

# 2019 AIRLINE **DIGITAL** **RETAILING** SURVEY

Airline industry insights for increasing ancillary revenue  
and better digital retailing

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an airline needs.



## ABOUT THE AUTHOR

**Iztok Franko** is passionate about digital marketing and e-commerce. He has more than 10 years of experience as a CMO and CIO in airline, travel and multinational companies.

He currently works as a strategic digital marketing and ecommerce consultant for global airline and travel brands.

Iztok also regularly writes and speaks about travel and airline marketing, ecommerce, conversion optimization and ancillary topics.

He conducts airline digital workshops, ecommerce and ancillary consulting sessions and special analytics deep-dives.

Iztok is the founder of [diggintravel.com](https://diggintravel.com), a content platform for smarter travel marketing.



## ABOUT DIGGINTRAVEL

Diggintravel is a content platform, designed for airline ecommerce and digital marketing professionals.

Diggintravel was built to help digital marketers in the travel industry, especially airline professionals who run and manage online sales.

We provide in-depth insights and research on airline ecommerce and digital marketing. Diggintravel specializes in airline conversion rate optimization and ancillary revenue disciplines and by combining both helps airlines become true digital retailers.

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Marketing" by Gartner, Inc. and recognized as a Leader in the G2 Grid for Mobile Marketing in 2019.

Also, Insider was listed as one of Europe's 100 Hottest Startups by WIRED Magazine in 2018 and won Red Herring Top 100 Europe in 2017. CrunchBase has recently ranked Insider's co-founder and CEO Hande Cilingir as one of the top three women CEOs outside of the US.

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# THE FOLLOWING EXPERTS PROVIDED INSIGHTS FOR THIS WHITEPAPER:



## RICHARD HAMMOND

Retail expert and author of the best-selling books Friction/Reward and Smart Retail

Richard is CEO at Uncrowd and the leading global expert on friction versus reward. He is an author of best selling books Friction/Reward and Smart Retail.



## TOM BACON

Airline Pricing and Revenue Management Expert

Tom is highly experienced commercial airline executive with track record of dramatically increasing profitability through creative revenue solutions. He is a consultant to international and domestic airlines, legacy carriers and LCC's, travel-related start-ups and carriers striving for "Excellence" or facing major restructuring.



## ZACH RACHINS

Director, Air Revenue at Hopper

Zach succeeded in a variety of roles, from own businesses, funded startups, and a multi-billion dollar public e-commerce company. He lead and contributed to product, marketing, business development, and operations initiatives in a wide variety of environments.



## LIU HE

Senior Digital Optimization Consultant at Expedia Partner solutions

Liu is a digital marketing professional with over a decade of experience working across digital media, data and technology on agency and client side, working across B2B and B2C initiatives.



## CHAD SANDERSON

Chad Sanderson, Experimentation Program Manager at Microsoft

Chad Sanderson is an expert on the subject of digital experimentation and analysis at scale. He is a product manager, writer, and public speaker that has given lectures on topics such as Advanced Experimentation Analysis using R, the Statistics of Digital Experimentation, Small-Scale Experimentation for Small Businesses and more.



## SANDUN DISSANAYAKE

Strategy Manager at Eurowings Digital

Sandun is developing and driving the digital strategy process of Eurowings from vision to execution.

# WHERE'S WHAT

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# INTRODUCTION

# FROM ANCILLARY SURVEY TO DIGITAL RETAILING RESEARCH



## AUTHOR'S NOTE

The first Diggintravel research project I ever did was the Airline Ancillary Survey back in 2017. You could say that in 2017, ancillary revenue was at the peak of the hype cycle.

However, even then I didn't want to do typical ancillary benchmarks, but rather was intrigued by how airlines use "digital" (touchpoints, channels, techniques) to increase ancillary revenue. I was always more interested in the "how," i.e., what kinds of things airlines are doing to generate ancillary revenue.

More than two years, four research whitepapers, and almost 50 articles and case studies later, our new 2019 Airline Digital Retailing survey and research shows that growing ancillary is still among airlines' top priorities.

Now, you'll ask, what's changed since 2017?

If ancillary is still the top priority, what is different now compared to two years ago?

I would say the pressure for airlines to find additional sources of revenue is greater than ever. For airlines to stay competitive, they need to master digital retailing. This means knowing your customer better, understanding

his or her preferences and offering the right product or service in a way that adds value to the customer.

In addition to offering a variety of different products (not only a flight), airlines need to be innovative with their products and offers, such as bundling products together and providing dynamic offers and packages. Basically, they need to do what retail has been doing for a long time.

And since basically all travel research and most of the distribution is done online (digital), **digital retailing** is probably the right term for it.

This is why we see the narrative advocating for airlines to become digital companies, the Amazons of travel, and OTAs becoming stronger than ever. This narrative is not only external / digital vendor based; a lot of it is actually coming from the airlines themselves.

Ryanair, AirAsia, and Eurowings have all publicly spoken about their ambitions to transform into digital retailers. Each of them say they want to be a digital company that sells all kinds of travel products – not only an airline that operates flights, not only selling flights, but also selling hotels, vacation packages and even other airlines' flights.



## DIGITAL SKILLSET FOR DIGITAL RETAILING

To become a successful digital retailer, you need a different mindset and certainly a new set of digital skills.

In a recent interview with McKinsey & Company about How Digital is Transforming Retail, Devin Wenig, the president of eBay Marketplaces, stated the following:

*“Understanding how to connect with your core customers across every way they want to connect—not the way you want them to connect but the way they want to connect with you—is a different skill.*

*It requires design and product management. It requires understanding how to market in a digital world. There are still many instances that I see where it is old-school marketing. It’s still about major TV campaigns, get people into the stores. That’s still important, and that’s not going to go away.*

*But understanding how to engage in a world of exploding social networks, how to use search, how to use catalog, how to optimize, and how to engage—very different skills. I think that is going to become a core part of the playbook for retailers and merchants of all sizes around the world.”*

To help airlines on that journey to learn new digital retailing skills, we expanded our airline digital retailing framework and went even deeper in analyzing each of the five areas of the framework.

The focus of this whitepaper is not only providing you with the benchmarks, but also the **HOW**.

How can you be better at digital retailing, and what can you learn from the best travel digital retailers?

If you dig deeper into the various sections of this whitepaper, you’ll find case studies and tips from innovative OTAs and airlines who excel at digital retailing.

Diggintravel has always been about providing you with the best airline-focused digital content, and I hope this whitepaper will be a valuable resource for you.



# ASK THE EXPERT:

## ANCILLARY REVENUE OR DIGITAL RETAILING?



**Richard Hammond**

Retail expert and author of the best-selling books *Friction/Reward* and *Smart Retail*

*Is ancillary revenue, as a word or even a concept, becoming obsolete?*

If airlines want to only be the provider of transport, then by all means stick to the word 'ancillaries.' If airlines believe that all they're selling is a ticket from A to B, then ancillaries makes sense. But actually, if you are only selling a ticket to go from A to B, that really narrows your ability to influence whether a customer wants to choose you to solve their particular travel challenge or not.

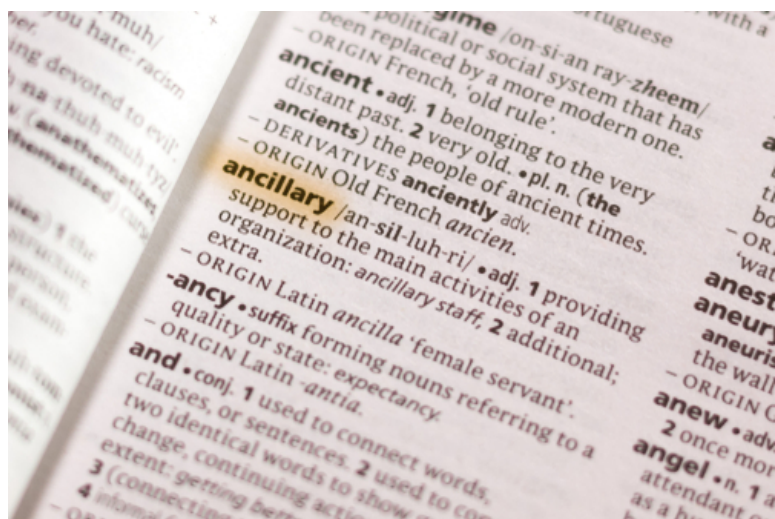
What our customers are considering is not 'how do I get from A to B?' The customer is considering how to get the best experience in a given situation. If I'm flying for business, how do I get to a great hotel? How do I get my transfers so I'm not late for my meeting? Will I get my boss to sign off on the cost? How can I work when I'm on the plane?

Now, if you think about those things as ancillary, something that sits outside of the 'A to B' part of it, then you have no chance of influencing [the customer's] decision to engage in those things with you.

*So if not ancillaries, then what?*

I wouldn't call it ancillaries at all.

I would call the whole thing our products, and one of our products is a seat in an airplane. But they all have equal value to each other. They all have equal profile and precedence. Yes, some of them are more difficult for us to fulfill, but they are all things that are part of the customer experience and things that make the total customer experience of what it is that you're selling.



# HOW DO WE MEASURE DIGITAL RETAILING? [THE 2019 DIGITAL RETAILING SURVEY AND RESEARCH]

So, if digital retailing is the right thing for airlines to do – how do we measure it? How do we benchmark to discover how good you are at it?

First let me clear up one thing: this survey and research is not about ancillary revenue benchmarks and rankings. It's not about how much ancillary revenue as a share of total revenue your airline generates. Ancillary revenue as a share of total airline revenue was just one part of the questions we asked airlines, and yes, it was taken into consideration when we created the benchmarks. However, most questions in the survey, and the main purpose of the research, were aimed at measuring how good airlines are at digital retailing.

To illustrate this point, let me share a story with you. Recently I did a project with a fast-growing LCC airline, and they performed quite poorly when I benchmarked them with our framework. They asked me:

*"Iztok, how is it that we can be good at generating ancillary, but still rank so poorly on your digital retailing benchmark?"*

The answer was, of course, that because of their business model (LCC with a completely unbundled model), their ancillary revenue share was high. But when I looked at their digital retailing techniques (their UX & booking funnel, their mobile, digital marketing

processes, how they use their data, etc.), I could see there was a lot of room for improvement.

During my research I also came across the opposite cases: airlines with a more traditional, full-service model, where ancillary share was not as high, but they were very good at digital retailing.

So, let's get back to the initial question: how can you measure digital retailing?

We tried to update our Airline Digital Retailing Framework to consider both the airline business model and the digital retailing elements.

In addition to all general ancillary questions (e.g. ancillary revenue share) and questions and review of ancillary products (e.g. top air ancillary products, top non-air ancillary products, whether you do travel packaging, etc.), we focused heavily on the areas we think are crucial for digital retailing.

**Below you can see some of the questions we used for our evaluation:**

- How do you use data for your ancillary offers (personalized offers)?
- Do you personalize the in-path booking and post-booking shopping experience?
- What kind of digital optimization activities do you do for your ancillary products?
- What kind of digital methods do you use for post-booking ancillary revenue upsell and cross-sell?
- How flexible are your digital booking and post-booking platforms?
- Do you experiment with advanced digital concepts (like artificial intelligence, machine learning, predictive analytics, recommendation engines)?

On top of the survey questions, we also performed UX audits of the booking flows for all 45 surveyed airlines, with a focus on bundling, upselling and cross-selling elements.

**NOTE:** You can find the full Airline Digital Retailing Framework and all survey questions for each of the framework areas in the second part of this whitepaper.

I'm confident that the answers to these questions, combined with the benchmarks, examples and best practices, will give you a very good understanding of what it takes to boost your airline digital retailing to the next level.

**Enjoy your reading!**

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# ABOUT THE SURVEY



# ABOUT 2019 DIGITAL RETAILING SURVEY

The 2019 Airline Digital Retailing Survey is Diggintravel's 3rd annual survey and research project in the field of airline digital retailing and ancillary revenue.

The goal of this research was not to present the detailed statistics and benchmarks of airline ancillary revenue. You can find detailed statistics in other reports, like the IdeaWorksCompany Yearbook of Ancillary Revenue.

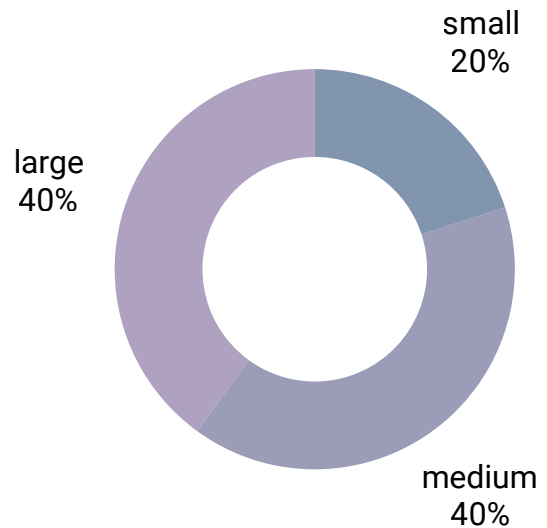
Such benchmarks can help you understand (if you're still not convinced) **WHY** growing ancillary revenue is crucial for your airline's profitability.

Instead, we wanted to analyze **WHAT** airlines are doing to develop their ancillary revenue and **HOW** they're doing it. More specifically, our survey investigates the maturity of the digital processes and key challenges airline professionals are facing when it comes to growing ancillary revenue.

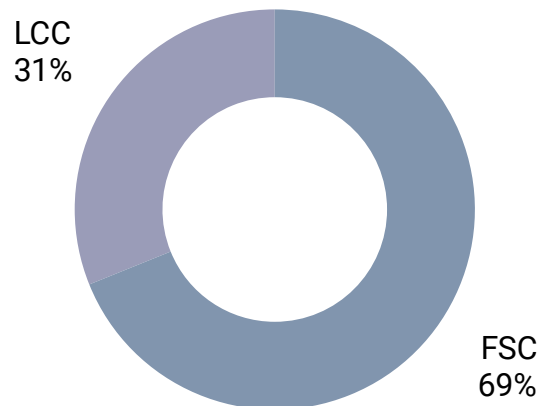
During the first and second quarter of 2019, we sent our survey questionnaires to more than 120 airlines' senior ancillary, digital and other executives.

The survey represents the views of **45** carriers, providing intriguing insights into the state of digital retailing for the airline industry.

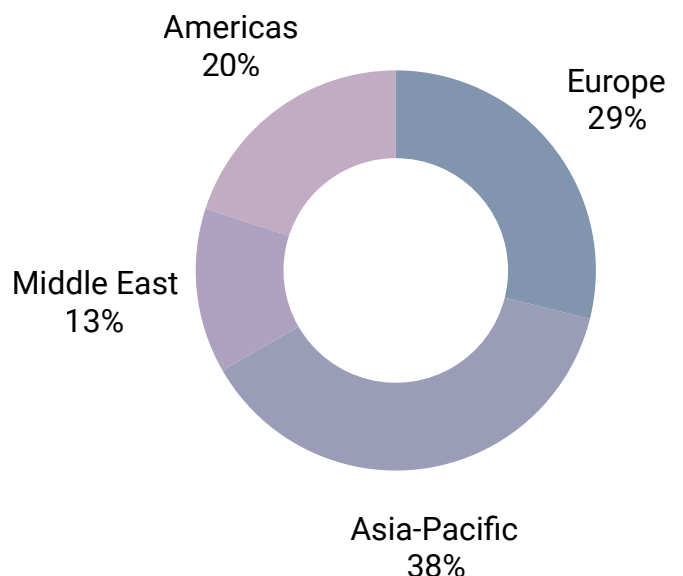
## BY SIZE



## BY TYPE



## BY GEOGRAPHY



# WHAT WERE WE EVALUATING?

The goal of the survey was to evaluate digital retailing maturity within airline organizations.

For evaluation of maturity we structured questions around five main areas:

- Product and Pricing
- Digital Retailing Techniques
- Innovation and Technology
- Customer Centricity
- Organization and Integration

You can find the exact questions, survey results and detailed analyses for each area in the special section at the end of this report.

In addition to the survey questions, we performed a digital audit of booking platforms for all 45 participating airlines.

During the audit, we evaluated various digital retailing elements, including presentation of branded fares / fare families, presence of dynamic bundles and personalized products, upsell mechanics, a la carte ancillary product offering, and usage of persuasion methods.

In the last part of the survey, we asked participants about the key challenge that limits them in taking their ancillary revenue efforts to the next level. By combining key pain points with the areas in which airlines plan to invest in 2019, we set out to uncover the main focus of 2019 airline ancillary and digital retailing development.

As a result, we updated our **Airline Digital Retailing Framework** (see next section).



# DIGGINTRAVEL AIRLINE DIGITAL RETAILING FRAMEWORK

The goal of the Diggintravel Airline Digital Retailing Framework is to provide a holistic view of all areas (and their interdependencies) needed for a successful digital retailing strategy.

The framework can help airlines strategically assess and plan actions for each area. To have a successful digital retailing program, all areas need to be addressed and integrated.

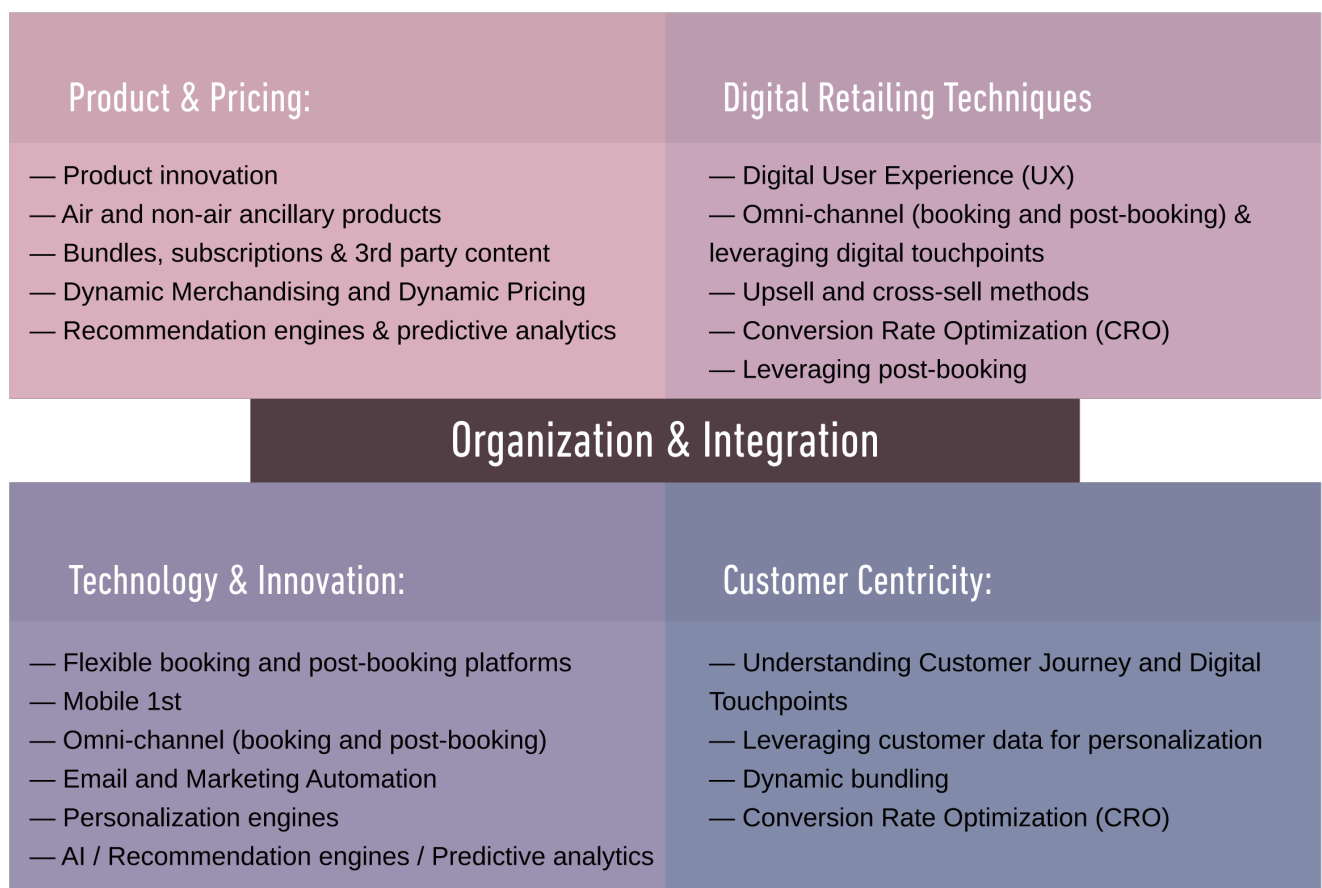
Great ancillary products are not enough to grow your ancillary revenue; digital retailing skills and customer centricity are needed as well. Similarly, great ancillary strategies cannot

be realized without organizational agility, integration and agile digital platforms.

Finally, the framework is also a tool for self-assessment for airlines to realistically assess their digital retailing competence.

In many cases there is an organizational belief that our own digital and ancillary revenue competence is at a higher level than it actually is. Only when we perform a systematic evaluation of each area can we usually get a more realistic picture.

## AIRLINE DIGITAL RETAILING FRAMEWORK



# DO YOU WANT TO TAKE YOUR DIGITAL RETAILING TO THE NEXT LEVEL?

## WORKSHOP

*This special airline digital retailing workshop is the best first step!*

Discover all of the most important aspects of airline **ancillary revenue** and **digital retailing** in a **hands-on, 1-day workshop**.



**Learn** – we'll provide you with airline ancillary and digital retailing best practices and benchmarks based on our research.



**Identify** - we'll deep dive into your booking funnel analytics and help you identify key optimization scenarios for revenue growth.



**Plan** – we'll evaluate your digital retailing maturity and help you plan the next steps based on our frameworks and maturity models.



**Execute** - we'll help you prepare and execute first optimization scenarios and measure results.

**CONTACT [iztok.franko@diggintravel.com](mailto:iztok.franko@diggintravel.com)**  
**FOR A DRAFT WORKSHOP AGENDA**

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# KEY FINDINGS



# FINDINGS SUMMARY – STATE OF AIRLINE DIGITAL RETAILING

We scored the participating airlines' maturity in each of the five main areas of the aforementioned Digital Retailing Framework. Individual responses to the survey questions, the results of our digital audit of the booking funnel, and any available ancillary revenue financial data (ancillary as a % of total revenue) all contributed to the final result.

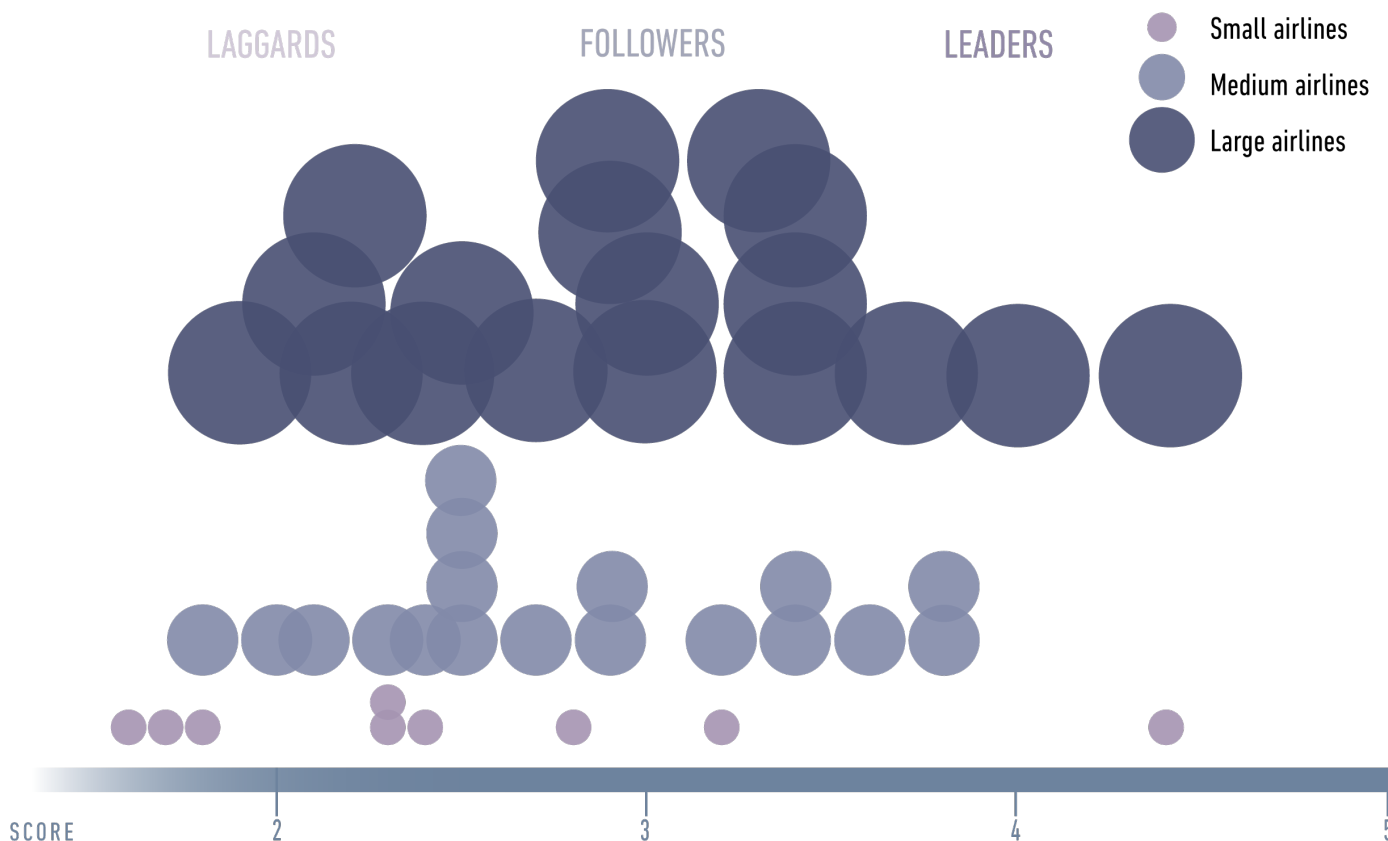
The sole purpose of ranking the survey results was to see if we could group airlines into different categories based on their digital retailing maturity and then provide guidelines on how to advance. Survey responses and their interpretations are subjective based on the views of the survey participant and this whitepaper author.

