Global Scale & Reach
>500
Global travel retail experts.

Enabling a Digital Marketplace
>1Bn
Shoppers use our software to shop for their travel needs.

Product Strength & Innovation
$20Bn
Passenger revenues transacted through our platform.

Mega Event WorldWide
29th November – 1st December 2017
Merchandising the New Basic Economy Fares:
Is this the way to manage the price challenge?

Blair Koch, CTO & President USA, Datalex
Consumer psychology or an axe to cut paper?

### Table

<table>
<thead>
<tr>
<th>Depart</th>
<th>Arrival</th>
<th>Duration</th>
<th>Seats</th>
<th>Basic Economy</th>
<th>Economy</th>
</tr>
</thead>
<tbody>
<tr>
<td>6:00 am</td>
<td>ORD</td>
<td>9:04 am</td>
<td>Nonstop</td>
<td>Not available</td>
<td>$241</td>
</tr>
<tr>
<td>6:00 am</td>
<td>LGA</td>
<td>9:10 am</td>
<td>2h 10m</td>
<td>Not available</td>
<td>$201</td>
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<tr>
<td>7:00 am</td>
<td>ORD</td>
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<td>Nonstop</td>
<td>$156</td>
<td>$176</td>
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<td>$130</td>
<td>$155</td>
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<td>10:48 am</td>
<td>Nonstop</td>
<td>Not available</td>
<td>$241</td>
</tr>
</tbody>
</table>

**Please confirm that Basic Economy fits your travel**

<table>
<thead>
<tr>
<th></th>
<th>Basic Economy (most restricted)</th>
<th>Economy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Choose, change or upgrade seats</td>
<td>✗</td>
<td>✓</td>
</tr>
<tr>
<td>Sit with your group or family</td>
<td>✗</td>
<td>✓</td>
</tr>
<tr>
<td>Bring a full-sized carry-on bag on board</td>
<td>✗</td>
<td>✓</td>
</tr>
<tr>
<td>Change your flight</td>
<td>✗</td>
<td>✓</td>
</tr>
<tr>
<td>Earn Premier qualifying credit and lifetime miles</td>
<td>✗</td>
<td>✓</td>
</tr>
</tbody>
</table>

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**With Basic Economy:**

1. Seats are assigned prior to boarding. You will not be eligible to purchase Economy Plus® seating or premium cabin upgrades, or receive Economy Plus subscription benefits. With standard Economy, customers traveling together can choose seats together if open seats are available.
2. Bags should be checked before airport security for the applicable fee (starting at $25). Bags brought to the gate incur an additional $25 gate handling charge (total starting at $50). MileagePlus® Premier members, primary cardmembers of qualifying MileagePlus credit cards, and Star Alliance™ Gold members may bring on board a full-sized carry-on bag at no charge. All travelers are allowed a small personal item that fits under the seat in front of them, such as a shoulder bag, purse, laptop bag or other small item, 9 inches x 10 inches x 17 inches (22 cm x 25 cm x 43 cm) or less. Mobility aids and other assistive devices are also permitted.
3. Ticket changes are not allowed. This includes advance changes and same-day changes, even for Premier members. Fares are nonrefundable.

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Airlines are leaving money on the table!

**Fixed Price Points**
Fixed Price Points does not accommodate those who would purchase “in between” prices

**Legacy Data**
Dependency on legacy data structures and processes such as Fare Filing and Class of Service hinder innovation

**Revenue Management**
Is in the infancy of leveraging new technologies such as AI – Machine Learning as well as dynamic bundling

**Digital Maturity**
Airline’s Digital Experience needs to be refreshed in order to enable a retail mind-set

“**Airlines do not have a Retail Mind-set**”

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History of pricing

1. Fixed Pricing
   - No pricing technology
   - A was price agreed upon and regulated

2. Variable Pricing
   - Introduction of Revenue Management Systems
   - Vary the price of the product based on forecasted demand or other market factors

3. Differentiated Pricing
   - Leveraging Digital Commerce platforms
   - Targeted price based on a customer segment or group of customer
   - Personalized discounts codes, etc.
   - Selling Basic Fare with bundles and discounts

4. Real-Time Dynamic Bundling with Dynamic Pricing
   - Next Generation Technologies

“This is where you are”
Future of Pricing
Real-Time Dynamic Bundling with Dynamic Pricing

The future state pricing will be Real-Time Dynamic Bundling with Dynamic Pricing:

- Data driven & real-time pricing, leveraging Machine Learning and AI
- The price doesn’t exist until a customer asks for it and it’s only valid for a period of time
- No Base Fare Exist!! All pricing determined at time of request
- Air transportation dynamically bundled with other products and services to maximize value – Total Revenue
- Bundling will increase the attachment rate
- Ability to provide personalized offers

“Travel providers will need one digital commerce platform that can real-time dynamically price air transportation standalone, non air products or services standalone or dynamically bundle them together.”

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Lufthansa ringfence €500 million in funds to push what it calls a major investment in “digitalization and innovation. CEO Carsten Spohr, states LHG goal is to become “the most digital aviation group.”

Alex Crux, CEO: “Our strategy is built on four pillars; customer, operations, efficiency, and people. All underpinned by digital and technology.”

AirAsia Group Chief Executive Officer, Tony Fernandes said: “We are investing heavily in digitalisation and have been growing our family of digital services”

“EasyJet has been at the forefront of digital innovation in the airline industry and its digital strategy is a core part of easyJet’s wider strategy.” H1 2017 Results Statement

John Hurley, CTO, Ryanair: ‘In the future, I see Ryanair as a digital travel leader that happens to have an airline attached to it’
Digital Innovation Platform

- Customer Experience
  - Products & Marketing
  - Pre-Travel Experience
  - Airport Experience
  - Inflight Experience
  - Customer Relations
  - Loyalty Management

- Network & Revenue
  - Revenue Optimization
  - Inventory
  - Pricing
  - Revenue Performance Tracking
  - Alliances
  - Demand Forecasting
  - Network Planning/Scheduling
Optimal Price is Data-Driven

1. Variable, differentiated and real-time, leveraging data and insights
2. Identifies micro segments and short-term changes in demand
3. Can leverage traditional data feeds: Point-of-sale, O&D, date, equipment
4. Uses new sources of data: Historical sales, basket analysis, competitor pricing, customer value
5. Uses predictive machine learning algorithm to discover and determine propensity to buy value

AI and machine learning will not replace the revenue manager, it will improve their ability to maximize value

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Transform

Experiment, Test and Learn

A Pathway to Future State Dynamic Pricing
An Evolutionary Approach

True Dynamic Bundling with Dynamic Pricing

Test revenue management of a dynamic bundle in select markets or with select products and services.

Optimize margin for every customer interaction based on real-time data-driven insights, leverage preferences and propensities to purchase.

Evolv the experiment on the air transportation and to markets as algorithms improve.

Start with ancillary - experiment with AI-driven dynamic pricing and test against traditional pricing methods.

Cost Pus – Channel & Product Specific

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Summary

Build the systems and processes to support revenue optimization in the digital economy

Customer Centric Distribution
Uniquely identified customers, segment of one, personalized, contextual

Airline as a Retailer
New sources of revenue exploration, enhanced products and services, profitability beyond the seat

Revenue Optimization & Insights
Dynamic pricing using machine learning – AI
Accurate real-time customer insights

Digital Transformation
Mobile-first - Omni-channel
Frictionless customer experience

Adaptive Business Models
Supplier and distributor partnerships, alliances, airline groups

Safe, Efficient Operations and Cost Conscious
Safe, on-time & profitable

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Thank you.
Blair Koch, CTO & President USA, Datalex