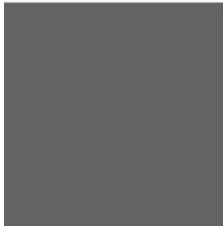


CARTRAWLER ANCILLARY REVENUE SERIES FOR 2019



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IKEA Teaches Everything You Need to Know About Airline Retail

Merchandising methods used
by this global retailer can be found
at AirAsia, Air New Zealand, Allegiant,
easyJet, Jetstar, Ryanair, and Scoot.



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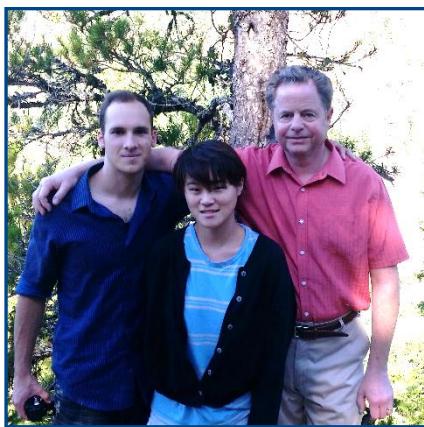
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About Jay Sorensen, Writer of the Report

Jay Sorensen's research and reports have made him a leading authority on frequent flyer programs and the ancillary revenue movement. He is a regular keynote speaker at the annual MEGA Event, spoke at IATA Passenger Services Symposums in Abu Dhabi and Singapore, and has testified to the US Congress on ancillary revenue issues. His published

works are relied upon by airline executives throughout the world and include first-ever guides on the topics of ancillary revenue and loyalty marketing. He was acknowledged by his peers when he received the Airline Industry Achievement Award at the MEGA Event in 2011.

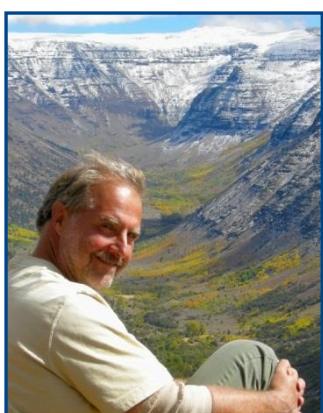


Jay, with son Aleksei and daughter Annika, in North Cascades National Park in Washington.

Mr. Sorensen is a veteran management professional with 35 years experience in product, partnership, and marketing development. As president of the IdeaWorksCompany consulting firm, he has enhanced the generation of airline revenue, started loyalty programs and co-branded credit cards, developed products in the service sector, and helped start airlines and other travel companies. His career includes 13 years at Midwest Airlines where he was responsible for marketing, sales, customer service, product development, operations,

planning, financial analysis and budgeting. His favorite activities are hiking, exploring and camping in US national parks with his family.

About Eric Lucas, Editor of the Report



Eric Lucas is an international travel, culture and natural history writer and editor whose work appears in Michelin travel guides, Alaska Airlines Beyond Magazine, Westways and numerous other publications. Founding editor of *Midwest Airlines Magazine*, he is the author of eight books, including the 2017 *Michelin Alaska* guide. Eric has followed and written about the travel industry for more than 25 years. He lives on San Juan Island, Washington, where he grows organic garlic, apples, beans and hay; visit him online at TrailNot4Sissies.com.

Eric, at his favorite summer retreat, Steens Mountain, Oregon.



IKEA Teaches Everything You Need to Know About Airline Retail

I confess, we still use this chipped bowl from IKEA

The telltale evidence is the image on this page. This IKEA bowl, marked on the reverse as style #18691 and made in Romania, survives in our kitchen cabinet with 3 undamaged siblings. My family has had them for more than a decade and they are routinely used for cereal, soup, and salad.

The staying power of these bowls says a lot about the IKEA brand. We bought these at the IKEA in Chicago when our kids were aged 8 to 12. We enjoyed lunch in the store's café and the kids were fascinated by the escalator that ferried shopping carts from floor to floor; it was a grand day out. This memory (along with frugality) might be the reason why this chipped \$1 bowl has received a reprieve from the dust bin.

