

The Digital Airline and Customer 2022

 Datalex

DYNAMIC TIMES



About Datalex

Datalex is a market leader in digital commerce for travel retail. Datalex provides airlines with unique products to drive revenue and profit as digital retailers. Today the Datalex Digital Commerce Platform enables a travel marketplace of over one billion shoppers covering every corner of the globe, driven by some of the world's most innovative airline retail brands. Datalex's customers include Aer Lingus, Air Changan, Air China, Air Transat, Copa Airlines, Edelweiss, Emerald Airlines, Guangxi Beibu, Gulf Airlines, JetBlue Airways, KLM, SAS, Tianjin Airlines, Trailfinders, Turkish Airlines, Urumqi Air, Virgin Australia and West Air. The Group is headquartered in Dublin, Ireland, and maintains offices across Europe, the USA and China. Datalex plc is a publicly listed company on Euronext Growth.



Section One

A Digital Renewal 7

Foreword, Datalex CEO 4

Research Methodology And Focus 5

Top Digital Transformation Priorities For Next 3 Years	7
Creating The Airline Of The Future With A Digital Mindset	12
How Are Airlines Differentiating Through The Use Of Digital Technology?	13
Great Digital Expectations – What Does The Traveller Want From Their Airline's Digital Offering?	16
How Can Airlines Improve The Travel Experience With Digital Technology?	17

Section Two

Dynamic Pricing And The AI / ML Opportunity 21

Dynamic Times Require Dynamic Approaches - The Artificial Intelligence And Dynamic Pricing Opportunity	21
Clarity And Control Of The AI Based Revenue Decision	23
Motivations For Introducing AI Based Dynamic Pricing	24
Price Influencing Factors In Dynamic Pricing – What Other Factors Are Airlines Considering?	25
Dynamic Pricing And Ancillaries	27
The Priority Use Cases For AI And Machine Learning	27
So How Does This Align With The Traveller's Perception And Attitude To Airline Pricing?	28
Personalisation And Pricing	28
Understanding Travellers' Willingness To Pay In A Covid-Centric World	29
What About The Launch Of New Routes?	30
Sustainability Matters	31

Section Three

Data Driven And Value Driven Merchandising 33

Ancillary Revenue Opportunity	34
Automation Of Ancillary Management	34
The Opportunity To Leverage Data And Personalise Still Remains Unexploited	34
The Traveller's Take On Ancillaries? What Are They Willing To Pay More For And When?	35
Baggage Ancillary Revenue Can Be Squeezed Further	36
Beyond The Seat And The Long Tail Of Travel	37
Closing Thoughts From 6 Datalex Thought Leaders	38

Foreword, Datalex CEO, Sean Corkery



As we enter 2022, the certainty of uncertainty prevails. The airline industry continues to be faced with the most challenging of times yet, equally, faces the most opportunistic time in terms of adopting new, more modern, flexible, innovative digital retail technologies.

Meanwhile travellers' digital expectations are higher than ever and booking behaviour remains erratic with demands for greater, real-time flexibility. To keep pace, airline digital transformation is paramount. Legacy technology is slowing airlines down, when they need, more than ever, to speed up.

Against this backdrop, Datalex commissioned independent research with airlines and travellers worldwide to uncover the key trends shaping the digital airline and its digital customer for 2022 and beyond.

From a traveller perspective, the pandemic has rewired their mindset and confidence to travel. Travellers want COVID clarity before flying to their destination, real-time communication from their airline, an individualised experience and a high degree of flexibility to change travel plans as needed. Trends that were already set in motion for a more connected, contactless digital travel experience have been accelerated. Travellers' willingness to pay, and attitude towards pricing have changed too and the conscious

consumption movement is extending to travel purchases with an awareness of buying ethically and sustainably, selecting airlines with better policies in these areas.

From an airline perspective, the need for speed via automation, AI, cloud technologies and for flexibility, is greater than ever before. The AI powered dynamic pricing opportunity is key but remains untapped. Customer centricity and contactless travel are the overwhelming themes for digital investment in areas such as Biometrics, Dynamic Offer, Payment flexibility and AI. Faster strategic investment in One Order is on the horizon. And crucially airlines recognise that in order to be successful in their digital transformation strategy, they need to transform organisationally with a digital mindset and culture.

Now is a time for digital renewal. A digital renewal that empowers airlines to respond to perpetual uncertain and dynamic times. The combination of the right digital tech executed by an airline with a digital centric mindset and culture, and with the digital customer at its heart – will be the winner. Datalex is on a mission to drive forward this digital renewal in 2022 and beyond.

Sean Corkery,
CEO, Datalex

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We engaged an independent and international market research consultancy firm Censuwide to conduct anonymous research with over 100 senior airline executives in 8 countries worldwide.



Research Methodology and Focus

Datalex engaged an independent and international market research consultancy firm Censuwide to conduct anonymous research with over 100 senior airline executives in 8 countries worldwide (Australia, Brazil, Chile, China, Germany, Singapore, UK and US) and with 10,000 travellers in 10 countries worldwide (Australia, Brazil, Chile, China, Germany, Ireland, Singapore, UAE, UK and US). This research was conducted in late November 2021 and comprises both quantitative and open, qualitative questions.

The research conducted by Censuwide specifically explores:

With Airlines:

What is top of the airline digital agenda to fuel growth and digital renewal post-COVID, how are airlines differentiating through digital, what are airlines' plans and approach for AI powered dynamic pricing and how advanced is their data- driven merchandising?



With Travellers:

What motivates an ever more sophisticated 'Digital Customer' when travelling? What do they want and expect from their digital travel experience in an era that is more digitally driven than ever before? What is their attitude towards dynamic pricing and what ancillaries are they willing to pay more for and when?



Datalex set out to uncover airlines' digital priorities in preparation for a return to profitability and a digital renewal in 2022.

Percentages combine Extremely Important, Important and Somewhat Important.

Section One

A Digital Renewal

Airlines are at a critical juncture in their digital transformation journey, with a greater urgency than ever before to deliver on the promise of true digital retailing while at the same time dealing with the worst crisis to have ever hit the aviation industry. A time of crisis brings with it the opportunity for greater innovation and change, so we asked airlines where they are investing. In response to an open question regarding airlines' digital transformation priorities for the next three years, the responses can be categorised in five key areas:

1. **Customer Centric Experience** – with initiatives to drive improved customer engagement and an enhanced travel experience including customer centric pricing & offers, biometrics, robotics and contactless travel, empowering travellers with digital self-service
2. **Artificial Intelligence and Automation** – for operational efficiencies, to drive greater flexibility and crucially to enable airlines to cross-sell, upsell and serve in the moment of need using AI to power superior customer interactions
3. **Data** – with actionable analytics and insights to really make personalisation of the traveller experience a reality
4. **Cloud Transition** - to achieve greater efficiencies, greater agility as well as cost reductions via SaaS (Software as a Service) and IaaS (Infrastructure as a Service).
5. **Payment Innovation** – to allow for more choice, flexibility and modern ways to pay

Other key areas that emerged regarding areas for digital innovation and investment include IOT, Blockchain, Virtual Reality and Cyber Security. And generally speaking, most airlines surveyed acknowledge they need to invest more in digital retail.

These priorities are reflected in airlines rating of importance in areas that will make the above a reality such as AI powered Dynamic Pricing, Dynamic Offer, greater Personalisation, NDC and One Order. For example, 89% of airline executives surveyed rated One Order and AI Powered Dynamic Pricing as important in their innovation strategy post Covid, closely followed by 87% of airline executives surveyed rating Dynamic Offer as important in their Innovation strategy post COVID. The airlines surveyed gave slightly higher ratings for flexible and an increased number of payment choices for customers at 91% and advanced personalisation for better customer centricity at 95%. However, by enabling Dynamic Offer, AI powered Dynamic Pricing and One Order – airlines will ultimately bring about greater personalisation and customer centricity as well as being able to introduce more flexible payment options and services.

These figures demonstrate that airlines are showing an appetite for innovation and experimentation during recovery –powered by smarter decision-making and artificial intelligence - as well as looking to a future of One Order to improve the customer experience at all points in the booking flow. The future of airline retailing will look different than it did pre-COVID, and it is evident that the ability to respond to rapidly changing market and customer demands instantaneously is key. The tables below also show where airlines gave greater weighting to 'Extremely Important' and 'Important' in these investment areas.

