ANCILLARY REVENUE REPORT SERIES FOR 2014

Profit From Innovation: 
Ancillary Revenue Examples 
From Around the World

Buckle up for a global tour featuring network carriers, LCCs, and companies outside the airline industry

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About Jay Sorensen, Writer of the Report

Jay Sorensen’s research and reports have made him a leading authority on frequent flier programs and the ancillary revenue movement. He is a regular keynote speaker at the annual MEGA Event, spoke at IATA Passenger Services Symposiums in Abu Dhabi and Singapore, and has testified to the US Congress on ancillary revenue issues. 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 30 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.

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Eric Lucas is an international travel, natural history and business writer and editor whose work appears in Michelin travel guides, Delta Sky Magazine, Alaska Airlines Magazine, Westways Magazine and numerous other publications. Founding editor of Midwest Airlines Magazine, he is the author of eight books, including the 2013 Michelin Alaska 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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Profit From Innovation:  
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“All EU network carriers, including Lufthansa carriers, are losing money on EU routes.” That’s the quote by Lufthansa Chairman and CEO Christoph Franz as he spoke at the European Aviation Club in March 2012.¹ He went on to suggest it was no longer reasonable that long-haul operations subsidize intra-Europe flying. These admissions heralded an era in which Lufthansa Group would cut more costs, refresh business class, introduce premium economy, switch more routes to low frills subsidiaries, and seek to triple revenue from “additional services.”² The presence of Lufthansa, Swiss, and Austrian in this report demonstrates the Group’s desire to grow ancillary revenue.

It has become the difference between profit and loss

The challenges faced by Lufthansa Group provide an example of why airlines of all types are eagerly seeking the profit relief provided by ancillary revenue. It’s clear these challenges are being answered with tangible results by low cost carriers and traditional airlines. Global ancillary revenue is projected to jump by more than 17 percent to $49.9 billion for 2014.³ On average, this activity provides revenue in excess of $15 per passenger. When combined with IATA’s per passenger estimate of $5.42 after-tax income per passenger, it is clear ancillary revenue now provides the difference between profit and loss.

The ancillary revenue revolution brings dramatic change to the distribution, sale, and delivery of the air travel product. Change is rarely an easy process and airline consumers, front line employees, regulators, and investors often encounter turbulence as airline management works to improve retail skills.

The desire to embrace retail practices is readily apparent at Thomson Airways. The carrier vows to revolutionize holiday flying with more leisure-friendly amenities built into its new aircraft fleet. For example, Thomson will add a self-serve retail-style “Beach Snack Bar” for Premium Club passengers.⁴

¹ Keynote speech of Christoph Franz at the European Aviation Club in Brussels on 20 March 2012.
³ “Airline ancillary revenue projected to be $49.9 billion worldwide in 2014” press release dated 03 November 2014 at IdeaWorksCompany.com.
⁴ Thomson Airways Unveils Plans to Revolutionise Holiday Flying” press release dated 09 October 2014 at Thomson.co.uk.
The initial concept is designed to deliver amenities to passengers in Thomson’s premium cabin. But the idea could easily be adopted for the sale of goods to passengers in the economy cabin. In any event, it’s a refreshing departure from the tired method of selling items from the same galley carts that have been used to deliver refreshment down the aisles since the 1960s.

Moving from physical retail methods to electronic distribution, Spirit Airlines now applies revenue management practices to the pricing of a la carte services. The airline adjusts pricing based upon peak demand periods. For example, checked bag prices are boosted by $2 for the Christmas – New Year holiday period. Ryanair has relied upon peak period pricing for many years. High season a la carte pricing, which includes June through September, jumps by €10 for the first bag booked online. The industry is slowly moving to the dynamic pricing method that has been used with huge success for air fare pricing.

Passengers know the most popular flights command higher fares. The same practice will someday apply to the optional services sold for peak flights. Priority screening, early boarding, and premium seating will vary in price according to demand. The method could also be used for checked bags. However, regulators may push back on this practice unless the airline can guarantee the baggage fee posted during the booking process won’t vary without warning or that ample disclosure of any price change is provided.

The pace of experimentation and the introduction of new services are determined by financial necessity. In this regard, many trouble spots remain in the world. Even in those areas now blessed by economic growth (and falling oil prices) there remains the need to recover from massive losses of the last decade. Ancillary revenue innovation will remain strong for the foreseeable future, not only because it contributes to profits, but also because it’s ultimately good for consumers. A la carte places consumers in control. If a service meets their definition of good retail value, they can click to buy it.

