



The Evolution Of The Airline Business Model

Technology and business solutions that give low-cost carriers the freedom to grow their businesses as they choose

Low-cost carriers (LCCs) have revolutionised the short-haul market, expanding the choice of air transport to consumers at the lowest cost. And they have done so by leveraging their cost efficiency and innovation to remain in a leading position, even in a disconcerting market. However, as the industry dynamics have changed, so have the business strategies of LCCs.

To compete for cost-conscious, short-haul passengers, many traditional full-service carriers created new products, restructured and streamlined their processes, slashed costs and aggressively priced many routes. As a result, LCCs were forced to change or enhance their business models as well.



While price remains a key competitive factor, it is no longer the sole driver of low-cost carrier business strategies. LCCs now focus on other areas, such as merchandising, multi-channel strategies and increasing partnerships. They also place more emphasis on:

- Maintaining low costs while compensating for rising costs of fuel and aircraft,
- Integrating new services into the current model and enhancing customer service,

- Crossing international borders and experimenting with long-haul segments,
- Expanding market opportunities such as increasing international reach and accessing the corporate segment by participating in a GDS.

With carriers veering from the fundamental low-cost strategy, it is no wonder that the low-cost business model has been difficult to define in recent years. The result of this shift is the emergence of the “hybrid” business model. This model combines the cost-saving methodologies of a pure low-cost airline with the service, flexibility and route structure of a full-service carrier.

Figure 1 demonstrates this phenomenon of evolving models based on three carriers.

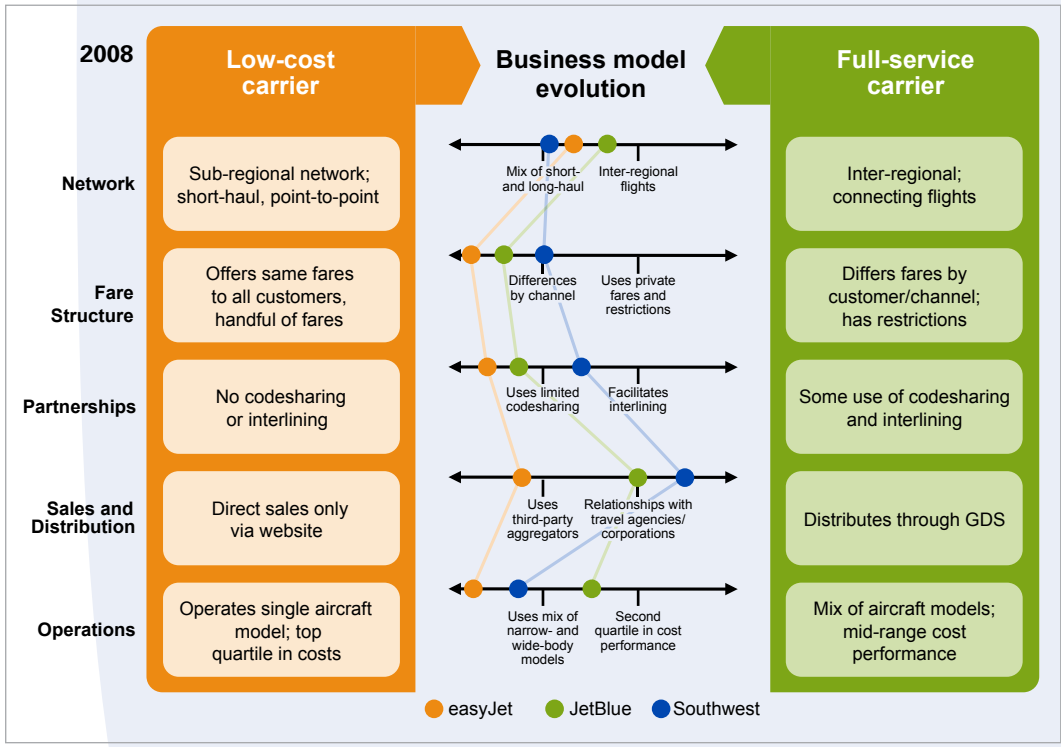
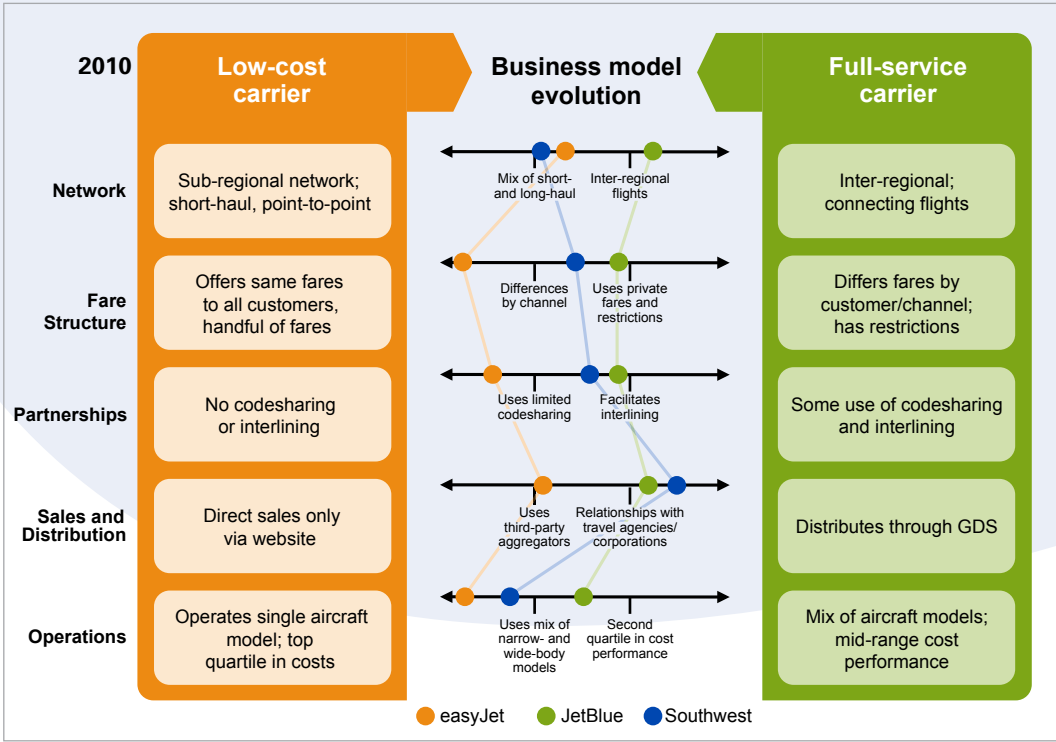


