

Selling the Story

By: Gillian Jenner

Have a conversation about ancillary revenue strategy with some of the airline industry's savvy thinkers and you get tantalising glimpses of a new vision in the making, and a sense that the full potential of ancillary activity has yet to be realised.

There are variations on the theme, but the ideas they are shaping can be summarised as consumer-centric. It is about providing relevant products and services when customers want them, and which they will be eager to buy because they add value and provide genuine choice.

That may not sound so radical if you are working for Amazon or Apple. For airlines, however, it will mean embracing a different way of thinking - a retailer's mindset.

The technology has in the past struggled to keep pace with airline ambitions on developing ancillaries and there are plenty of challenges to address before this new approach can be realised. Technology innovation, particularly around mobile platforms, adoption of electronic miscellaneous document (EMD) standards and unlocking the power of airline's customer-relationship management (CRM) data will be critical. Confident and creative use of social media will also have an important role to play. In fact, some of today's experiments in social channels will give you a glimpse of what may be possible.

Make no mistake: unbundled fees for luggage, seat selection, meals and refreshments are not going away - they have kept the cash flowing for airlines. However, expect to see airlines getting more sophisticated about how and, crucially, when they deploy them.

"I think that the full potential of ancillary revenues has not yet been realised at all," says Ursula Silling, chief executive and founder of consultancy XXL Solutions.

"The opportunity to link customer experience and retailing across different industries and brands will mean an enhancement of the customer experience, increased revenues and increased differentiation," she says.

Perhaps the challenges start with the word "ancillaries". As executive director of Mobile Travel Technologies, Gerry Samuels says "there's a lot of edge to that word". But consider these additional revenue opportunities as "value-added services" and it opens up a whole new vista. "It gives airlines the opportunity to differentiate because they are offering a much richer service, pushed at the right time and in the right context to the consumer," he explains.

A good starting point might be to provide solutions to issues that make the customer's journey problematic. "Why not allow the customer to order flowers on arrival, so that he immediately has a present for his host or someone picking him up at the airport?" suggests Silling. "Why not offer a porter service so that, for example, women travelling on their own with kids have some support?"

"In addition, a lot of the principles could be linked to loyalty approaches, including other retailers, going a real retailer direction, with smart adaptation," she adds. "There are endless possibilities, but it requires thinking out of the box and asking/listening to customers."

Informed choice will be vital in any added-value scenario. The web is already boosting transparency of product, service and price, but think like a retailer and new opportunities open up.



"We are pushing the airlines to have the same mindset as Amazon, which is a recommendation engine," says Raphael Bejar, chief executive of ancillary revenue specialist Airsavings. "You buy a ticket from London to Nice and before the end of the booking system you have a message that 10 passengers flying to Nice went to this hotel, took this taxi or went to that restaurant.

"But this means a change of mindset, moving from a pure airline mentality to a pure 'etailer' mentality, and it would be much more productive," he adds.

Attitudinal change is one of the greatest challenges to realising this vision. So how far down the road are airlines?

One indicator of how these ideas are progressing is the organisational adjustments some are making to give the retail focus more attention from top management. Silling cites British Airways creating an executive director retailing function, and Aer Lingus recently announcing two new positions in the executive team - chief technology officer and customer experience officer.

Aer Lingus has been evolving its strategy away from low cost to "value carrier". The airline's director of network distribution Ronan Fitzpatrick says: "Ultimately, we want to be at the heart of the customers' travel plans and not just the provider of their flights. Our overall philosophy is that our ancillary offerings should be discretionary value-adds, offering the right product, to the right customer, at the right time."

The Irish carrier starts from the principle that each customer should be allowed to build a bespoke product. You can buy an economy fare with no additional elements and then build that into a virtual business product by buying a cooked breakfast, extra leg-room, a lounge visit, or a flexible ticket for a leg of your journey. "In short, we believe in a mixture of unbundled and bundled offerings to meet all customers' requirements," says Fitzpatrick.

Further scope for revenue growth comes via Aer Lingus's mobile app, which allows customers to book a lounge visit or pre-order a meal when they use mobile check-in on the way to the airport. "They are better positioned at that point in time to know if they require these products than when they made their booking," says Fitzpatrick.

For full-service carrier Cathay Pacific, personalisation and putting the passenger in control is at the heart of its ancillary philosophy of offering extra value services over and above the differentiated core product. Economy passengers can purchase extra leg-room seats and in 2012, Cathay will offer competitively priced-broadband connectivity for passengers' wi-fi devices.

