

MERCHANDISING



In Action



Introducing the FLX Merchandise Use Case Challenge

Ancillary revenue has become key to airline success, with almost \$50 billion in revenue projected in 2014. As luck would have it, we have an award-winning airline merchandising engine (FLX Merchandise) that is helping a number of airlines grow revenue and make customers happy. Among all the cool features of FLX Merchandise, without a doubt, the one that always tops the list among our airline users is flexibility. It's always fun to demonstrate how new products and services can be introduced in a matter of minutes (not months!), without hard coding and without the overhead of administrating a static product catalog.

In fact, showcasing the flexibility is how we came up with the very first FLX Merchandise Use Case Challenge. There we were, leading a Merchandising Master Class in Singapore, and we thought, "Why not try a live on-the-spot challenge?" So about five minutes into the event, we invited roughly 100 merchandising managers to submit ideas and strategies for merchandising. What do you want to offer, to whom, and how? We were impressed by the creativity of the submissions—of these people really thought outside of the box!

Next, we selected a few of the entries and configured them, live, in our FLX Merchandise product. No hard coding. No developers. No problem! An hour later, we came back and presented a handful of the submitted

use cases functioning live in a test environment. Let me tell you, it was fun to hear—the oohs and aahs were priceless! We kept hearing that IT vendors had quoted these airlines months – even a year – for something similar and they could not believe that it was here, working in a test environment just an hour later!

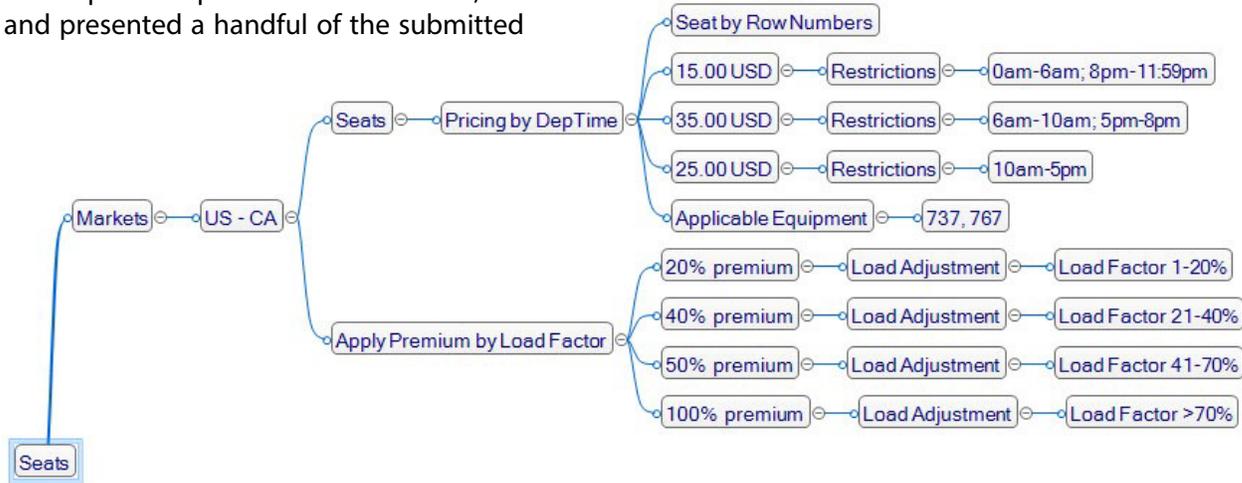
Ever since, the FLX Merchandise Use Case Challenge has been popular at all of our events, and we are forever receiving more ideas. So, we had an idea: let's put some of the best challenges in the blog for everyone to see, and invite even more participation!

So here it is, the first installment of the FLX Merchandise Use Case Challenge!

Today's Challenge: Seats

Seats are our most common request, but for today's savvy airlines the requirement is a lot more dynamic than simply charging a premium for select seating. Today we're going to highlight two of our favorite seat challenges: 1) dynamic pricing based on row number and departure time, and 2) dynamic pricing based on load factor.

