AIRLINE SALE FARE PLANNING

An Embark advisory product

Overview

Airlines leverage sales with the goal of stimulating travel and increasing RASM performance. Sales are utilized to target traditionally weaker seasons, or to stimulate markets that are underperforming.

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Airlines leverage sales with the goal of stimulating travel and increasing RASM performance. Sales are utilized to target traditionally weaker seasons, or to stimulate markets that are underperforming. Either way, sales influence a segment of the traveling population that are price sensitive and generally more flexible to secure a 'good deal'. In some cases, sales are not stimulating new demand, but rather incremental trips.

For example, Alaska Airlines might initiate a sale to Hawaii from Seattle leading into the slower Fall season. While it will appeal to those that travel to Hawaii regularly, it also appeals to those that travel less frequently and inspires a new trip. Since the greater Seattle region has a large population, Alaska can stimulate new demand for these flights and can effectively offer sales more regularly.

However, if Alaska observes weakness on a route in Alaska (Ex: Anchorage to Fairbanks) they may initiate a sale to stimulate travel, but because the population between the two cities is relatively small, they are likely stimulating more incremental trips, not new passengers.

Planning a Sale

Pre-planned Sales

Pre-planned sales are developed around seasonal demand shifts. Most airlines typically plan on 2-3 large sales each year and target three key seasons: winter (JAN-early MAR), late spring (APR-early JUN) and fall (Late Sep-mid NOV). As Figure 1 indicates, Winter is generally the best opportunity for discounting, while the other periods are more selective and targeted. These targeted periods are based regionally on spring breaks, major holidays, or other events that drives pockets of demand specific to a given market or region.

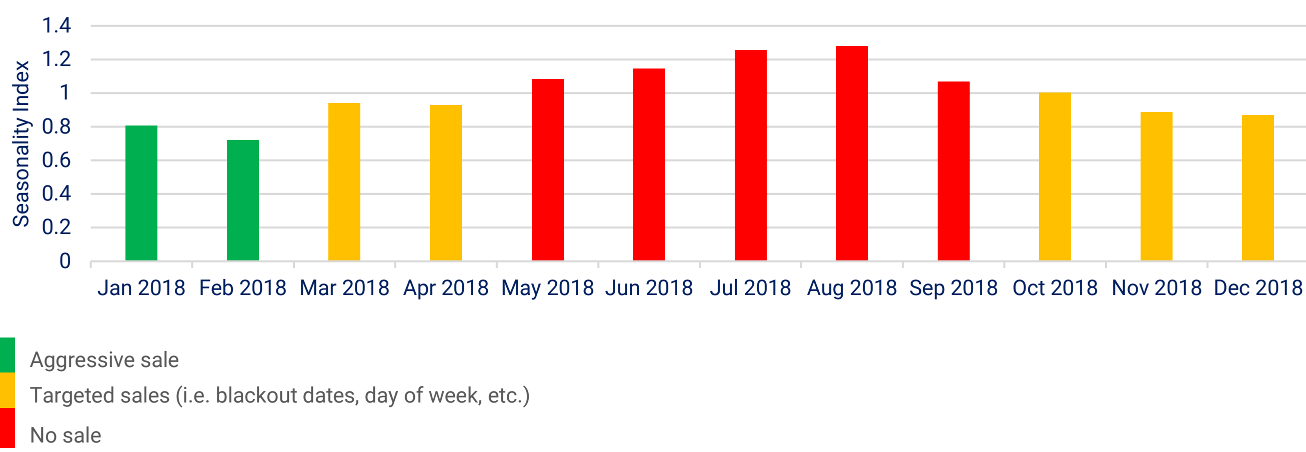

Figure 1: State of Alaska Seasonality

In markets where there is less opportunity to stimulate new demand (and with relatively limited competitive influences) an airline can build its entire retail strategy around seasonality and manage the level of discounting.

Distressed market environments

Each market tends to be unique with different environmental influences that drive demand throughout the year. This can also be driven by capacity or schedule changes produced internally by the airline. Since the primary goal of any Revenue Management department is to maximize revenue, it is sometimes necessary to offer sales targeting specific markets or regions outside of preplanned sale activity.

How do airlines identify these opportunities?

Airlines use several different reports to track key KPIs and pinpoint areas of strength or weakness. This includes an Advanced Booked Revenue report or ABR. The ABR helps to quickly identify the health of a market, indicating routes that are over/under performing. It also helps provide a gauge for how deeply to discount a sale. In many cases, airlines will vary the sale level by market (or by region), even if they are instituting a systemwide offer.

Figure 2 illustrates several key KPIs that can be used to monitor and track market level performance. These include capacity (reflected in both frequency as well as ASMs) load factor, fare (or yield), and RASM or overall revenue mix (load vs yield). All metrics are then compared to previous year period to help identify trends. Markets 'in the red' are prime candidates for a sale. In addition to the ABR, airlines also use weekly sales reports to track performance of overall sales in the given week, comparing both week over week performance, as well as year over year.

