

AIRLINE REVENUE MANAGEMENT

Presented by

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Why do airline
fares fluctuate?





What is RM?

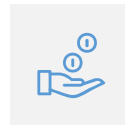
Revenue Management maximizes profitability by selling the correct number of seats at various fare levels based on demand and pricing elasticity.

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



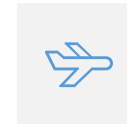
Deregulation

Initially Publicly controlled, later has become market driven.



Necessity

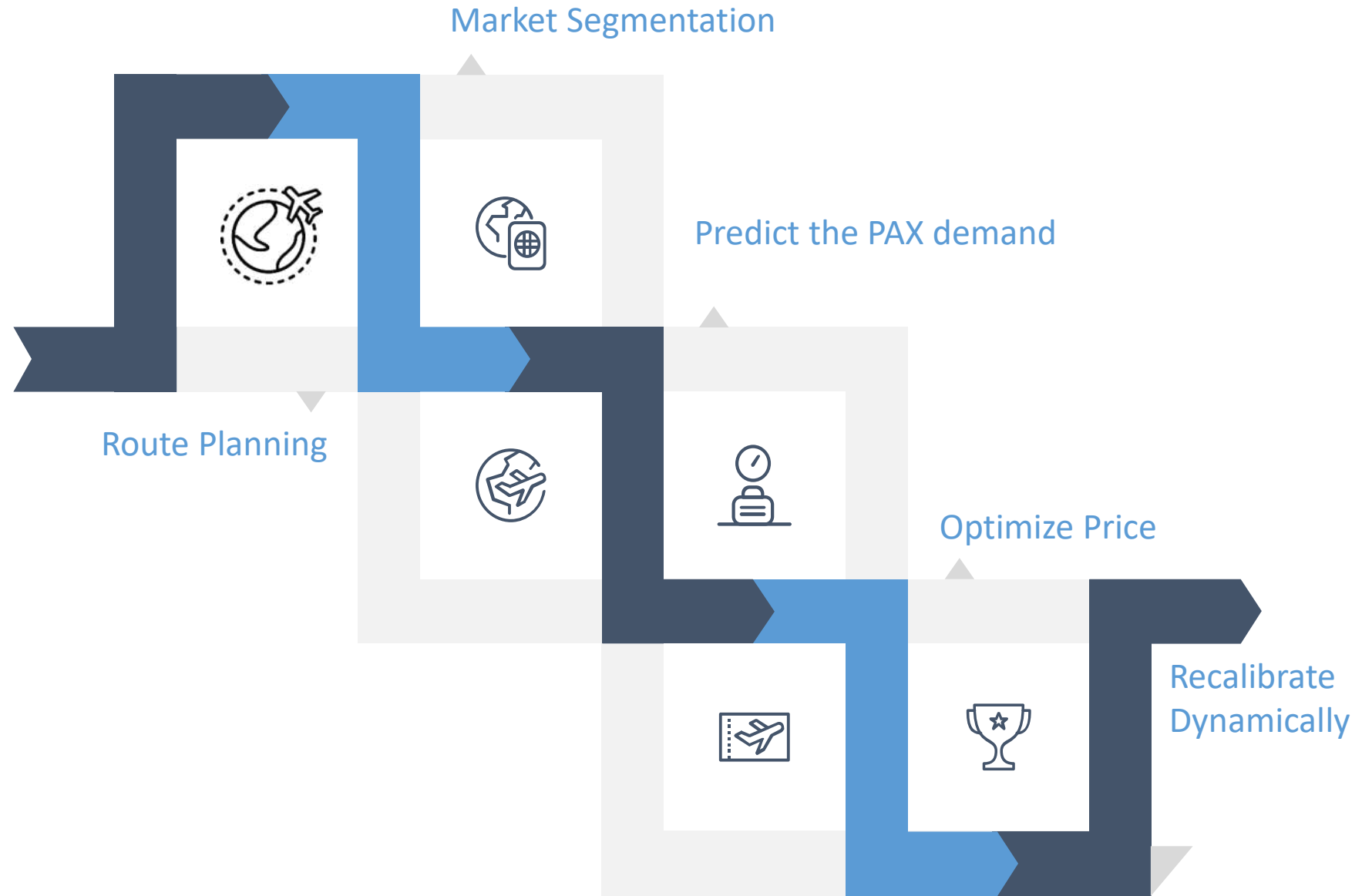
Perishable capacity.
Variation in demand and Variable pricing.
Market Segmentation.



