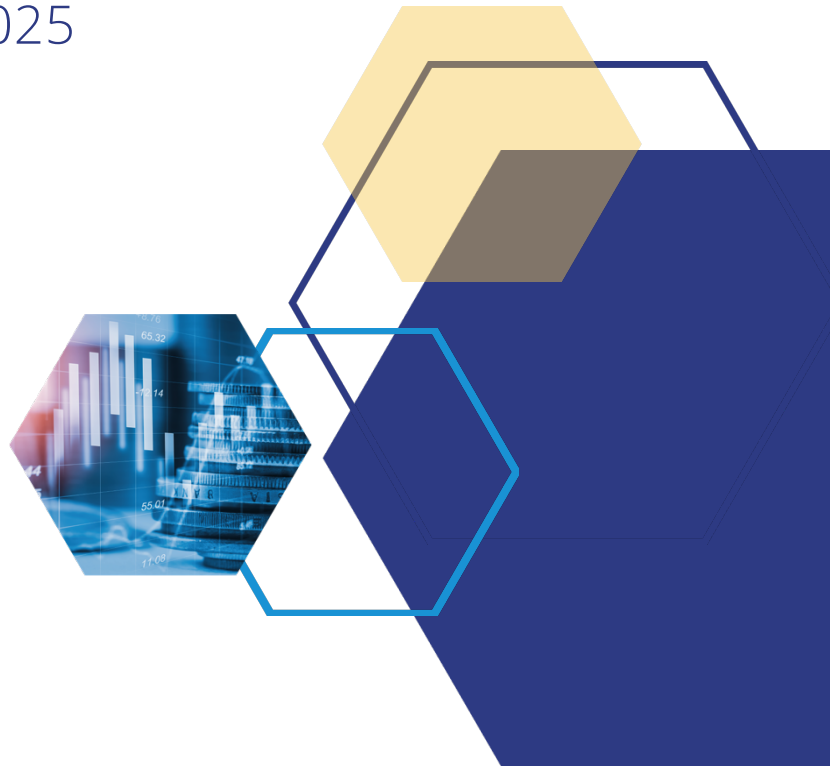
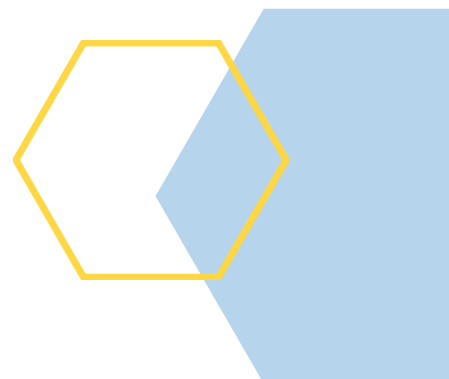




FIRST VIEW
February 2025



Lufthansa Group and PROS Expand Partnership in Dynamic Pricing





THE FACTS

PROS Holdings, Inc. has announced that it deepened its partnership with Lufthansa Group in delivering advanced Dynamic Pricing capabilities with the Group's expanded use of PROS Request-Specific Pricing and adoption of PROS Dynamic Ancillary Pricing.

THE ANALYSIS

PROS and Lufthansa Group have been long-time partners in the Revenue Management space. In 2011, Lufthansa implemented PROS Origin & Destination Network Optimiser and began making inventory/availability decisions, based on bid prices and the expected contribution of each passenger, to maximise network revenues. By mid-2022, PROS Revenue Management and Real-Time Dynamic Pricing (RTDP) solutions were enabled in a single instance for all seven full-service carriers that are part of the Lufthansa Group. This was a key milestone in the partnership as the Group carriers took a significant step towards dynamically priced offers using RTDP capabilities to determine availability and price based on a combination of customers' willingness-to-pay, characteristics of offer requests and current market conditions.

