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## Airline revenues from theatre and car hire lift off

By Josh Spero

*IdeaWorksCompany contributed information to this article - - see italics.*

*Carriers are increasingly turning to ancillary services to boost profits*

Selling theatre tickets for musicals *Les Miserables* and *Wicked* is not normally associated with low-cost airlines such as Ryanair.

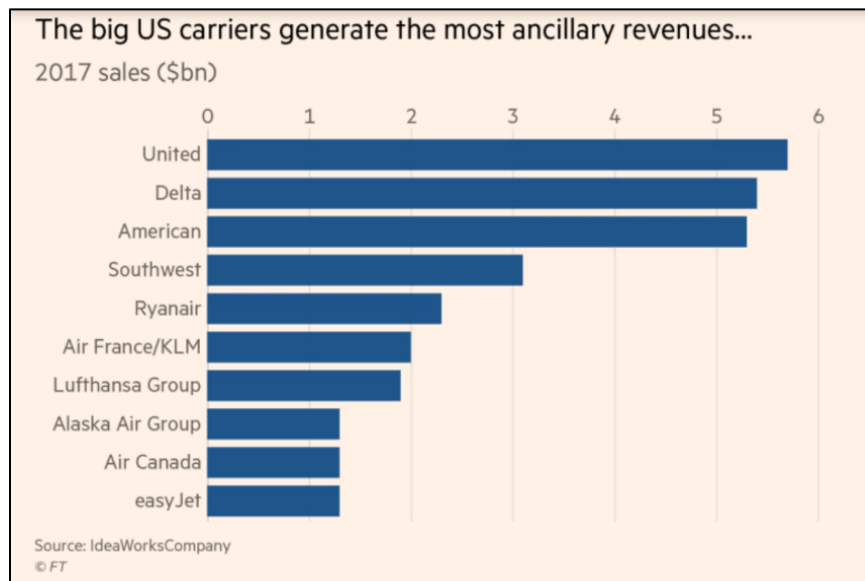
But as the oil price has risen and fares stay competitive, these so-called ancillary revenues are becoming essential to the airline business model.

“2018 may well be a defining moment in aviation as airlines begin to report more revenue from their retailing than the cost of the initial air ticket,” said John Grant, partner at consultancy Midas Aviation.

*Ancillary revenues have soared in the decade to 2017. The top 10 global airlines, ranked by total ancillary revenue, increased them from \$2.1bn to \$29.7bn in the 10 years to 2017, according to IdeaWorksCompany (IWC) and CarTrawler.*

*United Airlines led with \$5.8bn, three-fifths of which came from what IWC calls “à la carte” sources, such as charges for extra bags, and travel retail commissions.*

*The rest was frequent flyer programmes.*



Mr. Grant cited ultra-low-cost carriers such as the US's Spirit Airlines, where ticket revenue for 2017 was \$328m and non-ticket revenue was \$329m, as an example where this trend towards emphasis on ancillary revenues is accelerating.

As part of its effort to increase ancillary revenue, Abu Dhabi-based airline Etihad has announced “a dynamic live auction” where passengers can bid to upgrade their cabin class.

At Ryanair, chief executive Michael O’Leary has long talked about turning his low-cost airline into “the Amazon of travel”.

Last week Ryanair was one of several low-cost carriers that trumpeted growth in ancillary revenues in their results, with its own ancillaries up by a quarter.

**Ancillaries made up €2bn, or 28 per cent, of Ryanair’s total revenue in 2017-18, and Mr. O’Leary wants them to grow to 30 per cent. They will also go some way to offsetting losses from recent strikes.**

