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## **Branded fares: American Airlines and Frontier have kickstarted a revolution**

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NB: This is a viewpoint by Jay Sorensen. It's excerpted from the IdeaWorksCompany report, "Choice and Creativity," which is free to download.

The headline on the press release said it all, "American Airlines Introduces New Travel Options Offering Customers More Choices."

On 12 December 2012 American Airlines adopted the branded fare method in a very big way — by offering it on all flights within the continental US. The carrier filed three types of fares under an umbrella brand called travel options: Choice, Choice Essential, and Choice Plus.

Branded fares are similar to fare families, where amenities are linked to existing fare categories, with higher fares providing more perks. (Fare families are best illustrated by Air Canada's Tango, Flex, and Latitude fares.)

But branded fares have two major distinctions from fare families.

First, each fare type is always offered on a flight, unless the flight is sold out. For example, American always offers the lowest priced Choice fare on a flight, regardless of whether the flight has low or peak booking activity. The revenue management function will increase this fare as determined by consumer demand.

Second, the price difference between fare products is fixed and usually promoted as a product attribute. American charges \$34 each way to upgrade from the Choice to Choice Essential fare, and \$44 each way to upgrade from Choice to Choice Plus.

This method represents an improvement of the fare family approach. Branded fares apply retail psychology by assigning a simple price point to a better bundle of amenities. For \$34 more, the consumer will receive a checked bag, priority boarding, and more flexibility.

The Choice fare will vary for each flight as determined by the revenue management process. The Choice Essential and Choice Plus prices are determined by the \$34 or \$44 premium above the Choice fare (double the amounts for roundtrip).

American Airlines files its branded fares with the Airline Tariff Publishing Company (ATPCO) and this enables sales through a global distribution system (GDS). Similar to fare families, the experience of booking through a GDS is not the same as the retail environment created by an airline at its website.

As recently described in an Air Transport World article, “accessing and selling them require workarounds on the part of the travel agents.”

This is accomplished through the filing of Passenger Type Codes (PTC) which allow travel agents to ferret out a particular fare from a booking display of many fares. For example, American uses the PRO passenger type code for its Choice Essential fares and the TIM code for Choice Plus.

The airline provided these instructions to travel agents when it introduced the fares:

American strives to steer travel agents to its Direct Connect method of distribution, which it says provides, “the easiest and most intuitive display of American Airlines’ new fare options.”

Direct Connect bypasses GDSs and provides better control of its online retail presentation, while also avoiding having to pay fees to GDSs.

Pioneer of blended fares

Frontier Airlines was an early branded fares innovator when it introduced its AirFairs pricing structure in 2008. It has since attributed a 22% revenue increase to the branded fare approach.

The merchandising platform developed by Datalex allows the airline to offer four branded fares: Basic, Economy, Classic, and Classic Plus.

Basic is the lowest fare that can be booked through travel agencies and only offers assigned seating at the time of check in. Economy is the lowest priced ticket sold at the carrier’s website and is predictably free of perks. Classic Plus provides extra leg room seating, priority services (check in/security/boarding), two checked bags and a premium drink.

Frontier has left its branded fare strategy almost unchanged since 2008. This indicates the airline may have found perfection. We estimate that about 3.7 million passengers choose the Classic or Class Plus fare brands, which are the airline’s more expensive products.

Branded fares are having a long term impact on markets. Air New Zealand not only boosted its own revenue, but its Seats to Suit branded fare program grew passenger traffic for the entire region.

The launch of Seats to Suit in 2010 allowed the airline to match low-fare airlines on price by giving customers the choice of paying for checked bags, entertainment and food. This led to a dramatic turnaround in load factors, and with a large online audience, yield was improved by the healthy rate of buy-up to Seat + Bag and The Works fares.

Prior to this, Air New Zealand's market share was decreasing as low fare airlines – such as Jetstar – expanded on the Tasman. The branded fare strategy has been called one of the company's most successful products by an Air New Zealand executive. The change allowed Air New Zealand to grow its market share and remain competitive and profitable in the face of relentless competition.

Here's an example of what it looks like: Air New Zealand varies the Seat fare according to demand, shown above as ranging from NZ\$386 to NZ\$575. But the Seat+Bag fare is fixed at NZ\$31 above Seat only and The Works is priced NZ\$38 above Seat+Bag:

Branded fares may be the big trend of the next few years

In 2007 Southwest introduced its Business Select fare which included early boarding, Rapid Rewards bonus accrual, and an onboard cocktail.

American's recently announced Choice Plus is suspiciously similar and even seems to mimic Southwest's no change fee policy.

Southwest's fare and American's introduction of its travel options fares will likely cause United, Delta, and others to reconsider their fare structures.

GDSs need to catch up

The GDS world is still struggling to catch up with the unpredictable pace of change associated with the ancillary revenue revolution.

As of February 2013, Sabre Red supports merchandising activities for five airlines and four a la carte items. Amadeus currently offers nine ancillary revenue items for sale in its travel agency system on behalf of 14 airline clients. Other distribution systems are also making progress. Travelport recently announced the ability to sell American's newly introduced Main Cabin Extra seating product.

But more needs to be done.