



Airline Industry Flight Plan for Success: Personalizing the Travel Experience

Customized offerings and vast selections are now expected as the norm in consumer-focused industries. Look no further than LLBean.com's personalized recommendations based on past purchases and cable TV networks that cater to niche audiences as just two examples of highly targeted information that is served regularly to consumers. Airlines that can draw from these types of successful merchandising programs will be best positioned to see dramatic increases in ancillary revenues that will continue to drive the bottom line of the airline industry and also engender greater customer relevance and loyalty.

Adequately addressing the evolution in consumer preferences becomes even more important at a time when business air travel is shrinking in its relative importance. Between 1996-2006, business travel's share of overall U.S. domestic traffic fell from 40% to 35%¹ and U.S. international travel declined from 40% to 30%².

Based on L.E.K. Consulting's research of corporate travel departments' tightening budgets and shifting spending priorities, we expect that business travel will continue to decline in its relative importance due to technologies such as telepresence and Skype, which are finally becoming legitimate substitutes for internal corporate meetings, and are being embraced by the next generation of corporate travelers.

Airline Industry Flight Plan for Success: Personalizing the Travel Experience was written by **John Thomas**, a Vice President and Head of L.E.K. Consulting's global Aviation & Travel Practice. John is also a member of IATA's Travelling Passenger Vision 2020 working group, a part of the Simplifying the Business initiative. Please contact us at aviation@lek.com for additional information.

As the percentage of leisure travelers continues to grow, airlines need to find innovative ways to increase the effective yield from these lower-margin travelers. Clearly, there is no "one-size-fits-all" approach to reaching customers, as Generation Y passengers under 30 years-old will have markedly different criteria for an enjoyable travel experience than parents with toddlers.

As such, airlines need to embrace a classic merchandising mindset supported by specialized merchandising systems. A critical element for success here will be the ability to draw from a robust set of merchandising offerings to provide the right "customer defined" subset of services to the right customer segment at the right time (whether it is in the booking or check in flow, online, via kiosk or onboard).

Gaining a 360-Degree View of Your Customer

Amazon.com provides a compelling blueprint for personalized customer engagement. The company has become a preferred shopping destination for consumers to research and find relevant products, and then provide product feedback. This approach requires businesses to engage with their customers throughout the entire "sales/experience" life cycle and foster a trusted environment that compels consumers to share their preferences and feedback in exchange for an enhanced experience.

Airlines traditionally have not had the cost-effective technology to take a holistic view of their customers, and hence haven't truly understood their broader travel and lifestyle preferences.

Additionally, their traditional focus on transportation operations has caused carriers to shy away from aggressively going after a broader share of their customers' "travel wallet." These factors have limited airlines' ability to connect with their customers at key junctures of the travel sales life cycle. Consequently, one reason why many loyalty programs do not realize their full potential is because they focus primarily on the "purchase" element of the sales life cycle while ignoring the other phases which have become as, if not more, important.

As the following "evolving digital strategy for online retailers" example illustrates, there are many ways for airlines to engage with consumers that provide lasting value beyond just ticket purchases.

leisure trips. His wife has also been reading positive reviews about the airline on travel blogs and from her Facebook friends, which helps to validate that the family should travel with this airline.

When buying the economy-class tickets online, the mom books additional targeted products that the airline offers for that route, such as upgrading the family's meal selections and picking the type of personalized entertainment that her family would like on the trip. She then chooses to have this information updated on her travel profile (the husband's travel profile already provides his preferences for both business and leisure travel).

Experience Phase: Unbundle and Innovate

L.E.K.'s research has shown that uninterrupted downtime in one's schedule frequently only occurs when travelling either by air or ground. Many other free-time activities still compete with distractions, such as fitness centers that broadcast TV or music throughout their facilities. This uninterrupted "captivity" provides airlines with a unique opportunity to engage passengers in a distraction-free environment in a manner that enhances the overall travel experience. Our research also shows that companies who provide relevant personalized offerings to their customers engender a higher degree of loyalty than their competitors.

One way to deliver timely offers is to unbundle existing services and provide added choices at multiple attractive price points. For example, rather than purchasing all-encompassing Internet access for say \$12 per flight, the 14 year-old daughter instead selects unlimited texting for \$3 and gaming for an additional \$5, and uses her own mobile device for both activities.