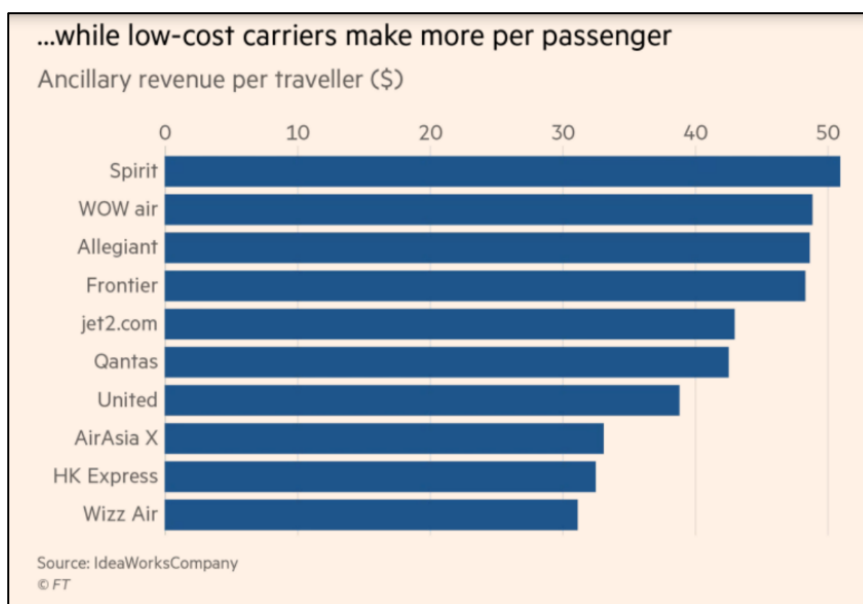
Earlier this year Ryanair’s chief marketing officer Kenny Jacobs said: “I’d describe Ryanair as a travel retailer with a low-cost airline at its centre. When it comes to digital, you have to think like a retailer.”

In the airline’s vision of travel as retail, a customer has a hierarchy of needs, starting with a flight, moving through car hire, booking a hotel room and buying tickets for activities such as tour guides.

The final level is one day providing the customer with the opportunity to use the airline’s one-stop shop to purchase (for example) clothes at Asos, food at Tesco and even sun cream from Nivea.

In essence, Mr. Jacobs said, it was about “using data to cross- and up-sell the products you already have to the customers you already have”.

To grow their online retailing businesses, airlines have looked to companies such as CarTrawler, which works with more than 100 airlines, including Norwegian, Emirates and Vueling (part of IAG), to offer a ready-made marketplace. This puts insurers, car hire groups and other retailers in one place.



Whereas initially airlines signed exclusive contracts with groups such as car-hire companies, “the overall return to the airline is bigger” if it has more competition among suppliers, said Bobby Healy, CarTrawler’s chief technology officer.

He said Ryanair, one of its customers, had experienced 15-30 per cent growth in sales by moving to a marketplace model.

While CarTrawler offers the ready-made market, other companies such as Datalex provide the technology to enable airlines’ websites to connect customers and retailers.

Ornagh Hoban, Datalex’s chief marketing officer, said any company with an Amazonian ambition needs to ask: “How do I provide products and services with exceptional precision in a fast-moving digital marketplace?” They must become, like Amazon, seamless platforms between consumers and producers.

Not everyone is as ambitious as Ryanair, but they recognise the importance of ancillary services.

In easyJet’s third-quarter trading statement earlier in July, it reported ancillary revenue of £328m, up 21 per cent on the previous year and more than a fifth of total revenue. Ancillary options include choosing allocated seating and adding bags.

To drive this even higher, easyJet has said it will step up its hotel booking business and chief executive Johan Lundgren announced a new boss for easyJet Holidays. The airline has said: “Currently only 500,000 passengers book a hotel with us out of an addressable market of 20m.”

Eurowings, part of the Lufthansa Group, is another low-cost airline that is focusing on its ancillary operations, launching Eurowings Digital by the end of 2018 “to bundle all the airline’s customer-relevant digital activities under one roof”, the company said.

Its website will offer hotel bookings and car hire but also event tickets and recommendations for restaurants and bars at a passenger’s destination. Eurowings cited Amazon’s one-click payment system as a model.

Airports will be watching this warily as airlines look to grab a slice of their market. The airport retail market is estimated at \$50bn, according to the Centre for Aviation, a business intelligence company.

However, despite Ryanair’s ever-confident trumpeting, there is clearly significant work to be done.

Kathryn Leonard, analyst at Numis, said this evolution was “a slow-burn thing” and that low-cost carriers “require a change in customer perception or a ‘leap of faith’ that some of these higher-value services are what they say on the packet, rather than akin to the ‘basic’ service that they receive from the standard ticket”.

Midas Aviation's Mr. Grant warned that a one-stop-shop may only be simple for airlines rather than the passenger: "The apparent simplicity and transparency that airlines claim they are creating may actually be a lot more complex for the traveller in time."

If people only want an airline ticket, a bombardment of commercial offerings — no matter how elegant the interface — may backfire on the airline.