



Airline ancillary revenue projected to reach \$42.6 billion worldwide in 2013

The CarTrawler worldwide estimate of ancillary revenue forecasts 17.9% increase, with \$23.9 billion of the total composed of a la carte fee activity.

Dublin, Ireland & Shorewood, Wisconsin, 29 October, 2013: IdeaWorksCompany, the foremost consultancy on airline ancillary revenues, and CarTrawler, the leading provider of online car rental distribution systems, project airline ancillary revenue will reach \$42.6 billion worldwide in 2013. The **CarTrawler Worldwide Estimate of Ancillary Revenue** represents a massive increase of 89% from the 2010 estimate of \$22.6 billion.

Earlier this year, CarTrawler and IdeaWorksCompany reported the ancillary revenue disclosed by 53 airlines for 2012. These statistics were applied to a larger list of 176 airlines to provide a truly global projection of ancillary revenue activity by the world's airlines in 2013. The **CarTrawler Worldwide Estimate of Ancillary Revenue** marks the fourth year IdeaWorksCompany has prepared a projection of global ancillary revenue activity, and is the first year that CarTrawler's sponsorship of this forecast includes a series of ancillary revenue reports.

Ancillary revenue is generated by additional activities that yield revenue for airlines beyond the core movement of customers from A to B. This wide range of activities includes: commissions gained from hotel bookings, the sale of frequent flier miles to partners and the provision of a la carte services – providing more options for consumers and more profit for airlines.

For the first time, IdeaWorksCompany offers a global projection of revenues specifically from a la carte fee activity. Revenue from optional services, such as onboard sales of food and beverages, checked baggage, premium seat assignments, and early boarding benefits was determined to represent \$23.7 billion of the projected global total. The smaller share, at \$18.9 billion, comes from non-fee activity such as the sale of frequent flier miles to program partners and commissions earned on the sale of services to travelers, such as hotel accommodations and car rentals.

Worldwide Estimate of Ancillary Revenue			
2013 Estimate \$42.6 billion (6% of Global Airline Revenue of \$708 billion)	2012 Estimate \$36.1 billion (5.4% of Global Airline Revenue of \$667 billion)	2011 Estimate \$32.5 billion (5.6% of Global Airline Revenue of \$577 billion)	2010 Estimate \$22.6 billion (4.8% of Global Airline Revenue of \$474 billion)
<i>Source: Ancillary revenue statistics applied by IdeaWorksCompany to individual airline revenue results for the year indicated from Air Transport World, Airline Business, and at airline websites.</i>			

“Today, airlines are not just competing with each other for a share of the passenger market, they’re also competing for a cut of each passenger’s total travel budget”, says Mike McGearty, CEO of CarTrawler. “It’s simply not enough to add travel products to your website and expect customers to purchase. Today’s online shopper has more choice than ever of what to buy and where to buy it. If you don’t satisfy their demands, they will take their business elsewhere. The airlines that will win the ancillary revenue race will be those who adopt a proactive approach to online retailing by focusing on satisfying the needs of the customer along every step on the sales journey and by ensuring that their ancillary partners do the same”.

Analysis performed by IdeaWorksCompany during the past four years reveals natural groupings (or categories) based upon a carrier’s ability to generate ancillary revenue. The “percentage of revenue” results associated with four defined categories have been applied to a worldwide list of operating revenue disclosed by 176 airlines.¹ The following describes the four categories:

