

With airlines focussing on all costs and revenue sources, dynamic packaging is a relatively new technology that allows airlines to offer a series of travel-related services & products via their own websites. This has the potential to generate potentially large revenue streams.

Exploiting ancillary revenue streams

With yields under pressure, and competition remaining intense, airlines regularly analyse how to increase revenue and firm up profit margins. While increasing market share and expanding into new markets are obvious strategies for revenue growth, together with cost reduction to improve margins, there is a new option available. The hot topic for airlines today is ancillary revenue streams.

Ancillary revenue refers to any non-flight-related source of income. There are different definitions and categorisations of ancillary revenue, which make side-by-side comparison of airline strategies in this area difficult. The two main areas that airlines focus on, however, are hotel rooms and car hire, which are obvious products that naturally complement the sale of an airline seat. The simplest solutions comprise links from airlines' websites to a large number of hotel booking engines and car hire companies.

The problem with these solutions lies in their very simplicity. Customers are taken to a separate web environment and then have to enter the same data all over again, sometimes twice. Most quickly give up and never book via these 'click-through' links. An answer to this problem is a relatively new technology and concept known as 'dynamic packaging', which is the latest trend in ancillary revenue generation.

What is dynamic packaging?

Dynamic packaging is travel industry jargon for a cheaper and more flexible way of booking a travel package. For the customer, dynamic packaging mimics the experience of visiting a travel agent and negotiating a deal the customer wants.

Dynamic packaging allows an airline's end-customer to package their own

travel, at the same time as allowing the company to make better margins while still offering a competitive price compared to its direct competitors. The phrase is rarely found on an airline's website, however.

Websites have adopted rather more straightforward descriptions of the technology such as 'book together and save', 'build your own' or 'flight + hotel'. Today most suppliers are seeking new ways to move their inventory and gain market share without competing one-to-one on price. Dynamic packaging gives consumers the ability to obtain hidden discounts through enhanced marketing and merchandising.

Dynamic packaging can also act as a tool to re-establish a brand as a decision factor for consumers via a company's on-line distribution strategy. How does it work? The airline customer firstly states the place and dates of travel. Instead of proposing the usual selection of fixed packages, however, the website offers a choice of flights and hotels at different prices. Once the customer has chosen the right combination, dynamic packaging allows the airline to try and sell car rental or an insurance policy, and other add-ons such as city tours, travel extras, airport parking or room upgrades. Water sports lessons, ski gear, lift passes, and theme park and museum tickets are all likely to become available as dynamic packaging grows more popular.

Real-life experiences

"easyJet started to experiment with ancillary revenue generation about five years ago," says Hemant Desai, founder and managing director of Theideasman Limited. Desai was the head of ancillary revenue at easyJet until recently, but now he offers management consulting to on-line businesses.

"The interesting thing about easyJet was that the strength of its brand allowed it to tap into new revenue opportunities. It expanded into areas like car hire, hotels and insurance, which were the big three contributors for the airline," says Desai. "They were high-margin generators, and the airline even began to get on-line bookings just for cars from as far away as Australia. So low-cost carriers (LCCs) like easyjet and Ryanair started to expand the area of ancillary revenue. But the real growth area today is dynamic packaging, which allows an on-line customer to put together their own travel plan. It includes elements like flights, cars, hotels, excursions and insurance, but the key is that customers do it all in one place and essentially become their own travel agent. Cost savings, choice and convenience are big winners for the consumer, while ancillary revenue for the airline can be substantial."

Desai explains that the area of ancillary revenue is still a little cloudy in the airline industry. "We need to be careful about definitions when we discuss ancillary revenues. Some airlines muddy the water to avoid giving the game away, counting charges and some taxes as ancillary revenue, making a side-by-side comparison difficult. For example, the recent £0.50 (\$0.98) charge levied on Ryanair by Stansted airport for wheelchair use is not clearly reported in additional flight revenue in Stansted's annual report. Most airlines today, when referring to ancillary revenue, will talk about credit card charges, fuel surcharges and other charges they make for booking alterations. They will not be referring to commission on car hire, for example. The real growth area is in dynamic packaging, not charging customers for credit card transactions. There are four key success factors for generating revenue this way."

"First you need visitor traffic to your

Ancillary revenues: all areas growing			
	FY 2006	FY 2005	Change
Ancillary revenue (£m)	131	87	+51%
Per seat	£3.37	£2.51	+34%
Change per seat	FY 2006		
Card fees	+ 24%		
Change fees / Rescue fees	+ 20%		
Partner	+ 83%		
Excess baggage / Sporting goods	+ 53%		
In-flight	+ 13%		

website. Volume is the key here. The second success factor is conversion rate: how many visitors go on to book another travel service," continues Desai. "This is also known as the look-to-book ratio, and it needs to be as high as possible, since it is a multiplier in the revenue equation. The third is the average booking value. The trick here is to upsell as much as possible, so it is better to sell an E-class Mercedes than a Nissan Micra. The fourth, and final, factor is the commission or margin made on each sale. This is down to good negotiation with suppliers, but it can be significant. These four factors multiply together to provide the total ancillary revenue generated."