Figure 1 Characteristics of three hybrid business models from 2008 to 2010.



Invest In Technology

that helps your business grow and sets you free

The trend toward a hybrid business model impacts the requirements for IT systems and drives the need for a more sophisticated and flexible technology environment. There are many reasons successful hybrid airline executives invest in leading-edge technology with the right technology partner, such as:

- Moving to a new passenger service system (PSS) that supports the current model as well as enables future capability requirements,
- Requiring technology to evolve and support the airline's scale of business,
- Requiring a provider with deep industry experience and sophisticated delivery methodology that meets current and future demands,
- Looking for greater revenue-producing codeshare and interline partnership opportunities,
- Expanding ancillary revenue,
- Identifying marketing opportunities to gain more accurate insight into customers' behaviour patterns and needs.

Therefore, as a hybrid carrier, it is crucial to acquire technology that "sets you free" to focus on your changing business challenges.

With the right technology, hybrid carriers can propel their businesses forward, responding more quickly and effectively to changes than ever before.

Sabre Airline Solutions® and *Sabre Travel Network*® technology helps your business evolve to the next level. *Sabre*

Travel Network connects sellers with travelers through the world's largest travel marketplace. Our *Sabre*® *AirCommerce*™ solution bundles, powered by the *Sabre*® system, deliver flexibility to meet your airline's unique needs — growing revenue, increasing reach and gaining valuable insight. In addition, by providing a portfolio of progressive solutions, *Sabre Airline Solutions* ensures that you are properly equipped to effectively and efficiently address future business issues as they arise.

No other company can provide technology with the same degree of flexibility to change and adapt as conditions demand. Based on service-oriented architecture, our *Sabre*® *ASx*™ *Airline Services Exchange* gives you the flexibility to control, build and utilise your own in-house systems and/or third-party systems.

And for airlines seeking a cost-effective alternative to an installed on-site system, our Software as a Service offering provides predictable, simplified pricing and equips airlines with an economical way to access our comprehensive portfolio of IT solutions without the usual added IT infrastructure.

With our SaaS offering you can:

- Significantly reduce total cost of ownership,
- Simplify your IT operations by letting us provide the right applications, hosting and maintenance,
- Focus on what you do best, namely managing passengers and flights, because we handle the IT environment, freeing up time and money for you.