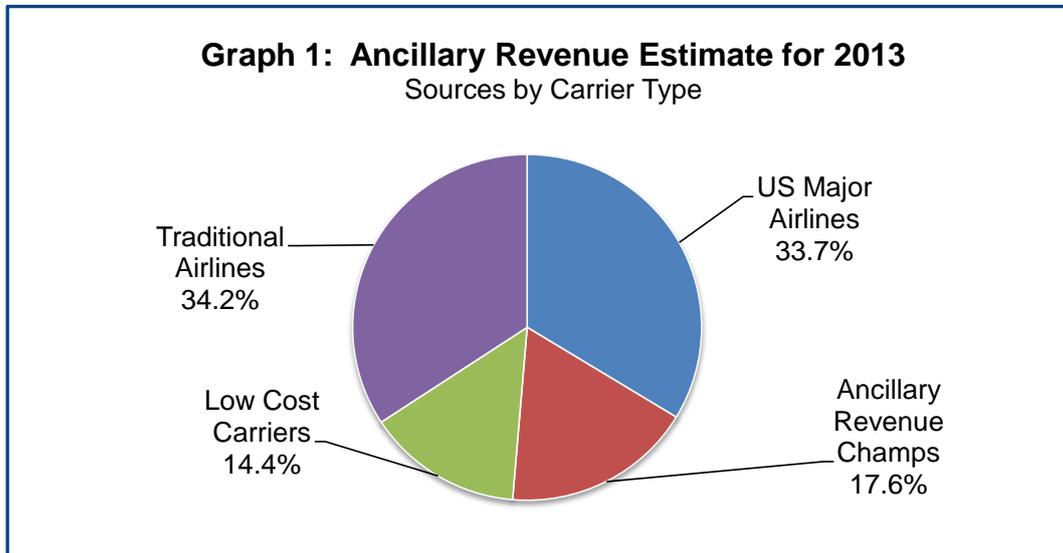
- **Traditional Airlines.** This category represents a catch-all for the largest number of carriers. Ancillary revenue activity may consist of fees associated with excess or heavy bags and limited partner activity for a frequent flier program. Some are adding fees for the first checked bag. The average percentage of revenue increased to 3.1% from 2.9% last year. Examples include Gulf Air, Hainan Airlines, TAP Portugal, and Singapore Airlines.
- **Major US Airlines.** US-based majors generate strong ancillary revenue through a combination of frequent flier revenue and baggage fees. The percentage of revenue for this group was 9.9%, which dropped slightly from the 2012 rate of 10.1%. Examples include Alaska, American, and US Airways.
- **Ancillary Revenue Champs.** These carriers generate the highest activity as a percentage of operating revenue. The percentage of revenue achieved by this group grew to 21.6% from 19.7% for 2011. Examples include Air Arabia, Jetstar, Germanwings, and Spirit.
- **Low Cost Carriers.** LCCs throughout the world typically rely upon a mix of a la carte fees to generate good levels of ancillary revenue. The percentage of revenue for this group was 10.5% and is appreciably above last year’s 7.2%. Examples include flydubai, Spicejet, Transavia, and WestJet.

CarTrawler Worldwide Estimate of Ancillary Revenue – by Carrier Type for 2013			
Airline Category	Total Ancillary Revenue	Frequent Flier & Commission Based	A la Carte Fees
Traditional Airlines	\$14.6 billion	\$8.8 billion	\$5.8 billion
US Major Airlines	\$14.3 billion	\$9.3 billion	\$5.0 billion
Ancillary Revenue Champs	\$7.5 billion	\$0.4 billion	\$7.1 billion
Low Cost Carriers	\$6.2 billion	\$0.4 billion	\$5.8 billion
Worldwide Totals	\$42.6 billion	\$18.9 billion	\$23.7 billion

Source: Ancillary revenue statistics applied by IdeaWorksCompany to individual airline revenue results for the year indicated from Air Transport World, Airline Business, and at airline websites.

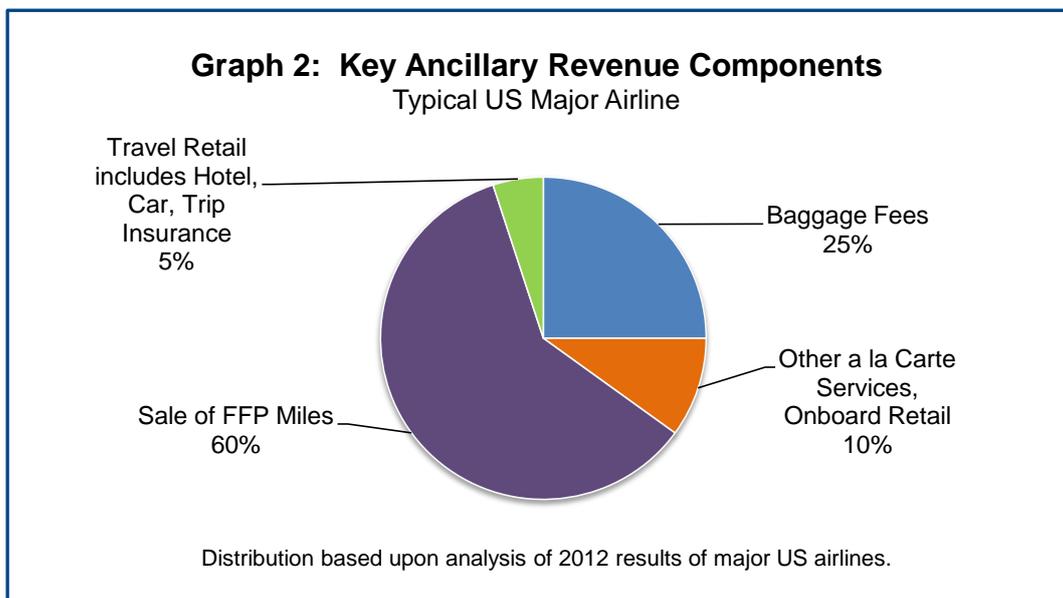
¹Operating revenue results were drawn from the World Airline Report published in the July 2013 issue of Air Transport World and the World Airline Rankings in the August 2013 issue of Airline Business. Additional sources were used, such as disclosures made at airline websites, to complete the list of 176 airlines. Adjustments were made to prevent duplicate reporting associated with regional affiliates. Pure cargo carriers, such as FedEx and UPS Airlines, were not included. Airlines are assigned to specific categories each year based upon an assessment of a carrier’s ancillary revenue profile.

