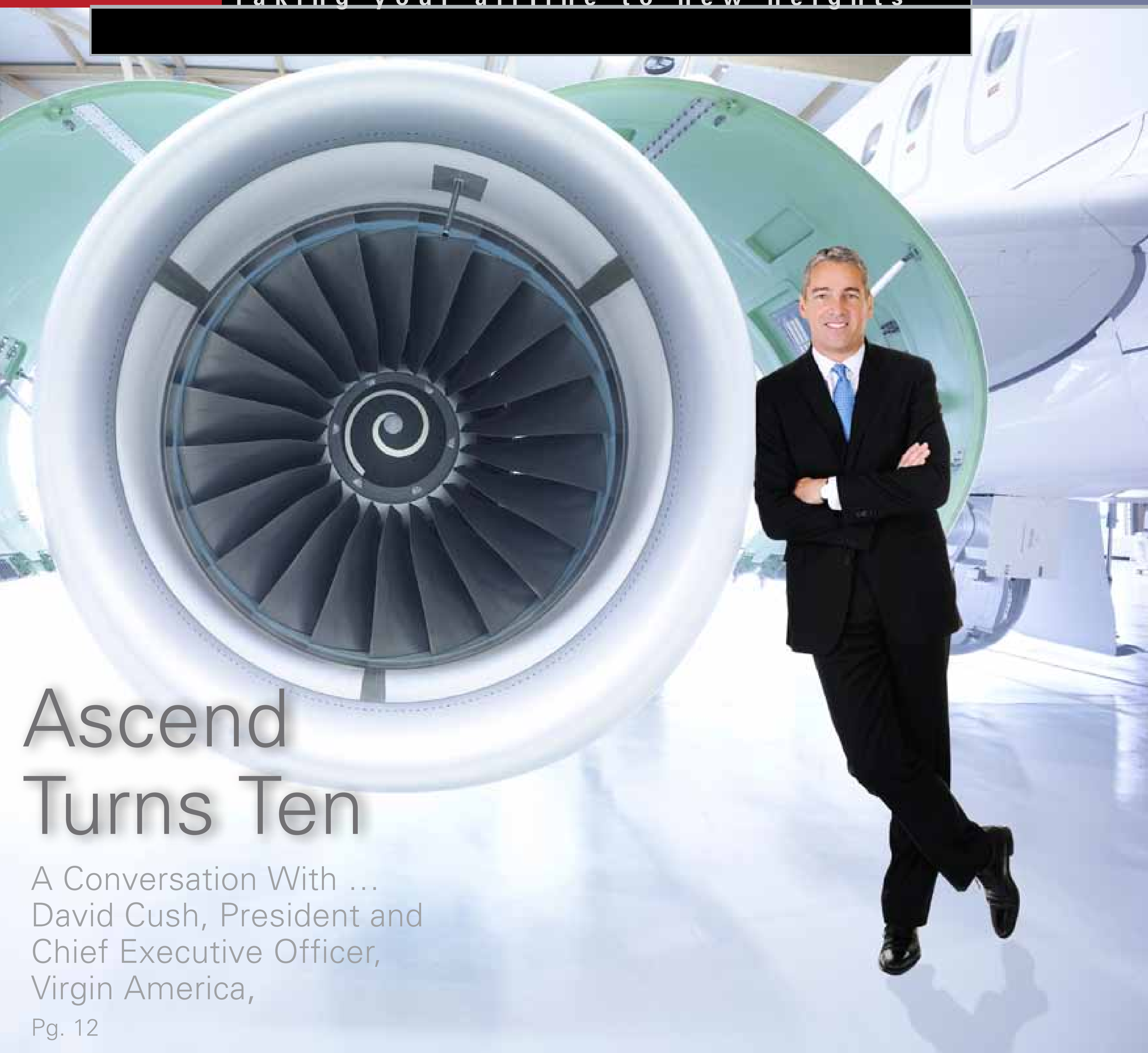
A MAGAZINE FOR AIRLINE EXECUTIVES

2012 Issue No. 1

ascend

Taking your airline to new heights



Ascend Turns Ten

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David Cush, President and Chief Executive Officer, Virgin America,

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Airline Merchandising:

The Retail Movement

A Comprehensive Merchandising Strategy Can Transform Airlines Into Retailers

By Kyle Moore | *Ascend* Contributor

As the merchandising trend evolves, it is imperative for airlines to shift from a service provider to a retailer as part of their successful end-to-end merchandising strategy.

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Since the early 1900s, airlines worldwide have filled the role of service provider, transporting people from where they are to where they want or need to be. The cost of doing so has steadily increased year after year. Today, the cost of transporting a passenger, on average, is 24 percent higher than the base fare.

After years of cost-reduction plans, it seems a fundamental business model change may be the answer for the volatile airline industry. Last year, the sale of ancillary products and services — baggage check, pre-reserved seats, priority check-in and boarding, priority seating, lounge access, in-flight meals, onboard WIFI and entertainment, trip insurance and third-party promotions — generated US$22.6 billion for the global airline industry, up 66 percent from 2009. By 2015, that number is expected to rise over US$50 billion. In effect, airlines are seeking to transform themselves from service providers to retailers.

The transformation began more than a decade ago when low-cost carriers, which utilized the Internet as their primary distribution channel, began offering bargain ticket prices and charging additional fees for services such as checking bags. Traditional full-service carriers followed, in some cases unbundling offerings once included in their standard fares or adding premium services. Thus, the retail movement within the airline industry had begun.

