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HOW TO INCREASE PROFITABILITY
BY OFFERING

AIRLINE ANCILLARY SERVICES

ON PACKAGED BOOKINGS



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ABSTRACT

The main objective of this document is to elucidate how to handle requests and booking of airline ancillary services with an eye to increasing apparent value and consequently the revenue by offering more value-adds and complimentary services.

All airline services followed a reactive selling approach towards offering ancillary services like Extra Luggage allowance, Seat preference, window seating, Special Meals, etc., to its customers.



PROBLEM OVERVIEW

In the travel industry management, the services were offered to passengers only when they visited or managed their booking. The need of the hour was to opt for a pro-active mode of ancillary sales. Just like in the case of Food Combo offerings in the theatres, the cost of ancillary services is negligible, but given the high perceived value, the margins earned on them were attractively high to warrant their inclusion in the spread of service offerings to the customers.

Though primarily associated with the Add-on Flights feature in the Tourism Booking Engine, these ancillary services requests can also occur within the airlines through flight search and booking provision as provided by GDS. The aim of this document is to assess the impact of the airline ancillary services in the travel management process and to:

- Understand the impact of the ancillary services in the travel management process
- Find answers to what needs to be developed in a different way to make the travel management process smooth when ancillary services are involved
- Gather feedback and ideas for corporate, airlines, and system providers regarding ancillary services
- The ultimate goal for travel agency is to provide a digital framework that has a holistic view of all areas of travel bookings along with airline bookings and their independent services needed for a digital strategy for managing ancillary services.
- The framework can help travel operations tactically / deliberately measure all package booking areas and digitize them successfully. Along with that, all areas need to be addressed and integrated so that the operational department accordingly plans actions for each area.

INTRODUCTION

WHY ANCILLARY SERVICE BOOKING AND IT'S REVENUE MANAGEMENT

The new technology development in the travel industry and airline management systems played a significant role.

1



Managing Customer Requirement

A family traveling during summer often carries golf clubs or other special baggage. While the parents prefer a vegetarian or a regular meal, the children would like to have baby food. When they board, along with various pre-ordered items, they also request movies and headphones during the long journey. In addition, extra legroom for kids' mobility needs is a common request, booked in advance for an additional fee.

Backpackers want to travel as economically as possible. They can make more trips if the fares are cheaper. To avoid additional fees, they perform the check-in and baggage handling on their own, and to reduce the price, they are also open to unspecified seating.

Managing Customer Data

Passenger data is critical for airlines, if they need to match the diversity of expectations and offer everyone the best possible travel deals and experience. This leads to several considerations such as follows:

It is necessary to seize the ancillary revenue opportunities before, on, and after the flight to manage the profitability pressures that most travel agencies face.

Offering more sales points via booking engines before departure, during the flight, and via mobile apps, among others, can positively influence the revenue per pax.

As the requirements are highly personalized, improper implementation can risk an explosive administrative burden in connection with each flight and airline GDS system.

2



Careful monitoring of selection, pricing, and rules and regulations are important as the travel industry is moving towards retailing. Also, payment systems and trademark guidelines need to be set.

The workload of the flight attendants is increasing. They are expected to provide personalized service and manage their traditional duties.

3

Ancillary Service Offerings

Some of the airline service providers might be priced while others may be offered as complimentary.

| Ancillary Service | Always | Sometimes | Rarely/Never |
|-------------------------------------|--------|-----------|--------------|
| Predefined Seat Assignments | 64% | 32% | 04% |
| Travel Insurance | 36% | 34% | 30% |
| Checked Baggage Fee | 42% | 30% | 28% |
| Upgrades | 27% | 47% | 26% |
| Meals – Food and Beverages | 23% | 32% | 45% |
| Priority Boarding | 18% | 41% | 41% |
| Carry-n Baggage fee | 17% | 47% | 36% |
| Advanced Check-in | 13% | 35% | 52% |
| Airport parking | 11% | 27% | 62% |
| Destination Activities on Airports | 10% | 37% | 53% |
| Pet Carriage | 9% | 44% | 47% |
| Car Rental – through airline offers | 8% | 22% | 70% |
| Hotel – Via Airline offers | 8% | 23% | 69% |
| Airport lounge access | 6% | 41% | 53% |
| In-flight entertainment | 4% | 15% | 81% |
| Wireless internet | 20% | 20% | 60% |

Apart from the above ancillaries, airline service providers now change their gears towards below offerings into seating preferences also:

4" more leg room?