The US Major Airlines category produces a significant share of global ancillary revenue (see Graph 1). The \$14.3 billion result (33.7% of the global total) is generated by just seven airlines: Alaska Airlines, American, Delta, Hawaiian, Southwest, United, and US Airways. Southwest was redefined this year from being a low cost carrier to the US major category because the frequent flier revenue portion of its ancillary revenue profile has significantly increased; nearly 60% of ancillary revenue is estimated to be produced by its Rapid Rewards program.

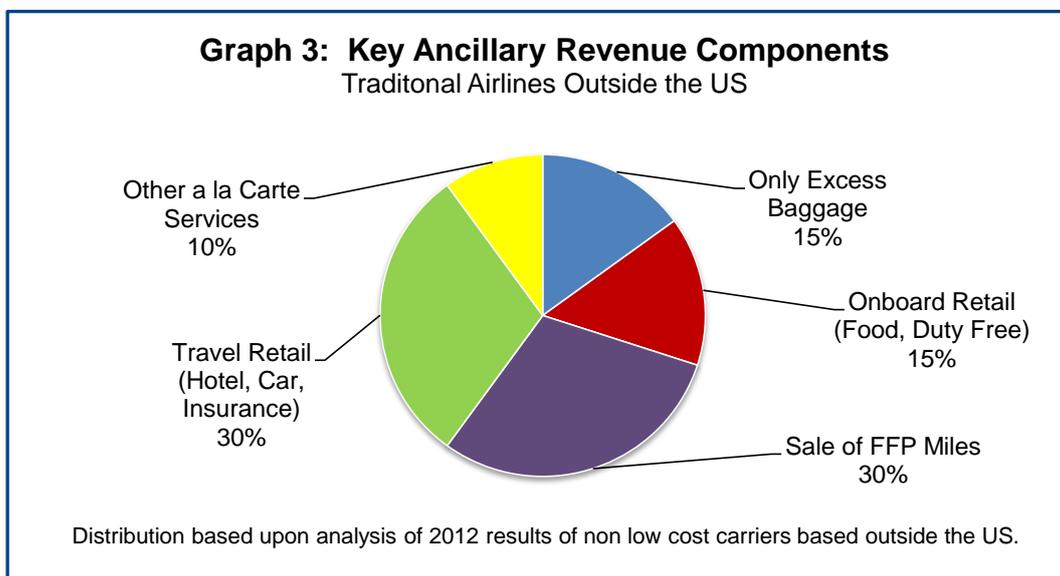


IdeaWorksCompany believes the majority of ancillary revenue for US major airlines is generated by the sale of frequent flier miles, mostly those linked to co-branded credit cards. Graph 2 displays the typical ancillary revenue sources for carriers such as American, Delta, and United. Baggage fees for US carriers represent approximately 25% of their ancillary receipts. The remaining revenue is produced by an array of a la carte and commission-based products. The profile for Southwest is certainly different because it does not charge for the first or second checked bag.

Other sources include onboard sales of food, beverages, Wifi, and commissions from hotel bookings. In addition, airlines offer an ever-increasing selection of services that add to traveler convenience such as priority security screening, early boarding, exit row seat assignments, single visit access to airport lounges, and VIP-style services at the airport.



The Traditional Airline Category (for carriers outside the US) is the largest piece of the pie at \$14.6 billion (34.2% of the global total). The revenue profile for these carriers (see Graph 3) also relies upon the sale of frequent flier miles to partners such as the banks that issue airline credit cards. Baggage revenue for these carriers is quickly increasing because more are introducing charges for the first bag. For example, Air France, British Airways, KLM, and Swiss introduced bag charges for intra-Europe flights during the first half of 2013.



