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Travelers Face More Airline Fees and Higher Costs

By George Dooley

This article is based upon a report issued by IdeaWorksCompany.

Airline passengers can expect more ancillary fees and higher costs as airlines worldwide seek to expand ancillary revenues. A new study by Amadeus and IdeaWorksCompany reports that ancillary fees by airlines grew to \$22.6 billion in 2011, which represents a 66 percent increase in two years. United Continental, Delta, American and Qantas are the top ancillary revenue carriers for 2011 and 2010, the report notes.

The new report says Southwest is a new member of the top 10 list for total ancillary revenue, although the carrier has steadily and gradually moved up the rankings since it first appeared in the 2009 list. Spirit Airlines topped the 2011 list of airlines in which ancillary revenue makes up a percent of total revenue, with a very solid 33.2 percent, the report notes. The "Per Passenger" top 10 list provides a mix of global giants, low fare airlines, regional carriers, and traditional network airlines.

Amadeus and IdeaWorksCompany released the results of the Amadeus Review of Ancillary Revenue Results for 2011 based on the financial filings made by 108 airlines all over the world, 50 of which disclose ancillary revenue activity.

The first report was in 2007, a year in which only 23 airlines worldwide disclosed ancillary revenue in financial filings totaling \$2.45 billion. The analysis includes the top airlines by total ancillary revenue, the top carriers by ancillary revenue as a percentage of total revenue and the top airlines by ancillary revenue per passenger.

Once largely limited to low fare airlines, ancillary revenue is now a priority for many airlines worldwide, the report says.

"We've seen the industry move swiftly to grasp some clear opportunities for providing ancillary services, such as baggage fees, extra legroom and on-board catering. The next wave of innovation in ancillary services will come from those airlines which develop new products that support their brand positioning and deliver value to the traveler by meeting their individual needs and preferences," said Holger Taubmann, senior vice president, distribution at Amadeus.

“Our first report into ancillary revenue was issued in 2007, when only 23 airlines worldwide disclosed ancillary revenue activity in financial filings, and the result was a modest €1.72 billion (\$2.45 billion). Four years later, 50 airlines today disclose ancillary revenue activity of €18.23 billion (\$22.6 billion). It’s clear that airlines recognize the importance of ancillary revenue and are developing increasingly innovative ways to generate this,” said Jay Sorensen, president of IdeaWorksCompany.

Big companies generate big results, and the current analysis confirms the largest ancillary revenue results are delivered by large airlines, the report says. The top 10 “Total Ancillary Revenue” list is dominated by major brands in the global network and low fare categories.

American and Delta attain their status through a blend of activities which notably features checked baggage and the sale of frequent flier miles to bank partners. Qantas and TAM -a Brazilian airline - are unique because frequent flier program revenue is the primary reason for placement in the top 10.

As a group, the top 10 airlines delivered revenue in excess of €13.7billion, or 75 percent of the total amount disclosed by airlines for 2011. Airlines generally moved up the chart for 2011 in terms of overall ancillary revenue produced. easyJet passed Ryanair for the first time. Delta's ancillary revenue results decreased during 2011 for a combination of reasons. The airline refined how it discloses ancillary revenue results, now excluding revenue from some aviation-related businesses.

Southwest is a new member of the top 10 list for total ancillary revenue, although the carrier has steadily and gradually moved up the rankings since it first appeared on the 2009 list. While Southwest has chosen not to generate revenue from checked baggage fees, it has embraced the sale of convenience-adding services.

Revenues produced by Southwest’s EarlyBird service, which provides early boarding for a \$10 fee, were \$142 million (€114 million) during 2011. The Business Select product is designed to attract commercial travelers and provides a package of benefits such as priority airport screening, early boarding, and a welcome cocktail. Ancillary revenue from this initiative was \$96 million (€77 million) for 2011.

The most effective means by which Southwest has generated ancillary revenue has been its revamped Rapid Rewards frequent flier program. Management has expressed satisfaction over the \$250 million (€201 million) revenue bump from improved co-branded credit card results realized during 2011, the study notes.

Low fare airlines dominate the “% of Total Revenue” top 10 list, as ancillary revenue is naturally a larger piece of the revenue pie for a lower-fare carrier such as easyJet or Tiger Airways. Spirit Airlines rose to the top of this list for 2011. The carrier broke the elusive 30 percent barrier with a very solid 33.2 percent, Amadeus said.

Consumers choosing a low fare airline can pay a small fare for basic transportation, or opt for everything on the a la carte menu and pay a price comparable to those charged by a global network competitor such as American Airlines or British Airways. Amadeus notes that some even promote a €1 fee to have a flight itinerary sent to a mobile phone. With 15 to 33 percent of revenue produced through these methods, ancillary revenue success is a matter of financial survival for these low fare airlines, the Amadeus study says.

Airlines have become more active retailers of travel, the study notes, citing the example of Jet2.com, a holiday-oriented airline based in the United Kingdom, and Allegiant Airlines in the U.S., reside in the top 10 list largely based upon their ability to sell vacation packages. "Allegiant has dubbed itself as a travel company that happens to own an airline. This list proves there are many ways to reach the top, and the results described in this report are indicative of the evolution that is occurring in how travel is sold to consumers."

The IdeaWorksCompany said it believes the results described the study portray the evolution that is occurring in how travel is sold to consumers. "The gold rush mentality of "grab every buck, quid, or kopek while you can" from consumers is becoming a relic of the past. It's a shortsighted view that invites the scrutiny of regulators and the eventual exit of consumers. Successful companies serve their customers successfully, and that's a lesson learned by every airline executive."