



The Future of Airline Retail - The Quest for Growth

Report on

The Airline Retail Conference 2011 – London June 30th – July 1st 2011

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This paper summarises the key outcomes from the Airline Retail Conference 2011 held in London on June 30th and July 1st 2011. <http://www.airlineretail.com/>

Executive Summary

Six key challenges emerged for the airline retail sector and its suppliers:

- **Continued Economic Uncertainty** - In the context of tough economic times and continued uncertainty, airlines continue struggle to make profits and retail remains a vital ancillary revenue stream.
- **Deepening Customer Insight** - The majority of airline passengers do not purchase in-flight yet we know they do buy a wide range of goods and services elsewhere. The priority is to understand what drives purchasing behaviour and then build relationships using those insights. Airlines can use knowledge of wider trends and the extensive passenger data they hold to understand their customers better and adjust their selling strategies accordingly.
- **From Relationship to Revenue** - The underlying challenge for airlines is to drive innovation to deepen the customer relationship in order to increase the number who make purchases, grow the value of spending per passenger and extend the range of offerings they can make available to travellers before, during and after the flight – effective use of the internet and social media are central to this challenge.
- **Leveraging Technology** - New technology such as Wi-Fi, interactive seatback displays, tablets and smartphones will allow airlines to sell virtual products, expand brand awareness and drive revenues through social media. Customers will also increasingly expect connectivity and interactivity on their electronic devices in-flight.
- **Rethinking the Basics** - Traditional airline mainstays such as the in-flight brochure, retail trolley, and catering can be re-imagined to deliver an enhanced customer experience and greater revenue opportunities.

- **Carving up the Revenue Pie** - The key triangular relationship between airlines, airports and suppliers needs to be re-evaluated in order to provide opportunities to share revenue.

Context – Continued Economic Uncertainty

The context for this year's conference is that of a turbulent global economic environment, with concerns rising over government debt, fuel price uncertainty, corporate spending controls and a hesitant consumer. Against this backdrop, the airline sector collectively is struggling to maintain profitability. As a result, the International Air Transport Association (IATA) downgraded its 2011 industry profit forecast down from \$8.6 billion to \$4 billion, less than a quarter of the \$18 billion profit the industry made in 2010.¹

Despite uncertainty over the macro-economic outlook and declining industry profits, we are seeing a continued rise in the numbers of passengers travelling by air. Parts of the industry also remain optimistic and are still in expansion mode - as evidenced by the performance of Airbus at this year's Paris Air Show. Airbus received orders for 730 aircraft worth more than \$72 billion.² This gave the conference a certain impetus as airlines are likely to see in-flight retail as an increasingly vital stream of supplementary revenue.

One of the key themes to emerge was that airlines are not capitalising enough on the opportunities offered by air travel. There is tremendous untapped potential by virtue of having direct access to an affluent and captive market that seek to buy products for themselves or as gifts for others, for reasons of novelty or exclusivity or simply as a way of passing the time on longer flights. To realise this opportunity, those who fly with airlines should be seen as customers to be understood, engaged with and ultimately turned into buyers rather than viewed as passive passengers. To help drive this change, airlines should strive to recapture and capitalise on the allure and excitement of travel as an experience rather than the chore it has become.

Advanced Metrics - Knowing the Customer

Several presenters emphasised the importance of airlines getting to know their customers better, at both a macro and micro level, in order to build deeper relationships and sell to them more effectively. At a macro level, airlines should be aware of wider global socio-demographic trends such as the lengthening of life-spans worldwide – highlighting the opportunity to cater to the differing needs of older passengers. In parallel, the continued rise of wealth and spending power in the East is resulting in a growing and increasingly affluent Asian middle-class with a desire to travel and shop for global brands. These trends suggest that airlines and airports need to deepen their insights into who's flying with them and adapt their sales strategies and pricing models to incorporate these evolving socio-demographic patterns.

