

Airline Pricing & Revenue Management

Presented by

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Why do airline
fares fluctuate?





What is RM?

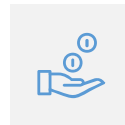
Revenue Management maximizes profitability by selling the correct number of seats at various fare levels based on demand and pricing elasticity.

A process of maximising revenue from perishable products, through the integrated control of capacity and price.



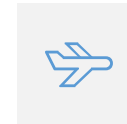
Deregulation

Initially Publicly controlled, later has become market driven.



Necessity

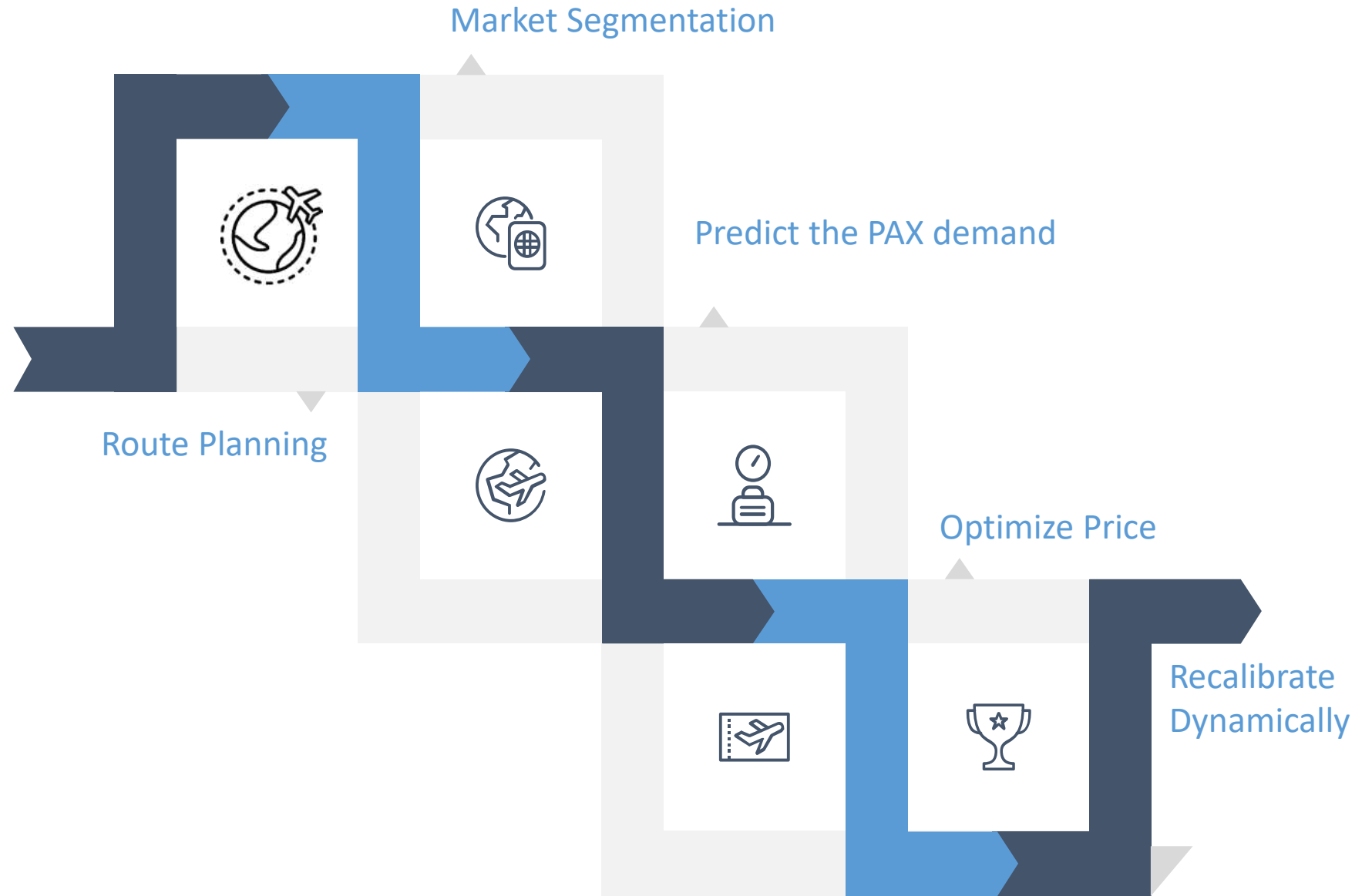
Perishable capacity.
Variation in demand and Variable pricing.
Market Segmentation.



Operating Performance Drivers

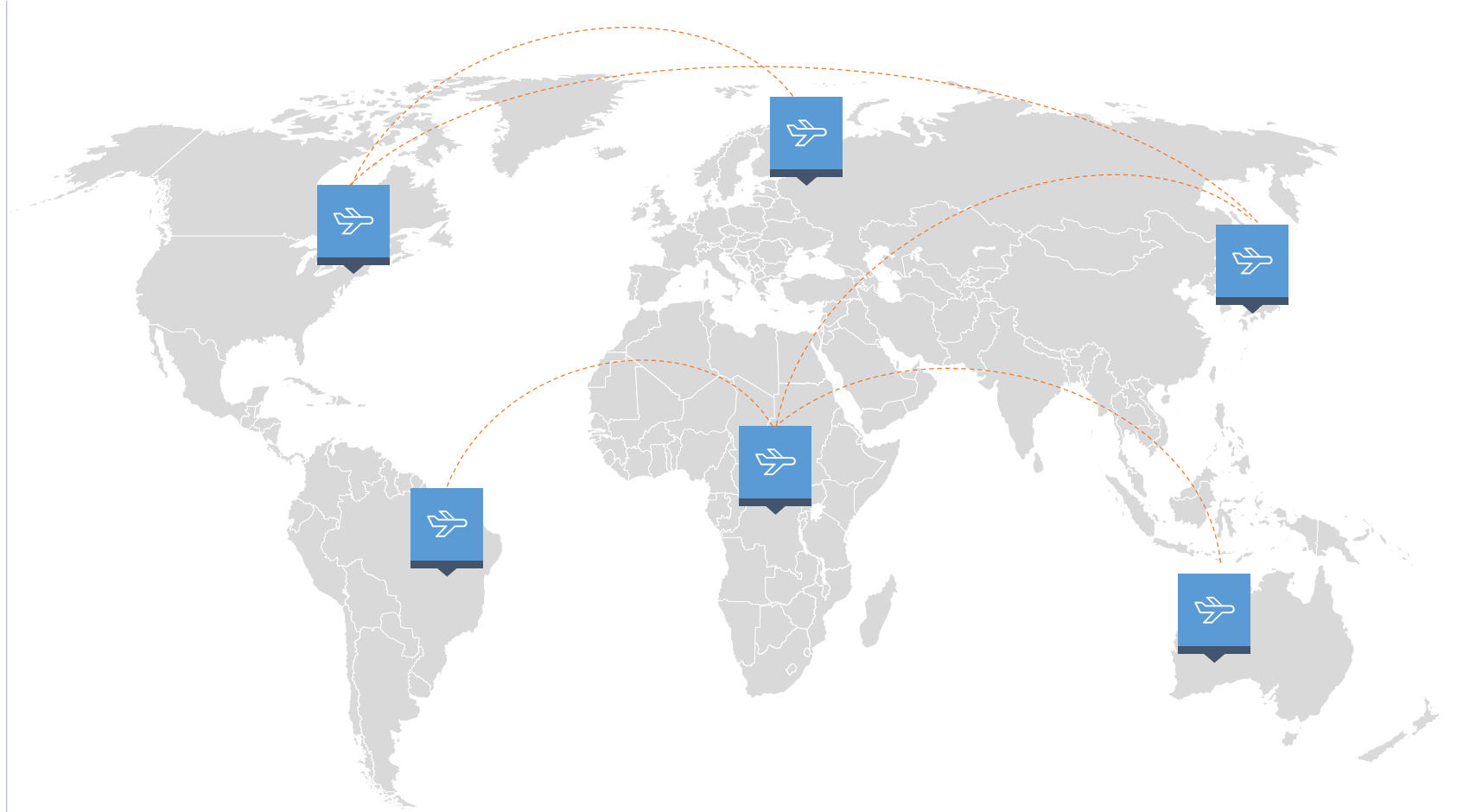
Unit cost, Output, Traffic & Yield

How do you manage?

