

A MAGAZINE FOR AIRLINE EXECUTIVES

2010 Issue No. 1

ascend

Taking your airline to new heights

A man in a dark pinstriped suit and tie is smiling and holding a small white model airplane. He is standing in front of window blinds. The background is a light blue sky.

World's Happiest Airline

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Value Articulation

The background of the image is a collage of various banknotes. A prominent 100 Euro note is visible, showing the portrait of a man and the number '100'. Below it, a 100 Canadian note is partially visible, with the word 'CANADA' and 'BANQUE DU CANADA' clearly seen. The overall color scheme is a deep blue, and the airplane is shown in a perspective view, flying towards the right.

Not only is it critical for airlines to take advantage of every possible distribution channel to sell their offerings, it's also vital that the value of these products is clear and can be easily identified to achieve maximum sales potential.

■ By Benjamin Mussler | *Ascend* Contributor

In an age where various technologies, tools and channels help direct customers to an airline's products and services, how can an airline ensure its value proposition for these items is effectively marketed through each method of distribution?

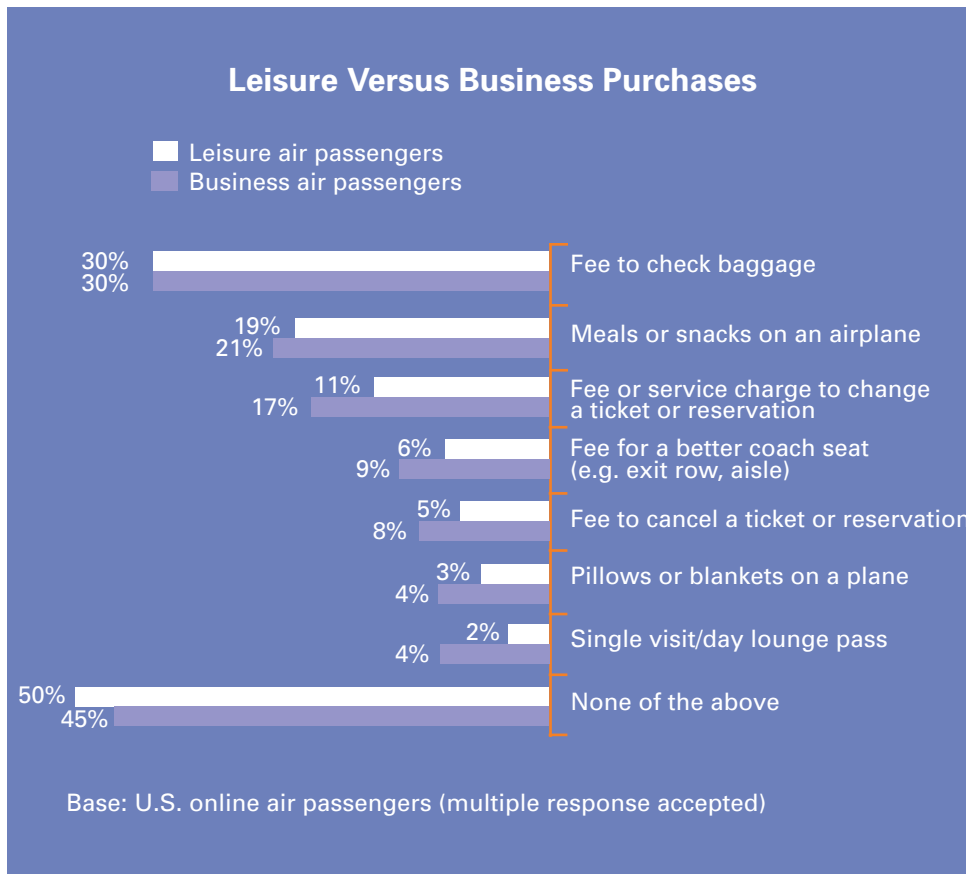
Decision makers need to ask their marketing and distribution managers about value proposition. Just as new technology continues to offer airlines more ways to differentiate their products and services, the Internet gives travelers more ways to research and determine their travel options on their own. While ancillaries may provide more ways for a carrier to differentiate its services online, many consumers base their decisions on price. Therefore, it's crucial for an airline to explore ways to ensure that the value of these ancillaries is clearly defined and becomes a key reason consumers choose its offering over the competitors'.

Ancillaries Or Travel "Fees"?