Is the end customer willing to pay some of the charges that some airlines class as ancillary revenue? The answer seems to be a resounding yes, even though the customer does not know why they are paying. For example, there is no clear correlation between what an airline pays the airport, and what the travelling public pays the airline in taxes and airport charges. This is a way for some airlines to earn incremental revenue and profit. "In reality the various ancillary revenue opportunities are short- to medium-term in nature," continues Desai. "Price is king in the internet age. Ironically, dynamic packaging and ancillary revenue generation give the LCCs a role that they themselves smashed when they were founded: that of the intermediary. The airline becomes a travel agent that is trying to sell services other than flights, and charging the user to do so, thereby adding an additional layer of cost between the consumer and their end objective: to buy cheap travel products. The risk is that they will go the same way travel agents did in the past, and either go out of business or find new ways of doing business. They would have to retreat back into simply flying 'bums on seats'.

"Successful continued generation of ancillary revenue in this new future will depend very heavily on the strength of the brand," continues Desai. "Otherwise there is a danger of simply becoming an 'information portal' rather than a 'sales portal'. Customers may use the dynamic packaging tools to check which hotels and car hire companies are located at a destination, and then go directly to those companies' websites for a better price. People do want convenience, but they also want to be confident that they are getting a very good price."

"There is a legal aspect to ancillary revenue generation. We are familiar with the idea that a travel agent must be bonded or insured before we would be happy to book a package holiday with them. It is the same situation, largely, for dynamic packaging," continues Desai. "There have recently been a number of international legal rulings that have tried to clarify the situation. Most countries require a form of guarantee to offer flights and substantial other travel services with a single payment transaction. The requirement can be met with an Association of British Travel Agents (ABTA) or Air Travel Organisers Licensing (ATOL) bond, insurance, or by holding the money in trust.

"Airlines need to be clever to meet this requirement. There is also the issue of customer service," continues Desai. For example, if a customer buys a flight with an LCC, and also reserves a hire car, what do they do in the event that the plane is four hours late and the car hire company is closed when they arrive? Some LCCs already address this by allowing the customer to book another car or hotel, and refunding their money, but this policy is not universal. Still, while there are some legal and operational issues to be dealt with, the prize to be won is huge."

easylet grew its ancillary revenues per seat flown in 2006 by over 30%. The biggest increase came from 'partner' sources like hotels and car hire.

New solutions

The trend for airlines to be seeking ancillary revenues has generated new business opportunities for software solution businesses. A young, dynamic company, based in Holland, is MainTrack Services. Started in late 2004 by two experienced aviation consultants, the company is gradually revolutionising airline IT services. "We were involved in the start-up of a new LCC and looked at its IT needs afresh," says Robert Kok, managing partner at MainTrack. "We started by setting up a complete 'airline-in-a-box' software solution, delivered over the web on a pay-as-you-use basis. Then we thought hard about the sales side, and looked at the trends in on-line e-commerce. We also talked to a number of airlines about ancillary revenue, and the result was our Travel Portal.

"The Travel Portal is a solution that integrates with an airline's website and allows cross-selling of other services, thereby enabling an airline to completely change the rules of the game in terms of competition," continues Kok. "It can move from fighting on the cost of seats, to generating significant revenue and profit margin by providing new travel services to their end customers. It is using a very valuable asset, namely the on-line web traffic to its website, to cross-sell other profitable products. The process starts with the flight, but most travellers need other things when they arrive, like a car or a hotel. The trick is to make it very easy for the customer to select and book these additional services, and to offer them at a really low price by missing out the usual middlemen, such as travel agents, who need to be paid a commission. We simplify things by completely removing duplicate data entry requirements for each service. So the Travel Portal will know from your flight reservation where and when you are landing and for how long you are staying. If you paid by credit card it will bring forward those details too. All you have to do is to click on which service, like a car, you want to add. This means that the 'look-to-book' ratio, which is the number of times someone selects a service having looked at the offering, dramatically increases if the price is right. We are taking the idea of dynamic packaging one step forward, so that instead of just offering software, we are offering airlines the tools and, importantly, the bookable



The MainTrack travel portal is a dynamic packaging solution that is completely free to install and free to use. It cross-sells hotels and cars from an airline website.

content as one solution, together with all the back-office functions like payment and customer relationship management (CRM).

