Pricing, promotion and personalization: Taking aviation growth to new heights

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Introduction

In a world short of slots, aircraft and space for physical expansion, airlines must seek out alternative forms of growth.

Loyalty, personalization and differentiated customer experiences all offer strong value-creation opportunities. But for most airlines, those strategies are underexplored, and will take them into exciting, new territory.

As you begin investigating customer-centric growth strategies, there are some valuable opportunities to learn from organizations in other industries that have already mastered dynamic pricing, targeted promotions, personalized CX and more — especially those in retail.

To help, Thoughtworks recently partnered with The Ortus Club to host a roundtable event looking at how airlines can leverage retail strategies to enhance profitability and customer satisfaction, and why hyperpersonalization has become the key differentiator in aviation, surpassing even price and schedule.

In this whitepaper, we'll share the key takeaways from that discussion and explore the strategies retail giants use to increase customer loyalty and lifetime value at scale. And we'll show how aviation firms can achieve the same, and shape a new era of customer-centric air travel.

The state of aviation CX

Aviation and travel companies are highly focused on passenger experiences and delivering value for the people who travel with them. However, that focus on high-quality passenger experience often doesn't translate to a joined up end-to-end travel experience.

Compared to some industries, aviation remains somewhat traditional in its approach to using customer data, for many reasons that we'll explore later. Aviation leaders are aware that some of their peers in other industries such as retail are way ahead of them in terms of the experiences they deliver, and how they use customer data to drive revenue growth.

During our roundtable, executives remarked on how well the world's retail leaders:

- **Share data between functions and organizations** and nurture collaboration between teams to deliver engaging, holistic CX throughout customer buying journeys
- **Connect with Gen Z customers** and adapt to their new expectations and behaviors by providing them with innovative digital experiences and capabilities, and connecting things like loyalty rewards to each customer's ethical and moral priorities
- **Optimize prices** across regions — and even times of day — to maximize revenue and ensure customers always pay fair prices for what they need, when they need it
- **Personalize customer journeys** and continuously learn about their customers, so they can deliver increasingly relevant offers and promotions to them

Aviation leaders would like to be able to achieve the same, but at present the state of the art in retail has outpaced aviation and travel in these areas. Here are three key lessons from retailers that can help airlines evolve their approach to pricing, promotion and personalization — and use them to increase customer lifetime value.

Lesson #1

Hyperpersonalized buying journeys and CX

While a lot of retailers' customer data and insight is generated through customer loyalty programs, its applications extend much further. For retail leaders, loyalty programs are just one piece in an increasingly interconnected and deeply personalized buyer journey.

Virtually every part of the customer journey and lifecycle can be tracked. Each data point offers new insight into exactly what customers want and how organizations could increase their lifetime value. These insights have enabled a new kind of buying experience — the hyperpersonalized customer journey.

Retailers are using hyperpersonalization to deliver three key things to their customers:

1. Differentiated, engaging CX

With deep insight into customer needs and preferences, retailers can start to deliver truly unique customer experiences.

Imagine walking into a store, tapping an interactive screen and immediately being directed to products that complement the last few things you've bought there (even online). Or being

proactively offered products tweaked to your personal tastes. For some retailers, experiences like that are already a reality.

2. Tailored offers that put the right products in front of the right people at the right time

Customer conversion and value maximization are all about timing. If retailers can get the right offers in front of the right people at the right time, they have a much better chance at converting them than with a broader, scattergun approach.

That's exactly what hyperpersonalization helps retailers do. Data-driven customer profiles build a clear picture of what customers are interested in, when they buy, what their other buying triggers are, and how sensitive they are to prices and promotion. Then, retailers combine that insight to create exceptionally compelling and precise offers.

3. More of what they want — often before they know they want it

With granular insight into customers' journeys, preferences and buying habits, retailers can build deep and accurate profiles of who each customer is and what their life looks like. That enables an even deeper level of personalization, where retailers deliver offers before the customer has even started to explore the products or service areas they relate to.

