

Introduction to Avios and its Pricing Optimisation Capabilities

7th November 2019



Avios is the loyalty company of the IAG group

IAG

International Airlines Group



IAG profit 2018 - €3.2bn



Our Avios airlines customer base



Americas
1m active

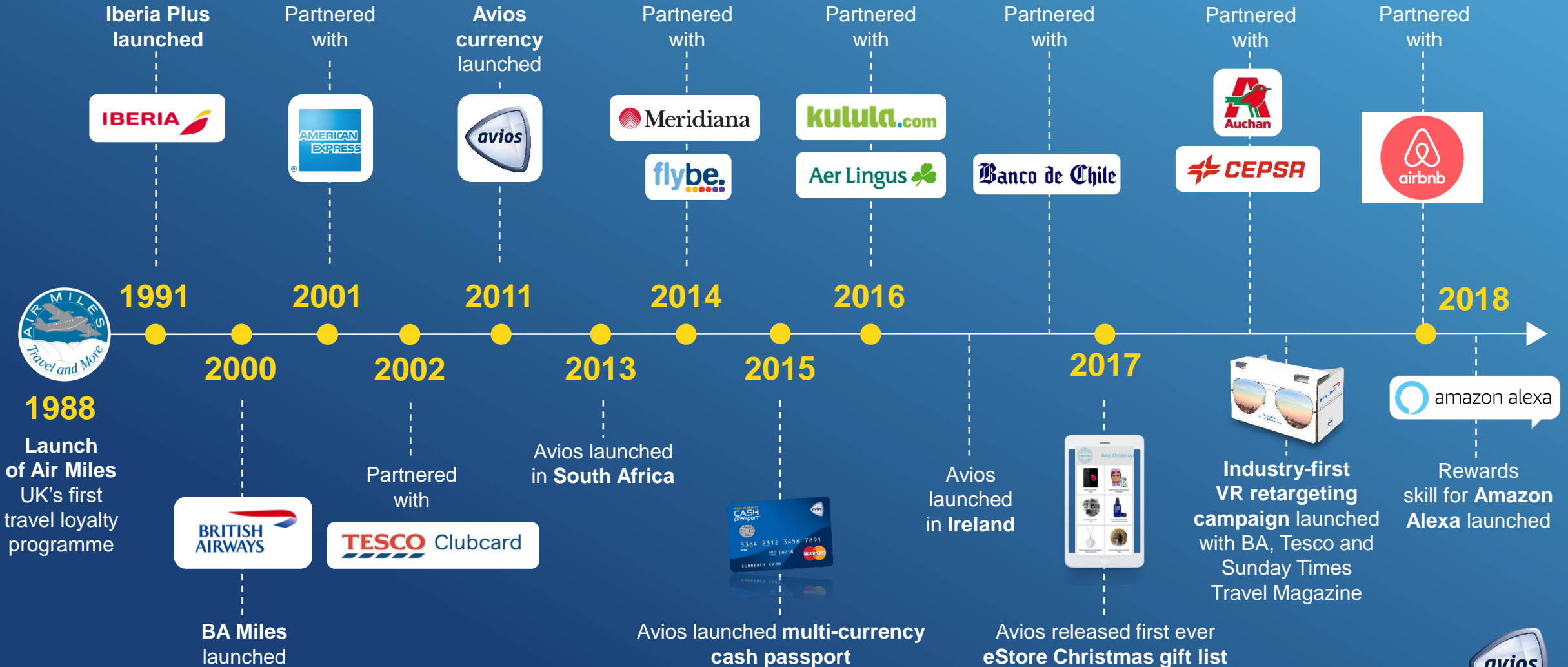


Europe
6.7m active
UK 4.5m
Spain 1.2m



Rest of World
1m active

Avios timeline





A travel rewards currency that customers can spend on flights, travel, experiences and ancillaries.