There are larger and more recent purchases in my home from other stores that don't trigger nostalgia like this. IKEA has changed shopping from a "hunt and buy" exercise to an enjoyable journey. This creates a bond with customers far stronger than that realized by stores which merely sell "stuff." There are powerful lessons to be learned from IKEA's retail success and this report focuses on matching these to the business of airline merchandising.



Yup, this is how Jay Sorensen begins his day; spooning the toasted oat goodness of Cheerios from an IKEA bowl.

"To create a better everyday life for the many people"

IKEA employees will recognize the above sentence as the company's manifesto. This is a globally recognized and admired brand with 422 stores in Asia, Australia, Europe, North America, and Russia, which posted retail revenue of €38.8 billion for 2018.¹ It's one of the business world's rare examples of something that has grown big, and maintained quality, while keeping a strong sense of identity.

¹ "IKEA Facts and Figures 2018" at IKEA.com reviewed March 2019.

The company's relationship with customers doesn't depend on pushing transactions. The vision statement makes no reference to getting bigger, making more money, and dominating the world of home furnishings. Instead the company seeks to offer "products at prices so low that as many people as possible will be able to afford them."² AirAsia offers a similar slogan with "Now Everyone Can Fly" which promises easy and democratic access to air travel courtesy of the carrier's focus on low fares. IKEA goes beyond this by building store environments and products which emphasize sustainability and concern for employees, and deliver efficient Scandinavian design. Visit any store and you will see visible evidence of this; IKEA has mastered the art of sensitive self-promotion.

Of course, with 957 million store visits annually, the outcome of IKEA's efforts is abundant purchase activity and a FY2017 gross profit in excess of €12.5 billion.³ This is a company that has tremendous understanding of its identity and purpose. Its website is abundant with stories and documents describing its culture and this defines IKEA's purposeful approach to retail. The shopping adventure – from start to finish – provides merchandising examples that can be applied to the airline business, from website booking engines to buy-on-board activities.

Hej! begins a shopper's transition to a well-designed experience

Hej is "hello" in Swedish and is the word visually used to greet shoppers at IKEA stores all over the world from Las Vegas to Seoul. Once inside, the store's entryway helps the consumer transition from the outside world into IKEA's environment. The appearance of this space seeks to minimize distraction and invoke these behaviors: downloading the mobile app, checking-in with the loyalty card, and dropping the kids off at Småland.

- The mobile app allows visitors to scan item tags for product information and availability in the store's warehouse. It also includes a map for most stores.
- IKEA Family is a loyalty program that provides discounts, added child play area time, 90-day price protection, and free hot drink (US benefits). Check-in kiosks personalize the shopping experience with discounts selected for customers.
- Småland is a free-of-charge supervised play area for kids.



You should check-in with your loyalty card before entering the store. In the UK you might get a £1 fish and chips lunch.

Visitors won't find the usual clutter of shopping carts and check-out lanes. Shoppers may collect a handbag for carrying purchases. Staff are positioned in this area to assist shoppers who are new to the IKEA experience. It's probably most similar to entering a museum or exhibition. And that's exactly the feeling IKEA seeks to convey.

² "This is IKEA" at IKEA.com reviewed March 2019.

³ Yearly Summary FY2017 of INGKA Holding B.V (IKEA's parent) at IKEA.com.

Entering the actual store brings the visitor to an area retailers call the “decompression zone,” which IKEA has labeled the “showrooms” area. It’s tailored to reflect the housing style of each individual store’s market area. For example, cellars are a common feature for homes in the Midwest US. IKEA’s Milwaukee store has a basement room example to give furnishing ideas for these windowless spaces. Tiny spaces are featured for big city markets such as London, New York and Tokyo.