¹ Graham Dunn, Flight Global, 06/06/2011, <http://www.flightglobal.com/articles/2011/06/06/357586/iata-2011-industry-profit-forecast-halved.html>

² Jonathan Wheatley, The Financial Times, 23/06/2011, <http://blogs.ft.com/beyond-brics/2011/06/23/paris-air-show-big-orders-or-just-big-ideas/#axzz1S60tR0bv>

At a micro level, the airline industry has access to an ever-increasing wealth of data on its customers. Existing systems already enable us to capture and analyse who they are, which socio-demographic group they belong to, where they are flying to and from, and their buying habits in terms of in-flight shopping and entertainment choices. Airlines need to leverage this data and tailor their sales and marketing tactics accordingly - e.g. by expanding the use of targeted advertising, which can be aimed at particular demographics in relation to the destination they are flying to.

Advancements in in-flight entertainment systems will enable airlines to personalise advertisements further, for example utilising data from loyalty schemes to target products to individuals based on previously stated preferences and in-flight purchases. Contextual advertising is already being used on TV to offer viewers the opportunity for instant purchase of items that appear in a film or TV programme. This could easily be extended to the in-flight environment. Customer data can also be used before and during the flight to tailor the food and beverage options available.

On a broader expansion of this theme, emphasis was also placed on looking deeper into the psychology of the passenger mindset throughout the different stages of their journey. This implies building an understanding of how the environment shapes a passenger's mood, behaviour and alertness to external stimuli. For example, during periods of high stress, passengers were seen to respond better to primary colours and simple messages. During periods of lower stress, passengers were able to absorb complex messages more effectively. This information could be utilised by the travel industry for smarter advertising, gauging the stress levels of the customer, and identifying the most advantageous 'touch points' at which to sell to them.

New Technology

The challenges and opportunities posed by the emergence of new technology was one of the major talking points of the conference. Technology now enables airlines to engage with their customers across multiple channels and in a variety of new ways – enabling them to offer passengers a range of new products and services both on and off the plane. However, technology was also seen as a double-edged sword, with airlines needing to keep up with passengers' rising expectations to be able to use their electronic devices in-flight and be connected continuously to the internet.

In-flight Wi-Fi Onboard Wi-Fi was one of the most widely discussed issues at the conference. Its introduction seems inevitable due to technology advances, adoption trends in the industry and customer expectations regarding continuous connectivity on the move. Hence, the debate focused on how to deliver the Wi-Fi service in terms of the extent of web access to be provided and the associated payment models. The spectrum of options includes direct payment per hour for full internet access or completely free provision – possibly for a limited time period during the flight. Between these two lies the 'freemium' model where certain basic options such as in-flight retail are available. Under this model payment would be required for those services - such as on-demand video - which require a higher bandwidth and consequently incur a higher cost for the operators.

Despite the fact that several airlines such as Lufthansa, Virgin America, AirTran and Delta already offer in-flight Wi-Fi on a number of their routes, there is confusion over the extent of provision. The main concern for airlines at the conference was how to cover the cost of installation and maintenance which they believe remains prohibitively expensive. There is also concern over having to pull aircraft out of flight rotation in order to retrofit them whilst lacking the surplus craft to cover the shortfall. It was argued that in time, as uptake increased, the growing demand and proliferation of technology options would help decrease the cost. However, the general feeling was it that in the current climate it would require at least one major airline to take the leap to offering a full in-flight solution for the rest to follow suit.

Seatback Technology, Tablets and Smartphones The introduction of more interactive seatback technology and tablets, alongside passengers' own electronic devices such as smartphones, provide airlines with a variety of interactive platforms to engage with customers. Seatback technology has become increasingly common throughout the airline industry, giving passengers a range of choice with regards to their in-flight entertainment services. A prime example of in-flight innovation has been Virgin America's 'Red' seatback entertainment and shopping platform. Using Red, customers can browse through various movies, games and music; use Google Maps; and purchase a variety of products, food and beverages in-flight with a single credit card swipe 'open tab' system.³

The introduction of in-flight tablet computers represents an evolution beyond the seatback. American Airlines will shortly introduce the Samsung Galaxy Tablet as a consolidated entertainment device. The next step is to make these devices fully interactive by introducing internet connectivity for web browsing and shopping. The smartphone is also considered an excellent channel through which to communicate with customers between the traditional airport touch points as well as to provide customers with applications (apps) that could ease their journeys. The smart phone also has the potential to act as an in-flight shopping portal comparable with seatback technology or tablet devices.