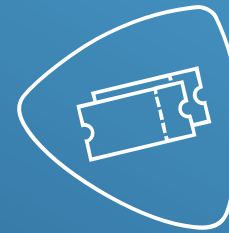
Flights



Hotels



Car hire



Experiences
& days out



Wine, beer
& spirits

Driving change in customer behaviour



Driving customer behaviour

£45bn

spent collecting
Avios each year

200k

Avios collected
per minute

400

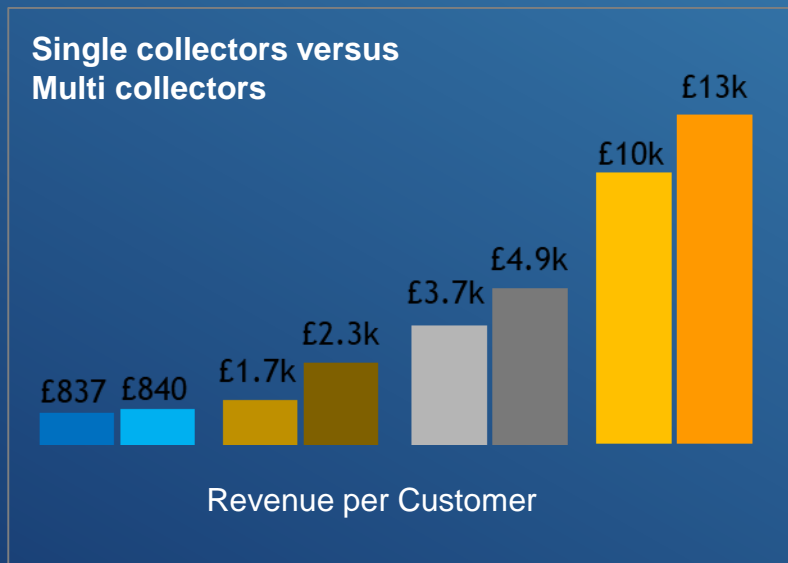
trips booked
per hour

98%

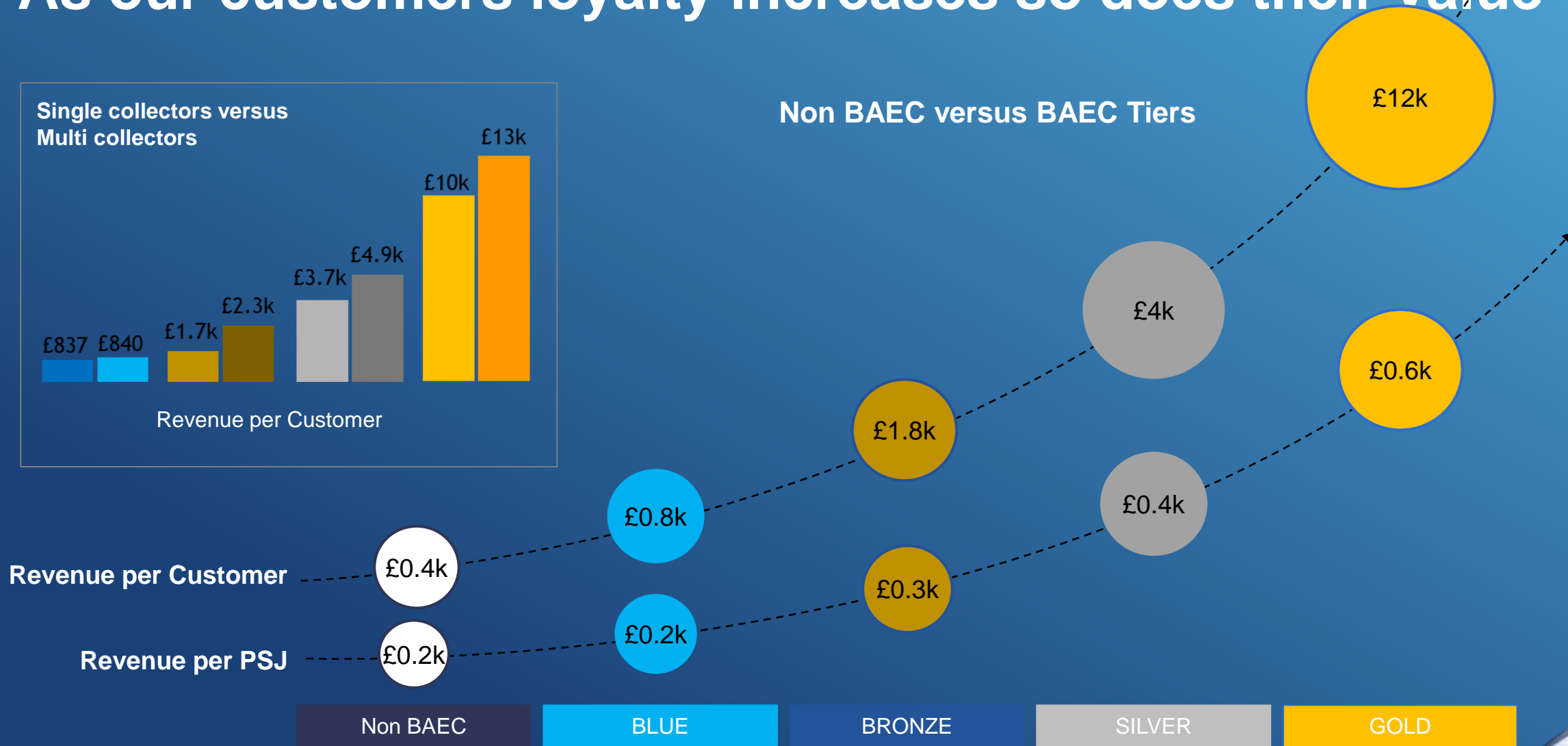
customer
satisfaction*



As our customers loyalty increases so does their value



Non BAEC versus BAEC Tiers



Revenue shown for British Airways
 Source: Loyalty PnL
 Data scope: January to December 2018

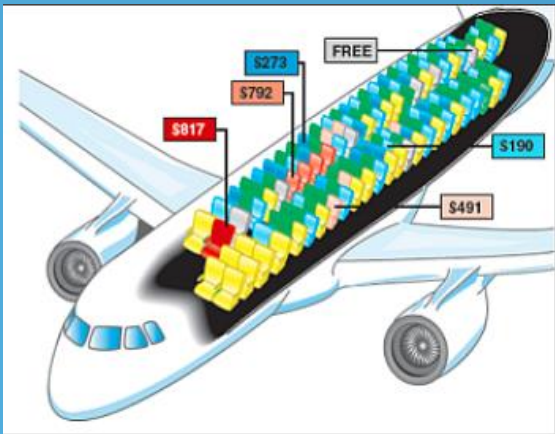


Comparison to Airline Model

Airline Rev. Management

Short-term view

- Nested inventory
- Pricing by fare class/type
- Optimisation of revenue at cabin/flight level
- Pricing increasing pre-departure and demand



Loyalty Points Pricing