		Capacity			Load Factor			Fare			RASM			LY Flown		
		R/T	R/T YoY	ASMs YoY	L/F	YoY	-1w YoY	Fare	YoY	-1w YoY	RASM	YoY	-1w YoY	L/F	Fare	RASM
EWRJFK	Jun-19	1.7	(33%)	(33%)	**57%**	3pts	3pts	**$67**	9%	9%	15.5	16%	16%	54%	$61	13.4
	Jul-19	1.7	(35%)	(35%)	**59%**	11pts	9pts	**$63**	7%	7%	15.1	31%	28%	49%	$58	11.6
	Aug-19	1.7	(33%)	(33%)	**28%**	6pts	5pts	**$49**	6%	11%	5.7	33%	50%	52%	$56	11.8
		R/T	R/T YoY	ASMs YoY	L/F	YoY	-1w YoY	Fare	YoY	-1w YoY	RASM	YoY	-1w YoY	L/F	Fare	RASM
LGAHVN	Jun-19	0.8	0%	WoW	**39%**	0pts	WoW	**$73**	0%	WoW	13.7	0%	WoW	-	-	-
	Jul-19	0.9	0%	WoW	**35%**	2pts	WoW	**$65**	3%	WoW	11.0	8%	WoW	-	-	-
	Aug-19	0.8	0%	WoW	**9%**	3pts	WoW	**$55**	10%	WoW	2.4	63%	WoW	-	-	-
		R/T	R/T YoY	ASMs YoY	L/F	YoY	-1w YoY	Fare	YoY	-1w YoY	RASM	YoY	-1w YoY	L/F	Fare	RASM
BOSJFK	Jun-19	2.5	0%	0%	**61%**	(3pts)	(3pts)	**$73**	10%	10%	17.6	5%	5%	64%	$66	16.8
	Jul-19	2.6	(1%)	(1%)	**60%**	(15pts)	(15pts)	**$68**	8%	7%	16.1	(14%)	(15%)	75%	$63	18.7
	Aug-19	2.6	0%	0%	**29%**	(7pts)	(6pts)	**$46**	(6%)	(4%)	5.4	(23%)	(26%)	67%	$58	15.6

Figure 2: Key ABR KPIs

Determining price

Once the type of sale has been identified, it is time to determine the price. Since the higher fares are generally inelastic, airlines do not need to discount their core fare structure. Since sales are used to stimulate demand, that segment of demand is more price sensitive and elastic. This segment will only travel if the price is right and will wait to get the best 'deal'. With that in mind, airlines traditionally will file one or two fares to segment that demand and set inventory to achieve the desired goal of the sale (build a base in the off peak periods, close a load factor gap in a distressed market, launch a new market, etc).

These fares generally use an inventory level set aside for promotional fare levels and allow a 'sell-up' to the regular structural fares. Figure 3 shows a simple example of this where the 'VZ21NS' fare is a promotional fare.

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7H      ANCFAI          25MAR20
    V FARE BASIS     BK     FARE   TRAVEL-TICKET AP  MINMAX  RTG
  1    VZ21NS        V X     72.59 D10JN  T06AP 21    -/  -     1
  2    Q21NE1        Q X    112.60    ----      21/6H -/  -     1
  3    Q14NE1        Q X    122.60    ----      14/6H -/  -     1
  4    H14NE1        H X    132.60    ----      14/6H -/  -     1
  5    H7NE1         H X    152.60    ----       7/6H -/  -     1
  6    M3NE1         M X    172.60    ----       3/6H -/  -     1
  7    B3NE1         B X    192.60    ----       3/6H -/  -     1
  8    S0NE1         S X    212.60    ----       -/6H -/  -     1
  9    Y7H1          Y¥X    242.60    ----       -/1  -/  -    1¥
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Figure 3: Ravn Alaska sample fare structure with sale

Determining the price is really a mix of art and science. There is no real mathematical way to determine the optimum price point given all the environmental variables - and as mentioned, each market behaves a little differently. Best practice is to review the ABR performance of the core routes and identify a price point that ‘feels’ right based on the KPIs and the analyst’s experience. If a market is doing well, the airline may discount modestly (or not at all) by a small dollar amount. Conversely, if a market is struggling, the airline may go deeper with a percentage discount approach. It is generally a good rule of thumb to initially start with a strategy that fits the airline’s business model and test it over time to find the ‘optimum’ level for each market.

Figure 4 is a good example of a strategy that blends in KPIs from the ABR. Depending on the condition set by the airline (in this case YoY RASM performance) the airline sets discount thresholds for each condition. The sample fare in this example is the airline’s lowest selling structural fare. The advertised columns indicate two retail approaches: one where the airline advertises a price point (most common) the other where the airline advertises a percentage off approach. Either approach can be easily adapted to marketing the sale. The airline will want to test which method generates the most engagement (i.e. click throughs, bookings, etc.) as well as actual sales during the sale period.

