

Revenue handling more vital as business models change

As low-fare airlines (LFAs) and regional carriers alter their business models to bring in more and higher-yielding business, accounting for and ensuring the capture of revenue is getting trickier. Interlining and codesharing require much more robust accounting processes than those which have been used in the past. Selling through high-yield agency channels means that agent actions must be checked for compliance with airline rules. Revenue integrity, which performs these checks,

Ensuring that money earned gets to an airline rapidly can be the difference between success and failure. Henry Canaday reports on the applications that are aiding the process.

is becoming essential for LFAs that once sold only simply, through their own websites.

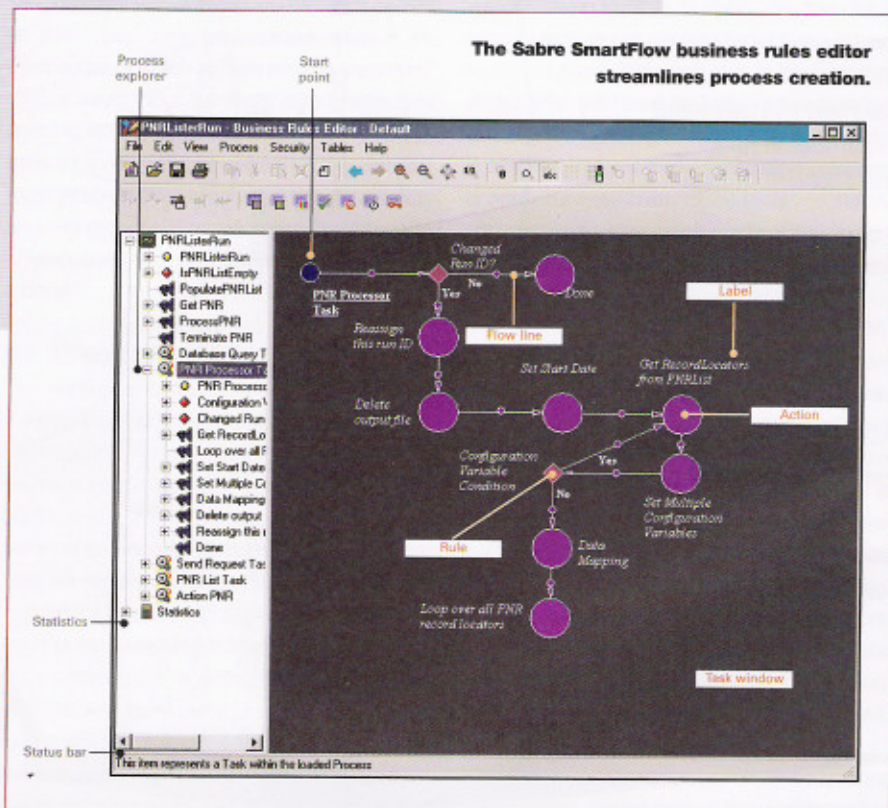
An important choice is between securing only revenue handling software, used by airline staff, and letting a third-party firm perform the essential checks, through a business process outsourcing (BPO) model. BPO can be used for

some or all of the requisite steps in both revenue accounting and revenue integrity.

Fortunately, vendors are offering a variety of tools and services to enable even small carriers to work like major airlines in capturing all of the revenue that is due to them.

In 2003, Rene Perez & Associates began to develop its eRev solution from the ground up to highly automate revenue accounting around the new e-ticketing processes that soon spread throughout the industry. VP marketing and sales Jack Maltz says his firm had its eye on the needs of LFAs that had used non-traditional reservation systems but would eventually seek to sell through agency channels.

The Sabre SmartFlow business rules editor streamlines process creation.



HOLES IN THE PROCESS

"There are a lot of controls, rules and regulations that follow agency channels that did not then exist in the low-cost world, and which meant they would have to do things differently, especially if they opened up to new distribution sources," Maltz explains. "As soon as they take on traditional agents and interlining, you see gaping holes in the process."

Perez has used eRev to help some Radixx reservation customers – for example, Costa Rica's Nature Air – to manage both their own reservation system and their local travel agents. Perez can handle BPO of revenue accounting, as it has done for a small helicopter operation in the New York market. But Maltz says eRev works best when it is installed within an airline's



facilities, as it is at Mesa Air Group's go! LFA in Hawaii. "The solution sits in their IT environment and uses all of their security requirements, and on our side, we manage the application."

