Make Your Digital Connection:
From Digital Strategy to Airline Strategy

High performance. Delivered.

How can airlines compete more effectively?

Senior executives from some of the world's leading airlines say this is their top business challenge, according to a recent Accenture study that examines digital readiness at airlines around the world.

Both traditional and low-cost carriers need new strategies to differentiate themselves in the digital world. It has become a hyper-competitive market. Digital intermediaries are challenging carriers on how to stay close to their customers at a time when travelers expect the best of both worlds—the lowest fares and a superior flying experience.
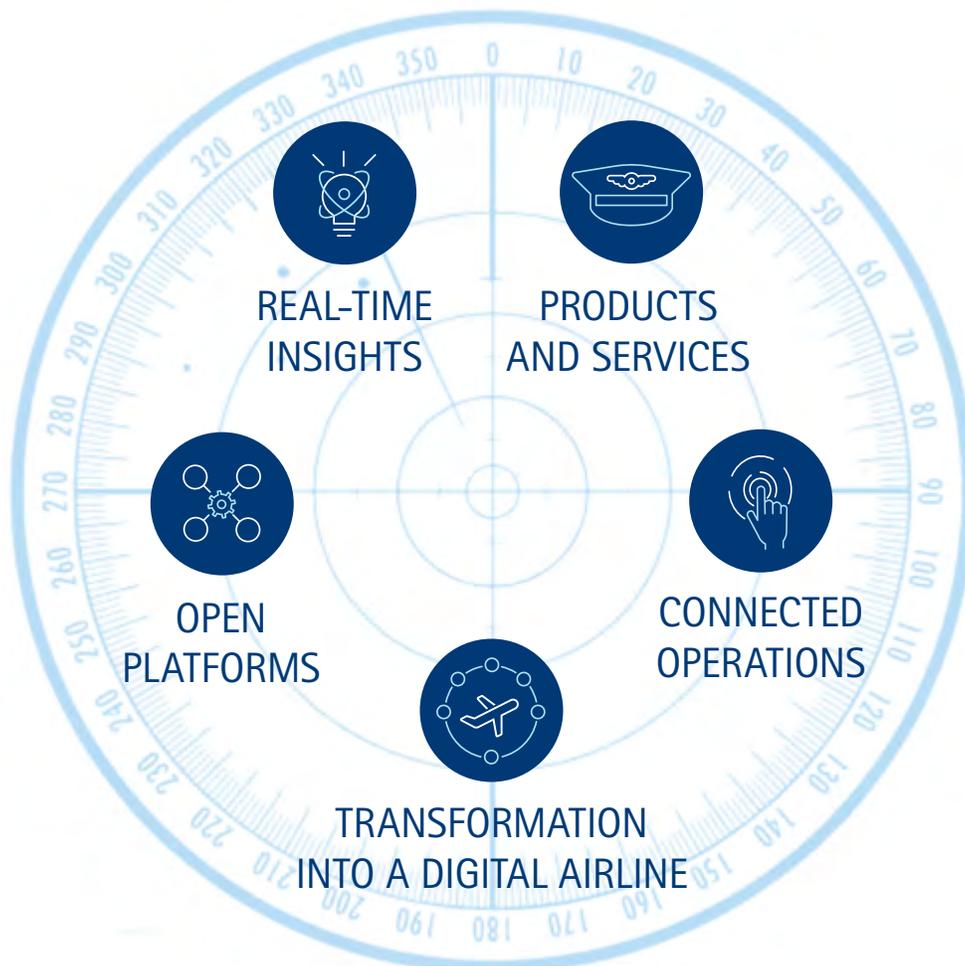
Our survey shows that executives see the need to invest in a digital future—to improve customer experience and enterprise operations as a dual focus. While many leaders claim that they have the vision to change, realizing their vision is a struggle. Cultural resistance, legacy technologies and operational silos create barriers in an industry that is lagging in digital innovation, according to the leaders we interviewed. Yet change must happen.

Digital technologies bring solutions to airlines that did not exist before. But digital is not an end in itself. It's a tool that can fundamentally change how airlines operate, instead of a way to modernize isolated functions. Digital enables a new level of data-driven collaboration across all airline functions collectively—connected people, processes, technology and culture to deliver a more seamless customer experience.

