

CARTRAWLER AIRLINE INTELLIGENCE SERIES FOR 2018



Airline Retail 'Round the World: A Global Tour of Ancillary Revenue Best Practices

IdeaWorksCompany reviews great examples
from British Airways, Jetstar, Ryanair,
SWISS, United, and Wizz Air.

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About Jay Sorensen, Writer of the Report

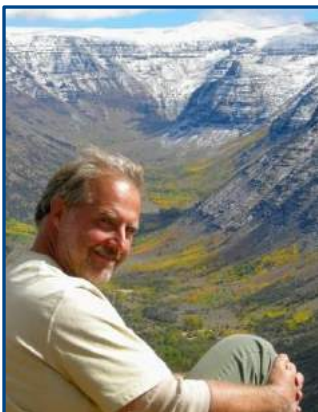
Jay Sorensen's research and reports have made him a leading authority on frequent flyer programs and the ancillary revenue movement. He is a regular keynote speaker at the annual MEGA Event, spoke at IATA Passenger Services Symposiums in Abu Dhabi and Singapore, and has testified to the US Congress on ancillary revenue issues. His published works are relied upon by airline executives throughout the world and include first-ever guides on the topics of ancillary revenue and loyalty marketing. He was acknowledged by his peers when he received the Airline Industry Achievement Award at the MEGA Event in 2011.



Jay, with son Aleksei and daughter Annika, in North Cascades National Park in Washington.

Mr. Sorensen is a veteran management professional with 34 years experience in product, partnership, and marketing development. As president of the IdeaWorksCompany consulting firm, he has enhanced the generation of airline revenue, started loyalty programs and co-branded credit cards, developed products in the service sector, and helped start airlines and other travel companies. His career includes 13 years at Midwest Airlines where he was responsible for marketing, sales, customer service, product development, operations, planning, financial analysis and budgeting. His favorite activities are hiking, exploring and camping in US national parks with his family.

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Eric, at his favorite summer retreat, Steens Mountain, Oregon.



Airline Retail 'Round the World: A Global Tour of Ancillary Revenue Best Practices

Airlines seek to become retailers to boost ancillary revenue

Retail has been defined for centuries as the sale of goods from a physical store. During the last few decades, stores grouped into malls and then shopping became a type of entertainment. Next, discount giants, such as Walmart and Carrefour, chewed through the retail landscape by combining lower prices and the convenience of a single mega store. The internet has furthered the evolution of retail by determining which companies perish, survive, and thrive. It's a story that parallels much of what has happened in the airline business. The common theme is this: Companies that embrace change enjoy a better chance of success. Those clinging to the past risk others taking their place. This report examines the changes occurring in merchandising, what lessons can be applied to the travel business, and how airlines are becoming better ancillary revenue retailers.

The quest to attract more consumers to airline websites requires ancillary revenue managers to add merchandising mastery to their repertoire. Airline websites were designed to efficiently respond to consumer queries. This has changed over time, as airlines seek to boost ancillary revenue through the sale of a la carte items, hotel and car hire bookings, and co-branded credit card activity. Industry executives look to retailers for inspiration. Attend any airline conference and you are likely to see examples linked to Amazon, Flipkart (India), JD (China), IKEA, Tesco, and Walmart. It's good practice to learn from other industries. However, endless window shopping won't generate action. At some point, retail excellence needs to occur naturally within the airline industry itself.

In its search for success, retail has become unpredictable

The scary reality is the turbulence faced by merchants might someday visit the airline industry. For example, bricks and mortar retail may or may not remain a powerful force. The light blue gift boxes that carry the Tiffany's label are known throughout the world. Its 78-year-old flagship store on the corner of 5th Avenue and 57th Street in New York City could be viewed as a relic of a bygone era. After all, isn't the internet the only address that counts today?

The Tiffany blue box is featured at 320 stores worldwide which generate 90+ percent of company revenue.



In a contrarian move, Tiffany's will pour \$250 million into a rejuvenation of its flagship Manhattan location. Tiffany's CEO said, "It's a magic place where as a customer you want to have an experience that is extraordinary." Back in 2014, PricewaterhouseCooper's annual consumer insights survey disclosed 36 percent of consumers visited a physical store at least weekly. By 2018, that number increased to 44 percent. Tiffany's bricks and mortar plan makes it seem clear traditional retail can survive, but at what cost of capital investment?

Walmart has invested millions to sell more goods through its website. In a rush to rapidly expand online sales, the company seems eager to expand in every direction. In a nod to Amazon, Walmart now acts as a distributor of goods sold by third parties. The company is experimenting with self-service grocery pickup services. Reaching deep into the Amazon toolkit, Walmart plans to offer home grocery delivery in 100 US metro areas by the end of 2018.¹ This service appears to eclipse the earlier attempt to use Uber drivers for same-day package delivery. It's perfectly understandable if you too are confused by this "anything goes" style of retail strategy.



"Would you like French fries with that gallon of milk?" Walmart is testing various designs for drive-up pickup.

