

Secrets of pick-and-mix

Charging passengers only for the add-ons they want brings benefits to the bottom line without alienating your customer base. We exclusively preview a new report that uncovers the latest airline strategies

Ancillary revenue did not really exist in the airline business a decade ago. But airlines have discovered that the addition of non-core products adds value for consumers while unleashing multi-million dollar revenue opportunities.

Numerous businesses have been created to help airlines and other travel companies pursue the incremental revenue that is fast becoming core to operations. This notable growth demonstrates that airlines can find innovative ways to improve their bottom line – even in the midst of a global recession, unpredictable fluctuations in oil prices and health scares.

The key is to determine how best to generate more revenue without alienating loyal customers or losing new ones to the competition. The most successful airlines make ancillary products relevant to their

customers' search habits and present them as a value-add, not a distraction.

À la carte pricing clarifies the value of services for the consumer, allowing them to pick and choose services and features based on the desire to maximise convenience or minimise price.

Ancillary revenue rose from €1.72 billion (\$2.45 billion) in calendar year 2006, based on worldwide results listed in the last edition of the *Guide to Ancillary Revenue and à la Carte Pricing*, to €7.68 billion in calendar year 2008 – an amazing 346% increase.

Legacy airlines now fill the top three positions in the ancillary revenue chart, which previously included Ryanair and easyJet. This important measure of ancillary revenue generated per passenger shows Ryanair dropping out of the top five to the number eight position. United and American join the list, largely due to the

boost provided by checked baggage charges and other new initiatives.

In terms of ancillary revenue as a proportion of total revenue, Allegiant Air appears in the top five for the first time and unseats Ryanair from the top position. Caution is advised in drawing conclusions from these results, as rankings and results may sometimes reflect first-time financial disclosure, or a changing level of disclosure from year to year.

Consultant Jay Sorensen defines ancillary revenue as 'revenue beyond the sale of tickets that is generated by direct sales to passengers, or indirectly as a part of the travel experience'. This divides into three main categories, but these are 'living' descriptions that will change as ancillary revenue adapts to evolving airline economics:

À la carte features

Amenities that consumers can add to their basic air transport experience. The list continues to grow, but typical examples are:

- Onboard sales of food and beverages;
- Checking of baggage;
- Assigned seats or better seats;
- Call centre support for reservations;
- Credit card fees;
- Early boarding benefits;
- Priority check-in; and
- Onboard amenities such as blankets.

Commission-based products

Commissions earned by airlines on the sale of hotel accommodation, car rental, travel insurance and other travel items such as tours and transfers. This primarily involves the airline's website but can include the sale of duty-free and consumer products, and fees for internet access onboard aircraft.

Frequent flyer programmes

The sale of miles or points to programme partners such as hotel chains and car rental companies, co-branded credit cards, online malls, retailers and communication services.

Seemingly overnight, checked baggage has become the major ancillary revenue and in the US is spreading from the domestic market to international routes. United Airlines is earning the equivalent of €4.36 per domestic passenger, Frontier €4.06 and easyJet €3.56. Global alliances will face difficulty as US carriers attempt to integrate these fees on international codeshare flights.

Pre-reserved seating is simple and profitable. Look no further than Vueling Airlines for an exceptional example of every seat being made precious. The carrier sells four categories of seats, which include every seat on the plane. Westjet charges a flat fee, higher for exit rows, and averages €0.37 per passenger. Air Berlin, whose fee varies by distance, averages €0.28.

Early boarding is viewed by business travellers as a method to reserve overhead bin space and is therefore a key perk. They are unhappy that it's sold to regular travellers.

Carriers should avoid the mistake easyJet makes when it offers early boarding at airport locations that require remote boarding by coach. Travellers don't

Top five airlines: total ancillary revenue (€ million)			
Calendar year 2006		Calendar year 2008	
United	416	American	1,650
Ryanair	362	United	1,200
easyJet	189	Delta	1,125
Alaska	135	Ryanair	625
Aer Lingus	63	Qantas	458
Top five airlines: ancillary revenue (€ per passenger)			
2008 Guide		2009 Guide	
Allegiant	9.95	Allegiant	20.00
Vueling	9.55	United	17.14
Ryanair	8.52	Aer Lingus	14.97
Aer Lingus	7.35	American	14.75
LTU	7.17	Jet2.com	14.28
Top five airlines: ancillary revenue (% total revenue)			
2008 Guide		2009 Guide	
Ryanair	16.2%	Allegiant	22.7%
Vueling	14.2%	Ryanair	19.3%
Allegiant	12.8%	easyJet	15.5%
Air Deccan	9.0%	Jet2.com	14.8%
easyJet	8.8%	Vueling	14.1%

source: Ancillary Revenue Guide

appreciate paying a premium to board the bus first, only to board the plane last. Yet 11 easyJet passengers per flight typically select Speedy Boarding, averaging out at €0.50 per passenger through the year.

Southwest averages €0.68 with Business Select, which offers priority boarding, free alcoholic drink, 25% frequent flyer bonus and priority security lane access. The airline sells about four Business Select tickets per flight, and this programme contributed €54.8 million in revenue in 2008.

Easily exceeding revenue from checked baggage are frequent flyer programmes and although full service airlines head the list, these can benefit smaller airlines too. Frontier, for example, achieves an average €2.78 annual revenue per passenger through its EarlyReturns scheme.

A growing number of airlines provide buy-on-board services on longhaul flights. Passengers may pay extra to upgrade to a better meal on Hawaiian Airlines and Air Berlin. Air Baltic, Jetstar and AirAsia X have replaced complimentary food with buy-on-board and pre-order services on longhaul flights.

AirAsia X generates €2.06 per passenger

with pre-order and buy-on-board. Approximately 55% of passengers pre-order a hot meal, and 80% on daylight flights. Typical meal cost is \$5 (€3.50), which with 1 million passengers projected for 2009, would produce revenue of €2.06 million of 1% of total projected revenue.

Finally, travel insurance is gaining acceptance among consumers. EasyJet earned £30 million (\$48.6 million) on travel insurance commission during 2008, averaging £0.58 per passenger. ■

Note: The Guide to Ancillary Revenue and à la Carte Pricing is the second produced by Jay Sorensen, who founded the IdeaWorks consultancy after spending 13 years at Midwest Airlines, where he was responsible for marketing, sales, customer service, product development, operations, planning, financial analysis and budgeting.

The 2009 guide analyses financial results from more than 90 airlines and includes interviews with airline executives who have implemented some of the most innovative revenue strategies.

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