

## **“DYNAMIC PACKAGING & REVENUE MANAGEMENT IN LCC”**

### ***Revenue Management & Pricing in Travel Asia-Pacific 2007***

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*One-Two-GO by Orient Thai***



# TOPICS OF DISCUSSION

- How the LCCs using it low fare over advertised fare to deceive the consumer and generate advance money at the under cost price and taking chance to leverage with the last minute higher fare to maintain its cost. Giving the example of the total seat number (that I asked T and you to study) and assuming the certain percentage that can be sold at extraordinary fare to retrieve advance money, T has made some study before of the yield control of Air Asia using different scheme of fare structure which proof that it is possible to leverage but on very 'high' risk that nothing can assure the passenger who purchased in advance if once the money game read to top of the pyramid. This presentation have to be easy and clear.
- Display cost of ticket of Tiger Air, Air Asia and Jet Star that it always complicate which are normally not include many fees and so, in some case such as Tiger Air do not display or breakdown the other cost details such as the airport taxes and in the case of Tiger Air they are saying that their fare is cheap because of the advantage of using LCC terminal but in fact, with the reduction of the less airport tax imposed by Singapore airport, Tiger air charge same taxes as the other terminal as it is not displayed in the fees detail.
- Airport Cost (LCCS Terminal) Do the cost breakdown of operation which are : aircraft lease, maintenance cost, insurance, pilot and overhead in graphic and show that the proportion of airport cost is very small compare to the other part which all LCCs use that to advertise the reason why they can be low cost. In conclusion, using LCC terminal provided by the government is an accomplishment to commit the crime against the consumer in deceiving them that LCC can maintain low fare because of big saving in airport cost (which is not true) and taking the decent and minimum facility that consumer are deserved for and assume bias to the consumer.



# LCC'S RAPID GROWTH IN ASIA IS INDISPUTABLE

## ...but barriers and challenges still exist

### LCC Key Growth Drivers

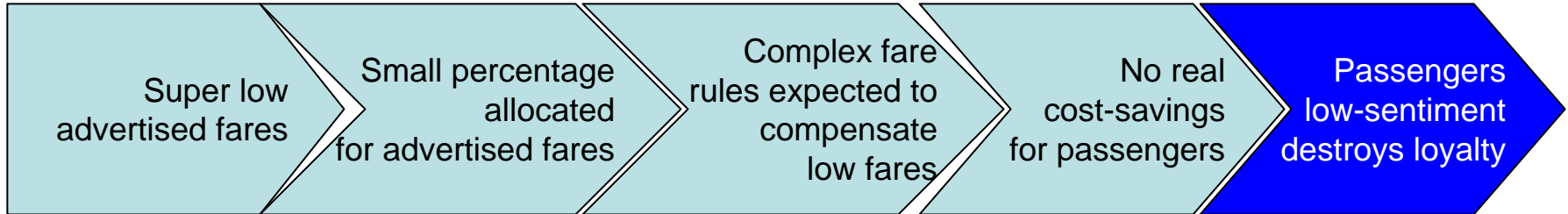
- Recent liberalization of some markets
- Strong economic growth in some regions
- Capital Investment and Entrepreneurial interest
- Newly emerging government support for airlines competition
- Over 500 Million people in 240 cities
- 130 cities with a population base of more than 1 Million
- Some under-utilized secondary airports exist

### ...against factors that are hindering growth

- Asians routes less liberal
  - LCC can not begin unlimited service to all regional destination under bilateral agreement restrictions
- Fewer secondary airports
  - SEA LCCs not able to use secondary airports as major cost reduction since only few exist
- Legacy carriers generally reasonably efficient with relatively low cost structures
- Highly urbanized culture
  - With the vast majority of industry and population concentrated in capital cities, few opportunities may exist to tap un-served markets
  - (India and China are exceptions)



# WHILE CURRENT ASIAN GENERIC LCCs PRICING IS DESTRUCTIVE



- \$9, \$99 schemes for market entry
- Heavy advertising budget spent
- Effective for exposure but will this justify costs?

- Majority will find advertised fares unattainable
- Switching may occur if competitors offer better alternatives

- Attempt to 'play' passengers by making incremental gains from strict fare rules; charges for itinerary change, high rates for excess baggage, etc.