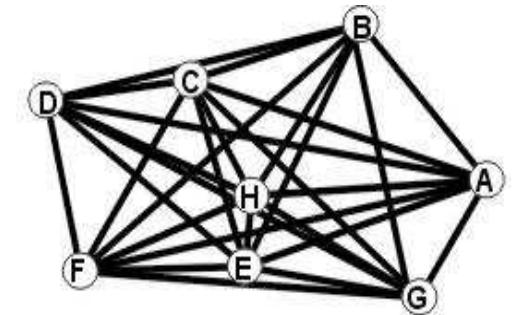
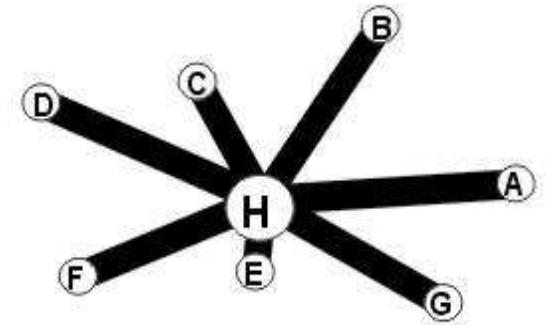


Route Planning

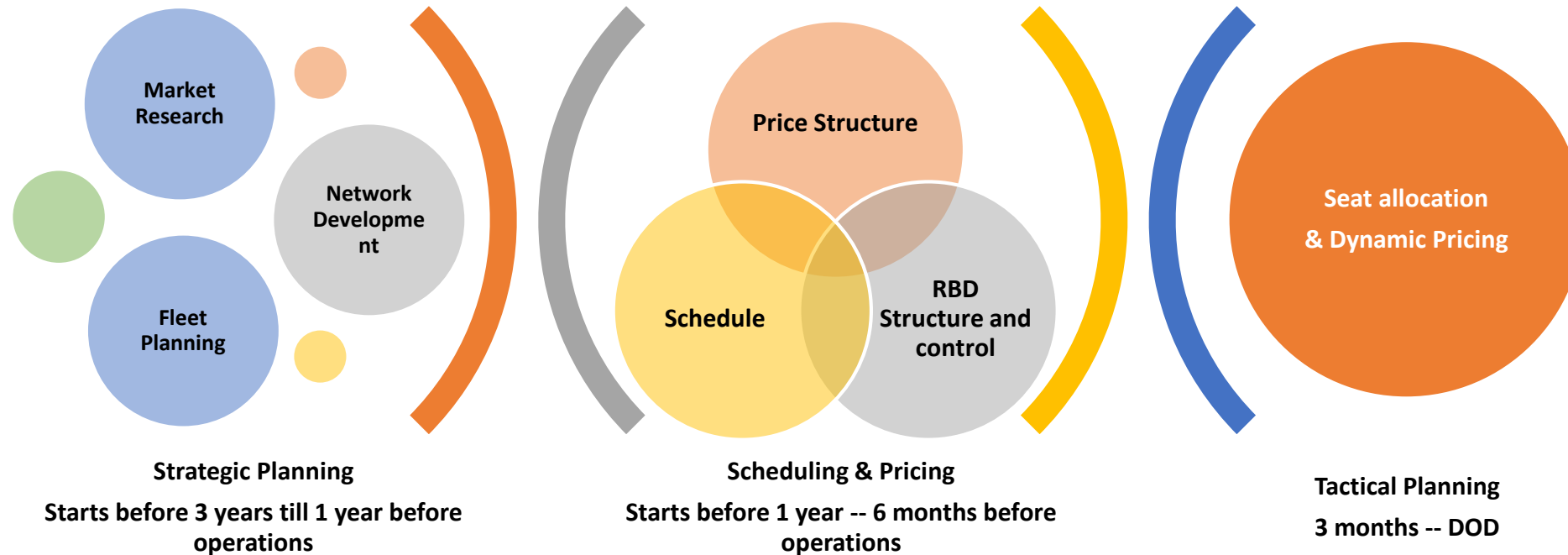
- Identifying the best routes.
- Analyzing seasonal and traditional flow of demand.
- Providing robust connections.
- Assessing potential demand and optimal utilization of resources.
- Work as a decision support for scheduling, FM & RM.
- Model-LCC/FSC, Hub N Spoke, P2P, Hopping, Connecting.
- Optimal fleet plan.



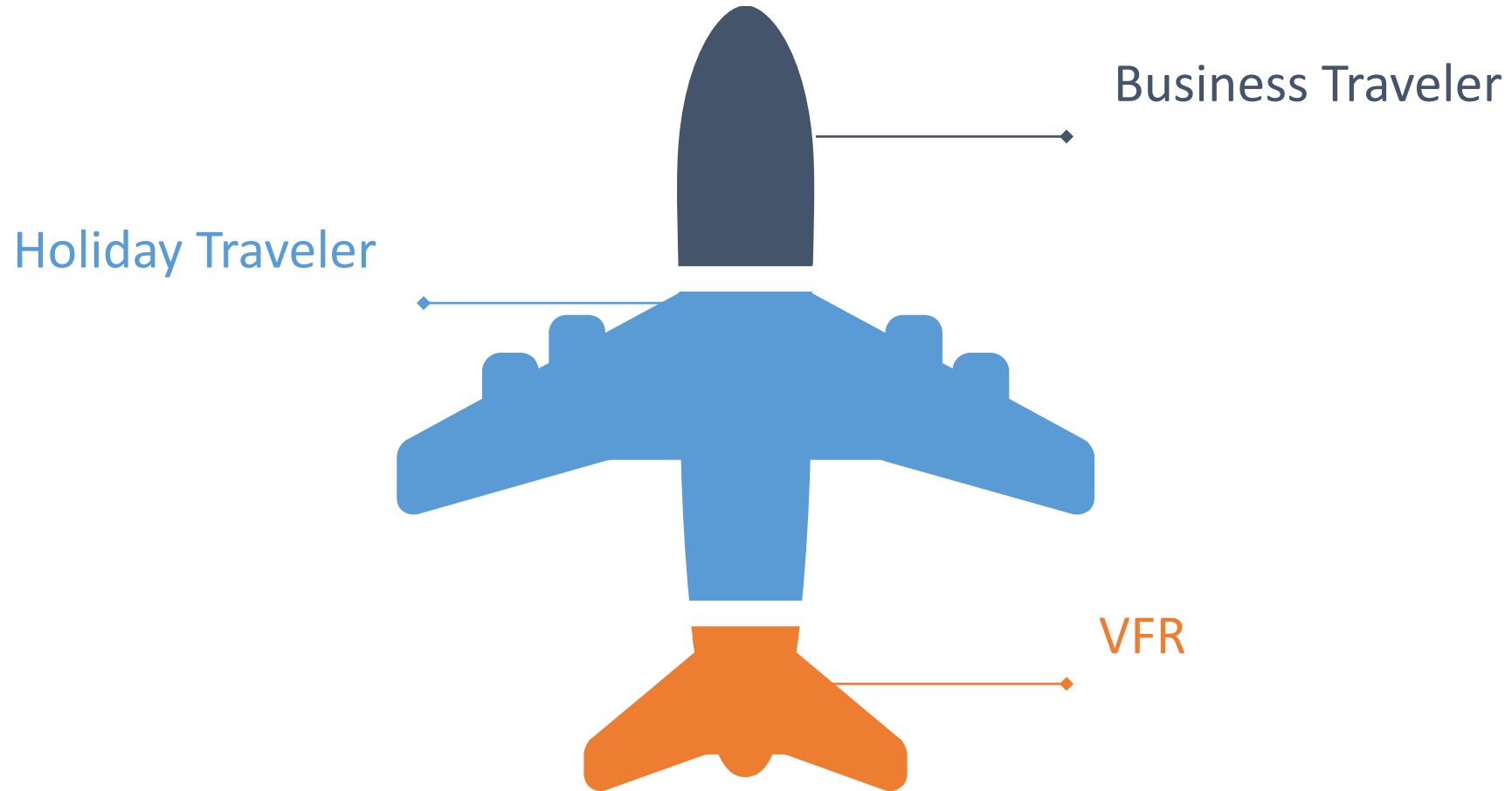
- Route dispersal guidelines: Regulations
- Schedule:
 - Flight No.
 - O & D
 - Day of Week
 - Timings
 - Aircraft
- Block time
- Ground time
- Connecting time
- AOG Plan
- Maintenance Plan
- Airport Operations
- OTP