Image source: Walmart

That's because the retail environment currently relies upon a large measure of experimentation. When you have a big checkbook, the experiments can be huge. Amazon is partnering with an India-based private equity firm to spend \$584 million to purchase a major retail chain in that country.² Why is Amazon doing this? Well, to compete with Walmart of course. The deal gives Amazon access to 500+ locations of the "More" chain of supermarkets. Perhaps Amazon will establish counters to accept returned merchandise as it is doing with Kohl's department stores in the US. Kohl's disclosed foot traffic at Amazon-equipped stores increased 13.5 percent over non-Amazon stores for July 2018.³ However, the impact on Kohl's store revenue has not been disclosed.

What are the lessons for airline executives who seek to boost ancillary revenue through new retail methods? Airlines have tapped retail expertise by adding merchandise professionals to their rosters. As described earlier, we are eager to learn how to increase sales of checked baggage, seat assignments, car hire, and hotel accommodations. But rather than rely upon those outside the travel business, we should realize they are searching for solutions too. We are quick to interpret the moves made by Amazon, Tiffany, Walmart, and others as representing wisdom. Perhaps the more accurate representation of their behavior is "an eagerness to experiment." Beginning with Ryanair, this report reviews how airlines have embraced the need for change in the ancillary revenue products they've created.

¹ "Walmart Tries Out Own Home-Delivery Service" *Wall Street Journal* article dated 06 September 2018.

² "Amazon, Samara Capital buy India's retail chain More" article dated 25 September 2018 at RetailNewsAsia.com.

³ "Kohl's expands Amazon partnership" *Milwaukee Journal Sentinel* article dated 15 August 2018.

Ryanair creates a hotel booking brand with a rebate perk

Back in 2016 Ryanair launched its hotel booking website called Ryanair Rooms.⁴ The original site was powered by hotel inventory from Hotels.com and Hotelopia. The website is the product of the carrier's "Always getting better" campaign and was developed by Ryanair Labs which has locations in Ireland, Poland, and Spain. The list of hotel room suppliers has grown to include eviivo (B&Bs), Hostelsclub, and HRS. The website aggregates these booking sites by placing them into a coherent collection offering more than 10 million rooms at properties which range from hostels to 5-star hotels. This is a notable technological

achievement for an airline. Before launching Ryanair Rooms, the airline entered into a relationship with CarTrawler to create a car hire booking site with 1,600+ car rental suppliers. Both initiatives are crucial components of Ryanair's desire to become the "Amazon of travel."



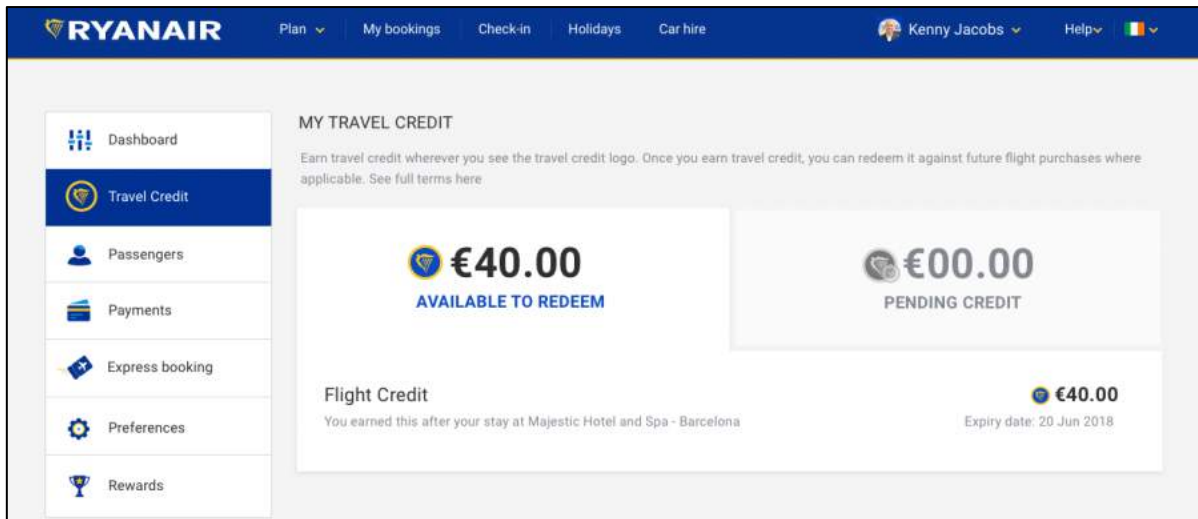
You can even book a luxury hotel in New York – an ocean away from the Ryanair network – and receive a travel credit potentially equal to a roundtrip flight in Europe.

That's an aggressive objective because Amazon is viewed by many as the gold standard for online commerce. The title sought by Ryanair suggests the airline will integrate an almost endless river of travel treats such as cruises, sightseeing, travel merchandise, and event tickets. Some of these items are already offered on a standalone basis at Ryanair.com. It may be surprising, but the airline doesn't want to ignore the high end of the travel spectrum. Few may know the airline also offers a Boeing 737 charter aircraft configured with all-first-class seating, hot meals served on china, and wine served in glassware.

