

September 18, 2017

Airlines look to take flight with lucrative extras

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IdeaWorksCompany contributed information to this article - - see italics.

Passenger anger rises as carriers turn to baggage and food fees to shore up revenue

Just as passenger anger rises over airline charges and customer service, the world's leading carriers are squeezing more money out of fees on everything from baggage, food to hotel bookings.

Over the past decade, so-called ancillary fees have experienced huge growth. The top 10 airlines, ranked by total ancillary revenue, generated \$2.1bn in 2007. In 2016, this had grown to more than \$28bn, according to research by IdeaWorksCompany and CarTrawler.

Among the most successful groups at selling ancillary services are United, which generated \$6.2bn in revenue last year, Delta, which generated \$5.17bn, and American, which generated \$4.9bn.

Globally airlines are estimated to have earned \$67.4bn of income from ancillaries last year, representing about 9.1 per cent of airline revenue for 2016, up from 4.8 per cent in 2010.

It is not a new trend. Ancillary fees have been creeping in across the whole airline industry as carriers search for ways to make up for lost revenue from falling ticket prices. But airlines have become more inventive over charging for services other than the ticket price. Activities include anything from frequent flyer miles, bidding for spare seats next to you, on-time guarantees, lounge access to hotel bookings, holidays and car hire.

"Airline management teams have clearly identified ancillary revenues as a way to add incremental, high-margin revenue to the core seat product offer," says Anand Date, aviation analyst at Deutsche Bank.

However, it has raised scepticism from some within the industry who argue that the majority of these fees are for things flyers used to get for free and are therefore hidden fare increases.

This year British Airways sparked criticism from some of its passengers after the carrier started charging for food and drink on short-haul economy flights across Europe.

The move has led to a blurring of lines between full-service carriers and their low-cost rivals. Most airlines now offer a basic seat-only fare, allowing customers to choose what extras they want to pay for.

The pressure on revenues has meant that even airlines that have long rejected the idea of charging for these services are realising the benefits they offer to their bottom line. Both Etihad Airways and Emirates Airlines, which have generally not charged for extras, have started to introduce ancillary fees over the past year as they look to boost their falling profits during a tough period for the Gulf airlines.

Last October, Emirates introduced fees for advanced seat selection for economy passengers. Then in January, the carrier said it would allow economy passengers who are frequent flyer members to pay to access its lounges.

In June, Etihad announced similar pay-per-access to its lounges for economy passengers, as well as taking the decision to start charging for chauffeur services that had previously been included for all its premium class passengers.

It also introduced the option of offering passengers the option to bid for up to three empty seats next to their own.

This focus on ancillaries is likely to grow across the global airline sector, according to aviation commentators. "I think we're going to see more and more airlines go this way. When the largest part of the market is price driven, the lower the fare is going to become, the more you need to make up for the lower revenues by selling other services," says John Strickland, an aviation consultant.

Airlines are increasingly looking at what they have and do not sell but could. "There is a move to show you all the options you could have and at the same time sell you more," says Chris Tarry, a London-based aviation consultant. "With some of these charges, such as lounge access or spare seats, you are almost selling excess capacity," he adds.

According to research by Sabre, a technology company, travellers are willing to spend up to \$99 on airline extras such as seats, bags and food to personalise their flight.

The low-cost airlines are unsurprisingly the best performers when it comes to the amount of ancillary revenue generated as a percentage of total airline revenue.

Research from IdeaWorksCompany and CarTrawler reveals these charges can make up as much as 46 per cent of a budget airline's total revenue in the case of US low-cost airline Spirit. In Europe, Wizz Air has the highest amount at 39.4 per cent, followed by Ryanair at 26.8 per cent.

Outside of the more standard ticket-based extras, future growth in ancillaries is likely to come from installing WiFi on the aircraft and generating new revenue streams through exclusive films or advertising, or allowing passengers to book a restaurant, event or hotel in-flight.

"The smart airlines will be those that continue to think about their passengers who generally lead busy lives and strive to make the time in-flight as useful as possible to their passengers," says Graham Pickett, global head of travel and aviation for Deloitte.

Jay Sorensen, president of IdeaWorksCompany agrees. "Airlines focus on selling airline seats. I think they need to begin to focus on the number of days away from home that a customer may spend, and that is an opportunity for them to sell more."