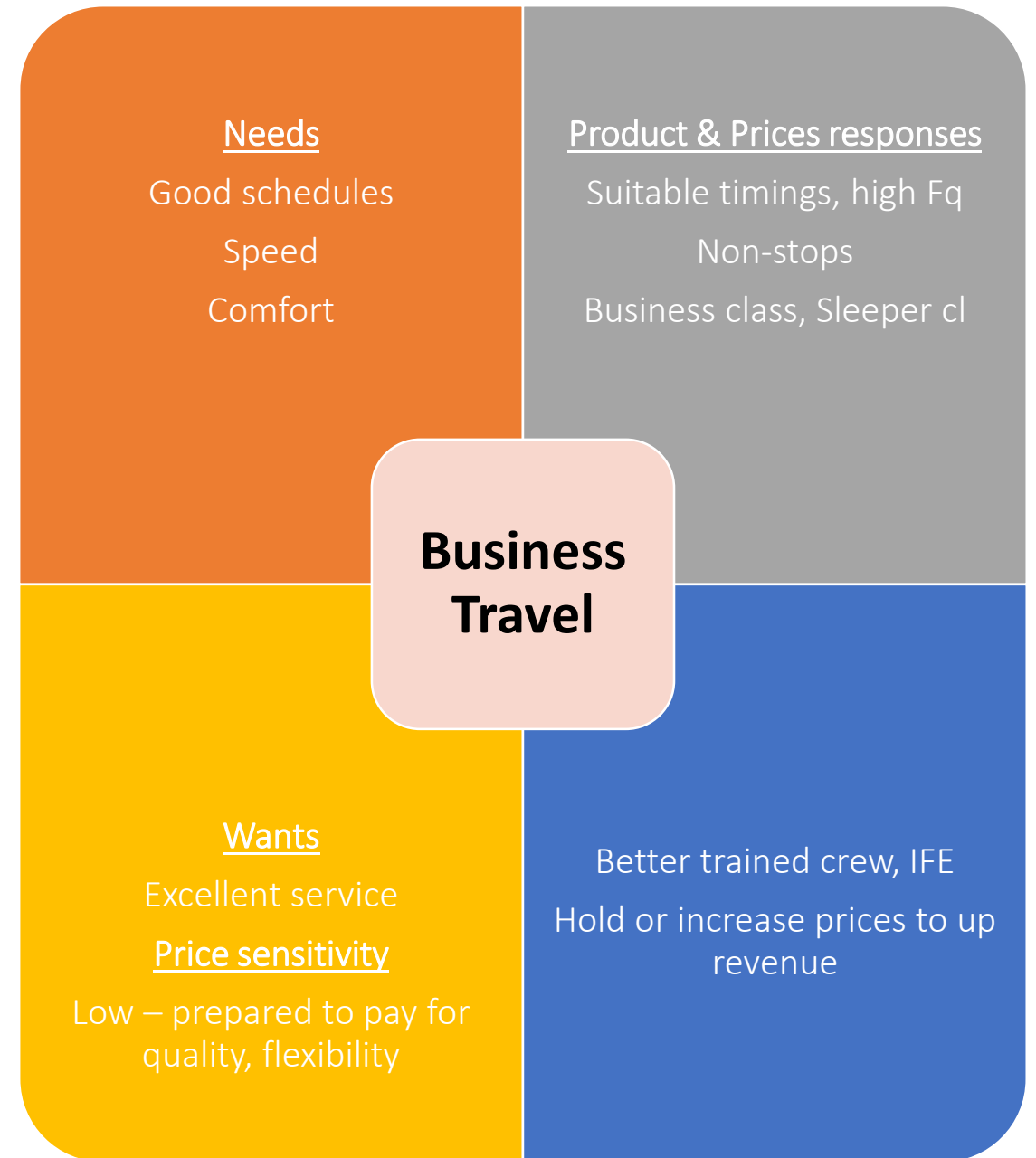


Capacity management plays a key role in Commercial planning



Market Segmentation





Needs

Air fare only

Pre-planned solution

Same people and places to see

Product & price responses

Individual excursion fares

Advance booking or purchase featuring flts for a year ahead

Build up capacity to main destinations for VFR travel

VFR

Wants

Security

Price sensitivity

High – low price is key

Travel insurance, association membership

Cut price to increase revenue – develop new fare concepts



-3 to -2 months

-10 days

Departure

Private travellers

- Price sensitive
- Early booking
- Highly flexibel in the trip planning
- Economy class

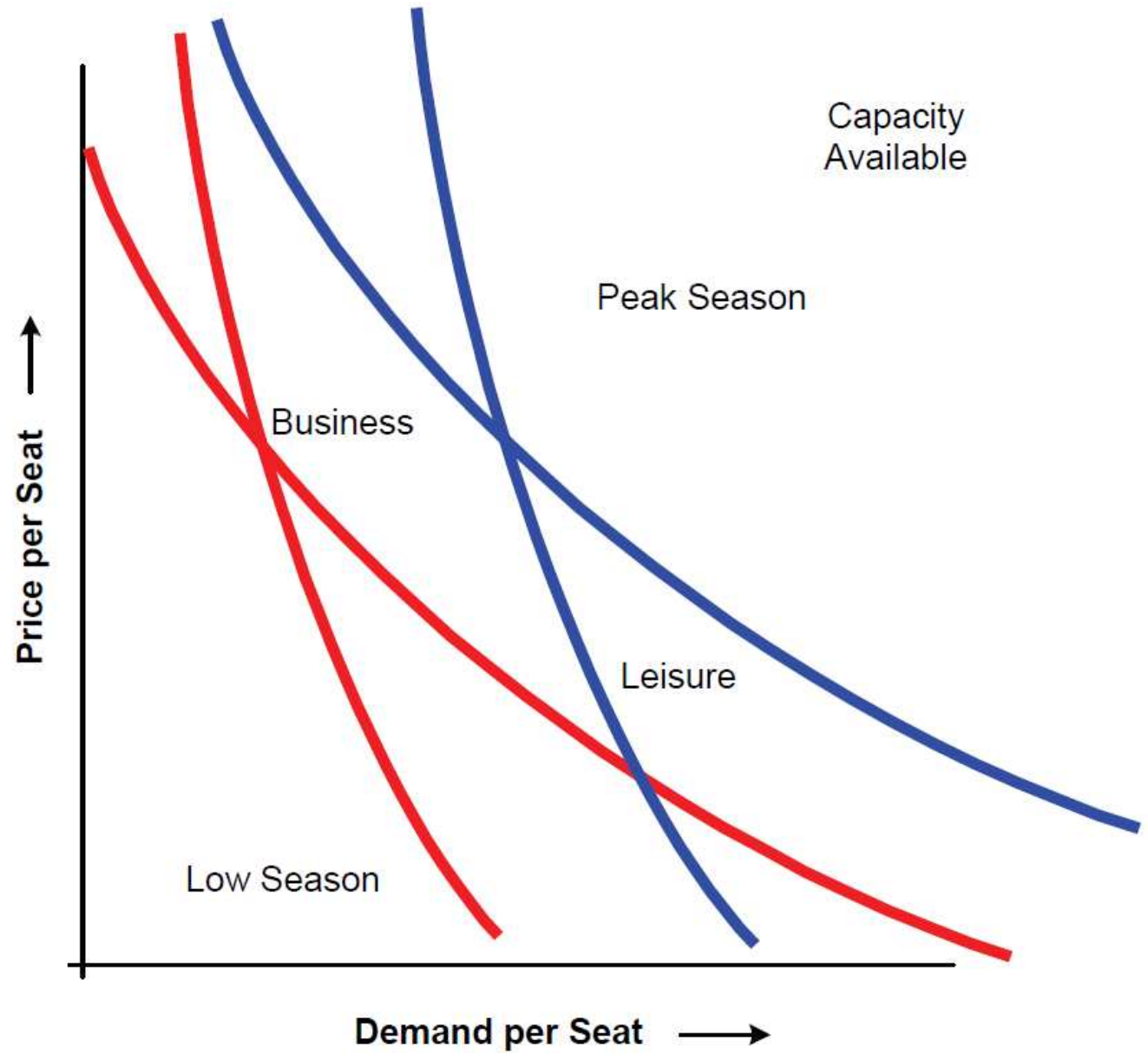
Business travellers

- Not so price sensitive
- Late booking
- Need high degree of flexibility for their trip planning
- Often frequent travellers
- High product and service expectations