Customer Longevity

- Limited fixed Inventory & Always On
- Pricing of point value
- Optimisation of frequent flyer proposition
- Pricing not explicitly linked to days before departure or events

Outbound seats available on:

August 2017						
M	T	W	T	F	S	S
31	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31	1	2	3

Save money on your booking

As an Avios Travel Rewards Programme or Executive Club member you can

Your current balance is **29,486** Avios Your household balance is **43,0**

[Log out or change to another account](#)

£150 off

= 15,000



£112 off

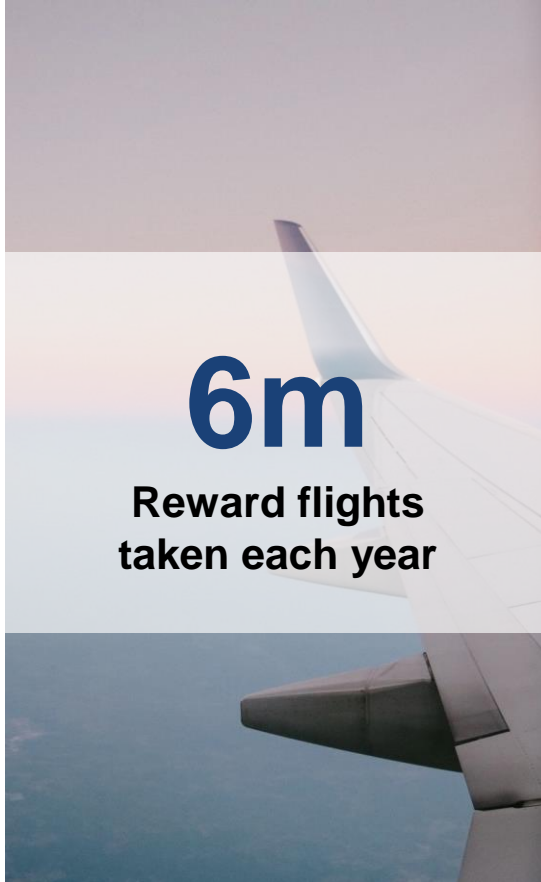
= 11,250



Avios offers a wide range of highly valued travel rewards

A close-up photograph of a map showing Southeast Asian countries like Thailand, Vietnam, Cambodia, and Malaysia. The map is slightly blurred, with a focus on the text overlay.