89%

of airline executives surveyed rated One Order and AI Powered Dynamic Pricing as important in their innovation strategy post Covid

87%

of airline executives surveyed rated Dynamic Offer as important in their Innovation strategy post COVID

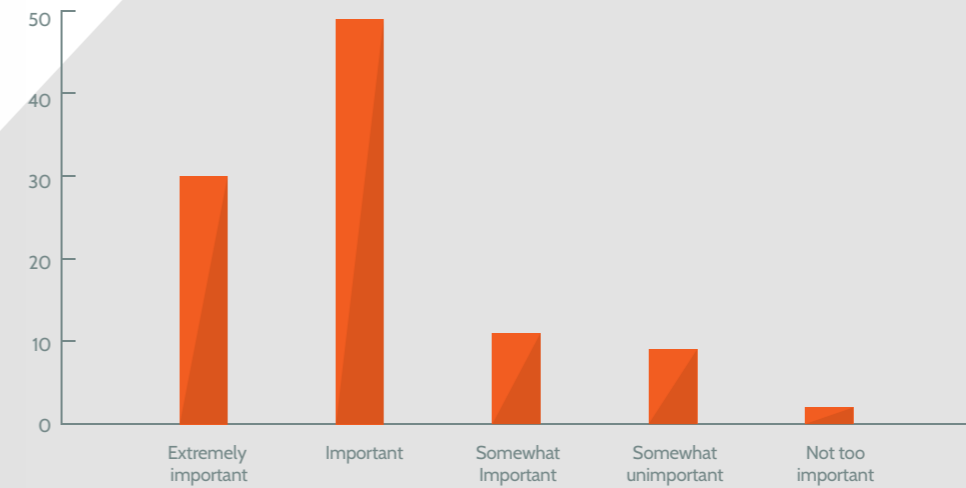
95%

of airline executives surveyed rated advanced personalisation for better customer centricity as important in their innovation strategy post COVID

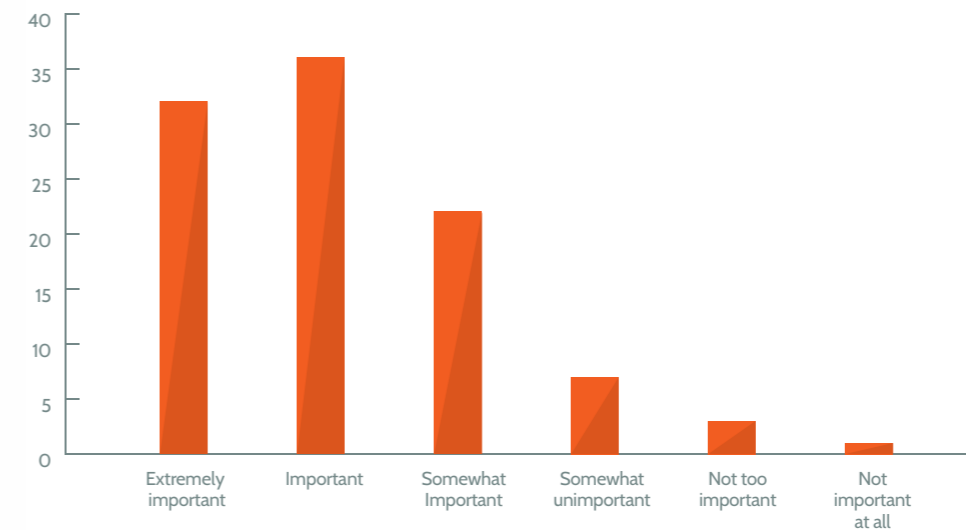


The airlines surveyed gave slightly higher ratings for flexible and an increased number of payment choices for customers at 91% and advanced personalisation for better customer centricity at 95%.

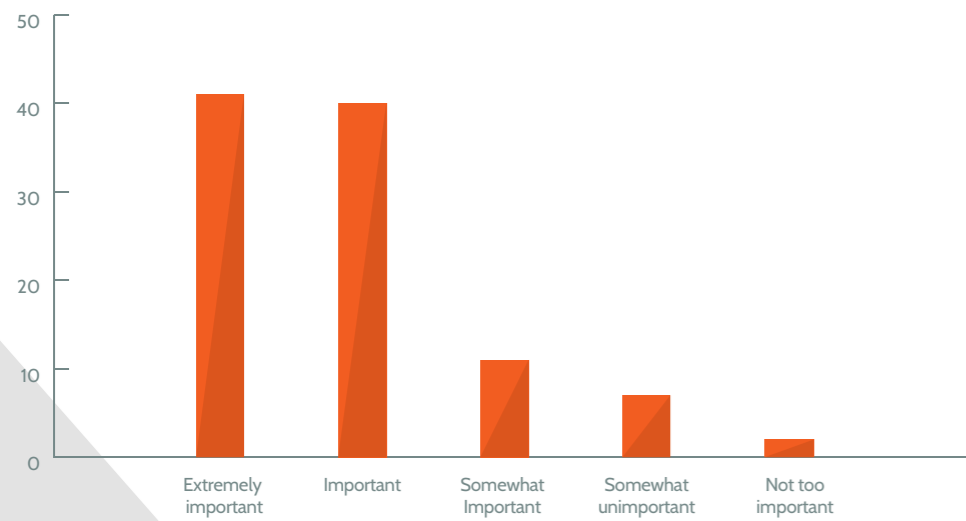
How important, if at all, is innovation in AI (artificial intelligence) Based Dynamic Pricing / Continuous pricing to your airline post-Covid?



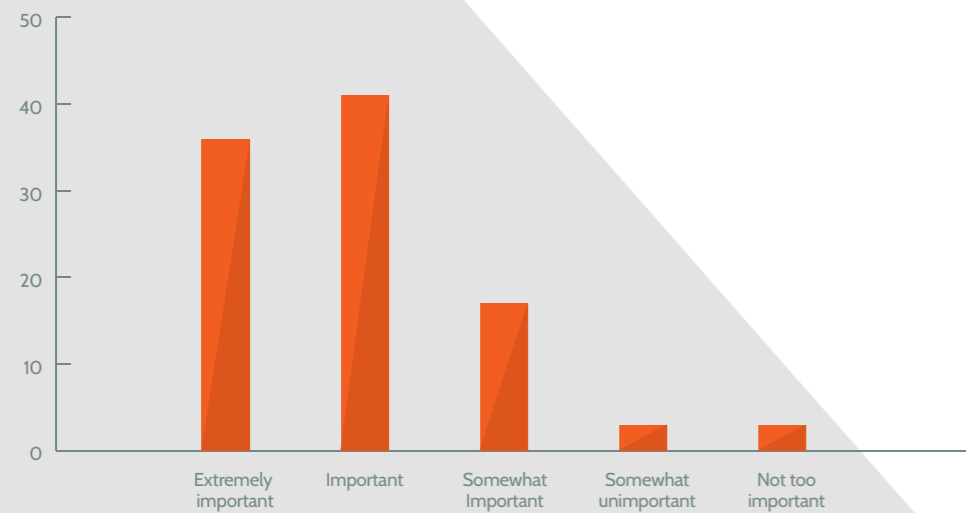
How important, if at all, is innovation in One Order to your airline post-Covid?



How important, if at all, is innovation in flexible and more payment choices for customers to your airline post-Covid?



How important, if at all, is innovation in Advanced Personalisation for better customer centricity to your airline post-Covid?



Airlines are showing an appetite for innovation and experimentation during recovery – powered by smarter decision-making and artificial intelligence - as well as looking to a future of One Order to improve the customer experience at all points in the booking flow.



Creating the Airline of the Future with A Digital Mindset - A Digital Culture and Digital Mindset is Paramount

Significant to note is that many airlines quoted instilling a digital mindset and culture within the entire airline organisation as absolutely key to their digital transformation success. This came out strongly with comments such as “Ensuring our airline talent and team are immersed in digital and leaders in adopting digital technology”, “All employees to have a digital mindset” “Harness organisational design” and “Creating a digital organisation from the inside out”

To develop a digital mindset requires curiosity, adaptability, flexibility and a willingness to change the way things have always been done. Digital transformation is not only enabled by technology, but also with the right mindset and culture.

To quote research from a Boston Consulting Group study* of 40 digital transformations, companies that focused on culture were 5x more likely to achieve breakthrough performance than companies that neglected (digital) culture.

5x

A study of 40 digital transformations, companies that focused on culture were 5x more likely to achieve breakthrough performance than companies that neglected (digital) culture.

* <https://www.bcg.com/capabilities/digital-technology-data/digital-transformation/how-to-drive-digital-culture>

How are airlines differentiating through the use of digital technology?

Airlines are leveraging their digital strategy to differentiate and add more value to the customer as they strive to provide a unique digital experience that sets them apart from their competition. In the open responses to this question, some key themes emerged:



Intelligent Incorporation of Customer Feedback

- “AI and cognitive modelling have enabled feedback from previous experiences to optimise the booking experience for consumers and thereby greatly improve satisfaction and loyalty.”
- “Our airline is engaging with the customer through all digital platforms, collecting customer reviews like what they want in our airline and applying the feedback to increase customer satisfaction and to differentiate.”





Payment Innovation

- › “Introduction of a variety of digital payment alternatives”
- › “Smarter and more accurate pricing”

Contactless Travel

- › “Automation, advanced self-service and biometrics, we are investing in these to set us apart from other airlines”
- › “Focus is on non-contact travel with the support of new technology such as Biometrics is crucial in regaining customer confidence as well as shift to more digital communications such as AI-powered chatbots”



