

REPORT  
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# SELLING THE SEAT

Unsold inventory is a bane of the airline industry, but a number of solutions exist for carriers to claw back some of that lost revenue

**A**re airlines missing a trick? Is there some untapped revenue squirrelled away between unbundling and standard ancillary revenue activities at one end of the scale and revenue/yield management systems at the other?

There's a whole bunch of technology providers and start-ups out there for whom the answer is a resounding "yes". These innovators are focusing their attention on airline seats and the people sitting in them.

They see opportunities for airlines to erode the level of unsold seats by enticing consumers to splash out on discretionary trips or to get customers who have already bought their seat on the aircraft to bid for an upgrade, an empty seat next to them or a host of other travel preferences.

There are some smart and, in some cases, downright pioneering services on offer to airlines willing to think differently about the inherent value locked in their seats. So what's the catch? For once the challenge is not so much the technology. These solutions may be pretty sophisticated when you look under the bonnet on the supplier side, but they are often fairly straightforward to plug into an airline's reservation system.

The challenges are more to do with requirement for airlines to have some robust business processes in place, a clear-sighted distribution strategy, and being open to new ideas and new faces in the airline space.

Former Air Canada sales and product

distribution vice-president Marc Rosenberg, now president of consultancy Marsalyn Creative, notes that airlines do not always understand the technology and the opportunity on offer, so start-ups are not getting the chances they deserve. Furthermore, start-ups are not looking for cash: "They say 'you need to partner with me, give me access to your inventory, test me on this product'. Maybe you should assign a priority in your top 10 things you will do this year that you will include pursuing one R&D [research and development project]."

**“Another way to unlock the value in empty seats is by offering partial refunds in the form of flight vouchers”**

Say your interest is piqued, but what's the size of the opportunity? IATA calculates that industry passenger load factors were at near record levels of 79.1% last year. That still means 21% of seats flew empty and as Ken Harris, founder and chief executive at revenue upgrade platform Plusgrade, observes: "Any seat that's flown empty now is a lost opportunity forever."

Alexey Rostapshov, vice-president of strategic partnerships at GetGoing, an opaque search platform to sell unsold inventory, equates the number of empty seats in the USA

to the population of Nigeria and seats in Europe to the population of Indonesia. Rostapshov reckons that represents \$25 billion in value in the US market and €23 billion (\$31 billion) in Europe.

However, tapping this revenue is not easy. "As airlines get better at being able to forecast demand and price, it is becoming harder and harder to capture the remaining potential using conventional methods," he says.

So what about the less conventional methods? Aside from selling distressed inventory via a consumer-facing search platform, there are bidding mechanisms, both white label and business-to-consumer (B2C), whereby travellers who already have a ticket can let their airline know what they would be prepared to pay for an upgrade or other travel services. Another way to unlock the value in empty seats is by offering partial refunds in the form of flight vouchers to passengers with unused non-refundable tickets, giving airlines extra available seats to sell.

There's also a social networking play, where social data is utilised in intelligent seating offers. Another option is a preferential marketing engine that asks passengers to share their preferences and priorities to provide them with more control over who they sit with, earning revenue for the airline through fees.

## CHANGE YOUR FLIGHT

But what happens when a passenger has purchased a restrictive ticket and is then unable to use it? ChangeYourFlight's web platform



computes the intrinsic value of identified no-show passengers and proposes a set of possible partial refund amounts to the passenger and the odds of getting their desired refund. This comes in the form of a voucher for another flight.

The result is a happy customer and the airline accesses no-show information in real-time to improve over-booking performance.

"Once the platform is up and running, we expect to get +1% revenue for the airline," says founder and chief executive Iñaki Uriz. The solution was launched on Air One in 2012 and the company hopes to spread its service rapidly. The always-connected traveller carrying a smart phone or tablet is a great enabler of this type of solution. "We have all-day access to the internet in your own pocket. In old times you didn't have access to passengers all the time and you had to estimate how many would not show. Now you don't have to estimate, you just have to ask them to tell you," says Uriz.

