



2014 Airline Ancillary Revenue Leaps to \$38.1 Billion – Up Nearly 21% in a Year

CarTrawler-sponsored analysis shows US majors dominate ancillary revenue.

Dublin, Ireland & Shorewood, Wisconsin, USA, 13 July 2015: By every measure, ancillary revenue continues to grow. For the eighth consecutive year, airlines tracked by IdeaWorksCompany reported substantial increases in revenue gained from retail activities and the sale of a la carte services and frequent flier miles.

- Ancillary revenue per passenger among the 63 airlines is \$17.49, which is 8.5% more than the 2013 result.
- Activity among low cost carriers (LCCs) jumped more than \$2.9 billion, or 32.8%.
- Ancillary revenue among US major airlines increased more than \$2.6 billion, or 18.7%.

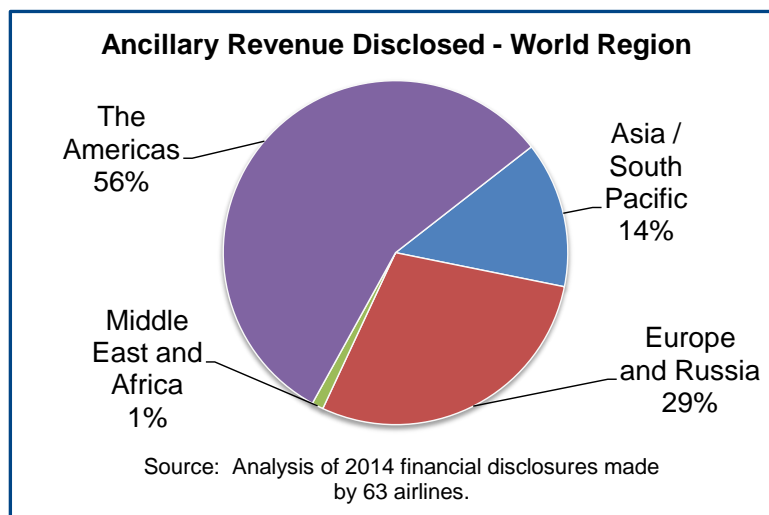
IdeaWorksCompany researched financial filings made by 130 airlines all over the world, 63 of which disclosed qualifying revenue activity, to reveal that ancillary revenue¹ reported by these airlines increased \$6.6 billion for 2014. This press release describes highlights from this research and includes a top 10 list of best-performing carriers in three categories (please see tables 1-3).

Annual Financial Disclosures of Ancillary Revenue							
2014 Results Posted by 63 Airlines \$38.1 billion	2013 Results Posted by 59 Airlines \$31.5 billion	2012 Results Posted by 53 Airlines \$27.1 billion	2011 Results Posted by 50 Airlines \$22.6 billion	2010 Results Posted by 47 Airlines \$21.46 billion	2009 Results Posted by 47 Airlines \$13.47 billion	2008 Results Posted by 35 Airlines \$10.25 billion	2007 Results Posted by 23 Airlines \$2.45 billion
<i>Annual results are associated with a fiscal period that ended in the year indicated.</i>							

Airlines all over the world benefit from ancillary revenue, but the degree to which airlines disclose financial results does vary. Financial statements for US-based airlines universally provide a high level summary of ancillary revenue results.

¹ The figures in this release relate to the revenue earned by the 63 airlines which disclosed through financial filings some type of ancillary revenue activity in 2014; including a la carte, or unbundled, services, commission-based services – such as hotel or car rental bookings – and other ancillary services revenue from co-branded credit cards, loyalty programs and other activities.

Publicly-held LCCs almost always make direct reference to ancillary revenue achievements due to investor interest in this topic. From time to time, global network airlines in Europe refer to the pursuit of ancillary revenue to provide evidence they can compete with LCCs such as easyJet and Ryanair. As displayed in the adjoining graph, these factors favour the Americas and Europe as leading areas for ancillary revenue activity and financial disclosure.



