LSE | SKYHIGH ECONOMICS

Chapter Three: Capitalising on Changing Passenger Behaviour in a Connected World

A CONDENSED READ

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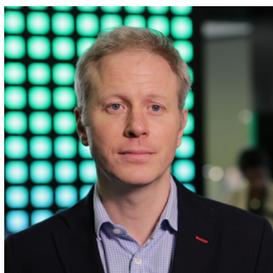
The aircraft cabin isn't ready for the next generation of always-on passengers

To date, the adoption of connectivity in the cabin has been patchy and inconsistent, but the need for airlines to adopt a digital mindset is becoming more urgent.

Within the next decade, Generation Z (born between 1997-2012) and Next Gen (born after 2010) will together comprise the largest group of airline passengers worldwide, with a small overlap between the age of these cohorts. In turn, the digital natives will soon become the industry's prime customer base.

Paired with this demographic shift, the 'always-on' culture that is pervasive across all passenger groups is transferring to the cabin, driving expectations of inflight experience. When it comes to being connected, today's passengers no longer want to be limited.

Against the backdrop of major demographic change and disruption, the 'old rules' of customer loyalty apply less. Rewards alone don't create a favourite brand. Millennials (the largest air passenger group today, born between 1981-1996) value loyalty less than any previous generation – a trend set only to continue with younger generations.

The next decade therefore presents both a large opportunity and challenge for the industry. To gain market share and stay relevant in a competitive industry landscape, airlines must adapt to the behaviours and expectations of today's and tomorrow's passengers.

As observed from the evolution of technology on the ground in Accenture's 2019 Technology Trends report:

"new technologies allow consumers to access personalised products and services on demand, and they also enable businesses to produce customisable products more quickly and inexpensively.

That combination has set consumer expectations on a constant climb." [1]

In the cabin, this "constant climb" of passenger expectation for personalised, on demand services is yet to be met. But inflight Wi-Fi is set to reshape the relationship between passenger and airline by creating a wealth of opportunities for tailored interactions that build positive brand perception.

Personalised, relevant services will move to the forefront of passenger experience, echoing developments in terrestrial technology. Just as Uber and Netflix revolutionised the public transport and entertainment sectors, instant and value-added connected services will define the future of the cabin experience. The airlines that introduce the most innovative, differentiating services, from streamed entertainment to e-commerce, stand to gain a major competitive advantage.

So, what could this near-future look like for passengers?

Increased data access allows airlines to develop detailed passenger profiles based on preferences and past activity. Using this information, airlines could serve each passenger a catalogue of targeted destination offers and products that can be ordered inflight and delivered to the gate. They could be prompted to pick up where they left off on a film they were streaming before the flight. They could be kept up to date with travel information, including arrival times, onwards journey options and baggage tracking. They could earn back valuable time before their trip, safe in the knowledge that their hire car, destination experiences and dinner reservations can be arranged from their seat.

Sky High Economics - Chapter One forecast that broadband in the sky will

generate $30 billion in additional revenue for airlines by 2035. Adapting to the behaviours of digitally savvy passengers will be key to unlocking these lucrative new revenue streams, while gaining market share from competitors. This chapter predicts that - in addition to the multi-billion dollar revenue opportunity identified in Chapter One - an annual $33 billion in market share is on the table today, to be won by airlines developing the connected inflight experiences that passengers want.

In a competitive landscape, that's $33 billion to be won, and equally, $33 billion to be lost. The key is to be on the right side of the equation.

Both the technology and infrastructure are ready to meet the expectations of always-on travellers. Airlines that act now stand ready to gain a substantial competitive advantage over their peers, becoming the dominant airlines of the future.

Is the industry ready for the challenge?

Dominic Walters
Vice President
Inmarsat Aviation

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[1] https://www.accenture.com/gb-en/insights/technology/on-demand-services-demand-forecasting

Adapting to modern passenger behaviour is the key to unlocking an immediate $33 billion in airline market share

In an age where quality internet access is an expectation of life on the ground, passengers are now demanding the same level of connectivity in the sky. Added to the widespread and growing appetite for connectivity is a vastly changing passenger demographic, which is accelerating demand at pace. There is a huge opportunity for airlines to gain market share by capitalising on growing demand for inflight Wi-Fi, and the possibilities for service innovation that it brings. A new generation of air travellers

Millennials currently comprise the largest passenger group globally: more than a billion travel each year, taking 44% more holidays than Baby Boomers. Hot on their heels to become the largest passenger groups within the next decade are the digitally native generations: Generation Z and Next Gen. By

2028, these groups will each account for around 1.2 billion passengers flying each year.