Based on the results, we classified each participating airline into one of the following three categories:

- Laggards
- Followers
- Leaders

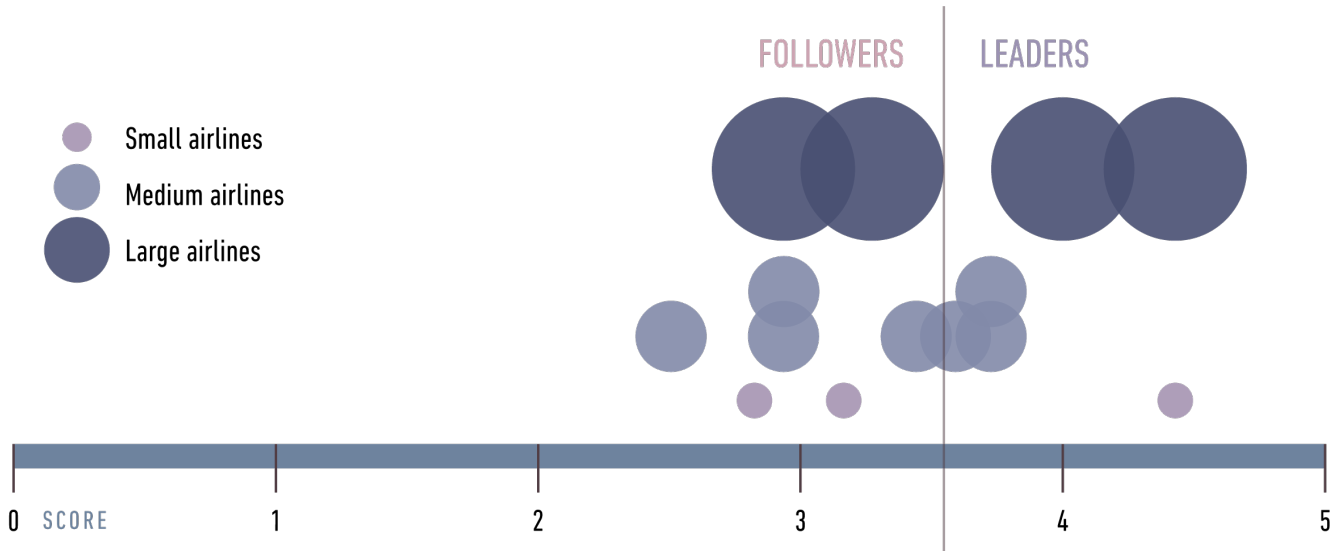
## Summarized results of our Airline Digital Retailing Survey and benchmarks:

- **15 airlines (33.3%) were classified as Laggards**
- **23 airlines (51.1%) were classified as Followers**
- **7 airlines (15.6%) were classified as Leaders**



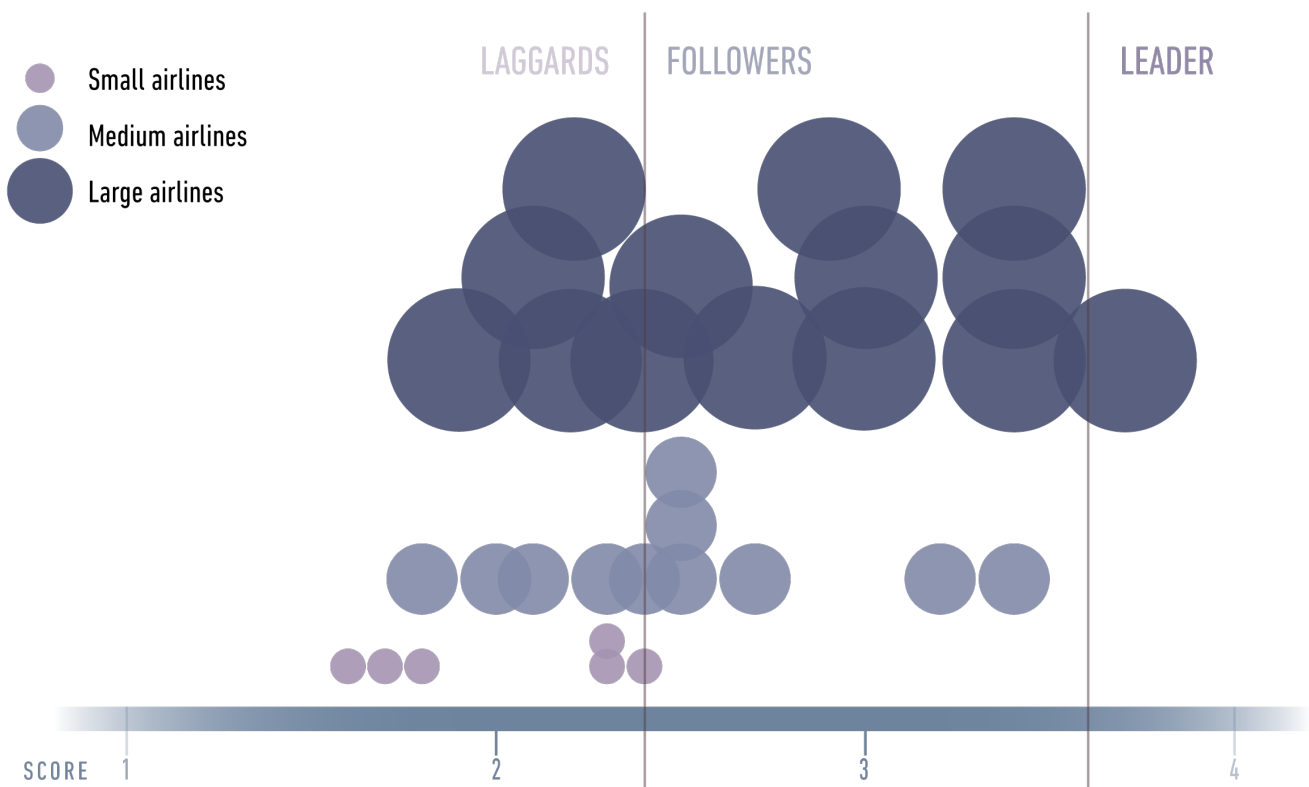
## RESULTS FOR LCC AIRLINES (AIRLINES WITH A LOW-COST OR HYBRID MODEL)

- No airline (0%) was classified as a Laggard
- 8 airlines (57.1%) were classified as Followers
- 6 airlines (42.9%) were classified as Leaders



## RESULTS FOR FSC AIRLINES (FULL SERVICE AND REGIONAL AIRLINES)

- 15 airlines (48.4%) were classified as Laggards
- 15 airlines (48.4%) were classified as Followers
- 1 airline (3.2%) was classified as a Leader



## LAGGARDS

According to our Digital Retailing Framework and survey results, Laggards are the airlines that scored the lowest (**2.1 on average on a scale from 1 to 5 across all five digital retailing framework areas**).

Based on the provided data, **ancillary revenue represents less than 5% of total revenue on average for this group** (compared to the 12% overall average).

With 15 out of 45 airlines classified as Laggards, it is the second largest group. Traditional FSC airlines dominate this group, as no LCC carrier was classified as a Laggard.

## FOLLOWERS

We classified as Followers the airlines who are in the middle of the pack when it comes to digital retailing. **Their average score was 2.9 across all five framework areas (the overall average for all 45 airlines was 2.8).**

Based on the provided data, **ancillary revenue represents 12% of total revenue on average for this group** (matching the 12% overall average).

23 airlines fit this criteria, so this is the largest among the three groups. There are 15 FSC carriers and 8 LCC airlines in this group.

## LEADERS

This is the most advanced group. Ancillary revenue and digital retailing are key elements of a Leader's business model and success. **The average score for this group was 3.9 across all five framework areas.**

Based on the provided data, **ancillary revenue represents 25% of total revenue on average for this group** (more than double the 12% overall average).

There is 1 traditional FSC carrier in this group; the remaining 6 are all low-cost carriers. The sole FSC carrier (although way below average in ancillary as a percentage of total revenue) was classified in this group based on the answers provided and its advanced techniques in digital retailing.

# 2019 DIGITAL RETAILING TRENDS [COMPARED TO 2018 SURVEY]

It's a logical conclusion that airlines with a low-cost model, low average fares and unbundled products which provide the biggest share of ancillary revenue (bags and seats) have the highest "percent of total revenue" ancillary results. They also scored highest in that area in our survey.

However, the distinction between business models is getting more difficult to make, as many airlines are adopting hybrid models to maximize ancillary and overall revenue. This is why we see many traditional airlines catching up on ancillary and digital retailing. The trend of unbundling basic economy fares to upsell bags and seats is still on the rise among traditional airlines, and we've seen most adopt a branded fare model instead of a fare family model (see Section 1 - Product and Pricing for more detail).

When it comes to digital retailing, LCC airlines still have a head-start as a result of their business and product model, less complex distribution channels and the technology landscape.

Because the airlines who participated in the 2018 survey are not exactly the same as those who participated in the 2019 survey, it is difficult to compare the two sets of results accurately, and thus all comparisons should be considered with this in mind.

## COMPARISON OF THE STRUCTURE OF AIRLINES IN 2018 AND 2019 SURVEY

	2018	2019
LCC	34%	31%
FSC	66%	69%

	2018	2019
Small	24%	20%
Medium	47%	40%
Large	29%	40%

However, the structure of the participating airlines from both surveys is similar enough that we can still try to identify whether there is a developing trend within airline digital retailing.

	2018	2019
Laggards	45%	33%
Followers	39%	51%
Leaders	16%	16%

One thing that was evident when comparing results is that there are more airlines making progress in their digital retailing journey (moving from Laggard to the Follower phase).

While the 2019 results for LCC airlines remained almost the same as in 2018, FSC airlines made progress with their digital retailing. You can see the **shift for the FSC airlines** in the table below:

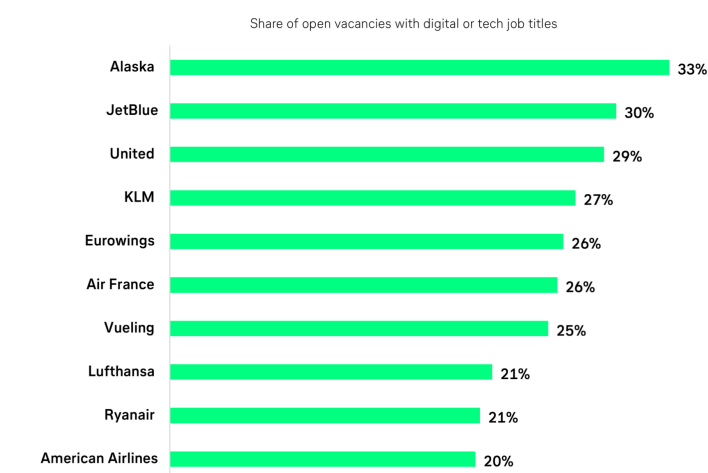
	2018	2019
Laggards	68%	48.5%
Followers	32%	48.5%
Leaders	0%	3%

Based on the results and other analyses performed during our research, we can see that the majority of these airlines now understand the importance of digital retailing. Even traditional airlines with a long history and “baggage” from the non-digital era are now investing in UX and digital touchpoints. There are more data science initiatives as well, and new digital retailing roles are appearing.

**Lufthansa Innovation Hub** has captured some interesting snapshots and analyses of airlines’ digital maturity (see charts below), and you can see that in some areas traditional airlines are actually at the forefront.

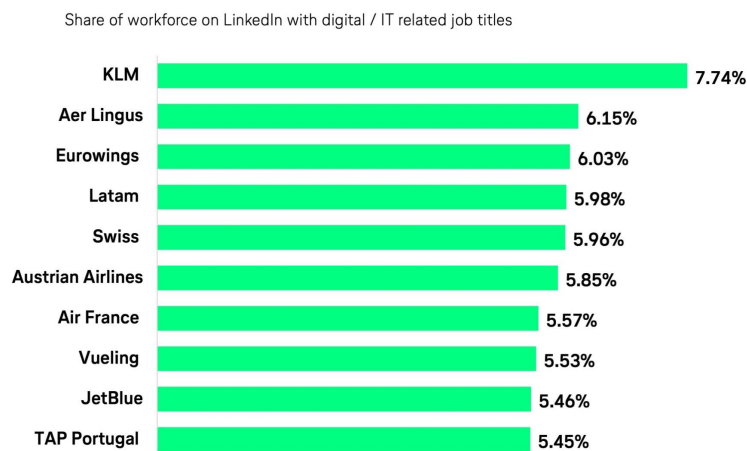
The growing trend of digital roles, especially in airline ecommerce and retailing, is something that we definitely see continuing in the future.

**TOP 10: AIRLINES RECRUITING MOST DIGITAL TALENT**



Source: Lufthansa Innovation Hub

**TOP 10: AIRLINES WITH THE MOST DIGITAL WORKFORCE**



Source: Lufthansa Innovation Hub, LinkedIn



# YES, ANCILLARY REVENUE IS STILL A TOP PRIORITY

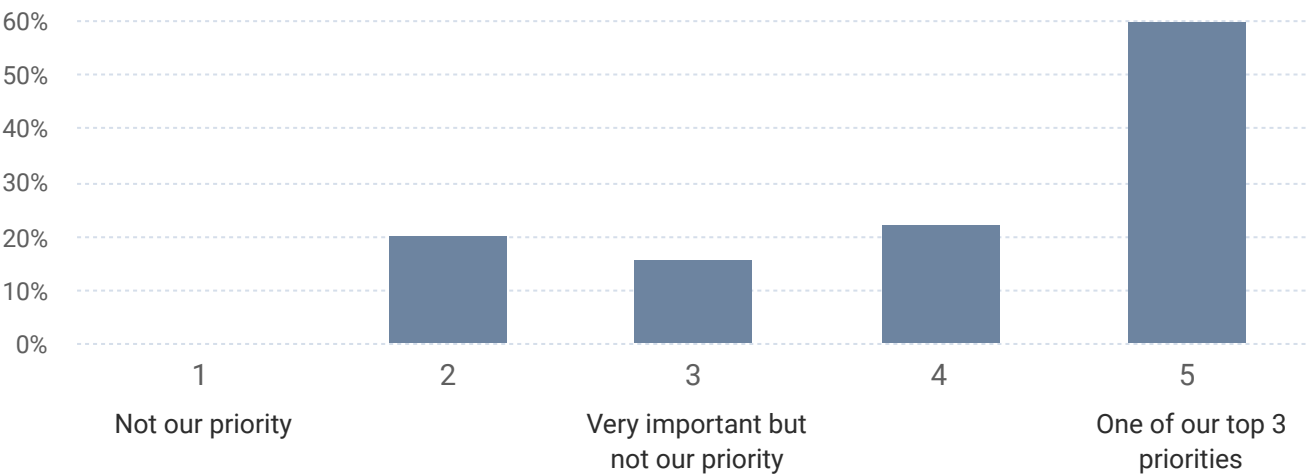
Those of you who read our Diggintravel 2017 Ancillary Survey or our 2018 Digital Merchandising whitepaper were probably already expecting to see this headline... because it's the same every year we do this analysis.

When it comes to priorities, increasing ancillary revenue is still at the top of airlines' priority lists, and it's not going away anytime soon. **60%** of the 45 surveyed airlines reported that increasing ancillary revenue was one of their top three priorities in 2019.

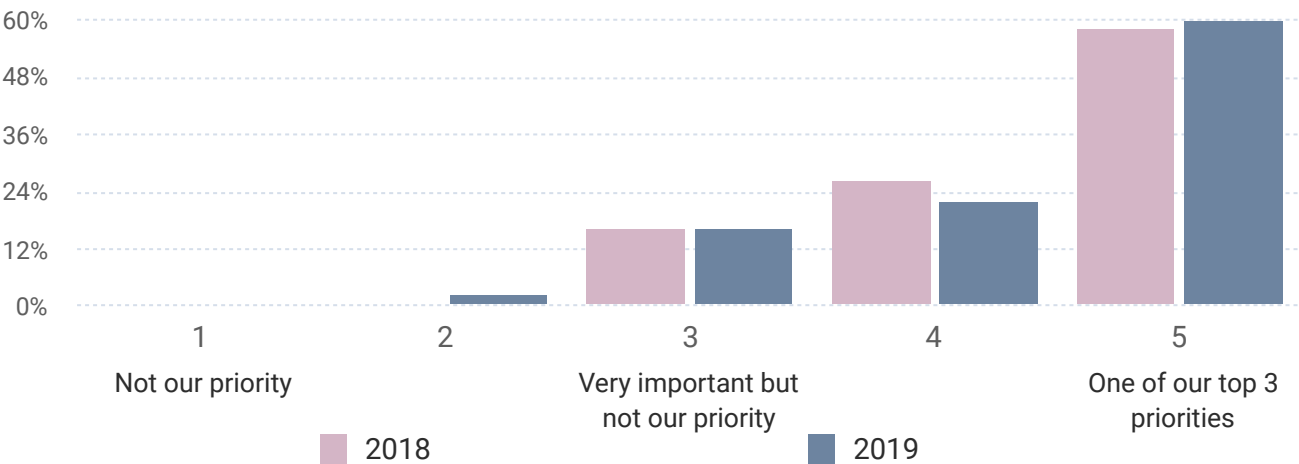
None of the surveyed airlines stated growing ancillary revenue is not a priority.

If you compare the 2019 survey responses to the ones from 2018, you'll see an almost identical picture: approximately 60% of respondents saying ancillary revenue is among their top three priorities, 20-25% of respondents saying ancillary revenue is very important, and 16% stating ancillary is very important but not in their top three priorities.

How important is ancillary revenue for your organisation in 2019?



How important is ancillary revenue for your organisation? 2018 vs 2019



# ANCILLARY REVENUE BENCHMARKS REMAIN SIMILAR IN 2019

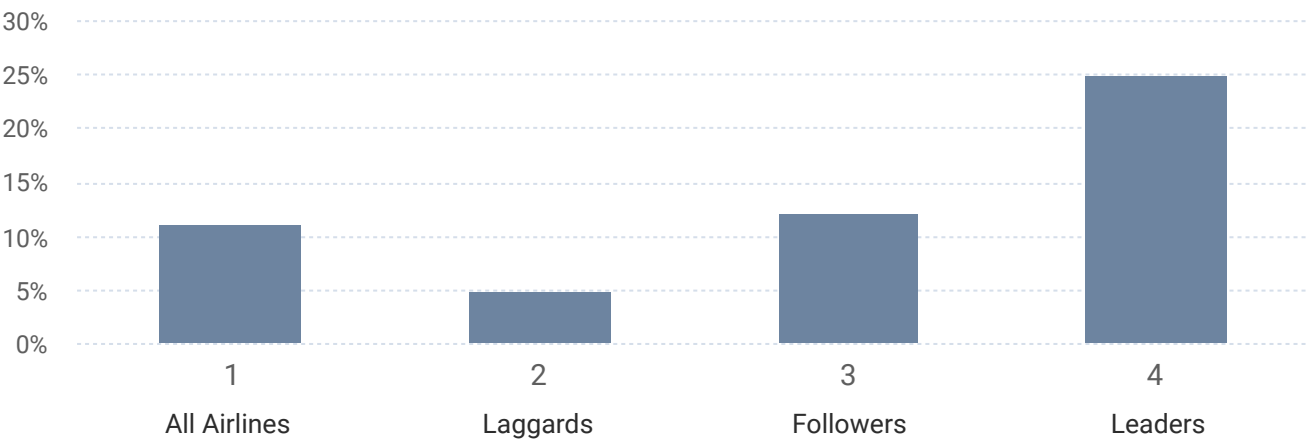
According to our survey, 29% of airlines claimed that their ancillary revenue makes up 5% or less of their total revenue. Furthermore, 62% in total claimed that their ancillary revenue makes up 10% or less of their total revenue. Ancillary revenue represents 11% of total airline revenue on average for all respondents in our survey.

This shows that for many airlines, there is still a lot of potential for ancillary revenue increase.

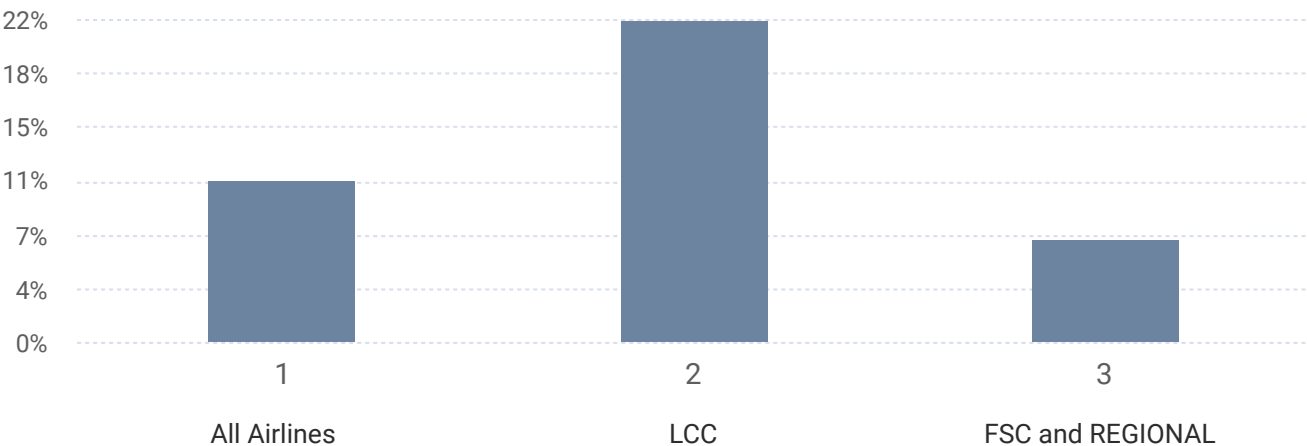
Although the opportunity is bigger for the low-cost airlines, **smart ancillary and digital retailing strategy** can result in significant ancillary revenue shares for others as well.

Out of 31 FSC and regional airlines in our survey, 25% claimed they generate at least 10% of their total revenue from ancillary. On average, FSC and regional airlines stated they generate 7% of total revenue from ancillary.

What is your ancillary revenue share (%) as a % of total revenue



What is your ancillary revenue share (%) as a % of total revenue



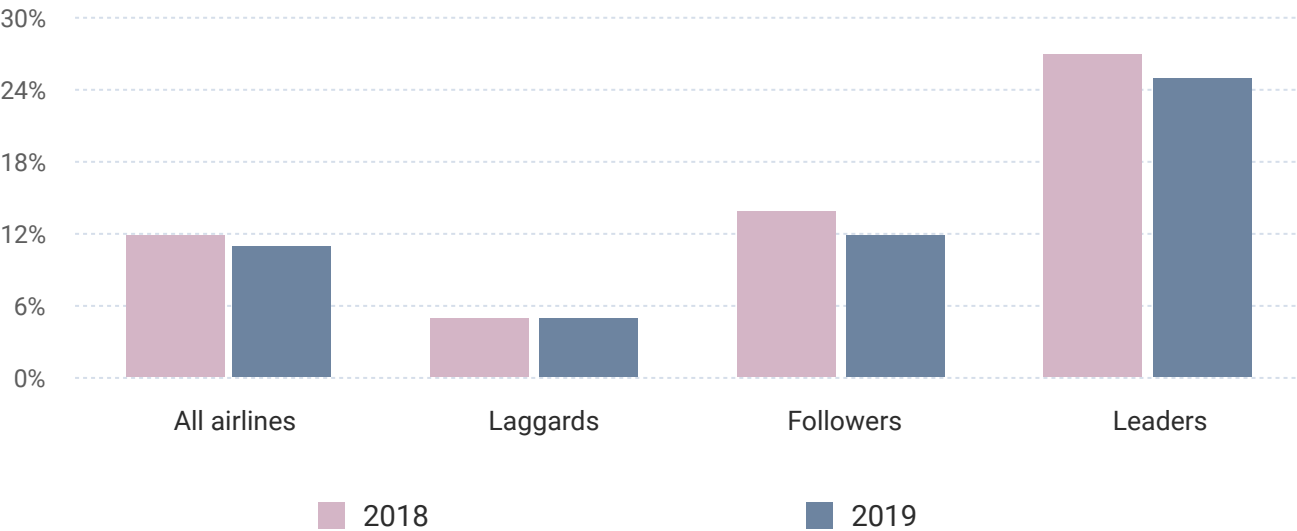
As stated before, the mix of airlines who participated in our 2018 and 2019 surveys is not the same. Also, individual airlines track ancillary revenue differently, so the results are not 100% accurate. So, you should definitely use the results and comparisons with caution.

However, we still see very similar results when we compare the 2018 and 2019 results, and you can use these results as a rough estimate and benchmark for your airline when comparing to other similar airlines (for example, by business model or by digital retailing maturity).

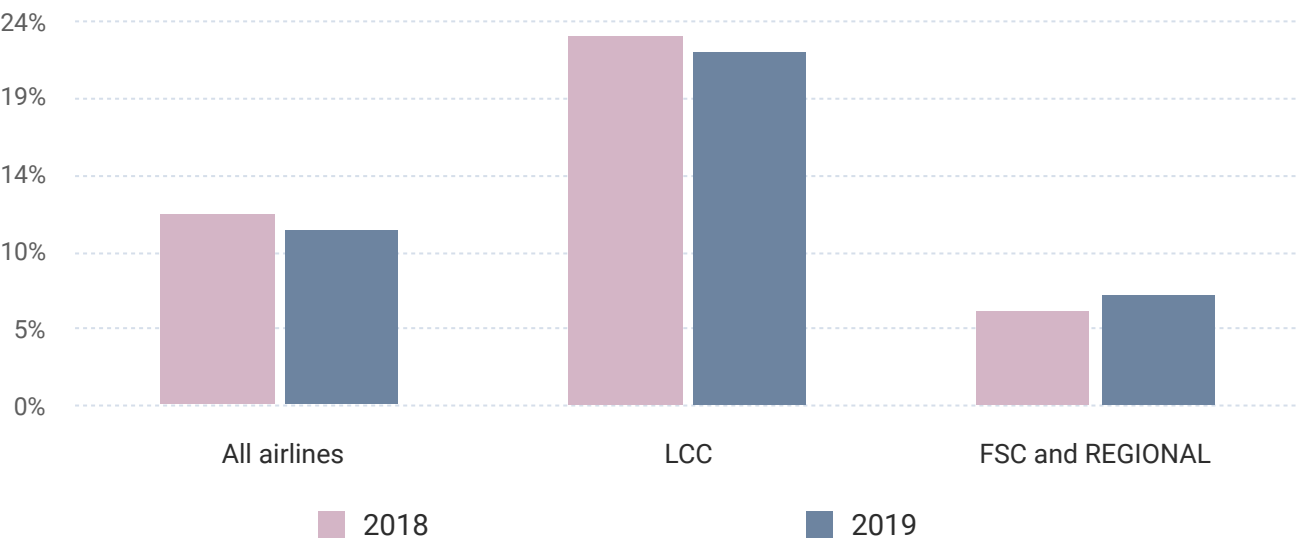
Finally, as I mentioned in the introduction, the goal of this whitepaper and research was not to create an accurate benchmark of how much ancillary revenue airlines generate.

The goal was rather to show you how airlines do it – and even more specifically, how good airlines are at digital retailing in order to generate it. We used our Airline Digital Retailing Framework to calculate this, and you can find the results, along with examples and best practices for each area of the framework, in the next part of this whitepaper.

What is your ancillary revenue share (%) as a % of total revenue (2018 vs 2019)



What is your ancillary revenue share (%) as a % of total revenue (2018 vs 2019)





2019

DIGITAL  
RETAILING  
RESEARCH

I.

The background of the slide is a solid blue-grey color. In the top-left corner, there is a red triangle pointing towards the center. In the center of the slide, there are several concentric circles of varying shades of blue-grey, creating a subtle circular pattern. The text 'PRODUCT AND PRICING' is centered within this circular pattern.

# PRODUCT AND PRICING



# PRODUCT AND PRICING EVALUATION

To better understand what airlines are doing in the Product & Pricing arena, we asked the following questions in our survey:

- Who in your organization is responsible for overall ancillary revenue and products?
- What are your Top 3 air ancillary products?
- What are your Top 3 non-air ancillary products?
- How do you sell non-air ancillary products (e.g. cars, hotels, transportation)?
- Do you do travel packaging (flight + hotel, holiday packages)?
- Do you have any subscription products?
- Who is responsible for pricing of ancillary products?
- How integrated (on a scale from 1 to 5) is ancillary revenue uptake % in your base fare pricing calculations?
- How do you do pricing for ancillary products (for example bags)?
- Structure of the fare or product bundles (display, differentiation between products, bundle features, upsell benefits and triggers)
- Were dynamic product and bundles used? (e.g. branded fares / bundles for families)
- What a la carte ancillary products were offered during the booking process?
- How are third-party ancillary products integrated into the booking process?
- Innovative approaches used for ancillary products during the booking process

In addition, we reviewed the following during the **digital audit of the booking platforms**:

- Search results page and usage of fare product bundles (branded fare, fare family or a subscription model)

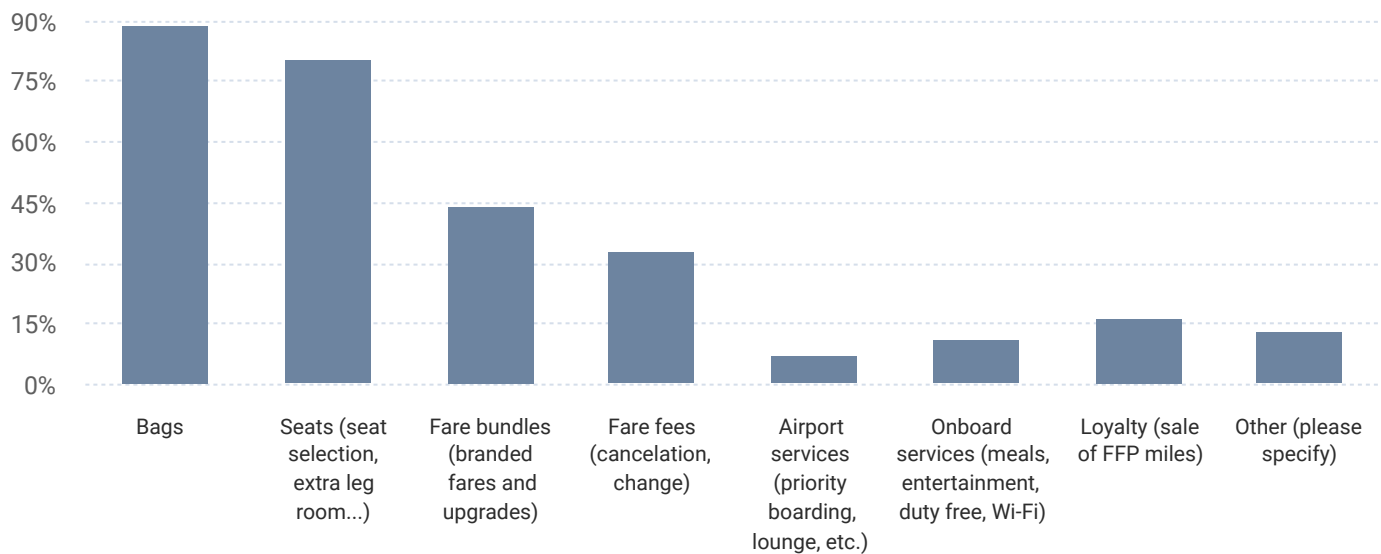
Based on the above criteria, **we ranked Product & Pricing from 1 to 5 for each of the 45 participating airlines in the survey**. The goal was to evaluate maturity for each airline and identify best practices from the Leaders for this category.

Note: You can find all charts showing the results for organization (responsibility for ancillary product strategy, pricing, sales and promotion) in Section V – Organization and Integration in this whitepaper.



# CORE AIR ANCILLARY PRODUCTS

What are your Top 3 air ancillary products?



