Ancillary revenue optimisation

RMAPI, London 5th March 2020

Save the date!
June 23-24, 2020
Amsterdam

Top
Line
2020

London, March 2020

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Simon-Kucher & Partners at a glance

Globally renowned consultancy for top-line improvement

🇬🇧 *Financial Times*
Marketing, Brand, Pricing
2018

🇩🇪 *brand eins/Statista*
Marketing, Sales, Pricing
2014 to 2019

🇫🇷 *Capital*
Marketing, Sales, Pricing
2016, 2018
(conducted every two years)

🇨🇭 *Bilanz*
Marketing, Sales
2019

🇳🇱 *MT Magazine*
Strategy Consulting
2018

🇺🇸 *Forbes*
Marketing, Brand, Pricing, Sales
2016, 2018
(conducted every two years)
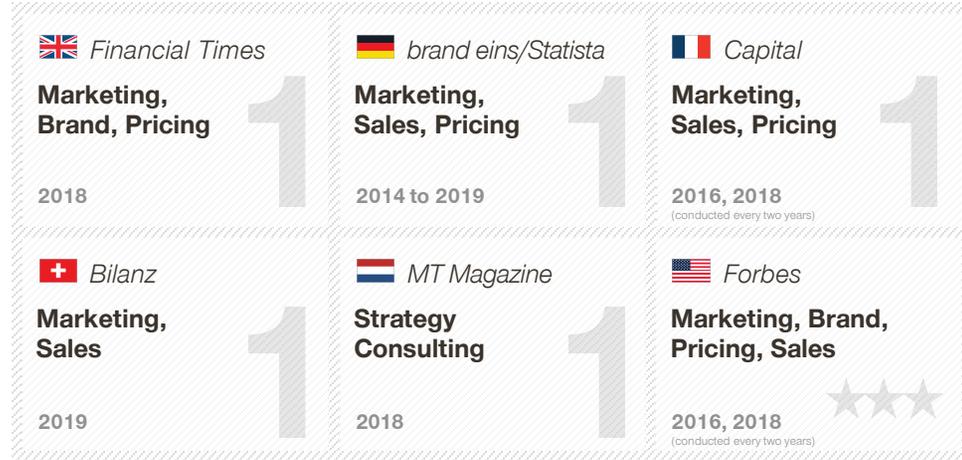
What others say about us

No one knows more about pricing than Simon-Kucher.

Philip Kotler, marketing guru

Simon-Kucher is a down-to-earth consultancy, highly committed and trustworthy. They deliver what they promise.

Member of the executive board, Bank Julius Baer & Co. Ltd.

Simon-Kucher was a great partner during our research phase. We appreciated their support, expertise, and partnership throughout the process of developing Uber Rewards.

Barney Harford, former COO, Uber

Pricing strategy specialists.

The Wall Street Journal

Facts and figures

Global locations:
39 offices in **25** countries, **>1,400** employees

Number of projects per year **>1,300**

1985 1990 1995 2000 2005 2010 2015 2020 2025

Avg. annual **growth**: **+18%**
Revenue in 2019:
€358m/$401m

1990 1995 2000 2005 2010 2015 2019
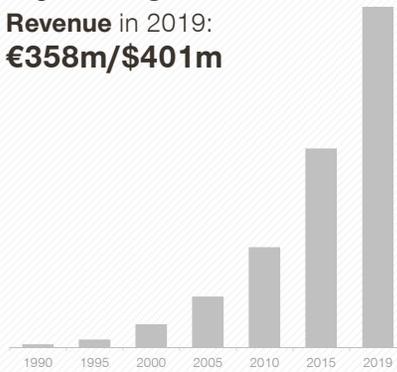
## Simon-Kucher profile

TopLine Power®
This is what Simon-Kucher is all about. We boost our clients' revenue and profits by optimizing their pricing, sales, marketing, and strategy.

Simon-Kucher Digital
We advise clients on how to improve their top lines with digital technologies, from big data analytics, machine learning, and artificial intelligence to tailor-made pricing and sales tools.

THE unicorn advisors
We have worked for over 30 unicorns, such as Asana, Stripe, and Uber.

Ancillaries are generally higher margin than your core product offering and face less competition

Typical price on airline seats
(Gross profit) / (costs of goods sold)

49%
Price: £70.00
COGS: £47.00

2,500%
Price: £25.00
COGS: £0.00

Airline Ticket

Select your seat

Typical price on cinema concessions
(Gross profit) / (costs of goods sold)

15%
Price: £6.99
COGS: £6.06

522%
Price: £5.60
COGS: £0.90

Cinema Ticket

Popcorn

Ancillary spend is increasingly big part of travel businesses, with airlines recording up to $50 per person

Benchmark: 2018 Top 10 Airlines ancillary spend per airline

Spirit	Allegiant	Frontier	Jet2.com	Qantas Airways	United	American	Virgin Australia	AirAsia X	Hawaiian
$50.9	$50.0	$47.6	$43.9	$41.2	$36.6	$35.6	$34.7	$34.3	$32.7

Avg. $39.50
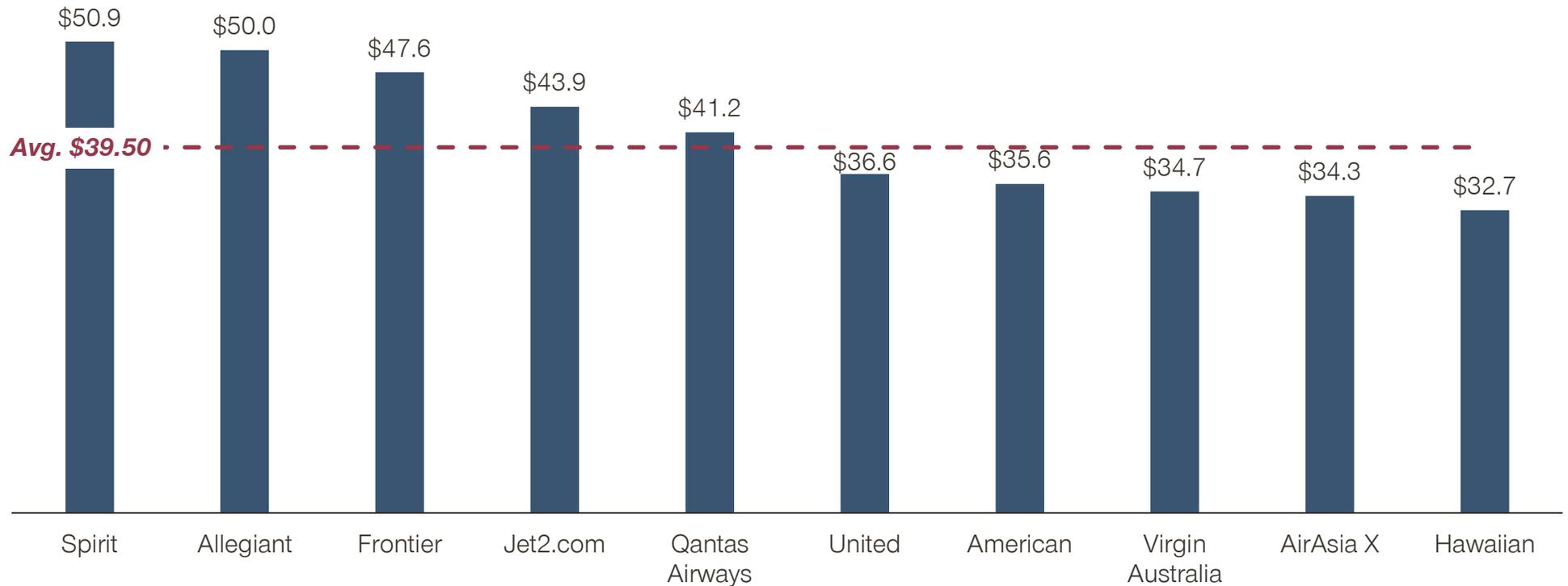
Top ancillary-based airlines manage to get on average close to $40 per passenger on ancillary revenue

How to optimise ancillaries:
Product, Price & Presentation (the 3 Ps)

Objective: Increase ancillary revenue per customer

Levers for increasing ancillary revenue

1   *Offer the right ancillary <u>products</u>*   **Not covered today**

2   **Optimise <u>pricing</u> to align with ancillary value**

3   **Increase conversion for ancillary products through improved <u>sales dialogue</u>**

A Upsell through value	**B** Personalise offering for a more targeted sale	**C** Build experiences with ancillary bundles	**D** Introduce gamification
✅ What should be included in booking process, but sold as an add-on? ✅ What should be up/cross-sold post-sale? ✅ Identify opportunities to introduce a good-better-best dialogue	✅ What ancillaries appeal to different groups? ✅ What messaging resonates best across different groups?	✅ What emotional experiences resonate most with customers? ✅ What is the right combination of ancillaries to meet these customer needs?	✅ What are the right games to play? ✅ What is the right story? ✅ What is the right order of products? ✅ What is the best manner to elicit the completion impulse?