This personalisation will drive new revenue opportunities. "While traditional cabin segmentation - now enhanced by segments like premium economy - can address some of these needs, further personalisation will become more valuable," says Cathay's general manager product Alex McGowan. "This desire for personalisation will no doubt be a driver for service design which, in some cases, will drive ancillary opportunities."

However, McGowan sees two challenges: "Firstly, airlines must identify elements that are new - not simply unbundled - that passengers value and want to pay for. Secondly, they must put in place the internal systems and processes that enable the level of personalisation this passenger empowerment creates."

One way to address personalisation is by offering concierge services so customers can, with a simple phone call, access restaurants, hotels, taxis, or leave a message for a colleague. Bejar predicts this could be a growth opportunity for ancillary, observing: "The border between VIP and normal people is really blurring because average expenditure power is getting higher and higher, at least in Europe and the USA. This is why concierge services are gaining a lot of momentum."



Context is everything. The right product at the right time is a mantra in the forward-thinking ancillary discussions. "If one manages to deliver relevant and helpful products to the right customer at the right moment, then this becomes a relational business," says Tiago Phillimore, head of strategic marketing at TAP Portugal.

That means being absolutely focused on areas of business that make sense to TAP's customers. TAP views ancillary revenue as incremental to the original ticket price, having gone through the unbundle/rebundle process to end up with a five fare-family product structure. It is now investigating other items in a la carte models and extending its focus to hotels, car rentals, airport assistance to lounge access, priority check-in, and priority security. "If we are unable to identify the areas where we can target correctly the several customer segments, then we will lose the customer," says Phillimore.

Understanding the customer and unlocking the power of CRM systems will have a vital role in future ancillary development. You can gain insights on what is relevant to those customers signing up to a loyalty programme, but what about the business loyalty customer travelling for leisure or all those customers do not share their preferences?

"You have to look at the trip the customer is buying," says Magnus Eivhammar, SAS director ancillary revenue, ecommerce and distribution. "If it is a round trip for a day it is probably a business trip, so you shouldn't offer a hotel, [but] maybe a taxi." Nevertheless technology is a challenge and also ensuring the process is simple for customers. "To find relevant services to the customer, you need to have good technology for it."

The impetus of relevance will mean mobile platforms will have a significant impact as the timing of ancillary offers and unbundling fees get smarter.

"You need to think of [ancillaries] as a la carte, lots of options, you check up front, but in reality, when you think about the context of travelling and the travel process, what travellers really want is the ability to take from that pot of ancillaries what they want, when they want to process them," says Samuels.

Silling agrees: "It's like going into a shop and buying something else on the way to the cash desk instead of having to pay first and then look at the next thing on the shelf. Also, availability and intuitive offering on all devices, mobile, tablets etc, will lead to customers loving it and even appreciating it as ease, peace of mind, reducing a pain point."

The immediate hurdle is having the business logic in place to suggest the right offer to a customer at the right time during their journey. At the moment, the products airlines push via mobile phones are uncomplicated. For example, offering ground transportation to passengers arriving at a specific airport.

As Samuels points out, that is very different from the ability to say it is foggy at Heathrow today, we will send a lounge offer to our silver loyalty card customers who would not normally get access.

"I think the plumbing will get ever closer, for example the ability to interrogate and get the right data from CRM systems is something that will be looked at increasingly from airlines," he says.

The need for a more long-term approach strikes a chord with Brett Proud, GuestLogix executive vice-president of new products and market. "Right now, from a mobile standpoint, most people have just gone out and built apps - and apps without all the integration with the airline's internal system is not going to do it," he says. "The platform [has to be] beyond providing messaging and gate-changing information and boarding passes; it has to be a platform that allows the development of ancillary revenue. The merchandising people need to be able to put out offers and changing offers. It needs to be more of a strategic approach from the airline standpoint."

GuestLogix has its background in onboard retail transactions, and regards mobile as the ultimate extension of the onboard store, which passengers can access wherever they are on their journey. It is not alone.





"We have some pretty innovative folks, we have airlines already selling entertainment-based products onboard, destination-based products. They are not around the whole landscape, but the understanding is there when you talk to US airlines about the importance of mobile," Proud says. "They all get it, they are just worried they won't be able to do it fast enough."

