



ANCILLARY REVENUE REPORT SERIES FOR 2013

Choice and Creativity: Carriers Build Ancillary Revenue by Empowering a Consumer's Right to Choose

Air New Zealand, Air Canada, and Wizz Air use three contrasting retail methods that can boost revenue more than 20%

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Issued 03 April 2013

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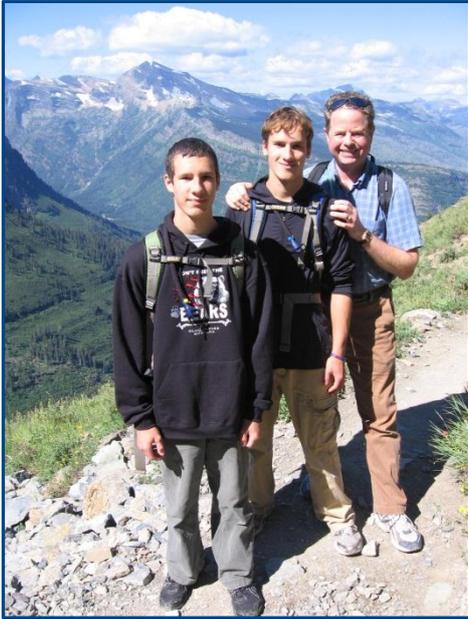
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Issued by IdeaWorksCompany.com LLC
Shorewood, Wisconsin, USA
www.IdeaWorksCompany.com

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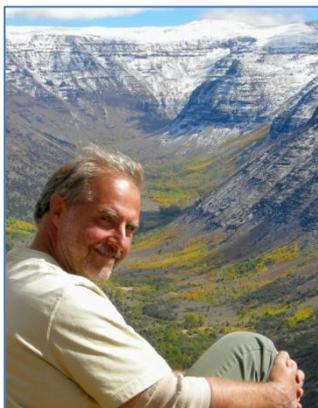
Jay, with sons Anton and Aleksei, on the Highline Trail in Glacier National Park in Montana.

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, and at the IATA Passenger Services Symposium in the Middle East; and chaired 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.

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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.



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Choice and Creativity: Carriers Build Ancillary Revenue by Empowering a Consumer's Right to Choose

The focus is changing from products to consumers and methods

The ancillary revenue revolution is focusing less on product development and more on retail methods. The big categories, such as checked bags, comfort- and convenience-adding features, and the sale of loyalty miles or points, are slowly being checked off the list by revenue-savvy carriers. Now the same airlines are enhancing the sale and promotion of a la carte services at their websites and through global distribution systems and travel agencies. The effort is paying off with 20 to 22 percent revenue increases attributed to better methods. It's an opportunity that's certain to catch the attention of any airline executive worried about the twin threats of a challenging economy and uncertain oil prices.

More emphasis is being placed on how to better sell air travel. There are lessons always to be learned from other industries, especially those built upon the sales process. A recent conversation with the sales manager for a top Chevrolet dealership in Wisconsin yielded timeless and simple advice. Stuart Sinclair has been in the business of selling cars for 28 years; he has enjoyed sales success while maintaining a reputation for being consumer-focused.

Stuart advises, "People don't want to be sold. They are seeking product information and an enjoyable buying experience." He further cautions his sales people to not push consumers. "The customer just met you, they don't know you, and they don't immediately trust you." The initial role of the salesperson is to gather information and build a profile on the customer. He warns his sales staff, "It's their pocketbook, not yours. In today's marketplace, consumers can go anywhere."



Sales professional Stuart Sinclair says, "Most consumers are information gatherers. Better sales are achieved by meeting that basic need."

There are lessons to be learned from this master salesman. Airlines can become more effective retailers by fulfilling the consumer's desire for information, building trust through transparent sales methods, and providing a hassle-free and enjoyable online booking process. These are the very methods Air New Zealand, Air Canada, and Wizz Air have adopted at their websites and through other distribution channels.

Online stumbles became lessons for learning

The a la carte method was introduced by early low cost innovators such as easyJet and Ryanair. Back then, low cost carriers relied upon direct sales to consumers for 100 percent of passenger activity. These a la carte pioneers were only limited by their imagination as they created and redesigned websites to sell an ever-increasing array of goods and services. Reservation platforms were built without regard for the world of legacy airlines which required distribution through travel agency systems and codeshare relationships with partner airlines.

The early 2000s comprised an era of aggressive marketing. The objective for some low cost carriers was to shake down consumers for every spare pound, euro, and dollar. After entering the origin, destination, and travel date, consumers often embarked on a wild ride of product menus, drop-down selections, pop-up boxes, warnings, and strong rebukes. Ryanair borrowed the mercantile methods of a grand Arabian bazaar with a lively display of outrageous colors, screaming headlines, oversized fonts, and even blinking holiday lights. The website was redesigned in 2011 and is a tad more refined.

The scoundrels in the industry used boxes pre-checked to sell lower price items they hoped consumers would not notice during the check-out process. Starting in 2008 governments stepped in to clean up what was sometimes akin to a lawless town.¹

Low cost carriers weren't the only airlines making early

mistakes. Legacy airlines were jumping on the ancillary revenue movement because they were desperate for revenue, not because they had a sudden epiphany to match the methods of their low cost brethren. A la carte services begin to appear in the unlikeliest of places, such as the websites of the world's largest airlines.

