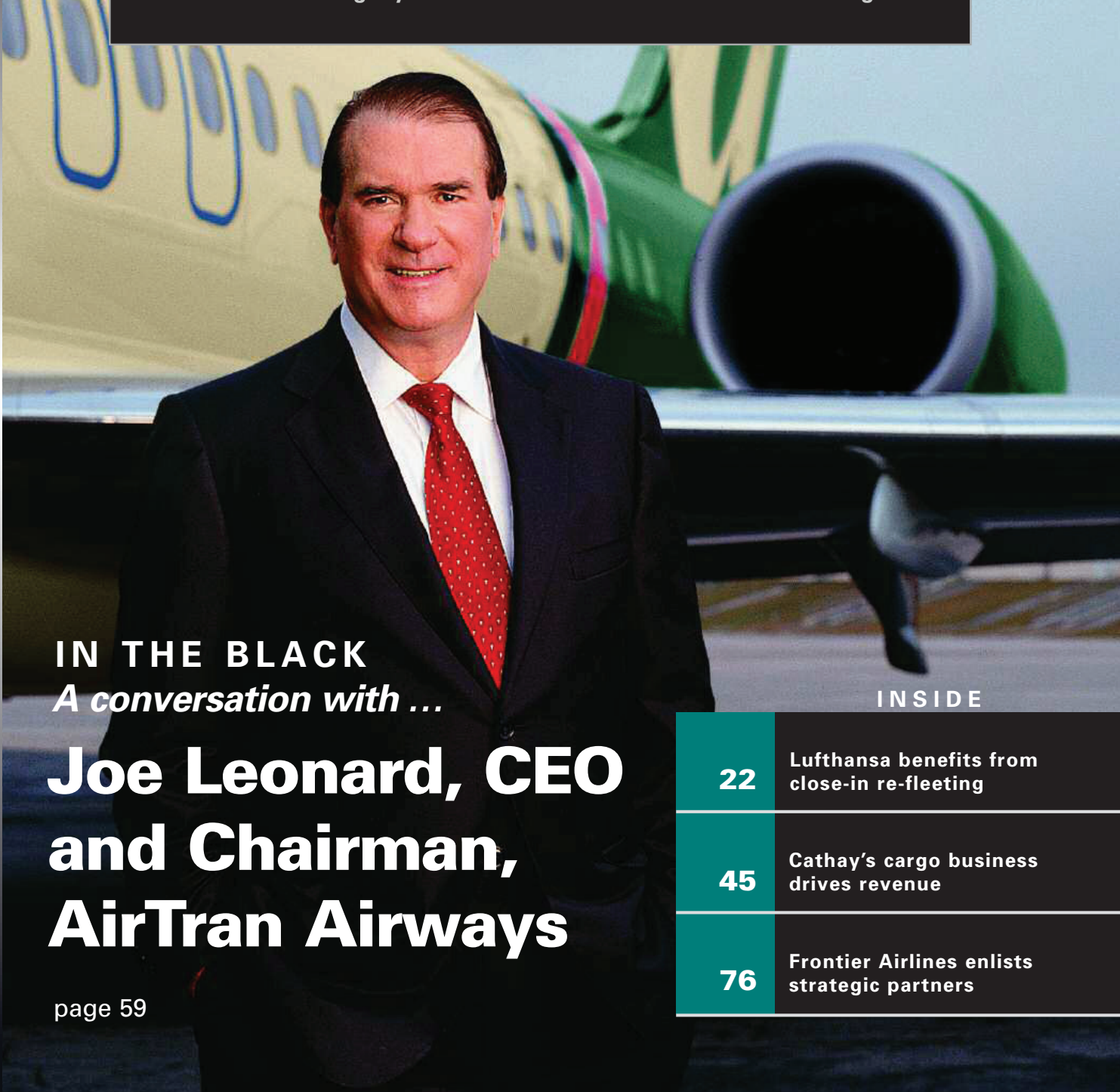


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# A Fare Reaction

*A methodical fares management strategy supported by state-of-the-art technology provides the perfect balance to effectively predict and react to competitors' fare actions.*

■ By Bryan McVicker | *Ascend* Contributor

Airlines constantly face the need to remain competitive and profitable. Today, a vital aspect of an airline's success depends on its ability to predict and react to competitors' fare actions. Even the most experienced pricing analysts are challenged by the task of fares management. They must analyze and respond to millions of published and negotiated fares in addition to the hundreds of millions of constructed fares distributed by airlines around the globe.