#### GETGOING

GetGoing's platform enables leisure travellers to search for flights by the type of break they want to experience, then asks them to choose two ideal trips. GetGoing selects their destination, revealing it and the flight details to the customer after they completed their purchase.

The airline retains control over its pricing and inventory, and to a large extent, the destination as well. It agrees on the level of discount off the existing seat price to GetGoing's

leisure customers, thereby segmenting its consumers and setting two different price points for the business and the consumer customer, even at the last minute. And the rewards?

"We estimate that at scale, our model can deliver additional incremental revenue of \$100-200 million for major carriers, \$40-70 million for mid-sized airlines and up to \$20 million for smaller airlines," Rostapshov says.

Today GetGoing offers flights to about 2,000 destinations from a US point of sale. It also has its sights set on Europe, looking to open up platforms first in the UK, followed by Germany. However Latvian low-cost carrier Air Baltic is ahead of them, already running its own version of the GetGoing model. The key to successful deployment for vice-president corporate communications Janis Vanags, is to be aware of the risk of revenue dilution.

"Have as little predictability of the final destination as possible, consider the scheme to be used for campaigns only, as Air Baltic does to sell out last minute capacity in limited periods only," he advises.

#### OPTIONTOWN

Addressing a dimension of consumer psychology missed by traditional revenue management systems, or "the un-met desire", Optiontown is a consumer-facing optimisation platform that allows users with confirmed tickets to purchase an option to upgrade to a premium cabin. Closer to the flight, if the upgrade is not available, the customer is refunded. A similar methodology is

offered across a range of services such as switching to a flight at a more preferred time or securing an adjacent empty seat.

With all its dynamic travel options applied, director of business development Ingo Roessler says Optiontown can generate incremental revenues of 5-7%. "For carriers using our upgrade travel options, we have increased cabin load factors between 10% and 25%," he says.

From the upgrade travel option in 2010, AirAsia X has developed its relationship with Optiontown to offer six dynamic travel options with more expected to be added in the near future.

Offering your customers several options is beneficial, according to the airline's chief executive Azran Osman-Rani. "As we create new options, it has a multiplying effect that kicks in because someone who starts out wanting to buy a premium option is more easily enticed to take on other options."

#### PLUSGRADE

Bidding mechanisms are a key feature of some third party solutions to extracting more value once the seat has been sold. Plusgrade enables its partner airlines to monetise premium inventory and services that would otherwise go unused by giving existing passengers the opportunity to bid for upgrades.

The solution offers sales opportunities when the distress channels like priceline.com and lastminute.com run out of time, according to Harris. "These are focusing on

getting incremental revenue from new customers. We're focusing on getting it from existing customers. When those channels can no longer sell, we are still there as a last line of defence."

Etihad Airways has been working with Plusgrade since April 2012, integrating it with its revenue forecasting system and frequent flyer programme. After its Sabre reservation system cutover in the first quarter of 2013, it will fully automate the integration of Plusgrade into this system. "Both are easily done via established web service links," says Roy Kinnear, senior vice-president of revenue management and planning.

"Ownership and management rest with the revenue management division and as such, will always be in line with inventory strategy. Etihad's inventory control will continue to use core systems to maximise revenue opportunities. The upgrade systems are maximising distressed inventory, which is being forecast by revenue management systems," he explains, adding that the system therefore takes account of forecast demand of late sales by the market. "Therefore it is only focused on truly distressed seats."

Nevertheless, it is important to manage passenger expectations. Upgrades are targeted at leisure travellers and their frequency and upgrade demands are matched. "By linking ownership to pricing and inventory management, this ensures that offers are made across flights and routes, which avoids the creation of guest expectation that upgrades are always available," says Kinnear.

**SATISFLY**

The digitally savvy traveller who likes to share via social networks underpins Satisfly's service, which leverages customer intelligence and social media to obtain the most accurate user profiles to match seating compatibility. But can it help you get more value from the seat? "According to our surveys, 80% of the air travellers' experience is affected by their seat neighbour's behaviour, and half of them would pay a premium to have a choice," says co-founder and chief executive Sergio Mello.