For these groups, 'always-on' behaviours extend to almost every area of daily life, thanks to the proliferation of social media and penetration of smartphones. As a result, most industries have experienced some level of digital disruption, and the travel industry is now also seeing a seismic shift in behaviour. At the same time, passenger loyalty is changing as younger generations show lower levels of loyal behaviour compared with Baby Boomers.

Millennials are more likely to be in the half of travellers who don't belong to a loyalty scheme, for reasons including a preference to maximise travel budgets and fly with low cost carriers who do not

"Today we are serving an informed, tech savvy, demanding customer. We understand the service expectation can be delivered by working smart. We recognise that technology can bring the speed and sophistication to serve today's customer."

C. Olagama, Head of Cabin Services, SriLankan Airlines.

offer frequent flyer schemes.

In order to win the loyalty of today's and tomorrow's passengers, these new drivers of passenger satisfaction need to be addressed.
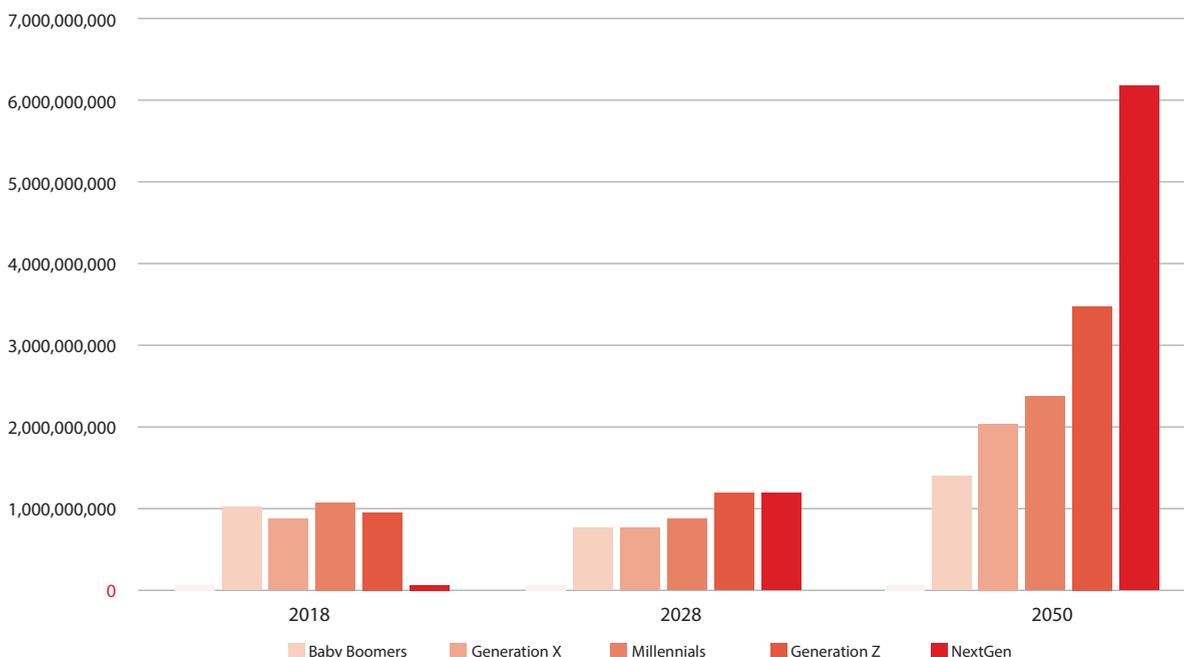
Passenger loyalty: rewriting the rulebook

Only one third of passengers believe that what makes them loyal to a brand today is the same as it was three years ago. Such behavioural changes provide the incentive for airlines and partners to evolve traditional loyalty schemes by placing engaged, personal relationships at the fore. The new drivers of airline loyalty encompass a combination of exciting and engaging inflight experiences, personalisation before, during and after the flight, as well as making the flight a more significant component of the wider journey. The impact of enhancing loyalty through service innovation will be huge. McKinsey and Co estimates that loyalty programmes can generate 20% of a company's profits, with customer satisfaction increasingly recognised as a key enabler of loyalty. For airlines, the opportunity can be split into two stages: the immediate, and the near future.