Operating Performance Drivers

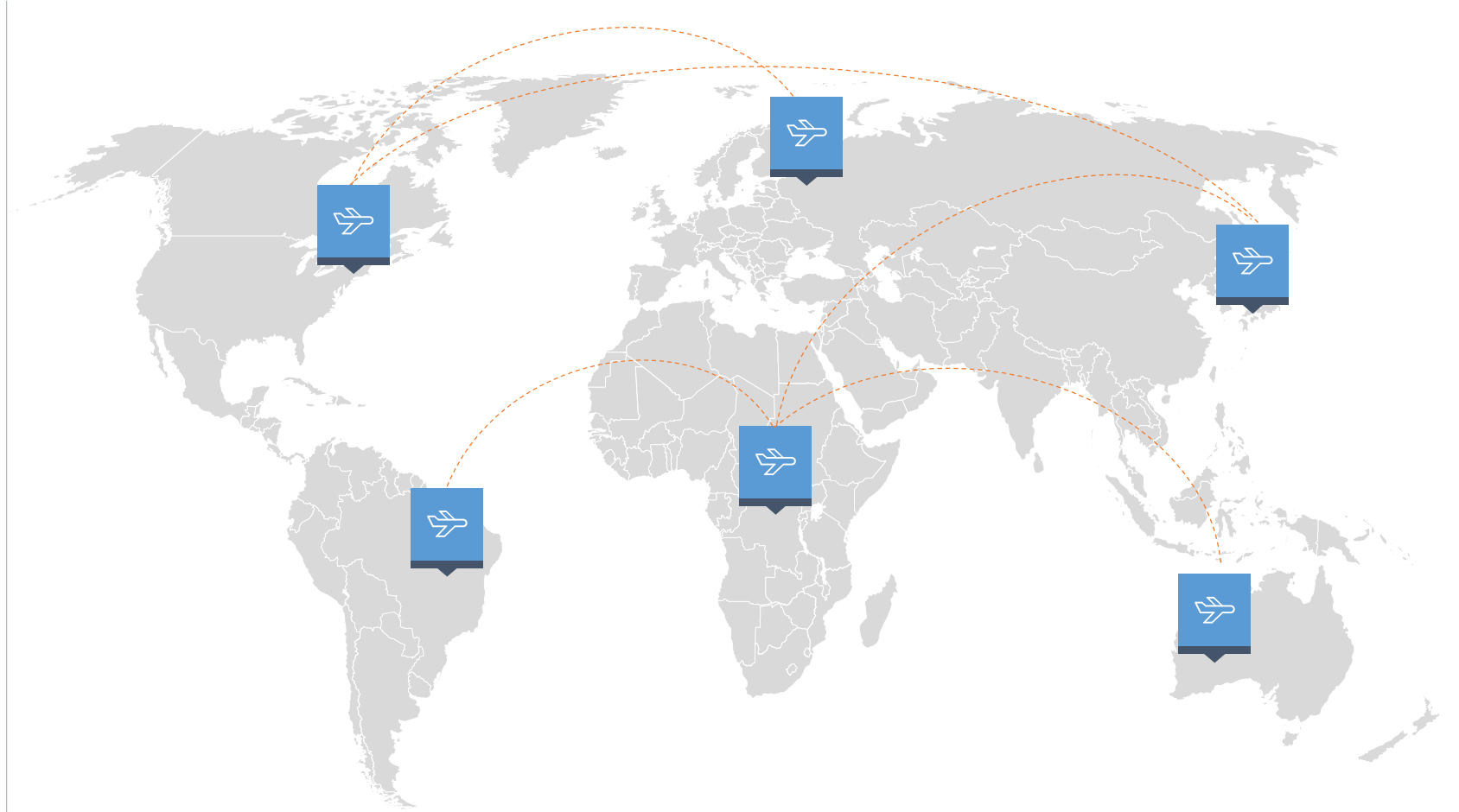
Unit cost, Output, Traffic & Yield

How do you manage?

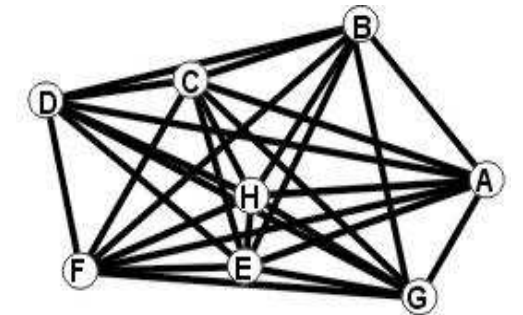
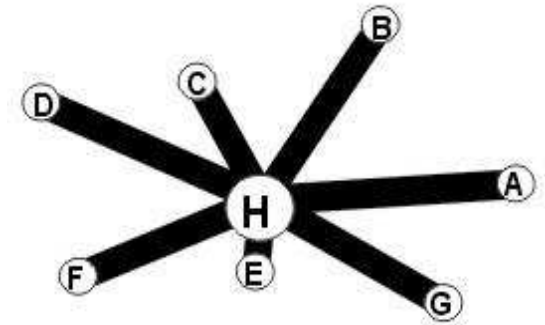


