

ANCILLARY REVENUE REPORT SERIES FOR 2012

# Profit From Innovation: Benefits of Ancillary Revenue Reach All Over the World

Ancillary revenue innovators include AirAsia, KLM,  
and Virgin America, and global practitioners include  
Disney, Norwegian Cruise Line, and Starbucks

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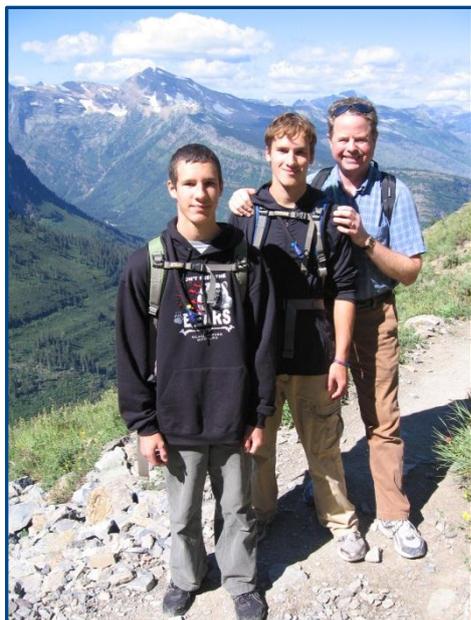
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## **About Jay Sorensen, Writer of the Report**



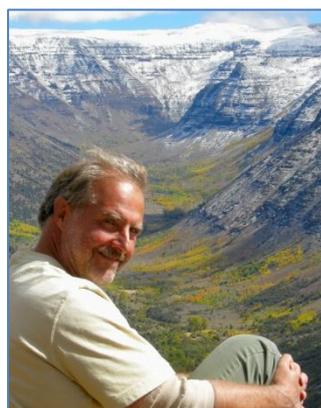
*Jay, with sons Anton and Aleksei, on the Highline Trail in Glacier National Park in Montana.*

Jay Sorensen's research and reports have made him a leading authority on frequent flier programs and the ancillary revenue movement. For 2012 he was a speaker at the FFP Spring Event at the Freddie Awards in New York, the IATA Passenger Services Symposium in the Middle East, and will chair the ancillary revenue track at the MEGA Event in San Diego. His published works are relied upon by airline executives throughout the world and include first-ever guides on the topics of ancillary revenue and loyalty marketing. He was acknowledged by his peers when he received the Airline Industry Achievement Award at the MEGA Event in 2011.

Mr. Sorensen is a veteran management professional with 28 years experience in product, partnership, and marketing development. As president of the IdeaWorksCompany consulting firm, he has enhanced the generation of airline revenue, started loyalty programs and co-branded credit cards, developed products in the service sector, and helped start

airlines and other travel companies. His career includes 13 years at Midwest Airlines where he was responsible for marketing, sales, customer service, product development, operations, planning, financial analysis and budgeting. His favorite activities are hiking, exploring and camping in US national parks with his family.

## **About Eric Lucas, Editor of the Report**



*Eric, at his favorite summer retreat, Steens Mountain, Oregon.*

Eric Lucas is an international travel, natural history and business writer and editor whose work appears in MSN.com, Michelin travel guides, *Alaska Airlines Magazine*, *Westways Magazine* and numerous other publications. Founding editor of *Midwest Airlines Magazine*, he is the author of six books, including the 2009 *Michelin British Columbia Green Guide*. Eric has followed and written about the travel industry for more than 20 years. He lives in Seattle, Washington, where he grows and sells organic garlic; visit him online at [www.TrailNot4Sissies.com](http://www.TrailNot4Sissies.com).



## Airline Ancillary Services

Maximise profit with an end-to-end multichannel solution



Amadeus Airline Ancillary Services allows airlines to sell any service, to anyone, in the right context; maximising sales opportunities, optimising choice and value to the customer, and ultimately increasing profits. Amadeus Airline Ancillary Services is based on industry standards, flexible and fully integrated across all Amadeus shopping platforms and customer touch-points, enabling consistent merchandising across the entire sales cycle and seamless airline operations.