Delta packed too much into its booking path in an eagerness to boost online sales activity during 2007.² Some items, such as a one day airport club pass, were sensible additions. Others, such as charitable donations for disaster relief and carbon offset, only distracted consumers and were better candidates for solicitation by email after a booking was confirmed. The biggest challenge posed by most carriers was the disconnect between services sold at airline websites versus bookings from travel agencies and online agencies such as Expedia.



The screenshot shows a 'Trip Activities' section with three items:

- Delta Crown Room Club One Day Pass**: From \$50.00 (USD). Description: Start your holiday or business trip in style and experience the more civilized way to travel – book an airport lounge pass to the Delta Crown Room Club®. Add an extra touch of luxury to your next trip and experience a serene environment with a complimentary, fully stocked bar where you can relax, check your emails, make phone calls or catch up on business.
- American Red Cross Disaster Relief Donation**: From \$50.00 (USD). Description: Support the American Red Cross Disaster Relief Fund with a \$50.00 or \$100.00 tax deductible donation and receive 1000 bonus Miles.
- Plant Trees to Offset Carbon Emissions**: From \$5.50 (USD). Description: To help protect the special places that Delta flies throughout the world, Delta's Force for Global Good has partnered with The Conservation Fund to plant trees that will help offset carbon emissions.

Delta introduced its one-stop travel shop with these types of items in 2007. Six years later the items have changed to the sale of early boarding, Wifi access, and bonus frequent flier miles in the booking path at Delta.com.

¹ European Union, Reference: MEMO/09/238 dated 14 May 2009.

² "Delta.com Offers Global Customers More Online Innovation with New One-stop Travel Shop" press release dated 21 June 2007 at Delta.com.

Fare families, branded fares and a la carte methods offer solutions

The era of ancillary revenue experimentation is well underway. Airlines all over the world are adding optional extras such as pre-paid baggage, early boarding, assigned seating, and pre-order meals. American and KLM are among the latest global airlines to add a la carte features to the booking paths of their websites. Consumers buying travel on US domestic flights at AA.com can choose from Choice, Choice Essential, and Choice Plus economy fares. The branded fare approach is one of the latest pricing methods used by airlines to boost ancillary revenue.

KLM offers Extra Options which provides online booking for excess baggage and extra leg room seats, and on long haul flights, the pre-order of premium meals. And after 22 April 2013, KLM joins Air France by separating bag fees from ticket prices for travel in Europe.³ Air France uses the fare family approach on select short haul flights to tie amenities, such as assigned seating and checked bags, to specific fare types. Both types – branded fares and fare families – utilize product bundling. These pricing methods encourage consumers to buy a higher fare by including a package of defined amenities.

A la carte is at the opposite end of the spectrum from methods that bundle amenities using distinct price points. Allowing consumers to click and choose their way through the booking process is a favorite practice among low cost carriers and a growing number of traditional airlines. It's one of the easier implementation choices because it merely adds optional extras to a carrier's existing fare structure. The following table lists three popular ancillary revenue pricing methods currently used by airlines throughout the world:

Table 1: Defining Ancillary Revenue Pricing Methods			
Pricing Method	Definition	Revenue Management	Airline Examples
Fare Families	Amenities are linked to existing fare categories, with higher fares providing more perks.	Lower priced fares sell out as demand increases, which limits choices presented to consumers.	Air Canada's Tango, Flex, and Latitude fares.
Branded Fares	Base fare provides minimal amenities but consumers may upgrade to higher-priced bundles that offer more perks.	Each fare type is always available and bundles have fixed price points.	American's Choice, Choice Essential, and Choice Plus fares.
a la Carte (unbundled)	Consumers may add optional extras such as checked bags, assigned seats, and pre-order meals to any fare purchase.	Lower priced fares sell out as demand increases, but optional extras remain available.	Wizz Air's optional services such as priority boarding, extra leg room, and assigned seats.

³ "KLM Introduces Renewed European Product and Price Policy" press release dated 13 February 2013 at KLM.com.

The revolution began with a la carte

Long ago, airlines were truly constrained by regulations that controlled the delivery of services, even to include the provision of sandwiches. IATA was compelled to decree in 1958 that a sandwich must be “cold, largely of bread or something similar, unadorned, self-contained and not include such fillings as caviar, oysters or lobster.”⁴ It seemed a European carrier had gained an unfair advantage because its meals were too extravagant. It’s ironic that 55 years later, airlines now eagerly solicit consumers to book premium meals online. Airlines today are only limited by the boundaries of safety, fair play, and common sense, when choosing what to sell.



KLM now happily sells online for €12 to €15 (or 5,000 Flying Blue miles) what once was banned in 1958 to serve free of charge in economy class.

Low cost carriers, such as Ryanair, Wizz Air, Spirit, and AirAsia, have made a science of selling their wares online. The a la carte method traditionally delivers low no-frill fares to consumers along with an invitation to click and pay for more convenience and comfort. It’s a wholehearted endorsement that a la carte choices now appear on the websites of some of the world’s full service airlines. For an extra fee, Air France offers premium meals, Singapore promotes extra leg room seats, and United allows consumers to hold a reservation rather than immediately ticket.

