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To become better retailers and meet modern travelers' expectations, airlines must incorporate intelligent technology that brings intelligence into their retailing strategies. Intelligent technology creates opportunities for airlines to identify, understand and predict customer behaviors. Through machine-learning algorithms and operations-research models, airlines can predict customer preferences through more proactive tools and mindset. Contrary to common belief, this opportunity doesn't purely exist in the marketing department. Untapped opportunities exist within the planning, pricing, revenue management and offer-management areas as well.

Intelligent

Intelligent Retailing: The Age Of The Customer

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in•tel•li•gent

in'teləjənt

adjective

having or showing intelligence, especially of a high level.

synonyms: clever, bright, brilliant, quick-witted, quick on the uptake, smart, canny, astute, intuitive, insightful, perceptive, perspicacious, discerning

Intelligent retailing – simply put, it's a hot topic that will be discussed during most conferences, trade shows and meetings. Moreover, it is likely one of the top reasons airline executives lose sleep at night because it is not just about airlines becoming better retailers, it's about airlines becoming intelligent retailers. Intelligent retailing transcends the days of consumers having minimal options or power. Today, it requires every facet of an organization to be customer focused.

The Age Of The Customer

According to Forrester, "empowered customers are shaping business strategy. Customers expect consistent, high-value, in-person and digital experiences. They don't care if building these experiences is hard or requires a complex, multi-function approach from across your business. They want immediate value and will go elsewhere if you can't provide it."

We see this playing out in myriad ways – the way travelers shop, book or even arrive at the airport. What may be most interesting is how today's savvy consumers are changing product and pricing models.

"Customers have new expectations," said Tien Tzuo, founder and CEO of Zuora, an

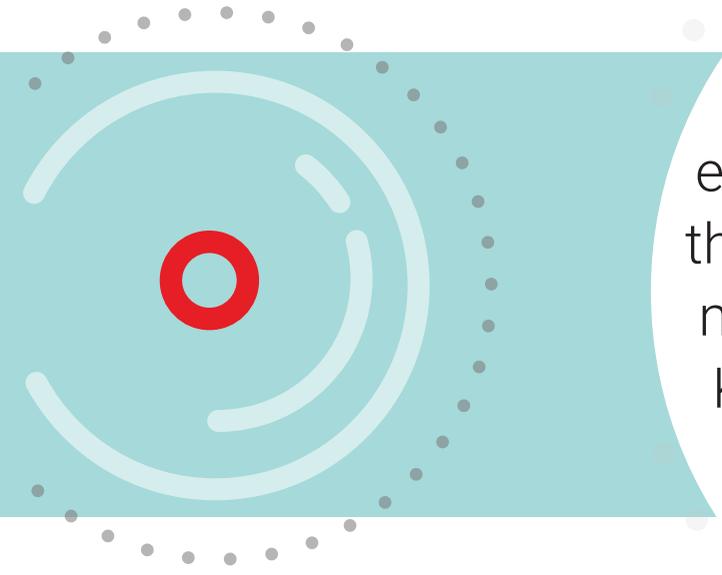
enterprise-software company. "They want the ride, not the car. The milk, not the cow. The new Kanye music, not the new Kanye record."

Tzuo also explained how companies initially tried to solve this fundamental shift by building robust customer-relationship databases, implementing customer-loyalty programs and showering people with customer-satisfaction surveys. However, even after all the programs, systems and customer feedback, this approach still didn't decipher what it means to be a customer-centric organization in the age of the customer.

Fast forward to today. Retailers that are successful in today's complex and competitive environment aren't stopping at customer segmentation; they go beyond that to understand individual subscribers and customers. These individuals are treated as unique customers with specific offerings, price points and experiences that fit their specific needs and expectations. These intelligent retailers have invested for the future by putting their customers at the forefront and building long-term relationships. They start with the customer and end with the customer. It's not a linear approach, it's a circular one that is constantly evolving and developing new and unique approaches to serve individual customers.