**Low cost carriers continue to lead a la carte innovation**

True low cost carriers face fewer hurdles to innovation. These airlines have “small and nimble” built into their corporate DNA. LCCs often benefit from a compressed management structure, lack of labor restrictions, and a high level of direct-to-consumer online sales. In this environment, new a la carte services can be easily implemented, market tested, and quickly tossed if they don’t produce results. Their cultures invite experimentation and the trial of new concepts.

LCCs do face challenges, because the remaining a la carte opportunities won’t deliver the big revenue boosts gained from checked bag fees. Reaching more business travelers and expanding into travel agency distribution represents the next big revenue growth area. But expansion into global distribution systems can be perilous; GDS participation adds complexity and cost. Being overly aggressive is another concern as low cost carriers rush to add new products and take every opportunity to make the sale. LCCs are often able to grow rapidly and are quick to add new a la carte services.
Excitement within the marketing department to create something new often inflicts pain upon those responsible for delivering the goods. The result can be operational disconnects in which the consumer buys an a la carte service only to be disappointed by a failure-to-deliver at the airport or onboard the flight. Airline managers should ask frank questions, such as, “How many times do we sell early boarding and the gate agent boards everyone at the same time?” The answer may surprise … but this should never be a mystery as systems should be in place to measure service delivery. Too many airlines rely upon consumer complaints as a method to monitor these problems.

The path to ancillary revenue bliss should not consist of a booking experience filled with optional extras. The best model evolving at this time relies upon branded fares that encourage consumers to buy a bundle of services. This is followed by offering a few time-sensitive and higher margin optional extras before the consumer concludes the booking process. Follow-up emails to consumers after booking provide the perfect way to promote lower margin and less popular a la carte options. It is possible to “overmarket” and consumers will gradually ignore a brand if customer communications consist of nothing more than a continuous sales pitch.

The innovations that follow represent a mix of services that rely upon traveler desire for more comfort, convenience, and certainty. Airline executives know subscription plans work, and as a result more are being launched. The market has demonstrated consumers will pay in advance for a year of benefits if features are easily understood and if they believe the service will be readily delivered.

### Ancillary Revenue Examples - Low Cost Carriers

**Vueling**

**A la Carte Service:** Missed Flight Cover  
**Price:** Starting at €12.75 for a one way trip  
**Item Description –**  
According to a promotional video at Vueling.com, more than 60% of passengers fear missing their flights. Vueling offers a pre-purchase option during flight booking at Vueling.com. The carrier offers a generous 4-hour window after the flight departs. When a flight is missed, the traveler visits the airport sales counter and books another flight departing within 24 hours of the missed flight. Optional extras purchased by the consumer transfer to the new flight. Alternatively, consumers can opt for a full refund to include any a la carte items purchased. Protection is provided by an insurance policy facilitated by No Exclusions Limited, which is a vendor to the airline industry. The price for a one-way Barcelona – London flight is €12.75 which is discounted at €16 for a roundtrip. Prices have been increased since the service was introduced in 2013 which suggests the airline is satisfied with the level of customer interest. The service may only be purchased at Vueling.com.
**Wizz Air**

**A la Carte Service:** Wizz Discount Club  
**Price:** €49.99 annual group membership  
**Item Description –**  
The Wizz Discount Club has been around since it was originally introduced as the Wizz Xclusive Club in 2011 and now has 500,000 members. As of October 2014, the Club added group membership which provides benefits for the member and five companions sharing the same travel booking. The original standard membership covered the member and one travel companion. The Club guarantees a minimum discount of €10 on fares and recently added €5 savings for each piece of checked baggage and large cabin baggage purchased online. The discount is available on all fares from €19.99.

**Vueling**

**A la Carte Service:** My25% Voucher  
**Price:** €79 to €269  
**Item Description –**  
This is a new twist on the discounted fare subscription plans offered by other carriers, such as the Wizz Discount Club. Vueling offers more flexibility with a simple 25% discount off the carrier’s Basic and Optima fares. Basic is Vueling’s lowest “seat only” fare. The discount may be applied to an unlimited quantity of flights during a 3- or 6-month period of use. Consumers specify the travel start date when the voucher is purchased. Three travel zones are offered: 1) within Spain, 2) within Italy, and 3) everywhere on Vueling’s network. The voucher may be purchased through travel agencies and GDS bookings can be processed through Amadeus, Galileo, Worldspan, and Sabre. Travel accrues points in the Punto frequent flier program.