Ancillaries offer a great way to differentiate an airline's products and generate additional revenue. It is estimated that half of all airline passengers paid a travel fee during the past year and, as Forrester Research suggests, "travel fees such as those to change a ticket or reservation are old hat in the travel industry." But 2008 saw the emergence of new fees, including those for checked baggage, seat selection, and in-flight food and beverages. The data shows that 50 percent of U.S. online airline shoppers have paid for at least one optional "value-added" service in the past 12 months.

Unfortunately, the vast majority of those "value-added" ancillaries purchased are purely labeled and defined as additional "fees." But it's not all bad news. The data shows that there are opportunities to capitalize on items that are not considered a fee but rather an option or choice. For example, the study showed that 19 percent of leisure and 21 percent of business travelers chose to pay for an in-flight meal or snack. Thus, there is potential for these ancillaries to bring true value to customers instead of just providing a new way for an airline to collect more money on a service that was once part of the traditional airfare. Carriers that innovate beyond meals and offer new, unique ancillaries consistently through all distribution channels have the potential to generate a wealth of untapped revenue and product differentiation.

To succeed in this area, however, airline distribution and marketing management teams need to follow a solid multichannel strategy that includes sale of ancillaries in all places their seats are sold. Forrester suggests that airlines can maximize their



Recent data from Forrester Research suggests that there are opportunities to capitalize on items that are not considered a fee. Carriers that innovate beyond "meals" and offer new ancillaries consistently through all channels will clearly generate additional revenue.

ancillary sales prior to a flight by "re-evaluating forms of payment and channels and website design and navigation" in their own direct channel as well as the sites of their distribution and travel partners.

Pre-Flight Sales

Many carriers have had great success with the sale of ancillaries and upgrades on the day of departure and/or in-flight (seat upgrades or meals for sale on board). But the opportunity to generate more revenue through the sale of ancillaries during the ticket-purchase and pre-flight phases of the travel cycle mustn't be discounted. Their importance is two-fold because they:

- Present more opportunities to sell the customer on any given trip,
- Provide a more convenient shopping experience for customers because they can buy the services and "extras" they value prior to arriving at the airport or in-flight.

By offering the extras earlier in the travel-purchasing process, airlines can help boost their revenue by selling more ancillaries and improve the overall customer experience. Once on the trip, travelers are able to enjoy their entire trip because all of their "extras"

have already been bought and accounted for.

