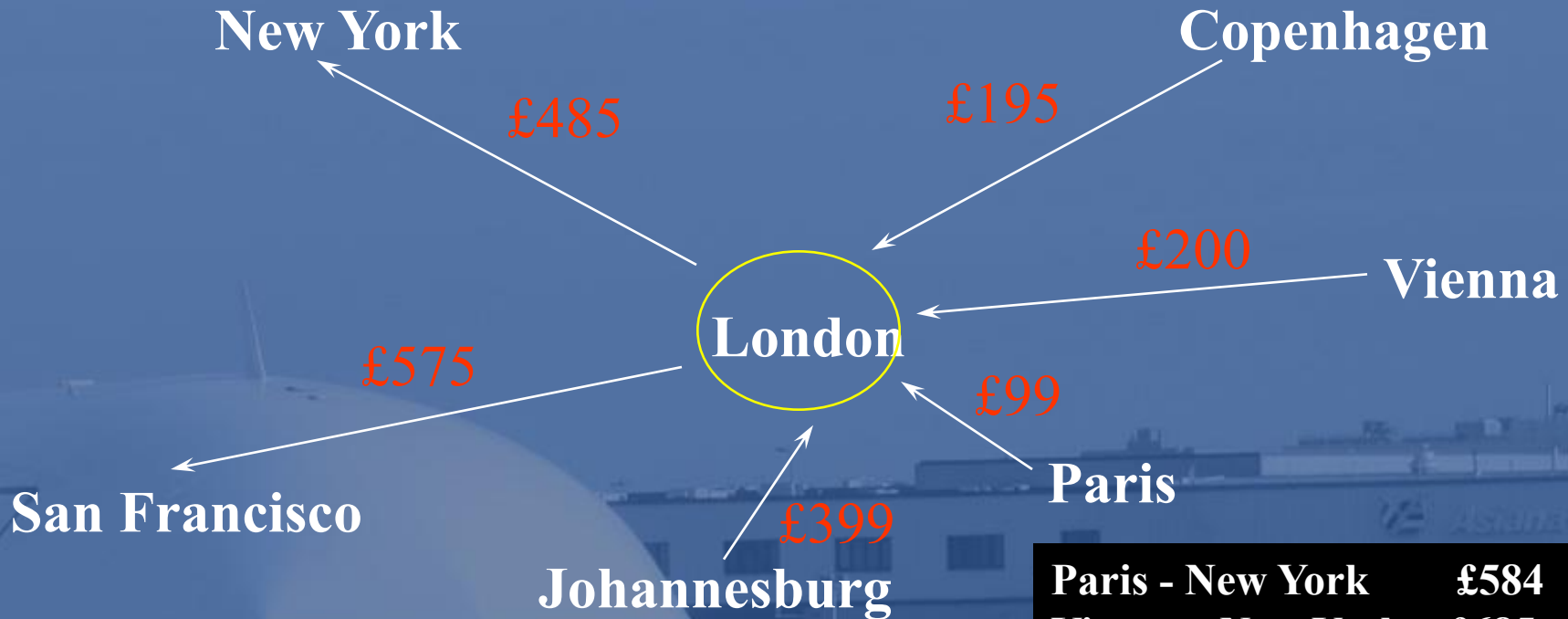
PRICING - PUBLIC & DEALT FARES.

- Fare filings / Deal creation & tracking.

ADDED SOPHISTICATION

- Sales area mix (Point of sale)
- Managing traffic flows (Origin & Destination)

Balancing the network- O&D control



Paris - New York	£584
Vienna - New York	£685
Johannesburg - New York	£884

- (1) All LH flights full = Take local traffic
 - (2) If JFK, or SFO, JNB empty => Take connecting traffic
- Danger of “First come, first served” for many airlines.

RM has demonstrated the ability to generate 8% in additional Revenue

- **Better control over access to cheaper fares to push to higher fares**
- **Better regular Pricing actions and changes where Pricing and RM depts and systems are fully integrated**
- **Increased speed to market**
- **Superior Management Information leading to better decisions**

What is Revenue Management?

In other words:-

- **Selling the right product**
- **To the right customer**
- **In the right place**
- **At the right time**
- **For the right price**

Industries employing Revenue Management

- Airlines
- Hotels
- Car rental
- Tour operators
- Cruise ships / Ferries etc.
- Healthcare – hospitals
- Amusement parks, golf courses.
- Theatres, Opera.
- Energy companies
- Advertising & TV companies

A blue-tinted background image of an airport tarmac. In the foreground, the cockpit of a large white airplane is visible on the left. In the background, there is a long airport building with the 'Asiana Cargo' logo and name on its side. Another airplane is parked at a gate to the right.

Any questions

Thank you