

Europe's top 4 LCCs generated \$600 million from non-ticket sources in 2005

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An IdeaWorks report unveiled that revenues from non-ticket sources, which are called ancillary revenues, have become an important financial component for low cost carriers (LCCs) in Europe and throughout the world. Michael O'Leary, Chief Executive of Ryanair, Europe's largest LCC, wants to offer free airline tickets by replacing traditional ticket sales with revenues produced by ancillary activities.² His statement reflects how Europe's LCCs have morphed the Southwest Airlines model of providing overall value into an a la carte style of offering ultra-low fares and charging consumers for services such as checked baggage.

Mr. O'Leary needs to add a frequent flier program if he wants to squeeze more revenue from non-traditional sources. IdeaWorks estimates Ryanair's aggressive use of a la carte pricing generated ancillary revenues of €7.76 (US\$9.77) per passenger, while United's Mileage Plus frequent flier program posted amazing results of €9.40 (US\$11.98) per passenger. Even US-based LCCs are realizing attractive ancillary revenues from their relatively young programs. For example, the co-branded credit card linked to Frontier's EarlyReturns program contributed revenues of €19.6 million (US\$25 million) during 2005.

An IdeaWorks analysis reveals growing distinctions between the LCC model that is prevalent in the United States and that which is developing throughout the world. LCCs in the United States are realizing attractive revenue streams from the sale of miles or points to program partners. LCCs outside the USA have implemented a fee-for-service strategy that is designed to maximize the revenue potential of each passenger by charging for services that US-based LCCs normally include in the price of a ticket.

