

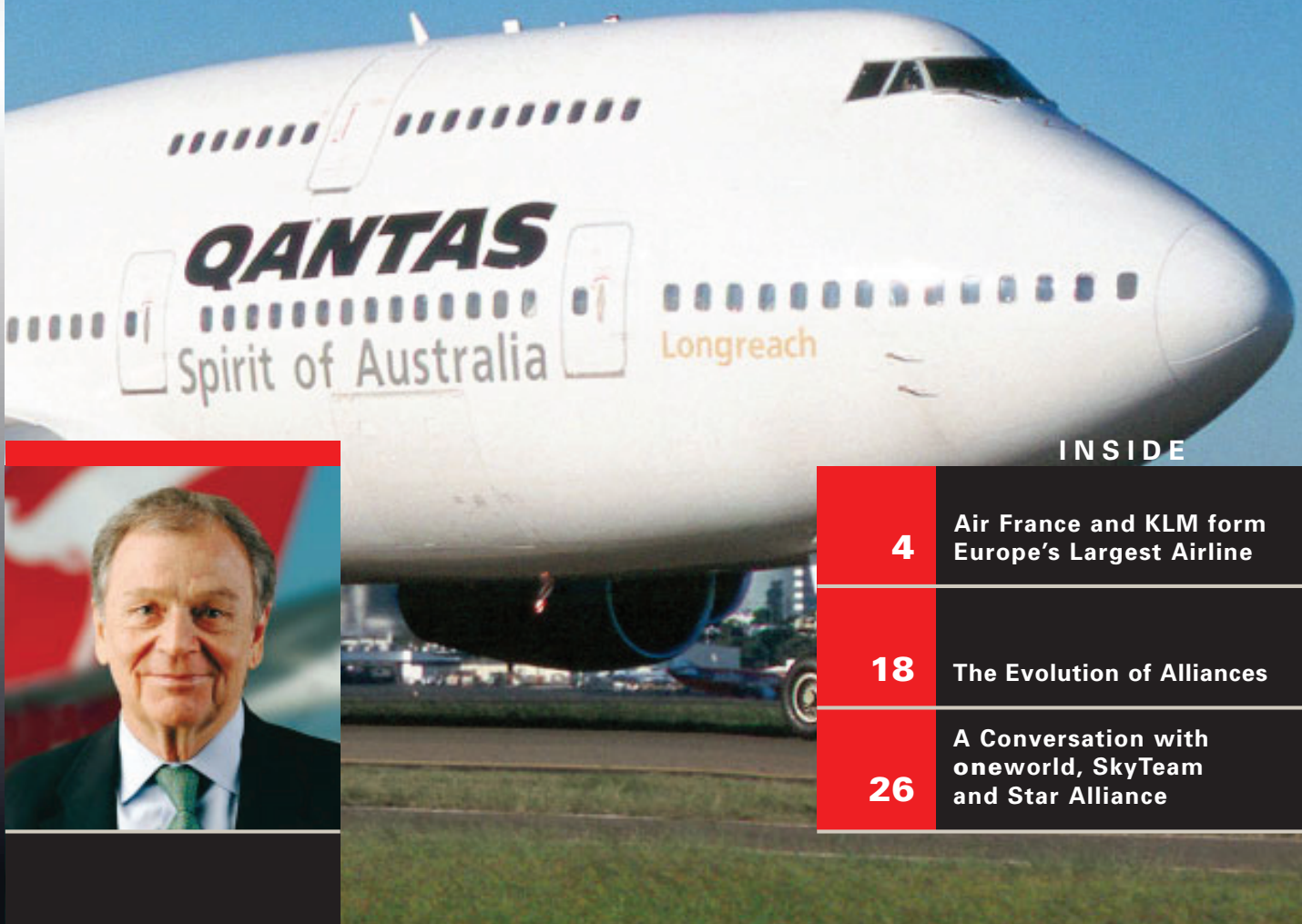
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AN ALLIED FRONT

*A conversation with ...*

## Geoff Dixon, CEO, Qantas Airways



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oneworld, SkyTeam  
and Star Alliance

# Aligning the Alliance

*By more tightly aligning their operations in areas such as planning and scheduling, revenue management, and passenger service and operations, individual members of an airline alliance can further cut costs as well as realize additional incremental revenue.*

■ By Michael Clarke and Abdoul Sylla | *Ascend* Contributors

In recent years, global alliances have evolved from simple marketing partnerships to more integrated entities striving to achieve operational synergies as well as mutual cost reduction.

