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A Conversation With
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Pg. 10

18 Strategic commercial planning
increases airline revenues

46 Avianca-TACA merger changed Latin
America aviation

63 Merchandising through GDS gives airlines
additional storefront

Strategic Commercial Planning: A Winning Strategy

Airlines that build a sound commercial planning strategy reap significant monetary benefits.

■ By Darren Rickey and Kevin Woods | *Ascend* Contributors



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For most airlines, performance improvement comes from small, well-timed adjustments rather than large sweeping changes. Commercial planning is full of small adjustments and fine-tuning that, when viewed collectively, can make a significant impact on an airline's profitability. What are these small changes, and how can airlines take advantage of them? The answer is strategic commercial planning.

What Is Strategic Commercial Planning?

Strategic commercial planning is a holistic approach to the commercial planning function that marries world-class business processes with advanced decision systems. Taking a holistic approach means viewing commercial planning as a set of interdependent functions that must coordinate seamlessly. Next, layer on top of those functions best practices that both work

within and between functions. Finally, adding decision-support technology enables the entire system to work together.

Unfortunately, most airlines have yet to realize the full value of strategic commercial planning.

Departments within commercial planning, such as revenue management and network planning, consist of silos where information is lost among these highly dependent departments.

In other cases, an airline fails to incorporate best practices, especially around scheduling, revenue management and pricing. Advanced decision-support systems can help, but they are less effective without close coordination among departments, as well as business process best practices.

Why Strategic Commercial Planning?

Strategic commercial planning is the best way for an airline to achieve maximum profitability. First, there is a core principle of seamless coordination. The advantage of seamless coordination is best understood through an example. Take a situation where a large market is underperforming. It could have several causes, for example:

- Has network planning added too much capacity?
- Has schedules timed the flights such that they misconnect on a major O&D?
- Is the revenue management strategy spoiling seats?

There are many possible culprits for the market's poor performance. If each department evaluates the problem and makes adjustments independent of the others, the result would likely be even worse performance.

Utilizing strategic commercial planning would enable representatives from each commercial planning group to analyze the causes of poor performance as a group and collectively decide upon the proper course of action. The result would be enhanced decision making and a coordinated approach that uses the most effective levers to improve performance. Expand this process from one market to the entire network and the airline's profitability would improve substantially.

There are a number of best practices employed throughout the commercial planning process. The business rules around revenue management represent one example. In a recent study, a European carrier compared its revenue management system with using analyst-defined business rules to the same system without any analyst intervention. It turns out that the system without analyst-defined business rules was superior.

Diving deeper into the results, the business rules performed marginally better on peak flights but significantly worse on off-peak flights. The best practice is a robust set of business rules that allow the revenue management system to set inventory while only overriding the system based on analyst insights for high load factor flights.

The final piece that brings strategic commercial planning together is systems integration. One powerful example is close-in re-fleeting (or demand-driven dispatch). A few weeks prior to departure, close-in re-fleeting uses forecasted demand from the revenue management system to up-gauge high-demand flights and down-gauge lower-demand flights in the fleet assignment system. The result is an increase in network revenue of up to 1 percent.

Long-Range To Close-In

Strategic commercial planning covers the full spectrum of planning. It begins years before departure with fleet planning by creating schedule scenarios and determining the optimal fleet to maximize profitability for those future schedules. From long-range plans to pricing and inventory adjustments just days before departure, and everything in between, strategic commercial planning looks at the process from beginning to end. In general, strategic commercial planning breaks down into three phases.

Phase 1

Phase 1 is long-range planning and takes place more than a year before departure. This includes fleet planning, network restructuring, new market development and alliance opportunities. Close coordination among departments plays a lesser role to systems integration where multiple scenario analyses are made easier by allowing data to flow among forecasting, fleet and scheduling systems. That said, market insights from revenue management and pricing experts can be extremely helpful when identifying new market opportunities and hub structures.

Phase 2

Phase 2 takes the planning from one year to roughly three months before departure. It represents coordinated strategy among commercial planning departments. Phase 2 includes the addition of new routes, schedule connectivity and fleet, and revenue management and pricing strategies based on seasonal factors and market forecasts.

Because of the strategic nature, seamless coordination among departments during Phase 2 becomes most critical. Each department must optimize within its responsibilities while ensuring that other departments are heading in the same direction.

