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Frills Bring in Big Bucks for Airlines

By Karamjit Kaur

IdeaWorks contributed information to this article - - see italics.

AIRLINES are making good money from selling frills - items and services aside from tickets for their flights.

They earned an estimated US\$10.25 billion (S\$14.5 billion) last year by charging travellers for preferred seats, checked baggage, food and drinks and even blankets, or from commissions from selling extras like hotel rooms and insurance.

A steadily bigger chunk of airlines' revenues are coming from such items: The amount for last year was a more-than-threefold jump from the US\$2.9 billion earned in 2006.

IdeaWorks, a United States-based research company which tracks airlines' ancillary revenues, released its 2008 findings recently.

It had surveyed more than 90 carriers including Emirates, Qantas, Delta, AirAsia and Ryanair, and extrapolated the industry's figures from there.

Among the airlines it polled, ancillary earnings made up 5.5 per cent of the total revenue, up from 3.5 per cent in 2006.

Leaning on ancillary revenues used to be a practice among low-cost carriers, but more and more full-service airlines - especially in the United States - are doing it too.

Many US carriers now charge for a second checked bag on selected routes, for example.

The growth in ancillary revenues grew largely out of last year's increase in fuel prices and the global economic meltdown, which sent demand for air travel into a tailspin.

IdeaWorks founder Jay Sorensen said: 'The sickly patient known as the world's airline industry suffered through 2008 and only survived due to dramatic schedule cutbacks, the slow reversal of fuel prices and an 'intravenous injection' of ancillary revenue.'

Mr John Devins, the regional director for Asia-Pacific at GuestLogix, which provides on-board retail systems to the airline industry, is betting that ancillary revenues will make up a bigger portion of airlines' earnings, going forward.

Such non-traditional revenue sources have growth potential in the industry, he said.

'For example, what if you could sell tickets to Disneyland on board a Hong Kong-bound flight, or a train ticket to the middle of the city?'

Mr John Chapman, a vice-president of Amadeus-Asia Pacific, which provides travel-related technology solutions, agreed that there were growth prospects.

But he said he did not foresee premium carriers, especially those in Asia, rushing into this just yet, for fear of being seen as going down the same path as budget carriers.

He said: 'In Asia, flag carriers are a lot more proud of their brands and quality of service.'

Still, if the current downturn continues to hit yields, elite airlines may have little choice but to relook their existing business models, he said.

When Singapore Airlines announced last November that it would levy a one-way fee of US\$50 for a guaranteed 'preferred seat' in economy class, the airline pitched it as a customer service, not a revenue-generating move.

These seats near the exits offer more uncluttered legroom and had typically been given to frequent fliers on request.

Charging for such seats has been about as far as SIA has gone, but other carriers now charge even for lounge access and priority boarding.

For low-cost carriers, the message to the consumer is simple: 'If you want the extras, you pay for them.'

So if you fly Tiger Airways or Jetstar Asia and all you want is a seat - any seat - you pay the base fare. Any request beyond that, such as for a guaranteed aisle seat, comes at extra cost.

Tiger and Jetstar declined to reveal how much they made in ancillary revenue.

SIA spokesman Nicholas Ionides said it was impossible for the airline to provide a 'meaningful number' because many items for which other airlines levy a charge, such as in-flight meals, beverages and checked baggage, are included in the cost of an SIA ticket.