

99,9 Truths about Airline Pricing ...

and what Travel Managers can do about it!

Michael Schneider
Oslo , 06.09.2012

99,9 Truths about Airline Pricing

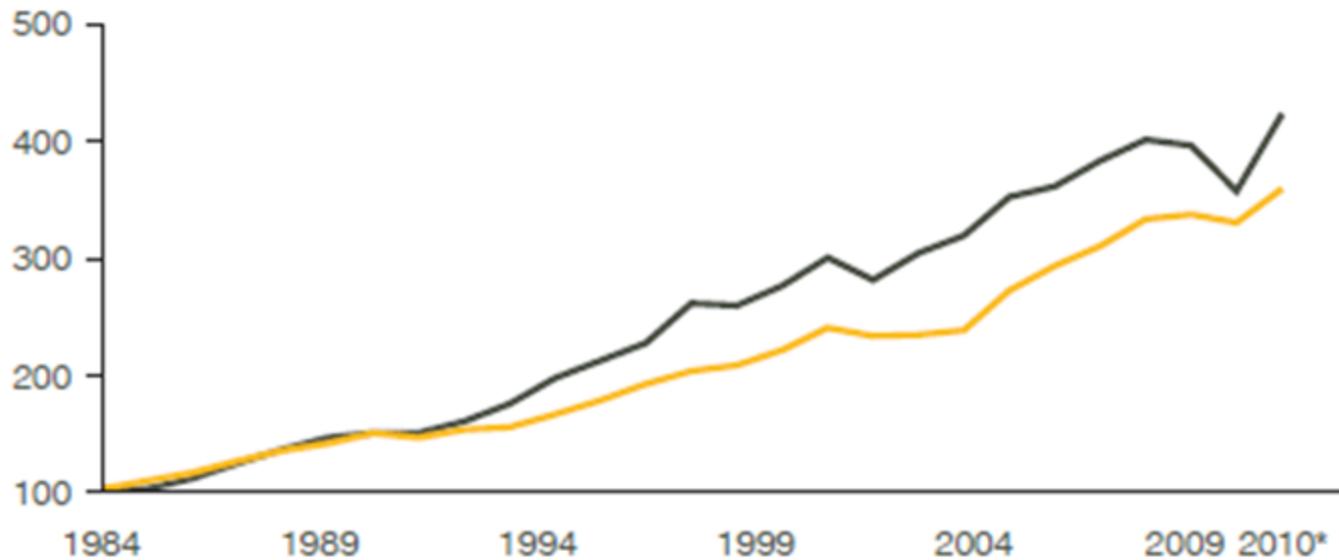
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- 1. About why and how Airlines are managing their Revenues!**
- 2. The latest trends: Ancillary Fees and Fixed Budget Models**
- 3. About how we can still do something about it: Negotiations and how they work!**

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Quelle: ICAO/IATA.

* Prognosewert für 2010 (IATA Fact Sheet 10/10).