A la Carte Examples	
Revenue per Systemwide Passenger (US\$)	
Paid Baggage - Spirit Airlines	\$19.75
Assigned Seats - Spirit	\$4.94
Checked Bags - Cebu Pacific	\$4.46
Assigned Seats - Ryanair	\$1.58
Early Boarding - Southwest	\$1.28
Early Boarding - Ryanair	\$1.02
Vueling - Empty Middle Seat	\$0.42
Source: 2012 Amadeus Yearbook of Ancillary Revenue by IdeaWorksCompany and 2012 estimates based upon research.	

The method is relatively easy to implement at an airline website. Website booking software increasingly is designed to facilitate the sale of optional extras. Savvy airline managers know effective retail methods and product presentation will boost take rates and overall revenue. Take rates represent the percentage of passengers who buy a service offered by the airline. For example, Ryanair disclosed about 15 percent of passengers take priority boarding.⁵

“Opt in” is the least obtrusive method and only requires consumer input when an a la carte item is purchased. Predictably, it generates the lowest take rates. “Forced choice” is obtrusive and requires the

consumer to act by declining or accepting the item for purchase. Forced choice delivers much better take rates than opt in, but does impede the flow of the booking process. Marketers worry, rightly, that consumers are more likely to abandon a ticket purchase if the booking path requires too many choices.

⁴ “How airline meals have evolved through the years” article dated 22 May 2012 at Apex.aero.

⁵ Ryanair Holdings plc’s Q2 2012 Results Earnings Call Transcript.

A WorldPay-sponsored survey of 4,500 consumers indicates airlines have reason to be concerned.⁶ 14 percent of consumers said they drop out when a “website’s navigation was too complicated” and an equal percent would abandon the booking if the “process was taking too long.” Airlines should be careful about using forced choice methods; trying to sell a \$10 a la carte item at the expense of losing a \$250 ticket sale is not a wise choice.

“Opt out” is the bad boy of the industry and is prohibited by a growing number of regulators, including those in Europe and the United States. Opt out presumes the consumer will buy an item unless they indicate otherwise. Of course, this creates unintended purchases – and boosts a la carte sales – which is exactly what the airline intends. But human integrity and a strong negative reaction by consumers should prevent airlines from considering opt out. The same survey reveals many more consumers, 36 percent, said they would drop out if “presented with hidden surcharges.”

Wizz Air, a closely held Europe-based low cost carrier, may have perfected the art of a la carte selling. The airline appropriately uses opt in and forced choice methods; it has found a balance between boosting

take rates and minimizing booking hassle. Forced choice is used for higher profit opportunities such as pre-paid change waivers and travel insurance. Opt in is used for lower margin extras that likely have lower overall take rates. Wizz Air sells extra leg room, assigned seating, and priority boarding as “priority & comfort” with prices ranging from €4 to €8. Services are also bundled under the Wizz Premium and Wizz Premium Plus brands which offer package savings. Undoubtedly, this very savvy airline tests the retail results of various methods for each a la carte item sold.

 PRIORITY & COMFORT	DETAILS	London Luton → Budapest <input type="text" value="Please select"/>
Extra Legroom: Enjoy significantly more legroom! Reserved Seat: Guaranteed seat in the 2 front rows! Priority Boarding: Be amongst the first onboard!		
 WIZZ FLEX	DETAILS	<input type="text" value="Please select"/>
Unlimited online flight change for free!		
 TRAVEL INSURANCE	DETAILS	<input type="text" value="Please select"/>
Protect your trip, add travel insurance!		
 AIRPORT TRANSFER	DETAILS	London Luton <input type="text" value="No, thank you."/>
Save time and pre-book your transfer to/from the airport now in one easy step!		Budapest <input type="text" value="No, thank you."/>
 ON TIME ARRIVAL GUARANTEE	DETAILS	<input type="checkbox"/> London Luton → Budapest (€9.00)
Receive €100 credit should your flight arrive with 1 hour delay or more for any reason!		
 SMS CONFIRMATION	DETAILS	<input type="checkbox"/> Add to booking (€1.00)
Receive your flight details on your mobile phone instantly!		

At WizzAir.com consumers are presented these options after choosing a specific flight and indicating baggage selection on a prior website page.

