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**ARAC –
*Ancillary Revenue Discussion***

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Ancillary Revenue is one of the three “hot” topics we are working on in the U.S.

**Hot Airline Topics
in North America**

**Industry
Consolidation**

**Ancillary
Revenue**

**Asset
Unbundling**

**Sample of L.E.K.’s Recent Assignments in
Ancillary Revenue Strategy**

Low-Cost Carrier seeking to broaden its appeal through enhanced a-la-carte services

Legacy Carrier seeking to create transparent market prices on products that create greater consumer options

Early Adopter seeking to expand lead in Ancillary Revenue by pursuing technological innovation



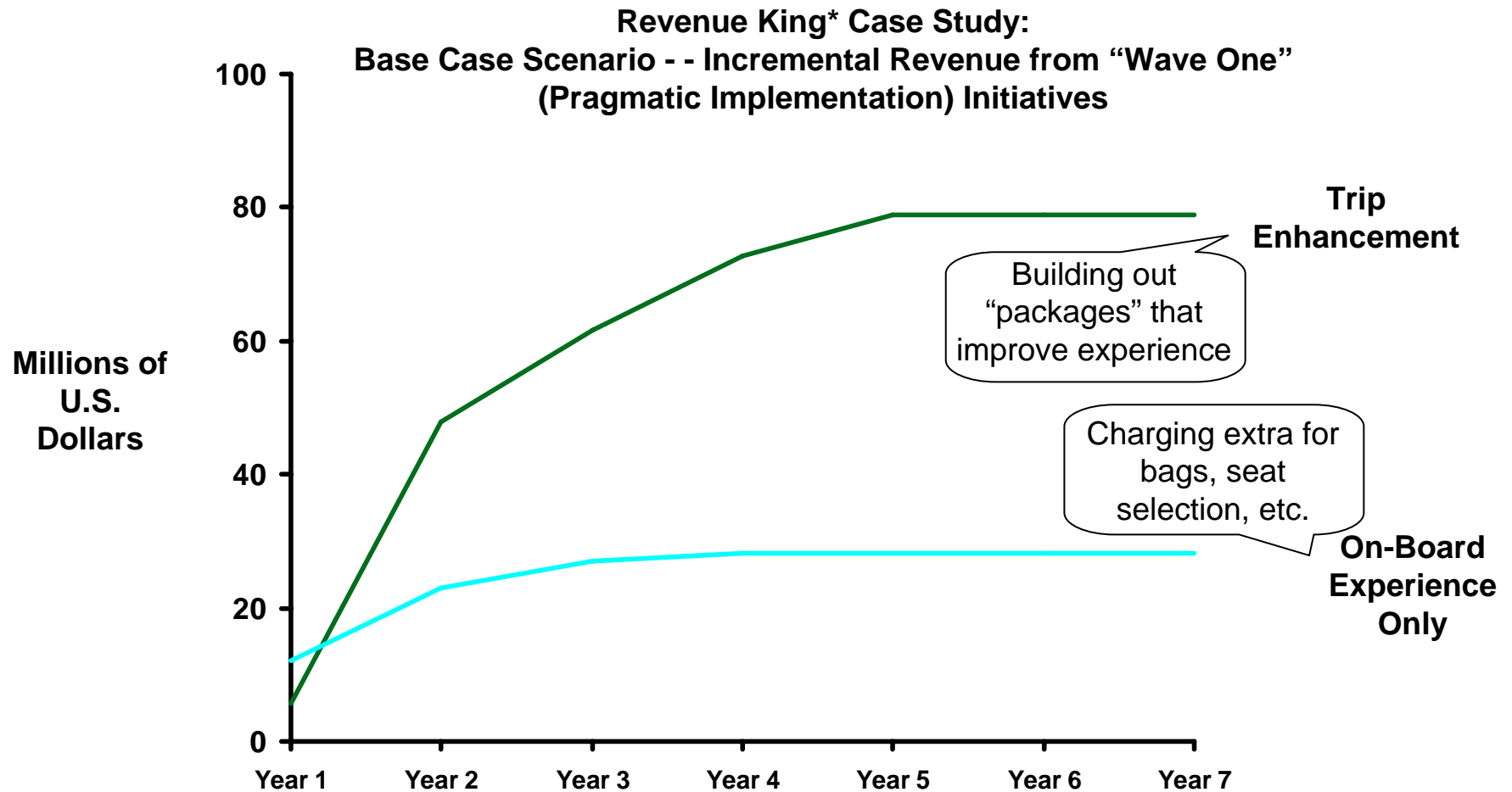
Based on these experiences, we hope to prompt discussion on three themes

Critical Questions to Address

- 1. How much could this be worth to my airline?**
- 2. Beyond unbundling the current offer, is there a strategic vision here?**
- 3. Are my passengers (consumers? guests?) ready?**

1. How much could this be worth to my airline?

A lot, particularly considering the potential for “non-traditional airline margins”



Source : L.E.K. experience and analysis,
*Note Based on ARAC’s “Revenue King International Airlines”









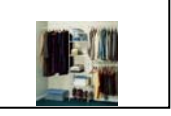



2. Beyond unbundling the current offer, is there a strategic vision here?

We continue to dream of the day when the aircraft becomes a “channel”