Already, alliances have helped their member airlines generate additional revenue, control costs and deliver incremental value for their customers. Individual airlines are beginning to realize the economies of scale offered by membership in one of the main global alliances — facility sharing at key airports, common information technology systems, and common data repositories and joint purchasing programs. Alliances also provide key customer service benefits such as an increased network, seamless travel through tools such as interline electronic ticketing, and shared frequent flyer benefits and lounges.

Yet, there is still plenty of work left to be done before airlines reap the full benefits of alliance membership. Although necessary technologies already exist, airlines have been hesitant to take this final step toward full integration of planning and scheduling operations, in part because of the potential for unexpected changes in the alliance composition and prevailing competitiveness between partner carriers for high-end passengers. Secondly, some aspects of schedule coordination are restricted by regulatory constraints as well as established contractual work rules.

As the global alliances continue to develop, each member airline faces the challenge of making the necessary cultural evolution and business process transition that will ensure the success of alliances' combined operations.

The foundation for some of the coming changes is already in place. With schedule coordination, codesharing and joint pricing, alliance members have begun the process of integrating their operations. But there remain several untapped areas for future growth, including greater coordination of airline planning, marketing and operations. By establishing new business practices that maximize the interests of each airline, the interests of the alliance are also advanced. In such situations, an airline's individual agenda has to be aligned with that of the global alliance. By doing so, each member airline is better off due to its cooperation with other partners, and the alliance is enhanced due to the participation of every member.

The new business practices should encourage long-term relationships, which cer-

## THE HIGH • LEVEL view

News Briefs from Around the Globe

### Who

Aloha Airlines

### What

Will utilize the *Sabre® AirMax® Revenue Management Suite* and the *Sabre® AirPrice™* fares management system through *Sabre® eMergo®* Web access, an applications service provider delivery method, to leverage an integrated solution for pricing

analysis and flexibility. In addition, the airline has implemented the *Sabre® PC AirFlite™* flight scheduling system to improve the carrier's aircraft utilization.

### Why

"These products will enable Aloha to grow, streamline our operations and compete effectively," said

Randy Laser, vice president for Aloha Airlines. "We gain performance-enhancing capabilities without having to resort to costly infrastructure upgrades. By choosing the *eMergo* delivery model, we avoid major upfront costs and better position ourselves to focus resources on our core operations." [a](#)



tainly present a challenge for an industry so affected by the volatility of the global economy. But, by developing new practices in the untapped areas of planning and scheduling, revenue management, passenger service, and operations, airlines can further take advantage of alliance membership.

### Planning and Scheduling

To be most effective in schedule planning, airline alliance partners should have a common view of:

- Alliance objectives,
- Market size,
- Passenger preferences,
- Revenues,
- Operating costs.

Since individual airlines are not likely to relinquish control of planning and scheduling to a centralized alliance group in the near future, each airline must be capable of communicating key information to fellow alliance members during the planning process. By optimizing the alliance's scheduling processes, partner airlines can effectively coordinate their timetables and take advantage of alliance market presence and the resulting market share shift it creates.

Doing so involves the alliance competitive position (rather than airline competitive position) in origin-destination markets in terms of service frequency, quality and timetable coordination to ensure that the alliance provides quality online service. It also involves capacity allocation to ensure

the smooth flow of passengers between alliance partners.

Competitive positioning for an airline generally involves assigning resources to markets to maximize expected profit. Each carrier in the alliance has the same objective and constraints. Without accurately accounting for alliance traffic, an individual airline could allocate an aircraft with insufficient capacity, thereby generating passenger spill in a given O&D market that could be competitively served by the alliance. Alliance membership creates a new variable — how significantly should a given airline's market position be modified to take advantage of alliance demand and revenue opportunities?

“Without accurately accounting for alliance traffic, an individual airline could allocate an aircraft with insufficient capacity, thereby generating passenger spill in a given O&D market that could be competitively served by the alliance.”