6" more leg room?

50%/30 %
more recline?

...

KEY FINDINGS

1

ANCILLARY REVENUES

A RAY OF HOPE

There are a lot of extras that travelers might need, insurance, car rental, excursions, and upgrades (think economy-plus seating), to name a few.

Travel companies can boost their online revenue by selling these extras on their websites. As a result, hotels, airlines, and cruise lines are increasingly seeking a slice of the ancillary pie.

Given the proven ability of ancillary sales to boost revenue, we can expect to see this persist as an essential element of online strategy.

In an age of ever-tightening revenue streams, ancillary sales matter a great deal for travel companies also.

For example, the average profit margin for airlines is currently estimated at 1 – 2%

(Source: IATA Boost of Airline Profitability March 2013)

The total combined airline profit reported in 2015 was \$33 billion (4.6% net profit margin)

(Source: IATA Dec 2015)

However, the total estimated ancillary revenue for 2015 reached \$59.2 billion, marking a growth of more than 163% since 2010, when ancillary revenue was first measured.

(Source: IdeaWorks Nov 2015)



To truly understand the potential of ancillary revenues, let's look at the following statistics:

| | | |
|---|--|---|
| In 2011, airline companies worldwide earned \$32.5 billion as ancillary revenues, a growth of over 66 percent in less than two years. It was revealed by research conducted by a leading airline ancillary revenue consultancy IdeaWorks Company, and Amadeus, a leading travel technology partner and transaction processor for the travel and tourism industry. | 50 airlines worldwide reported making \$22.6 billion in ancillary revenue in 2011, a 66-percent jump from the \$13.5 billion that the 47 airlines reported such income earned in 2009. | While ancillary services were primarily restricted to low-cost airlines earlier, recent research shows that this trend is prevalent among large airline operators. The report titled Amadeus Review of Ancillary Revenue Results of 2011 clearly exhibits the rising potential of ancillary services. |
|---|--|---|

| Amadeus Worldwide Estimate of Ancillary Revenue | | | |
|---|------------------------|------------------------|----------|
| Airline Category | 2012 Ancillary Revenue | 2011 Ancillary Revenue | Increase |
| Traditional Airlines | \$ 12.788 billion | \$ 10.933 billion | 17% |
| US Major Airlines | \$ 12.399 billion | \$ 12.496 billion | -0.80% |
| Ancillary Revenue Champs | \$ 5.555 billion | \$ 4.256 billion | 30.50% |
| Low-Cost Carriers | \$ 5.376 billion | \$ 4.765 billion | 12.80% |
| Worldwide Totals | \$ 36.1 billion | \$ 32.5 billion | 11.30% |

Source: Ancillary revenue statistics applied by ideaWorks Company to individual airline revenue results for the year indicated from Air Transport World, Airline Business and at airline websites

However, the most significant potential lies in the ability of the airline operator to offer a bundled package to a potential traveler.

For example, a bundled service of a hotel, restaurant, taxi, and entertainment that a passenger can avail of has great value. The customer will find value because customers are typically anxious to book multiple tickets from different operators. Airlines can bundle other services and earn a higher percentage of revenues from ancillary services.

KEY FINDINGS

AIRLINE ANCILLARY SERVICE

WHAT IS WORKING TODAY?

The big question today about airline ancillary services is, “Are sales of airline ancillary services ‘Working’ today?” So, there may be many answers on this as per the customer experiences i.e., in case travelers and suppliers understand the benefits or depend on airline carrier service. Still, it is always observed that Airline ancillary service bookings are “Confusing” and needs more organizing.

Planning and promoting sales by presenting the right products to the right market at the right time using attractive displays can help customers find exciting additions to the actual products.

