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Revenue Realization: Protecting Revenue

A comprehensive realization plan can help airlines maximize opportunities to retain their rightful revenue.

■ By Alessandro Ciancimino and Rakesh Narayanan | *Ascend* Contributors

Today, the phrase “make every coin count” may be a bit cliché, but it’s become the truth for many airlines. It is often the case, though, that this catchphrase is more targeted toward the “cost coins” rather than the “revenue coins.”

For many airlines, the focus in recent years has been on cost cutting rather than revenue production. This is probably one of the reasons revenue realization procedures are sometimes not a top priority on the agenda of a turnaround project, even though the potential for the implementation of best practices in this area could represent a considerable step toward a healthier financial performance for an airline.

Revenue realization presents a challenge for many airlines. A typical revenue realization problem arises, for example, when an airline’s seat inventory controls indicate that a certain level of flown revenue should be earned by the airline during a specific month, but when the revenue accounts for the month have been processed, however, the airline finds that the actual amount of flown revenue earned was less than expected.

The difference between the expected flown revenues and the actually achieved flown revenues represents a “retained revenue opportunity,” which provides an opportunity for the airline to recover or realize revenues that otherwise would be lost due to malpractices or inefficiencies that concern both the airline and external parties.

Lost opportunities to retain revenue can actually produce cash-flow problems for an airline since it is an unexpected revenue shortfall and always affects profit and loss results. Any airline with lost retained revenue opportunities anticipates a particular cash in-flow from the expected revenues and, therefore, plans for certain cash out-flow. Then, however, the

airline finds there is insufficient cash from sales to cover the expected cash out-flows. This can produce serious cash-flow difficulties for airlines that do not fully realize revenue opportunities.

The issues with revenue realization almost always revolve around errant practices from the time of booking until the time of revenue accounting (see related article on page 35). A large number of parties take part in the process, and any one might potentially contribute to revenue erosion either intentionally or unintentionally.

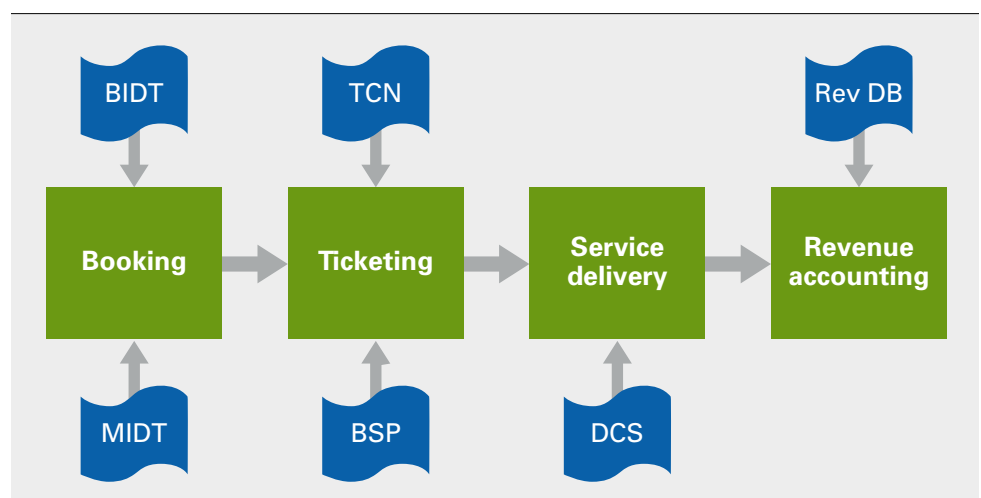
There are many potential reasons revenue realization issues exist at airlines, including

intentional mismanagement of work rules that produce recoverable retained revenue opportunities. Some reasons, however, also represent unrecoverable revenue opportunities due to unintentional mistakes in the process. All of these issues can be prevented by implementing corrective actions that cure the sickness and not merely the symptoms.

Potential reasons for revenue realization issues include:

- Incorrect fare-class alignment that produces an inaccurate original revenue forecast and impacts retained revenues by allowing too much discount availability within an airline’s seat inventory (unintentional and unrecoverable).

Identifying Revenue Realization Abuses



To find out in which processes have been abused, different data sets have to be analyzed. By comparing marketing information data tapes or other similar types of data with ticket control number data or billing and settlement plan data, potential abuses from booking to ticketing will be discovered.