Ryanair Rooms really excels at innovation with its 10 percent travel credit. Introduced back in January 2018, consumers receive what is effectively a rebate for rooms booked at the site.⁵ The credit posts to a consumer's MyRyanair account profile 7-10 days after check-out. The credit may only be redeemed for international airfare for travel booked at Ryanair.com and there's a travel credit limit of €500 per transaction and €1,000 per year. The beauty of the travel credit is its versatility. Ryanair has created a loyalty program which bases accrual on member spending. Future applications are only limited by the creativity of the marketing staff and the capabilities of Ryanair Labs. For example, all types of ancillary revenue activity can be promoted using the flexibility and the gratification provided by MyRyanair and its travel credit. The account display also has a Rewards function that was originally used to deliver a €10 travel credit for new MyRyanair account signups.

⁴ "Ryanair launches new accommodation service, powered by many" article dated 10 October 2016 at tnooz.com.

⁵ Ryanair press release dated 24 January 2018 at Ryanair.com.



You snooze, you lose: flight travel credit from Ryanair Rooms bookings expires 180 days after it's posted.

The presence of Travel Credit and Rewards tabs might point to the lack of consistency that often accompanies experimentation. In the future, these might be combined as a single benefit to reduce the potential for confusion. However, Ryanair Rooms demonstrates complete clarity regarding accrual. View the hotel booking display on the prior page and notice the travel credit accrual is clearly noted as £88.06 for the Four Seasons booking. That's a loyalty communication skill that eludes most of the world's airlines. Rarely is the accrual amount described in the booking path when booking a flight.

Michael O'Leary, CEO of Ryanair, said the following during the 2018 annual report presentation, "We are retailing more aggressively across the website and mobile app. The key bit is the travel credit. We are giving customers back essentially all the commission. So you book a hotel on Ryanair Rooms, whether you are a Ryanair customer or not, we are giving you back 10% commission in the form of travel credits, which you can use to travel again on Ryanair in the next 6 months. So we would expect that hotels will grow strongly, but you won't see it in the revenue or yield at the moment. It's about conversion first, and then we will begin to monetize it when we build the platform." That platform undoubtedly includes enrollment at MyRyanair, where membership has increased from 20 million in March 2017 to 43 million in March 2018.

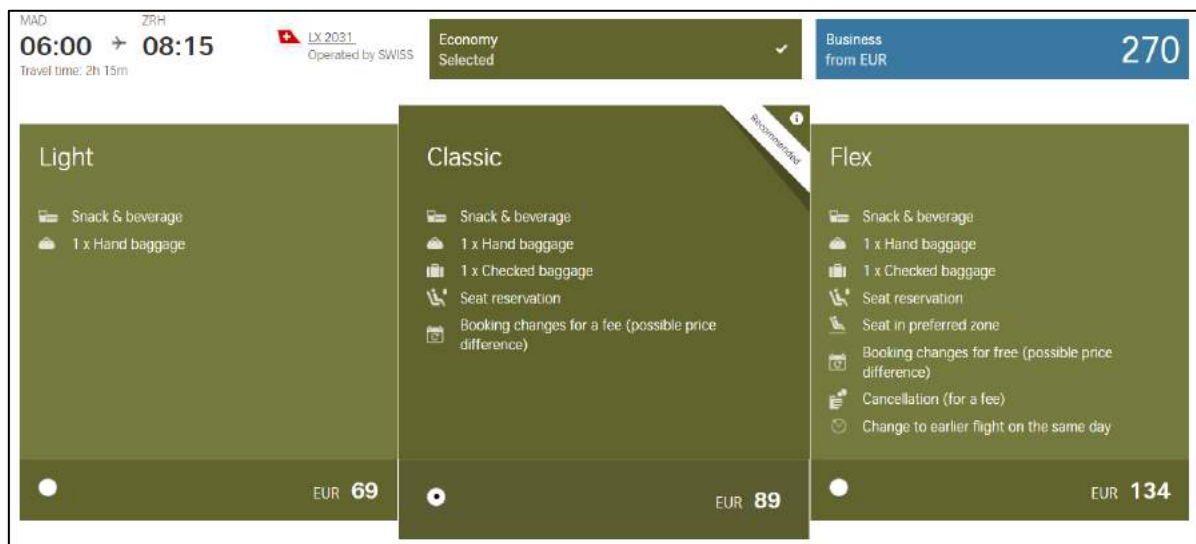
Rapid growth provides great year-over-year comparisons, but it also increases the risk of service delivery problems. Reviewing nearly 50 recent traveler posts at TripAdvisor.com on a forum dedicated to the Ryanair Rooms travel credit program reveals almost universal frustration among consumers. Complaints include travel credits that never arrive and difficulty resolving booking issues. John Hurley, Ryanair's CTO, commented about the eagerness to move quickly, "Marketing want perfection, they want a beautiful product that's shiny. Technology wants to go quickly, learn, iterate and improve and use that for feedback, as opposed to picking the perfect solutions."⁶ The handling of customer service queries is the responsibility of the five individual hotel room suppliers, which seems detached from the desire to create a Ryanair Rooms brand. Relying on vendors yields a quick solution, but this will demand more attention in the future. Ryanair Rooms is a notable accomplishment . . . and as with any innovation, it will require refinement and revision as it matures into an established product.