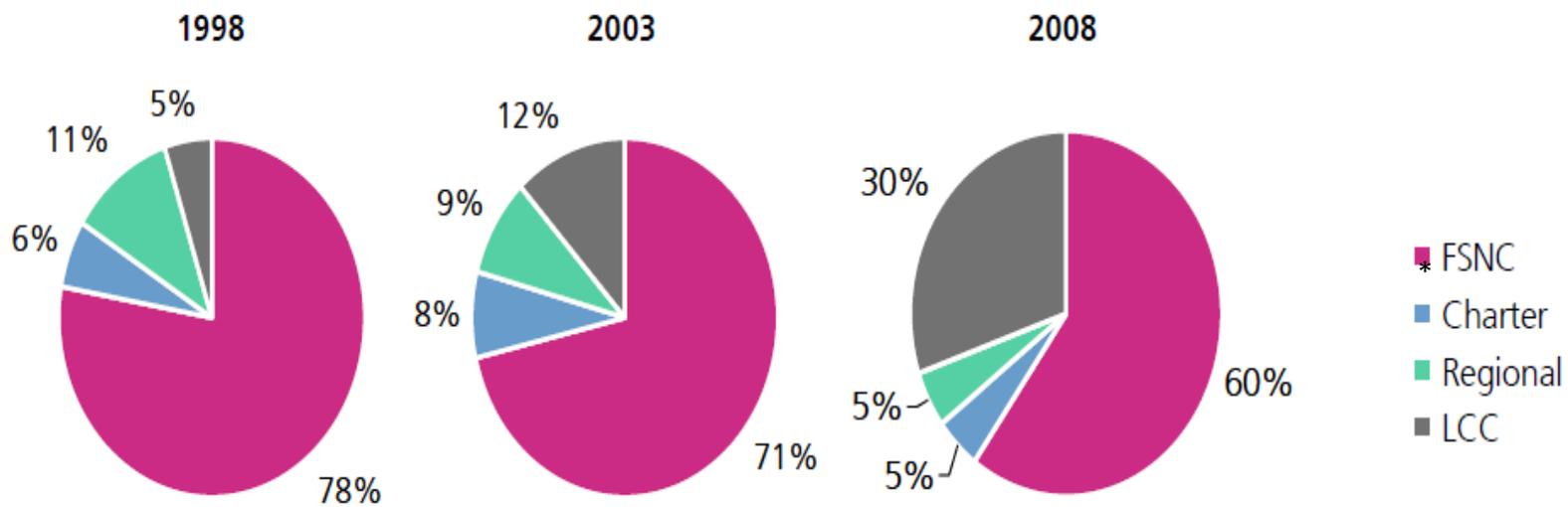
— Cargo Ton Kilometers

— Pax Kilometers

\$600.000.000.000

0,7%





*Full Service Network Carrier

GDS

Airports

Aircraft
Manufacturers

Image & Reputation

Political Situation



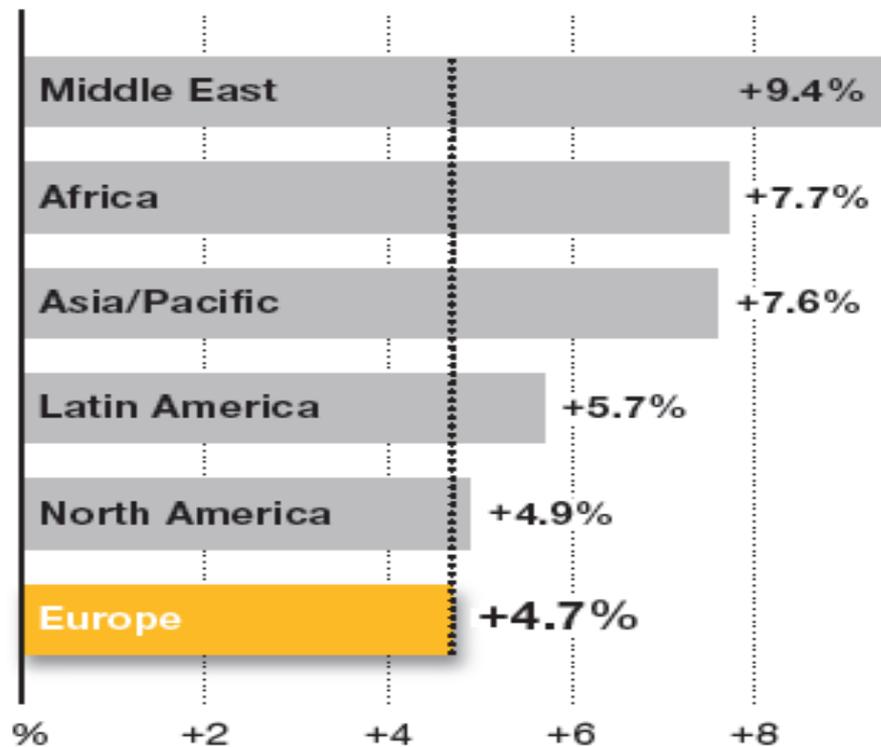
ATC

Fuel

Competition

Last place

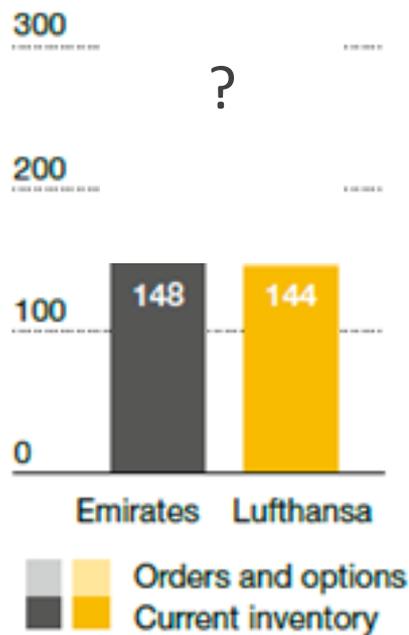
By 2014, Europe will record the lowest annual growth in air traffic worldwide.



Source: IATA

On track to becoming world's largest long-haul fleet

Long-haul fleet total



Sources: *Business report Emirates 2010/2011;*
Business report Lufthansa 2010





Reality...

...and Wishful Thinking!