“Ancillary revenue is an increasingly important indicator of commercial success, and a major contributor to the bottom line of airlines across the globe,” says Michael Cunningham, Chief Commercial Officer at CarTrawler. “The secret to unlocking this revenue stream can be found in the data that customers generate with every transaction. It is no longer just the preserve of low cost carriers – it is something from which all airlines are benefiting. The question is not who is doing it, it’s how well it is being done.”

Table 1 displays the top 10 airlines for 2014 and 2013 based upon total ancillary revenue generated. The collection of carriers remains largely the same year over year; Alaska joins the list due to the merger of American and US Airways; their results are now presented as a single line item.

Table 1: Top 10 Airlines – Total Ancillary Revenue (US dollars)				
Annual Results – 2014		Ancillary Source	Annual Results – 2013	
\$5,861,000,000	United	Various	\$5,703,000,000	United
\$4,651,000,000	American/US Airways	Various	\$2,528,183,000	Delta
\$3,212,909,000	Delta	Various	\$2,079,000,000	American
\$2,046,292,309	Air France/KLM *	Various	\$1,714,598,496	Air France/KLM *
\$1,906,616,921	Ryanair	Various	\$1,689,457,120	Ryanair
\$1,885,000,000	Southwest	Various	\$1,623,500,000	Southwest
\$1,632,765,608	Lufthansa Group *	Various	\$1,385,021,933	easyJet *
\$1,457,215,349	easyJet *	Various	\$1,282,738,470	Lufthansa Group
\$1,387,084,868	Qantas Airways	Mostly FFP	\$1,273,430,400	Qantas Airways
\$921,000,000	Alaska Air Group	Various	\$1,102,700,000	US Airways
\$24,960,884,055			\$20,381,631,432	
<p><i>Currency exchange based upon rates in effect when financial information was reviewed for each annual period. 2014 and 2013 carrier results were based upon recent 12-month financial period disclosures.</i></p> <p><i>* IdeaWorksCompany estimate based upon past disclosure updated for current report.</i></p>				

These top 10 carriers achieved a huge increase of nearly \$4.6 billion in a single year, which represents revenue growth in excess of 22.5%. Revenues and passenger traffic for these airlines increased due to improving economies and these are leading factors for annual ancillary revenue gains. These airlines also had individual initiatives that boosted results:

- **American's** co-branded credit card generated additional revenue of \$624 million largely due to enhancements made to its relationship with card issuer Citibank.
- The annual revenue stream from **Delta's** Comfort Plus service increased by 18% and is now \$350 million.
- **Southwest's** Rapid Rewards program continues to make big revenue gains with a nearly \$400 million contribution linked to its 2014 strategic initiatives.
- **Lufthansa** likely boosted revenue from its Miles & More frequent flier unit in excess of €200 million based upon reported profit that more than doubled since 2013.

The big ancillary revenue numbers posted by carriers such as Air France/KLM, American, and United, include a mixture of a la carte activity from fees charged for baggage and extra leg room seating. But as shown above, and with a particular emphasis on Qantas, a big portion of the ancillary revenue total is generated by the sale of miles or points to banks that issue co-branded credit cards.

When ancillary revenue is measured as a percentage of revenue, it is low cost carriers that rise to the top of the chart. Since 2011 the top slot has been held by US-based Spirit Airlines, which is conspicuous among consumers and regulators for its aggressive pursuit of a la carte sales. The airline has a policy of “no waivers & favors” for enforcing its fee structure and intentionally seeks to “treat all customers the same.” It describes this policy in its investor presentations as supporting its low cost mantra . . . and this in turn allows the airline to deliver low fares.