By comparing data and real-time interactions and analytics across departments to break down silos, the airline can align around customers.

Digital innovation will touch every aspect of the airline business, evolving "digital strategy" into "business strategy." To develop their plans for a digital future, airlines should focus on five priority areas:

REAL-TIME
INSIGHTS

PRODUCTS
AND SERVICES

OPEN
PLATFORMS

CONNECTED
OPERATIONS

TRANSFORMATION
INTO A DIGITAL AIRLINE

REAL-TIME INSIGHTS

Personalization based on full 360-degree customer insight is a myth for most airlines. And that is fine.

Airlines have never had a shortage of transactional data about their customers. Today, digital customer interactions provide new data points about customer behaviors that airlines can combine with insights from both internal sources (such as reservation systems) and external sources (such as social media).

With data storage continually getting cheaper, airlines have a clear opportunity to store and analyze vast amounts of customer data, using it to create offers and personalize the customer journey. We recommend that airlines take this opportunity to build and enrich their customer databases. After all, travelers expect personalized, made-just-for-me travel experiences today.

Not surprisingly, all of the executives who participated in a recent Accenture digital readiness survey say that their companies are "actively engaged" in digital technology initiatives designed to create a 360-degree view of the customer. And that makes sense. But is it sufficient?

The challenges of personalization

The reality is that generating a 360-degree customer insight for every traveler may not be realistic for an individual airline.

For many airlines, an overwhelming majority of their customers are infrequent. As a result, airlines have little or no data about them in their databases. Accenture analysis of customer data from a large network carrier reveals that almost half of its frequent flyer program members appear to be one-time fliers, or made less than one transaction in a three-year period.

The statistics are even more dramatic outside of the frequent flyer population. Recently, American Airlines revealed that 87 percent of its customers travel one time per year or less, which represents over half of its revenues.[1]

Our analysis indicates that in emerging markets like China, many airlines' first-time flyers have never even been on a plane before. And some high-growth carriers, such as the big three in the Middle East, are growing and filling new capacity with fliers who largely are new to them.

This low interaction frequency is a significant barrier to 360-degree customer insight that some other industries have access to. The less customers interact with an airline, the less an airline can know about them. This remains true no matter how good it is at data collection, storage and analysis.

Act on real-time customer insights

The good news is that airlines do not have to solely rely on 360-degree customer insight in order to provide their customers with personalized travel experiences.

In addition to collecting and leveraging insights from the customer database, airlines can capitalize on insights from their operational systems as well as real-time insights obtained during the travel journey for all passengers by constantly managing the customer dialogue. Digital solutions and technologies make this possible.

Consider a typical travel journey. Airlines have many touchpoints to make commercial offers, such as cross-selling products, or operational offers, such as providing information on flight status or boarding. Airlines can determine the selection and timing of such offers by analyzing many factors that they have reliable real-time insights into, including the following:

- **Where is the traveler in the travel process?**

- **Is the traveler flying with anyone else?**

- **What is the duration of the flight?**

- **Have there been any disruptions in the journey?**

Of all the emerging digital customer experience concepts we discussed with them, airline executives are most enthusiastic about using real-time insights to personalize travel experiences. However, only one-third of executives are actively engaged with real-time insights today.

Those that are, shared some of their ideas. They mentioned using mobile geolocation technology to guide customers to gates, VIP lounges or baggage carousels; sending digital vouchers for airport restaurants to passengers' mobile devices when flights are delayed; and providing an app that allows customers to provide real-time ratings on the flight, crew, entertainment, and food while on board.

There are many exciting opportunities for personalization based on real-time insights. The use of real-time analytics paired with mobile self-service and other digital solutions can empower airlines to continually adapt the customer dialogue, making for an experience that is consistently relevant and highly personal.

> **"** ...if you look at somebody like Amazon or if you look at somebody like Uber, if you look at some of the other examples out there, the simplicity of the way that they interface with their customer, with their guests. The way that they're able to offer a very customized experience. The way that they're able to provide an experience that's relevant, that's completely relevant to their user. Those are all things we need to learn from, adapt and look for ways to really leapfrog other industries here."
>
> — Airline Executive

PRODUCTS AND SERVICES

The physical product will be a more important competitive weapon than ever as prices "commoditize".