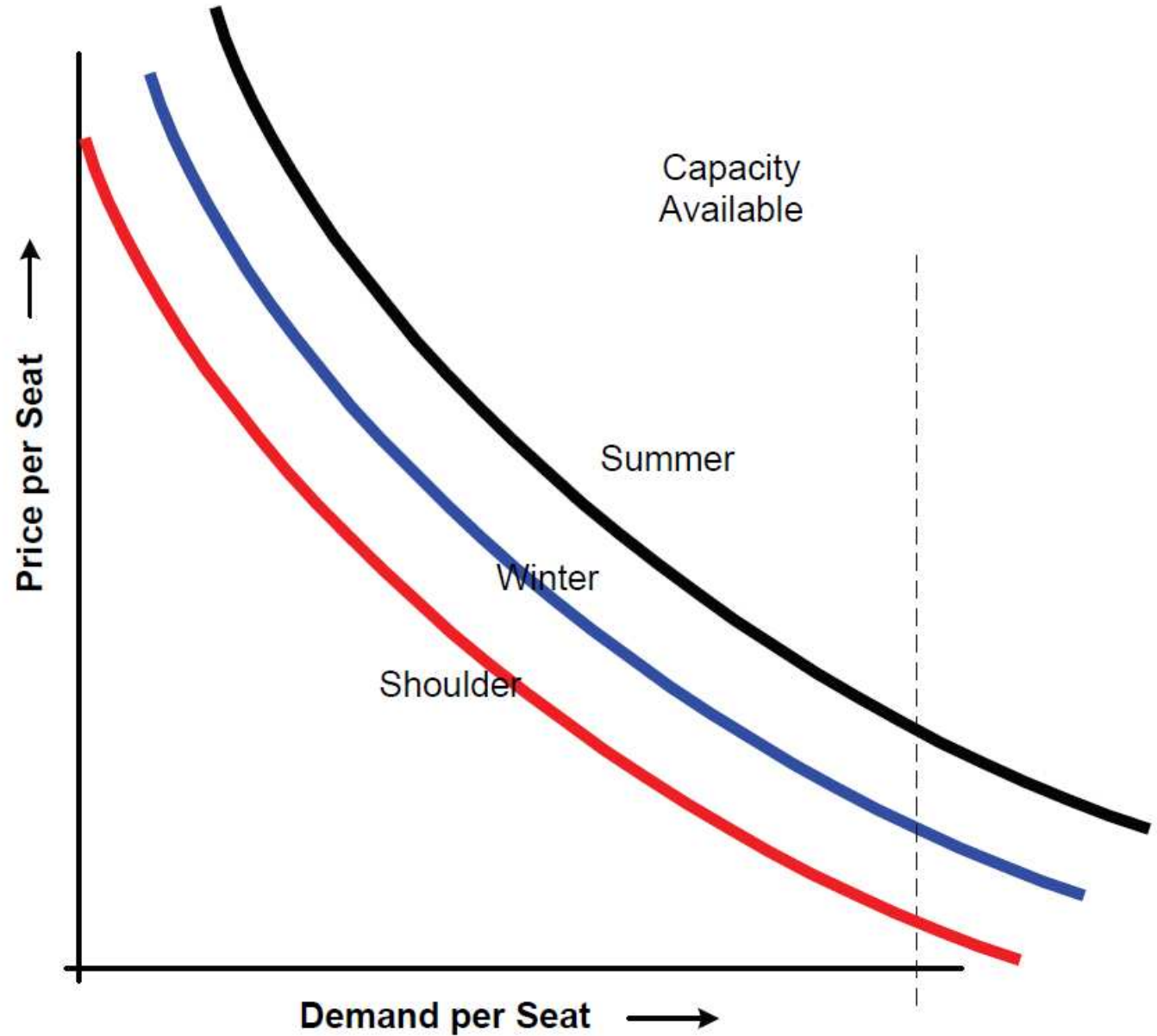
Managing The Demand



Demand
forecasted over
a range of prices
at different
seasons

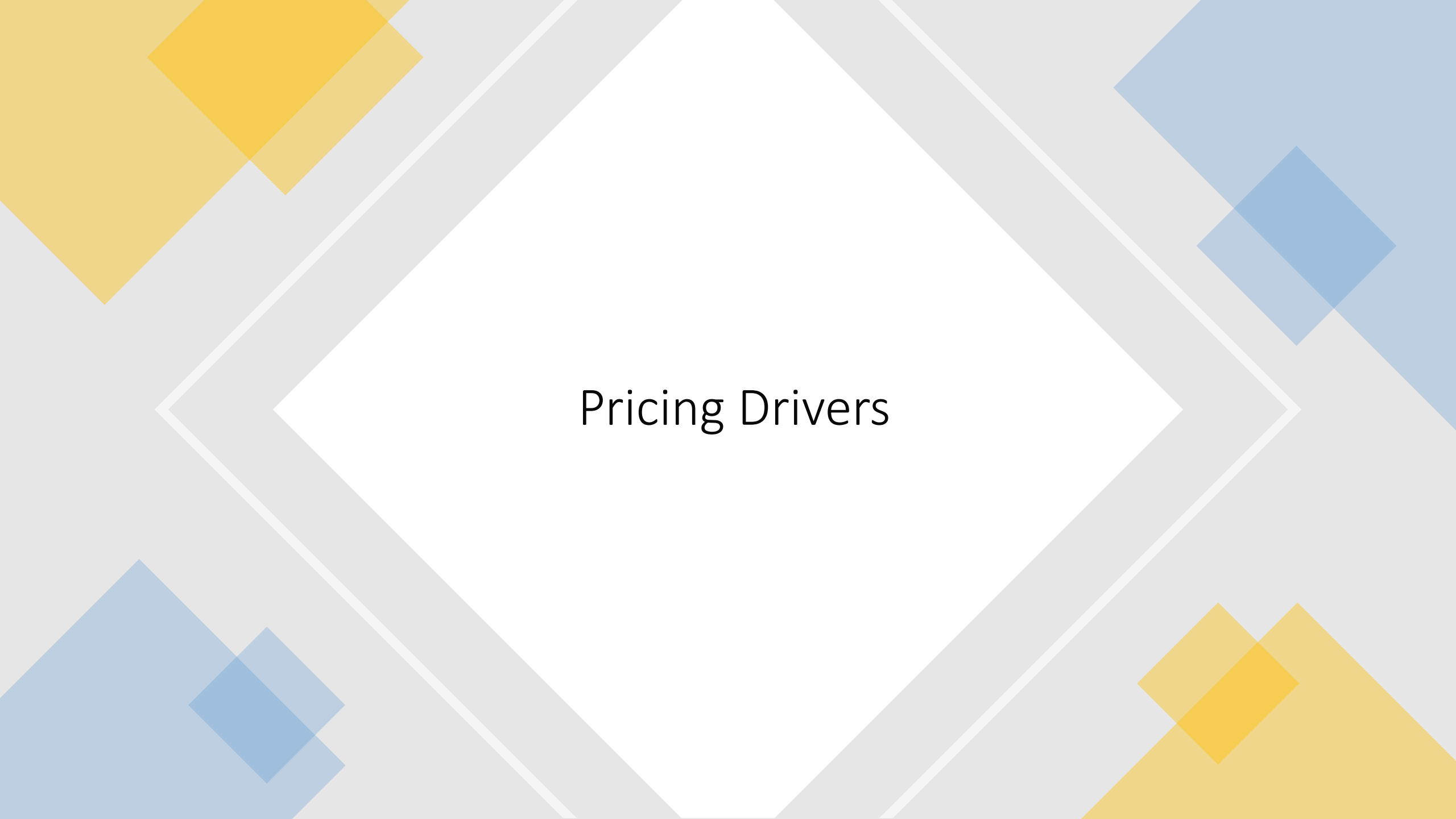


Airlines uses
price to
control
demand and
optimize
revenue



Airline Pricing





Pricing Drivers



- Based on customer's perceived value
- Monetary cost to customers.
- Price is a mechanism for bringing supply and demand into balance at a particular level of output.
- Price - in the form of yield - is one of four elements in what is usually an unbalanced equation, the balancing item being operating profit or loss.
- To a marketer, price is part of a marketing mix along with service design, service personnel and delivery processes, distribution channels, and the marketing communications mix (i.e., advertising, promotion, public relations, etc.), Being competitive in the market



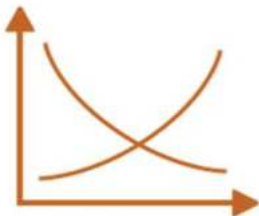
Responsibility for Pricing

- The purpose of a pricing department is to create and administer the passenger fare and freight rate structures applicable to each market.
- The function of revenue management departments is to allocate the physical space available on each individual flight-leg between the different fare and rate bases available for sale on that leg.
- The fundamental objective of the pricing function is to design a tariff structure for each market that maximizes revenue earned from price inelastic segments of demand, stimulates demand from price-elastic segments to fill space.

Influence of Pricing

- Influence on demand.
- Price is one of the most important determinants of demand.
- An elasticity associated with price.
- Other important independent variables in the demand function.
- Prices influence both traffic generated and the yield earned from that traffic.
- Airline managers to be able to use price as an effective demand management tool.
- Shape and slope of the demand curves faced by their services at different points in time (e.g., off-peak and peak, or weekdays and weekends, or morning, midday, and late afternoon/early evening).
- Different segments of the market and demand.
- Different airline markets and demand curves.

Demand Supply Variance



Business Seasonality



Competitor Pricing Trends



Customer Price Sensitivity



Influence on supply and costs

- By influencing demand, price drives revenue. The volume and nature of demand an airline chooses to supply with output in turn drives costs.
- For example, by offering a tiered fare structure in response to the price elasticities of people willing to travel only on discounted fares, an airline is not just striving to maximize its own revenues but is also increasing the density of traffic in the markets concerned.





Airline & Customer Costs

Airline Costs

FIXED COSTS



FREQUENCY COSTS

Associated with each flight departure



BLOCK HOUR COSTS

Associated with duration of the flight

VARIABLE COSTS



PASSENGER COSTS

Associated with number of passengers on the flight



Can you give examples of frequency costs, block hour costs and passenger costs?