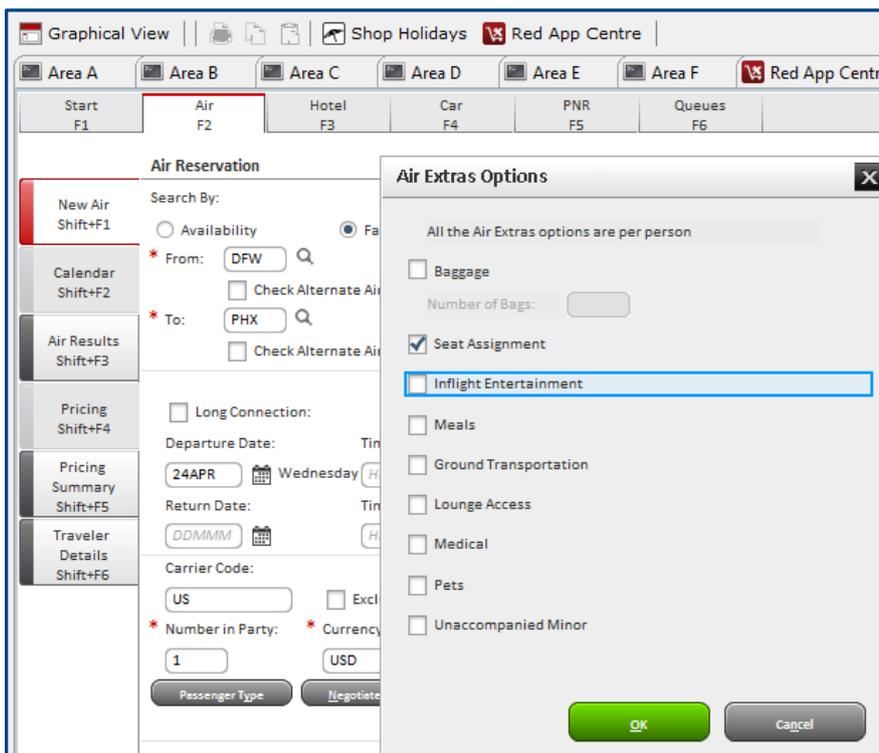
⁶ Perfect Passenger Payments report by WorldPay, 2012.

All bookings for Wizz Air, including those from travel agents, are made through the carrier's online booking platform. However, the majority of the world's airlines don't lead such simple distribution lives. Among network and flag carriers, it's estimated 55 percent⁷ of sales volume is produced by global distribution systems such as Amadeus, Sabre, and Travelport. Low cost carriers only have 16% of booking activity produced by GDS channels.

Airlines and distribution providers have bickered over the issue of a la carte sales through travel agents. The uneven and uncoordinated adoption of ancillary revenue methods by airlines has wreaked havoc with attempts to sell a la carte services through the structure of a GDS. Airlines have taken the quickest route to revenues by introducing optional extras in the controlled environments of their own online storefronts. Enabling sales through travel agents has become an

acute issue as fees have become more prevalent. Corporate clients are clamoring for transparent access to a la carte items through the bookings made by travel agents.

IATA is facilitating the definition and the establishment of additional industry standards through the New Distribution Capability initiative started in 2012. Among its planned benefits, the NDC will support the sale of a la carte items across multiple distribution channels. At present, a truly seamless a la carte experience remains elusive; everything sold online is not always available



Shown above is the graphical display from Sabre Red and its pop up box for a la carte items. Image courtesy of Sabre Travel Network.

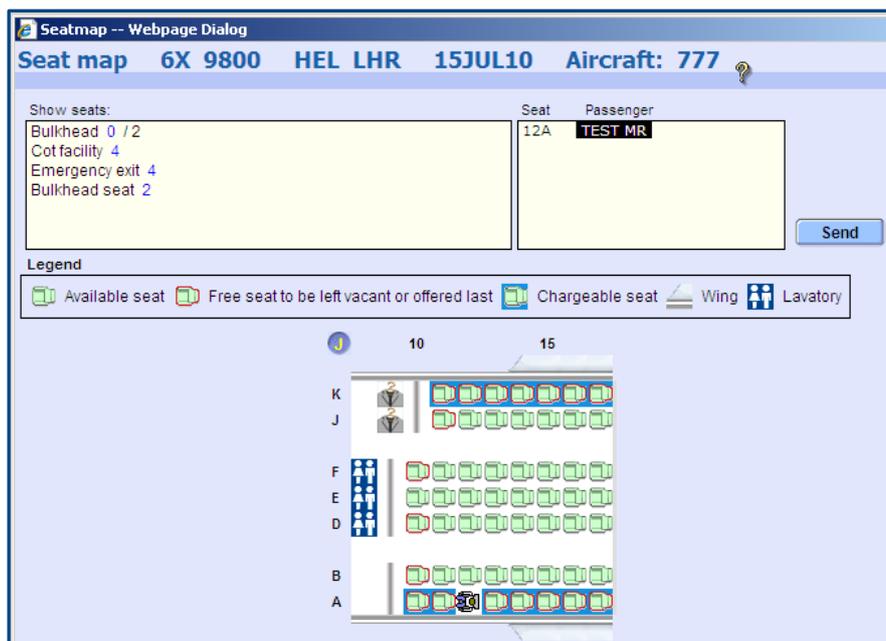
in a GDS. But transparency across channels will someday become reality as airlines seek more ancillary revenue from bookings made by travel agents. Standards will only work when adopted by the majority of airlines and when booking methods are understood and accepted by travel agents.

Change is occurring incrementally with global distribution systems eager to build capabilities with willing carriers. Travel agents using Sabre Red (offered by the Sabre Travel Network) can book a growing number of a la carte services. The services include pre-paid bags with Air New Zealand, Alitalia, and Finnair and paid seat options with US Airways and Westjet. For example, travel agents using Sabre Red may purchase an extra leg room seat just as a consumer would at the US Airways website. It should be noted, the Sabre Red display provides a generic menu of system capabilities regardless of the a la carte items sold by a particular carrier. As of February 2013, Sabre Red supports merchandising activities for five airlines and four a la carte items.⁸

⁷ The Future Of Airline Distribution by Henry H. Harteveltdt (commissioned by IATA) dated 05 December 2013.

⁸ February 2013 Sabre Travel Network disclosure to IdeaWorksCompany.

