

# High-flying meals

Airline food has long been a source of amusement. But food is no joke to the carriers making one third of their ancillary revenues from it, says **Will Waters**

**O**nboard catering remains a contentious and rapidly evolving area for low-cost and regional airlines, and for airlines as a whole, because it reflects – and in some ways defines – the brand identity and financial model of an airline, as well as having important direct economic implications.

Although there has been a progressive degradation of the complimentary food offered by network airlines, in response to the ‘unbundling revolution’ led by low-cost carriers (LCCs), most are still struggling to escape the legacy of the expectation of free onboard food and drinks, established during

the early days of passenger airlines, particularly for medium- and longhaul flights.

But new catering initiatives from LCCs and legacy airlines look set to further reshape the expectations of passengers and bring new opportunities and challenges.

Charter airlines began charging for food back in the late 1980s and early 1990s, although Jay Sorensen, president of aviation consultancy IdeaWorks, suggests the buy-on-board revolution began in 1977, when Freddie Laker’s Skytrain dared to charge passengers for in-flight meals on its

low-cost flights between London and New York. The model was partly adopted by People Express in 1981 amid a newly deregulated environment in the US, observes Sorensen. It charged \$3 to check bags, and 50 cents for a cup of coffee.

In a survey carried out by LSG Sky Chefs this year, conservative estimates of the airline industry’s global buy-on-board revenue (excluding duty-free sales) was more than €1.1 billion (\$1.5 billion) annually. This is expected to rise by more than €120 million at a growth rate of 12%.

Onboard catering is just one of a growing number of *à la carte* ancillary revenue items. Food and beverage sales can comprise up to one third of ancillary sales for LCCs, although that proportion has reduced for some during the last two to three years, in line with the recent emphasis on other ancillary items, such as checked-in baggage.



"But it is still a significant part of the revenue model of LCCs," says David Leitch, head of LSG Sky Chefs' Global Competence Centre for Buy-on-Board and Inflight Retail.

And Sorensen predicts that catering will be a new key area for development in the next few years.

As with many areas of the LCC model, wide differences remain between airlines and markets in terms of catering. "A surprising number of LCCs throughout the world continue to provide complimentary beverages," says Sorensen.

There are three basic models for buy-on-board catering: the supplier model, in which the airline orders the food and takes all the risk, and profit; the profit-sharing model, which requires caterer and carrier to work in partnership, sharing the risks and the gains; and the commission model, where the caterer takes all the risks and decisions, but the carrier gets little control. The last model is popular among carriers that are introducing the concept.

Sorensen says the potential for LCCs and regional airlines to make money from catering depends on many factors, increasing, for example, with the length of the flight and the higher the proportion of business travellers (who can claim costs back). Flights to 'upscale destinations' also offer better opportunities, whereas flights with a high proportion of guest or migrant workers offer less potential.

"You are also less likely to sell things to customers if you are giving them some kind of option for free," he adds.

Perhaps surprisingly, the list of LCCs that continues to offer complimentary drinks includes early LCC pioneer Southwest, although this in part reflects consumer culture in the US, which has resisted 'nickel and dime' measures taking away services that have previously been offered for free, observes Leitch. That process has been easier in other parts of the world.

"In Europe, because of the way the LCCs came in 15 years ago, they were seen as championing the consumer, and so people



Pre-booked meals lead to less waste and more revenue photo: AirAsia

accepted that they would have to pay for a cup of coffee," Leitch adds.

The model has continued to evolve, with easyJet and Ryanair among those leading the way. One of the most recent trends has been an upgrading of onboard food and drink through the use of brands, says Leitch.

"For example, easyJet moved from a generic coffee product to a Kenco product, and now it has evolved to a Starbucks product, and with that comes the ability to up-sell," he adds. "The LCC pioneers have looked at opportunities where they can push the boundary of the price point on board, balanced against what is available in the airport – the biggest competitor to the 'shop in the sky'."

Leitch says comparing the onboard menu cards of easyJet and Ryanair with most other airlines illustrates the big differences that remain between LCCs. "It is not just in the content, but also the look and feel of them. One of the key components of successful retailing is in knowing how to merchandise," he says. "Using brands helps, because you will get marketing support from the brands. It is no different from running a catering operation on the high street, where you can go to a Kenco or a Heineken and say: 'I am going to exclusively use your product – what can you give me to help me sell it?'"

That might include taking advertisements in the airline's in-flight magazine or menu card – which can become self-funding, adds Leitch.

One of the key factors in onboard catering is waste, which has led to most LCCs limiting the amount of hot or fresh food that they offer, and instead offering 'shelf-stable' products such as crisps and crackers, and

dried noodle or soup products that just require hot water. Indeed, the most recent easyJet full-year report, in 2009, indicates that the average revenue per passenger from fresh and hot food combined was just £0.26 (\$0.40) per flight. But both easyJet and Ryanair have recently been making moves to increase this.