Today, more than 130 airlines benefit from more than 400 applications hosted by *Sabre Airline Solutions*.

The technological foundation of our solutions portfolio delivers flexibility backed by years of industry experience, helping you to meet future challenges head on.



Building Powerful Profitability Strategies

with a complete marketing and planning solution

Low-cost carriers excel at streamlining operations and maintaining lower costs. However, to expand beyond the network and consequently increase the competitive landscape, a hybrid carrier needs to ensure that profit remains high. To do so, airline assets (network, fleet) and revenue management strategies need to be optimised.

Our marketing and planning solution offers numerous profitability-gaining benefits including:

Decreased revenue dilution and increased revenue The revenue management solutions you rely on must support the dynamic pricing environment of the hybrid

carrier. Revenue benefits are realised through the support of restriction-free, low-fare ticket strategies, advanced forecasting and optimisation methodologies, accurate seasonality mapping and business support for both market and route analysis.

Choice of processing modes You can run different processing modes based on the desired level of sophistication in inventory control, such as leg-and-segment-based serial nesting, O&D-based virtual nesting and O&D-based continuous nesting.

Improved competitor insight By considering competitor data — from sources such as QL2, Infare or other third-party vendors — during the analysis process, you can be confident of the revenue management decisions you make.

In addition, analysis of competitors' Web data can assist with pricing and revenue management, such as using current data from competitors' websites to determine whether making inventory modifications in response to their available fares is a sound business decision.

“As an active Sabre® AirVision™ Revenue Manager customer, we are enjoying the benefits of the solution. The recent measuring value report highlighted key metrics to our team. It is a great tool to help us to understand where we are doing well, and also where we need to focus and perhaps change some internal processes. We have observed increased productivity and good quality demand forecast. This helps our analyst make optimal decisions on managing our inventory. We are very happy with the support we receive from the Sabre [Airline Solutions] team.”

— an Asian hybrid carrier

Competitive revenue management Instead of using historical data maintained by the revenue accounting department, competitive revenue management helps you optimise the decision-making process by using data from the revenue optimisation tool. Integration between the revenue optimisation tool and the fare management tools enables your revenue management department to perform near real-time decisions, with the most relevant competitive insight.

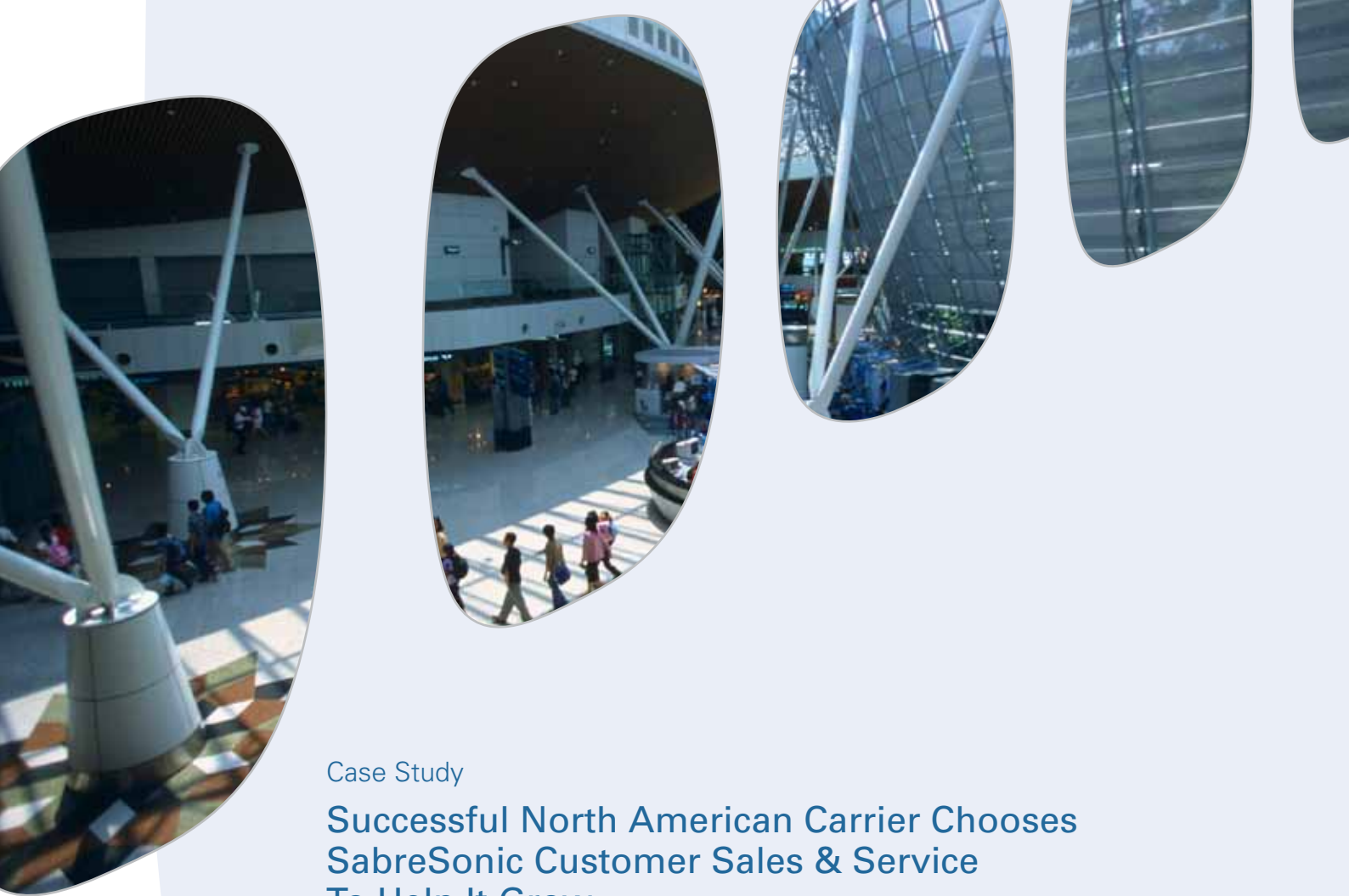
This integration also enables improved pricing actions. Provided with not only historical market trends but also current

