COUPON SEQUENCE AND USE

Requiring the complete and sequential use of flight segments allows for greater connectivity and competition, for the benefit of the traveling public.

The Issue

Airlines require passengers to travel as per the itinerary shown on their ticket, from the place of departure via any agreed connecting points to the final destination, and vice versa. Each leg of the journey is linked to a specific segment on an electronic ticket. If all the segments are not used in sequence, the ticket as a whole will lose its validity in most circumstances. Certain groups see this requirement as an inconvenience to customers and a restriction on their ability to obtain cheaper fares.

IATA’s Position

Airlines are not selling individual flight segments – they are selling a journey from where passengers are to where they want to get to. Each of these journeys is a product, with a specific price attached to it based on market conditions. On any regularly scheduled flight we can expect to find that the passengers on board will have paid a range of different fares, depending upon the tariff conditions under which they bought their tickets. Passengers may have connected to the flight, or will be connecting to another flight, and their fares will reflect the actual competitive situation in the end-to-end markets concerned.

This market segmentation is a critical element in the pricing of air travel by airlines, and ensures that there are prices to suit every pocket and that seats do not generally go wasted. However, this approach requires that carriers exercise careful control over the numbers of each type of fare they sell on any particular flight, since it is the “mix” of fares which will determine whether that flight is profitable or not. The key to market segmentation is having rules, or “fences” which allow the various products to be differentiated from each other. One of the most important rules is that flight segments must be used completely and in sequence.

For example, let’s assume a passenger wants to travel roundtrip between Brussels and Lisbon. He may find a ticket from London to Lisbon via Brussels at a lower price. How is it possible that London to Lisbon via Brussels is lower than a Brussels to Lisbon nonstop service? The answer is because this is a function of the market. The market from London to Lisbon is different from the Brussels-Lisbon market. Airlines offering connecting flights from London to Lisbon will almost certainly be competing against another carrier’s non-stop services. In all likelihood, they will be also competing against other airlines connecting services via their own hubs (e.g. London to Lisbon via Paris). To be competitive, their price can be no higher than the nonstop product and will probably require some discount to be offered to encourage the customer to choose their connecting product. Even though this may produce a fare lower than their price for the journey from Brussels, they must do so if they wish to participate in the market.
So why can't our passenger just buy the ticket from London to Lisbon and catch the flight in Brussels? From an airline perspective, the answer is simple – these are two distinct products, on two distinct markets, and there are different prices for both. If the airline offering a lower fare over an indirect routing cannot "fence" it off from use by its customers for Brussels to Lisbon nonstop flights, it will simply abandon the indirect product, since it will lose more revenue in its Brussels to Lisbon market than it could gain from selling in the indirect market (London – Lisbon via Brussels). In other words, should carriers be denied pricing freedom, e.g. the application of different prices in different markets, they simply would have to withdraw from some markets reducing competition there. And when this happens the probability is that the prices of direct services could go up.

In summary, removing the ability of carriers to control the sequential use of flight segments would eliminate airlines' willingness and ability to compete in indirect markets, and as a result reduce competition in those markets, to the cost of the travelling public.

Also of importance is that airlines need to know whether passengers who have secured a confirmed booking will in fact be using it. It is not unreasonable for them to assume that if passengers do not use their first booking, without contacting the airline, it is unlikely that they will use any subsequent bookings on the same ticket. Airlines need to be able to determine the optimal capacity to schedule for that flight sector and, therefore, maximise the efficient use of its assets. In turn, this minimises the number of “no shows” experienced by airlines allowing them to reduce the need to "overbook" by allowing them to forecast passenger loads with greater accuracy.

The industry recognizes that unforeseen circumstances do occur and has made arrangements to accommodate passengers in such cases. Should passengers be required to change any aspect of their transportation due to force majeure, they must contact their carrier as soon as possible and airlines will use reasonable efforts to transport passengers to their next stopover or final destination, without recalculation of the fare. For example, imagine a passenger living in a small town near Naples, Italy and travelling from Naples to London via Rome. Due to a transport strike in the area, he is unable to reach Naples airport. He has informed the carrier and managed to arrange a car to Rome in time to make his connecting flight. In such a case, airlines will make every effort to accommodate the passenger in Rome without recalculating the fare.

**Why direction matters**

Why is a fare in one direction not always the same as the fare in the opposite direction?

Consider, for example, a flight operating between Brussels and Lisbon in summer. In the Belgium market demand for seats is usually high at this time of the year. Therefore the airline would be unlikely to offer incentives to sell its product. However, at the same time the demand for seats to Brussels in Lisbon is not as high. In order to encourage consumers the airline may need to put on a sale or use other incentives to promote its product. Therefore an airline may offer low fares for travel from Lisbon in summer but would not want to offer the same fare levels for travel to Lisbon. If directional imbalances were not allowed, and if passengers could therefore transform a Lisbon-Brussels-Lisbon product into a Brussels-Brussels-Lisbon product, carriers would raise their tariffs to the higher level or, if competition does not allow this, they might even withdraw from the market, reducing consumer choice and raising prices.

For the same reason, it may happen that a return ticket (Lisbon-Brussels-Lisbon in the summer time) is cheaper than a one-way ticket from Brussels to Lisbon during the same time period. So why can’t consumers simply buy the roundtrip option and only use the return leg?
The answer is the same as to why a passenger can’t transform a Lisbon-Brussels-Lisbon product into a Brussels-Lisbon-Brussels product. Without such rules in place, airlines would not be to take into account directional imbalances, as discussed above. The likely result: prices for everyone would rise to the higher level, and competition would diminish. In addition, one-way tickets, particularly on international routes, are often more flexible than discounted roundtrip tickets, offering the buyer more convenience. For example, one-way tickets may not require advance purchase or have minimum/maximum stay requirements. It is a different product that has a different price.

Appropriate rules or “fences” are built around products so that a supplier may approach various market segments with variable prices. If the airline is prohibited from using these fences then the likely consequence is that low fares or special deals would not be offered. Airlines would be less likely to try and compete with low prices if those prices would automatically apply to other, more valuable, products.

It is not surprising to observe that the same rules are applicable and enforced in other transport modes such as railways.

Aviation connectivity delivers significant economic and social benefits to the global economy. In addition to connecting peoples and cultures, aviation contributes 3.5% of world GDP. Complete and sequential segment use is key to ensuring increasing levels of connectivity throughout the globe and providing consumers with a variety of options and fares when they travel. It therefore must be maintained.