43%

Very Interested

34%

Somewhat Interested

23%

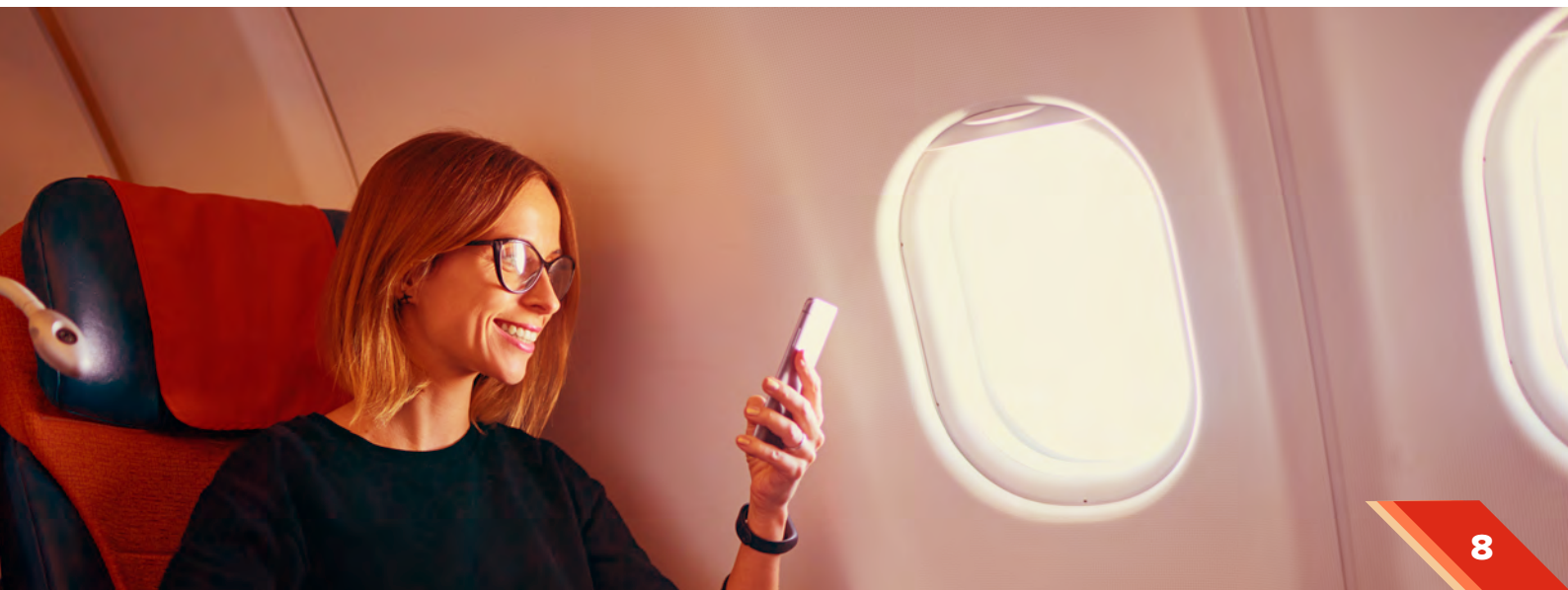
Still grieving over unbundled airline services

First of all, LCC will impact the equation considerably in the future if we look at the stats for growth in the UK for LCC as compared to the traditional network carriers.

Also, if we look at country by country or market dynamics, new players are causing established players to react differently.

E.g., Qantas is no longer the de facto leader in Australia. Virgin Australia is, by some calculations, a 51% share that will change how Qantas thinks about its sales and revenue strategies going forward.

But then, to compete with new players, including the LLCs, all airlines are now thinking about how they can have fast, flexible fare offers and schedules. So, dynamic fair filling using API-based technology is allowing traditional carriers largely to run parallel business models, which will work as long as the technologies work together seamlessly. It's a clear point that ancillaries are vital to the overall business model.



IMPORTANCE OF ANCILLARY MANAGEMENT FOR TRAVEL AGENTS

Travel Agents recognize the importance of selling ancillary services along with their packaged or individual products. Research shows that 85% of TA wants to sell airline ancillaries to their customer and earn their business profitability. Primarily, this is very true in the corporate travel sector, 90% of the corporate travel managers use travel agencies to manage business travel for their employees. These travel managers want access to the travel content in an aggregate manner.