and dynamic information, you have access to future average fares, fare seasonality and even price sensitivity within the market. And with communication between external sources such as ATPCO and internal sources, such as a schedules analysis tool, your pricing analysts have access to data needed to publish the most competitive fares to support your airline’s position in the markets it serves.

Enhanced network planning You can more readily decide which markets to serve and how often, and when to fly and which type of aircraft you need to assign to a specific route. Plus, you can stay ahead of the competition through evaluation of the profitability of various scheduling alternatives and the opportunities provided by codeshare and network planning tools.

Figure 2 Sabre® AirVision™ Marketing & Planning key capabilities





Case Study

Successful North American Carrier Chooses SabreSonic Customer Sales & Service To Help It Grow

Background

A North American carrier that boards more than 20 million passengers per year selected the *SabreSonic CSS* solution to power its reservations, departure control functions, inventory and Internet booking engine.

The carrier's previous reservations system offered limited ability to connect to and interact with other airline reservations systems and GDSs. While the system supported the carrier's point-to-point route and manual processes for managing revenue and fares, it could not sustain the airline's need to benefit from additional revenue sources by evolving its business model to include codeshare and interline partnerships opportunities. A more sophisticated solution was required to effectively support these relationships.

Approach Taken

Reasons for choosing *SabreSonic CSS* included:

- Improve revenues through codesharing and partnerships,
- Provide more flexible ancillary services sales and branded fares for higher up-selling capabilities,
- Guarantee an end-to-end customer view of its frequent flyer programme members.

Results

Both the carrier and *Sabre Airline Solutions* consider the cutover a success. A major contributor to that success was both parties' understanding of and acting upon the need for effective project planning as well as commitment to manage the transition.

The carrier is confident in having chosen the right technological solution for the next stage of its evolution.

“The SabreSonic® Customer Sales & Service solution will enable JetBlue to offer greater revenue-producing codeshare and interline partnership opportunities, which will expand network choice for our customers, expand ancillary revenue and marketing opportunities and will help us gain more insight into our customers ...”

— Rick Zeni, vice president
change management-passenger service system at JetBlue

Growing Revenue And Enhancing The Customer Experience

with a flexible customer sales and service solution

When it comes to meeting ever-changing customer expectations, hybrid carriers significantly benefit from a customer solution that gives them the flexibility to respond efficiently and quickly to their customers’ requests. Our offering provides a complete end-to-end customer sales and service solution. It delivers powerful distribution, sales and fulfilment capabilities from merchandising, e-commerce and reservations to inventory and departure control.

