

2016 AIRLINE MARKETING OUTLOOK

*How Airlines are
Navigating Turbulence in
Online Customer Acquisition*

FEBRUARY 2016

Copyright © 2016 EveryMundo

EVERY**MUNDO**



EXECUTIVE SUMMARY

For the last decade or so, airlines have had it rough. Shrinking margins, crowded skies, changing traveler preferences, and cutthroat competition for customer bookings have been huge challenges for executives across the industry... and 2016 won't see those issues go away.

When it comes to customer acquisition, airlines face a more competitive and rapidly changing market than ever. As global distribution systems, brick-and-mortar travel agents, and other traditional tools for lead generation continue to decline in relevance, new realms like mobile search and 'performance marketing' are rising to replace them. And with aggregator platforms seizing a substantial share of online bookings, it's crucial for airlines to maximize customer acquisitions and conversions without misspending their marketing budgets on outdated strategies.

To make the smartest use of their resources, airlines need to understand the major forces at play in the flight-booking landscape, step up to the challenges posed by the rise (and power) of online travel agencies (OTAs) and metasearch engines (MSEs), and deploy smart new tools and tactics to capitalize on changing customer booking trends.

The forces shaping the online customer acquisition market, as seen by EveryMundo Founder and CEO Anton Diego and President Seth Cassel, are the subject of this report. As a leading provider of performance marketing technology to airlines, the EveryMundo team has unprecedented insight into the digital marketing 'best practices' that help airlines seize a higher number of online customer bookings and drive long-term revenue growth.



As Mobile Continues to Rise, Airlines' Share Declines – Compelling Carriers to Innovate

THE OUTLOOK

Mobile search will soon account for **30-50%** of search traffic to airlines' branded websites.

THE PROBLEM FOR AIRLINES

Across the airline industry, mobile conversion rates are already averaging roughly one fifth of desktop conversion rates. Increased mobile traffic will drive conversion rates (and airlines' revenue) even lower.

WHY?

Two words: User experience. Consumers increasingly expect a fully optimized mobile experience on every site they visit from a smartphone or tablet – and if they don't get one, they navigate elsewhere.

And they don't always navigate elsewhere *intentionally*. Search engines prioritize mobile-friendly pages in their results, but the majority of airlines still haven't invested in providing customers with a sophisticated mobile experience. OTAs and MSEs, on the other hand, have.

In 2016, customers' impatience with slow load times, non-mobile-optimized interfaces, and other poor mobile experiences on airlines' direct channels will drive them to the OTAs and MSEs in even greater numbers – as will increasingly mobile-centric search algorithms. That will weigh airlines down with more OTA fees and commissions and continue to inhibit their ownership of the customer relationship, ultimately driving down overall revenue.



Revenue Challenges: Ancillaries Aren't the Answer (Though Airlines Keep Trying)

One of airlines' major responses to recent business challenges has been to emulate the OTAs: They pull customers in with the lowest prices possible, then try to maximize revenue from each individual traveler by tacking on as many upsells and add-ons as they can.

That trend isn't going anywhere in 2016 – but it also isn't a sustainable revenue-growth strategy.

"At every conference you go to, everyone's discussing ancillary revenue – but there are only so many upgrades and baggage fees you can sell," says Seth Cassel. "What no one's talking about, but should be, is optimizing conversions from existing site traffic."

"There is not enough focus on innovating the booking process – airlines just keep adding more ancillaries in a 'Frankenstein' way," says Anton Diego. "But mobile innovation and more seamless processes in the direct channel could drive far more effective, long-term growth for airlines."

THE RESOLUTION

"Airlines have to become more nimble when addressing their customers' mobile experience," says Anton Diego, EveryMundo Founder & CEO. "If they don't invest in evolving their mobile (direct) channel, they're going to truly lose the battle."

That battle is about more than just individual bookings – it's also about which hands will guide the future of the industry. OTAs and MSEs will continue to evolve and to innovate with their consumer-facing technology. Mobile is only the most glaring example of where a divide between airlines and OTAs is impacting airlines, chiefly by undercutting their ability to directly acquire customers and own the customer relationship.



"More generally, across the entire customer experience, regardless of device, there's consistent innovation in the OTA ecosystem that's missing from airlines' direct channels," says Seth Cassel, EveryMundo President. "And ultimately, that puts increased pricing pressure on individual airlines."

