



real-time solutions make your revenues take off.

Revenue is crucial for any industry, but it is particularly vital for a cash-flow business such as air transportation where the business is cyclical. Revenue considerations need to be made at all the points along the airline's value chain, that includes the marketing and sales

process (See **figure 1**). Revenue increases can be made through better decisions or added sales opportunities. From better scheduling with networking alliances or fleet or schedule changes which offer more capacity potential at the right time, to post-flight loyalty partnership opportunities, there are many points in the process that can drive revenue growth.

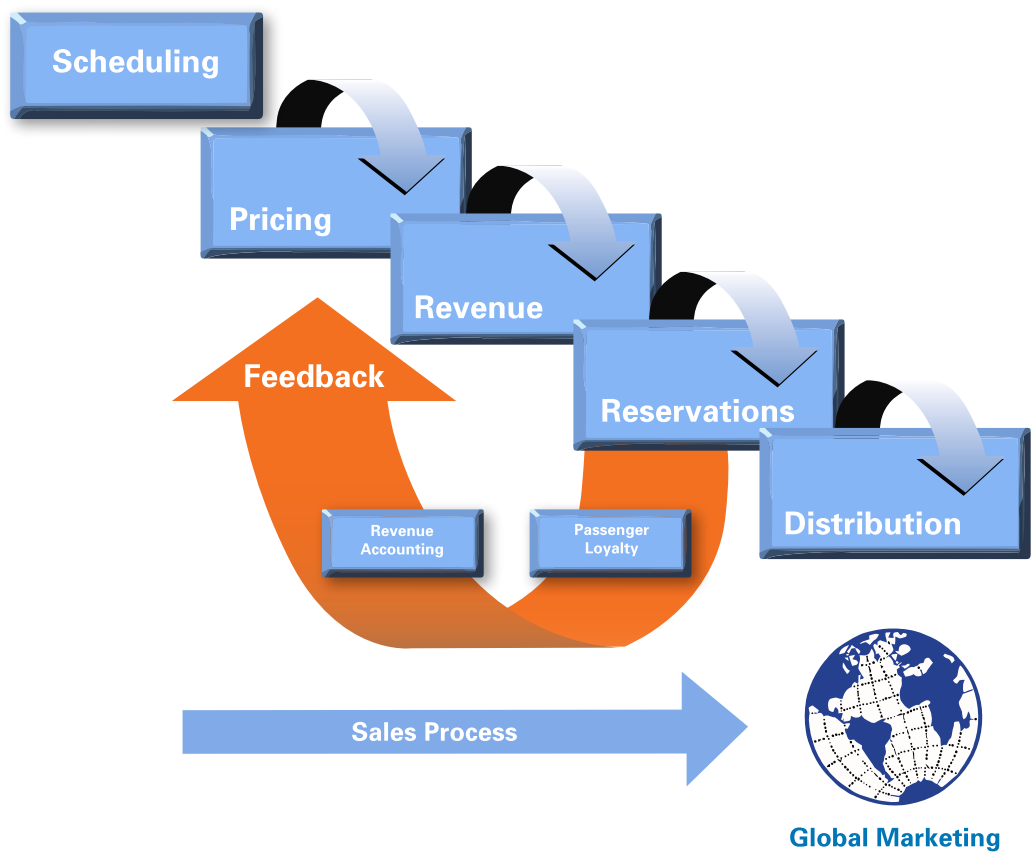
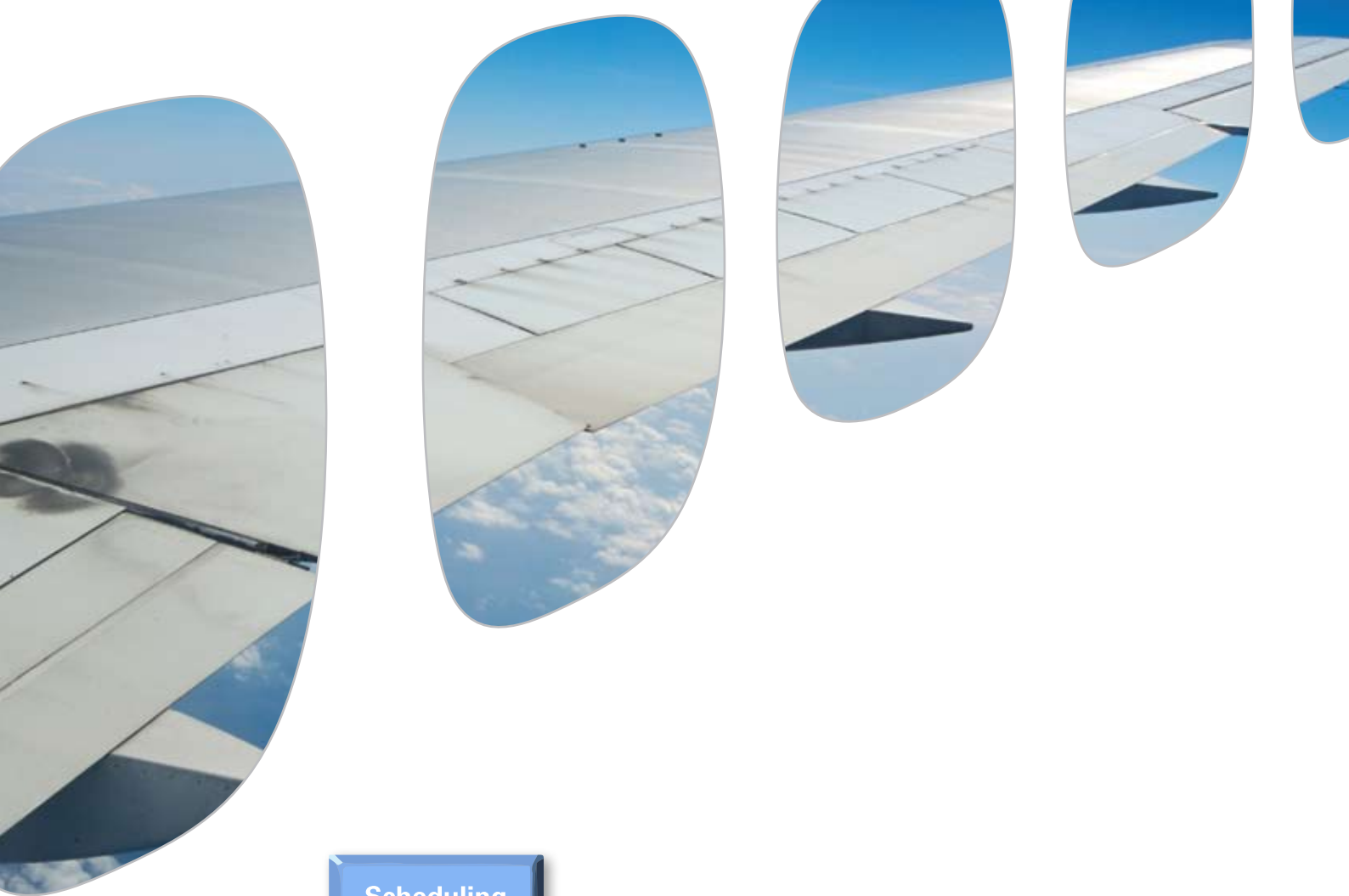


Figure 1: Typical airline marketing and sales process

Some Considerations To Grow Your Revenue

There are several areas airlines can consider to increase revenues:

- Better schedule, capacity and aircraft utilization,
- Better fares, revenue and inventory management,
- Customer depth and loyalty,
- Customer-centric reservations processing,
- Revenue recovery and protection,
- Incremental income streams,
- Improved cargo revenue management,
- Synergistic business services,
- Improved passenger loyalty.

Better Schedule, Capacity And Aircraft Usage

It's no secret that an efficient network can have a tremendous positive economic impact on an airline's bottom line — but maximizing your operations is a task that should not be taken lightly.

Within a single hub, for example, there lies a delicate balance between the efficient use of your resources (crew, fleet, ground personnel, and so on.) and the marketability of your flight schedule to passengers.

