

Flight Revenue Forecast (Key)

The price an airline can obtain for its flights and seats is determined by demand and cost. The AR or average rate for this seat on a flight from Dallas to Houston is \$140 for Monday through Thursday. The AR increases over the weekend - Friday, Saturday and Sunday by 25%. Determine the daily revenue as well as the total revenue for the week.

- Step 1: Calculate the estimated seats sold by multiplying the number of seats available by the occupancy rate.
- Step 2: Input the estimated AR from the instructions. Be sure to calculate the 25% increase for the weekend.
- Step 3: Calculate the daily total revenue using the estimated seats sold multiplied by the estimated average rate.
- Step 4: Total the daily total revenues for the week.
- Step 5: In the last column, estimate the average of each of the rows, the number of seats available, the occupancy rate, the seats sold and the average rate.
- Step 6: Using the calculations you just completed, answer the questions at the end.

	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday	Estimate the Average
	1-May	2-May	3-May	4-May	5-May	6-May	7-May	
Seats available for sale	180	175	190	180	200	200	200	189
Occupancy rate	75%	72%	60%	70%	97%	87%	93%	79%
Estimated seats sold	135	126	114	126	194	174	186	151
Estimated AR	\$140.00	\$140.00	\$140.00	\$140.00	\$175.00	\$175.00	\$175.00	\$155.00
								Total for May Week 1
Single flight daily revenue	\$18,900.00	\$17,640.00	\$15,960.00	\$17,640.00	\$33,950.00	\$30,450.00	\$32,550.00	\$167,090.00
Number of flights per day	2	1	1	1	3	2	3	n/a
Estimated daily revenue	\$37,800.00	\$17,640.00	\$15,960.00	\$17,640.00	\$101,850.00	\$60,900.00	\$97,650.00	\$349,440.00

1. Which day has the total highest revenue?

Friday

2. Why is occupancy rate important to an airline?

The higher the rate (percentage) means more guests are flying and the revenue will be higher.

3. Why is AR important to an airline?

The higher the average daily rate means more revenue on a per seat basis. When combined with a high occupancy rate, the revenue for the airline will be maximized.

4. Compare Tuesday and Wednesday. Each day has a different number of seats available and a different occupancy rate. Which day has higher daily revenue? Why is that day better than the other?

Tuesday is better. Even though Tuesday has a better occupancy rate, it has overall less seats available for selling. It is important to an airline to have a high occupancy rate as well as a maximum seats available.

5. On several days the flights did not have all 200 seats available. List 3 reasons an airline might have seats that are not available for sale.

a. Seat is broken.

b. Seat is being used by a guest but was not paid for – it was a frequent flyer seat.

c. Reserved for FAA (Federal Aviation Administration) agent or an airline employee.

6. As discussed in class, the Occupancy Rate and the AR has a direct effect on total revenue. Which would you rather have happen?

(1) Occupancy rate decrease by 2% each day and AR stay the same or (2) occupancy rate stay the same and AR decrease by 2%

Use the estimated weekly averages and re-calculate the Single Flight Daily Revenue for Week 1 in May and show your work.

1. Occupancy rate average of 79% - 2% = 77%.
 $77\% \times 189 = 146$
 $(146 \times 7) \times \$155 = \$158,410.00$
 $\$167,090.00 - \$158,410.00 = \$86,801.00$ estimated loss each week

2. AR of \$155.00 - (\$155.00 x 2%) or $\$155.00 \times 98\% = \151.90
 $\$151.90 \times (\$151.90 \times 7) = \$164,812.00$
 $\$167,090.00 - \$164,812.00 = \$2,278.00$ estimated loss each week

#2 Would rather have occupancy rate go down by 2% in this case as there is less revenue lost during the first week of May.