Aiming to Plug Revenue Leakage through Integrated Revenue Accounting Systems

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Overview

With margins in the airlines industry being squeezed over the past few years on the back of increased competition following the advent of low cost airlines, soaring fuel prices internationally, and the overall global slowdown leading to traffic downturn, cost control has become a key requirement for airline operators to remain profitable. While cost control is an ongoing process, another bigger problem plaguing the airline industry is the gap between the revenue they invoice and the amount that is actually credited into their account. Other unnecessary cost to airlines are ‘no-shows’ by booked passengers and late cancellations. These are proven to be as high as 30-40 percent on some routes in certain classes and average out at 15 percent for the industry worldwide.

REVENUE ACCOUNTING – The Complexities

Changing priorities of customers throws up a host of challenges for airlines globally. Multiple sales channels and revenue streams, differential pricing mechanism, error-prone manual accounting and stiff competition from low cost carriers is making it imperative for airlines to develop innovative technology based solutions that ensures accurate, and on-time verification of interline billing and plugging of possible revenue collection gaps.

For instance, non-delivery of promised services, fudged billing, taking advantage of loopholes in the system, abuse of the booking process and pricing structure, and speculative booking are some of the many way in which an airline can lose revenue. Factors such as no-shows and late cancellations add to the leakage.

It is common among airlines that many passengers cancel their ticket at the last minute and incidence of passenger no shows in most flights. This typically results in a number of empty seats in the passenger flights, which otherwise can be used by the airline for generating revenues. This also reduces the seat access level for actual customers, thereby prompting the airlines to resort to overbooking. Overbooking, which is not the best solution for combating the problem of no-shows, when done on the basis of inconsistent systems and data can be damaging and can lead to customer dissatisfaction.

In the airlines industry, revenue leakage is considered the norm despite the advances in systems related to customer data management, billing and proliferation of agents. Airline industry body IATA, validated this in a report where it said airlines lose up to 3 percent of their annual revenue due to incorrect use of fare rules, taxes and commissions. The challenge of revenue leakage is heightened due to the inability to properly audit sales, cancellations and refunds, calculation of penalty charges, and implications of foreign exchange rates. Given this background, it is of utmost importance for airlines to find and plug sources of revenues leakages.
Impact On Smaller Airlines

The continuous squeeze on margins on the back of increased competition, soaring fuel prices, and the overall global slowdown leading to traffic downturn, has heightened the need to control costs if smaller airline operators want to remain profitable. The biggest problem plaguing both small and large players is the gap between the revenue they invoice and the amount that is actually credited into their account. While the larger players may have the wherewithal to sustain the business for certain periods, the smaller players don’t have this luxury.

How Do Agents Cause Revenue Loss?

Revenue leakage can result due to the lack of trained airline staff, as untrained resources may inadvertently cause losses due to their lack of understanding about the booking system. Another key area where the airline itself should be held accountable is the last minute changes to set schedules. This can result in passengers missing their connecting flights. The airline is then liable to compensate the passenger for the same resulting into not only revenue leakage due to multiple no-shows but also losses resulting in the claims that may need to be fulfilled in some cases.

However, the biggest culprit probably is the third-party agency or travel agents are they are more commonly known in industry parlance. These agents use numerous tricks to fool the global delivery system or GDS including backdating tickets, not taking into consideration the minimum connection time mandated by the airline, booking in the wrong class to secure a ticket, speculative booking of multiple tickets, duplicate or multiple bookings, and other rampant seat blocking mechanisms.

The Post Flight Syndrome

Revenue leakage is generally discovered once the flight has already left port. As mentioned earlier, a complex chain of parties are involved in the whole process. Hence, it should come as no surprise that in the airlines industry, revenue leakage is considered somewhat of a norm. This continues to be the case despite the significant advances we have witnessed in airline systems managing customer data, billing and agents. Airline industry body IATA, validated this in a report where it said airlines lose up to 3 percent of their annual revenue due to incorrect use of fare rules, taxes and commissions. The challenge of revenue leakage is heightened due to the inability to properly audit sales, cancellations and refunds, calculation of penalty charges, and implications of foreign exchange rates.

One key aspect that leads to losses is last minute cancellation. It is common among for passengers to cancel their ticket a few hours before the scheduled departure and claim a refund. Instances of passengers not showing up for a flight is also a common problem. This typically results in a flight taking off with a number of empty seats, which otherwise could have been used by the airline to generate revenues. This also reduces the seat access level for actual customers, thereby prompting the airlines to resort to overbooking. Overbooking, which is not the best solution for combating the problem of no-shows, when done on the basis of inconsistent systems and data can be damaging and can lead to customer dissatisfaction.