In 2015, ancillaries gave a new height of business around over 45 billions for Ratina airlines, from this, you can think how profitable margins travel agencies will earn through running separate modules for upselling/cross-selling of airline ancillary services. When looking at the travel agent side of the equation, while ancillaries are critical, the reality of selling them today is complex, and it's hard to know at times what an airline is offering in terms of optional services on what

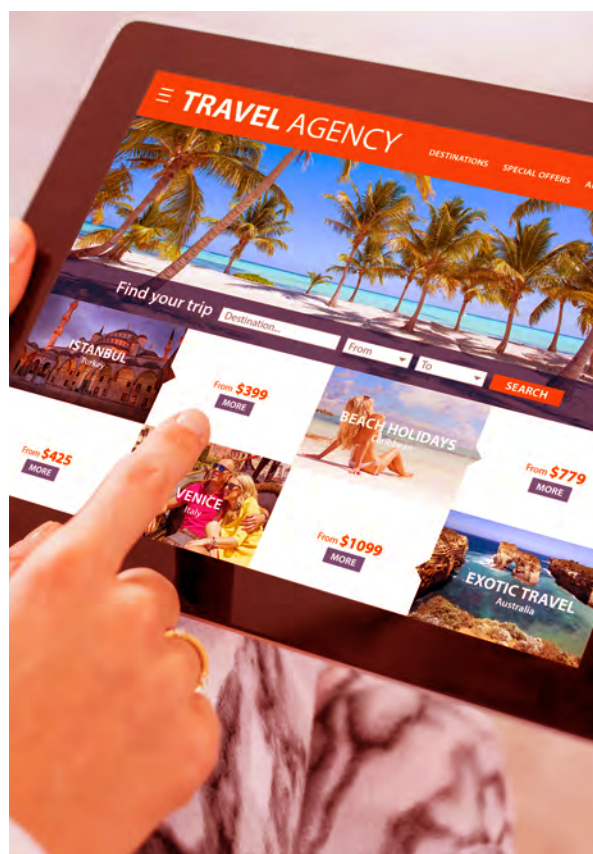
routes and for what prices. The important thing to the travel agents from a technology provider is that they have to enable the airlines to offer those ancillaries and pursue their growth strategies across all of their channels. So having a multi-channel approach to merchandising is a key part of the travel platform.

Why do ancillary sales matters to travel businesses?

Ancillary sales present a tremendous opportunity for businesses to generate increased revenue while simultaneously strengthening customer relationships. A study of consumer opinions finds that customers want to buy ancillary options to enhance their primary purchase and are willing to spend more than originally planned on items or services that meet their needs and interests.

However, the research also indicates that making just any offer to all customers at unplanned times does not work to create a successful ancillary sales program.

Customers want tailored and appropriate add-ons delivered at the right time and place. Most businesses are not getting it right, thereby losing revenue and irritating customers.





The report from the Digital Travel Summit in their survey of the travel industry 2015-16, where more than 110 senior executives from travel companies across Europe took part in the survey, shows their approach towards ancillary services sales.

How much of a company's total revenue increased by selling ancillary services as add-ons to main services?

48%

of companies accepted that their revenue increased by 20% or less

42%

of companies accepted that their revenue increased by 21% to 40%

10% of companies accepted that their revenue increased by 41% to 60%

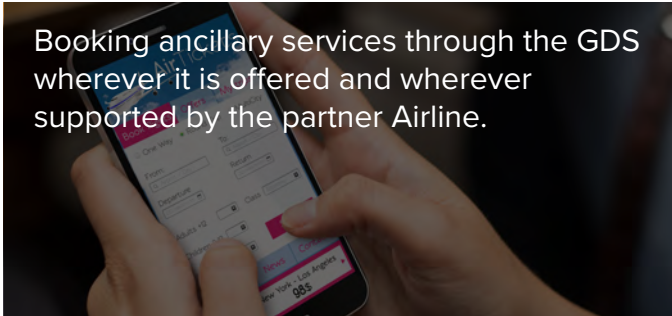
Ancillary products account for a significant percentage of revenue for surveyed companies. For some, it's up to as much as 60 percent. This is astounding and important. It means that all companies should be doing more to understand and optimize ancillary sales in order to build immediate and long-term revenue and keep up with marketplace competitors.

