

By: Michael Fabey

As Continental CEO Jeff Smisek sees it, buying a seat on a commercial airliner these days is a bit like ordering a slice of pizza.

"We have historically served sort of a pizza with everything on it," Smisek told Wall Street analysts in January.

"And now what we're going to do is let customers not only build their own pizza but determine the size of their slice or whether they want the whole pie. If they don't want cheese, they don't have to pay for cheese."

Pizza toppings aside, Smisek was describing a fundamental shift in the business models of airlines that will produce a sea change not only in the way flyers choose and pay for services and products but in the way flight attendants approach their jobs, and even in the way the cabins of jetliners are configured to accommodate the a la carte era of commercial aviation.

"What we're going to let people do is choose the level and type of services they have in travel, and pay for those things that they choose and not pay for those things they don't choose," he said.

And, of course, charge them for the privilege at each step of the journey.

While such thinking has become the norm for airlines over the past year and a half, the new twist is that the carriers are also transforming service into self-service, enabling customers to control their individual experience from a menu of onboard options.

That self-service focus is no passing fad, said Brett Proud, executive vice president of global sales for GuestLogix, which provides technology to help airlines build and manage onboard retail operations.

"The shift now is to passenger-centric transactions," Proud said.

Banking on technologies such as in-flight WiFi and hand-held credit and debit card readers, airlines are empowering passengers to decide what and when they'll eat, determine their own entertainment and use the Internet as they desire.

The airlines, said Gailen David, a longtime aviation consultant and founder of the online resource Sky Steward, "have been working on interfaces with credit card machines that will provide all kinds of different features on board -- like running a tab."

One feature that's widely expected to become common on airlines is enabling passengers to order food, beverages and amenities electronically, using either seatback controls or their own laptops or mobile devices.



Some experts predict that airlines will encourage passengers to use their own devices by incorporating special sleeves in the seatbacks to hold developing personal technologies such as tablet computers or other mobile devices.

"If any of the new airplanes don't have one of the onboard entertainment systems with all the apps, including seatback ordering, they're crazy," said Bill Miller, senior vice president of strategic partnerships for the CheapOAir online agency. For the first time in years, airlines are also looking much more closely at seat design and configurations to encourage flyers to take advantage of in-cabin technologies that will add revenue.

This trend will also mean big changes for flight attendants, who will evolve away from their traditional service- and safety-focused roles toward a greater emphasis on selling merchandise. It is a change that has some industry experts anticipating labor issues down the line.

"Flight attendants will be trained to sell as much as possible," predicted Sergio Mello, CEO of the Hong Kong-based consultancy Satisfly.

The technology advancements and new self-service focus are further opening the spigot of ancillary revenue streams that airlines started to tap a year and a half ago, as they began to hunt for ways to make up for recession-driven drops in ticket sales.

Delta, for example, estimates that it is now collecting about \$4 billion annually in extra fees and other charges.

"Ancillary revenues can become a significant portion of our future profitability," Continental's Smisek told analysts. CheapOAir's Miller estimated that ancillary revenue accounts for about 10% to 20% of the total gross income for low-cost carriers.

And now, thanks to WiFi and related technologies, low-cost and legacy airlines alike are looking to produce even more ancillary revenue.

With planes full of captive audiences in a cyber world created by the airlines, the carriers figure they can strike up partnerships to sell destination-specific products: for example, theater tickets on transatlantic flights to London.

"It's targeted advertising," Proud said. "The next thing will be to bring more advertising relationships on board."

Others agree.

"The big thing in 2010 and 2011 will be merchandising," predicted Jay Sorensen, president of the IdeaWorks consultancy, which publishes the Ancillary Revenue Guide for airlines.

And all the marketing, merchandising and new technologies are going to change the way all classes of cabins are designed.

"We've been talking with Airbus on how the aircraft can be redesigned to capture more merchandising," Sorensen said.