How well a GDS supports a la carte transactions is a competitive element in the fight to sign up travel agencies. Amadeus currently offers nine ancillary revenue items for sale in its travel agency system on behalf of 14 airline clients.⁹ Other distribution systems are also making progress; Travelport recently announced the ability to sell American's newly introduced Main Cabin Extra seating product.¹⁰ All of this represents progress and global distribution systems advise more additions will occur during 2013. But the GDS world is still struggling to catch up with the unpredictable pace of change associated with the ancillary revenue revolution.



Shown above is how extra leg room seats are sold for Finnair using the graphical version of the Amadeus Selling Platform. Image courtesy of Amadeus.

Fare families associate perks with pricing

Ideas are often recycled in the airline industry, and this is certainly true of the fare family method. Early commercial aviation very likely involved a price that was negotiated between a pilot and passenger. Progress always leads to complexity and fare types were developed to associate terms and conditions with a particular price. The phrase “full Y fare” included every service associated with a carrier’s economy class cabin such as a meal, beverage, two checked bags, and an unrestricted ability to cancel, rebook, or request a full refund. Discounts always become a component of any marketplace, and the airline industry was no exception. Lower prices were offered for those booking in advance, staying over a weekend, or willing to relinquish flexibility regarding refunds and changes. This truly represented the advent of the fare family approach.

Air Canada decided to more overtly link fare types to the delivery of perks in early 2003 by introducing its “new revenue model” in domestic Canada markets.¹¹ One year later, US destinations were added with expansion to long haul international markets starting in 2006. The model was based on five fare types ranging from low one-way fares (similar to those offered by low-cost carriers) to business class fares. The new fares featured a combination of product attributes, including the ability to assign seats and accrue frequent flier miles. Air Canada desired to create a clear link between price paid and the provision of amenities. Consumers could choose from Tango or three additional economy class fares to maximize savings or comfort.¹² Tango was the lowest priced option and removed seat assignments and full frequent flier accrual in exchange for savings comparable to low cost competitors.

⁹ February 2013 Amadeus disclosure to IdeaWorksCompany.

¹⁰ Travelport press release dated 13 March 2013 at Travelport.com.

¹¹ ACE Aviation Holdings (Air Canada) 2005 annual report.

¹² “Flying 'Tango' or 'Fun' On Air Canada” article dated 09 June 2004 in the Wall Street Journal.

But the magic of Air Canada’s method was not the lowest fare, but rather the revenue bonus realized when passengers choose a higher fare. Consumers did “buy up” in very impressive numbers. By 2006, 46 percent of Air Canada’s domestic consumers picked a fare above Tango.¹³ Yes, you read correctly . . . nearly half chose more comfort and convenience over more savings.

Management attributed a robust 22.4 percent increase in RASM (revenue per available seat mile) from 2003 to 2006 to the new revenue model.¹⁴ For 2008, the take rate improved with 47

percent of domestic consumers choosing a higher fare. However, this new method did not display within the parameters of global distribution systems.

The display issue was especially insurmountable with early features such as paid seat assignment and discounts for opting not to check bags and agreeing to not make itinerary changes.¹⁵ With the launch of Agencia, a travel aggregator website for Canada-based agencies, Travelport gained access to Tango, Plus and Latitude fares.¹⁶ At present, the lowest fare can only be booked at AirCanada.com, the carrier’s agency booking website, and through Travelport GDS and Agencia products.¹⁷

Travel Experience	Tango	Flex	Latitude
Priority check-in, baggage handling and boarding			✓
Access to Maple Leaf Lounges		+\$50 CAD	+\$25 CAD
Complimentary checked baggage allowance	1 Check a 2 nd bag for only \$20 CAD	1 Check a 2 nd bag for only \$20 CAD	1 Check a 2 nd bag for only \$20 CAD
Exemption from the sports equipment handling fee for 1 item			✓
Advance seat selection	+\$18 CAD	✓	✓
	 Treat yourself to a little more legroom with our Preferred seats (an extra charge applies for Tango and Flex fares). Learn more		
Complimentary meal			
Prepaid Onboard Café voucher (\$9 CAD value)	+\$7 CAD	+\$7 CAD	✓

Air Canada readily promotes the amenities included in its Tango, Flex, and Latitude fares in the booking path and elsewhere at its website. Shown here are intra-Canada fares.

Tango is the price leader and features a checked bag, no meal or café voucher, 75 percent of the regular frequent flier accrual, and offers a C\$18 fee for assigned seating. Higher fares, such as Flex (formerly called Tango Plus) and Latitude provide additional perks and reservation flexibility. Notably, those opting for Flex value the benefit of assigned seating, lower change fees, and full mileage accrual.

A la carte revenue also increased during the period when the new revenue model was introduced. For 2005, the airline disclosed North American a la carte revenue of C\$5.14 per passenger; this increased by 52 percent to C\$7.82 for 2008.¹⁸ The main contributors were seat assignment, excess baggage charges, buy-on-board, and reservation change fees (IdeaWorksCompany does not consider the latter as ancillary revenue).

¹³ Air Canada 2006 Annual Report.

¹⁴ Air Canada presentation at UBS Transport Conference, 17 September 2007.

¹⁵ “Air Canada says GDSs’ limitations forced it to pull Tango fares from systems” article dated 01 May 2006 in Air Transport World.