Route Planning

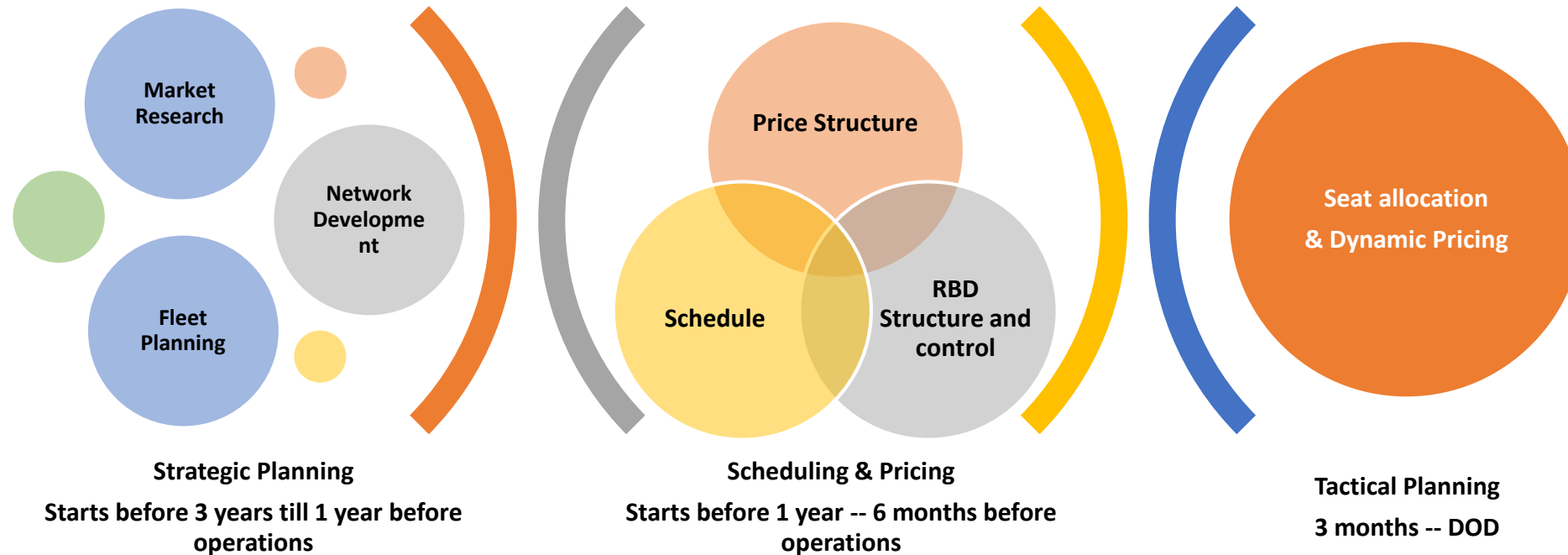
- Identifying the best routes.
- Analyzing seasonal and traditional flow of demand.
- Providing robust connections.
- Assessing potential demand and optimal utilization of resources.
- Work as a decision support for scheduling, FM & RM.
- Model-LCC/FSC, Hub N Spoke, P2P, Hopping, Connecting.
- Optimal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



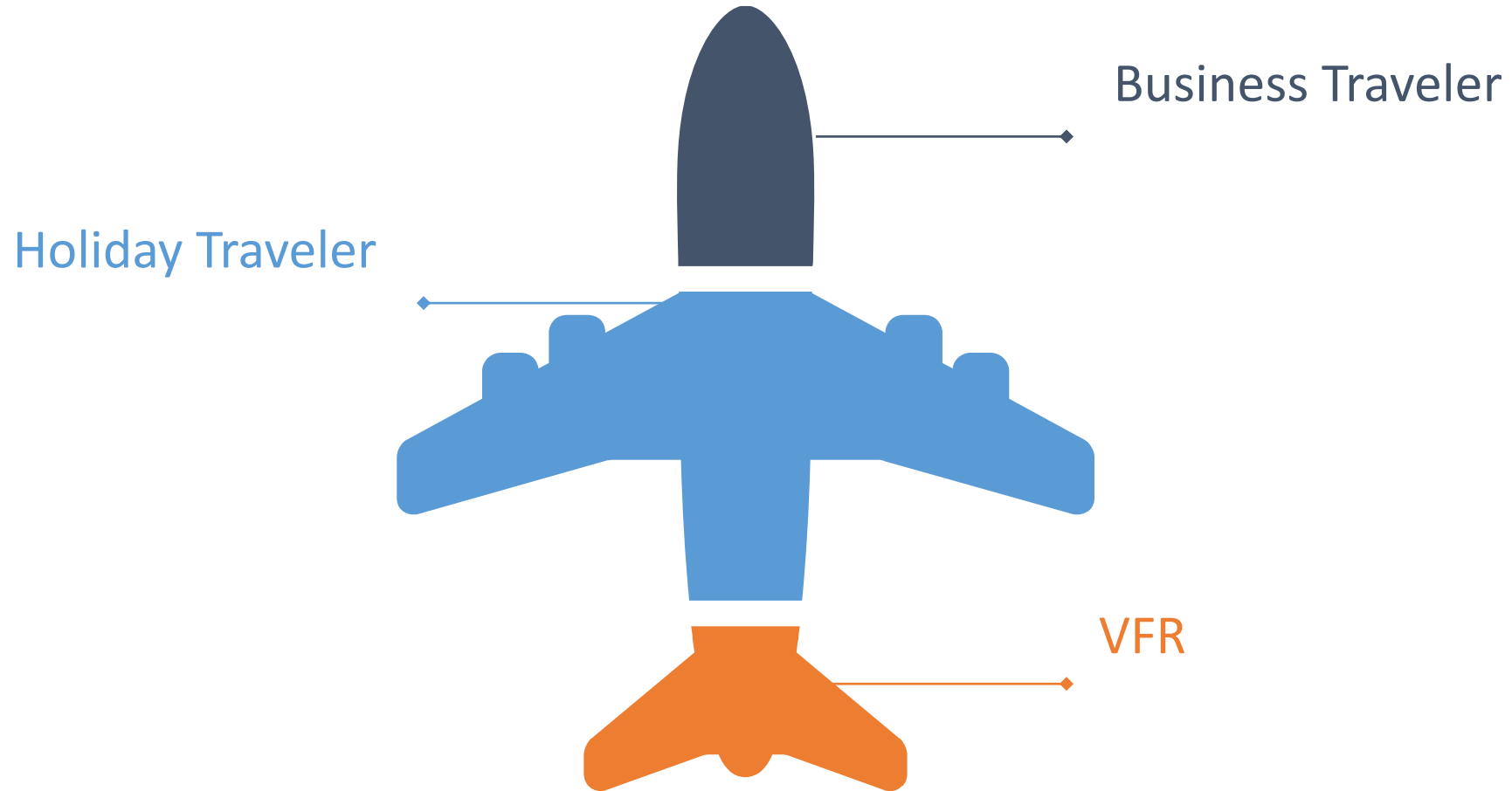
- Route dispersal guidelines: Regulations
- Schedule:
 - Flight No.
 - O & D
 - Day of Week
 - Timings
 - Aircraft
- Block time
- Ground time
- Connecting time
- AOG Plan
- Maintenance Plan
- Airport Operations
- OTP

