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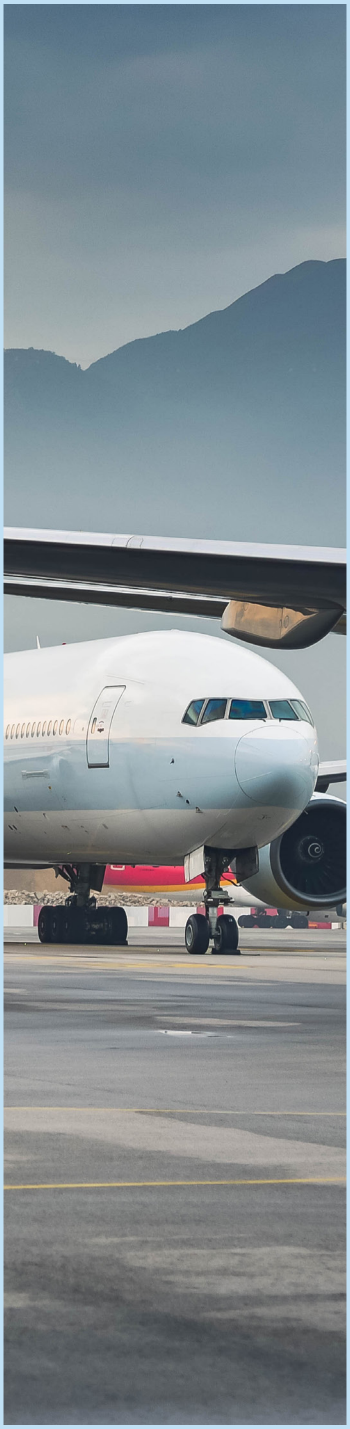

AIRLINE REVENUE ACCOUNTING CHOOSING THE RIGHT PRODUCT

Abstract

While Airlines have long understood the value of quality revenue accounting information, a new trend to recognize the strategic value of having detailed ticketing information readily available for accounting and analysis as soon as possible has begun. Thin profits, changing regulatory needs, stiff competition and other benefits are making a convincing case for many airlines to replace their costly and outdated manual systems with off the shelf revenue accounting product. A good revenue accounting product should be able to integrate with all standard interfaces, meet all security, functional & non-functional requirements, satisfy contractual, audit & compliance requirements, maintain quality and provide detailed real-time reports.

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Introduction

Traditionally, airline's revenue accounting has been a manual, complex and expensive process often followed by reconciliation issues. Revenue Accounting forms the backbone of airlines' financial systems and is the first one to be impacted by the changes in business environment. Current legacy full service carrier Revenue Accounting systems are just not flexible enough to comply with ever-changing industry standards and growing expectations of management.

Airlines, operating in an extremely competitive environment, extended their reach to all corners of the globe through interlining agreements. The revenue accounting system should be able to interact with different systems outside (US DOT, ARC, BSP, ATPCO, IATA, etc.) and within the airlines IT landscape (General Ledger, DCS, Loyalty, Data Warehouse, Revenue Management, etc.) to enable processing of data that it was not expecting in a traditional point to point approach. In order to help airlines account for revenue on time without discrepancies and simplify the process of exchange of revenue information between partner carriers, different airline organizations such as IATA, ATPCO, etc., have defined standards (ISO, PCI, IATA Bill Settlement, etc.) which if implemented help in the seamless interaction of the revenue accounting systems of the different airlines.

In order to adopt to Airline industry standards & best practices in revenue accounting, maximize revenues and also be in line with the latest trends in the airline industry, an airline has the following options:

- Enhance their existing revenue accounting system
- Replace their existing system with a revenue accounting product
- Outsource Revenue Accounting services to 3rd party organizations

Why to implement a product?

