the
Disruptor
Airline

"Who is the future whole-tailing and merchandising airline? Some Options..."

This white paper was written by

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The only way the traditional airlines will be structurally profitable is by offering a problem-solving service that is part of peoples' daily lives, whether they travel or not. But it needs to be consistent when they do. There is no ROIC in transportation.

Who can completely disrupt the airline industry? Who can change the face of the travel business in a revolutionary way? A marketing company that will trigger you to want to travel. One that will let you know which of your friends you can meet where. One that will network on your behalf and bring new business opportunities and arrange for meetings in places that meet your tastes and preference. One that will suggest and pencil in landmark sightseeing or adventures around your calendar with people you want, integrating social media and business networks. A concierge that will make your life easier and take care of your bags and makes sure your personal media library is loaded into the individual in-flight entertainment system in the seat you selected. One that is not a travel company, but a lifestyle partner that is part of your everyday life, whether you travel or not.

* Average obtained from multiple sources : Airline Business, IATA, IdeaWorks, Annual Reports

$222.06
Average revenue
per passenger

+

$10.94*
Average
ancillary revenue
per passenger

=

$231*
Total
average revenue
per passenger

> $13.37
**Content
Aggregator Airline's
profit per passenger**

the DISRUPTOR

$3.37
**Airline profit
per passenger
(world-wide)**

01

Disruption through content, personalization

When you consider what online content aggregators are moving towards, the above is something that can be made possible today. New business models will be created around it and will be introduced into the airline industry. Companies like Amazon, Google, Netflix, Apple, Microsoft, Hotwire, Priceline, Kayak all follow the same approach:

1 build an online asset

2 monetize it by creating a revenue model between customer groups

3 deliver it with a surgical focus on execution

The next wave of disruption will be the use of the amalgamated pieces of the puzzle to launch new businesses in the travel industry that would have little competition and generate healthy margins. It can help de-commoditize those airline business models that have a negligible return on capital. The point is not to run an airline, but to offer an end-to-end customer service-oriented process that monetizes the entire customer experience path by becoming a lifestyle partner in daily life and making this experience consistent on the ground and in the air. Whether you travel or not.

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The next disruptor in the airline business will be a powerhouse marketer. A sophisticated online player that knows how to personalize its service with finesse. Basically a lifestyle management platform.

02

How to retail

Even though airlines started out as retailers in the early 20th century, a regulated environment and reliance on middlemen (travel agents and the GDS technology) turned airlines into wholesalers. In today's internet-based era the talk of the town is customer-centricity, personalization, and customization but instead the airlines placed their priority on ancillary services like charging for checked bags where the value proposition can actually be negative to consumers. Airlines also struggle

> *Airlines were retailers before the age of travel agent distribution (GDS) and deregulation. Today, retailing is not in their key skillset.*

with communicating value propositions for à-la-carte services because the more they sell things like lounge passes and priority access, the lower the added-value or exclusivity is for the original customer group this was granted to and intended for (frequent fliers). It is creating confusion as to what the overall objective is because we are witnessing many conflicting revenue models within the overall business model of airlines. Meanwhile, low-cost airlines ponder as to where the next cycle of growth is as moving people out of busses and trains is starting to saturate. But airlines have lost or lack a key skill, how to retail. Airlines still focus on what they can sell from today's context, not what the customer would be interested in buying as it relates to the reason they travel in the first place.

It is conceivable that the Airline Store (like an Apple store) makes a come-back. But it would not transact tickets. It would be a virtual global lifestyle store.

03

Jasmine's story,
the retailing airline

Consider Jasmine. She did not know she had plans to travel to Madrid. But she found out that the dates of one of the key art exhibitions she has been following would be at the Prado and that it would coincide with two of her best university friends being in Madrid. More importantly, she was informed that 5 potential business contacts would be in town for a garment industry event and that they were looking for a Canadian importer.

The lifestyle model of the aggregator can more than quadruple the average profit per customer from a current USD 3.37 to almost USD 14.00 through a combination of micro-payments and subscriptions.

As a business owner she was recommended to attend as she is launching a new line of garment business in Toronto. When she started looking into travel arrangements, she was able to browse through itinerary options based on <u>arrival</u> date and time considering the various hotels and time/distance from the airport and event venues. She could see all the ground and air options for traveling from her home or office to her selected hotel in Madrid, browsing through fare and service amenities comparisons (aircraft type, seat comfort, average flight delays by airline flight number, leg room, in-seat power plug). Using a virtual reality tool she was able to preview key landmarks and sightseeing locations in a 360 degree fashion and even explore the hotel lobby or her selected hotel room as well as recommended restaurant premises. She chose to only consider customer reviews from connections based on their demographics (business versus vacationers, trusted connections on LinkedIn versus anonymous reviews from TripAdvisor).