¹⁶ Disclosure by Marc Rosenberg retired Air Canada executive, March 2013.

¹⁷ “Air Canada-Travelport GDS deal enables selling of ancillaries” article dated 11 January 2011 in Travel Weekly.

¹⁸ Air Canada Investor Presentation, Montreal, 24 September 2008.

Perhaps Air Canada’s approach represents a blending of fare family and a la carte methods. Today, the airline offers the following optional extras after a fare has been selected: onboard café vouchers, premium travel assistance, travel insurance, and assigned seating. Rather than involving consumers in a complicated meal selection process, the carrier simply sells C\$7 vouchers at a discounted price of C\$5 . . . a savings of nearly 30 percent.

Prepaid Onboard Café Voucher

Add \$7 per person

Receive 1 Meal Item* + 1 Snack Item for only \$7 (up to \$9 CAD value, all taxes included)

[View Menu](#)

*Meal items are not available for purchase on flights departing after 10PM. On these flights, customers are only able to choose from a selection of beverages and snack items.

"Save up to 2\$ per person"

Air Canada made a strategic decision – and one that remains controversial among travel agencies and some regulators – to limit the display of Tango fares to AirCanada.com, the carrier’s agency booking website, and Travelport. Bookings made direct with the airline (rather than other methods such as GDS) represented a stunning 74 percent of domestic Canada sales in 2008.¹⁹ Notwithstanding Air Canada’s strategy, the fare family approach can be accommodated in the GDS environment. Qantas uses a fare family approach but sells these fares through travel agents. For example, on domestic Australia routes the airline offers Red eDeal, Flexi Saver, and Fully Flexible fares through Sabre Red:

	Red eDeal		Flexi Saver		Fully Flexible		Business	
	Before day of departure	On day of departure	Before day of departure	On day of departure	Before day of departure	On day of departure	Before day of departure	On day of departure
Flight Change	Permitted with change fee A\$55 [^] # @	Not permitted	Permitted # @		Permitted @		Permitted @	
Cancellation	No refund but ticket value valid for 12 months #	Change fee on reissue [^]	No refund but ticket value valid for 12 months #		Full refund or credit #		Full refund or credit #	
Name change	Not permitted unless upgrade to Flexi Saver or above. Change fee of A\$55 and name change fee of A\$80 [^] applies		Permitted with name change fee of A\$80 [^]		Permitted		Permitted	

Qantas uses a fare family approach and promotes these fares through GDS. Displayed above is a fare comparison table from Sabre Red that matches the appearance Qantas uses as its website. Image courtesy of Sabre Travel Network.

Airlines establish GDS formats for each system, such as Amadeus and Sabre, which provide travel agents a quick method to find a particular fare for a customer. However, airlines must make a real effort to communicate to travel agents and equip them with knowledge before bookings are made.

¹⁹ Air Canada Annual Report 2008.

The fare family approach relies upon classic revenue management methods; the availability of fares is managed according to price and consumer demand. The lowest fare class will be subject to closure on popular flights. Referring to the Toronto – Winnipeg booking display, the Tango fare is not available on Air Canada flight #263 (3rd flight displayed). Effectively, the “store” no longer has the Tango product on the shelf for this flight. That’s a concern for airlines seeking to embrace the retail methods of Target, Walmart or Tesco; it’s never good practice to be “out of stock.”

Revenue management is tasked with maximizing the revenue produced by every flight. Under the fare family approach, this is accomplished by controlling the availability of individual fares for the Tango, Flex, and Latitude products. Flight #263 is popular on the date queried, which explains why the Tango fare is no longer offered and the Flex fare was boosted to C\$604. But revenue maximization occurs at the cost of pricing consistency.

From: Toronto, Pearson Int'l, ON (YYZ)									
To: Winnipeg, MB (YWG)									
Op.	Flights	Depart	Arrive	Aircraft	Duration	Connections	<u>Tango</u>	<u>Flex</u>	<u>Latitude</u>
Direct Flights									
	AC259	07:55	09:32	320	2hr37		⦿ \$344	⦿ \$417	⦿ \$665
	AC261	10:10	11:49	E90	2hr39		⦿ \$344	⦿ \$417	⦿ \$665
	AC263	14:40	16:17	320	2hr37		-	⦿ \$604	⦿ \$665
	AC267	16:15	17:54	319	2hr39		⦿ \$457	⦿ \$513	⦿ \$665

For the Toronto – Winnipeg flights shown, the cost of choosing Latitude can represent an additional C\$61, C\$152, or C\$248 above the price of Flex. While those amounts might bring a smile to a revenue manager’s face . . . it causes heartburn for a retailer encouraging consumers to shop on the basis of brand names and predictable price points.

Branded fares brings retailing simplicity to consumers

The headline on the press release said it all, “American Airlines Introduces New Travel Options Offering Customers More Choices.” On 12 December 2012 American adopted the branded fare method in a very big way - - by offering it on all flights within the continental US. The carrier filed three types of fares under an umbrella brand called travel options: Choice, Choice Essential, and Choice Plus.