### The story so far

**53**  
airlines

have signed up for Amadeus Ancillary Services

**7.3 million**  
services

have been sold September 2012 YTD

**24**  
airlines

have signed up to sell ancillary services using the Amadeus solution in the travel agency channel

**10**  
airlines

Air France, KLM, Iberia, Finnair, Alitalia, Qantas, Corsair, Air Caraïbes, Air Berlin and Niki are currently selling ancillary services through travel agencies

**23**  
countries

travel agencies currently use our solution to sell ancillary services in **France, Netherlands, Belgium, Luxembourg, Spain, Denmark, Norway, Sweden, Finland, Czech Republic, Estonia, Latvia, Lithuania, Italy, Poland, Russia, Germany, Austria, Switzerland, U.K., Ireland, India and Portugal**

**74**  
airlines

have contracted Amadeus' EMD Server to enable the provision of EMD's, facilitating the sale of airline ancillary services

**39**  
airlines

have implemented Amadeus' EMD Server and over 50% of all EMD capable airlines worldwide are using Amadeus' EMD Server

**8 million**  
EMDs

were processed, using the Amadeus' EMD Server September 2012 YTD

### Why Amadeus?

Ability to manage the entire Merchandising life cycle from shopping to delivery and reporting with one seamlessly integrated solution

#### Brand differentiated shopping experience

- ✓ Define which services are chargeable and has the ability to customise an offer according to frequent flyer status and/or corporate account code
- ✓ Generate greater customer satisfaction and loyalty through a consistent level of choice and quality of delivery across all channels and touch points

#### Optimise customer upsell / cross-sell

- ✓ Increase exposure and visibility of your optional services in all channels at the optimal purchase time: travel agency, web, mobile, call centre, agent check-in, kiosk, or web/mobile, self-service check-in
- ✓ Package ancillary services according to the fare and/or cabin class
- ✓ Generate more revenue per passenger / per segment
- ✓ Increase bookings through ancillary services differentiation
- ✓ Promote ancillary services anytime in the booking flow and push targeted offers in the appropriate context

#### Adaptive and scalable architecture

- ✓ Manage all types of services, sell on all itineraries, and integrate with partners and alliances

➤ For more information on how Amadeus can help increase your ancillary revenues, please contact your Account Manager.

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## **Profit From Innovation: Benefits of Ancillary Revenue Reach All Over the World**

*Ancillary revenue innovators include AirAsia, KLM, and Virgin America, and global practitioners include Disney, Norwegian Cruise Line, and Starbucks.*

Good ideas are embraced within an industry; great ideas are adopted by those outside the industry. The airline industry has a solid reputation for bringing new concepts and practices to the marketplace, with many of these now prevalent in other sectors. The list is lengthy and impressive; centralized electronic booking, loyalty programs, and revenue management all found their early success at airlines. These once-pioneering methods have become commonplace with airlines, consumers, and companies all over the world.

The quest for ancillary revenue, and the innovation associated with it, is joining the industry's cavalcade of concepts that have reached far beyond the route maps of the world's airlines. Ancillary revenue has become popular for good reason; it has delivered billions of dollars, euros, and kopeks to an industry starved for cash. When coupled with an a la carte method that acknowledges the consumer's right to choose, it takes on an allure that any business - - be it a theme park, retail coffee purveyor, live concert venue, or global airline - - can make profitable use of.

### **There are plenty of fellow travelers on this path**

Any explorer in uncharted territory knows there is safety in numbers. Risk takers enjoy being first, while many prefer to see a situation develop before taking the first step. Within the last five years, more and more consumers are "clicking and choosing" and shopping for optional services. That's good news for airlines already involved in ancillary revenue. It's even better news for airlines that are about to begin this journey — you no longer need worry about being the only airline on this path.

The numbers tell a compelling tale. For 2011, ancillary revenue of \$22.6 billion was disclosed by 50 airlines in the world.<sup>1</sup> When IdeaWorksCompany first tallied these disclosures for 2007, only \$2.45 billion was posted by a small list of 23 airlines. The huge increase represents billions of buying decisions made by consumers worldwide. It's true, not all aspects of ancillary revenue are loved by consumers. But airlines are becoming better retailers. The best are taking innovation to new heights with services that deliver more comfort and convenience for a price.