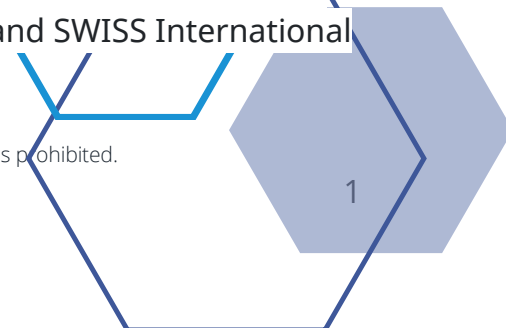
The most recent announcement is a clear indication of positive impacts Lufthansa Group carriers have observed so far from the real-life application of Dynamic Pricing as they expanded their use of PROS Request-Specific Pricing into more markets and/or sales channels. Request-Specific Pricing is expected to help the carriers to further personalise their offers to customers and improve look-to-book conversions. While these offer promising improvements, the level of personalisation should be considered carefully to ensure consistency in prices presented to customers and to prevent excessive price changes sending wrong signals to the marketplace.

This news also includes another major milestone for PROS since the Lufthansa Group has decided to adopt PROS Dynamic Ancillary Pricing, which is a relatively new area of interest in the airline industry. PROS previously announced airBaltic as its launch partner in the dynamic pricing of ancillaries, and now it will get the chance to showcase its price optimisation capabilities beyond right-to-fly at four carriers in the Group - Austrian Airlines, Brussels Airlines, Lufthansa Airlines and SWISS International

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Airlines. Considering the limited number of data sources, market and customer context information available to use for ancillary price optimisation, it will be interesting to watch their progress in the coming years.

Besides working with PROS on generating optimal prices to distribute, Lufthansa Group has been partnering with Accelya for retailing and NDC capabilities. The Group seems determined to follow a modular and multi-vendor approach for Offer Management, where offer optimisation will be handled by PROS's science solutions and Accelya's products will continue to be used for real-time offer construction and distribution.

THE SPECULATION

The announcement does not provide much detail on the expansion of Lufthansa Group's use of Request Specific Pricing. It is fair to assume that it will increase the market reach of this capability in the direct and NDC sales channels since this has been a key strategy so far. However, considering the functionality of PROS RTDP to determine RBD level availabilities in real-time and respond to RBD-based offer requests, we can expect to see it applied in the legacy (EDIFACT) channels as well, albeit in a limited fashion.

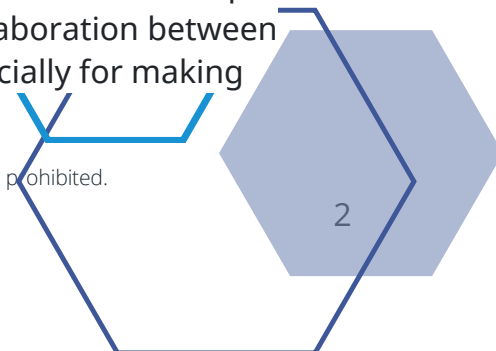
Another unanswered question in the announcement is which ancillary services will be subject to dynamic pricing. Managing this for all ancillaries, which have been sold at pre-determined prices so far, in the initial adoption phase would certainly be a challenge. A safer approach would be to start with the ones that display revenue growth potential such as seat selection and checked bags, and to migrate the others to the platform gradually. PROS and Lufthansa Group likely have already gone through a proof of concept for this to determine an order of priority and roll-out plan based on expected business benefits.

In an ideal Offer Management ecosystem, there needs to be streamlined communications among offer optimisation, retailing, offer construction and distribution layers to ensure the most relevant offers are presented to customers with the right prices and T&Cs. The expanded partnership between Lufthansa Group and PROS in dynamic price optimisation should lead to a closer collaboration between PROS and Accelya to achieve a tighter level of integration, especially for making

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revenue optimal decisions. Each will continue to take a crucial role in generating the Group's offers. This is a good test of the multi-vendor approach that can set an example for other airlines considering their move to dynamically priced offers.

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