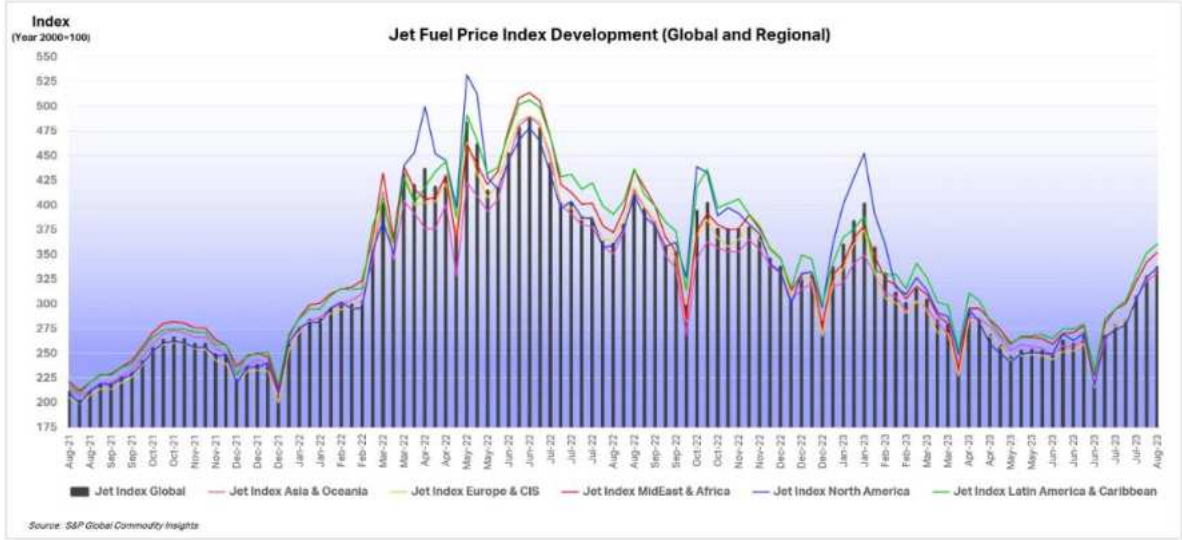
Costs

Fuel is one of Airways largest costs

The cost of jet fuel is hovering high day-by-day per barrel

If the price changes by little amount per barrel, the impact to airline on an annual basis is also very high.

Taking a look at the price action over the past 24 months



ATF Prices in Metros (Rupees/Kl) for Domestic Airlines

Applicable from August 1, 2023

Metros	Prices
Delhi	98,508.26
Kolkata	1,07,383.08
Mumbai	92,124.13
Chennai	1,02,391.64

ATF Prices in Metros (Dollars/Kl) for Domestic Airlines on International Run

Applicable from August 1, 2023

Metros	Prices
Delhi	902.62
Kolkata	941.09
Mumbai	900.73
Chennai	897.83

Customer Costs

MONETARY COSTS



Ticket price



Parking cost

Travel to
airport



NON-MONETARY COSTS

Time spend to
find a ticket



Illness,
discomfort, injury

Psychological
burdens such as
stress, mental
fatigue



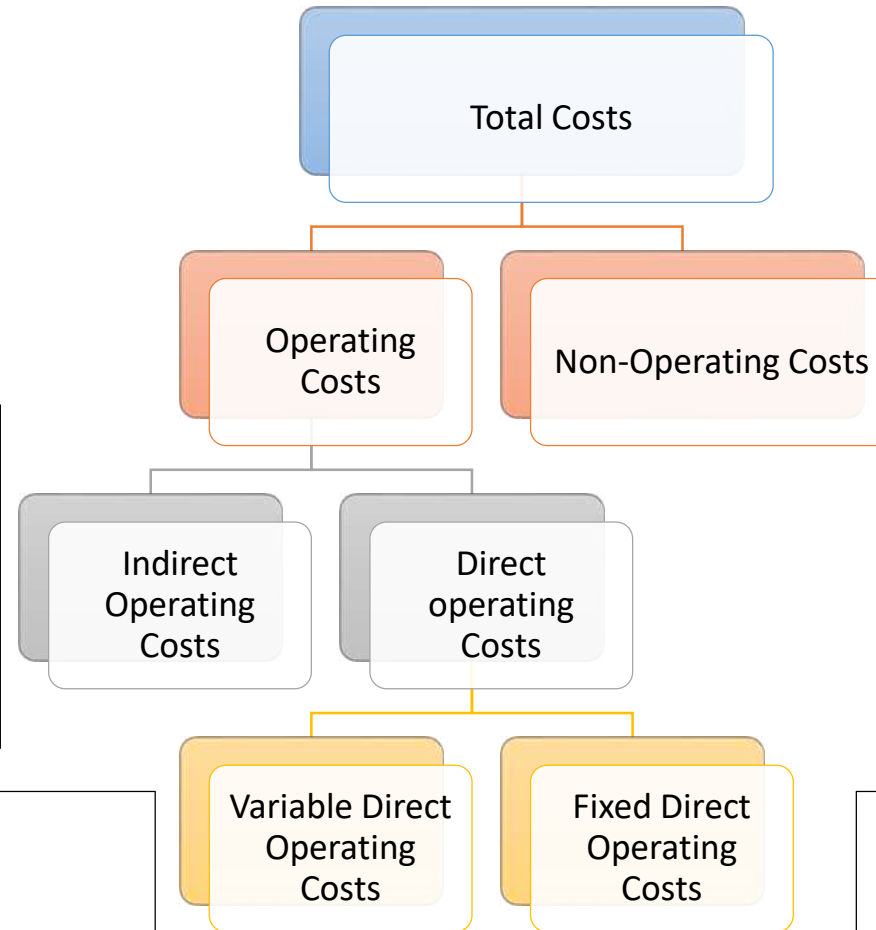
Costs

Customer Monetary vs Non - Monetary Costs

- Elapsed time to fly from BOM to LHR over DOH
 - $\text{Benefit} = \text{Price} / \text{Cost} = \text{time}$
- 9W Non-stop service is approximately 9 hours
 - $\text{Benefit} = \text{time} / \text{Cost} = \text{Price}$
- From LHR to BKK via any of DOH, DXB, BOM the elapsed time is approximately 11 hours 50 mins
 - $\text{Cost} = \text{Price} = \text{Similar?}$
 - Benefit
 - FFP, IFE, Service, Ease of Connection, Frequency, Departure times



Airline Cost Elements

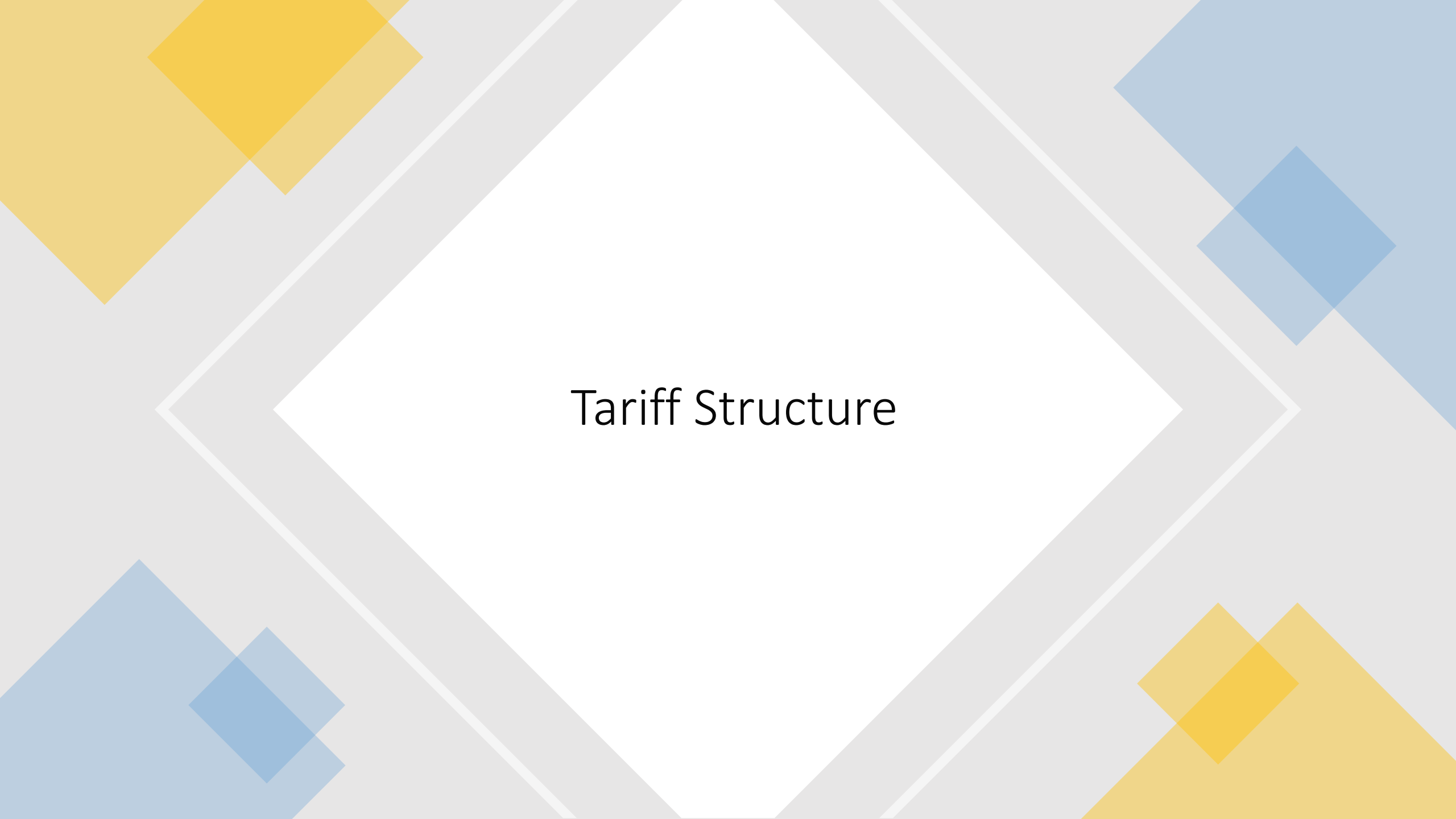


- Ticketing, sales, and promotion.
- Passenger services (including liability insurance, ground handling, catering).
- Station and ground.
- General and administrative.