From de-peaking to close-in re-fleeting, your airline faces a multitude of options when considering improvements to its hub operations. With the proper tools in place, you can find these efficiencies and

capitalize on the resulting cost savings. Airlines can reduce excess aircraft fuel burn cost by up to 5 percent by increasing efficiency on the taxiway.

By implementing one or a combination of the following solutions you can help make your airline's hub work more efficiently.

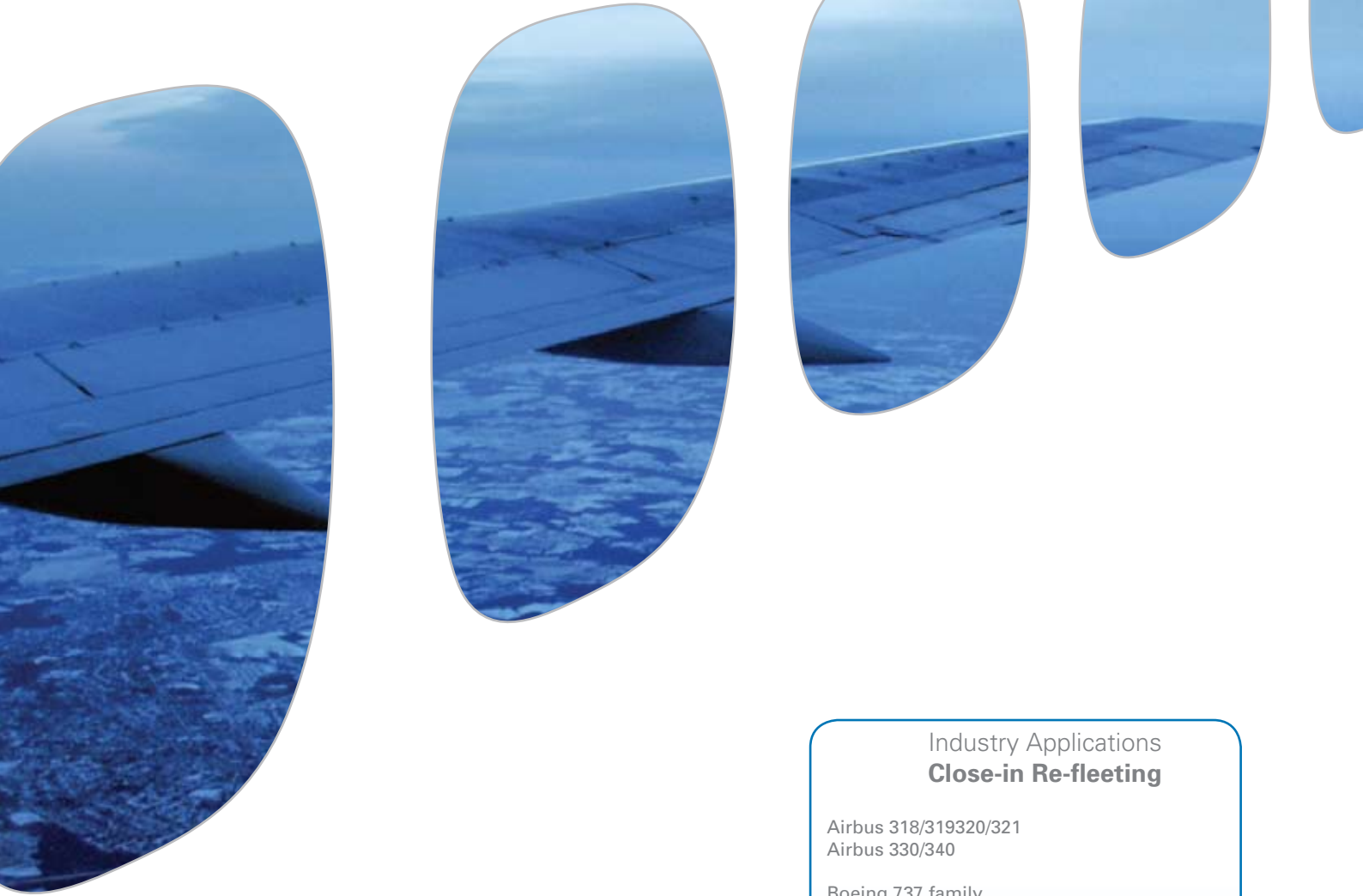
Leveling The Peaks

De-peaking the traditional hub-and-spoke structure by flattening the arrival and departure banks can reduce taxi time, fuel burn and congestion. With today's automated schedule development tools, your airline can take advantage of more dynamic schedule structures while reducing the complexity of its operations in the following ways:

- By spreading flights more evenly throughout the day, your airline can combine the efficiencies of a low-cost carrier with the increased number of destinations available through a traditional hub-and-spoke model.
- According to one major airline, the key to de-peaking is capping the number of aircraft arrivals and departures per minute, never exceeding five movements in any five minutes.
- Along with more evenly distributing flights, another concept used by low-cost carriers is standard fixed ground times by uncoupling the passengers and the airplanes.

Although de-peaking leads to an increase in passenger connect times, a major airline found it was still competitive. It has not received any negative feedback from customers even though the elapsed time increased.

The airline was able to consolidate its operations from three terminals to two and removed 11 airplanes from its schedule while operating the same number of departures.



Making The Most Of Your Fleet

Having the correct types of aircraft available to fly your schedules is another important aspect to making the most of your hub operations. (See figure 2.) Fleet planning tools help to distribute the most efficient aircraft for each route your airline flies.

These tools can also help you take advantage of the cost-saving and revenue-boosting practices of close-in re-fleeting — ensuring that the most efficient mix of aircraft are assigned in every situation.

Today, airlines that proficiently re-fleet their schedule at points between two months to seven days before the day of departure can boost profitability by responding to demand fluctuations, which often alters the economic equation in ways that were not apparent at the time the schedule was initially published.

Industry Applications Close-in Re-fleeting

Airbus 318/319/320/321
Airbus 330/340

Boeing 737 family
Boeing 757/767 family
Boeing (McDonnell Douglas) DC9 family
Boeing (McDonnell Douglas) MD80/87 family

Bombardier CRJ-200/700/900
Bombardier Q-200/300/400

Embraer ERJ-135/140/145
Embraer ERJ-170/175/190/195

ATR 42/72

Figure 2: Maximize profits with the right aircraft

Close-in re-fleeting or CIRF, is a concept to reallocate common flight deck equipment in the short run by matching capacity to demand at the lowest possible cost in order to maximize profits. Through CIRF, airlines are able to move a smaller gauge aircraft to a flight with less demand in place of a larger gauge aircraft that could capture larger-than-expected demand. Some management teams refer to the concept similarly as “second-chance revenue management” “supply-side revenue management,” or “demand-driven dispatch,” an MIT term. Regardless of the label, the practice can have some surprising and realistic results:

- Net gains up to 0.5 percent of revenue base can be achieved with a rigorous CIRF process,
- Documented, annual benefits for existing *Sabre Airline Solutions*® customers range from US\$2.3 million (regional) to US\$27.3 million (mainline),
- Close-in re-fleeting has demonstrated the potential to increase revenues 10 percent to 15 percent on specific strong flights with little or no impact on weaker flights,
- Direct operating costs may be reduced with little or no revenue impact,
- Network profits may be increased substantially during certain schedule periods.

The kind of airline that is a good candidate for CIRF has the following:

- High level of common flight deck equipment,
- High “banked” network structure,
- A large number of flights leaving around the same time, out-and-backs from a hub work best,
- Good revenue management data,
- Reasonable quality demand forecast, with a longer booking curve,
- A good fleet assignment application with good cost data,
- Feasibility constraints that can be modeled.