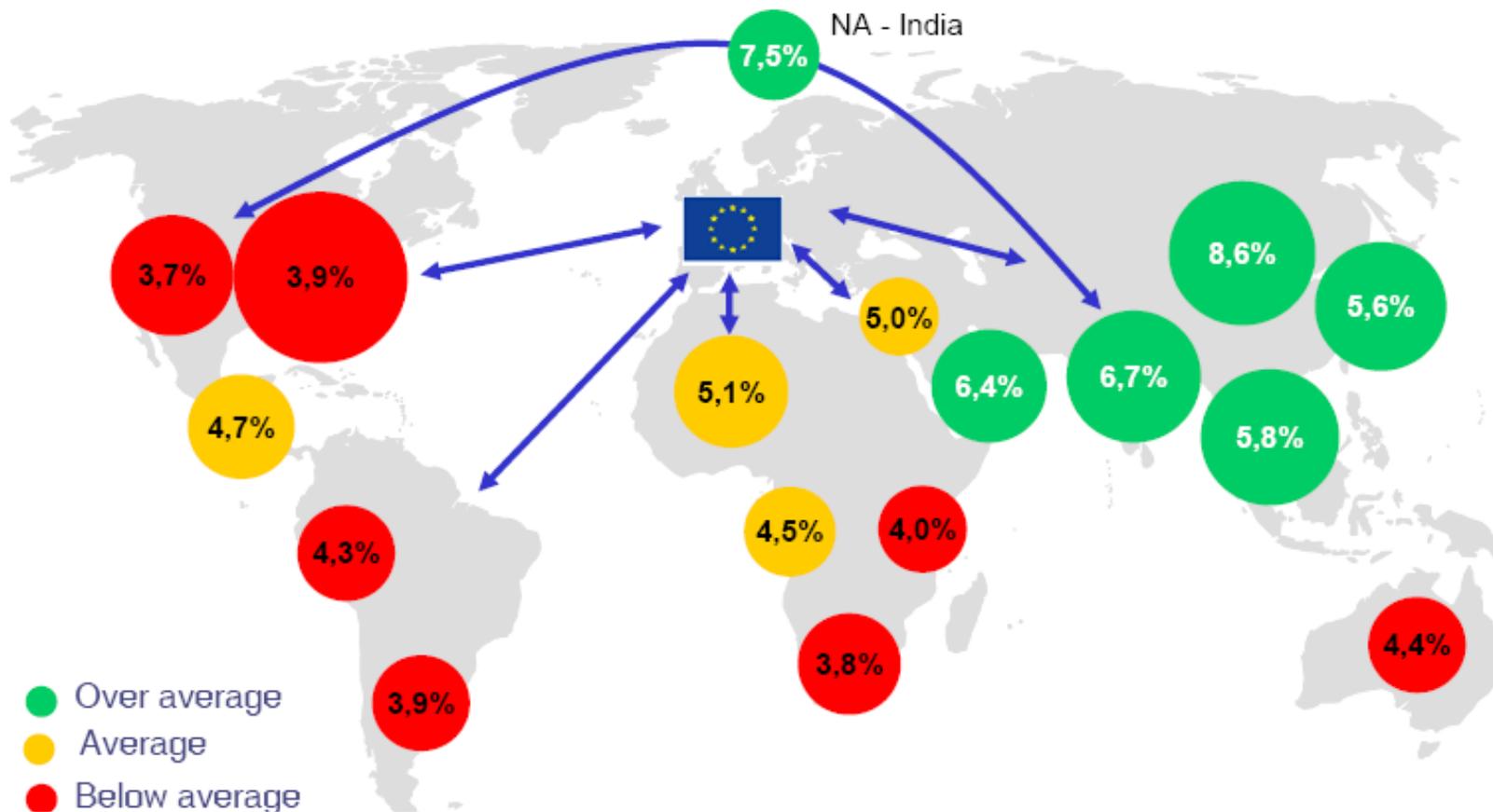


...resulting in: The Money Machine!



Major Regional Growth Rates (Case Study I)

Annual Average Growth Rates



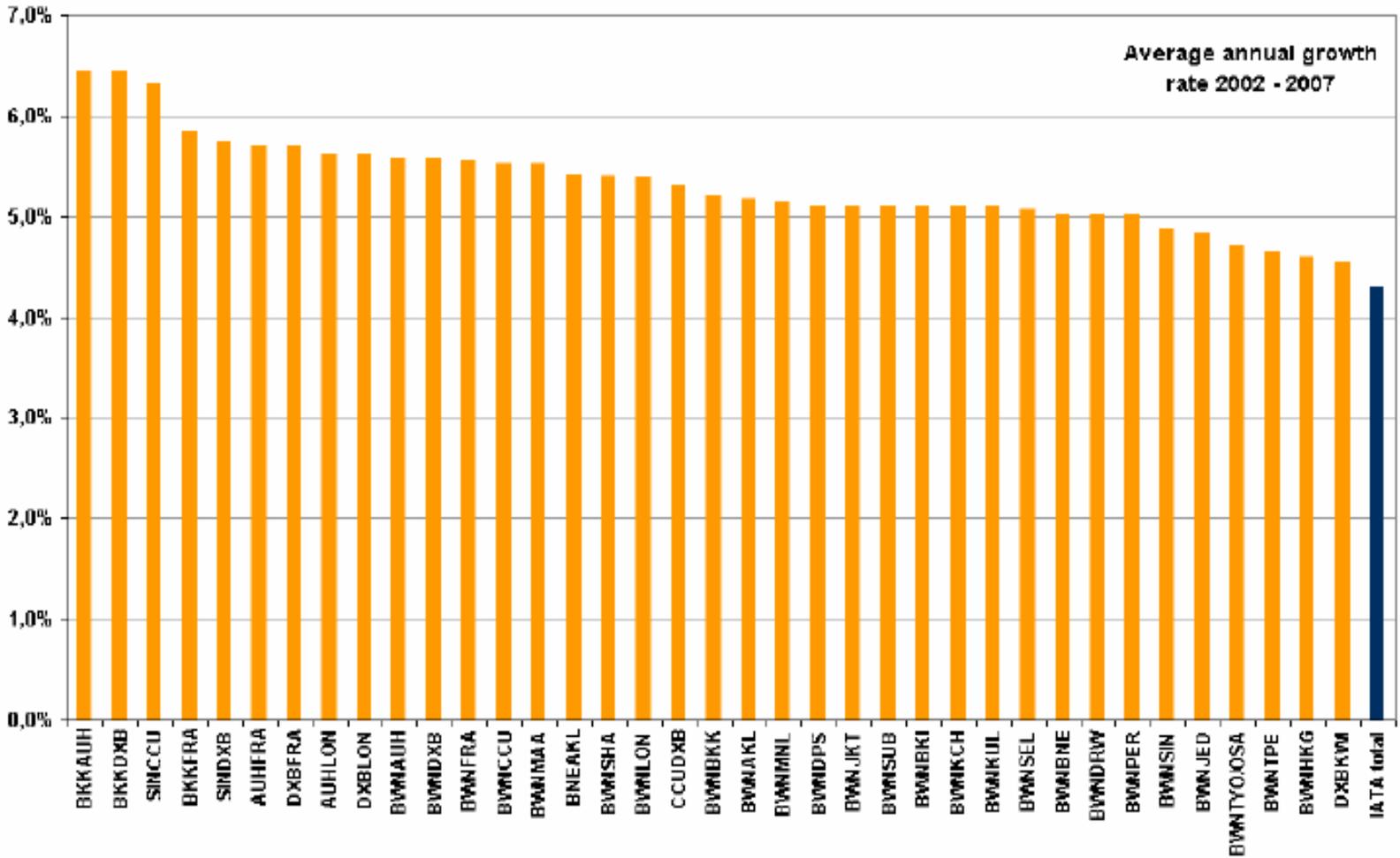
Strategic Planning Time Frame at FSNC's Full Service Network Carriers



Strategic Decisions

Flight Plan and General Pricing Structure

Tactical Pricing



Vgl.: IATA, Lufthansa, International University of Applied Sciences Bad Honnef Bonn



Pricing & Revenue Management

The Challenge: Maximize *revenue per available seat* by shaping demand:

1. Fill the seats!!
2. Identify Opportunities where demand exceeds capacity!!!!



The passenger who comes ***first*** is the one we want the ***least!***

Once the passenger we ***really*** want comes along, have we kept a ***free seat*** for him?