*KLM entered uncharted territory when it tested €15 a la carte premium meal choices in 2010. The service is now offered to almost every long haul destination.*

<sup>1</sup> "Ancillary Revenue reported by airlines grew to €18.23 billion (\$22.6 billion) in 2011 and jumped 66% in two years" press release dated 23 July 2012 at IdeaWorksCompany.com.

An ancillary revenue revolution is also occurring outside the airline industry. Direct and indirect references to ancillary revenue are now found in a growing buffet of services, retail practices, investor presentations, and annual reports associated with service companies, retailers, and manufacturers. For example, automaker Renault recently told the *Wall Street Journal*, “Many customers, enticed into showrooms by low starting prices of the most basic models, are tempted to add optional extras that boost Renault’s margins.”<sup>2</sup> With the change of a few words, that could easily be a quote from an executive at AirAsia, easyJet, or United Airlines. But it certainly doesn’t end here; more examples are readily provided by Disney, Live Nation Concerts, Norwegian Cruise Line, and Starbucks.

### **Ancillary revenue reaches beyond airlines**

The cruise industry says it’s “onboard revenue,” while car rental companies and the concert business actually call it ancillary revenue. For Starbucks, it’s anything that’s not coffee - -and that’s food. These businesses know there is revenue to gain from selling more comfort and convenience to customers, even when it’s a non-core service that is being sold. The following provides a sampling of companies eager to use ancillary revenue methods to boost the bottom line.

Disney Parks & Resorts			
Ancillary Revenue Share of Revenue	49.1%	Merchandise, food, and beverage revenue	\$3.738 billion
<i>Walt Disney Company 2011 annual financial report</i>			

As any parent who has visited a theme park can attest, the price of admission is just the beginning. Disney has always relied on ancillary receipts from on-premise parking, lodging, dining, and souvenir shopping. The best ancillary revenue result in the airline industry equals about 33 percent of total revenue. Disney Parks and Resorts leaps past this with nearly 50 percent of combined revenue generated by merchandise, food, and beverages – this is how ancillary revenue is defined for a theme park enterprise.

Disney definitely benefits from the unique allure of its brand. Customers may enjoy features such as behind the scene tours and a “magic morning” option which, similar to early boarding, provides early admission to the park.

Guests also receive post-trip emails that helpfully offer souvenirs if a gift-buying opportunity was missed at the park – that’s revenue-savvy follow up. Disney flies beyond airline industry practice and allows customers to

Area Attractions	Rates Per Package (USD)
<a href="#">Universal Studios® Hollywood</a>	
<input checked="" type="radio"/> No Thanks (this option can be added later.)	
<input type="radio"/> Admission only	+\$320.00
<input type="radio"/> VIP Experience	+\$996.00
<input type="radio"/> Admission with Transportation	+\$400.00
<input type="radio"/> Transportation only	+\$140.00
<input type="radio"/> Combo Deluxe Tour (includes transportation)	+\$440.00
<input type="radio"/> Combo/Deluxe Tour Transportation only	+\$180.00

*Disney’s a la carte philosophy includes the sale of tickets at competing parks.*

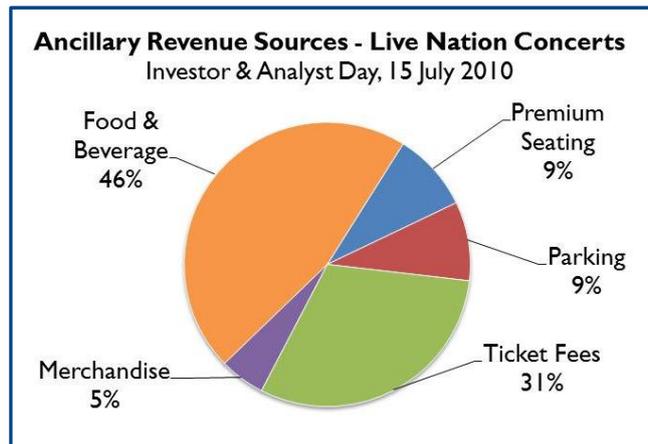
arrange admission to competing theme parks such as Universal Studios, SeaWorld, and Legoland. All this produces unprecedented revenue results.

<sup>2</sup> “Renault Takes Low-Cost Lead” 16 April 2012 article in the *Wall Street Journal*.