**Peach**

**A la Carte Service:** Space Seat Option  
**Price:** ¥2,000 to ¥3,000  
**Item Description –**  
More airlines now offer the option to block the middle seat. Air New Zealand has special seating that converts three seats into a Skycouch. Now, a few airlines offer the ability to block two regular seats in a row. Peach, a Japan-based low cost carrier, has a simple formula for its Space Seat Option. The price is ¥2,000 (approximately $18) for domestic flights and ¥3,000 (approximately $26) for international routes. Consumers are advised to call the airline (after booking their seat online) to inquire if Space Seats are available. This likely allows revenue management to quickly assess if the flight will have empty seats. JeJu Air of Korea has a similar plan to block up to two seats.
Wizz Air
**A la Carte Service:** Missed Departure Fee
**Price:** €70

**Item Description –**
Everything has a price, and €70 is the cost of “arriving late to the gate.” Of course, it could be worse. On many carriers, passengers who encounter unforeseen circumstances on the way to the airport lose all the value of their ticket. It’s always an ugly moment for travelers and airline staff. The passenger arrives minutes after the jet starts backing from the gate. Wizz Air provides a little comfort by allowing these passengers to book the next flight for a fixed fee of €70 if they reached the gate within 30 minutes of the scheduled departure time. Outside of that time window, the passenger is required to buy a new ticket at the prevailing fare.

Aer Lingus
**A la Carte Service:** Pre Order Meal Upgrade
**Price:** €18.50

**Item Description –**
Aer Lingus joins network carriers Air France, Austrian, KLM, and US Airways with upgraded meal offers on transatlantic flights. Travelers may choose from three branded entrees: “melt-in-the-mouth salmon,” “roast chicken with a twist,” or “succulent steak.” Each is priced at €18.50 ($22). Meals include salad, entree, dessert, and choice of red or white wine. Meals are prepaid during the booking process or by using the “manage booking” function at least 24 hours before departure. The service is not offered through GDS.

Allegiant Airlines
**A la Carte Service:** Giant Seats
**Price:** $90

**Item Description –**
Allegiant added first-class style seats to the Boeing 757 aircraft operating between the US West coast and Honolulu, Hawaii. These 6-hour flights are the longest in Allegiant’s network. In a nod to Allegiant’s passion for low cost, the press release announcing its Giant Seats offer said the seats were originally added to comply with crew rest regulations on longer flights. When unused for this purpose, the seats are offered for sale. Consumers can choose from four seats in the first row of the aircraft and two located in the exit row zone. According to online postings made by travelers, only two of the seats (3D and 3F) offer a generous recline and leg rest. All services remain a la carte; Giant Seats do not include drinks, meals, or priority boarding.

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Jeju Air
A la Carte Service: Free Travel Lounges
Price: No charge
Item Description –
The smartest retailers know “free” often generates sales. Korea-based Jeju Air opened free passenger lounges in Cebu and Guam, and the Bangkok location will open soon. These in-city lounges specialize in the booking of commission-based services for travelers and operate as “ancillary revenue incubators.” Booking services include airport transfers, car rental, accommodations, and sightseeing. Travelers also enjoy free access to soft drinks, coffee, Wifi access, phone calls to Korea, mobile phone charge and adaptor rental. The lounge is a component of the carrier’s FIT or “Free Individual Traveler” initiative, which is designed to wrest control of the leisure market from major package tour companies. Travelers can also chat via mobile application or email with the Korean-speaking lounge staff prior to their trip for local tourist information such as restaurants and popular attractions.

airBaltic
A la Carte Service: airBalticMeal
Price: €8 to €25 entrees
Item Description
Nobody does online preorder better than airBaltic ... and the entrée choices look very tasty too. The airline offers travelers 70+ starters, sandwiches, and entrees in addition to 70+ beverage selections. Pictured here are French-style lamp chops with a starter, dessert, and a variety of drinks to include Black Balsam which is considered Latvia’s national drink.
Consumers click to add or change entrees, starters, dessert, and drinks on a personalized meal tray. The result is a delightful display of the meal that will greet the passenger on their upcoming flight. The average sale per passenger has increased 250% since the system was introduced in 2013. The airline is approaching a 5% take rate, which for an airline that focuses on intra-Europe flying, is a good achievement. It is not available through GDS.

