Getting Ancillary Sales Right

Understanding How to Optimize Your Path to Purchase

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About Fusion

Fusion brings together cutting-edge data science, an all-encompassing ancillary product suite, and ongoing merchandising test strategies to deliver targeted, relevant e-commerce product offers. By delivering a personal customer experience, Fusion converts shoppers into buyers faster, better, more accurately, and more profitably. Fusion works with leading brands across more than 40 countries in the travel, healthcare, auto, entertainment, and insurance industries. Highlights include:

- More than 40 clients integrated since 2007;
- $1.2 billion offers per year globally;
- Average of +25% average growth per year;
- Multichannel offerings.

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Executive Summary

In a world of ever-tightening profit margins, businesses are realizing that ancillary sales can not only support revenue growth, but also develop an ongoing, profitable relationship with their customers. In fact, in the travel sector ancillary sales now account for a whopping 84% of total profits, while also meeting customer needs for personalization.

A study of consumer opinions finds that customers want to buy ancillary options that will enhance their primary purchase and are willing to spend more than originally planned on items or services that meet their needs and interests.

However, the research also indicates that making just any offer to all customers at unplanned times does not work to create a successful ancillary sales program. Customers want tailored and appropriate add-ons, delivered at the right time and place. Most businesses are not getting it right, thereby losing revenue and irritating customers.

Successful ancillary sales involve research, strategy, implementation, and testing. This whitepaper describes insights from research of both customers and companies, concluding with key recommendations on executing an effective ancillary sales campaign.
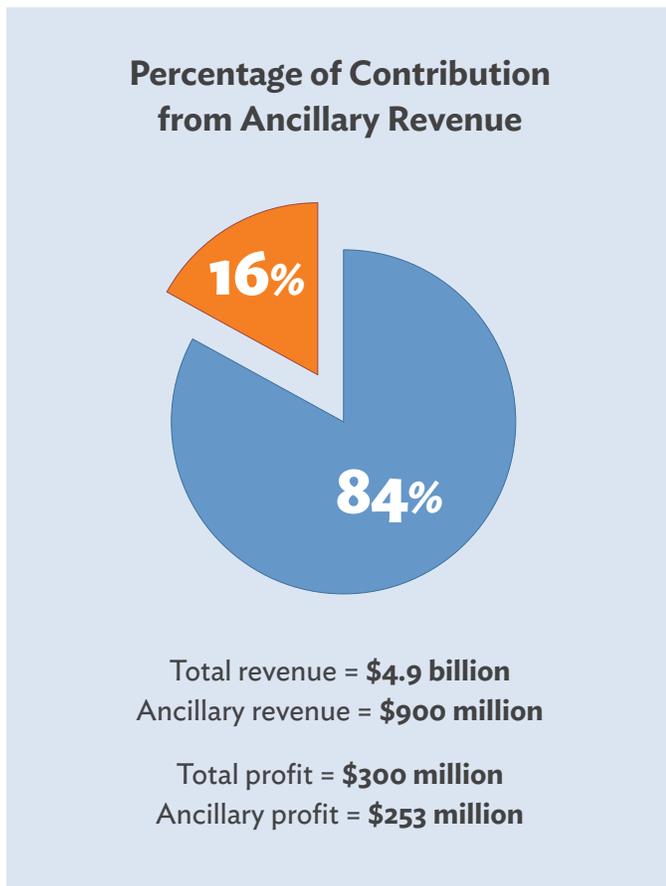
Why do ancillary sales matter to businesses?

In an age of ever-tightening revenue streams, ancillary sales matter a great deal for travel companies.

For example, the average profit margin for airlines is currently estimated at 1 – 2%[1]. The total combined airline profit reported in 2015 was $33 billion[2] (4.6% net profit margin). However, total estimated ancillary revenue for 2015 reached $59.2 billion, marking a growth of more than 163% since 2010 when ancillary revenue was first measured[3].

In an example case study, ancillary revenue is a huge portion of a company's profits.

The ancillary income contributes **84% of the total profit**.

See a previous whitepaper by Forrester Research "Optimize Your Path to Purchase" for more details on the revenue opportunities for a variety of business sectors through enhancing ancillary sales.

