New world of revenue
Optimisation and dynamic pricing

While the most turbulent time for the Airline industry is ending, all airline leaders will recognise the need for a more accurate financial forecast and revenue uplift, opening a new world for revenue optimisation and dynamic pricing.

The need to rethink our legacy revenue optimisation is obvious in a highly dynamic travel environment, and customer behaviours are less predictable than before.

Total revenue management

With advanced technologies and NDC (New Distribution Capability) available to all, embracing innovation and implementing revenue optimisation through all flights, channels, and products is time. This leads to a form of Total Revenue Management-Pricing from fares to ancillaries.

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Personalisation

Deep learning and data platforms enable accurate dynamic pricing and better predict customer demand and behaviours through a personalised approach. Ancillaries, such as seat selection and priority boarding, will be proposed at a price based on the customer's willingness to pay, as fares should be.

Competitive advantage

Each customer at a certain period will correspond to a specific profile and appetite (or need) for paying extra services.

We have a different profile during the year, from business trips to family

holidays. Therefore, offering the right product at the right time and price via the correct channel is important to remain attractive and maintain our competitive advantage in any circumstances.

Finance forecast

This accurate dynamic pricing approach and total revenue management techniques will lead to increasingly precise traffic and revenue forecast accuracy.

More than ever, accurate financial forecasts are vital to guarantee that airline leaders make the right decision based on error-free information.

The new customer-centric approach will require adapting your process and organisation to reflect the new reality, and consultants-experts are here to help and support you.

This article was contributed by our expert Ivan Chemtob

Frequently asked questions answered by Ivan Chemtob

1. **What are dynamic pricing methods in the airline industry?**

Dynamic pricing based on the supply and demand method involves changing prices frequently to reflect changes in demand, availability of seats, and other factors that affect pricing.

Basic pricing methods in the airline industry:

Real-time pricing

Real-time pricing algorithms constantly monitor market trends, competitor pricing, and customer behaviour to optimise fares and each profitability. Advance purchase pricing offers are less and less used by

airlines but still exist to lower fares for early bird customers.

Customer profile

On the contrary, this technique seems more used by mature airlines to better segment their customer based on the booking profile and behaviour.

Point of sale pricing

Airlines may offer different fares for the same flight depending on the point of sale. For example, a ticket purchased from a travel agent may be priced differently than one purchased directly from the airline's website. GDS surcharge may also apply, with airlines advocating that travel agency may charge their customer for the extra services they deliver. NDC is, in that case, a crucial opportunity.

Dynamic bundling

Airlines may bundle various products and services, such as baggage fees, priority boarding, and seat selection, with a base ticket price to create dynamic packages. These bundles can be priced dynamically based on demand.

Dynamic pricing methods allow airlines to maximise revenue while providing customers with the best possible value for their travel needs, fares, and ancillaries.

2. What are the concerns and benefits of dynamic pricing?

Concerns

Unfairness

Dynamic pricing can be perceived as unfair if customers are charged different prices for the same product or service based on factors beyond their control. In reality, customers often buy different products in terms of conditions attached to their reservation, not only physical products.

Lack of transparency

The pricing algorithms used in dynamic pricing can be complex and difficult to understand, making it hard for customers to know how prices are determined.

Price discrimination

Dynamic pricing can be used to discriminate against certain groups of customers, such as those who are less price-sensitive or who have a higher willingness to pay.

Benefits

Increased revenue

Dynamic pricing allows airlines to optimise prices based on market demand, which can increase revenue and profitability.

Improved inventory management

By adjusting prices in real-time based on demand, airlines can better manage their inventory levels and avoid overstocking or understocking.

Personalisation

Dynamic pricing allows airlines to offer personalised prices to customers based on their preferences and behaviours, improving customer satisfaction and loyalty.

Competitive advantage

Dynamic pricing gives airlines a competitive advantage by allowing them to respond quickly to changes in market demand and stay ahead of competitors.

Overall, dynamic pricing is essential to airlines' profitability.

3. How are deep learning and data platforms applied in the airline industry for the financial forecast?

The airline industry uses deep learning and data platforms to improve financial forecasting in many areas:

Revenue management

Airlines use revenue management systems to maximise revenue by predicting demand and setting optimal prices. Deep learning models can be used to analyse large amounts of data, including historical bookings and flight information, to make more accurate predictions of future demand.