Retailers, at least those that are successful, are experts at developing and implementing comprehensive merchandising strategies. They study their customers and adjust their products and services inventory to target the most profitable segments. They display them in a pleasing way — all in an effort to attract consumers to shop and, ultimately, buy. For retailers, it is a never-ending cycle … one that is beginning to yield positive results for the airline industry.

The rise of personal technology and lightning-fast digital communication is acquainting consumers with a wide variety of avenues for receiving personalized, time-sensitive offers from retailers. Airlines are following the same path, blending information about who the traveler is with what the airline can offer at a specific point in time. By providing options, airlines empower consumers, placing them in control of their own travel experience. In turn, travelers are more apt to be loyal to airlines that offer the products and services they value and are willing to purchase.

However mutually beneficial this airline-passenger relationship, merchandising remains somewhat uncharted territory for most of the industry. Carriers around the world currently face a number of challenges to the implementation of a truly effective end-to-end merchandising strategy, including the outdated technology, undeveloped industry guidelines, insufficient or conflicting internal data, unclear objectives and lingering negative consumer perception.

Transforming Airlines Into Retailers As the merchandising trend progresses, it is essential for airlines to shift from a service provider to a retailer as part of their lucrative end-to-end merchandising strategy. Like retailers, they must study their customers and adjust their products and services inventory to target the most profitable segments.

Still, steps are being taken within the airline industry to minimize some of the confusion. Industry-standards bodies, such as IATA and ATPCO, working alongside several member airlines and technology solutions providers, including *Sabre Airline Solutions*® and *Sabre Travel Network*®, have taken a giant step in support of carriers' merchandising efforts by implementing industry standards around product creation and payment for ancillary services.

This includes OC fare filing, which associates a price to an ancillary, and electronic miscellaneous documents (EMDs) that assist with their fulfillment and the tracking of associated revenues. Though OC filings and EMDs are not themselves merchandising, they are the technological enablers, creating a foundation upon which carriers can build, distribute and evaluate their ancillary and branded fares offerings.

Before jumping on the merchandising bandwagon, though, carriers should consider a systematic approach to developing and implementing a flexible, scalable, comprehensive strategy.

First, it is imperative that airlines assess and understand their current business models and processes, product offerings and pricing, marketing strategies and channels, competition, and the regions where they operate. Are they adequate to support an airline's transition to a merchandising role? If not, solutions providers with expertise in the aviation industry, such as *Sabre Airline Solutions*, can assist with the development of a business model and strategy around airlines' proposed merchandising initiatives.

Second, as airlines become more sophisticated in the sale and fulfillment of ancillaries and branded fares, are they able to accurately capture and track the growing revenue stream? An increasingly methodical approach incorporating decision-support tools is needed to revenue manage and optimize the pricing of such offerings.

Third, in the early stages, many carriers utilize an experimental approach to merchandise ancillary offerings, introducing and withdrawing various à la carte products and services without an in-depth evaluation of the attributes of each distribution channel, both direct and indirect. The presentation of a consistent merchandising message across all distribution channels is key to defining brand image, building customer loyalty and establishing a market presence.

One thing is certain … the marketplace changes. Airlines will require the flexibility to move swiftly and decisively when the marketplace changes, and they will want solutions

Empowering Customers Giving customers choices in ancillary purchases places them in control of their own travel experience. This level of customer empowerment promotes customer loyalty to airlines that offer the products and services travelers value and are willing to purchase.

that enable these changes. While most believe that a consistent approach to distribution across channels makes sense, regardless of their distribution strategy, airlines will want to ensure that they have the ability to put the right product in front of the right customer, at the right time in a way that supports their brand image, builds customer loyalty and fosters the appropriate market presence.

Fourth, the implementation of EMD standards enables carriers to record and associate, from an accounting standpoint, ancillary revenues down to the specific passenger, date and flight. The amount of raw data available will grow exponentially as carriers' merchandising strategies become increasingly complex. However, raw data is of little value unless it is interpreted, analyzed and used to make decisions, formulate actions and prevent problems. Tools are available to assist airlines in pulling data together, developing meaningful information and adjusting their merchandising strategies in response to marketplace changes.

Of course, no single merchandising strategy is a perfect "fit" for all carriers, but to be effective it must:

- Support stated business plans and objectives;
- Encompass all departments involved;
- Garner employee support;
- Help differentiate product and service offerings from those of competitors;
- Attract, retain and empower customers;
- Enable a consistent consumer experience across multiple distribution channels (direct and indirect) and touchpoints;
- Support the ability to evolve with changes in both the marketplace and merchandising best practices.

No matter the size or type of airline, a well-conceived, properly implemented end-to-end merchandising strategy is essential for carriers to effectively transition from the role of service provider to retailer. The challenge for airlines and aviation solutions providers for the foreseeable future will be to ensure they appropriately develop that strategy as competition escalates, consumers grow increasingly tech-savvy and mobile, creativity outpaces technology, and industry regulations become more clearly defined.

What once was hailed as the "latest and greatest" revenue-generating trend in the airline industry appears to be a much-needed fundamental business model change. At least for now, the marketplace has spoken, and merchandising is here to stay.

US$22.6 Billion In Ancillary Revenue In 2011, the sale of ancillary products and services, such as pre-reserved seats, priority check-in and boarding, priority seating, lounge access and in-flight meals, generated US$22.6 billion for the global airline industry, up 66 percent from two years earlier.

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