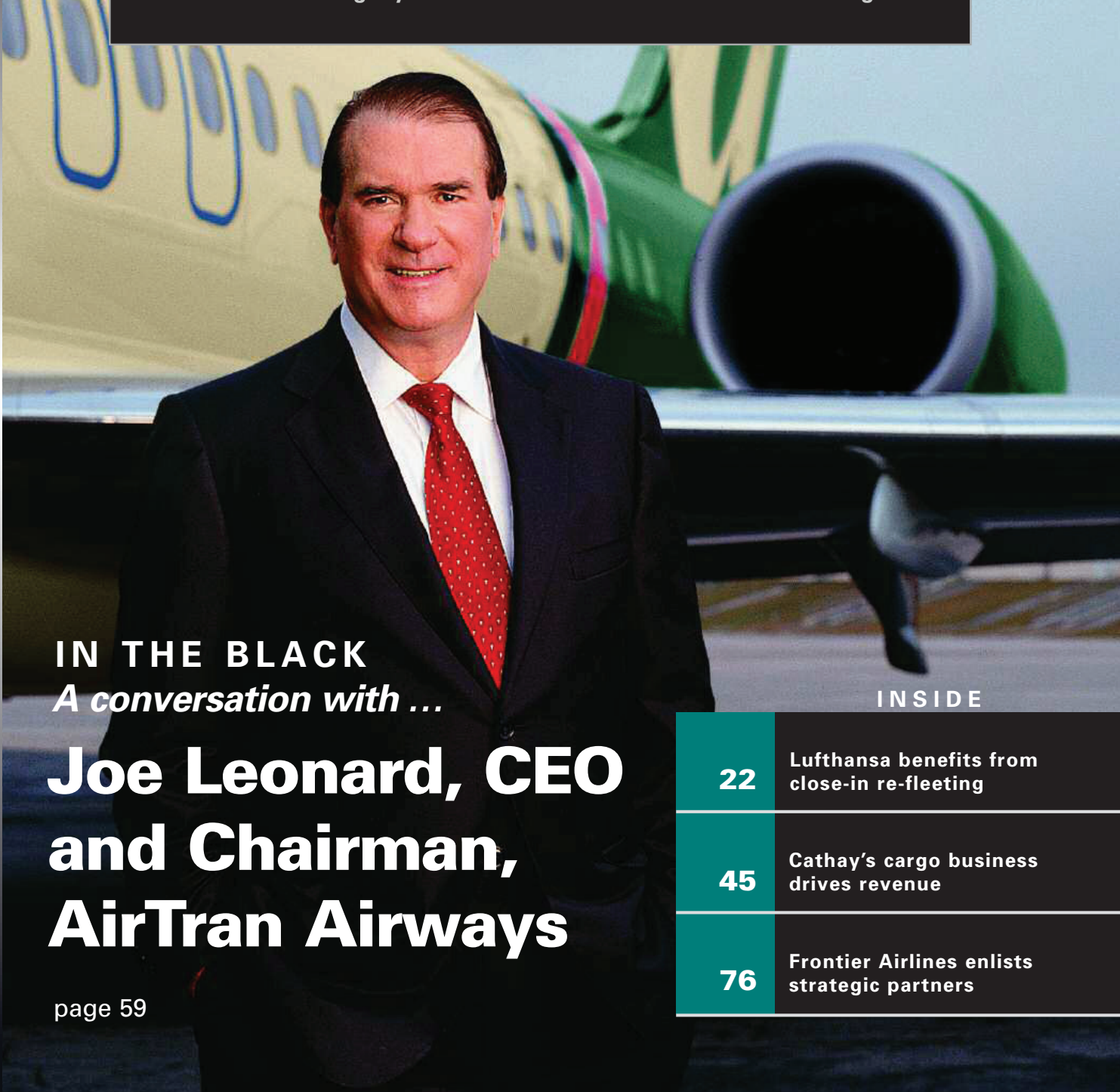


ascend

Taking your airline to new heights



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tive performance of the airline but do not isolate revenue management activities. In addition to the more general commercial performance, calculation of spill, stifle and spoilage reflects revenue management's ability to perform within its scope, forecasting demand and managing inventory to generate maximum total revenue. Timely and systematic use of these measures yields significantly better results than reviewing them on an ad hoc basis because booking trends can be identified as they occur and actions taken while the opportunities still exist.