## Live Nation Entertainment - Concerts

Ancillary Revenue Share of Revenue	18%	Food & beverage, fees, premium seating, parking	\$627 million
<i>Live Nation Entertainment investor and analyst day presentation dated 15 July 2010</i>			

Live Nation, through its Ticketmaster and Live Nation Entertainment brands, is a leading concert production and online commerce company. Ticketmaster.com boasts more than 27 million unique monthly visitors and Live Nation Concerts produces more than 22,000 annually for more than 2,300 artists.<sup>3</sup> The footprint of this company is truly global with websites in 18 countries; tickets can be booked for Elton John in Australia, *Les Miserables* in London, and the Red Hot Chili Peppers in Turkey.



Live Nation makes direct reference to ancillary revenue in its financial reports. Concertgoers can choose a variety of optional items such as food and drinks, better seating, themed merchandise, and parking. At its international festival venues, the company generated ancillary revenue of \$17.19 per attendee during 2011.

## Norwegian Cruise Lines

Ancillary Revenue Share of Revenue	29.6%	Premium dining, spa, casino, beverages, and excursions	\$ 656 million
<i>NCL Corporation Ltd. Form 20-F for the year ended 31 December 2011</i>			

Cruise prices typically include sleeping accommodations, meals in certain dining facilities, and many onboard activities such as entertainment, poolside activities, and sports programs. Norwegian generates additional revenue on its ships principally from casino operations, beverage sales, specialty dining, shore excursions, gift shop purchases, and spa services. This “onboard and other revenue” yields more than \$51 per cabin day (not per passenger).<sup>4</sup> Revenue managers on ships and in headquarters monitor spending and work in real time to increase the revenue produced by individual cabins during the cruise. For example, they may create offers for the occupants of an individual cabin.



*Ancillary revenue on sea and land: Norwegian now offers cabanas for \$249 per day at Great Stirrup Cay, its private island in the Caribbean.*

Norwegian’s Freestyle Cruising provides complimentary meals in main dining rooms, buffets and for room service. Premium dining is available for a “cover charge” of \$10 to \$30 per person in a variety of upgraded dining experiences such as steakhouse, Asian fusion, and French gourmet formats.

<sup>3</sup> About Us section of the LiveNation.com website reviewed August 2012.

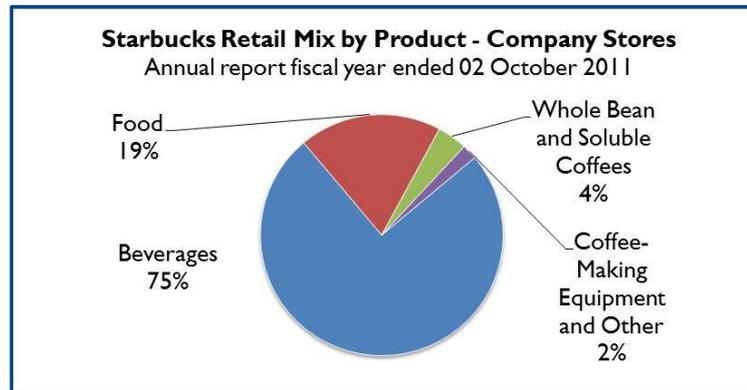
<sup>4</sup> “Net onboard and other revenue yield” disclosed in NCL Corporation Ltd. Form 20-F for the year ended 31 December 2011.

## Starbucks Company Operated Stores

Ancillary Revenue Share of Revenue	19%	Food items such as pastries, sandwiches, and lunches	\$1.83 billion
<i>Annual report for fiscal year ended 02 October 2011</i>			

Starbucks is a global behemoth with more than 17,000 stores worldwide in 55 countries. The company is first and foremost a retailer of coffee and beverages, brewing equipment, and coffee products. This core category produces 81 percent of sales at company-operated stores. Just ten years ago, food was almost an afterthought, and sales weren't detailed in the annual report. Now, food represents 19 percent of company operated store sales. The company is keen to build its food business because it encourages customers to spend more during each visit and provides another reason to visit more often during the day.