In either case, eRev manages revenue accounting for the hybrid sales channels that LFAs are using to expand market reach. "You must have standard reports under IATA and very standard revenue accounting," Maltz notes. "This is definitely very new; we are blazing a trail." The tool helps LFAs to account quickly for agency sales and helps traditional carriers to do the same when using non-traditional channels to lower costs. For example, one eRev customer was able to interline quickly with Continental Airlines because all of the processes were in place to handle the new sales channel. "All they had to do was flip the switch to manage two separate environments.

"We see the idea of automating revenue accounting catching on with more people," Maltz confirms. "It is a real eye opener when we show our system." The goals are not just saving clerk time, but having auditable revenue data that can be immediately forwarded to airline planners for use in judging route profitability, effectiveness of promotions and other key business decisions. "It is providing more than a back-office function. It is coming out to the front office."

SITA's Passenger Revenue Accounting (PRA) is now used by Frontier Airlines, Ryanair and Skyways, among other LFAs, hybrids and regionals. These carriers are becoming more

dependent on timely and accurate information to manage their business, notes portfolio marketing manager David Smith. SITA recently introduced a WebQuery tool for online mining of, and ad hoc queries on, revenue data. "This is in addition to an extensive list of financial, commercial and statistical reports already produced by PRA at the end of the month," Smith says.

■ FULL CONTROL

SITA PRA is web-enabled and can be accessed from anywhere. This enables airlines to have full control over the revenue accounting cycle without concentrating manpower in head offices. And the tool supports full interline e-ticketing – very important as hybrid operations connect LFAs with airline partners.

LFAs that are increasing business through third-party distribution also understand the need for revenue integrity processes to minimize abusive booking practices. Smith comments, "This is a topic of discussion among those that we have spoken to."

In February, Wataniya Airways, Kuwait's new full-service carrier, outsourced its complete revenue accounting and passenger audit responsibilities to Kale Consultants. Kale will use its REVERA revenue accounting system and provide BPO service from offices in India. Wataniya CEO George Cooper says the outsourcing of revenue accounting will keep his carrier efficient and let it concentrate on core

airline functions. Kale intends to become a one-stop BPO shop for Wataniya, according to regional sales chief Ravi Chakravarty, eventually going beyond just accounting and auditing.

Kale now has 1,500 staff serving 80 airlines, including 15 of the world's 20 largest carriers. Neela Bhattacharjee, head of Kale's airline division, says her firm combines 20 years of carrier experience with IT expertise and a flexible menu of revenue handling choices. "We offer revenue accounting, IT services, consulting, BPO, as well as interlining and pro-rationing," Bhattacharjee explains.

About three dozen carriers now use Kale's APEX engine, approved by IATA, for interline settlements. Kale's REVERA revenue accounting is used by a variety of operators, large and small, LFA, hybrid, and full-service. "A pure point-to-point LFA that sells only through its own website may not need REVERA," Bhattacharjee acknowledges, "but today, most LFAs are not pure point-to-point; they are morphing into hybrid carriers with some level of interlining and codesharing." Kale is also providing BPO service to European regional Baboo.

"We also do things like dashboards and analytics to provide actionable knowledge, including knowledge of ancillary revenue," the Kale exec says. The company's revenue recovery service also checks whether agents have charged the correct fares. Checking is only partly automated and requires personal scrutiny by experienced staff. Bhattacharjee cites IATA estimates that recovery can capture 1%-2% of lost revenue. "We also do credit-card billings and can turn these so quickly that cash flow for airlines will be boosted," she adds.

Revenue accounting is getting more complex as ancillary revenue becomes more important. "In interlining, ancillary revenue may be shared by both carriers, rather than just one pocketing the money. That causes more complications." Similar challenges exist in sharing taxes across interlined journeys, which Kale already handles. Bhattacharjee says the company aims to provide revenue data even more quickly and accurately to airline customers. She calls this "wheels-up revenue accounting" and says it will further improve business decisions. →

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NEELA BHATTACHERJEE, KALE CONSULTANTS

KGD Systems has specialised in providing turnkey revenue accounting services to North American carriers since the mid-1980s. The firm began with a small California airline and America West, and now supports a variety of operators, including Hawaii's Island Air, which has multiple interline codeshare agreements, and Sun Country, which has none.

"We do not lease our software," explains KGD partner Jim Kubiak, "we are the airline's revenue accounting department. The carrier only needs a liaison to coordinate with us." One factor favouring this BPO approach is that small operators often find it difficult to assemble the experienced revenue accounting staff necessary, no matter what software is available.

KGD's 15 experienced staffers use a heavily automated system that has been continually upgraded to exploit the highly standardised e-tickets and other files now in place to support both simple and complex business models. KGD represents the airline to its internal and external auditors for air traffic liability and tax reporting.