⁶ "Ryanair's CTO on why he is still confused by the marketing department" article dated 26 February 2018 at MarketingWeek.com.

Swiss promotes branded fares with perfection

Branded fares remain the single best way to boost a la carte revenue. This at-a-glance method typically offers consumers a good, better, and best array of products. The base fare provides minimal amenities; consumers may upgrade to higher priced fares that offer more perks. There are two distinguishing features. Each fare type is always available and the “good” choice is not sold out while the “better” remains available. This follows a basic rule of retailing, the product is always kept “on the shelf.” The second feature is the management of the price difference between the choices. These should be reasonable and predictable. For example, a middle choice might represent a €25 upgrade from the basic product, while the top choice costs an additional €35.

The best branded fare design presents the consumer three choices with a visual focus on the middle product. SWISS continues to offer the best example of booking path presentation. The flight listing for an intra-Europe flight allows the consumer to choose economy or business class. Selecting economy class reveals the display shown below:



Research demonstrates many consumers will upgrade to a more expensive product if the right tactics are used. Here is how SWISS excels with its branded fare presentation:

- Simple and easy-to-understand branding is used: Light, Classic, and Flex.
- For this Madrid to Zurich flight, the upgrade from Light to Classic is a modest €20, and a bit pricier €45 for Flex.
- The quantity of fare features (bullet points) increases proportionally for the better and best choices. This visually justifies the higher pricing.
- The Classic fare is highlighted with the forward placement of the box and the “Recommended” ribbon in the upper right corner.
- More details for all three fares are easily displayed by clicking the “i” button.

Anything that adds friction during the fare selection process encourages the consumer to opt for the emotional safety of the cheapest price. For example, a big price jump from one fare choice to another violates the predictability desired by consumers.

The great news for airline executives is the revenue boost that accompanies branded fares. American Airlines realizes a 50% upsell rate to more expensive branded fare products.⁷ Airlines that follow the methods used by SWISS will likely experience even higher rates of conversion. Delta disclosed it expects a \$350 million incremental branded fare contribution for 2018, and up to \$2.2 billion eventually.⁸ That’s an average of nearly \$12 per passenger assuming annual traffic of 186 million passengers.

Sort Flight(s)		Economy USD 70.00			Première USD 260.40	
Fare Choices		Economy Light	Economy Deal	Economy Saver	Economy Classic	Economy Flex
02:15	DEL → 2h 15m → BOM	Sold Out	USD 74.20 USD 73.20	USD 77.40 USD 75.30	USD 96.30 USD 94.20	USD 135.10 USD 134.10
07:05	DEL → 2h 15m → BOM	Sold Out	Sold Out	USD 77.40 USD 75.30	USD 96.30 USD 94.20	USD 135.10 USD 134.10

Jet Airways now offers 5 fare choices. That’s a big array for consumers to process. Unfortunately the fare family approach also allows sold out choices . . . even on a 2:15 a.m. departure from New Delhi.

Innovation can deliver challenges. Jet Airways recently introduced its Fare Choices which consists of five distinct fares: Light, Deal, Saver, Classic, and Flex. Each includes a checked bag, but some don’t include meal service. It’s a complex offer and consumers will likely be overwhelmed by the array of choices. This adds friction to the booking process which reduces the opportunity to sell up. Jet Airways could see a sales lift from Fare Choices, but revenues would likely be even higher if the airline adopted the simpler branded fare tactics used by SWISS.

Wizz bundles discounts for families

A la carte can be a larger factor in the travel budget for families because costs can be multiplied by a factor of three, four, five, or more. Members of the US Congress have recently called for a review of imposing regulation on fees for this reason. Seat assignment fees have become a popular addition for US airlines and politicians have been hearing complaints from their constituents. This is especially true when families don’t buy seat assignments and have the unfortunate circumstance of being assigned seats scattered throughout the cabin upon check-in.

Wizz Air has added a “Family” discount benefit to its Wizz Go and Wizz Plus branded fares. When families upgrade above the Basic fare (offering only a checked bag or smaller carry-on) the airline discounts the Wizz Go and Wizz Plus fare for all family members. This neatly encourages upgrading and provides some relief for the family travel budget. The family discount is automatically calculated and displayed when a child age 2-14 is included in the booking query. Both options include assigned seating, among other features. An example of the booking path display appears on the next page.

⁷ American Airlines Group Media and Investor Day presentation dated 28 September 2017.

⁸ Delta Air Lines Q4 2017 Earnings Conference Call Transcript.