Food items include pastries, prepared breakfasts, lunch sandwiches, salads, as well as juices and bottled water; these are now purchased by one in three customers.<sup>5</sup> Starbucks spent \$15 million during its 2011 fiscal year on research to develop



new beverages, food products, and technical processes.<sup>6</sup> It's a fascinating number because it likely has few parallels in the airline industry where investment in product development is often nil. The July 2012 \$100 million purchase of San Francisco-based baker La Boulange indicates food, notably fine pastries and artisan breads, will become a more important factor in the company's retail revenue mix.<sup>7</sup>

### Others are watching ancillary revenue developments



**GET ONBOARD EARLY**

BOOK ONLY 1 GUEST PER STATEROOM,  
ALL PASSENGERS IN THE SAME STATEROOM  
WILL BE INCLUDED IN THE PROGRAM

*Carnival's "Faster to the Fun" seems inspired by similar methods pioneered by airlines.*

A recent announcement by Carnival Cruise Line should remove any doubt others are watching ancillary revenue developments in the airline industry. The "Faster to the Fun" service provides priority embarkation, early cabin availability, priority dinner reservations, express access to the guest services desk, and faster luggage delivery.<sup>8</sup> It was introduced August 2012 on a pilot basis with two ships starting at a price of \$49.95 per cabin. Carnival commented in its press release, "The program was developed based on extensive passenger surveys, indicating a strong interest in a fee-based package of priority access and benefits."

<sup>5</sup> Starbucks presentation at William Blair Growth Stock Conference on 12 June 2012.

<sup>6</sup> Starbucks Corporation Annual report for fiscal year ended 02 October 2011.

<sup>7</sup> Starbucks press release dated 04 June 2012.

<sup>8</sup> "New 'Faster to the Fun' Program Being Piloted on Two Carnival Ships" news blog dated 07 August 2012 at Carnival.com.

In another nod to the airline industry, the service will be provided as a free perk for top tier members of Carnival’s loyalty program. Let’s return to the airline industry for examples of great ideas that might someday be adopted by theme parks, cruise lines, retailers, and other companies.

### **These airlines innovate to boost ancillary revenue**

Innovation is defined as introducing something new or making changes to anything already established. Ancillary revenue was born when airlines began to unbundle a travel experience designed for regulated markets. In the regulated era, the price of an airline ticket reliably included a generous checked baggage allowance, multi-course meals served on a tray, beer, wine, or other beverages, and seat assignments. For many carriers the process of unbundling is largely complete with all of these items offered on an a la carte basis. There is little opportunity remaining for “big revenue” innovations associated with unbundling.

The next frontier for ancillary revenue innovation relies upon selling more comfort and convenience to passengers. IdeaWorksCompany offers a selection of recent service introductions by airlines all over the world. Revenue savvy airlines treat the marketplace as an open laboratory, to test consumer reactions, perfect service delivery, and identify optimal price points. Some of these services may thrive and eventually be copied, while some might quietly be discontinued as commercially unattractive. “Nothing ventured, nothing gained” is an axiom for personal development and commercial success.

#### **Air Asia – Red Carpet**

The airline promises “Red Hot Star Treatment” for passengers opting for its Red Carpet service. AirAsia started offering the optional service March 2012 for passengers departing on AirAsia flights from eight airports: Kuala Lumpur, Kuching, Kota Kinabalu, Penang, Johor Bahru, Singapore, Bali, and Jakarta.

Prices for the service at the carrier’s Kuala Lumpur hub are MYR 100 (US\$32) when booked at least four hours before departure and MYR 125 (US\$40) when purchased at the airport at least one hour prior to departure. Prices and services vary somewhat by location; the following describes what is included for those departing Kuala Lumpur:

- Dedicated check-in counters.
- Buggy transfer service.
- Free check-in service (counter check-in fee waived).
- Priority boarding.
- Access to the Plaza Premium Lounge (maximum 2 hours) which includes shower, hot buffet, non-alcohol drinks, and Wifi.
- Priority baggage delivery upon arrival.
- Fast track departure immigration & security clearance.



*Red Carpet customers receive golf cart service to the aircraft steps.*

Other carriers selling airport VIP services include American (Five Star Service) and Air France (Personalised Services at the Airport).