**Spring Airlines A la Carte Service:** VIP Arrival Shuttle

**Price:** CNY30 (approximately $5)

**Item Description** –

Spring Airlines, China’s first privately owned LCC, adds a little comfort and convenience for a modest price. Inbound travelers to Shanghai can select the VIP Shuttle during the booking process at the carrier’s website. This entitles the traveler (domestic flights only) to a rampside motor coach transfer direct to the arrival zone... and avoids the airport concourse. Ground crew even load checked bags onto the coach to speed arrival. The carrier hopes to expand the service to more destinations.

**Traditional airlines adapt to ancillary ways**

Legacy, network, and traditional are labels that attempt to describe most of the world’s airlines. These airlines carry the vast majority of the world’s passengers and include behemoths Emirates, Lufthansa, and Japan Airlines along with smaller players such as Air Malta, Kuwait Airways, and Tarom Romanian. Most continue to provide meals for economy class passengers and include one or two checked bags in the price of a ticket. The turbulence of the airline industry, from low cost competition to economic recession, is compelling these airlines to consider a la carte methods. The change become very apparent starting in 2013, when many of Europe’s major carriers started charging fees for checked bags for intra-Europe flights.

This movement toward ancillary revenue methods creates a dilemma. As traditional airlines begin to look more like their LCC competitors... how can they maintain a product distinction that allows them to maintain yields? For example, Swiss now offers Economy Light fares on intra-Europe flights from Geneva to better compete with LCCs such as easyJet. These fares don’t include a checked bag (carry-on bags only) and fees are now charged for pre-assigned seats. There are some perks that easyjet won’t provide; Swiss will serve a snack and beverage and the trip will accrue a minimum quantity of frequent flier miles (only 125 miles). The challenges are apparent and are shared by any traditional airline that unbundles its product and charges fees for services that were once included.

IdeaWorksCompany advises its airline clients to avoid replacing “free” with “fee.” This can be accomplished by creating products that surpass the amenities they replace. Almost every airline that has implemented bag fees simply switched from free to fee... with one exception. Alaska Airlines created a delivery guarantee when they made checked bags an optional extra. If the traveler’s bag didn’t reach the bag belt within 25 minutes of flight arrival, the consumer could choose from a $25 travel voucher or 2,500 frequent flier miles. Prior to this, the carrier didn’t track aircraft-to-belt delivery times. The guarantee had the surprising consequence of encouraging employees to do better and the delivery standard was later improved to 20 minutes.
Sadly, Alaska remains a lone sentinel in a global airline industry that seems intent to maximize revenue without considering how service can be improved. Just investing a small portion of these newly found profits into product improvement can have a positive effect on media coverage, regulator reaction, and consumer acceptance. Let’s examine the possibilities regarding the enhancement of checked baggage service for airlines contemplating introducing a fee.

Delta Air Lines tested for 2 months the long-expired practice of “positive bag claim” to prevent bag thefts in the claim area at McCarran International Airport. On site staff require travelers to show their baggage tag before leaving the area with their luggage. Positive bag claim was once normal practice until airlines calculated that staffing expense exceeded the cost of replacing bags lost through theft. Of course, travelers who had bags stolen were not served very well by the diminishment of service. Perhaps bag fees can be a method to reinstate this service where theft harms passengers.

Elsewhere in the world, airlines and vendors experiment with features to improve the chances travelers will be reliably reunited with luggage at journey’s end. Air France KLM is set to introduce eTag and eTrack by the end of 2014. The services are linked to a traveler’s Flying Blue frequent flier account. eTrack is a small device that slips into luggage and communicates its location via an application to a traveler’s smart phone. eTag electronically displays a bag’s destination (with appropriate airline bar coding) after a booking is made. Blue Ribbon Bags has a different solution which offers a cash payout independent of the carrier’s policy. If a bag isn’t returned within 4 days of arrival, the company makes a no-questions-asked payout. The service fee ranges from $5 to $10 per person and the payout is $1,000 to $2,000 regardless of the value of baggage contents.

The amenities referenced above could become a component of an enhanced checked baggage product after a carrier decides to implement a bag fee. If that fee is $30, would it not be reasonable to spend $10 of that on a service enhancement for consumers? Airlines have not chosen to do that, and this likely explains the animosity consumers have for the topic of airline fees. Canadian consumers woke up on 15 September 2014 to learn their beloved WestJet went from a free to fee bag policy with no advance notice for new bookings. The new $25 fee would apply to the carrier’s lowest fare type. Days later, Air Canada announced fees for checked bags on its domestic flights too.