- Eventual costs may exceed flying with full-service carriers

- Market mechanics destroyed



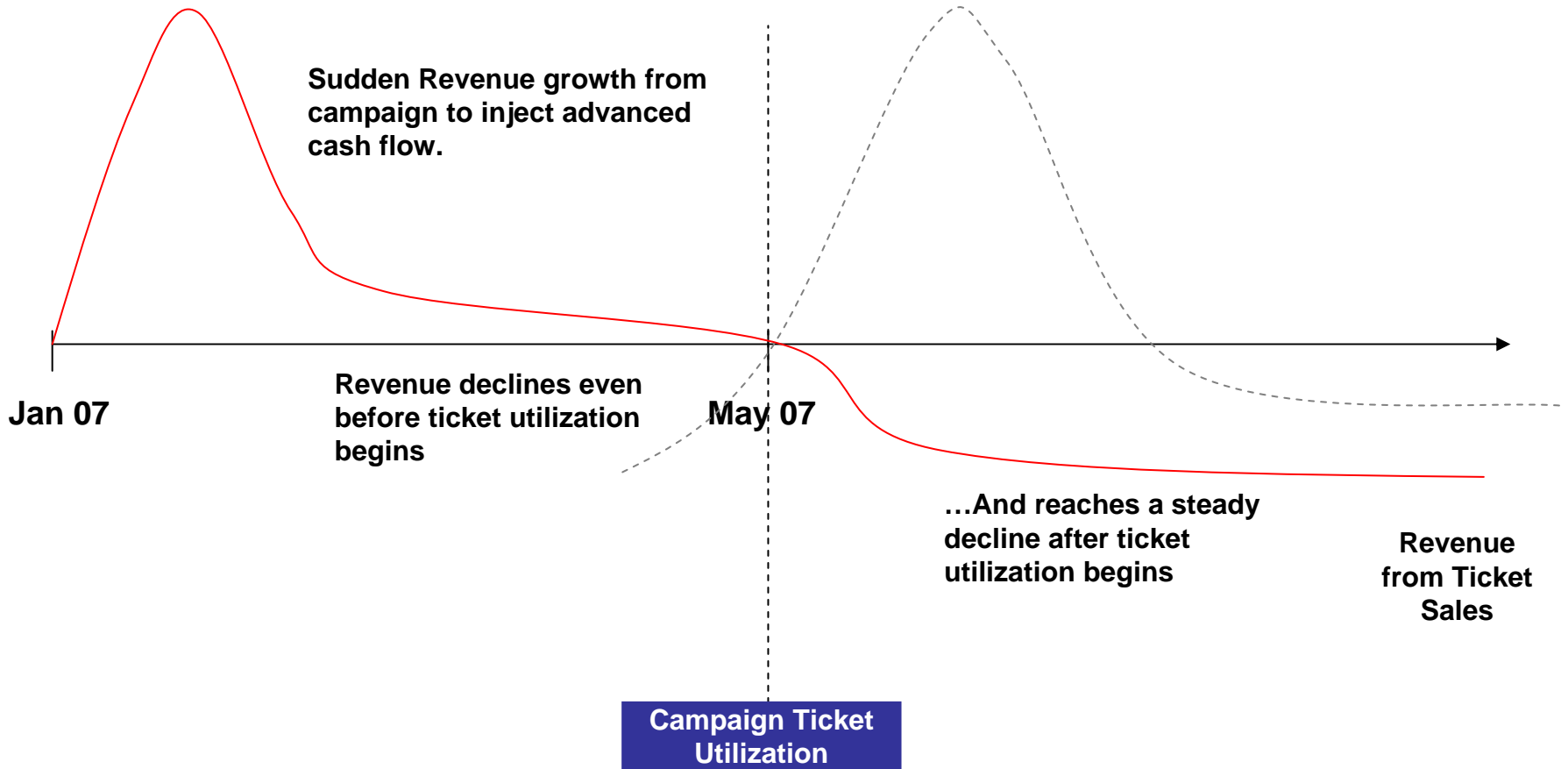
# LCC REVENUE MANAGEMENT IS MISUSED TO ALLEVIATE CASH FLOW PROBLEMS?

The image shows a red advertisement for Thai Air Asia. At the top, the Thai Air Asia logo is enclosed in a black box. Below it, a small airplane icon is visible. To the right of the airplane, a badge says "AVAILABLE ONLINE ONLY". The central part of the ad features the text "1,000,000 FREE SEATS" in large, bold, white letters, which is also enclosed in a black box. Below this, it says "Over 70 Routes Across Asia" and lists destinations: Bali, Jakarta, Hanoi, Kuala Lumpur, Phnom Penh, Singapore, Macau, Xiamen, Yangon, Kota Kinabalu and more... Further down, it states "The Official Low Fare Airline for Manchester United" with the Manchester United logo. Below that, it specifies "Booking Period: 10 - 19 January 2007" and "Travel Period: 9 May - 27 October 2007". At the bottom, it says "Voted #1 Airline Brand in Asia's Top 1,000 Brand Survey" and "airasia.com" in a black box. A small "GO holiday" logo is also present. A black arrow points from the central "1,000,000 FREE SEATS" text towards the list of questions on the right.

