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Three secrets to success for
Ancillary Pricing Optimization



You rely on non-ticket fees to grow profits in today's competitive environment. But are you making the most of your ancillary sales revenue potential? If you aren't using prescriptive analytics to optimize ancillary pricing, the answer is "No". It's time to explore taking ancillary revenue to the next level. Why? Because your competitors already are.

A Course Correction

Airlines are struggling with low margins. The International Air Transport Association (IATA) projected an after-tax profit of \$29.8 billion for the industry in 2017. North America-based carriers are likely to reach margins nearing 8.5 percent, with other regions projected to reach a 3 percent profit margin. Globally this equates to just \$7.54 net profit per customer. That's why ancillary fees are so important to all carriers, not just to low-cost carriers.

Many carriers have gone beyond common ancillary fees for à la carte seating, dining and boarding options or commission-based hotel and rental car bookings. They are introducing innovative ways to monetize travel convenience, often using digital tools.

Ancillary revenue has grown significantly in recent years. According to IdeaWorksCompany and CarTrawler, ancillary revenue projections grew from \$22.6

billion in 2010 to \$67.4 billion in 2016."

With this growth, rudimentary tools that cannot keep pace with the complex ancillaries landscape limit carriers' pricing strategies. Status quo pricing methods do not support on-the-fly pricing based on a sufficiently wide variety of variables. Yet, this is critical to delivering targeted offers for today's savvy travelers. Something must change.

Reach New Heights

Such a dynamic area of the airline industry requires dynamic tools. Insight-driven and automated, prescriptive analytics functionality delivers smart ancillary pricing so carriers get the best of both worlds — more revenue potential and more customer satisfaction. There are three secrets to success to delivering the right ancillary to the right traveler at the right price.

One: Stop Flying Blind

Most airlines lack the tools to optimize ancillary revenue — and traditional revenue management systems are not designed to solve the problem.

Airlines have been very successful using traditional revenue management (RM) practices and science to optimize ticket pricing, essentially conditioning travelers to expect pricing variation long before it came into its own among online retailers.

Many carriers have looked to evolve the use of their RM systems for ancillary pricing optimization (APO). The approach makes sense — on the surface. If carriers can use trusted RM systems to optimize ticket prices,

it would follow that they could do the same for ancillary pricing. But for many carriers this is not the case.

Today's RM systems are not built to handle the sheer number of ancillary options that carriers offer today. They cannot deliver real-time dynamic pricing options without disrupting the booking flow, which has been shown to be vital to ancillary sales success.

Ticket pricing and ancillary product pricing are also tied to two distinct data sets — with the later requiring much deeper insight. Consider that carriers typically display ancillary options after travelers have selected route and travel day and time, which introduces multiple

variables that should influence ancillary pricing strategies.

Consider, too, the inherent differences between airfare and ancillaries. In general, one is a necessity, and the other is an option. As such, travelers have different price expectations, sensitivities and motivations when assigning value — and acceptable price points — to "must haves" versus "nice to haves." Together, the sheer volume, richer data set and differences in price sensitivity create a complex trifecta that today's RM solutions have yet to address.

*IATA Press Release: Another Strong Year for Airline Profits in 2017, released 8 December 2016. Retrieved 7 August 2017 from <http://www.iata.org/pressroom/pr/Pages/2016-12-08-01.aspx>

**IdeaWorksCompany and CarTrawler, Airline ancillary revenue projected to be \$67.4 billion worldwide in 2016, 29 November 2016. Retrieved 7 August 2017 from <http://www.ideaworkscompany.com/wp-content/uploads/2016/11/Press-Release-115-Global-Estimate.pdf>

Two: Don't Leave Revenue up in the Air

Without predictive analytics, airlines leave ancillary revenue on the table, missing opportunities to make money on money.

Carriers that recognize this disconnect between RM systems and ancillary pricing optimization are pursuing other solutions. Predictive analytics, which uses data to predict likely future outcomes, is one of them.

In the case of ancillary pricing, predictive analytics empowers carriers to price products and services for different customers or customer segments, accounting for variations in timing, customer type, market, price point and other variables that the carrier discovers.

State-of-the-art algorithms analyze data patterns and trends to build pricing models with tailored offers, which travelers accept or decline within the booking flow. The offer presentation and response are tracked, measured

and analyzed to determine which offers are accepted, and to identify related variables and parameters. Trends emerge that carriers can use to refine pricing strategies for new bookings.