## “BAGGAGE” REMAINS THE CORE ANCILLARY REVENUE PRODUCT FOR ANCILLARY REVENUE LEADERS

It is no news that baggage is the key ancillary revenue generator, especially for LCC airlines. **89%** of airlines in our survey reported that baggage fees are one of their top three ancillary products. As more and more traditional airlines are unbundling bags and seat selection from basic economy fares, bags and fare bundle upselling is becoming a significant ancillary revenue source for them as well.

In March 2019, Sift reported that AirAsia generated \$242 million from baggage fees and \$40 million from seat selection in 2018 (see the External View and Stats section for details). They reported a total of \$515 million in ancillary revenue, which means that **baggage fees represent 47% of total ancillary revenue for AirAsia** – and since seats are at

just under 8%, this means that baggage represents almost half of all AirAsia’s ancillary revenue.

IdeaWorks reported similar shares for AirAsia in their 2018 Yearbook of Ancillary Revenue, and even higher ones for some other carriers. The report shows that for HK Express, an Asian LCC airline, baggage fees represent 67% of total ancillary revenue, while assigned seat revenue is at 12%. Diggintravel’s experience from past consulting projects with LCC airlines is similar; baggage revenue share is frequently in the 50% range of total ancillary revenue, with seat selection in the 10-15% range.

Baggage allowance fees in combination with branded fare upsell still represent the biggest source of ancillary revenue for airlines. In the External View and Stats section, you can see how revenue from baggage fees has increased for US carriers. Also, see the next section for branded fare upsell data.

## EXTERNAL VIEW AND STATS

### BAGGAGE FEES ARE THE CORE ANCILLARY REVENUE PRODUCT

A report from the Bureau of Transportation Statistics shows that in 2018, the total baggage fee revenue among 11 major U.S. carriers added up to \$4.9 billion. The 2010 version of the report shows that those 11 carriers made less than half that amount in fees – \$2.3 billion

Source: <https://www.forbes.com/sites/niallmccarthy/2019/05/10/the-u-s-airlines-cashing-in-the-most-on-baggage-fees-infographic>



“AirAsia.com aside, AirAsia Group makes a lot of money from traditional airline ancillaries, to the tune of RM2.1 billion (\$515 million) last year, an increase of 7 percent over 2017. Ancillaries such as baggage fees, seat selection and inflight food & beverage were among top earners. Baggage fees rose 7 percent to RM987 million (\$242 million), while seat selection increased 18 percent to RM164 million (\$40 million). And perhaps an indication of how good AirAsia’s airline food is, passengers spent RM143 million (\$35 million) on food and beverage onboard last year, an increase of 8 percent.”

Source: <https://skift.com/2019/03/01/airasia-emerging-as-an-unlikely-online-travel-agency-competitor/>

# FOCUS ON DIGITAL RETAILING, DIGITAL PRODUCTS AND TRAVEL DIGITAL PLATFORMS

As you can see from the stats above, traditional ancillary products like bags and seat selection are still “bread and butter” for ancillary leaders like AirAsia and Ryanair. However, the leaders are not only looking at their core (air ancillary products) when thinking about how to step up their digital retailing.

The leaders envision themselves as true digital travel marketplaces, some even as pure

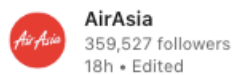
ecommerce platforms. You can see **AirAsia** has been talking about an “all-in-one” travel platform including lifestyle and entertainment:

You can find two other examples of similar strategies later on in this whitepaper. European LCC **Eurowings** (a wholly owned subsidiary of the Lufthansa Group) is talking about their strategy of becoming a “**travel companion**” for their customers and servicing customers in an OTA (online travel agency) kind of way. In the second example, you can see how **Volaris** (a Mexican LCC) wants to become the **Spotify of the Air**.

The shift from selling flights and flight-related ancillary products to offering your customers a full range of travel-related services is definitely intriguing. While some airlines are clearly talking about becoming OTAs, most still struggle with cross-selling third-party ancillary products.

This is why the focus of the Product section of this whitepaper is on non-air ancillaries and examples of innovative digital products and digital retailing. In addition, you can find other case studies and examples from OTAs like Expedia and Hopper.

You know what they say: “If you want to be the best, you must first learn from the best.”



AirAsia presented the future of air travel to the Prime Minister of Malaysia, Yang Amat Berhormat Tun Dr Mahathir Bin Mohamad, in conjunction with his official visit to AirAsia's headquarters RedQ on 16th August 2019.

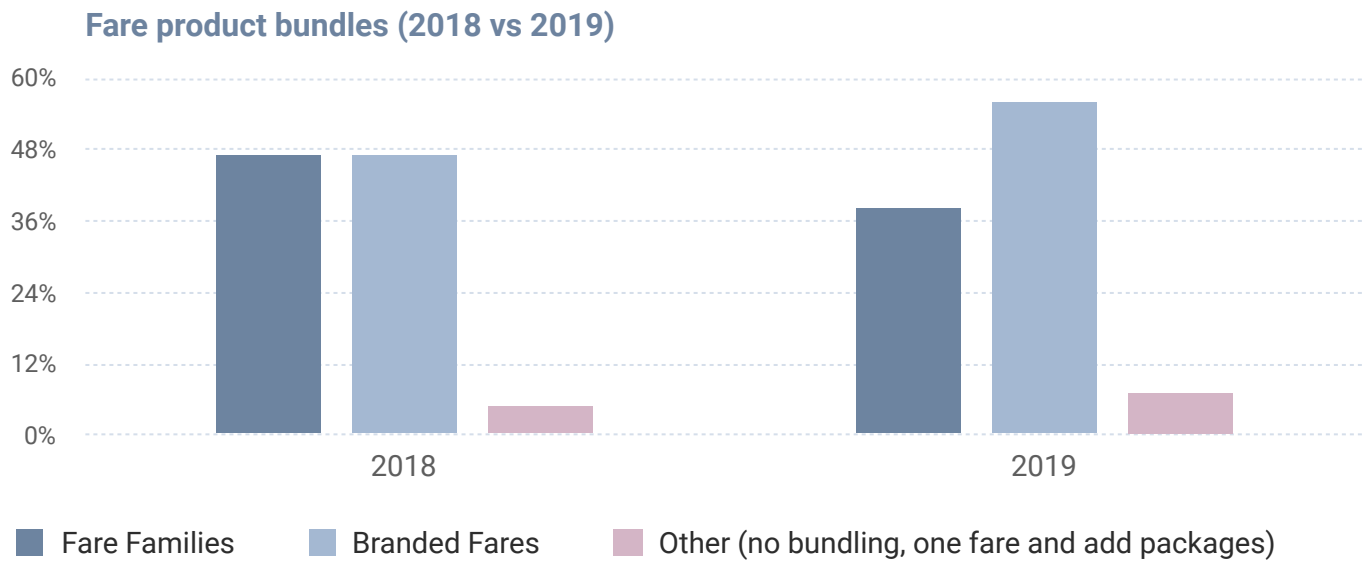
The tour kicked off at the Innovation Lab. We presented [airasia.com](https://www.airasia.com), an all-in-one travel platform which now features not only travel but also lifestyle offerings so guests can book all their travel needs on one site, from flights and accommodation to ground transport, tours, entertainment and more.

This was followed by a demonstration of a seamless, fully digital airport experience powered by AirAsia's FACES (Fast Airport Clearance Experience System), which would allow a guest to perform a digital check-in, self baggage drop, immigration clearance and boarding using facial recognition technology. We also demonstrated how digital engineering solutions such as blockchain technology and Skywise are able to provide more efficient, more reliable and greener end-to-end operations.

We also showcased other key components of our future travel blueprint, including e-marketplace OURSHOP, cargo and logistics platform Teleport, fintech venture BigPay, and lifestyle and entertainment affiliates such as Santan and AirAsia Foundation.



# FARE BUNDLING: BRANDED FARES VS. FARE FAMILIES



As you saw in the previous section, fare bundles are the third most important ancillary product for airlines. Fare bundles work hand in hand with other core air ancillaries (baggage, seat selection, fare flexibility), as these a la carte products are bundled together with the goal of upselling more than one ancillary product.

Our survey shows that all 14 LCCs that participated in our survey use some version of the branded fares model.

As you can see from the chart, more and more traditional airlines are adopting the branded fare model as well. **45% of them are using a branded fare model** (compared to 24% in the 2018 survey). However, **55% of traditional airlines still use the fare family model** where fare rules (and not ancillary product features) are the main differentiator between different options.

I wrote extensively about bundling and the difference between the fare family model and

the branded fare model in the 2018 Digital Merchandising whitepaper, so here I'll instead focus on the potential for upselling from fare bundles. North America is the region where the branded fare model with unbundled basic economy fare is most widespread. Delta was one of the first to introduce these fares to compete with low-cost carriers like Spirit. They would use the basic economy prices as a marketing tactic to stay competitive with low-cost carriers, but then give customers an incentive to spend more than the lowest price to get the full product.

As demonstrated in the External View and Stats section, upselling from basic fare has been a huge source of revenue for North America-based carriers. While the share of basic, mostly unbundled fare packages is much higher for the low-cost carriers (usually over 80% for LCCs), it still represents a significant upselling opportunity for LCC airlines as well.



# EXTERNAL VIEW AND STATS

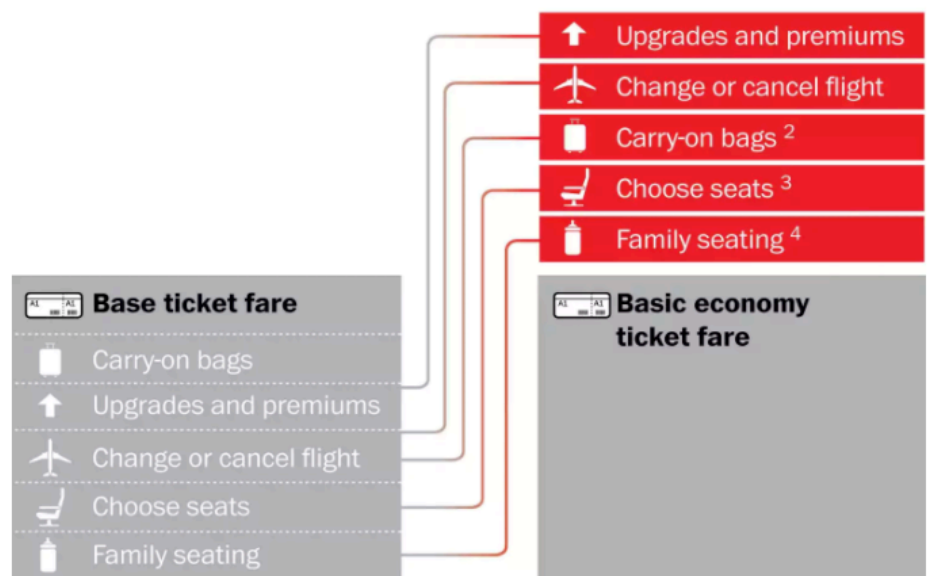
## AIRLINES MAKE MILLIONS UPSELLING FROM BASIC FARE

“Basic economy has been a huge revenue boost for airlines. A Senate report showed Delta added \$20 million in incremental revenues from passengers buying up to avoid basic economy in 2016 while United experienced a \$200 million jump in 2017.

In 2018, Delta and American reported a 50% and 63% upsell-from-basic-economy rates, respectively, driving billions in incremental revenue. Delta even allows a carry-on bag for the overhead bin. American Airlines ultimately matched and thought its upsell rate would decline but now reports its rate is 60%, according to Jay Sorenson, president of IdeaWorks who just completed research for its 2019 Airlines Ancillary Revenue Yearbook done in partnership with CarTrawler. United, he reported, said 60%-70% of passengers buy up to standard economy. Similarly, WestJet reported that buy-up rates are growing from 6% in the first quarter of 2017 to 36% in the fourth quarter of 2018 on its domestic Canada and US transborder markets.”

**Before** basic economy fares, many benefits were included as part of the base price of a ticket.

**After** basic economy fares, in most cases, many benefits have been unbundled and are not available, or cost extra as ancillary fees.<sup>1</sup>



1: Consumers with no elite-level airline status or credit card that offers travel benefits who purchase a basic economy fare for domestic travel could face these restrictions.

2: Delta allows carry-on bags for basic economy flights. American and United passengers can board with only one personal item that fits under the seat and are not allowed to use the overhead bin space.

3: At an extra cost, seating assignments may be available during booking and before check-in for United, or 48 hours before flights for American.

4: Though the airlines will attempt to sit families together, seating is not guaranteed unless advance seat assignments had been purchased.

Source: <https://www.flyertalk.com/articles/a-better-way-to-resell-basic-economy-fares.html>

Source: Senate Commerce Committee Office of Oversight and Investigations, minority staff report

THE WASHINGTON POST



# EXAMPLE FARE BUNDLES

Airlines use branded fares as a segmentation tool and design “bundles” in a way that facilitates effective upselling for specific customer segments (for example, families or business travelers). Here are two examples of how two LCC airlines target business travelers on short-haul routes where there is no business class.

**Aer Lingus** (a hybrid between a traditional legacy airline and a low-cost carrier) has developed AerSpace, a premium short-haul bundle for business travelers. Among other features, it offers the middle seat free, automatic standby for earlier flights and private overhead storage.

**Jetstar Airways**, an Australian LCC, has an interesting approach: their Flex bundle package, although designed for business travelers, is the second cheapest bundle.

### What do I get with AerSpace?

- > Middle seat free
- > Private overhead storage
- > Complimentary food and drink from our Bia menu
- > Lounge access
- > Priority boarding
- > Fast Track security
- > Automatic standby for earlier flights
- > Free changes and refunds

Arrive at your best with AerSpace from 01 September - book your seat now.

Book Now

Subject to terms and availability.

07:00  
DUB

1h 40m

08:40  
LGW

Economy  
Selected

Flight Details

EI 230

Saver

- ✓ 10kg cabin bag
- ✓ Collect Avios
- ✓ Earn Tier Credits

€29.99

Plus

- ✓ 10kg cabin bag
- ✓ 20kg checked bag
- ✓ Collect Avios
- ✓ Earn Tier Credits
- ✓ Advance seat selection
- ✓ Priority boarding
- ✓ Standby for earlier flight

€69.99

Advantage

- ✓ 10kg cabin bag
- ✓ 20kg checked bag
- ✓ Collect Avios
- ✓ Earn Tier Credits
- ✓ Advance seat selection
- ✓ Priority boarding
- ✓ Standby for earlier flight
- ✓ No change fee
- ✓ Eligible for refund
- ✓ Lounge access
- ✓ Fast track security

€107.99

AerSpace

- ✓ 10kg cabin bag
- ✓ 20kg checked bag
- ✓ Collect Avios
- ✓ Earn Tier Credits
- ✓ Priority boarding
- ✓ Free Standby
- ✓ No change fee
- ✓ Eligible for refund
- ✓ Lounge access
- ✓ Fast track security
- ✓ Front row seating
- ✓ Middle seat free
- ✓ Dedicated storage

€149.99  
3 fares left

Baggage fees explained

✓ Included

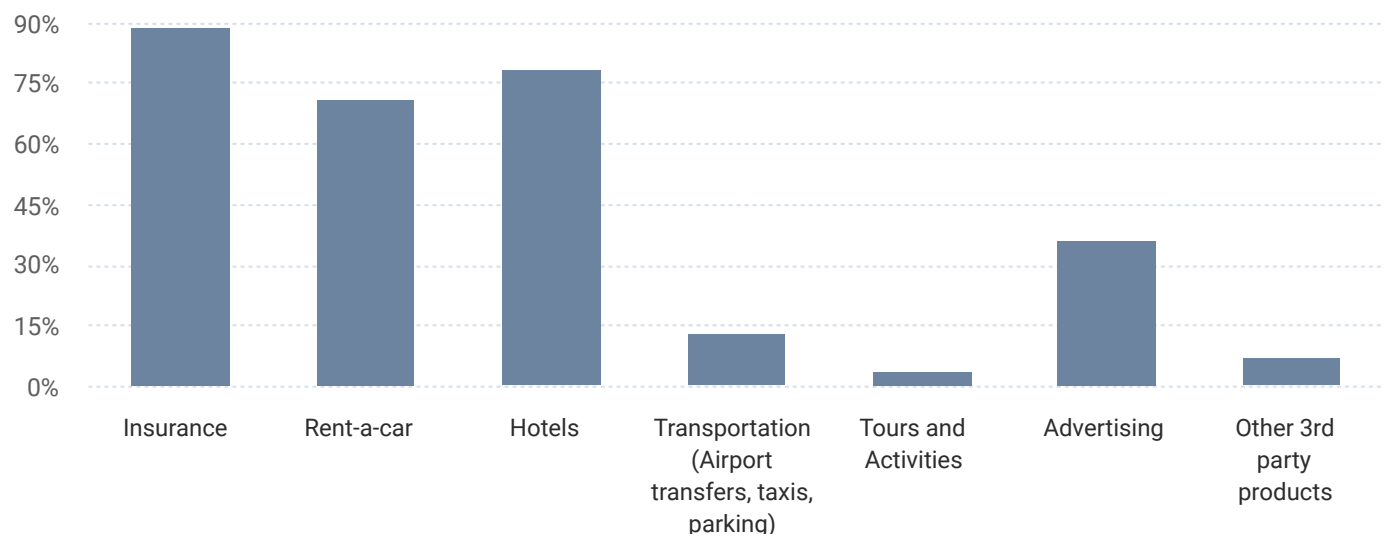
✗ Not included in bundle

Save at least 48% ^

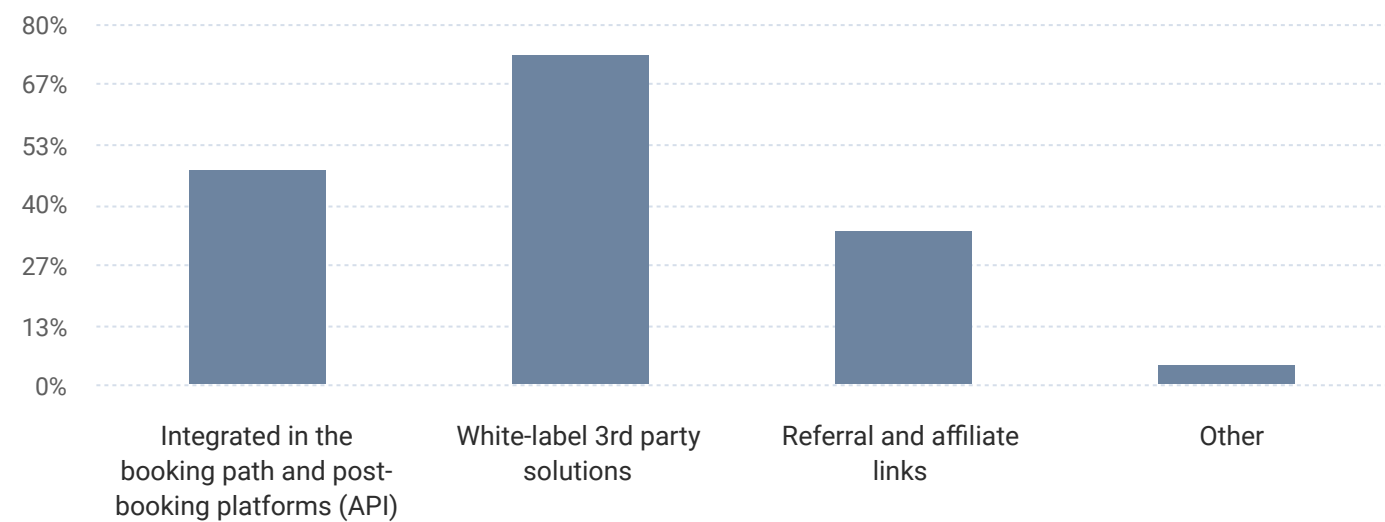
	<div>Starter</div> <div>A basic fare</div> <div>Standard inclusion</div>	<div>Flex</div> <div>Designed for business</div> <div>\$45.00 per passenger</div> <div>Add bundle</div>	<div>Plus</div> <div>Enjoy the extras and save a bundle</div> <div>\$45.00 per passenger</div> <div>Add bundle</div>	<div>Max</div> <div>A flexible fare with the lot</div> <div>\$85.00 per passenger</div> <div>Add bundle</div>
<div>Carry on baggage</div>	7 kg	10 kg	7 kg	7 kg
<div>Checked baggage</div>	✗	✗	20 kg	30 kg
<div>Seat Selection</div>	✗	<div>✓</div> <div>Upright or Standard</div>	<div>✓</div> <div>Standard</div>	<div>✓</div> <div>Upright and extra legroom where available</div>
<div>Food and drink</div>	✗	✗	<div>✓</div> <div>In-Flight Meal Deal</div>	<div>✓</div> <div>In-Flight Meal Deal</div>
<div>Loyalty Rewards</div> <div>QFF points and status credits or Jetstar Flight rewards voucher. This feature only available in a bundle;</div>	✗	✗	<div>1450pts</div>	<div>2200pts</div>
<div>Flexible Fare*</div>	✗	<div>✓</div> <div>Same Day</div>	✗	<div>✓</div>
<div>No change fee*</div> <div>This feature is only available in a bundle</div>	<div>✗</div> <div>Change Fee (Fare Difference may also apply)</div>	<div>✓</div> <div>Fare Difference may apply</div>	<div>✓</div> <div>Fare Difference may apply</div>	<div>✓</div> <div>Fare Difference may apply</div>
<div>Flight Cancellation*</div> <div>This feature is only available in a bundle</div>	✗	<div>✓</div> <div>Credit Voucher</div>	✗	<div>✓</div> <div>Credit Voucher</div>

# NON-AIR AND THIRD-PARTY ANCILLARY

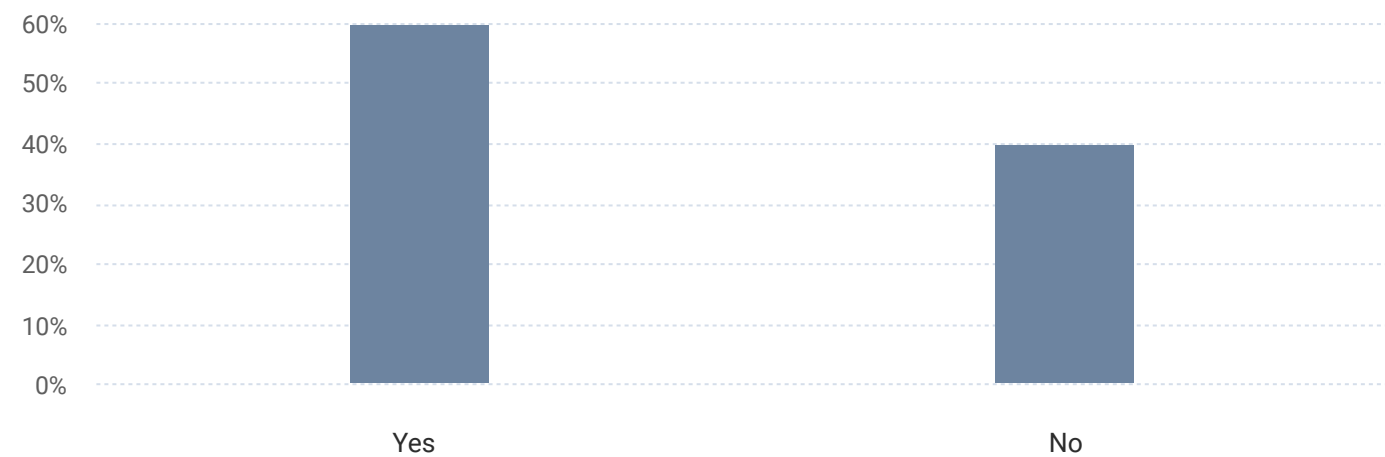
What are your Top 3 non-air ancillary products?



How do you sell non-air ancillary products (ex. cars, hotels, transportation)?



Do you do travel packaging (flight + hotel, holiday packages)?



## CAN AIRLINES BE MORE LIKE OTA(S)?

The history of airline CEOs saying that their airlines will move beyond airline ticket sales to become travel retailers is well-documented. Michael O'Leary saying Ryanair would become the Amazon of travel is an overused example at this point. We've also discussed the case of AirAsia talking about becoming an "all-in-one" travel platform in prior sections.

Adding other travel products (hotels, transportation, or activities) into your airline portfolio is nothing new.

60% of the 45 surveyed airlines said they do some sort of flight + hotel or vacation packages.

Airlines have been cross-selling these services for a long time. However, becoming a true travel marketplace and a true digital travel agent is a different story. Fewer than 50% of the airlines in our survey said they use a fully integrated API solution to upsell third-party ancillaries, which means most still rely on third-party redirects and white-label solutions. The current reality is that simply cross-selling hotels and vacation packages won't make

your airline an OTA. In the ancillary revenue results published by IdeaWorks, the share of hotels and vacation packages is still insignificant for most airlines. For example, for HK Express (an Asian LCC airline and one of the leaders in ancillary revenue), hotels and vacation packages represent just 1% of total ancillary revenue. JetBlue's share is much higher at 6% (one of the highest for vacation packages), but one could argue this is still a low number.

If you look at the website traffic for various airlines' hotel and vacation packaging cross-selling websites, you'll see a similar story.

So, does cross-selling hotel and vacation packages actually make your airline an OTA?

I would say no, and most airline ancillary revenue results and website stats would confirm this.

But how can you make it work? Is there a bigger potential for airlines to increase ancillary revenue?

Check out the Expert Take section for some answers.

Airline	Airline.com	Airline.com monthly traffic estimate (visits)	Airline vacation website	Airline vacation website monthly traffic estimate (visits)	Vacation website traffic compared to .com website
HK Express	<a href="https://www.hkexpress.com/">https://www.hkexpress.com/</a>	1.2 – 1.5 Mil	<a href="https://www.uflyholidays.com">https://www.uflyholidays.com</a>	50-70 k	4-5%
American Airlines	<a href="https://www.aa.com">https://www.aa.com</a>	30-35 Mil	<a href="https://www.aavacations.com/">https://www.aavacations.com/</a>	350-550 k	1% - 1.5%
AirAsia	<a href="https://www.airasia.com">https://www.airasia.com</a>	15-20 Mil	<a href="https://www.airasiago.com.my/">https://www.airasiago.com.my/</a>	400-600 k	2.6% - 3%
Norwegian	<a href="https://www.norwegian.com/">https://www.norwegian.com/</a>	3-4 Mil	<a href="https://www.norwegianholidays.com">https://www.norwegianholidays.com</a>	120-270k	4% - 6%
Singapore Airlines	<a href="https://www.singaporeair.com">https://www.singaporeair.com</a>	5-6.5 Mil	<a href="https://holidays.singaporeair.com/">https://holidays.singaporeair.com/</a>	65-250k	1-4%
VivaAerobus	<a href="https://www.vivaaerobus.com/en">https://www.vivaaerobus.com/en</a>	3-4M	<a href="https://paquetes.vivaaerobus.com/">https://paquetes.vivaaerobus.com/</a>	35-110k	1-3%

Source: [www.diggintravel.com](http://www.diggintravel.com)

# ASK THE EXPERT:

## TIPS FOR AIRLINES CROSS-SELLING HOTELS FROM EXPEDIA



**Liu He**, Senior Digital Optimization Consultant at Expedia Partner Solutions

*Based on those small numbers when it comes to airlines cross-selling hotel and vacation packaging, what are we (airlines) doing wrong?*

“What we’re seeing is it is almost a separate product – and I know we’re calling it ancillary, but realistically, I think when airlines started looking into the future, the main thing is that they’re all turning almost into OTAs with flights and planes. And that’s the key thing. They need to start integrating the ancillary into the overall brand.”

*How is this seen in practice when it comes to airlines packaging flights and hotels?*

“I think one of the interesting things I see quite often in this space, at least in the dynamic packaging space, is a lot of airlines actually going out and saying: ‘Here is a hotel, go pick a hotel. And here, we’re going to give you a set of standard flights. We’ll just pick them for you.’

I think this is an interesting gap because what we find is that actually drops conversion quite a bit. Because when you are picking that flight, it could be at 1 o’clock in the morning, for example, and with no clear way of changing that, [it’s] not a great experience.”

*But how should airlines fix that? How can you actually create a good vacation package or flight + hotel package for your airline?*

“Airlines need to start to market and actually invest in this area. So, it’s no longer just about selling flights and throwing in hotels, cars, activities... What it’s about is actually focusing on that entire travel experience. And I think that is the absolute key piece because some of the most successful partners I have worked with, they’re the ones who really focus on this. They actually don’t just say ‘we’re selling hotels, by the way.’ They’re actually there, investing marketing dollars, not just putting a little bit of spending on development. What they’re actually doing is paid search (for example, Google AdWords). In some cases they put TV and radio ads out – talking about the fact that they offer not only flights but also hotels.

One very important thing is, we’re talking a lot about loyalty. In a lot of these airlines, they have a loyalty product, and it’s really for loyalty ‘earn’ and loyalty ‘burn’ as well. The best airlines are actually integrating that with hotels, for example, or cars, or activities. All of this is what ties it all together.