The showrooms are designed for browsing, exploring, and dreaming. These rooms are filled with the items of everyday life, have a very intimate feel, and the lighting is subdued. It’s as if the customer is a secret visitor while the homeowners are away. Salespersons are not hovering about trying to earn commissions.

The experience is also very tactile. Almost every drawer has items, some of which are products for sale, and some props placed by employees. Labels invite visitors to “Look Inside” drawers and cabinets. “I’m a dishwasher” was placed on the outside of a built-in appliance. Most people have already seen a dishwasher . . . but the dirty smudges on the cabinet are evidence that people are still compelled to look and touch.

These methods obviously work. Two teenagers were observed being delighted by finding undergarments in a dresser, and a younger child was fascinated by plastic vegetables sitting at the bottom of a stew pot on a stove. All of this increases engagement and time spent imagining how to redo a room with IKEA products. The overall effect relaxes consumers and actually places them in a playful and happy mood. This is a lesson lost on airline executives, who forget that a relaxed consumer is a candidate to spend money more freely.



Visitors are free to roam the first half of the store without the hassles of steering a shopping cart.



Surprise! Lifting the lid provided the unexpected treat of plastic food.

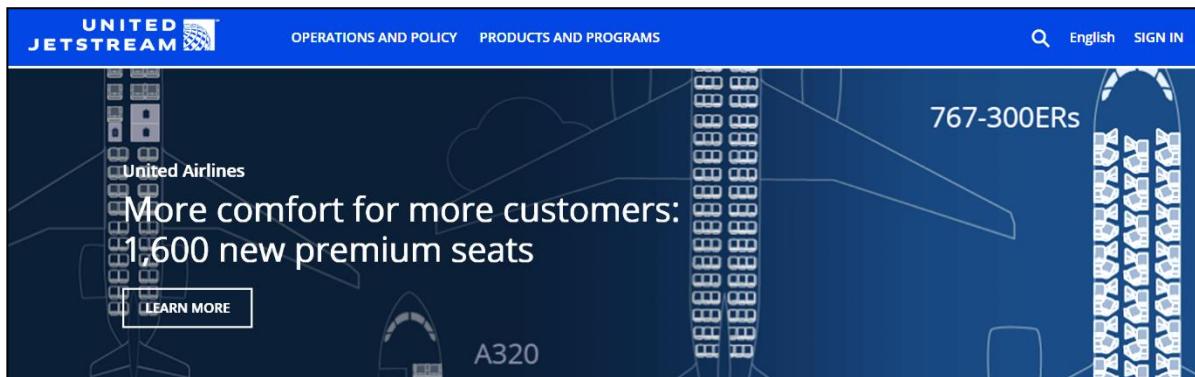
Encourage consumers to be curious, relaxed, and feel well served

The typical airline website is all business and doesn't "chill out" for a second. Very predictably the booking engine is placed at the front door of the store. This effectively forces customers to squeeze past the cash registers before browsing your goods. The remaining real estate of the home page provides evidence of the competing agendas seeking attention from the e-commerce department. Credit card offers, business class upgrades, mileage bonuses, and FFP partner offers are universal features. There is nothing here to transition the consumer from their busy world into the process of pondering a holiday, time spent with family, or a flawless business trip. Even before the customer enters your online store, they effectively hear a salesperson telling them to "buy, buy, buy."

I couldn't identify an airline home page that follows IKEA's lead of creating a helpful store entrance. Airbnb comes very close with a home page that asks, "What can we help you find?" By definition, the Airbnb process becomes tailored to the customer, as they seek help with finding a holiday home, travel experience, or restaurant. The images below show how this helpfulness continues with reminders related to past searches and the suggestion that my home in Milwaukee could be a source of revenue through an Airbnb listing.