Benefits of choosing an off the shelf revenue accounting product as compared to in-house development/enhancement:

- **Adherence to Global Standards** – Any good revenue accounting product will have all the modules adhering to global standards whereas enhancing/developing an in-house system to be completely defined as per global standards will involve multi year complex programs.
- **Community model** – Products providing community model approach to enhancements are enhanced by the product vendor on a regular basis to meet the standards defined by agencies such as ARC, IATA, ATPCO, etc. These enhancements will be at no additional cost to the airline thus saving the airline considerable money which otherwise would have been spent on the regular enhancements.
- **Faster implementation** – Since the product implementation has very short schedules (~1 year), an airline can become competitive in a much shorter duration of time.
- **Streamlining of business processes** – Based on the product selected, most of the business processes which had a local flavor to them or were distributed can be modified to adhere to global standards thus ensuring robustness and reducing redundancy.
- **Modern technology increasing maintainability** – Most products are developed using latest technologies thus reducing the maintenance cost as compared to legacy applications.
- **Stability** – Since the product would have been implemented at multiple airlines and would have undergone changes over a period of time to accommodate for all the issues identified at different airlines, the product is bound to be extremely stable with respect to performance.
- **Best practices** – The product due to implementation/ customizations over a period of time would have incorporated the best practices from different airlines.
- **Infrastructure cost** – In case of a SaaS model, the cost of infrastructure along with the annual maintenance cost goes down considerably as the ownership is transferred to the product vendor. In most cases, the infrastructure is shared across multiple airlines thereby distributing the infrastructure costs across the vendor airlines. Also, Airlines can opt for 'pay as-you-go' mode in SaaS model (needs to be negotiated as a part of commercial discussions) which will significantly reduce an airline's start-up investment.
- **Support cost** – Since the vendor provides support to multiple airlines, the support cost is distributed across various airlines thus reducing the cost of support to an individual airline.
- **Revenue Accounting services** – Some product vendors offer Revenue Accounting as a complete managed solution (BPO) which results in overhead expense reduction.
- **Support availability** - Since the product vendor maintains support teams across different regions of the globe to accommodate for its customers, an airline will receive unhindered support at any point of time without having to pay additional on-call charges.
- **Data backup** – The product vendor in order to accommodate for its distributed client network generally has data centers at various locations on earth which are in turn used as backup locations. With such distributed data backup locations, a product vendor can guarantee 100% safety of data which would not have been possible with an in house application that would have a backup location at a place not very far away from its primary data center.
- **Business continuity** – A product vendor will have a robust business continuity plan that has been tried and tested at different airlines which might not be the case with an in house application.

- **Business intelligence functions** – Since the products are developed using modern technologies with capabilities to maintain historical ticket information, they provide business intelligence, ad-hoc reporting and forecasting functions that are hard to replicate in an in house application.
- **On demand functions** – Most product vendors offer assistance in areas where the airline's manual tasks can be outsourced. This transfer of task to the product vendor will help the airline focus on core accounting tasks.
- **Reduction in interfaces** – The product vendor takes the ownership of acquiring supporting data from the different agencies which will not be case with an in-house application wherein the onus lies with the airline's IT team.
- **Compliance to regulations** – Since most products are compliant with all government regulations such as SOX, PCI, GDPR, etc., the ownership of ensuring compliance is transferred to the vendor.

How to choose a right product?

If an airline decides to opt for an off the shelf revenue accounting product, it will have to first consider the below factors:

- **SaaS or License model** – Based on the maturity of the airline's IT team, an airline can chose to either opt for a SaaS model or a license model of the product. Most product vendors offer both models of implementation.
- **Functional requirements as per global standards** – This is the most important factor that an airline should define to help chose the right product. The airline should define the requirements (as per global standards) that it expects the product to support covering the below not all inclusive modules:
    - Sales Input
    - Proration
    - Refunds
    - Sales Audit
    - Credit Card Receivables
    - Uplift
    - Interline
    - Employee Travel
    - Utilization
    - Accounting
    - Reporting
    - Data Archival
    - Master Data
    - Joint Ventures
    - Alliances
    - Subsidiary Airlines
- **Airline specific functional requirements** – These requirements define all the business processes that are specific to the airline's business model and that require customizations from a product perspective.
- **Interface requirements** – This is another critical factor that if defined accurately will help the airline chose a product that can integrate seamlessly with all of the airlines partners or internal applications for real-time reporting and analysis of revenues. Proper interfacing ensures data consistency, accuracy and elimination of manual loading requirements. A good product should be able to integrate with existing ledger systems, reservation, ticketing and flight schedule systems, BSP, ARC, IDEC, ATPCO, GDS, CRS, SIS, coupon scanning and imaging systems. It should have a provision to support partnership agreements such as Alliances, Mergers or Joint Ventures which are common phenomena in Airline industry.
- **Warranty requirements** – These requirements will help define the level of warranty support that the airline expects from the product vendor.
- **Security requirements** – These requirements will help define the data and application security that the product has to provide. Airlines should think of strict SLAs with product vendors to maintain confidentiality and security of Revenue Accounting data. As most vendors handle Revenue Accounting of multiple Airlines, loss / transfer of Revenue Accounting sensitive information containing sales, uplift and ancillary data could seriously affect the market edge.
- **Contractual requirements** – These are the requirements that form the master services agreement and for which the vendor should agree to adhere to.
- **Migration requirements** – Migration requirements help determine how good a product's migration strategy is which is detrimental to the successful migration of accounting data from the existing system to the new system.
- **Training requirements** – These requirements define the training needs of the airline which will include user as well as administrator training needs.
- **Audit and compliance requirements** – Audit and compliance requirements help define the global as well as local compliance requirements that the product should adhere thereby ensuring that the airline is compliant with all regulations.
- **System documentation requirements** – These requirements define the system documentation and manuals the airline expects the vendor to provide thus assisting the airline in its day to day use of the product.

- **Comprehensive Reporting** – Real-Time/Ad-hoc reporting, analysis of planned, unearned and earned revenues ensure in-time decision making and enable Airlines to maximize their profits.
- **Neutral Service Provider** – Being a neutral service provider, product vendor provides the Airlines an independent platform to build and focus on their own road map and strategies.
- **Loss of Control** – Attention should be given while outsourcing Revenue Accounting to a product vendor as it could possibly lead to loss of control over airlines' business processes.

Criteria to justify product implementation.

If in doubt whether to implement a Revenue Accounting product or develop/enhance a custom Revenue Accounting system, the following criteria can be used as compelling factors to implement a product:

- **Airlines having revenue accounting systems that were developed on legacy systems** - Airlines often don't find it cost-effective to enhance their applications to adhere to global standards. In such a scenario airlines can implement one of the many revenue accounting products available to replace their existing systems.
- **Lack of maturity in revenue accounting business process / system** – Airlines that do not have a robust revenue accounting system in place or do not have revenue accounting business processes that adhere to global best practices can implement a product to enhance their business processes.
- **Scattered business processes / systems** – Airlines that have revenue accounting business processes or systems scattered across different groups can consolidate all of them into one single system by implementing a product.
- **High cost of infrastructure maintenance** – Airlines often find it expensive to upgrade their existing infrastructure to meet the ever growing demands of the industry. This cost can be reduced considerably in the SaaS model of product implementation.
- **Lack of experienced support team** – Airlines that lack a support team with strong technical / domain skills can implement a product to leverage the strong support structure provided by the product vendor and thereby reduce their risk.
- **Lack of a strong IT team** – Airlines without a strong IT team in place can look to implementing a product in the SaaS that considerably reduces the need for an in house IT team.
- **Lack of a strong business team** – Airlines that do not have strong revenue accounting business team can implement a product and leverage the business process outsourcing features provided by the product to bridge the gap.
- **Lack of an IT system** – Airlines that are dependent on manual revenue accounting process can leverage the features provided by a product instead of trying to build a new system from the scratch.

What are the products available?

Some of the leading revenue accounting products (not an all-inclusive) list currently available in the market is as follows:

- SIRAX by Lufthansa Systems
- REVERA by Accelya Kale
- Amadeus Revenue Accounting
- Sabre AirVision Revenue Accounting by Sabre
- RAPID by Mercator
- WNS SmartPro (Proration Engine & BPO Services)

if you are in the process of determining "what to do" please get in touch with us @ TravelPractice@infosys.com

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