The survey also shows that around 80% of the ancillary business will be increased in the next few years.

SOLUTION SCOPE



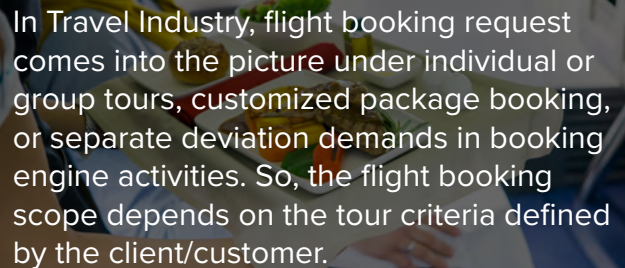
Provision of an Online and offline Tracking mechanism for Ancillary Services.



Booking ancillary services through the GDS wherever it is offered and wherever supported by the partner Airline.



Ensuring that the Airline system can handle flight requests and ancillary service requests from customers.



In Travel Industry, flight booking request comes into the picture under individual or group tours, customized package booking, or separate deviation demands in booking engine activities. So, the flight booking scope depends on the tour criteria defined by the client/customer.

HOW CAN TECHNOLOGY HELP? 1

The travel industry should be fascinated by how they can use “Digital” (touchpoints, channels, techniques) to increase their business through airline ancillary revenue.

Research shows that growing ancillary is still among airlines’ top priorities. It would say the pressure for airlines to find additional sources of revenue is greater than ever. Nowadays, airlines are trying to be in the market sector and for additional revenues through digital transformation. For Travel Industry also, to stay competitive, they need to master digital learning to expand business. This means knowing your customer better, understanding their preferences, and offering the right product or service in a way that adds value to the customer.

In addition to offering various products (not only a flight), OTAs 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. Many airline markets have publicly spoken about their thought process for digital transformation from their traditional business approaches.

Each of them said that they want to be a digital company that sells all kinds of travel products – not only an airline that operates flights and only sells flight tickets, but also selling hotels, vacation packages, and others.

And there is much scope of the business for them through the up-selling/cross-selling of airline ancillary services to their customers. To become successful in selling airline ancillaries, every travel company needs a different mindset and certainly a new set of digital goals along with the skills.

LEVERAGING TECHNOLOGY TO IMPROVE COMPETITIVENESS 2

In order to succeed, Travel Industry has to position itself as a retailer. If taking an approach like Amazon, they can play a big role in fulfilling many of the needs in different segments where they do not operate.

By leveraging technology, travel industry operators can offer the right service at the right time and improve the adoption of their ancillary services. For example, just as Amazon recommends certain products, depending on the product or service you buy, travel operators can do the same.

In the travel sector, customers who become regular customers consider how to get the best experience in a given situation.

How do I get to a great hotel if I'm flying for business?

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?

In most cases, it is observed that providing ancillary services to their customers and making the profitability in business shows ancillary revenue is very high compared to other services they are providing to the customer. When looking at their digital transformation thinking techniques (their UX & booking funnel, their mobile, digital marketing processes, how they use their data, etc.), there is a lot of room for improvement.

Also came across the opposite cases: OTA with a more traditional, full-service model, where they were not selling airline ancillaries the ancillary share was not as high, but they were very good at digital transformation.

Below are the evolution areas where OTA can build their approach toward cross-selling airline ancillary services to their customers:

How do you use data for personalized offers w.r.t. the airline ancillary services?

What kind of contracts do you set with Airline Service providers to utilize different offers they provide?

How do you get in touch with different customers for the pre-tour, in-between tour, and post-tour shopping experience?

What kind of digital provisions or activities do you do to promote the ancillary services the airline provides to the customers?

What kind of solution are you providing to your customer in the case when one airline service provides better ancillary services than others?

What is your approach towards upselling and cross-selling of airline ancillaries?

How flexible are digital bookings in terms of pre/post tour booking platforms?

What kind of advanced digital concepts do you experiment with (like artificial intelligence, machine learning, predictive analytics, recommendation engines)?

