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By Shweta Jain, Senior Reporter

Airlines in Middle East must focus on ancillary revenues

Depressed yields continue to put pressure on the carriers

IdeaWorks contributed information to this article - - see italics.

Dubai: Middle East airlines will need to increase extra charges for food, second checked bags, choosing seats and WiFi on board to help boost profits at a time of spiralling oil prices and political unrest, a market expert said.

A recent study by airline industry's travel technology partner Amadeus and US consultancy IdeaWorks claims that airlines' global ancillary revenue — which also includes increasing airlines' commission-based revenues on travel extras such as car hire and hotel bookings, increased from €10.95 billion in 2009 to €15.11 billion in 2010, but Toby Stokes, Middle East Airline Sector Leader at Ernst & Young, says Middle East airlines must increase their take.

"Although a significant increase, this amount was still less than five per cent of total global airline revenues. Traditional carriers tend to make between 5-10 per cent of revenues from ancillaries, but the best in class is nearing 20 per cent," pointed out Toby Stokes, Middle East Airline Sector Leader at Ernst & Young.

"I don't feel the carriers in this region are as focused on ancillary revenues as some of their peers who operate in different geographies. We have seen an increasing focus in the region, but it is still not to the extent of other markets, such as North America and Europe."

Level of maturity

"I don't know whether this is a conscious strategy by the Middle East carriers not to focus on ancillaries, or whether it's the market, which hasn't reached the level of maturity and saturation that drives the need to focus evermore on ancillary revenues."

Globally, though, the aviation industry has seen both full service legacy carriers and low-cost carriers placing an ever-growing focus on ancillary revenues, over the past few years, according to Stokes, with low-cost carriers having given birth to this concept. "And they are still the masters of it," he said.

Back home, a case in point in the region is Dubai's own budget carrier, flydubai. Its chief executive Gaith Al Gaith, reportedly said last month that increasing ancillary revenue is a crucial part of the airline's strategy, with the decision to charge Dh50 for a checked bag a strong step in that direction.

And sure enough, flydubai saw around 85 per cent of its passengers buying food and refreshments in the airline's first year of operations, with more than half of travellers — around 56 per cent - also checking in extra luggage.

The carrier has often reinforced the need to establish its foothold in ancillary services in order to strengthen its revenue streams by the way of alternative revenue streams such as a potential holiday division and providing insurance services.

Extra charges

Etihad Airways was also contemplating charging passengers for the second piece of checked baggage, an increasing practice by global carriers until last year. The Abu Dhabi carrier's chief executive James Hogan reportedly said last year that as depressed yields continued to put pressure on the airline's revenue, Gulf carriers are considering this move to maximise revenues.

At Emirates, meanwhile, ancillary revenues accounted for €426.24 million of revenue in 2010, according to the latest statistics released by IdeaWorks.

"Airlines are redesigning their services, following other service providers such as banking and telecoms, to better match what they offer to what the passenger wants," says Brian Pearce, chief economist at the International Air Transport Association.

He also said that when the passenger decides whether to fly or not, the total cost of travel is taken into account.

"That decision is not affected by unbundling. But as airlines add value to what the passenger gets, by personalising the travel experience, new revenue streams should grow."

Stokes agrees: "The case for unbundling and a la carte pricing is a strategic decision that needs to be made by each individual airline.

"Each carrier has to analyse how the positioning of its brand, products and customer offerings would be impacted by bringing in extra charges and work out the potential impact in terms of costs and benefits."

Citing the latest example, Stokes said a domestic North American low-cost carrier recently announced it is going to start charging passengers for "printing their boarding pass at the airport".

Globally, strong revenue from baggage fees and co-branded credit cards placed US carriers in the first, second and third slots, according to the study.

It also highlighted that ancillary revenue from 47 global carriers increased 38 per cent year-on-year to €15.11 billion in 2010, of which top slots [for ancillary revenue] were held by United Continental (€3.53 million), Delta Air Lines (€2.61 million), American Airlines (€1.38 million) and Qantas (€1.09 million).

"Ancillary revenue offers a broad appeal to virtually every type of carrier. It is a revenue art practiced by global airlines known for luxurious first class suites such as Emirates and carriers that sell a bare bones product of a seat with a 30-inch pitch such as Ryanair," IdeaWorks said in its report.