Virtual Reality

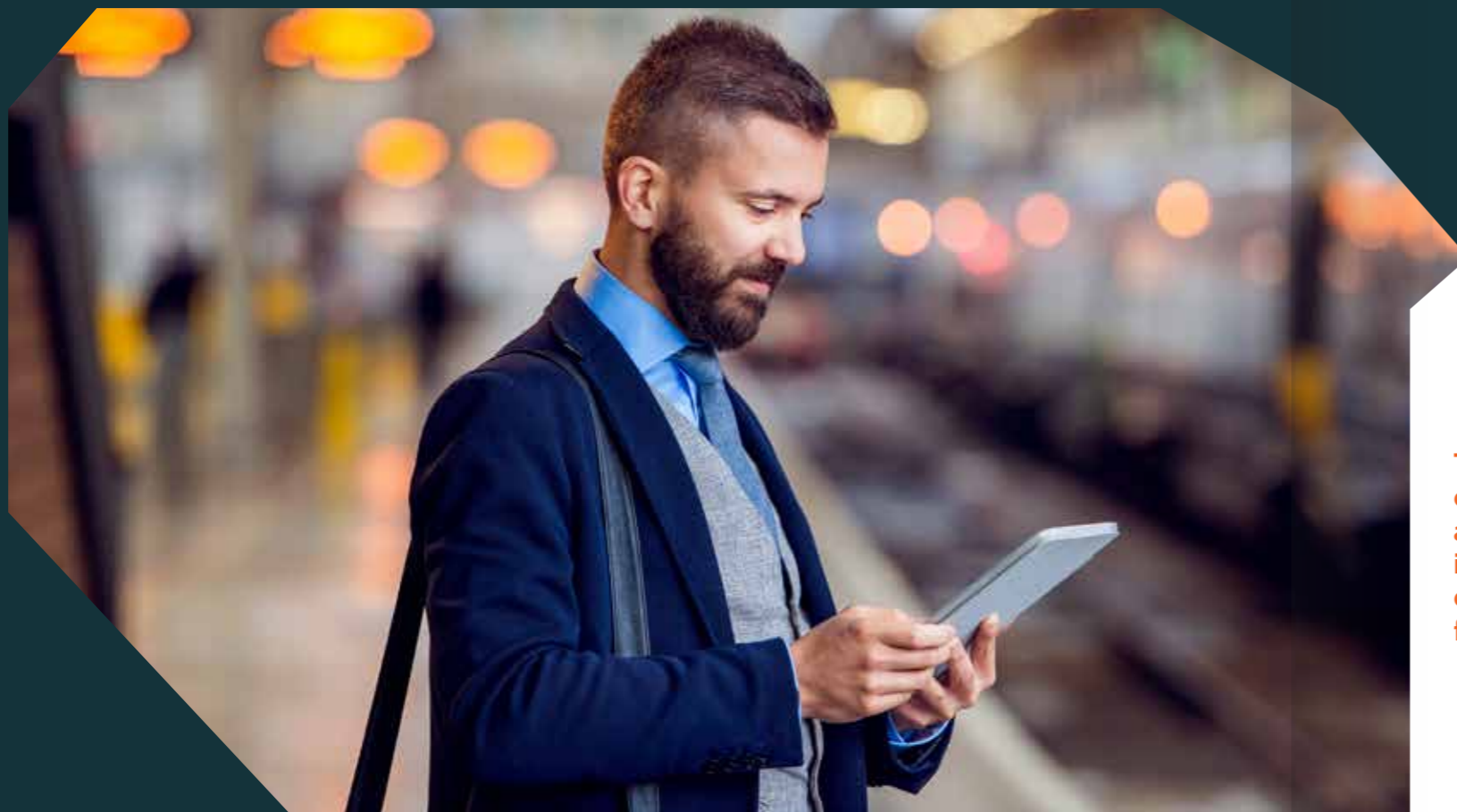
- › “VR / Digitally enabled experiential content that engages travellers”

Seamless Journey

- › “Making the journey seamless and stress free “
- › “Seamless, non-contact, supportive journey.” Making the journey better with a new personal timeline that provides alerts about flight changes, contactless boarding, on-demand entertainment etc”



These are just some examples of the ways in which airlines are leveraging digital to improve the customer experience and differentiate from the competition.

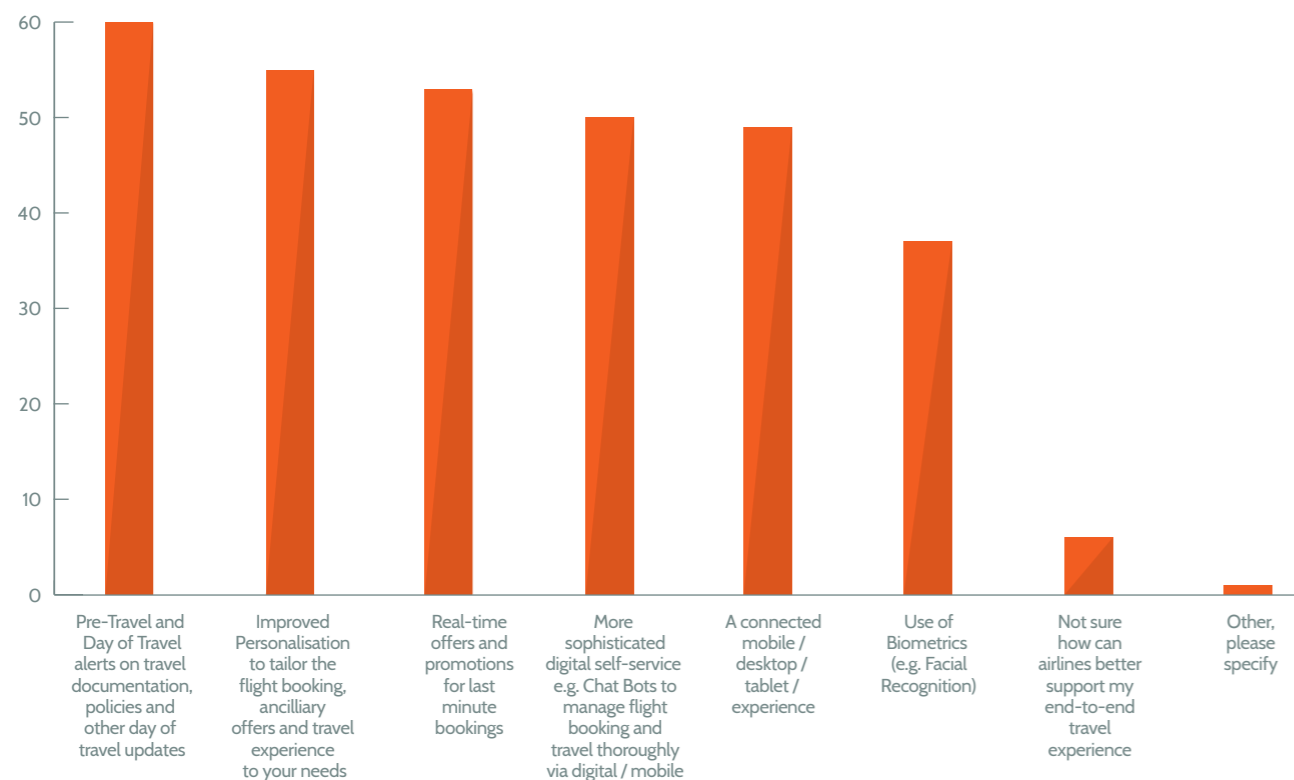


Great Digital Expectations – So what does the traveller want from their airline's digital offering?

Unsurprisingly, travellers' expectations are higher than ever before for a truly connected travel experience. When it comes to a connected experience: 9 in 10 travellers surveyed think the airline booking experience needs to be either totally or partially connected to their travel needs. This is not a new trend, but one that has been accelerated and gained more urgency as a result of the uncertainty and volatile travel landscape since the pandemic hit. A connected, digital experience that keeps the traveller informed, reassured at every step and with the flexibility to change plans as needed will instill confidence to travel.

As travel recovers and more people take to the skies again, the top way in which travellers surveyed think airlines can better support their end-to-end experience is through pre-travel and day of travel alerts on travel documentation, policies and other day of travel updates (60%). This is followed by improved personalisation to tailor the flight booking, ancillary offers and travel experience to their needs (55%), real-time offers and promotions for last minute bookings (53%) and more sophisticated digital self-service (e.g. chat bots to manage flight booking and travel thoroughly via digital / mobile) (50%).

As we return to travel post-COVID, how can airlines better support your end-to-end travel experience through advanced digital technology and digital engagement? (Tick all that apply)



How can airlines improve the travel experience with digital technology?

In response to the open question 'How can airlines improve the travel experience with digital technology?', the feedback can be categorised per below. In addition to this many respondents simply put 'to have an amazon style digital experience'.

Improved Digital Experience

- Easier search function and use of flexible date search function to view best airfares on calendar
- A seamless online booking experience
- Make the use of frequent flyer points easier... one centralised system
- Connected trip that tracks itinerary, hotel and flight bookings and car bookings using various sources
- Just a more customer friendly, simple to use experience to reduce travel stress would be great

Customer Focused Services

- Better and personalised flight travel experience through to inflight services
- Easy check in, tailored experiences and offers
- Better CX around flexible flight dates to make it as easy as possible to select the cheapest option
- Direct digital booking with the airline with perks and discount features that would keep me coming back when I need to travel
- More travel inspiration and promotions



““ Real-Time Instant Communication

- › Real-time fully integrated information on travel requirements
- › Live flight updates, where I am, how far away from my destination and time it will take to get there
- › Great connection with your customer with more rapid responses to questions and queries on various travel related topics
- › Live Chat Bots and WhatsApp
- › Offers and updates via WhatsApp

Flexibility

- › Better cancellation, refund related support
- › Better exchange/refund process for cancellations
- › Better protection against covid
- › Flexible bookings that allow purchaser to alter bookings digitally
 - To choose seat allocation
 - To pre choose food from a menu