Wave 1: Early Adopters “Unbundle” the ticket

Wave 2: Differentiators “Enhance” the experience

Wave 3: Leaders leverage IFE or personal devices to build a captive retail channel

“Window Shopping” (On-board Stores)		“Change the World” (Surveys for Rewards)		“Get Organized” (Manage Affairs)		“Roll the Dice” (On-line Gambling)	
Dream 	Indulge 	Cards 	Ticklers 	Focus Group Join our focus groups to speak your mind \$50-\$75 or 1000 frequent flier miles for your participation	Survey Enter here to fill out online surveys and make some money! Rewards will vary for your participation	Black Jack 	Slots 
Give 	Groove 	Home Life 	Events 	Customize Enter and customize products to your liking	React Tell us what you think..... Rewards will vary for your participation	Poker 	Roulette 



3. Are my passengers (consumers? guests?) ready?

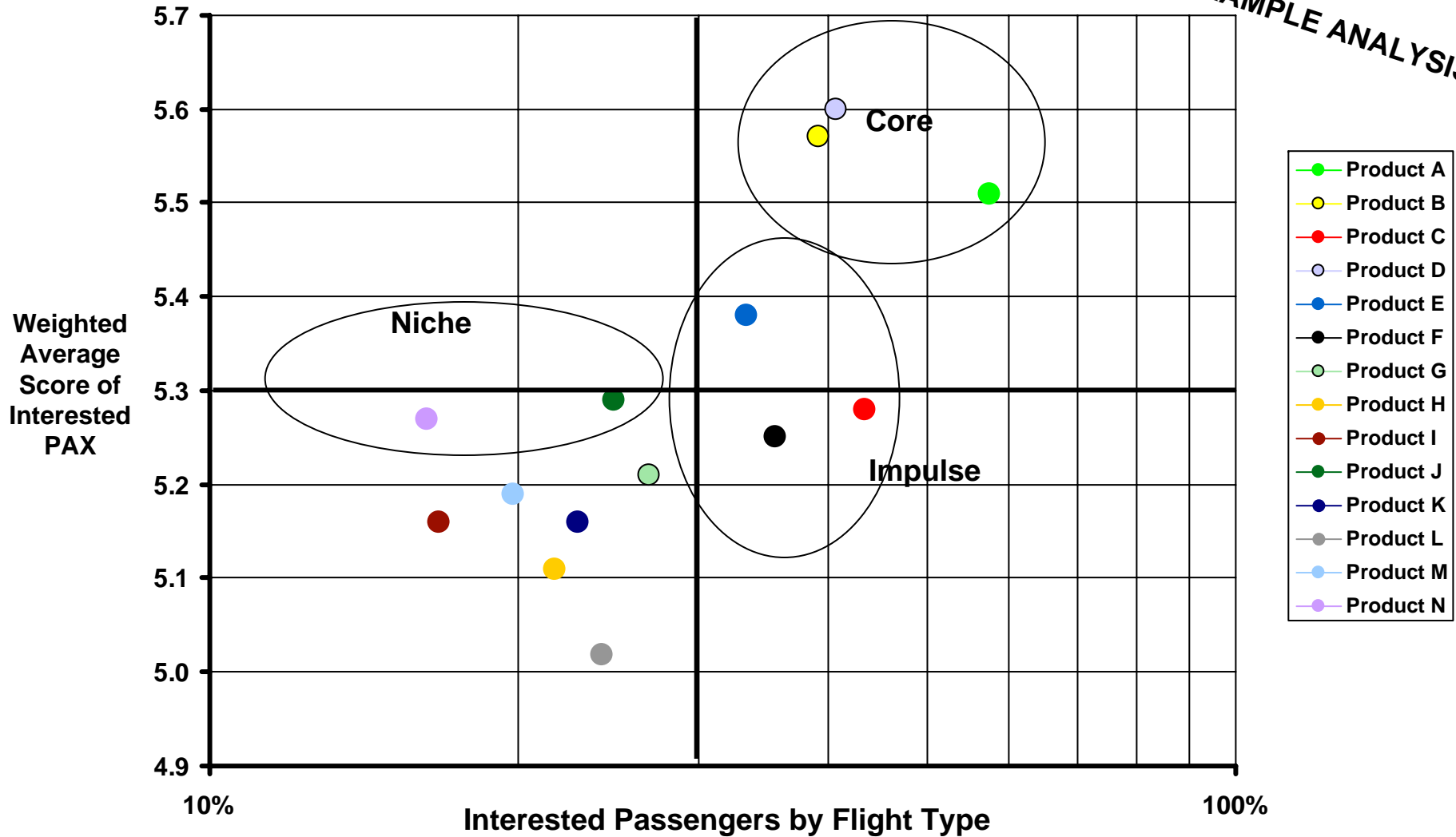
Not quite... so roll-out sequence is critical...

- Passengers currently perceive non-ticket offers as poor value for money
- Passengers question quality of products purveyed by airlines
- Passengers have ingrained sense of entitlement that all onboard amenities should be free
- This mindset is a powerful barrier to the introduction of new and exciting revenue opportunities
- We believe that this issue must first be addressed before the true consumer behavior can be unlocked from within the current passenger

3. *Since consumers must be conditioned, opportunities must be segmented*

Product Evaluation Matrix

EXAMPLE ANALYSIS



3. *A customized Passenger Value Framework will help determine your roll-out plan*

Passenger Value Framework:

