

An analysis of current and future RM and pricing strategies in Asia Pacific

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My background

- **BA 1970-94 in RA, Sales, 20 years in RM.**
 - Played a major role in 1st RMS implementation.
- **Virgin Atlantic Airways 94-97 implemented first RMS system & dept.**
- **Rejoined BA 1997 - 2002 RM**
 - O&D project, oneworld RM projects , Conferences, ARIG.
- **2002 M.D. of PR RM Ltd:**
 - SITA – RI & RM Head consultant
 - A.R.I.G. – Owner & Chair. (www.arigroup.org)
 - SMG Technologies leading Pricing system supplier
 - Independent RM Consulting
 - Various RM Conferences.
 - Academia work – INSEAD, Gerona Uni.



RM History

60's-'70's - Reservations / Space control, basic inventory manual control systems

Simple pricing with few fares in the market place. Focus on space not yield, Reservations staff resourced.

Early 80s- “Basic Yield Control”- Improved inventory systems

26 selling classes inventory capability evolves.

Mid 80s - “Better Yield Control”- RM systems introduced

Yield focus through class hierarchy, deregulation & new aggressive competition emerge!



RM History

→ **Early 90s - Revenue Management**

**Route Inventory & Sales Area Pricing begin to merge,
Sophisticated RM systems now available**

→ **Mid 90's - Improved Revenue Management**

**Quantum leap in technology - POS introduced, Heuristic
bid price introduced , Codeshare abounds, more
carriers enlisting R.M.**

→ **2000 – today**

**Many airlines have a RMS, some have O&D , RM &
Pricing depts merged or merging, increased focus on
costs, profit, and far more aware of competitor's
actions**



Food for thought !

- ➔ **RM systems are still only used by approx 25% of the World's 2000+ airlines!**
- ➔ **Revenue Management typically delivers 3-8% revenue gain, with >10% achieved at some airlines.**
 - Though some still fail to realise the full benefits !
- ➔ **Most unsuccessful RM installations are due to:**
 - Unsupported business processes
 - Lack of Senior Management support
 - Incorrect organisational structure
 - Lack of expertise rather than system failures !



What is Revenue Management?

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

In other words:-

- Selling the right product
- To the right customer
- In the right place
- At the right time
- For the optimum price
- Through the optimal distribution channel



What is Revenue Management?