LEVERAGING ARTIFICIAL INTELLIGENCE TO INCREASE AIRLINE ANCILLARY REVENUE

3

The success of transforming ancillary business through artificial intelligence and machine learning creates a new level in earning better revenues.

Through digital transformation, artificial intelligence, and machine learning we can create new levels of airline pricing and negotiations. The most important thing is to understand the digital journey of the passenger, from inquiries, interest, and

understanding behavior to the prosperity of customers. All these need to be then adjusted to the pricing and product recommendations in line with what customer's expectations, higher conversion rate, happier customer, better product matching, etc. parameters.

Through this, any OTC can earn growth in ancillaries and may increase in over the 50% percentage of ancillary revenue as a total.

ANCILLARY SERVICE OFFERINGS REQUISITE FOR TRAVEL AGENCY



Ancillary services can be bought only against sectors that are confirmed, otherwise they will be on "Requested" basis only.



Strategic use of airline frequent flyer programs. Many airlines do not charge for ancillaries for frequent travelers, especially those who are on a higher tier. It is strategically wise to register frequent travelers into the most cost-effective frequent-flyer programs and educate the travelers about the fee savings of doing so.



Keep the travel policy up-to-date regarding ancillary services.



Gather data from all possible sources in order to make spending visible.



Negotiate with preferred service suppliers about ancillaries.

The ancillary services (Seat preference, Extra Luggage, etc.) is part of the main Transaction, and not an independent service. They cannot be bought unless you have made the main transaction, i.e., you cannot currently take an Add-on/ Extension without booking the Main Tour Package in travel bookings. In Travel Management System, the solution enabled the client to get an automated and integrated platform to offer its ancillary services to the passengers. The solution was more proactive and intelligent in deciding which passenger is in need of a particular service. The solution not only targets the direct sales channel but also 95% of sales are now happening on the GDS (Global Distribution System) through General Sales Agent.

FLIGHT BOOKING WITH ANCILLARY SERVICES THROUGH BOOKING ENQUIRY ENGINE

Currently, all the services except insurance are provided by the GDS. However, insurance may be contracted with Private Suppliers and offered as a value-add/upgrade through the Portal or internal Booking engine.

Low-Cost airlines such as SpiceJet and Indigo have

already started charging for special services seat selection/extra baggage, and progressively all airlines will follow suit. This information should come from the GDS (if the fare is sourced from the GDS) or the Private Fare Engine if the selected contract mentions the charges. Travel Port (Galileo) has released API/XMLs to

handle ancillary Services.

Excess Baggage and Seat Preference are the most common ancillary services, sometimes purchased at extra cost. All the LCC Flights and some airlines provide the prices for these extra services directly either from the GDS or their own booking engine.

Within Travel Management System, adding ancillary services for each passenger in each sector needs to be handled by the enquiry booking management.

Make sure that all ancillary services will associate with the main service only. I.e., clients can request for ancillary services only when the PNR has been created and sectors confirmed. The ancillary services will have to be booked against each passenger, and that too sector-wise.

Ancillary service will be considered in the package only after flight booking selection; they cannot be bought separately without flight selection. Users simply cannot book Ancillary services as a standalone service, i.e., without first including the main flight services.

As per the selection of ancillary services, an extra charge will be calculated in the package cost. Any Complimentary service will incur zero charges.

Ancillary services can be bought only against sectors that are confirmed. Otherwise, they will be carried out on a "Request" basis only.

All ancillary services bookings will be referenced through the PNR of the main ticket/booking, and no separate PNRs will be created to hold Ancillary services.

Important

If the price for ancillary services is available through GDS, then use those prices; else, accept the requirement as a request, and the ticketing officer will debt the file (Additional Invoice) once he determines the prices through using the Blue screen or the GDS terminal.

POST BOOKING REQUEST FOR ANCILLARY SERVICES

Travel Management System needs to provide the provision to book ancillary services post main Flight Booking.

If the customer has already requested ancillary services from the booking engine itself, then Ancillary details will be aligned within the ticket control management system.

Otherwise, the customer can make a fresh request for ancillary services even after having raised the Ticket Indent.