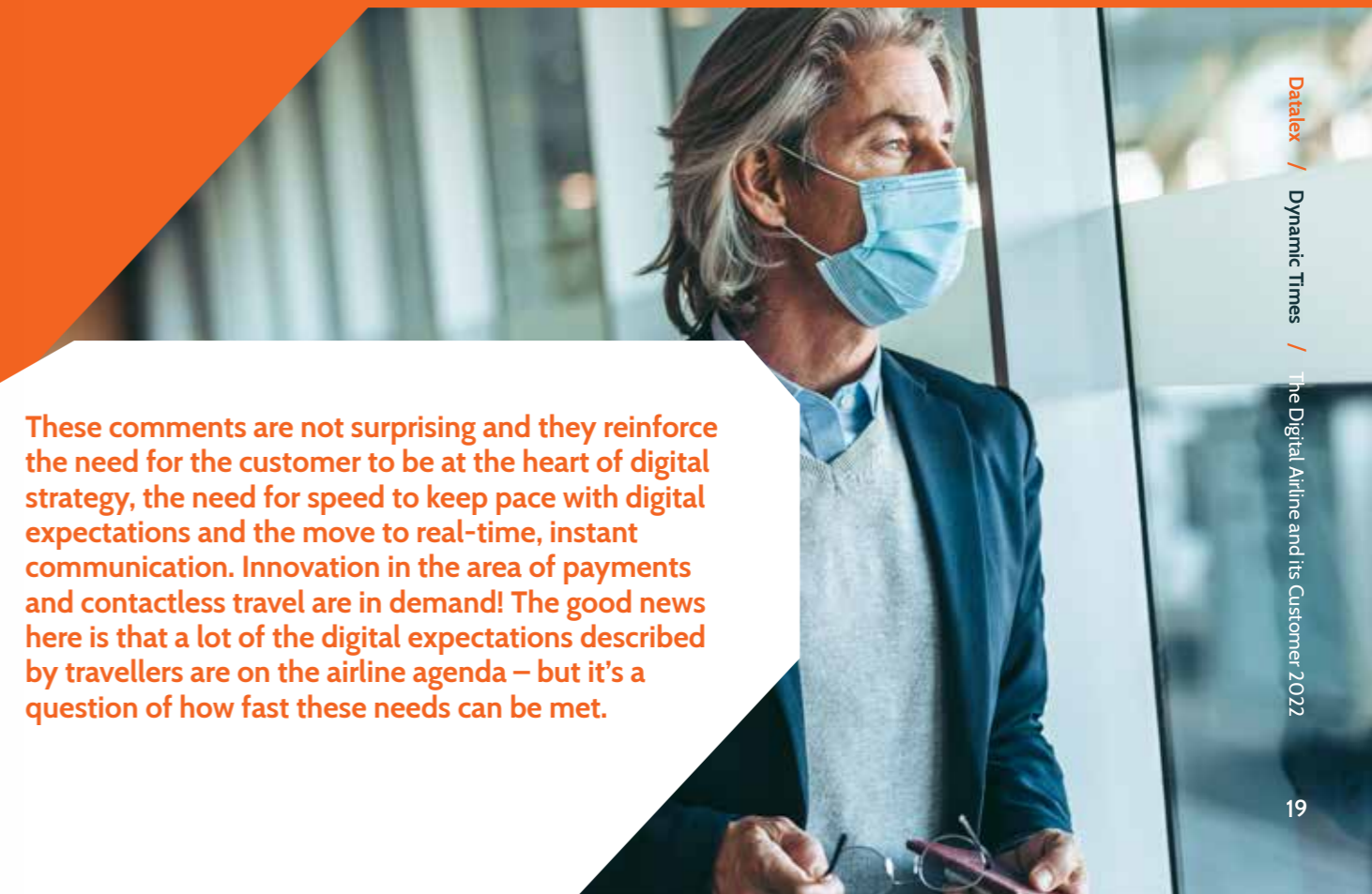


““ Covid Clarity

- › Provide clear advice on where/how covid testing can be carried out and include locator forms
- › Make it clear what exactly is required to travel to each country e.g. if the covid certificate would suffice or if you need a covid test going and coming to each country
- › Real-time fully integrated information on travel requirements regarding covid and reminders e.g. when to take tests, how restrictions differ in countries you're going to, border requirements etc

New and More Flexible Payment Options

- › To use afterpay, openpay etc for payment (Buy now, pay later type payment schemes)
- › Ability to use paypal
- › Ability to use may different forms of payment, including cryptocurrencies



These comments are not surprising and they reinforce the need for the customer to be at the heart of digital strategy, the need for speed to keep pace with digital expectations and the move to real-time, instant communication. Innovation in the area of payments and contactless travel are in demand! The good news here is that a lot of the digital expectations described by travellers are on the airline agenda – but it's a question of how fast these needs can be met.

Section Two

Dynamic Pricing & The AI / ML Opportunity

Dynamic Times Require Dynamic Approaches - The Artificial Intelligence and Dynamic Pricing Opportunity

Revenue Management is one area rife for disruption and transformation. Airlines continue to operate in a fluctuating travel landscape responding to Covid's unexpected resurgences and a significantly changed booking behaviour. Revenue Management experts know they need to transform their forecasting and price prediction in new ways that can incorporate current, and forward-looking trends.

Against this backdrop, the important role of artificial intelligence in powering new customer centric dynamic pricing has taken on huge importance. In our airline survey, we asked when and how are airlines investing in AI powered Dynamic Pricing? What price influencing factors are most important? What are the key opportunities when implementing successful AI Based Dynamic Pricing? And more generally, what are the priority use cases for introducing AI and Machine Learning?

Almost 9 in 10 (89%) of airline executives say innovation in AI-based dynamic pricing / continuous pricing for their airline is very important. However, despite this high importance, less than 1 in 10 (9%) say they already have an AI-based dynamic pricing strategy in place, suggesting a disconnect between the value placed on this and the action taken.

With that said, over 4 in 5 (84%) airline executives say their airline plans to implement an AI-based dynamic pricing strategy in 2022, compared to just 1 in 20 (5%) who say they are not.

4 in 5

(84%) airline executives say their airline plans to implement an AI-based dynamic pricing strategy in 2022, compared to just 1 in 20 (5%) who say they are not



Booking behaviour is showing that travellers will book and travel when they have those 'blocks of time' when it is easier to travel. This means airlines need great flexibility to react to rapidly changing demand curves, adjusting up and adjusting down as they need to in response to changing booking patterns.

93%

of airline executives surveyed say when applying an AI-based pricing strategy, it's important that they have clarity of the AI-based pricing decision and control of its application so that in some cases, they may not want to apply the AI-suggested pricing.

Almost half:

47%

go as far to state this is very important.

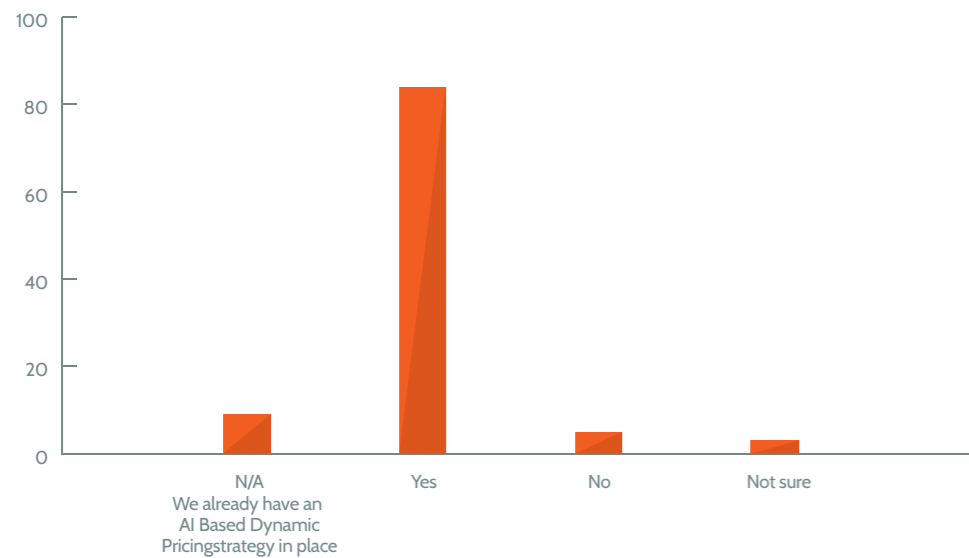
Clarity and Control of the AI Based Revenue Decision is key

Further on this topic, over 9 in 10 (93%) airline executives surveyed say when applying an AI-based pricing strategy, it's important that they have clarity of the AI-based pricing decision and control of its application so that in some cases, they may not want to apply the AI-suggested pricing. Almost half (47%) go as far to state this is very important. This insight highlights the need to use different AI models to first of all determine the 'revenue optimal price' and then another AI model to determine if a price is shown or not.

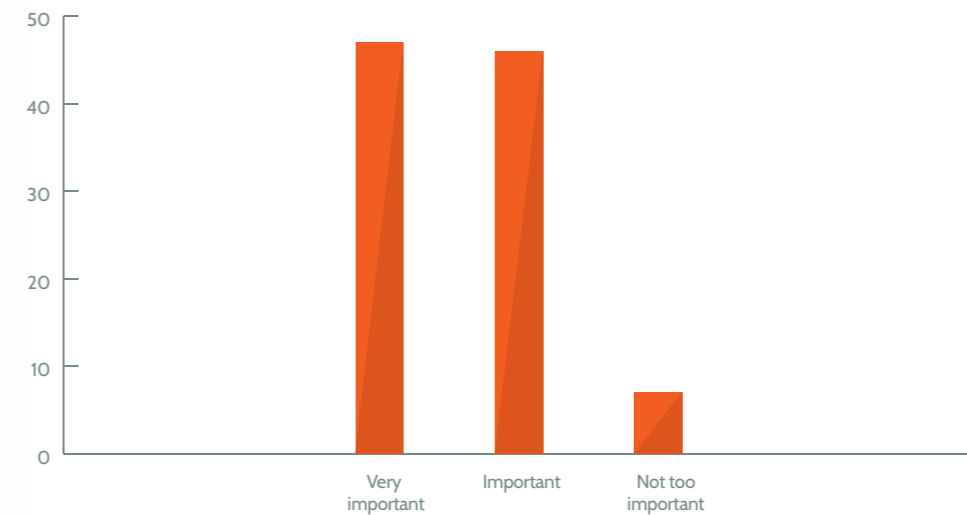
This approach provides the airline with clarity of the revenue decision and control over the final price shown, ensuring pricing decisions are aligned with commercial objectives, protect brand integrity and keep the pricing customer centric. While the power of artificial intelligence to drive highly sophisticated pricing is understood – Revenue Management analysts need to be able to understand the impact from artificial intelligence and what pricing adjustments they want to make accordingly.