The screenshot shows the Airbnb homepage. At the top, there is a search bar with the placeholder "Try 'Sardinia'" and a location icon. To the right of the search bar are links for "Become a host", "Saved", "Trips", "Messages", "Help", and a user profile icon. Below the search bar, a question "What can we help you find, Jay?" is displayed, followed by three categories: "Homes", "Experiences", and "Restaurants". A section titled "Introducing Airbnb Plus" features a photo of a well-decorated interior room with a wooden cabinet and a large plant, with a "EXPLORE HOMES >" button. Below this, a section titled "Recommended for you" shows five thumbnail images of travel destinations: London, Dublin, Edinburgh, Paris, and Lisbon, each with its name and average price per night. At the bottom, a blue banner encourages users to "Earn up to \$1,281/month hosting your home in Milwaukee" with a "Learn more" button and a "Terms, Privacy, Currency & More" link. The banner also features a small image of a person's arm holding yellow flowers.

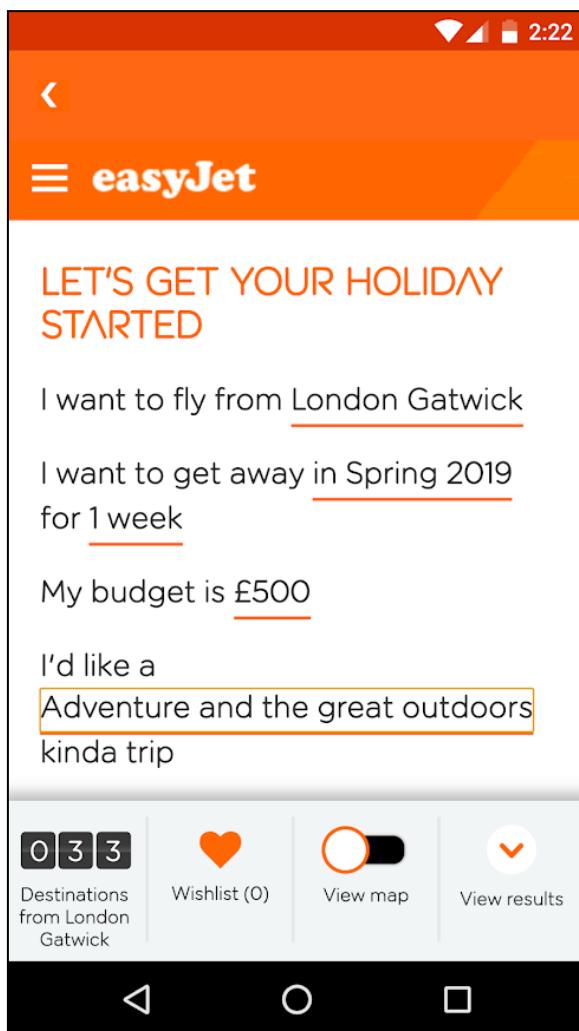
The magic is created by the home page design; it's driven by the consumer's needs, not the company's needs. Airline websites are focused to operate as transactional engines. That's a noble and necessary purpose but it doesn't "inspire" consumers. Regardless of what type of consumer you are — a first-time traveler, or a million-mile executive — all must pass through the same online portal. Viewed from this perspective, it's actually an insane and backward process. Many airlines realize the need for specialized websites to serve travel agents, small- and medium-sized businesses, and meeting planners. Yet, the industry continues to shove the vast majority of consumers through the same home page and booking path.



This is United's home page for travel planners. Jetstream is the portal to access services for corporate and agency customers.

Similar to Airbnb, websites should allow consumers to self-select their online experience with an airline. Is the visit purely transactional to check flight time? Or does it represent the beginnings of the holiday planning process? Airlines provide little material suggesting the joy of travel beyond the occasional holiday package banner or a search function based upon geography and fares.

EasyJet has broken ranks with this mediocrity with its "Inspire Me" search engine offered on its website 1 (see image at right). At present, it's promoted by a banner on the home page. But I think its commercial potential suggests it deserves a front-and-center-position as an anchored home page feature. After clicking the link, visitors begin a search by entering their departure airport, travel period, length of stay, ticket budget, and holiday objective. EasyJet destinations, schedules, and fares are matched to the search criteria. It's an encouraging initial effort that could be improved with the addition of hotel, car hire, and sightseeing elements.