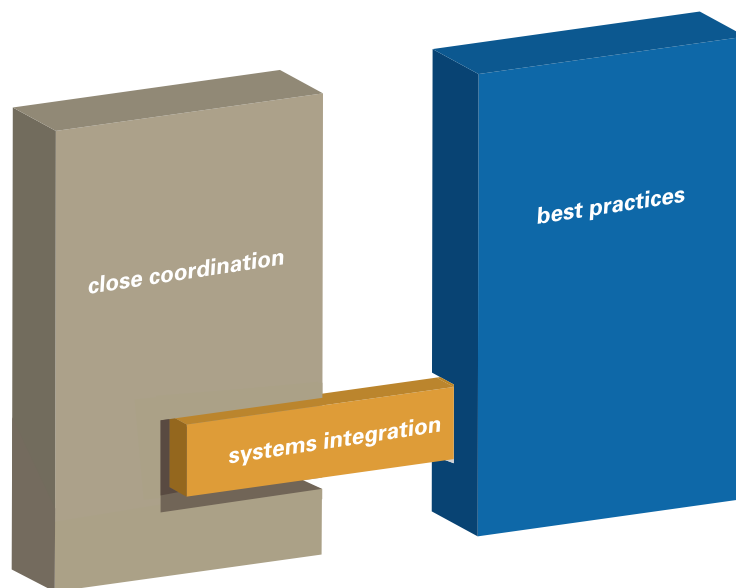
To maximize the effectiveness of this coordination, a business intelligence solution is essential for viewing consolidated network and market performance data across all of commercial planning. This facilitates coordination while helping identify revenue improvement opportunities.

Phase 3

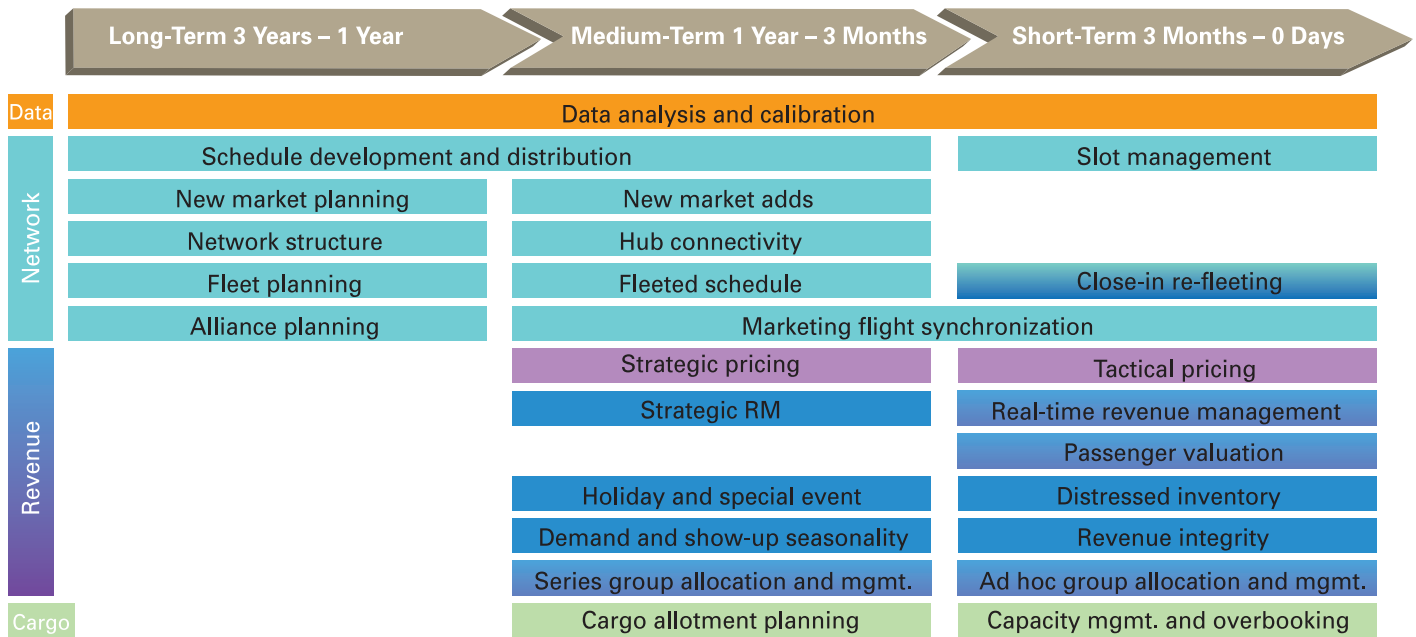
Phase 3 begins three months out and ends at day of departure. It includes schedule modifications based on changes in the operating groups, revenue management closing lower-class inventory and pricing implementing its strategy by market.