Condition	Discount %	Sample Fare	Advertised $	Advertised %
If RASM positive	0%	$150	No Sale	No Sale
If RASM 0 to -5%	10%	$135	$139	10%
If RASM -6 to -10%	15%	$128	$129	15%
If RASM -11% +	20%	$120	$119	20%

Figure 4: Sample strategy

Determining advanced purchase

Since fare sales are generally created to stimulate discretionary, price sensitive demand, an airline wants to ensure it fences or protects this segment from diluting its non-discretionary segment. This segment generally tends to be more inelastic and ultimately forms the core of the airline’s revenue mix. One caveat to this is understanding the airline’s market mix (i.e. Las Vegas or Aspen cater to a predominantly leisure segment, so advance purchase fencing is not necessarily as important). Understanding the booking curve for the airline will help identify the optimum advanced purchase (AP) requirement. Like determining price, this requires developing a strategy for the airline and testing it over time. For pre-planned sales, the best rule of thumb is to leverage the natural booking curve for the airline. Figure 5 illustrates a typical booking curve for a market.

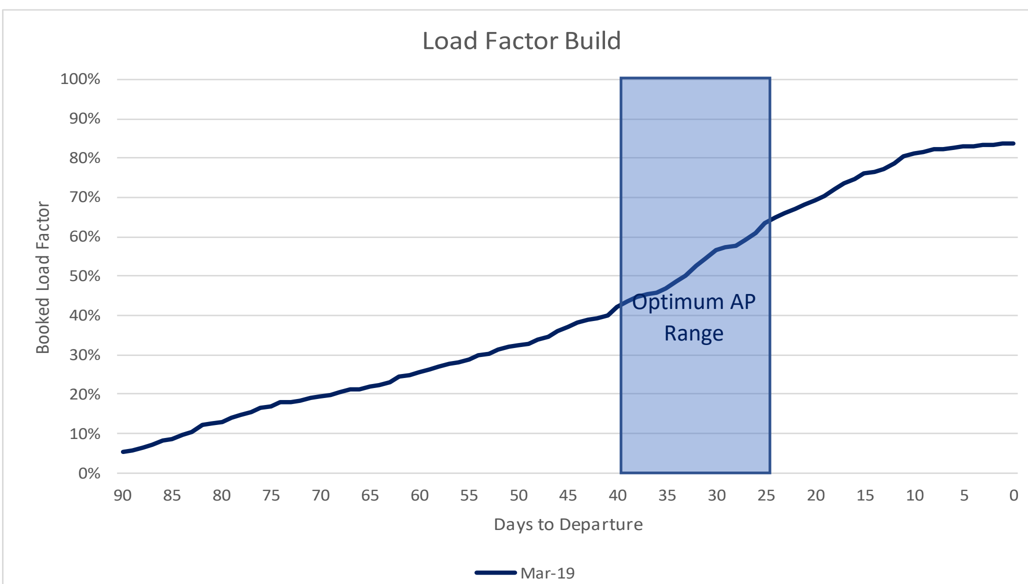

Figure 5: Load Factor Build

In this example, there is an inflection point around 35 days, so the airline should consider an AP between 30-14 days prior to departure depending on the type of market and desire to protect closer-in revenues.

If the sale is targeting a distressed market that indicates 'closer-in' load factor weakness, the airline may want to consider using a different AP to try to stimulate demand more quickly. This is more relevant for leisure-centric markets where the airline does not risk diluting their non-discretionary segment. If an airline does see close-in weakness, it might be an indication that some other macro-environmental change has occurred, and a review of the market's overall fare structure required.

Determining the duration of the sale

Determining the duration of the sale is unique to each airline, however, best practice is generally 7-10 days. The airline wants to create urgency to book travel as soon as possible. Airlines will generally leverage 7-10 days to support with promotional activities to stimulate demand enough to make the sale effective. Most paid advertising channels are more effective with a longer sale period to ramp up awareness. If the sales strategy leverages more direct communication channels (i.e. website, social media, email) shorter sales may be appropriate.

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Sale effectiveness

An airline will try to measure the incremental revenue performance of the sale to determine if it was successful. One basic method is to analyze: the 'same store' sales for the duration of the sale, the same number of days just prior to the sale, and the same number of days after the sale. The airline will also look at the same store sales data for the year prior and compare to the current period. The same process will be completed for the travel period as well. This way the airline is capturing results based on total sales, but more specifically, the sales that occurred during the travel period the airline is trying to stimulate.

Additionally, since the airline can leverage unique fare basis codes assigned to fare sales, the airline can measure how much of the sale fare product sold during the sale period.

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Embark is more than a consulting firm; we help craft airline business strategy - then work with our partners to make it a reality. Embark provides airlines with (short-term or long term) outsourced support across any commercial function. Our Revenue Management team has extensive experience helping airlines review, optimize and develop industry standard pricing strategies adapted to the airline's business model. Our experience comes from nearly two decades of practice at major carriers including: Alaska, American, Horizon, Delta and US Airways. Connect with us today to learn more about how we can take your airline to new heights.

Contact our team via phone or email and we would be happy to discuss how we can work together to support your needs.

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