Through our solution development work, Navitaire has learned that automation is at the heart of this dynamic, data-driven pricing model, which delivers significant benefits, including the following:

- **Speed.** Expect faster, more accurate processing. For example, Navitaire's APO product can process a two million node pricing decision tree in a millisecond.
- **Flexibility.** Replace static pricing with dynamic situational pricing using relevant pricing variables.
- **Insight.** Understand patterns and trends to apply proven pricing rules to new bookings and power a test-learn-tweak environment for continuous optimization.

- **Uplift.** Stop losing easy money. Navitaire's experience with industry ancillary sales leaders reveals that a predictive pricing optimization product can significantly increase ancillary sales revenue.

Consider automated price testing in a real-world scenario. Imagine a European carrier with flights to popular destinations across the continent using randomized price testing to fine-tune ancillary prices against travelers' behaviors and preferences. Predictive analytics reveals that travelers are sometimes price sensitive on short flights, but willing to pay for certain extras like more legroom, Wi-Fi and meals on longer flights. With this data and insight, the carrier can generate pricing rules based on specific, situational demand that can be applied to future bookings and continually tweaked as patterns or offers change.

Three: Give Customers a Top-Flight Experience

Better ancillary pricing controls can improve the customer experience with new data insight, helping carriers encourage traveler preference and loyalty.

Carriers cannot forget that customers are an essential part of the APO equation. When carriers harness the full power of ancillary-related data, not only can they set the right price for their bottom line, they can deliver the insight-driven customer experiences that airline passengers crave.

The right price for the carrier and the right experience for the traveler do not have to be mutually exclusive. It all comes down to data — and how carriers use it. After all, they have access to a range of traveler data, which can be factored into how ancillaries are priced. These data include current and past bookings, booking forms, customer account information and device usage.

The key to using traveler data well is finding the right balance in how much

personal data is necessary to set ancillary prices. The good news is that data that is not personally identifiable can reveal a lot so that airlines can "personalize" targeted offers without getting too personal.

Taking a test-and-learn approach to ancillary pricing supports a strong focus on improving the travel experience. Carriers can use insights to gauge travelers' interest, pilot options and tweak pricing on-the-fly based on travelers' responses.

The Price is Right: Make the Most of Predictive Analytics

Predictive analytics supports a test-and-learn ancillary pricing approach through automated price testing. There are keys to making the most of it.

Be brave with price options.

Test prices above and below the normal price to maximize potential revenue gains. You will never know what travelers are willing to pay for perceived value without pushing the limits.

Know how fast you want results.

Determine the percent of travel bookings that should receive randomized pricing options so that you can build valid models and get answers within the desired time frame.

Take a broad view for fresh insight.

Rather than applying this approach narrowly to a single market or even to one ancillary product, cover more variables. You might identify patterns that you would not otherwise discover.



The Navitaire Advantage

Navitaire's low-cost and hybrid carriers have always pushed the boundaries when it comes to ancillaries, and we have been right beside them.

Navitaire clients generate billions in ancillary revenue annually. In addition, seven of the top 10 Airlines Generating Ancillary Revenue as a Percentage of Total Revenue are Navitaire clients.*

Navitaire Ancillary Pricing Optimization using predictive analytics, our new product, is a natural evolution for us — and for our clients. It reflects our commitment to work with our clients wherever they are in predictive analytics maturity.

Validated with multiple client implementations, this advanced pricing solution has an open architecture for easy integration and decreased cost to serve over time.

Navitaire's APO platform collects parameters for each passenger's user experience and tracks travelers' shopping and purchase behavior. It allows carriers to manage experiments with speed and precision to deploy experiments in as little as 10 minutes. Our market-ready, one-to-many global technology solution has demonstrated the ability to drive higher profitability through optimized insight-driven offers.

The Sky's the Limit

Ancillary pricing optimization is where the airline industry is going. Traveler data is available for carriers to do exciting things. What's needed is a dynamic retailing mindset focused on growing repeat business and sustaining brand preference paired with advanced, proven and market-ready technology.

Think about it this way. There is a clear opportunity to make money on money in a critical revenue center. So why wouldn't you explore the future of ancillary pricing today? Our experience suggests that the possibilities are endless.



About Navitaire

Navitaire delivers industry-leading technology services that help enable growth, profitability and innovation to more than 50 airlines and rail companies worldwide, including many of the world's most successful airlines. Navitaire offers a full suite of proven solutions to help clients grow their business, reduce costs, capture new revenue sources and readily connect with digital customers and business partners.

More Information

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