Key customer sales and service advantages include:

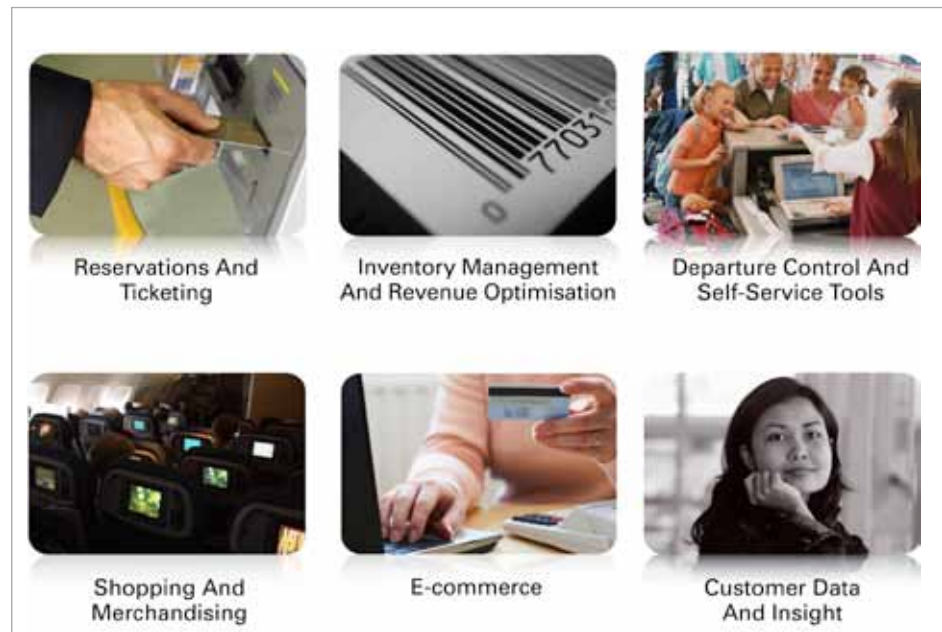
Gain full partnership and expanded distribution capability You can leverage “traditional” airline partnership features, such as:

- Complete airline-to-airline connectivity (interline electronic ticketing, codeshares, EDIFACT through check-in and direct connectivity for availability, selling and seat selection),
- Full support for all alliance requirements.

Access real-time customer data at all touch points By better understanding your leisure travellers and buyer preferences, you deliver a stronger loyalty strategy. This is accomplished in part by:

- Accessing information on your leisure or corporate customers, such as preferences, trip history, loyalty information and customer service history via a powerful data warehouse of customer information,

Figure 3 SabreSonic Customer Sales & Service key capabilities



- Identifying and communicating about customers as well as communicating with customers at all touch points of the travel experience, including hassle-free check-in and consistent service via handheld devices and self-service kiosks.

Manage increased revenue opportunities

Handle ancillaries within the core host system as well as through the Sabre® GDS.

Prioritise your marketing efforts Employing a robust, configurable, easy-to-use solution that uses airline-specified parameters to calculate a single customer value score.

Leverage your online presence Whether you select our Internet booking engine or elect to employ your own, you can further increase your online market share by taking advantage of the tools we provide.

For example, the advanced shopping engine can return hundreds of low-fare options. Also, you can generate additional revenue with branded fares and inventory control of ancillaries as well as business agreements with different insurance providers.

Our solution gives you the flexibility to maintain full control of the Internet booking engine while integrating it with third-party products.

Enhance your reporting methods

Presenting information in the right format speeds decision making. Using the latest business intelligence technologies, a set of integrated reports captures your performance measurement as well as the effectiveness of market actions taken. You can produce an “at a glance” view of the overall health of your airline. This graphical report aggregates critical performance metrics and provides updates on a timely basis (Figure 4).

Figure 4 Sabre® Executive Dashboard



Maintaining The Hybrid Carrier's Cost Advantage

with an enterprise view of the airline operations

As hybrid airlines grow and increase scale and complexity into their operations, the need to maintain costs at the lowest level possible is a given. Also, the airline's IT solutions must support changes that accompany this growth.

The IT solutions must continue to manage processes efficiently and effectively while coping with increasing complexity from legal requirements and different regulations to disruptions and irregular operations. With our enterprise operations solution, you can maintain your cost advantage by:

Optimising your operations from planning to execution and expanding efficiently when complexity increases You can better manage your fuel spend through variable cost-index flight planning and weight-and-

balance calculations. Also, crews are better utilised through improved rostering and pairing. Plus, airport operations are more efficient through better staffing management and employee staff management tools.

Automating processes and improving decision making Integration among systems is critical to managing complexity within airline operations. With our solution, changes made in one system are sent to down-line systems via service-oriented architecture to ensure that all teams are working from the same data. This increases not only the quality of data being shared but also the effectiveness of the solutions — better data creates better results. With just-in-time information capabilities, information is accessible at the right time in the right format to the right operations personnel.

Managing disruptions efficiently Integration among systems is also critical during disruptive events. You can return to normal operations as soon as possible by creating multiple scenarios that can be evaluated quickly. With crewmember and passenger reaccommodation and a swift recovery time, you minimise the financial impact of disruptions and minimise downtime impact.

Figure 5 **Sabre® AirCentre™ Enterprise Operations** key capabilities





Case Study

APAC carrier chooses a number of Sabre AirCentre applications to support its growth and increased complexity.

Background

A low-cost carrier based in APAC experienced a rapid growth both domestically and internationally. As a matter of fact, its fleet increased from 15 aircrafts to 70 within a seven-year time period.

With that growth, the airline faced a number of challenges:

- Which applications to consider since it could not support continued growth with its current non-scalable applications,
- How to continue to grow and increase the size of the fleet and the crews, while maintaining low cost,
- How to ensure the airline followed the domestic and international crew regulations as its number of crewmembers increased.

Approach Taken

- The carrier invested in a number of applications that would support the automation of its processes in the operational areas of crew, flight planning, reaccommodation and flight control.
- It chose from the beginning a system that answered its high requirements for scalability and flexibility to support its aggressive growth plans.
- The carrier acquired a regulatory system to ensure it followed all required regulations.

Results

- The carrier managed to handle the growth it was experiencing over the years. It is today running multiple airlines on a single IT platform.
- The *Sabre AirCentre* crew and flight operations solutions enabled the airline to automate a number of processes without increasing the number of people in the operational area.

Increasing Reach Beyond The Network

by selling through multiple channels

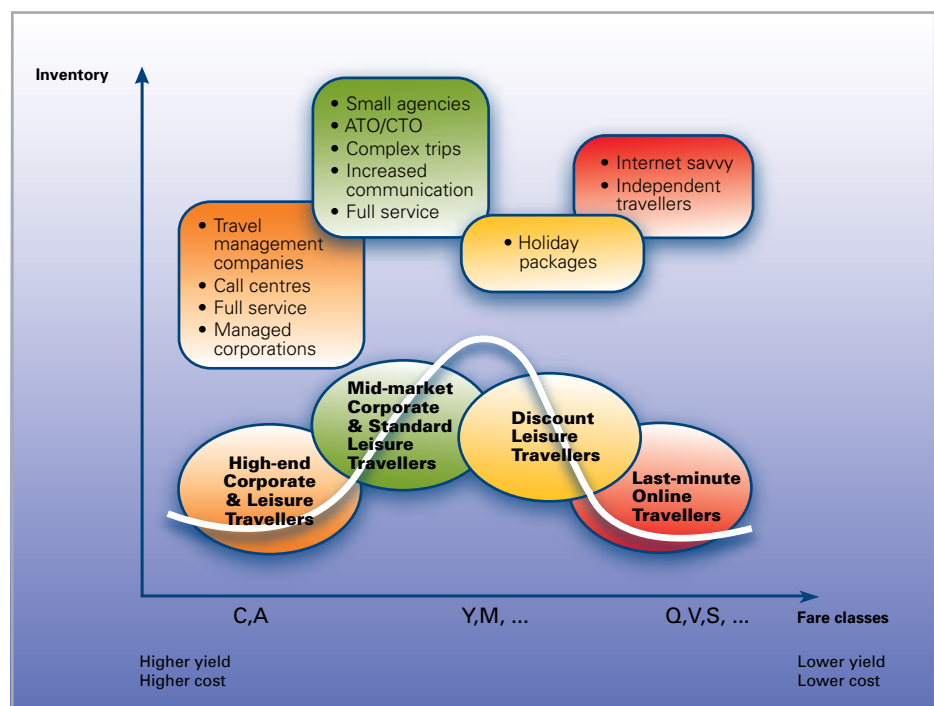
Historically, low-cost carriers have typically focused on the direct distribution channel, capturing customers who purchase from their websites in order to maintain their low-cost structure. However, LCCs that move to the hybrid business model look beyond the Web for new ways to generate additional revenue. A multi-channel distribution strategy provides customers access not only over the Web and through call centres but also through GDSs or online travel agencies. By expanding your reach

beyond the current network or beyond the traditional leisure traveller segment, sales opportunities are maximised.