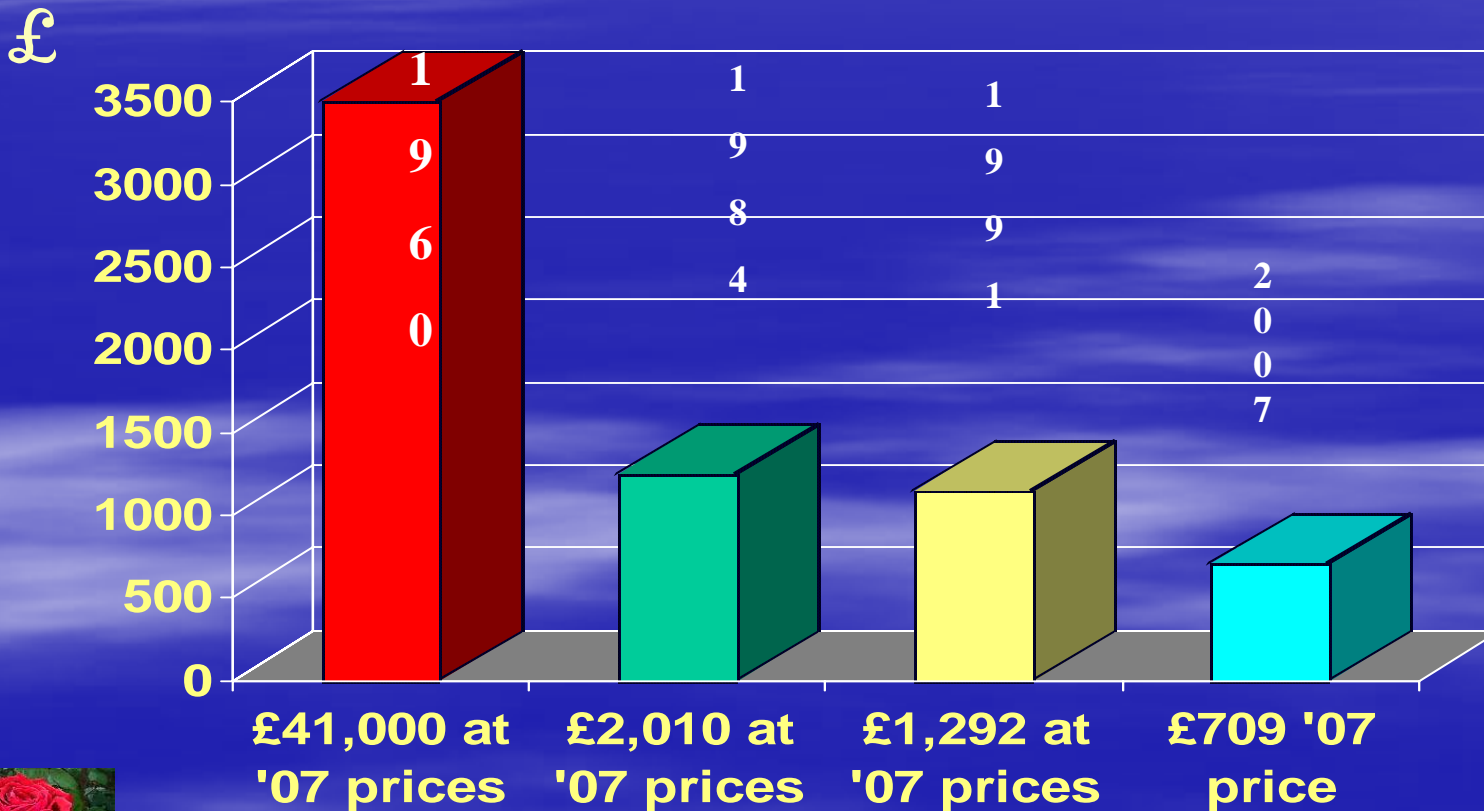
- A “must-have” for high-fixed-cost, low-margin, price-segmentable businesses
- RM systems can now be bought “off the shelf”, but systems-integration, data-quality, and business-process- improvement remain major challenges
- Other industries have followed airlines- hotel, car rental, cruise, rail, broadcasting, power, healthcare, entertainment etc



Declining Yield over time

Actual versus comparative

2007 - LONDON - LOS ANGELES- FIJI - AUCKLAND - SYDNEY - SINGAPORE - LONDON
 1991- LONDON - LOS ANGELES - TAHITI- SYDNEY- BANGKOK-LONDON
 1984 - LONDON - NEW YORK- LOS ANGELES - FIJI- SYDNEY- HONG KONG-LONDON
 1960 - LONDON - BERMUDA- ACAPULCO- TAHITI- SYDNEY- DARWIN-SINGAPORE-
 BOMBAY- BAHRAIN- LONDON



9/11 was a catalyst for change

- Many traditional airlines were already in trouble with low profit margins, costs not under control.
- Low cost carriers had already built a strong base of traffic prior to 9/11.
- Overcapacity in many markets – traditional optimism cycle !
- Economy and business sector already under pressure, trade down occurred weakening yields.
- Ongoing spiralling oil prices



Traditional carriers weakness

- **Weak profit margins 10% < on large gross revenue turnovers, or none!**
- **Failure to respond to low cost carriers quickly enough.**
 - Belief that product the key decision maker rather than price.
- **High distribution costs.**
 - Failed to maximise sales via the web, or by direct sales in sufficient volume
 - Complex products, difficult to distribute
 - Complacency in controlling distribution costs
 - High GDS costs/charges