Branded fares are similar to fare families with two major distinctions. First, each fare type is always offered on a flight, unless the flight is sold out. For example, American always offers the lowest priced Choice fare on a flight, regardless of whether the flight has low or peak booking activity. The revenue management function will increase this fare as determined by consumer demand. Second, the price difference between fare products is fixed and usually promoted as a product attribute. American charges \$34 each way to upgrade from the Choice to Choice Essential fare, and \$44 each way to upgrade from Choice to Choice Plus.

This method represents an improvement of the fare family approach. Branded fares apply retail psychology by assigning a simple price point to a better bundle of amenities. For \$34 more, the consumer will receive a checked bag, priority boarding, and more flexibility. The following graphic from American describes the benefits and savings associated with its travel options program.



American now uses brand names for fares which are easily understood by consumers. Gone are the days when consumers were expected to know the difference between a “full Y” fare and something booked in inventory class X, Y, or Z.

It might be a difficult concept for traditional airline folks to understand, but intuitively simple for most consumers. The Choice fare will vary for each flight as determined by the revenue management process. The Choice Essential and Choice Plus prices are determined by the \$34 or \$44 premium above the Choice fare (double the amounts for roundtrip).

Frontier Airlines was an early branded fares innovator when it introduced its AirFairs pricing structure in 2008.²⁰ The merchandising platform developed by Datalex allows the airline to offer four branded fares: Basic, Economy, Classic, and Classic Plus. Basic is the lowest fare that can be booked through travel agencies and only offers assigned seating at the time of check in. Economy is the lowest priced ticket sold at the carrier’s website and is predictably free of perks. Classic Plus provides extra leg room seating, priority services (check in/security/boarding), two checked bags, a premium drink, and more. Consumers certainly have choices with Frontier and 35 percent of them choose the Classic or Class Plus fare brands. The airline also attributes a 22 percent revenue increase to the branded fare approach.²¹

²⁰ “A Whole New Way to Buy and Fly on Frontier Airlines” press release dated 18 December 2008 at FlyFrontier.com.

²¹ Case Study for Frontier Airlines reviewed March 2013 at Datalex.com.

Frontier’s president in 2008 proclaimed, “We’re changing the way you buy and fly.”²² Sean Menke added, “AirFairs brings choice and fairness back to the travel experience. The customer is now the driver of their individual travel experience. Our three fare levels give our customers the flexibility they have told us they want to arrange their travel to fit their specific budget and comfort needs.”

Frontier has left its branded fare strategy almost unchanged since 2008. This indicates the airline may have found perfection. With more than a third of passengers volunteering to open their wallets wider, the results argue against prevailing wisdom that customers always seek the lowest price. Frontier carried 10.57 million passengers during 2008²³ and with 35 percent choosing a Classic or Classic Plus fare, that’s more than 3.7 million endorsements for the branded fare approach.

Airlines around the world have watched this success and introduced more branded fares. Examples include Aer Lingus, Air New Zealand, American, and Porter Airlines. American Airlines files its branded fares with the Airline Tariff Publishing Company (ATPCO) and this enables sales through a GDS. Similar to fare families, the experience of booking through a GDS is not the same as the retail environment created by an airline at its website. As recently described in an Air Transport World article, “accessing and selling them require workarounds on the part of the travel agents.”²⁴

This is accomplished through the filing of Passenger Type Codes (PTC) which allow travel agents to ferret out a particular fare from a booking display of many fares. For example, American uses the PRO passenger type code for its Choice Essential fares and the TIM code for Choice Plus. The airline provided the following instructions to travel agents when it introduced the fares:

Access the Choice Essential fare option using the PRO passenger type code:

GDS	AVAILABILITY	FARE QUOTE ENTRY	PRICING ENTRY
SABRE	120JULABISPS9A	FQABISPS20JULPM	WPPRO#XO
WORLDSPAN	AABISPS20JUL9A-AA	4FSPSABISR-AA or 4DFWSPSPRO-AA	4PFSR.SR#PPRO
AMADEUS	AN20JULABISPS9A/AAA	FQDABISPS/20JUL/AAA/R,U	FXX/RPRO,U
APOLLO	A20JULABISPS9A#AA	\$DABISPS20JUL:AA-PRO	\$B**PRO

Access the Choice Plus fare option using the TIM passenger type code:

GDS	AVAILABILITY	FARE QUOTE ENTRY	PRICING ENTRY
SABRE	120JULABISPS9A	FQABISPS20JULPM	WPPTIM#XO
WORLDSPAN	AABISPS20JUL9A-AA	4FSPSABISR-AA or 4DFWSPSTIM-AA	4PFSR.SR#PTIM
AMADEUS	AN20JULABISPS9A/AAA	FQDABISPS/20JUL/AAA/R,U	FXX/RTIM,U
APOLLO	A20JULABISPS9A#AA	\$DABISPS20JUL:AA-TIM	\$B**TIM

It’s not pretty, but it works. The above entries are used by travel agents for each major GDS as a method to identify a particular fare, such as American’s new Choice Essential and Choice Plus branded fares.

²² “A Whole New Way to Buy and Fly on Frontier Airlines” press release dated 18 December 2008 at FlyFrontier.com.

²³ “Frontier Airlines Reports Record Preliminary Traffic for December 2008” press release dated 06 January 2009 at FlyFrontier.com.

²⁴ “Distribution Tail Wind” article in the March 2013 issue of Air Transport World.