"The Travel Portal concept offers a number of significant benefits for airlines that install and run it alongside their e-commerce website. First, it has enormous potential to generate significant, profitable, ancillary revenue. Second, as a Travel Portal owner, an airline controls all the transactions from end to end, thereby ensuring that it provides a good and efficient customer experience," continues Kok. "Third, the organisation 'owns' the customer, which means all the data about the customer's travel plan, including what they will do when they arrive, which hotel chain, car rental company and car type they prefer, etc. These rich CRM data are extremely valuable to airlines, since they help them to analyse their customers better and target their direct marketing campaigns more effectively. Someone who always books the Hilton when they travel, is more likely to respond better to a special-offer flight package with the Hilton Group than other travellers.

"Fourth, the airline can make a much stronger combined product offering than simply a flight. The principle is one plus one equals three. By doing this, it can differentiate itself in the market place more effectively. The last two benefits are financial, but go to the heart of the MainTrack business strategy. We offer the Travel Portal free of charge, so there is no initial start-up implementation cost or license fee, and no investment required. Finally, there are no running costs for the Travel Portal, because it is delivered as an Application Service Provider (ASP) solution, fully hosted and managed by MainTrack in a professional data centre. This makes it almost a 'no-brainer' for most organisations, because there is no

financial risk. The Travel Portal can be live in a matter of weeks, fully integrated with the airline's e-commerce site since the content is also provided along with the software."

Revenue opportunities

"The revenues from dynamic packaging can be significant," says Marcel Kalsbeek, the second founder and managing partner of MainTrack. "For a customer flying to London on business for two days, a typical hotel might cost \$200 per night. At a commission rate of 10%, that passenger generates \$40 profit, which is then split between the airline and MainTrack. The commission is similar for car hire, and contributions can be around \$20-50 per passenger booking. So for a mid-sized airline with five million passenger segments per year, we might expect a conversion rate, or look-to-book ratio, of one in 10 if the application is easy to use and the prices and choice offered are competitive. This equates to 500,000 potential cross-selling opportunities. If the average spend per ancillary sale is \$200 per stay on hotel, and \$100 on car hire, then the total incremental ancillary revenue is \$15 million annually. If the look-to-book ratio doubles then this rises to \$30 million.

"The key is to make the offer very attractive, in terms of price and tailoring it to the customer's individual needs, and to make it very easy to book. If people are confident that the price offered through the Travel Portal is as good as the one available direct from the hotel's website, then the look-to-book ratio will steadily rise," continues Kalsbeek. "So the content is very important. MainTrack has partnered with one of the largest online hotel booking solutions in the world, Pegasus Solutions. Pegasus is the largest third-party marketing and reservation

provider in the world. It serves the 10 largest US-based travel agencies, eight of the top 10 agencies in the United Kingdom, over 60,000 hotel properties and more than half of the 50 largest hotel companies around the world. The Travel Portal immediately offers the breadth and depth of hotel content in virtually every destination to which an airline might fly. The airline has no work to do in terms of negotiating separate agreements with hotels and doing the technical integration. Also, through Pegasus we can guarantee that the prices offered on line will match those that can be obtained at hotel chains' websites, unlike some other solutions like Octopus and Hotels.com where prices are usually \$20-30 more than those on the hotels' websites. With car rental, we work with Holiday Cars to offer all the major rental chains at over 10,000 locations globally. We are also looking at others like Car Trawler to extend the offering. At the back-end, we partner with Triple Deal, a Dutch company offering e-commerce payment solutions, so that secure credit and debit card and direct bank transactions, as well as cash payments, can be processed."

"The clever parts about the Travel Portal are the commercial model, where everything is offered for free, and the integration concept. The Travel Portal is integrated at the business, data and technical levels. At the business level, we can plug and play the right bits of the solution for each customer. If the Travel Portal needs to start at a certain part of a customer's booking process, we can make that happen very easily. Other bits can be added or removed to suit each customer. Second, at the data level we are heavily using the shared services idea. The Travel Portal makes data sharing easy across applications, transferring data from the airline reservation system, for instance, into the Travel Portal. It makes the end customer's life very easy and makes rich CRM data capture possible. We can also share across various access points. At the technical level it is extremely easy to integrate the solution. We use XML as a transaction standard, and Web services as the integration platform. The application is written in Microsoft .NET, which we chose, firstly, because it works. That sounds obvious, but the application needs to be robust. Second, it is universal and will be around for a long time. Integration complexities are reduced since .NET uses standards that everyone can

A key part of the MainTrack portal is the integration architecture. This enables travel services content, like hotel chains' room reservations, to be displayed for the end-customer to book on line.



deal with. Third, it is very flexible and versatile, and provides good opportunities to tailor the application. Finally, it is very quick to develop, so we can get to market rapidly and change to suit evolving trends.”

Technical integration

A key component that makes these dynamic packaging solutions work is technical integration. XML (eXtensible Mark-up Language) is a communication standard. It allows designers to create their own customised tags, enabling the definition, transmission, validation and interpretation of data between applications and between organisations.