Traditional carriers weakness

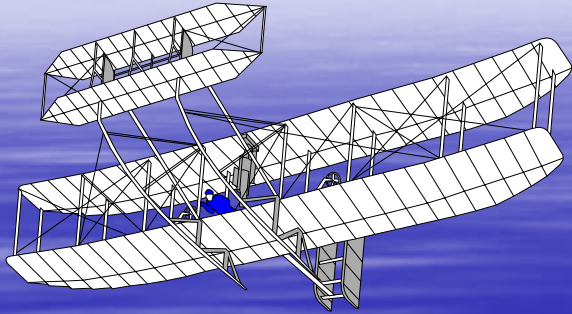
- Many were had long established inefficient bad practices.
- Slow decision making processes
- Reactive rather than proactive
- Long, expensive IT projects
- Needless complexity in many areas
- Many had old inefficient aircraft requiring high cost maintenance



Result

- **Many traditional carriers over reacted by switching to low-cost pricing policy, but without necessarily addressing these issues.**
 - Considering the lack of price fences which are essential to a conventional RM system
 - Considering lack of systems to support new model
 - Reduction in internal costs
 - Reduction in distribution costs
 - Fully exploiting Internet selling opportunities
 - Complete business process redesign
 - Change management





**If the Wright brothers were alive today
Wilbur would have to fire Orville to reduce
costs!**

*— Herb Kelleher, Southwest Airlines,
'USA Today,' June 8, 1994.*



Asian low cost carriers & their country of origin



Adam Air



Aero Asia



Air Arabia



Air Asia



Air Blue



Air Deccan



Air Do



Air India Express



Air Next



Air Philippines



Asian Spirit



Bangkok Airways



Cebu Pacific Air



fly asian xpress



GoAir



Gulf Traveller



Hansung Airlines



Holiday Air



Ibex Airlines



IndiGo



JAL Express



Jagson Airlines



Jazeera Airways



Jeju Air



JetStar Asia



JetStar International



Kingfisher



Lion Air



Mandala Airlines

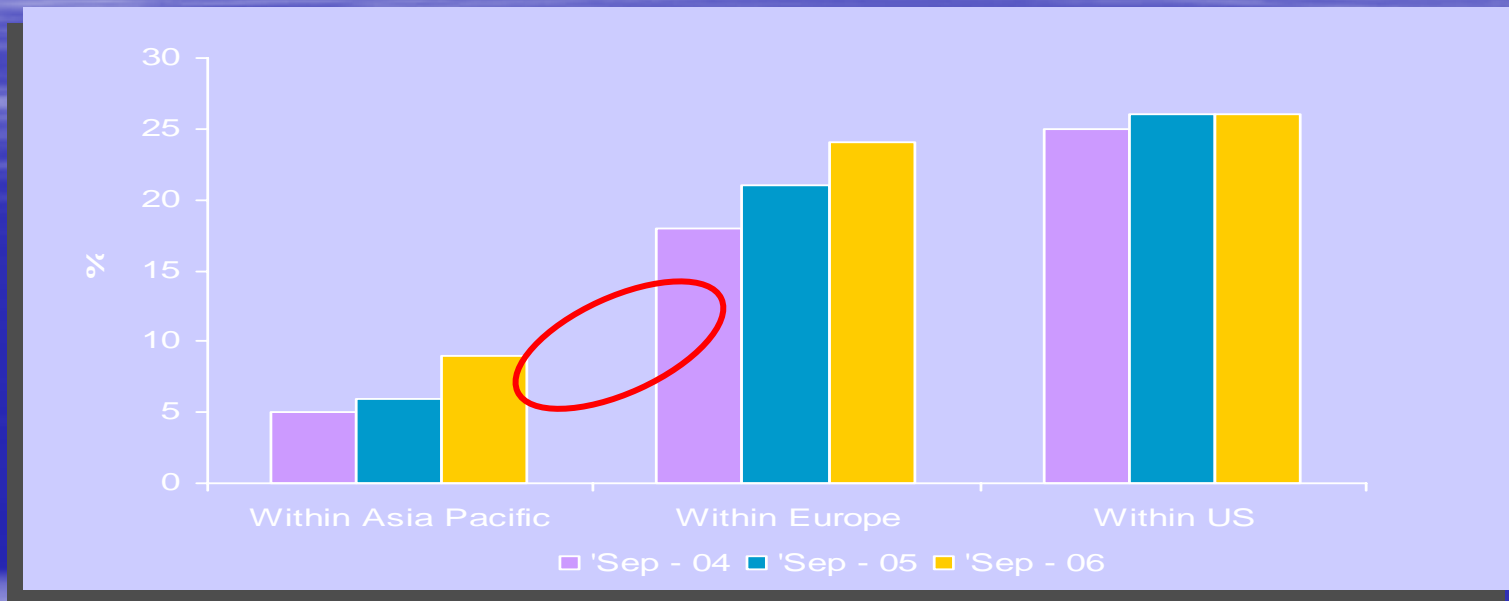


Nok Air



Asia Pacific experiencing phenomenal growth in seating capacities on LCC's

Seating Capacity on Low Cost Carriers vs. Total on All Carriers



- Globally LCCs operated > 46 M seats, against 22 M seats in 2002
- LCC seats in India from ~ 28,000 in '04 to > 1.1 mn in '06



Asian LCC growth driven by intra-regional economy and liberalisation

→ Low cost carriers in Asia

- Expected to grow by 65% compared to 8% growth in the overall regional travel industry
- Represent 12% of all seats, to reach 20% by 2010

→ In India LCC's represent 29% of market, to reach 70% by 2010

- Domestic market to double in 5 years, to reach 60 mn passengers by 2010
- 6 operators with at least 4 more with pending license applications



Asian LCC growth driven by intra-regional economy and liberalization

- ➔ **After India SEA is emerging as a regional LCC hub**
 - ASEAN “free skies” agreement will be implemented in 2008
 - Regional airports with new large budget terminals, e.g. Bangkok Suvarnabhumi , Singapore and Kuala Lumpur
 - Malaysia’s AirAsia already commands over 50% of domestic market