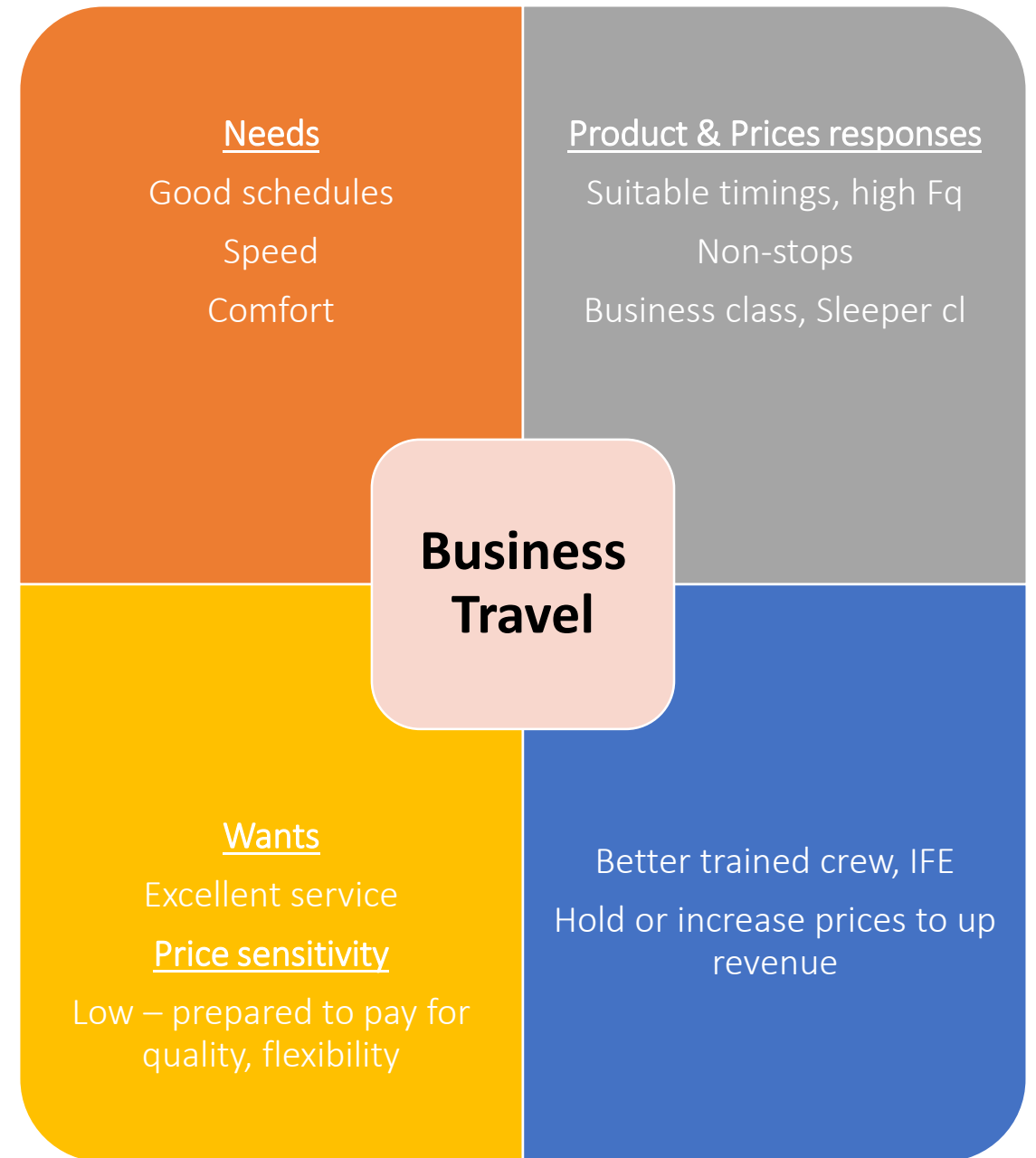


Capacity management plays a key role in Commercial planning



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

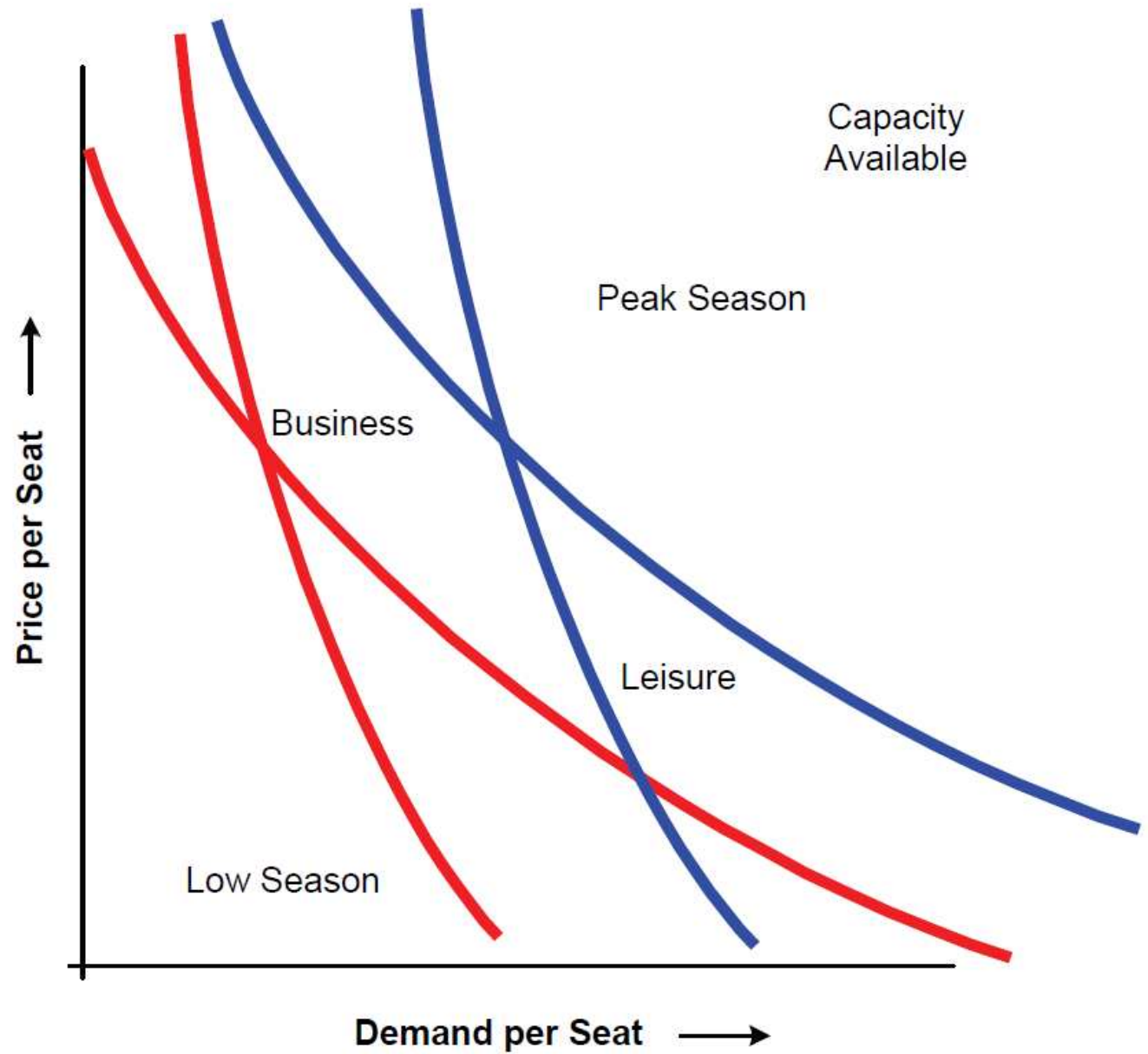
Business travellers

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

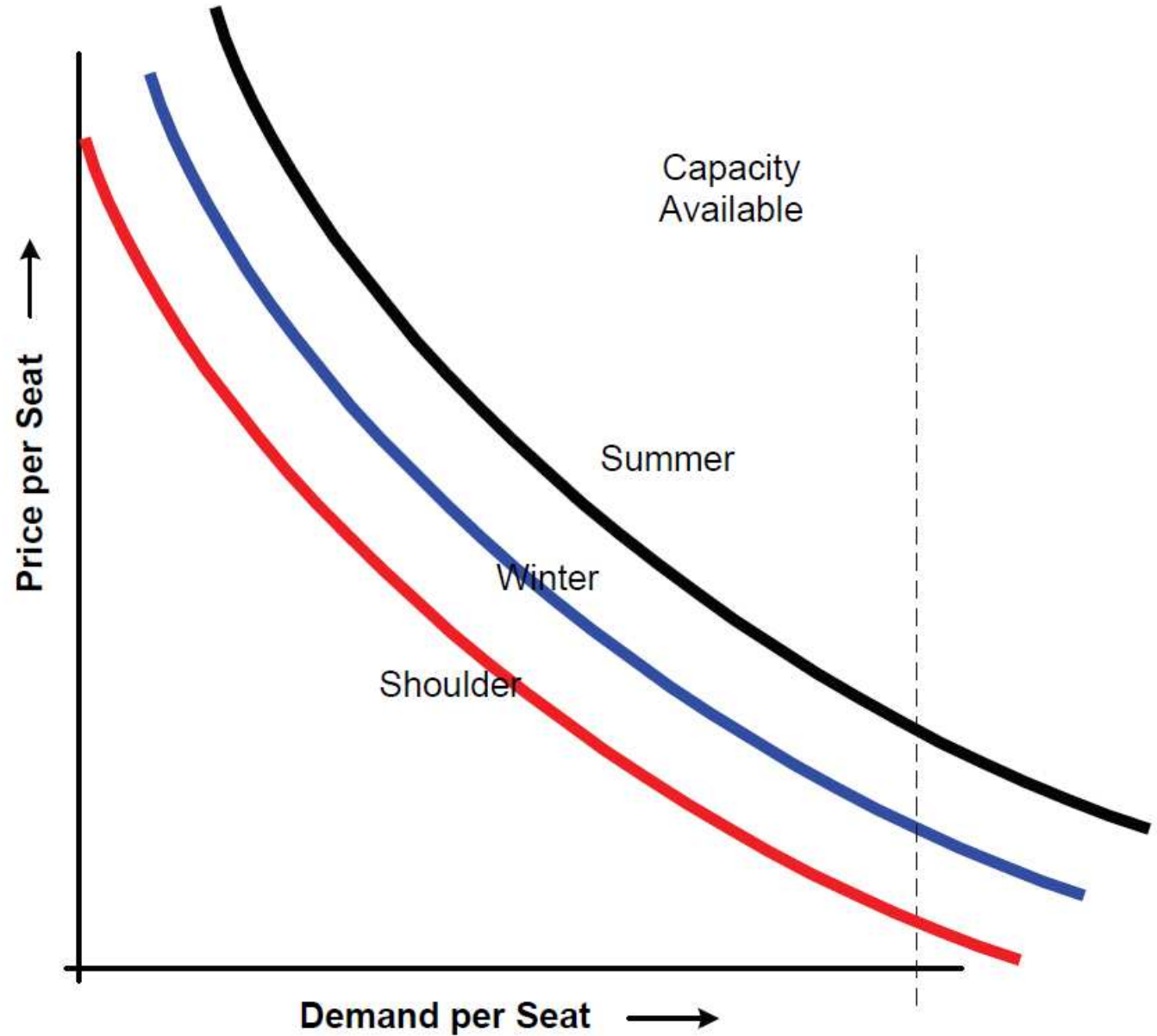
Managing The Demand



Demand
forecasted over