It is hard for many people to remember what air travel was like before the digital revolution. In the last decade, the growth of the Internet, multiple digital channels—and the disruptors with business models that leverage them—have had a profound effect on the industry.

Travelers once had to rely on a travel professional to find and compare all of the best airfares and schedules. But what was once hidden is now out in the open. Companies like Expedia, Priceline, Hipmunk and Google Flights empower travelers to be their own travel agent.

"The disruption has to do with the shopping and booking experience. When a customer has access to Google Flights and the many other methods of searching for a flight, there is a proliferation of choice and extreme transparency that is disruptive to the way that business was traditionally done," explains an airline executive who responded to our digital readiness survey. "And it's ever changing, so we have to stay on top of where our customers are, how they're booking, and what they're seeing."

> **"** Airlines have all the products to offer: preferred seats, upgrades, VIP lounge access, preferred boarding. Products that only airlines can offer."
>
> — Airline Executive

Landing on the right price

In this new environment, price has become the decisive factor for airline choice more than ever before. With more transparency and choices, travelers are price shopping because they can. Consider the proliferation of price prediction apps and tools, such as FLYR, Kayak and Hopper, which allow travelers to track flight pricing. Global economic developments certainly contribute to travelers' focus on price. Even so, this trend holds in the traditionally less price-sensitive business travel market.

Increased transparency has fueled all-out price wars, with airlines trying to get ahead of each other with special airfares and offers. On short haul routes in particular, competition between low-cost carriers and network carriers has become fierce. Their products have started to converge, with full-service carriers dropping service elements such as in-flight meals or free baggage allowance to compete.

This has reinforced the idea with some that air travel today is increasingly a commodity. Airline executives tend to believe that digital intermediaries have contributed to commoditization. "The online travel agencies and metasearch engines just pull a huge search of everything that's out there to find the lowest price, and that does not allow you to execute your business strategy. For the most part, it's their way of selling a product, not our way."

Travelers still have to fly

We believe that many markets could reach a turning point. Absolute differences in fares among carriers will become increasingly insignificant. Price could even become a commodity factor in some markets. What does this mean for airlines that must balance the cost to compete with the cost of doing business?

Service and the physical product will re-emerge as critical competitive factors. Think of it as the next Golden Age of Air Travel. In this context, brand preference will be key. Some leading low-cost carriers such as Ryanair are already recognizing this trend, and are investing heavily to improve the customer experience they offer. Some premium carriers have built their business models on it.

What's exciting for airlines is that, unlike digital disruptors, airlines have a physical product. "The customers still have to fly. The word Google isn't written on the side of an airplane yet," reminds one survey respondent. As such, airlines have opportunities to influence brand preference.

Product and service excellence

Because airlines control the physical product, they can offer touchpoints and meaningful services that intermediaries cannot. Airlines must focus on the quality of the product. Is the plane clean and well maintained? Is the flight crew friendly and knowledgeable? Is the gate area welcoming and comfortable? They must also provide responsive service throughout the customer's travel journey.

To do this, airlines can create a seamless travel experience for travelers delivered by different parties at different phases of the travel journey. Digital solutions have an important role to play here, from booking a flight all the way through the day-of-departure and the onboard experience.

Airlines will need to act in real-time and at scale to deliver on their promises to customers, both within their organization and in how they work with ecosystem partners. Seamless connections among partners is especially important when customers perceive partner services to be a natural part of their travel experience such as airports, feeder airlines and other modes of transportation.

OPEN
PLATFORMS

Airlines are not the ones driving their customers' travel plans. To be relevant they need to open up to the ecosystem.

Many low-cost carriers around the globe have proven that airlines can stimulate demand for air travel and create markets where they did not exist before. However, the reality is that most airline customers base their travel plans on a specific destination and reason for traveling. They are not flying just for the sake of flying. People are travelling because they want to—or because they have to.