- What is the profit justification for '1,000,000 Free Seats'?
- Define the term 'free seats'
- A promotion campaign to facilitate risky revenue management technique to obtain advanced cash flow?
- What are the implications on customers?
- Thai Air Asia advertisement, but nearly all operations in Malaysia?



# THE STORY BEHIND THE ONE-MILLION TICKET CAMPAIGN



# ...THIS IS WHY A MILLION FREE/SUPER CHEAP TICKETS COME BY SO OFTEN



*AirAsia*

**1,000,000** ที่นั่ง

**กฎแห่งความประหยัด!**  
กับการเดินทางสู่ **กัวลาลัมเปอร์**

+ จาก **ภูเก็ต** เริ่มต้นที่ **359** บาท(เที่ยวเดียว)

+ จาก **กรุงเทพฯ**  
+ จาก **เชียงใหม่** เริ่มต้นที่ **599** บาท(เที่ยวเดียว)

\*ราคาตั๋วเครื่องบินไม่รวมภาษีสนามบิน ค่าประกันภัย ค่าธรรมเนียมการดำเนินการ ค่าธรรมเนียมน้ำมัน และค่าธรรมเนียมอื่นๆ

**สำรองที่นั่งตั้งแต่ : 12 - 18 กันยายน 2549**  
**เดินทางตั้งแต่วันที่ : 3 มกราคม - 30 มิถุนายน 2550**

สำหรับเที่ยวบินของแอร์เอเชีย (AK FLIGHT) ทุกเที่ยวบิน  
จะเริ่มดำเนินการบินที่สนามบินสุวรรณภูมิในวันที่ 28 กันยายน 2549

ตรวจสอบเส้นทางการบินเพิ่มเติมได้จากอินเทอร์เน็ต  
**จองด่วน! เฉพาะทางอินเทอร์เน็ตเท่านั้น**  
(ดูข้อจำกัดที่เว็บไซต์)

**airasia.com**

บริษัทฯ ขอสงวนสิทธิ์ในรายละเอียดที่ปรากฏในสื่อประชาสัมพันธ์ และเว็บไซต์ของบริษัทฯ  
พร้อมทั้งขอสงวนสิทธิ์ในการเปลี่ยนแปลงโดยไม่ต้องแจ้งให้ทราบล่วงหน้าโดยไม่แจ้งก่อนล่วงหน้า



# AND, CUSTOMER COST VIEWED AS OPERATORS REVENUE GENERATION

## How sustainable is this mindset?

A few examples of today's LCCs' Fare Breakdown...Are low-cost flyers really benefiting?

### Pricing

**Departure (Lowest Fare)**  
1 Adult at 810.00 THB  
Taxes and Fees ([details](#))

810.00 THB  
1,125.00 THB

**Return (Lowest Fare)**  
1 Adult at 540.00 THB  
Taxes and Fees ([details](#))

540.00 THB  
1,510.00 THB

**Total Cost of Flight**

**3,985.00 THB**

Microsoft Internet Explorer

Here is a breakdown of the taxes and fees that apply to your purchase.

Going Out:	
100.00 THB	Airport Tax
50.00 THB	Insurance Surcharge
50.00 THB	Administration Fee
<b>111.93 THB</b>	Value Added Tax
400.00 THB	Fuel Surcharge
711.93 THB	Total Tax

OK

**Tax on top of Airport Tax?**

Microsoft Internet Explorer

Here is a breakdown of the taxes and fees that apply to your purchase.

