When times get tough, most airline executives instinctively start slashing costs. These moves can substantially improve the bottom line, but they’re only half of the solution. True, typical revenue-enhancing strategies – raising fares, offering more premium products, expanding networks – don’t seem appropriate when demand slumps. One senior executive recently told us: “We’re too busy fighting for survival to worry about revenue.” We couldn’t disagree more. The revenue side of the profitability equation holds large but often hidden benefits for virtually every carrier – even in the worst downturns.

Revenue production within an airline is the product of many interconnected and sequential activities. We call this collective set of activities the Revenue Pipeline (see diagram, p41) to emphasise the need to look at revenue generation in a holistic way.

Our research shows that most airlines lose – or “leak” – enormous amounts of revenue through their Pipelines due to poor management of individual sections within the Pipeline or weak co-ordination of sections across the Pipeline. The impact of these leaks can eclipse potential cost-saving benefits. In our experience, addressing the most obvious leaks can yield more than three to five percentage points of revenue (sometimes much more) within a year – regardless of an airline’s size, business model, or location – and additional benefits beyond.

Why then do so many airline executives seem to ignore these opportunities? Some don’t realise the magnitude of leakage from their Revenue Pipelines. Others don’t know how to find and plug leaks and recapture lost revenue, or they fixate on one or two leaks.

This article highlights some of the more common and onerous leaks – both within and across Pipeline sections. We then suggest several strategies for plugging current leaks and preventing new ones.

**LEAKAGE WITHIN THE PIPELINE**

Every section of the Pipeline can leak (or even haemorrhage) revenue if the activities within that section are mismanaged. The Revenue Pipeline diagram highlights some common culprits behind leakage.

To illustrate how pervasive the problems can be, consider one section as an example: Revenue Management (RM), which includes both pricing and seat inventory management. RM executives juggle changing demand, competition and capacity on a daily basis. Given these complex dynamics, this section of the Pipeline harbours a myriad of opportunities for mismanagement.

Start with pricing: a lack of fare integrity (fare classes muddied with fares placed in the wrong “fare buckets”) dilutes revenue and undermines the effectiveness of downstream RM activities. How effective can they be, if the organisation cannot assume that fares in a higher fare class are actually more valuable than those in lower fare classes?

Revenue can also leak when fares are set based purely on gut feeling or “follow-the-leader” pricing logic, without analysing market elasticities. Reaching clumsily for the “big price lever” to drive demand can leave half a point or more of revenue on the table when compared to a more nuanced, analytical approach. In our experience, low-cost carriers are particularly guilty in this area.

Haphazard structuring of fare families can sap more revenue by leaving room for customisers to circumvent fare rules. So can giving the sales force too much leeway to set prices. Their relentless drive to hit sales targets can turn even a disciplined sales force into a Pipeline renegade.

On the inventory management side, leaks often spring from poor demand forecast accuracy. Surprisingly, few airlines systematically measure and report on the accuracy of their demand forecasts. Less surprisingly, most RM system vendors don’t make forecast accuracy reporting a standard feature.

Airlines with strong ancillary revenue sources, such as non-air travel or unbundled

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**“The revenue side of the profitability equation holds large but often hidden benefits for virtually every carrier”**

The current economic slump has motivated airlines to reach for their cost-cutting knives. But what about the stream of revenue leaking from their Revenue Pipelines?
scheduling
line section.
recounted for virtually every Revenue Pipe
revenue at all makes it through the Pipeline!
points of leakage, it is a marvel that any
of the opportunity. With so many potential
wrong in RM demonstrate the magnitude
unavailable segments.
the booking ever clearing the waitlist on the
segments, even when there is little chance of
by tying up seat inventories on multiple
Poor waitlist management will divert revenue
sales force!) to covertly siphon off revenue.
unethical agents (or even the airline’s own
integrity and flight firming practices can allow
often spring their own leaks. Weak revenue
airlines’ Pipelines.
denied boardings and no-shows punch
parameters and inaccurate data capture of
models. Careless management of overbooking
ignored by their inventory management
margin streams (or distribution costs) are
service charges, can also leak revenue if these
margin streams (or distribution costs) are
ignored by their inventory management
models. Careless management of overbooking
parameters and inaccurate data capture of
denied boardings and no-shows punch
additional holes in the RM section of many
airlines’ Pipelines.