Why CIRF Is Effective

Schedules are generally finalized many weeks in advance of actual operating date. Planning assumptions are made based on average historical demand data and are generally made three or more months in advance. Implementing swaps can be a large communications and coordination challenge. Timing is key as swaps must be made in time to sell the additional seats on the incremental capacity. Maximizing profit results from identifying switches that give the best change

in profit (revenue increases, cost decreases or the combination of the two drive the overall profit change). Here is why CIRF is effective:

- With CIRF, as actual departure dates get closer, demand is better understood (by date, day, flight and cabin, mix and booking class expectations by leg) yet capacity assignments remain fixed by schedule/date range;
- Quickly determining equipment changes without an automated tool is very difficult. Close-in re-fleeting can help by finding a multitude of options and validating their feasibility;
- 5 percent to 10 percent of total operations swapped typically drive 80 percent of the benefit;
- A close-in re-fleeting program can be started slowly with increasing complexity — same day, same hub to multiple day, hub and spoke cross-overs, and minor re-timings. The implementation can progress in complexity.

Effectively Adjusting To Seasonal Traffic

Seasonal demand changes — holidays and business travel — at a hub can make the option of re-orienting the hub’s bank structure an appealing venture. By using automated schedule development tools, you can take advantage of additional flight and connecting opportunities that such shifts in seasonal demand may provide.

Additionally, a comprehensive crew management system will maximize the revenue opportunity of the new schedules by taking advantage of optimization tools to generate crew schedules, which ensures efficient deployment of crew at minimum cost while maintaining flight reliability and schedule integrity.

A major airline has claimed that its fleet manager tool has enabled it to be more flexible than any other large airline. As a result, it was able to accommodate an additional 62,900 passengers in one month who otherwise would not have been able to fly. Now the airline is better prepared for crises and can accommodate changing customer demand with much more flexibility and on short notice.



Reduced Fleets, Raised Revenues

During the past several years, many traditional airlines have tried to adapt their business by borrowing pages from the low-cost carrier handbook. In an attempt to lower costs, some major network carriers have simplified their business including reducing their fleet types. Although, for the most part, they have not shrunk to a single fleet type like many low-cost carriers, by reducing their fleets from numerous types to a handful has brought several benefits, including:

- Increased efficiencies in aircraft rotation (fewer aircraft types mean that when aircraft come to a particular hub or focus airport, they can be swapped easily, which results in higher utilization);
- Reduced requirement to invest in spare airplanes and an inventory of spare parts, which would otherwise be required to support multiple fleet types;

- Increased volume discounts due to purchasing more of the same parts and supplies;
- Less or reduced training for flight crews, mechanics and ground-support personnel;
- Fewer maintenance personnel, and faster maintenance repairs and recovery from mechanical problems since mechanics and field personnel are likely to encounter similar problems and solutions on a repetitive basis.

As traditional airlines are pressured to provide low-cost services, particularly in domestic markets, they should look to use the same basic criteria as low-cost carriers when selecting fleet types, which include selecting aircraft that:

- Provide low-cost service to the short- and medium-haul markets they serve,
- Deliver reliable, high-frequency schedules,
- Enable quick turnaround to minimize ground time,
- Provide operational flexibility,
- Facilitate and standardize training and support,
- Support high-fleet utilization.

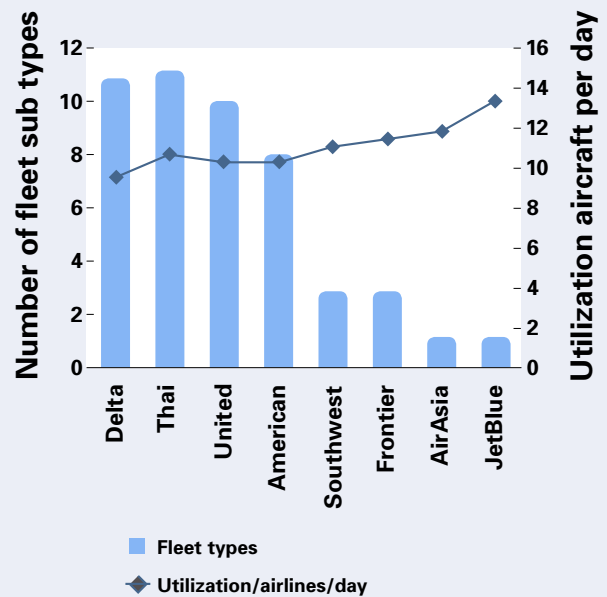


Figure 3: Simplifying fleet doesn't mean reducing to only one type of aircraft.

Varying Capacity By Market

An airline needs to determine its ideal fleet requirements based on its network strategy with consideration for commonality, market requirements, aircraft characteristics and its long-term strategy. However, as low-cost carriers have entered the mainstream segment, they have shown that a different fleet does not need to be fitted to every single market to vary total capacity. One way to vary capacity is by the number of flight frequencies operated per day or week. For example, 375, 500 or 625 seats can be supplied in a market flown with 125-seat aircraft by scheduling three, four or five frequencies.

You Don't Have To Get To Just One Type To Be Effective

Simplifying the fleet doesn't necessarily mean reducing to only a single type of aircraft. (See figure 3.) One low-cost carrier has demonstrated that creative planning can help airlines increase from one fleet type to two without adding too much complexity. When this airline ordered smaller Embraer regional jet aircraft to complement its fleet of Airbus

A320s, it ensured that crewmembers would not be required to move from one aircraft type to another. For example, if a pilot of a larger aircraft leaves the airline, he or she is generally replaced by a pilot of a smaller aircraft. This results in double training costs — additional training for this pilot as well as for the new pilot of the smaller aircraft. By isolating its fleet types, this airline should continue to reap the benefits of fleet simplicity even when utilizing two fleet types. By not basing salary on aircraft type, there's reduced incentive to move from one airplane type to another, minimizing costly retraining.

Even when a decision to simplify an airline's fleet is made, it may take years to achieve the goal due to capital needs and delivery requirements. However, with adequate planning, a carrier can achieve a simplified fleet. In an environment where revenues have continued to trend downward and costs are less controllable, fleet simplification can help reduce costs and ensure higher levels of revenue. Carriers focusing on fleet simplification, whether legacy or low cost, will reap benefits of increased productivity of their assets.



Better Fares, Revenue And Inventory Management

Revenue management is no longer a luxury; it is a necessity. It is critical to successfully develop and implement the right fares and strategies to maximize revenue.

Airlines across the world, regardless of business model, are finding they need to compete in varying environments, managing revenues for different types of traffic through different sales channels. (See figure 4.)

Build A Solid Foundation For Achieving Revenue

Sustained growth in the face of such fierce competition primarily involves three systems: fares management, revenue management and inventory. It seems straightforward, but tackling ever-changing consumer and market demands without all three being able to rapidly evolve and work together will limit success.

Fares Management

Look for an application that enables analyzing/managing fare products (public, private, constructed, Cat. 25/35, Internet); is rules based (with easy modifications and monitoring); and can support footnotes (definition, changes). Look for one that facilitates:

- Competitive and historical analysis,
- Single and mass changes,
- Scope assessment,
- Codeshare and alliance participation,
- Analyst work flows and utilization monitoring.

A good fares management system can significantly increase an airline's revenues by accelerating the airline's response to competitive fare initiatives and providing the analyst with a means to manage the network, not just the markets.

Airline analysts state that effective use of automated pricing systems can offer a revenue improvement of approximately 1 percent to 2 percent.

Revenue Management

The value proposition of a good revenue management tool should facilitate:

- Efficient traffic flow across the network,
- Retained market share without diluting revenues,
- Compensating for cancellations and no-shows by overbooking,
- Limiting sales to low-revenue customers to preserve space for higher-revenue customers,
- Accepting low-revenue customers when higher-revenue demand is less than aircraft capacity,
- Redirecting low-revenue customers to flights with lower load factors, thereby minimizing spilled passengers,
- Supporting mixed networks with a traditional and low-cost carrier model,
- Effectively managing groups to minimize displacement and maximize profit.



Figure 4: Maximizing revenue requires use of best practices in integrating pricing, revenue management and inventory.

