



## FEATURE *Revenue tools*

Some agents or customers exploit fare rules and alternative routes to obtain trips below intended tariff levels. Airlines themselves can make mistakes in booking travel at incorrect fares.

In any of these cases, the aim is to catch the errors. "Catch them early, catch them completely, and catch them affordably," urges Paul Rose, a 24-year veteran of British Airways and current manager of SITA's revenue integrity and revenue management products. Rose also chairs a group of more than a dozen airlines, technology firms and global distribution systems (GDSs) that shares best practices on revenue integrity ([www.arigroup.org](http://www.arigroup.org)).

SITA's revenue integrity tool looks for all potential abuses. "Corrupt agents book seats at the wrong price or block extra seats deliberately," Rose notes. Poorly trained agents may accidentally do the same things. An airline's own staff can fail to update passenger name records (PNRs) when a schedule changes.

These challenges vary by airline and region. India and Latin America have historically had the worst abuse problems, while Japan has had fewer. E-tickets reduce problems, while paper tickets worsen them, since paper is not seen until the day of flight. Low-fare airlines that sell only over the internet and do so by "look, book and pay" rules do not need to worry about agent abuse.

"The worst problems have been for traditional carriers, where customers call travel agents who make bookings, but then the passengers do not pick up tickets," Rose emphasises. In the very worst cases, he estimates that up to 15% of bookings might be freed up for resale promptly, rather than much later or not at all.

State-of-the-art revenue integrity tools reap a number of gains. They save seats for real sales and get full fares for all flights. They get more accurate data in more quickly for revenue-management forecasts and prevent unnecessarily denied boardings, as well as their penalties. Finally, these tools eliminate GDS fees and catering costs for duplicate or fraudulent bookings.

Yet, according to Rose, only about a hundred of the world's 500 airlines now have good revenue integrity systems, whether internal or vendor-made, that can deal with abuses. Some airlines in less-developed countries check for bad bookings manually every few days. This can work, but it is expensive and often delayed. And labour-intensive manual methods are usually applied only to full flights.

Eliminating bad bookings on full flights is critical because available seats may go unsold or be sold at last-

minute distressed fares. Or real, paying passengers may be bumped to make room for fraudulent bookings. No passenger likes to be downgraded or denied boarding and compensation must be paid when this happens. European governments are upping compensation rates, which makes it even more important to ensure that loyal customers are inconvenienced only for true passengers, not booking mistakes.

In extreme cases, when false bookings are not caught on a delayed arriving flight, a connecting flight may be held up unnecessarily. The gate agent can delay hundreds of passengers because the system falsely reports some passengers as late. Penalties for delayed departures at some busy airports can run from around \$10,000 to \$15,000. For hub-and-spoke carriers, the problem is far from trivial.

Cleaning out bad bookings fast also gives revenue management systems the best data upon which to make forecasts. There will always be a few legitimate no-shows, but solid revenue integrity systems wring out avoidable overbooking that corrupts passenger forecasts and causes airlines to lose sales in the future.

### REMOVING FALSE-BOOKING COSTS

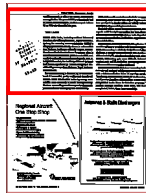
So the best revenue integrity systems work automatically and operate every day for every flight. Even on half-full flights, false bookings incur catering and GDS fees. "At \$4.80 per segment for four passengers over four segments, GDS fees alone can be more than \$75," Rose notes.

SITA's revenue integrity tool makes a copy of an airline's reservation data and scrutinises the data offline each night. It checks for each of 12 potential errors and then, according to client choice, either cancels the bad bookings or asks the relevant agent to clear up the problem. If not rectified in 24 or 48 hours, suspect bookings are cancelled, while confirmed ones are validated. To avoid cancelling good bookings, a special weighting formula is applied to each questionable record. Rose says false rejections fall well below 1% and can be eliminated by choosing the right rules.

The SITA tool also generates reports on which travel agents consistently book duplicate or under-priced fares, so that managers can take action to prevent problems, rather than just react to them.

The SITA integrity tool can be deployed on an application service provider (ASP) basis, requires no additional staff or equipment, only a couple of hours of training, and can be up and running in about six weeks. Revenue managers take responsibility for revenue integrity. "You just need one manager or analyst to review our reports and make the required final decisions," Rose notes.

Rose says that GDS savings alone can offset the monthly costs of solid revenue integrity tools. SITA is



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confident enough to offer a two-month free trial of its own application. The year-old SITA product already had six airline customers by June and Rose expects to have 20 or 30 live by the end of the year.

#### TIME LIMITS

Several other firms, including units of Sabre and Amadeus, also offer sophisticated, highly automated systems for ensuring revenue integrity. Calidris's Integrity product was recently chosen to enforce strict time limits on booking e-tickets by Aegean Airlines. Finnair was the first carrier to use the system, when it introduced new reservation procedures in 2001 and sought to enforce these procedures stringently. Even in a depressed market, the tool helped Finnair to boost load factors significantly. Calidris Integrity is also utilised by, among others, Emirates, Royal Jordanian and Icelandair.

Revenue accounting is the third leg of the revenue beast. It is essential, partly routine and done by all carriers. But it can be done better by many, more quickly, more accurately or much less expensively. Revenue accounting must incorporate changes in prorate and other rules rapidly and economically.

