

## TEACHING AIRLINES TO THINK MORE LIKE MARKETERS, TEACHING TRAVELERS TO EXPECT LESS BUT PAY MORE

### *Lessons to Be Had in Ancillary Revenue Creation*

**Boulogne Billancourt, FRANCE – December 5<sup>th</sup>, 2007** - A few weeks ago, around 300 airline industry experts (from AirCanada, Gulf Air and Spirit, to Myair, Virgin and WizzAir) gathered at the first [ARAC](#) (Ancillary Revenue Airline Conference) in Frankfurt to discuss relevant industry topics such as *how to increase profits, loyalty programs* and *co-branding credit cards*. But on everyone's lips was the hottest topic of the event - revenue diversification *aka ancillary revenue*.

Undoubtedly, ancillary revenue is one of the easiest and fastest ways for carriers, low-cost or otherwise, to generate profits. At a time when operating costs remain inflexible and there is nowhere left from where to cut costs, developing additional revenue streams to compliment the bargain-basement seats so coveted by today's consumers becomes a fiscal imperative. For low-cost carriers, the ability to offer a multitude of profit-generating extra services is now do or die, not an option and thus incorporating ancillary revenue into the new airline business model will become essential.

The low-cost carriers and airlines that don't will face disastrous consequences.

By default, Ryanair was the first low-cost carrier and still remains the poster child for the industry, followed closely by easyJet and Southwest. Using the failures of the giants as examples of what not to do, these low-cost carriers have shunned the traditional airline business model with very positive and profitable results – like squeezing as much as an extra €5- €10 per customer and growing revenues by almost 50% - while revolutionizing air travel in the process. The key to their success? Ancillary revenues.

For low-cost carriers, anything not travel related, i.e., water, drinks, pillows, blankets, food, even checked baggage, is now considered to be ancillary and therefore potentially profitable. Increasingly, passengers don't expect all amenities built into their ticket prices - they just want to get where they're going, fast – and by offering travelers low-cost fares, these carriers have effectively lowered the expectation threshold (so their customers won't mind paying for extras). It is, after all the customer's choice and offering them a wide range of products and services will actually enhance their perception of the airline, even though they end up paying more for added services.

And that is the crux of it; the unbundling of services and offering of new ones. Ancillary revenues.

One of the companies present at ARAC conference [Airsavings](#) is an expert in ancillary revenues for low-cost and medium-sized carriers. About 6 years ago, the Paris-based company created a *think-tank* for the industry and has since created a number of products and services that provide the greatest potential for bottom-line growth, like group buying strategies. Most recently, [Airsavings](#) introduced a widely-used business purchasing model in the hospitality and automotive industries, to the airline industry. This new model – a behavioral targeting and recommendation engine - is also set to revolutionize the way in which carriers interact with their customers, by moving into the customer's psyche. Carriers are now able to offer many additional services within the purchase path, not just the standard car hire or insurance. Up-sell and dynamic cross-sell of additional services and products will become the norm as opposed to the exception, as this new breed of airlines start to think more like marketers than just providers of seats 35,000ft in the air.



One of the companies present at ARAC conference [Airsavings](#) is an expert in ancillary revenues for low-cost and medium-sized carriers. About 6 years ago, the Paris-based company created a *think-tank* for the industry and has since created a number of products and services that provide the greatest potential for bottom-line growth, like group buying strategies. Most recently, [Airsavings](#) introduced a widely-used business purchasing model in the hospitality and automotive industries, to the airline industry. This new model – a behavioral targeting and recommendation engine - is also set to revolutionize the way in which carriers interact with their customers, by moving into the customer’s psyche. Carriers are now able to offer many additional services within the purchase path, not just the standard car hire or insurance. Up-sell and dynamic cross-sell of additional services and products will become the norm as opposed to the exception, as this new breed of airlines start to think more like marketers than just providers of seats 35,000ft in the air.

For [Airsavings](#), the evolution of ancillary revenues has been rapid, with clients including *Atlas-Blue, Clickair, Aer Arann, VLM, Virgin Express, Spanair* and *Air Europa* - all of whom are taking full advantage of the ever-increasing range of ancillary service options provided by the company. And because of its dual-natured operational model – providing additional revenue options and cost saving initiatives - [Airsavings](#) is increasingly the preferred provider for many of Europe and Asia’s smaller carriers. Additionally, through its proprietary *dynamic packaging technology*, [Airsavings](#) enables these airlines to sell additional products and services online using an interface, but without any programming or development costs. And very importantly says Raphael Bejar, CEO of Airsavings, is the speed to market ***“Quite often, what we see is a paralysis in the decision making process when talking about the implementation of an ancillary revenue program. Because of the enormity of an ancillary revenue program, the development and programming time involved and of course cost, it can be a daunting prospect, albeit essential for the company’s bottom-line growth. We have known of some programs to take several years to develop, whereas we can develop and launch a program for a smaller carrier in several weeks.”***

With that in mind, Airsavings has eliminated the need for carriers to take on the back-end development of ancillary revenue programs, limiting their time and technology investment to virtually zero. [SkyEurope](#) which is Central Europe’s leading LLC, is one of Airsavings’ clients. Airsavings was able to develop a fully integrated group purchasing and dynamically packaged ancillary revenue model for the carrier in a matter of weeks, instead of years. And because the airlines are using “plug-and-play” technology already developed by Airsavings, they’re able to offer an increasingly growing number of profitable services that customers are willing to pay for. *SkyEurope’s* offerings currently include hotels, budget hotels (in keeping with its customers needs), car-hire, transfers, insurance, airport lounges, guides, entertainment and gaming. More are in the works.

And so there you have it; the possibilities for additional services seem to be endless. A fully expanded service line to include the Big Three (hotel, car, insurance), the traditional “up-sells” (optional or upgraded food and drink, headphones, priority check-in), and the next generation ancillaries (SMS flight status notification, one-day sky lounge passes, online gaming), and more.

Clearly, ancillary revenue is the wave of the future for airlines of every stripe, legacies to mid-majors to low-cost carriers. The success of any airline will eventually be pegged to their ability to generate ancillary revenue and with the help of Airsavings; some airlines will be enjoying this success much faster than others.