Inventory

Look for a real-time inventory tool that is (preferably) an open-systems design, has flexible processing and will support:

- Accurate availability displays in a high look-to-book ratio environment,
- Full O&D capabilities including support of the bid price curve, interline pro-ration and advanced fare qualification rules,
- Shared cabin inventory,
- Sense and respond capability to real-time market changes with easy-to-use, searchable business rules,
- Simple integration with top revenue management, fares and departure control systems,

- Multiple inventory control structures across the network — serial, parallel, mixed, hybrid, O&D,
- Point-of-sale control ranging from the regional to travel agency level of detail,
- Business rules that support complexity and rapid changes,
- High volume 24 x 7 availability and sell/cancel transaction processing,
- Vertically and horizontally scalability based on configuration requirements,
- Guaranteed uptime with a fault-tolerant server.

A well-defined inventory approach can improve both traffic and yield by up to 2 percent by capturing price-sensitive demand (mostly leisure) outside business booking curve and improving business yields via inventory closure inside the business booking curve.

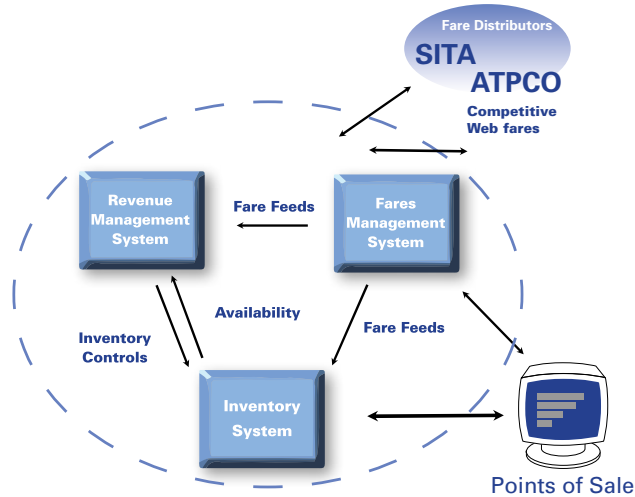


Figure 5: Real-time revenue management

Be Flexible And Competitive

Traditional revenue management sets optimal inventory controls based on historical flown traffic data and does not consider what the competitor's availability is. Competitive revenue management is getting easier to perform and is a framework that enables decision making based on competitive availability. Competitors might know how to react faster to a price change and how they would respond before an airline has even considered the change.

QL2, FareChase, AgentWare and many other companies scrape fares from Web sites and can offer input feeds back to an airline. Ignoring such providers may not be an option forever, and off-tariff fares in some markets aren't getting easier to predict.

Strive For Real-Time Revenue Management

Real-time revenue management is providing updated optimal inventory controls close to real time based on conditions in the marketplace.

As shown in figure 5, driving integration (technology and business process) across fares management, revenue management and inventory systems, with as close to real-time interfaces as possible, provides benefits such as:

- Real-time inventory alerts between the inventory and revenue management system that can trigger re-optimizations and update inventory controls based on bookings, schedule changes and cancellations,
- A single point of fare information via the fare management application providing accurate, up-to-date fares to ATPCO and the revenue management and inventory systems,
- Support of multiple nesting structures across systems, including serial mixed, parallel, virtual, continuous and bid price curve, enabling the creation of an inventory control strategy on a market-by-market basis.

The system should incorporate competitor fares data into the forecasting and optimization process based on the exchange of real-time information between the revenue management and fares management systems. An airline should develop pricing strategies based on the schedule's strength as dictated by market share data and passenger booking patterns. The goal should be to provide passengers with the most convenient routes at the most convenient times priced in a competitive manner.

It's a fact — more accurate fares and controls drive additional revenues and protection of existing revenues through fare qualification.

Once technical integration has been achieved, business processes and logic need to be established to leverage the full revenue impacts.



Figure 6: Current airline concerns

Questions need to be considered, such as:

- How frequent are the fare updates to the revenue and inventory systems?
- How will loyalty tier and/or group traffic be supported?
- What and which inventory controls will be re-optimized by which markets?

Business processes need to be integrated to leverage the value of the technical integration between the systems. Quite often, outside help is beneficial, and the design should not be taken lightly.

Respond To The Consumer

Regardless of the market and carrier size, airlines are voicing similar concerns and needs for ways to drive, or protect, revenue, and much of this feedback is in response to consumer action. Figure 6 above references some of these trending concerns that *Sabre Airline Solutions*[®] has received.

Based on these observations, *Sabre Airline Solutions* suggests that focusing on these six areas of improvement will drive increased market share and revenue growth. (See figure 7)

Forecasting — Based On Consumer Preferences And Attributes

This involves a forecasting approach that follows the consumer demand process — a top-down approach that provides insight into market demand and consumer preferences, such as:

- Displacement time, elapsed time, competitor schedules/fares, aircraft type, restrictions, and so on,
- First-choice demand,
- Improved estimates of recapture, upsell and price elasticity.

For airlines whose demand is predominantly consumer direct, calibration of the choice model will be from PNR data.

Fare Simplification — The Low-Cost Carrier Revolution And How Restriction-Free Pricing Has Evolved

Traditional revenue management forecasts demand by fare class and determines optimal allocations against available capacity. Each fare is independent and governed by a set of restrictions. In a pure low-cost carrier model, fare classes are not independent, and management should forecast demand depending on the current fare class that is open. Fares have the same identical restrictions.

The blending of the two is known as the “hybrid” fare structure. Multiple fares are filed with identical restrictions while others may remain restriction free. The ability of a revenue management system to support both simultaneously in certain aspects of a network is needed to protect and compete for revenues.

Alternate Segmentation/Branded Products

No two customers are equal, but many are alike. Segmenting them successfully can ensure repeat travel, deeper spend and higher levels of satisfaction. Knowledge of the traveler can help make more insightful decisions during the sales and operational processes. Getting closer to the customer requires an understanding of the data and an investment in a data warehouse. Airlines should attempt to capture and track:



Figure 7: The continuing evolution of revenue management is focused on the consumer and these six areas.

- Purchase value/lifetime value,
- Recency, frequency, monetary and tenure,
- Profile characteristics to fulfill specific marketing objectives.

Being able to offer and adapt a brand of fares offered by amenities is dependent on an airline’s infrastructure and ability to support all of the following:

- Operational data — PNR, ticket data,
- Customer profile data — name, address, e-mail,
- Demographic data — age, income, location,
- Customer preference data — propensities, attitudes, behaviors,
- Business KPIs — key metrics and continuous feedback.

Product Unbundling — Ancillary Revenues And Its Impacts

Unbundling of airline products is becoming a reality. Some airlines are experimenting in the distribution of a variety of in-flight products and services (such as pre-paid seats, baggage check, meals, entertainment) based on customer insight. Other airlines are focusing on selling optional flexibility with the use of their fares (upsell/rule buster).



Figure 8: The time window for pricing

The “a la carte” pricing strategies enable online customers to choose or decline such product attributes as seat assignments, meals, checked baggage and frequent flyer mileage accrual.

As ancillary revenues grow, it is important to forecast the consumption of ancillary revenues by customer segment and booking class.

Consideration of the impacts of product branding and unbundling on revenue management, reservations and distribution include:

- Demand forecasting (at the brand level),
- Web displays and GDS/reservations impacts for the differentiated content,
- Ability to track inventory at the product brand level,
- Pricing of attributes (based on customer willingness to pay),
- Revenue accounting (ability to track and capture fees from the PNR/VCR).

Proactive Pricing — Adopting An Intelligent Approach To Competitor Fare Actions And Fare Initiatives

Pricing, long forgotten, is a key enabler of incremental revenues. Traditional airline pricing is limited to competitor fare monitoring and matching based on rules. Traditional revenue management has always focused on what the supplier is willing to accept instead of what the customer is willing to pay.

Airlines need to re-evaluate pricing and revenue management processes. There is a unique opportunity to generate incremental revenues with optimal pricing. Strategic and tactical pricing should be considered.

Strategic pricing (fulfills long-term objectives and greater uncertainty) includes:

- Price leadership and implementation of a sound pricing strategy,

- Evaluation and recommendation of a new tariff structure (all fares) for the market,
- Proactive pricing based on customer willingness to pay and prevailing competitive market conditions.