But Jasmine could fully personalize and customize her trip with the new airline. She could virtually experience her trip in advance, or get experience enhancements while traveling by wearing smart glasses that suggested things to do or taking advantage of relevant special offers around her. Her preferences, tastes, likes, wants, needs were all populated from her profile and automatically uploaded into the In-Flight Entertainment system for her to access in the airplane's seat she selected when she bought her ticket. The applications on her mobile device reminded her when to leave to the airport, what transit options were available, how to send out an alert from her location and get a cab or limo service automatically show up. Using the maps feature she was able

to navigate through the airport and to her favorite airport retail stores. Since she had opted into permission-based marketing, she would be offered a select list of promotions based on specific products and services she had notified the lifestyle partner she was interested in. Check-in and boarding was facilitated using automated check-in using the location of her and her mobile device including a self-gating function. Once on board, Jasmine could continue to virtually experience her destination again, pre-visit and experience or re-arrange the adventures she had booked (cultural, bumpy jumping, tour to Seville), or listen to her personal music selection.

Her library was available, including her recommended Top-10 movies from her Netflix account. Jasmine did not need to spend time browsing content. But she could add additional options for $0.99 at the time. Everything was in front of her, while she could also shop for things she had not purchased yet.

During her flight she arranged for a luggage cart to be available at the baggage carousel,

it would be labeled in her name electronically and recognize her using her device. The articles she purchased for duty free at home as well as those in-flight were waiting at the arrival gate. The heavier items were automatically shipped to her hotel. During her stay in Madrid, Jasmine's days and calendar were all managed by the service. Her personal concierge. Whatever she needed, or may have forgotten. And where others had opted in, she was introduced to other people with similar interests on the plane, in the hotel, in the city. Whether they share a business interest or are interested in meeting new people. The new airline connects people so that their fundamental needs are met, i.e. (1) communication and (2) well-being. Coincidentally, that is the derived nature of demand for air transportation.

The new airline model connects people so that their fundamental needs are met in day-to-day life, i.e. (1) communication and (2) well-being. Coincidentally, that is the derived nature of demand for air transportation.

04
The assets

Combine search, convenient real-time decision-making support content and virtual reality apps, they represent key assets and activities that offer relevant content, which can be personalized and allow each person to manage her/his life based on their profiles and preferences. The key activities that capitalize on the aggregator's assets are data aggregation, data mining and using the growing application of permission-based marketing and location-based services. The more you allow the lifestyle manager to study and know you, the more it will add value to you in managing your business and social life, whether you travel or not. You join based on subscription levels and a membership basis.
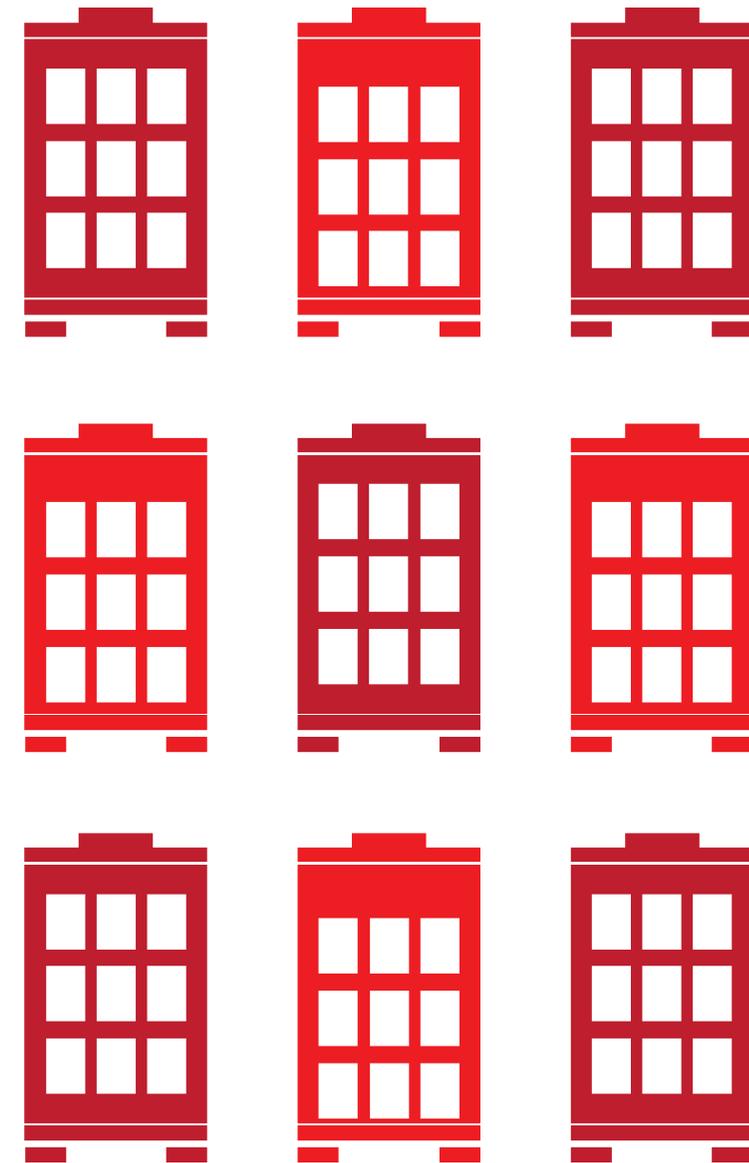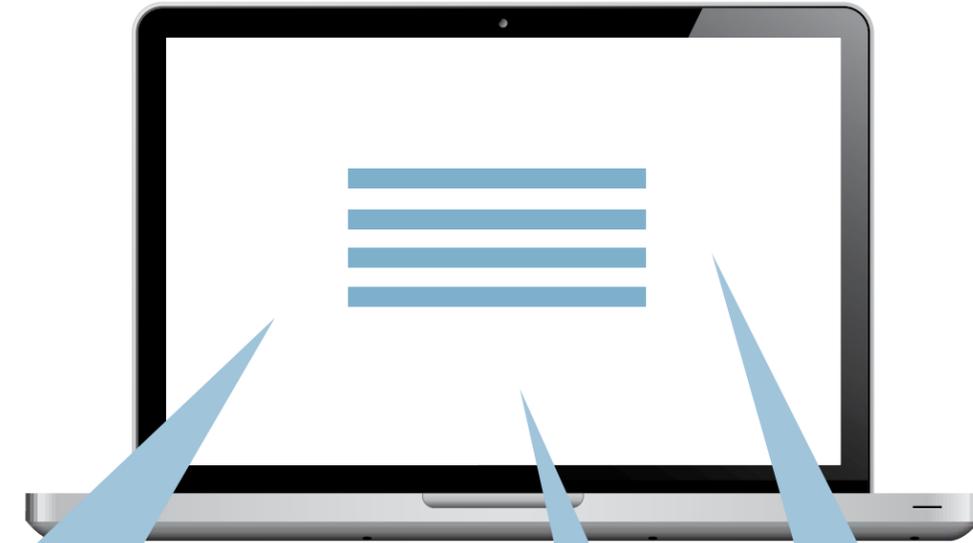
05