Airlines are redesigning seating with a focus on comfort while encouraging passengers to plug into personal entertainment devices like the iPad.



Raphael Bejar, chief executive of the consultancy AirSavings, said one of the airlines' goals is to "have webcast-dedicated advertising each time you open your laptop."

What it all comes to, Smisek said, is industrywide structural change.

"What you're seeing as the industry not only unbundles its product, but discovers its merchandising power, is the ability to sell goods and services and generate ancillary revenue that has a very significant margin," Smisek told analysts. "That's structural change that's unfolding in this industry and will continue for a considerable period of time." The new focus on merchandising, experts predict, will include greater emphasis on social portals such as Facebook and Twitter in marketing.

"The importance of using social media tools is that you are marketing directly to a targeted end-user," said Steve Landuyt, executive vice president of sales for the Loylogic North America consultancy. "The concern will be how to form a strategic alliance."

Michelle Batten, social networking expert for the Amadeus consultancy, said, "This will bring distributors out into the social forefront."

Airlines and their partners will start prepping for passengers long before they take their seats.

CheapOAir's Miller said, "They know who you are. There's no reason they can't start messaging you and asking you, 'Would you like this? Would you like that?'"

As a result, not only will passengers get a more tailored flight experience that includes their choice of food, beverages and entertainment -- all of which will cost them extra -- but the airlines can also reduce weight by packing the plane only with items the passengers want.

For example, most airlines look to rid their cabins of onboard items like in-flight entertainment systems by enabling passengers to rely increasingly on their own personal technologies.

"Airlines have plunked down millions on entertainment systems," Sorensen said. "But now people are bringing their own entertainment. Internet access is going to be a money-maker for airlines."



Air New Zealand CEO Rob Fyfe and Olympic gold medal cyclist Sarah Ulmer show off Air New Zealand's new "cuddle class" seating.

Southwest is proving to be the airlines' poster child for Internet marketing savvy. This year, it is installing satellite-based WiFi service aboard its planes, but unlike other airlines, which have partnered with a wireless provider, Southwest is creating its own system, eliminating the middleman.

"We control the cost to the customer," said Angela Vargo, Southwest's in-flight product development manager. "We set the price point and build up branding experience."

Southwest worked on an entertainment and WiFi solution for years before deciding on the satellite wireless plan, she said.

"JetBlue has seatbacks, and Alaska hands out video players," she said. "But we don't fly into hubs, so handing out DVD players didn't make sense."



As for seatback systems, she said they often break down and have to be maintained. Also, with an average flight length of 100 minutes, there seemed to be little the airline could offer in the way of movie selection to make seatback technology financially viable.

Southwest's WiFi plan puts the onus on customers to provide their own individual entertainment centers.

"They bring on these devices anyway," Vargo said. "So we said, let them entertain themselves. That way, we're adding access to entertainment without adding any weight."

Now the airline is looking at more onboard sales and ad revenue through sales of, or access to, videos, music and games. "We can provide a better experience and generate additional revenue," Vargo said.

The airline is working to make bringing and using laptops more appealing to flyers. "We're looking at seat designs that ... wouldn't give you more pitch, but it would give you a feeling of more space," Vargo said. "More space to open up a laptop."

Southwest CEO Gary Kelly told analysts last fall, "We have a lot of opportunities to sell more stuff, and it would be nice to sell stuff that doesn't burn fuel."

Before they can generate those sales and tap the full potential of Internet sales, Southwest and other airlines still have technological and other hurdles to overcome. Current bandwidth limits, for example, could handicap some in-flight applications.

But the real speed bump is cost.

"The biggest technological hurdle will be to get as many planes equipped as possible," Proud said. "That costs about \$150,000 to \$250,000 per plane."

Then there's the matter of completing some onboard transactions.

"The flight attendants will have to become in-store sales staff," he said.

Miller and Sorensen agreed, predicting that airlines are bound to put more pressure on flight attendants to sell more items. This will open opportunities for commissions but could create problems with unions, which have long fought performance-based compensation.