In aviation, when a customer books a honeymoon trip, that may be an indicator that, in a few years, you might want to recommend family package holidays to them, and ensure that, as they progress through life, they stay with your brand for new reasons. This example also shows that advanced personalization calls for elevated levels of sensitivity and trust, which we will discuss in the next section.

The lesson in action

Hyperpersonalization is all about applying customer data and insights to tailor offerings, promotions and CX. The faster you can do that, the more relevant and timely your hyperpersonalized experiences and offers will be. So, it's something that AI naturally lends itself to very well.

Starbucks' AI platform Deep Brew is a core part of its strategy, improving personalized customer experiences, optimizing store effort and labor, and supporting inventory management.

By analyzing vast quantities of data, Deep Brew can tailor CX almost instantly, delivering everything from personalized marketing messages to custom menu options and recommendations.

The key opportunities in aviation

For airlines, hyperpersonalization creates opportunities to:

- **Understand air travel customers on an individual level,** give them experiences and offers tightly aligned to their needs, so as to stand out in a crowded market with limited differentiation
- **Use customer insights to deliver differentiated, personalized CX** that provides competitive advantage, makes it simple, intuitive and even fun for customers to book flights and other travel services
- **Evolve how services are packaged** to increase their maximum perceived customer value, such as bundling related and complementary services in ways that are uniquely appealing to specific customers

Lesson #2

Building and rewarding loyalty

Building and maintaining customer loyalty is one of the most impactful ways to increase customer lifetime value and drive sustainable growth throughout a customer's journey with your brand.

Retailers and airlines were both trailblazers in customer loyalty, pioneering the loyalty reward programs and models which are commonplace in a huge range of industries today. Since then, retailers have continued to innovate, and they remain extremely strong at maximizing customer engagement and especially at turning the customer data generated through loyalty programs into value.

Retail leaders have become exceptionally good at:

1. Building engaging customer loyalty programs that act as both a generator of valuable customer data and a powerful application of it

When customers consent to sharing their data with you, you need to offer them something in return. That's the founding principle of loyalty programs. They spend with you and consent to you tracking that spend, and in return you provide discounts and other forms of customer value.

Top retailers have mastered both sides of that exchange. They tune their innovative loyalty offerings to generate and gather high volumes of useful customer data and insights. And in return, they use that deeper insight to deliver precisely targeted loyalty rewards.

2. Making the transaction transparent and active

Customers want to remain in control of their data and how it's used — even when they see measurable value from sharing it with organizations. Data sharing consent is often baked into agreements when customers sign up to loyalty programs, but retailers are seeing significant benefits from making that consent transparent and active.

By offering customers continuous access to simple controls over how their data is used as part of loyalty programs, retailers are building a deeper level of trust with them. That helps build loyalty even further, and nurtures long and valuable customer relationships.

3. Getting closer to customers and learning what they really want

The huge volumes of transaction and browsing data generated through loyalty programs are only as valuable as you make them. Powerful analytics capabilities are helping retailers translate that data into actionable customer insights at scale.

Those analytics help retailers surface what individual customers really want from them. Then, retailers build that insight into customer journeys in ways that nurture long-term loyalty and lifetime value growth.

The lesson in action

In the world of retail, IKEA and Patagonia stand out as two market leaders that have seen significant success from their innovative customer loyalty programs.

Both brands have looked beyond traditional loyalty rewards like discounts and promotions and connected loyalty programs to other things their customers value deeply, like sustainability.

They encourage customers to reuse and recycle products, which of course brings them back and keeps them loyal to the brand — all while making ethical choices that are in line with their personal values.

The key opportunities in aviation

By applying this lesson and evolving their approach to customer loyalty, airlines can:

- Deliver innovative loyalty programs that keep customers engaged with the brand and make them actively want to return — such as building sustainability or ESG-based rewards, or exclusive products and services into loyalty apps, as well as discount or service-based rewards
- Evolve past the 'miles traveled' loyalty models of the past and give more traveler personas greater incentive to keep choosing their brand
- Harness loyalty offerings as a key differentiator in a market with relatively low service differentiation, giving customers more reasons to keep coming back

Lesson #3

Dynamic pricing and promotions

In highly competitive industries like aviation or retail, pricing is one of the biggest and most powerful differentiators. And today, there are more opportunities than ever to optimize prices and align them with customers' spending power and willingness to pay as well as responding to competitors' constantly evolving pricing and offers.

