



THE WHAT AND WHY OF REVENUE REPORTING

An Embark advisory product

Overview

The value of quality reporting cannot be overstated; it is essential to every decision made by a data-driven commercial team. In this four-part series, we plan to introduce some powerful but basic reporting that when used correctly can materially impact an airline's performance.

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There are three primary reports that are critical to the success of an airline's commercial and revenue management teams: The Advance Booking Report (ABR), Booking Curves, and Sales Report. Together, these three reports provide the airline with the information needed to handle most routine business actions such as inventory and fare adjustment, fare sales, and recommendations for capacity adjustment. A fourth report, the Competitive Capacity Watch, provides key insights into industry capacity changes made by competing airlines. When combined with the other reports, it helps provide insight into market level revenue performance trends. This article, the first in the reporting series, covers the general concepts and approach used with our clients.

What is effective reporting? Why do I need it?

Simply put, effective reporting provides an airline (or any business) with up-to-date and key performance indicators that explain current performance. Because airline tickets are often purchased a long time before the service is provided, it is especially important that commercial teams utilize reporting to identify and react to trends quickly and accurately to optimize revenue performance. Without a quality reporting suite, the commercial team is "flying blind" without any empirical basis for adjusting fares, inventory, or capacity. Put more succinctly, if you do not know how much money you made, any business decision you make is no better than guessing.

There is a set of industry standard KPIs (Key Performance Indicators) which form the basis for all reporting, shown below:

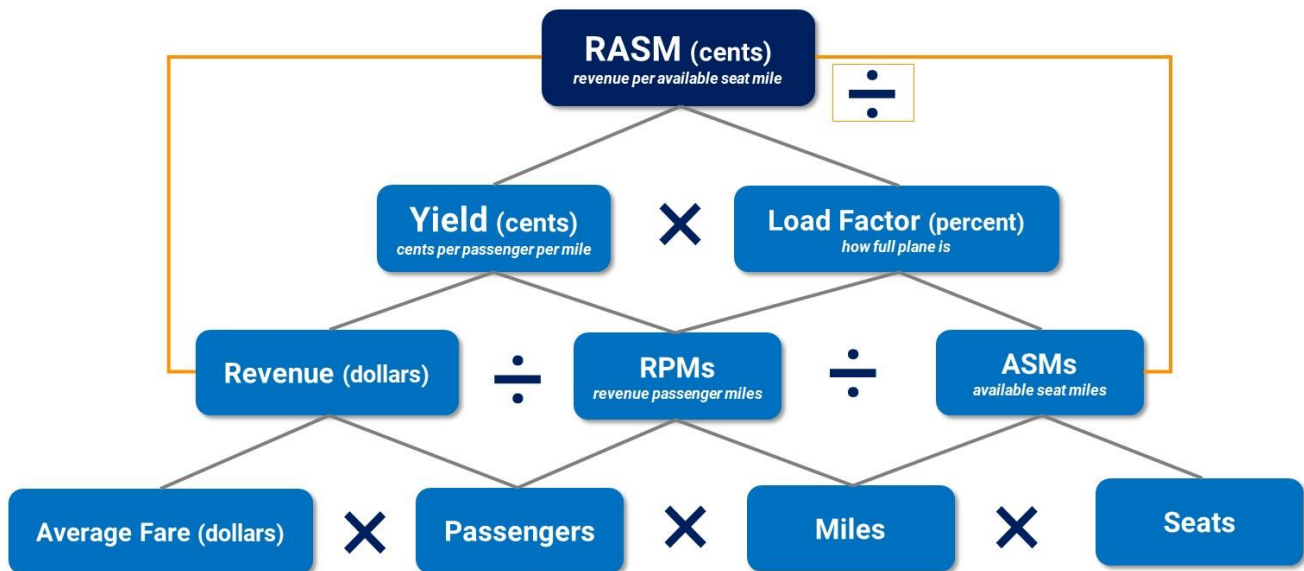


Figure 1: Aviation industry standard KPIs

Many of these metrics are self-explanatory, but there are a few which may not be familiar to all readers:

- **ASMs (Available Seat Miles):** ASM is the industry standard measurement of capacity as it is the best indication of the size of an airline. If ASMs increase, an airline is growing and vice versa. It is also the unit of measurement to which revenue and costs are most broadly allocated when benchmarking performance with the industry.
- **RPMs (Revenue Passenger Miles):** By multiplying passengers times miles, we can compare routes of different lengths to one another more effectively. This is important because it requires fewer aircraft of the same size to provide the same amount of capacity on a shorter route.
- **Load Factor:** Although the definition of load factor is percentage of seats sold, we calculate it by dividing RPMs by ASMs
- **Yield:** This metric adjusts revenue by distance. Yield is a good measure for assessing the quality of the fare paid and useful for monitoring fare changes over time.
- **RASM (Revenue per Available Seat Mile):** Revenue divided by ASMs, results in a distance and capacity-adjusted revenue metric. RASM captures impacts to revenue performance driven by fare, passenger count, and/or capacity changes. The commercial team's primary purpose is the maximization of RASM. All else being equal, a route with a higher RASM is a more profitable route.

Our Approach

While recognizing that every client has their own unique needs, Embark Aviation follows a set of core guiding principles when developing all our reporting. The first of these is **Purpose**. When developing a new report, our first action is to understand who will use it and why. A clear understanding of purpose allows us to make decisions about the scope of a report, including which KPIs to emphasize, which time period to show, and what level of detail to include. For example, a report intended to give insight into the effects of a fare sale would need to show a different time period than one summarizing a past season's performance.

Second is **Context**. Our reporting aims to put the data shown into context by making useful comparisons. If we told you that the RASM for a route was 13.8 cents but provided no other information, there would be no way to know whether that was good or bad. To avoid this uncertainty, we make comparisons to past time periods, and the definition of that time period depends on the Purpose of the report. Knowing that the RASM for that route is 13.8 cents and that 13.8 cents is 23% higher than at the same time last year now gives us a useful way to evaluate the performance of that route.

The third and final principle is **Succinctness**. A report should contain the least amount of information needed to fulfill its Purpose and Contextuality. The less information that is shown at once, the easier it is for the person using the report to find and use the needed data. A well-constructed report should suggest a course of action to its user. The more extra, duplicative, or otherwise irrelevant information shown, the harder it will be to see that suggestion at a glance. Succinctness comes into play not only when deciding whether to include certain KPIs, but also making decisions such as whether to show data by week or by month, by route or by region.

In Conclusion

Quality reporting is critical to nearly every decision made by the commercial team at any airline. Understanding the market dynamics and sales trends allows for quick and effective action and response to any situation. As experienced reporting experts, the Embark team has worked with data directly from reservation systems, from system utilities such as Radar by Radixx, and third-party data tools like Planitas. We have extensive experience with data validation and with compensating for the limitations of various data systems. We are confident that our reporting presents our clients with the best and most accurate information available. Better communication of data leads to better decisions; better decisions lead to better business.

CONTACT US

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. Whether support is required with scheduling, or developing strategic airline partnerships, or pricing and revenue management, Embark has over 100 years of experience to take airlines 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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