Percentage of Contribution from Ancillary Revenue

16%

84%

Total revenue = **$4.9 billion**
Ancillary revenue = **$900 million**

Total profit = **$300 million**
Ancillary profit = **$253 million**

[1] International Air Transport Association (IATA) – Small Boost to Airline Profitability (March 30, 2013).

[2] IATA – December 2015

[3] IdeaWorks – November 2015

How do customers feel about ancillary sales?

Ipsos Public Affairs conducted an omnibus study for Fusion on consumer opinions of ancillary sales. The overall finding discovered a high demand for add-on products to compliment a main purchase (61%). Consumers are looking for a simplified customer experience. If an ancillary product is relevant, enhances their experience, or saves them time or money, they are likely to buy.

An impressive 58% of customers report they have purchased an add-on product while shopping online. And 56% say that the amount they usually spend while shopping online depends on what interests them or what they find. More specifically, customers say they will spend more than originally planned if they are offered: a product that complements what is already in their cart (25%); an upgrade or enhancement to what is already in their cart (28%); or a price discount on multiple products (53%). These key insights suggest a huge opportunity for developing an effective ancillary sales campaign.

When shopping online, which of the following reasons might cause you to spend more than planned?

53% Price break offer for purchasing multiple products.

28% Upgrade or enhancement offer to a product already in my shopping cart.

25% Product offer that compliments what is already in my shopping cart.

1% Sales, coupons, or deals.

1% Other.

0% Nothing - I don't shop online.

15% I wouldn't spend more than anticipated.

However, consumers are also honest about the potential dangers to companies. Customers report feeling that retailers are just trying to make more money off them (59%). This is because most products offered are not suitable or relevant to their purchase. Additionally, how product options are presented is not appealing.

Only 36% of surveyed customers agree that ancillary products offered are relevant to them or their purchase. Sometimes they are offered at the wrong time, disrupting the shopping experience.

Far too many customers report a poor shopping experience, and there is a limit to what they will accept. In fact, 58% agreed that seeing too many add-on products can create a negative experience as a customer. Ancillaries can inject too much complexity to their shopping journey. These findings further highlight the need for add-on products to be relevant to the consumer.

How well are businesses using ancillary sales?

Unfortunately, most businesses are getting it wrong. While some are missing the boat on the revenue opportunities from ancillary sales, others have an unsophisticated approach. They use a one-size-fits-all model and offer the same products to all customers at random moments during their shopping. Their commerce website is not dynamic nor optimized. Basically, it's an unwise "overwhelm them and hope for the best" strategy.

According to Forrester, less than 12% of companies offer products based on real-time customer data, ranking, and decisioning. Unlike what you would see from a trained sales professional, companies are basing their digital ancillary sales on no data or discernible strategy for whom to approach with what option at what ideal time.

If we listen to customers, we understand that successful ancillary sales not only boost revenue, but also can improve customer experience. At the bottom of the spectrum we have businesses using one-size-fits-all by having static offers presented to all customers.

A strategic, optimized ancillary program begins with defining rules about what offers are made. Next, only targeted offers are made to segments of customers, bringing a dynamic interaction to ancillary sales. At the most successful, offers are fully personalized for individual customers based on their interests and characteristics.

As you can see, a highly dynamic ancillary sales program is complex in the number of offerings, how it selects customers, timing, as well as platform for the shopping interaction.

High

Ancillary Performance and Customer Experience

One to One — **Highly dynamic** Fully personalized offers presented to each customer individually

Targeted — **Dynamic offers** Targeted offers delivered to individual segments of customers

Basic — **Static offers** Products / offers made based upon pre-defined business rules

One to Many — **Static offers – One size fits all** Same products / offers presented to all customers

Low

Key Recommendations

The key to increasing ancillary sales revenues is offering the right product to the right customer on the right channel at the right time using an appealing display.

Understand your customer.

Travel companies (and firms in other sectors) capture data from customer interactions, such as:

- Contextual Data – Location, device, browser, behaviors, currency, country, language, and more.
- Booking Data – Such as arrival and departure destinations, trip duration, timing (week or weekend), number of travelers, ages of travelers, type of trip (business or leisure), price, and fare class.
- Customer Data – Personal information, demographics, loyalty information, and other details.