The time window for strategy pricing is 12 months from day of departure to three months prior.

Tactical pricing (fulfills immediate objectives with limited uncertainty) includes: (See figure 8)

- Active monitoring of competitor fares to execute “smart matching,”
- Evaluation and recommendation of a smart response based on a competitor’s specific action (fare specific) and on quality of service and/or prevailing fares.

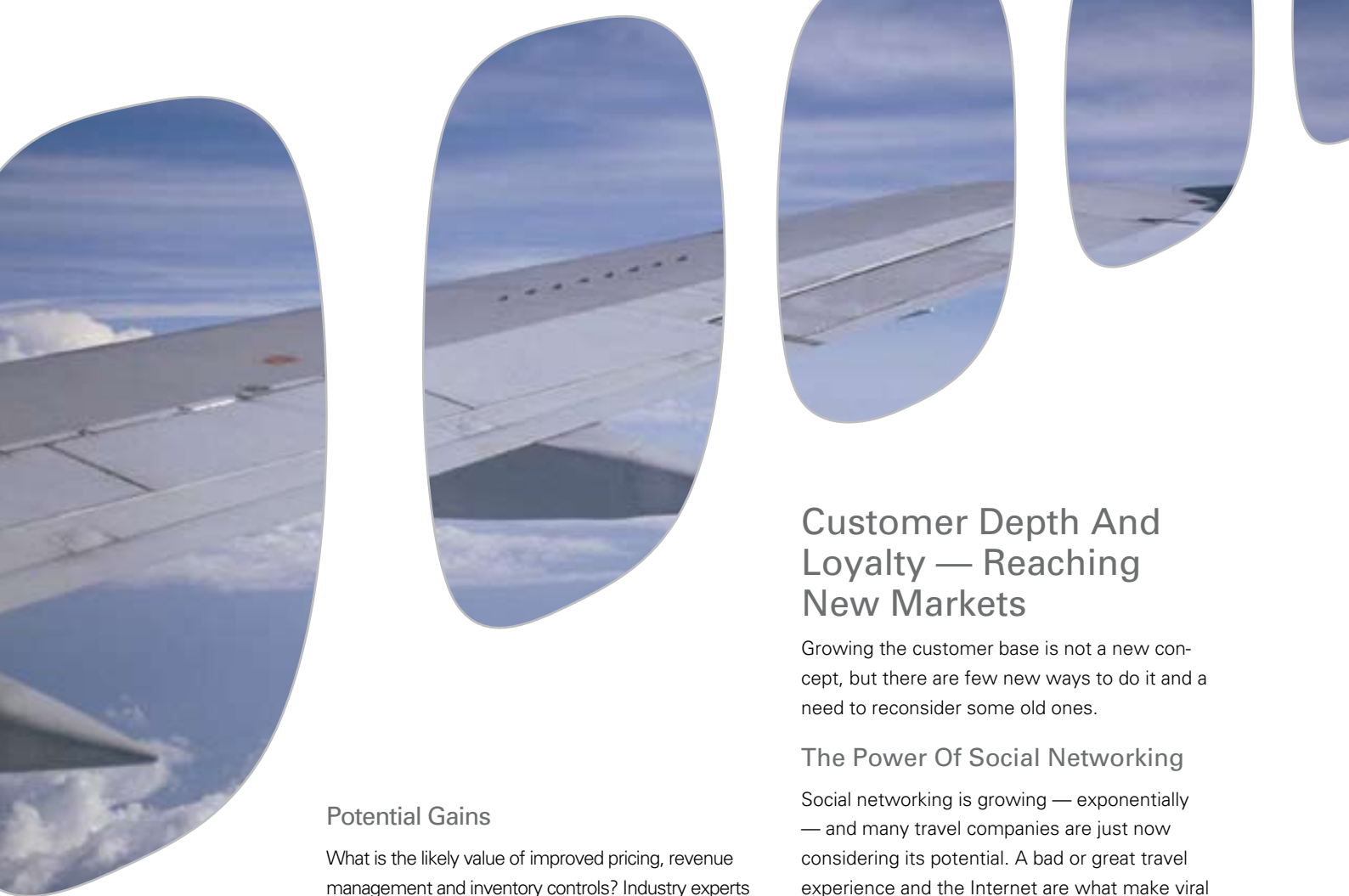
The time window is three months to day of operation.

Accurate Seat Availability — Alignment With Revenue Management Value Proposition

The history of how to properly reflect seat availability has shown numerous advancements in technology and logic. Today, the transformation of availability is happening “live.” The airline industry is figuratively changing the tires while the car is going 100 kilometers per hour, and there is a long list of other dynamics in play.

However, amid the complexities, airlines need to seek ways and partners to improve the accuracy of online and offline availability displays by using:

- O&D availability that caches by point of sale, providing a better, more profitable objective,
- A proxy for availability that will mirror the logic resident in an airline’s host CRS, reducing unconfirmed segment responses, or UCs,
- A combination of O&D availability and a proxy that would then drive incremental revenues and cost reductions for an airline.



Potential Gains

What is the likely value of improved pricing, revenue management and inventory controls? Industry experts have determined commonly accepted averages for the benefits of real-time revenue management. (See figure 9.)

The fundamental value proposition of revenue management does not change. However, certain things are evolving. Customer-centric revenue management is driving forecasting based on consumer traits and preferences. Simplified pricing is here to stay with the emergence of low-cost carriers.

In an attempt to get closer to the customer, airlines are contemplating alternative segmentation strategies to manage seat inventory. Brand recognition and product unbundling are gaining in significance.

Accurate availability based on the competitive landscape and stated marketing objectives is on the radar of most leading airlines, and price leadership is increasingly being viewed as a competitive weapon. Revenue management, customer relationship management and how products are distributed are converging. The continuing evolution of revenue management can be a win-win proposition for both the consumer and the airline.

Customer Depth And Loyalty — Reaching New Markets

Growing the customer base is not a new concept, but there are few new ways to do it and a need to reconsider some old ones.

The Power Of Social Networking

Social networking is growing — exponentially — and many travel companies are just now considering its potential. A bad or great travel experience and the Internet are what make viral marketing powerful. Blogs help spread the word at lightning speed. Members of these networks are influencing travel purchases if not making the purchases directly. And that's why:

- More airlines could consider marketing within the existing popular and growing social networks.
- Airlines should use social networks to appeal to different age groups. Such sites are no longer limited to the teenagers from MySpace, Facebook, Pizco and Tagged, but to seniors on Eons, businesspeople on networking sites such as LinkedIn and Plaxo, and even hobbyists such as photographers with Flickr. Collectively, there are more than 50 million potential customers daily.

The *Sabre® Virtually There®* Web site posted a YouTube video in November 2007 that features a “hip hop” grandma who teaches her teenage grandson how she stays “in the know” while traveling with *Virtually There*. After just a few days it was the most viewed travel-related video. A Valuecruncher valuation estimates an average of 15 billion YouTube videos will be streamed worldwide per month in 2008 increasing to 50 billion per month in 2012.

Environment	Capability/Revenue Lever	Incremental Revenue (%)
PLANNING	Fare management	1% - 2%
	Overbooking	2% - 3%
	Discount allocations/restriction free-pricing	3% - 4%
	O&D revenue management/network RFP	1% - 2%
	Group control	0.5% - 1%
EXECUTION	Point of sale control — fare adjustments, fare by POS, off-tariff control and channel control	1% - 3%
	Flexibility/adapability of inventory controls by market	1%-2%
	Advanced fare qualification rules/product rules	0.5% - 1%
	Interline proration (% based on interline traffic)	0.5% - 1%
	Customer-centric availability	0.5% - 1%
	Alternative to cached availability — true last-seat availability for shopping requests from Sabre® channels	Reduction in prevailing UC's
	Dynamic packaging through distribution channels with true last-seat availability	1%

Figure 9: Gains with improved pricing, revenue management and inventory controls

Social network members present an opportunity for buyers of travel-related services. There seems to be no sign of the growth of such groups slowing. Airlines and other travel-related suppliers would do well to consider how they might use such sites to drive brand and market share with new revenue opportunities.