The potential impact can be a 1 percent to 2 percent increase in market share for a given O&D market. A demand increase of 1 percent across multiple markets can have a

significant impact on airline profitability. Because airline planning is often a matter of seeking profitability, shifts in demand should affect the relative attractiveness of markets and change individual airline plans. Timetable coordination helps maximize the benefits of the demand share shift created by the alliance. Relatively small changes in the timetables of all alliance carriers will increase the quality of alliance service. On a more subtle level, this coordination can also maximize the portion of traffic retained in the alliance when demand exceeds capacity. This requires an O&D view of passenger spill and recapture.

Schedule coordination within the alliance results in potential demand increase. Alliances also should coordinate fleet assignments to ensure that capacity is in place to accommodate this demand.

The fleet assignment process for each partner, or for the alliance, must be sensitive to the flow of passengers within each airline and alliance network. This requires that demand and revenue forecasts used in fleet assignment consider the flow of traffic across multiple partners. It also requires that the capacity optimization process is also sensitive to this O&D flow.

### Revenue Management

By maximizing the flow of revenue through the network, alliances boost the income of individual members. The revenue management process is complex for an airline alone, much less for an alliance. But, in essence,

## THE HIGH • LEVEL view

News Briefs from Around the Globe

### Who

Sabre Travel Network

### What

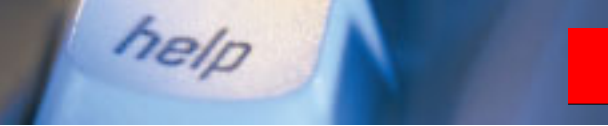
Released enhanced capabilities for the *Sabre® Air Pricing* suite that fully automate fare by rule capability. The global solution for Category 25 provides airlines the ability to automatically accept and process discounted fares and further simplifies complicated

negotiated fare contracts.

With the automated solution, airlines file published fares and rules via Airline Tariff Publishing Company using the Category 25 fare by rule process to attach corporate discount formulas and client-specific fare rules to the fares they file. The *Sabre®* global distribution system then accepts the ATPCO Fare by Rule feeds, automatically calculating the appropriate fare.

### Why

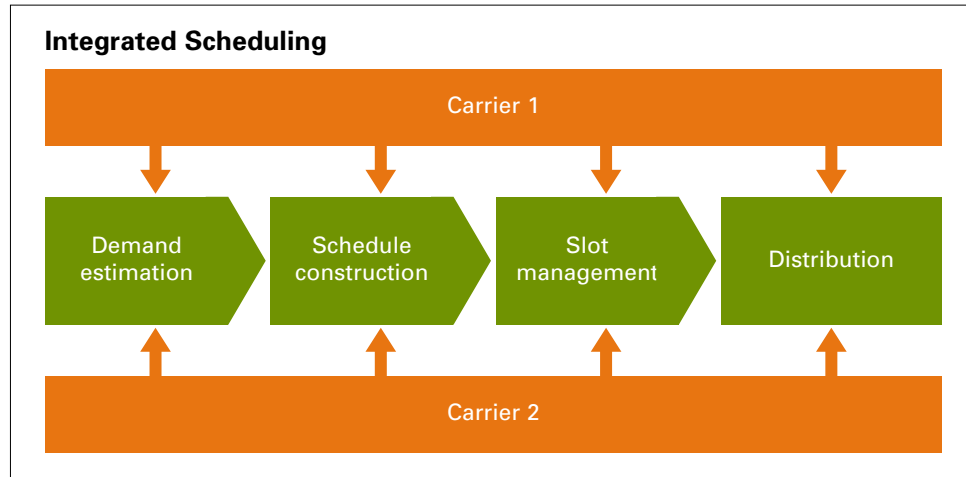
“We are committed to providing quality fare information, enhancing efficiency and guaranteeing fares that are auto-priced and auto-ticketed in the *Sabre* GDS,” said John Stow, president of Sabre Travel Network. “This development allows more accurate and quicker filings, decreasing the agent workload and the presence of human error.” [E](#)



revenue management for alliances must account for the flow of passengers among partners through an O&D approach. Because it is unlikely that alliance members will relinquish control of their revenue management processes, business rules must be established to allow each partner to maximize its interests while also helping alliance partners.