Start by looking at the competitive landscape to establish the range within which you can price

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Benchmark of seat selection fees for **medium haul** and a basic fare

Pricing	Transavia	Wizz	KLM	Eurowings	Easyjet	Corendon	Ryanair	Vueling	Norwegian	TUI NL	TUI BE	Avg. Price
	D	D	S	D	D	S	D	S	D		S	
Standard	€ 4–9	€1–2.5	€ 5	> €4	€2–10	€6	> € 3	€ 10	€ 12	€ 6	€ 8	€7.5
Upfront	€ 6–14	€3–17	€ 14	Upgrade	€9–28	€8	> € 7	€ 10	€ 16	€ 6	-	€11
First row	€16-25	€5–23	€ 20	Upgrade	€14-34	€15	> € 7	€ 17	€ 21	€ 20	€ 15	€18
Extra legroom	€13–20	€5–23		> €10	€9–28	€17	> € 7			€ 20	-	€16.5
Exit seat	€13–20	€5–23	€ 20		€9–28	€15	> € 7	€ 16	€ 18	€ 20	€ 15	€17

Observations:

A Majority of **airlines** use **differentiated** price strategies depending on where you seat

B At **EasyJet** customers also receive other benefits on-top of selected seat (e.g. **speedy** boarding and extra carry-on)

C **Ryanair** also differs **pricing** within the **standard seat zone**, depending on the location of the seat

Respect the psychological thresholds that exist with regards to pricing your ancillaries

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Project example

Psychological thresholds

The **Van Westendorp** pricing research technique reveals key psychological thresholds where price perception changes considerably – e.g. in the graph we see big shift in perception at €40 and €50 suggesting that these are key thresholds to account for
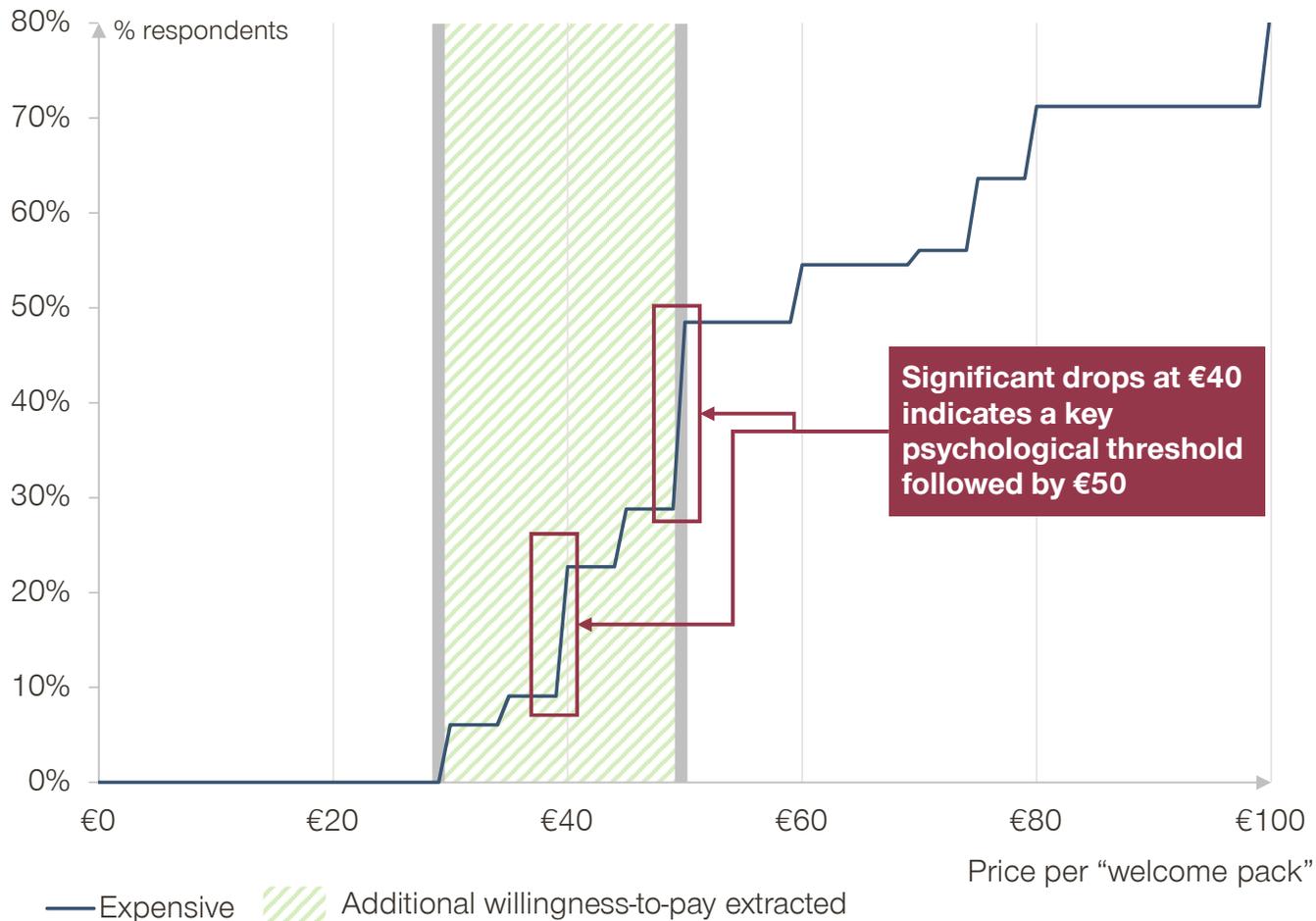
Significant drops at €40 indicates a key psychological threshold followed by €50

% respondents

Price per "welcome pack"

Expensive | Additional willingness-to-pay extracted

Differentiate to reflect the perceived value and communicate such value accordingly

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| £20 | £13 | £9 | £7 | £14 | £8 | £6 |