Why? The more customers opt to navigate to, and purchase from, the OTAs, the more price sensitive and price conscious those customers become – putting even more pressure on airlines to undercut their income by competing for the lowest fares.

Will the NDC Standard Help or Hurt Airlines?



NDC

The International Air Travel Association's New Distribution Capability (NDC) program is driving adoption of a new, XML-based data transmission standard – the "NDC Standard" – designed to enhance communication and data transfer between airlines and OTAs. But does it pose any tangible benefits to airlines?

"NDC is a double-edged sword," says Anton Diego. "If airlines embrace it as a tool for automatically distributing inventory to the OTAs and aggregators, they don't keep any added value to themselves – they just give their competitive advantage away to the third parties."

"What airlines should do, though, is use NDC standards internally," says Seth Cassel. "The idea of standardization around content distribution is very valuable, but airlines should stay focused on using it to package up their offerings to better promote the direct channel."

#2

The Flight Search Struggle Continues, With Google Keeping Carriers on Their Toes

THE OUTLOOK

Search engine marketing (SEM) plays an even greater role in the customer acquisition process in 2016 than in years prior. In addition, Google is boosting investment in its branded flight search tool, Google Flights.

THE PROBLEM FOR AIRLINES

OTAs and MSEs already dominate both organic and paid search results, and are more committed than ever to paying as much as necessary to acquire consumer clicks.

WHY?

Airlines continue to lack the resources, infrastructure, and competitive knowledge to compete in the search ecosystem as well as third-party platforms currently do. And while Google may claim publicly that 80-85 percent of its search traffic goes to organic results, third-party studies have shown that the true number hovers between 60 and 70 percent (meaning 30-40 percent of clicks go to paid search results).

Those paid-search clicks are also poised to increase over the course of 2016, as Google continues to tweak its algorithms and search engine results page (SERP) to make paid search ever-more valuable.

“Google is always coming up with better ways to attract a consumer to click on paid ads, because that’s what makes them money,” says Anton Diego. “The more Google focuses on that, the higher the prices become to acquire a visit through paid search.”

“But as things get more experimental and more aggressive on that front this year, the OTAs will keep spending more on paid search,” Diego continues. “It’s always worth it for them, since they look at acquiring the customer for their lifetime value – unlike an airline that’s looking to acquire a customer for a single transaction, right then and there.”

THE RESOLUTION

Airlines need to adapt by embracing new approaches to customer acquisition. Carriers may lack the deep technological resources, specialized expertise in search engine optimization (SEO) and SEM, and mammoth marketing budgets that enable OTAs and MSEs to dominate Google search, but cost-efficient software tools and strategies can help airlines compete in the search ecosystem more effectively.

Performance marketing technology, for example, enables airlines to quickly deliver up to millions of high-performance landing pages, in any language or country, in response to consumers’ travel searches.

60 to 70%

of Google search traffic goes to organic results

30 to 40%

of clicks to go paid search results

“By disseminating a large volume of search-optimized product information (aka, performance content) broadly across the web, airlines can vastly expand their online footprints,” says Seth Cassel, “and that can lay the groundwork for measurable, attributable increases in customer acquisition and conversions.”

Google Flights: Friend or Foe to Airlines? The Answer's Not So Simple.



A Foe, Fostering a More Aggressive Search Environment:

“Because it pushes organic results further down the page, Google Flights creates a more competitive search environment,” says Seth Cassel. “It’s all the more important now to appear not just on the first page of search results, but toward the top of the first page.”

A Friend, for Keeping Customers Away from OTAs:

“That being said, we actually foresee more revenue flowing through airlines’ direct channels as a result of Google Flights,” Cassel continues, “because consumers increasingly use Google for all aspects of flight research and planning, whereas they previously used major OTAs and MSEs to research and plan even in cases where they intended to buy directly from the airline.”



A Special Relationship? Airlines Reevaluate OTA Partnerships

THE OUTLOOK

Airlines – recognizing the increasing, long-term importance of direct-channel acquisition to their overall revenue – want to lessen OTAs’ competitive advantages over them in online marketing and customer acquisition.