The most innovative and successful retailers are using customer and merchandising data to do three key things:

1. Build dynamic pricing strategies

With customer, competitor and market conditions all continuously shifting, the optimal price for goods and services constantly changes too. So, top retailers have pricing strategies that are capable of rapid and continuous change.

Background analysis tracks relevant data points, generating optimal prices for products, which are then immediately put in front of customers. This is much easier to manage on e-commerce platforms, but retailers are increasingly implementing it in physical stores too.

However, dynamic pricing can have a negative impact on customer trust if it isn't managed ethically and transparently. The feeling of seeing a different price for products or services when viewing them on different days is still a surprising and unsettling experience for many customers.
If they don't fully understand why the price is changing, they can feel they're being exploited — especially when the prices they see trend upwards.

2. Understand customer price sensitivity and preferences

The great thing about dynamic pricing is that it doesn't just help retailers maximize revenue — it also helps generate valuable insight into customer price sensitivity and buying habits.

Over time, brands can track the impact price increases and decreases have on relative customer spending, revealing price elasticity and maximizing customer lifetime value.

3. Track the efficacy and impact of promotions

Customer spending data also helps retailers see which of their promotions are having the right impact on buying behavior. They can see when it makes the most sense to drop prices directly, versus offering personalized promotions and discounts to individual customers. This enables the continuous improvement and optimization of promotional strategies.

The lesson in action

Zara and Amazon are two of the best examples of retailers that use dynamic pricing very effectively. Amazon updates prices as often as every 15 minutes, keeping them at optimal levels throughout the day.

Zara is well-known for using AI-driven dynamic pricing to adjust prices based on real-time factors like inventory levels, competitor pricing and regional demand. This approach:

- Optimizes inventory turnover: Prices drop strategically for overstocked items, while premium materials like silk command higher prices for longer
- Enhances competitiveness: Algorithmic adjustments ensure prices stay aligned with Zara's competitors

The key opportunities in aviation

By following in retail leaders' footsteps and using customer and market data to enable dynamic pricing and promotion strategies, airlines can:

- Transform pricing models for flights and incorporate customer insight and data into pricing calculations to optimize spend
- Uncover opportunities to offer customers more compelling ancillary offers and bundles that increase revenue per passenger
- Create more dynamic promotion strategies and become more active in pulling customers in, rather than waiting for them to come
- Move beyond rigid inventory-centric fare classes and adopt more flexible, e-commerce-driven traveller-centric pricing models

The secret to retailers' success: Mastery of customer data and technology

Each of these lessons has had a huge impact on retailers' ability to meet shifting customer needs, increase loyalty and retention, maximize customer lifetime value, and deliver sustainable revenue growth. But there's a clear and consistent thread that runs through them all: *Mastery of customer data and technology*.

Retailers have put customers and technology at the core of their operations, enabling them to maintain a continuous focus on how to solve emerging challenges and deliver new customer value.

Their mature approach to data and technology has empowered retailers to:

- **Relentlessly analyze and optimize customer journeys** and create connected, friction-free experiences that keep customers engaged for longer
- **Collect and utilize customer data responsibly at scale,** making the most of all the data they have available and offering customers tangible value in return for sharing their data
- **Deliver consistent, holistic and end-to-end interconnected CX,** powered by data-driven empathy and insight that help customers feel understood and provide them with the right products and promotions at the right time to drive revenue and customer satisfaction
- **Rapidly embrace new technology** and generate value from emerging capabilities such as AI and machine learning

"The retail industry has demonstrated that successful disruption requires both long-term vision and adaptability. Airlines must shift from reactive innovation to proactive transformation."