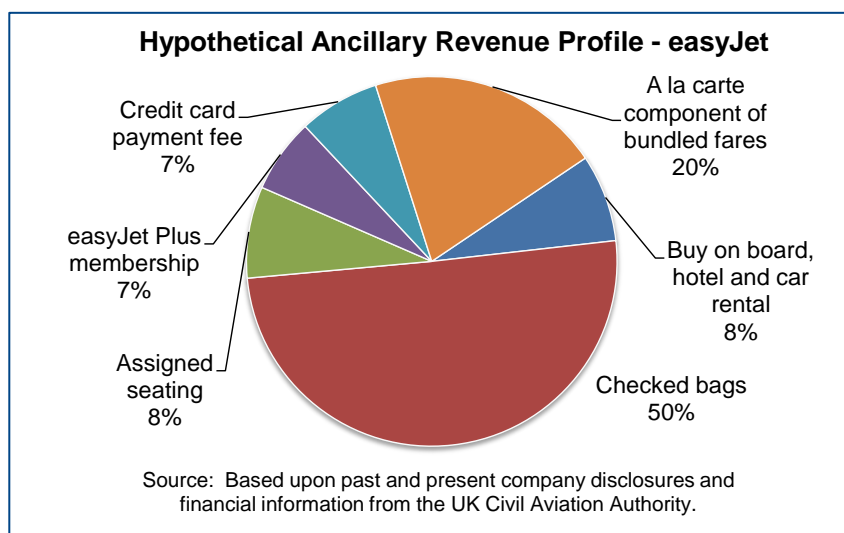
Ryanair once boldly sought to replace passenger fares with ancillary revenue; this dream now seems elusive for all LCCs. The fine tuning of fees and the tweaking of product design may allow top carriers to surpass 40%. However, attempts among the most fee-conscious carriers to reach higher now seem stalled just below that mark.

Annual Results – 2014		Ancillary Source	Annual Results – 2013	
38.7%	Spirit	Various	38.4%	Spirit
33.7%	Wizz Air	Various	34.9%	Wizz Air
32.4%	Allegiant	Various	32.6%	Allegiant
28.5%	Jet2.com	Various	27.7%	Jet2.com
24.6%	Ryanair	Various	24.8%	Ryanair
21.8%	Tigerair	Various	23.6%	Tigerair
20.8%	Jetstar	Various	20.6%	Jetstar
20.7%	Flybe	Various	19.6%	AirAsia X
20.0%	AirAsia X	Various	19.2%*	easyJet
19.5%	Volaris	Various	17.6%	AirAsia Group

*2014 and 2013 carrier results were based upon recent 12-month financial period disclosures.
* IdeaWorksCompany estimate based upon past disclosure updated for current report.*

This reality is leading more LCCs to adopt methods that attract high yield business travelers. Ryanair has made significant changes to its business plan by adding more frequencies on select routes, creating a bundled fare with business-friendly features, and even targeting commercial travelers with an advertising campaign.²

It's an approach already implemented by easyJet for the same reasons. The airline sells annual subscriptions called easyJet Plus that include assigned seating, fast track security, speedy boarding, and an additional carry-on bag for an annual price of £170. The carrier has introduced a bundled "Inclusive" fare for easier distribution through travel agencies and corporate travel departments. The adjacent pie chart displays an educated guess on the distribution of easyJet's ancillary revenue. The services designed to attract business travelers



(easyJet Plus and the a la carte component of bundled fares) likely represent more than 25% of easyJet's ancillary revenue. It's a trend that will only grow stronger as LCCs seek more business travel opportunities.

The table below presents the top 10 airlines based upon ancillary revenue on a per passenger basis:

Table 3: Top 10 Airlines – Ancillary Revenue per Passenger (US dollars)				
Annual Results – 2014		Ancillary Source	Annual Results – 2013	
\$56.28	Jet2.com	Various	\$55.61	Jet2.com
\$52.35	Spirit	Various	\$51.22	Spirit
\$50.16	Qantas Airways	Mostly FFP	\$45.67	Qantas Airways
\$45.16	Allegiant	Various	\$44.87	Allegiant
\$43.22	AirAsia X	Various	\$44.43	AirAsia X
\$42.46	United	Various	\$40.97	United
\$39.60	Virgin Atlantic	Mostly FFP	\$38.93	Korean Air
\$39.28	Korean Air	Various	\$34.41	Wizz Air
\$34.87	Wizz Air	Various	\$33.92*	Virgin Atlantic
\$31.46	Alaska Air Group	Various	\$32.61	Alaska Air Group

*Currency exchange based upon rates in effect when financial information was reviewed for each annual period. 2014 and 2013 carrier results were based upon recent 12-month financial period disclosures. * IdeaWorksCompany estimate based upon past disclosure updated for current report.*

² Ryanair Holdings, Q4 2014 Results - Earnings Call on 19 May 2014.