Departure:	1,125.00 THB	Taxes, Fees & Charges
	1,125.00 THB	Total Tax

OK

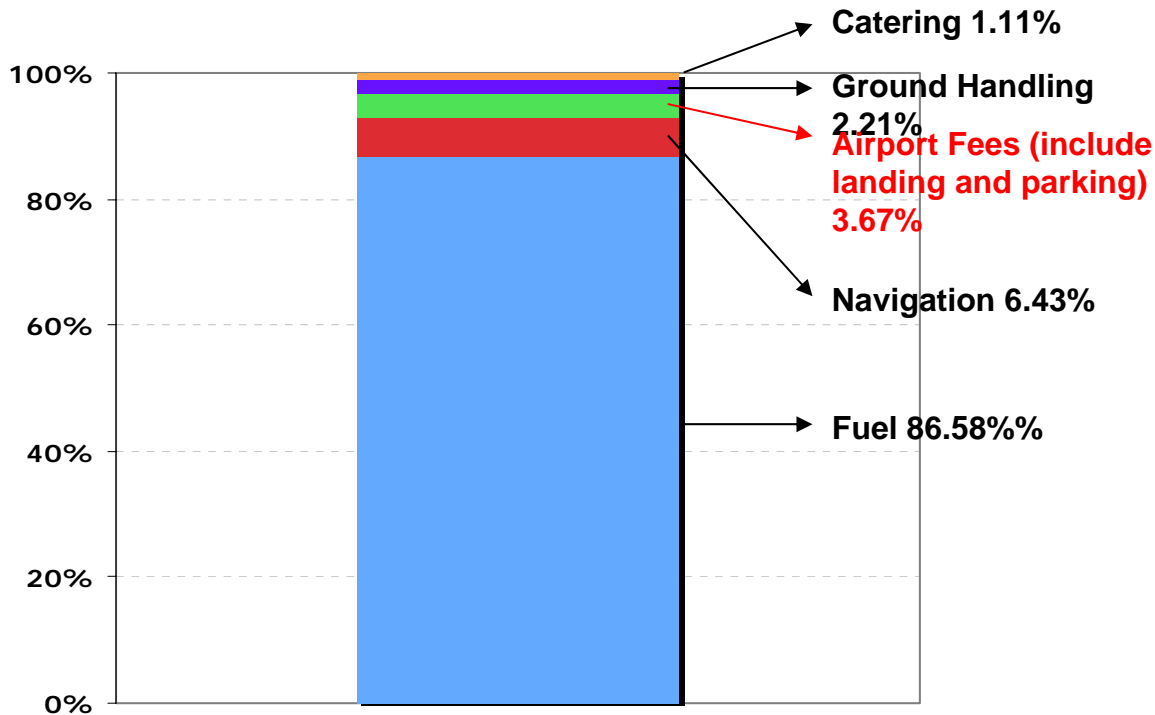
**Since when did tax exceed retail price in any industry?**



# 'LOW-COST' HAS BECOME A MONEY-MAKING TERM

But is it justifiable at the expense of fooling customers?