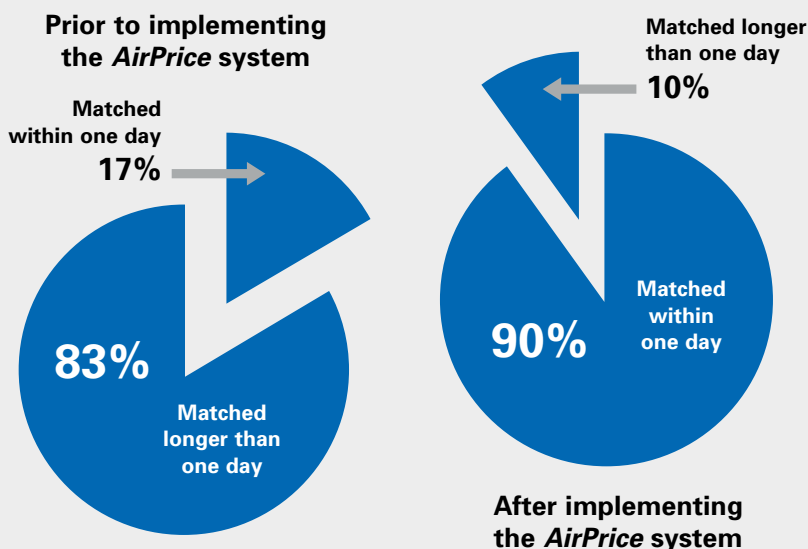
Fares management addresses a carrier's fares in relationship to those of its competitors. Each fare falls into one of five categories based on the assumption of a fare product, which is defined by specific criteria such as passenger type, advanced purchase, minimum stay requirements, seasonality, and mid-week/weekend or peak/off-peak assignment. These categories include:

- Market share condition — A carrier has a higher fare than its competitor for the same

set of governing conditions, indicating that the carrier will lose some amount of market share by offering the service at a premium. This particular case does not reflect adjustments in the price; however, theoretically, increasing market share could dilute the amount obtained from existing passengers.

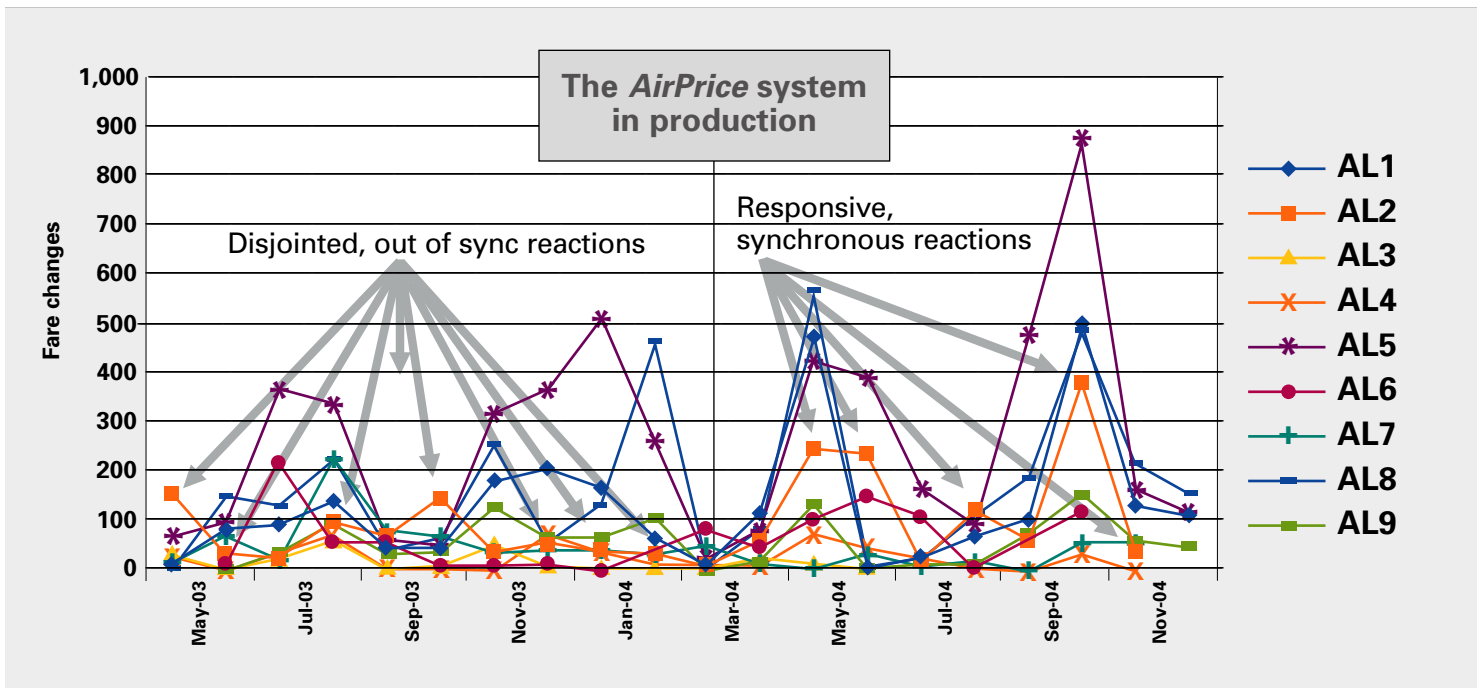
- Revenue gain condition — A carrier has placed an identical product below the competition to obtain the destination as the low-cost leader for the product combination. The assumption is that it is possible to maintain the title of low-cost leadership while decreasing the gap between the carrier and its competition. In making the adjustment, the airline retains its leadership position, but it gains the same amount of passengers at a slightly higher price resulting in higher revenues per passenger.
- Leadership condition — A carrier is the initiator of a fare increase in a particular market. When the leadership condition is observed consistently, there exists an opportunity to drive the price with the expectation that the competition will follow, generating a higher revenue per passenger for the lead carrier while maintaining the same market share split that was observed at the lower price.
- Reactive response — A carrier reacts to its competitors' fare changes; however, the intent is to minimize the amount of time the carrier strays from its strategy and is left in one of the first two conditions for an inappropriate amount of time.
- No matching product condition — An airline offers a product that is not offered by its competition. While this is not inherently bad, the over differentiation of products has a tendency to dilute the carrier's other product offerings, reducing its net revenue.