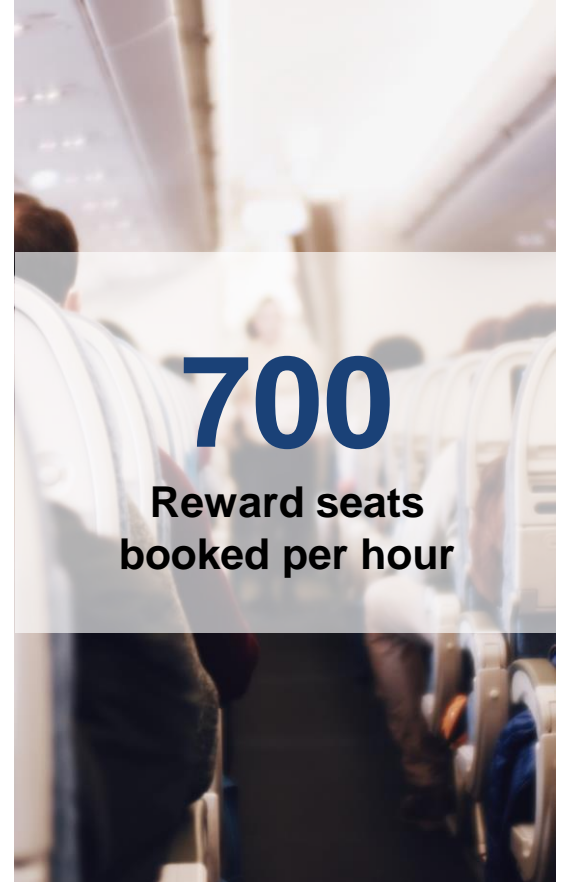
86bn
Avios spent on travel and experiences each year

A photograph of an airplane wing against a clear blue sky, showing the wing's structure and the tail fin.

6m
Reward flights taken each year

A photograph of a large, colorful hot air balloon with a basket, floating in a clear blue sky. Other smaller balloons are visible in the distance.

Every
2 min
Avios is used for travel and experiences

A photograph of the interior of an airplane cabin, showing rows of seats and passengers. The lighting is warm and the focus is on the seats.

700
Reward seats booked per hour



Revenue Management Comparison

Macro view on how, typically, the airline industry manage revenue vs. how a loyalty program does

Airline Revenue Management

Nested Inventory

Ability to better match supply and demand by manipulation of seat class availability

Pricing Fares

Control how many seats can be sold at a particular fare level

Revenue Optimisation

Strategic management of pricing, inventory, demand and distribution to maximise revenue

Forecasting

Derive optimal future price from accurate booking/demand curves



Loyalty Pricing

Mixed Inventory

Combination of fixed and un-capped products to drive airline demand and customer loyalty

Point/Miles Pricing

Control the cost and perceived value to the customer, using product and demand factors

Revenue Optimisation

Strategic management of loyalty pricing linked to the revenue for FFP and the group

Forecasting

Manage the total liability, coupled with modelling of issuance and redemption rates



“Using opaque pricing, we can inspire members to redeem Avios to destinations where there is excess supply, and provide extraordinary value where there isn’t.”



Case Study: Pay with Avios optimisation

A recent example of how we test pricing across our Premium Longhaul network

What?



Price Optimisation

Agile approach to improve Avios volumes, margin on redemption, customer and commercial penetration

How?



Segmentation

Using customer demographics and route profiling, continually implement new pricing rules designed to test our hypotheses and provide instant feedback

Why?