The company launched a white label solution, SeatBuddy, for Air Baltic in 2012 and is poised to expand this to other airlines and to deploy a social shopping solution that allows airlines to promote tickets based on social relevance, rather than just price, schedule or destination. Mello also sees opportunities to offer a real-time customer intelligence feed to front-line staff to augment passenger name lists and to extend into non-flight features such as taxi sharing and airport meet-up.

From Air Baltic's perspective, this and other innovations have helped raise its global profile and therefore, drive ancillary sales. However, SeatBuddy and the GetGoing-style



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**IÑAKI URIZ**

Founder, ChangeYourFlight

destination promotions add to an extensive à la carte list of ancillary products, which, Vanags confesses, can be confusing for customers. "Grouping some of these products in popular 'bundles' or 'menus' helps to navigate customers towards their favoured choices, and, in the case of Air Baltic, also increases the total per-passenger revenue."

**TERMINAL-0**

Terminal-0 eschews social network data in favour of asking passengers to actively share preferences and exchange information in advance of the flight to ensure an improved alignment of priorities. "We are trying to maximise the relative value of the seats, based on who you are sitting beside (or not sitting beside) and enabling people to set their own prices, or even put it up for auction, with revenues being shared with the airlines," says chief executive Aqeel Zaman.

He envisages a range of scenarios where passengers would be willing to pay a few dollars to have more control over an adjacent seat, whether it be a business person looking to sit in a networking zone or a parent keen to ensure an unaccompanied child has an appropriate seating companion.

He acknowledges that this solution, still in development, will only appeal to some 10% of the population and that it will take five years to achieve this level of penetration. But the rewards could be substantial. "In general, we think the potential is for an airline to generate \$60 million in profit share with us and we work off 80:20," says Zaman.

While technical challenges are manageable, there are political and workflow issues to be addressed on the airline side. Zaman notes: "There are up to 25 different classes of seat on the plane – to have a networking zone will require workflow." Privacy and security

are critical issues, so airlines would also have to undertake due diligence to ensure they are comfortable with the Terminal-0 backend and any processes on their side are equally robust. However, the greatest challenge is the shock of the new. "One executive told me this is really innovative and that could be a problem that it's too innovative."

From an airline's perspective, the major challenge posed by all these solutions to unlock extra value from the seat, is having some robust business strategies already in place. They need clarity of focus about their distribution strategy, according to Marsalyn Creative's Rosenberg. "There are airlines today that don't have any wriggle room in pursuing opportunities because their distribution contracts don't accommodate that kind of thing."

**B2B VERSUS B2C**

Third party solutions to get extra value from the seat are a mixture of white label and consumer-facing platforms, and there are arguments for each approach.

Plusgrade operates on a white label basis, leveraging the customers' trusted relationship with the airline to provide a familiar experience. "As a result, we see higher engagement and conversion," says Harris.

GetGoing argues that its consumer platform is an easy way for airlines to test the market. Rostapshov says that airlines want to put the product direct on their sites and customisation has been up for discussion.

However, there are also resource considerations behind any decision. "It's who puts in the resources to build the product. If it is B2B [business-to-business], we implement for the airline, but they must do all this marketing and heavy lifting. On business-to-consumer, the heavy lifting is more on us."

The reality comes down to available investment. "The difference between white label and consumer label, I have concluded, is a function of design and back-office systems the start-up has followed. The resource behind creating the white label for some of these start-ups is overwhelming at this junction, but airlines are saying I want white label, but I don't want to pay you for it or I will pay you a pittance," observes Rosenberg. "Another problem is each airline's customisation. If you have got three airlines to agree white label, they might not all use the same operating system so you have to do three plug-and-plays."

ChangeYourFlight's Uriz too has had people ask about his company's white label solutions, but he says: "There are some things I think are best for third parties to do." ■

To read how technology providers can help airlines grow non-ticket revenues, visit: [flightglobal.com/AncillaryRevenue](http://flightglobal.com/AncillaryRevenue)