Broaden Your Distribution Mix

Balancing channels and understanding true costs are critical to increasing revenue. You can maximize your competitive advantage and unlock market potential by finding the right distribution mix that can yield some unique opportunities including:

Maximizing the availability of your product for all trip types

Considering the reasons for travel by your consumers is essential when determining the right distribution mix. From corporate travel to last-minute weekend getaways, customers' needs and reasons for travel weigh heavily on the channels

they will use to purchase the product. By offering the right product through the right channel, you can ensure the ability to reach the right customer through all channels is maximized.

Expanding the reach of your product

Not only does the right distribution mix ensure that the right product will be available to the right customers when they need it, but a distribution mix that includes content in the right multi-channel mix can help maximize your product reach. The acquisition of new customers in regions outside your home market is aided by the global power of an indirect channel such as a GDS through efficient and effective product distribution without the hidden costs associated with more direct methods.

Alliances, Codesharing and Interlining

Alliances with carriers that complement your network have long been a way to gradually increase the customer base and revenue while



avoiding unnecessary costs through competition on the same routes. With the recent development in Open Skies, new opportunities provide new revenue possibilities such as:

Alliance services — New Open Skies regulation might change the alliance landscape, possibly dramatically. When considering your alliance options, look for an integrated alliance solution that will work throughout and beyond the travel service chain, satisfying all of the status benefits essential to the chosen alliance affiliation.

Codesharing — Look for a vendor that offers an easy configuration tool to ease codeshare activations and maintenance processes by enabling an airline to create and maintain all applicable codeshare tables in one place. Don't overlook the need to support both block-space and free-sale agreements and all four IATA options, that way you have the capability to codeshare with anyone.

Interlining — An essential business element these days. Finding an interline electronic ticketing hub vendor that enables 100 percent e-ticketing, reducing the costs of interlining and partnering with other carriers while enabling full compliance with the IATA e-ticketing mandate, is a basic must.

A preference should be given to the use of a single customer record throughout the travel chain, which will enable consistent recognition of the valued alliance passenger and record cus-

tomers throughout the travel process from ticketing, check-in, flight departure, post departure and mileage accrual. The single customer record virtually eliminates the risk of not providing the customer benefits that each frequent traveler expects and the suppliers, the history they need.

Synchronized data will also be a welcome result of a single customer record, simplifying the reconciliation of codeshare flights, easing the complexity of schedule changes and significantly reducing any revenue management risk by eliminating the need to balance various sources of inventory.

Optimizing Your Slots

A viable item for revenue consideration might be slot swapping or slot leasing to other airlines, generating revenues that were impossible to consider before. Slots represent the key to a network's revenue potential, and Open Skies has provided a new opportunity to consider the (greater) revenue potential possible through temporary swaps and sharing or leasing to others.

Revenue Recovery And Protection

Stop Revenue Leakage

A sound revenue integrity program is required for a successful revenue management program. While vigorously pursuing growth and cost-containment opportunities, many carriers overlook one of the most attractive sources of revenue growth — a low-risk, high-reward revenue integrity strategy. Airlines that have

instituted a broad organizational focus on stemming revenue leakage have seen immediate beneficial results, typically improving their revenue by 1 percent.

A successful revenue integrity program consists of implementing automated tools and constantly monitoring reservations activity for compliance with policy, across all distribution channels, with appropriate follow up in a timely manner.

A good revenue integrity program benefits all airlines regardless of size or reservations system. Centered on a flexible, robotic application, a good revenue integrity program enables an analyst to rapidly identify and eliminate non-revenue-generating bookings, obtain a truer picture of available inventory closer to departure and convert truly unsold items into revenue.

Identifying and eliminating non-revenue-generating bookings obtains a truer picture of available inventory closer to departure. Non-productive bookings in your airline reservations system are generated either through negligence or fraudulent activity by travel agents and/or airline employees and are generally time consuming to identify.

As an example, manually finding and enforcing ticketing time limits, handling passive segments and managing duplicate segments and PNRs can be fairly inefficient and cost prohibitive for many carriers. Through appropriate processes and tools, a revenue department can effectively improve its operations, customer retention, user productivity and revenue.

Revenue integrity management solutions take appropriate measures to convert unsold inventory into revenue-producing inventory and ensure data integrity across all GDSs. Carriers — regardless of size or the passenger reservations system — that utilize such tools gain valuable benefits in several key areas:

- Detecting and optimizing less-profitable bookings,
- Reducing and normalizing overbooking,
- Eliminating inventory spoilage,

- Ensuring consistency of fares and availability across GDSs,
- Improving forecasting and scheduling.

Revenue integrity management tools ensure that passengers travel within the conditions applied to their tickets, and the costs of such tools are generally very affordable and offer an instant and high return on investment.

Revenue Accounting

A good revenue accounting audit tool is essential to enforcing fare rules and providing management oversight. Can airline accounting handle e-ticketing, interline e-ticketing or your interline weekly settlement? Can it easily access and report revenue data across numerous dimensions? Can it accurately account for unearned revenues associated with ticket sales and earned revenues associated with ticket use? If not, then:

- Ensure the system has the ability to build audit queues to look for violations for monies not duly collected on the airline's behalf. It should be able to work with published and unpublished fares, support timing rules, commissions, payables and unreported sales.
- Avoid repetitive loss with accounting tools that recover revenues from mistakes and protect from future deceptions.
- Conduct revenue accounting audits regularly, whether internally or outsourced, then adjust based on the findings.
- Align the system's and department's processes with marketing, inventory and sales.
- Track ancillary revenues by flight based on usage.

As more and more airlines push branded fares, the revenue fulfillment and financial settlement becomes more complicated and relies on the revenue accounting system to manage it. By using a good revenue accounting system, an airline can expect revenue recoveries from audits likely to exceed 1 percent of its annual revenue compared to manual systems. The availability of market intelligence information can provide additional financial gains of up to 3 percent of an airline's annual revenue.



Incremental Income Streams

Ancillary Revenues

A large variation of ancillary services are offered within the industry. Some airlines are experimenting with in-flight products and services (such as pre-paid seats, baggage check, meals, entertainment) based on customer insight. Other airlines are focusing on selling optional flexibility with the use of their fares (upsell/rule buster).

An independent survey conducted by Leflein Associates in January 2006 showed that many travelers would pay for extra perks such as more overhead bin space and in-flight Internet access.

Airlines appear to be using one or more forms of “user-defined bundles” such as:

- Air extras that include the distribution of a variety of in-flight-related products such as pre-paid seats, checked baggage, meals and entertainment.
- Optional flexibility with fares, such as branded fare groupings and displays, up-sell to higher fares and rule-breaker purchases.
- A combination of complementary services offered from partners/suppliers.

The unbundling of airfares is best described as a means to separate products and capabilities in such a way as to enable an airline to differenti-

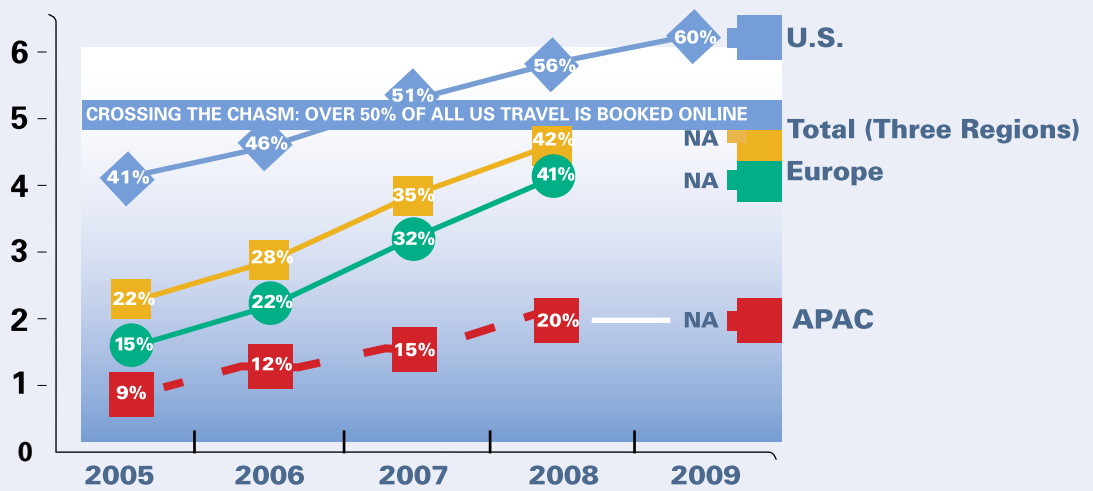
ate, brand, market and merchandise its fares and value-add services within its controlled and connected point-of-sale applications. This strategy has created a new “merchandising” concept that can be applied across any point of sale, which offers airlines new and creative ways to connect with the consumer by offering more than just the seat at the point of purchase, while producing higher yields for the airline.