THE PROBLEM FOR AIRLINES

Growing the direct channel will require airlines to reevaluate their distribution tactics – chiefly by redefining their partnerships with OTAs and global distribution systems (GDSs).

WHY?

Given that OTAs and aggregators command a significant share of the flight-buying market, airlines have long seen full participation in the

OTA ecosystem as their only option for seizing price-conscious comparison shoppers. In 2016, however, the tide on “full participation,” i.e., full content distribution, is starting to turn.

“Airlines are realizing that overestimating the importance of OTAs’ market share has had major repercussions,” says Seth Cassel. “Overall, airlines’ willingness to be what the OTAs see as ‘very positive partners’ has hindered their ability to grow direct bookings and foster long-term customer relationships.”

...as consumers start seeing more offerings and fare content on airlines branded sites, they’ll become more brand-loyal...”

ANTON DIEGO

“Carriers are beginning to realize that they need to reevaluate their strategy with the OTAs,” continues Cassel. “They need to participate, but they need to maintain more independence, so they can sufficiently grow their direct channels.”

THE RESOLUTION

Without airlines’ product, the OTAs lose their top traffic-driving product. As such, it’s wise for carriers to be more precious with their inventory.

“Right now, OTAs and MSEs own the customer – they simply lead the customer back to the airline when necessary, turning the airline into a commodity,” says Anton Diego. “Winning more direct-channel bookings will require them to offer direct-channel consumers more unique inventory that they can’t access elsewhere.”



The Data Dilemma Grows, As Only Quality Data Breeds Value

THE OUTLOOK

As in recent years, airlines continue to look to “big data” as the key to unlocking more effective marketing strategies.

THE PROBLEM FOR AIRLINES

Carriers lack an industry-wide system or structure for aggregating and normalizing data from multiple disparate sources. Without it, “big data” poses little value.

WHY?

Airlines are wising up to the fact that they have one keen advantage over OTAs and aggregator sites: As the carriers, they’re the ones who actually host passengers aboard their aircraft.



Performance Content: What Does it Mean for Airlines?

As part of a larger marketing strategy, “performance content marketing” aims to drive stronger clicks and conversions via the measurement, distribution, and optimization of consumer-focused content. For airlines, consumer-focused content means inventory information – fares, routes, and flight schedules.

With the help of a trusted software partner like EveryMundo, airlines can transform existing inventory content into performance content – deployed via dynamic, SEO-optimized webpages showcasing every product, category, and segmentation relevant to their customers. The result: better search-engine results that encourage more direct-channel bookings.

“Airlines’ data is all over the place because it’s at the mercy of the vendors and technology providers airlines use, who all store data in different ways.”

ANTON DIEGO

That creates unique opportunities for data acquisition, since it allows airlines to cull customer behavior information from travelers' onboard and pre- and post-flight actions – and their online activity.

Airlines are keen to apply that information, as well as the rest of their acquisition, purchase, and follow-up data, for real-time marketing purposes: Personalized offers, timely communications, upsell opportunities, and more. But in focusing more on “big data” than on “data acquisition and management,” airlines are putting the proverbial cart before the horse.

“The conversation about data shouldn't be where it is now, with stakeholders at every conference talking ten steps ahead about applying the data in practice,” continues Diego. “It should be a discussion of how the airline community can aggregate its data, normalize it, and restructure it in an efficient way that could actually make it useful.”

THE RESOLUTION

...is yet to be determined. In fact, it poses one of the few potentially “disruptive” opportunities in the air travel technology sector.

“If there's some sort of disruptive technology in the airline space, it's going to be a tool that helps airlines fully leverage the value of their customer base by normalizing cross-channel customer data,” says Diego. “Today's technology providers are trying to do this, but the way they're processing and storing their data is very antiquated – and real-time marketing is pretty far from their reality.”



A Shift in Focus: Are Airlines Wising Up to Customer LTV?

For decades, airlines have largely marketed to potential customers with the goal of driving individual, one-time flight purchases, making their most measured metric “cost per sale.” OTAs, however, have taken a different approach.

“OTAs spend their marketing dollars based on the lifetime value (LTV) of a customer,” says Anton Diego. “They want to acquire the customers, then keep remarketing to and upselling them moving forward. That allows them to be far more aggressive than airlines in terms of marketing spend.”