- Fuel and oil.
- Variable flight crew.
- Variable cabin crew.
- Maintenance costs based on hours or cycles.
- Airport and en-route charges.
- Variable passenger services.

- Net interest expense
- Net loss and asset disposals.
- Affiliates net losses.
- Miscellaneous., E.g.: foreign exchange

- Aircraft fixed charges:
 1. Depreciation Insurance (Hull, War risk)
 2. Rentals unrelated to usage.
- Flight crew fixed.
- Cabin crew fixed.
- Maintenance burden.



Tariff Structure



Plane Ticket Purchase

Booking Date

Tuesday, October 11, 1994

Guest Name

Dr Heywood Maecenas tristique, est et tempus semper, est quam pharetra magna, ac consequat metus sapien ut nunc. Vestibulum ante ipsum primis in faucibus orci luctus et ultrices posuere cubilia Curae; Mauris viverra diam vitae quam. Suspendisse potenti. Nullam porttitor lacus at turpis. Donec posuere metus vitae ipsum. Maslen, IV

Flight Details

Route

From	Airline	Departure Date	Arrival Date
Aliquam erat volutpat.	Aliquam erat volutpat.	Tuesday, October 11, 1994 00:02	Tuesday, October 11, 1994 00:02

To	Flight Number	Departure Terminal	Arrival Terminal
Aliquam erat volutpat.	Aliquam erat volutpat.	Aliquam erat volutpat.	Aliquam erat volutpat.

Seat Class	Extra Baggage Allowance	Seat Number
Option 2	Option 2	Aliquam erat volutpat.



Fare family

Class

Fare in Euros

BUSINESS

A	400
F	300
R	220

FLEX

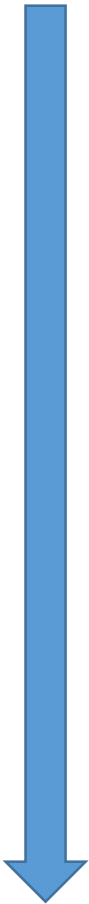
J	180
Y	200
S	100

ECONOMY

U	80
H	70
M	65
N	60
K	55
L	50
T	45
V	40
Z	35

MISC

Q	-
G	-
B	-



Tariff Structure

Airline Component

- Basic fare
- Airline fuel charge
- Common user terminal equipment fee (if applicable)
- Convenience fee (if booking is made online via debit/credit card)

Airport Authority of India

- Passenger Services Fee (PSF)

Airport Operator

- Airport Development fee
- User Development fee (UDF)

Government

- Service Tax

Fare Rules

KeyFlight.io[Download PDF](#)[Print Document](#)

Booking details

Booking code:
PWMDY

Passenger information

Name1	657-2410155945
Name2	657-2410155946

Ticket no.:

657-2410155945
657-2410155946

Receipt and additional documents

Do you require receipts for your tax returns or your travel expenses? You will be able to access all the receipts at the end of this message.

[Download your receipts now](#)

Option for download is valid up to 90 days after end of travel.

Your itinerary

29/07/2017	04:50 Moscow DME	06:35 Munich MUC	LUFTHANSA	Class: Economy Status: Confirmed
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Total Price of your Tickets

Price	\$122.00
Taxes	\$34.50
Fuel surcharge	\$109.48
Transaction	\$5.99
Total price	\$271.97

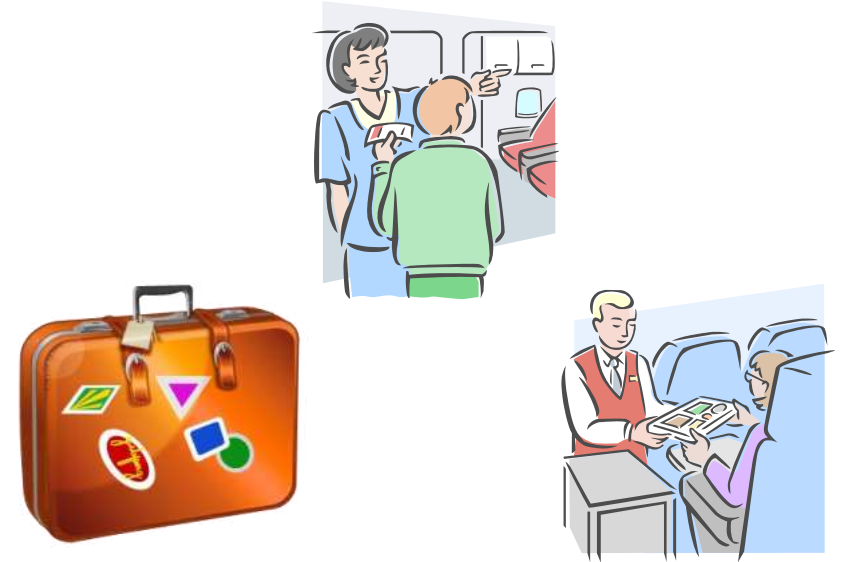
Payment Details

I was given the choice of currencies for payment, and I agree to pay USD at the rate offered by FEXCO Merchant Services.

Optional Services

The Airlines may also offer optional services on chargeable basis. Any passenger can avail the following services at the time of booking process and choose any of them as desired

- Preferential seating
- Meals/snacks/drink charges (except drinking water)
- Charges for using airline lounges
- Check-in baggage charges
- Sports equipment charges
- Musical instrument carriage



Refund



Delays,
Cancellations &
Denied Boarding



Baggage



Booking
Issues



Airfare
Component



Pricing Strategies

Determining Prices

Setting Prices:

- Determine the costs to provide service (minimum price)
- Establish the ceiling price for each segment based on sensitivity to price
- Consider prices and market positioning of competitors and general economic conditions

Price chosen is typically between minimum and ceiling price.

Consider:



New airline may be less able to distinguish itself



New airline may consider adding value to its product



Different Pricing Methods

1

COST BASED

Based on **COST** of providing service

To generate profit, price must exceed variable and fixed costs and also include profit margin