Clicking on the “%” button for the Wizz Go Family or Wizz Plus Family displays a pop-up box which lists the discount provided. Querying a handful of flight itineraries revealed discounts ranging from 3 to 6 percent. This indicates dynamic pricing is used to calculate the discount, rather than applying a fixed percent for all queries. While the discount is modest, the capabilities of the booking engine would allow Wizz Air to selectively offer a more aggressive discount.

Fare Type	Price	WIZZ Discount Club Price
BASIC TRAVEL LIGHT	€14.99	€9.99
WIZZ GO FAMILY PACK & SAVE	€45.23	€36.63
WIZZ PLUS FAMILY ALL IN & FULL FLEX	€53.01	€45.77

Additional details: Fri, 1 February 2019, 12:40 → 14:10. The Wizz Go Family and Wizz Plus Family options include a 'FAMILY DISCOUNT' and a 'WIZZ Discount Club price'.

Hovering the cursor over the amenity icons displays a pop-up box with a summary of fare features.

Ryanair also offers a la carte discounts for families. When traveling with children, Ryanair requires adults to purchase an assigned seat. Then, the purchase of that seat provides up to four no-charge assigned seats for children between 2 and 12 years old. In addition, the carrier offers a Family Plus package which offers checked bags and assigned seating at a discounted price.

Flexibility for a fee makes any fare friendly

The IdeaWorksCompany definition of ancillary revenue doesn't include change and cancellation fees. That's because these have been traditionally determined by the fare purchased, and are not a la carte choices made by the consumer. However, when an airline sells a separate change or cancellation waiver it's counted as ancillary revenue. More airlines are adding this option to the booking path, with examples in the report including Finnair, Viva Aerobus, and Vueling. This is not the same as travel insurance, which is administered by a vendor with a commission paid to the airline.

Flexi Pass | The flexibility to change your flight plans, penalty-free.

With our Flexi Pass you don't have to worry if your plans change on the day you travel.

- Need to leave sooner? Forward your flight, without penalty or fare increase.
- Running Late? Delay your flight and pay only the fare difference.
- Miss your flight? Transfer to the next available flight, for up to four hours after the missed flight.

FLEXI PASS US\$ 7.70 No, thanks

This benefit is included for the cardholder when using your Viva Credit Card.

Viva Aerobus offers a simple choice at end of the booking path for same day flight changes.

These waiver products are provided by the airline which thus enjoys the entire revenue benefit. Waivers are also attractive because they allow the airline to remove flexibility as a feature of selected fares. Revenue management often demands a hefty price premium when flexibility is a component of the fare. This often causes the top choice – which includes flexibility – to have a big jump in price. When non-branded methods are used, this is the last fare available on a nearly full flight. Switching to an a la carte model allows the economics of travel flexibility to be measured as a standalone product.

PREPARE FOR THE UNEXPECTED
Buy Finnair Cancellation Cover for your booking to ensure peace of mind if things go wrong.

WHAT IF YOU GET SICK AND CANNOT TRAVEL?
Finnair Cancellation Cover allows you to cancel your flight and apply for a refund in case you cannot travel due to sudden sickness or accident to you or close family member. **9.90 EUR PER BOOKING**

By choosing this product, you agree to buy the product and confirm you have read and accept the **full terms and conditions**.

NO COVER, THANKS

Finnair uses a different approach which provides the ability to cancel a booking without penalty for an illness or accident.

Among the three airlines, Vueling offers a total of five product choices to protect passengers from the fees normally associated with making itinerary changes, as well as traditional insurance for trip cancellation and accidents. The array of choices probably overwhelms the consumer as they interpret the distinctions between the products: 1) Bring your flight forward, 2) FlexFly, 3) Missed flight cover, 4) Cancellation insurance, and 5) Travel insurance. Vueling also offers the ability to package the first three for additional savings. Too many choices adds friction and encourages consumers to opt for the safety of the cheapest option.

Bring your flight forward

This service lets you swap your flight for another departing earlier on the same day, **via your mobile phone**. [+info](#) **Add | +**

From 7.00 EUR per passenger each way.

FlexFly

Change the date or time of your flights, **right up to the day you fly**, and save paying the **50.00 EUR** charge fee. [+info](#) **Add | +**

For just 5.00 EUR per passenger each way.

Vueling offers three additional flexibility/insurance products beyond the two displayed above.

Flexible options can contribute significant margin. Airlines must balance the ancillary revenue gained versus the expense of unused seat inventory. It is essentially an actuarial calculation to determine how many travelers will change their plans and leave a seat unused. Pricing should be modest to encourage a quick buying decision in the booking path. Links to pop up boxes allow consumers to seek more details, and eventually reach the full terms and conditions for the product.