“By definition, if you can count on a higher level of revenue per acquisition you can afford to be more aggressive in acquiring that customer,” says Seth Cassel. “I think airlines are beginning to see that, and to make that switch.”

“Carriers are recognizing the connections among e-commerce, loyalty, and lifetime value,” adds Diego. “And they're beginning to use that outlook to justify spending more on marketing to and acquiring online customers.”

What no one's talking about, but should be, is optimizing conversions from existing site traffic.”

SETH CASSEL



FINAL THOUGHTS

To successfully navigate 2016's turbulent customer acquisition landscape, airlines need to embrace new strategies and tactics to encourage more direct channel traffic and conversions. Here are EveryMundo's top takeaways for stronger online performance:

- 1. Rise to the Mobile Challenge:** Airlines must embrace innovation and take action to offer an optimized mobile user experience – or else risk losing more market share to third-party aggregators.
- 2. Get Stronger With Online Search:** Airlines should seek out solutions that can help them showcase their inventory more effectively in online search to achieve greater parity with OTAs and MSEs in the online search ecosystem.
- 3. Commit to Driving Lifetime Value:** The immediate flight purchase is no longer the point. Airlines should focus on maximizing revenue from customers over the long term (and position themselves for more aggressive marketing in order to own the traveler throughout the customer lifecycle).
- 4. Reconsider Distribution:** Airlines have long allowed third parties to commoditize their product. The time has come for them to reevaluate the value of their OTA, MSE, and GDS partnerships.
- 5. Focus on Stronger Conversions:** Sustainable direct-channel revenue growth is achievable for airlines – but ancillaries aren't the answer. Airlines need to up their investment in online marketing and commit to increasing customer conversions.
- 6. Big Data? Start Smaller:** Airlines need to collaborate in support of better data aggregation and management... and then revisit how to leverage big data to their full advantage across the industry.

For ongoing insights on boosting customer acquisition and marketing performance, visit the EveryMundo Blog: blog.everymundo.com.

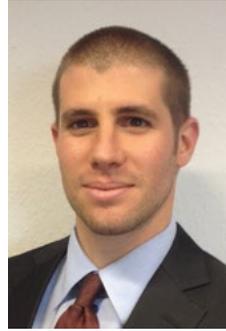
To learn how to maximize qualified online traffic acquisition through performance content marketing, contact the EveryMundo team at sales@everymundo.com.

MEET THE EXPERTS



**ANTON
DIEGO**

Anton Diego is Founder and CEO of EveryMundo. An experienced technology executive, Diego uses his expertise in software development, e-commerce, and SEO & SEM to drive the overall vision and direction of the company and the continual development of EveryMundo's industry-leading SaaS solutions. He has successfully implemented e-commerce strategies for multiple International companies – specializing in the travel and hospitality industries – resulting in large online revenue increases, reduced costs of sale, and improved tracking of all online revenue. Diego is fluent in three languages and holds a Bachelor's degree from the University of Michigan.



**SETH
CASSEL**

Seth Cassel is President of EveryMundo. A digital marketing expert and experienced entrepreneur, Cassel oversees the execution of highly sophisticated marketing projects and campaigns for EveryMundo's clients covering 6 continents in 25 languages. He has also been instrumental to developing EveryMundo's product suite and establishing the company's partnerships with leading airlines such as Etihad Airways, AirBerlin, Jet Airways, Aegean Airlines, SunExpress, and AeroMexico. A frequent speaker at international airline conferences and active lecturer on search engine marketing, Cassel holds an MBA from Harvard Business School and a Bachelor's degree from Harvard University.

We hope the information contained in this 2016 Outlook report helps you better understand and navigate the challenging landscape of customer acquisition in the air travel sector. For additional insights, contact the EveryMundo team at media@everymundo.com.

About EveryMundo:

Founded in 2006, EveryMundo provides the travel industry's most advanced solutions for optimizing the direct online booking channel. The company's flagship technology airTRFX provides airlines with the sophisticated online infrastructure needed to effectively compete with the OTAs: a page for every destination, route or travel product, in every language and every country, on any device. Leveraging these tools and strategies, numerous global clients speaking more than 25 different languages to customers in over 60 countries have achieved improved direct channel conversions, revenue and customer acquisition.

Visit everymundo.com.