2

COMPETITION BASED

Consider what the **COMPETITION** is charging

The airline with lowest unit cost will earn higher profits

3

VALUE BASED

Prices based on customers' **PERCEPTION OF VALUE**

Greater perceived value = greater willingness to pay

Airlines need to communicate service benefits clearly for customers

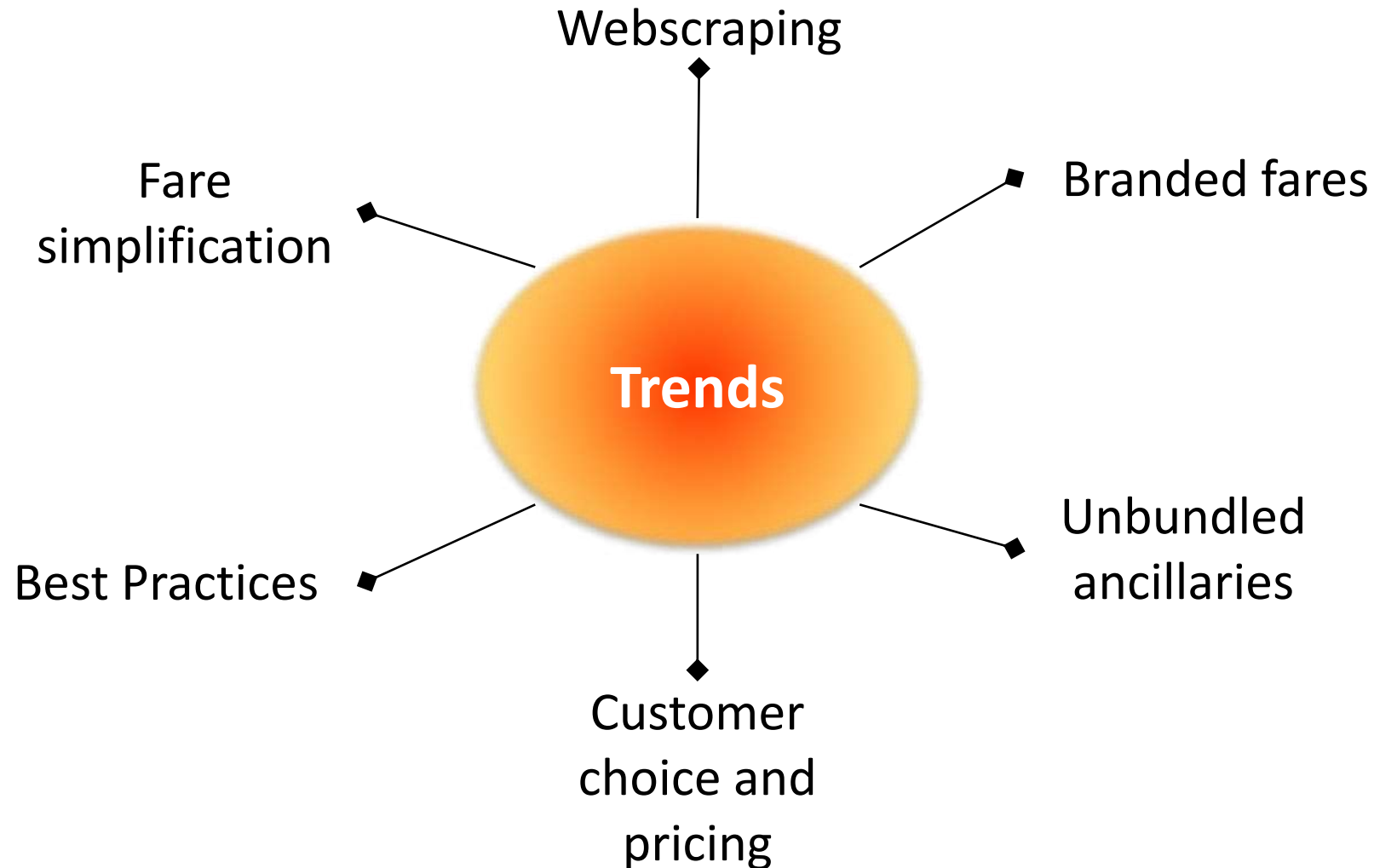
4

Based on **MARKET SEGMENTATION**

Benefits associated with each product should reflect value to the segment

Develop loyalty through improved experiences with airline

Trends in Pricing and Marketing



Fare Simplification

- **LCC** emerged post deregulation with a different “simplified” pricing model
 - a single product offered at any point in time.
 - Inventory control determines the price on offer to the market.
- **Legacy carriers** traditionally used a “restricted” model characterized by complexity and premium pricing
 - responded to LCC by simplifying own pricing structures.
 - some offer hybrid pricing structures which integrating both forms
- **LCC** tend to have higher aircraft utilization and higher labor productivity
- **Legacy carriers** tend to reduce costs by eliminating the variety of product attributes
 - reduces distinction from LCC

Web Scraping

Monitoring competitor pricing on Internet-based distribution

- Some carriers bypass GDS
- Some carriers publish web-only fares

QL2 and **Infare** have developed robotics to “scrape” competitor pricing from various websites



We have a following tools

- Infare
- Portals
- Sales feedback
- Airline websites

Branded Fare Products

- Match products with different market segments
- Align product attributes with preferences
- Defined by its fare and certain bundled attributes
- Typically distributed through airline's own website

The screenshot shows the South African Airways website interface. The top navigation bar includes links for Home, Search, Region (South Africa), Language (English), and a Change button. Below this is a menu with Plan & Book, Manage My Booking, Destinations, SAA Holidays, SAA Experience, and Essential info. The main content area is titled "Flight & fare options" and displays a table of flight options from Johannesburg (JNB) to London (LHR) on 01 August 2014. The table shows two flights: SA 234 and SA 236, with their respective departure and arrival times and fares for Economy and Business classes. A note indicates that the amounts displayed are the total fare including taxes for all passengers for the selected flight, and that fares are each way and require round-trip purchase.

Sector	Flight	Departs	Arrives	ECONOMY	BUSINESS	SELECT
Johannesburg (OR Tambo) (JNB) - London (LHR)	SA 234	19:50	06:25	Sold Out	ZAR 7573.00	ZAR 8443.00
Johannesburg (OR Tambo) (JNB) - London (LHR)	SA 236	20:20	06:55	ZAR 6113.00	ZAR 6803.00	ZAR 8443.00

The screenshot shows the Singapore Airlines website interface. The top navigation bar includes links for Flight Search, Choose Flight, Review, Passengers, Shopping Cart, Payment, and Confirmation. The main content area is titled "Choose flights" and displays a table of flight options from Dubai (DXB) to Singapore (SIN) on 01 August 2014. The table shows one flight: Singapore (SIN) Changi Int, with a departure date of Fri 01 Aug 2014 and a return date of Fri 08 Aug 2014. The fare is Economy, and the passenger is 1 Adult. The total fare is AED 5,575. The page also displays a "View Fare Calendar" button and a "Change details" button. Below the flight details, there are sections for "Sweet Deals", "Flexi Saver", and "Flexi", each with a "From" price and a "Select" button.

From	To	Cabin class	Passenger
Dubai(DXB) Dubai Int	Singapore(SIN) Changi Int	Economy	1 Adult

Departure date: Fri 01 Aug 2014
Return date: Fri 08 Aug 2014

Change details

Rebooking USD20
Cancellation
Mileage accrual* (50%)
Upgradeable with KrisFlyer miles*

Sweet Deals
Flexi Saver
Flexi

From AED 5,575
From AED 5,725
From AED 6,325

Unbundled Ancillaries

- Unbundled products typically available “a la carte”
- Inflight products and services
 - E.g. Pre-assigned seats, in-flight meals, checked in baggage, Wifi
- Product flexibility
 - E.g. no change fee, no cancellation fee

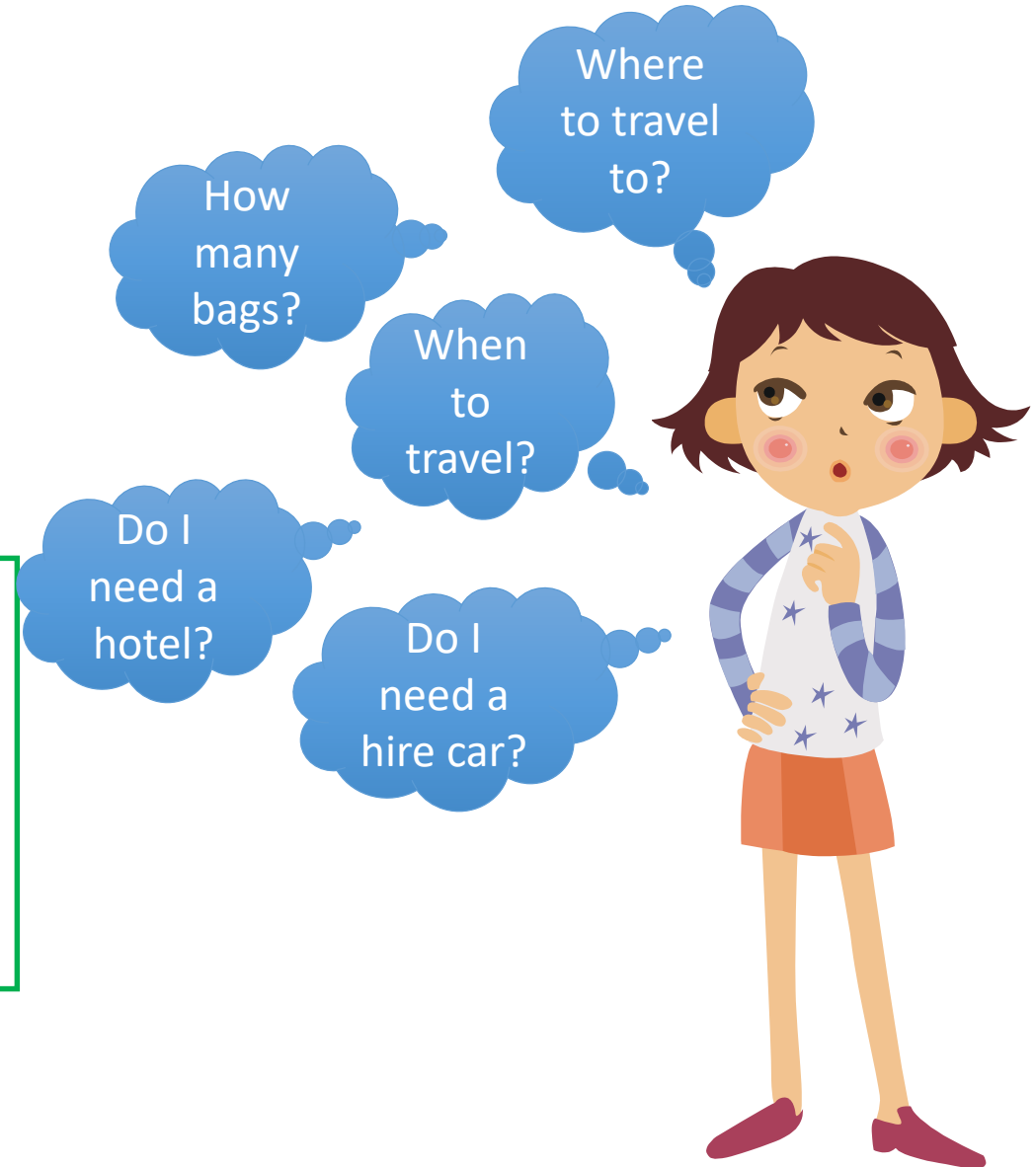
Product consistency is important to ensure that branded products are priced so that higher brand is less than lower brand plus ancillaries



Customer Choice Behaviour and Pricing

- Monitoring of customer choices and preferences
- Airlines can use this information for one-on-one marketing

The intention is to offer customers products aligned with their preferences, and so increase sales



Pricing Strategy



Airways generally employ a market-based pricing strategy meaning it is competition based. Influences such as market share, demand and product features are considered.

