



# ON-BOARD RETAILING 2.0™

*White Paper*



Would you like  
a Gatwick Express  
transfer ticket,  
Madam?

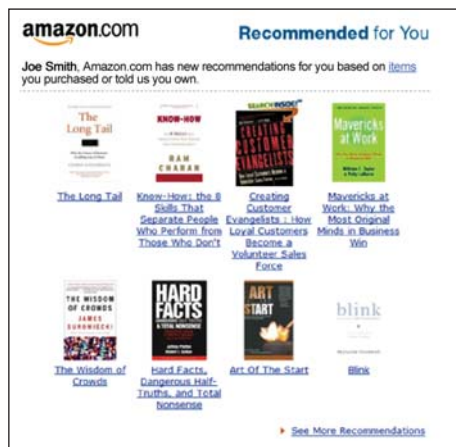
Can I also  
order flowers  
for my mom?

On-board retail in airline passenger travel today is where Internet commerce was 15 years ago, a slow crawl with lots of potential. Airlines are pretty much offering the same products today as they did 20 years ago. For many operators, on-board retail still involves only duty-free and drink/snack food sales, with not much concern about consistency and quality. Compared to retail activities elsewhere, on-board retail simply doesn't register on any scale. Yet, its potential remains enormous.



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What can the airline industry learn from today's most successful retailers? Perhaps Web retailing which currently represents hundreds of billions of dollars in consumer goods and services sold annually could offer some helpful clues? What underlying concepts used by



Amazon uses a recommendation engine to personalize selling.

Web retailers can be employed in passenger travel?

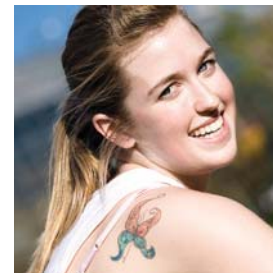
To get to the next level in on-board retail, operators need to think about serving the “audience of one” a marketing approach widely embraced on the Web and by successful retailers today. In context of air travel, GuestLogix calls this approach “Passenger-Centric Merchandising”.

### Passenger-Centric Merchandising

In traditional retailing, the “rubber hits the road” if you will, in terms of the point of sale “moment of truth” at the retail store shelf

(physical) or a retailer's website (electronic). However, in on-board retailing, the “moment of truth” is delivered to the passenger. Because passenger motives and on-board buying behaviours represent the single most significant differences between on-board retailing and traditional retailing, airlines can effectively serve each passenger – “audience of one” – by focusing their merchandising efforts:

- Personalization** – Airlines know a lot about their customers but little of this knowledge is leveraged for on-board sales. On-board retail execution can be based on the specific attributes known about customers to enhance their on-board experience, build customer loyalty through personalized interactions while maximizing profits through offering convenience. Airline passengers are affluent consumers by definition; so why not treat them as proper retail consumers, albeit with unique motives and buying behaviours. Each airline has the demographics and therefore the ability to focus their merchandising efforts on a passenger-centric basis.



Airlines know a lot about their customers – but by the time they get on-board – almost none of it is leveraged.

- Contextualization** – Airlines also know where their customers are going and how long they're flying ... from where they are flying ... whether alone or with family ... whether they're on vacation or a business trip ... and, when they are returning. Each flight leg presents its own set of unique attributes. With contextualization for example, the London to Paris flight should be prepared to sell Disney Park tickets on board. Contextualization can make the on-board experience meaningful, even memorable, while enhancing merchandising opportunities and service quality for the airline.



Each flight path presents its own set of unique attributes.

On-board retail is very unique as airlines are able to lock their doors with their shoppers still inside. Most traditional retailers would relish such an opportunity. With visit times averaging approximately 20 minutes in traditional bricks and mortar retail environments, even short haul airline operators can participate in GuestLogix' envisaged on-board selling bonanza.

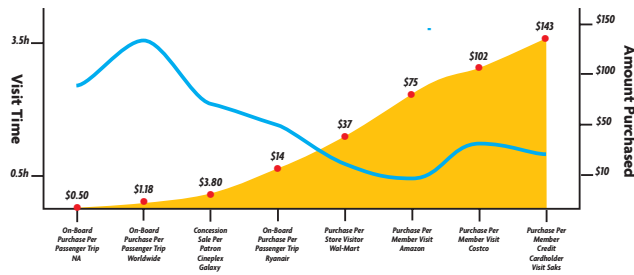


Airlines lock the store with the shoppers still inside.