Our distribution and marketing solution helps you:

Attain distribution balance The multi-channel distribution strategy offers a variety of benefits. Most important is the ability to reach more consumers through additional avenues. It is well known that the majority of consumers access multiple channels to shop and book travel. You can capture the maximum number of travellers and increase your market share by offering your product through multiple distribution methods — pulling in the travellers who prefer to choose from among multiple channels based on the purpose of the trip.

Figure 6 Understanding a customer's profile and purchasing patterns, together with MIDT and TCN data, is a vital part of a successful distribution strategy, resulting in increased sales through each channel and maximised inventory and revenue.





Case Study

North American Carrier Increases Revenue By Participating In GDS

Background

With 74 percent booking on its website, this North American low-cost airline left the GDS in 2004 to reduce cost. Two years later, the airline's website produced 79 percent of the airline's bookings, but the carrier was searching for ways to further increase its revenue and expand its brand presence, in particular, by targeting corporations and increasing its average yield.

Approach Taken

The carrier re-entered the *Sabre* GDS, this time, with more functionality and a renewed interest of engaging travel agencies on a more proactive basis. Eventually, the carrier increased its channel participation at a higher connectivity level to support the requirements of the travel management companies and corporations, and additional connectivity requirements such as e-ticketing or partnerships with other carriers.

Results

- Between 2006 and 2008, the airline saw an additional 13 percent of bookings coming through the indirect channel. Interestingly enough, the costs associated with the shift from direct to indirect marketing was offset by incremental revenue growth.
- With enhanced functionality and improved ticketing capability in the *Sabre* GDS, global TMCs such as American Express and BCD can book the airline more easily and reliably than ever before.
- Increased revenue was attributed to:
 - Additional bookings, the majority of which came from travel on Tuesday, Wednesday and Thursday — days with the lowest load factor,
 - A higher fare per segment than on the airline's website.

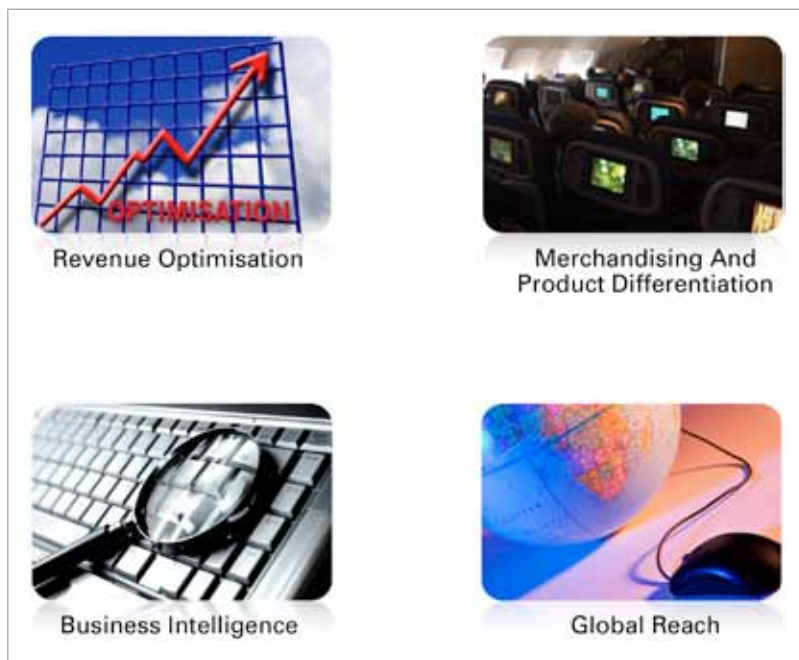


Increase yield through the corporate segment Reach the corporate business segment and increase your average yield with access to airline content in the GDS. GDS distribution makes your published fares and inventory readily available to travel agents as well as corporations.

Realise Additional Revenue With The Sabre GDS

With 51 percent share of global TMCs, the *Sabre* GDS holds the largest share of corporate bookings worldwide and is best positioned to provide access to leading corporations worldwide. The *Sabre* GDS is also the first and only GDS to integrate merchandising capabilities into the travel agency desktop, resulting in cascading benefits for airlines, corporations, travellers and travel agencies.

