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

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

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The agenda for this presentation.

- Review changes occurring in merchandising.
- Examine how airlines are becoming better ancillary revenue retailers.
- 5 tips to build retail mastery, with a focus on innovation.

This presentation is based upon source material from “Airline Retail ’Round the World: A Global Tour of Ancillary Revenue Best Practices” sponsored by CarTrawler, issued 23 October 2018. Please refer to the report for a description of image sources.
About me

- Part of the Midwest Airlines start-up team, was Director of Marketing, threw bags, cleaned aircraft, and was an early believer in ancillary revenue.
- Started IdeaWorksCompany in 1996 to “Build Revenue through Innovation.”
- I’ve camped, hiked, and visited 90+ national parks in the US with my family, and now volunteer to rebuild ranger cabins in remote areas.

With my kids at North Cascades National Park in Washington after completing the Daisy Weaver cabin renovation.
Turbulence faced by merchants might someday visit the airline industry.

- Retail was defined as the sale of goods from a physical store.
- Stores grouped into malls.
- Then shopping became entertainment.
- Next, discount giants, such as Walmart and Carrefour, combined lower prices in a single mega store.
- The lesson is this: Retailers that embrace change enjoy a better chance of success.
In the search for success, retail has become unpredictable.

- Tiffany’s 78-year-old store in New York City could be a relic of a bygone era.
- But the company will pour **$250 million** into a rejuvenation of its flagship location.
- Tiffany’s CEO said, “It’s a **magic place** where as a customer you want to have an experience that is extraordinary.”
- **36% of consumers visited** a physical store at least weekly in 2014. By 2018, this increased to **44%**.

*The Tiffany blue box is featured at 320 stores worldwide which generate 90+ percent of company revenue.*
Retail relies upon a large measure of experimentation.

- Walmart has invested millions to sell more through its website.
- Like Amazon, Walmart now acts as a distributor of goods sold by third parties.
- Walmart is experimenting with self-service grocery pickup.
- Borrowing more from Amazon, it plans grocery delivery in 100 US metro areas by the end of 2018.
- Same day delivery by Uber was also tried.
Back in 2016 Ryanair launched Ryanair Rooms.

- The website is part of the “Always getting better” campaign.
- It was developed by Ryanair Labs which has locations in Ireland, Poland, and Spain.
- 10 million rooms by 5 suppliers: Hotels.com, Hotelopia, B&Bs, Hostelsclub, and HRS.
- Along with the CarTrawler car hire booking site (1,600+ car rental suppliers) it reflects Ryanair’s desire to become the “Amazon of travel” — an aggressive objective.

The travel credit was introduced back in January 2018. Wizz Air has a similar offer through Hotel.com.
Ryanair has created a loyalty program which bases accrual on spending.

- Credits post to a MyRyanair account 7-10 days after check-out and expire in 180 days.
- These are only redeemed for international airfare booked at Ryanair.com.
- There’s a credit of €500 per transaction and €1,000 per year limit.
- All types of ancillary revenue activity can be promoted using the flexibility of the credit.
- Michael O’Leary, Ryanair CEO, “. . . We are giving customers back essentially all the commission . . .”
With innovation, service delivery problems are a risk.

- Complaints include travel credits that never arrive and difficulty resolving booking issues.
- The handling of customer service queries is the responsibility of the five individual hotel room suppliers.
- Relying on vendors yields a quick solution, but will demand more attention in the future.

50 recent traveler posts at TripAdvisor.com reveal almost universal frustration among consumers.
Branded fares remain the best way to boost a la carte.

- This at-a-glance method offers a **good, better, and best** array of choices.
- The base fare provides minimal amenities.
- Each fare type is **always available** and the “good” choice is not sold out while the “better” remains available.
- The price difference between the choices should be **reasonable and predictable**.
- Remember: Anything that **adds friction** during the fare selection process encourages the consumer to opt for the emotional safety of the **cheapest price**.
Swiss promotes branded fares with perfection.
Innovation can create complexity for consumers.

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.
Wizz bundles discounts for families.

- A la carte is a larger factor in the travel budget for families.
- The discount is displayed when a child age 2-14 is included in the booking query.
- Both options include assigned seating and priority boarding.
- Clicking on the “%” button revealed discounts ranging from 3% to 6%.