The Low Cost Carriers and Ancillary Revenue Champs categories feature a diverse array of revenue from optional services and commission-based products. These carriers have the lowest level of revenue produced by frequent flier program activity. Their co-branded credit card portfolios are younger and far smaller; card revenue levels rarely match those associated with long-established airlines.

Approximately 40% of the \$42.6 billion ancillary revenue increase for 2013 can be explained by a global airline industry that is producing better revenue results and carrying more passengers. The remaining 60% amount is being delivered by more effective and aggressive ancillary revenue efforts by Ancillary Revenue Champs, Low Cost Carriers, and Traditional Airlines. Revenue-savvy carriers are testing variable pricing for more services that adjust fees according to demand. Pricing methods, such as the branded fares approach, encourage consumers to pay a premium price for a package of defined amenities. Traditional airlines are rapidly learning the value of ancillary revenue by implementing fees for the first checked bag and relying on distribution enhancements that allow travel agents to book optional extras for corporate and leisure clients.

CarTrawler Worldwide Estimate of Ancillary Revenue – by World Region for 2013			
Airline Category	Total Ancillary Revenue	Frequent Flier & Commission Based	a la Carte Fees
North America	\$17.2 billion	\$9.7 billion	\$7.5 billion
Europe	\$12.6 billion	\$3.4 billion	\$9.2 billion
Asia/Pacific	\$9.1 billion	\$3.9 billion	\$5.2 billion
Africa/Middle East	\$2.3 billion	\$1.2 billion	\$1.1 billion
Latin America/Caribbean	\$1.4 billion	\$0.5 billion	\$0.9 billion
Worldwide Totals	\$42.6 billion	\$18.7 billion	\$23.9 billion

Source: Ancillary revenue statistics applied by IdeaWorksCompany to individual airline revenue results for the year indicated from Air Transport World, Airline Business, and at airline websites.

“A la carte activities, such as those linked to fees charged for checked bags, onboard cafes, and early boarding privileges, are a big part of the ancillary revenue story,” says Jay Sorensen, President, IdeaWorksCompany. “Globally, about 56% of ancillary revenue is produced by the optional extras sold to consumers at airline websites, onboard aircraft, and increasingly through travel agents and online travel retailers. This leaves a significant 44% share provided by business opportunities linked to a passenger’s trip such as hotel and car rental bookings, and even the use of a co-branded credit card to accrue frequent flier miles or points.”

The world’s airline industry is enjoying better financial results and a rare glimpse of profitability. The boost provided by ancillary revenue can help ensure these results are firm and not fleeting. The International Air Transport Association (IATA) projects \$708 billion in global airline revenue (\$227 per passenger) and \$11.7 billion in total net profits for 2013.² The numbers have a robust ring, but in reality this only represents a 1.6% net profit margin.

Tony Tyler, Director General of IATA, framed these figures in reality when he observed the results deliver a modest profit of about \$4 per passenger . . . which is “less than the price of a sandwich in most parts of the world.”³ IATA projects 3.12 billion passengers globally for 2013, which, using the IdeaWorksCompany estimate, yields an ancillary revenue result of \$13.64 per passenger, or \$7.64 from a la carte fees. At a level considerably above \$4, ancillary revenue has become a necessary ingredient in the industry’s fiscal health – 6 percent of total revenue – and is becoming a method for consumers to pick and choose the service and price that are just right for them.

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About CarTrawler

CarTrawler powers profitable car rental partnerships for travel brands all over the world. This year we will provide over 300 million airline passengers with direct access to car rental at 30,000 locations in 174 countries. That’s more cars in more cities than you will find anywhere else. Aviation partners such as Emirates, Virgin Australia, Norwegian Air Shuttle, Wizz Air, Vueling, Transavia and West Jet trust CarTrawler to satisfy consumer demand for choice and convenience for their car rental programs. Learn more at www.cartrawler.com.

About IdeaWorksCompany

The IdeaWorksCompany was founded in 1996 as a consulting organization building airline revenue through innovation in ancillary revenue, loyalty marketing, and a la carte shopping. Its international client list includes airlines and other travel industry firms in Asia, Europe, the Middle East, and the Americas. IdeaWorksCompany specializes in ancillary revenue improvement, brand development, customer research, competitive analysis, frequent flier programs, and on-site executive workshops. Learn more at IdeaWorksCompany.com.

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² Industry Financial Forecast Table (IATA Economics) updated September 2013.

³ Tony Tyler’s State of the Industry Speech (Director General of IATA) delivered 03 June 2013.