Ideal to stretch out
Extra legroom seats

Sit up front
Disembark quickly at your destination

Early check-in
Check-in opens 60 days pre-departure
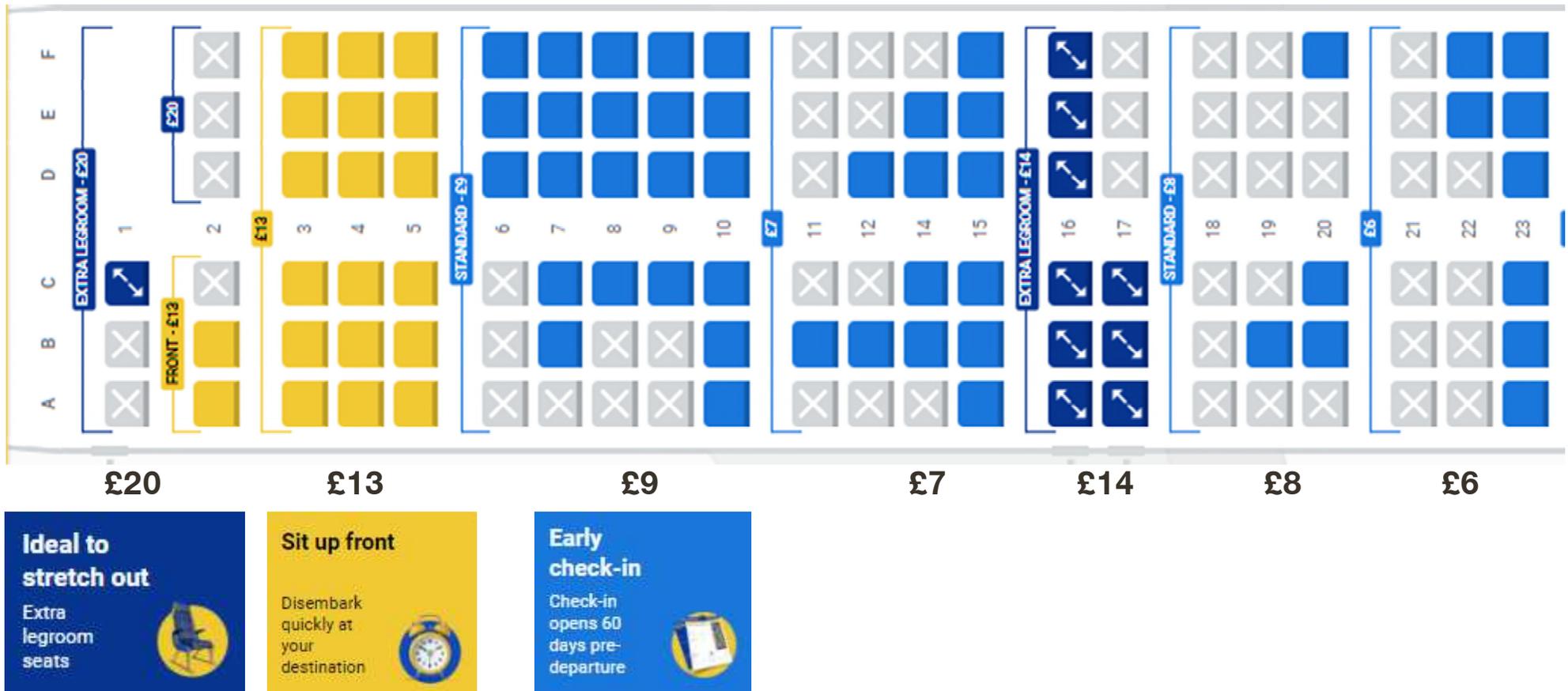
**Ryanair has 9 different prices for select a seat,
with clear messaging on the value arguments to justify the differentiated price**

Consider yielding up as "valuable" seats become constrained

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Project example

a ▢ *% of capacity or #seats sold*

b € *Price points at each level*

c ❌ *Close out (in days to departure)*

Willingness-to-pay for last available front row seat is higher close to departure

Level 1

€30,-

€27,50

OTD (on the day)

Level 2

€24,-

85%

Level 3

€19

65%

Level 4

€15,-

50%

€15,-

35%

❌ 7

❌ 2

❌ 1

Early bookers → price sensitive   Late bookers → price insensitive
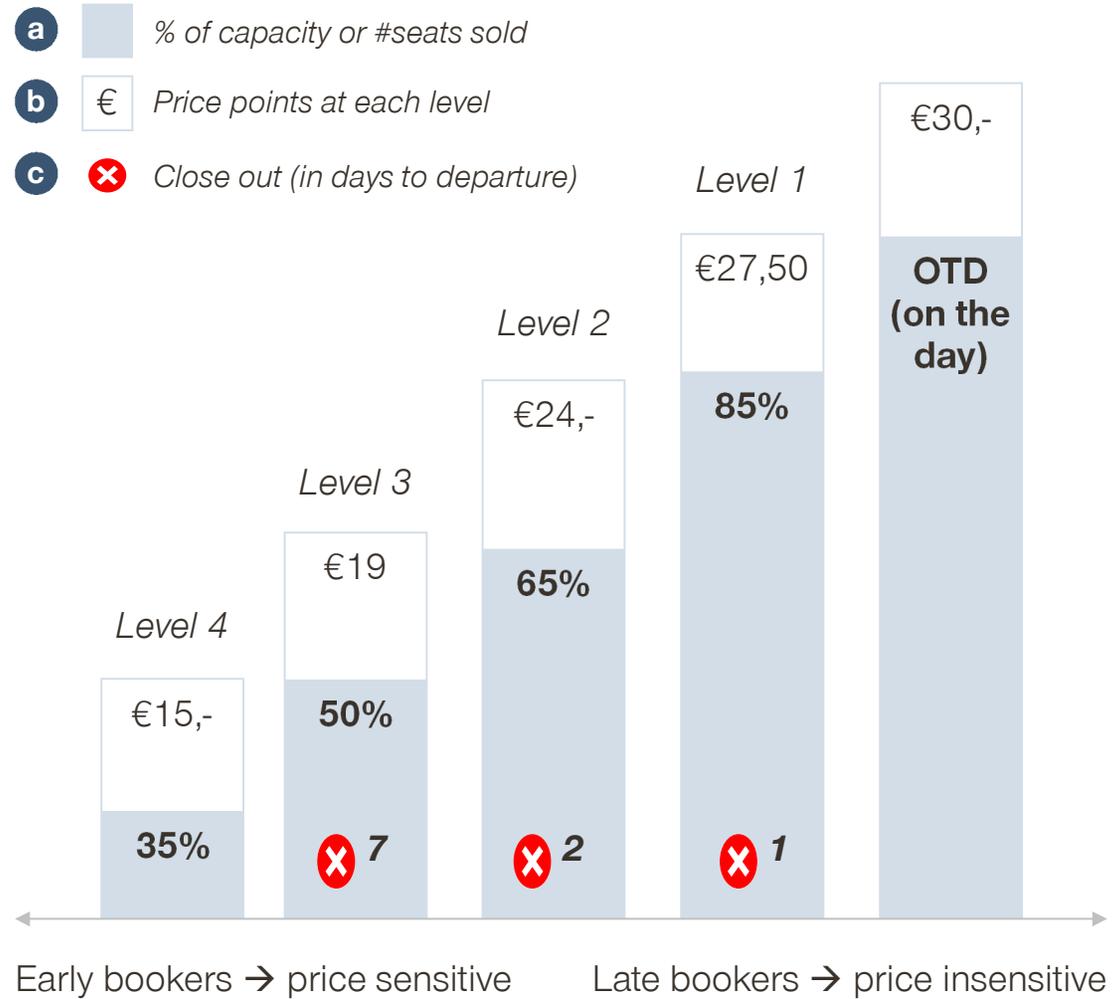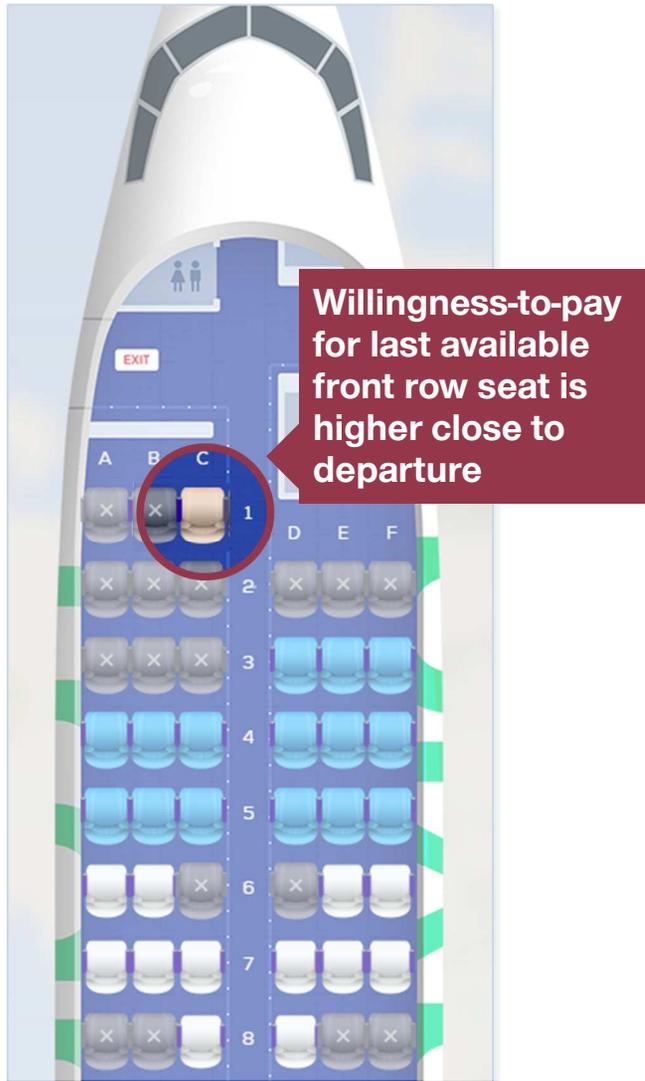
Use promotional prompts to incentivize purchase of ancillaries

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Project example

Optimise the presentation and order of bundles online

+19.0% sales

Continue adding on-click options to increase conversion

+3.6% sales

Optimise the placement of 'Best Choice' labels on ancillaries

Promote baggage prices as a discount from the airport price

Having optimised the price, we move to optimising the presentation and sales dialogue

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A — Upsell through value

- ✔ What should be included in booking process, but sold as an add-on?
- ✔ What should be up/cross-sold post-sale?
- ✔ Identify opportunities to introduce a good-better-best dialogue

B — Personalise offering for a more targeted sale

- ✔ What ancillaries appeal to different groups?
- ✔ What messaging resonates best across different groups?