- Incorrect revenue accounting practices that produce situations where the correct amount of revenue is not being realized (unintentional and recoverable).
- Booking abuse by indirect distribution outlets such as travel agencies, tour operators and consolidators — recoverability in these situations generally depends on the contractual obligations of the third party (intentional and recoverable).
- Booking abuse by an airline's direct distribution outlets such as Web site, call center, airline ticket offices and city ticket offices (intentional and/or unintentional and unrecoverable).
- Other airline fare-class misalignment that occurs when codeshare agreements are not properly implemented in computerized systems (unintentional and unrecoverable).
- Ticketing abuse by indirect distribution outlets — recoverability in these situations generally depends on the contractual obligations of the third party (intentional and recoverable).
- Ticketing abuse by an airline's direct distribution outlets (intentional and/or unintentional and unrecoverable).
- Service delivery issues related to how electronic or physical tickets are lifted at an airport (generally, unintentional but recoverable).

Size of the Problem

The severity of the problem is influenced by various factors, including:

- Type of tickets — Manual tickets are most prone to fare- and booking-class abuses. Significant use of masks in ticketing provides the second largest category of tickets where abuses occur, while electronic tickets represent the least.
- Regional influence — Mature markets typically show lower abuse compared to emerging markets.
- Airline proactiveness — Airlines that are proactive in the marketplace have lower abuse.

On average, the annual revenue lost due to abuse runs in the range of 1.5 percent to 2 percent of the total revenue for an airline.

The Actions

There is an Italian expression that says, "When the cat is missing, the mice love dancing." For airlines, this means that any party in the revenue realization chain needs to be aware that the airline intends to establish an active, healthy relationship based on a fair business playing field. From this point of view, the actions airlines need to design and

implement in this area need to convey the message, both internally and externally, that no business relationship can be based on abuses or malpractices by either party. This is sometimes easier said than done particularly in environments where, historically, some malpractices are tolerated or perceived as the way to do business. However, this is more likely due to the fear of changing processes established over many years rather than actual barriers to transformation. Since "good fences make good neighbors," airlines should establish actions to change detrimental current practices.

Actions that form a revenue realization initiative can be grouped into two sets:

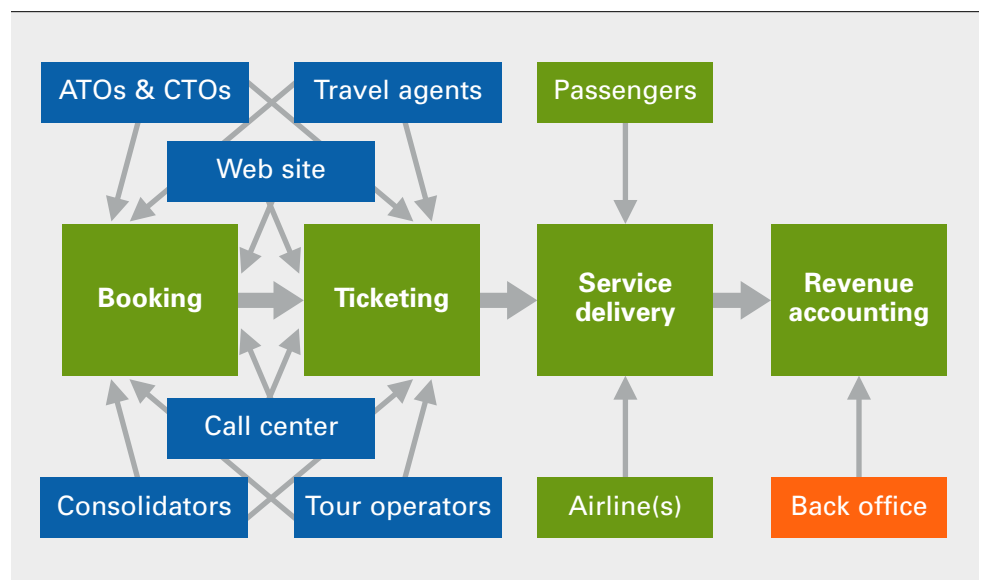
- Remedial actions for recovering lost revenue — Actions aimed at recovering the revenue lost "post mortem" by, for example, issuing agent debit memos for identified abuses.
- Preventive actions for all retained revenue opportunity-related issues — Actions aimed at making different parties aware of the damages that some malpractices cause the airline and making them aware that the airline is putting in place monitoring and tracking systems. The detrimental activities by direct sales channels such as airport ticket

offices, city ticket offices and call centers are often due more to ignorance rather than the intentional abuse. There might be the perception in some cases that denying a booking in a certain class when there is available inventory (but at a higher class) is harmful for the airline simply because concepts such as revenue opportunity, revenue dilution, revenue integrity and price elasticity are not common knowledge within the airline. This is why training plays a crucial role when designing preventive actions for retained revenue opportunity issues.