The age of the customer sounds daunting for the airline industry. It's already a highly complex environment, and adding the idea of one-to-one touchpoints might sound impossible. The good news, however, is that while customers are dictating the way airlines do business, technology is driving how airlines do business.

length, fare price or the customer profile, and there is no strategy or data-driven reason behind it. However, imagine if an airline identified each unique shopper and could determine exactly how much it should charge for a bag based on machine-learning algorithms that have considered customers' willingness to pay.



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It Starts With Commercial Planning

To understand intelligent retailing and how it's achievable for airlines, let's start at the beginning -- commercial planning.

For most airlines, the commercial-planning department is viewed as the “brains” of the business. It creates the strategies and is responsible for building the best schedules, the best availability options and the best prices. Traditionally, “best” has always meant the option that maximizes the most revenue. Not that revenue isn't still top of mind, but now, commercial departments must create a strategy that balances revenue and has the unique target customer in mind.

For example, today, most airlines charge a standard baggage fee regardless of the trip

Furthermore, imagine if an airline could be more competitive by creating an attractive schedule to a new destination. In this scenario, the itinerary may not include the lowest fare. Instead it would include the most attractive (and revenue-generating) fare because it had already considered competitive offerings.

The age of the customer has created some of the most competitive times for airlines. Thus, while intelligent retailing was first driven by customer demand, it will also naturally create a competitive divide between the airlines that are adjusting to be more intelligent from those that continue using old methodologies and failing to evolve.

Intelligent Technology

The industry has clearly entered the age of the customer (with more competition than could be imagined). Therefore, change must start with smarter commercial planning. The next topic, however, is determining how airlines can bring intelligence into their retailing strategies and practices to operate in a circular, customer-centric world.

The answer is intelligent technology infrastructures, because before we can begin to implement intelligent solutions, the underlying technology must be in place. Intelligent technology infrastructures meet at the intersection of the modern consumer and an airline advancing in the digital world. It combines decision science, artificial intelligence, machine learning, sophisticated operations-research (OR) models and mined customer data, just to name a few. Further, it doesn't just power complicated models or systems, it also enables airlines to do something with it. It provides relevant insights to offer the unique customer the right offer at the right time and at the right price.

In addition, intelligent technology infrastructures solve some of the airline industry's toughest challenges. Most airlines are not making headlines about their infrastructure innovations. More times than not, when talking about technology related to the airline industry, the words archaic, legacy and complicated are frequently mentioned.

At Sabre, when defining intelligent technology infrastructures, we first consider how we can bring the

systems of today together. Intelligent retailers cannot forget everything of the past, adopt all new solutions and never turn back. Intelligent airline retailers still need to use passenger service systems and revenue-management systems. However, the way these systems interact, or the way technology providers can build additional solutions that enhance how these systems operate today, is where the magic is going to happen.

Retailing becomes intelligent when airlines can seamlessly provide a unique customer experience because the behind-the-scenes analyst was able to quickly make a pricing or revenue-management decision that was accurate and timely.



Intelligent Solutions

Intelligent solutions have arrived. As mentioned earlier, airlines that focus only on customer-loyalty programs or conduct endless surveys aren't going to survive. Intelligent technology creates opportunities for airlines to identify, understand and predict customer behaviors without having to ask them. Through machine-learning algorithms and OR models, airlines can predict what customers want through more proactive tools and mind-sets. This opportunity doesn't merely exist in the marketing department. The untapped opportunities exist within the planning, pricing, revenue-management and offer-management areas.

Moving forward, intelligent solutions will empower these departments to:

- Improve schedule synchronization and deploy schedules faster to increase revenue and reduce reaccommodation costs;
- Monitor and analyze fares automatically to provide an enhanced competitive advantage;
- Deliver persona-based, flight-plus-ancillary bundled offers;
- Provide broad pricing recommendations that are buffered from abrupt market changes and use multi-channel availability;
- Deliver personalized offers and services that are consistent across all channels.