Does your airline plan to implement an AI (artificial intelligence) Based Dynamic Pricing strategy in 2022?



When applying an AI Based pricing strategy, how important is it to your airline that you have the clarity of the AI based pricing decision and control of its application so that in some cases, you may not want to apply the AI suggested pricing?



Motivations for introducing AI Based Dynamic Pricing

Undoubtedly the opportunity to unlock lost revenue with more intelligent, accurate pricing prediction and forecasting is the top motivation for introducing AI Based Dynamic Pricing.

More generally, excluding revenue increase and revenue leakage prevention, the top three motivations for introducing AI powered dynamic pricing are:

1. Customer centric pricing (49%)
2. Pricing flexibility (47%);
3. Profit margin protection (45%)

In addition to this, almost 2 in 5 (39%) say brand reputation (pricing in line with airline brand values and customer experience standard) is one of their top motivations for the introduction of dynamic pricing and a similar percentage (37%) say freeing up revenue management to focus on more strategic tasks is one of their top motivations.

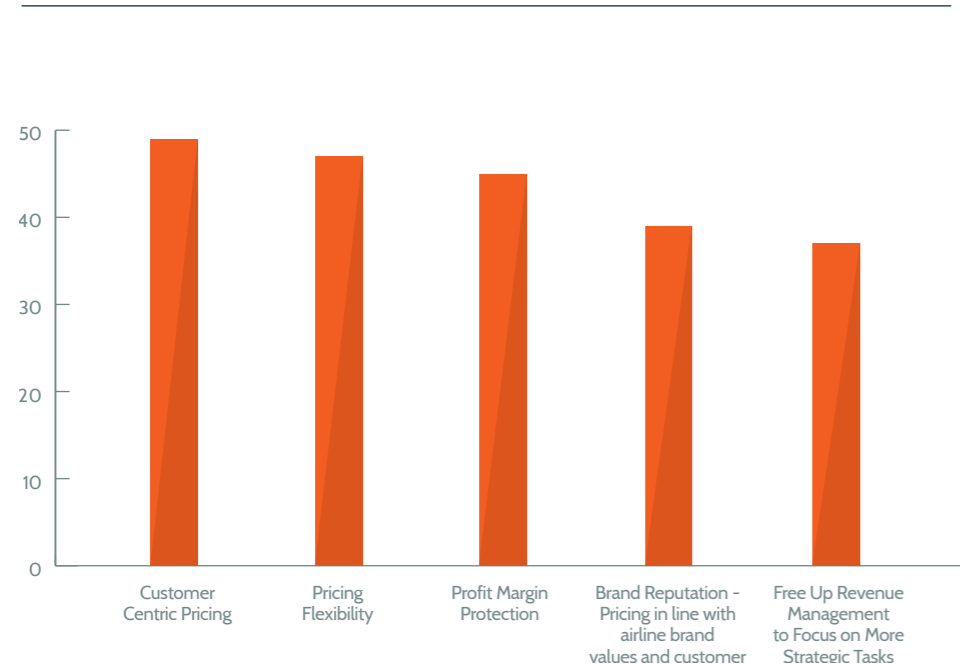
39%

say brand reputation (pricing in line with airline brand values and customer experience standard) is one of their top motivations for the introduction of dynamic pricing



With so many different influences over the pricing and willingness to pay, we asked the airlines an open question regarding the most strategic price influencing factors they are considering.

Excluding Revenue Increase and Revenue Leakage Prevention, what are your top motivations for introducing Dynamic Pricing?



Price Influencing Factors in Dynamic Pricing – What other factors are airlines considering?

Amidst an ever-changing travel landscape, Revenue Management cannot possibly capture and analyse the multitude of varying price influencing factors that today impact price and willingness to pay. Automated data analysis is essential, and the airline needs to incorporate new and more meaningful price influencing factors.

We asked the airlines an open question regarding what the most strategic price influencing factors they are considering. The recurring themes in the responses were:

- » Competition and associated competitive factors (unsurprisingly!)
- » Government Regulations
- » Market Penetration Pricing (pricing needed to gain market share in new markets / routes)
- » Customer convenience – proximity to airport, comfort on board etc
- » Customer Segmentation
- » Customer Relationship – Frequent Flyers and High Yield Customers versus New Acquisitions
- » Customer Reaction and Sentiment
- » Contextual Customer Information

Airlines need to look at new and more varied price influencing factors, and these will be different for different airlines based on the market they operate in. Having the ability to layer in the most relevant price influencing factors for the individual airline and to analyse the associated data at speed, is vital for success.



Keeping the Customer at the Heart of Dynamic Pricing Brings Competitive Edge and Increased Revenues

Linked to the above quantitative results, when asked what are the critical success factors in AI-based Dynamic Pricing, one of the overwhelming responses was linked to Customer Centricity. Optimising pricing for the context and willingness to pay of a particular customer at a particular point in time will increase conversion and help the airline to have a competitive edge. A win win for the airline and for the traveller. Other points called out were related to real-time reaction capability and unsurprisingly investment in the right AI talent and AI technologies. Below are a selection of the comments from the surveyed airlines with regards to customer centricity in their pricing strategy:



“ Customer Centric Booking - Very simple. If customers are happy then they travel again.”

“ The airline’s strategy is to include and extend dynamic pricing to make everything simple and straightforward, resulting in high-quality services and customer-centric booking.”

“ For better interactions with customers.”

“ Adjusting the pricing based on the shopping patterns of potential customers.”

“ Dynamically construct and dynamically price offers, considering both customer and contextual information.”

“ Cluster analysis will be the most crucial factor in maximising the potential of AI-based dynamic pricing, it will help analyse groups of similar customers”

“ Data on specific customer groups, including those who travel more often, is key in AI-based dynamic pricing.”



Dynamic Pricing and Ancillaries

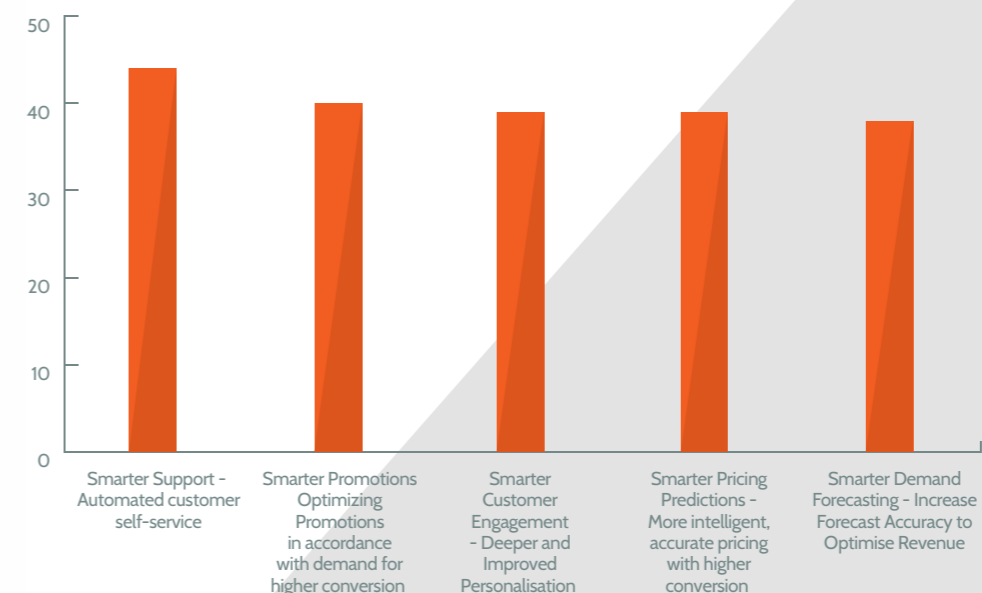
Both in the quantitative survey and in the open questions, the opportunity for dynamic pricing of ancillaries comes out strongly. Airline executives surveyed stated that they see dynamic pricing applied across ancillaries as the biggest opportunity for ancillary pricing and revenue (61%).

The Priority Use Cases for AI and Machine Learning

Delving further into the AI / ML opportunity, we asked airlines what their priority use cases are for leveraging AI and Machine Learning. The results show an almost equal split across the below with huge opportunities across the end-to-end travel experience.

Over 2 in 5 (44%) airline executives surveyed say smarter support (automated customer self-service) is one of the best use cases for introducing AI / ML to their airline retailing strategy. 2 in 5 (40%) say smarter promotions is one of the best cases for introducing AI/ML to their airline retailing strategy and similar percentages say the same for smarter customer engagement (deeper and improved personalisation) (39%), smarter pricing predictions (39%) and smarter demand forecasting (38%).

What do you see as the best use cases for introducing AI / ML to your airline retailing strategy? Please select up to three



40%

say smarter promotions is one of the best cases for introducing AI/ML to their airline retailing strategy

44%

Airline executives surveyed say smarter support (automated customer self-service) is one of the best use cases for introducing AI / ML to their airline retailing strategy.

So how does this align with the traveller's perception and attitude to airline pricing?

Transparency and Personalisation are key in Airline Pricing

Over 9 in 10 (93%) travellers surveyed say transparency in airline pricing with clear fee structures, itemised pricing and tailored products for a sense of trust in the airline brand is important with almost two thirds (64%) stating this is very important. Respondents in Brazil place the highest importance on this with over 4 in 5 (84%) stating it's very important, while respondents in Germany place the lowest importance with 2 in 5 (40%) saying it's very important. Overall, however, it appears to be something airlines should take note of given a strong majority in all markets say this is either important or very important.

63%

travellers surveyed agree that they appreciate when prices are personalised to their shopping habits

Personalisation and Pricing

The personalisation trend never goes away. Over 3 in 5 (63%) travellers surveyed agree that they appreciate when prices are personalised to their shopping habits.

