Abstract

For connected, digitally-savvy travelers, the journey matters as much as the destination. It is no longer just about getting from point A to point B—what customers want is to feel special at every step of the way. Against a backdrop of rising fuel costs and sluggish economies, this is an opportunity for airline companies to maximize the potential of ancillary revenues. But to boost the bottom line and enhance the experience, they must go from new ideas to value-driven solutions faster. That is where technology bridges the gap, putting airlines on course to greater engagement and profit.
The Forecast: Cloudy with a Chance for Innovation

In recent times, the airline industry has seldom had the luxury of enjoying a clear and profitable environment. The industry continues to operate with rising fuel prices, high input costs, changing customer expectations, and an uncertain economic climate, which impacts their profitability. New business models adopted by emerging low-cost carriers have also pushed the margins of legacy carriers down to rock-bottom levels.

In order to counter these challenges, several airlines resorted to cost-cutting measures, such as reducing flying routes and lowering service frequency. Despite the challenges, a few operators have shown it is possible to not only survive, but also make profits. In a cloudy scenario, airline operators are seeing a silver lining of hope in the form of ancillary services. These are opportunities that an airline can explore to generate revenue in addition to its core business of selling flight tickets. In fact, it holds great potential to innovate and reinvent in the evolving airline landscape.

The Numbers Don’t Lie

To truly understand the potential of ancillary revenues, take a look at the following statistics. In 2011, airline companies globally earned $32.5 billion as ancillary revenues—a growth of over 66% in less than two years. This was revealed by a research conducted by a leading airline ancillary revenues consultancy IdeaWorks Company, and Amadeus, a leading travel technology partner and transaction processor for the travel and tourism industry. Compare these numbers with the ‘CarTrawler Worldwide Estimate of Ancillary Revenue’ report published with IdeaWorks in 2015. $59.2 billion is the worldwide ancillary revenue projected in 2015, an 18.8% increase above 2014, with the projected ancillary revenue pegged at 7.8% of projected global revenue of $763 billion. While ancillary services were primarily restricted to low-cost airlines earlier, the research shows that this trend is now prevalent among large airline operators as well.

Taking Off on the Ancillary Path

Various airlines have, at different points in time, explored multiple ways to increase ancillary revenues. The trend was led by the low-cost airline (LCA) sector, which had the advantage of not being shackled by legacy technology baggage. The key strategy followed by each of these airlines was to lower the cost of booking a seat and make flying an attractive option for travelers from a cost perspective, while generating additional income through peripheral services.

The ancillary revenue strategy can be broken down into three key components: product ungrouping, product augmentation and product extension. It could include anything from availing airport lounges, car rentals, hotel bookings, or visiting theme parks or concerts. It could also mean providing the customer services, such as foreign currency exchange and travel insurance.
Product Ungrouping

Legacy carriers offered services such as baggage, food and beverage, blankets, and even inflight entertainment as part of their core product—airline transportation. Airlines even differentiated themselves on the basis of the inflight experience. Low-cost service providers turned this idea on its head. They unbundled these services and began offering it to its passengers as a la carte services. The main attraction was cheaper seats. The passengers were offered the option of buying all other services mentioned above as separate products.

Product Augmentation

Many airlines offered their business-class and first-class customers the option of avoiding the long queues at busy airports and boarding the flight early, selecting seating preference, premium beverages, gourmet meals, wider entertainment options, airport lounges, and even better service expectation. These services are now offered as a la carte services to those customers willing to pay a little extra. Market analysis reveals that this strategy has been well-accepted by customers, most of whom are even willing to pay a premium for such services.

Product Extension

This refers mainly to commission-based services such as insurance, hotel accommodation, tickets to exclusive plays and events, chauffeur-driven transport, car rentals, and guided city tours. In order to facilitate this, airlines have tied up with various vendors to offer exclusive products to customers. Many have even linked frequent flyer programs with product extension services, and a few also offer credit card services that provide users access to various premium services. Advertising in in-flight magazines and entertainment devices is another option that is now gaining prominence as an ancillary revenue generator.

Propelling Forward with New Ideas

Some airlines are truly pushing the envelope in offering services that clearly offer value to the customer, and the customer is willing to pay a ‘premium.’ For example, Vueling Airlines offers customers the choice of purchasing an extra-large seat at a higher price.

Similarly, RyanAir, EasyJet, and Allegiant Airlines offer passengers the choice of priority boarding for a premium. Another example is AirAsia’s Red Carpet service that gives passengers fast-track security checks, access to lounges, and early boarding for a pre-defined fee. Australian airline operator, Qantas,
sells a unique technology called ‘Q Bag Tag’, which is a permanent baggage tag with wireless RFID technology that allows easy self-checking of bags.

Other airline operators are pushing in-flight connectivity as a key ancillary service. A case in point is Singapore Airlines, which has installed Wi-Fi provided by OnAir on its A340-500 aircraft used between Singapore and Newark and Los Angeles. However, the biggest potential lies in the ability of the airline operator to offer a bundled package to a traveler. For example, a bundled service of a hotel, restaurant, taxi, and entertainment that can be availed by a passenger has great value. Customers will find value because they are typically anxious to book multiple tickets from different operators. Airlines can bundle other services and earn a higher percentage of revenues from ancillary services.