Some of the more clerical RM processes
often spring their own leaks. Weak revenue
integrity and flight firming practices can allow
unethical agents (or even the airline’s own
sales force!) to covertly siphon off revenue.
Poor waitlist management will divert revenue
by tying up seat inventories on multiple
segments, even when there is little chance of
the booking ever clearing the waitlist on the
unavailable segments.

These few examples of what can go
wrong in RM demonstrate the magnitude of the
opportunity. With so many potential
points of leakage, it is a marvel that any
revenue at all makes it through the Pipeline!
A similar story of leakage woe can be
recounted for virtually every Revenue Pipe-
line section.

### Leakage at Latin American Carrier

Squeezed by aggressively expanding low-cost carriers and a rival network carrier at its primary
hub, a major Latin American carrier struggled
with declining unit revenue. Shifting the revenue
management strategy from protecting yields to
defending market share had produced no dis-
cernible improvement in unit revenue.

The carrier embarked on a revenue diagnostic
designed to identify both quick wins and longer-
term initiatives. Applying a suite of diagnostic
tools revealed two major leaks: sub-optimal in-
ventory management and poor fare integrity.

The inventory management diagnostic uncov-
ered strategies inconsistent with market reali-
ties. In markets with late booking, high yield
demand, too many seats were made available
to early booking, low-yield passengers. In highly
competitive markets, discounted fare classes
were being closed too early, resulting in spoil-
age. The fare integrity diagnostic revealed that,
even where inventory was managed well, the
lack of fare integrity seriously undermined the
benefit. With fares assigned to the wrong book-
ing classes, revenue management couldn’t be
sure of the actual impact of its actions.

The first step in plugging these two “quick
win” leaks was to re-file all fares into the proper
classes, something accomplished within three
months. This laid the foundation for improve-
ment in inventory management. A market re-
view process, supported by new, forward-looking
reports, enabled the team to better understand
market behaviour and implement corresponding
strategies via the RM system. These two initia-
tives have delivered a 2% revenue improvement,
overcoming any initial scepticism.

Also coming out of the diagnostic was a long-
er-term strategy to integrate capacity, pricing
and inventory actions within an analytically-
based understanding of the competitive context.
In test markets, this model has delivered as
much as 3-4% revenue improvement.
LEAKAGE AT MAJOR EUROPEAN CARRIER

A European flag carrier experienced disappointing revenue performance in its long-haul markets, which then worsened coming into the current downturn. In response, the airline launched a short, intensive diagnostic to determine where and how much revenue was leaking from its long-haul Pipeline.

The diagnostic showed that virtually all of the Pipeline sections were out of alignment. The misalignment between Network and Fleet Planning, and Sales and Distribution was causing the biggest leak.

Several of the routes had thin local demand but were operated with large gauge equipment, a combination that only works when multiple customer segments are targeted and intraline, codeshare and interline flow are used to “top-up” demand.

Unfortunately, Sales and Distribution had been pursuing a different, unaligned strategy focused primarily on local traffic and on keeping distribution costs at the very minimum. The airline avoided filing behind-gateway interline fares, having outsourced management of offline destinations to a few codeshare partners. Most of the sizable offline demand had gone elsewhere.

The desire to minimise distribution costs had led the carrier to promote its own website, even at the expense of other channels (for example, corporate agents) that would, no doubt, drive higher-yielding, more profitable demand. Not surprisingly, the airline underperformed its peers badly in premium and non-gateway point-of-sale passengers.