The traveler knowledge gap

Because airlines are just a "link in the travel chain" most customers are not very intimate with them. Companies like Google, Facebook, Apple, Microsoft and Amazon are part of customers' daily lives, and know much more about them than airlines ever will. These companies can use analytics to learn about people's travel plans long before the airlines find out about them.

The growth of travel services and resources is another barrier for airlines when it comes to customer intimacy. The travel ecosystem is wide and diverse. People once relied on a small number of travel professionals to plan trips. Today, however, travelers have access to a fragmented array of special communities that suggest travel options to them. These can include social media communities, religious and sports organizations, and professional associations.

Going where customers are

In this environment, reaching potential customers in time to secure their business is a challenge for airlines. Their survival requires that they become an active part of the travel ecosystem.

Airlines must be where customers are. This includes connecting with online travel agencies (OTAs), high-impact brands like Google and Apple, and special interest communities. By making these connections, airlines are in a place where customers will see the personalized offers and bundles that they want them to see. These offers should take customers' specific context into account, which requires a feedback loop with customers so that offers are always personalized and relevant.

The only way to do this, and to effectively connect to the broader travel ecosystem, is for airlines to open their platforms from a commercial and operational perspective. This way, they can connect to other companies and organizations that are serving their customers.

The "inspire" and "search" steps of the travel journey are crowded with high-impact brands and specialized communities. Individual airlines won't be able to beat them in this area. But by joining them in the travel ecosystem with open application programming interfaces (APIs) and other digital developments, airlines can play a meaningful role.

Moving past the barriers

The airline industry executives who we talked to as part of a global digital readiness survey were least enthusiastic about "open platforms" when compared to other digital initiatives. Their resistance reflects a desire to protect customer data at all costs.

Not surprisingly, airline executives view the customer data they have as a competitive asset that should be guarded, not shared. And it is. One executive explains, "The key elements of discussion with all of these intermediaries basically is, who owns the customer data? And we will never give up on our ownership." Concerns about sharing customer data are also prevalent even among those who say they favor third-party partnerships.

It is critical that airlines understand how to participate in the broader travel ecosystem without sacrificing valuable customer data. Open platforms are about being where customers are; they do not have to be about full-on customer data sharing. Every airline will have its own decisions to make regarding data sharing—whether to do it, with whom, and under what circumstances with what governance.

Some airlines are selectively opening up APIs to third parties to broaden ecosystem partnerships. According to one executive, "Our API for OTAs is responsible for anything between 10 and 15 percent of our total sales, and that's growing quite rapidly."

> "We want to be where our customers are, and the APIs are basically an enabler for that."
>
> — Airline Executive

CONNECTED OPERATIONS

Digital is the long-awaited opportunity to break down silos in an airline, creating operational synergies for the benefit of the customer.

Customer experience design is a hot topic in the airline industry. The continued advancement of digital technologies makes "the art of the possible" in this area very exciting.

While many airlines talk about customer experience design and develop innovative ideas, at the heart of a passenger's priorities is a safe, smooth, on-time journey. What is the value of receiving a favorite welcome cocktail, mixed exactly to your liking when your bag is not on the flight with you, or the plane is delayed because line maintenance was informed late of a defect?

We observe that many airlines have concentrated their digital investments on the "customer-facing" side, like websites and mobile interfaces. Whilst that will remain very important, it is key to not neglect the operation and recognize the vast potential for efficiency and cost reduction that digital technology can bring in this industry.

Traditionally it has been difficult for airline carriers to cooperatively react to unforeseen circumstances because of organizational silos. "When a plane has to be towed, we have mechanics working, flight attendants working, a gate attendant. Right now, they do not communicate as a team. I'd love everyone to have the same information and be collaborating," says one airline executive who we interviewed as part of a digital readiness study.

Connections count more than ever

The collaboration between all functions in an airline really shapes the customer experience. Digital technology delivers solutions that did not exist before. By exchanging information, comparing data and real-time interactions and analytics, the whole airline can work together in the interest of the customer. Flight operations, ground operations, maintenance, marketing, sales, customer service and loyalty are looking at the same information and working collaboratively towards the same goals. Because finally – they can.

Today's world is real-time. Passengers are already digitally connected. If a flight is delayed – they will find out about it before the staff does if the airline does not inform them. An aircraft incident in 2015 showed a great example in case, where pictures and videos of the incident aircraft were all over Facebook and Twitter, where the airline itself was still promoting new services, without any mention of the incident.