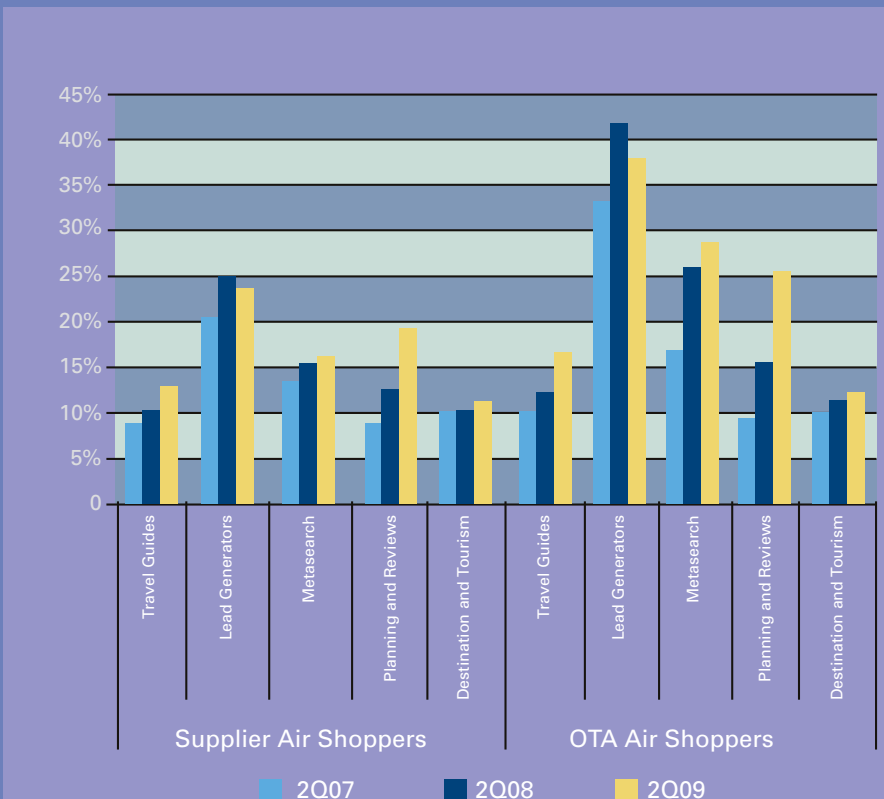
Shopping Around

Online consumers are increasingly price sensitive and technology savvy, so it's imperative the value of ancillary services is clearly stated in all distribution and marketing channels. "Click words" and other search engine-driven marketing tools can be expensive and too repetitive to capture the customer. The typical bid price for key words ranges between 30 U.S. cents to more than US\$2. This seems relatively inexpensive but can be misleading because the airline must pay per click (regardless of whether it results in a sale).

A Sabre Holdings® analysis, reported in an earlier issue of *Ascend*, estimated a click-through conversion rate of only 3.37 percent, and showed that it could cost carriers upwards of US\$10 to US\$50 per booking when the entire cost of a "click-word" Internet search marketing program is allocated to those bookings that are actually purchased.

This cost could be justified if this method of acquisition built strong, loyal relationships with customers. However, this would

Supplier And OTA Air Shoppers Who Also Visit Non-Transactional Categories



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PhoCusWright data indicates that online consumers are not becoming more loyal but are using even more tools to research travel beyond a carrier’s website. Shoppers often visit supplier websites or online travel agents.

require customers to be price insensitive, carrier loyal and not prone to shopping around for the best deal. This is not the case with many travelers, for example, when one views the growing popularity of online travel agencies as search engines.

Recent data from PhoCusWright indicates that shoppers generally start their searches with an OTA and then go to the supplier website to purchase once the cheapest price has been found. The report, which analyzes online travel purchasing habits from January 2007 through June 2009, found that roughly 70 percent of online air, hotel and car rental consumers transact with the respective supplier sites.

While this could be considered good news for the airline’s direct channel, additional research indicates online consumers are not becoming more loyal, but instead are using even more tools to research travel beyond a carrier’s website, reaching out to travel agent or OTA to find the best deal. Compete Research reports a significant portion of air shoppers who visit a supplier site or OTA also visit sites

within the non-transactional categories, such as lead generators and destination and tourism sites, during the same month they purchase travel. For shoppers who generally purchase via a supplier site (airline.com), two types of sites in particular have experienced growth during the past two years — travel guides and planning and review sites. During the past year, even more of the shoppers who use OTA sites to book travel visited planning and review sites.

Demonstrating Value

Increased use of non-transactional sites, better technology and more self service indicates that savvy consumers search for the best deals ... those containing the most value. Airlines should clearly display the value of their products in the channels prospective customers are surfing. There are several ways airlines can ensure product value is prevalent in each channel:

- Global distribution system advertising — While distributing through the GDS, tools such as Sabre® GDS Media suite enable airlines to target messages to

a specific region or country to better articulate the value of their products to agents. These types of campaigns have average click-through rates of up to six times higher than the industry average.

- GDS and travel management company relationships — Although it is essential for a carrier to maintain its own healthy relationship with the TMCs, it is also beneficial to ensure that the GDSs with which an airline participates understand its needs. An airline should meet with its GDS partners on a regular basis to ensure they have a good working knowledge of the carrier’s value proposition. Questions to ask include:
 - Does the GDS help TMCs improve automation?
 - How is the GDS ensuring that the value of the airline’s products is being communicated?
 - Can unbundled and ancillary offerings be distributed through the GDS?
 - How can the GDS help target the airline’s offering at specific customer segments?
- Online travel agent marketing — OTAs can significantly help carriers increase brand awareness and articulate value beyond hub cities. In a recent study, after extending its brand through increased OTA presence, one North America-based carrier increased sales of itineraries outside its hub city by 25 percent. It’s also essential for airlines to utilize the advertising and promotional tools of the OTA in which they participate.

As the travel landscape continues to evolve, consumers will have more opportunities to research and determine the value of each carrier’s offerings. Therefore, it will be imperative for airlines to clearly articulate the value of their products. Whether it’s in the form of ancillaries, bundled offerings or a service — carriers must be prepared to capture consumers for the long haul by selling them value, no matter where or when they are shopping. ■

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