Use this data to clearly define customers into segments and profiles. Analyze the data to know their interests and preferences. With these insights, companies can deliver offers that resonate and increase their desire to purchase ancillaries.

Choose the right product.

Travelers have unique needs and seek products and services to meet them. Source products that meet a variety of needs for all travelers, including niche customer segments.

Because marketing space is at a premium, make the most of your available merchandising space. This means using predictive analytics and modeling to deliver the most relevant product offer to the right customer. Use data to identify and reach underserved segments of customers with products and services to meet their needs and interests.

Place offers on the right channel.

Customers are using multiple devices to research and make purchases. Are you reaching them where they are encountering your website or ecommerce? Consider who is visiting your site on what platform and at what point in the purchase process. What offers make sense at that point or on that platform? Consider how the offers appear on a PC, versus a tablet or mobile. What about interactions with your agents or at a kiosk during check in? Is your site optimized for mobile, the fastest growing segment of Internet traffic?

Reach customers at the right time.

Timing is everything in life. Are you presenting the right offer when customers will likely want to buy?

For example, when booking a trip do they need a flight and hotel? Should you follow up and recommend rental cars or ground transportation? What about tours or add-ons to their flight experience? Understand the timing of a purchase and you can provide customers with relevant offers exactly when they want it.
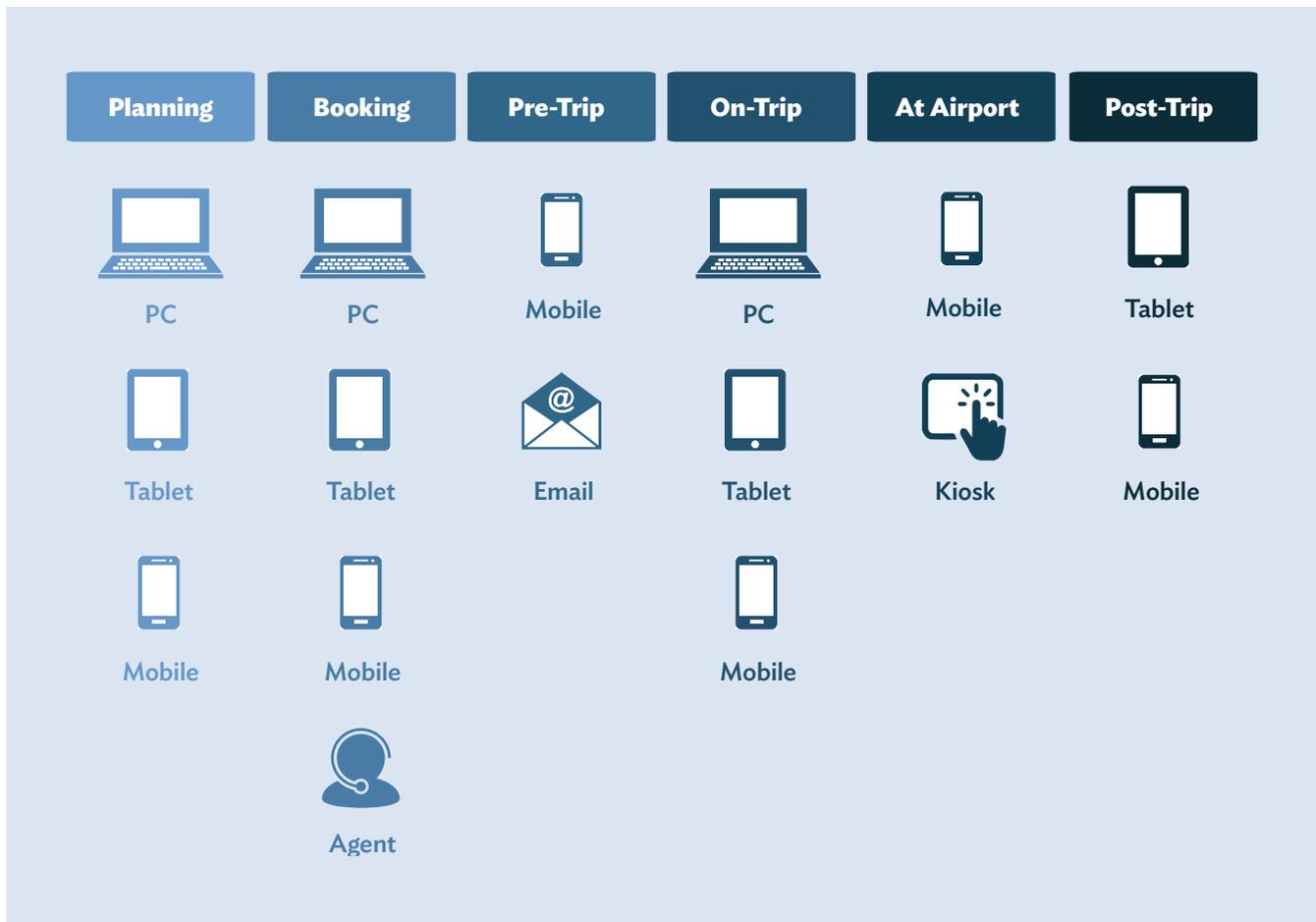
Present a compelling offer.