Schedulers can produce intelligent schedules; pricing analysts can create optimal prices; and revenue analysts can make the right seats available at the right time. For all intents and purposes, it is what we refer to as an intelligent retailing nirvana because intelligent solutions are tightly integrated, meaning the process cannot end with commercial

planning. The rest of the magic happens because the "brains" an airline has grown from creating intelligent schedules, availability and prices can be carried across its entire enterprise. As a result, everyone is operating from the same intelligent information and can make informed, accurate decisions. No longer are the "brains" confined to the commercial-planning department, because the "brains" can be tapped into across every solution and every department.

This is particularly important with offer management. In the age of the customer, offer management plays an integral part in how airlines deliver a personalized and seamless experience to the customer. If an airline has intelligent solutions throughout commercial planning, it gives analysts a complete understanding of the customer, so they can package and price additional products through all channels. Furthermore, next-generation shopping is



key to providing the retailing experience travelers are accustomed to. Intelligent shopping technology enables airlines to:

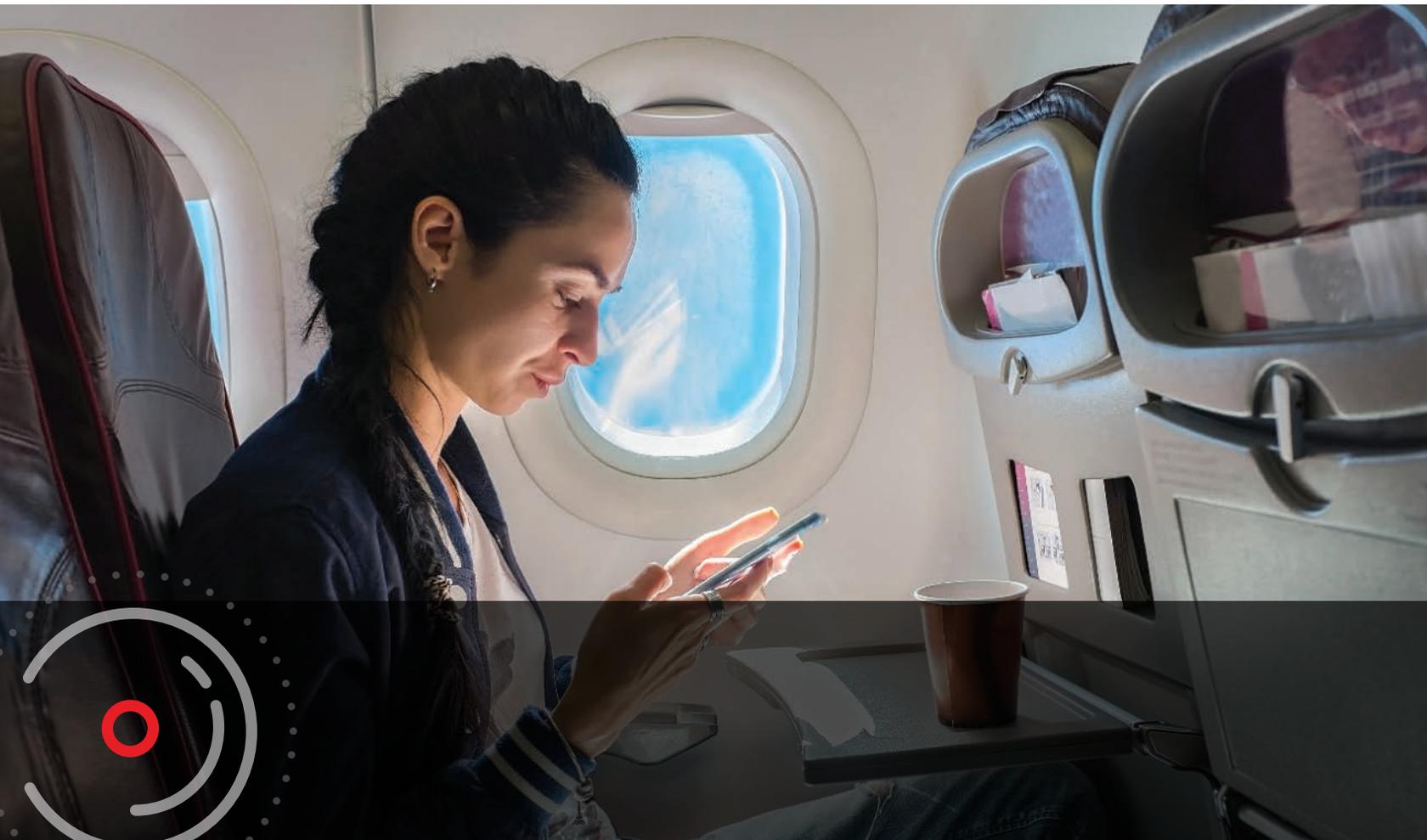
- Personalize the shopping experience by trip-purpose segmentation,
- Bring ancillaries into the shopping path so consumers can shop for flight and ancillary bundles together,
- Significantly improve shopping response times, despite the complexity of the request.