Engaging customer experiences require work and don't occur by default. Opportunities for engagement exist as travelers walk through check-in areas, concourses, airport lounges, and gate areas. Or these opportunities can be ignored, which allows others, such as airport advertisers and retailers, to engage your customers. Most airlines limit their message and brand presence to logos placed on the back walls of check-in areas and gate podiums. Instead, these spaces, and the time spent by travelers, can be occupied by physical displays to promote services and destinations. Or better yet, a travel concierge to present holiday packages within the relaxed confines of the business lounge.



Air New Zealand used a pop-up display in the middle of Chicago to promote new services to Auckland during 2018.

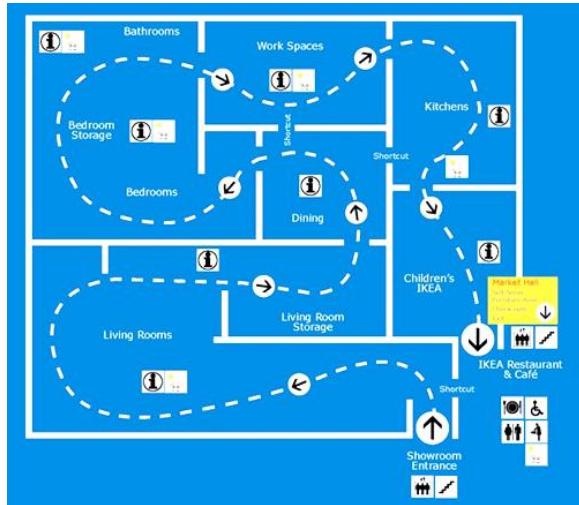
Image: Air New Zealand

Airlines do this, but surprisingly this usually occurs outside the airport. Air New Zealand, Delta, KLM, and others, have created pop-up displays to promote new destinations, seating products, and food service. The vast majority of passengers on a flight do not get to enjoy the luxuries of business class. Their connection with the product is intentionally brief and limited as they board the aircraft. Hours before departure these passengers are waiting on concourses where displays could promote the virtue of a cabin upgrade. This easy element of merchandising – promoting the sale of goods by presentation in a physical setting – is almost always ignored by airlines in the airport environment.

If it works for IKEA, it can work for you too

Forbes magazine ranked IKEA as the world's 40th most valuable brand for 2018 (well ahead of retailer H&M which ranked 47th).⁴ News flash – you can't find an airline among the top 100 companies in the *Forbes* list. Interbrand, the global brand consultancy, ranked IKEA 27th for 2018 . . . again, without an airline in the top 100 list.⁵ Airlines would be well served to consider the merchandising methods of a company so highly rated. Here are some of the lessons I learned from a visit to my local IKEA:

- **IKEA defines an in-store path that allows “visitors” to become “consumers” at a leisurely pace.** The first part goes through the showrooms area and ends at the Café. That's also where full size shopping carts appear for the first time to consumers.

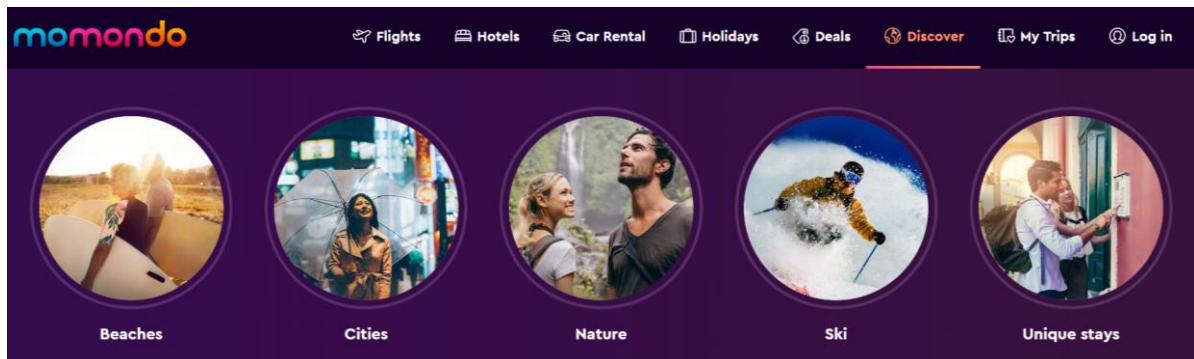


This map displays the first half of the IKEA experience which sensibly ends at the Café.