Airlines make the sales pitch for assigned seats

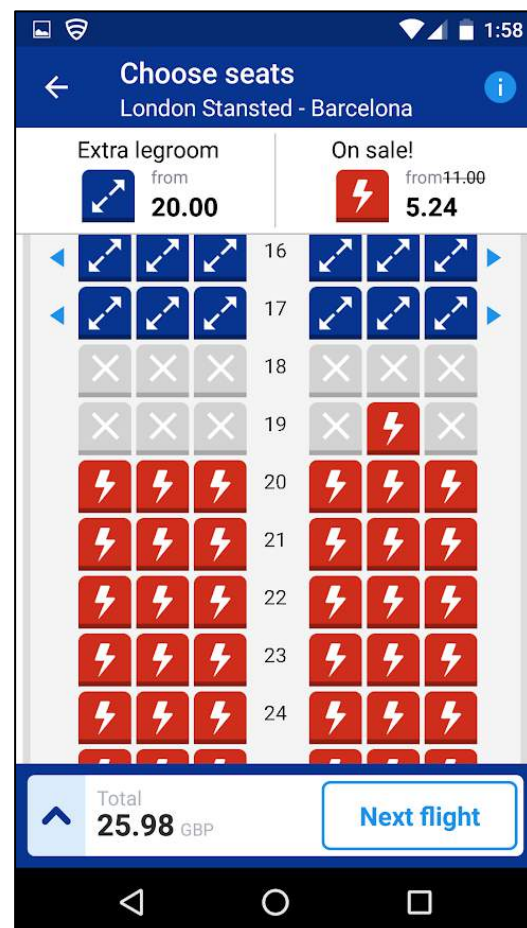
Assigned seating has long been a key ancillary revenue item for LCCs, but now it's becoming very popular for network airlines. This is especially true after major airlines in Europe and North America introduced basic economy fares, which make seat assignments available for a fee. As a result, the most price-conscious travelers can wait until check-in for an assigned seat or pay a fee to be certain of a better choice.

Merchandising mastery has become important to boost take rates; that's the percentage of consumers who opt to buy an a la carte item. The *2018 CarTrawler Yearbook of Ancillary Revenue* offers multiple disclosures on the topic of seat assignment revenue:

- **EasyJet** saw its assigned seating rate increase by 6 percentage points since the launch of its new website.
- **Ryanair** noted a big increase in the number of customers paying for allocated seating, from 23 percent in FY 2017 to 50 percent in FY 2018.
- **Spirit** posted revenue of \$131,821,000 from seat assignment activity in 2017, which was an average of \$5.45 per passenger.
- **Wizz Air** had a take rate of 30 percent in 2017.

Let's attempt an estimate of Ryanair's annual revenue from assigned seating. The carrier's base seat assignment fees range from €4 to €15 with select routes having higher fees. Let's assume an average fee of €7 and use FY 2018 traffic of 130,300,000 passengers. With 50 percent opting for assigned seating, that's about 65 million customers and revenue of €455 million, or a very meaningful 22.5 percent of ancillary revenue.

The Ryanair Labs initiative has played a big role in delivering this big result. Ryanair's methods for promoting seat assignments are sophisticated in terms of marketing, pricing, and technology. Its mobile app provides an excellent example of retailing skill.



Ryanair's red lightning bolt display offers a loud call to action to "buy now."

The mobile app screen shot on the prior page demonstrates the ability to offer sale prices with compelling graphics to highlight deals. While it’s not visible in a static image, the legend at the top of the screen changes to reflect the seating scrolled by the consumer. The booking path elements used by the carrier meet the retail test of removing friction from the buying process. The modest approach to pricing supports a consumer’s “Why shouldn’t I spend a few euros?” impulse. Of course, it’s easier for a low cost carrier to be a leader in this category. Network airlines face bigger challenges because charging for seat assignments is something new. This suggests these airlines must improve their efforts to provide better value for something that once was part of the economy fare product.

Jetstar makes baggage easier for business and leisure

Policies for checked and carry-on bags have been in flux during 2018. The introduction of basic economy fares and experimentation to address overhead bin congestion have led to an array of outcomes. Carry-on limits have been increased and decreased, and then there’s the confusing policy of “checking-in your carry-on at the gate.” Airlines are grasping for solutions to ease bag congestion, speed up the boarding process, and maximize bag revenue.

One thing we know for certain; travelers love their carry-ons. This appears to be true for Southwest passengers who are allowed two checked bags free of any charges. Casual observation of seeing stuffed overhead bins on Southwest flights indicates that even when bags fly free, travelers are still eager to carry them onboard. The truth is this — there isn’t a one-size-fits-all solution for every airline to follow. Carriers need to consider their brand, customer groupings, and organizational capabilities when designing baggage policies.

Jetstar made changes to its carry-on bag policy during September 2018.⁹ Consumers booking the lowest-price Starter fare, or buying the Plus or Max bundles, can pay to boost the carry-on limit from 7 kg (15.4 pounds) to 10 kg (22 pounds). The standard 7 kg or heavier 10 kg limit can consist of two pieces. The FlexiBiz bundle, introduced in 2016, already included a 10 kg carry-on limit to better accommodate business travelers.