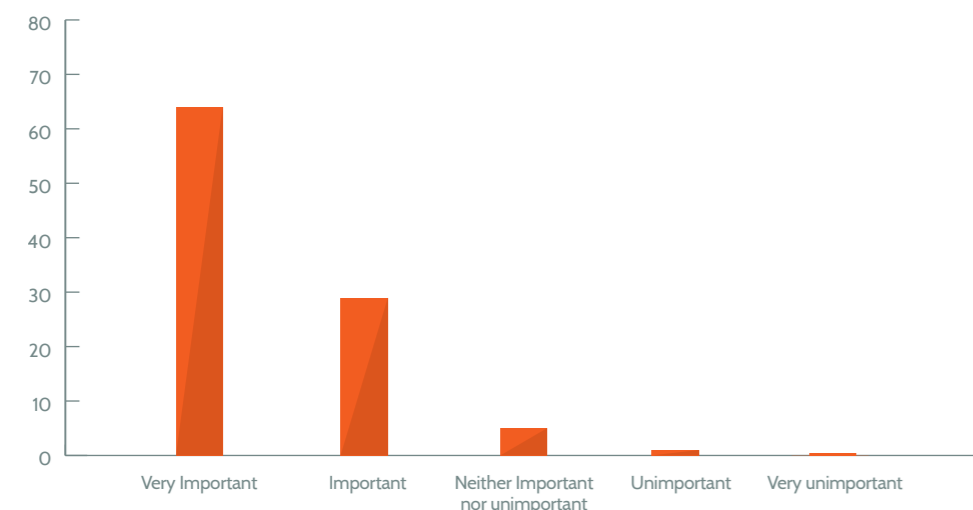
Furthermore, it seems that cost is still a more important factor than destination when it comes to booking as less than 2 in 5 (38%) agree they will book and pay to travel no matter what the price for a destination they want to go to. Loyalty is also key to travellers surveyed as almost half (48%) agree that they are a frequent flyer with an airline and expect the best prices for their repeat business.

These findings reinforce the need for customer centricity in how dynamic pricing is applied.

93%

travellers surveyed say transparency in airline pricing with clear fee structures, itemised pricing and tailored products for a sense of trust in the airline brand is important

How important or unimportant is transparency in airline pricing with clear fee structures, itemised pricing and tailored products for a sense of trust in the airline brand?



Understanding Travellers' Willingness to pay in a Covid Centric World

As airlines look to AI powered Dynamic Pricing and eventual full Dynamic Offer, understanding and reacting to what influences willingness to pay is critical. In our survey, we asked travellers, what is influencing their purchasing decisions and willingness to pay?

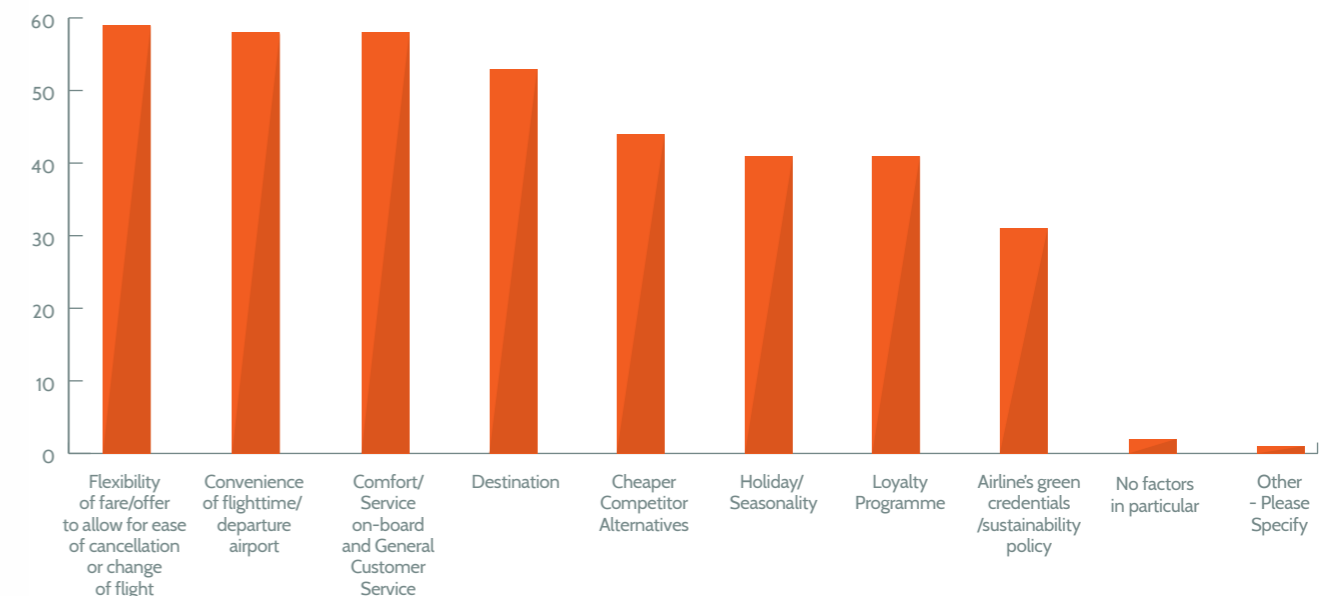
The top three factors that influence travellers' willingness to pay for a particular flight are:

1. Flexibility of fare / offer to allow for ease of cancellation or change of flight (59%)
2. Convenience of flight time/departure airport (58%)
3. Airline Reputation for Comfort / service on-board and general customer service (58%)

Travellers want flexibility and are willing to pay extra for that flexibility. Convenience and comfort while travelling are also key and anything that an airline provides for superior convenience and comfort will be helpful here. These three factors come above destination (53%), cheaper competitor alternatives (44%), holiday/seasonality (41%), loyalty programmes (41%) and the airline's green credentials / sustainability policy (31%).



What factors influence your 'Willingness to Pay' for a particular flight? (Tick all that apply)



FOMO, Weather and Trips Inspired by Hobbies influence Willingness to Pay

In terms of external factors, almost half (49%) of travellers surveyed say friends and family making a booking that causes a sense of 'fear of missing out' (FOMO) or holiday envy would influence a last minute or impulsive flight purchase and their willingness to pay for a flight. Under half (47%), meanwhile, say bad weather in winter encourages them to book for a sun holiday and influences impulsive flight purchases and willingness to pay and a similar percentage (46%) say the same of a trip inspired by an activity or hobby such as wellness, hiking, culinary retreat etc.

What about the launch of new routes?

3 in 10 (30%) say the launch of a new route by an airline would influence a last minute or impulsive flight purchase and their willingness to pay for a flight.

47%

travellers say bad weather in winter encourages them to book for a sun holiday and influences impulsive flight purchases and willingness to pay

Sustainability Matters Sustainability is Gaining More and More Importance in Brand Reputation, Customer Influence and Willingness to Pay

Undoubtedly, sustainability is the next big thing that airlines need to tackle as they emerge from the pandemic. Consumers are more eco-conscious and aware of their global footprint. They want to be aligned with 'green' brands that mirror their values around sustainability. Interestingly, a lot are willing to pay more for a flight when choosing between competing airlines with the airline that has a better policy around sustainability.

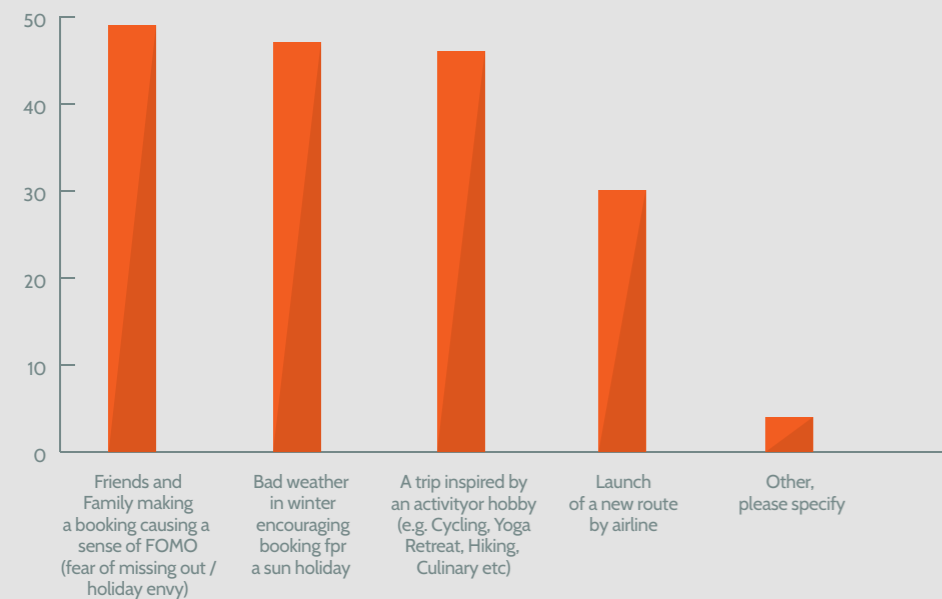
Over three quarters of the 10,000 travellers agree that since the pandemic, they are no longer looking first for the cheapest ticket, but for an airline they can unconditionally trust in terms of safety, reliability, fare flexibility and social responsibility.

Just over half (51%) say that when selecting a flight between two competing airlines, they would pay more for a flight if the more expensive airline had a better policy around sustainability.

