

How can airports and airlines better integrate their retail business in the future?

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Abstract

New technology and advanced customer intelligence enable new opportunities for expanding and improving retail business in air travel. Airlines have extensive customer knowledge and a captive audience that, enabled by digital applications, can be stimulated with smart and entertaining retail opportunities during flight utilising emotional momentum, but they suffer from poor, expensive and limited delivery. While airport retailers excel in inexpensive logistics, they are competing for the attention of busy and nervous customers and have limited customer intelligence. What if the retail business model for air travel could be more (or fully) integrated into an ecosystem, combining the best of both worlds?

Keywords

airline retailing, retail opportunities, duty-free opportunities, airport retailing

NEW EMERGING RETAIL OPPORTUNITIES IN AIR TRAVEL

Airlines are becoming better retailers, but they are still on a learning curve

IdeaWorks have estimated that airlines generated close to US\$68 billion ancillary revenues in 2016 (<http://www.idea-works.com/wp-content/uploads/2016/11/Press-Release-115-Global-Estimate.pdf>). Ancillary sales usually represent only a small portion of an airline's turnover; however, we have seen that it is an area which is growing considerably every year. This growth has also attracted the attention of airline Chief Executive Officers as traditionally volatile simple flight ticket sales have only occasionally generated profits when they are helped by external factors. Airlines generate ancillary revenue through multiple streams of travel-related products (eg baggage, pre-reserved seats and upgrades), third party

products and services (commission-based sales of hotels, cars and insurances), frequent flyer commercial partnerships (mainly a credit card cooperation), travel retail sales, travel products (eg stopovers and holiday packages) and booking-related services. Currently, the majority of ancillary revenues are generated by flight-related products and frequent flyer programmes, but there has been more focus on digital multi-channel retailing of goods and services, and bundled price products. Airlines, with all of their business functions and IT infrastructures, have however been built to sell flights from their foundation. In many cases, the retailing aspects have faced organisational challenges as the current sales and marketing processes are built around optimising flight ticket sales and efficient retailing requires a multi-channel approach throughout the customer journey. Most airlines are still on a learning curve when it comes to retail opportunities,

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but with new external recruitments that might have retail experience and smarter overall operations, airlines will inevitably improve their retail performance in the coming years. Retailing margins and big data utilisation will also have an impact on basic flight sales when smart revenue management operations will shift their focus on optimising flight revenues to optimising total customer value.

As new retail opportunities emerge for airlines, there will surely be wider interest and increased hype surrounding the topic. Every earned dollar through enhanced retail business opportunities will be a direct result of multiple activities and hard work. Expanding retail options will require airlines to make strategic choices. There will be some airlines that will definitely focus on their own fully controlled operations and some will search for partner models with sales commissions. One alternative could also be to rent virtual retail space inside the inflight entertainment system for third party retail providers or external retail operators.

Modern air travellers are more constrained by time and search for a more personalised experience

Airline industry has seen a shift in consumer behaviour that has also affected air travelling and retail. Individual empowerment has shifted to consumers and they look for more individual choices and tailored experiences. In the latter case, this means people increasingly value experiences over physical products. In the customer journey, this should all be served in a simple manner and a functional way through proactive and predictive digital applications. In travel retail, we have seen the rise of local brands into airports and into the portfolio

of airline merchandising. This has given a more local flavour to airlines and has been a differentiating factor for the airlines that have done it well. There is a clear shift in air travel retail to offer more lifestyle products and services, instead of the traditional bulky tax-free selection.

Retailing improves the customer experience during air travel

Modern air travellers have high expectations for an airline's retail product portfolio and they expect to have an opportunity to buy exciting and exclusive products with value. Airlines do not fully utilise their pre-flight retail opportunities to create and manage expectations and to create retail excitement. Onboard physical sales are restricted by procedures and flight times, and there are physical restrictions on creating live showrooms onboard a plane. Taking the retail experience to an airline's inflight WiFi portal, for example, offers an endless number of possibilities for products to be sold and services that can be tailored to match the customer's interests. Furthermore, there are no limitations to what can be sold onboard and then brought to the customer with home delivery. There is a competing force however — when a customer connects to the Internet on the portal, they also become a 'lost' customer from an airline's inflight shopping portal. Even when sales are increasingly via digital platforms, the importance of the cabin crew in inflight sales does not vanish — as the importance of promoting and supporting digital sales onboard should be especially emphasised in their training. The same applies for ground staff at airports; they have an opportunity to guide and promote the inflight shopping experience onboard.

Airlines know a lot about their customers and are improving their customer insights for future retailing

Even simple booking data show simple yet important data that can give an indication to determine tax-free opportunities and national limitations, directional opportunity, preferred currency and payment, as well as high level national or cultural preferences. When these data are enriched with frequent flyer data, airlines and their potential retail partners will have an even larger scope of relevant information to use when marketing to their customers. If a man is travelling, what would be the impact of sending a targeted retail offering direct mail to his spouse on the day before departure? Big data holds some privacy issues that depend on local legislation, but this is an area that smart retailers are increasingly focusing on. The big question is how these data can be best utilised, by whom, and can the data be shared. On a customer's journey, there are stakeholders who can provide better service and retail opportunities utilising these data, but there are both privacy and commercial issues which could cause some hesitations surrounding the use of these data.