Topping the list for a second year is Jet2.com which is a leisure-oriented airline with bases in the United Kingdom. Similar to Allegiant in the US, Jet2.com defies definition as an airline, and in reality is a holiday package company with an airline that excels at a la carte sales. For the global network airlines on this top 10 list, their presence is assured by a healthy dose of revenue from the sale of miles or points to the banks issuing their co-branded credit cards.

For many carriers the majority of miles and points are now accrued through partners such as co-branded credit cards, hotels, car rental companies, and retailers. Airlines also use their frequent flier programs and co-branded credit cards to selectively deliver a la carte benefits such as checked baggage and priority boarding to program members. Banks have contracts with airlines and pay them for these cardholder benefits, in addition to the miles and points purchased as a result of charge activity.

Many of the airlines listed in Table 3 will continue to see revenue advances due to the new distribution of optional extras through travel agencies and corporate travel planners. Alaska, Korean Air, Qantas, United, and Virgin Atlantic have advantages over LCCs because these carriers have long relied upon global distribution systems (GDS). Switching on the sale of a la carte items through a GDS has been problematic due to technical and contract issues, but progress is rapidly occurring. The 2015 edition of the *CarTrawler Yearbook of Ancillary Revenue by IdeaWorksCompany* (due for release September 2015) will include a list of items sold through Amadeus, Sabre, and Travelport for each of the 63 disclosing airlines.

Fare bundles sell very well through a GDS and are becoming more popular with airlines. For example, Air France sells a roundtrip “MiNi” fare within Europe which offers checked baggage as a paid option. The carrier’s higher priced Economy Classic fare includes a checked bag. The rise of fare bundles, as a method to generate a la carte sales, requires a modification to how ancillary revenue is defined.

IdeaWorksCompany defines ancillary revenue as **“Revenue beyond the sale of tickets that is generated by direct sales to passengers, or indirectly as a part of the travel experience.”** The definition includes four categories: 1) a la carte features, 2) commission-based products, 3) frequent flier activities, and 4) advertising sold by the airline. It’s time to recognize the growing importance of fare bundles by adding a fifth category to include ancillary revenue generated by “the a la carte components associated with a fare or product bundle.”

Product bundles combine popular features and tempt consumers with savings in the same manner as a meal deal at a McDonald’s restaurant. This has become a key method for global network carriers and LCCs as these two airline types compete with each other. Global network airlines use fare bundles to preserve their normal service through a classic product and deploy a basic “bare bones” fare to drop pricing to LCC levels. Low cost carriers use product bundles as a method to offer premium experiences to lure business travelers to their flights.

This creative competition places ancillary revenue and a la carte pricing at the center of the struggle for profits. It also creates a marketplace in which the consumer is free to choose a budget product from a premium carrier . . . or a premium product from a budget carrier. That’s the marvel of ancillary revenue and proof positive this revolution has the potential to deliver billions more in revenue to the world’s airlines.

Please note: CarTrawler and IdeaWorksCompany will release a 90+ page compilation of results and overall rankings from the 63 disclosing airlines during September 2015. A companion press release, scheduled for November 2015, will use these results to extrapolate the amount of ancillary revenue generated by a global list which exceeds 180 airlines.

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About CarTrawler

CarTrawler connects business and leisure customers and online travel retailers with more road and rail transport solutions than they will find anywhere else. Over 70 international airlines and 2,000 travel retailers around the world trust CarTrawler to provide their customers with real-time access to more than 1,500 leading and independent car rental agents, coach transfers, rail networks and chauffeur drive services at 30,000 locations in 174 countries. CarTrawler also owns and operates the Cabforce, Holiday Autos and Argus Car Hire brands. The company headquarters and Customer Centre of Excellence are located in Dublin, Ireland, with additional offices in Boston and London. CarTrawler is private equity backed by BC Partners and Insight Venture Partners. For further information, please visit www.cartrawler.com.

About IdeaWorksCompany

IdeaWorksCompany was founded in 1996 as a consulting organization building brands through innovation in product, partnership and marketing, and building profits through financial improvement and restructuring. 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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