## American – Luggage Delivery Service

Airlines in the US have focused on checked baggage as a major generator of ancillary revenue. Innovation in this multi-million dollar segment has been limited to Alaska's 20-minute baggage service guarantee and the airBalticBag service that charges a flat fee for a Samsonite bag and one year of checked bags on airBaltic. American Airlines unveiled a new Bags VIP Luggage Delivery service 02 August 2012 that allows travelers to skip the baggage belt upon arrival.<sup>9</sup> The service is offered for travel to 200 US domestic locations by an independent vendor.



*With American's new service, travelers need never visit a bag belt again.*

Prices start at \$29.95 for the first bag or \$39.95 for two bags delivered within 40 miles of the arrival airport. The price only jumps to \$49.95 for the delivery of up to 10 bags. Luggage is automatically retrieved and delivered within four hours of flight arrival. The service is also available for up to a 100-mile distance for a higher price. Prices do not include airline charges for checked baggage.

It's an attractive option for business travelers who go to a meeting from the airport . . . while their bags can go direct to the hotel. Or, a family arriving Orlando can go direct to a theme park while their bags are sent to the hotel. United Airlines developed a pick-up and delivery service with FedEx in 2008. Prices were much higher; shipping a 50-pound piece cost \$179 from California to New York with delivery by 4:30 p.m. guaranteed.<sup>10</sup> Regular pricing dropped to \$79 afterwards but eventually the service was discontinued.

## Jet2.com – Kids Eat for a Penny

Innovation can occur through the introduction of new services or the development of outstanding promotions. Jet2.com has a solid reputation for promoting its a la carte services and the carrier has always been near the top of the ancillary revenue rankings. This UK-based leisure airline may have copied the “kids eat free” policy associated with the Holiday Inn chain, or perhaps its revenue analysts determined the pre-order take rate for families was unusually low.

The Jet2.com promotion has all the hallmarks of a well-conceived offer. The promotion was placed in the booking path and highlighted its applicability to meal pre order for the flight being booked. In addition, the traveler's flight time was noted –

see the 3 hour 15 minute reference in the image – to emphasize the possible need to satiate hunger on a long flight. Jet2.com works to promote a la carte services. Earlier this year it offered a 15% discount on fees for checked baggage and assigned seats. The airline currently provides a £5 discount voucher when £40 is spent onboard for duty free goods.



**Kids eat for a penny!**  
With every adult meal purchased  
One meal each way per child travelling

Adults meals £8.00, Children's £0.01. Hot meals are **pre-order only**.  
REMEMBER, your flight is **3 Hours 15 Minutes** long. Order now so you don't go hungry!  
We require 96 hours notice for meals, so we are unable to supply a meal for your outbound journey.  
Would you like to pre-order your meal now?

*Discounts like this encourage pre-order activity and family travel loyalty.*

<sup>9</sup> “American Airlines wants you to relax and give your back a break” press release dated 02 August 2012 at AA.com.

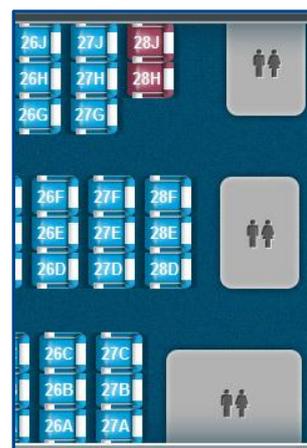
<sup>10</sup> “UAL to Offer FedEx Bag Service” article in the *Wall Street Journal* dated 29 October 2008.

## KLM – Seat in a Row of 2

The seats on an aircraft are compared to real estate with values determined by personal space, provision of amenities, and of course . . . location. Vueling is known in the airline industry for its Duo Seat option, which charges a fee to keep the middle seat empty in the first rows of its aircraft. Many airlines now place a premium price on exit row seats. KLM might be the first airline to highlight seating for couples.

It's not a love seat in front of a roaring fireplace, but adjacent seats in a row of two does offer a tad more personal space or the proximity of someone you like. The price is €30 per flight and seats can be reserved from 90 days before departure.

Flying Blue members with platinum status enjoy the perk free; gold members receive a 50 percent discount, and blue members get 25 percent off.



This seat map for a 777 displays "Seats in a Row of 2" shaded in purple.

## Vueling – Vueling Pass

Subscription-based methods are exceptional generators of revenue and loyalty. The Vueling Pass provides a selection of services designed for frequent business travelers. Asking customers to pay in advance provides good cash flow. This also has the customer – in effect – make a “personal investment” in the airline. The only method for these consumers to reduce the “per trip expense” is to . . . fly the airline more frequently.