When I’m talking about loyalty, it’s not really just about giving away points or coupons; it’s actually about how you use these kinds of tools to show value in your brand for that customer. It’s really about how you frame it.”

# EXAMPLE

## JETBLUE VACATION PACKAGES

People won't buy a flight + hotel package from you just because you bundled one together. Merely putting together a Flight + Hotel tab (or a vacation website) and showing customers a third-party hotel offer is not enough.

You need to show them the clear value and benefit of it – and this is where most airlines fail. JetBlue, at 6% of total ancillary revenue, is one of the few airlines making the most out of hotel cross-selling. If you look at their website, you'll see this certainly isn't a coincidence.

If you try to book a flight to Cancun, they will offer you a vacation bundle cross-sell. Then, during the booking of a flight + hotel bundle, JetBlue does a good job of building a clear value proposition.

### Introducing JetBlue Vacations VIP (that's Very Important Perks) program.

Check out our exclusive perks! Only for JetBlue Vacations customers, only when you book by 9/30.

[Learn more](#)

Offers vary by property. Min. 4 night stay required. Terms apply.



#### Put savings on the itinerary

- Best Price Guarantee
- Bundle and save
- Earn and redeem TrueBlue points
- Up to 10% off airfare\*



#### Book confidently

- 100+ destinations
- Trusted hotel partners
- Customer assurance



#### Perks from the ground up

- NEW! Free inflight alcoholic beverage
- NEW! The VIP treatment
- Most legroom in coach¹
- Free snacks + drinks
- Fast free wi-fi



#### You can count on us

- Access to our travel experts
- 24/7 proactive customer support



#### Dreams Puerto Aventuras Resort and Spa, Unlimited Luxury, All Inclusive

**\$1098**

Total - Flights + hotel per person



#### The Pyramid at Grand Oasis, All Inclusive

**\$1252**

Total - Flights + hotel per person

jetBlue vacations

**No change fees are back.**

[EXPLORE HOTEL PACKAGES](#)

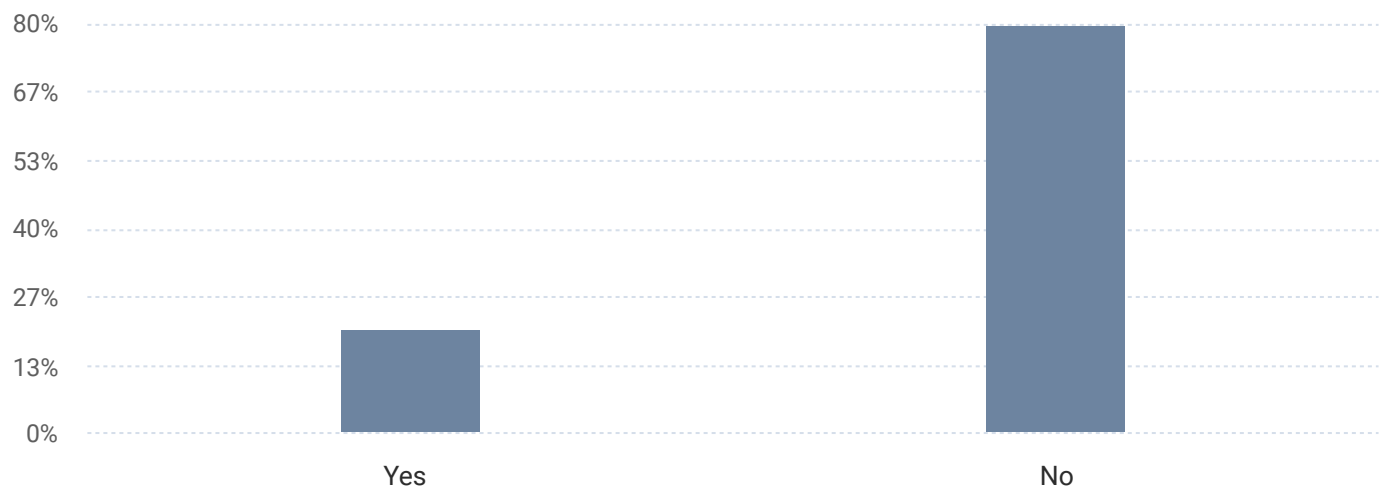
## Let's get straight to the point(s).

Earn TrueBlue points on flights + hotels + more when you book a JetBlue Vacations package.

Just a moment...

# SUBSCRIPTION PRODUCTS

Do you have any subscription products?



Subscription products are still something most airlines don't do at the moment. **Only 20% of the airlines in our survey claimed they have such products.** You could say that loyalty programs are obviously a type of subscription, but we were asking specifically about digital subscription products that customers purchase as an ancillary product.

Airlines who have such subscription products mostly offer access to special fares, discounts for ancillary services and other benefits.

**Club Jetstar** (from Australian low-cost carrier Jetstar) is one such example. They offer access to special fares and 20% off seat selection and baggage fees for \$49 AUD per year.

Their Club Jetstar products are well-integrated into the main booking funnel, showing you the direct value and savings during your booking.

### Club Jetstar

Want to save when you travel? Join the Club!

✓ Exclusive member-only fares

✓ Partner offers tailored just for members

✓ Email updates so you won't miss a deal

✓ Just \$49 a year

✓ Early access to the biggest Jetstar sales

✓ 20% off bags and seat selection on eligible new flight bookings at jetstar.com

✓ Start saving straight away

✓ Add family and friends to your booking - just remember as a Club Jetstar member you must be travelling with them

Regular price

Melbourne to Phuket	\$318.99
Non-discounted flights	\$1,140.89
Booking total	\$1,459.88

Club Jetstar price

Melbourne to Phuket	\$308.99
Club Jetstar membership	\$49.00
Non-discounted flights	\$1,140.89
Booking total	\$1,498.88

You save \$10.00 on flights!

Membership details

\$49.00

To join

Add Membership

So what is Club Jetstar? It's our member-only program and, at only \$49 annually, it's full of benefits which you can start enjoying straight away – early access to the biggest Jetstar sales, exclusive flight deals for you and up to four friends or family, 20% off seat selection and checked baggage, and any number of great partner offers and discounts. If you love getting out there – join the Club! It's super easy and it means more travel dollars in your pocket as soon as you land.

To get the most of your membership, remember that Club Jetstar fares and discounts are only available to logged-in Club Jetstar members and not available on all flights or days. Availability may be limited. Conditions apply.



## EXAMPLE

### VOLARIS TRYING THE SPOTIFY MODEL AND OFFERING MOBILITY AS A SUBSCRIPTION

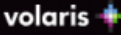

**Volaris** (an LCC airline from Mexico) has developed a true subscription product where you can pre-purchase flights and ancillary services. With their **v.pass subscription service**, they want to compete with bus companies. They're targeting families who are visiting friends and relatives, commuters, small business employees and even corporates.

Their vision is to become the **Spotify of travel** and offer mobility as a subscription service. It's clear that this model has many appealing points.

First, by getting people to subscribe, you reduce or eliminate the customer acquisition cost (CAC).

Second, as with all subscription services, there is a breakage, meaning people don't use all the services they've subscribed to. Third, this model works well with the Volaris ancillary revenue strategy. Above all, Volaris can then upsell and cross-sell other ancillary products to all their subscribers.

Based on Volaris data, a Mexican person takes 0.4 flights per year on average compared to Volaris customers, who take 2.2 flights per year. Now, compare this to Volaris frequent flyers. An average Volaris v.club member is flying 3.0 times a year, and **v.pass subscription customers take 6-8 flights a year**.

ENG / MXN |  Login


Step 1. Select your plan

Select the plan you need

One way  
Domestic routes

\$299 MXN / month


Select this plan



Roundtrip  
Domestic routes

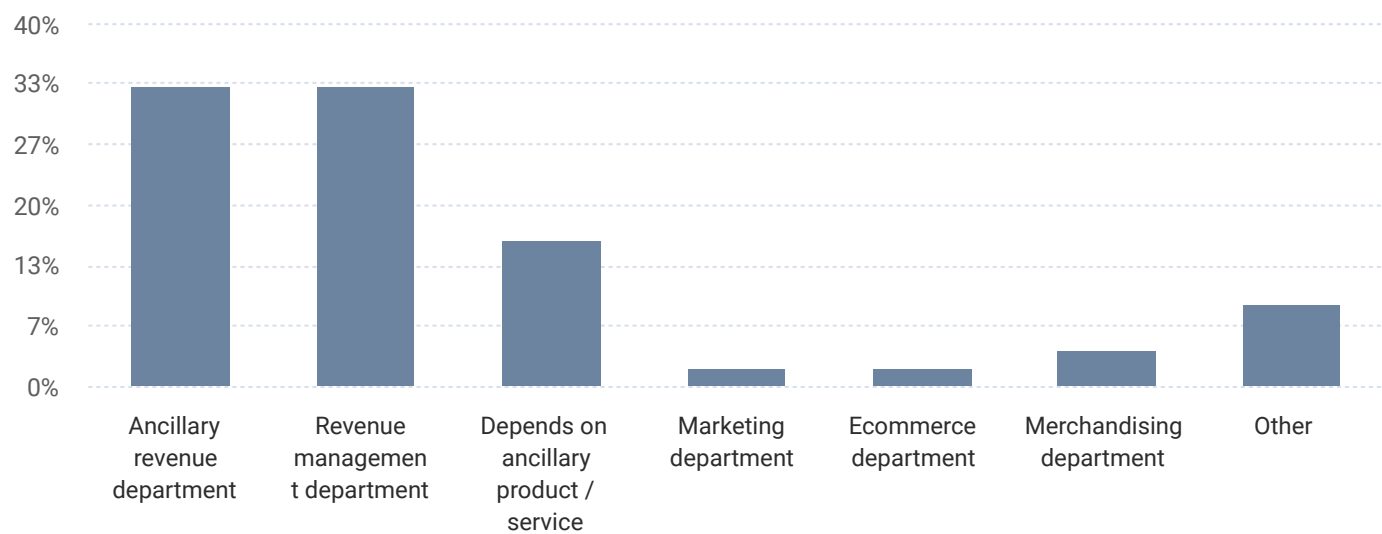
\$598 MXN / month

Select this plan

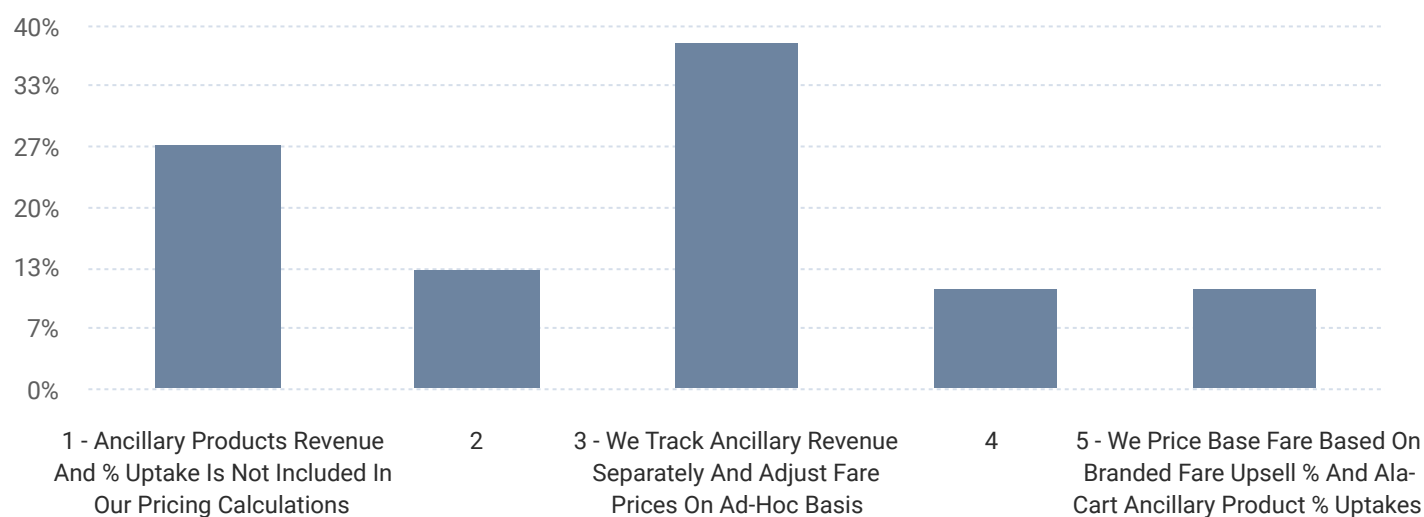


# PRICING

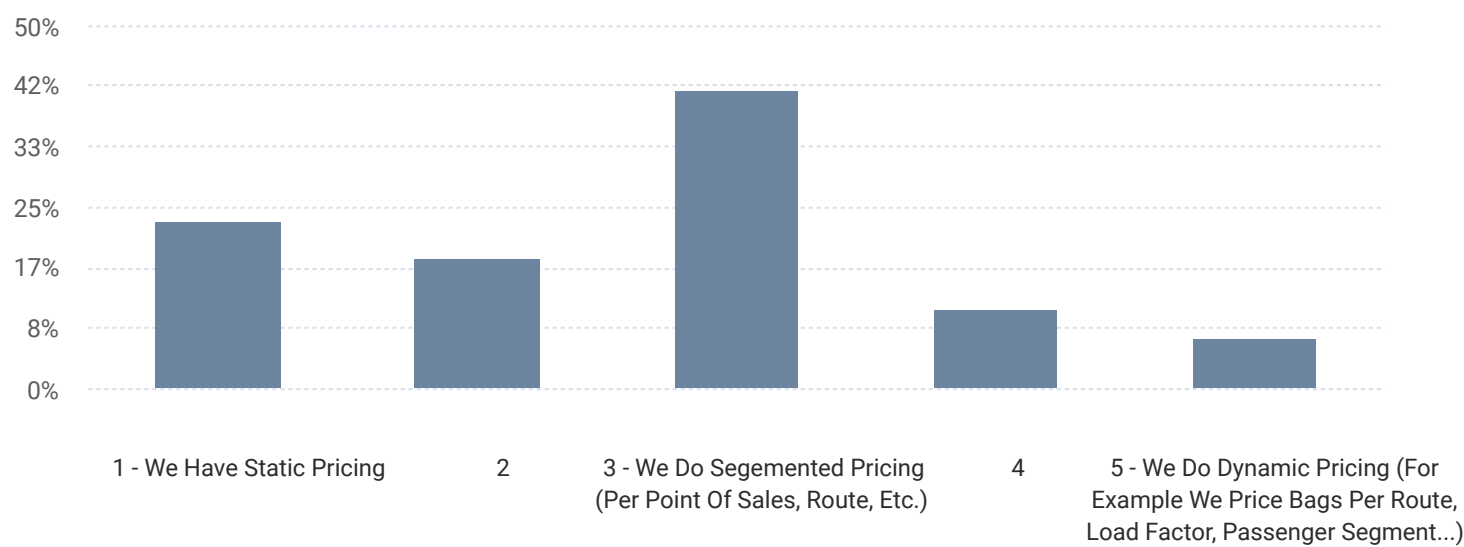
Who is responsible for pricing of ancillary products?



How integrated (on a scale from 1 to 5) is ancillary revenue uptake % in your base fare pricing calculations?



How do you do pricing for ancillary products (for example bags)?



## PRICING OF ANCILLARY PRODUCTS

Airline pricing and revenue management have historically been complex and dynamic. Even now, most people don't know how airline pricing works or when and at what price to buy a certain flight ticket. Consequently, companies like Hopper and Google (with Google Flight) have built artificial intelligence algorithms on a huge amount of data to predict flight ticket prices.

On the other hand, the pricing of airline ancillary products is still pretty simple.

You can see in our survey data that almost **25% of the surveyed airlines apply simple static pricing** to ancillary products, while **41% do segmented pricing**. Only **7% stated that they do dynamic pricing** for ancillary products.

Most bag fees are still static for airlines (for example, X amount for a checked bag for all flights), and although seats are priced differently on an aircraft, the pricing is the same for all flights (for the same aircraft type) for most airlines.

Part of the reason for this could be the complexity; you can see that only **11% of airlines track ancillary revenue uptakes and adjust pricing on a real-time, ongoing basis**. For most, **38% of the pricing of ancillary revenue is still done separately, on an ad-hoc basis**.

Is dynamic pricing of ancillary products the next step airlines must take? Are there any downsides to applying dynamic pricing to ancillary?

Check out the next Expert Take section for some answers.

*Ryanair - example of experimenting with dynamic bag pricing and bag bundles*

**Venice M.Polo to London Stansted**  
23 Sep 2019 16:35 - 17:45

NOW 40% BIGGER	MOST POPULAR	NEW PRODUCT
<p>Non-priority queue</p> <p><b>1 Small Bag onboard</b></p> <p>Small Bag onboard (40 x 20 x 25 cm)</p> <p><input type="radio"/> Included</p>	<p>Priority queue</p> <p><b>Priority &amp; 2 Cabin Bags</b></p> <p>Small Bag onboard (40 x 20 x 25 cm)</p> <p>10kg Bag onboard (55 x 40 x 20 cm)</p> <p>Board first &amp; avoid waiting at the baggage carousel</p> <p><input type="radio"/> € 12.00</p>	<p>Non-priority queue</p> <p><b>10kg Check-in Bag &amp; 1 Small Bag</b></p> <p>Small Bag onboard (40 x 20 x 25 cm)</p> <p>10kg Bag checked-in (55 x 40 x 20 cm)</p> <p><input type="radio"/> € 12.51</p>

**London Stansted to Venice M.Polo**  
25 Sep 2019 06:20 - 09:20

NOW 40% BIGGER	MOST POPULAR	NEW PRODUCT
<p>Non-priority queue</p> <p><b>1 Small Bag onboard</b></p> <p>Small Bag onboard (40 x 20 x 25 cm)</p> <p><input type="radio"/> Included</p>	<p>Priority queue</p> <p><b>Priority &amp; 2 Cabin Bags</b></p> <p>Small Bag onboard (40 x 20 x 25 cm)</p> <p>10kg Bag onboard (55 x 40 x 20 cm)</p> <p>Board first &amp; avoid waiting at the baggage carousel</p> <p><input type="radio"/> € 6.00</p>	<p>Non-priority queue</p> <p><b>10kg Check-in Bag &amp; 1 Small Bag</b></p> <p>Small Bag onboard (40 x 20 x 25 cm)</p> <p>10kg Bag checked-in (55 x 40 x 20 cm)</p> <p><input type="radio"/> € 10.00</p>

# ASK THE EXPERT:

## ANCILLARY PRICING CHALLENGE



**Tom Bacon, Airline pricing and revenue management consultant**

### *How do you see the ancillary pricing challenge for airlines?*

“Ancillary is a true win-win for airlines and travelers, where ‘pay for what you want’ has kept fares low and driven more revenue for airlines. It is the result of both unbundling and real consideration of new features of value to customers. It is also an opportunity for differentiation (Southwest’s ‘no change fees’) or creativity in pricing across carriers.”

### *How do you see it being integrated in overall revenue management?*

“Revenue management is often quite complicated – it’s a big job to stay on top of demand forecasts and inventory allocations going forward 360 days. And there is considerable science attached. Ancillary doesn’t fit as a simple add-on when it includes various bag fees, a range of seat fees, insurance, priority boarding, etc. It just becomes too hard to try to apply all the same science on a fully integrated ‘total revenue’ basis. Branded fares follow from a ‘gut feel’ value of re-bundling rather than similar science. Nevertheless, branded fares are the easiest application of science to total revenue – what features at what price for what customers.

Branded fares are not currently inventory controlled separately, so revenue management decides the relative value.”

### *Why don’t more airlines do dynamic pricing for ancillaries?*

“Communication of ancillary is already a challenge – some travelers are surprised by some of the new fees. A fixed price structure helps with communication of what still is sometimes a surprise. But this is changing daily; over time, travelers will become accustomed to more variance in ancillary fees. Much of the same science that is the foundation for airline revenue management could apply to ancillary fees. Fixed, simple pricing has helped airlines introduce the new fees, but now that many fees are mature, airlines need to apply pricing science more broadly.”

### *What opportunities do you see for airlines?*

**“Personalization** – merchandising the right ancillary product to the individual traveler at the right time (in context!).

**Merchandising** – communicating different ancillary in different ways to different customer segments.

**Dynamic pricing** – applying much of the science of revenue management to ancillary fees.”

II.

A large, light blue graphic consisting of several concentric circles. Overlaid on these circles are two sets of perpendicular lines, forming a crosshair or grid pattern that intersects the circles.

# DIGITAL RETAILING TECHNIQUES

# DIGITAL RETAILING TECHNIQUES EVALUATION

To understand which digital retailing techniques airlines are using to increase ancillary revenue, we asked the following questions in our survey:

- Who is responsible for the promotional and sales activities of ancillary products?
- Do you have any specialized digital retailing or merchandising roles?
- How integrated (on a scale from 1 to 5) are your departments in your ancillary products upselling and cross-selling activities?
- At which stages do you promote your ancillary products?
- Do you track at-purchase vs. post-booking ancillary revenue split?
- What kind of digital methods do you use for upselling and cross-selling activities?
- What kind of digital optimization (UX) activities do you do for your ancillary products?
- What skills do you see as the key for successful ancillary upselling and cross-selling?

In addition, we reviewed the following factors during the **digital audit of the booking platforms**:

- Search results page and usage of fare product bundles (branded fare, fare family or a subscription model)
- Structure of the fare or product bundles (display, differentiation between products, bundle features, upsell benefits and triggers)
- Were dynamic products and bundles used? (e.g. branded fares / bundles for families)
- What a la carte ancillary products were offered during the booking process? What kind of upsell triggers were used for a la carte products?
- Use of key conversion optimization elements such as clarity, value proposition, relevance, and urgency

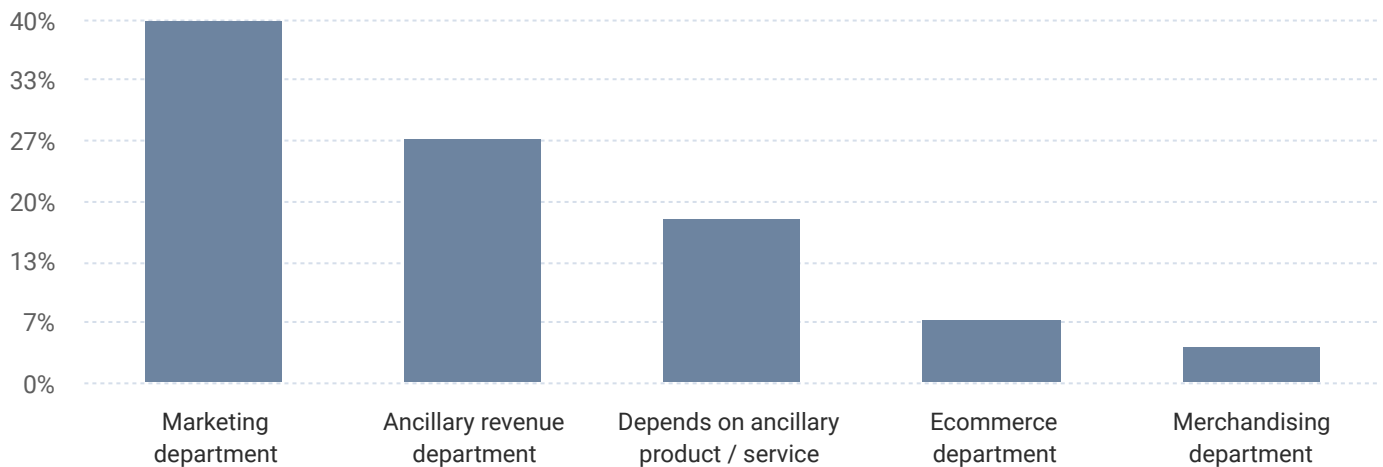
Based on the above, we **ranked Digital Retailing Techniques from 1 to 5 for each of the 45 participating airlines**. The goal was to evaluate maturity for the airlines and identify best practices from the Leaders for this category.





# DIGITAL RETAILING REQUIRES A (NEW) DIGITAL MINDSET

Who is responsible for promotional and sales activities of ancillary products?



When it comes to digital retailing, having a great business model and great product strategy is not enough. Do you remember the case of the LCC airline from the Introduction? They measured quite well in the ancillary revenue benchmarks – their share of ancillary revenue was over 20% of their total revenue. However, my benchmark and evaluation of their digital retailing ranked them low. They were missing a lot of opportunities because their execution (i.e., their digital retailing techniques) was not good.

Appropriate organization (more on that in Section 5), the right digital skills and appropriate use of digital marketing technology are all crucial for good execution. This is not a specific challenge of the airline industry; all industries (retail included) are facing it.

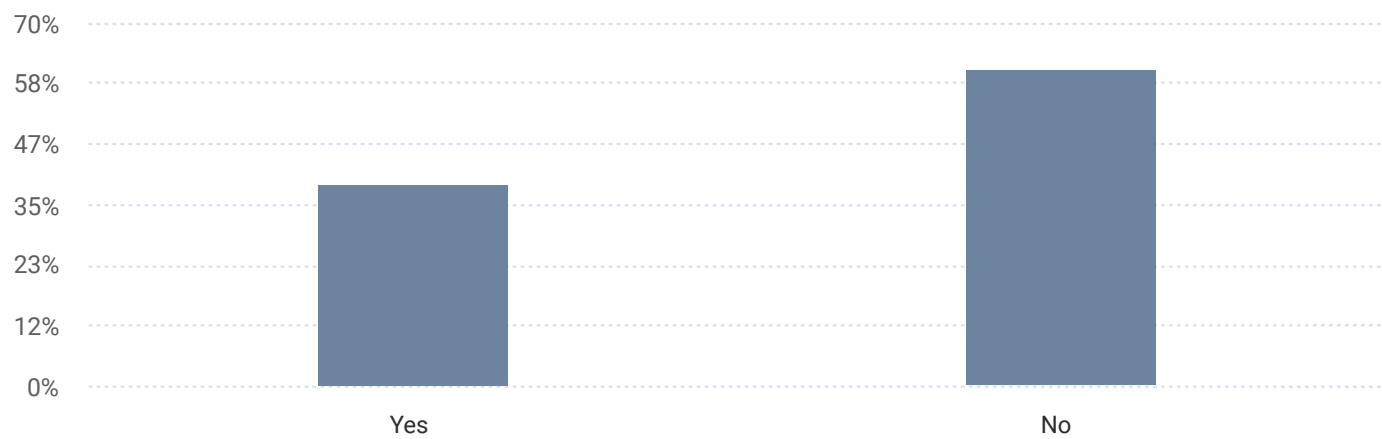
**Devin Wenig, the president of eBay Marketplaces**, addressed this when discussing “**How digital is transforming retail**”:

*“Building engaging experiences across channels is incredibly important. Many retailers have spent their entire lives thinking about how to build an engaging experience in one channel, which is the store. But now, understanding how to connect with your core customers across every way they want to connect—not the way you want them to connect, but the way they want to connect with you—is a different skill. It requires design and product management. It requires understanding how to market in a digital world . . . understanding how to engage in a world of exploding social networks, how to use search, how to use catalog, how to optimize, and how to engage—very different skills. I think that is going to become a core part of the playbook for retailers and merchants of all sizes around the world.”*

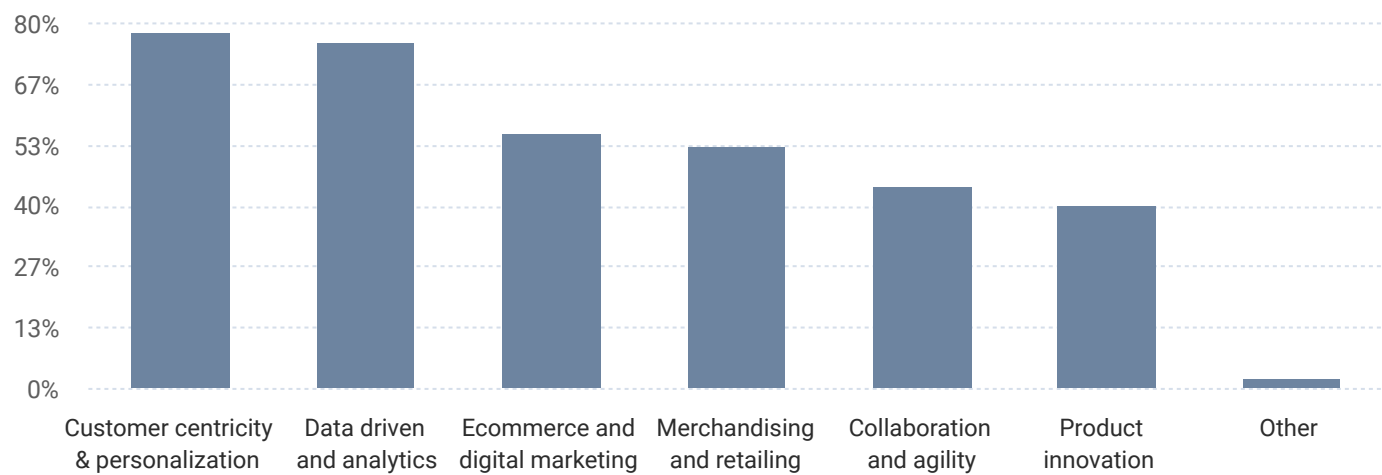
For airlines, one of the channels Devin is talking about is the airplane. Airlines still invest enormous amounts of money into providing the best in-flight experience, and rightfully so. However, your customer experience starts way before your passengers board the airplane, and nearly all touchpoints before and after the flight are becoming almost exclusively digital.

