



Dynamic Offers Factsheet

The road to Customer Centric Air Retailing

1. What are Dynamic Offers?

Dynamic Offers is a combination of three capabilities: **dynamic pricing**, **continuous pricing**, and **dynamic bundling**. It leverages on airline NDC and Direct sales shopping workflows and enables airlines to provide relevant offers to their customers.

Important! Anonymous shopping is always possible in a Dynamic Offers environment.

1.1. What is Dynamic Pricing?

Dynamic pricing enables airlines to offer prices to their customers based on contextual information available at time of shopping, without necessarily having additional personal information. The contextual information is built on elements such as length of stay, time before travel, day of departure/ arrival, competition, remaining capacity to sell, etc.

Dynamic pricing is not new. Through yield/revenue management techniques, airline pricing has been "dynamic" since the early 1980s.

What is new, is the ability to adjust the price in real time without needing to file fares with a third- party system. Also, pricing control no longer needs to be constrained to a maximum of 26 booking classes which currently restricts the airlines' ability to better match price to demand at any point in the demand curve.

1.2. What is Continuous Pricing?

Continuous pricing is an evolution of dynamic pricing which allows an airline to provide indefinite price points. This means the airline pricing becomes more granular to adapt to supply and demand at each moment in time.

This leads to maximizing the aircraft's capacity which as a result increases the number of satisfied customers (as they have more chances of getting their first choice) and drives more efficiencies (for example when it comes to passengers' individual carbon footprint).



Source: Lufthansa Group

Austrian Lufthansa SWISS LUFTHANSA GROUP

1.3. What is Dynamic Bundling?

Dynamic Bundling is a common practice in many industries, especially customer retail, where products and services are created dynamically based on who is asking and in which context. Over the past 15 years, airlines have introduced fare "bundling and unbundling" so that customers can either get a tailored offer or choose only those product attributes which have value to them.



Today, using traditional pricing engines these product attributes are defined and priced in a static manner. Some airlines have taken this a step further in dynamically modifying the prices of these ancillaries, based on demand, availability, and the customer's willingness to pay.

The next step is real-time interaction between the airline and its customers into conversational commerce (digital assistant, commercial chatbot, etc.). This will better enable customers to pick and choose their own bundles or transmit additional contextualized information to the airlines. The more information is shared between the parties the better the offers can be personalized: it requires trust of the customer with the airline that can now stay in contact through the entire journey.

2. What are the limitations of the current pricing system?

Owing to outdated technology and processes, including filed fares, and their distribution via 26-letter booking classes, airlines lack the agility required to satisfy a new generation of sophisticated consumers, and become closer to modern retailers.

3. What are the benefits of Dynamic Offers for the value chain?

- **Customers:** With Dynamic Offers, travellers and consumers will benefit from improvements in comparing product offerings. By moving towards even more sophisticated algorithms for the computation of offers or the corresponding price, airlines will have the opportunity to make the offers more understandable, through either an airline direct channel, or NDC channel where the airline can fully submit all the offer details.
- **Corporate Buyers:** One of the benefits of Dynamic Offers for corporate buyers is the ability to differentiate and customize the offer in agreement and alignment with their internal policy, by increasing the ability to work with the airlines and tailor offers for different user groups within the company.
- **Travel Agents:** The clear benefit for the travel agencies is the potential for complete and unrestricted access to an airline's offers and products catalogue. By working with airlines in aligning their offerings, travel agents will be able to create a better customer proposal and add value and differentiation.
- **Travel Management Companies:** Dynamic Offers, their extended content and potentially more complex servicing model, may constitute an opportunity for the Travel Management Companies, or TMCs, to offer additional servicing to the corporate buyers and the travellers, and enhanced services to support negotiations between corporate buyers and airlines to break down some of the additional offer complexity.
- **Aggregators:** Dynamic Offers underline the importance of NDC for many airlines and their ability to be in control of creating and modifying the offer. This may well drive a change in the technology and architecture to adapt to the new distribution and offer creation processes. Adapting to these new processes will improve the book-ability and the quality of offers provided to their travel agents and TMCs. More relevant offers result in higher conversion, thus driving a better quality of service for the aggregators' customers.
- **Solution Providers:** Dynamic Offers creates new opportunities for software solution providers to create new offer creation tools for airlines. While today, multiple systems are required to create an offer, and other systems are used for pricing these, and still other systems are used for putting these offers to the market, a future offer management system could well tackle all these tasks within a single environment.

4. What are the benefits of Dynamic Offers for the industry?

Three key industry benefits have been identified within the scope of the Dynamic Offers. These have several individual KPIs aligned to each of the benefits.