Vueling charges €250 for 12 months of benefits and ten VIP lounge visits.<sup>11</sup> Here is a summary of what is included:

- Ten VIP lounge passes to relax, snack, and work. Ten locations are currently offered and include Barcelona, Madrid, Rome, and Lisbon.
- Fast track security screening is currently only available in Amsterdam with more locations to be added.
- Early boarding with first access to overhead bin space for carryon bags.

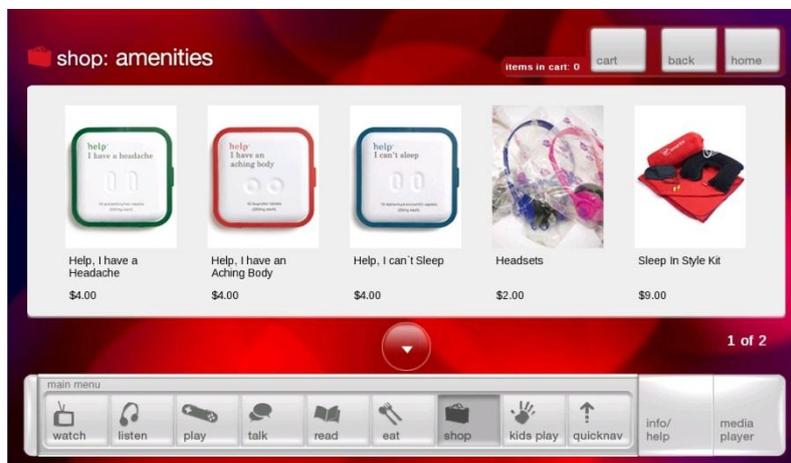
Vueling introduced its new Pass program 12 June 2012.

Punto frequent flier points are accrued for every euro spent on the pass and more lounge passes may be added online through a top-up feature. Cardholders are also granted discounts for parking, meeting room access, sleeping room, and spa services at Madrid and Barcelona airports. This product offers perks similar to those linked to premium credit cards offered by American, Delta, and United.

<sup>11</sup> “Vueling extends the range of business services with Vueling Pass” press release dated 03 August 2012 at Vueling.com.

## Virgin America – Red Entertainment and Retail System

Couch potatoes unite, you now have an airline that caters to you. Since the carrier’s inception, Virgin America has offered the ultimate “universal remote” in every seat back.



Here’s a peek at the amenities page for the Red entertainment/retail system where a few taps on the screen deliver aspirin, headsets, or a sleep kit.

Passengers may watch, listen, and play through the Red entertainment system. Red also gets down to business by allowing passengers to order snacks, drinks, and amenities from the galley. Trolleys rarely clutter the aisles on Virgin America because orders are taken through the system and delivered upon request. Like any good restaurant or pub, you don’t pay the bill until the end of the meal. The system keeps your tab open

until the end of the flight to remove any hesitation to spend more. These are all exceptional methods to encourage passengers to spend more . . . by serving them well.

## Wizzair – Wizz Discount Club

Spirit Airlines pioneered discount fare clubs with its \$9 Fare Club. Wizz Air happily adopted the idea for its European customer base when it introduced the Wizz Xclusive Club program 31 March 2011.<sup>12</sup> Within five months, 100,000 customers paid the €29.99 annual membership fee that generated pure membership revenue of €3 million.

Membership provides exclusive access to promotional fares that can be cheaper by €10 per one-way flight. Up to nine passengers can join the member on the same booking and benefit from the discounted fare.

<input type="radio"/> Wednesday 12 Dec	14:10 → 18:50	£57.99	<b>£53.49</b>
		£44.99	Wizz Discount Club
<input type="radio"/> Thursday 13 Dec	15:25 → 20:05	£91.99	<b>£87.49</b>
		£78.99	Wizz Discount Club

Wizzair’s booking process tempts consumers by displaying regular fares and the discounted rates enjoyed by members of the recently rebranded Wizz Discount Club.

The largest revenue benefit was delivered by member flight activity. Wizz Xclusive Club members took 440,000 flights during the initial 5-month period, which would equate to 1,056,000 annual trips. This activity represents revenue of nearly \$72 million, assuming WizzAir’s average fare is similar to Ryanair at US\$68 per one-way trip. The program was rebranded as the Wizz Discount Club in October 2012.