Failing to measure performance is comparable to driving a vehicle while being blindfolded. The direction is uncertain, and the consequences very costly.

To provide the most benefits, performance measures should be part of the business processes. Measures then become part of the decision process but also of quality control. They also help identify training and development opportunities.

Making it Work

Because of its importance, airlines devote tremendous amounts of resources, both human and technological, to revenue management, which is at the core of an airline's commercial function. It ties together areas throughout the organization in a single discipline that relies on a scientific approach and on the quality of information.

The large investments required to operate a state-of-the-art revenue management department should justify taking exceptional steps to ensure its success. Ensuring that all required activities and tasks are performed and that all related areas within the airline support this corporate initiative should be a priority.

Designing, implementing and monitoring compliance for comprehensive business processes addressing all aspects of revenue management and all roles of the organization is the first requirement for a successful return. Performance measures imbedded in these business processes are the next required elements that will significantly increase likelihood of success. **E**

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Stop the Leak

By more closely coordinating their departments, airlines can recover substantial amounts of revenue lost each year to leakage.

■ By Lauren Lovelady | Ascend Staff

The events of recent years have dictated that airlines worldwide focus on cutting costs to survive. Perhaps now is the time to give more attention to another factor equally important to an airline's success — preserving revenue.

The importance of actually flying a schedule that generates expected revenues cannot be overstated. But what if this doesn't happen? Instead of automatically looking for ways to cut costs, airlines should look for ways to guard against revenue leakage — the inadvertent loss of revenue — in all areas of their operation.

Imagine a schedule moving through an airline's various departments as oil flowing through a pipeline. If there is even a small leak between each segment of the pipeline, at the end there will be significantly less oil than at the beginning, and it will be worth considerably less. The same principle applies to an airline's product. Although each department may handle its schedule-related tasks proficiently, a lack of coordinated technology, processes and communication will ensure a less-than-smooth transition from one area to the next and weaken the product and its ability to generate expected revenues.

Sources and Solutions

Identifying the sources of revenue leaks and implementing solutions to minimize them is certainly a challenge, but it can translate into millions of dollars in annual revenue for an airline. It's an opportunity to strengthen the business and squeeze more revenue from existing assets.

“... lack of coordinated technology, processes and communication will ensure a less-than-smooth transition from one area to the next and weaken the product and its ability to generate expected revenues.”

Some of the most common sources of revenue leaks and methods for reducing their impact include:

- Lack of coordination between schedule planning, pricing and revenue management — Schedule planning creates the optimal schedule based on an origin and destination strategy and passes it to pricing and revenue management. Using their own systems and data, which are often leg-based, pricing and revenue management assign pricing and yield controls without knowledge of schedule planning's O&D strategy.

Airlines can resolve this issue by implementing processes and software in these areas that share the same data and interpret it the same way as well as establishing regularly scheduled meetings with representatives from scheduling, pricing and revenue



management to troubleshoot issues, evaluate and coordinate plans, and discuss topical ideas. It's important for each department to have a high degree of knowledge about the functions performed by the other departments. For example, scheduling should alert pricing about any particularly lucrative O&Ds in the schedule that can command premium fares rather than simply matching those already in the marketplace.

- Separate cargo and passenger planning processes — Even airlines with a substantial cargo presence in the industry still tend to operate their passenger and cargo areas as separate entities. In general, little consideration is given to the impact of a schedule change on an airline's ability to carry additional cargo and therefore generate greater revenues.