Current revenue management facilitates communication and cooperation among partners. Leading carriers are moving to an O&D control structure using bid prices, which represent the free-market value of a seat on any future flight. A fare exceeding the bid price provides a net benefit to the carrier whereas a fare below bid price represents an opportunity

cost — this seat could have been sold at a higher fare later. Bid prices are used to control availability — a booking request valued higher than bid price is accepted, a request valued lower than bid price is rejected. For carriers using bid prices, the benefits have been due to an improved control of bookings by O&D. Availability for a market class is tied to the value of the request rather than the availability in a bucket of many potential requests.



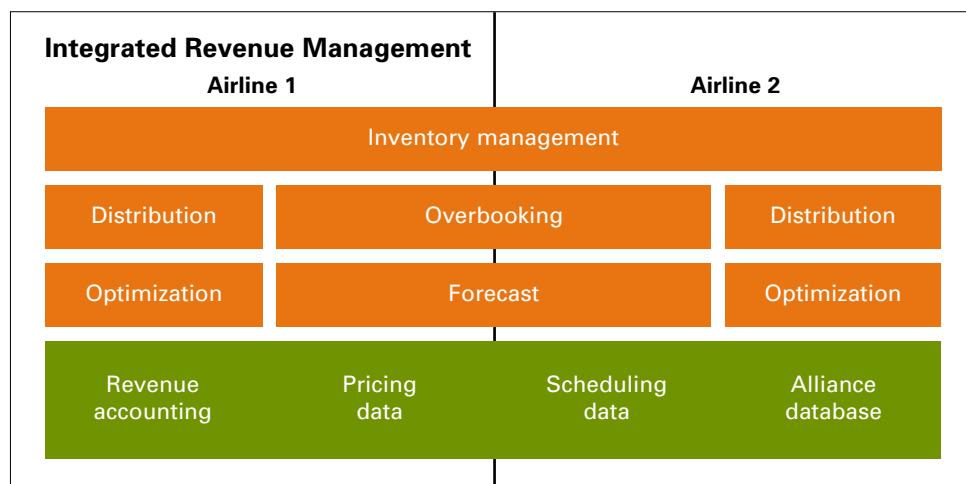
Integrated scheduling requires that alliance members put all their resources in a pool and develop an alliance schedule, which would be flown by individual members. Demand estimation is done out of an alliance data warehouse, and the demand model calibration is performed by a single team for the entire alliance. Similarly, the schedule construction, slot management and schedule distribution are performed by the alliance or teams from individual carriers. At this stage of integration, one would envision a downline integration of the alliance's other business units.

“Leading carriers are moving to an O&D control structure using bid prices, which represent the free-market value of a seat on any future flight.”

Bid prices can provide an even greater benefit for alliances. They represent an individual carrier's view of inventory value. Multiple carriers using bid prices are able to value their own inventory as well as their partners' inventory in terms of a common currency, which provides significant operational benefits. In particular, alliance partners don't need to maintain additional business processes and/or systems to make effective revenue management decisions. Imbalances in supply and demand between partners on flights with split inventory can be resolved by trading seats at a fair value — the current bid price. The availability of booking requests involving multiple alliance partners can be determined based on the value to the alliance, which will facilitate the sale of long-haul, high-value traffic.

Because this approach will maximize alliance revenue, specific operating rules must be put into place so that no carrier incurs a revenue penalty on any booking transaction. This should include a method of dynamic revenue proration to ensure that every alliance booking transaction is either revenue neutral or revenue positive for every participating alliance carrier. In this way, the alliance appears to make effective revenue management decisions even without a centralized alliance revenue management group.

Dynamic proration introduces new challenges, such as risk of gaming and determining bid-prices for carriers that do not use bid-price controls in their revenue management. For example, it will be necessary to obtain pseudo bid prices from seat availability and applicable fares for all carriers within the



Integrated revenue management involves an alliance team performing all revenue management functions. A forecast server using data from all carriers provides demand data to a revenue mix module, which in turn supplies bid prices and gradients for all alliance flights. The revenue mix module receives input from all carriers, allowing them to set policies such as for overbooking, denied boarding or oversales compensation. The inventory management module is also centralized and assumes that the alliance members are in the process of achieving a better integration of their operations.

