Everything You Wanted to Know about Ancillary Merchandising

Mike Robinson
104 Airlines

€1Bn p.a. in revenue to airlines

50+ Ancillary Services on offer

60M Ancillaries Booked

Mega Event Asia-Pacific
23-25th August 2017
Ancillary Merchandising

Data-driven, customized offers

- pricing
- placement
- promotion

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Why does Ancillary Merchandising Matter?

- Increasing Customer Satisfaction
- Increasing Competitiveness
- Increasing Revenue
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23 - 25th August 2017

Difference / Heterogeneity
### Exhibit 7: The Four Asian Business Traveller Archetypes

<table>
<thead>
<tr>
<th>Stereotypical Suit</th>
<th>Service Seeker</th>
<th>Belt Tightener</th>
<th>Points Maximiser</th>
</tr>
</thead>
<tbody>
<tr>
<td>32%</td>
<td>34%</td>
<td>17%</td>
<td>17%</td>
</tr>
</tbody>
</table>

**Characteristics**

- **Stereotypical Suit**:
  - 61% are over the age of 35
  - Found across all countries, companies, and positions in roughly equal proportions

- **Service Seeker**:
  - 52% are under the age of 35
  - 59% are Indonesian or Chinese
  - 94% are willing to pay for ancillary services on flight/hotel

- **Belt Tightener**:
  - 55% are in junior positions
  - 53% are from SMEs
  - 73% predominantly travel domestically

- **Points Maximiser**:
  - 25% are willing to fly LCCs
  - 67% are Singaporean or Japanese
  - 65% are frequent travellers (3+ times a year)

**Defining Preferences**

- **Stereotypical Suit**:
  - Direct flights
  - Convenient arrival/departure times
  - Convenient hotel location

- **Service Seeker**:
  - Award-winning services
  - Work and leisure facilities
  - Feeling valued as a customer

- **Belt Tightener**:
  - Lowest fare
  - Value for money

- **Points Maximiser**:
  - Loyalty and rewards programmes
  - Comfortable seats and luxurious rooms

**Source:** Asian Business Traveller Survey 2015
The Me Effect
The fragmentation of the travel market into ever-increasing niches
14 markets, 6,870 travellers, infinite possibilities.

“No two journeys will be the same”

Journey of Me Insights: What Asia Pacific travellers want
It’s all about ME!

Publish Date: August 2017

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AVIS®
Budget
Drivers of airline loyalty: Evidence from the business travelers in China

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Newcastle Business School, Northumbria University, City Campus East 1, Newcastle upon Tyne NE1 8ST, United Kingdom

ABSTRACT

This paper examines the key factors that determine business travelers' loyalty to full-service airlines in China. Based on literature review and panel data, attributes under three categories were derived: (a) operational factors of airlines and aircraft; (b) competitive factors: frequency of flights, schedule, fare and ticket price, and reputation; and (c) attractive factors: in-flight food and drink, inflight entertainment, and crew service.

Keywords: Airline loyalty, Business travelers, China, FFP program

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Principal component analysis

Low-cost carriers in Taiwan have rapidly drawn a large number of passengers away from full-service carriers in recent years. However, many passengers still stick with traditional airlines as their primary air carriers. These two groups of passengers should differ in terms of their personal and trip characteristics, valuations of factors in determining an airline, and perceptions of need for ancillary services. The present paper compares the profiles of passengers using different types of air services in Taiwan using data collected from an online survey and assesses the potential of principal component analysis with biplot technique to define different passengers based on their preferences of services and valuations of the importance of factors. Our study shows that passengers of full-service and low-cost carriers have different trip characteristics; principal component analysis is applicable for this context of passenger profile segmentations.
Amazon Has the Best Consumer Perception of Any Brand

**ACSIs UK Customer Satisfaction Index**

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Monopolistic

Menu

Competitive

Menu

- Probabilistic
  - Subscription
- Certain
  - Carry-On WiFi
  - Bundle
- Probabilistic
  - Refundability
  - 1st Bag
  - 2nd Bag
  - Oversize
  - Pets
  - UMNR
- Certain
  - 1st Bag
  - 2nd Bag
  - Oversize
  - Pets
  - UMNR
- Elastic
  - Premium Seats
- Inelastic
  - Pre-assigned Seats
- Elastic
  - Travel Insurance
  - IFE
  - Lounge
- Inelastic
  - Buy Onboard
- Inelastic
  - Hotel
  - Rental Car

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AVIS

Budget
What are other airlines doing?