Given this background, it is of utmost importance for airlines to find and plug sources of revenues leakages. Airlines are under pressure to:

- Gain control over the invoicing process
- Shrink the service-to-invoice cycle
- Reduce rejection rate
- Ensure all reserved seats are sold
- Improve billing accuracy, ensure passengers are billed for the seat they actually purchased,
- Enable greater oversight on systems, processes and human resources
- Determine the root cause of suspected leakages and provide correct fix
- Proactively identify leaks and enable immediate rectification
- Provide greater transparency over operations including single window view of data from different booking sources

Passenger Revenue Accounting System

Over the years revenue accounting in the airlines industry has seen a sea change and has become automated to a great extent along with the rise of features such as e-ticketing, which has changed the way the industry functions.
Plugging revenue leakage require a much more scientific management of the whole process including greater transparency in the revenue accounting process through closer integration of the booking, ticket issuing, and fare auditing function. Manual intervention needs to be minimized and rules automated to ensure a booking is authorized by the system if all criteria are met.

A Passenger Revenue Accounting system should help plug revenue leakage and improve competitive advantage by providing useful information on all aspects of passenger revenue. More robust systems also provide analysis of the information on passenger revenue. Such timely information reflects in additional cash flows for the firm as appropriate reporting helps in billing other airlines in a swift manner. Overall it enhances the productivity of the firm by boosting revenues and keeping a check on costs. Over a period of time, the management can aim at making the system more robust and integrating it with other systems of the firm.

Key functions of this system would be to:

- Identify the fictitious names commonly used by agents and passengers to blocks seats in bulk
- Pinpoint duplicate bookings across carriers and airports
- Reduce instances of overbooking and thereby customer dissatisfaction
- Forecast demand and cancellation
- Ensure key functions such as booking, issuing the ticket, and fare data are tightly integrated

**Learning Curve**

One of the examples is that of Air Berlin, which was facing huge loss in revenue. This was due to multiple factors like agent malpractices, inappropriate review of penalty charges which directly resulted in incorrect refund charges owing to wrong calculation of taxes and penalty charges. So the airlines needed to audit sales and refunds on high priority. The requirement was to have a solution in place that would find out the gaps related to fares, taxes and agent commissions and finally issue a proper Agency Debit Memos (ADMs).

The airline zeroed in on NIIT Airline Technologies’ MonaLisa based fare audit process that fit perfectly as a solution for all the challenges Air Berlin was facing. By implementing the solution at the right time, Air Berlin could leverage benefits including detecting and suspending agents involved in malpractices and timely issue of ADMs thus recovering money from the agents.

NIIT Airline Technologies’ revenue accounting system –MonaLisa collects information from different systems and compares with the master data that it has. The due diligence for the entire cycle adheres to the processes laid out by IATA.

**Features To Look For In An Integrated Revenue Accounting System**

When an airline company is evaluating and considering implementation of an integrated revenue accounting system, there are certain features that are vital. Primarily the revenue accounting system should be in sync with IATA's Simplified Interline Settlement (SIS) and American Clearance House. Secondly, since most of the airlines have legacy systems in place, the new system should integrate with it seamlessly and should be scalable, thus addressing the growing business needs. The tools has to efficiently manage and process the sales data, audit for sales and fare, take full stock of the tickets and finally has to be backup tool that will archive old data.
So, the tool will be responsible for online registration of sale of tickets across multiple channels, online documentation of flights and the services used, interline invoices management, proration --wherein the coupon valuation is compatible to rules of IATA and online supervision of airline’s revenue both earned and unearned.
About NIIT Technologies

NIIT Technologies is a leading IT solutions organization, servicing customers in North America, Europe, Asia and Australia. It offers services in Application Development and Maintenance, Enterprise Solutions including Managed Services and Business Process Outsourcing to organisations in the Financial Services, Travel & Transportation, Manufacturing/Distribution, and Government sectors. With employees over 8,000 professionals, NIIT Technologies follows global standards of software development processes.

Over the years the Company has forged extremely rewarding relationships with global majors, a testimony to mutual commitment and its ability to retain marquee clients, drawing repeat business from them. NIIT Technologies has been able to scale its interactions with marquee clients in the BFSI sector, the Travel Transport & Logistics and Manufacturing & Distribution, into extremely meaningful, multi-year collaborations.

NIIT Technologies follows global standards of development, which include ISO 9001:2000 Certification, assessment at Level 5 for SEI-CMMi version 1.2 and ISO 27001 information security management certification. Its data centre operations are assessed at the international ISO 20000 IT management standards.