Some airlines are choosing to market all of the respective air and non-air content in an a la carte fashion, while others are choosing to group fares into “branded” labels with each group having more privileges. The first strategy offers potentially more revenue while the second secures greater fare variability and incremental revenue pre-trip.

To properly implement an “unbundled” sales strategy, consideration needs to be given to several sales processes and applications:

Make it easy. Unbundle and sell additional services and products pre-flight, in-flight and post-flight. These include pre-paid seats, insurance, parking, limo, baggage forwarding, meals, (additional) checked baggage, entertainment, wireless access and service fees. Provide the necessary integration at points of sale enabling a consistent traveler experience. Ensure ease of payment, credit cards or joint loyalty/credit cards.

Be everything to everyone. Match customer demand and unbundle but also retain influence over the purchase, such as exposure to a set of “branded” fare classes that market the airline to various types of travelers. The simplified structure can increase sales by both revenue yield and volume. Use specific branded fare classes throughout all distribution channels for faster adoption.



Note: 2007-2009 figures projected, figures have been revised from previous editions; APAC and Europe projections not available at press time.
Source: PhoCusWright's U.S. Online Travel Overview Seventh Edition

Figure 10: U.S., Europe and APAC Online Penetration: Total Travel Gross Bookings as a Percentage of Total Regional Travel Markets, 2005 – 2009

Let logic dictate. Consider crafting some simple workflow rules to aid agents at points of sell and check-in to know what would be the most successful upsell — a higher “branded fare grouping,” meals at certain times, an amenities kit for evening flights, morning paper for a red-eye, restaurant meal voucher with ample preflight time and so on.

Document, analyze and explore. Track what is tried and who buys it. Group similar ancillary products and suggest similar ones to travelers with past purchases.

Be creative. Offer daily newspaper, amenities kit (toothbrush, eye mask), pillows and blankets, laptop power, postcard services. Look for things that might have a long or infinite shelf life and store easily. If historical data supports that a particular flight will have an unavoidable low load factor, consider selling the guaranteed privacy of a vacant seat adjacent to the traveler. An airline has yet to partner with a mail order movie vendor such as the United States’ NetFlix or European vendors such as MovieMail, MovieMile or Keeno to create an easy and current movie rental option within domestic markets.

Consideration needs to be given to how “unbundled” to make a flight based on the

brand and what types of additional services an airline wants to be known for. But whatever the reasonable mix selected, the ability to up sell customers additional levels of service and/or amenities has proven to be a very profitable revenue strategy for many carriers, and more importantly, customers are repeatedly requesting it.

Better Web Site Marketing And Partnerships

Many airlines have foreseen the benefits of a Web site for customer self-service — reduced call volumes for reservations call centers and direct sales — but few have completely seized the broad possibilities for revenue generation beyond basic booking requests and loyalty status. Increased services mean increased visibility, hits to the Web site and brand recognition. Americans now buy more travel online than off-line. Specifically in the United States, 2007 was the first year in which more travel was purchased online than off-line, according to a PhoCusWright Consumer Travel Trends Survey. The study said 51 percent of U.S. travel was booked online in 2007, and it projected that percentage to increase to 56 percent in 2008 and 60 percent in 2009. (See figure 10.)



Harness The Internet

The Internet puts tremendous power into the hands of marketers, offering a medium for immediate interaction with customers and the ability to gain instant feedback and adjust selling strategies on the fly.

Five key areas stand out as critical to online marketing success:

- Growing site traffic,
- Converting lookers to bookers,
- Understanding travelers' interaction with a site through Web analytics,
- Using online advertising and e-mail.

Successful Strategies For Growing Site Traffic

As in figure 11, by developing an online marketing strategy that incorporates online marketing best practices and complements your traditional marketing efforts, you can create a plan that is in line with your airline's overall comprehensive strategy by offering the following:

- Online discount coupons — Promote visits and bookings on the Web site through targeted

promotional discount coupons redeemable only through the online channel. Airlines can also track customer usage and utilize data for future promotions.

- Online credit accounts — Offer an online electronic alternative to credit cards or cash with a travel bank solution. Travelers retain electronic flight credits in an individual or corporate travel bank account. Accessibility to credits for payment of flights and other services is available through various points of sale such as the Web, ticket counter locations, city ticket offices and reservations/call centers.
- Pay-for-performance search,
- Rationing Web-exclusive products,
- Popular culture events,
- Contests and games — Promote your business or services while providing chances to win prizes,
- Viral marketing — Facilitate and encourage people to voluntarily pass along a marketing message,
- Guerilla marketing — Generate inexpensive or free publicity through various creative ways,
- Teaser campaigns — Entice customers to look for special offerings,
- Public-awareness campaigns — Contribute to the community by partnering with a cause while increasing brand awareness,
- Direct mail — Target your customers with specific offers through the mail,
- Online communities and social networks.

Partnerships forged with other vendors in the travel chain such as car rental agencies and hoteliers can provide cross marketing of discount coupons and shared loyalty programs.

By jointly promoting other partners' products, an airline retains a revenue split of the proceeds. Online credit accounts also allow airlines to retain what would be refunded amounts for future purchases, ensuring a return Web site booking and greater sales potential.

Strategies For Turning Shoppers Into Buyers

Numerous strategies exist for converting shoppers to buyers. Four specific techniques can help improve the look-to-book ratio:

- Increase qualified traffic,
- Improve the shopping experience,
- Close sales,
- Encourage repeat buyers.

Know Site Visitors

Key questions that need to be answered by Web site analytics include:

- What brought the customer to the site?
- How did the customer enter the site?
- What paths were taken while on the site?
- What led to a booking?
- How long did the customer spend on the site?
- If a purchase was not made, when did the customer abandon the site?

Online Advertising

Entire books have been written on the topic of online banner advertising including compiled research on what works and what doesn't. Some of the findings say banner ads can:

- Offer the opportunity to track customer interaction with the advertising effort. This is a very effective form of advertising, and the added value of being able to truly interact with the customer makes it even more attractive.
- Target marketing campaigns based on traveler history as well as the history of the traveler's Web-site interaction. Deliver the right message to the right traveler at the right time.
- Provide cross-sell and upsell opportunities. Offer a car or hotel partner add-on or up sell a customer to a higher class of service.

Banner advertising is an extremely powerful tool that should be maximized in the overall online marketing and revenue strategy. It is critical not to judge the success of banner advertising by the click-through activity alone since the increase in awareness levels is directly tied to the volume of banner advertising displayed.

By expanding the vision of Web sites' purpose beyond seat inventory, airlines can increase their marketing potential and drive incremental revenues. Offering a complete, fully hosted online booking system lets airlines display and sell their products, as well as those of partner airlines, car and hotel companies, in an efficient manner over the Internet. Customers have direct access to these products any time, any where in a single location, and the buying history can be captured.



Improved Cargo Revenue Management

Air cargo is increasingly becoming an important source of revenue for airlines across the globe. On an average, the revenue from cargo is 13 percent of the total air traffic revenue and up to 40 percent for some airlines. As the demand for air cargo increases, it is vital for airlines to capture as much of a market share as possible and carry the right type of cargo within the constraints of the network to increase revenue and maximize profitability.