C — Build experiences with ancillary bundles

- ✔ What emotional experiences resonate most with customers?
- ✔ What is the right combination of ancillaries to meet these customer needs?

D — Introduce gamification

- ✔ What are the right games to play?
- ✔ What is the right story?
- ✔ What is the right order of products?
- ✔ What is the best manner to elicit the completion impulse?

There are multiple ways you can improve your sales dialogue to upsell ancillaries

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I **Upsell through value**

Good *Better* *Best*

II **Upsell through relevance (personalisation)**

Family bundle

Couples bundle

III **Upsell through experiences**

IV **Upsell through gamification**

Secure hotel and flights
2/2

Upgrade your stay
3/3

Prepare for takeoff
2/2

Arrive in luxury
1/2

Enjoy a seamless stay
0/2

0   25   50   75   100

Customers have different priorities and needs for a travel product...

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Extensive research (qualitative and quantitative) revealed different customer needs across the customer base

Project example

Price sensitive	~56% are price sensitive	~23% are neutral	~22% are service sensitive	Service sensitive
I prefer to **pay less** and **not have** the ability to **make changes to my booking**	56%	24%	20%	I prefer to **pay more** and have the ability to **make changes to my booking**
I prefer to **pay less** and **only be able to travel on a specific service** (e.g. specific time during day)	57%	22%	20%	I prefer to **pay more** and have the ability to **travel on a variety of services** (e.g. anytime during day)
I prefer to **pay less** and **not receive a refund** if I cancel my booking	52%	27%	21%	I prefer to **pay more** and **receive a full refund** if I cancel my booking
OVERALL: I prefer to **pay less** and **have less**	56%	23%	22%	**OVERALL:** I prefer to pay **more** and **have more**
	Pay less	Neutral	Pay more	

■ % of customers

A **good-better-best bundle** structure enables you to appeal to different segments

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Project example

	..for the price-sensitive	..for the neutrals	...for the service sensitive
	▼	▼	▼
	Restricted Fare	**Semi-flex Fare**	**Flexible**
Amendments	❌	@ a small fee	Unlimited no fee
Refunds	❌	50%	100%
Flexible	❌	❌	✅
Luggage allowance	🧳	🧳	🧳 🧳
Price (index)	100	120	200

+5% Rev.

This is highly prevalent in the airline industry

Industry example

London Stansted ✈ Athens — Edit search
One way • 8 Apr • 1

London Stansted to Athens   Choose different flight ✕

Ryanair | 09:15 London Stansted | Duration 3h 35m | 14:50 Athens | Flight no. FR 15 | Type Direct | Value fare **£173.99**

The selected fare type applies to all passengers for all flights

Value
Travel light

- 1 small bag only
  Must fit under seat

✓ ADDED

Continue with Value fare

Regular
Includes 10kg cabin bag and seat

- Priority & 2 Cabin Bags
  Board first, 10kg cabin bag and 1 small bag
- Reserved seat
  Specific rows available

£20.85 more
per person on this flight

Plus
Includes 20kg Check-in Bag

- 1 small bag
  Must fit under seat
- Reserved seat
  Specific rows available
- 20kg Check-in Bag
  Drop bag at check-in desk
- Free check-in at the airport
  Up to 40 minutes before your flight

£38.00 more
per person on this flight

Flexi Plus
If you need flexibility

- Priority & 2 Cabin Bags
  Board first, 10kg cabin bag and 1 small bag
- Reserve any seat
  Including extra legroom seats
- Fast Track through security
  Use dedicated security lane
- Free check-in at the airport
  Up to 40 minutes before your flight
- Flexible tickets
  Option to change your flight dates

£74.85 more
per person on this flight

A good bundle needs to have 1 leader, some fillers and NO killers

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A successful subscription needs …

... a "leader" product

Big Mac

- A high value product that most customers want to or "must" buy
- Customers will buy leaders anyway, so don't include too many in the same bundle

... "filler" product(s)

Coke & Fries

- Medium value products that most customers consider "nice to have"
- Don't include too many, to prevent that customers pay for something they do not need

... NO "killer" product(s)

Coffee

- Products for which many have a low willingness-to-pay
- Can diminish value of the bundle

Customer importance elicited through customer research trade-offs reveals leaders, fillers, killers

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Check-in baggage
Extra legroom seat
Priority services
Flexibility
Service a...
Service b...
Service c...
Service d...
Service e...
Service f...
Service g...
Service h...
...

0.00   0.20   0.40   0.60   0.80   1.00   1.20   1.40

Importance¹
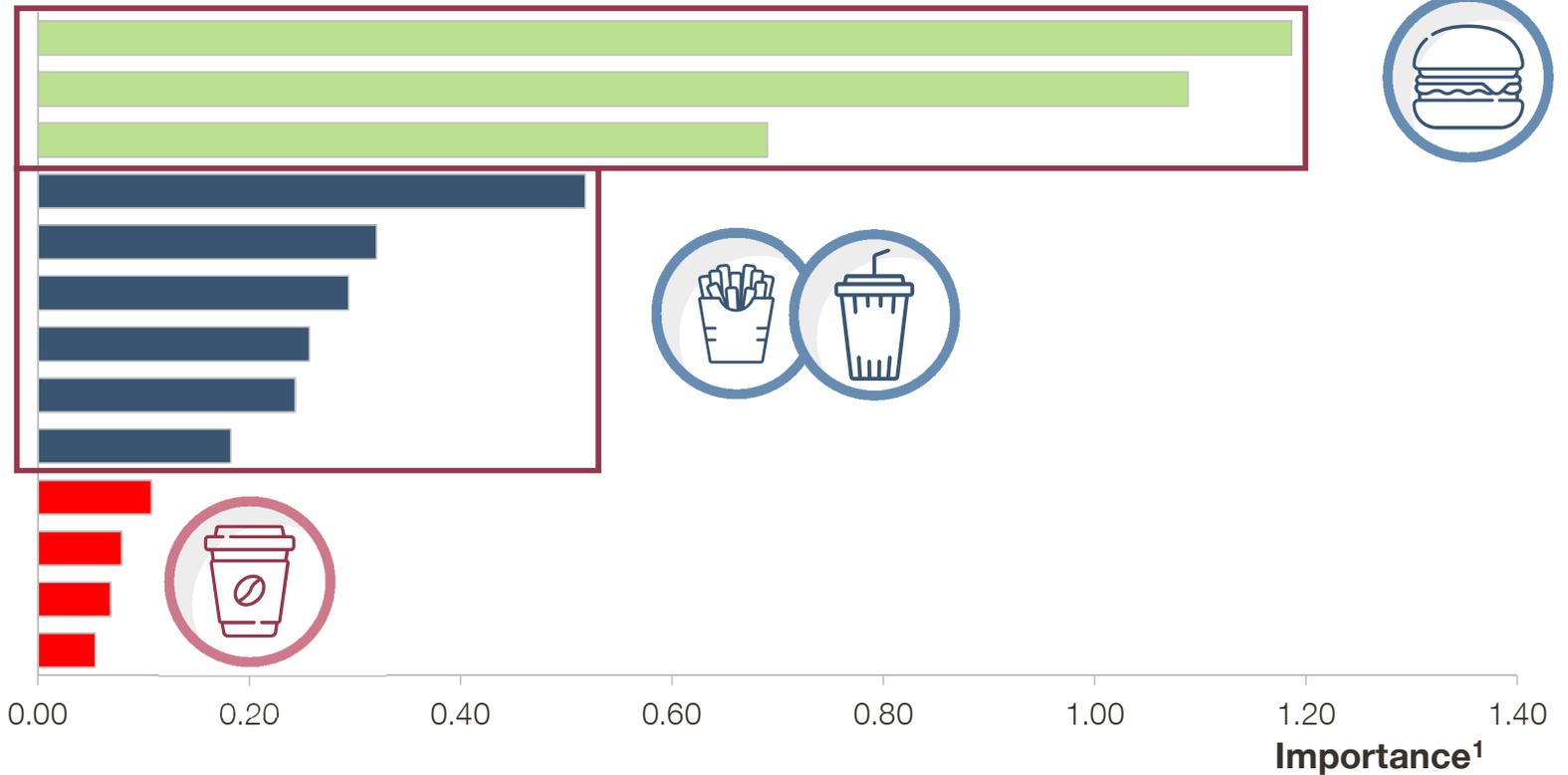
Using indirect research methods (like max-diff or conjoint) you are able to determine the leaders, killers and fillers for a bundle