Technology enables new retail opportunities

New services such as airline inflight shopping portals and apps are built increasingly to support both segment and geo-targeted sales dialogue with passengers. At the same time, these digital services enable payment platforms removing barriers of cash currency challenges or even the ability to use local credit cards, such as China's Union Pay. Digital inflight retail platforms do not have special restrictions; they are fully

compatible with any other online shop. But, it has certain benefits in terms of its ability to sell to passengers when they have nothing else to do and in most cases having both family decision makers present. Travel and destination related services are also natural items to sell in addition to merchandising. It is easy to see how popular it could be for customers to plan and purchase services such as tours, accommodation, dinners and spa treatments for their destination while they are on their flights. Furthermore, the shopping of any item, being it home or airport delivered, can be made easy. Airlines can also utilise their other inflight touchpoints onboard to attract passengers to online sales channels and boost sales. This would include the use of seat-back inflight entertainment system content, inflight collateral and crew activities. Physical inflight showrooms have limitations, but virtual reality could offer an interesting solution for this. The inflight shopping experience needs careful planning and maintenance with solid business cases. Shop-in-shop solutions can also offer consumer brands an international presence and an opportunity to engage customers with strong storytelling, in addition to sales of course.

New retail opportunities

This leads into new business models and the interesting study of new retail opportunities. Besides customer knowledge and insights, airlines have truly captive media. Enabled and boosted by new inflight portals, the simple calculations multiply 'retail influential time' to numbers that many retailers can only dream of with the right emotional moment. It is no wonder that some global retail players and airports have indicated their interest towards the trend of digital inflight retail.

Despite these opportunities, many airlines do not utilise the maximum potential of all retail opportunities. Today's customers are increasingly constrained by time and retailers with a captive audience have strong assets. If this retail opportunity is enriched with customer data, the business is built for success. In this retail formula, airlines are, however, missing the important logistics due to limited airborne warehouse space or at least it comes with expensive costs. When a plane is airborne, every kilo of useless weight counts on the airline's bottom line. I can only imagine the financial impact if someone could count the fuel costs of all the unsold retail items that are not matching demand in quality or quantity.

Airports, on the other hand, are built like shopping malls with great logistics. But at the same time, most passengers feel that airports are major causes for passenger stress and inconvenience. Customers are in a hurry or they are feeling more or less stressed and under time pressure. If you have time to spare, shops are great, but how can a customer be really interested in buying a product that really matches their needs.

Buy onboard and pick-up at the airport

Airlines and airports could form a comprehensive, and effective, jointly managed retail process with clear economies of scale and retail efficiencies. The value proposition for customers is clear as you can order onboard whatever you can carry with you with instant delivery at the airport, either in shops or delivered to your next flight. Shopping is not only limited to onboard arriving and connecting flights; it can be done when already at home, boosted by airlines pre-departure messaging. Products sold onboard do not

have to be limited to the retailers working at the airport. For example, with effective courier services, any retailer within a few hours reach from the airport can deliver their products to the airport for customers to pick up, even with tax-free prices if applicable. This would enable new business opportunities for airports. If you set clear roles in the retail process, it would greatly improve the customer experience and offer a unique value proposition; you can choose and buy a wide selection of targeted and inspirational products onboard with instant ground delivery. Airlines have an opportunity to utilise their sales dialogue with customers before, during and after the flight, assuming that customers have given their approval for this.

Business models are naturally challenging

If airlines could manage the retail marketing and sales aspects and airports could focus on the delivery, business models would need to be adjusted to match the airport and airlines' roles in this new retail process. Commission-based sales are familiar for airlines on many third party ancillary products, so there should not be any special barriers for this approach. One improvement area could be for airport retailers and airlines to optimise the use of frequent flyer miles or points as currency. From a customer's point of view, this would form a better integrated customer journey.

There are multiple baby step opportunities

Airports and airlines can form joint theme calendars and promotions, making an integrated retail experience. Joint mobile apps would provide easy-to-use solutions to increase sales. When airlines

are focusing on ancillary products, airports will also have new opportunities to market and sell the ancillary services offered by the airlines on the ground. No matter what angle you look into this, the future of integrally managing the customer retail experience makes perfect sense for airlines and the airports where they operate.

As stated earlier, we expect the desire for airlines to increase their retail opportunities to be a significant trend in the

airline industry for the next couple of years. The cooperation between airlines and airports will be crucial here, as there is plenty of room for creative and innovative retail processes that can be developed together by both parties for the benefit of travelling customers. Airlines that have expanded their horizons and ventured into these new business models relating to the retail sector will be in a very good position to reap the financial benefits in the short and long term.