

Airlines: Mastering Online Sales

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May—June 2011

THE AIRLINE INDUSTRY HAS EMERGED FROM A tumultuous past decade almost completely changed. Skyrocketing fuel costs made capacity and load factors the highest priority for most carriers. At the same time, the proliferation of successful low-cost airlines held fares in check and the global recession put a staggering damper on demand.

Ancillary revenues, derived from unbundling standard airfare and commissions from third-party products and services, became the most promising route for growth in earnings. With this in mind came perhaps the most important development in the last 10 years - the migration of airline operations to on-line platforms. Airlines are still in the business of transporting passengers, and interaction between airlines and their customers is still at the heart of any given transaction, yet increasingly, this is preformed on-line.

The web is not simply a cyber haven for travel bookings or convenient check-in, it is the single most important sales channel in terms of both the central product (seats) and the all-important ancillary revenue streams. In terms of brand interaction, it is often the first encounter a passenger has with an airline. In terms of merchandising, it is the most effective platform for introducing extra products and services. And in terms of overall operations, it is the lifeblood of most airlines.

All of this is old news to most airline operators. On-line bookings have covered the majority of sales for some years now and airlines have taken great strides toward optimising their proprietary websites and overall web presence. Airlines recognise that the internet resists categorisation as a narrow revenue stream; it is a dynamic, shifting space that they must continually expand, explore, and improve upon.

Furthermore, the importance of the internet implies that airlines ought to view themselves as e-commerce entities with an airline component. This may seem radical, but it is where the industry is heading.

Finding value

On-line revenues are inexorably tied to an airline's website. While there are opportunities to generate revenue through third-party sites, the development and establishment of a proprietary website that can attract and retain even casual passengers remains one of the most important components of a strong online strategy. Certainly, an airline can sell seats through a thirdparty on-line travel agency (OTA) and reap the distribution benefits that come with such a tactic, but if this is all it does, the airline loses the opportunity to make ancillary revenue through its own website.

It is important to remember that a travel booking company (for example Orbitz) receives commission (for example on a hotel booking) regardless of which airline flies the passenger to their destination. The question is whether the increase in sales received by an airline that places its inventory with an OTA outweighs the potential revenue it could otherwise make from ancillary services.

A good inventory distribution mix mitigates this dilemma, but having a good mix implies having a strong proprietary website. A survey by SITA, an aviation IT and communications specialist, found that 74 per cent of leisure travelers booked their flights online. A survey by Business Travel News found that 68.5 per cent of US domestic air tickets in 2009 were booked on-line – and both figures have no doubt increased greatly since then.

But simply steering this sizable pool of customers towards a website is not enough. The website must offer something



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that makes consumers part with more cash, or at least become better acquainted with the brand. This can be accomplished by integrating the overall travel experience and the on-board experience with the on-line or booking path experience.

Airlines have long incorporated aspects of the travel ecosystem with their websites and have historically been adept at offering passengers the ability to book hotel rooms, rent a car, and purchase trip insurance through their website – netting a commission for each in the process. Only in the last few years, however, have airlines also begun to focus on the on-board experience, such as offering passengers the option to purchase extra leg-room or choose a seat.

A relatively new option available to travelers is Wi-Fi – here we find a service that can generate revenue through multiple means. On-board Wi-Fi access can be sold to a passenger pre-flight in the booking path, but the same passenger might opt into a travel insurance bundle that includes Wi-Fi access at their destination through a partnership with a third-party Wi-Fi provider. By providing the traveler with what he or she perceives as one ancillary service, the airline has earned a commission from two third-party entities.

Commission based profits

The key to growth potential in the example of offering Wi-Fi is its commission-based nature. While many compulsory fees are levied on-line, for example checked baggage charges, these fees do not present a growth opportunity. Commission-based ancillaries have continuous potential as they are based on changing customer desires and can be used to sell numerous products and services from numerous external companies. In the case of Wi-Fi access, the demand is more pronounced than, for example, the ability to book a hotel room but value remains at the heart of commission-based ancillaries, and commission-based ancillaries remain at the heart of on-line sales. The SITA leisure traveler survey cited earlier found that 38 per cent of fliers booked their hotel rooms through an airline website, an increase of 17 basis points on 2009. This means that at least one of the ‘big three’ ancillary revenues (hotel, car hire, travel insurance) is still enjoying substantial growth exclusively through the on-line channel. Airlines need to focus on growth areas such as this to optimise their on-line revenues in addition to expanding their commission-based offerings.

One next-generation ancillary offering to have generated significant excitement involves a flexible ‘concierge’ service. This provides travelers with a hotel, restaurant, event locator, taxi and transfer reservations, access to a doctor for non-emergency medical care abroad, and assistance re-scheduling in the event of disrupted travel. Here is a programme designed to strip the anxiety out of travel, and airlines – once the very source of that anxiety – are earning a commission providing it! There are many similar innovations, from weather insurance to ‘bundled’ ancillaries (for example covering many types of travel insurance). Others apply a retail model to the in-cabin shopping experience, while others still collaborate with airports and travel related agencies to provide service options at every step in the journey. Each of these has a strong on-line component and most rely on position within the booking path to work effectively.

Mobile web technology

Having the right ancillary revenue stream is clearly paramount to increasing on-line sales. In today’s environment, however, it is instructive to look at how the on-line channel is evolving and how airlines can best position themselves to take advantage of it. Most conversations about the on-line channel presuppose the consumer uses a computer. This supposition is aging. The popularity of Smartphones and tablet computers has given rise to a plethora of mobile applications. Mastering the presentation of on-line services through mobile technology is vital to forming a successful on-line sales strategy.

For airlines, this means optimising the website for mobile use, incorporating new aspects to its content, and making sales more conducive to mobiles. Airlines should be first to capitalise on mobile web technology as the industry is primed for mobile sales; travelers are by definition less able to access the web – so airlines should be rushing to meet them.



Airlines will do well to incorporate more forward-looking tactics into their overall web strategies, primarily the effective tracking and management of customer data and the automatic presentation of additional high-adoption-potential offerings. This technology is already available and waiting to be used by the industry.

Success is reliant on mastering the basics while still embracing the next big developments. Airlines must welcome commission-based ancillaries as these are the only on-line revenue streams with bona fide growth potential. New and value-driven ancillaries should also be examined, including bundled services and high-demand, consumer-centric services. And crucially, airlines should look forward to the next wave of technology created by the evolution of Smartphones. Only those airlines flexible enough to accomplish all these prerequisites will be able to create a competitive advantage for themselves both now and in the future.