Just as with NDC, airlines will have different reasons, justifications, and objectives in transitioning to Dynamic Offers. Some airlines will put focus on customer satisfaction and conversion, others on offer optimization, and others still on partnerships.

Enhanced Conversion	Offer Optimization	New partnerships
Contextual & relevant offers Optimal product to the customer Increase sales conversion Customer loyalty	Continuous price points Optimal price determination Improved demand forecast More accurate willingness to pay	Total offer management Holistic revenue management Customer life value Ancillaries, interlining, 3 rd party products and services

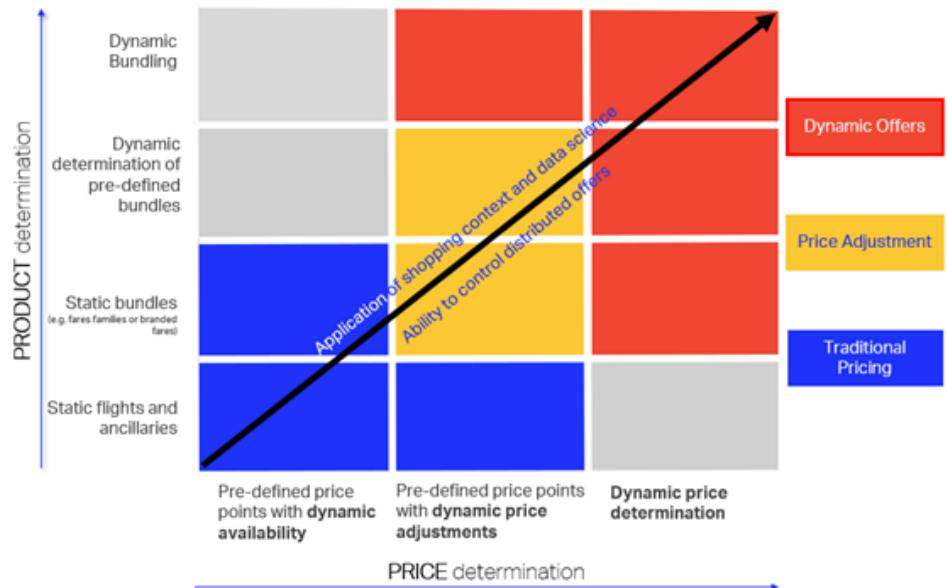


5. What is the industry roadmap to Dynamic Offers?

To align the Industry understanding on capabilities related to Dynamic Offers, IATA created the Capabilities Matrix Framework. Airlines may fall into different categories at any given time, as the capabilities of the various distribution channels or markets may differ, thus forcing the airline to support one set of rules in one channel, and a different set in another channel.

The intent of the Matrix, beyond gaining a common understanding of Dynamic Offers and the related terminology, is for the airlines and vendors to be able to rely on it to define their own path to enhanced capability.

The y-axis of the matrix defines the level of sophistication for **product determination** and the overall contents of an offer. From bottom to top, the level of sophistication is increased, moving away from static and predetermined products to the determination of the optimal, relevant contents of an offer using available and derived context and request data science, algorithms and potentially machine learning and artificial intelligence.



The diagonal from bottom left to top right demonstrates an overall sophistication of offer creation in terms of the use of data analytics, machine learning, contextual data and others. It further demonstrates the level of control an airline has over the current offer determination and creation process.

The x-axis of the matrix defines the level of sophistication for **price determination** of an offer. From left to right, the level of sophistication is increased, moving away from static and predetermined price points to the determination of an offer price using science and algorithms with machine learning and artificial intelligence set of rules in one channel, and a different set in another channel.

Combining infinite price points with real-time dynamic bundling on a larger scale through a dynamically priced product catalog that will be directly integrated with a continuous pricing engine, offers significant opportunities for the industry and consumers, compared to fare filing. The industry is currently working on figuring the transition to Dynamic Offers.

6. How is IATA supporting industry's transition to Dynamic Offers?

Moving toward Dynamic Offers involves significant changes to existing legacy systems, and parallel changes to processes supporting distribution, accounting, and reporting. It is for each airline to individually assess the opportunity for Dynamic Offer creation and to individually decide whether they want to transition from today's model to a dynamic offer creation model. IATA will not prescribe any specific course of action.

In its role to represent, lead and serve the industry, IATA will take a leading role in supporting industry transformation toward Dynamic Offers following a four-pillar strategy:

- **Education:** engage the entire value chain to mitigate stakeholders' concerns
- **Adoption:** support adopters in tackling some of the transition challenges and transition to Dynamic Offers
- **Standards:** review and enhance relevant existing Standards supporting Dynamic Offers Implementation
- **Advocacy:** engage Regulators to advocate the benefits of distributing Dynamic Offers