American strives to steer travel agents to its Direct Connect method of distribution which it says provides, “the easiest and most intuitive display of American Airlines’ new fare options . . .”²⁵ Direct Connect bypasses global distribution systems and provides better control of its online retail presentation while saving fees paid to global distribution systems.

Branded fares are having a long term impact on markets. Southwest introduced its Business Select fare in 2007 which included early boarding, Rapid Rewards bonus accrual, and an onboard cocktail.²⁶ American’s recently announced Choice Plus is suspiciously similar and even seems to mimic Southwest’s no change fee policy. Southwest’s fare and American’s introduction of its travel options fares will likely cause United, Delta, and others to reconsider their fare structures.

Air New Zealand not only boosted its own revenue, but its Seats to Suit branded fare program grew passenger traffic for the entire region. The launch of Seats to Suit in 2010 allowed the airline to match low-fare airlines on price by giving customers the choice of paying for checked bags, entertainment and food. This led to a dramatic turnaround in load factors, and with a large online audience, yield was improved by the healthy rate of buy-up to Seat + Bag and The Works fares.²⁷

Flight order				Seat	Seat + Bag	The Works
Earliest to latest departure ▾				<ul style="list-style-type: none"> • 1 carry on bag, 7kg • Tea, coffee & water (no meal) • Buy from onboard menu • TV, music, games, Air NZ flights only more 	Seat option plus: <ul style="list-style-type: none"> • 1 checked bag, 23kg Please note: meal not included more	Seat + Bag plus: <ul style="list-style-type: none"> • Meal and drinks • Movies • Standard Seat included more
Airline	Departs	Arrives	Duration			
	9:40 am Fri 01 Mar	2:40 pm Fri 01 Mar	3h 0m 1 flight	○ \$461	○ \$492	○ \$530
	11:45 am Fri 01 Mar	4:45 pm Fri 01 Mar	3h 0m 1 flight	○ \$386	○ \$417	○ \$455
	3:30 pm Fri 01 Mar	8:30 pm Fri 01 Mar	3h 0m 1 flight	○ \$575	○ \$606	○ \$644

Air New Zealand varies the Seat fare according to demand, shown above as ranging from NZ\$386 to NZ\$575. But the Seat+Bag fare is fixed at NZ\$31 above Seat only and The Works is priced NZ\$38 above Seat+Bag.

Prior to this, Air New Zealand’s market share was decreasing as low fare airlines – such as Jetstar – expanded on the Tasman.²⁸ The branded fare strategy has been called one of the company’s most successful products by an Air New Zealand executive. The change allowed Air New Zealand to grow its market share and remain competitive and profitable in the face of relentless competition.

²⁵ “American Airlines Introduces New Fare Options With No Change Fees” travel agency news from American Airlines.

²⁶ “Southwest Airlines Announces New Products” press release dated 07 November 2007 at Southwest.com.

²⁷ Disclosure by Air New Zealand ancillary revenue executive, March 2013.

²⁸ “Seats to Suit’ put Air NZ back in game” article dated 26 September 2012 in the New Zealand Herald.

When properly merchandised, airline travel can fetch a premium

Let's return to the words of wisdom offered by Stuart Sinclair, the sales manager featured at the beginning of this report, "People don't want to be sold." The three ancillary revenue pricing methods described in this report – fare families, branded fares and a la carte – work best because they don't push the consumer. Among those analyzed, the Wizz Air website is certainly the most aggressive, but it does provide consumers a running total of purchases and a simple click provides full details for each service. Unfortunately, the carrier does not disclose financial results, but IdeaWorksCompany believes its methods likely produce the best ancillary revenue among websites of its type.

Revenue achievements associated with the fare family and branded fare approach can be found; increases in excess of 20 percent have been identified in this report. Industry wisdom indicates the vast majority of consumers only want the lowest price. Yet, when properly merchandised, airline travel can fetch a premium. The experience associated with Air Canada and Frontier demonstrates 35 percent to almost half of consumers will upgrade themselves to a better package of perks and pay extra for it.

Merchandising for Ancillary Revenue Success

- Use forced choice sparingly for higher profit opportunities. Use opt-in for all others, or better yet, promote a la carte sales through post-booking emails.
- Build trust by offering more product details at the click of a mouse.
- Be careful about seeking a \$10 a la carte sale at the expense of losing a \$250 ticket.
- Test and find the perfect method for selling each a la carte item.
- Consider using passenger type codes and sale activities to promote fare families and branded fares with travel agents.
- Avoid designing products that will invariably be out of stock; it's not a good retail strategy.
- When using branded fares, promote the best attribute of the method - - a predictable price premium for a better bundle of amenities.
- Change is occurring incrementally and airlines can sell a la carte through global distribution systems; however, it does require more effort.

A la carte sales through travel agents loom as a final frontier and very real opportunity. As Mr. Sinclair warns his sales staff, "It's their pocketbook, not yours. In today's marketplace, consumers can go anywhere." Simply said, corporate clients are demanding equal access to a la carte services and more control of their pocketbooks. Revenue and market share benefits will accrue to airlines that move to meet these client expectations. It's no longer a matter of "if" airlines realize ancillary revenue through GDS methods . . . but rather "how" airlines will merchandise their a la carte wares to travel agents and ultimately all consumers. The methods described in this report will no doubt lead the ancillary revenue revolution's quest for more customers and better profits.



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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