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Airlines raking in billions from add-on charges

By Lesley Ciarula Taylor

This article is based upon a report issued by IdeaWorks.

Air Canada has tumbled off the top 10 list for ancillary airline revenue not because it's stopped charging but because it's stopped disclosing, the leading industry analyst says.

Worldwide, 104 airlines raked in \$21.46 billion in extra revenue, which ranged from add-on charges for baggage and food to vacation packages. That's a staggering increase from the \$2.45 billion collected in 2007, when extra charges were largely just a discount airline money-maker.

"It's unusual to back away from disclosing more," IdeaWorks' Jay Sorensen told the Star on Tuesday. "It's seen as a point of pride or bragging rights for investors."

He made "a herculean effort, but I failed" in his attempt to get financial information on ancillary revenue from Air Canada.

IdeaWorks Company Inc. a consulting company that specializes in improving ancillary revenue and brand development, compiles the annual analysis. It released its 2010 figures on Tuesday.

In 2009, Air Canada ranked eighth worldwide, with \$743.7 million in extra revenue. Air Canada also ranked in the top 10 that year for ancillary revenue per passenger.

Air Canada Vacations packages contributed richly to those numbers, said Sorensen, far more than add-on charges for a second piece of checked baggage, extra legroom or food on shorter flights.

WestJet Airlines Ltd. is a smaller player on the 2010 list, not in the top 10, said Sorensen. WestJet started charging for a second checked bag last year.

Hugely irritating to travellers and a source of increasing U.S. demands for upfront full disclosures of all charges, ancillary revenue leaped from discount airlines into the mainstream three years ago when United Airlines started charging for a second piece of luggage.

Now, United and its merger partner, Continental, lead the list with \$5 billion in annual ancillary revenues.

“True financial success for airlines is boosted when these services are available,” said Ian Wheeler, marketing vice-president of Amadeus Airlines Ancillary Services, which sponsors the annual report and offers airlines programs to boost their revenue.

“We expect to see ancillary revenues grow significantly” as more airlines start using travel agencies to sell extra services, Amadeus executive vice-president Philippe Chérèque said.

That \$21.46 billion collected by airlines last year was less than 5 per cent of operating revenue.

“As à la carte pricing methods are perfected and become more pervasive,” add-on revenue will increase in 2011, said Sorensen in his report. Aggressive discount carrier AirAsia X, for example, reaped ancillary revenue of \$23.67 per passenger by pushing online à la carte booking.

Delta Air Lines, number 2 on the list, increases its add-on revenue by spreading baggage fees to transatlantic routes and charging for in-flight wireless service, on-demand movies, food and lounge passes, the report said.

Airlines also boost their ancillary revenue with frequent-flyer programs. For example, Aeroplan, a separate company that manages Air Canada frequent-flyer points, buys tickets from the airline that passengers redeem for points.

Discount carriers Allegiant Air, Spirit Airlines and Ryanair remain the leaders for ancillary revenue as a percentage of total revenue, the report said.

Among the airlines “best practices” to boost revenue, the report said, were charging for extra legroom and prepaid food vouchers, both of which Air Canada offers.