a range of prices
at different
seasons



Airlines uses
price to
control
demand and
optimize
revenue



Pricing

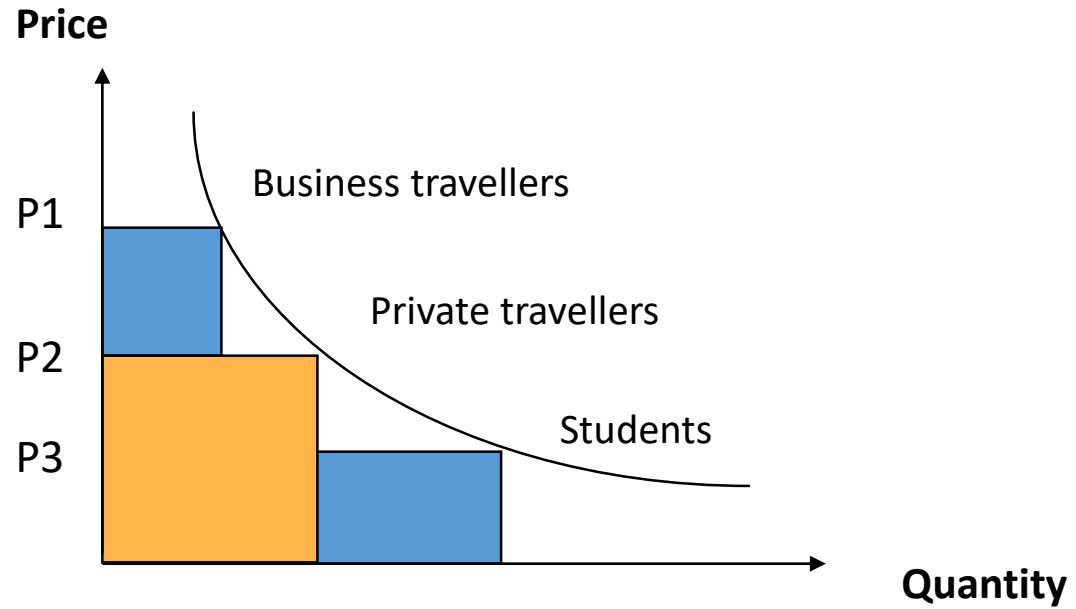
- Monetary equivalent for the product
- Predefined with rules and conditions
- Components of tariff :
 - Fare = Base fare + Taxes + Fare rules
- Fares differ according to
 - Product (Business/ Economy)
 - Markets
 - Time & Day
 - Turnover purchased
 - Customer segments



- Differential Pricing
- Fare Rules and restriction
- Cost-based Pricing
- Competition-based Pricing
- Value-based Pricing
- RBD/Booking classes

Fare family	Class	Fare in Euros
BUSINESS	A	400
	F	300
	R	220
FLEX	J	180
	Y	200
	S	100
	U	80
ECONOMY	H	70
	M	65
	N	60
	K	55
	L	50
	T	45
	V	40
	Z	35
MISC	Q	-
	G	-
	B	-