The teenage son opts for a first-run movie that's currently in theaters at a price that is comparable to the cinema. Meanwhile, the mom uses the flight time to take a break from her harried responsibilities in the office and at home by shopping online (unaware that it is actually cached content) and catching up on the last two episodes of her favorite TV show on her iPad (which she has pre-ordered for the flight when checking in online)*.

*Note: All of this functionality is available without airborne connectivity.

Figure 1

Holistic Approach to the Customer Sales Life Cycle – The Evolving Digital Strategy for Online Retailers



Redefining Every Phase of the Travel Experience – An Illustration

Learn, Engage and Purchase Phases: Education and Choice

A "road warrior" dad who primarily uses two airlines for business receives an enticing e-mail offer from one of his preferred carriers for a summer getaway travel special based on his past

Share: Maintain the Relationship

After the trip, the airline has already captured unique information about the individual family's preferences – the types of movies that the son likes to watch, the favorite TV show of the mom, her preferred shopping channel etc. so they can progressively build greater relevance in the offers that they target the family with on their next trip.

Given the personalized nature of the offerings to the family and how they significantly enhanced their overall travel experience, the family is encouraged to share their experiences through travel blogs and related online communities. In addition to monitoring these communities to gain new insights from travelers, the airline can also continue to be top-of-mind with customers through targeted advertising and promotions that are directly related to the preferences they have already shared with the airline.

Keys to Generating \$50 Billion in Merchandising Annually

The airline industry is uniquely positioned to capture this game changer to its own economics. The amount of “captive” time that travelers spend with airlines and the generally “unfettered” mindset they have when flying creates an unparalleled opportunity for airlines to foster long-lasting, mutually rewarding and profitable relationships with a much broader set of their customers.

Tomorrow's successful carriers will develop programs that significantly improve and personalize the customer experience. By doing so, they will have the opportunity to boost their revenues significantly. L.E.K. is already working with a number of industry leaders to rapidly capture this opportunity using technology that is available today but yet to be fully applied. L.E.K. projects that ancillary revenue (merchandising) will reach \$50 billion globally on an annual basis within the next decade as carriers adopt more customer-centric business models and simultaneously reap the benefits of greater customer loyalty.

L.E.K.'s Airlines Experience

L.E.K. Consulting is the leading strategic advisor to the global airline industry. We combine deep industry expertise, global breadth and rigorous analysis to provide airline executives with the insights required to make strategic decisions confidently amid market uncertainty.

L.E.K. is a pioneer in developing ancillary revenue/merchandising programs for full-service and low-cost carriers, and also provides expertise in areas that include new product development, loyalty programs and operations optimization. We have also been involved in some of the industry's most successful mergers and acquisitions, and we were the only strategic advisor on the world's largest airline merger.

We complement our airline industry experience with practices that serve adjacent industries including aerospace, travel & tourism, retail & consumer products, and media & entertainment – and we understand how airlines can leverage opportunities in these markets. Our heritage in consumer-focused sectors provides L.E.K. with proven consumer behavior models to identify untapped opportunities and introduce successful new products and services to airline consumers.

¹ Source: Travel Industry Association of America

² Source: Travel Industry Association of America

L.E.K. Consulting is a global management consulting firm that uses deep industry expertise and analytical rigor to help clients solve their most critical business problems. Founded more than 25 years ago, L.E.K. employs more than 900 professionals in 20 offices across Europe, the Americas and Asia-Pacific. L.E.K. advises and supports global companies that are leaders in their industries – including the largest private and public sector organizations, private equity firms and emerging entrepreneurial businesses. L.E.K. helps business leaders consistently make better decisions, deliver improved business performance and create greater shareholder returns.

For further information contact:**Boston**

28 State Street
16th Floor
Boston, MA 02109
Telephone: 617.951.9500
Facsimile: 617.951.9392

Chicago

One North Wacker Drive
39th Floor
Chicago, IL 60606
Telephone: 312.913.6400
Facsimile: 312.782.4583

Los Angeles

1100 Glendon Avenue
21st Floor
Los Angeles, CA 90024
Telephone: 310.209.9800
Facsimile: 310.209.9125

New York

650 Fifth Avenue
25th Floor
New York, NY 10019
Telephone: 212.582.2499
Facsimile: 212.582.8505

San Francisco

100 Pine Street
Suite 2000
San Francisco, CA 94111
Telephone: 415.676.5500
Facsimile: 415.627.9071

**International
Offices:**

Auckland
Bangkok
Beijing
London
Melbourne
Milan
Mumbai
Munich
New Delhi
Paris
Shanghai
Singapore
Sydney
Tokyo
Wroclaw