Thorough accounting services are the rule. "We track air traffic liability down to the ticket level; these data are maintained indefinitely," Kubiak emphasises. "Our customer airlines receive 100% actual revenue, not samples." KGD provides these actual revenue data to carriers on the fifth working day of the next month. "We perform all interline settlement processes, create automatic interfaces, receive files and audit billings on behalf of customers."

Simply auditing for agent pricing errors, rejecting interline over-billing and spotting commission discrepancies can recover enough money to pay for KGD services, Kubiak says.

KGD also provides substantial forecasting capabilities, including prediction of air traffic liabilities by month and tax obligations. These forecasts are tied to credit-card brands and may be useful in renegotiating lower hold-back periods with card providers. "One client got a three-day improvement from this, and when you are dealing with tens of millions of dollars, that is substantial."

KGD charges for its services based only on passengers carried, with no additional charges

for sales, refunds or exchanges. The firm supports both simple and complex airline sales models, and Kubiak believes many carriers are becoming more complex. Although KGD concentrates only on the accounting function, it can handle this function entirely – a service that Kubiak says full-suite IT vendors may not offer.

Air Philippines recently joined a long list of Sabre revenue accounting customers. Marketing and planning VP Mike Douglass says the major trend affecting revenue accounting is the increase in ancillary sales and services. Sabre built its Revenue Data Mart to include ancillary revenue by flight for full-yield reporting. It is also integrating revenue accounting with SabreSonic Customer Sales and Service (CSS) merchandising, and offering functions to handle Electronic Miscellaneous Documents (EMDs) for vouchers and ancillary sales. Sabre will soon be simplifying interline settlement and pro-rationing of surcharges and fees for revenue accounting.

REVENUE INTEGRITY EXPANDS

The most dramatic growth, though, has been in revenue integrity. More than 35 airlines of all sizes and types now use Sabre revenue integrity tools. These include Cape Air, Kingfisher Airlines, Cayman Airways, Air Jamaica, Royal Brunei and SkyWest Airlines, soon to be joined by Vietnam Airlines, WestJet and JetBlue. The ability to manage passive bookings, reduce GDS costs and automate the prevention of no-show bookings has tripled Sabre's revenue integrity customers in just two years.

Sabre offers three revenue integrity solutions. The first, SabreSonic Revenue Integrity, has 12 pre-built and configurable automated processes giving carriers the ability to change rules at any time. Second, the SmartFlow tool kit allows airlines or Sabre to customise robotic processes to control costs further. Third, Sabre GDS Analysis uses GDS connections to understand fares and schedules offered by competitors.

Sabre offers revenue integrity in both batch and real-time modes. Douglass says new processes will be added in 2009 to manage, audit and track e-ticket sales better, and ensure that no-show fees are received. Other upgrades

will improve codeshare management and fraud prevention. And this year, Sabre will offer a revenue integrity service bureau for a full BPO version of the revenue integrity tools.

Douglass says airlines used to seek revenue integrity merely to enforce ticketing time limits and cancel duplicate reservations. Now they seek automated systems that link with third-party systems, improve fraud detection, audit sales, prevent inventory abuse, collect agency fees and debit memos, and yield competitive data. That is the ambitious direction in which Sabre is taking its revenue integrity solutions.

Other firms are also very active. At the end of 2008, Air France became the first airline to use Amadeus's newest revenue integrity solution, Automated Ticketing Limits. The new tool delivers ticketing time limits and prompts in real time, directly to travel agents' desktops. Air France revenue management VP Catherine Medioni says it will ensure that agents are prompted about time limits while they are still dealing with customers, increasing efficiency, improving customer service and further reducing revenue leakage. The Automated Ticketing Limits solution is also being implemented at Twin Jet and Aeroméxico, and several other airlines have shown strong interest.

Amadeus now provides revenue integrity for more than 50 carriers, including Bulgaria Air and TAP Air Portugal. Amadeus Revenue Integrity (ARI) processes more than 1.6 million bookings per day and covers almost 60% of US domestic traffic. ARI screens these bookings for reservations not likely to materialise or out of compliance with airline policies, so that seats can be resold profitably.

Amadeus says revenue integrity is suitable for LFAs that are changing business rules to use alternative payments or flexible fares, which allow refunds. ARI can enforce time limits on payments and eliminate non-productive bookings, such as duplicate itineraries and fake names. ARI is now used by regional carriers like Horizon Air, Siem Reap, Corsair and Bangkok Airways, where the small cabin size makes unproductive bookings especially costly, and by Virgin Blue, which is selling through travel agents. ■