The Air Canada press release attempted to mitigate the damage by disclosing it would “affect an estimated one in five Air Canada passengers on domestic flights within Canada, representing approximately five per cent of the airline’s customers system-wide.” Canadian media reacted angrily to the news with headlines such as “Canadian flyers find new bag fees are a cash grab, poll shows” in the Montreal Gazette. Consumers saw the move as greedily boosting revenue in a period when oil prices are hitting new lows. The new fees may have the unintended consequence of preparing Canadian consumers to more easily accept the aggressive a la carte methods of future LCC competitors.

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6 “Delta running pilot program at McCarran to curb baggage thefts” article in the Las Vegas Sun dated 24 December 2013.
9 “Air Canada Aligns Domestic First Checked Bag Policy with Other Canadian Carriers” dated 18 September 2014 at AirCanada.com.
The path of ancillary revenue is fraught with peril for low cost and traditional carriers. The decision by a traditional airline to add a la carte features should be carefully considered. Of course, the economics are very attractive and enhanced revenues can often be almost instantly achieved. But quickly and imprudently implemented a la carte additions will have long term effects on a carrier’s brand and relationship with its travelers and employees. Mary Poppins was absolutely correct, “A spoonful of sugar helps the medicine go down.” Improving the service, concurrent with adding a fee, works wonders for consumer acceptance and employee support.

**Ancillary Revenue Examples - Traditional Airlines**

**airberlin**
**A la Carte Service:** Evening Night Check-in
**Price:** €8 per person
**Item Description**
Airberlin and NIKI Airlines passengers can check in the night before flight departure at 25+ airports. For example, travelers can check in between 6 to 8 p.m. at Dusseldorf for any flight departing the next day. The service accepts checked luggage which streamlines arrival at the airport the following morning. Other carriers offer the service at some locations, such as Lufthansa (no charge, but not offered in USA) and Austrian (Vienna only – no charge) along with low cost carriers Condor (€5 per person) and SunExpress (€5 per person). Airberlin increased its fee from €5 per person during October 2014.

**Air France KLM**
**A la Carte Service:** Paid Lounge Access
**Price:** Starting at €25 per person
**Item Description**
Air France KLM has various offers that allow passengers to buy access to its airport lounges. This remains an unusual practice among global network airlines. The Air France arrivals lounge at Paris Charles de Gaulle (terminal 2C) is available to economy class travelers for €50 during the peak morning time and €35 after 10 a.m. Premium economy passengers can buy lounge access at Air France KLM lounges throughout the world at prices ranging from €25 to €35. Individual locations seem to be adopting ancillary revenue methods in an ad-hoc manner. For example, the carrier’s new lounge in Bangkok charges 1,000 baht (approximately $30) for economy class passengers. An article in *Business Travel News* (14 July 2014) indicates economy class travelers may pay £25 at the door for London Heathrow lounge access. In addition, Silver status frequent flier members can access the lounges in a growing number of destinations around the world upon payment of a fee or redeeming miles. When compared to US airlines, these policies are restrictive, as American, Delta, and United will readily sell one-day passes to any traveler.

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10 “Air France KLM introduces paid lounge access in Bangkok” article dated 13 January 2014 at *Business Traveller.com*. 

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Lufthansa
A la Carte Service: Worldshop Gate Delivery
Price: €19.95 or 5,300 frequent flier miles
Item Description
Passengers transiting Frankfurt may pre-order goods from the Lufthansa Worldshop and arrange for delivery at the gate before boarding their flight. Consumers can choose this option for goods highlighted with the gate delivery icon in the Worldshop.eu online catalog. The applicable order window is 30 to 4 calendar days before departure. The items offered for gate delivery are pre-selected to meet hand luggage restrictions.

Austrian
A la Carte Service: Austrian Tascherl
Price: €5
Item Description
Pity the poor amenity bag. Even in today’s austere cost environment, many airlines feel bound by tradition to give the gift of eye shades, ear plugs, toothbrush, and even socks on long-haul flights. For many passengers, these are a non-necessity and the contents of these bags undoubtedly contribute to Earth’s landfill problem. Austrian Airlines loves tradition, but thankfully has introduced an a la carte element to reduce waste. For €5 travelers can choose a brightly colored cloth package with all the usual contents. The product is introduced at the beginning of flights with a lighthearted video. Alternatively, travelers can help save the planet and bring their own toothbrush. For those wondering about the definition of Tascherl... it’s a whimsical reference used by Austrians for a small bag.