Figure 7 **Sabre® AirCommerce™ Distribution & Marketing** key capabilities



In turn, by handling large corporations' travel, the TMCs benefit from the streamlined shopping and booking process available through the GDS as well as its support of ticketing and servicing activities.

Make the most of your brand You can leverage your advertising investment to increase your brand presence beyond hub cities where your market penetration is generally less through GDS distribution and online travel agencies.

Gain consumer insight You can perform competitive, time-sensitive, decision-making processes based on relevant market information through a number of applications, data sets and data-processing services.

Joining A Global Community

Our airline community comprises airlines of many types and sizes from around the world. More than 380 aviation customers comprise the largest airline software community in the world. "Community"

means more than adopting a common platform — to us, it means providing customers a meaningful way to help shape the *Sabre Airline Solutions* and *Sabre Travel Network* offerings they use.

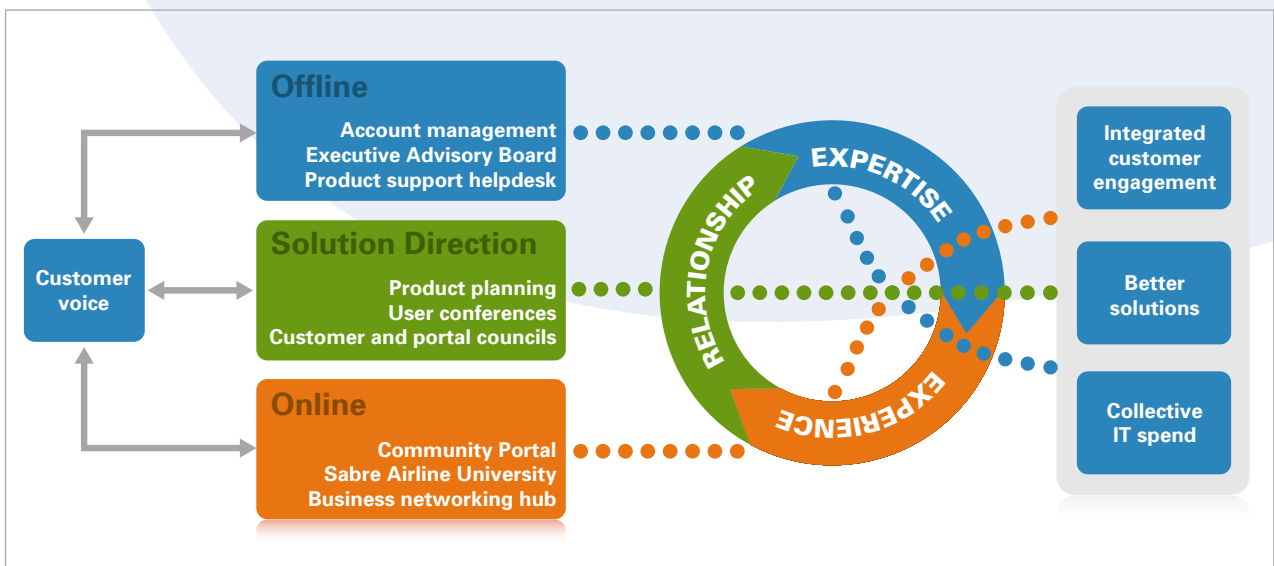
Through multiple online and offline channels, customers have the opportunity to interact with and among members of the most active global airline community.

Online collaboration is centered on our world-class *Sabre® Community Portal*, a one-of-a-kind Web environment that provides seamless access to information, on-demand support resources, technical support services, applications, documentation, training and business networking, available 24 hours a day, seven days a week.

Our off-line community collaboration includes community conferences, advisory boards, customer councils, working groups and solution design forums.

From the beginning of our customer engagement to implementation and throughout our ongoing relationship, we encourage our airline community to communicate and collaborate with us.

Figure 8 Our community





Our Unique Experience

Sabre Airline Solutions and *Sabre Travel Network* are uniquely qualified to successfully partner with airlines using a hybrid business model. Our professionals understand the airline business and the evolving competitive environment, and we are committed to working together with value-focused carriers to ensure their continued success in this sector.

The technological foundation of our solutions portfolio delivers flexibility so airlines can adapt as conditions demand, including affordable SaaS access as an alternative to on-site systems.

The unmatched breadth and depth of integrated, dynamic business solutions we offer are delivered by airline industry experts to:

- Maintain low costs,
- Increase revenue and yield,
- Integrate new traveller services,
- Expand market opportunities.

Visit our website at
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