Digital fuels collaboration

Digitizing goes beyond offering products & services. Mobile apps and web sites that enable self-service, an active presence on social media, and digital tools available for all phases of the travel journey are a given. Airlines must take a more comprehensive view on digital, leveraging the organizational ecosystem and integrating business processes with technology. If applied well, this will bring much needed agility. Going forward, digital will be an absolute necessity to keep their complexity (and thus, cost) under control.

This will require a robust but flexible platform to hook up customers, crews and staff, agents and partners.

TRANSFORMATION INTO A DIGITAL AIRLINE

Becoming a digital airline requires more than automation, it requires new business models, technology models and operating models.

Many airlines are adopting digital tools and technologies. They are digitizing individual processes, equipping ground staff with tablets, growing their social media presence, moving data to the cloud, or providing mobile access to travel documents. These moves are crucial steps in any airline's digital journey. But winners will go much farther to become truly digital airlines.

> " Digital is transformational. It changes the fundamental way the business operates."
>
> — Airline Executive

> **"You need a leadership style to just get on with it...There can be lethargy because the digital ground is moving so quickly."**

> **"The top barrier to digital adoption is internal organizations' concern about changes to organizational structure or functions."**

> **— Airline Executive**

Take off to new opportunity

Digital airlines do more than take advantage of the latest in automation. They deliver growth and create unique customer experiences by combining information, business resources and digital technologies. The result is innovation that meets the demands of the digital world.

Digital airlines take a full-on approach to digital transformation that goes beyond focusing on the technology model alone. They pursue a strategy that addresses business, technology and operating model changes along with necessary cultural shifts. In fact, in a digital airline, digital strategy and airline strategy will over time converge to one.

The barriers to a digital future

A prerequisite for transformation into a digital airline is very strong leadership and sponsorship from the top. The airline executives who we interviewed as part of our digital readiness study indicate they have a vision for a digital future. But many say that they lack the implementation know-how and talent to make it a reality.

Cultural resistance is a top concern. "The biggest challenge to implementing digital technology? Number one: culture. Number two: culture. And number three: culture," remarks one respondent. "We can get top executives and people on the ground on board with our digital strategy, but there seems to be a permafrost of about 20 percent of people who just don't get it," admits another.

Digital transformation is complicated by legacy technology investments too. "We need to make two ends meet. One is very traditional legacy systems; one is very fast moving digital teams. A single digital initiative may sound easy, but then it involves changes to multiple older systems on the back end," reports one airline executive. Another explains that "We're sitting on an old infrastructure that makes it difficult to pull all of our customer data together into an actionable environment and then put it back out into the customer journey touchpoint in an actionable and intelligent way."

Workforce readiness is another area of concern. How will digital technologies change roles and responsibilities, skill requirements and work practices? At the digital airline, some employees' roles will naturally evolve from managing transactional processes to curating personalized customer experiences with real-time insights. This opportunity is a win-win. Employees benefit from more value-focused work and travelers benefit from better customer service practices.

As they plan their digital futures, airlines must reevaluate the skills they are likely to need, and be ready to reskill and retool their existing workforce. There will be new opportunities to transfer employees in more value-added activities. The airlines' talent pool should have strengths in innovation, ecosystem partner management and agile operations among other digital capabilities.

Digital innovation will impact every aspect of the airline industry. This provides an exciting opportunity for executives to leave old ways of working behind and take off to a digital future.

A day in the life of a digital airline

Mr. Roberts' assigned seat cannot recline anymore due to a technical malfunction. The flight attendant cannot re-seat Mr. Roberts so rather than providing the option of filing a complaint post-flight, the attendant enters the complaint on a tablet in real-time and is able to offer compensation on the spot, relieving the customer service department from addressing at a later time. While entering the detailed issue, a message is created to alert the maintenance department.

Line maintenance picks this up and is awaiting the plane with the right parts and tools, so the risk to delay turnaround is minimized.