Beförderungs- klasse	Buchungs- klasse	Tarifart
First	F	First full fares
First	A	First discounted
First	O	Miles+More-Bonusklasse, freie und reduzierte Tickets (ID-/AD-/IP-Tickets)
Business	C	Business full fares
Business	D	Business discounted
Business	I	Business redemption , Miles+More-Bonusklasse, freie und reduzierte Tickets
Business	R	Business ID-/AD-/IP-Travel
Economy	Y	Economy flexible fares
Economy	B	Economy discounted
Economy	M	Economy discounted
Economy	H	Economy discounted (auch Produktflug)
Economy	X	Economy redemption, Miles+More-Bonusklasse, freie und reduzierte Tickets
Economy	Q	Economy discounted
Economy	N	Economy ID-/AD-/IP-Travel
Economy	V	Economy discounted (Veranstalter)
Economy	E	R1/1
Economy	W	Economy discounted, Spot sales, Restplatzvermarktung
Economy	S	Interline

Abb. 175 Buchungsklassen der Star Alliance-Mitglieder Quelle: Conrady

- CO56/20SEP EWRCDG
- Firstly displayed in the airline's own reservations system 343 days prior departure
- 120 days prior departure the lowest buckets (booking classes) Q and V get closed in the reservation system.



Why ?

Because the Revenue Management System told us to!



Why ?

Well, let's have a look at the forecast for the final demand

- *Forecasted bookings for day of departure.....*
- **Y - 18 H - 10 K - 38 B - 62 = 128**
- *currently booked (120 days to dep)*
- **Y - 0 H - 3 K - 1 B - 44 = 47**
- *currently booked (120 days to dep) in Q & V*
- **V - 40 Q - 72 = 112**

Well, let's have a look what would have happened if we didn't close Q and V....

Forecasted *UNCONSTRAINED* demand:

$$V - 55 \quad Q - 158 \quad = \quad 213$$

How many seats would be left for Y – B?

$$240 \text{ (Y AU)} - 213 \quad = \quad 27$$

Spilled to competition:

- 128 *Final demand Y thru B*
- - 27 *Bookings we can accommodate*
- 101 *Bookings Air France would have loved to have*

How did the *real* flight perform?

- *Forecasted bookings at departure.....*
- **Y - 18 H - 10 K - 38 B - 62 = 128**

- *Actual bookings at departure.....*
- **Y - 13 H - 11 K - 37 B - 59 = 120**

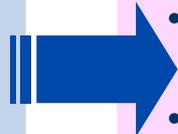
- *Flown load factor = 97.5%*

Process Flow Revenue Management & GDS

User:
Airline RM Department

Revenue Management
System e.g. PROS

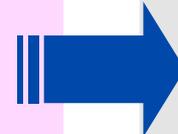
- Forecast of demand and expected price levels
- Calculation of price ranges (Bid Prices) per segment
- Setting of Buckets
- Comparison of value of customer requests
- Adjustment of authorization levels per bucket
- Management of availabilities in GDS'



User:
TMC

Global Distribution
System e.g. amadeus

- Display of Routing Options
- Display of Seat Availabilities
- Display of all available fares per bucket
- Calculation of Multi-Segment Flights
- Reservations of seats
- Ticketing
- General Travel Information



Customers /
Travelers

- A
- B
- C
- E
-

1. About why and how Airlines are managing their Revenues!

2. The latest trends: Ancillary Fees and Fixed Budget Models

3. About how we can still do something about it: Negotiations and how they work!

Ancillary Fees / Unbundling

Das alles steckt in Ihrer Lufthansa Flugbuchung:



*Abhängig von Status und gebuchter Reiseklasse.

Ancillary Fees / Unbundling

Airlines are increasingly unbundling elements of the **PRODUCT** (not **PRICE**) and sell those elements as independent products/features at a price.

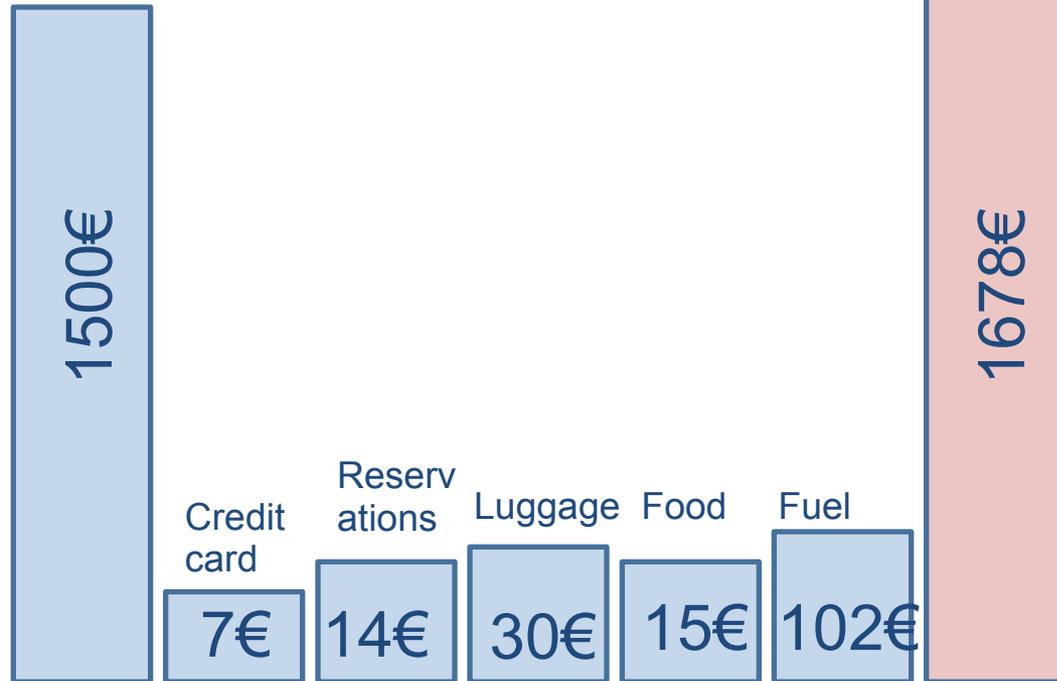
Ancillary Fees / Unbundling

Then...