- Pricing is the most important factor to derive demand



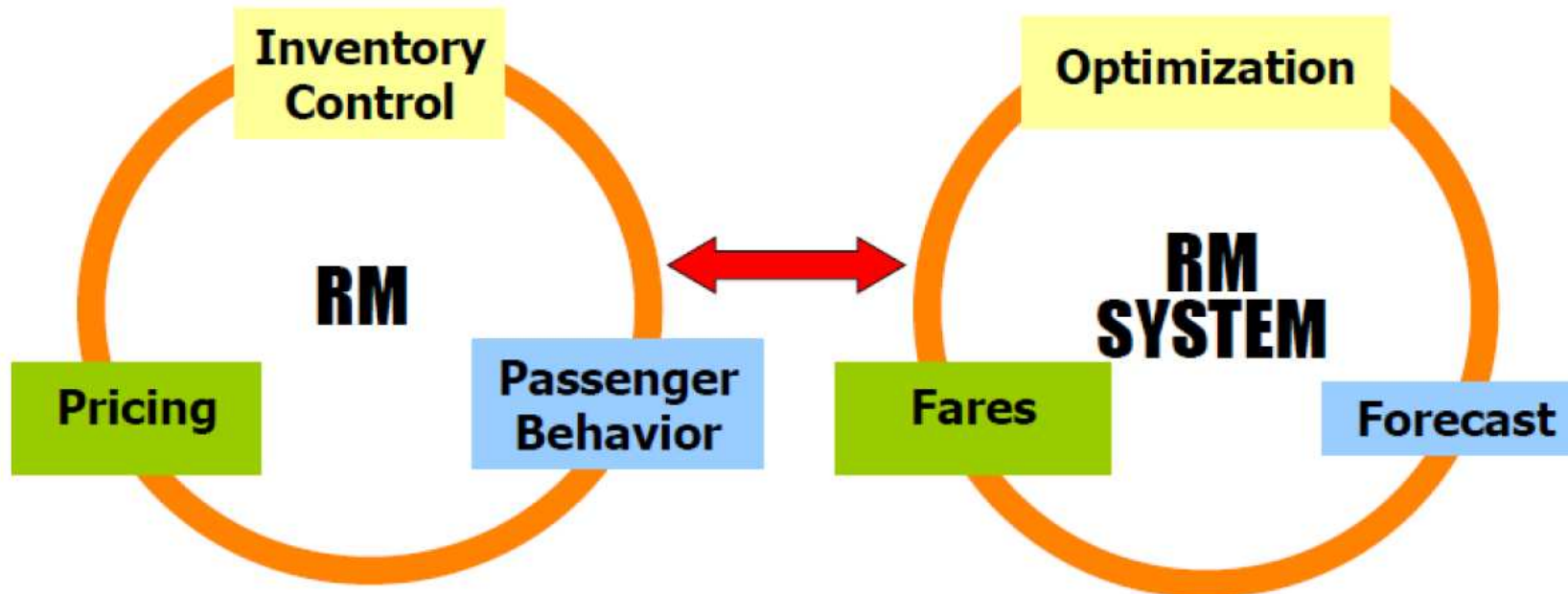
- Customer segmentation according to the travel behaviour
- Price level depends on individual price sensitivity

