



Revenue leakage:
what can airlines do
to control it



Travelling is on an all-time high. The demand for air cargo is huge. Airlines are opening new routes, and employment in airlines business is increasing at a great pace. Consequently, 2018 and beyond is expected to bring in significant levels of profitability for the airline industry.

However, with the potential of gaining profits comes the challenge of restricting revenue leakage. The Airline Revenue Integrity Group (ARIG) believes that revenue leakage can cost airlines as much as 3% of revenue¹.

The challenge of revenue leakage has increased because of discrepancies in fares sold by sales agents. Other reasons include intense competition, refunds and cancellations of tickets, changes in foreign exchange rates, and improper calculation of penalty charges.

To stem leakage and improve margins in revenue, airlines have started to focus on efficient management of their financial processes. But narrow profit margins, rising taxes, and changing customer expectations have added to the complexities of financial processes. This has made revenue leakage the Achilles' heel of the airline industry.

A study from a leading auditing firm shows that a European carrier that posted a loss of over 180 million pounds would have generated a positive margin of 1.5% if adequate leakage prevention measures were implemented. Plugging revenue leakage has become inevitable for airlines to sustain in the business.

Revenue leakage plugging strategy

Airlines that focus on maximizing revenue assurance and plugging the areas of revenue loss will need to take some tough measures. First, they need to take a strategic decision to explore all areas of maximizing revenue collection by following strict ticketing rules. The agent community has to be educated on adherence to booking rules.

An analysis of Agency Debit Memos (ADMs) led by IATA in 2017 highlighted ADM management as a crucial function of revenue assurance². However, ADM management or auditing the violations in booking rules, and ensuring the agent community is regularly coached is a daunting task and involves resources, time and costs.

It is essential that the associated costs are kept minimal in order to ascertain revenue assurance. Hence, a focused approach and a specialized team for auditing is pertinent.

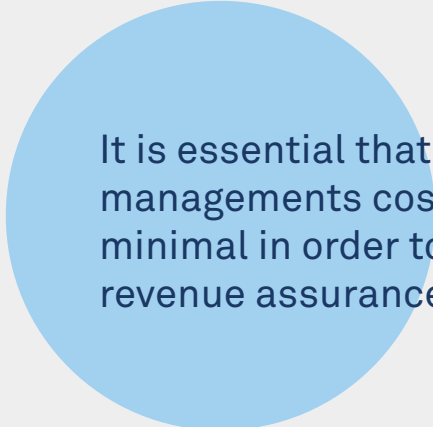
Let us see how a specialized team for revenue auditing can enable a comprehensive and effective approach to revenue assurance:

Receipt and recording of sales information/data

When the sales files /Billing and Settlement Plan (BSP) files are received using secured FTP transfers, the specialized auditing team should load and control the data in accordance with the terms of the fares and deals specified for the audit scope agreed between the airline and the specialized auditing team.

Validate and audit as per booking rules

The specialized auditing team should create a robust and specialized audit process by starting with the validation of sales, refunds and exchanges as per the prevailing rules. Any deviations seen should be highlighted and investigated for correct expected value.



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Create ADM for approval

The specialized auditing team should ensure that the ADM is only about one document at a time and this should be sent to the airline for approval. An error code including any required error code reference agreed with the airlines or an additional comment setting out the reference of the applied fare should be included with the ADM. The comment area should be used to illustrate the reason for the proposed re-adjustment.

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ADM approval

Once the airline has reviewed the proposed ADMs shared by the specialized auditing team, the airline may:

- Accept the adjustment as proposed by the specialized auditing team, or
- Accept the adjustment while changing the amount and/or reason proposed by the specialized auditing team, or
- Cancel the adjustment for airlines' own reasons, or
- Cancel the adjustment suggested by the specialized auditing team in case of an error in adjustment calculation.

Raise ADM and manage agency disputes

Post approval from the airline, the specialized team should raise the ADM on the respective agency through the BSP link. Travel agencies present disputes in BSP link with respect to the ADMs that are raised or send the dispute via e-mail. The specialized auditing team should download such disputes submitted by travel agencies and reply to the disputes with information that support the ADM or accept the dispute, if the agency provides valid information that cancels the ADM.

If the dispute presented by the travel agency has the deliberated intent of obtaining a commercial pardon or if, after three or more replies, the travel agency continues to dispute, the specialized auditing team should transfer such dispute to the airline, together with all information supporting the ADM.

Have an internal rationalized waiver management policy

There should be a waiver agreement between the airline and the agent community. This information is necessary so that the specialized auditing team can exclude the waiver ticket to avoid unnecessary ADM.