The immediate opportunity: the switch

The previous chapters of **Sky High Economics** established that connectivity can unlock unrealised revenues and deliver operational savings to help airlines navigate the considerable challenges expected over the next decade and beyond. In addition, the London School of Economics has identified there is an immediate windfall for

airlines that realise its potential to enhance loyalty by meeting the demands of modern passengers. **Sky High Economics - Chapter Three** forecasts the value of the proportion of global passengers that would choose to fly with an airline offering inflight Wi-Fi over one that does not, predicting that today, an annual $33 billion is 'up for grabs' – equal to 6% of total market share. This is modelled using data from frequent flyer schemes to assess the proportion of active members who generate the majority of airline revenue through frequent flights. The total market is split into active, engaged frequent flyers (13%) and less engaged, brand-agnostic passengers (87%).

Less engaged travellers – many of whom are younger flyers with new expectations of travel – present the largest opportunity for airlines to gain market share. Though they may travel less often than engaged flyers, the attraction of many such passengers will have a significant impact on an airline's revenue and profit. Today, 12% of passengers are willing to switch airlines to one that offers reliable Wi-Fi. This market share is immediately on the table for airlines already offering quality Wi-Fi to take from competitors.

The $33 billion market share available today is forecast to increase to $45 billion by the end of the next decade, and in an industry where decisions are often made over decades, not years, those that

act now stand to gain the lion's share of the prize.

The near future: service innovation

Simply offering inflight Wi-Fi is a differentiator now, but it won't always be. The trend for Wi-Fi in the skies is mirroring the evolution of connectivity in other sectors such as hotels, where access to the internet has become a minimum expectation, rather than a purchase driver.

High-bandwidth Wi-Fi with consistent coverage is crucial to meet the demands of data-hungry passengers – but adopting the technology is just the start. In order to monetise passenger opportunities and unlock the maximum value of personalised engagement, airlines must adopt

> "As consumers become accustomed to customisation in other parts of their lives-banking, retail, dining - they are going to expect travel companies to be at that standard and be at that standard very soon."

> **H. Harteveldt, Atmosphere Research Group**

a retail mindset. The near future opportunity exists in making inflight Wi-Fi an enabler for enhanced passenger experiences – from destination offers to premium content – boosting satisfaction and loyalty while accessing new revenue streams.

E-commerce is one area that could be revolutionised in line with behaviour patterns, by personalising offers from passenger to passenger and route to route. Consumers will not buy goods and services that aren't relevant to them, and their behaviour on the ground is unlikely to change in the air. Most younger passengers are open to travel inspiration (including 80% of Millennials) and will defer travel decisions to the last minute. Millennials are 14% more likely to make purchases for their onward journey when an offer is personalised. Generation Z, too, are 'deal-driven' travellers, with both groups expecting to be targeted and inspired. To encourage inflight spending, airlines can utilise data to develop personalised catalogues based on passenger profiles, routes, time-of-year and destinations. Service innovation need not, however, be restricted to the cabin experience alone; end-to-end personalised communication throughout the wider journey will further engender trust and loyalty amongst today's travellers. Data analysis based on passenger history is crucial to connecting the entire journey, creating a tailored,

> **"We'll help to direct you through an airport to your gate after you've checked in. When you're on the plane, in-flight entertainment will come up. If there's a route that you fly a lot and you have to connect through somewhere… then we would put those kinds of flights right to the top of our suggestions to you. We're also starting to think about whether you're on a business trip versus with your family and making different offers based on that."**

> **L. Jojo, CDO, United Airlines**

hyper-relevant experience that begins at the point of booking and extends beyond the passenger's arrival at their destination. Information collected inflight can then be utilised for follow-up offers and engagement, generating further revenue and strengthening the relationship between airline and customer by making the airline a more significant component of the wider journey.