⁴ “The World’s Most Valuable Brands – 2018” at [Forbes.com](https://www.forbes.com/sites/forbescom/2018/03/06/the-worlds-most-valuable-brands-2018/#40).

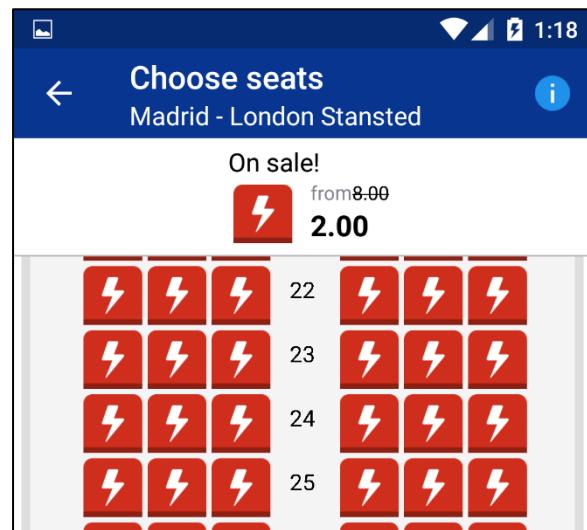
⁵ “Best Global Brands – 2018” at [Interbrand.com](https://www.interbrand.com/best-global-brands-2018).

After the showrooms – and perhaps a little lunch – the route continues into the “Marketplace” which features small items such as kitchenware, crockery, and linens. This intelligent design moves visitors through three distinct phases: 1) showrooms to engage and inspire, 2) the Café to replenish and allow reflection, and 3) the Marketplace to encourage shopping. By comparison, airlines universally rush the process by forcing website visitors to first choose a specific flight and fare before anything else. That’s not merchandising, it’s merely processing a transaction. A more thoughtfully designed model can be found at the Momondo.com travel site. Here consumers can begin a search by holiday theme and then continue by researching a selection of destinations.



Select the Discover tab at Momondo.com and choose from one of 7 holiday styles, which reveal destination articles to inspire answers to the eternal question of quo vadis? Or, where are you going?

- **Strike-through pricing is used to define special pricing.** Consumers are trained to take note when a red pen is casually used to display savings. The same can be done in the booking path with a special on-sale designation. Of course, this method is abused if every price appears to be “on sale.” The consumer would quickly detect this fraud in a store, and they will also take note of this at an airline website.



Some methods are universal. On the left, an IKEA employee has used a red pen to mark down the price of an upholstered chair, and on the right, Ryanair displays an impulse-generating price of a standard seat assignment.

- **Dream Room pricing promotes the value of IKEA products.** Sprinkled throughout the showrooms are displays promoting a single price for everything in a room. This encourages consumers to open their wallets and consider a complete overhaul of a bedroom or living room. In the airline business, this could compare to the branded fare or bundled approach to selling travel.



All-you-can-see buffet. IKEA promotes value by displaying the price of everything in a display room (left). Scoot takes a similar approach with product bundles that promote the value of adding more (right).

- **IKEA engages loyalty throughout the store.** Signage promotes the IKEA Family program and the IKEA Visa credit card. Each store is staffed with a loyalty manager who encourages repeat visits and helps ensure the experience is a fun day for the entire family. Those would also be noble objectives for a frequent flyer program manager to attain. In-store benefits include free coffee or tea in the Café for IKEA Family members. Visibly recognizing your loyalty program members encourages participation and provides immediate value.