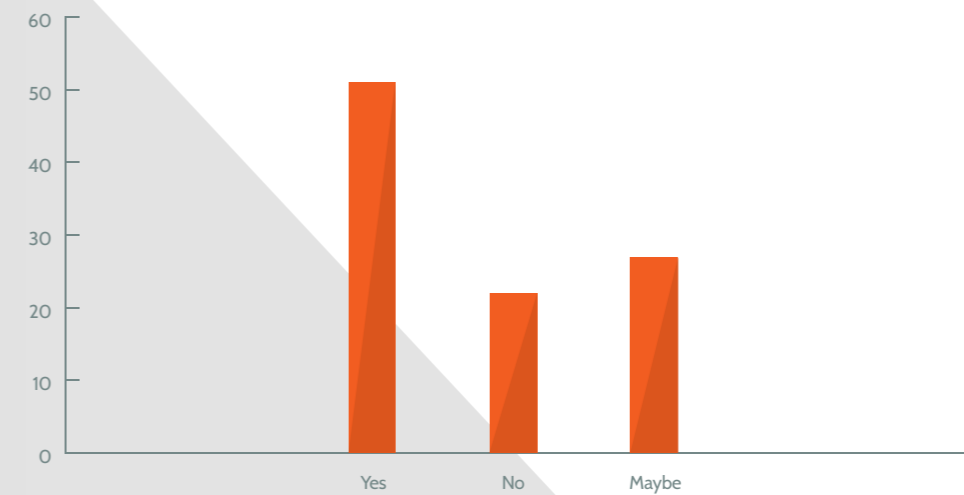
Comparatively, just 22% say they wouldn't pay more and 27% say they maybe would. This disconnect suggests that perhaps respondents aren't seeking out sustainability policies to influence their willingness to pay, but given the option, they would prefer to choose an airline that has better sustainability policies.



What types of external factors, would influence a last minute or impulsive flight purchase and your willingness to pay for a flight? (tick up to three)



When selecting a flight between two competing airlines, would you pay more for a flight if the more expensive airline had a better policy around Sustainability?



Section Three

Data Driven and Value Driven Merchandising to Win Engagement and Revenue

As airlines continue to face erratic demand, maximising the value from ancillaries is more important than ever. This is a new era of airline merchandising shaped by the need to build deeper customer bonds and deeper wallet share. To win engagement and additional revenue leveraging ancillaries, what is apparent from our research findings is that a laser focus with ancillaries is key. In this final section of the survey, we asked airlines how they are leveraging data in ancillaries, where the best ancillary revenue opportunity lies and how much automation of ancillary management do they want.

We asked the 10,000 travellers what ancillaries they are willing to pay more for, for a better travel experience and when, and how connected do they want and expect their end-to-end travel experience to be.

Ancillary Revenue Opportunity

Airline executives surveyed stated that they see dynamic pricing applied across ancillaries as the biggest opportunity for ancillary pricing and revenue (61%). This is followed by over 2 in 5 (46%) who say a shift from static prices and bundles to flexible dynamically prices and bundles is the biggest opportunity. Tailored ancillary pricing for different markets is also seen as good opportunity to better leverage ancillary revenue by airlines. From open responses with travellers, another area of ancillary revenue is the opportunity to pre-order food & beverages ahead of their flight. This prevents waste and will drive revenue from in-flight ancillaries.

Applying real-time and data-driven dynamic pricing and product determination beyond initial booking to the full merchandising flow and applying dynamic discounting also – makes the dynamic pricing and ancillary opportunity even greater.

Automation of Ancillary Management

The majority (53%) of airline executives surveyed think partial automation (business users retain control for overall management of ancillaries but there is some automation set for repetitive or complex tasks (e.g. set overall set pricing) is ideal for their airline's ancillary offer management. In comparison, less than half (44%) say full automation (the AI makes all business choices related to ancillary management) would be ideal.

This trend for a balance of both automation and a degree of airline control is a strong trend - empowering airline business users with an unrivalled level of control to manage all ancillaries directly while at the same time investing in unique AI models to automate some parts of the process such pricing, but that still allows for clarity and control over the revenue decision before it is activated.

The opportunity to leverage data and personalise still remains unexploited

When personalising ancillary offers, less than 3 in 10 airline executives surveyed say they leverage in-depth customer persona insights from multiple data sources while over 2 in 5 (43%) admit they only leverage demographic and light profile data.

Airline ancillaries have always been an effective strategy to boost sales, they remain under exploited in terms of revenue and the opportunity to personalise them to individual travellers.

The traveller's take on ancillaries? What are they willing to pay more for and when?

As called out earlier in the research, 9 in 10 travellers surveyed think the airline booking experience needs to be totally or at least partially connected to their travel needs. The right product, placement and pricing of same is absolutely key to this. Airlines have a long way to go to make this a reality for their customers. As travel recovery continues, one of the top way in which travellers surveyed think airlines can better support their end-to-end experience is by improved personalisation to tailor the flight booking, ancillary offers and travel experience to their needs.

This will involve a renewed focus on better personalising the types of ancillary offers promoted to customers, using what they know about customers to deliver more meaningful bundles of products that align with customer needs. It also means they will need to think differently about the airline's overall role in the trip planning process, helping travellers throughout the entire customer journey.

It's a combination of what can be described as 'Reassurance Retailing' - merchandising what matters and when it matters to keep travellers feeling safe while they travel and have the flexibility to make changes as needed. And then it's about adding value to the trip 'Add Value First – Think Revenue Second'. Focusing first and foremost on the customer's need and adding value to each stage of their trip – pre, during and post trip. By taking this approach and ensuring ancillary products add value to the customer's experience and each stage of their trip, rather than simply adding lots of ancillaries throughout the merchandising flow, the airline will ultimately drive more ancillary revenue. All while delivering a greater customer and travel experience.

In addition to seating and baggage ancillaries, what are travellers willing to pay extra for to improve their travel experience?

Outside of priority seating and baggage, the top five things that respondents to the survey said they are most willing to pay extra for to improve their travel experience are:

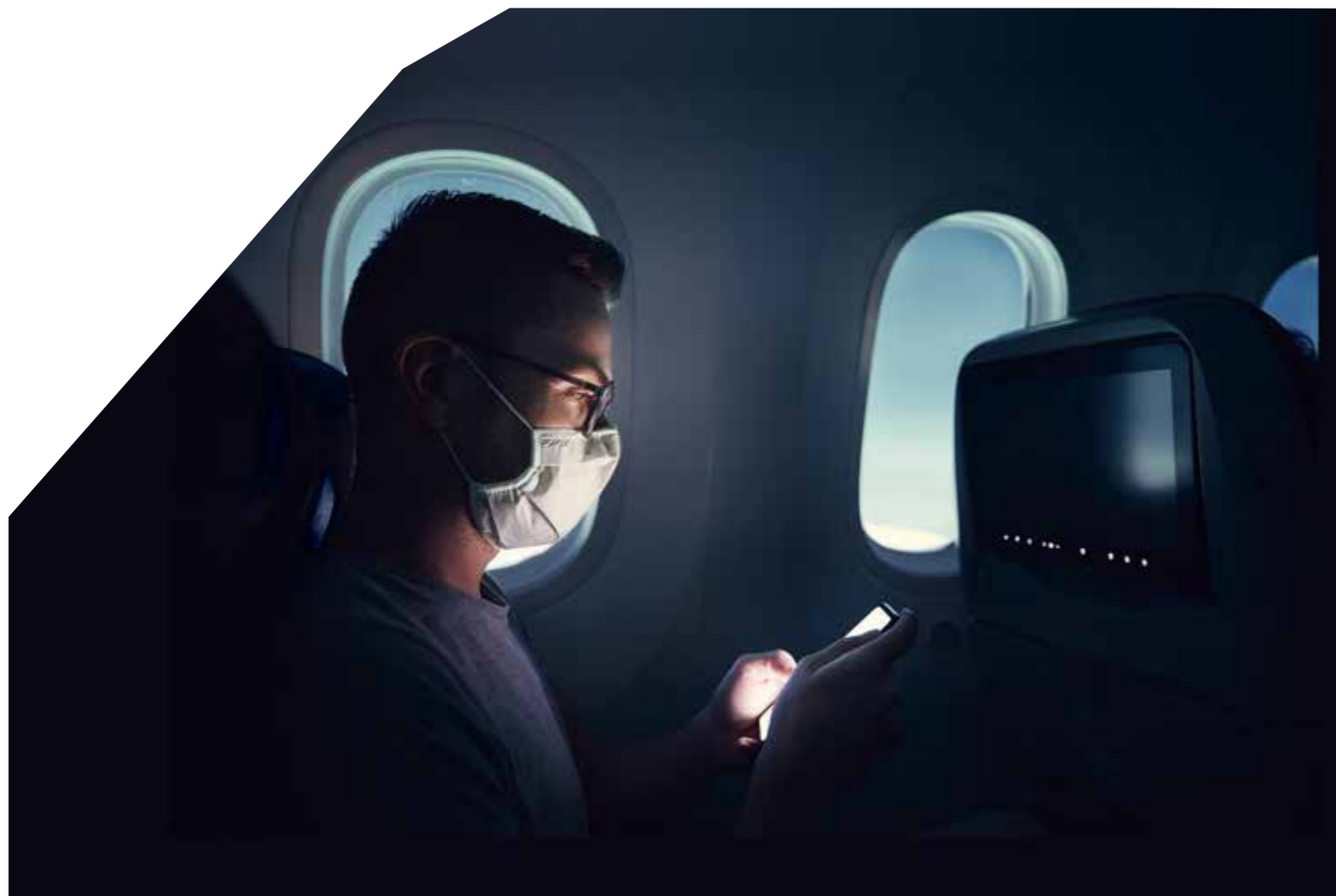
1. COVID-related testing pre-trip/ when returning from the trip (44%)
2. WiFi on-board (41%)
3. In flow insurance (38%)
4. Airport transfer (33%)
5. Lounge access (31%)

When it comes to seat benefits, the additional types of seating ancillaries that respondents are most willing to pay extra for are:

1. Upgrading to any higher-class cabin (29%)
2. Extra leg room (28%)
3. Having a window seat (24%);
4. Free middle seat / seat blocker for social distancing (23%)



As travel recovery continues, one of the top ways in which travellers surveyed think airlines can better support their end-to-end experience is by improved personalisation to tailor the flight booking, ancillary offers and travel experience to their needs.