Upload ADM

The specialized auditing team should upload ADMs through ADM standard delivery channels on behalf of the airlines. The specialized auditing team should check that the files were processed and all the transactions were accepted.

Analysis and reporting

As per IATA, more than 57% of the airline community would prefer to use an analytics-based ADM business intelligence for 'gaining market intelligence'³. Post audit, the specialized auditing team should provide reporting and analytics based synopsis, which can be used by the airline for policy decisions and agency notification purpose (See Figure 1).

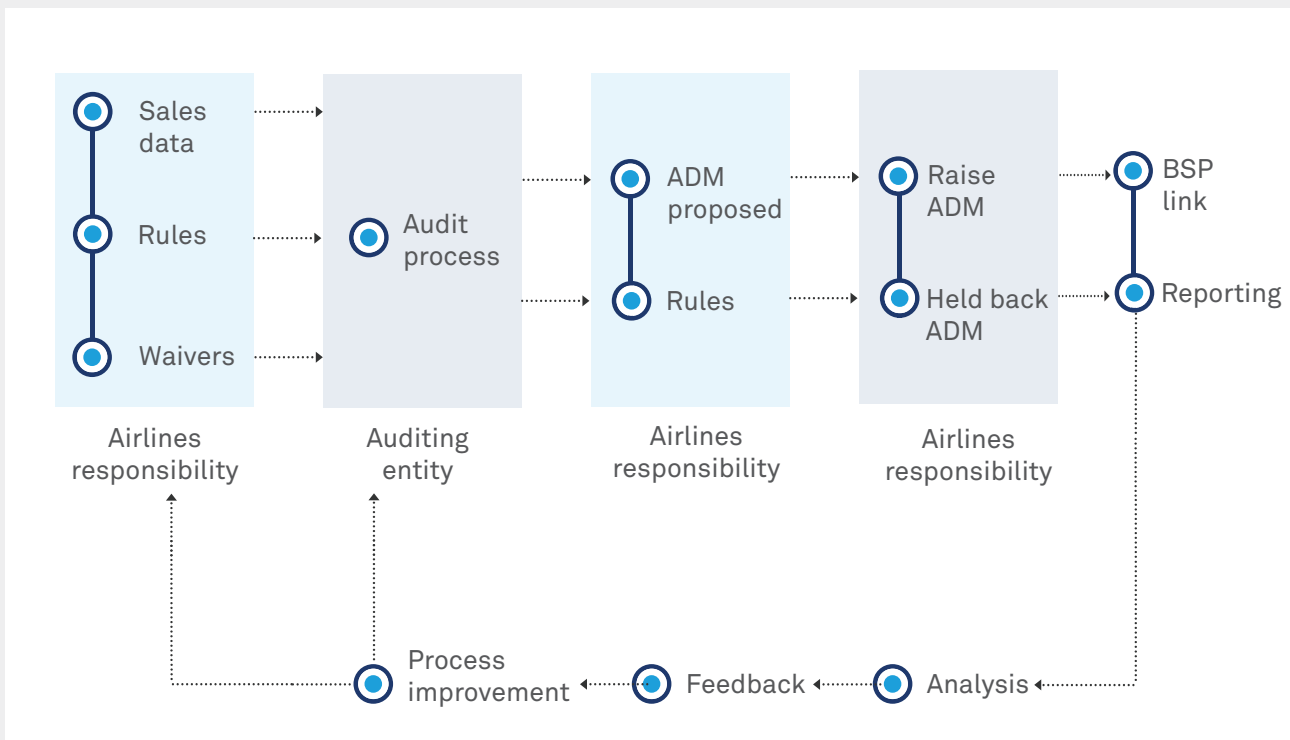


Figure 1: Fare audit process flow chart

The journey ahead

To plug revenue leakage, a comprehensive approach to sales audit is required. Below are the key value propositions that need to be considered while creating a strategy for minimizing revenue leakage in the airline industry:

- Airline can increase its reputation in the market with accurate ADMs by reducing disputes with agency community. This will also avoid any negative impact to their business.

- Sales audit will enforce airline policies on ticketing, refunds, exchanges and ancillary charges. Through this, the airline can even educate travel agents to avoid mistakes such as wrong issuance of tickets.

These measures will help in long-term reduction of cost of audit and simultaneously increase the collection of lost revenue.

About the authors

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Edwin has over 16 years of experience in the BPO industry handling various portfolios like Service Delivery, Operations, Work Force Management, IT software sales, Account Management for major Airlines.

Over the period, Edwin has been extensively involved in improving and optimizing the Revenue Assurance and Accounting processes.

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