LCC Average Direct Operating Costs Breakdown by Percentage

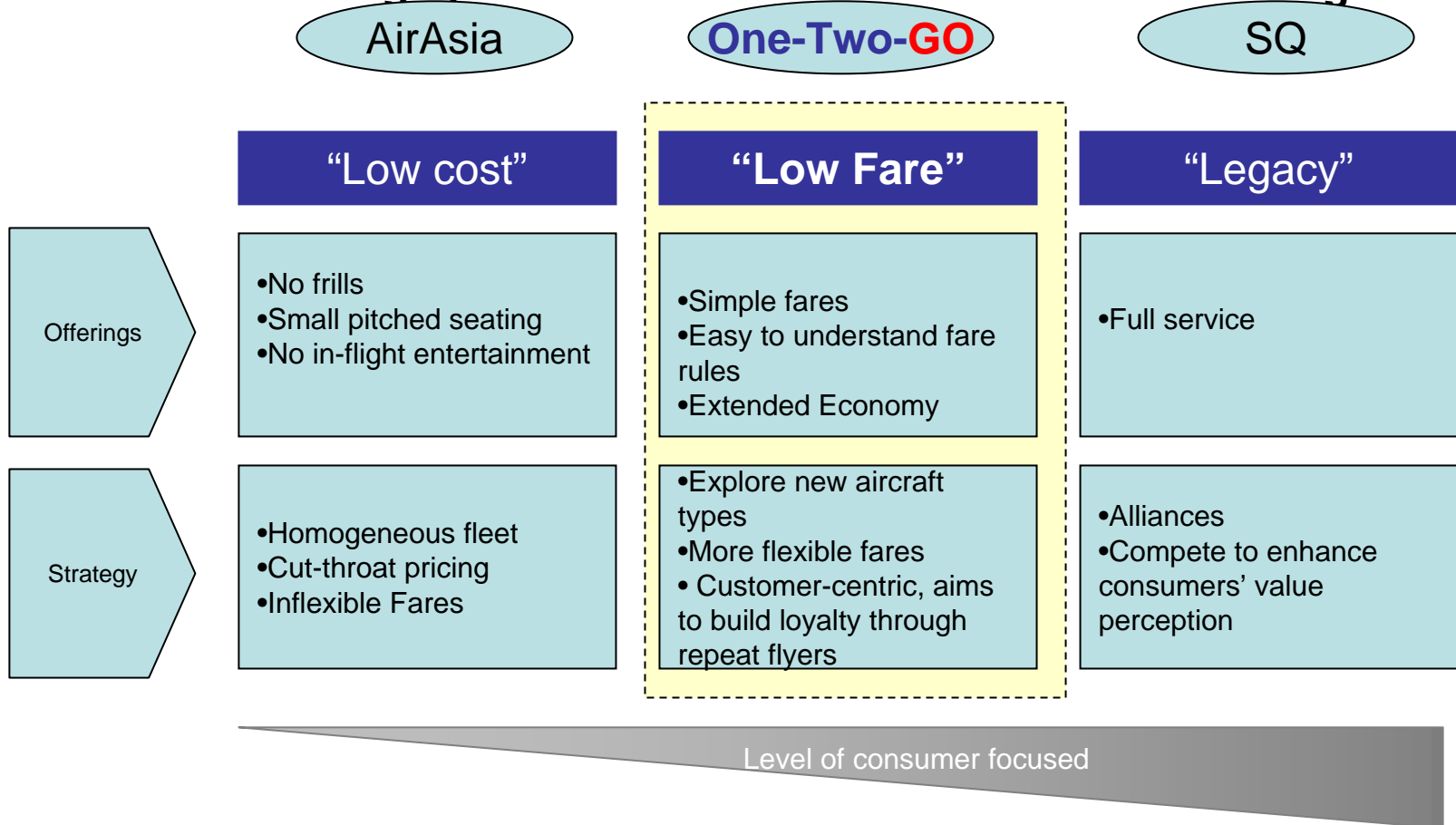


- Airport Fees represent minimal operating costs
- Airport costs has become a commodity. No difference in operating cost between low cost terminal and normal terminal
- But LCCs use low cost perception to justify poor facilities at low cost airports
- Airport cost just another example of spill over effect the 'low cost' term has in deceiving passengers to receive poor service under the uncontrollable low-cost spread
- Is this justifiable? And will this hurt customer retention in the long run?



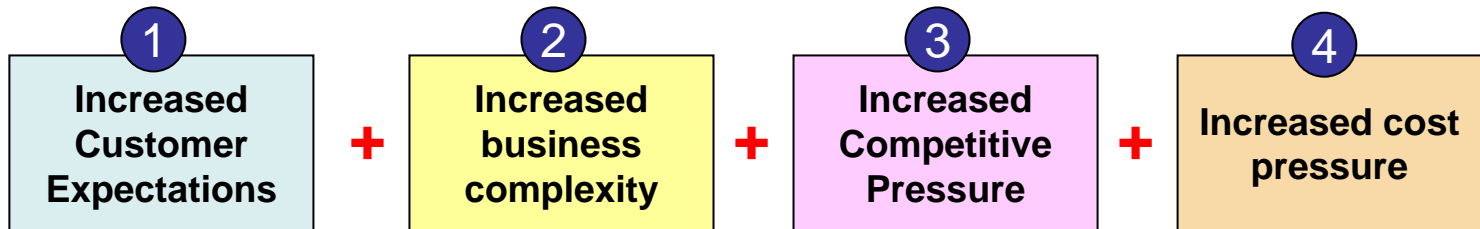
# ASIAN CONSUMERS ARE INHERENTLY DIFFERENT

Understanding optimal level of consumer focus and offerings is key



# ...HENCE GENERIC LCCs NEED TO IMPROVE VALUE PROPOSITION

## Four Factors Affecting Market



### Market Shifts

- Improved onboard product
- Premium space seating options

- Increased connection opportunities
- Foray into network airlines primary hubs
- Purchase and deployment of regional jets

- Proliferation of LCCs in head-to-head competition
- Increased capital commitment by investment community
- Increased flexibility of network carriers post-bankruptcy/restructuring

- Increased complexity and improved value proposition pressures cost



# HENCE, THE ONE-TWO-GO MODEL

Harnessing customer-orientation and cost-effectiveness

	<b>One-Two-GO</b> Customer & Market Driven	<b>Competitor LCCs</b> Profit Driven
Definition for LCC	Service offerings based on what customers want	Service offerings to stimulate fast and sharp revenue gains
Argument	Maximizing customer satisfaction to increase retention-higher sustainability	SEA LCC markets largely untapped, enough resources to utilize first time flyer focus
LCC Goals	To acquire new customers with high retention rate	To acquire new customers in untapped markets
Types of Marketing Campaign	Loyalty-building	Price discounts/Ticket giveaways
Results	High proportion of repeat flyers	Able to attract new flyers but mostly non-returning



**THANK YOU**