# NEW DIGITAL RETAILING SKILLS AND ROLES ARE ON THE RISE

Do you have any specialized digital retailing or merchandising roles?



What skills do you see as the key for successful digital retailing? Please select Top 3.



The good news is that it seems like more and more airlines understand that new skills and roles are required for effective digital retailing. 61% of airlines in our survey said they have specialized digital retailing roles. You need to regard this number with a bit of caution, however, as some airlines stated general digital marketing and ecommerce roles as examples of such roles.

Nevertheless, many of the other roles our survey participants listed, such as **Merchandising Manager** in the Ancillary Department, **Ancillary Personalization Team Leader**, **Ancillary Digital Product Manager**,

**Optimization and Personalization Specialist**, and **Marketing Automation and Machine Learning Specialist**, show that airlines are indeed introducing new roles for real digital retailing.

Lately, you may have noticed an influx of airlines publishing job ads for specialized digital retailing roles on LinkedIn and their corporate websites.

You can find some examples of such existing roles and job descriptions from LinkedIn in the Examples section.

# EXAMPLE

## SPECIALIZED AIRLINE DIGITAL RETAILING ROLES



### Qantas

2 yrs 6 mos

#### Merchandising Product Manager

Aug 2018 – Present · 8 mos

Sydney, Australia

Implement sales and digital merchandising strategies, including promotions and personalised content, to drive conversion on web, mobile and emerging channels:

- > Leverage commercial and customer data to design, implement and optimise campaigns
- > AB/MVT tests to improve conversation rate and basket size
- > Manage Digital Producer to sponsor the creation of digital content
- > Work with Marketing and Commercial teams to co-ordinate compelling campaigns and offers
- > Champion retailing best practices and customer opportunities to digital product owners
- > Create customer-led digital experiences using Adobe Marketing Cloud (AEM, Target, Audience Manager and Analytics) [See less](#)



### Emirates

3 yrs 4 mos

#### Digital Product Owner UX - Conversion and Ancillaries

Mar 2018 – Present · 1 yr 3 mos

Dubai, United Arab Emirates

- Defining the product vision and roadmap
- Analyzing key metrics to make decisions based on data and measure success.
- Prioritizing features and projects to maximize the success of the product.
- Conducting and planning regular A/B testing experiments to validate assumptions and hypothesis, for an optimized and personalized online experience.
- Owning comprehensive product specifications, user stories & epics.
- Balancing user and business needs, and maximizing business benefits while providing the best user experience.
- Working with the business stakeholders – e-Commerce, Software Engineering, Solution Architects, Business Analysts, Data Analysts, Marketing Managers, Service delivery and other business units in an agile environment. [See less](#)



### American Airlines

8 yrs

#### Director of Ancillary Merchandising and Digital Analytics Strategy

Apr 2017 – Present · 2 yrs 2 mos

Leads a team responsible for online and frontline merchandising of American Airlines Ancillary strategy. Purview includes air and third party ancillaries through all channels

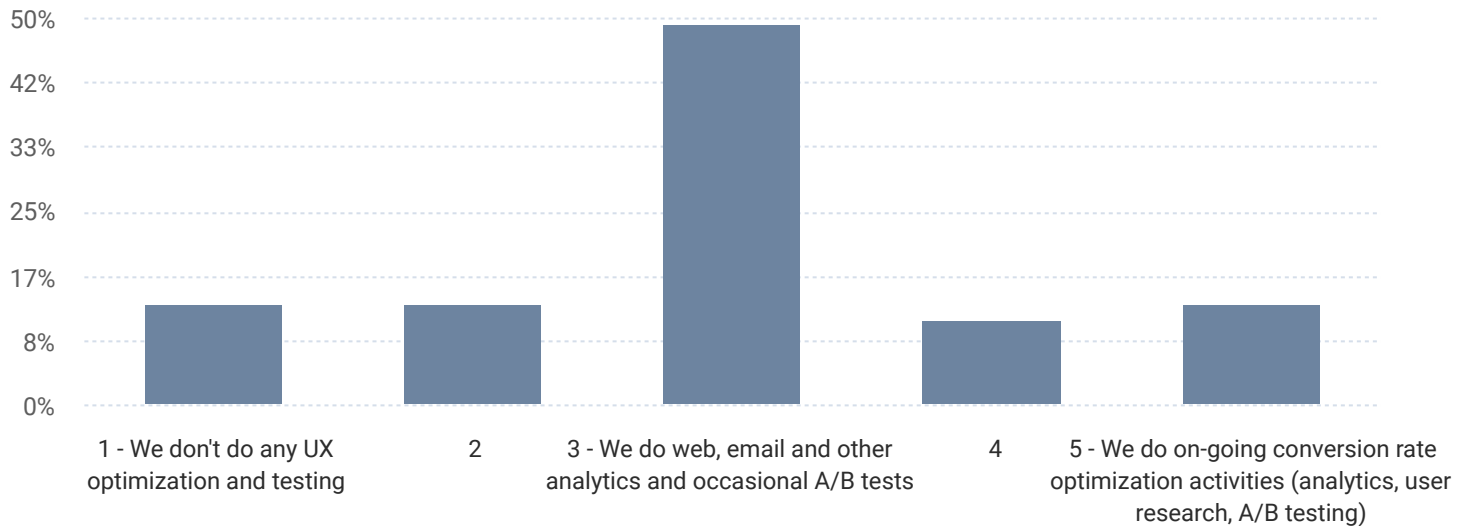
Drive American Airlines merchandising and digital analytics strategy in order to meet portfolio goals and OKRs through agile product development

Oversee budget for key programs to maximize opportunities and ROI.

Develop high-performing and agile Digital organization by growing, developing and retaining top talent

# CONVERSION OPTIMIZATION (CRO) = CUSTOMER CENTRICITY = CORE OF DIGITAL RETAILING

What kind of digital optimization (UX) activities do you do for your ancillary products?



If you look at the examples of job descriptions from the previous Examples section, you can see a lot of the terms related to conversion rate optimization (CRO): optimize conversion rates, A/B testing, UX, personalization, etc.

Some airlines already understand that a systematic conversion optimization process is the core of digital retailing.

However, if you look at our survey results, you can see that **only 13% of the surveyed airlines claim to have a systematic CRO process when it comes to their ancillary upselling and cross-selling activities**. Most (49%) say they mainly do web and email analytics and occasional A/B tests.

It's not surprising that the airline pros who manage ancillary and digital retailing are not "all-in" on conversion optimization yet,

because their colleagues who manage core ecommerce businesses (airline .com websites) are not there yet either. Diggintravel conducts the **largest airline conversion rate optimization survey and research in the industry**, and from the summarized results on the bottom of the next page, you can see that most airlines are still at the beginning or in the middle of the road when it comes to CRO.

If you follow our content, you know Diggintravel is one of the biggest proponents of conversion optimization in the airline industry.

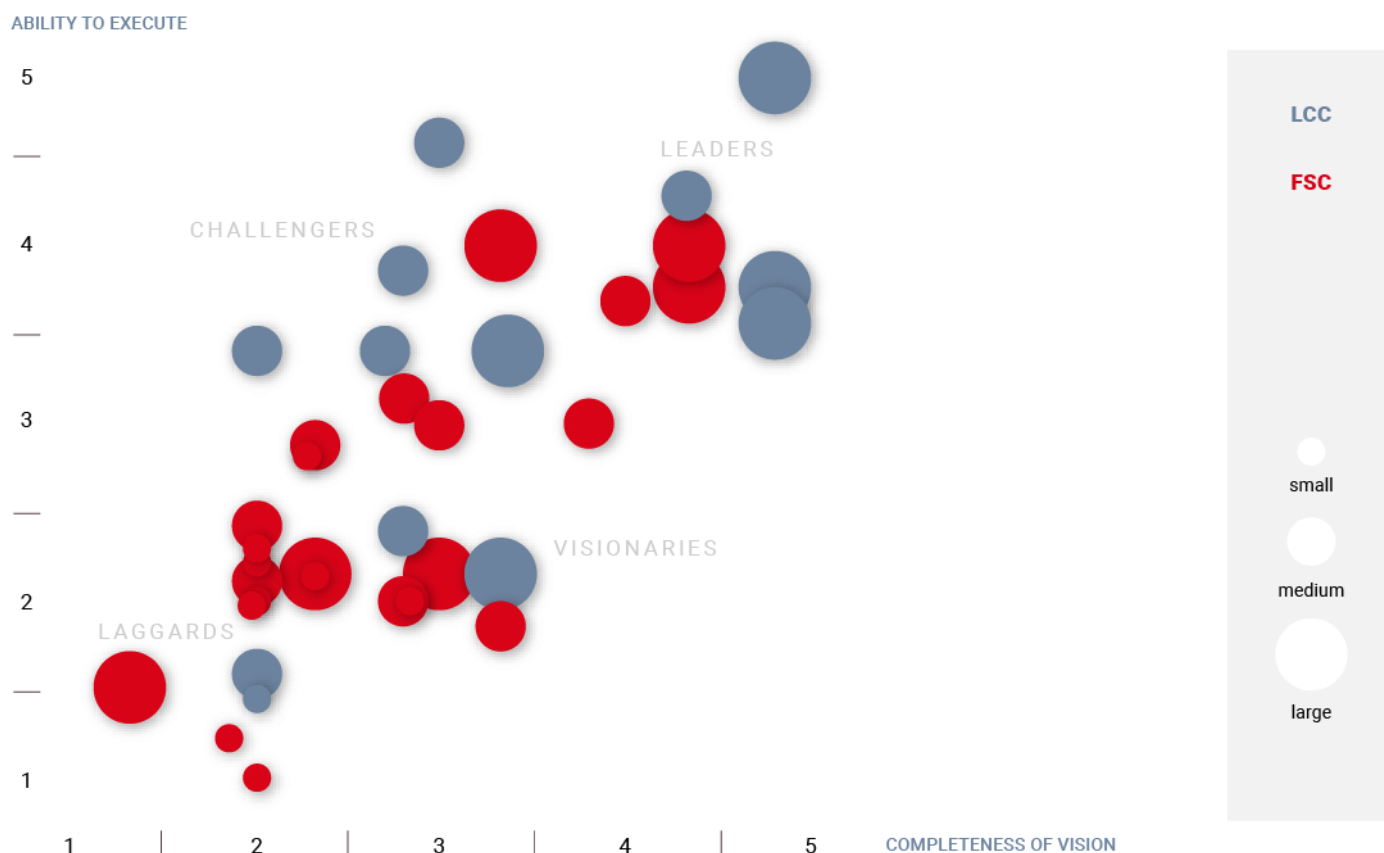
However, CRO is not simply a set of digital tricks and hacks or occasional A/B tests, as it is still often (mis)understood to be. It is a systematic process that consists of advanced digital analytics, user and UX research, and ongoing experimenting and optimization programs.

CRO requires all the skills that the airlines from our survey think are crucial for successful digital retailing: customer centricity, being data-driven, and mastering analytics, ecommerce and digital marketing.

**In a nutshell, if you perform CRO on a consistent and ongoing basis, you will understand your customers and their key pain points.**

Once you understand them, you can really build digital solutions to reduce key friction points on their digital journey.

In the next **“Ask the Expert”** section, you’ll discover what retail expert Richard Hammond had to say about his **Friction vs. Reward model** and metric, which is in a way very similar to the concept of CRO.



The State of Airline CRO - Results of Diggintravel 2019 Airline Conversion Optimization Survey



## **How airBaltic achieved a conversion rate uplift of 5.8% with home page personalization**

“With just one platform we are sorted in terms of acquiring, activating and retaining our users, while driving revenue. It was a wise choice to start optimizing user experiences as per their ever changing needs and Insider helped us a great deal in achieving that. We can experiment with our ideas to see what works for us and that makes a huge impact on our business. I’m certain that this is just the beginning of building a best in class user experience. There is no stopping us; the team at Insider keeps inspiring us to think “What’s Next?””

**Maris Rudens**

**Head of Digital Marketing and Loyalty at airBaltic**

### **About airBaltic**

airBaltic is a regional airline serving 60 destinations from their home base in Riga, Latvia, since 1995. The airline offers convenient connections via Riga to its network spanning Europe, Scandinavia, Russia, CIS, and the Middle East. Taking the best practices both from traditional network airlines and ultra-low-cost carriers, airBaltic offers passengers economy as well as full business class services. Their main priorities are safety, punctuality, and service.

### **Building a unique experience for each traveler across channels**

With fierce competition in the airlines industry and a wide array of users, delivering a unique experience is a challenge and airBaltic was no exception.

The challenge for the airline was to build value-driven supporting channels and services, in order to deliver a brand experience that consistently surprises and delights their users. In fact, this was a need of the hour as user requirements and preferences altered at each stage of the life cycle.

To overcome this challenge, their primary goal was to build a unique experience for each traveler on their digital channels. This was associated with a secondary goal of improving their main KPIs like conversion rate and average session duration on their website.

### **Testing home page variations to drive conversions**

airBaltic's initial focus was on their home page, personalizing the page for different audience segments in order to determine which user experience performed the best. They carried out an A/B/n test on the home page, using the original design and three variations.

### **5.8% Conversion rate uplift on the winning variation**

At the end of this experiment, airBaltic discovered that an alternative version of the home page was performing better than the original version, both in terms of user experience and average session duration. The winning variation experienced a conversion rate uplift of 5.8%.



# ASK THE EXPERT:

## UNDERSTANDING YOUR FRICTION POINTS



**Richard Hammond, retail expert and author of best-selling books *Friction/Reward* and *Smart Retail***

### *How did you come up with the Friction/Reward model?*

"I was incredibly desperate to see if we could find a metric that could be used to describe likely customer behaviors. If I know the customers are now in charge and if I know that customers have unlimited choice, do I have a tool that allows me to predict that a customer in this situation, with this set of emotional needs, is going to buy from me or from them or from somebody else?"

### *Was Richard trying to invent a new metric?*

"We have things like Net Promoter Score (NPS), customer efforts score, customer satisfaction, persona segmentation, attitudinal mapping, and to a certain extent customer journey mapping, all of which tell part of the story. They might tell us whether or not somebody's happy with us as a business. They won't tell us whether that happiness turns into X or Y. We might be able to identify where the pain points are in our customer journeys and where our friction points are. That's very important, but we don't know the value of those friction points until we know the value of the reward the customers gained from shopping with us in a particular way. What I was looking for was a metric that could describe this situation

that a retailer or an airline could use to accurately understand, given this set of circumstances, is the customer going this way or that way? Are they going to open my app or somebody else's app? Are they going to look at my site first or somebody else's site first?"

### *What Richard explained next was very similar to a concept we use when we do conversion optimization projects with airlines.*

"We as customers have two things that are floating around in our brains when we're looking at a given way of solving a particular retail problem. On the one side, how much effort do I need to put in? And on the other side, what do I get for putting that effort in? Now, we call the effort friction. What frictions do I have to push through to buy my ticket and my package from X versus what do I get back from doing so? What are the rewards? And rewards aren't just reward points. Is this an airline that matches my social profile? Does this brand deliver on the trust that I put into it? Do they help me to have better experiences when I travel? There's about thirty of those variables on each side. The sum of friction versus reward – basically it's a metric that you can use as a vendor to predict whether a customer's going to buy from you or buy from your rival in a given customer mission with a given set of needs stats. It's incredibly, insanely powerful, and retailers and vendors and airlines can use it to truly understand where to make investments in the customer experience, where the gold is."

# EXAMPLE

## JETSTAR SHOWING “REWARD” AND REDUCING FRICTION

Australian low-cost carrier **Jetstar** does a very good job of showing the “reward” with their **Jetstar Club product** – and not only do they show the reward, the **friction** is also reduced: calculating the benefits is simple as they immediately show you the savings on your current flight selection, so you get the benefits (reward) right away.

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Join Club Jetstar for exclusive member-only discounts!

- ✓ AUD \$49.00 annually
- ✓ Discounts on selected flights
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- ✓ 20% off bag selection for new bookings on jetstar.com
- ✓ 20% off seat selection for new bookings on jetstar.com

### Joining is easy

1. Select Club Jetstar flight(s)
2. After you select your flights, we'll ask for a few extra details
3. Enjoy your Club Jetstar benefits!

### Departing flight

→ Melbourne to Sydney – Sunday 15 September 2019

[Watch prices](#)

12 THU	13 FRI	14 SAT	15 SUN	16 MON	17 TUE	18 WED
\$63	\$79	\$63	\$69	\$69	\$63	\$63

Purple prices represent Club Jetstar member exclusive fares

Sunday 15 September 2019 Australian Dollar

6:00am MEL - Departure	→	7:25am SYD - Arrival	Direct flight - 1hr 25mins travel <a href="#">Details</a>	Club Jetstar \$69 5 LEFT AT THIS PRICE \$72	<a href="#">Choose</a>
7:35am MEL - Departure	→	9:00am SYD - Arrival	Direct flight - 1hr 25mins travel <a href="#">Details</a>	3 LEFT AT THIS PRICE \$95	<a href="#">Choose</a>

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We've discounted the price of your flights, bundles, and bags  
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Want to save when you travel? Join the Club!

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- ✓ Partner offers tailored just for members
- ✓ Email updates so you won't miss a deal
- ✓ Just \$49AUD a year
- ✓ Early access to the biggest Jetstar sales
- ✓ 20% off bags and seat selection on eligible new flight bookings at jetstar.com
- ✓ Start saving straight away
- ✓ Add family and friends to your booking - just remember as a Club Jetstar member you must be travelling with them

Regular price	
Melbourne to Sydney	\$72.00
Sydney to Melbourne	\$72.00
Checked baggage	\$42.00
Bundles	\$90.00
Booking total	\$276.00

Club Jetstar price	
Melbourne to Sydney	\$69.00
Sydney to Melbourne	\$69.00
Checked baggage	\$33.60
Bundles	\$70.00
Club Jetstar membership	\$49.00
Booking total	\$290.60

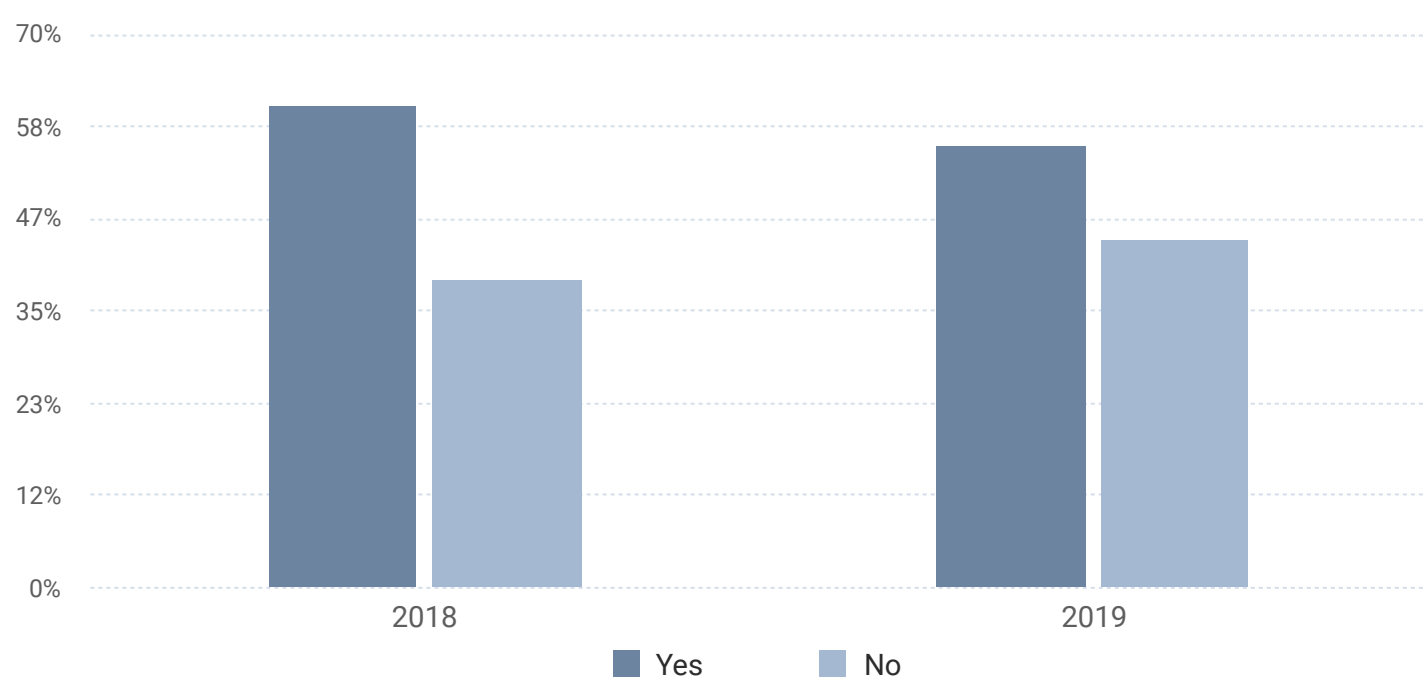
You save \$34.40 on flights, bundles, and bags! ↗

[Membership details](#)

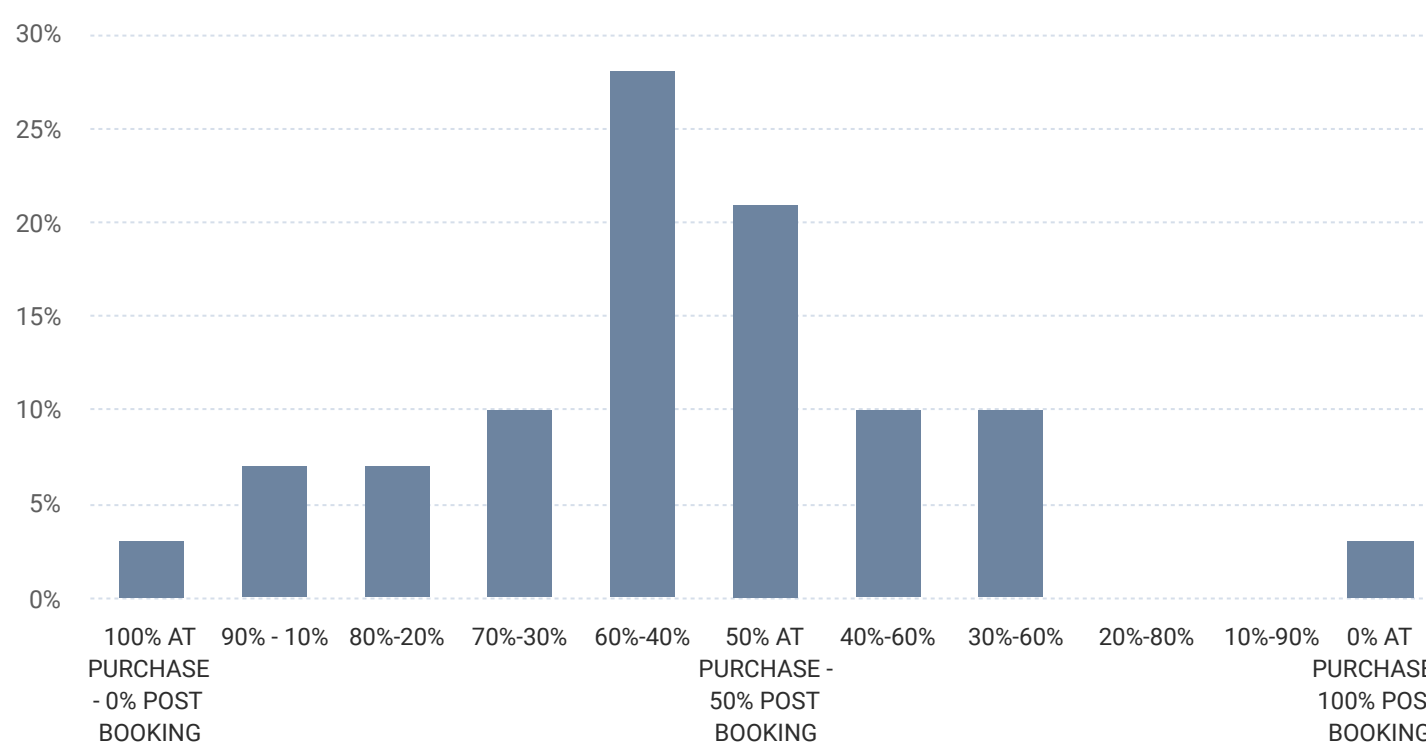
**\$49.00**  
To join [Add Membership](#)

# LEVERAGING DATA, MARKETING TECHNOLOGY AND THE POST-BOOKING PERIOD

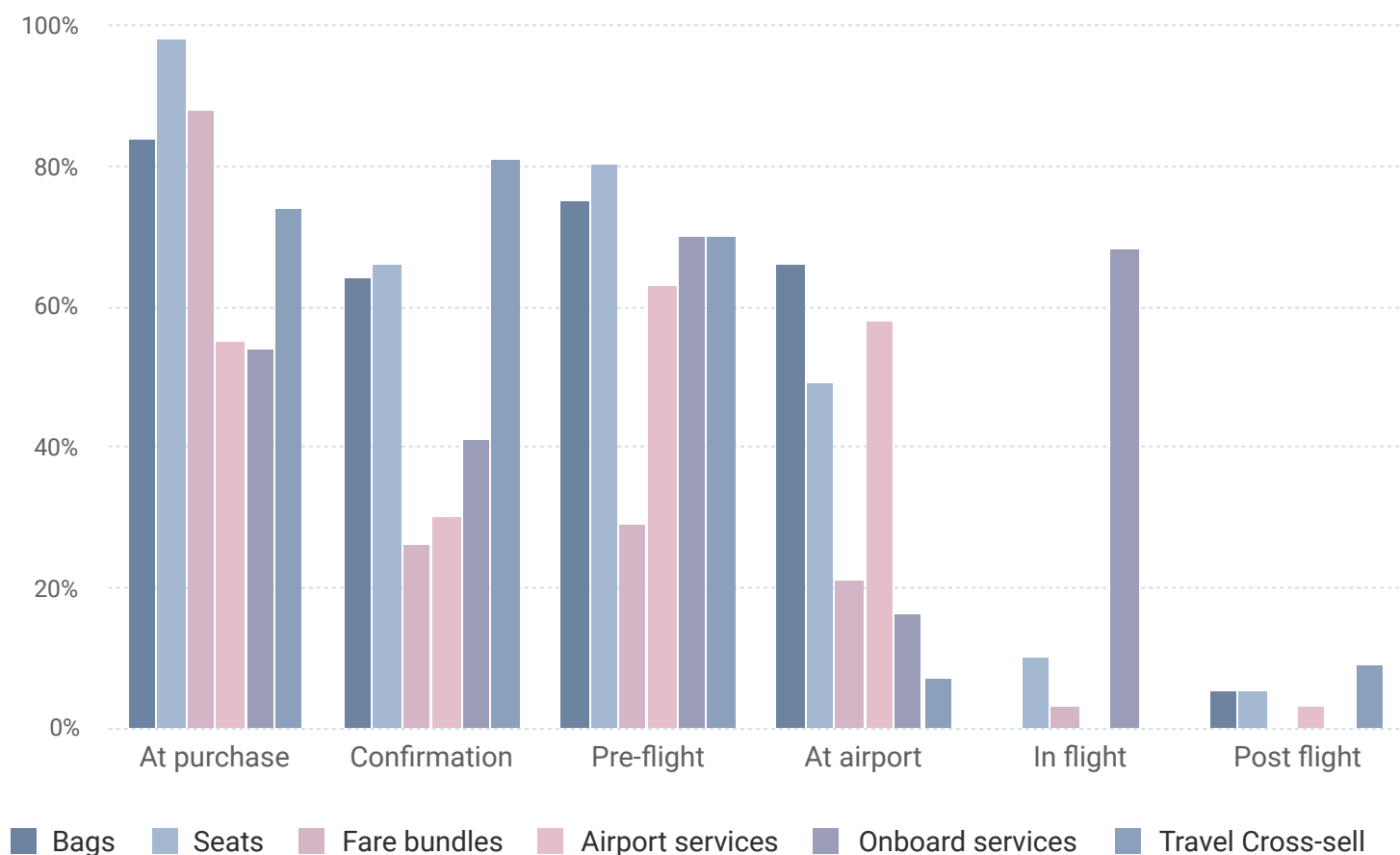
Do you track at-purchase vs post-booking ancillary revenue split



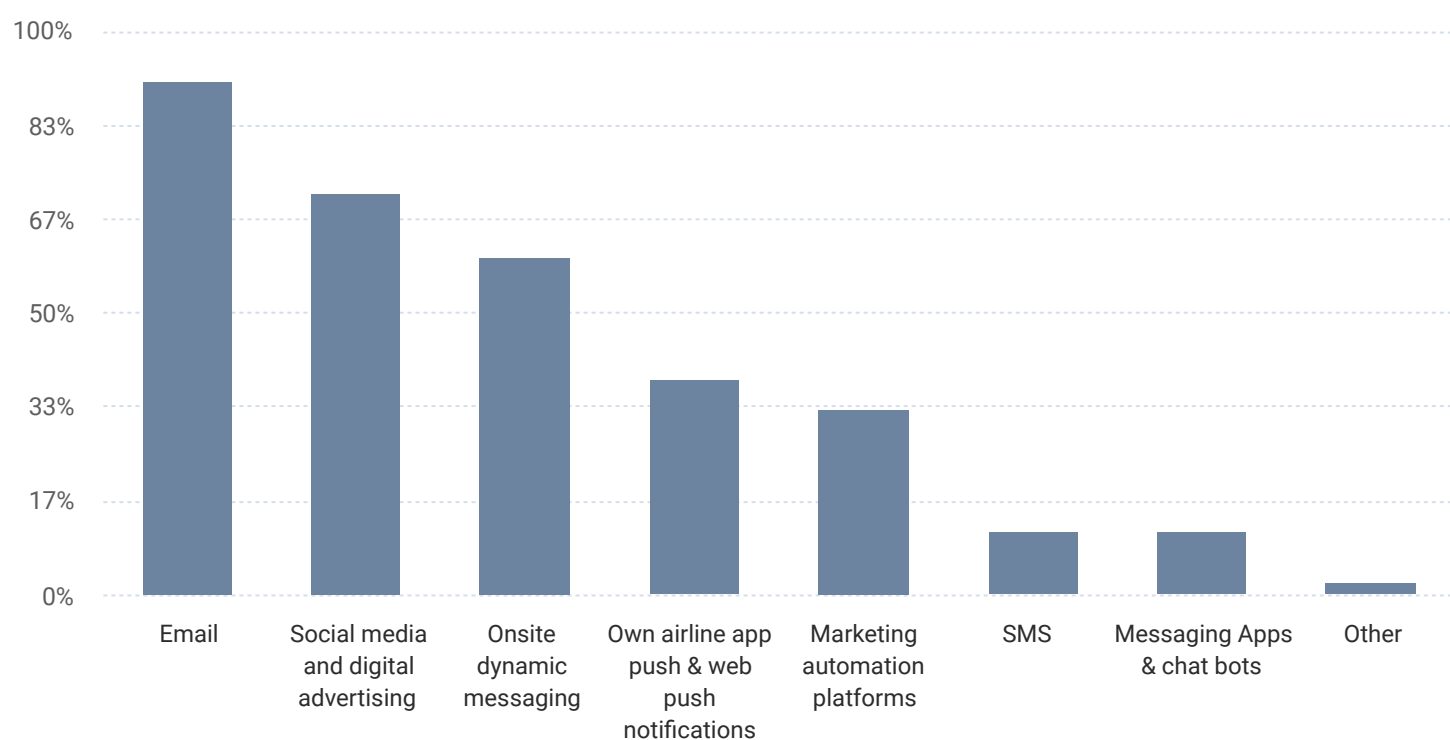
What is your approx. share (%) of at purchase vs post booking ancillary revenue?