Here's a screen shot from the FLX Merchandise Offer Designer:



Let's first look at the dynamic pricing by row number and departure time. Follow the node labeled "Pricing by Dep Time." We designate rows that have premium seating, say rows 21-25. But now, notice the three price points (\$15, \$35, \$25). Follow along the nodes and notice that those seat prices are designated by departure time, so flights departing between midnight & 6am and after 8pm charge \$15 for premium seating, while flights departing between 10am & 5 pm carry a \$25 charge. It's dynamic supply and demand!

To the right is a screenshot of how the properties are determined.

Now let's look at dynamic pricing based on load factor. This is one of our favorites because it really can maximize revenue, while also giving airlines the opportunity to earn some revenue on a premium seat that would otherwise go unsold.

It doesn't take an economist to tell you a \$35 seat that doesn't get sold isn't worth \$35 anymore. It's worth \$0. This is where FLX Merchandise's dynamism really shines. FLX Merchandise can adjust the price of seats if the departure day is getting closer and there are still many available premium seats. This is a great opportunity to really optimize your offer.

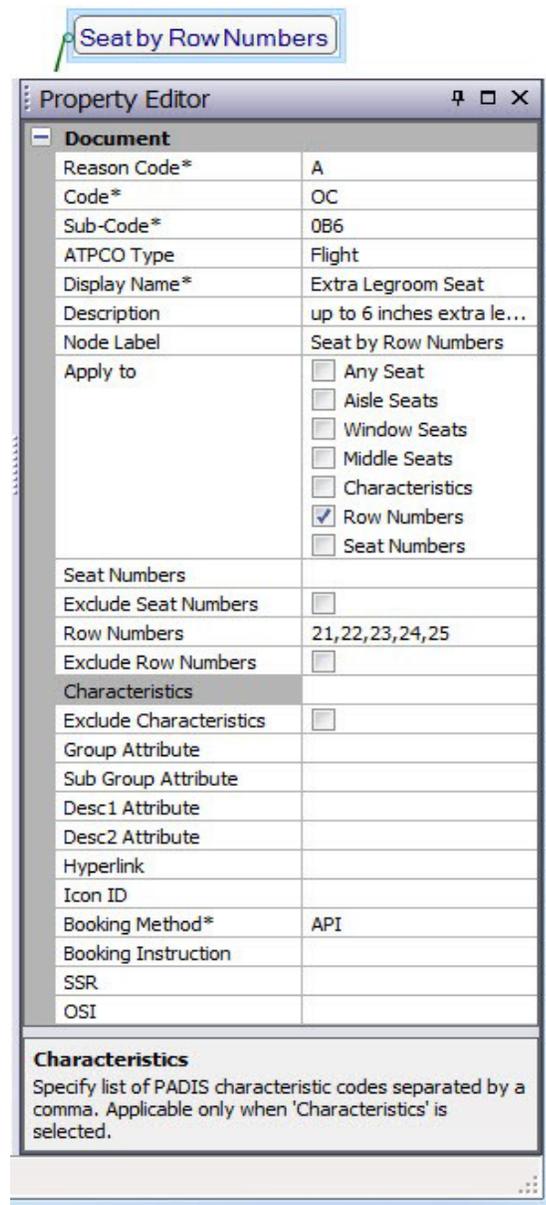
Maybe Jane Doe wouldn't pay \$35 for a premium seat, but it's now the day before departure and the seat has dropped to \$20. This may entice Jane to now purchase the seat. She gets value for it, and the airline makes \$20 on a seat it would have given away to one of those clever people who book a seat at the back of the plane then ask the gate agent if there's anything available closer to the front and end up in that premium seat for no charge. We've all seen it happen!

ROI: Let's say you're a Tier 2 airline and board 20 million passengers a year. Now let's say you introduce (or enhance) your premium seating and assume, on average, you can get \$25 for a premium seat. Let's assume your take rate on premium seating is 5%. Let's crunch some numbers here, and...

That comes out to about an extra \$2 million a month. I don't know any airline that wouldn't mind an extra \$2 million a month in revenue...

Got a merchandising idea for the FLX Merchandise Use Case Challenge? Send us an email with your idea!

usecasechallenge@farelogix.com



Merchandising FAQ: How much coding is required to change the price or the rules for an offer?

That's an easy one – NONE! Any merchandising solution worth its salt will enable your business users to make changes in a matter of minutes. That's what offer optimization is all about!