Now...

Flight ticket only



Ancillary Fees / Unbundling

Airline Fees

This airline fees table shows additional fees that might be added to domestic tickets (US routes) for some of the most popular airlines. **This airline fees table does not include every airline fee and may not always be 100% accurate**, as the airline fees are changing rapidly and they can vary by specific flight, seat assignment, and frequent f status.

Please check the [airline websites](#) to verify final airline fees before purchase. Questions about the airline fees table? [Send us a message](#)

Airline	Checked Baggage (each way)	Meals (each way)	Pets (each way)	Unaccompanied Minor Service (each way)	Seat Assignment / Legroom (each way)
 247 days ago Send feedback	1st Bag: Free 2nd Bag: \$30 CAD 3rd Bag \$100 CAD (\$90 CAD paid online)	Snack: \$3-\$4 Meal: \$5-\$13	Checked: \$105 (North America routes) Cabin: \$50-\$100 Cargo: See AirCanada.com	Per Child: \$100 (age 8-11)	For Tango level fares, advanced seat selection is \$15
 234 days ago Send feedback	1st Bag: See Air France Baggage Allowance 2nd Bag: See Air France Baggage Allowance 3rd Bag: See Air France Baggage Allowance	Snack: Free Meal: Free	Checked: €20-€350 Cabin: €20-€350 Cargo: Contact AirFranceCargo	Per Child: Free (age 5-12)	Premium Economy Class
 236 days ago Send feedback	1st Bag: Free 2nd Bag: Free 3rd Bag: \$90 and up	Meal: Free	Checked: \$90 and up Cabin: \$90 and up Cargo: See Air India	Per Child: None found	None Found
 132 days ago Send feedback	1st Bag: \$20 2nd Bag: \$25 3rd Bag: \$50	Snack: Free Meal: Not offered	Checked: Not offered Cabin: \$69 Cargo: Not offered	Per Family Non-stop: \$49 (age 5-17) Per Family Connecting: \$69 (age 8-17)	Per Person Advance Seat Assignment: Free-\$6 Exit Row: \$20
 247 days ago Send feedback	1st Bag: \$20 2nd Bag: \$20 3rd Bag: \$20	Picnic Pack: \$6 Meal: \$6	Checked: \$100 Cabin: \$100 Cargo: Contact Alaska Air	Per Family: \$75 (age 5-12) (\$25 fee per child for direct flights and \$50 per child for connecting flights effective May 1st for travel starting June 16th)	None Found
 234 days ago Send feedback	1st Bag: Free 2nd Bag: \$50/50 EUR 3rd Bag: \$200/200 FLIR	Meal: Free	Checked: €50-€150 and up Cabin: €20-€130 Cargo: None Found	See Alitalia (age 5-14)	None Found

Kayak.com/airline-fees

Ancillary Fees / Unbundling

Michael O'Leary, Ryanair Sep 2010:

„Ryanair will offer flights for free and make all revenues from ancillary fees“

US Airlines made approx. **6b USD** revenues based on Ancillary Fees

US Airline „Ancillary Fee“ revenues in % of total revenues

- Spirit: 21,0%
- AirTran: 10.2%
- Delta 9.5%
- Allegiant 8.8%
- US Airways 8.6%
- Virgin America 8.2%
- Frontier 6.6%
- Delta 5.9%
- Southwest 5,8%
- JetBlue 5.8%

Ancillary Fees Management Options

- Shift to other suppliers!
- Mandate POS and manage (TMC, Web, Airport, plane etc.)
- Insist on Reporting and Tracking: Airlines, TMC, MIS, Credit Cards, manual
- Whenever in doubt: All airline transactions < 50€ = AF's
- Negotiate on AF volumes

Fixed Budget: The Model of the Future?

The core idea of „fixed budget“ is that ***travelers*** themselves are provided with ...

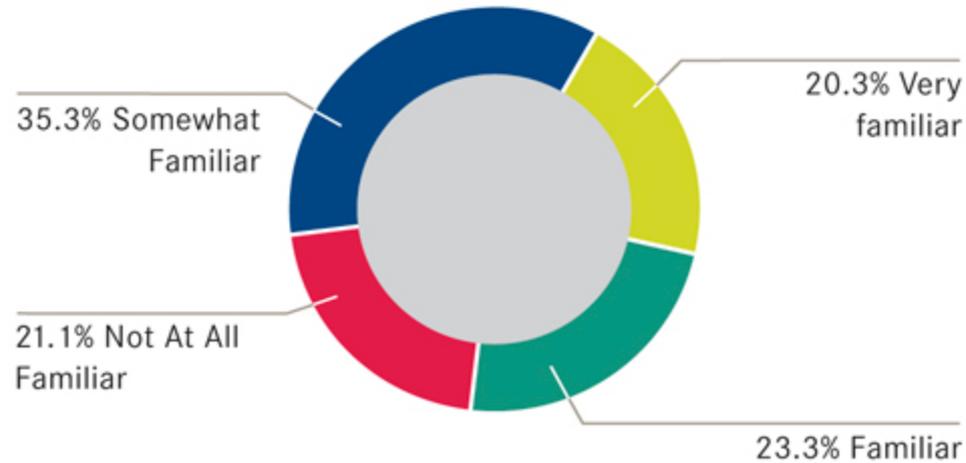
- a fixed budget per trip
- based on city pairs
- and trip length

...rather than be required to use a specific Travel Management Company (TMC), booking tool or preferred suppliers.

AirPlus International surveyed 133 corporate travel managers in a recent study to find out more...

Fixed Budget: The Model of the Future?

How familiar are you with the concept of working with total trip cost for your travel program?