## At which stages do you promote your ancillary products?



## What kind of digital methods do you use for upsell and cross-sell activities?



I deliberately grouped these four charts from our survey together because as a whole, they show key elements of successful airline digital retailing and the importance of the post-booking period:

- **Measuring and advanced analytics** – if you don't measure, you can't manage
- **Understanding purchase (booking) is just one of the touchpoints on your customer journey** – you need to understand other touchpoints and what customers need at a given point. You know the 3 R's cliché – right message / right product / right time.
- **Leveraging data and marketing technology (martec)** – you need to have a flexible martec stack that will empower your digital retailing experts

## POST-BOOKING IS (STILL) A REAL OPPORTUNITY

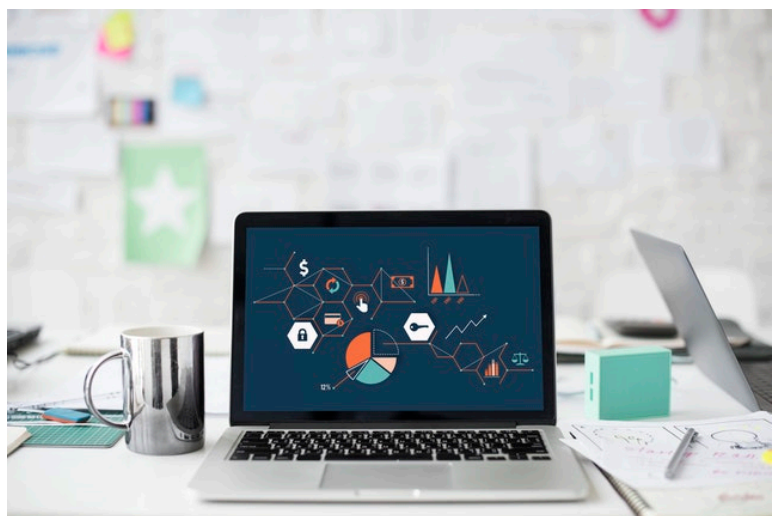
The post-booking period is still an untapped opportunity for many airlines, and it all starts with measuring and analytics. **Almost half (44%) of the surveyed airlines stated they don't measure at-purchase vs. post-booking ancillary revenue split.** It's very difficult to take most of the post-booking opportunities if you don't measure them.

If you look at the survey results of how "at-purchase" vs. "post-booking" ancillary revenue is split, you can see that the majority of surveyed airlines have a **60-40 or 50-50 split.**

The exact average of post-booking share of total ancillary revenue for all airlines is 45%.

However, you need to understand this number in a bigger, business model context. A lot of traditional FSC airlines don't have a fully unbundled model, so they generate more of the ancillary income in the post-booking period as they don't sell baggage or seats at purchase. The share of ancillary revenue generated in the post-booking period was 54% for FSC airlines in our survey. On the other hand, LCC airlines have a fully unbundled model and they sell most of their ancillary products at-purchase. This is why their share of ancillary revenue generated in this period is lower, at 32% for the LCC airlines in our survey.

As you can see, lower share doesn't mean LCCs are worse at generating ancillary revenue in the post-booking period. **The Leaders (7 airlines, 6 of them LCCs), generate 39% of their ancillary in the post-booking period,** and I would say this is a good benchmark for especially LCC airlines to measure against.



## MOVING BEYOND WEBSITE AND EMAIL TO FLEXIBLE, OMNICHANNEL MARTEC PLATFORMS

As clearly shown by our survey stats, most airline marketers still rely on email for upselling and cross-selling. 91% of the surveyed airlines use email for promotion, followed by digital advertising (social media ads, remarketing, other digital ads) at 71% and website dynamic messaging (custom banners, pop-ups, dynamic content and messaging) at 60%.

Unfortunately, being present on your website and via email is not enough anymore for a good customer experience and successful digital retailing. The digital landscape is changing as your customers are using new channels.

**Devin Wenig, the president of eBay Marketplaces**, talked about the omni-everything challenge in his interview about **“How digital is transforming retail”**:

*“I just think we’ve hit an inflection point where technology is now so pervasive and so useful that we’re past the tipping point and the world of ecommerce and commerce are now just seamlessly merged, and everything is omnichannel. It’s not about the phone or the desktop or the store – it’s about all of those. I think the last two years in particular have been extraordinary in the sense that technology has deconstructed the retail industry.*

*I think ecommerce for many years was an interesting trend, but it was on the side, largely, of what was happening in retail. Today*

*we don’t even know what ecommerce means. They’ve just come together, the on- and the offline. Now, every merchant, every retailer must have an omnichannel strategy or they won’t survive. That’s very different than even just 24 months ago.”*

Based on our survey results, you can see airlines are still struggling to fully tackle this omnichannel challenge. Only 38% are using web and app push notifications, and less than a third (33%) are using marketing automation platforms to systematically map all touchpoints and create end-to-end flows. Also, although there seems to be a lot of news about airlines being present on different messaging platforms (e.g. Facebook Messenger, WhatsApp, or WeChat), only 11% of the airlines in our survey stated they use them for digital retailing and promotion.

It’s easy to say airlines need to have an “omnichannel” strategy and be present everywhere their customers are. In reality, you can probably agree that this is very hard to do. Airlines have complex, often legacy technology platforms that limit their agility.

In fact, IT challenges and the limitations of their digital platforms remain the key pain point stated by the digital retailing pros in our survey. (You can read more about this challenge and how to tackle it in the IT and Innovation section of this whitepaper.) Flexible marketing platforms along with data to create better and more relevant offers (more on that in the Customer Centricity section) should empower your marketers, not limit them.



## EXAMPLE

### HOPPER, AN INNOVATIVE, DATA-DRIVEN OTA, USING THE SIMPLE POWER OF SMS TO TEST AND LEARN (AND SELL MORE ANCILLARY PRODUCTS)

Remember when we said if we want to grow our digital retailing skills, we need to learn from the best? Hopper is an innovative OTA that, among other things, helps Lufthansa with artificial intelligence and is certainly a good case to learn from.

Here is an example of innovative usage of the mobile channel to build engagement via conversations and leveraging the post-booking period to learn about customers and grow ancillary revenue.

Hopper's users receive notifications when prices drop or increase for the flights and hotels they're watching and can take action based on the app's recommendations. Hopper wanted to build on this by keeping users actively engaged and having relevant conversations. Based on the interactions that the user has with Hopper during the shopping experience, Hopper can shape the conversation around what the user cares about most.

Sometimes it can be as simple as using the power of plain old SMS to experiment and understand your users. Through their Medium account (Article: "Powering Value and Product Through Conversation"), they explain how they used the SMS channel for experimenting.

First, they didn't just spam users with SMS and other messages. According to Hopper, the key is to be as personal as possible,

leverage your existing data, and rely on the trust you've already established with your customers surrounding your brand.

Below is an example of such communication:

*Hey {{first\_name}}! Trevor from Hopper here—Thanks for booking your flight to {{destination city}} with us! Can I ask you a quick question about your trip?*

The Hopper data science team was essential for determining who they messaged as well as how they adapted their messaging to the user. Depending on the use case, they factored in several trip-specific variables for their experiments.

They were trying to figure out how open-ended questions (customized SMS messages) performed compared to a direct upsell.

The results, according to Hopper:

In a sample size of over a thousand users, **conversational openers improved conversion by 40% and increased response rates by 200% when compared to its upselling counterpart with the exact same value proposition.** It was clear that over SMS, their users not only preferred and reacted more positively to a natural tone, but they were also more likely to convert overall.

# EXAMPLE

## ANOTHER ANCILLARY UPSELL CASE YOUR AIRLINE CAN LEARN FROM HOPPER

In the Medium article, you can read about another case that is even more interesting when it comes to airline ancillary revenue – **flight upgrades**.

They used the same logic regarding conversational openers, stripped down the conversation flows experienced over SMS and adapted them into an automated, choice-based, user-driven interaction. Here is an example of a message they used to start the conversation:

| “Did you know you purchased a ticket with some restrictions?”

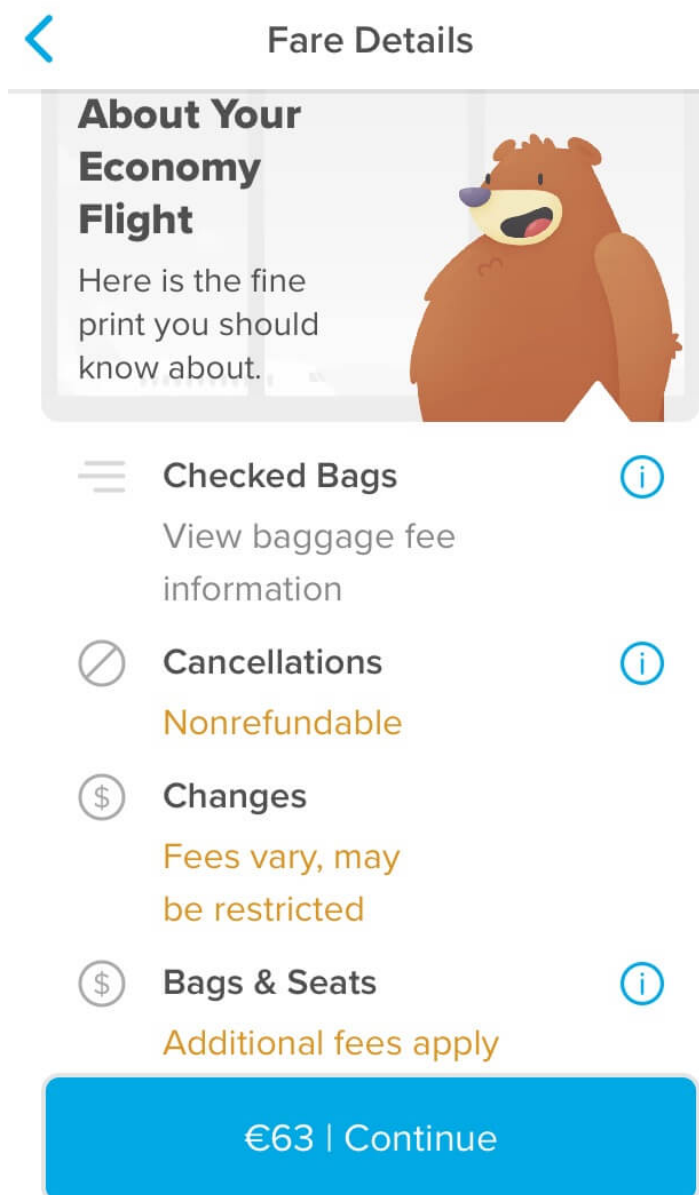
Imagine that, just a simple and relevant question to get the conversation started!

For the people who responded “No, tell me more,” they showed a follow-up message that clarified the restrictions of each user’s individual ticket and offered them the ability to upgrade with a single tap.

Guess what?

After going through that flow, **15% of users were upgrading by \$50 per passenger on average**.

**NOTE:** You can read more about how Hopper is using artificial intelligence to create relevant offers and their tips for personalization in the Customer Centricity section of this [whitepaper](#).



support for help with this

III.

An abstract graphic consisting of several concentric circles in a light blue-grey color. Two lines, one horizontal and one vertical, intersect the circles, creating a cross-like pattern that divides the circles into segments.

# INNOVATION AND TECHNOLOGY

# INNOVATION AND TECHNOLOGY EVALUATION

To better understand what airlines are doing in the Innovation & Technology area, we asked the following questions in our survey:

- How flexible are your booking and post-booking platforms?
- How mobile-ready are your systems for ancillary upselling and cross-selling?
- Do you use any of the advanced (e.g. artificial intelligence) methods for your ancillary offers?
- What is your current biggest pain point or challenge in your ancillary revenue processes?
- In which area will you invest the most (increase) in this and next year? Please select Top 3.
- Do you use a personalization engine like Adobe Target, Insider, IBM, Boxever?

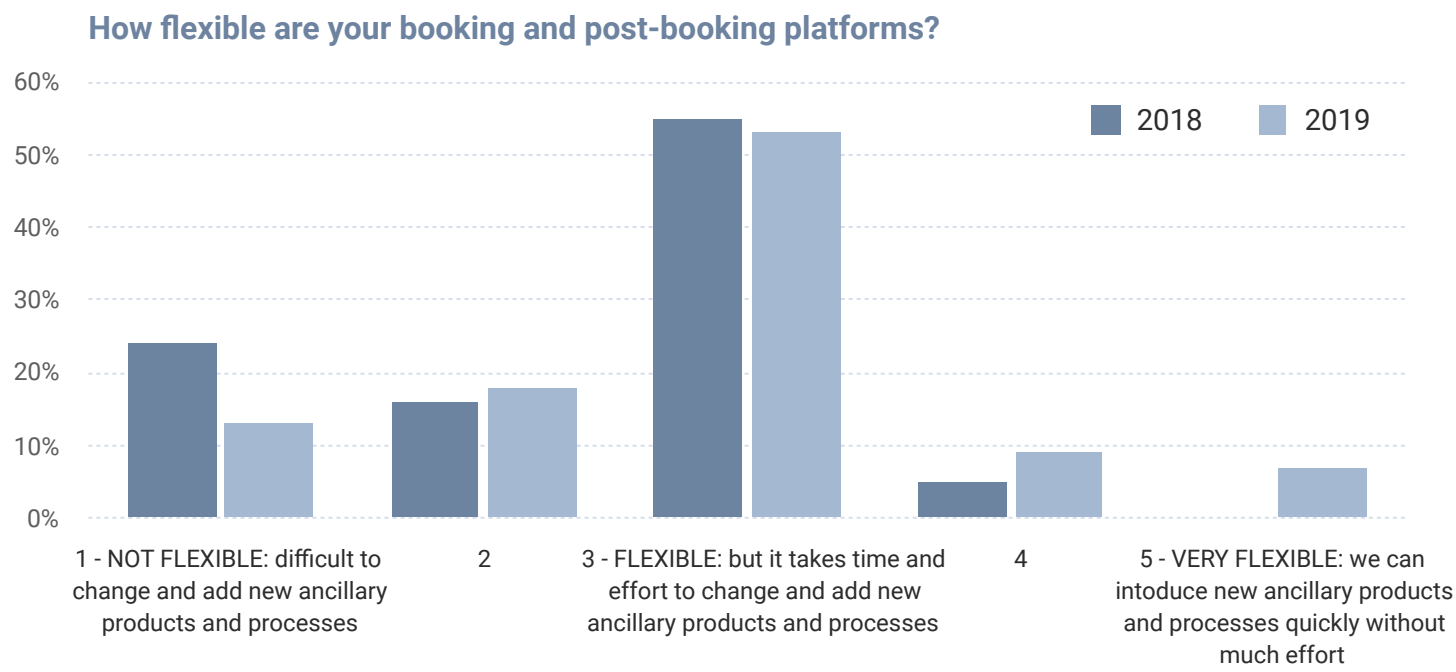
Basically, we tried to understand whether IT platforms and technology help or limit airlines' digital retailing.

For the second year in a row, **IT platforms and their limitations were the main theme when we asked survey participants about their biggest pain points** in their digital retailing processes. This is why we've included an analysis of this question in this section.

Based on the above criteria, **we ranked Innovation & Technology from 1 to 5 for each of the 45 participating airlines in the survey.** The goal was to evaluate maturity for each airline and identify best practices from the Leaders for this category.



# ARE IT AND DIGITAL PLATFORMS ENABLING OR ACTUALLY HOLDING YOUR DIGITAL RETAILING BACK?



In each of our surveys, we always ask ecommerce and digital retailing professionals how flexible their booking platforms are. It doesn't matter if we ask ecommerce and conversion optimization pros or ancillary and digital retailing pros; the results are always very similar.

The vast majority (84% in this survey) say that their digital platforms are either not flexible or that it takes time and effort to implement new products and processes. Only 16% of digital retailing pros said that their platforms are flexible. If you compare this to the previous year's results, you see some minor progress, but no real significant change.

When we asked our survey participants, "What is your current biggest pain point or challenge in your ancillary revenue processes?", IT terms were again the main



theme (see the word cloud analysis from our survey above).  
Systems, platforms, tools, and integration are what most ancillary revenue professionals mention when they think of their pain points. Here are some exact quotes from our survey participants:

*"Legacy systems and processes, lack of dedicated resources."*  
*"Limited flexibility of current platform, missing*

*"We don't have systems integrated for dynamic pricing capabilities and personalization, most of our products are one size fits all."*

*"Segmentation of user data takes a long time to complete for retailing use cases."*

*"Implementation process is too long."*

So, are IT and digital platforms enabling your digital retailing or holding it back? Based on our survey responses, we can definitely conclude that (for most) it's the latter.

## HOW CAN YOU EMPOWER YOUR MARKETERS – YOUR NEW DIGITAL RETAILERS?

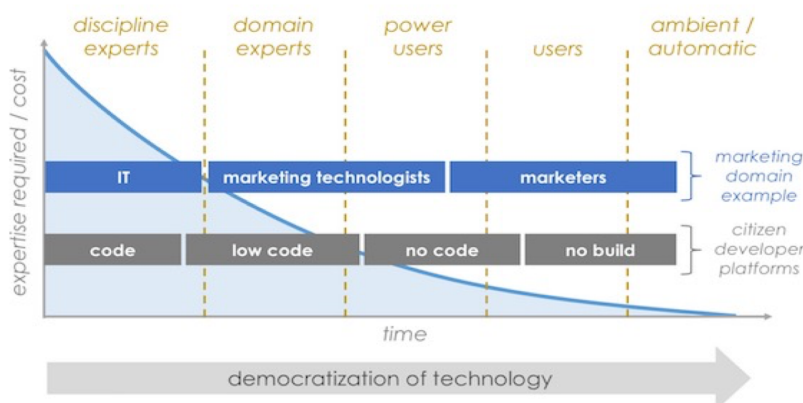
So, the current reality is not great when it comes to your digital retailing platforms and tools. What can you do, then, to empower your marketing people, your digital retailers?

It seems like we need to go back to the drawing board. We (airlines and vendors) need to design and build systems that will help marketers to take control and take ownership of our marketing technology and platforms.

Digital platforms should be designed in a way that empowers ecommerce and marketing professionals to execute campaigns and activities quickly, with minimal IT intervention. For example, they should be able to: create new landing pages for promotional campaigns; personalize the booking flow and user experience; execute A/B tests within the booking flow; configure post-booking marketing automation flows for

ancillary upselling and cross-selling; and personalize in-booking flow messages based on user/segment data.

Scott Brinker from Chiefmartec.com wrote about the process of the **"democratization of technology."** He's talking about how marketing technology is moving from the old days, which required high IT involvement and coding skills to execute marketing campaigns and activities, to low code, and eventually to no code needed at all.



Source: [chiefmartec.com](http://chiefmartec.com)

Here is a good example of that from the article:

*"Back in 1994, if you want to create a website, you needed to know HTML, how to set up an HTTP server, how to run it on a Linux box somewhere, etc. It pretty much required an IT discipline expert."*

*Over time, however, new tools enabled non-IT experts to build websites too. For a while, you still had to be a 'power user,' even to figure out something like Microsoft FrontPage. But today, anybody can build a beautiful website in minutes with tools like Squarespace and Wix."*

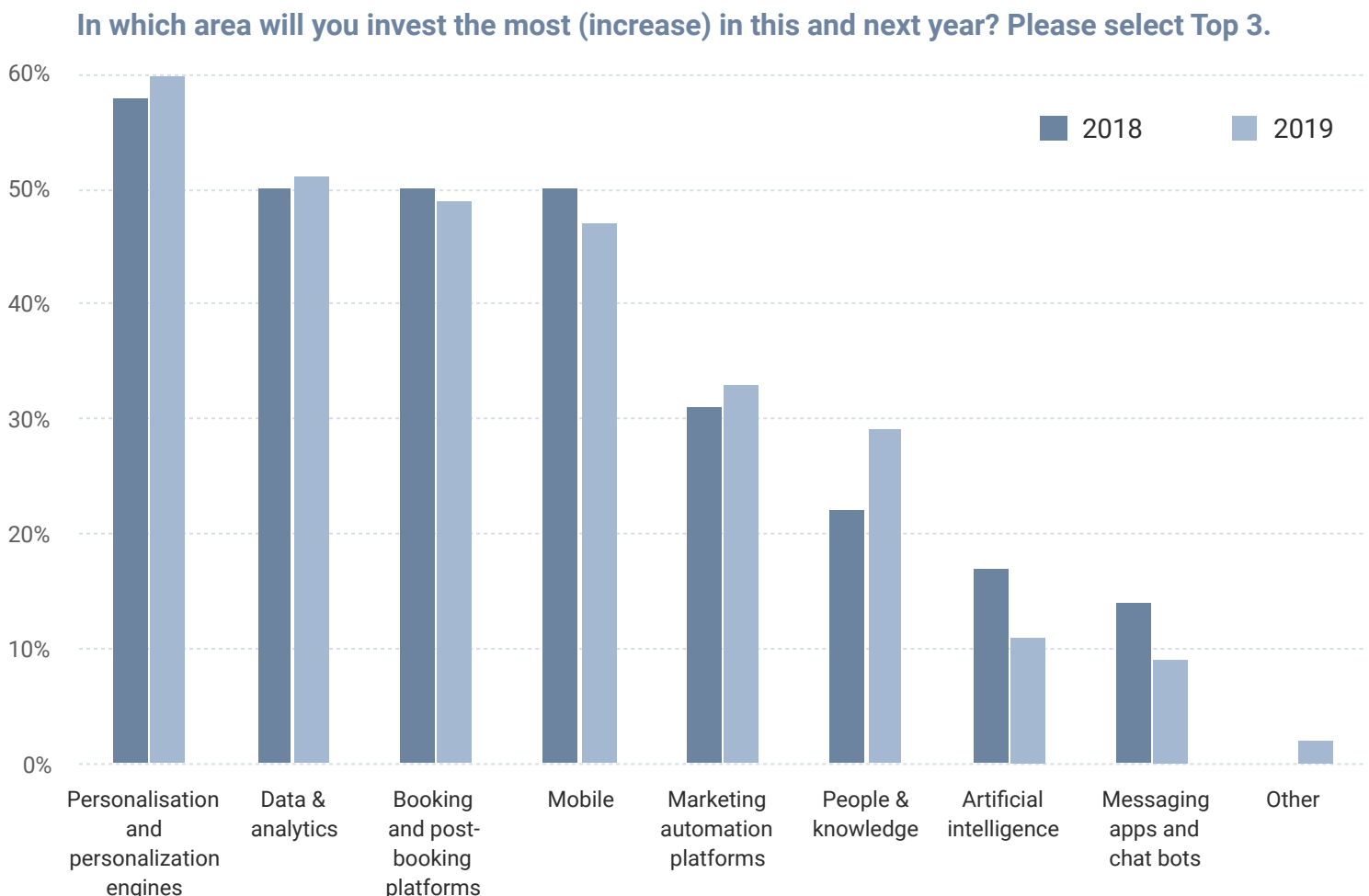


Currently, airline marketers are still far from being in control or being able to do things without high IT involvement.

Even if you find and use agile marketing tools, it is still very difficult to integrate them with the legacy, core IT systems.

Based on our survey, it looks like **airlines are investing a lot into new marketing platforms (personalization, core booking platforms, data & analytics).**

The next step needs to be an IT landscape and environment that will empower airline digital retailers.



# EXAMPLE

## THE RISE OF MARKETING TECHNOLOGIST ROLES

With the “democratization of technology,” as Brinker calls it, and the shift of budgets from classic IT to marketing technology, numerous new Marketing Technologist roles are emerging – from the decision-making and strategy roles of planning the marketing technology landscape to specialist roles in marketing departments that help reduce IT dependency (scripting, analytics & tag management, A/B testing, marketing technology system administration and integration).

Below you can see data from a **2019 Chiefmartec survey about marketing technology roles and responsibilities:**

Marketing Technology & Operations Roles and Responsibilities	2018	2019	
Research and recommend new marketing technology products	88%	<b>89%</b>	consistently the core of marketing technology operations
Operate marketing technology products as an administrator	82%	<b>80%</b>	
Train and support marketing staff on using marketing technology products	76%	<b>77%</b>	
Integrate marketing technology products with each other <i>Source: Chiefmartec.com</i>	80%	<b>75%</b>	
Monitor data quality within marketing technology products	70%	<b>70%</b>	
Architect the overall marketing stack of all marketing technology products	59%	55%	
Monitor performance and other SLAs of marketing technology products	55%	54%	
Integrate marketing technology products with non-marketing systems	58%	51%	
Pay for marketing technology products from a budget (partially or fully)	48%	48%	
Perform technical reviews of marketing technology products	59%	<b>48%</b>	11% drop
Identify and sundown outdated or unused marketing technology products	57%	<b>47%</b>	10% drop
Negotiate business terms for purchasing marketing technology products	47%	45%	
Identify and consolidate multiple instances of same or similar marketing technology products	51%	44%	
Approve or veto purchase of marketing technology products	49%	43%	
Perform data privacy and compliance reviews of marketing technology products	39%	<b>36%</b>	security & compliance drop lower
Customize marketing technology products with software development	43%	35%	
Perform security reviews of marketing technology products	23%	<b>21%</b>	



And here’s an example of a senior **marketing technology role** from **Southwest Airlines**.



**Southwest Airlines**  
10 yrs 9 mos

**Sr Manager, Marketing Technology**  
Feb 2017 – Present · 2 yrs 7 mos  
Dallas/Fort Worth Area

- Responsible for the design, plan, and implement activities for a forward thinking, integrated, digital marketing strategy including MarTech and AdTech solutions
- Lead and implement strategic priorities for digital strategy across all digital channels
- Support and drive new and engaging digital marketing campaigns
- Lead efforts to provide automation in content creation and publication
- Responsible for \$10M in annual spend on licensing and consulting
- Built a team of world class digital marketing experts

# MOBILE – AIRLINES ARE MAKING PROGRESS

I won't spend much time and space here telling you why mobile is important. It's 2019, after all, and it should be self-explanatory. Based on our survey results, we could say that airlines are finally making progress in this arena. We asked our survey participants the same question ("How mobile-ready are your systems for ancillary upselling and cross-selling?") as last year, and you can see the shift in the right (yes, literally to the right) direction.