Due to the short timeframe and the need to fine tune the commercial function, both seamless coordination and systems integration play vital roles:

- Linking the route forecasting and schedules systems to allow for quick and effective evaluation of flight changes,
- Communicating schedule and aircraft gauge changes across functions, making any necessary adjustments immediately,
- Enabling close-in re-fleeting between the fleet assignment and revenue management systems,
- Linking revenue management and pricing systems to adjust inventory controls based on current fares, not historical,



Strategic Commercial Planning A holistic approach to the commercial planning function leverages world-class best practices with advanced decision systems among and between groups to enable close coordination.



Commercial Planning Processes There are multiple points of coordination including close-in re-fleeting revenue management using real-time fares and schedule development.

- Enhancing inventory availability through real-time links between revenue management and reservations inventory systems.

More Than Passenger Revenue

For most airlines, ancillary and cargo revenue play large roles in their financial performance. As such, strategic commercial planning includes these two areas throughout the planning process. This has two important impacts:

- Seamless coordination needs to reach both cargo and merchandising groups, areas that have traditionally been afterthoughts in the planning process,
- Systems integration greatly enhances seamless coordination.

When cargo demand is included in the fleet assignment process, the performance of cargo revenue is significantly improved. Similarly, forecasts from passenger revenue management give the best estimate for cargo capacity availability, thereby enabling the cargo function to maximize its revenue.

With merchandising, it's becoming increasingly important that new route forecasts and revenue management availability take into account the total revenue generated by passenger classes. As ancillary revenue grows in proportion to seat revenue, it will become imperative that airlines optimize around total passenger value.

Technology As Strategic

Many people think of technology as a tactical tool, something that can automate repetitive and tedious tasks. That is undoubtedly true and enables people to focus on more strategic

activities. However, strategic commercial planning leverages technology to help drive additional revenue otherwise lost to an airline in three important ways:

- Scheduling, fleet, pricing and revenue management systems enable airlines to optimize revenue-generation capabilities of the airline. This gets back to doing those small things that, over time, result in significant value for the airline. For example, with scheduling, it is critical to maximize the amount of aircraft time during peak demand periods. By properly sequencing at a hub, airlines limit taxi times. Similarly, carriers can satisfy more demand by keeping aircraft turns at minimum ground time during peak demand, then recover the operation during off-peak periods.
- Technology can play a key role in long-term planning. Through the use of forecasting, fleet and scheduling systems, airlines can evaluate numerous scenarios more robustly than they ever could without these systems. Three- or five-year plans become much more insightful and helpful in guiding the airline through key decisions around new markets and new aircraft. In one situation, a major North American carrier used network technology from *Sabre Airline Solutions*® to evaluate a major restructuring of its largest hub in a way that would have been virtually impossible without these applications. Technology proved invaluable in helping the carrier identify the hub structure that best fit its profit potential.
- Capitalizing on revenue opportunities by integrating systems so data flows between inter-

dependent groups is a core feature of strategic commercial planning. It is also an attribute that more and more airlines require from their systems. These airlines have recognized the ability to capture lost revenue, as well as the improved effectiveness and productivity of their people. Ultimately, they need not worry about transferring data or making sure data is accurate.

Strategy Driver And Enabler

Strategic commercial planning must drive and enable an airline's strategy. By leveraging integrated systems and best practices from throughout the industry, airlines can determine the optimal business model to fit their unique market circumstances.

The move toward hybrid business models by network and low-cost carriers is an important trend. Network carriers have been simplifying their operations in markets lacking profitability, while LCCs are adding complexity to capture additional profits. Both business models require route planning systems to evaluate fleet changes and completely new network structures or markets. These strategic adjustments also invariably involve changes in revenue management and pricing strategies.

What does it mean to enable an airline's strategy?

First, executives must have confidence in the systems and processes. To do so, several questions must be answered:

- Can revenue management adjust to a new pricing structure?

- Can new markets, beyond traditional routes, be added that will be competitive in the marketplace?
- Will the systems be able to scale to meet the demands of a larger business?

With strategic commercial planning in place, including seamless coordination and best practices, the executive team will have the confidence to implement improved strategies that will drive profitability. Strategic commercial planning also relies on robust technology that can adapt to changing circumstances, including significant growth.

Unfortunately, this is where too many technologies fall down, leaving airlines to manage manually while the demands are even greater. Through seamless coordination, best practices and robust systems, an airline should have the confidence to push the envelope in terms of capabilities that drive value.