Intelligent solutions are not only built with machine-learning and artificial-intelligence capabilities, they are created with state-of-the-art, cloud-enabled, scalable structures. Therefore, the accessibility they provide is unmatched to today's systems.

The Opportunity Is Now: Dynamic Pricing

For Sabre, one of the clearest examples of how airlines can become intelligent retailers is through dynamic pricing.

Dynamic pricing is powered by a set of intelligent pricing and revenue-management tools that empower analysts to improve decision-making and maximize revenue in real time. It considers both demand and competition and dynamically responds to the conditions at hand to give an airline the best position possible. In the past, revenue-management systems have been the “quarterback” in maximizing revenue for an airline. That is still the case today; however, if airlines want to optimize all revenue streams, they need to evolve their pricing strategy. Reactive pricing strategies are not only hard to sustain, they completely lack a customer-first mindset.



With a comprehensive, end-to-end, dynamic-pricing approach, airlines can:

- Leverage shopping and booking behavior – Pricing analysts can define customer segments, identify customer willingness to pay and set price boundaries that make sense for an airline’s strategy.
- Utilize modern user-interfaces and workflows – Revenue-management analysts have optimal control of seat availability by monitoring and influencing the demand forecast. If an analyst wants to prevent empty seats, he can adjust the forecast in real time to immediately optimize the network and not lose any revenue.
- Consider market dynamics and competition – Pricing analysts can leverage machine-learning algorithms and marketplace data to detect non-competitive scenarios and tactically adjust fares.

Dynamic pricing not only examines price and seat availability. Once an airline views a customer on the individual level and has the intelligent technology in place to learn from the individual’s behaviors, every single product must be considered and intelligently priced, packaged and distributed. Moving forward, an airline should not only understand how much an individual customer is willing to pay for the seat, it should know the combination of products the customer wants and her willingness to pay for ancillaries. Sometimes this means lowering fare price, but in most cases, we believe airlines will be surprised to find they may not be charging enough.

Ready To Intelligently Retail?

It all goes back to the question: “Who is an airline serving?” If an airline is striving to be an intelligent retailer, it must consider a few key questions:



1. What are the needs of the target customer? This will help determine which products to offer and how to compete for those customers.
2. What intelligent infrastructure is needed to meet an airline’s needs? This includes the right teams, processes and technology to build a robust intelligent retailing strategy.
3. How can an airline provide the best retailing options and win against competition? The target customer has a plethora of options. It is pivotal to have the right data and intelligent technologies to be able to proactively stand out against competition and exceed customer expectations.

Intelligent retailing is here. Empowered customers are shaping the way successful companies conduct business. Technology providers that offer intelligent solutions will be the catalyst to helping airlines achieve revenue maximization and provide differentiated experiences for their customers.



For additional information about Sabre’s intelligent retailing solutions, please contact **Sam Chamberlain** at sam.chamberlain@sabre.com.

With nearly two decades of experience in airline reservations, ticketing, pricing and revenue management, Sam is director of pricing and revenue management solutions for Sabre.