Fixed Budget: The Model of the Future?

Is this a concept that you would consider for your program?

No	42.1%
Yes, maybe in the future	39.8%
Yes, we are considering it	9.8%
Yes, we've already implemented it	4.5%
Yes, we're planning to implement it in the next 12 months	2.3%
Yes, we're actively testing it	1.5%

Fixed Budget: The Model of the Future?

Which of the following attitudes characterizes your thoughts about total trip cost? (check all that apply)

I have concerns about data capture	76.7%
I don't know how I would efficiently track travelers for safety and and security	59.4%
I have concerns about productivity loss from travelers doing extensive travel searches to "beat" the budget	54.1%
I could not support my TMC or other supplier relationships	39.8%
There is potential to better control budget, due to very clear limits	31.6%
It allows travelers more booking freedom	30.1%
It provides potential for more innovative travel management strategies	30.8%
Other	9.8%

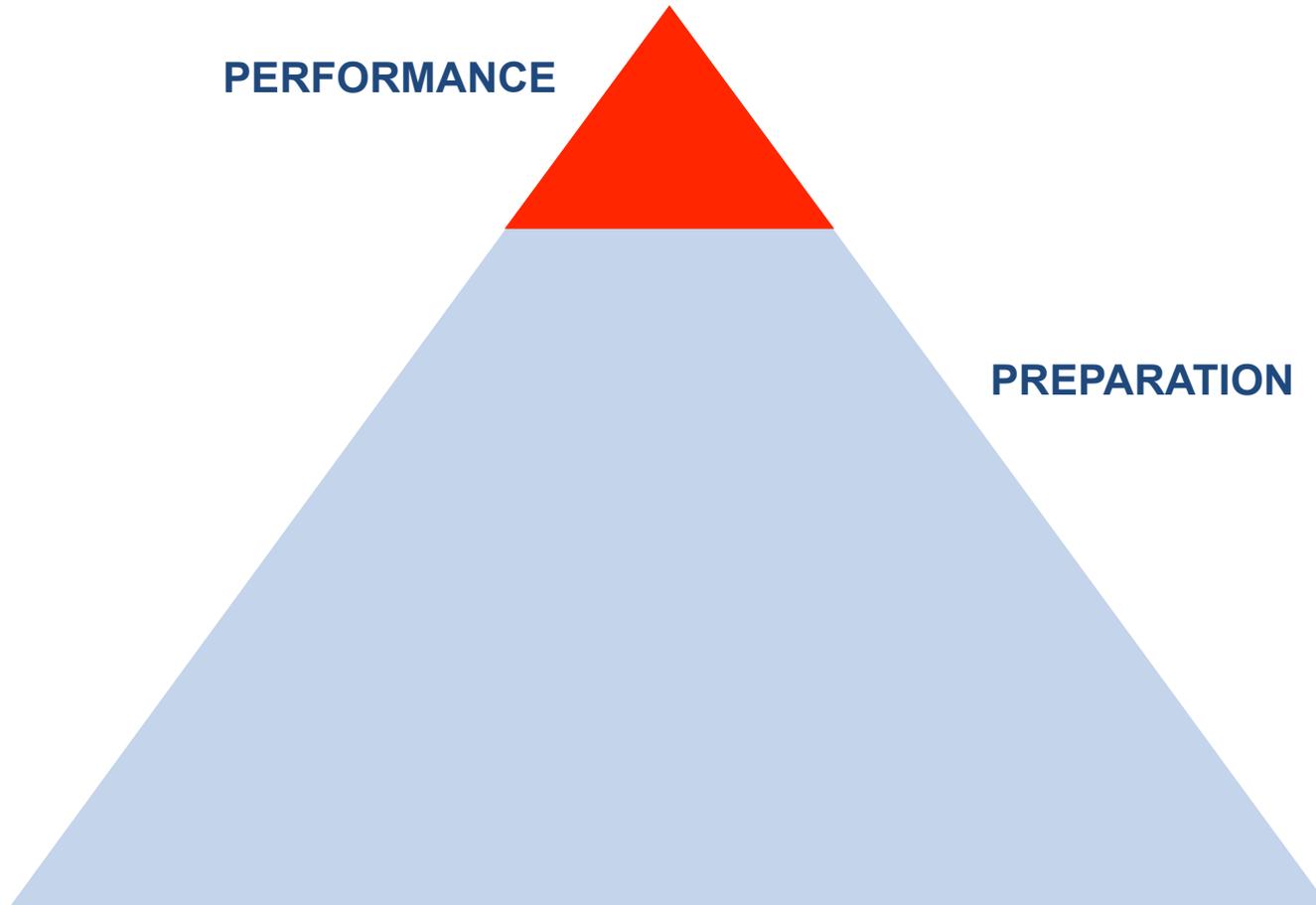
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What's mine is mine.
What's yours
is negotiable!



The most important of all Rules:

Failing to Prepare is Preparing to Fail



Elements of Balance of Power



Elements of Balance of Power

Time

Preparation

Information

Allies

Market Dominance

Empowerment & Management Back-up

Alternative Scenarios

Elements of Balance of Power

Time

Preparation

Information

Allies

Market Dominance

Empowerment & Management Back-up

Alternative Scenarios

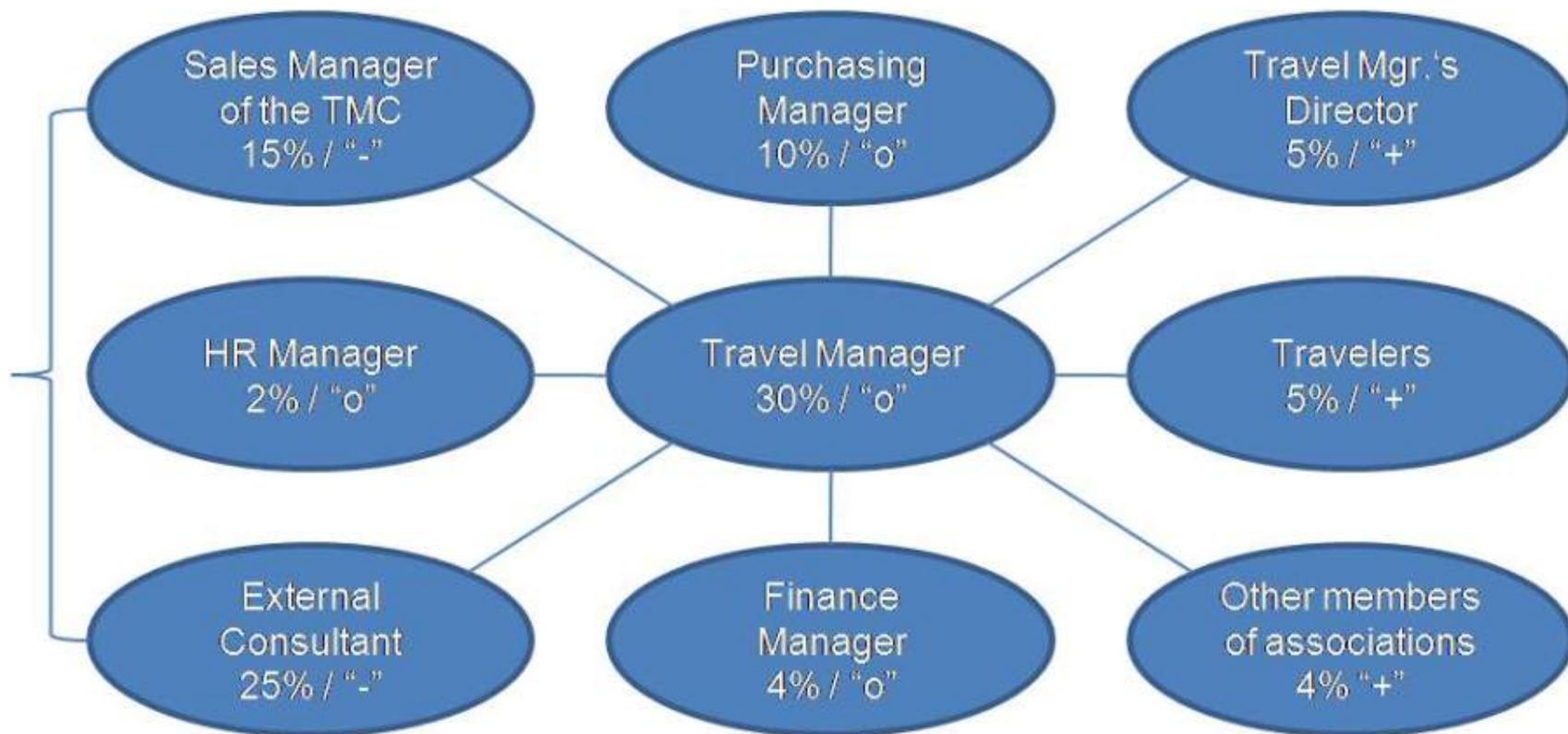
= *Relatively flexible* = relatively fixed