Imagine the possibilities with the Internet of Things—a network of intelligent, connected devices. Seats know when the recline function does not meet specification and trigger an alert for repair. Predictive analytics could even identify a possible issue with a specific seat type based on variables like usage patterns. The same crew and engineer would be able to use their digital devices to access their self-service human resources environment, reducing manual forms processing.
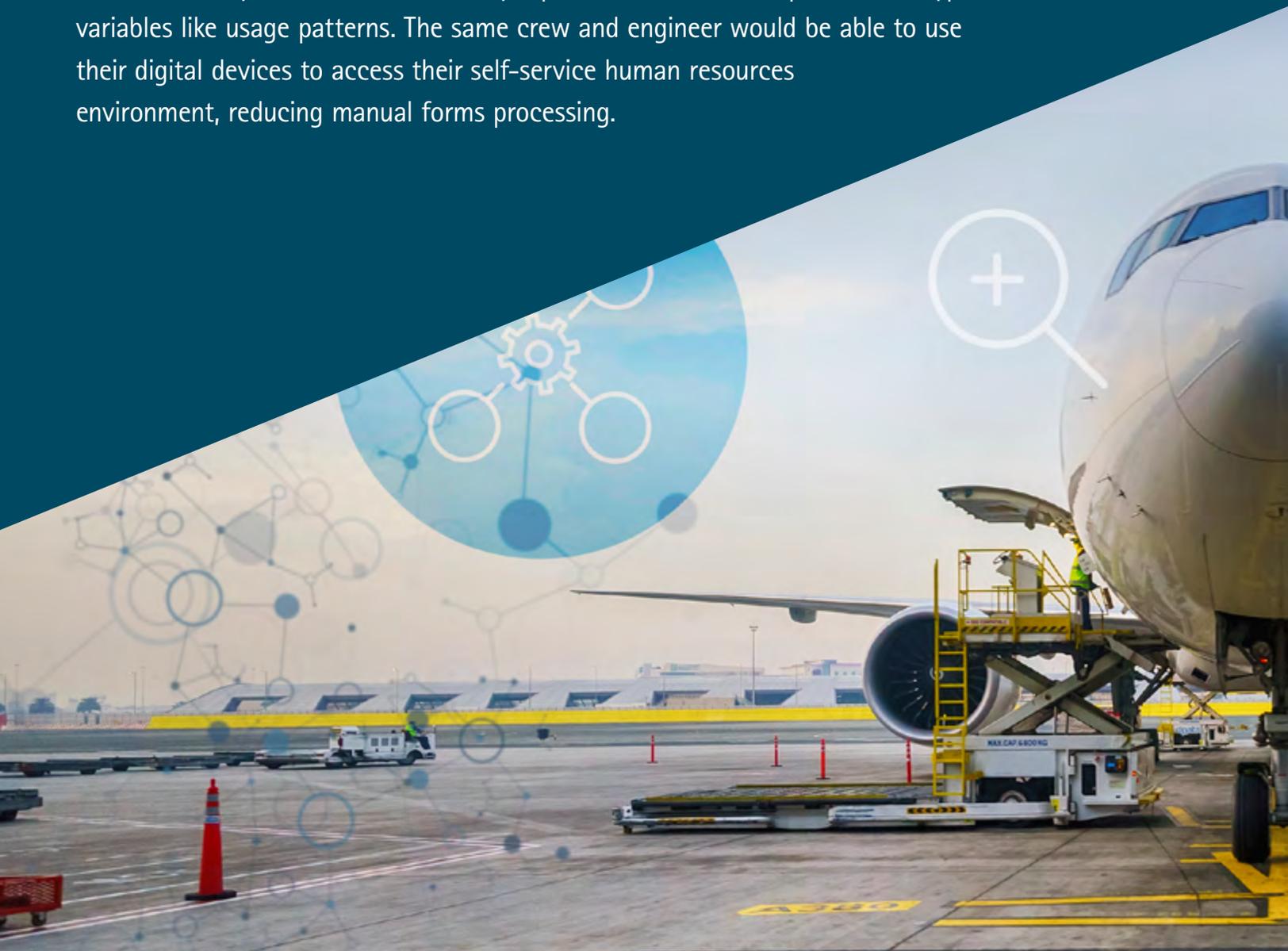
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