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Choice Profits: Airlines and Passengers Benefit from Personalization

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APEX Insight: Airlines have moved away from bundling ticket options by opening new revenue streams for the sale of individual ancillaries. Not only do these retail models bring new ways for airlines to be competitive and market their brands, they're improving the passenger experience by letting customers personalize and upgrade in-flight services and order them à la carte.

Airlines are profiting from personalization, with ancillary sales expected to generate record revenues of \$59.2 billion in 2015, according to the latest study by IdeaWorksCompany and CarTrawler.

Jay Sorensen, president, Product, Partnership and Marketing Practice at IdeaWorksCompany explains how the retail strategy, originated from low-cost carriers, gives passengers greater control over their experience. "The airline industry is moving from a one-price-fits-all methodology to one that can be best compared to shopping in a grocery store," he says. À-la-carte options let consumers design a made-to-order ticket.

While consumers may be drawn to airlines by advertised ticket prices, Sorensen says they don't always buy the lowest fare. "A surprising number willingly pay a premium for more comfort and convenience. JetBlue implemented a branded fare strategy in 2015 and expects to produce annual revenue gains of \$200 million. Management knows a significant number of JetBlue passengers choose the carrier's Blue Plus or Blue Flex fares in lieu of the lowest priced Blue fare. Many will pick the Blue Plus fare simply because it's the 'middle' choice," Sorensen explains.

Other airlines have adopted branded fares with ancillary sales letting consumers tailor their travel experience. Finnair's chief commercial officer, Juha Järvinen believes onboard Wi-Fi could further increase ancillary revenue and create new opportunities to offer passengers personalized services. Through mobile platforms, airlines can offer services 'on-the-fly' such as seat upgrades, in-flight Wi-Fi passes, meals and beverages and duty-free items.

Some airlines are experimenting with alternative ancillary promotions, which can give them a quick revenue boost and also help them trial the types of services which most appeal to their customers. Tigerair's queue jump lets customers pay to skip to the front of the line at boarding. WestJet's pre-purchased meals offers exclusive menu options only available to those ordering their meals pre-flight. KLM's Wannagives lets consumers treat friends and loved ones traveling to mark special occasions with packages in six themes: love, celebrate, holiday, thanks, kids, or KLM goodies. "If you write a personal note, we'll gift wrap your present and our cabin crew will do the honors of presenting it," the airline explains.

Hong Kong Airlines offers a similar service called Sweeten You Up to customers celebrating anniversaries, or birthdays with special packages for children. And low-cost airline Vueling has set up a new ancillary option that offers VIP lounge access with passes sold on the airline's website or through its mobile app.

The future promises more creative methods of personalized retailing. "You can imagine intelligent websites can track what a consumer has purchased before, and provide discounts or bundles to encourage trial behaviors," Sorensen says.