„You can not manage anything that
you didn't quantify“

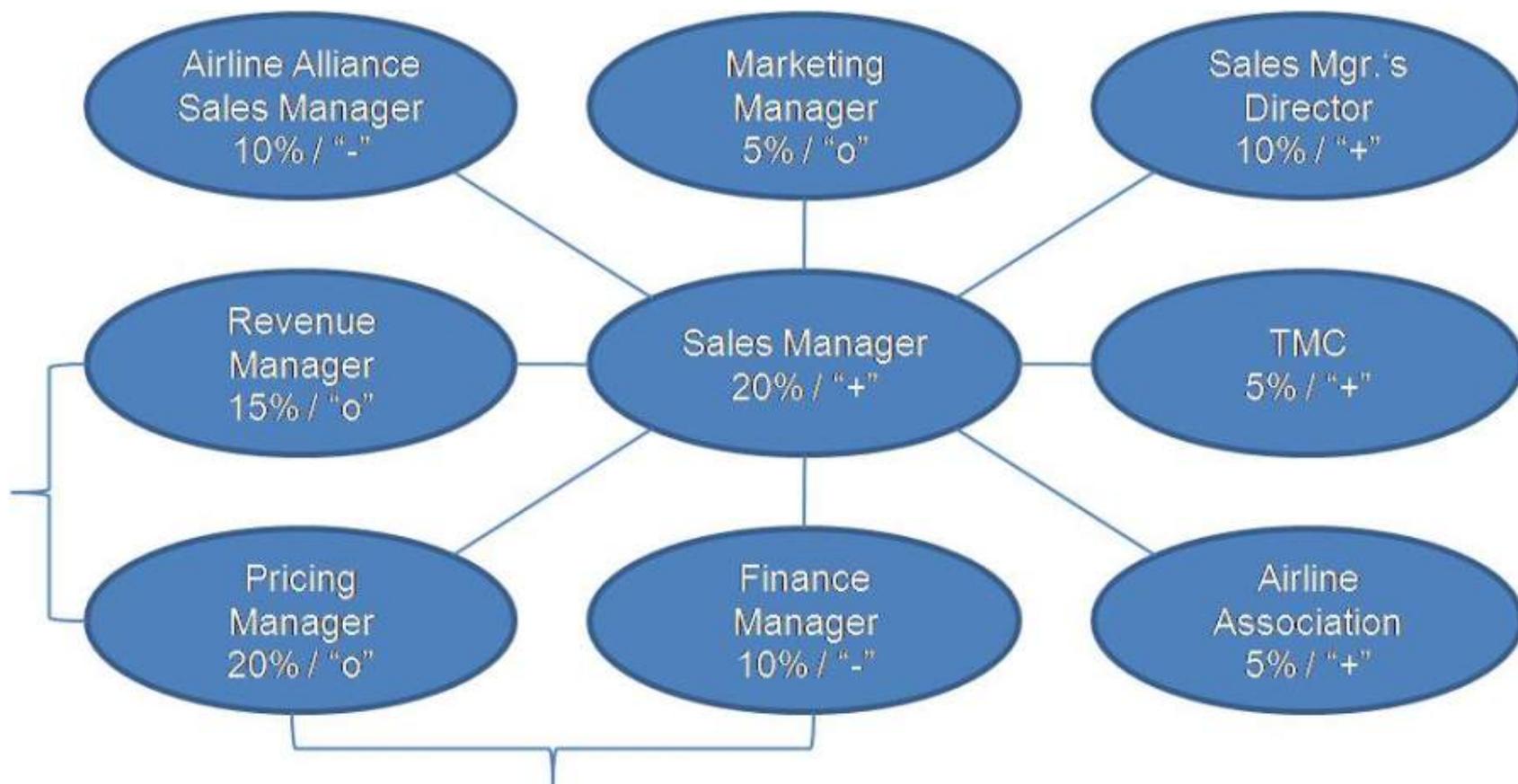
Analysis Models for Negotiations



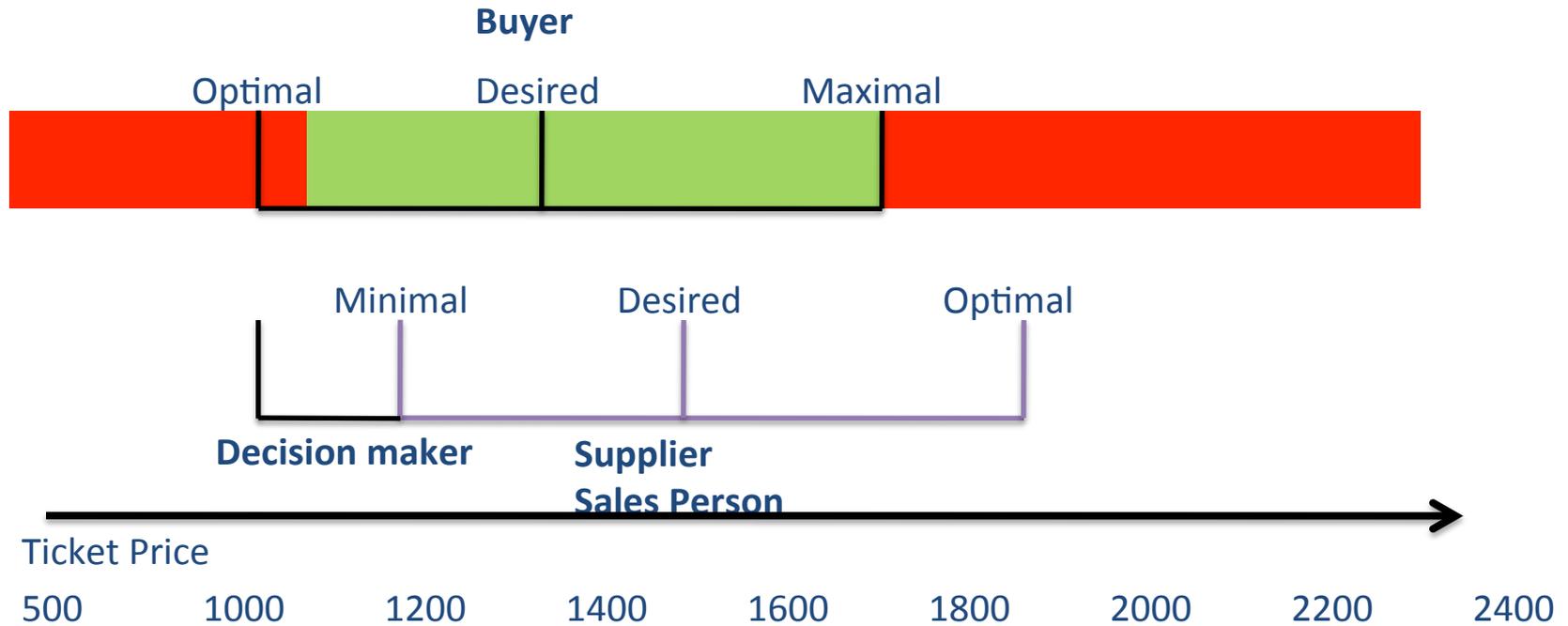
The Decision Making Map



The Decision Making Map



How Negotiations work



The Key Rules of Negotiation

1. We have to have the courage to start with an ambitious opening and explore different ways to logroll.
2. If the other party asks for concessions we need to defend the opening offer.
3. We will only make concessions if we get something in return.

The Key Rules of Negotiation

4. Decide which concessions you are willing to make and what you would like to receive in return:
 - Higher rebate for the right to use the customer's name as a reference
 - Lower price for the company recommending us to their business partners
 - Upgrades for support on new routes
 - ...for Feedback in Customer Advisory Board Member
 - ...for internal promotions (internal fair for travel management, internal e-mailing etc.)
 - ...for OK to a Success Story
 - etc. etc.

The Key Rules of Negotiation

5. If you need to make concessions do it in increasingly smaller steps
6. Guide the other party to yes - Always

The Key Questions of Negotiation

1. Have we asked all **questions**?
2. Have we understood what's **important** to our counterpart on **professional basis**?
3. Have we understood what's **important** to our counterpart on **personal basis**?
4. Have we understood **who's involved** in decision making and what's important to them?
5. Have we thought about possible **challenges**?

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**...and what Travel Managers can
do about it!**

Questions & Feedback?

Kiitos. Thank you very much.
谢谢. Tesekkür ederim. ありがとう
ございます. Obrigado. Bedankt.
Tak. Ευχαριστώ. Gracias. Grazie.
Danke. Merci. Спосиба. Dêkuji.