Analysis-based conclusions from the long-haul Revenue Pipeline diagnostic were helpful in countering those within the airline arguing for large capacity cuts based on “gut” feelings. The carrier’s focus now is on bringing its Revenue Pipeline into alignment.

LEAKAGE ACROSS THE PIPELINE

Revenue leakage across the Pipeline occurs when activities in two or more sections are misaligned (see diagram, p.43). This type of leakage is particularly problematic because it is difficult to spot. Cross-Pipeline leakage can often be traced to poorly defined and communicated customer targeting (in the Strategy section of the Revenue Pipeline).

Ideally, customer targeting should direct all other downstream activities within the Pipeline, beginning with the design of the airline’s network and ending with customer-loyalty management. When these activities come into alignment, the airline reaches its intended customers with the right products (network, fare, channel,) at the right economics.

Many large network carriers spend big money on customer targeting (often called segmentation). Yet some targeting schemes are so complex that they’re impractical. For example, one large airline spent considerable time defining over a dozen customer segments – which everyone in the organisation ignored. Meanwhile, executives of low-fare carriers often dismiss customer targeting as counter to their “simpler is better” credo. At the same time, many of them are trying to offset increasing market saturation by appealing to – yes – more customer segments!

Pipeline misalignments are all too common. Many are so egregious, one wonders how carriers allowed these misalignments to develop in the first place. Yet this type of leakage is particularly difficult for airline executives to spot, as the Revenue Pipeline is notoriously complex. Even best-in-class carriers fall victim to misalignment leakage. At Turkish Airlines (among the world’s fastest-growing and most profitable carriers), commercial executive vice-president Orhan Sivrikaya acknowledges the airline is addressing misalignment between its increasingly flow-oriented network and its leg-based RM system.

Today, all airlines can count on having several margin points of leakage in their Revenue Pipelines. Fortunately, airline executives can take steps to stop current leaks and prevent future ones.

For virtually all carriers, current Pipeline leakage is large enough to justify moving quickly. We recommend a rapid cross-Pipeline diagnostic to identify quick wins and longer-term opportunities. The quick wins will fund and solidify support for longer-term offensives.

Certain Pipeline sections (particularly Scheduling, Revenue Management, and Sales & Distribution) tend to present the best sources of quick wins, as some of the key opportunities in these areas do not require major realignment of the airline’s asset base or IT infrastructure, and they raise little organisational angst.

It helps to know what you’re looking for and a set of diagnostic aids can speed the effort along (see table). The diagnostic exercise should produce a list of initiatives, ranked by benefit size and feasibility. Maintaining the pace through the subsequent implementation phase is key to turning quickly found opportunities into quick wins. This effort will require a concerted effort by a few of an airline’s top-tier commercial resources for about a year. Don’t expect staff to retain other full-time commitments and moonlight on the project – this doesn’t work.

New cracks will eventually form in the Pipeline unless airlines make a few foundational changes. Firstly, airlines should develop a unified customer-targeting strategy. This strategy must have an analytical basis, but must also be practical and clearly communicated across the organisation. Secondly, they should also establish a Pipeline performance measurement system. This should track key metrics within individual sections and across the Pipeline.

Thirdly, airlines should also manage the Pipeline as an integrated flow of revenue-producing activities, not a collection of functional silos. Some airlines may choose to appoint a chief revenue officer, who sits atop the Pipeline and ensures that all functions operate in a co-ordinated and efficient fashion. Others