	Economy Starter A basic fare	FlexiBiz Designed for business	Plus Enjoy the extras and save a bundle	Max A flexible fare with the lot
	Standard inclusion	\$45.00 per passenger	\$45.00 per passenger	\$85.00 per passenger
Carry on baggage	7kg	10kg	7kg	7kg
Checked baggage	X	X	20kg	30kg

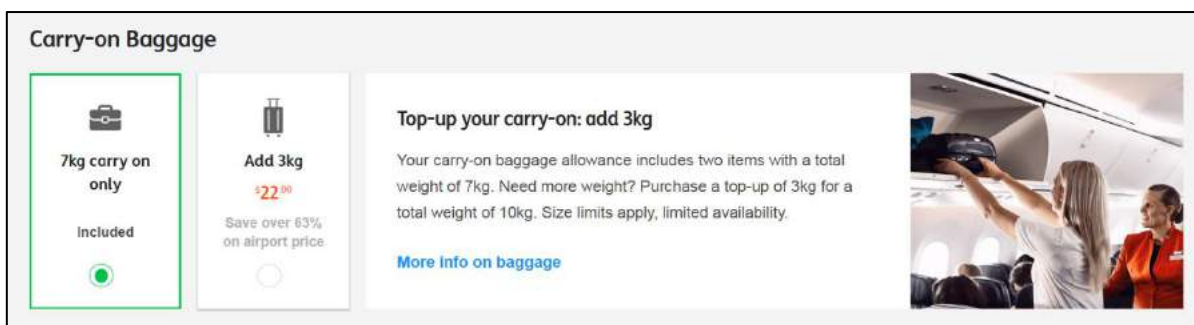
Jetstar offers four bundles in economy class and two additional bundles on flights equipped with business class.

⁹ Jetstar press release dated 04 September 2018 at Jetstar.com.

Travelers who have a bag below the 7 kg limit can opt for the free carry-on option (or check that bag free of charge, which reduces carry-ons). If their carry-on meets the 10 kg limit they can pay the fee in advance and know the bag will most assuredly join them in the overhead bin. The price of the 3 kg carry-on boost is designed to be below the cost of checking a 15 kg bag. The new policy capitalizes on consumer fondness for carry-on bags, and makes a heavier carry-on a feature of the bundle designed for business travelers. In the first month, sales performance exceeded management's expectations.¹⁰

The FlexiBiz bundle has other unique features, some of which are surprising. For example, FlexiBiz does not include frequent flyer accrual and an inflight meal. Both are not included due to survey responses indicating a lower price was more important for their cost conscious business clientele. Not surprisingly, the fare includes various features to provide itinerary flexibility after booking.

Jetstar has smoothly integrated the 3 kg carry-on boost into the booking path. After consumers make their checked bag selection, the carry-on option appears next. The outcome is a perfect example of good retail design (see image below). Very fairly, the default choice is the 7 kg carry-on bag. Pricing for the 3 kg carry-on boost includes a call-to-action message describing the savings provided by buying now. Text describing the option is brief and concise with the ability for consumers to click for more info.



There might be a trend here, as Vueling introduced a similar business travel oriented fare during September 2018. Vueling's TimeFlex fare replaces its earlier Excellence fare which included perks such as catering and airport lounge access. TimeFlex focuses on the basics by not including a checked bag, and instead providing fast track access, early boarding (13 airports), and itinerary flexibility. The carrier offers a generous 10 kg carry-on bag limit for all fares. TimeFlex is another example of a premium-priced fare excluding checked baggage.

BA and United feature food like you see in the store

Airlines have struggled with food service since deregulation began. It's easier in the premium cabin where a good meal and glass of wine are part of the product story. But in economy class, where expenses have been cut to deliver cheap fares, the art of retailing food eludes most airlines. Since the 1980s, complimentary airline food has largely disappeared on shorter flights or has been replaced by snacks blandly packed in a paperboard box with the airline logo; these are sold or given free of charge. Early efforts to sell food onboard yielded dismal results for consumers and airline economics. This has dramatically improved in the last five years as airlines learned how to package, promote, and price for success.

¹⁰ Direct disclosure to IdeaWorksCompany by Jetstar, 04 October 2018.

British Airways turned to High Street retailer Marks & Spencer to design and create its onboard offer at the beginning of 2017.¹¹ The airline replaced its complimentary snack on short-haul flights within Europe with a full buy-on-board offer for economy class.

With sandwiches starting at £3.90 and the traditional inflight gin-and-tonic priced at £6 the roll out suffered a consumer backlash. Many viewed it as a deterioration of the iconic BA brand. Operational issues plagued the customer experience with inventory levels not adequate to meet demand on longer flights. Management made apologies and wisely continued the mission with Alex Cruz, the carrier's CEO observing, "Every carrier in the world will be offering food-to-buy on very short flights as we do."



Shopping at an Amazon Go store is quick with "just walk out" check-out which is cashier free. Image source: Amazon

Returning to the theme of packaging, promotion, and price. Airlines have learned the value of meal deal pricing, with many offering sandwich, chips, and soda bundles. Promotion occurs through pre-order offers in the booking path and better menu graphics onboard. But packaging still eludes virtually all airlines. The retail test of good packaging is simple. If you place it on a store shelf — such as the Amazon Go shelves pictured on this page — would the item actually sell? In virtually all cases, the answer is a solid "no." Great packaging allows cabin crew to display items to customers which of course leads to better sales.



Courtesy of Marks & Spencer, food just like you would see in the grab and go section of your local grocer. Image source: BA

That's the beauty of the British Airways partnership with Marks & Spencer . . . the food and packaging is designed by a merchandising master. United Airlines presents a similar approach in terms using store-oriented packaging, but relying upon an in-house brand. Bistro on Board features fresh food which includes heated items. It's available on most 3+ hour flights within the U.S. and flights to/from Canada, Mexico, Central America and the Caribbean. Shorter flights offer shelf-stable items under the carrier's Snack Shop brand.

¹¹ "British Airways to Continue Charging for Food in Short-Haul Economy Class" article dated 06 December 2017 in *The Independent*.

Discussing the program with Rachael Rivas, brand public relations manager for United Airlines, provided a lesson in the art of food retail. She disclosed United just completed a successful sales cycle with breakfast tacos. The product was in development for 13 months, which included designing the product and packaging, and performing extensive testing onboard with both customers and crews. After testing several flavor profiles and combinations, a chicken chorizo option was selected. The spiciness worked well with human taste buds that are known to be less stimulated at 30,000 feet. The final design created a taco that “cooked perfectly onboard” and provided passengers with a “street taco crunch along with the chewy texture customers expect.”

Onboard items that do not require heating may be packaged in clear containers, such as United’s Mezze Sampler which is served in a four-compartment clear resealable package — just like you would see in a top line grocery store. This separates the components of the meal (almonds, grain salad, hummus, pita bread), which allows passengers to see the ingredients, and is resealable so it can be consumed later. Even condiments are considered an important element of presentation. For its hamburgers, the carrier features upscale Sir Kensington’s ketchup, mustard, and chipotle mayonnaise in separate packaging shaped like a suitcase. The \$10 onboard hamburger has become very popular with passengers, which will be offered as a white cheddar cheeseburger this fall. Menu items regularly rotate to present passengers with new choices, as is the practice of any well managed restaurant.



United worked with a vendor to create a “suitcase” package to hold branded condiments for its hamburger. *Image source: United*

The real test for the airline industry has not yet occurred

The threat faced by the industry has largely been aggressive competition between network airlines and low cost carriers. Outside threats include higher fuel prices and terrorism. But . . . a major competitive threat from outside the airline industry hasn’t yet occurred. In Asia and Europe, high speed passenger rail siphons some traffic, but it’s not a meaningful amount. At some point, someone will learn how to meet the needs of our customers in a better way. We’ve always believed the “someone” will be another airline, or maybe a train. But what if it’s Google, Uber, Tesla, or a product currently in the mind of a teenage girl in India?

There’s a recent survey result that should send chills up the spine of every airline executive. The desire for face-to-face conversation among US teens age 13 to 17 has dropped from 49 percent in 2012 to 32 percent in 2018.¹² The need to “be there” in the near future might be replaced by digital communication. It’s no longer an issue of capability, it seems to be an issue of being present. IdeaWorksCompany offers 5 tips on the following page designed to help airlines compete and innovate.

¹² “Most Teens Prefer to Chat Online, Rather Than in Person” *Wall Street Journal* article dated 10 September 2018.

5 Tips to Build Retail Mastery – Product Innovation

- **Don't wait for change, be in front of it.** IBM could've become Apple. Apple could've become Google. Will Google remake itself, or be replaced by someone else? If you define your market as today, you have already lost tomorrow.
- **Know your skills weakness.** If your skill set is technology, you will likely be weak on design and customer service. Likewise, if you are strong on delivery, then concentrate on technology.
- **Innovation includes failure.** Experimentation requires you won't always get it right. Budget for revisions and relaunches with extra time and cash. Walmart spends millions to test – and discontinue – various distribution methods.
- **E-Commerce will affect more than distribution.** Online grocery delivery is increasing the size of cookie packaging. Why? Larger packaging tends to be more economical to ship. But then, larger packages require more shelf space. Expect unintended consequences.
- **Change can be difficult for staff and customers.** British Airways didn't anticipate how powerful the pushback would be to its switch to buy-on-board. Management saw great brand alignment with Marks & Spencer, but consumers saw the loss of free snacks. Help consumers gradually convert to new products.

The model of serving business travelers with suites on long haul aircraft may face challenges because of this. While we believe “being there” is a necessity of tourism – what does the future hold? Ryanair understands the threat potential and has made a big effort to anticipate the future. Kenny Jacobs, Chief Marketing Officer said, *“It is about Ryanair becoming a digital platform where you will have shops within shops, marketplaces within that platform, and Ryanair selling all types of travel products to all parts of the world – not just flights and the immediate flight-related ancillary products to Europeans traveling.”*¹³

The world of online retail and bricks and mortar stores can be a source of inspiration. But it's apparent they are often grasping and deploying wide ranging strategies. We can learn from others, but the effort must begin at home in our own industry.

¹³ “Ryanair marketing chief on what the Amazon of travel means for 2018 and beyond” article dated 04 December 2017 at tnooz.com.

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