Dynamic pricing allows Wizz Air to selectively offer a more aggressive discount.
Flexibility for a fee makes any fare friendly.

- Our definition of ancillary revenue **doesn’t include change and cancellation fees.**
- Selling a change or cancellation waiver allows “flexibility” to be **removed from fare rules** and sold as a standalone product.
- Examples include Finnair, Viva Aerobus, and Vueling.

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**Viva Aerobus offers a choice at end of the booking path for same day flight changes.**
Airlines make the sales pitch for assigned seats.

- Ryanair noted a big take rate increase from 23% in FY 2017 to 50% in FY 2018.
- We estimate Ryanair’s annual revenue from assigned seating is **€455 million** or **$4.00** per passenger.
- Spirit posted revenue of $131.8 million from seat assignment activity in 2017; an average of **$5.45 per passenger**.
- Wizz Air had a take rate of 30% in 2017.

*The Spirit Airlines seat map instantly conveys value with the fee displayed on available seats.*
Ryanair’s mobile app provides an excellent example of retailing skill.

- Ryanair Labs played a big role in delivering the €455 million result.
- **Sale prices** with compelling graphics highlight deals.
- The legend at the top of the screen changes to reflect the seating scrolled by the consumer.
- The **modest approach to pricing** supports a consumer’s “Why shouldn’t I spend a few euros?” impulse.
Jetstar makes baggage easier for business and leisure.

- As of September 2018, consumers can pay to boost the carry-on limit from 7 kg (15.4 pounds) to **10 kg (22 pounds)**.
- Travelers with a bag below the 7 kg limit can opt for the free carry-on option, or **check that bag free of charge**.
- For the first month, management disclosed sales were healthy and met expectations.

Text describing the option is brief and concise with the ability for consumers to click for more info.
The FlexiBiz bundle has other features.

- The FlexiBiz bundle, introduced in 2016, already included a **10 kg carry-on** to better accommodate business travelers.
- FlexiBiz **does not include frequent flyer accrual** and an **inflight meal**; a lower price was important for cost conscious business clientele.
- The fare includes various features to provide itinerary flexibility after booking.
- **Vueling’s** TimeFlex fare also does not include a checked bag.
Airlines have struggled with food service since deregulation began.

- Since the 1980s economy meals have been replaced by snacks packed in a **paperboard box with the airline logo**.
- Efforts have improved as airlines learned how to package, promote, and price.
- The **retail test** of good packaging is simple. If you place it on a store shelf — **would the item actually sell?**

*Shopping at an Amazon Go store is quick with “Just walk out” check-out which is cashier free.*
British Airways features food like you see in the store.

- BA turned to Marks & Spencer to design and create its short-haul Europe food offer in 2017.
- The change suffered a consumer backlash; many viewed it as a deterioration of the iconic BA brand.
- BA apologized and continued the mission.
- Alex Cruz, CEO, observed “Every carrier in the world will be offering food-to-buy on very short flights as we do.”

Food just like you would see in the “grab and go” section of your local grocer.
The real test for the airline industry has not yet occurred.

- The threat faced by the industry has largely been **from within** — aggressive competition between network airlines and LCCs.
- We’ve always believed the “someone” will be another airline, or maybe a train. But what if it’s Google, Uber, or Tesla . . . or a product currently in the mind of a teenage girl in India?
- Will “being there” always be important? The desire for face-to-face conversation among US teens age 13 to 17 has dropped from 49% in 2012 to **32% in 2018**.
5 Tips to Build Retail Mastery – Product Innovation.

- Don’t wait for change, be in front of it. 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. Budget for revisions and relaunches with extra time and cash.
- E-Commerce will affect more than distribution. Expect unintended consequences.
- Change can be difficult for staff and customers. Help consumers gradually convert to new products.
About IdeaWorksCompany:  IdeaWorksCompany was founded in 1996 as a consulting organization building revenue through innovation in product, partnership and marketing. Its international client list includes the airline, hotel, marine, railroad, and consumer product industries. The firm is a leading expert on creating ancillary revenue opportunities for airlines. IdeaWorksCompany has worked with airlines on ancillary revenue projects in Europe, the United States, and South America. The consulting firm has helped create frequent flyer programs and helped develop co-branded credit cards in the USA, Europe, and South America. Learn more at IdeaWorksCompany.com.

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