- ➔ **In China; from 48 flights in 2005, to 2000 flights in 2006**
 - Continued strong influence and control from Government, but further deregulation likely



So ignore the LCC impacts at your peril

- **Worldwide LCC's have trebled in size in last 3 years, now account for >20% of Worldwide capacity**
- **Airlines must be aware of, and respond to other carriers web based fares.**
 - Only channel for most low cost carriers.
 - Most Low-cost carriers don't file fares, and their cost of sale is very low.
 - Fares increasingly visible.
 - Published fares becoming increasingly irrelevant.
 - Price is the driver!



Competitive Fare Information is Very Powerful

Competitive Fare Information can answer questions such as:

- Is my competitor's price below or above my price?**
- What is the impact when my competitor is below / above my price?**
- Does my product require / support a fare differential?**

Hence the requirement for internet fares data to be captured and utilised in RMS



Asian marketplace focus

- Generally most carriers late to RM implementation versus Nth America and Europe with some exceptions e.g. CX, SQ.
- Slower to change distribution channels and reduce dependency upon travel agencies and consolidators.
- Some mature markets slow to recognise opportunities until LCC's did e.g. India
- Majority of carriers do not have sophisticated Pricing systems, nor are RM and Pricing depts integrated



Asian marketplace focus

- Many Asian carriers still have organisations driven by Sales, rather than controlled by Revenue Management
- Many carriers do not have adequate controls and measurement processes and mechanisms in place.
- Still too much Government control or interference in certain markets rather than a market driven approach.
- LCC's will drive the need to change!



Critical Factors to succeed at RM

- The right people**
- The correct organisation**
- The right communication channels in place**
- The right systems for the airline's business model**
- Training, retraining and rewards in place for high achievers in RM dept**
- The right measures in place to monitor performance, to drive ongoing improvement**



Summary

- **Low cost carriers will face tougher competition from traditional carriers fightback**
- **Traditional carriers will gain back market share, but at a cost !**
- **Longhaul pricing will have to change too in some markets!**
 - In response to consumer reaction, or longhaul low cost competition
- **Pricing is the main driver now not the product.**
- **RM and Pricing integration supplies the key to future revenue improvement**



Thank You