It's good to see airlines making progress, as the traffic shift to mobile is obvious. Among all the airline and other travel websites with whom Diggintravel did consulting and conversion optimization work in the past year, **the share of mobile traffic was more than 40% of total traffic**. And we're talking about website traffic only; some have a huge amount of additional mobile app traffic.

Not all of the booking traffic is booking related, though. Some research (see the Nielsen research reference in our Sources links) shows that

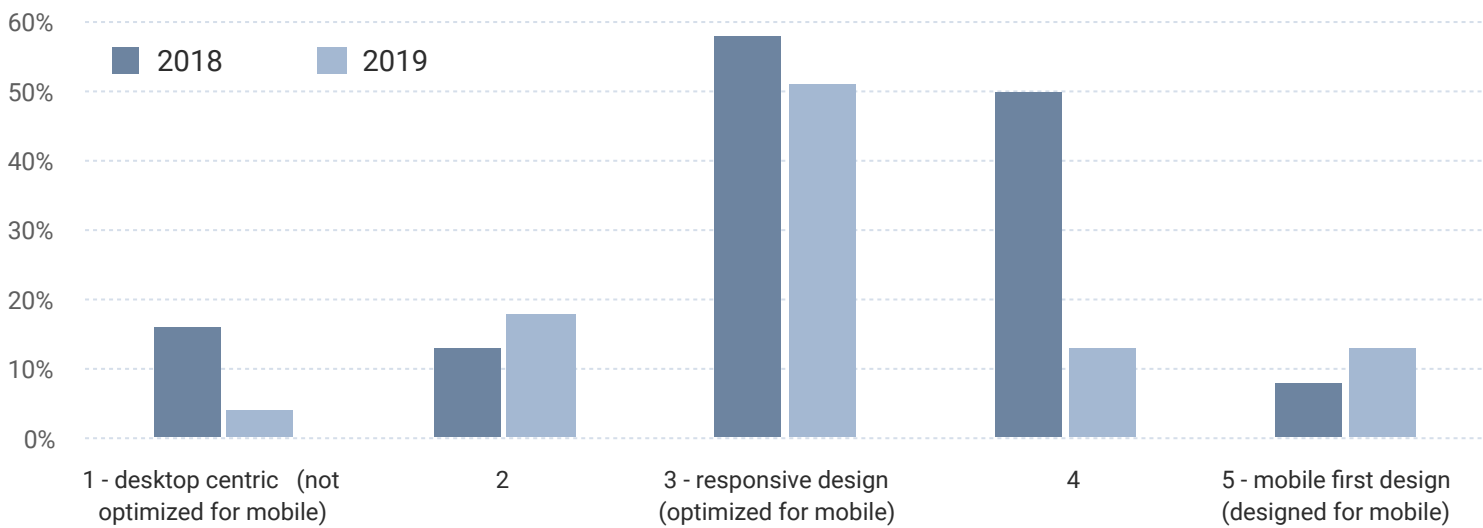
large (desktop) devices are still preferred for important tasks like flight booking.

The recent **Monetate All-New Ecommerce Benchmark 2019** report also shows that mobile conversion rates are still much lower than those for desktop: **global mobile conversion rates are 47% of the levels achieved on desktop**. From Diggintravel's experience with conversion optimization projects, I can say that for some airlines the ratio is even lower than that, in the **20-30% range**.

However, mobile is crucial for your digital retailing. Especially in the post-booking period, you need to nail the mobile experience and be present where your customers are (e.g. messaging channels).

Solving your customers' problems (such as answering questions or making it easy to manage booking and self-service scenarios on mobile), understanding the context and being relevant are the best ways to maximize upselling and cross-selling. See the next **"Example"** section for mobile UX tips for the post-booking period.

How mobile ready are your systems for post-booking ancillary upselling and cross-selling?



# EXAMPLE

## GOOGLE MOBILE UX PLAYBOOK FOR TRAVEL

SOURCE: [HTTPS://SERVICES.GOOGLE.COM/FH/FILES/EVENTS/PDF\\_TRAVEL\\_UX\\_PLAYBOOK.PDF](https://services.google.com/fh/files/events/pdf_travel_ux_playbook.pdf)

The **Google UX Playbook for Travel** is a great resource for mobile UX best practices.

### TRAVEL PLAYBOOK AT A GLANCE

#### Creating frictionless experiences across the funnel

1. HOME/LANDING PAGE	2. SEARCH	3. RESULTS PAGE	4. BOOKING	5. SIGN IN/SIGN UP	6. POST-BOOKING
Clear CTA above the fold	Allow searching by typing in location	Use real estate efficiently: use visual icons, show concise info, make it easy to compare between offers	Have a value prop at every point in the funnel, including search results and offer pages	Communicate sign in/sign up benefits upfront	Make obvious information easily accessible post booking
Have descriptive CTAs	Auto-suggest after 2 symbols	Use professional imagery	Show final price (including taxes, etc)	Allow social sign in	Ensure all FAQs could be found easily
Clear benefit-oriented value prop above the fold	Show geographically most relevant results by users geo	Allow sorting & filtering	Add urgency elements	Show reasons to download an app or sign up	
Use legible font sizes & large touch targets	If you care about in-store traffic, include locator in menu	Use geo info meaningfully	Have secondary CTAs that facilitate cross-device, like save for later or email	Support cross-device action	
Show previous searches	Include sign-up/calls/contact us in the Menu card	Use drop-downs as a last resort	Add reviews and social proof		
Pre-fill current location	Include offers in the Menu card	Allow users to save or share different offers	Show steps & progress in booking		
If relevant, show aspirational content + shortcut to offers			Use inline validation		
			Use Autofill		
			Allow users to save a flight for 24/48 hours		

And here are some **post-booking key elements and metrics** from the Google UX Playbook:

### PLAYBOOK AT A GLANCE

#### Creating frictionless experiences across the funnel (TRAVEL)

1. HOME/LANDING PAGE	2. SEARCH	3. RESULTS PAGE	4. BOOKING	5. FORMS	6. POST-BOOKING
SECTION	Post Booking	Ease of implementation	Impact	Key Metric	
KEY SUGGESTION	Make obvious information easily accessible post booking	Easy	High	CvR, App to download	
	Ensure all FAQs could be found easily	Easy	Medium	Clicks on the page, time spend on the page	
	Make the obvious easy to find: bookings/check in	Easy	Medium	CTR	
	Make the obvious easy to find: change currency/language	Easy	High	CvR, App to download	
	Allow users to save e-boarding pass without app download (i.e. PWA/e-mail it)	Medium	Medium	Cross device conversion	

# CAN ARTIFICIAL INTELLIGENCE TAKE YOUR DIGITAL RETAILING TO THE NEXT LEVEL?

When it comes to digital retailing and artificial intelligence (AI), the narrative is clear. By many, artificial intelligence is seen as the step that will take your digital retailing to the highest level – and there are clear cases for applying AI, from identifying customer behavior patterns in your data to dynamic pricing to calculating propensity for ancillary revenue product purchases to personalization.

According to **Karl Schuster, CEO of Virgin Australia's frequent flyer program (Velocity)**, AI-powered predictive analytics are generating a significant uplift in campaign response rates and member satisfaction for Virgin Australia's frequent flyer program:

*"The machine learning predictive analytics allow us to personalize our communication with members so that we deliver offers to them that are most relevant to their lifestyles, interests and goals. [We are] predicting not only the members who are most likely to respond but also which offers are most likely to appeal to them. This is personalization at scale, and also increases member engagement with the communications that we send them, which is part of our strategy."*

Earlier this year, **Lufthansa announced a partnership with Hopper**, an innovative OTA which excels at AI (you can find more about Hopper in Sections 2 and 4). According to **Christian Langer, Vice President of Digital Strategy for Lufthansa Group**, the reason for

this partnering decision is very similar – better, more personalized offers:

*"This [AI partnership with Hopper] will enable us to provide our customers with even better data-driven, tailor-made offers in the future. This is one of the central goals of our digital strategy for this year."*

There is also a section of this Lufthansa news announcement related specifically to the impact on ancillary and retailing:

*"The project will utilize AI to learn customers' preferences on a much deeper level in order to provide personalized recommendations about additional services or upgrades."*

So, it seems like artificial intelligence is often seen as the "silver bullet," a magic algorithm that will solve most of your problems.

However, mastering artificial intelligence is a process; it's a climb. Currently, it almost looks like many airlines are trying to take the elevator to the top floor instead of taking the steps – or, as Zig Ziglar, guru of sales, once said:

*"There is no elevator to success, you have to take the stairs."*

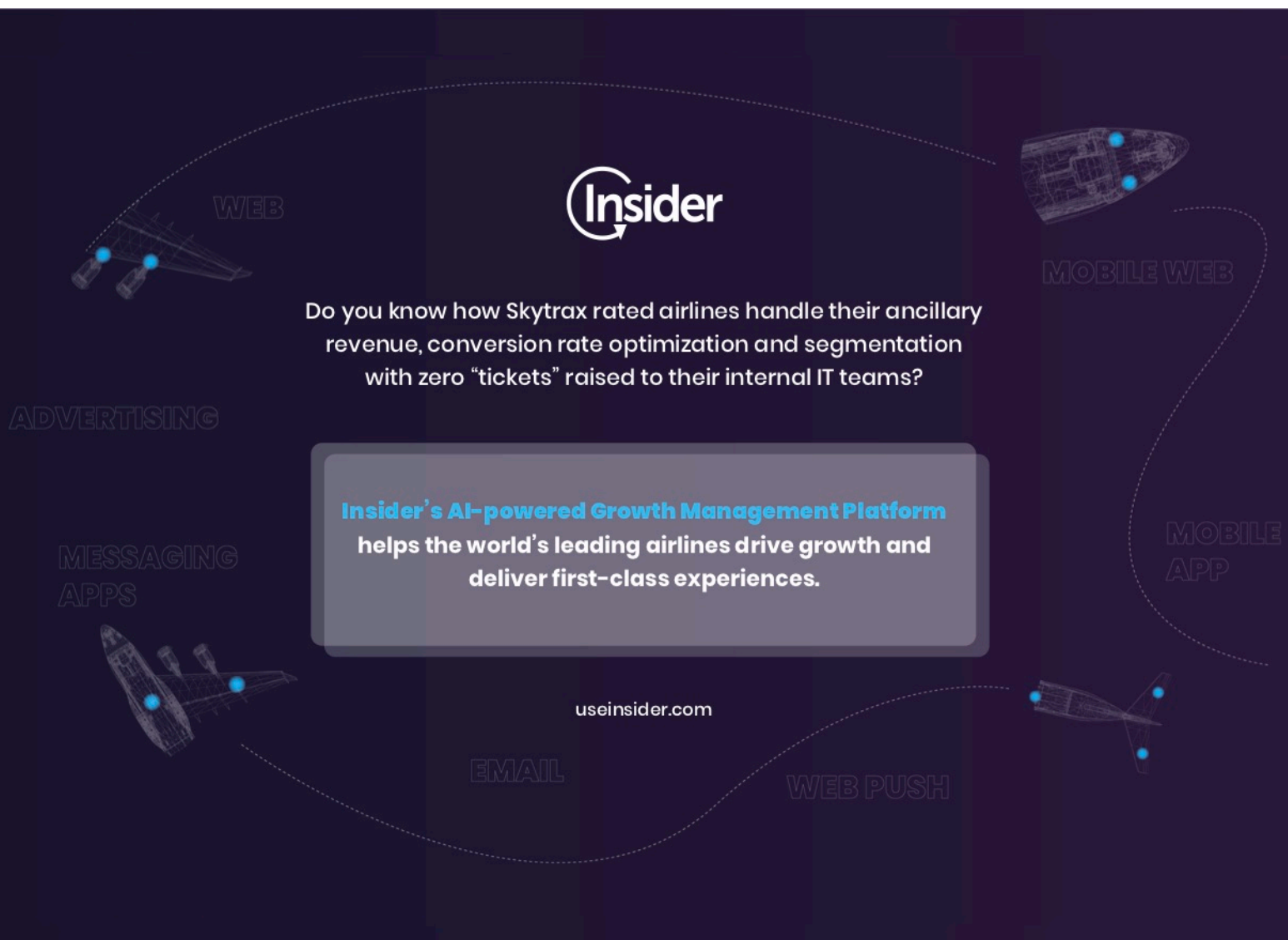
What do I mean by the steps? I think it starts with your data, your analytics, your experimentation, and your personalization efforts.

If you can't master your analytics and data (e.g. if you can't build your segments, identify your personas, or identify patterns in your analytics), then guess what? Artificial intelligence becomes even harder to do and will be very difficult to figure out.

**Chad Sanderson, Analytics & Experimentation Program Manager at Microsoft**, probably said it best when I talked to him about personalization and the use of artificial intelligence:

*"You can't just throw some content at the wall and let machine do it for you. You need to understand exactly how [your] audiences differ in the first place. And then when you really have your data in a good place, once you have your experimentation at the good place and once you have the ability to measure, then you have the ability to start algorithmically."*

You can read Chad's tips about how to start with personalization in Section 4: Customer Centricity.





# MOST AIRLINES ARE STILL NOT DEEP IN ARTIFICIAL INTELLIGENCE WHEN IT COMES TO DIGITAL RETAILING

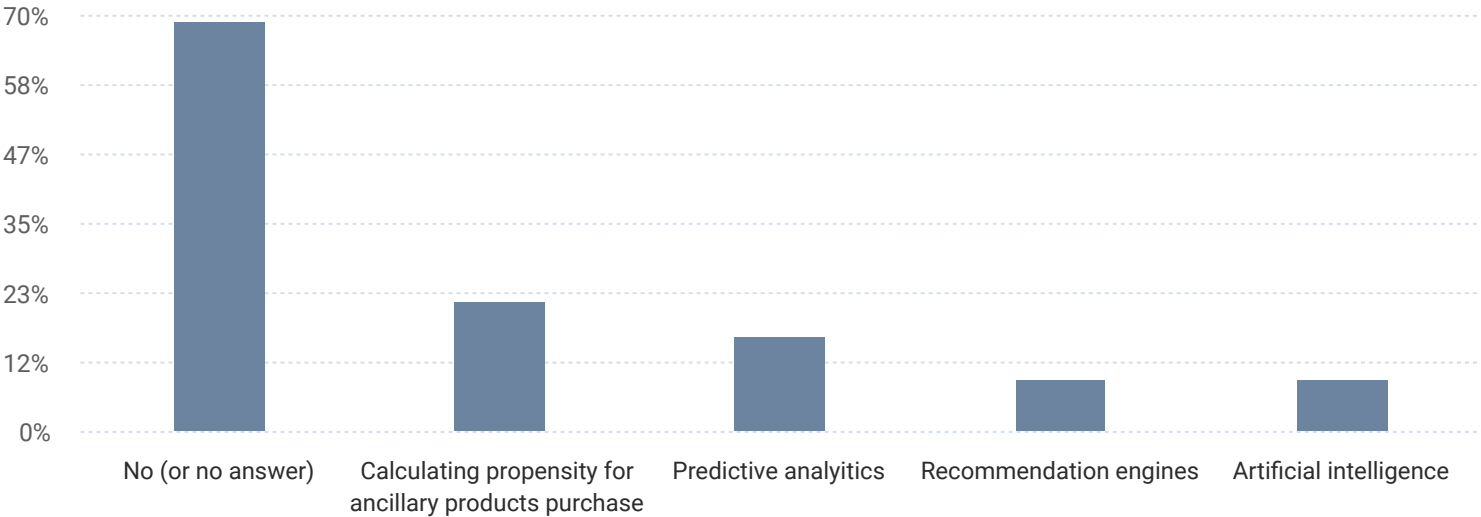
Our survey shows that most airlines still struggle with basic data, analytics and personalization efforts. **51% (tied for first place) of airlines in our survey said their biggest gap is being data driven and mastering analytics.**

So, it is in a way logical that most are not taking the next step with artificial intelligence yet.

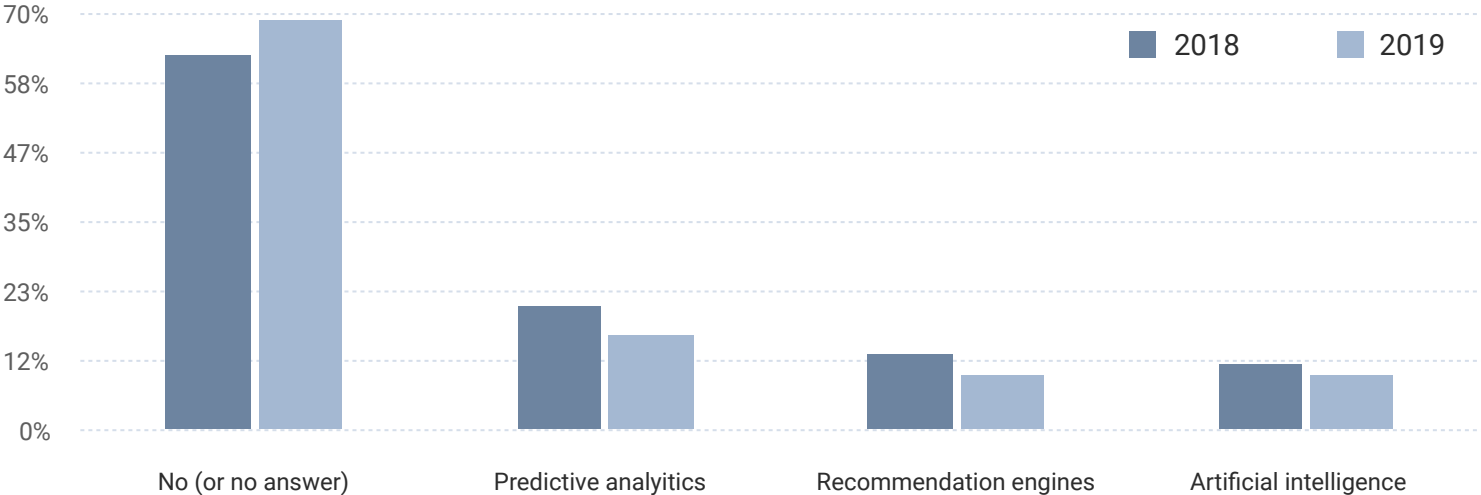
**69% of airlines from our survey said they don't use any advanced AI based methods for their digital retailing.**

Artificial intelligence was also quite low on the ancillary revenue professionals' list in our survey; only **11% said it was in their Top 3 investment priorities in 2019.**

Do you use any of the following advanced methods for your ancillary offers?



Do you use any of the following advanced methods for your ancillary offers?



IV.

A decorative graphic consisting of several concentric circles in a light blue color, centered on the page. Two thin white lines cross each other at the center, forming a crosshair or 'X' shape that divides the circles into four quadrants.

## CUSTOMER CENTRICITY

# CUSTOMER CENTRICITY EVALUATION

In this section, we tried to identify how customer-centric airlines are when it comes to their digital retailing. To understand this, we asked the following questions in our survey:

- How do you use customer and other data for ancillary offers and digital retailing?
- At which stages (of the customer journey) do you promote your ancillary products?
- How do you personalize the in-path booking and post-booking shopping experience?
- Do you do dynamic products or dynamic bundling? (e.g. branded fares for families, dynamic product bundles)
- Do you use a personalization engine like Adobe Target, Insider, IBM, or Boxever?

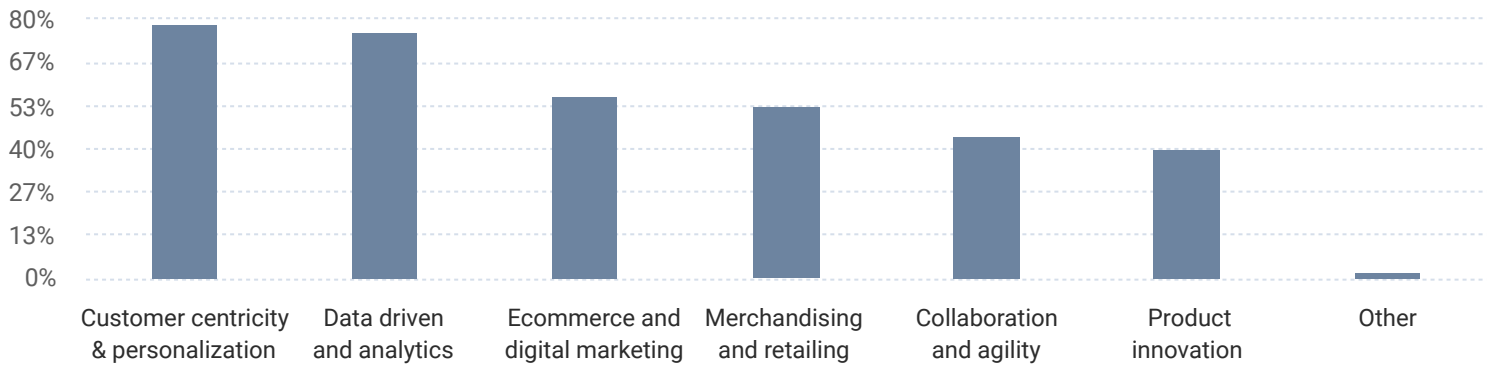
By now you know that conversion rate optimization (CRO) is all about understanding your users and being customer-centric. This is why we used the feedback from the question about CRO methods (*“What kind of digital optimization (UX) activities do you do for your ancillary products?”*) in our customer centrality analysis and ranking as well.

Based on the above information, **we ranked Customer Centrality from 1 to 5 for each of the 45 participating airlines in the survey.** As with the other categories, we tried to identify maturity and best practices from the Leaders for this category.

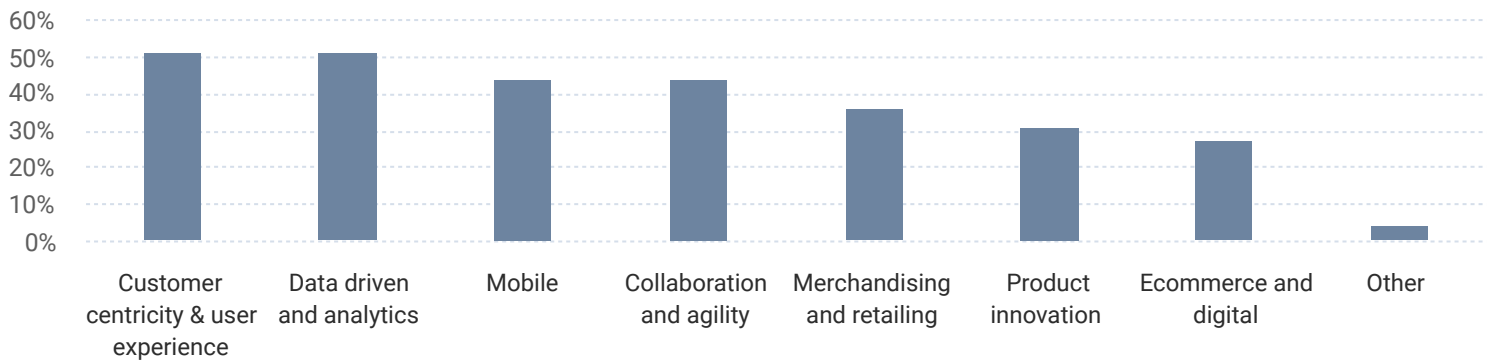


# PURSuing THE HOLY GRAIL OF PERSONALIZATION

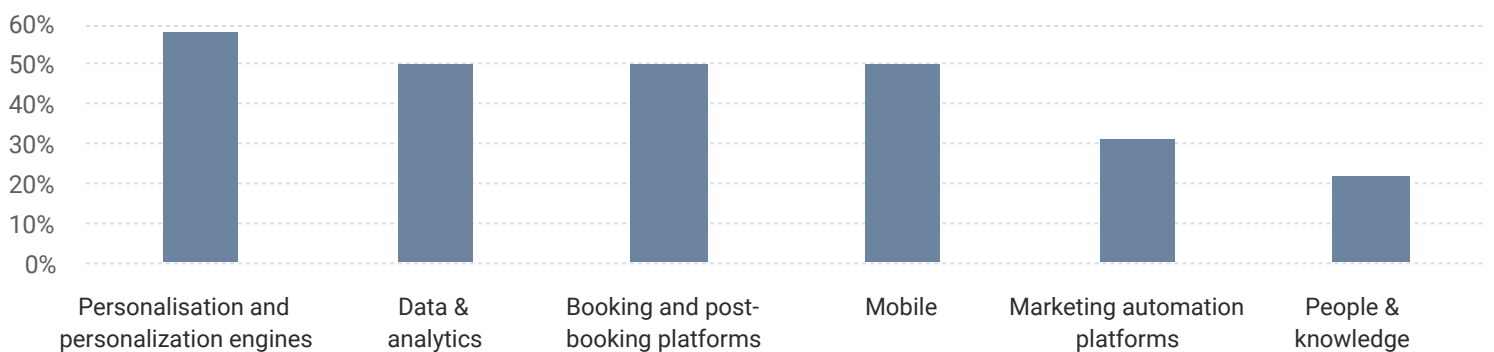
What skills do you see as the key for successful digital retailing? Please select Top 3.



Where do you see your biggest gaps?



In which area will you invest the most (increase) in this and next year? Please select Top 3.



If you look at the above three charts, it's not really hard to see one crucial result:

**personalization and customer centricity are currently at the top of most airline digital retailing professionals' agendas.**

As you can see from the charts, these two items are listed as number one in terms of key

skills, biggest gaps and as a top investment area.

78% of airlines listed customer centricity and personalization as **key skills for digital retailing**, and 60% claimed they will **invest in these areas in 2019**.

## A (BUSINESS) CASE FOR PERSONALIZATION

It is not unusual for airlines to see personalization as the key goal, almost the “holy grail” of their marketing activities.

**McKinsey** stated personalization is “a crucial weapon” in the marketer’s arsenal in their article **“A technology blueprint for personalization at scale”**:

*“The true prize of modern marketing is delivering experiences that are both world class to the consumer and deliver value to the business. Personalization is a crucial weapon in the marketer’s arsenal to achieve that goal. That’s how businesses can deliver tailored recommendations, content, offers, and experiences, across all channels and devices, along the entire customer journey.”*

In another study, McKinsey found that the companies leading the charge on personalization are seeing “5 to 15 percent increases in revenue and 10 to 30 percent increases in marketing-spend efficiency.”

In his recent speech, **“AirAsia 3.0 – More than just an airline”** (which you can find on YouTube), Tony Fernandez spoke about his airline’s efforts in the area of personalization and the value they see in it:

*“With data, we begin to know our customers better. We begin to personalize and target better, to make offers better. We begin to know what the appetite for the airline seats and price is. We begin to bundle better. And we begin to stop advertising as much because we know our consumers and we can go directly to them with the offers... We’re already seeing a revenue uptick of 3% on conversion from what we are doing.”*

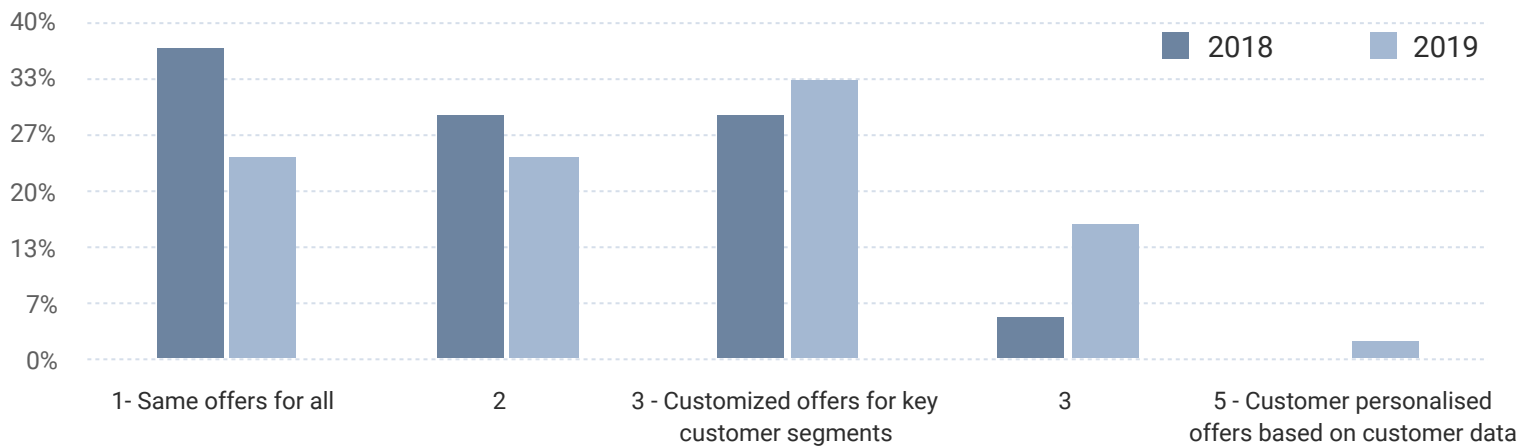
Okay, so 3% is not exactly the 5% to 15% McKinsey was talking about, but if this number is correct, the impact is still huge. AirAsia.com has more than 200 million visitors per year, and the company makes more than 3.5 billion EUR annually from their website.