You may have a terrific offer for the right customer on the appropriate channel at the perfect time, but it falls flat. This is because how you present an offer matters.

Deliver an offer that resonates visually and you will increase the opportunity for a purchase. Use appealing graphics, show the product, display the price, and present the choice. Delivery can be crucial for securing a customer's conversion.

Test, test, and test.

How will you know what works? Only by testing.

Build testing, comparison, and analytics into your ancillary sales process so you can better understand what works and what doesn't. Based on this info, update your system and continue to test again. Ancillary sales improve with testing, adjusting, and then testing again. You can't do better, if you don't learn what works.

Planning	Booking	Pre-Trip	On-Trip	At Airport	Post-Trip
PC	PC	Mobile	PC	Mobile	Tablet
Tablet	Tablet	Email	Tablet	Kiosk	Mobile
Mobile	Mobile		Mobile		
	Agent				

Conclusion

Clearly there is a huge opportunity for companies to grow revenues and cultivate an ongoing relationship with their customers through developing a smart ancillary sales program. Not only that, but customers report appreciating personalization and add-on options that will complement purchases and enhance their experience.

The old practice of throwing everything but the kitchen sink at customers and waiting to see what sticks, no longer holds and actually turns them against buying add-ons. With this research, we now know what works better and how to make ancillary revenue work while also improving the customer experience.

The key recommendations in this white paper lay out the steps for success in ancillary sales, from understanding customers, providing the right products, reaching them in the right place and time, to testing and adjusting. Optimization is an enhancement for both a company's sales and long-term success.

Appendix

Appendix A: Ipsos Omnibus Methodology

Sample

Each week Ipsos U.S. eNation online omnibus completes five national online surveys. Each survey (wave of eNation) consists of a minimum of 1,000 completes with adults 18 years of age or older in the contiguous U.S.A. The sample consists of individuals selected from the online segment of Ipsos' iSay/Ampario Panel, and is balanced to be representative of the general population based upon region, gender, age, and household income data from the U.S. Census Bureau. The selected individuals receive a customized e-mail inviting them to participate.

Survey

Panelists are given up to 3 days to complete the online survey by connecting to a link contained in the e-mail invitation. Individuals are re-screened at the beginning of the survey to ensure that quotas are accurate. The survey itself consists of non-competing client-specific questions and a shared set of standard demographic questions. Ipsos eNation provides transitions between client segments to ensure smooth survey flow.

Tabulation

Ipsos U.S. eNation online omnibus survey results are tabulated by two standard demographic banners.

A. GENDER, AGE, HOUSEHOLD INCOME, REGION
B. CHILD IN HOUSEHOLD, EDUCATION, EMPLOYMENT STATUS, MARTIAL STATUS, RACE

eNation's standard data tabulations are provided in a weighted format. The data are weighted to give appropriate representation on various demographic factors, including: age, income, the four national census regions, and gender. The Current Population Survey from the U.S. Census Bureau is used to determine the weighting targets for each demographic factor.

Appendix B: Supplemental Material

a. International Air Transport Association (IATA) – Small Boost to Airline Profitability – March 30th 2013
b. IATA – December 2015
c. IdeaWorks – November 2015