Fueling Revenue with Technology

In an era where customers most often book tickets online, it makes sense to offer them the option of customizing their travel plans. Even as airfares drop, personalized services can shape the future of the industry, as they offer customers the ability to pick and choose based on their convenience and price. Take the case of a technology called ‘Dynamic Packaging’, which is now being used by a host of major airline operators to boost their ancillary revenues. Dynamic Packaging allows airline operators to tap into a full ecosystem of suppliers (hotels, car and entertainment) during the course of a single reservation. If a customer travels from, say India to London, and books a hotel and a car through the airline portal, the airline earns commissions from the hotel and the car agent. Over a period of time, as the hotel and car bookings rise, the airline has an opportunity to generate significant amount of revenues.

The technology required to make this happen is crucial, as the airline portal has to dynamically tap into separate inventory management systems, such as a hotel’s inventory system or a ticket from a popular show. This is a win-win situation for both consumers and airline operators, as the consumer uses only one portal to make all the bookings, and pays a consolidated amount for all the bookings. Customers benefit as they do not have to manually visit multiple websites and travel agencies to plan trips and vacations. They have more flexibility in customizing their package according to specific needs, rather than being forced to choose from pre-defined packages.

If a passenger wants early boarding passes or wireless Internet access or priority check-in, the airline needs to invest in the required technology infrastructure to make this happen. Fortunately, for airline operators, the technology is available with existing service providers and product companies to make this happen. They do not need to reinvent the wheel to develop such solutions. These solutions can be seamlessly integrated with existing systems of airlines.
In order to succeed, airlines have to position themselves as a retailer. If they take an approach like Amazon, they can play a big role in fulfilling many of the needs in different segments where they do not operate. By leveraging technology, airline operators can offer the right service at the right time and improve adoption of their ancillary services. For example, just as Amazon recommends certain products, depending on the product or service you buy, airline operators, too, can do the same.

Consider a person who has booked a round trip for the same day. In such cases, an intra-city taxi option is a better option to be recommended, than a hotel stay. This option can only be provided if the analytics throws up automated recommendations for the passenger to make a choice. For this to happen, an airline’s website needs to be integrated with the enterprise backend systems and also third-party vendor applications to provide customers a seamless experience irrespective of the service they opt for. The website of a typical low-cost carrier resembles that of an e-commerce vendor than a pure airline player. An IT service vendor can enable a legacy airline carrier to attain that state. Similarly, if Wi-Fi is enabled within the aircraft or if passengers are given the ability to book hotels or resorts using the in-flight entertainment system, it opens up new opportunities for the airline.

Given the ubiquity of smartphones, airlines can also consider creating mobile apps. These mobile apps can be used by passengers to avail and book ancillary services on the go. For example, if a passenger is sitting in the lounge, he or she can pre-order a customized meal before he or she boards the airline. Technology can enable this differentiation and help in providing the airline operator the right context. Leveraged intelligently, technology can significantly enhance the ability of an airline to cross-sell and up-sell products and services. In the period that the user travels, there is a huge opportunity for the airline to link the customer with different brands, which ultimately, not only generate revenues for the airline but also helps in improving customer satisfaction.
The NIIT Technologies Thought Board: Soaring Higher with Ancillary Revenues

What is Driving Airlines to Create New Revenue Streams?

- Rising fuel prices
- High input costs
- Changing customer expectations
- An uncertain economic climate

What is the Market Potential?

- $59.2 billion: The worldwide ancillary revenue projected in 2015, an 18.8% increase above 2014
- $36.7 billion: from a la carte activity
- $22.5 billion: from frequent flier and commission-based initiatives

Source: ‘CarTrawler worldwide estimate of ancillary revenue’ report, published with IdeaWorks

What are the Strategies to Enhance Ancillary Revenue?

- **UNGROUPING**
  - Baggage fees
  - F&B
  - Inflight Entertainment
  - Wi-Fi Access
  - Seat Preference
  - Early Boarding Benefits

- **AUGMENTATION**
  - Premium Liquor
  - Gourmet Meals
  - Airport Transfers
  - Extended Entertainment
  - Airport Lounge
  - Select Check in

- **EXTENSION**
  - Frequent Flier Benefit
  - Insurance
  - Hotel Tie Ups
  - Chauffeur Transport
  - Advertising
  - Event Tickets
  - Guided City Tours
  - Car Rentals

Which Technology Solutions can Enhance Ancillary Initiatives?

While there are many emerging technologies that can be leveraged, here are three examples.

- Multi-channel content management solutions to push the right service at the right time
- Mobile apps to enable quick access to a bouquet of services
- Analytics that enables automated recommendations for travelers

What should Airlines Look for while Choosing a Technology Partner?

- Proven vendor with domain understanding
- Ability to integrate distribution channels as well as front-end operations and back-end systems
- Customer experience understanding for user interface flexibility and configuration
- Understanding of next-generation technology and readiness to enable faster speed-to-market
- Experience in implementation of payment gateway interfaces to support e-commerce transactions
- Ability to include customer feedback mechanism on each new service offered
Destination: Experience

In an era of rising fuel prices and intense competition, airlines have to reinvent themselves as retailers. Using technology, they can not only offer the customer a richer experience, but also position themselves as providers of value. By doing so, they can go beyond the traditional positioning of just being flight providers. In the future, the ability to customize a travel experience will only be limited by imagination and the sky!
NIIT Technologies is a leading global IT solutions organization, differentiated on the strength of domain expertise; it services clients in travel and transportation, banking and financial services, insurance, manufacturing, and media verticals. Leading with its service vision “New Ideas, More Value,” NIIT Technologies is committed to delivering new ideas combined with operational excellence to provide exceptional value to its clients. The Company is focused on helping businesses design sustainable, optimizable and winning digital operating models, enabling them to become agile, scalable, and flexible. Visit us at www.niit-tech.com

For more information, contact marketing@niit-tech.com

© 2016 NIIT Technologies. All rights reserved.