In connecting the passenger journey end-to-end, connectivity can also be utilised to streamline administrative processes such as

boarding cards and immigration documents. With a third of passengers stating they would like to complete landing information digitally on the plane, this could have a significant impact on loyalty and satisfaction. In the future, the use of inflight connectivity could be developed further to enable fingerprint and iris scanning and transmission during the flight, reducing time spent in arrivals and thus improving overall journey satisfaction.

Time is of the essence

The airlines that recognise changing passenger behaviour patterns, and adapt their offering to suit, will reap the rewards at the expense of their competitors. The $33 billion market share on the table today is predicted to grow to $45 billion in the next decade, by which time digitally native passengers will be the industry's largest customer base.

To develop an inflight experience fit for the future, it is time to act now.

Learnings for airlines

Sky High Economics Chapter Three highlights several key actionable insights for the airline industry to capitalise on changing passenger behaviour:

1   **Implement onboard high quality, high speed Wi-Fi** in order to unlock the potential for additional loyalty-enhancing services

2   **Adopt a retail mindset**, making the most of data and third-party relationships to present personalised offers and communication that 'delight' the customer and lead to action

3   **Utilise customer data** to present offers, communication (flight, destination, offers and others) that lead to action and 'delight' the customer

4   **Provide relevant e-commerce** through appropriate catalogues of goods and services that appeal to different passenger demographics

5   **On-demand digital content services** can enable airlines to hold minimal content on board and reduce licensing costs

6   **Deliver premium content** such as live sporting events in real-time with premium pricing, with potential to attract fans of that genre

7   **Personalise the journey** by providing tailored travel information in real-time and use that data to tailor onwards travel offers and follow up advertising

8   **Unlock the advertising opportunity** with data generated inflight - an accurate and valuable asset. Through supplier partnerships, this can be used after landing for follow-up activities and offers to further engender loyalty and generate revenue. This data could also be used to obtain third-party sponsorship, including to fund a free Wi-Fi access model

9   **Use inflight connectivity to speed up administrative services** such as boarding cards and immigration documents

10   **Connect the passenger's journey end-to-end** by making the most of data gathered on and off the plane

At the forefront of aviation technology, Inmarsat offers two passenger connectivity solutions to airlines today – GX Aviation, and the European Aviation Network (EAN).

The global solution

GX Aviation is the world's first and only seamless, global, high-speed inflight broadband service providing in-the-air-as-on-the-ground connectivity for the world's most respected airlines. From its conception, GX has been engineered for aviation; an intelligent network designed to anticipate and meet ever-growing customer demand for ubiquitous connectivity.

GX Aviation is powered by Inmarsat's four, Global Xpress Ka-band satellites, covering the globe and offering the most extensive coverage of airline routes. Unlike other solutions, GX's layered, targeted capacity also provides the flexibility to add and redirect bandwidth where airlines need it most, across busy flight routes and over congested airport hubs.

As demand inevitably grows, so will the network. Inmarsat's fully-funded technology roadmap includes eight fully-funded next-generation payloads to expand capacity yet further. With the first of these due to launch in 2019, the evolution of the network will make GX the most agile and flexible constellation ever conceived, assuring customers that their requirements will continue to be met for decades to come.
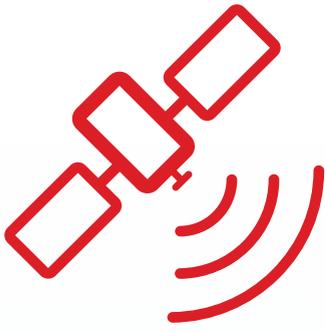
A unique offering for Europe

With more than one billion passengers travelling annually in one of the world's most congested airspaces, Europe is a uniquely challenging region for high-quality inflight Wi-Fi.

European Aviation Network, Europe's most advanced aviation connectivity service, has been built for Europe by Europe; a fusion of advanced technologies and the combined satcom, terrestrial, avionics, IFS and service delivery expertise of some of the most innovative companies in the region.

EAN is the fastest connectivity service in Europe with up to 75Mbps bandwidth to the aircraft and the lowest latency in the market. The remarkably lightweight, low drag equipment also means three times less fuel impact than any alternative system, and with an installation time of just nine hours, it promises the continent's fastest ROI.

EAN has been specifically designed to deliver both high capacity and ubiquitous coverage for Europe, future-proofed for rapid growth with the fastest scalability, ready to satisfy increasingly data-hungry passengers across the region.

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