Everyone the world over loves free, be it a free cup of coffee at IKEA (left) or a beer or wine offer on Allegiant for cardholders cleverly communicated on cocktail napkins (right).

- **Families are recognized as a big part of IKEA's business.** The definition of family is broad and extends beyond parents and kids to include any group of people living together. All are invited to become members of the IKEA Family program. Of course, children enjoy special recognition because IKEA realizes parents will eagerly spend money to keep kids happy. That's why store staff are specifically instructed to allow kids to crawl on beds and play with products.

The Café eases the stress on a parent's wallet with very attractive prices on kids' meals (see image at right). Store events designed to engage children are a regular feature promoted through IKEA Family emails. Some airlines, such as Jet2.com and Etihad, also make a big effort to keep children (and parents) happy with special services before and during a flight. They also recognize kids grow up to be adult consumers and will remember the brands that treated them with respect as children.



Pre-order

Delicious hot meals

For all the family

£6.50
Pre-order only!

Treat yourself to a

Tasty in-flight meal

Pre-order only!

FREE
Starbucks coffee

Look closely, these are not identical twins! Including a child in your booking query at Jet2.com generates the top solicitation to add a kids' meal. Or, for queries without kids, the offer of a free Starbucks coffee is inserted.

Know and value the power of food

The Café is literally the center of the IKEA experience. The company places self-service restaurants at the midpoint of the store experience. The Café is not a big profit generator, but is a meaningful component of the brand. Reviewing Google.com individual store statistics reveals visits can easily extend to two hours. It's a general truth of retail: more time at the store = more customer engagement = more sales. IKEA highlights its Swedish roots by placing the iconic Swedish meatball meal on every menu worldwide. Food is crucial to life but most airlines treat economy class meals as something to be survived, rather than enjoyed.

Beyond the Café, IKEA also offers a lasting memory of a store visit after check-out. Signs in US stores promise the gooey goodness of a \$1 hot and fresh cinnamon roll. There's also a Swedish Market that sells packaged food items from Sweden. The company wisely acknowledges the multi-sensory taste, smell, and visual memories provided by food. AirAsia is a kindred spirit in this regard because of the effort it makes to market a memorable and reasonably priced onboard café. It too has a signature dish with its Pak Nassar's Nasi Lemak coconut rice and chicken entrée priced at just 15 ringgit (\$3.70). The airline recently announced it was planning to open a fast food chain based upon this dish and its onboard menu.⁶



The author of this report admits to being lured by the bargain price of \$4 for a package of 4 tasty cinnamon rolls which were eagerly consumed by the family (left). AirAsia's famous Pak Nassar's Nasi Lemak is pictured right.

Know your customers and know who you are

Ikea has made a science of studying the anthropology of home life for families all over the world. For example, they've learned that bathroom storage needs have increased because men now buy as many personal grooming products as women. There are bigger trends too. IKEA's 2018 Life at Home Report discloses, "60% of people are ready to create a life at home that's different from the one they were brought up in." For a company built upon a market for home furnishings, that's a major discovery. The study is one of many used by IKEA to understand a global marketplace. It's a giant undertaking that required discussions with 22,000 people in 22 markets, and 12 in-depth activities it calls "home safaris."

Whenever an IKEA designer creates a room set, for the catalogue or in a store, he or she writes up a detailed treatment. In the entertainment business, this is the back story for a character in a movie script. This provides texture to ensure the display remains true to its purpose, and valid for the customer. This reveals the secret of IKEA; its stores don't seek to sell, but seek to entertain. IKEA is not an airline, but it is one of the world's master retailers. It has become a global success because it first seeks to meet customer needs. Remember its manifesto from the beginning of this report, "To create a better everyday life for the many people." When a company accomplishes this, the profits flow naturally.

⁶ "AirAsia opening restaurant based on its in-flight menu, says Fernandes" article dated 16 February 2019 at theStar.com.

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- Moving to Merchandising Methods in the Cabin

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