...and use them to set-up the bundle structure

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Recommended bundles of ancillaries

Project example

	Best (OR)	Better	Good	No bundle
Check-in-baggage	23 kg	23 kg	23 kg	Optional
Select-your-seat	All seat types	Standard + front seats	Standard seats	Optional
Priority check-in	✓	✓	✗	✗
Priority boarding	✓	✓	✗	✗
Fast lane security	✓	✗	✗	✗
Food & beverages	✓	⊝	⊝	⊝
Lounge access	✗	✗	✗	✗
Long haul price	+ €€€ (per pax)	+ €€ (per pax)	+ € (per pax)	No cost

🔴 **Main leader used for differentiation**

Leaders are the "tarts" that make the upsell attractive for people to jump to the next bundle

There are multiple ways you can improve your sales dialogue to upsell ancillaries

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I Upsell through value

Good   Better   Best
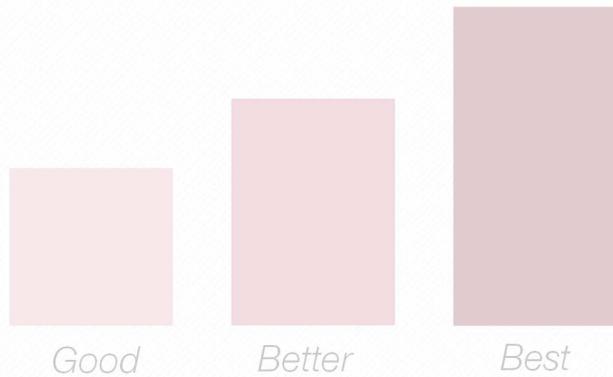
II Upsell through relevance (personalisation)

Family bundle

Couples bundle

III Upsell through experiences

IV Upsell through gamification

Personalisation takes the bundle structure one step further by personalising it by segment/occasion

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Search results for **1 adult**

RYANAIR

Direct (2 hr 30 mins)

18:15	✈	21:45
London Gatwick	FR 2715	Alicante

Standard fare	⊕ **Plus**	⊕ **Flexi Plus**
✓ Lowest fare	✓ Lowest fare	✓ Lowest fare
✓ One small cabin bag	✓ Priority & 2 Cabin Bags	✓ Priority & 2 Cabin Bags
○ Priority & 2 Cabin Bags	✓ Reserved standard seat	✓ Any reserved seat
○ Reserved standard seat	✓ 20kg check-in bag	○ 20kg check-in bag
○ 20kg check-in bag	○ Security Fast Track	✓ Security Fast Track
○ Security Fast Track	○ Free airport check-in	✓ Free airport check-in
○ Free airport check-in	○ Flexible tickets	✓ Flexible tickets
○ Flexible tickets		
○ £ 17.99	○ £ 59.35	

Only offered when booking for exclusively adults

Search results for **2 adults + 2 kids**

RYANAIR

Direct (2 hr 30 mins)

18:15	✈	21:45
London Gatwick	FR 2715	Alicante

Standard fare	**Family Plus**	⊕ **Plus**
✓ Lowest fare	✓ Lowest fare	✓ Lowest fare
✓ One small cabin bag	✓ 10kg Check-in bags for all the family	✓ Priority & 2 Cabin Bags
○ Priority & 2 Cabin Bags	✓ 2 x 20kg check-in bags	✓ Reserved standard seat
○ Reserved standard seat	✓ Reserved standard seats	✓ 20kg check-in bag
○ 20kg check-in bag	○ Security Fast Track	○ Security Fast Track
○ Security Fast Track	○ Free airport check-in	○ Free airport check-in
○ Free airport check-in	○ Flexible tickets	○ Flexible tickets
○ Flexible tickets		
○ £ 17.99		○ £ 59.35

Only offered when booking includes teens, kids or infants

The Family Plus bundle replaces the Flexi Plus bundle for the business segment and offers additional check-in baggage and seat selection to ensure the entire family can sit together

...communicated through marketing messages

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Search profile

Families with young children

Jet2holidays®
Package holidays you can trust

Add seats for your flights

Reserve seats for
Your family holiday
share a great flight

Select seats **NOW** for the best choice

Top tip - window seats are a great way of keeping the kids entertained!

✅ Uses language referring to family

✅ Targeted suggestion to pick window seat to help entertain the kids

Young couple

Guarantee your
Perfect seats
and share a great flight

Select seats **NOW** for the best choice

✓ Select your favourite seats, at the window or aisle, front or back   ✓ Upgrade to Extra Legroom

➡ Family language not used for couple

➡ Generic / neutral suggestion

Jet2 differentiate their messaging depending on the party size, personalising not just the offer but also the value messaging for the offering

Source: Simon-Kucher & Partners; Jet2Holidays website

Effective personalisation takes bundling to a more needs-based structure rather than good/better/best

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Bundle | To include

Bundle	To include
Family package	▪ GPS, Child Seat, Additional Driver
Winter package	▪ Snow chains <u>or</u> Snow tires, GPS
Road trip	▪ Additional Driver, WiFi
Connected package	▪ GPS, WiFi
Group trip	▪ GPS, Additional Driver

Project example

Personalisation is about showing to the right customers the right ancillaries

Personalisation is based on:

- **Car type selected**
  (e.g. large cars more likely to buy family bundles)

- **Location selected**
  (e.g. Alpine regions more likely to take winter packs)

- **Past purchase behaviour**
  (e.g. people who took Wi-Fi in the past are shown bundles with Wi-Fi in the future)

- **Upfront questions with reservation**
  (e.g. Purpose of trip, Solo/Group/Family traveller)

- …more!

Source: Simon-Kucher & Partners project example; anonymized to protect confidentiality

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Secure hotel and flights   Upgrade your stay

Prepare for takeoff   Arrive in Luxury   Enjoy a seamless stay

0   25   50   75   100
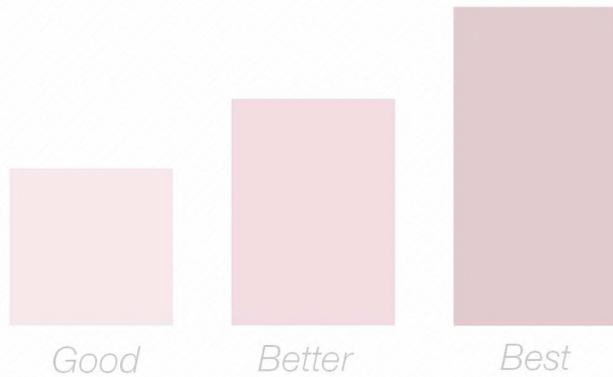
The key to designing successful experiential bundles is to understand the core experience needs of your customers