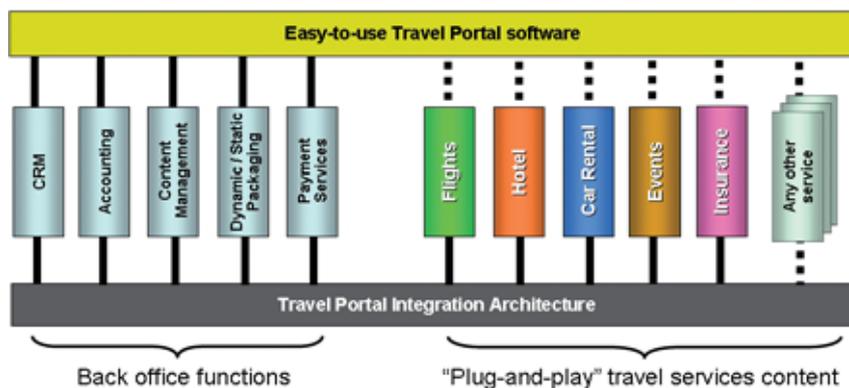
For an airline's e-commerce site to succeed, it must contain useful, free content targeted directly at a particular market. The most popular travel sites on the internet, Expedia, Lastminute.com, Cheapest Flights and Sky Bargains, all provide dynamic content based on XML supplier feeds.

Another important enabling technology is the web service, which is a software system whose public interfaces and bindings are defined and described using XML.

Other routes to revenue

Selling other people's products is not the only way of making more money. Airlines are getting smarter about selling bits of their own travel service. The LCC revolution started the trend for removing complimentary catering from flights, which is now being followed by bmi and a large number of regional carriers. Also, as technology moves on, airlines are considering charging for pre-booking seats with more legroom, and even for checked-in baggage.

These special service requests can be handled using the modern reservation software systems. The big suppliers like Amadeus are developing their solutions to assist airlines in these areas. “Amadeus has a very well developed e-Travel division that assists airlines in maximising revenues from the online channel,” says Stéphane Pingaud, head of distribution marketing, Airline Business Group at Amadeus. “As airlines develop their own on-line sales channel offering the customer additional products, educating



Courtesy of MainTrack Services (www.maintrack.nl)

them about the value of a higher-priced ticket, ensuring self-service capability for frequent flyers and personalising the entire experience can help an airline to boost revenues greatly. For example, the concepts of personalisation, dynamic packaging and 'fare families' are all currently hot. The Amadeus Flex Pricer booking engine has been proven to increase yield on website bookings by 8% on average. Flex Pricer is used by leading airlines throughout the world, including Iberia and Air France, and operates on the principle of 'fare families'. A three-month calendar display offers the customer transparency when booking and clearly defined fare groupings are highlighted in colour. These groupings inform the consumer about additional benefits, such as selecting a higher value seat, and are a powerful way to differentiate on-line bookings and remove the price-centric aspect that has plagued the on-line distribution channel.”

Icelandair is a case in point. In 2004, the growth of the internet as a direct distribution channel, combined with the marketing of low fares from LCCs, presented Icelandair with three key commercial challenges: a need to increase on-line yield; to combat competition from LCCs; and to continue to exploit revenues from multiple markets. It therefore looked to technology as a significant weapon to overcome these challenges and increase its position as Iceland's single largest exporter. “e-Travel, the e-Commerce division of Amadeus, has been very responsive in supporting our on-line strategy, which has enabled us to compete effectively with LCCs, while also increasing our on-line yield and sustaining our international strategy,” says Arni Sigurdsson, director of distribution, Icelandair.

The future

Kok and Kalsbeek see the future very simply. “Airlines' desire to earn additional, ancillary revenues will only increase, especially when the margins are mostly higher than the initial aircraft seat flown. MainTrack seeks to set the standard for integration of travel services and become a default solution for airlines, trains, ships or any organisation that offers a travel as a component of its service. Interestingly we are getting new customers in the conference market,” says Kok. “People attending conferences need to travel and stay somewhere, so the Travel Portal is an ideal solution for them. Commercially we will continue to offer the Travel Portal, and its evolutionary offspring, free of charge. For us the commercial partnership with our client, sharing commercial success in generating ancillary revenues, is at the heart of our philosophy. We will partner with universities to ensure we stay ahead of the curve in terms of e-commerce and CRM data use, but we will also keep in mind that real-life applications need to be pragmatic and need to work.”

Desai from Theideasman Limited sees a similar picture of growth, but cautions airlines. “LCCs were born to take advantage of middlemen travel agents that were growing fat and complacent using the global distribution systems and charging high commissions. The internet has changed that, and airlines must be careful not to offer additional services that are more expensive than the customer can get easily elsewhere. If this happens, they will price themselves out of the market just as travel agents did.” [AC](#)

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