# AIRLINE REVENUE MANAGEMENT

## TABLE OF CONTENTS

**Introduction** ................................................................................................................................................ 1

**Module 1 Introduction to Revenue Management** .................................................................................... 5

1. **Deregulation in the Airline Industry** .......................................................................................... 6
   1.1 **Airline Deregulation** .................................................................................................. 6
   1.2 **Effects of Deregulation** .......................................................................................... 7

1.2 **Why Do We Need Revenue Management?** ........................................................................... 15
   1.2.1 **Perishable Capacity** .......................................................................................... 15
   1.2.2 **Seating Capacity and Variations in Demand** .................................................... 16
   1.2.3 **Variable Pricing and Market Segmentation** ....................................................... 18
   1.2.4 **Basic Revenue Management Principles** ........................................................... 20

1.3 **Airline Reservations and Product Distribution** ........................................................................ 26
   1.3.1 **How are Airline Products Distributed?** ...................................................................... 26
   1.3.2 **What is the Role of the Internet?** .............................................................................. 28

**Module 2 Managing Passenger Demand** ............................................................................................... 39

2. **Airline Travel Demand** ............................................................................................................ 40
   2.1.1 **Understanding Variations in Demand** ....................................................................... 40
   2.1.2 **Seasonal Variations in Demand** ................................................................................ 41
   2.1.3 **Holidays and Special Events** ..................................................................................... 42
   2.1.4 **Time of Day and Day of Week** .................................................................................. 43
   2.1.5 **Economic Conditions** .............................................................................................. 43
   2.1.6 **Schedule Changes** .................................................................................................... 44
   2.1.7 **Time of Booking** ........................................................................................................ 44
   2.1.8 **Cancellations and No-shows** .................................................................................... 44
   2.1.9 **Price** ................................................................................................................... ....... 45

2.2 **Demand Strategies** ................................................................................................................ 50
   2.2.1 **What are the Options?** .............................................................................................. 50
   2.2.2 **Improving Efficiency** .............................................................................................. 51
   2.2.3 **Adjusting Marketing Variables** .................................................................................. 52
   2.2.4 **Managing Demand in a Competitive Market** ............................................................. 54

2.3 **Forecasting Demand in the Airline Industry** ........................................................................... 59
   2.3.1 **Importance of Forecasting Demand** .......................................................................... 59
   2.3.2 **Forecasting Demand Based on History** ..................................................................... 60
   2.3.3 **The Revenue Analyst** .............................................................................................. 63
   2.3.4 **Computerised Revenue Management Systems** ........................................................ 63
   2.3.5 **Best Practices** .......................................................................................................... . 65

**Module 3 Pricing** ...................................................................................................................................... 75

3. **Airline and Customer Costs** ....................................................................................................... 76
   3.1.1 **Airline Costs** ........................................................................................................... 76
   3.1.2 **Customer Costs** ....................................................................................................... 77
AIRLINE REVENUE MANAGEMENT

What is revenue management and why is it needed in the airline industry of today and tomorrow? As competition and various economic pressures increase, all airlines, full service and low-cost carriers alike, need to maximise revenue in order to succeed and grow. As airlines adapt their business processes and models to meet the current challenges facing the industry, revenue management provides a number of strategies to help increase and maximise revenue.

This book provides an introduction to the basic principles, strategies, and goals of airline revenue management. After offering a brief history of the airline industry and how revenue management evolved in response to industry changes, this book covers a number of topics pertaining to the theory and practice of revenue management. Several topics address what could be considered the core of revenue management theory and practice. These topics are managing passenger demand, pricing, booking class assignment, seat inventory control, spoilage management, and group management. The other topics covered are scheduling and capacity adjustments, monitoring performance, product distribution, and revenue management organisation. A supplemental discussion of the airline industry overall and how challenges and opportunities will impact revenue management in the future is included in an addendum to this book.

For learning purposes, the text of each study module assumes that the reader currently works in a revenue management position. This course is also appropriate, however, for any person with an interest in understanding how revenue management strategies and tools can contribute to the success and profitability of an airline. People working in airline customer service, sales and marketing, network planning, or airport services, for example, may be interested in this course. By offering a solid overview of airline revenue management, this course should enhance not only your personal job performance, but also your ability to support your work team, your organisation and, of course, your customers.