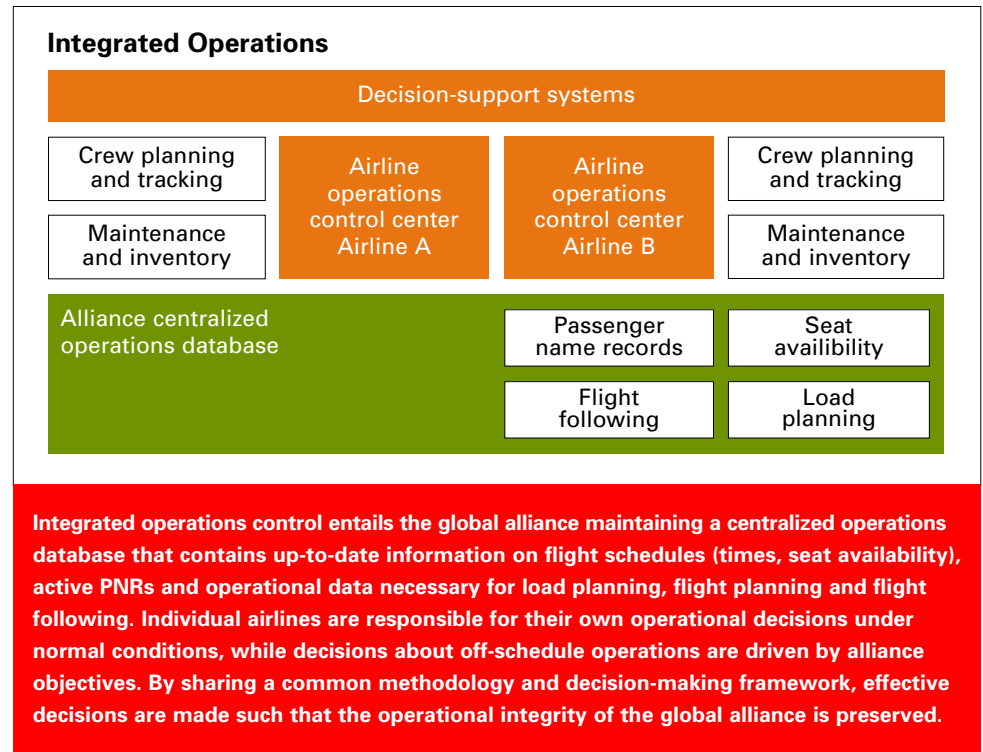


alliance. Since bid prices change with time, some history of the changes for all partners must be maintained in order to adequately share revenues. This could prove a costly exercise unless bid prices are directly incorporated into passenger name records or global distribution systems directly perform the revenue sharing functions.

Other issues, such as booking cancellations and third-party proration agreements, have to be addressed as well. In dynamic proration, if an alliance member has a special proration agreement with an outside airline, revenue sharing becomes a complex issue. The revenue split between alliance members is not fixed, making it impossible to guarantee a minimal revenue to a third-party airline. For re-bookings, the entire itinerary must be reevaluated even if only one leg is cancelled. Undoubtedly, this will have some implication on the revenue accounting systems of partner airlines.

### Passenger Service and Operations

The market-share premium benefit of alliances is based on the customer perception that the alliance's service is of higher quality and reliability than interline travel. Delivering on this promise requires alliance partners to coordinate their business processes prior to departure, as well as their operations, to provide high service reliability throughout the passenger journey. Prior to departure, customer information must be coordinated and passenger



journeys will require improved communications and greater sharing of data among carriers. From the passenger's view, this means seamless handling among alliance partners and transparent re-accommodation during off-schedule operations, which requires a high level of data sharing or common data in terms of flight following, customer information and

availability. It also requires that an airline communicate its recovery process with its partners.

The dependability of an alliance network and its underlying ability to recover from disruptions in a minimal amount of time to facilitate the flow of passengers and/or cargo should be a primary focus. As they grow, alliances will face new challenges in the

## THE HIGH • LEVEL view

News Briefs from Around the Globe

### Who

Sabre Airline Solutions

### What

Acquired Stockholm, Sweden-based RM Rocode, which develops and sells software solutions to airlines for commercial planning, crew management and operations control. Currently, more than 60 airlines use the RM Rocode Integrated Suite, including FlyDBA, Air Atlanta, MyTravel, Cyprus Airways, Austrian Airlines, Icelandair,

BA Citiexpress, and other carriers in the European market. RM Rocode also has a significant presence in Asia and other regions with customers such as Air China and Kuwait Airways.

