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Airlines expected to rake in \$US67.4b globally from extra lucrative services

By Fiona Rotherham

This article is based upon a report issued by IdeaWorksCompany.

The amount airlines make from charging travellers for extras such as in-flight food and drink or selecting a seat with more leg room, is forecast to rise by 13.8% this year to \$US67.4 billion.

The projection, from airline ancillary revenue consultancy IdeaWorks and online car rental booking company CarTrawler, covers 178 airlines. They predict the additional lucrative income airlines worldwide make from travellers has risen nearly 200% since 2010 and now accounts for an estimated 9.1% of airline revenue globally.

Ancillary revenue is generated by services and activities that go beyond simply flying someone to their destination. Optional a-la-carte services, such as checked baggage, account for \$US44.9 billion of this year's forecast. The smaller share, \$US22.5 billion, comes from non-fee activity such as the sale of frequent flyer miles to programme partners and commissions earned on hotel or car rental bookings.

It is traditional airlines such as Air New Zealand that are raking in the biggest total dollars from ancillary revenue – an estimated \$US26.9 billion worldwide this year, up \$US6.9 billion on the previous year. That's due to increased activity in the areas of brand fares, checked baggage, premium seating, and seat assignment, the forecasters say. Even Emirates, an airline hardly associated with ancillary revenue, began charging a seat assignment fee for its lowest priced fares in October.

In other categories, US major airlines are predicted to make \$US20.2 billion this year from ancillary revenue compared to \$US13.4 billion for ancillary revenue champs who generate the highest percentage of revenue this way, and low-cost carriers at \$US6.9 billion.

The predicted increase takes into account IATA percentage of revenue earned this way this year to 24% from 26.1%.

Air New Zealand doesn't disclose income from ancillary revenue and doesn't like to comment on it although, like most other airlines, it began a big push in this area a few years ago when fuel costs were high and margins on air fares low.

Its website shows an expanded list of travel extras where it clips the ticket on bookings such as campervans, luxury accommodation, taxis, mystery breaks, insurance, airport parking, and multi-stop breaks along with its own seat selection, upgrades and other additional services.

After Commerce Commission warnings, both Air New Zealand and Qantas budget offshoot Jetstar ditched an opt-out clause during the online booking process that meant customers were automatically sold travel insurance unless they selected not to include it in their ticket. Travel insurance is one of the most lucrative sources of ancillary revenue.

The ancillary revenue yearbook released in September based on 2015 revenues ranked Qantas Airways ninth in the top 10 airlines making money this way and fifth when calculated per passenger. It made an estimated \$US1.17 billion (12% of total revenue), mostly from frequent flyer programmes, while Jetstar made an estimated \$US564 million (21.3% of total revenue), and rival Australian airline Virgin Australia made an estimated \$US182 million (5% of total revenue).

Global and low-cost carriers earn top ancillary revenue per passenger with the bigger airlines earning a lot from checked baggage and high-performing co-branded credit cards and low-cost carriers offering rock-bottom fares and charging for virtually everything else.

Of late, Jetstar has been pushing fare bundles, which combine a range of extras and flexibility for a cheaper price than they would cost separately. For example, in September it launched a bundled flexible fare for Kiwi business travellers that lets them switch their flight time of the day of travel, take extra carry-on baggage, select an upfront seat, and get a \$10 meal voucher, for an extra \$21 to \$55 depending on whether it's a domestic or international flight.

The CarTrawler yearbook said some may mourn the passing of simpler times when a long-haul ticket price included such things as a checked bag, seat assignment and an often inedible meal but it said consumer behaviour supports the popularity of seat-only tickets that deliver a low price while consumers can opt to click and pay a premium for more comfort and convenience.