Most airlines still use in-house tools for revenue accounting. Major carriers with huge IT departments have good systems. Smaller airlines are unlikely to have developed such powerful systems in-house.

Financial officers cannot book revenue in financial reports until the right accounting has been done, which may take time using in-house tools. Reported revenue matters to lenders, stockholders, suppliers and other stakeholders.

Moreover, the e-ticket revolution is raising the bar. If an airline sells paper or e-tickets only for its own flights, revenue accounting is relatively straightforward. The challenge is doing it well at minimum cost. But if an airline wants traffic gains from interlining with other carriers, accounting gets more difficult. External vendors, such as SITA and Softec, are helping smaller airlines meet these accounting challenges.

Softec's MonaLisa suite of revenue accounting tools is already well equipped to help regionals and LFCs deal with e-tickets and other forms of paperless travel. "Interlining e-tickets is still a hurdle for small carriers, but if you can handle e-tickets online, it is not that complicated to do them for interline purposes," product manager Joachim Zintl notes. Not that complicated, that is, if you have expert help.

Softec is now adding a cargo module to MonaLisa. Zintl says the new module, requested by several of MonaLisa's current customers, should be ready by the beginning of 2006.

The Softec executive says the big virtue of MonaLisa is its flexibility, based on current use by 25 carriers, such as Alpi Eagles, Air Alps, dba and Maersk Air. "We have had to structure it for so many different markets and requirements that if we get a new request we have generally already solved it." The MonaLisa system has been used by several partners in the Star Alliance for interline purposes.

#### SUBSTANTIAL SAVINGS

MonaLisa is a thoroughly automated tool for all phases of revenue accounting. The time and staff savings of full automation can be substantial, when compared with simple manual methods.

To take an extreme example, Zintl knows of an airline that needs almost 60 employees to manually handle about one million annual passengers. But Softec uses MonaLisa to do all revenue accounting for dba's five million passengers, on an outsourced basis, with just three employees.

Few new airlines use completely manual methods for revenue accounting. But partial automation falls short of best practice.

"Efficiency also has a lot to do with your information infrastructure," Zintl points out. "If you have a good IT infrastructure to get the data to us, we can do a very efficient job." Should airlines want the option, Softec has made MonaLisa easy to use in-house, requiring just ten days of training.

The linkages between accounting and other systems are also critical. MonaLisa automatically feeds data on passengers boarded to the airline's revenue management system, improving forecasts for future fare allocations. Another module provides reports on flight profitability for planning purposes. Softec even does group sales for dba and will offer this service to other customers, either as an in-house tool or as an outsourced service.

About 25 airlines now use SITA's full-featured Passenger Revenue Accounting product, including regional carriers such as Scot Airways. Originally developed as an installed system, the SITA tool is now hosted for eight customers on an ASP basis. This approach can be very economic, costing just pennies per transaction. ➔

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Joachim Zintl,  
Softec



**FEATURE Revenue tools**

# Better tools, MORE REVENUE

**T**here are three basic tools all airlines need to handle revenue. First comes revenue management, which maximises the revenue an airline can expect to earn on one flight or one leg of a multi-leg trip. Revenue management tools are intimately tied to each airline's business model.

Second is revenue integrity, which eliminates the loss of expected revenue that can happen by accident or by deliberate acts of airline agents. Third is revenue accounting, which speeds up the accurate recognition of revenue on an airline's financial books.

Revenue integrity and accounting tools must also fit business models. But these tasks deal partly with routine problems that are common to many carriers. Every airline knows these common problems and deals with them somehow. The trick is to ensure integrity and do the accounts as quickly, completely and cheaply as possible. That is especially true in rapidly changing markets with more intense competition, where there is little room for delays or unnecessary expense.

Revenue management is also changing rapidly and may be redefined as airlines choose different strategies. For example, tour operator TUI has just gone live with the first phase, a forecasting component, of a very different kind of revenue management tool developed by Manugistics. Andy Archer, Manugistics' sales and operations vice-president for revenue management in Europe, the Middle East and Africa, says TUI will have the optimisation component in place next year.

The differences in the new system reflect differences in operation by TUI and other European tour operators.

These companies own or contract for hotels and other vacation products and have previously sold them, along with airfares, in package tours. But responding to low-fare carriers (LFCs), tour companies are now allowing customers to flexibly combine different flights, accommodations and other items for their own vacations. Manugistics' new approach will allow operators to maximise all their revenues in these flexible packages, taking into account both fixed-cost commitments and their many choices, in pricing and channels, for selling individual elements.

### CHANGING BUSINESS MODELS

How relevant is this to regional and low-fare airlines? David Bradford, global airline account executive at Manugistics, says airline business models are changing around the world in response to intense competitive pressures. Other carriers may start to behave a little more like tour operators in the future, just as US carriers have begun imitating the simpler fare structures of Europe's LFCs. If that shift occurs, Manugistics is confident it has the leading tool for optimising across all revenue components.

The second task, revenue integrity, is about collecting all the cash an airline expects from bookings, quickly eliminating bookings that will not produce paying customers. This is critical for carriers that sell through agents. Agents can deliberately overbook flights to preserve availability for favoured customers. Or they may forget to cancel bookings made in good faith.

*Henry Canaday reports on the different elements in handling revenue and how airlines can get the most from each and every ticket sale.*