Swiss
A la Carte Service: Advance seat assignment
Price: $9 to $49
Item Description
Seat assignments have long been an a la carte service on low cost carriers. Global network airlines started down this path by adding a surcharge for the most popular selections on their seat maps, such as exit row seating. Now some global network airlines are adopting the same practice for any advance seat assignment in the economy cabin. Swiss charges $9 for seat assignments on intra-Europe flights and $29 for intercontinental flights. Standard seats just behind the business class section fetch a higher premium of $19 (intra-Europe) and $49 (intercontinental). Any remaining seats can be assigned free of charge 23 hours or less before departure.
The service is a component of the carrier’s new “Choice” offer which features à la carte services such as paid reservation hold, duty-free pre-order, and prepaid baggage. Lufthansa also added advance seat assignment fees during 2014 for lower-priced economy fares: $35 for intercontinental and $15 intra-Europe. Qantas added fees for international economy seat assignments in 2011. British Airways introduced seat assignment fees for economy, premium economy and business cabins back in 2009. All provide waivers for travelers with elite status and for seats requested just before departure during the check-in period.

Innovation from outside the airline industry is worth noting

There is much to be learned from researching the development of ancillary revenue outside the airline business. Innovations in the airline industry are always very visible due to media attention. This exposure has piqued the interest of marketers throughout the world. But the adoption of à la carte methods by other travel companies and retailers can provide lessons for the airline industry. Amazon demonstrates subscription programs might include features not immediately related to a retailer’s core product. Neiman-Marcus reminds everyone that it’s good retail practice to ask consumers for repeat orders. Norwegian Cruise Line taps the natural desire for parents to create special experiences for their kids.

Ancillary revenue innovation can also occur as partnerships between airlines and other industries. American Airlines and Cadillac recently announced a relationship that provides on-ramp transfers, AAdvantage mileage accrual, and automobile displays at terminals. Many labeled this as a marketing relationship, but in truth it’s an ancillary revenue innovation. Each component represents an opportunity to generate revenue for the airline. By the end of 2014, VIP passengers at four hub airports in the US will receive on-ramp flight-to-flight transfers in a Cadillac luxury automobile. This can include customers of American’s 5 Star Service, which is an à la carte service starting at $250 per person. AAdvantage members also had an opportunity to accrue 7,500 miles by test driving a Cadillac at dealerships. This offer was pulled within weeks and according to a Cadillac call center representative, the response was “overwhelming.” Miles sold to Cadillac generated revenue for the AAdvantage program. And finally, there is the display of Cadillac vehicles within American’s terminals. This too is a source of ancillary revenue, as Cadillac likely pays an advertising fee to American.

Beyond the revenue is the benefit of brand affiliation with one of the world’s premier luxury nameplates. American has been eager to establish itself as an icon for premium class travel. For example, the carrier introduced new luxuries for its international and transcontinental business and first class cabins. The American Airlines - Cadillac relationship works well for both companies. American taps the reinvigorated coolness of the Cadillac brand along with attractive revenue. Cadillac continues its embrace of a younger clientele through the jet-setter image of frequent travelers.

11 “American Airlines, Cadillac Partner To Offer Exclusive Benefits To Customers” press release dated 06 October 2014 at AA.com.
Ancillary Revenue Examples - Other Industries

Amazon
**A la Carte Service:** Amazon Prime  
**Price:** $99 per year  
**Item Description**  
Amazon Prime is probably the most successful ancillary revenue initiative ever. The service is priced at $99 for a one-year subscription. The core offer is unlimited two-day shipping for 20 million items from Amazon's online catalog. The value-added magic of Prime goes beyond free shipping by including unlimited access to music, ebooks, movies, and TV shows. Entertainment has become a big business segment for the retailer. Its Amazon Studios division spent more than $100 million in the 3rd quarter of 2014 for original programming. The company does not disclose membership totals for Amazon Prime, but an analyst for RBC Capital Markets estimates the program has up to 50 million global members. Multiplied by the $99 annual fee, this represents cash flow of nearly $5 billion. Prime members were found to spend two to three times more with Amazon than non-members. The up-front investment in the subscription encourages members to remain loyal to Amazon’s core retail business, which is the key benefit provided by the program. Airlines such as United, Vueling, and Spirit already appreciate the value of subscription-based programs. The wrinkle introduced by Amazon Prime is the added value provided by the entertainment offer.