A 3% uptick would result in 105 million EUR, which is not bad, right?

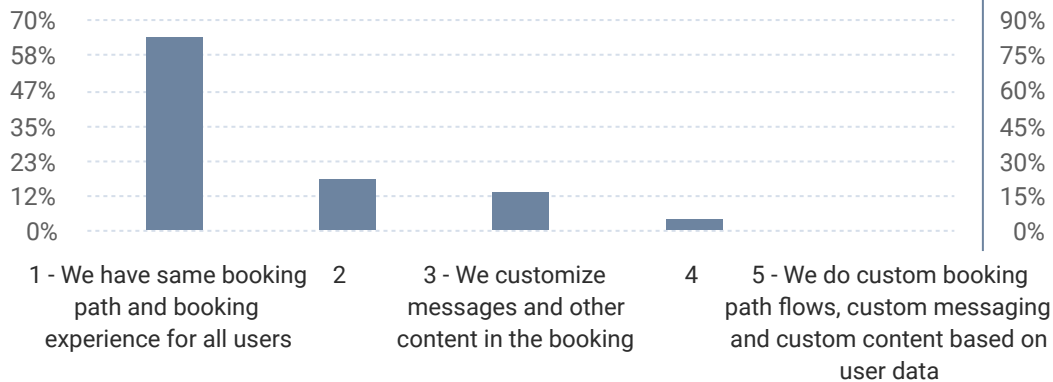


# AIRLINES STILL NOT THERE YET

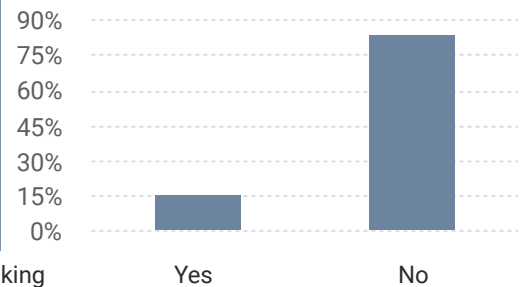
## How do you use customer and other data for ancillary offers and digital retailing?



## How do you personalize in-path booking and post-booking shopping experience?



## Do you do dynamic products or dynamic bundling?



It is definitely good that airlines are investing in customer centricity and personalization because, as you can see from our results, the gap between what airlines want to do (see in the key skills and areas of investment responses) and what they are currently doing when it comes to personalization is still big.

**Only 2% said they use data to create truly personalized offers, while 48% claimed they mostly have the same offers for all.** There has been some progress in how airlines use data if you compare our 2018 vs. 2019 results; however, one might say we are still far away from creating truly personalized offers based on customer data.

It seems like airlines are struggling even more when it comes to applying customer data to

provide a custom booking path experience. **64% of the airlines in our survey said they have the same booking path and experience for all customers.**

Furthermore, only 16% said they offer dynamic products or dynamic bundles (for example, dynamic branded fares for families or business).

This is not surprising, as providing a custom booking experience is definitely more difficult to do than creating dynamic content and messaging in email campaigns. As you saw in our Innovation and Technology section, most airlines don't believe their booking platform is flexible enough to do better, more dynamic and data-driven digital retailing.



## HOW CAN YOU GET STARTED WITH YOUR PERSONALIZATION EFFORTS?

Personalization is not exactly easy to achieve, but technology is not the only answer to all your problems. As shown in the aforementioned McKinsey report, it takes dedication from the whole organization and alignment among all stakeholders:

*“Capturing this value [of personalization] will require mastering the technologies and addressing the organizational disconnects—all while forging trust with customers and protecting their data. But implementing and integrating the right technologies create significant complexity and call for a lot of coordination.*

*The companies that overcome the barriers to personalization at scale are those that tackle both technology and business challenges in tandem, starting with the CMO and CTO/CIO working together closely.”*

You can read more about organization and integration in the last section of this whitepaper.

Recognizing that customer centricity and personalization are not a one department project, but rather a company-wide initiative, is the first thing you need to do.

But what are the next steps?

How can you get started?

And is true personalization even a real thing? Is it really achievable?

We'll try to provide you with some answers and different point of views in the next three **Ask the Expert** sections.



# ASK THE EXPERT:

## GETTING THE BASICS RIGHT BEFORE STARTING WITH PERSONALIZATION



**Chad Sanderson, Experimentation Program Manager at Microsoft**

### *What do you think is the key step when getting started with personalization?*

“The first thing where I really think people need to start is their analytics data. It’s your data layer, your data lake, your DMP, whatever you are using. I see a lot of business talk about personalization, but then I ask them, ‘OK, what are you capturing, what are you making available already to your A/B testing or personalization tool?’ And [often] it’s like three things. If you have only three things that you can capture, why don’t you just run an experiment on those? Why go through this ‘dance’ about personalization when you have such a limited number of variables?”

*For airlines where the number of products is much smaller, you can certainly understand the point Chad is making. So first analytics, then experiments with variables, and once you master those, then proceed to personalization.*

“Yes, if you don’t have a really robust analytics system and a way of tracking, categorizing, measuring and understanding the differences between your different personas, ask yourself, ‘Do we have the ability to measure something like category affinity? Do we have a good customer lifetime value model? Can we do correlations and things like that?’

For me that’s foundational to even think about personalization.”

### *So what is the next step after that?*

“After that I think people should start with rule-based personalization, which is really just A/B testing on specific segments. I don’t think this is really necessary from a process perspective, but it is really necessary from a company culture perspective. People need to learn that personalization doesn’t work because you just come up with some idea or throw some content at the wall and let the machine do it for you. You need to understand exactly how these audiences differ. Then, once you really have the data in a good place, once your experimentation program is in a good place, once you have the ability to measure the personalization, then you can start working algorithmically.”

*I was really happy Chad was saying similar things to what we preach at Diggintravel.*

*Analytics and CRO are the two areas you need to master before starting with personalization programs which are run based on artificial intelligence and algorithms.*

## ASK THE EXPERT:

# WHY INCREMENTALLY INCREASING RELEVANCE (NOT PERSONALIZATION) SHOULD BE YOUR GOAL?



**Zach Rachins, Director of Air Revenue at Hopper**

*Personalization seems like an elusive goal airlines are always trying to pursue, and we all understand that it's really hard to do. But is it even the right goal to be chasing? Zach provided an interesting answer:*

"Personalization is really overwhelming. Instead of personalization, we should talk about incrementally improving relevance."

*So, if you've been feeling like personalization is overwhelming, this should make you feel a bit better. Even a tech company like Hopper, which excels at artificial intelligence, thinks so as well. Instead of personalization, they are talking about taking small steps to incrementally improve their relevance.*

"People talk a lot about personalization, and we do as well. The way we look at personalization is just, at every step of the way, improving relevance. Every time the users give us some input, whether it be a search or a booking, and give us explicit feedback (meaning answer a question), it helps us to continue to improve that relevance. We never want to put a single thing in front of the user that we don't already know has a very high probability of being relevant."

*Being more relevant definitely seems to be the right approach, but how do you calculate what is really relevant?*

"We're very wary of what the traditional companies have done on desktop where you're not necessarily seeing relevant offers all the time; you're seeing what could be relevant. When you see an offer like a car rental on an OTA site, you're probably seeing that because it could be relevant to you, not because it is definitely relevant to you. Obviously you're never going to show something that's going to be 100% relevant, but you should have a bevy of options and you should know a probability of relevance, and that's what we're building."

*Seems like what Hopper is doing is calculating the probability of what will be relevant for you when you engage with them in a certain context. A similar trend I see with airlines is calculating the propensity of users to buy ancillary products. Here is Zach's view on that:*

"I think that on the airline ancillary revenue side, there is a couple of different things we look at. First, there is eligibility criteria. Certain offers just won't be relevant for certain people. Building off the car rental example, there are certain destinations in the world where you would never consider a car rental, so we never want to show it to those users."



“Then [we] use data like past car rentals or past trips or just specific destinations and specific segments. You might use a derived customer segment to know that a user is a business traveler. You might have another derived customer segment where you know that you have a family traveling and it’s a two-week trip and they have tons of luggage. In those cases you could further segment the car rental piece and show very specific car rental options to those users.”

*Certainly, eligibility makes sense, but there is another step Hopper takes when it comes to calculating relevancy:*

“After you’ve done some degree of experimentation (and that experimentation really never stops), you know certain characteristics which you can break into segments around which users will convert. We think of those as two stages: there’s eligibility and then there are certain characteristics beyond eligibility that really drive conversion. You never want to show an offer to a user [which you’re] certain that they’re not eligible for, but going even further, that they don’t have a characteristic set with a high probability to convert.”



### **105.07% membership rate uplift with loyalty program form optimization**

“Strong competition and huge traffic volumes force marketers in the travel industry to increase engagement and build loyalty to increase the lifetime value of their customers. It is really important to test and apply changes to our site to discover what really works. That’s what Insider helps us to achieve. Now we are able to optimize user experiences, explore what is and is not performing well and respond in real time to our customers’ needs.”

**Elmehdi Raguigue**

Senior Manager E-Business & Ancillary Revenue, Air Arabia

[useinsider.com](https://useinsider.com)

# ASK THE EXPERT:

## WHAT IS THE FUTURE OF AIRLINE MARKETING?



**Kubilay Sengun, Managing  
Director EMEA at Insider**

### *To what extent is personalization a necessity for airlines?*

"There's no denying that the airline industry is an incredibly competitive one. Increasingly, OTAs and metasearch companies can take ownership of the full booking funnel, reducing airlines' customer touchpoints and incurring additional cost to the airlines. So the challenge is now not only to encourage flyers to book with your airline over another, but also to ensure that they are coming to you directly. And this is where personalization becomes your weapon; how you stand out from the crowd, own your transactions and incentivise customers to keep booking with you. Because personalization dictates how relevant the experience that you provide is. In a world where consumers gravitate towards convenience, it's in your best interest to make it easier for people to use your website and buy your products from you.

Also, lower profit margins on seat sales dictates that ancillary sales must play an increasing part in securing a profitable balance sheet. The right personalization strategy can impact ancillary sales dramatically by offering the right thing to the right people at the right time."

"If you know that a customer books to take her family skiing every season, you may want to offer her excess baggage packages; if a large male group book flights to Las Vegas, you may want to offer them premium car rental services. Different personas require different ancillary products; pushing a static, singular experience to all profiles is far less likely to drive revenue effectively."

### *Everything seems to be AI-powered these days. What does this mean in real terms for airlines?*

"It's certainly a "go-to" term for making tech sound cool and modern, so we're going to do it too! Only kidding, let's look at the real term implications for marketers.

When looking at effective personalization and segmentation, scalability is a huge factor. To produce meaningful outcomes, marketing teams are required to carry out a data collection process followed by an insight generation process. AI allows you to carry out both of these processes at speed and scale, without being limited by manual human efforts.

All airlines, LCCs in particular, have high volumes of traffic to their websites and with those visitors comes masses of data; when, where and with whom visitors are travelling."

“Time and headcount limitations prevent airlines from harnessing this data and using it to its full potential, even after you disregard the data that isn’t GDPR compliant. AI allows you to create a scalable structure for data collection and insight generation and adds the crucial piece: pushing those insights to action layers. Marketing decisions such as which ancillaries to offer, what to display on website sliders and when to bid on advertising in order to decrease CPC.”

### *What the future holds for airline marketers?*

“Google recently commissioned an experiment, which observed that by altering behavioural principles, buyers could be persuaded to switch from their preferred airline to a fake airline invented for the experiment. This clearly demonstrated how fragile brand loyalty can be.

We’ve already discussed AI and machine learning but there are more elementary technologies available to airlines that aren’t fully being utilized right now. Messaging channels such as Facebook Messenger and

Whatsapp for Business provide a unique way for brands to stand out; open rates for messaging apps average at 80%, compared to 25-30% for email. Brands who are able to deliver seamless customer experiences at every touchpoint throughout the customer lifecycle will stand out in hyper-competitive markets.

At Insider, we’ve created a platform that brings all communication and personalization technologies together to help marketers deliver personalized experiences that are consistent and intelligent across all channels, driving brand loyalty and growth. By constantly adding new features to our web, mobile, app, messaging and advertising suites, we help more than 450 brands globally to reach their acquisition, activation revenue and retention targets.

In the long term, experience-based marketing will be the name of the game, with airline marketers creating new ways to broaden that experience to include a wider travel business beyond just plane tickets.”



# EXAMPLE

## DYNAMIC MESSAGING DURING THE BOOKING EXPERIENCE

Here is an example of **Jetstar**, an Australian low-cost carrier, **displaying dynamic ancillary upselling messages** for short-trip flights:

The screenshot shows the Jetstar website interface. At the top, there's a navigation bar with the Jetstar logo, a 'Sign in' link, a shopping cart icon with '1260' items, and a 'Help' link. Below the navigation bar is a prominent orange banner that reads 'Bundle up your extras and save'. Underneath this banner is a horizontal menu with tabs for 'Flights', 'Bundles', 'Baggage', 'Seats', 'Booking Details', and 'Review & Pay'. The 'Bundles' tab is currently selected. The main content area is titled 'Add a bundle to your booking' with a subtext: 'Get our most popular extras at a great price. Don't want a bundle? Baggage and Seats can be purchased individually next.' Below this is an orange box stating: 'Popular extras for shorter trips include seat selection, checked baggage and loyalty rewards. Combine today and save with our bundles.' The flight details are shown as 'Departing flight' for 'Melbourne to Sydney - Thursday 26 September 2019'. A legend indicates that a green checkmark means 'Included' and a red X means 'Not included in bundle'. Four fare bundle options are presented: 'Starter' (A basic fare, \$45.00), 'Flex' (Designed for business, \$45.00), 'Plus' (Enjoy the extras and save a bundle, \$40.00, with a red note 'Save at least 52%'), and 'Max' (A flexible fare with the lot, \$85.00).

**Ryanair**, an Irish LCC, also displays different messaging and offers **different bundles for short, same departure and return date** (high probability for a business flight):

The screenshot shows a Ryanair bundle upsell. At the top, it says '★ Save with just 1 click'. Below this is a horizontal banner. On the left is an image of a man sitting at a desk with a laptop and a suitcase. The main text says 'Upgrade to Flexi Plus'. To the right of this text are four bullet points: 'Flexible tickets', 'Security Fast Track', 'Reserved Extra legroom seat', 'Free airport check-in', and 'Priority & 2 Cabin Bags'. On the far right, it says '⚡ SAVE 6%' and '£ 130.91' with 'Total price per person' below it. A blue button labeled 'Add to trip' is at the bottom right.

And for a flight where children are included in the search parameters (family):

The screenshot shows a Ryanair bundle upsell for families. At the top, it says '★ Save with just 1 click'. Below this is a horizontal banner. On the left is an image of a family (two adults and two children) walking on a beach. The main text says 'All of this for your family with Family Plus'. To the right of this text are three bullet points: 'Priority Boarding for all the family', '2 x 20kg check-in bags', and 'Discounted standard seats so everyone sits together'. On the far right, it says '⚡ SAVE 15%' and '€ 132.60' with 'for the family' below it. A blue button labeled 'Add to trip' is at the bottom right.

V.

An abstract graphic consisting of several concentric circles of varying shades of blue. Two lines, one horizontal and one vertical, intersect the circles, creating a cross-like pattern that divides the circles into segments.

# ORGANIZATION AND INTEGRATION

# ORGANIZATION AND INTEGRATION EVALUATION

In the final section of the survey, we analyzed the organizational aspects of digital retailing. The key goal was to see how integrated key digital retailing processes and activities are. To understand this, we asked the following questions in our survey:

- Who in your organization is responsible for overall ancillary revenue and products?
- Who is responsible for pricing of ancillary products?
- Who is responsible for promotional and sales activities of ancillary products?
- Do you have any specialized digital retailing or merchandising roles?
- How integrated are your departments in your ancillary products upsell and cross-sell activities?

- What skills do you see as the key for successful ancillary upselling and cross-selling?

Based on the above, we **ranked Organization & Integration from 1 to 5 for each of the 45 participating airlines.**

As with the other categories, we tried to identify maturity and best practices from the Leaders for this category.



# HOW SHOULD YOU ORGANIZE FOR DIGITAL RETAILING?

This is the most common question I get during my airline workshops and consulting projects. First of all, ancillary revenue is a fairly new concept for some airlines, especially for legacy carriers. For them, as the process evolves from revenue management and fare rules to true ancillary products and digital retailing, so does the company's organization.

What we see from our research is that the level of organization usually reflects the airline's business model and its digital retailing maturity. This is why there is no "one-size-fits-all" approach when it comes to the best organization. However, what we see from our research is that for less mature airlines (classified as Laggards in our survey results), revenue management is still driving the ancillary product and strategy. On the other hand, more mature airlines in the digital retailing space have dedicated ancillary revenue and merchandising departments in charge of ancillary products and strategy.

In the table below, you can see **which departments are in charge of three key**

**digital retailing areas (Product & Strategy, Pricing, and Promotion & sales) for our surveyed airlines.**

Again, there is no clear template for organization that would work best for your airline. There are airlines which have a centralized ancillary department in charge of all three key areas, and there are also successful airlines with very decentralized organization where the responsibility for a product or service varies depending on the details of that product or service. For airlines that are at the beginning of their digital retailing journey, centralized organization is probably a better model. With a centralized organizational structure, it's easier to align all activities and have an end to end view of the customer experience.

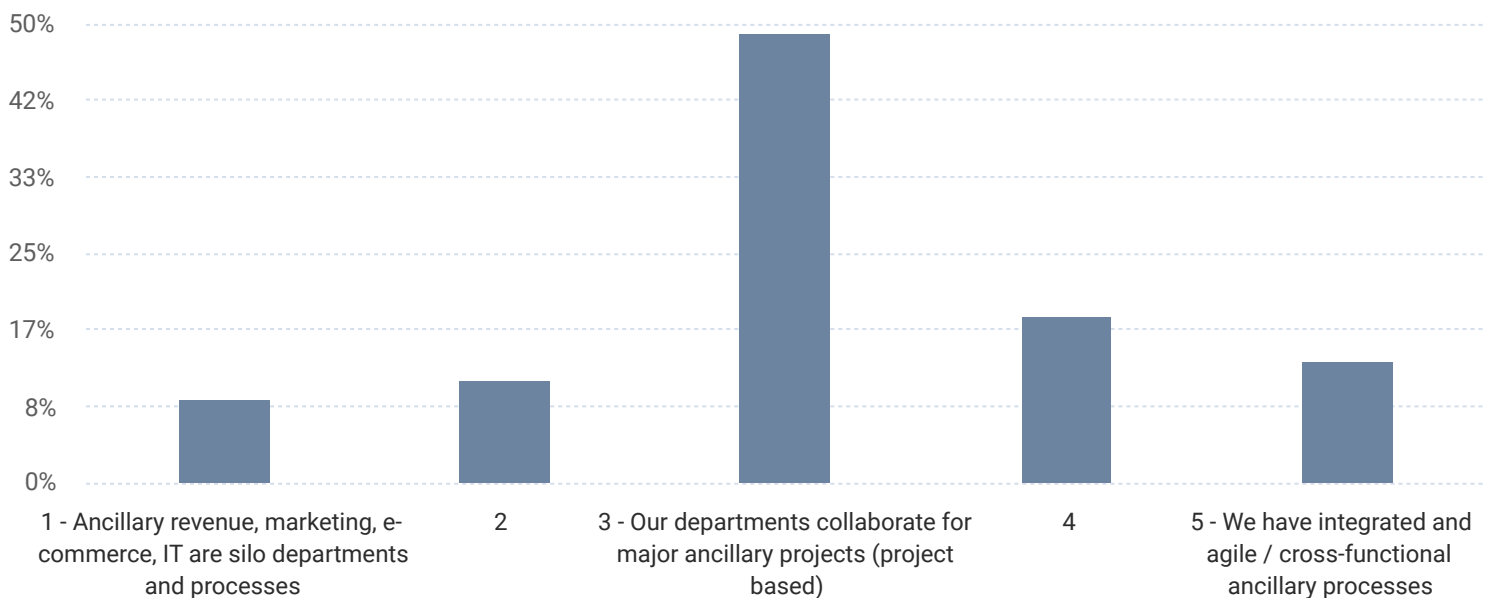
However, for more mature and larger organizations, centralized organization could mean slower growth. Having many independent and agile teams can enable faster product development, optimization and experimentation.

You can see an example of such organization in the next **Example** section.

	Overall Product & Strategy	Pricing	Promotion and sales
Ancillary revenue department	47%	33%	27%
Revenue management department	22%	33%	0%
Merchandising department	4%	4%	4%
Depends on ancillary product or service	11%	16%	18%
Marketing department	2%	2%	40%
Ecommerce department	2%	2%	7%
Other	11%	9%	4%

# INTEGRATION IS MUCH MORE IMPORTANT THAN ORGANIZATION

How integrated (on a scale from 1 to 5) are your departments in your ancillary products upsell and cross-sell activities?



In my opinion, integration is vastly more important than organization when it comes to digital retailing. In fact, you could go even further and say that it really doesn't matter how your digital retailing and ancillary processes are organized as long as they remain customer-centric.

Digital retailing is a complex process that involves many areas: strategy, ancillary product development, pricing, digital marketing (content, email promotions, automations and triggers, web and in-app mobile push notifications, messaging, remarketing), UX & conversion optimization, development, and third party cooperation.

The bigger the airline, the more specialized the roles and departments are, and the more difficult it is to remain customer-centric.

**Luke Wroblewski, Product Director at Google**, best summarized this idea when he said:

*"As organizations grow, decision-making moves further away from the user."*

For many airlines, internal processes and organizational silos limit the effectiveness of their digital retailing. As you can see from our survey results, **most airlines (49%) cooperate on a project by project basis**, and **only 13% claim that they have agile, cross-functional ancillary processes**.

I feel compelled to repeat the quote I included in my whitepaper last year, from **the McKinsey article "How airlines can gain a competitive edge through pricing,"** because it's such a great summary of the "silo view" challenge:



*“Because many of the tasks performed by various departments require deep technical expertise, airlines have historically divided operating functions into silos. As a result, data is siloed as well. RM may oversee core ticket pricing and steering; marketing may manage onboard ancillary pricing; and sales may handle pricing with rental car, hotel, and other partners. A total RM model—one that brings together RM authority and then optimizes the entire process— will require vast amounts of input data from across the airline. In short, the current state of fractured data and authority is not conducive to total RM optimization.*

*“Airline leadership must begin by revising the organizational chart to allow for communication and collaboration among the various departments—and likely reallocating authority of pricing for all products to a single leader. Of course, integrating teams that have historically worked as distinctly separate units will require a significant shift in mindset.”*

How can you break those silos? What kind of agile organization and mindset do you need for digital retailing?

You can find some ideas in the following **Example and Ask the Expert** sections.





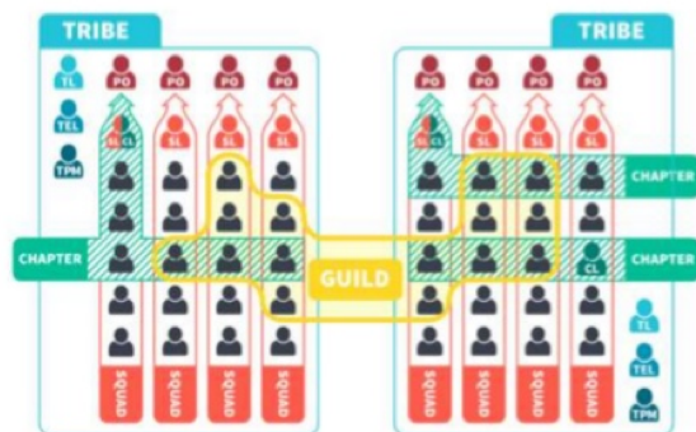
# EXAMPLE

## AGILE ORG: JETSTAR BAGGAGE SQUAD

In my prior airline research whitepapers, I wrote about examples of how digital companies like Booking.com and Skyscanner use growth squads and tribes to create cross-functional organization.

Their teams usually consist of a **product owner, an analytics and optimization expert, a UX person, and developers (front-end, back-end).**

### Skyscanner Squads and Tribes



Based on the job descriptions for **Jetstar Airways'** ancillary revenue positions, we can see that Jetstar has adopted a similar agile, cross-functional model when it comes to their digital retailing.

Below you can see an example of a **Baggage Product Specialist** role and how it fits into Jetstar's **Baggage Squad**. In this case you can see that the Baggage Squad consists of a **Digital Product Owner, Business Analyst, Quality Assurance Analyst, Scrum Master, two Back-End Developers, and two Front-End Developers.**

### Experience



#### Jetstar Airways

4 yrs 4 mos

##### Product Specialist - Baggage

Feb 2019 – Present · 4 mos

Melbourne, Australia

Product Specialist and Digital Product Owner for Baggage, serving as Product SME for Baggage Squad, including 1 Quality Assurance Analyst (QA), 1 Business Analyst (BA), 1 Scrum Master, 2 Back-End Developers and 2 Front-End Developers.

##### Responsibilities:

Work closely with Baggage Squad, other agile squads and Digital Experience Managers to design and deliver the baggage roadmap and strategy.

##### Project Analyst, Group Ancillary Revenue

Feb 2017 – Feb 2019 · 2 yrs 1 mo

Melbourne, Australia

A commercial project analyst role within Jetstar's Group Ancillary team within the Projects and Performance division, ensuring best-in-class execution of ancillary projects and initiatives across all ancillary product portfolios across the Jetstar Group network.

... See more

## ASK THE EXPERT:

# DO AIRLINES NEED TO BECOME DIGITAL COMPANIES AND CHANGE THEIR MINDSET TO BECOME TRUE DIGITAL RETAILERS?



**Sandun Dissanayake, Senior Strategy Manager at Eurowings Digital**

The narrative about airlines wanting to become digital companies is not new.

**AirAsia's** Tony Fernandes frequently talks about how AirAsia will become a digital company. Becoming the "Amazon of travel" was Michael O'Leary's vision for **Ryanair**, which is why Ryanair has opened three digital labs in Dublin, Poland and Madrid in the last few years.

**Eurowings**, a German low-cost airline and a wholly owned subsidiary of the Lufthansa Group, has a similar strategy. Their Managing Director and CCO, Oliver Wagner, said they want to be more than an airline:

*"Eurowings is becoming a 'travel companion' for its customers."*

Eurowings wants to be more than an airline and more like a digital travel agent or, as they put it, a **"companion" for their customers**, offering other services like transport, mobility and even event tickets.

To understand what they do in order to change their mindset from that of an airline to that of a digital company and why they split all their digital retailing into a dedicated company (Eurowings Digital),

I talked to **Sandun Dissanayake, the Strategy Manager at Eurowings Digital.**

*How do you look at the shift in mindset and shift to new skills needed to be successful at digital retailing?*

"That [shift in mindset] is actually the main point because it's not only the technology. It's also not only the skills, but it's also a general mindset change. A lot of traditional airlines are focused only on selling tickets and the ancillary services are just an add-on. But now, with our mission to become a travel companion, the ancillary services or all the services that add to the traveler experience are coming more and more to the foreground. So for us, it is really important to have this mindset change of how we sell and then set the skills in terms of the ecommerce excellence capabilities that we need in order to be a real retailer."

*To become a real digital retailer, they need to look outside the airline industry, right?*

"Yes, we're not really comparing [ourselves] to other airlines, but to fashion or other ecommerce natives. That's a main shift in our business which require new skills that we need to set up. That's why we're also hiring fresh people that are not coming from the airline industry."

*What is the role of Eurowings Digital in this change and how is Eurowings Digital integrated with the parent airline company? Why a separate company?*

"Eurowings Digital is a daughter company of Eurowings. Now that we are a separate entity, we have an opportunity to work in different structures. We evaluated if we would do this whole initiatives of digitalization within the Eurowings group, but we decided against it because there is a general issue of working in different working models.

"If you look at the traditional airline business, you have very rigid structures. Of course there are a lot of regulations because they care about safety and that's the main priority, for good reason. But in the digital world, in order to be more customer-centric, you need to be more agile."

*To explain the difference between a traditional airline environment and an agile one, Sandun used a great example:*

"In the digital world you need to work with MVPs (minimum viable products), and that doesn't work in the traditional airline world, right?

**Nobody wants to fly an MVP plane.**

That's why we differentiate so much, and that's where the business models kind of collide. That's where we decided we have two different setups: we have the airline company that needs to be in a stable environment and the digital company that really needs to be in an agile and flexible environment."



**Eurowings Digital GmbH**  
1,063 followers  
4h

...

Last week, we hosted our second [#FuckUpNight](#) at Eurowings Digital. As part of our company value "We make it happen", celebrating success and failure is essential for us. We strongly believe that learning from mistakes makes us much better in an even faster way. Therefore, our motto is "Share instead of blame!"

A very big THANKS goes to our honest & transparent speaker for sharing their failures.

[#Learning](#) [#Failure](#) [#ChangeManagement](#) [#Culture](#) [#CultureChange](#) [#Share](#)  
[#Transformation](#) [#momentsatewdigital](#)

*Eurowings Digital - experimenting  
"Share instead of blame!" motto*



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