Airlines can implement technology solutions and processes that enable better coordination between these two entities. When developing a schedule, they should realize that it may be beneficial from a revenue standpoint to fly more cargo and less passenger traffic on certain routes and be willing to put the necessary types of aircraft on those routes, even if it does not seem to be the optimal solution for carrying passenger traffic.

- Discrepancies in sales targets — Although a schedule may be planned, priced and even revenue managed at an O&D level, chances are sales targets for the internal sales force as well as travel agents are leg based or based on total enplanements at each airport.

Airlines should evaluate the way they motivate, compensate and reward their internal sales forces and external sales agencies. Is it in alignment with the methods used to plan and develop the schedule? Additional revenue can be realized by implementing O&D-based sales targets or O&D share-based sales targets, which reward sales personnel for a specific percentage of the sales for each O&D.

- Schedule disruptions — Thunderstorms, flight cancellations and mechanical delays, to name just a few, can all wreak havoc on an airline's schedule. An airline's natural

response is to quickly solve the operational problem at hand. But operational decisions made without regard to their impact on schedule profitability can unnecessarily cost an airline millions of dollars in lost revenue.

To address this situation, airlines must first develop a schedule that is robust — one that assumes there will be disruptions, allows for contingency plans and handles all this with minimal revenue loss. Next, they should understand the value of responding to the operational problem at hand by considering both the operational and commercial aspects of schedule recovery. Quite often, airlines respond to disruptions with a contingency plan that is the easiest to execute solely from an operations standpoint. When there is a set of severe flight delays, for example, an airline may lose more revenue by deciding to delay and cancel subsequent flights to recover from this disruption rather than simply ferrying aircraft over from other stations. Because ferrying aircraft is typically an expensive option, it is often not a common operational response. However, it may present the best response in this situation when looking at the commercial and operational aspects of schedule recovery. Although at times a bit more complex, commercially based decision making evaluates the impact of schedule disruptions and responds to them on a network level.

- Planning schedules without basic constraints — Quite often airlines have separate network planning and scheduling departments. Network planning designs the optimal revenue-generating schedule but without the necessary constraints. Scheduling then adds the necessary constraints and makes what it believes to be minor schedule adjustments. The result may be an operationally sound schedule that bears little resemblance to the one created by network planning.

This can be addressed by incorporating basic operational constraints into the initial schedule design process. Technology providers, such as Sabre Airline Solutions, offer software that enables planners to

include gate, crew and maintenance constraints in this process. As a result, planners forward to schedulers a schedule that requires only minor adjustments and still retains its initial optimal design and ability to generate expected revenues.

- Lack of revenue integrity (see related article on page 67) — Revenue integrity simply means enforcing the rules. Failure to collect ticket reissuing fees, duplicate bookings and bookings made in one class but ticketed in another class are just a few examples of activities that can cost an airline between 1.5 percent to 3 percent in revenues a year. Most likely, that 1.5 percent to 3 percent was included in the original revenue estimates for the schedule.

Airlines should enforce the rules and implement a post-process checking system that regularly evaluates each ticketing transaction and determines whether it follows the rules. In addition, there are a number of companies that specialize in processing passenger name records and flagging possible fraudulent transactions — deliberate or unintentional. Keep in mind that the value of maintaining revenue integrity can be worth hundreds of millions of dollars to a major airline in a single year.

In the end, the solutions for reducing revenue leakage fall into three basic categories: improving processes, adjusting organizational structures and implementing technological solutions. Because processes and organizational structures involve people and long-established methods of conducting business, even necessary changes are often met with resistance. Technology tends to be the easiest solution for minimizing interdepartmental leaks. But no matter which methods an airline uses, the initial plan placed in the pipeline should closely resemble — especially in terms of revenue — the one executed at the end of the pipeline. **E**

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+count it up

1942 — Year Hawaiian Airlines became the first certified air freight carrier in the United States and its territories receiving air freight certificate #001, granted by the Civil Aeronautics Board.