Elasticity

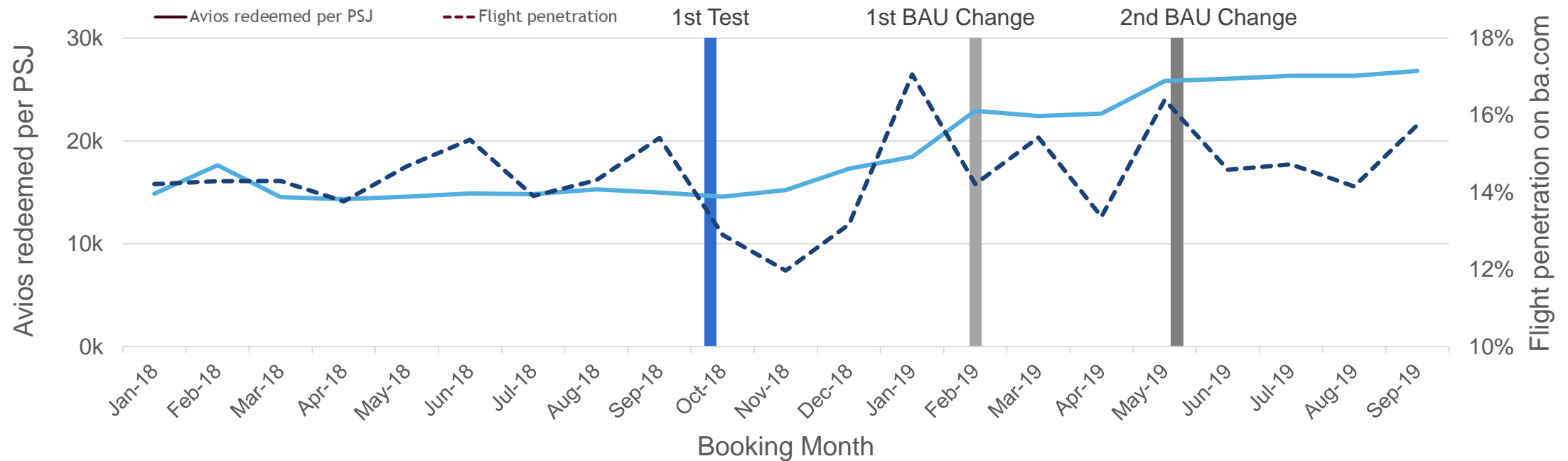
To understand the pricing impact on demand and customer behaviour, such that we can forecast the optimal price proposition



Testing has proven our product is somewhat inelastic...

Hypothesis: High balanced customers want greater discounts in the premium cabins

Test: Stretch the size of discounts available in both Club World and First cabins



Improved average Avios redemption rates by +58% (YTD vLY)

Better Yield !

Increased penetration by +1% PTS (YTD vLY)



Driving greater value for specific market segments to improve customer awareness and demand...

1. Dream Tickets:

Integrated Pay with Avios options as part of BA's "always on" process for commercial campaigns.

2. Commercial Sales:

Pay with Avios options feature alongside primary cash sale prices

3. Redemption Sales:

Supersized value Pay with Avios campaigns have driven incremental revenue to IAG this year

The image displays three overlapping screenshots of British Airways website promotional banners. The top banner, labeled '1', is titled 'Dream Tickets: South Africa' and features a cityscape with mountains in the background. The middle banner, labeled '2', is titled 'Miami return from £199 and 17,000 Avios with Avios part payment' and shows a tropical beach scene with palm trees. The bottom banner, labeled '3', is titled 'Save £100 off with just 5000 Avios' and shows two women sitting at a table. Each banner includes a call-to-action button and fine print.

1

Dream Tickets: South Africa

Discover Johannesburg, South Africa's biggest city, return from £180 and 49,000 Avios with Avios Part Payment

Bo

2

Miami return from £199 and 17,000 Avios with Avios part payment

Log in and use your Avios at the payment page to reduce our sale prices even further until 21 May 2019.

Fly to Miami

Savings are subject to change, different savings available per route and Avios balance. Sale ends 21 May 2019. Terms and Conditions apply.

3

Save £100 off with just 5000 Avios

Another great reason to travel in our centenary year.

What are you waiting for?

Offer ends midnight 12 February 2019. Terms and Conditions apply.

AVIOS

Redemption growth driven by pricing and product changes

Sustained growth with new reward products, more sophisticated Avios pricing and increased demand from customers with bigger Avios balances over the plan



Drive significant growth from low cash, higher Avios options on Shorthaul



Developing a Longhaul low cash, high Avios pricing option



Continuing to improve value for the customer



Continued pricing action to drive demand towards IAG



Pay with Avios new products remove customer gaps



Exploring non-air redemption to drive loyalty cycle



Questions ?

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