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Example customer needs

Family segments
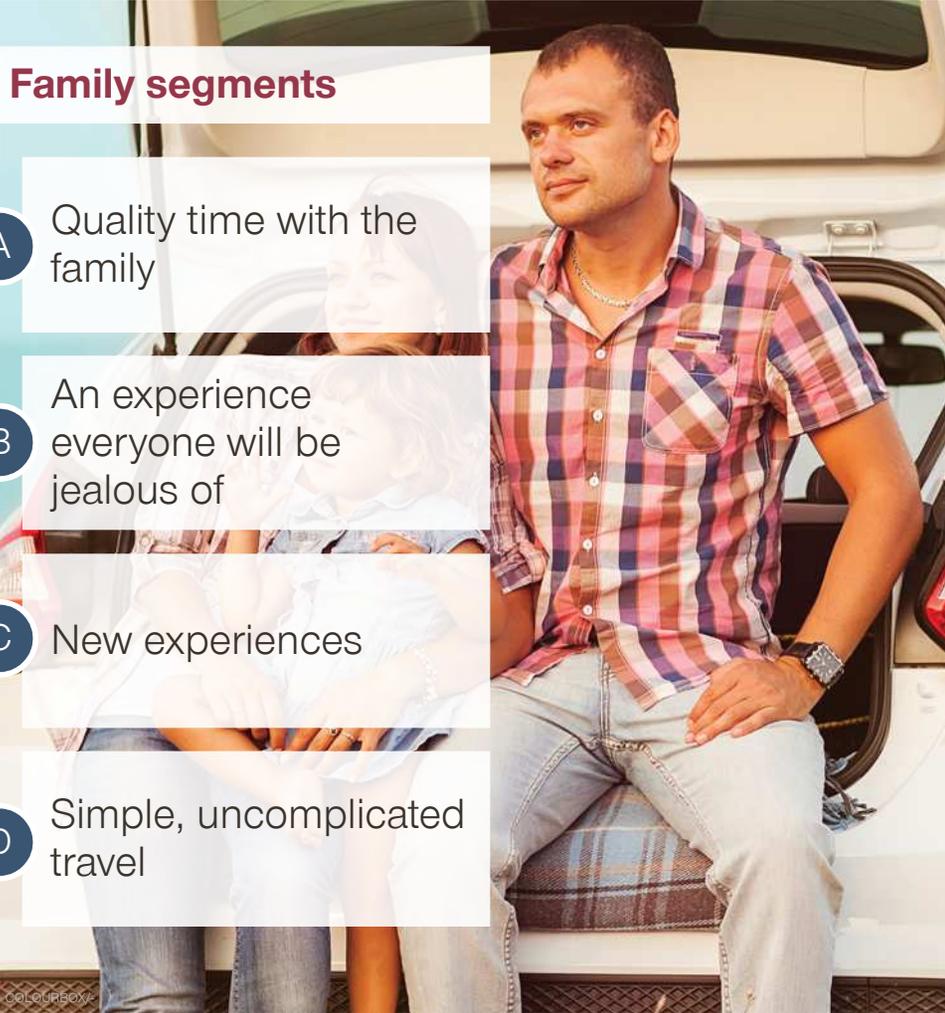
A — Quality time with the family

B — An experience everyone will be jealous of

C — New experiences

D — Simple, uncomplicated travel

Couple segments

A — Hassle free travel

B — Meeting new people and having new experiences

C — Escape from the real world

D — Romance

This creates bundles from existing ancillaries which can be self-selected by the relevant customer segments

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Project example for a holiday park

Project example

		No hassle bundle	**Family time bundle**	**Luxury bundle**
Customer needs		*"Simple, uncomplicated trip away"*	*"Quality time with the family without mobile phones"*	*"De-stress and treat the adults on the trip"*
Target segment	Primary	Escape families	Classic families	Brand loving families
	Secondary	All other segments	Escape families	-
Bundle contents (examples)		- Mini fridge fill - Reserved sunbeds for duration of stay - Late check-out (2pm) ...	- Family mini golf session - Family games pack - Fast-track waterslide access ...	- Champagne & chocolates 1 hour couples massage + baby sitting - VIP pool access – 1 day ...

Bundles all designed to address a key customer segment need and all are offered in limited numbers (due to restricted products) to generate sense of urgency to book

Source: Simon-Kucher & Partners project example; anonymized to protect confidentiality

End-result are "experiential" bundles that upsell through the promise of a unique experience

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Project example

All room bundles are only available to purchase before arrival at the lodge!

VIP
- ✓ **Reserved VIP poolside seating**
- ✓ Free buffet for children w/ paying adult
- ✓ Unlimited soft beverages
- ✓ Free snack at poolside bar with drink purchase
- ✓ 10% off one purchase at retail shop of your choice (Gift/Swim)

$$

Save 21%

Limited number available

+

Attractions
- ✓ **Unlimited plays for the whole family on the dry attractions including:**
  - 🏌 Mini Golf
  - 🎳 Bowling
  - 🧗 Ropes Course
  - 🧗 Climbing Wall

$

Save 70%

=

Ultimate
- ✓ **Includes EVERYTHING from both the VIP and Attractions pass**

$$$$

Save 60%

Limited number available

Created 3 additional experiential bundles for guests to add to their room at the point of booking

Developed from two key needs:

- All inclusive, hassle free experiences

- Increasing family together time

The design of the final bundles prioritised clarity alongside inclusion of components guests value

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2/2

Upgrade your stay
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2/2

Arrive in luxury
1/2

Enjoy a seamless stay
0/2

0   25   50   75   100

Source: Simon-Kucher & Partners

Simplicity and gamification are key!

We need to understand how thoughts come to our mind: System 1 vs. System 2

There are two different systems in our brains. **Most companies communicate almost exclusively via "System 2" with customers (lots of text on homepages, letters etc.).**

"System 1" of our brain is directed

The thinking of "system 1" is...

- **Intuitive and without effort**
- **Fast**
- **Always available for nearly all people**
- **Emotional**

$$75 \times 25 = ?$$
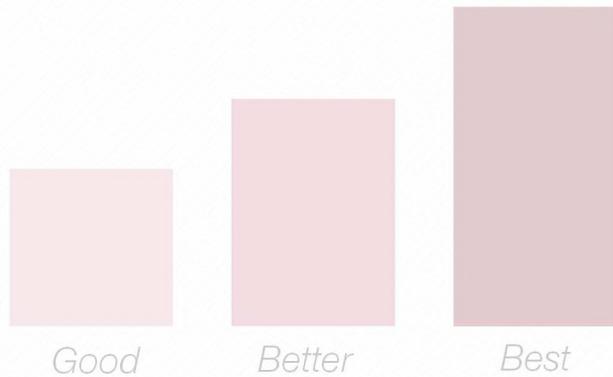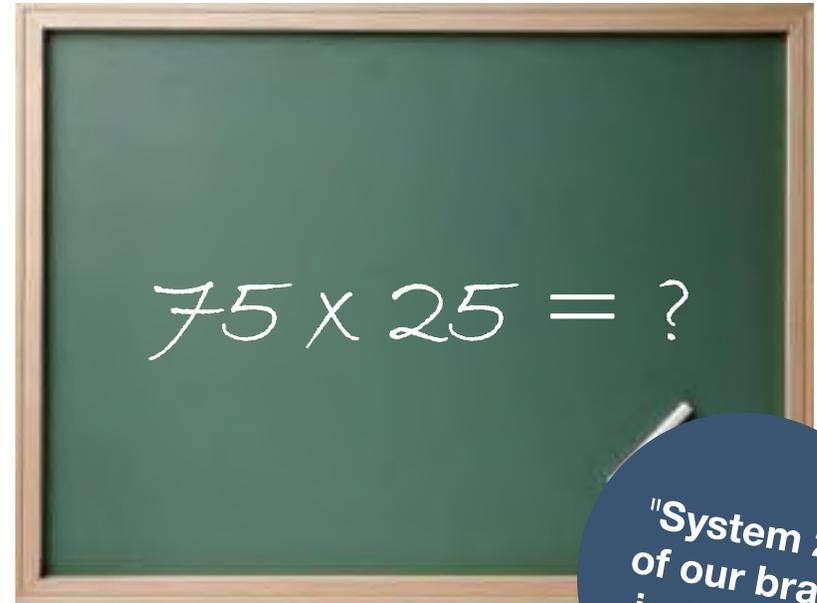
"System 2" of our brain is directed

The thinking of "system 2" is...

