



Airline Merchandising

Resource Guide Q1 2010

Quick Story Ideas

- **Frequent Flier 2.0: How flight merchandising is revolutionizing the ‘travel road warrior’ experience as well as the way corporate travel is managed.**
Merchandising provides the airline industry with an unprecedented opportunity to sell services that go far beyond the typical seat upgrade; they can now offer a growing number of options that can make a trip more comfortable for travelers and more productive for corporations. With the potential to establish closer relationships and drive greater loyalty between travel suppliers and end customers, it’s hard not to visualize the merchandising of ancillary services as the new face of airline loyalty or Frequent Flier 2.0.
- **The evolution of airline merchandising from ‘bag fees’ to personalizing the trip experience.** By merchandising services such as in-flight Wi-fi, extra legroom and preferred seating, day passes in the airline lounge, premium luggage service with delivery and more, airlines can place greater emphasis on personalization according to a traveler’s needs and provide greater choice throughout the travel experience.
- **What’s wrong with today’s airline merchandising (not enough personalized marketing based on ‘who’s asking’; bag fees gave it a bad rap).** Although hailed by many airline executives as the ‘billion dollar baby’ and the answer to suffering bottom lines, the public’s initial reaction to flight merchandising has been mixed, including the perspective that it is simply ‘nickle and diming’ the end consumer. This is largely because the merchandising movement started with bag fees, something that had traditionally been automatically included in the base ticket price. In fact, the positives of merchandising can far outweigh the negatives for travelers – if the airlines will shift focus from ‘negative merchandising’ to ‘positive (loyalty-driven) merchandising’, focused on delivering the traveler precisely what is wanted, when it is wanted.
- **New airline customer recovery opportunities through merchandising (e.g. “My flight’s delayed but I don’t mind”).** Flight merchandising enables airlines to proactively address customer service problems, and turn negative experiences into positive (or at least less painful) experiences. For example, if a flight is delayed or cancelled, the airline can ensure that its most important customers are proactively contacted (perhaps on their mobile device or social media site) and offered a complimentary service (free dinner? Lounge access? Theater tickets if you’re stuck overnight?). The customer recovery aspect of merchandising is central to its power as a driver of customer loyalty.
- **Merchandising as the answer to many travel supply chain woes: more revenue, more service opportunities and greater traveler satisfaction.** The personalized nature of flight merchandising (making the customer feel ‘special’ by targeting the right service to the right person at the right time), opens a wealth of opportunities for travel





management companies and other providers who can provide supporting technologies, services and products. Airlines are not the only participants in the travel supply chain who stand to benefit from the merchandising movement.

- **Merchandising goes mobile (new applications designed to offer ancillary flight services on mobile devices, based on 'who's asking')**. Travelers are gaining access to a new world of convenience and add-on choices, with the capability to purchase relevant optional services directly from their mobile device prior to departure or during the trip, regardless of their location.

Facts & Figures

- Total US Ancillary Revenue in Q3 2009 was > \$2 billion (6.9% of total revenue) (WSJ Jan 13, 2010)
- Looking at bag fees alone: \$700 million in revenue was earned in bag fees in Q3 2009 for US airlines; up 111% from Q3 2008 (WSJ Jan 13, 2010)
- Leisure airline travelers are ultra price sensitive and will book an airline that is \$5 cheaper than another airline. The airlines are responding to this price sensitivity by increasingly unbundling their ticket price in order to provide the lowest possible cost seat while charging extra for all kinds of services previously included in the ticket price. This merchandizing will continue and increase in the future. By using new technology provided by companies such as Farelogix airlines will increasingly understand exactly who is asking for a seat prior to issuing the ticket and passengers who are less price sensitive and more loyal to a particular airline, typically a business traveler, will be provided with merchandizing perks.
- iPhone is now available in 81 countries including the emerging BRIC markets. (Canalys estimates, Canalys 2009)
- In May 2009, Apple's App Store listed 2,000 travel apps, giving the travel category about a 5.4% share, 5th largest. (PhocusWright 2009)
- Frequent business travelers are fare likelier to own smartphones and use them for both business and leisure (PhocusWright, 'The PhocusWright Consumer Technology Survey Second Edition, May 2009')
- The International Air Transport Association (IATA) forecasted (in Dec 2009) a US\$5.6 billion global net loss among the world's carriers for 2010. In 2009 the loss was approximately US\$11 billion.
- Between 2000 and 2009, airlines lost US\$49.1 billion, which is an average of US\$5.0 billion per year.
- North American carriers will see losses reduced from US\$2.9 billion in 2009 to US\$2.0 billion in 2010.
- In 2010 the number of travelers will be back to the peak levels of 2007, but with US\$30 billion less in revenues. The US\$38 billion cash cushion built up throughout 2009 will help airlines survive through the low season, but there is no recovery in sight for 2010. Tough times continue.