The success of an air cargo operation can be impacted by a number of factors including:

- Lengthy unproductive processes,
- Untimely flight schedule updates,
- Inaccurate data availability,
- Uninformed and inconsistent decision making.

Airlines require automated decision-support tools to help manage cargo operations at an optimal level, thereby increasing revenue while maximizing profit and improving customer relationships. These tools need to focus on several areas:

- Capacity planning — Accurately knowing the capacity available for sale at the beginning of

the booking period is critical so demand is not spilled or turned away, which in turn increases revenue. Benchmarking and post-implementation measurement of benefits from capacity planning by using the right tools can improve revenue up to 5 percent.

- Allotment management — How much space should be allocated to a station or customer based on revenue, usage, type of cargo and so on. Allocating space to the right station or customer and considering the possibilities of satisfying allocations among multiple routes considering network effects helps increase revenue from allotment sales by up to 4 percent.
- Pricing guidelines — Determine minimum acceptable prices (or hurdle prices) to sell cargo based on flight capacity, demand, service level desired, rate and density of cargo. Carrying the right freight mix in terms of rate and density maximizes the revenue and contribution from the three-dimensional cargo capacity. By using the right tools, benchmarking measurements of revenue benefits show increases of up to 6 percent.

The extent of revenue benefits depend on a number of key factors such as the level of sophistication of current revenue management method, business process alignment with the applications, data quality and availability, product acceptance at all levels within the cargo organization, and users believing and using the system.

A focus on better cargo management and improved processes will provide incremental benefit without additional costs.

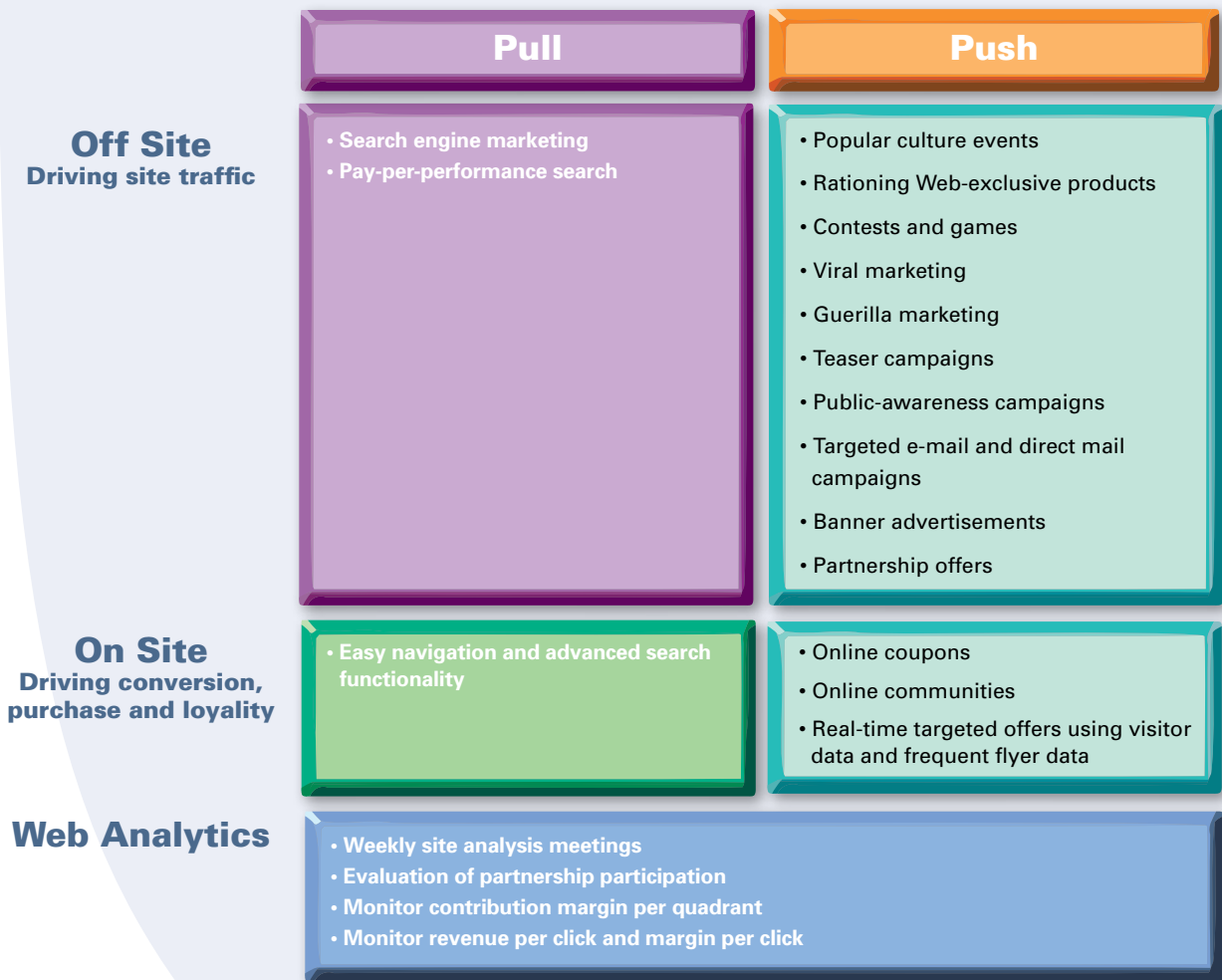


Figure 11: You can develop an online marketing strategy that incorporates best practices and complements your traditional marketing activities.

Tangential Business Services

In the past few years, many carriers have analyzed their situations and pulled back from having subsidiary services that may have posed a distraction from their core businesses. Some have downsized their IT staff, and others have outsourced entire business functions to another vendor.

In a time where focus is paramount, there are some carriers that may still be served well to consider offering their business services to others.

Such services can include:

- Check-in operations,
- Marketing assistance in home markets for a network partner carrier,

- Baggage handling,
- Catering,
- MRO or other ramp functions,
- Contracting for other's call center operations,
- Revenue accounting.

Offering these type of services can help airlines secure revenue streams from non-core business opportunities. As long as an airline performs these functions well, has the necessary bandwidth and has interested carriers in non-competing markets, it's a win-win possibility worth considering.

Care needs to be given to any decisions to divest resources to non-core business, but occasionally opportunities present themselves for revenue gains if they can be recognized.



Occasional Outside Review

Everyone has heard of the inability to recognize problems or improvement areas when the perspective is too close or when absorbed in daily operations. Reflection and a fresh perspective is rarely a waste of time but rather a unique opportunity to consider new ideas.

Outside consultants come in all shapes and sizes, from specialty firms to Enterprise Resource Planning ERP vendors, to corporate/management restructuring. Consider their track record and fee structures wisely. With the right empowerment, data access and a forum to communicate findings, outside consulting is usually well worth the expense.

Some consulting firms will offer to put something on the line through a risk/reward engagement where a significant portion of the firm's payment is contingent on measurable success. Under such engagements, customers reward the consulting group by sharing profitability reached above defined thresholds. The client rewards the firm for taking the risk that the customer would not receive the stated business benefits.

Airline planning, revenue management, sales and distribution, alliances, merchandising or any idea to explore additional revenues streams, recovery or protection from growing competition are all valuable reasons to seek outside review on an occasional basis. Operational and industry conditions and customer demands are constantly changing so an airline's perspective needs an occasional review as well.

Ready For Revenues To Take Off?

Many of the topics presented are not new ideas. Sometimes consideration for one might simply be based on timing or other factors. Regular strategic and tactical planning in which management can focus on away from their daily operations will offer previous ideas a new chance for consideration. Whether it is combining smart outside consulting assistance, better tools or sharper decision making for existing functions or new operations, airlines can drive their revenues up. Discipline to always look for new ways and the need to make timely decisions are the main ingredients for success.

We're Here To Help

If you would like to explore any of the ideas discussed in more detail, we would be happy to meet with you.

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