Bellagio – Las Vegas
**A la Carte Service:** Room Preferences  
**Price:** $30 per night  
**Item Description**  
Hotel accommodations don’t get more customized than this. The Bellagio Hotel in Las Vegas (part of MGM Resorts International) allows guests to select three room features when booking at its website. Guests can choose from a menu of 12 features which include bed arrangements, location in the hotel, and connecting (or non-connecting) rooms. In addition, guaranteed early, late, and express check-in may be selected. Rather than rely upon the uncertainty of a request made upon check-in, guests at the Bellagio can guarantee a variety of elements regarding their hotel stay. The fee is not charged until the hotel ensures delivery of the features requested.

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12 “Amazon to Spend More Than $100 Million on Original Series in Q3” article in Variety dated 25 July 2014.
13 “Analyst believes Amazon Prime up to 50M members” article in RetailDIVE dated 24 September 2014.
**Neiman Marcus**  
**A la Carte Service:** Replenishment Service  
**Price:** No additional charge  
**Item Description**

Globally famous Neiman Marcus is only too happy to automatically replenish orders for its customers. Consumables, such as perfumes, lotions, and creams, can be set up for repeat delivery on a 30- through 120-day cycle. Shoppers select the desired frequency and the store sends a reminder email 5-7 days before shipment. Imagine the glee of the retailer’s CFO when customers set up Joy Baccarat Pure Parfum (pictured here) at $1,800 per ounce for the “suggested” 120-day reorder cycle. That single sale rings up annual revenues of $5,400. Meanwhile, frequent flier programs dutifully track members who book the same itinerary every week... and yet these programs fail to offer an option to book 52 trips at one time. Retailers know it’s important to ask for the sale.

**Tune Hotels**  
**A la Carte Service:** Add-on Services  
**Price:** Ranging from £2 to £12 per amenity in London  
**Item Description**

Tune defines the art of optional extras in the hotel sector. Listed below are the a la carte options available to customers booking the Tune Hotel near King’s Cross Station in central London. It’s a newly renovated hotel offering duvet-covered beds, spotless laminate flooring, and a private bath with high-pressure shower. The unbelievably low rate found for a room (without windows) for a February 2015 evening is £20.15 (approximately $33). And yes, if you need a towel and toiletry kit it’s an extra £2; if you want your room tidied after your first night, it’s an extra £8. Welcome to the world of a la carte accommodations where basic room prices are very low and all the usual amenities have a price tag. Tune has grown to 45 hotels throughout Asia and the UK, which suggests its model is popular with travelers. A la carte pricing is very easy for consumers to accept when they see significant savings such as a £20 stay in a location where rooms can easily be priced ten times higher.

<table>
<thead>
<tr>
<th>Addon</th>
<th>Price</th>
<th>Required</th>
</tr>
</thead>
<tbody>
<tr>
<td>Add-on Room Cleaning</td>
<td>GBP 8.00</td>
<td>No</td>
</tr>
<tr>
<td>Early Check In (from 12.00pm)</td>
<td>GBP 10.00</td>
<td>No</td>
</tr>
<tr>
<td>Hair Dryer (unlimited use)</td>
<td>GBP 2.00</td>
<td>No</td>
</tr>
<tr>
<td>In Room Safe (unlimited use)</td>
<td>GBP 3.00</td>
<td>No</td>
</tr>
<tr>
<td>Late Check Out (up to 1.00pm)</td>
<td>GBP 10.00</td>
<td>No</td>
</tr>
<tr>
<td>Towel Rental + Toiletries Kit (UK)</td>
<td>GBP 2.00</td>
<td>No</td>
</tr>
<tr>
<td>TV (1 day - UK freeview channels)</td>
<td>GBP 4.00</td>
<td>No</td>
</tr>
<tr>
<td>TV (3 days - UK freeview channels)</td>
<td>GBP 8.00</td>
<td>No</td>
</tr>
<tr>
<td>TV (unlimited use - UK freeview channels)</td>
<td>GBP 12.00</td>
<td>No</td>
</tr>
<tr>
<td>WIFI Internet Connection per device (24 hour period)</td>
<td>GBP 4.00</td>
<td>No</td>
</tr>
<tr>
<td>WIFI Internet Connection per device (unlimited)</td>
<td>GBP 12.00</td>
<td>No</td>
</tr>
</tbody>
</table>
Norwegian Cruise Line
A la Carte Service: Nickelodeon Bedtime Kit
Price: $39.95 per child

Item Description
NCL has partnered with the Nickelodeon channel and its SpongeBob Square Pants cartoon character. Some cruises feature character appearances and breakfast with SpongeBob is available for an additional fee. Parents can also bring the pandemonium of Bikini Bottom (if you don’t know – ask your kids) into the cabin by buying the Nickelodeon Bedtime Kit. Good luck getting the kids to sleep when their bed is made with official SpongeBob sheets and pillows, and a battery powered candle that turns on and off with a clap of the hands. NCL doesn’t miss a beat with kids of all ages: Parents can pre-order diaper packages for the youngest family members. Air travel with kids can be stressful for kids, parents, and other passengers. Imagine the magic (and enhanced loyalty) when air travel is made fun by the availability of an a la carte package of goodies.