Where FSC/LCC Airways have their own product advantages (frequency, elapsed time, aircraft type) we may choose to match competitive fares to offer more value or price higher to account for the better features.

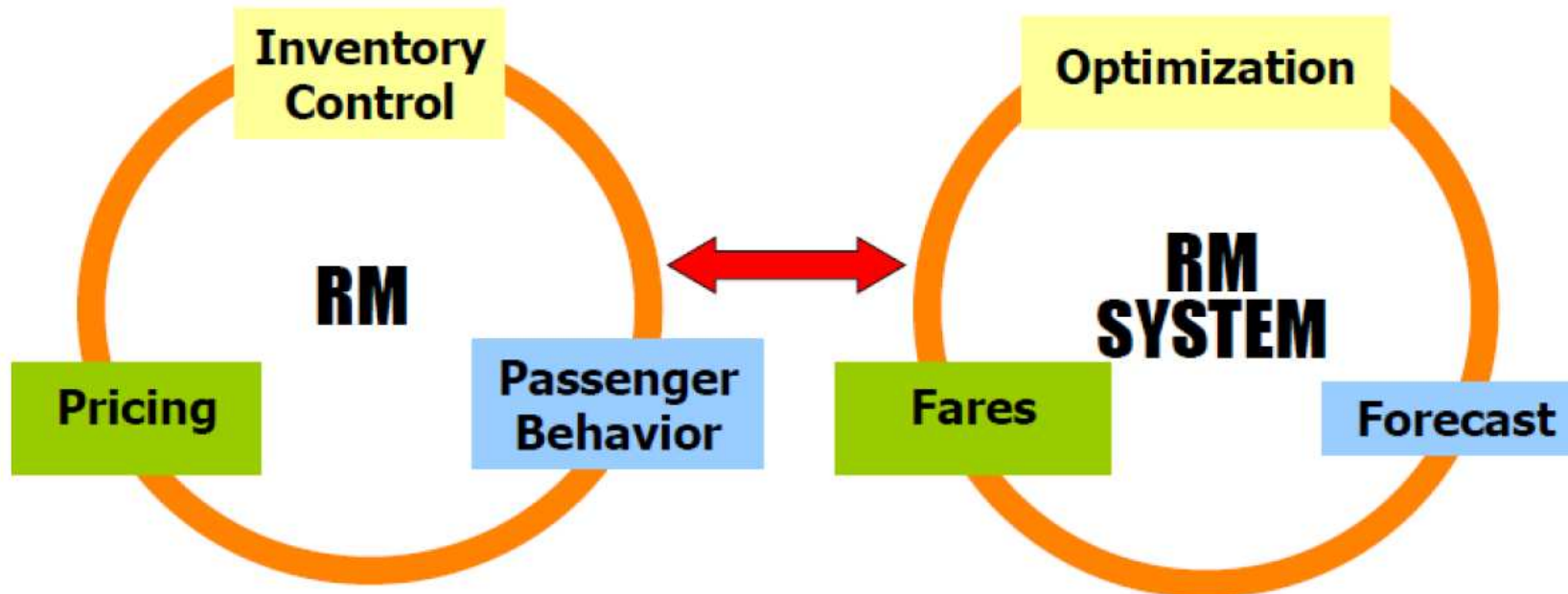


Inventory Management

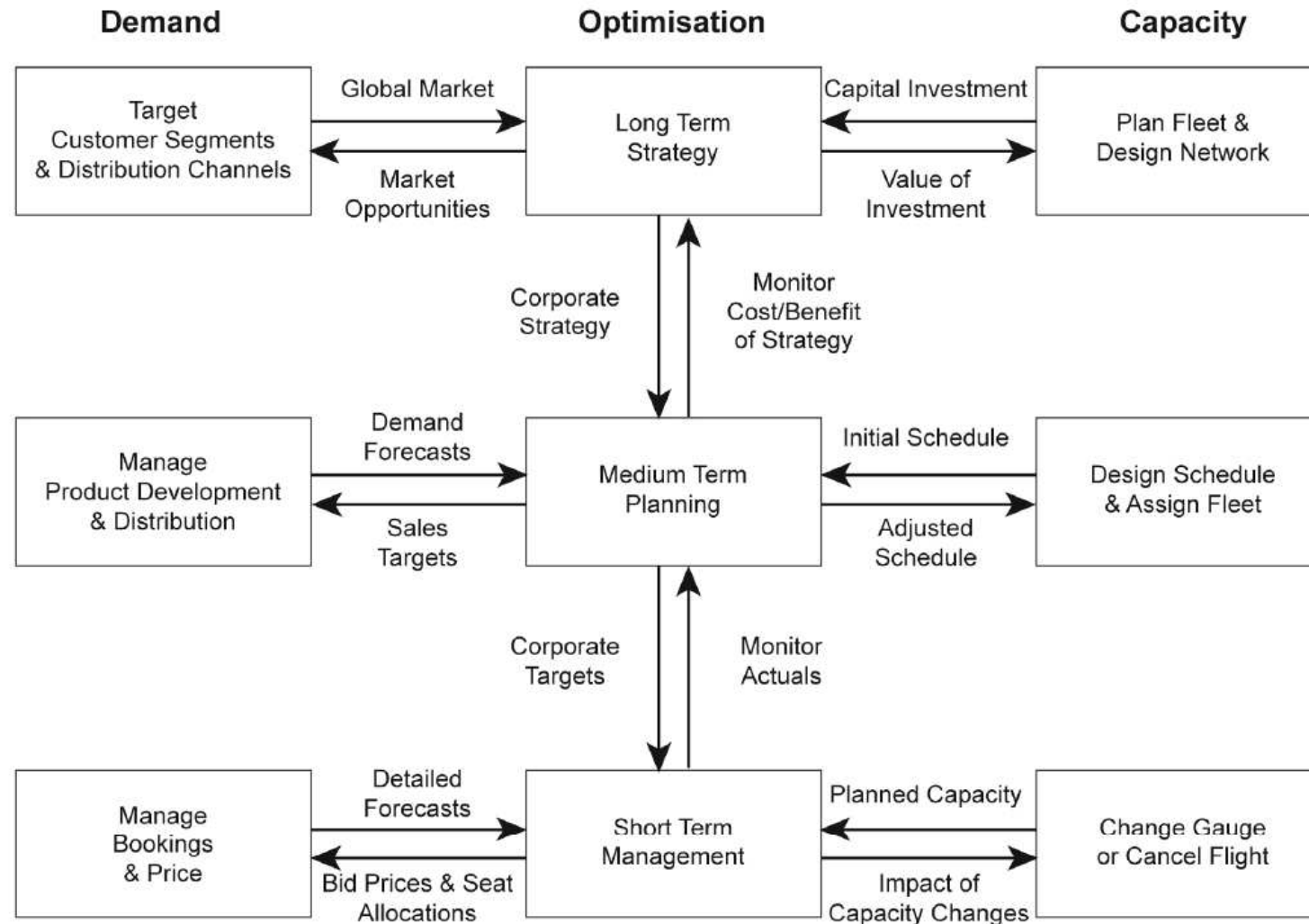
- Capacity control.
- Seats allocation in the classes.
- Nesting.
- Groups.
- Inventory is managed through the Revenue Management systems.
- These RM systems are integrated with Pricing and GDS.
- Systems are inbuilt with forecasting tools.
- Examples: PROS, RADIX, Navitare, Amadeus, AirRM, SABRE, SITA & BIRD.

RM- Strategies

- Revenue Maximization.
- Controlling the spillage & spoilage.
- Ancillary products.
- Capacity adjustments.



Monitoring the Performance



Performance drivers....

- Performance measurement helps in decision making.
- Key performance indicators.
- CASK: Cost per Available Seat Kilometer(ASK)
- ASK: Available seat KM: Capacity * Stage length
- RPK: Revenue PAX KM: Flown PAX * Stage length
- RASK: Revenue per Available Seat Kilometer
- Yield: Revenue per Revenue PAX Kilometer
- Load Factor: Revenue PAX KM per Available Seat KM
- ATV: Average Ticket Value
- Performance(Profit per ASK)= RASK-CASK



Brain storming...

Learning....

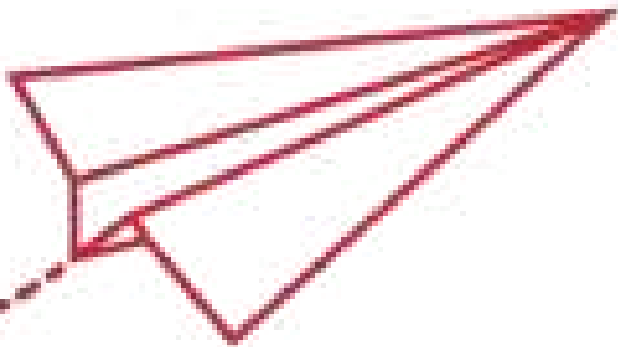
What drives Pricing?

Cost involved in an Airline...

Fare components...

How to determine fare?

Love



is in the air

Love



is in the fare



THANK YOU