Guest Editorial

It is amazing that over a year has passed since I last had the pleasure of being guest editor for the IATA Revenue Management and Pricing (RM&P) Conference special. The last 12 months have thankfully seen a steady upturn in the airline industry overall. The established low-cost carriers (LCC) have continued to grow and enter new markets, and there has also been a rapid increase in new LCCs globally.

Many of the larger legacy carriers, particularly in the USA, have struggled to restructure to lower costs and remain competitive in the face of the new competition; several have moved into 'chapter eleven' for protection. This seems incredible in the USA, as a mature market where air travel is as commonplace as jumping on a bus or train in other parts of the world, but many airlines have allowed antiquated working practices to continue rather than recognising and fully responding to the new environment.

Meanwhile, others such as BA, Lufthansa, Air France and other leading carriers in Europe have bounced back, responding well to the new situation with new pricing structures, reduced work forces and a focus on costs, especially in the distribution area. This has led to greatly increased internet selling, lower or zero agents' commissions and a reduction in waste or poor working practices. Although there is still far to go for these carriers, as demonstrated recently with the BA catering industrial action, at least the spirit is willing!

Asian carriers, who have not had such a fraught time in the last three to four years, are now themselves being put under threat, with the introduction of LCCs into their market place, with Air Asia, Virgin Blue and others attacking their routes. Even

India, which has been relatively quiet the last 20 years, is now witnessing a massive increase in new carriers, both domestic and international, who are growing rapidly thanks to a pent-up demand in a country with a huge potential for travel. China is also rapidly moving towards a more deregulated market and has seen massive expansion in passenger numbers with an even greater potential on the horizon as international travel for its citizen looks to become easier.

So, we are witnessing massive changes in the airline industry, most of them for the better in the long run, especially for the consumer, who now has greater choice at a lower price. Despite ongoing terrorist attacks, major disruptions due to freak weather conditions and the ongoing problems in Iraq, we are still witnessing an upturn in passenger demand, with numbers eclipsing those achieved before 9/11. Although travelling becomes increasingly tedious as necessary security measures bite, business traffic in particular continues to grow, although no longer always travelling in premium cabins, especially on shorter sectors. So, overall, things look increasingly bright, providing the recent explosion in oil prices is tempered in the next 12 months as production increases and prices stabilise again.

Recently, the single biggest challenge has been how traditional airlines should restructure their pricing approach on those areas of the business being so adversely affected by LCCs. Most have moved through this phase with some success. This has led to airlines realising that the traditional revenue management systems (RMS) are no longer fully effective in an environment that has been adjusted to the

new LCC pricing model. For in the absence of price fences and a move to one-price displays using pricing ladder approaches, the traditional expected marginal seat revenue (EMSR) algorithms can actually produce worse and declining results rather than the optimal results they were intended to deliver. Even if an airline purchases a new LCC module which delivers the technical solutions, it still needs to cope with a transition period where many of the historical data are rendered unusable. It was against this background that many of the world's leading airlines met in Budapest last October to attend the IATA RM&P conference. I was privileged to have helped design the programme and to chair the event on behalf of IATA. The conference content reflected the topical subjects of the day, including:

- LCC approaches
- traditional carriers response to them
- revenue integrity, a major focus as airlines closely examine their costs
- e-commerce
- the advent of revised pricing to combat LCCs
- system changes required to operate in the new environment.

It is interesting to note that, while most airlines had invested heavily in RM during the last 30 years, little or no investment has been made in many pricing departments, which often sat in isolation from RM departments. This has changed at most carriers in the last three years, with most successful carriers now combining these two departments, and some have started to integrate both the systems and the business processes. Internet sales have accelerated as consumers have moved towards the internet to find the best deal, and moved away from travel agents, who have also suffered with commission reductions or eradication.

Introduction to conference issue

We had many excellent speakers at this conference, and it would have been nice to feature all of them in this issue. Owing to a combination of time pressures, space and to avoid repetition on common themes, however, we have featured just a selection of the presentations which I hope reflects the flavour of the event. I should also like to take this opportunity to draw your attention to this year's event, which will be held in Dublin during October, details of which can be found in the forthcoming events section towards the back of the Journal.

Among the papers featured in this issue from last year's IATA conference is a sales-centric revenue management approach exercised at Emirates and presented by Ramesh Venkat. This provides an interesting and perhaps unconventional method of getting Sales involved in the practice of RM. It certainly provided interesting discussion among the delegates, but it illustrates that there are many ways to implement and exercise RM on a daily basis, and one always has to take into account variations in different parts of the world and the need to recognise sensitivities and established practices that cannot always be changed overnight.

We also feature Mauricio Acuna Valdés from LAN, a carrier for which I hold huge respect, as it has leapfrogged many other carriers to enter my top 10 airline practitioners of RM&P. His paper shows how LAN has achieved considerable success using an aggressive strategy to align the RM organisation to the same objectives. LAN probably have the best set of RM&P solutions obtainable, but they have integrated them very well with their process and people, which is the real secret to their success.

Another great favourite at the conference is the very modest Professor Stowe Shoemaker, who always provides a stimu-

lating and thought-provoking insight into the various dimensions of pricing, liberally sprinkled with live examples that enable people to relate to the theory. In this paper, he offers his thoughts on how to influence consumers' choice and shows how airlines can make more money if they consider consumer psychology in their pricing decisions.

Not at the conference, but a late addition to the Journal, is a very worthwhile paper by Ian Douglas who raises the question 'Do business class air fares capture added value for airline alliance membership?' Which is very timely, given the surge in demand for business class travel once again.

We also feature a number of additional academic papers previously held over from an earlier addition, as we are fortunate enough to continue to receive an abundance of high quality papers in all areas of RM&P from various angles, such as practitioners and academics. These include 'Pricing and production games under revenue sharing and information updates' from S. Luo and M. Çakanyildirim and 'Price disparity based on trip origins: Evidence on dense non-stop intercontinental air routes' by T. Fan and R. Leung.

We also feature another conference review by W. Elmaghraby, with an overview of the INFORMS April Conference held in Palm Springs which features excerpts from five of the presentations given.

Future of revenue management

We conclude our papers with the Journal's regular 'Futures' feature, which sees

Richard Ratliff of Sabre offer his thoughts on the future outlook of airline pricing and RM. Richard considers the likely evolution of airline pricing and revenue management over the next five years, which he states can be summarised in two words: 'competitive awareness'. I think this is a very timely paper considering that we are definitely in a state of transition from 'old revenue management' into the currently emerging 'new revenue management' which combines RM&P and takes into account full service carrier models and the new LCC approach.

Book reviews

This month's book review looks at very different books. The first is 'Winning the Profit Game: Smarter Pricing, Smarter Branding' by Docters, Reopel, Sun and Tanny, which is reviewed by Julian Hoseason.

The second book and of particular interest to me is 'Blue Streak: Inside Jetblue, the Upstart that Rocked an Industry' by Barbara S. Peterson, which is reviewed by Peter Jarvis. This sounds so interesting that I have just ordered it from Amazon!

Forthcoming events

As usual we feature a list of future RM&P events in the coming year. It is interesting to note the continued growth in conferences on this subject matter, which offer so many opportunities in a variety of worldwide locations throughout the year. So, check them out and protect your diaries now!

Paul Rose
Editorial Board