NS Dutch Railways
A la Carte Service: Schiphol Guaranteed Service
Price: €5 per trip

Item Description
NS operates trains throughout the Netherlands that take travelers to Amsterdam’s Schiphol Airport. The railway recently tested a service that allowed passengers to receive personal guidance and achieve a sense of control during their travel to the airport. The railway provided a guarantee for timely arrival at Schiphol Airport for an extra charge of €5 per trip. Passengers downloaded a mobile phone application and gave permission to the railway to track their GPS location during the trip. This placed passengers in direct contact with NS during the journey to the airport. The railway monitors the passenger’s trip through the application and recommends alternative trains or if these are not available, it arranges taxi or bus transfer. In the event of a late arrival to the airport, railway and airport staff escort delayed passengers direct to flight check-in. The service even reimburses the expense of rebooking flights (or a full refund) and any required hotel accommodations if the flight departure is missed. As of publication of this report, NS Dutch Railways was evaluating the test and had not determined if the Schiphol Guaranteed Service will become a permanent feature.

“Tomorrow we will run faster, stretch out our arms farther. . .”

These words are found in the conclusion of the novel The Great Gatsby. No doubt F. Scott Fitzgerald was not thinking of the airline industry, but desperate and ceaseless competition is a theme that does conclude his story. Fortunately in the business world, desperation can be mitigated through careful planning, thoughtful implementation, and access to resources. Competition is another matter, and it exists without limitation in the airline industry.
Competition can only be met by being bigger, cheaper, faster or better. But it’s fair to say, traditional airlines may doubt the merit of being bigger as smaller LCCs nibble at more and more markets. Cheaper also has limitations, because it’s an objective that has been sought by every airline for decades.

**Consider these 5 ideas for boosting ancillary revenue**

- Create a corporate culture that invites experimentation and the trial of new concepts.
- Build products to attract more business travelers and expand distribution of a la carte services through travel agency distribution.
- Consider the subscription model; consumers will pay in advance for a year of benefits if features are easily understood and if they believe the service will be readily delivered.
- Systems should be in place to proactively measure service delivery. Too many airlines rely upon consumer complaints as a method to monitor problems.
- Avoid replacing “free” with “fee.” Improving the service, concurrent with adding a fee, works wonders for consumer acceptance and employee support.

Faster and better. . . now that’s a compelling combination. Increasing a company’s speed of innovation, implementation, and analysis benefit an airline of any size and type. Traditional airlines will face a challenge here, as LCCs are inherently more nimble. This brings us to “better” as a fourth and final objective; the word defines the essence of innovation. It also provides the attractive benefit of higher margins. Consumers are attracted to better products and will pay premium prices for them. But it is a ruthless cycle, because once success is achieved, successful organizations seek success again. Great companies recognize innovation is an endless task.
Airlines all over the world fly here for a revenue boost.

IdeaWorksCompany is a leading consulting resource for ancillary revenue and loyalty marketing. Our client list spans the globe – Europe, Middle East, Americas, South Pacific, and Asia – and every type of carrier. Hainan Airlines benefited from our expertise in the areas of frequent flier programs, ancillary revenue, and a la carte services.

“With IdeaWorksCompany, the results are ideal.

IdeaWorksCompany provided a workshop for Hainan employees on the topics of ancillary revenue and frequent flier programs. We learned the very latest information on airline industry trends and developments. Jay Sorensen, the workshop leader, readily shared his insight and research. To be certain, his approach not only offers information and innovative ideas, but also wisdom and inspiration. We chose IdeaWorksCompany to present smart ideas and innovative insights to our management team.”

Huifang Yuan, Product Director | Marketing and Sales Department
Hainan Airlines | Beijing, China

Hainan Airlines is China’s fourth largest airline, headquartered in Haikou. It operates scheduled domestic and international services on 500 routes between China and Europe, North America and Asia Pacific.

Fly to IdeaWorksCompany for your revenue boost.

Reach Jay Sorensen direct at
Jay@IdeaWorksCompany.com