- **Effortful**
- **Slow and limited** (people are using it for work or things they are interested in)
- **Not available to same extent for all people** (different levels of intelligence)
- **Rational**

Customers generally do not respond to "System 2" messaging

Do you recall the panini stickers – a great example of psychological impact of the stick-effect

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Attention is directed to the missing parts and people feel an **urge to complete**
→ **Perfect blueprint for cross-selling and up-selling to your customers**

Experiments: You can multiply cross-selling rates using the "Panini" Sticker Concept!

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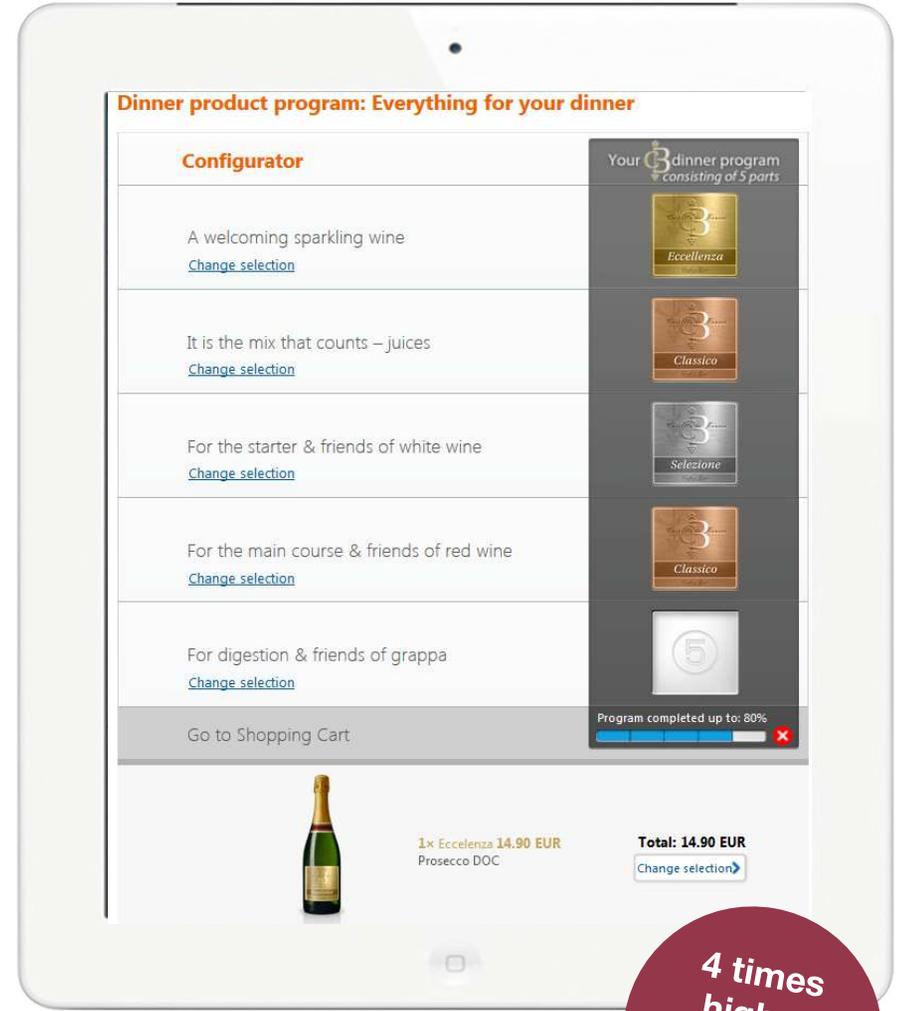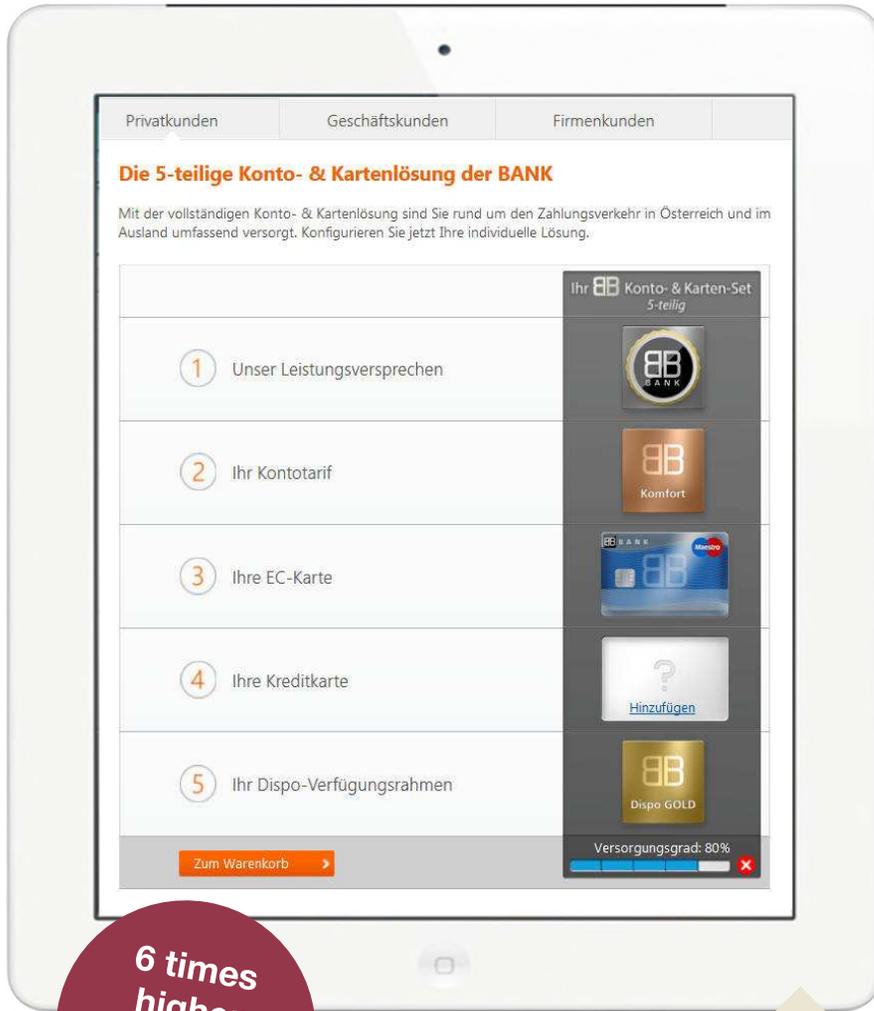
6 times higher cross-buying

Experiments with digital sales applications in analogy to (Panini) sticker albums for banking and consumer goods

4 times higher cross-buying

Source: Simon-Kucher & Partners; Bauer; Spangenberg; Herrmann (2018, forthcoming)

...and, we have found be 295% more effective in upsell than classic online shop

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Application: **Retail banking – % clients who buy 5 products**

+295%

20% — **Classic online shop** — Choose what you want and final recalls at checkout

40% — **Configurator approach** — Choose what you want but take a look at everything

56% — **Emotional approach** — We don't sell products, we solve your entire daily banking needs