One of the barriers is that many LCCs do not have ovens on board their aircraft, or only have one. This has allowed them to offer, at best, a limited amount of simple hot food, such as paninis or pizza-style products.

Leitch says: "I believe Ryanair is taking this further now, offering small hot entrees. Up until now, the mainstays in terms of hot options for LCCs have been the Pot Noodles and Cup-a-Soups. While these are acceptable products, they are not as substantial or satisfying as a nice hot panini or chilli."

An alternative to onboard ovens is to take food out pre-heated to the aircraft, in insulated boxes. "This used to happen, but it is messy and the environmental health people don't like it," says Leitch.

One relatively recent trend has been to focus on local or regional tastes and ▶

Some airlines offer a buy-on-board meal box, although heating food can be problematic photo: LSG Sky Chefs

brands – for example, easyJet selling fresh hot croissants on its morning flights from Paris, observes Leitch.

“Some brands are global – such as Coca Cola and certain Nestlé products – but you can have a dramatic impact by having the correct regional products on board,” he adds.

One solution to the challenge of waste that has been gaining momentum in the last couple of years has been the online pre-ordering of fresh or hot food. This has been easier for LCCs, in part because they tend to control their own booking channels, rather than relying on global distribution systems.

Sorensen says: “Not surprisingly, low-cost carriers have led this initiative. AirAsia, AirAsia X, Air Arabia, airBaltic, Air Berlin, Jetstar, and Niki allow passengers to order a meal when booking a flight. Air Berlin and Niki include a snack or basic meal as a free amenity and allow travellers to upgrade to a higher quality meal service associated with a local gourmet restaurant,” Sorensen says.

The concept is also being tested by several network carriers, including KLM, United and ANA, says Sorensen. KLM is piloting high-quality *à la carte* catering in economy class on longhaul flights from Amsterdam to 10 destinations. Costing €10 (\$12), meals ordered online are served instead of the complimentary economy class meal. United’s trial is similar, offering pre-booked meals based on a business class menu for \$19, although in United’s case, payment is made on board the aircraft.

Other signs of network airlines finally adopting the LCC approach to catering include Continental’s recent decision to

switch from free to buy-on-board meals on domestic US flights.

Leitch believes more LCCs will also come to embrace pre-ordered food, which as well as offering increased guaranteed revenue and reduced waste for carriers, reduces the uncertainty for passengers in terms of what they will be offered on board. It also, potentially, raises the quality of the food offered by airlines, further encouraging passengers to wait until the flight before satisfying their food and drinks needs.

Although AirAsia X has the advantage of longer flight times than most LCCs, of between five and 13 hours, figures obtained by IdeaWorks demonstrate the potential for onboard food and drinks sales for an LCC. An impressive 86% of travellers purchase food and drinks from the airline, with 51% booking in advance and 35% buying on board, at an average price of \$4.76, generating \$4.9 million annually – or 2.2% of the airline’s operating revenue.

Leitch says AirAsia X’s success in challenging the status quo within medium- and longhaul indicates the direction that airlines in the vibrant and rapidly evolving Asian market are likely to take.

“We are also seeing quite a lot of activity in Latin America, on domestic and intra-regional flights, where airlines are converting from offering complimentary food and drinks to buy-on-board,” he says. This is happening for both established and newer carriers.

Regional airlines, which have generally evolved from network carriers, and often continue to act as their feeder airlines, appear stuck somewhere in the middle.

“Their catering products often evolved as an offshoot of their respective ‘mother



Passengers are becoming more familiar with the idea of paying for food on board  
photo: LSG Sky Chefs

ships’, but some are now operating a mixed model,” says Leitch. “There is a kind of growing pain at the moment, where they are offering a half-complimentary, half-buy-on-board service, depending on what kind of ticket you have bought.”

This reflects their split role, where part of the business is trying to generate ancillary revenue, and the other part is conscious of the need to protect the business that is travelling through to fly on Air France or BA, or whichever network airline it is aligned to, he suggests.

“Where that is going to go is anyone’s guess,” says Leitch. “But I think the day may come where they have to make that choice, in part because operating two different service styles must be adding cost to their operations.”

If more and more network airlines continue to pursue buy-on-board catering options – something both Sorensen and Leitch expect – that choice for regional airlines should become a simpler one. As customers’ expectations of free onboard food continue to loosen, and as legacy airlines’ distribution systems evolve, Sorensen says network airlines are now seriously contemplating the end to complimentary meals, offering another major new potential revenue-raising channel.

“Offers for premium meals, or upgraded dining experiences, are a painless way to introduce customers to the concept of pre-ordering meals on longer flights,” he says. “Experimenting with pre-order meals provides the opportunity to fine-tune the process and test price points before implementing changes on a grander scale.” ■



Regional preferences can be taken into account and can increase sales photo: LSG Sky Chefs