Why launch an airline

Using online content the lifestyle partner airline will influence

The online aggregator can do something airlines or tour operators cannot as it relates to integration[2]. They also have the financial assets to complete the service integration with an airline operation. They do not even have to operate it themselves, there are plenty of "for hire" options with operators that would provide Aircraft Crew Maintenance and Insurance (ACMI) under contract flying. What is fundamentally different is that the aggregator will be able to differentiate the airline model through higher-premium and relevant service bundles that create true loyalty (i.e. exclusive customers not driven by point programs). The aggregator airline is a lifestyle management platform. It has the dominant search and other platforms that bring together merchants and end customers.
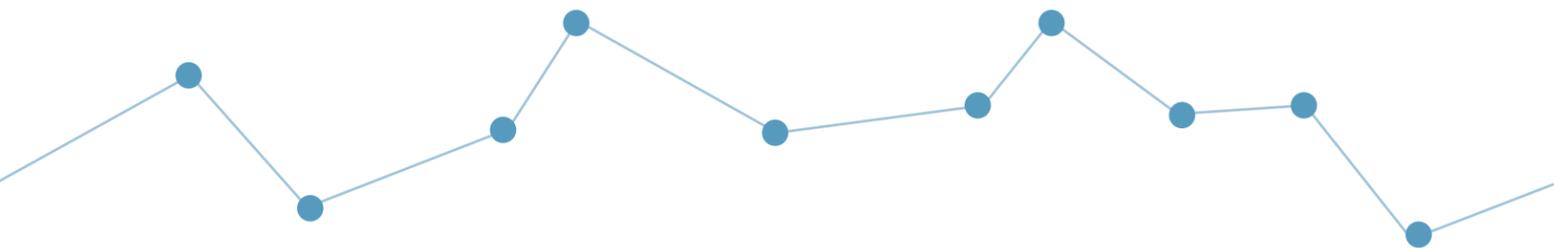

1 Why you should travel and when

2 How you get there and what you do in-transit

3 Who you connect to, how to, what you do every day

06

The Profit Model
in the Business Model

Can we use the Apple® iTunes® model [3]?
Can we use the Amazon® Prime™ model [4]?