Inventory Management

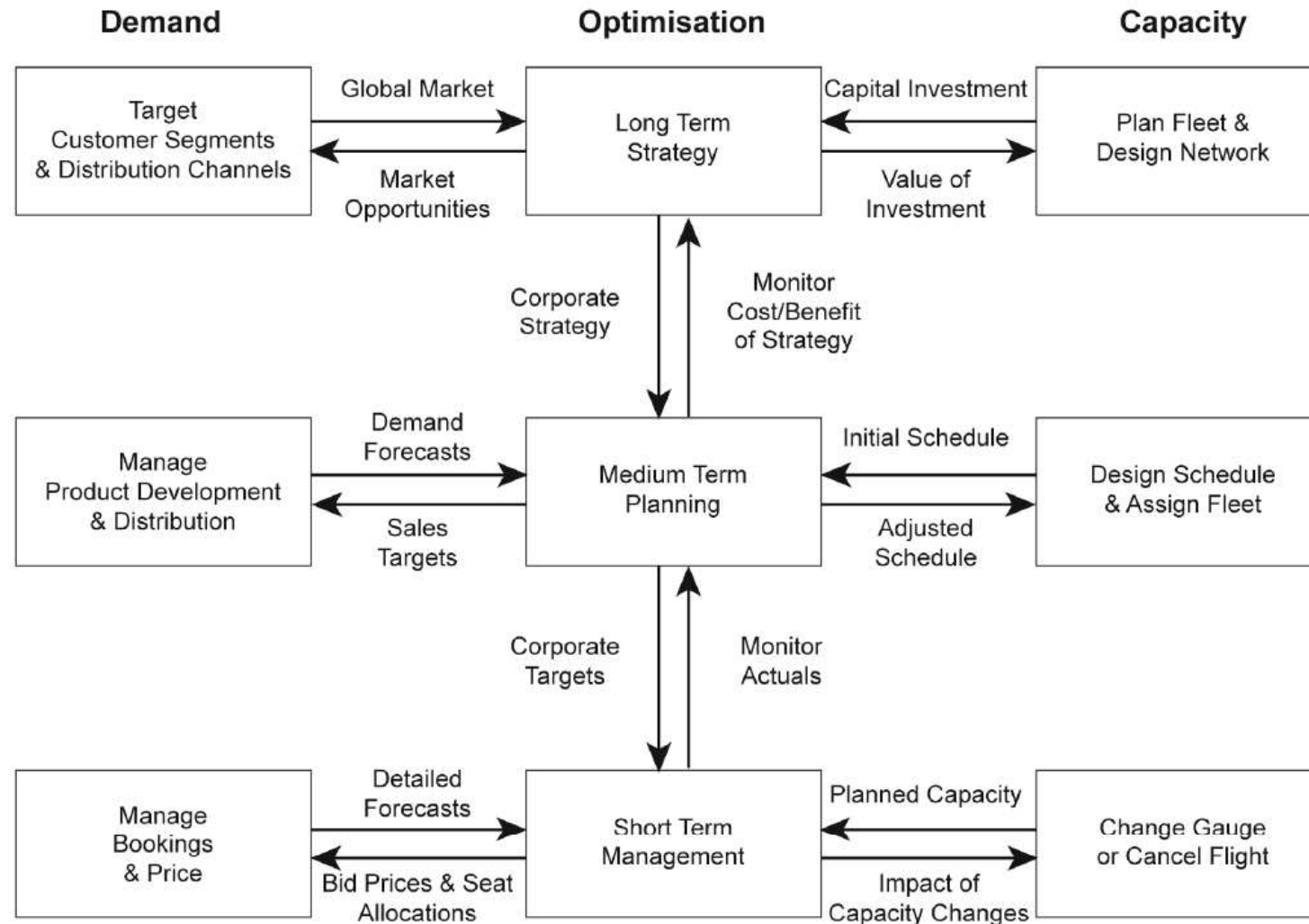
- Capacity control.
- Seats allocation in the classes.
- Nesting.
- Groups.
- Inventory is managed through the Revenue Management systems.
- These RM systems are integrated with Pricing and GDS.
- Systems are inbuilt with forecasting tools.
- Examples: PROS, RADIX, Navitare, Amadeus, AirRM, SABRE, SITA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

RM- Strategies

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



Monitoring the Performance



Performance drivers....

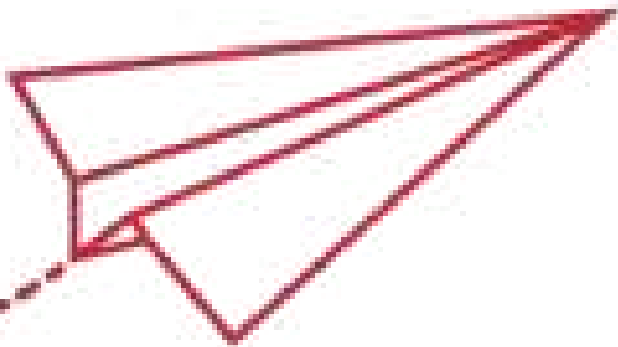
- Performance measurement helps in decision making.
- Key performance indicators.
- CASK: Cost per Available Seat Kilometer(ASK)
- ASK: Available seat KM: Capacity * Stage length
- RPK: Revenue PAX KM: Flown PAX * Stage length
- RASK: Revenue per Available Seat Kilometer
- Yield: Revenue per Revenue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



Brain storming...

METRO			NON METRO			M-N			ORG	DES	Stage Length
Fare family	Class	Fare	Fare family	Class	Fare	Fare family	Class	Fare			
BUSINESS	A	40000	BUSINESS	A	22000	BUSINESS	A	30000	DEL	JAI	230KM
	F	30000		F	18000		F	22000	JAI	AMD	525KM
	R	22000		R	20000		R	18000	AMD	BOM	442KM
FLEX	J	18000	FLEX	J	10000	FLEX	J	20000	BOM	DEL	1134KM
	Y	20000		Y	8000		Y	10000			
	S	10000		S	7000		S	8000			
	U	8000		U	6500		U	7000			
ECONOMY	H	7000	ECONOMY	H	6000	ECONOMY	H	6500	Assumptions: 1 IndiGo has all A320 (180 seats per 2 An hour operation cost for A320 is		
	M	6500		M	5500		M	6000			
	N	6000		N	5000		N	5500	a	Metro to Met	3 Lacs
	K	5500		K	4500		K	5000	b	Metro to Nc	2.75 Lacs
	L	5000		L	4000		L	4500	c	NonMetro - N	2.5 Lacs
	T	4500		T	3500		T	4000	Calculate the following: 1.CASK for any M-M Market 2.Allocate inventory on a NM-NM market wit		
	V	4000		V	3000		V	3500			
	Z	3500		Z	2500		Z	3000			
MISC	Q	-	MISC	Q	-	MISC	Q	-			
	G	-		G	-		G	-			
	B	-		B	-		B	-			

Love



is in the air

Love

A red paper airplane is shown in the upper right corner, flying towards the right. A dashed red line extends from the tail of the airplane, curving downwards and then back up to form the word 'Love' in a cursive script.

is in the fare



THANK YOU