- Global passenger traffic is expected to grow by 4.5% from 2.2 billion passengers in 2009 to 2.3 billion passengers in 2010.
- US passenger traffic was 618 million during the 12 months ending October 2009, a 6.6% decrease over the prior 12 month period.
- In the 15 years from 1995, air fares rose 6.1% compared to a 40.5% inflation rate.
- An average domestic round trip airline ticket in Q1 2009 was \$315. A round trip train ticket Chicago-Atlanta costs \$378.

Terms & Definitions

- **Merchandising (general):** using certain methods, practices, and operations to promote and sustain certain categories of commercial activity. Or, in plain English, it's the attempt to get you to buy something.
- **Airline Merchandising:** a movement within the travel industry in which airlines sell a wide range of products or services (in addition to the basic seat) that enable the airline to generate new revenue, and give travelers more choices during the life of a trip.
- **Ancillary or Optional Service:** two terms that are used interchangeably, but basically mean the same thing, and refer to the array of products/services sold by airlines. Checking a bag, choosing a specific seat or meal, using in-flight internet, and selecting a priority boarding option are just a few examples of ancillary or optional services.
- **Bundled Fares:** a model where optional services are included as part of an airfare, as part of a 'package'. For example, an airfare of \$275 for a round-trip ticket would also include one free checked bag and an advance seat assignment. The bundled fare generally cannot be split into its separate components.
- **Unbundled Fares:** another kind of optional service model where a product or service is sold "à la carte", as separate items in addition to the base airfare. For example, a \$20 fee for in-flight internet, purchased and paid for separate from the airline ticket, is an example of an unbundled fare.
- **Associated Optional Service:** a product or service that is tied to a specific flight and gets "used up" when you take the flight. Examples of associated services would be a checked bag or a meal. Once the flight is completed, the service is completed.
- **Stand-alone Optional Service:** a product or service that is independent of any specific flight and can be used at any time, such as a day pass to an airline lounge or a booklet of drink coupons.
- **Electronic miscellaneous document ("EMD"):** an official document that is used by travel agencies and other indirect (i.e. non-airline-website) channels to manage, charge, audit, and report on the sale of ancillary services through ARC/BSP. The easiest way to understand the EMD is to think of it as an IATA standard "ticket or coupon" for the purchased service.

Spokesperson:

- Jim Davidson, President and CEO



Industry Contacts

Farelogix can arrange for follow up with contacts at the following organizations:

- **Cory Garner, Director of Merchandising Strategy, American Airlines.**
American Airlines continues to expand its merchandising strategy and has announced plans to expand the scope of its optional services approach in 2010. *Suggested topics: airline perspective on the flight merchandising movement, airline distribution, travel industry trends.*
- **Graham Wareham, General Manager of Product Distribution, Air Canada.**
Air Canada is a recognized industry pioneer and leader in airline product differentiation and merchandising. *Suggested topics: airline perspective on the flight merchandising movement, airline distribution, travel industry trends.*
- **Mike Premo, Vice President, Marketing Sales and Customer Care, ARC Corp.**
ARC is the premier provider of sales and settlement solutions for the travel and hospitality industry, including handling of all ticketing documents and settlement for airlines in the United States. *Suggested topics: airline ticketing, settlement, reporting, electronic miscellaneous documents (EMD's), and related solutions.*
- **Norm Rose, Travel Tech Consulting, Inc.**
Norm is a 25-year travel industry veteran who is considered foremost expert on technology and business trends in the travel industry, including flight merchandising. *Suggested topics: travel industry and related technologies, flight merchandising trends and technologies, impact on overall travel supply chain.*
- **Jack Loop, Vice President of Business Development, Mobiata, Inc.**
Mobiata creates best-selling mobile travel applications, including FlightTrack and TripDeck, top sellers on the iPhone Travel bestseller list. Recently, Mobiata has added flight merchandising to its mobile capabilities, enabling airlines to market and sell ancillary products and services to on-the-go air travelers via their mobile phones. *Suggested topics: mobile merchandising, mobile travel technologies and trends.*

About Farelogix

Farelogix is a leading provider of lower-cost, high-value distribution and optimization technology to the global travel industry. Farelogix counts among its customers some of the largest travel companies in the world. Farelogix is a privately held company with offices in Toronto, Canada and Miami, Florida. For additional information, visit www.farelogix.com





Helpful links

- PhocusWright articles/downloads on merchandising, e.g.
<http://www.phocuswright.com/library/fyi/1159>
- Airline Information Organization (Ancillary Revenue)
<http://www.airlineinformation.org/>
- Jim Davidson Blog Series, 'Airline Merchandising, WIIFM? (What's In It for Me?)'
<http://www.thebeat.travel/blog/blog/454>
- Jim Davidson Keynote at PhocusWright: Money, Mobile, Media, Moxie...and Merchandising
<http://www.farelogix.com/video-phocus.php>

Media Contacts

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