<sup>12</sup> “Wizz Air greets the 100,000th Wizz Xclusive Club member” press release dated 01 September 2011 at WizzAir.com.

## **Innovation and rewards always require some risks**

The path to ancillary revenue profits is well traveled by airlines and increasingly chosen by companies in other industries. Most airlines are participating to some degree, such as the sale of frequent flier miles or points to program partners or earning commissions on hotel accommodations and car rentals booked at a carrier's website. These are ancillary revenue activities. It's the development and promotion of a la carte methods that some airline executives find uncomfortable.

Fees for checked baggage seem to be the tilting point for airlines that have yet to fully embrace ancillary revenue. Bit by bit, charges for checked baggage are becoming more pervasive throughout the world. Low fare airlines all over routinely charge bag fees and their importance in the US market is well documented. IdeaWorksCompany believes bag fees will become universal for the majority of airlines.

Some may opt out because unbundling does not align with their brand. Others avoid the question because they believe adoption by key competitors has not reached sufficient levels. If done for reasons of brand alignment – that's wise. However, if corporate bureaucracy or fear of failure are primary motivators, it's time for some corporate soul searching.



*Sometimes you need to take risks. Those who didn't take this trail in Lassen Volcanic National Park in California missed a wonderland of snowfields, geysers, mud pots, and boiling cauldrons of water.*

Southwest Airlines, by embracing optional services that provide travelers more comfort and convenience, has slowly risen through the ranks to become a top ancillary revenue airline. Their path may have been different from the usual trek taken by most . . . but Southwest took that first step and as a result likely generated more than \$1 billion in ancillary revenue for 2012.

The trail can be hazardous as indicated by the image on this page. However, hazards are often overstated in a world where overwhelming bureaucracy seeks to stifle any shred of entrepreneurial verve. It was the American statesman and philosopher Benjamin Franklin who provided this advice in 1758 which remains amazingly salient today, “There are no gains without pains.”<sup>13</sup> Revenue success almost always requires accepting risk and pain.

Which path are you taking . . . safe or uncharted?

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<sup>13</sup> “The Way to Wealth” by Benjamin Franklin, 1758.



## Pegasus Airlines soars with 42% more ancillary revenue

The results tell a compelling tale of ancillary revenue bliss and a productive relationship. IdeaWorksCompany started working with Pegasus Airlines in 2010.

IdeaWorksCompany helped Pegasus boost a la carte activity in core ancillary revenue areas such as onboard café, baggage fees, and seat selection.

For its latest full year, the airline disclosed per passenger ancillary revenue jumped by 42% in the three core areas since 2009. The total ancillary revenue increase was in excess of €36 million. That's the type of return that delights CFOs, CEOs, and airline investors.

The advice and expertise offered by IdeaWorks Company, when combined with the carrier's entrepreneurial spirit and outstanding people, has established a firm flight path to better profits.

### How IdeaWorksCompany builds ancillary revenue bliss...

- Series of on-site workshops on the topics of ancillary revenue, a la carte pricing, and loyalty marketing.
- Extensive background research through interviews of Pegasus frontline employees, program managers, and company executives.
- 90-page strategy document providing a ranking of opportunities, service design, revenue projections with 75 individual revenue benchmarks.
- Ongoing support to ensure revenue-producing results.

### 2009 to 2011 Ancillary Revenue Results



**Onboard Café**  
Increase of 17%  
per passenger



**Baggage**  
Increase of 60%  
per passenger



**Seat Selection**  
Increase of 109%  
per passenger

### Turkish Delight...

“ We worked with Jay Sorensen and IdeaWorksCompany in the areas of ancillary revenue, frequent flier programs and international marketing opportunities, and I have observed he is one of the best experts in the industry in these areas. He uses his deep knowledge and experience to bring together customized analysis and solutions based upon the customer's needs, marketplace, customer profile, and the best practices in the world. His analysis and recommendations have always been solid and executable and therefore generate incremental revenue opportunities. Pegasus highly recommends IdeaWorksCompany. ”

— Onur Dedekoylu, Vice President of Marketing

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