Ancillary Services confirmation against PNR Confirmation

SCENARIO

If PNR is not confirmed

In this case, only the flight details will reflect in the operational division - Ticket control section without PNR details.

Any request for ancillary services will be attached to the Indent as a 'Request' only until the Ticket status has explicitly changed it to "Confirmed".

SCENARIO

If PNR is confirmed, but the request for ancillary services has not confirmed

In this case, only the flight details will reflect in the Ops division of - Ticket control section with PNR details.

Unless the PNR has been successfully generated, ancillary Services status cannot be generated, and their details need to be reflected in the "Request" Status only.

Ancillary Services confirmed versus PNR Cancellation / Release

SCENARIO

If PNR has been cancelled/released, what happens to the previously confirmed ancillary services.

Once PNR is canceled, then ancillary services attached to that PNR will also get auto-canceled. The ancillary services will have to be booked afresh with the new PNR.

It may not be possible to apply earlier ancillary services to the new flights as circumstances that existed for the old flights may not necessarily hold true for the new flight selection.

HOW TO MANAGE AIRLINE ANCILLARY IN TRAVEL INDUSTRY

Why are Ancillary services defined for each sector in enquiry section while selecting flight details and Ancillary services?

Services such as 'seat-mapping', 'onboard meals', and extra luggage are dependent on the flight. For example, in a PNR created for BOM-SIN-BKK-BOM, the customer feels he is going to do maximum shopping only in Bangkok and hence will require extra baggage only for the BKK-BOM sector. Like-wise, a Customer may opt to have either no meals or sample different meal types on different flights.

If Booking involving flights & ancillary services is made on Time-limit option; and no collection has been done on the file for the same; who will bear cancellation charges if any, in case the booking is auto released?

If the customer makes the booking on a time limit basis, then only the PNR is created and held on a time-limit basis. Generally, there is no liability until tickets are issued. However, if there is a liability created, the burden of that liability will first fall squarely on the Company as the primary contract is between Travel Agency and BSP / Airlines. Therefore, checks and balances must be in place to ensure that collections from the customer always exceed liability.

In case of Tour Consolidation, will the pre-booked ancillary services be deleted? If Yes, the cancellation charges reflected in invoice or accounts statement? Or also provide the states/policies if any.

In the event of tour Consolidation, the ticket indent held on the previous departure will be canceled, and so also corresponding requests/booking of ancillary services. The Ops staff will have to raise the ticket indent afresh along with a new request for ancillary services.

The cancellation policy is set during the contracts with the airline suppliers and GDS. Tour Consolidation will be done per Business decisions and customer requests.

In case of tour consolidation as per customer request, then definitely cancellation charges will be applicable for the customer on booked PNR through:

- A debit note raised towards the cancellation charges, if any.
- A credit note for, say, a refund for Services not utilized.

In case of tour consolidation as per business process, cancellation charges will not be applied to the customer; and will be borne by the Company. It will be handled offline with airline suppliers as per the contracts agreement.

How can travel management system can simplify the display of ancillary services details on the basis on airline selection? or provide a chart/list to view ancillary services?

Ancillary service booking details will display sector-wise against each passenger in the tour package. Ancillary details will need to be displayed for each passenger within Ticket Control separately along with their status from GDS.

It will be a good idea if the travel management system provides a list to view ancillary services.

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REFERENCES

<https://diggintravel.com>

Travel domain study and experience

About Happiest Minds

Happiest Minds Technologies Limited (NSE: HAPPSTMNDS), a Mindful IT Company, enables digital transformation for enterprises and technology providers by delivering seamless customer experiences, business efficiency and actionable insights. We do this by leveraging a spectrum of disruptive technologies such as: artificial intelligence, blockchain, cloud, digital process automation, internet of things, robotics/drones, security, virtual/augmented reality, etc. Positioned as 'Born Digital . Born Agile', our capabilities span digital solutions, infrastructure, product engineering and security. We deliver these services across industry sectors such as automotive, BFSI, consumer packaged goods, e-commerce, edutech, engineering R&D, hi-tech, manufacturing, retail and travel/ transportation/ hospitality.

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