### Why

"Sabre Airline Solutions has made it possible for small, medium-size and low-cost carriers to operate in new ways through the use of accessible technology," said Tom Klein, group president for Sabre

Airline Solutions/Sabre Travel Network. "In the last four years, this has included launching the most successful Web-based applications access in the industry through Sabre® eMergo® Web access, our application service provider offering, and adding PC-based scheduling and operations software through the acquisition of David R. Bornemann Associates in 2001. The RM Rocode integrated suite of products is another extension of this strategy and portfolio." [E](#)



recovery of irregular operations. The main challenge comes from each partner having its own system operations control center with different strategies and methods of functioning. It is imperative that highly coordinated communication exists among the various airline operations control centers, or AOCC, to find solutions beneficial to the entire alliance system.

As airlines expand their joint operations, pursuing collaborated operational decisions, especially in the event of a schedule disruption, becomes more important. Day-of-operations decisions should encompass all aspects of the business, which will be affected by irregular events such as passenger re-accommodation, aircraft routing, crew tracking and recovery, and ground resource management. In the long term, alliances may develop a centralized global AOCC, which would be responsible for monitoring and coordinating all operational decisions within the alliance. Alternatively, each AOCC should be able to handle decisions related both to its own fleet and that of its partners. There may also be significant benefits of collaborating during the strategic phase of operations, including such issues as joint maintenance planning.

The introduction of advanced decision-support systems within the AOCC will drive

**“The dependability of an alliance network and its underlying ability to recover from disruptions in a minimal amount of time to facilitate the flow of passengers and/or cargo should be a primary focus. As they grow, alliances will face new challenges in the recovery of irregular operations.”**

airlines to further coordinate their operations and decision-making procedures. During the initial phases of decision-support deployment, airlines will continue to make decisions independently, but they will use the same data across the entire alliance. Unilateral decision making would be transmitted within the alliance using the established channels of communications. The ultimate alliance AOCC would be responsible for making real-time decisions for all airlines that are part of the global alliance.

Alliances are evolving, and in order to sustain growth and profitability, it will become imperative that members share demand and operational information, explore opportunities for sharing resources (e.g., slots at congested airports), and rationalize revenue management processes. Standardized planning procedures will bring consistency, even when airlines have dissimilar levels of ability, experience and success in the marketplace. The research group that supports Sabre Airline Solutions is actively researching the impact of alliances on revenue management business processes. In addition, the schedule recovery decision-support framework developed by the research group has been designed specifically to incorporate alliance considerations in passenger re-accommodation and schedule changes. The research group is also working with planning and scheduling systems to develop new market share models that will leverage online shopping capabilities and help determine true O&D market demands. **E**

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## THE HIGH • LEVEL view

News Briefs from Around the Globe

### Who

Frontier, Spirit Airlines, Aeroméxico, Japan Airlines and Qantas

### What

Made special business travel discounts available through Travelocity Business, the first Internet full-service corporate travel agency to offer all of its customers business travel discounts on the airline. The discounts are designed specifically for business travelers, including discounts on refundable and non-refundable tickets, without the restrictions of leisure discounts, such as Web fares.

### Why

“Frontier is focused on providing the right mix of price and flexibility to both leisure and business travelers,” said Sean Menke, senior vice president of marketing for Frontier Airlines. “Travelocity has always been an excellent partner, and now working with Travelocity Business, we are able to enhance our reach into the business travel market, offering even more flexibility to complement the wide range of value-added programs we currently offer the business traveler.” **E**

Marc Cavaliere, vice president of sales and distribution for Spirit Airlines, said, “Spirit Airlines has quickly emerged as an affordable option and maintains a high level of quality and flexibility, which is attractive to budget-conscious business travelers. Travelocity Business continues to focus on offering the most complete range of options to business travelers, including discounted fares that offer them the flexibility to deal with changes in travel, and Spirit Airlines is an excellent addition to this program.” **E**