Maintenance

Airlines also use data platforms and deep learning to predict maintenance requirements and reduce costs associated with aircraft maintenance. This involves analysing data from sensors and other sources to detect anomalies and predict when maintenance will be required.

Fuel efficiency

Deep learning models are used to predict fuel consumption based on factors such as weather, flight routes, and aircraft performance. This helps airlines optimise fuel usage, reduce costs, and be more eco-friendly than before.

Fraud detection

Airlines also use deep learning to detect and prevent fraud. By analysing data from multiple sources, such as booking patterns and credit card transactions, airlines can identify suspicious activity and prevent fraudulent transactions. These technics are called revenue integrity management.

Applying deep learning and data platforms in the airline industry leads to better financial forecasting, improved operational efficiency, and reduced costs.

4. What are some strategic pillars of revenue management?

Revenue management involves optimising pricing and inventory decisions

to maximise revenue and profitability. There are typically three strategic pillars of revenue management, among many others:

Demand forecasting

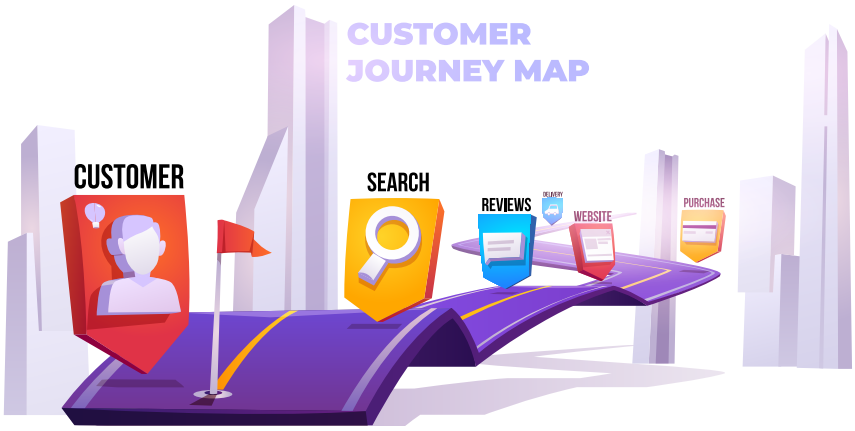
Accurately forecasting demand is critical to revenue management. Revenue managers must understand trends, patterns, and external factors that affect the market, such as seasonal fluctuations, events, and economic conditions. Accurate demand forecasting allows revenue managers to adjust prices and inventory levels to meet demand and maximise revenue.

Price optimisation

Setting the right prices for products or services is another critical aspect of revenue management. Revenue managers can use pricing strategies such as dynamic pricing, price bundling, and segmentation to optimise prices and maximise revenue. Price optimisation involves identifying the optimal price point to maximise revenue while considering customer demand, competitive pricing, and market trends.

Inventory management

Effective inventory management is crucial to revenue management, as it involves determining the right amount of inventory on hand to meet demand. Revenue managers must monitor inventory levels, anticipate demand, and adjust inventory levels to avoid stockouts or overstocking. With effective inventory management, revenue managers optimise revenue by ensuring that products or services are available when customers want them and minimising costs associated with excess inventory.



5. What are the steps for customer centricity?

Customer centricity is a business approach that focuses on creating a positive customer experience by putting the customer at the centre of all business decisions. Here are the steps for achieving customer centricity:

Customer understanding

Develop a deep understanding of your customers by gathering data on their preferences, behaviour, and needs. Conduct market research and customer surveys, and analyse customer data to gain insights into their behaviour and preferences.

Customer segmentation

Group your customers into segments based on common characteristics such as demographics, behaviours, willingness to pay, and needs. This will help you tailor your marketing and customer service efforts to each segment's specific needs and price offer.

Customer journey mapping

Map out the customer journey from initial awareness to post-purchase support. Identify the touchpoints where customers interact with your brand and look for opportunities to improve the customer experience at each stage. Lastly, you can offer up-sale to them at the right time during the customer journey.