79% — **Sticker game effect** — Highlight incompleteness
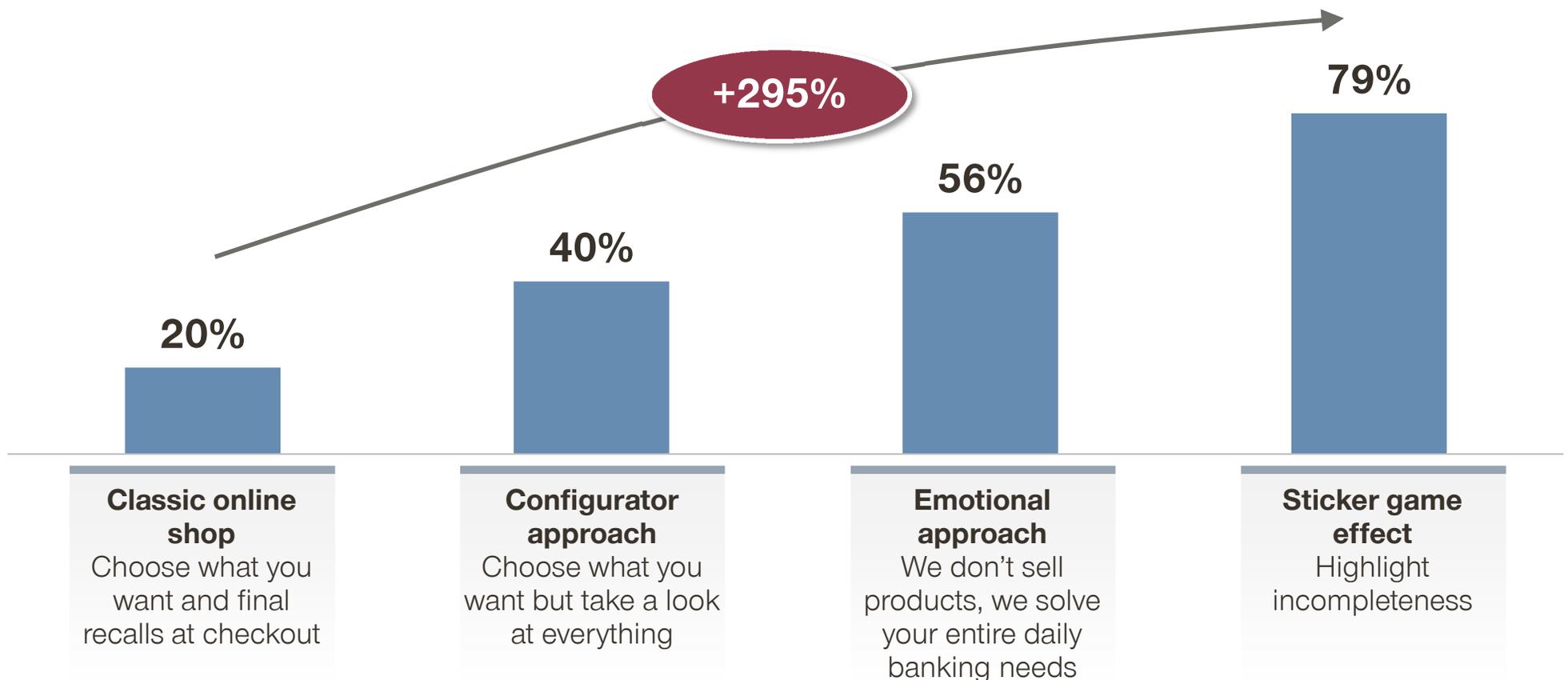
The panini effect is successfully used in retail banking to activate the "sticker-game"…

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There are many options to highlight (in)completeness visually and create an impulse to complete.

Examples from the banking industry

And should we reward the completion with loyalty pricing?
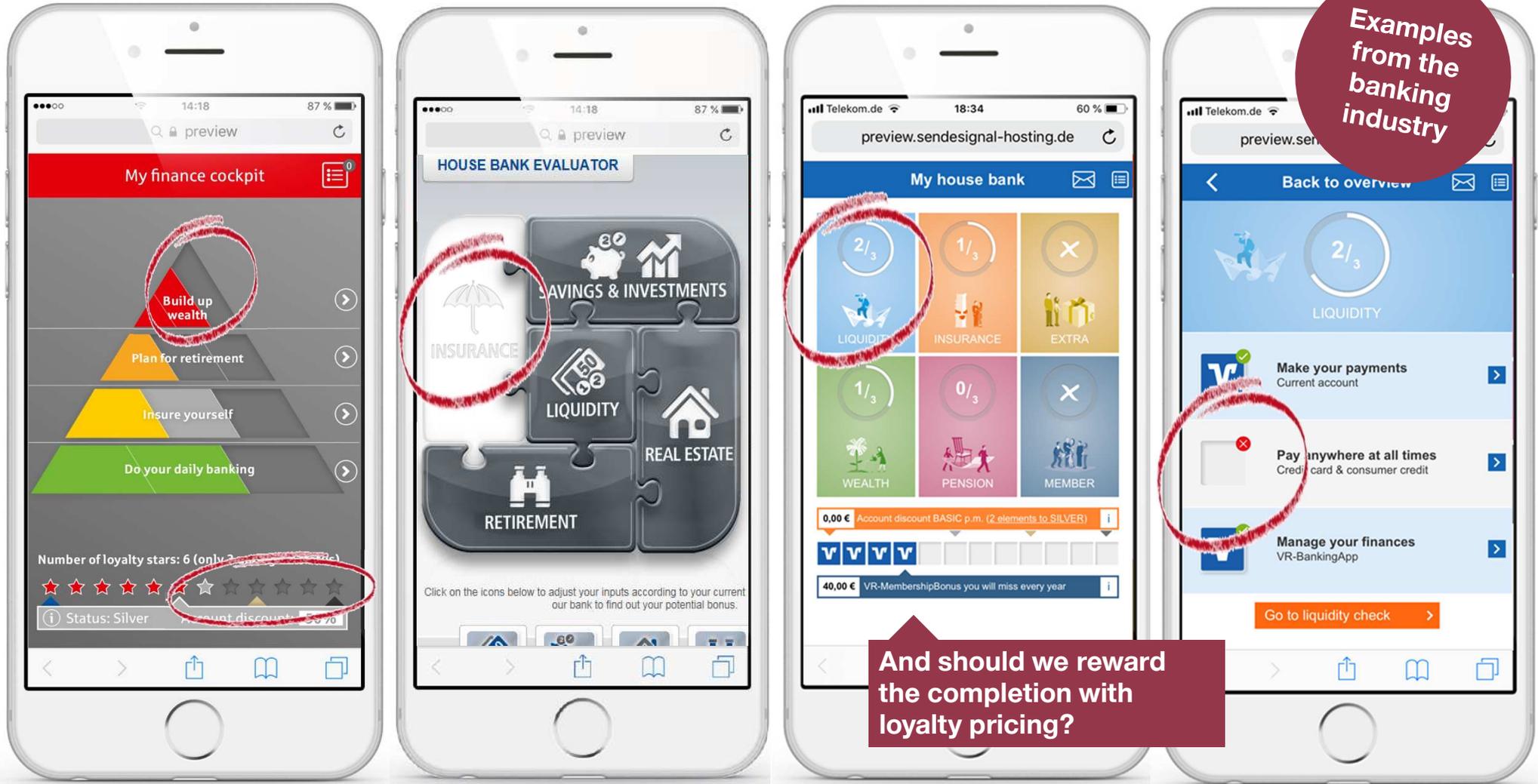
Taking it to the travel & tourism world, panini sticker could look like a puzzle of all the travel essentials

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Conceptual

Secure flights and hotels would always be populated

Blue puzzle pieces indicate completed pieces

Secure hotel and flights
2/2

Upgrade your stay
3/3

Prepare for takeoff
2/2

Arrive in luxury
TAXI
1/2

Enjoy a seamless stay
0/2

Grey puzzle pieces indicate missing ancillaries in order to achieve the "ideal vacation"

0   25   50   75

Progress bar to elicit the completion effect

The travel puzzle:

- Puzzle is set-up to have the key components of a holiday – flight, accommodation, upgrades, pre-arrival, excursions etc.

- Flight & hotel are pre-filled after booking and the remaining puzzles need to be filled by customers

- …using the stick effect game

Key take-aways on ancillary revenue optimisation

Pricing of ancillaries

- Start by ensuring your **pricing** is in-line with the **market** or your market position

- Respect **psychological thresholds**

- Reflect the **value** of your **ancillary** through **differentiation** (where applicable)

- If **ancillaries** are constrained or their value changes over-time (or other dimension) **yield** them accordingly

- Be **clever** with **promotional messages** to trigger upsell (e.g. buy luggage for everyone in the group)

Sales dialogue of ancillaries

- Use **bundling** in a **good-better-best** structure to upsell through value

- **Distinguish** your burgers (**leaders**) from your fries (**fillers**) and beware of the coffees (**killers**)

- Where you can, **personalise** your bundles to make them more relatable to people

- ...and even better make them **experiential**

- Finally, don't forget the **power** of **gamification** – using panini effect can increase your upsell 3x fold vs. traditional online shop

If you want to discuss further...

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Amsterdam

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