

REVENUE GENERATION

How to Adapt to a Changing Airline Revenue Model

By Portia Tudhope

Calling 2017 a “turbulent” year for the airline industry would be accurate. Consistent price increases continue to frustrate flyers, while industry executives are in PR overdrive trying to clean up the backlash from a bunch of customer encounters gone wrong.

While working to resurrect the industry’s image through damage control, airline executives are also scrambling to generate additional revenue and keep costs low without sacrificing the customer experience. As many have realized, this is no easy task.

Travel executives need to find alternative routes toward building goodwill and customer loyalty within their respective bases. Airlines that create ancillary revenue streams through improved customer service establish services and offerings customers will be glad to continually buy into.

WHY ANCILLARY IS NO LONGER ON THE PERIPHERY

Historically, airlines generated revenue solely from bookings: Carriers would sell flights to markets, who’d turn those over to travel agents and global booking options. The changing travel landscape means this is no longer viable revenue approach.

These days, money spent on booking isn’t guaranteed to go to travel’s largest companies. Many agile, innovative startups have emerged during the past several years to challenge the status quo and these companies are dramatically changing customer expectations of the industry.

Startups can offer the level of personalization, seamlessness and on-demand functionality that customers continue to demand out of their favorite brands and companies. As a result, they’ve forced the travel industry to think outside the box and find new ways — outside of just bookings — to generate revenue and remain relevant in the industry.

A LITTLE EXTRA ALWAYS HELPS

Naturally, it would be safe to assume these extra fees might annoy clients, but that’s not always the case. Customers’ continued investment in these add-ons shows there’s a market for customizable, more convenient flying experience.

In 2007, the 10 highest-earning airlines combined to accrue \$2.1 billion in ancillary revenue, or commissions and fees on basics like travel insurance, car rentals and checked bags. In 2016, that number jumped to \$28 billion in airline sales outside tickets. In response to market pressure, airlines are now looking for creative ways to spark sales in areas outside of ticketing.

For many low-cost airlines like easyJet, Ryanair, and Spirit Airlines, ancillary revenue constitutes a large portion of the income statement. In fact, Spirit Airlines attributed 43 percent of its 2016 total revenue to ancillary sales, which led the industry for the fifth year in a row.

So where’s the extra revenue coming from? These airlines are looking beyond basic seat upgrades, lounge passes and bundling services, searching for innovative ways to gain a competitive advantage.

Air Canada now provides a service giving travelers the opportunity to bid for seats in a higher cabin class. Other airlines are hoping to get customers hooked on the amenities that come with business-class flying, such as extra leg room and superior service, which could pay off in the future in the form of more business-class customers. They’re

also banking on customers sharing their bidding experiences on social media, which in turn drives brand awareness.

Other airlines like [Finnair](#) look for more ways to monetize their in-flight engagement platforms. As passenger expectations evolve, executives are looking at seatback systems, in-flight wireless portals and mobile apps as critical customer touchpoints. Whereas these add-ons were seen as expenses in the past, executives are now considering them potential sources of revenue and doing everything they can to capitalize on them.

This is resulting in a tremendous shift in the customer experience — one that any frequent flyer can attest to. Rather than making money selling Wi-Fi connectivity, today's airlines are thinking about how to turn to third-party merchants that offer last-minute inventory — on everything from hotel and restaurants to duty-free retailers and transportation companies — to create an in-flight retail environment. As a result, flying across the country, or even across the globe, is starting to look more and more like relaxing in your living room.

WHERE TO GO BIGGER

To be sure, in-flight commerce is still in its infancy, but it's not the only outlet airlines can use to make extra money. There are various proven strategies airline executives can adopt to drive ancillary revenue, though doing so requires more of a shift in thinking rather than a huge monetary investment.

1. Go mobile. The advice to take a mobile-first marketing approach may sound generic, but it's important to follow in the airline industry, as more customers are now searching for flight information and even booking trips on their mobile devices.

It's crucial to create a "fast, easy-to-use mobile experience," Travel at Google's senior product marketing manager Jaclyn Loo notes, citing Google data. She said marketers who design relevant, useful websites and apps for travelers will drive bookings and win the space long-term. In 2016, Delta Airlines launched an app upgrade that enables passengers to track their bags via radio-frequency identification technology. As rare as it is to lose luggage during travel, the RFID tracking gives customers one less thing to worry about. The app and other upgrades to Delta's in-flight services have made it a leader in the race to offer customers a travel experience while opening up additional opportunities to deliver timely offers to customers.

Of course, "going mobile" isn't just about building a strong mobile interface; it also means leveraging data from mobile users. If you're missing that piece of the equation, you're missing out on an opportunity to further personalize the customer experience and capitalize on new opportunities for ancillary revenue.

2. Anticipate needs and behavior. You always want to strive to know your customers even better than they know themselves. The majority of customers expect brands to anticipate their needs and make relevant suggestions by 2020 and for many venerable airlines, that type of responsiveness can be hard.

That's why leveraging data is so important. Data can never tell you the whole story. You can't know everything about infrequent travelers or customers who book tickets and reservations across multiple platforms. However, you can seek to craft a customer-centric experience by constantly considering the customer's perspective, which is what makes Finnair's Nordic Sky in-flight portal so effective as an ancillary revenue generator.

It lets passengers order duty-free goods such as groceries or electronics to be delivered directly to their seats on return flights. Moreover, it allows them to peruse and order any services they may want on the ground, such as event tickets, restaurant reservations, or taxi services.

By looking at a customer's flight as just one small part of his or her overall travel experience, airlines can meet customer needs that seemingly have nothing to do with the flight itself. Anticipating customer needs also allows airlines to identify potential upsell opportunities; for example, if a customer arrives at the airport an hour in advance of boarding, an airline can deliver a real-time offer for a discounted visit to the airport lounge.

Timing is everything. Offers that are delivered too late, too early, or too often can quickly become nuisances and the same goes for portals or landing pages that add more friction to the customer experience.

3. Take advantage of social media. Social media serves as an ideal forum for conducting customer research.

Knowing what type of trip a customer is planning allows an airline to customize the offers it delivers in the days leading up to that trip.

If a customer opts into sharing certain Facebook profile details, you can leverage what type of groups they have joined or hashtags they have used to gain some idea of why they're traveling. To successfully tailor the travel experience, airlines must explain to customers why they're collecting their data and how they'll keep it safe.

Social media also serves as a chance for upselling opportunities, such as a recommendation for economy class travelers to purchase preferred seating on a long flight, and for driving brand awareness. If an influencer tweets about your brand, offer him or her a lounge pass or free seat upgrade; the publicity will be well worth the cost.

A satisfied customer means increased engagement, brand loyalty, brand awareness and conversions.



ABOUT THE AUTHOR

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