Micro-payment

$0.99

Personal media library in-seat IFE

Automated check-in and self-gating

In-flight shopping, free duty-free delivery to hotel

In-flight MasterClass courses (e.g. Harvard podcast)

Profit Model: Sell 10 add-ons for $0.99 at near-zero marginal cost

Subscription

$199.90+

Air travel (monthly fee)

Bag pick-up, transfer to hotel, free home delivery

Integrated social and business calendar management

Membership

$299.00

Business network management

Meeting space, arrangements, logistics, & logistics

Note : *For illustrative purposes only*

	Lifestyle aggregator	Low Cost Airlines	Hybrid Models	Full Service Network Center	Tours Charters
Value Propositions	High/Multiple Personal Solutions	High Price-Based	Moderate/High Value-Based	Moderate All Things to All People	Moderate Commoditized
Revenue Streams	Multiple sources & customer groups (B2B, B2C, B2B2C) Memberships Subscriptions Advertising Micropayments	Transactional (seats) Ancillary	Transactional (seats) Bundles and à-la-carte	Transactional (seats) Bundles and à-la-carte	Transactional (searts/package) Premium service
Customer Relationship	One-on-one, but market dominance Deep/Personal Instrusive Omni-present	Transactional and price-driven Simplicity	Segment and tier-driven, but still largely transactional	Multi-segment, complex, network driven	Impersonal and reliance on third-party merchants
Margins Profitability	High, and predictable	Fair, declining, but fairly predictable	Moderate, but declining and less predictable	On average low, volumes predictable but share struggles undermine bottom line	Low, unpredictable, lack of differentiation
Average profit percustomer	>$13.37	$4.43	$3.37		n/a
	[estimated]	[Actual]	[Actual]		

07

Building the Business Model

How does the lifestyle content aggregator company build the airline business model? It could get to this using the ABC approach* to creating and validating a new profit model in a transformed business model:

A. Assets are stackable, Activities have synergies (search, maps, real-time content, profiles, algorithms, data mining)

Search

Maps

Real-time content

Profiles
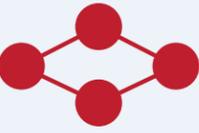
Algorithms

Data mining

B. Build monetizable propositions (10 steps)

1. Its purpose is to aggregate content and offer personal solutions (solve day-to-day problems through PDA)

2. It identifies strategic industry blind spots using a specific method (business model transformation methods)

3. It uses its identity to create magnetisable products that become a business (content, suggestive offers)

4. It uses the Plexus** business model pattern (profit from offering merchant advertising to a crowd of people using search)

5. It uses 6 specific design techniques by involving customers in the process (self-design and perfect results)

6. It tests the created business for strategy in the competitive context (which other industry could enter?)

7. It validates the overall process for productivity and effectiveness using stories (the customer shares)

8. It plans for delivery in a stealth but stackable campaign (release piece-by-piece, flight and seat info first, etc.)

9. It leads internal change from the top AND the bottom (create a hype among employees and the public)

10. It runs many trials and simulations to diagnose blind spots and redesign (focus on near-perfect execution).

C. Customize delivery to customer groups (delivery in 7 steps)

1. It accelerates short-term revenue streams (micro-payments, money easy spent)

2. It defines short-term priorities around proven capabilities (search, maps)

3. It prioritizes network effects over financial rewards (create a following, then dominate through excellent execution)

4. It plans execution around critical usability for credibility (end user must rave about it, no exceptions)

5. It communicates with the wider community, not direct stakeholders (average person, crowds, public, media)

6. It obtains commitment at all accountability levels (less hierarchy, all involved, all accountable, each task-specific)

7. It manages transformation not as a strategy but operational process (focus on execution, stop strategizing).

The ABC approach described above is a derived light-touch version of the Cruising to Profits ® business model transformation methodology owned by Millennium Aviation, Inc.

*** The Plexus™ business model is one created by bringing separate customer groups together and creating a new revenue stream in the middle. One dominant search company for instance combines search users (free) with merchants (advertising).*

About the author

Ricardo V. Pilon is an airline business model transformation methodology and profitability specialist. He is CEO at Millennium Aviation, Inc. a boutique executive coaching firm specialized in business model innovation, transformation and profitability revival techniques. The company operates out of Montreal, Amsterdam and Singapore.

Ricardo has 19 years of airline and senior management experience in the areas of strategic planning, pricing and revenue management and marketing. He has worked with 216 airlines and airline-related companies. Ricardo is also Chairman at Avia-Invest Holdings, Inc., a visiting business Lecturer at the integrated aviation management program of McGill University. He is a certified IATA instructor and published author, entrepreneur and investor. He frequently chairs and speaks at international conferences and sits on the Board of two aviation-related businesses. Ricardo is based in Montreal, Canada.

Ricardo V. Pilon recently published a new book entitled "Cruising to Profits - Transformational Strategies for Sustained Airline Profitability," of which the introductory Volume 1 – Second Edition was released on 10 February 2014. Volume2 - The practical guide will be released in late 2014.