Virtual Shopping One of the big opportunities provided by the advancement of onboard technology is the ability to sell products and services to passengers virtually. This is seen as a major advantage because it expands the range of goods and services airlines can offer customers without adding weight and increasing fuel burn. Virtual goods can be used to supplement the existing range of products on offer. For example, a customer may be attracted to a particular brand of jewellery and want a bracelet in purple whilst it is only available in black or white onboard. A virtual catalogue means they could order the item via a terminal in-flight - choosing collection on the ground or delivery to their accommodation.

Virtual shopping in flight also offers the ability to sell products and services particular to individual routes and destinations. Customers can then book transport from the airport, reserve hotel rooms, and purchase a variety of tickets to theatres, theme parks and other attractions. Thus virtual products offer airlines the potential to increase revenues without carrying additional stock, sell higher margin items, and expand the range of products and services on offer for limited extra cost. Furthermore, virtual products can be sold by airlines

³ Airlines and Destinations, 22/07/2010, <http://www.airlinesanddestinations.com/airlines/virgin-america-upgrades-red-ife-system-with-new-features/>

prior to and after departure, for example KLM has introduced a pre-flight web shop where passengers can pre-buy a range of in-flight products.

One area of concern is that sales of virtual products are limited by the technology currently available onboard. For example without direct Wi-Fi links, purchases are only relayed once the airplane is on the ground, which may not be ideal for certain time/quantity limited items such as theatre tickets. However the prospect of in-flight internet connectivity, either through satellite or ground transmission, will make purchase confirmations near instantaneous.

Social Networks The continued rise of social media was also seen as presenting another great opportunity for airlines. Social networks such as Twitter and Facebook provide a platform for companies to spread brand awareness, encourage customer engagement and increase purchases. Elsewhere in the travel industry, hotels have already capitalised on Twitter to offer time-limited daily offers to encourage bookings. Airlines too are beginning to utilise this new medium - with an estimate that 69% of airlines plan to sell tickets via social networks by 2014. The example was cited of consumers buying music through their 'social currency' by Twitter posting, receiving a free track for their posting while giving the band free advertising and helping to spread brand awareness. Perhaps the same technique could be utilised by airlines, where customers use a posting on a social networking website to receive money off in-flight products and services? Furthermore social networks represent massive data sources, which can be mined for the latest insights on consumer trends.

Reimagining Traditional Airline Mainstays

The conference discussed how emerging technologies and innovations could be used to revitalise traditional airline mainstays such as the in-flight brochure, trolley and food service, and how they could be improved to maximise revenue potential and passenger's brand experience. .

In-flight Brochures The in-flight brochure has long been a cabin mainstay as one of the primary platforms for in-flight retail, yet many at the conference questioned whether its design had become too tired and standardised. One of the primary debates surrounding the future of brochures is whether they can survive in a physical form or should migrate totally to an electronic format, either through seatback technology or on passengers' tablets and smartphones. An electronic brochure allows a greater range of products to be showcased as well as the opportunity to purchase a product instantaneously. However during an experiment conducted by one airline where all physical brochures were removed for six weeks, leaving only electric seatback services, sales dropped 10%, and physical brochures were soon reinstated.

The conference came to the conclusion that, for the foreseeable future, there would be room for both physical and electronic brochures, with physical brochures preferred by the older generation and read during pre-flight waiting, take-off and landing when there's little else to do. Electronic brochures are seen to appeal more to younger passengers and will provide a platform for interactivity where airlines can engage customers directly.

In-flight Retail Trolleys Another traditional selling platform considered key by attendees is the in-flight retail trolley. It was argued that airlines could increase margins by adopting new

trolleys built out of lightweight materials that help reduce fuel consumption. These could be dressed with stickers and panels to attract customer attention. Trolleys could also be branded to provide an extra stream of revenue through advertising. Furthermore, new trolleys being developed are more secure and prevent product loss, which helps to protect airlines' profit margins.

In-flight Catering Some speakers highlighted that, whilst often seen as ancillary, food has the power to make or break a journey and provides valuable additional revenue streams. The challenge for airlines is to innovate with their in-flight food and beverage offerings, and to understand and respond to their customers' needs and expectations. This could involve rounding pricing rather than offering food at 99 pence, using familiar brands and utilising signature chefs not just in first class but throughout plane. There was also an emphasis on providing healthy options and moving towards taster plates, which reflect consumer dietary habits of grazing. This also opens up commercial opportunities such as offering a 'tastes of the world' range. Pre-flight booking would enable airlines to offer customers a wide variety of menu options at different price points – drawn from their own kitchens and other airport outlets – with the pre-booked food then being made available in flight on demand.