During our executive roundtable, it became clear that transformation is what airlines really want to achieve. They're ready to transform how they approach data and technology, and start applying it to drive revenue growth through better customer experiences, stronger product and service offerings, and hyperpersonalized customer journeys and promotion strategies.

What's holding airlines back?

While the appetite for transformation is high, the roundtable highlighted several persistent challenges that have prevented many organizations from unlocking the full value of data and technology:

1. A uniquely complex regulatory landscape

The biggest growth opportunities available to airlines today are enabled by customer data. But complex regulations limit how much of the huge volume of data held by airlines today can be used.

To tackle this challenge, organizations must take a proactive and transparent approach to customer consent. By empowering customers to opt-in and giving them choices in how their transaction and loyalty data is used, organizations can turn that data into customer and business value ethically and compliantly.

2. Barriers to effective collaboration

Numerous organizations are typically involved in a customer's end-to-end air travel journey. So, to deliver seamless experiences, those organizations must be able to share customer data and insights, and act on them at speed. The trouble is, that kind of collaboration is very limited.

There are several underlying reasons why collaboration of that kind hasn't been properly explored in the aviation industry, including:

3. Legacy technology complexity

Most major airlines have built up highly complex and siloed technology and data environments. Those environments make it tough to access data and unlock its full value, and much of it goes unused.

4. Siloed operations

In many airlines, operations also tend to be highly siloed. This makes it difficult to build clear and consistent feedback loops where customer insights are translated into the right actions at the right time. When one area of the organization learns something valuable about a customer, that information is rarely made available to other operational areas, leading to missed opportunities to improve CX and drive customer loyalty.

5. A technology culture deriving from operational excellence

Aviation demands operational excellence. The industry is built on the ability to transport passengers safely and reliably, to the highest possible standard. This has shaped every aspect of aviation firms' cultures — including their technology culture.

For many companies, technology is still viewed as a supporter of operational excellence rather than a driver of innovation, and is focused on specification and standardization instead of building agility.

"One crucial takeaway was that traditional airline business models often operate in silos, limiting feedback loops between customer experience and pricing teams."

"Unlike retailers, who continuously refine their strategies based on customer behavior, airlines often lack the agility to implement real-time changes."

"The conversation at the roundtable highlighted the urgent need to shift toward a more customer-centric strategy. Travelers make decisions based on two key factors: affordability and perceived value. Airlines must recognize this shift and delve deeper into consumer psychology to refine their approach to pricing, promotions and personalization."

Planning your route to customer-centric, data-driven evolution

To overcome those challenges, airlines must transform significantly. But with resources already constrained, for many organizations, far-reaching digital transformation initiatives are currently off the table.

At Thoughtworks, we've helped airlines, retailers and firms across a wide range of industries seize emerging opportunities and apply customer data in new ways to drive growth, maximize customer lifetime value and deliver hyperpersonalized experiences and offers at scale.

By following an incremental approach to customer-centric transformation, companies can implement the lessons learned from retail and start using customer data to drive sustainable growth in new ways very quickly.

Airlines can achieve this by taking steps like:

- Building robust and engaging customer loyalty programs and apps
- Creating ecosystems for customer data sharing and collaboration (both internal and inter-organizational)

- Establishing tighter feedback loops between teams to enable continuous CX improvement
- Engineering innovative e-commerce layers over core services to transform how they price, sell and promote their offerings
- Developing and embedding customer-centric data strategies
- Thinking customer- and technology-first to evolve how decisions are made

Conclusion

By learning from retail leaders and applying the practices and capabilities they use to maximize customer loyalty and deliver engaging CX, airlines can unlock the full value of customer data and start using it to drive growth.

With numerous opportunities on the table and many challenges to overcome, we highly recommend that airlines follow an iterative approach to customer-centric transformation. Through that approach, organizations can start to implement the valuable lessons from retail immediately, see measurable growth and ROI from them, and build a robust case for further and wider digital change.

To discover what that process might look like for you, and see how Thoughtworks can help you optimize pricing, promotion and personalization to drive revenue growth and customer loyalty, contact us today.

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