Moreover, there are challenges in operating a cabin where passengers have so much control at their fingertips.

"With Virgin America you can order your food by panel," said Sky Steward's David. "You just order on a screen and swipe a card. But I talked to one of the flight attendants, and it was a nightmare. In the back, it lit up like a Christmas tree."

Nevertheless, other airlines are opting for the seatback sales option. Air New Zealand CEO Rob Fyfe touted the development of ovens that make it possible for carriers to cook food instead of just reheating it, enabling meals prepared to order.





Delta Vice President Chuck Imhof said Delta, too, will include seatback personal-ordering options on transcontinental flights.

"Transcon in general is one of the most competitive in the country," he said. "The enhancements will continue."

Meanwhile, British Airways tweaked its transatlantic seating earlier this month, launching 777s with front cabins that in addition to a 60% wider bed, a leather-bound writing table and other luxury amenities, also include an array of audiovisual toys, including a 15-inch, in-flight entertainment screen; a USB port; stereo audio jacks; and noise-canceling headsets.

Meanwhile, Air New Zealand has focused on new offerings in economy class, which the media have been quick to dub the airline's "cuddle class" -- changes that could entice more business passengers to the back cabin.

For example, the airline offers an economy "Skycouch," a row of three seats in which the bottom leg rests flip up to create a lie-flat section across the row between seatbacks, providing a place for the kids to play, or, as Air New Zealand describes it, "the holy grail of economy travel": a flat surface for adults to relax and sleep.

When flyers buy two seats at the standard fare, they can get the third for half price. Each plane will offer 22 sets of Skycouch seats in the first 11 economy rows.

Air New Zealand has also revamped the airline's premium economy seat, creating a "Space-seat," which features a hard-back shell that prevents the passenger in front from reclining into the personal space of the person behind by having the seat slide and angle up.

Air New Zealand also has created a bean-bag-style foot cushion called Otto for premium economy passengers to rest their legs and feet on while sleeping, instead of the standard stiff leg rest. The Ottos also weigh less than the leg rests they are replacing.

The seats will be configured in a 2-2-2 layout, instead of the industry standard 3-3-3 used in 777-200s.

"You will see airlines getting more incremental revenue from premium economy," CheapOAir's Miller predicted.

"It's amazing: Air New Zealand looked at something in a completely different way," David said. "You can buy three economy seats instead of one business seat and still come in under the business-class price. Some [airlines] will choose to copy that."

Ed Sims, Air New Zealand's international group general manager, said, "Already Boeing has indicated they're interested in the seats as a business-class option for their 737 range."

Sims said the airline has other design ideas, too.

"Areas like galleys and bathrooms have long been neglected in aircraft refurbishments," he said. "We want customers to realize we have thought about bringing the fun back into these areas too, with design themes including a library, glitzy chandeliers, and two bathrooms will even include a window so you can admire the view."

Before other airlines go that far, industry mavens say, they will likely direct their attention to minor changes in the cabin, especially in the packaging and merchandising of food in the back cabin.





The plain white boxes of airline food "were designed by logo police at corporate headquarters," Sorensen of IdeaWorks said. "The logo police are not merchandising experts."

Some experts predict that airlines are likely to start offering food from brand-name restaurants, charging passengers even more for the privilege.

"Passengers know airline food tastes like rubbish," AirSavings' Bejar said. "The only way to convince someone that the food is something worth buying is to rely on a brand they can trust, in a branded cart with a branded box."

Sorensen predicted that for longer flights, "passengers will be preordering and paying in advance. And they'll [get] a better meal. What's better: inedible for free, or something you like that you pay \$10 for? Someday, we'll have all you can eat, an all-inclusive-eating section. You'll pay a fee to get something off the tray every time it goes past."

Pizza would very likely be one of the selections -- with airlines, of course, getting a bigger piece of the revenue pie.