While it is important to have a solid strategy and the confidence to implement it, the market is constantly changing, whether it is passenger demand or competitor adjustments. As a result, strategic commercial planning must enable the commercial planning area to quickly identify changes in the marketplace and respond effectively.

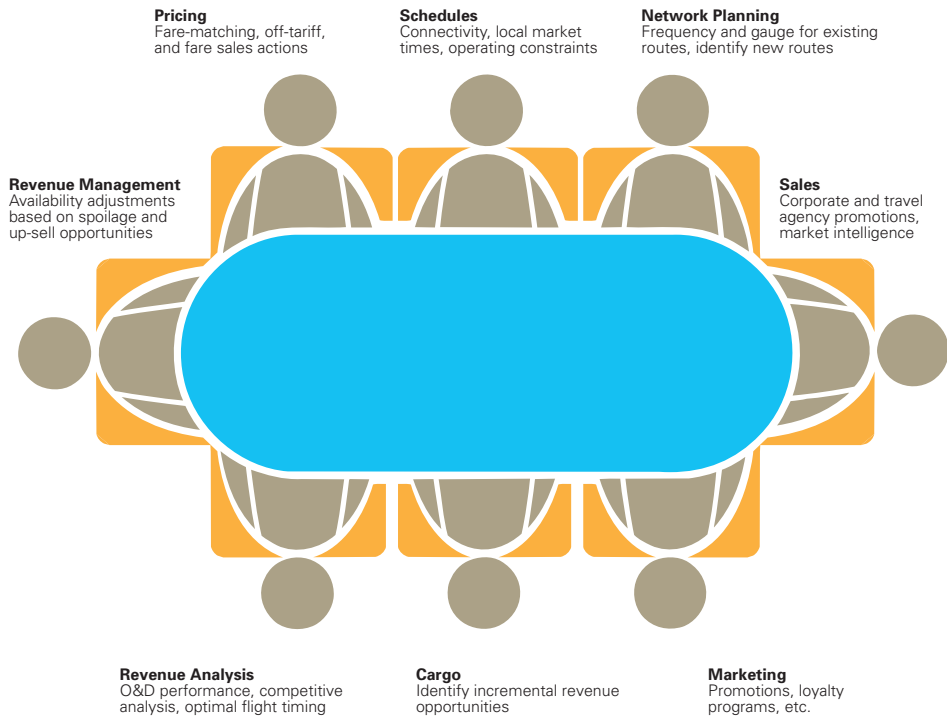
This means having business intelligence systems with a mix of external and internal data that is one version of the truth shared throughout commercial planning. The information must be evaluated regularly, across all commercial functions, using sophisticated systems that allow scenario analysis. After evaluating the situation as a team, a coordinated response is essential.

Again, it comes down to shared data, best practices and seamless coordination. It's a given that the marketplace is ever-changing, and with strategic commercial planning, an airline can stay several steps ahead of its competition.

Strategic commercial planning is the next generation of methods and practices to improve revenue and ultimately profitability. It combines best practices from across the airline industry with seamless coordination across the commercial planning groups, including cargo and ancillary revenue.

As more airlines adopt strategic commercial planning, it is becoming a critical component for airlines to succeed and win in the marketplace, ultimately driving an airline forward. **F**

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Commercial Planning Requiring close coordination across multiple functions, each needs a seat at the table for regular planning meetings.

Preparing For Strategic Commercial Planning

When implementing strategic commercial planning, airline executives must consider several aspects, including:

Coordination

- Do all functions within commercial planning have regular coordination meetings for problem markets and new market opportunities?
- Does the strategic planning process represent every function?

Best Practices

- Do you have a three- or five-year network plan?
- Have you optimized connectivity at your hubs?
- Is your fleet optimally assigned based on operational constraints and unconstrained demand?
- In revenue management, do you have a strategy for when to override the revenue management system and when to not?
- Do you look at competitors' available fares to determine your inventory availability?

- Are your fare classes aligned such that higher-level fare classes have higher fares (if you don't know the answer, you may be surprised by what you find)?
- Is your pricing strategy driven by your relative competitive position in the specific market?
- Do you regularly review your codeshare flights for revenue maximization and monitor them to ensure connectivity?

Integration

- Does your airline fleet its schedule close to departure based on actual forecasted demand from revenue management?
- Do you revenue manage based on current fares in the marketplace and not historical fares?
- Do you incorporate cargo and ancillary revenue into your commercial planning decision making?
- Do you have a business intelligence solution that provides "one version of the truth" across all commercial planning groups?