How do I move forward wisely?
What are other airlines doing?
New Research: Merchandising 2017

How airlines are merchandising today

- Airline Merchandising
- Communication Activities
- Product Development
- Targeting / Clustering
- Pricing Mechanisms
- Recommendation Techniques
60+ airlines

Various models

Various geographies

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Merchandising '17: Trends in Airline Ancillaries

July, 2017
## Checked bag options by POS

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## Initial Booking Path

### Full Service Carriers

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</table>

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**Northwest Airlines**

**American Airlines**

**Delta Airlines**

**United Airlines**

**Lufthansa**

**Air Canada**

**Air France**

**Air Berlin**

**Air New Zealand**

**Qantas**

**Japan Airlines**

**Asiana Airlines**

**Air Europa**

**Iberia**

**Air Mauritius**

**Air Seychelles**

**Ethiopian Airlines**

**Air Tanzania**

**Air Mauritius**

**Air Seychelles**

**Ethiopian Airlines**

**Air Tanzania**

**AVIS**

**Budget**
Low fare carriers
number of offers in path

Low | Medium | High

time to complete booking**
How do I move forward wisely?
Standing on the shoulders of giants
Monopolistic

Competitive

Menu

Binary

Elastic

Inelastic

Checked Bags

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Decrease fare to:

Match Fare + Bag Option Price

Lost volume

Match Challengers’ Fare

Lost yield

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23 - 25th August 2017

Dinner

Curtis Club Salad - Grilled Pear, Berbere Toasted Walnuts, Goat Feta, Lemon Vinaigrette
Soup of the Moment
Half Dozen Oysters - Chef's selection and preparation
Grilled Asparagus - Preserved Lemon, Green Garlic Aioli
Cure Organic Farms Salad - Select Greens, Farm Direct Vegetables, Roast Tomato Vinaigrette
Trio of Sliders - Weathered T Ranch Alpaca, Colorado Lamb, House Veggie Patty
Duck Pate - Roast Garlic Crostini, Huckleberry Gastrique
White Goat Cheekier Fondue - Crudités, Crusty Bread
With Charcuterie

Chef’s Vegetarian Carnival
Spring Peas and Penne - Goat Feta, Mint, Pea Tendrils, Soft Poached Egg, Extra Virgin Olive Oil
Idaho Rainbow Trout - Quinoa, Wilted Endive, Toasted Hazelnuts, Grilled Grapefruit, Smoked Steelhead Roe
Spring Tree Farms Rabbit - House Bacon Wrappled, Baby Carrots, Truffled Potato Puree, Thyme Jus
Maple Leaf Farms Duck Plate - Farro, Shaved Black Kale, Toasted Almonds, Currants, Agrodulce
Weathered T Ranch Alpoca Loin Chops - Fava Bean, Kernebec Potato, Wild Mushrooms, Shiraz Sauce
Berbere Glazed Tenderloin Pork Loin - Fontina Grits, Grilled Asparagus, Fresh Oregano
Potato Crusted Softshell Crab - Arugula, Garlic Confit, Roasted Sweet Pepper, Heirloom Tomato
Colorful Ranch Grass Fed Beef Tenderloin - Panisse, Ratatouille, Cabernet Reduction
Nightly Seafood Creation

The Garcia Club is committed to conscious choices that support a sustainable future.
The profitability of bundling can stem from its ability to sort customers into groups with different reservation price characteristics, and hence to extract consumer surplus.
1. Heterogeneity

2. Ability to sort
### WEB EXCLUSIVE! SAVE WITH The WORKS™

Affordable options, guaranteed.

#### PRICED INDIVIDUALLY

<table>
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<th>Option</th>
<th>Price</th>
<th>Selected?</th>
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<td>✓</td>
</tr>
<tr>
<td>Best Seat Available</td>
<td>$30</td>
<td>✓</td>
</tr>
<tr>
<td><strong>PRICE PER PERSON/PER DIRECTION</strong></td>
<td><strong>$135</strong></td>
<td>YOUR PRICE: $66</td>
</tr>
</tbody>
</table>

YOU SAVE $137 with The WORKS!

*Subject to any difference in ticket and option prices.

Not interested in saving.

SAVE NOW!
"In fact … whenever mixed bundling is equivalent to pure price discrimination, it is Pareto optimal."
Research


Farrugia, Michael. “Predicting Customer Purpose of Travel in a Low-Cost Travel Environment.” Forthcoming, available on request.


“standing on the shoulders of giants”
Thank you