## A Retail Market Opportunity Potentially Larger than Wal-Mart on a Per Visit Purchase

The airline industry's primary source of revenue is ticket sales. However, ancillary revenue, revenue that is deemed "non-transportation" represented by items and services either purchased prior to the flight (advance seat assignments, checked baggage, etc.) or on-board the aircraft (beverages, snacks, pillows, blankets, playing cards, movies, music, games, headsets, etc.) is becoming more significant and growing quite rapidly.

With a captive audience (passengers can be in-flight sometimes for up to 18 hours), the on-board retail segment has the potential to be a very profitable undertaking. According to the Official Airline Guide (OAG), there were approximately 3.3 billion seats available in 2006 on scheduled flights worldwide. IATA is forecasting an additional 500 million passengers to be flying by 2010. Assuming an average transaction of \$14 per passenger (based on pilot studies undertaken by GuestLogix so far), the market potential for on-board retail is at minimum US\$46 billion.



\*Data compiled from company reports and GII pilot implementations

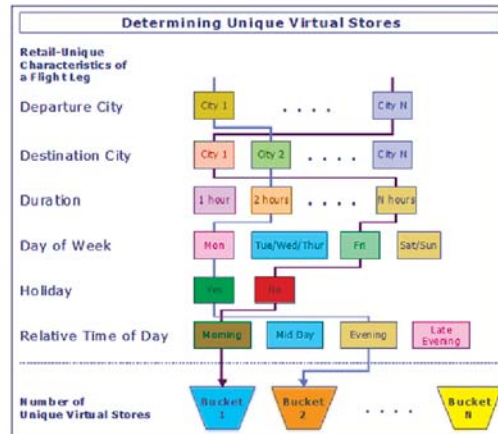
*On-Board retail purchasing shows tremendous promise for growth.*

This is particularly impressive given that the on-board retail undertaking does not require airlines to invest any new capital when using GuestLogix. The market potential estimated above seems rather conservative when compared to a traditional retailer like Wal-Mart. With 9.3 billion customer visits annually Wal-Mart is able to generate US \$345 billion in sales or \$37 per shopper. By comparing Wal-Mart's per visitor purchasing with other online and retail establishments we discover that a \$37 purchase per passenger trip potential is well within sight.

## The Mobile Virtual Store™ Retail Platform

While the On-Board Retail 2.0 concept is taking hold, GuestLogix believes that existing on-board retail selling needs immediate help. One only has to recall a recent flight during which one ordered food. In many instances, the flight attendants would: ask for exact change; put the cash in an envelope; write something down on a piece of paper; and, handle your request without providing a receipt. This is the current status of many airlines' on-board selling. The consequence, of course, is that profitability is not being maximized either through lost sales, inventory shrinkage, and/or lost cash. GuestLogix changes this experience significantly with its Mobile Virtual Store™.

The most proven on-board retail system among airlines, the GuestLogix Mobile Virtual Store™ enables operators to become profitable on-board retailers serving captive audiences whose characteristics and needs change from flight to flight. The platform helps operators realize new revenue streams by optimizing their planning and forecasting, facilitating on-board sales transactions and providing rapid intelligence to on-board retail trends to support merchandising, promotions, and improved logistics.



*Serving audiences whose needs change from flight to flight.*

The software's modular design allows customers to easily expand and reconfigure the solution to suit their changing requirements with marketing programs and new business strategies. It enables the processing of on-board sales transactions through hand-held point-of-sale devices or seatback screens, while utilizing communication protocols available today to accept all payment types, including cash, credit cards, debit cards, coupons, vouchers and loyalty cards. The data from these transactions is then used for forecasting and replenishment purposes, managing sales incentives of crew, as well as reducing fraud.



GuestLogix provides a very comprehensive interface solution, reaching into numerous integration touch points, all supported by "pre-connector" interfaces to airline legacy systems, including CRM, ERP and Crew systems.

Although GuestLogix offers a proprietary ergonomic wireless handheld hardware, the solution is completely hardware agnostic and is available for embedding with any handheld point of sale device or through any of the seatback interfaces. Most importantly, the entire end-to-end solution can be provisioned as an ASP service, which presents the most competitive cost entry into next generation on-board retail service in the industry.