Thinking Innovatively with the Cabin

The conference explored how airlines could innovate in their use of the cabin. For example, the emergence of larger airplanes has made it possible for airlines to experiment with differing configurations and uses of space. One of the key examples discussed was the latest experiment by Korean Air, which has taken 13 seats out of their Airbus A380 aircraft to install a physical shop which will offer a tiered service, with those in first class having the first opportunity to shop. The shops have up to five display units, each holding up to 66 pounds of merchandise and displaying up to 64 different items.

Conference attendees admired Korean Air's innovative attempt to extend the in-flight retail experience. However, they also questioned the longer term cost-effectiveness in terms of lost seat revenues, the possible extra weight, and whether it will truly lead to greater in-flight revenues or merely be a costly gimmick. A less permanent alternative mooted was the idea of installing pop-up stores on flights, giving greater flexibility to play with ideas on presentation and products. These could be used for joint promotions with key brands.

The Triangular Relationship between Airlines, Airports and Suppliers

There is a cruel irony that, despite the fact that airlines are the crux of the aviation industry, many struggle to make a profit on a consistent basis – whilst others in the value chain such as airports and their retail outlets often remain profitable even in tougher economic times. Hence there were calls for a reassessment of the relationship between airlines, airports and suppliers and for the redistribution of aviation profit pools. Discussions in the conference highlighted the often bitter relationship that exists between airlines and airports and the preference of suppliers to focus on the latter.

Some believe that airports are increasingly becoming destinations in their own right, and used anecdotal evidence of customers flying to specific airports for the shopping opportunities they present. Conversely, it was also argued that airlines and airports should work together for their mutual benefit as part of the unified travel experience for passengers. For example, the boarding card could be used to track the airline from which each customer originates – thus enabling the appropriate sharing of commissions. The boarding card could itself carry offers which drove customers to particular airport retail outlets.

Technology advances also mean passengers increasingly have the option to buy in-flight and collect at an airport shop. This significantly reduces the need to carry stock in-flight – thus cutting weight and fuel requirements. Furthermore, airlines and suppliers can use innovative ideas to capture the attention of passengers before they board. For example, Patron Spirits are experimenting by building an ice bar in the terminal to allow passengers to sample their product before having the opportunity to purchase in-flight.

Conclusions – Innovation is the Key

The conference highlighted that in future airlines will have to make far more effective use of the passenger data they hold to understand their customers more thoroughly. There is also a pressing need to capitalise on the opportunities presented by new technology and react to customer expectations concerning connectivity. Technology also offers the opportunity to personalise and innovate on how products are promoted and massively extend the range of offerings for purchase in-flight.

Although it will play an increasing role, technology remains only one part of the equation. It must be seen as complimentary to existing platforms such as the in-flight brochure and trolley, and as an enabler to crews who provide an essential human touch to in-flight retail. Furthermore, retail remains a vital revenue stream for the struggling airline industry – and its importance is only likely to increase in the coming years. This means airlines must focus on using innovation and partnerships with suppliers to make their brand experience stand out. Finally, given the intense competition for customer attention and the critical role of airlines in the air travel value chain, it becomes ever more critical to initiate greater dialogue with airports and suppliers to enable the sharing of retail revenue streams.

About the Authors and Fast Future

Rohit Talwar is a global futurist and founder of Fast Future - a research and consulting firm. David Saer is a foresight researcher. Fast Future works with clients around the world to help them understand, anticipate and respond to the trends, forces and ideas that could shape the competitive landscape over the next 5-20 years. Our work draws on a range of proven foresight, strategy and creative processes to help clients develop deep insight into a changing world. These insights are used to help clients define innovative strategies and practical actions to implement them. Clients include 3M, Astra Zeneca, E&Y, GSK, IBM, Intel, KPMG, Nokia, Novartis, O2, Orange, PwC, SAP, Sara Lee, twofour54 and the OECD. We also work with a range of city and national level government entities around the world.

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