- Remedial actions for recoverable revenue opportunities — The process of implementing revenue realization initiatives is related to crunching through a vast amount of data to determine the inconsistencies that highlight the problem and then taking remedial actions to ensure that the retained revenue opportunity is realized and that future revenues are not impacted in the same manner.

These data sources are vast and require an organized analytical approach to ensure that the data is turned into useful, actionable information. Undoubtedly, one or more of these data sources contains the key to revenue realization.

Parties Involved in Revenue Realization Processes



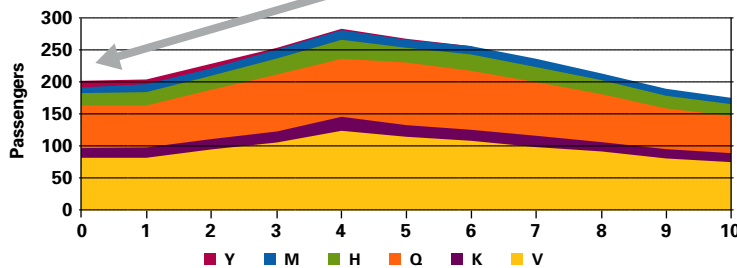
The four key processes that form the revenue realization chain rely on a number of parties such as city ticket offices, Web sites, travel agencies and consolidators. By implementing a thorough realization plan, airlines can exploit opportunities to preserve their just revenue.



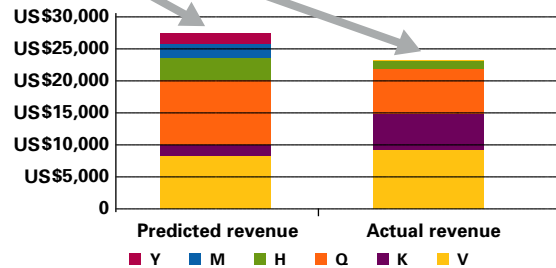
Typical Revenue Realization Problem

The revenue management system indicates that the expected passengers by class are at a particular level, which points to a predicted revenue.

Sample 10-Day Booking Curve



Revenue Results



The gap between expected passenger revenue, as indicated by revenue management on the day of departure, and actual realized revenue can be significant. For example, the booking curve shows 200 bookings at departure with a certain booking class mix (Y,M,H,Q,K,V) that translates into US\$275,000 in expected revenue. However, when revenue accounting figures for the same month are published, the actual revenue is US\$235,000, resulting in realized revenue of US\$40,000 less than what the booking and class mix had indicated.

A typical revenue realization initiative involves several steps, including:

Investigation:

- Interrogating data sources to build a picture of where the process is breaking down and where “leakage” occurs,
- Identifying the party or parties that cause the “leakage,”
- Collecting data for at least 18 months and determining all abuses on tickets and bookings. Outsourcing may be an option if an airline is resource constrained and incapable of auditing its tickets and bookings.

Collection related to historical abuse:

- Issuing agency debit memos — International Air Transport Association resolutions enable a carrier to go through the IATA billing and settlement plan and issue agent debit memos for any abuse from an agency within 30 months of issuance of travel documents or within 18 months of the date of commencement of travel.

Corrective action:

- Travel agency — The sales team should clearly explain the airline’s zero-tolerance abuse policy. One-time communication may not be enough to send the right message to the marketplace. Airlines

should put in place processes for ongoing management and corrective actions. Issuance of ADMs will stop agencies from committing abuse and also reduce mistakes.

- Airline offices — Detailed procedures and corrective actions are required to curb abuses at the airline’s own outlets as well as initial and mandatory training to all staff responsible for booking and ticketing. Abuse reports should be disseminated to each outlet. Procedures must be established for managers to handle issues at the outlet level.
- All parties — Everyone involved in ticketing and booking should be informed of the change in policies and procedures.

The Final Steps

Airlines should go back in history to determine abuse and collect lost revenue. This sets the right tone in the marketplace, especially if the airline has not been working on reducing the issues. Abuses should be monitored on a monthly basis, and ADMs should be issued to agencies and corrective actions taken at an airline’s own outlets. Many times, sales may give unauthorized permission to agencies to over-

look certain rules to gain market share. Proper procedures should be in place for allowing any waivers, and they should be communicated to headquarters.

When implementing this program for the first time, airlines should be prepared for large amounts of data processing and administrative work since there will be a backlog to clear. Airlines may send large numbers of ADMs for historical months, and this would mean an upside in revenue but may also put some of the agencies out of business. Airlines need to work with agencies and put together payment plans, especially when processing multiple months of history for the first time. **E**

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