### DIAGNOSTIC AIDS

<table>
<thead>
<tr>
<th>Diagnostic</th>
<th>Explanation</th>
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<tbody>
<tr>
<td>Network, Fleet, Scheduling</td>
<td>Assess revenue share gaps, schedule connectivity, aircraft configuration</td>
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<tr>
<td></td>
<td>and fleet assignment</td>
</tr>
<tr>
<td>Revenue management</td>
<td>Identify lapses in fare integrity, systematic patterns of high-yield spill,</td>
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<tr>
<td></td>
<td>spoilage, and overly aggressive or conservative overbooking</td>
</tr>
<tr>
<td>Sales &amp; Channel Management</td>
<td>Analyse channel mix, costs and conversion rates. Assess sales O&amp;D budgets</td>
</tr>
<tr>
<td></td>
<td>versus optimal network traffic patterns in order to validate sales targets</td>
</tr>
<tr>
<td>Product Delivery</td>
<td>Identify inconsistencies between target customer strategy, product design</td>
</tr>
<tr>
<td></td>
<td>and product delivery</td>
</tr>
<tr>
<td>Loyalty Programme</td>
<td>Analyse redemption displacement costs. Quantify loyalty partner P&amp;Ls.</td>
</tr>
<tr>
<td></td>
<td>Analyse customer segment P&amp;Ls</td>
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</table>
may prefer a cross-functional team that reports to the chief executive. This team should produce and analyse Pipeline performance reports, serve as coaches and champions of Pipeline integrity, and rove across the Pipeline fixing leaky sections and misalignments.

Many airline executives believe their carrier isn’t leaking much revenue. To these sceptics, we suggest conducting a Pipeline diagnostic anyway. Assign your best commercial staff for three months to the project, and see what happens. The opportunity to match or surpass the bottom-line impact of cost-saving initiatives should be a big enticement.

**Examples of common leakage across the pipeline**

- **Revenue production within an airline**
  - **Strategy**
    - Premium passenger focus but uncompetitive schedule due to base structure
  - **Network and fleet planning**
    - Large investments in on-board amenities while basic product delivery (OTP, baggage, staff courtesy) is weak
  - **Product design**
    - In-flight product over-designed (and overly expensive) for primary customer segments (e.g. migrant labour traffic)
  - **Scheduling**
    - Premium passenger focus but stingy on product attributes
  - **Advertising, promotions and marketing**
    - Well-designed fare families that can’t be sold on the website
  - **Revenue management**
    - Inadequate staffing of call centres to support call volumes generated by special promotion
  - **Sales and distribution**
    - Significant focus on business customers, but no fare products designed to appeal to them
  - **Product delivery**
    - Strategy that focuses on ancillary revenue misaligned with loyalty programme that offers poor award ticket availability and limited redemption options, undermining the programme’s appeal to potential co-branded card partners

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**PLUGGING LEAKS AT QATAR AIRWAYS**

By 2006, Qatar Airways had grown from regional flier to global network carrier. Its top-line revenue growth and five-star rating (Skytrax) were impressive. Still, Qatar chief executive Akbar Al Baker believed his airline was leaking significant amounts of revenue. A series of short diagnostic exercises confirmed his hunches.

Over the next two years, the airline embarked on a broad performance-improvement effort in virtually every section of its Pipeline. In **Network, Fleet Planning and Scheduling**, Qatar restructured its Doha hub, modified cabin configuration, and increased aircraft utilisation. In **Revenue Management**, it redesigned core processes such as waitlist management; realigned booking classes; formalised pricing policies and established branded fare products; improved demand forecasting; introduced a new revenue integrity system; and deployed a world-class O&D Revenue Management system.

In **Sales & Distribution**, the carrier introduced a new booking engine; launched e-ticketing; dramatically expanded fare filings; adjusted commission levels throughout the network; and renegotiated GDS and hosting contracts. In **Product Delivery**, it redesigned its on-time performance processes, while in **Loyalty and Customer Relationship Management**, Qatar re-launched the Privilege Club frequent flyer programme. Finally, in **Cargo Revenue Management and Sales & Distribution**, the airline introduced new pricing structures; redesigned core pricing, space allocation and booking acceptance processes; and launched new sales force effectiveness processes.

These changes were neither cheap nor easy, but the results clearly justified the effort. Because quick wins were front-loaded, revenue gains became apparent within a few months. By the end of the first year, Qatar’s unit revenue was surging, even as capacity growth stayed above 30% – a feat rarely achieved anywhere.