Baggage Ancillary Revenue can be Squeezed Further

Undoubtedly there is an opportunity to extract more revenue from different types of baggage ancillaries. We asked the 10,000 travellers what additional Baggage Ancillaries they are willing to pay for. The baggage types that respondents believe add the best value to their trip are:

1. Guaranteed cabin bag (52%)
2. Discount on extra checked luggage (48%);
3. Check-in bag weight choices (46%)

The point at which travellers surveyed are most likely to add on these additional ancillaries (e.g. additional baggage, priority boarding, pre-order meals, seat upgrade, car hire etc.) to their booking is immediately after booking (33%). Over a fifth (22%) say they're most likely to add additional ancillaries to their booking a week before the trip and a fifth (20%) say more than one week before the trip.



Beyond the Seat and the Long Tail of Travel

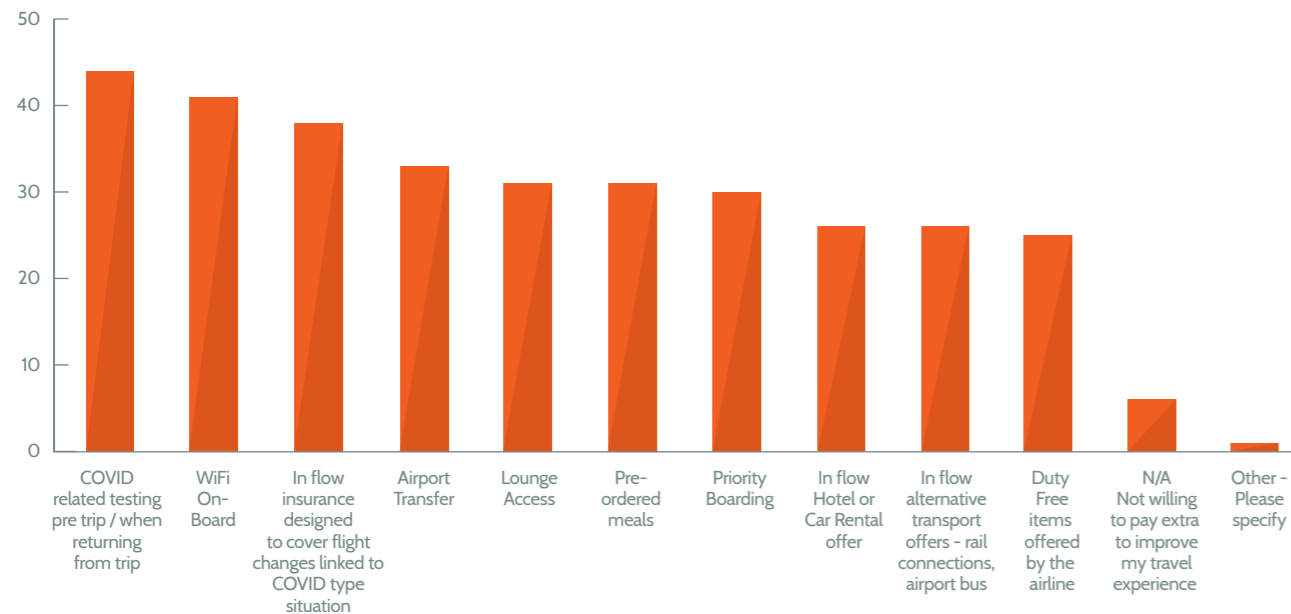
Unlocking revenue beyond the seat and taking advantage of the long tail of travel with timely, relevant and personalised ancillaries across the end-to-end travel lifecycle is a significant opportunity for airlines. Essentially realising a chain of revenue opportunities along the customer journey. As the research highlights, travellers are willing to consider products that make them feel more confident to travel, such as flexible or refundable fares. They want to save time by spending less of it in line with others, such as lounge access, fast-track security boarding, priority checked baggage delivery and other types of baggage ancillaries. They are also interested in upgrading with seating ancillaries that afford them more space and comfort such as seating upgrade, social distancing seats (extra-legroom seating, blocked middle seats, and premium cabin products).



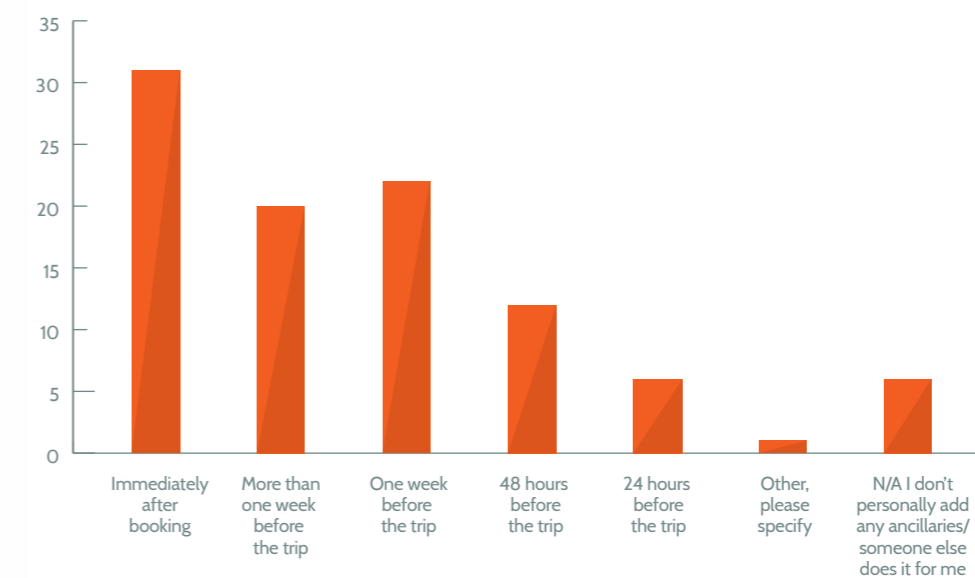
9 in 10

travellers surveyed think the airline booking experience needs to be totally or at least partially connected to their travel needs

Excluding priority seating and baggage, what, if anything, are you most willing to pay extra for to improve your travel experience



At what point in the flight booking and trip management stage are you most likely to add on additional ancillaries



Closing Thoughts from 6 Datalex Thought Leaders



“Airlines today are challenged to keep pace with a radically changed industry and customer. They are hindered by the complexity and limitations of legacy technology. We are on a mission to unshackle airlines from these limitations, which impact customer experience above all, and which can affect airline revenues materially. It’s an exciting time to work in this industry where real change, and at a pace never experienced, is happening by the minute ”

Alison Bell, Senior Vice President, Global Sales & Marketing



“The opportunity for significant change in airlines’ underlying technology, particularly leveraging AI, automation and SaaS is huge. We see signals that the industry is at an inflection point and leaning towards faster, product first, SaaS offerings. The COVID crisis has fueled airlines’ thinking around the “what-ifs” – “What if we didn’t have to deal with old reservation and distribution systems?” Airlines need to move on from outmoded, limited commerce and retailing software that isn’t designed to support the omnichannel, highly dynamic, retailing centric ways they need to do business. Airlines expecting to thrive will need this agility to refocus their efforts.”

Conor O’Sullivan, Chief Product Officer



“Now is the time to transform the traditional and static pricing methodology which airlines use today limited to specific customer segments or demand scenarios. Airlines are losing out on revenue and more customers because they are not able to capture opportunities in real-time across the revenue cycle. AI based dynamic pricing addresses this problem with real-time, powerful insights so airlines can evaluate complex data with sophisticated data analytics and machine learning and react quickly to market conditions, competitive landscape and erratic demand.”

Ryan Estes, VP Technology



“Supporting airlines in their digital renewal as outlined in this report, we are fully leveraging cloud based technologies, and migrating and decommissioning our own legacy services. This has been the driver for our engineering strategy at Datalex. With this work complete, we can offer more flexible options to our customers as well as optimising our own internal costs and quality of service. We also truly understand the needs and challenges of the airline CTO as most embark on similar technical journeys in their digital retail strategy and in order to fully exploit the best new technologies in the interests of their customers.”

Andrei Grigoriev, VP Engineering



“Airlines need to leverage real-time data, analyse new data trends and to react quickly to fluctuating market conditions with instant, smart decision making. This will lead to the holy grail of higher converting customer centric pricing and services, ultimately capturing more customers and more opportunities in real-time across the revenue cycle.”

Fred van Toorn, Senior Product Manager, Datalex Dynamic



“Since 2020 the industry has seen two things clearly, the market demand for smarter, more connected, customer centric merchandising and the potential of ancillary revenue to help fill the gap of lost ticket revenue. The airlines that will emerge on top will be those building better and more responsive travel retail experiences for customers and doing this quickly. Airline merchandising strategies around dynamic pricing, dynamic bundling of ancillaries and personalised customer experiences will ensure the gap between high-end airline retailers and those who are not, becomes undeniable.”

Jeremiah McAuliffe, Senior Product Manager, Datalex Merchandiser

Sources

Sources Censuswide Research commissioned by Datalex and completed in late November 2021 – anonymous responses from 100 airline executive and 10,000 travellers worldwide

*Boston Consulting Group

<https://www.bcg.com/capabilities/digital-technology-data/digital-transformation/how-to-drive-digital-culture>

www.datalex.com