## Fare Match Reaction: Europe — United States



A carrier using the *AirPrice* system can increase the number of fares it is able to match within a day from 17 percent to 90 percent. This validates the reaction time component of the *AirPrice* system, enabling the carrier to identify changes in the competitive landscape and consistently implement individual market strategies.

### Hub History — Tariff 30



The individual monthly values represent the number of fare changes performed by a carrier utilizing the *AirPrice* system versus its competitors in applicable markets. The fare changes that occurred prior to installation of the system appear random and are not responsive to changes in the environment. After installation of the *AirPrice* system, the changes either lead or are tracked closely to competitors.

The five conditions can be compared with traffic in particular markets to identify potential revenue gains. Using innovative pricing technology, the conditions can be identified and acted upon, each in its own way, to minimize the losses that would occur if the condition was left unaltered. Without an automated system to process the large volumes of data, a carrier would find it impossible to monitor all of its market and individual product offerings.

Adopting a comprehensive pricing approach can help airlines effectively manage fares information in a competitive and timely manner. The *Sabre® AirPrice™* fares management system offers power and flexibility in fares management, competitor analysis and the reporting capabilities that an airline needs to be competitive and profitable. The system, which assists with decision-support capabilities as well as quickly and efficiently implements changes to reduce losses in time-to-

market conditions, is based on the concept that speed to market drives revenues for pricing.

Aligned with a carrier's business process and strategic and tactical business plans, the *AirPrice* system helps airlines implement fare changes and swiftly react to competition. The system's dynamic data query tools help airlines examine relative market data — including competitors' changes — to rapidly implement a solution. It delivers the advanced technology and automated functionality necessary to effectively analyze the volume of fares information available today.

Depending on an airline's needs, the system can be implemented onsite and managed by an airline's own data center and personnel, or it can be delivered through *Sabre® eMergo®* Web access, an application service provider delivery method.

Effective use of an automated pricing system is expected to increase revenues by 1

percent. Utilizing the *AirPrice* system in a competitive fares environment generally achieves a 1.5 percent revenue increase.

The ability to create a strategy, implement it in a decision-support application, and monitor and react to competition is critical. The *AirPrice* system addresses all channels carriers utilize to get their product to the consumer, storing published, private, Internet and agency agreement data for comprehensive analysis. Without the holistic value of this type of advanced technology, carriers are relegated to trying to effectively manage only a portion of their products, in the end, leaving money on the table. **E**

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**+count** it up

**7,932,003** — Number of flight plans generated annually via the *Sabre® Dispatch Manager*.