BBT BUYING BUSINESS TRAVEL

January 30, 2019

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Ancillaries: Keep track of extras

IdeaWorksCompany contributed information to this article - - see italics.

Airlines made US$50 billion via ancillaries last year, but this 'unbundling' of fares makes it harder for buyers to monitor the true cost of flying, says John Stepek

Once upon a time, when you booked an airline ticket, that was it. Your seat, your bag, your in-flight meal and entertainment – everything was included, whether you took advantage of the option or not. Not anymore.

Ancillary services – primarily, though by no means exclusively, charging for bags and seats – is big business for airlines these days. In the last financial year, ancillary revenues came to nearly US$50 billion, according to the 2018 Car Trawler Ancillary Revenue Yearbook by Idea Works Company.

The record total of US$47.2 billion accounted for just under one-tenth of total sales for the 73 airlines covered in the survey, and that figure is growing. For now, it's a far more significant source of revenue for the budget airlines – ancillary revenue represented nearly half of sales for Spirit, for example, and a quarter of sales for Ryanair (where half of customers now pay for assigned seating) and Jet2.com. Long-haul carriers are now getting in on the act, too.

Ancillary revenue covers any "revenue beyond the sale of tickets that is generated by direct sales to passengers, or indirectly as a part of the travel experience". So while charges for baggage and seat choice are by far the biggest two categories, it also includes wifi access or onboard food and drink sales, as well as revenue from frequent flyer programmes (such as selling miles or points to partners) and commission from car rental sales via the airline website, for example.

It's easy to see why airlines are fans of "unbundling". It's a competitive market, and offering a low air fare helps to attract the customer in the first place, at which point it's easier to sell them the basics, plus tempt them with upgrades. It's already par for the course in retail travel, where consumers are well used to paying for their extras via simple, user-friendly websites.

Taking stock

So how can travel buyers maintain visibility on what is being spent on ancillaries? First, look at how you are currently tracking spending on ancillaries, if at all. For some travel buyers this will be more urgent than others – short-haul flights in the US are heavily unbundled and, therefore, prone to “leakage”, whereas long-haul, business class flights from Europe still largely come with everything included. Yet with the environment fragmenting rapidly, it pays to set up systems now to avoid confusion further down the line.

One buyer we spoke to noted that it would be “inconvenient and not particularly compliant to book a flight with a TMC, then book the extras with the airline. But, in practice, we could set up the airlines as vendors directly with our company. So it’s not beyond the realms of possibility that a direct retail link could be achieved with carriers.”

Second, buyers should talk to their expenses software and credit card providers about whether there are ways to pull out these expenses more easily (travel management software provider Travelogix, for example, last year introduced a function specifically aimed at dealing with ancillary costs).

As ACTE points out, your finance department may also be able to help track these costs more effectively. Third, it’s important to make sure your partners are actively adapting to the changing environment, too. If you work with a TMC, says Paul Tilstone of consultancy Festive Road, then ask how they are tackling “the immediate problem of content coming through APIs [application programming interfaces] and not GDSs. Are they creating a workaround?”

Also, he continues, now is the right time to find out how your TMC “intends to ensure that you are going to get all the content in the future. Are they taking their own initiative on tech, or are they relying on third parties to provide this content for them?”

In fact, much pressure resides with the TMCs, and David Chappell, IT director at Fello, agrees that they have to move with the times.

“We need to recognise that, ultimately, we are technology companies that sell travel. You have to embrace that. Yes, from a front-end perspective, we are travel specialists, but it all stands on tech these days. You have to offer corporates the right content and make sure you are reporting in the right way.” So check that your TMC has a plan in place and that it is responding to these changes.

Finally, embed ancillaries within your travel programme wherever possible. As ACTE points out: “Travel policy is the most powerful lever available to travel managers.” Keeping the policy up to date in line with changes in the distribution environment is vital – not just in terms of which carriers can be used, or which ancillary services can be reimbursed, but also looking at the range of channels that can be used for booking flights.

“If you find that travellers are regularly going off policy, then perhaps that’s telling you that the policy needs to be updated.”

Changing the game

So why are ancillaries on the rise? For a long time, airlines have aimed to bring the same sort of flexibility as seen with TMCs – as well as those valuable opportunities to sell more services, and to personalise offers through data capture – to corporate clients. This is also the driving force behind the New Distribution Capability (NDC) technical standard put forward by IATA. NDC is a data transmission standard, on which APIs are built.

The goal of NDC is to supersede the legacy technology behind the dominant GDS, in order to be able to offer more "content" in a more user-friendly manner – to make the corporate travel booking experience more like the retail one, in effect. As Andreas Koester, senior director sales UK, Ireland and Iceland at Lufthansa Group, puts it, it's all about "innovating and being flexible to identify and meet the customer's expectations at any time".

Ancillaries can be used to specify what exactly a customer wants to be offered not just onboard, but during the entire journey, from the moment they leave their house to the time they arrive at their destination."

The problem, of course, is that this is an end goal. And, as anyone who has been paying attention will have noticed, the industry remains some distance away from that end goal. As Fello's Chappell puts it: "Travel management as an industry suffers from what I call 'industrial lag' – it's probably ten years behind retail, maybe further."

Yet progress is being made. "Last year, it seemed like for the first time there was a lot of momentum and commitment, from airlines to GDSs to self-booking tool providers," says Tilstone, whose consultancy Festive Road also works with IATA to ensure airlines take account of the views of both travel buyers and TMCs. "It's broadly believed 2019 is the year that we'll start to see the beginning of the industrialisation of NDC," he says.

Anna Kofoed, executive vice-president of travel content sourcing at Amadeus, summed it up well when she described Amadeus's ambitions for this brave new world in a recent blog post. "We are evolving our Amadeus Travel Platform to aggregate all relevant content – including air, hotel, car and insurance – from any source – traditional GDS Edifact, NDC and APIs – to be distributed via any channel or device, allowing comparisons and bookings to happen in a uniform and transparent way."

However, while the end goal of NDC – a richer, more user-friendly customer experience – is appealing, the process of getting there won't be easy, and it's already creating disruption in the industry. "Whether it's NDC or another API standard, when they finally do it, it'll be great," says Chappell. "The flipside is that in the market, the fragmentation of content is accelerating.

"As an agent, you could go into your screen and everything would be aggregated there. You'd see a very transparent marketplace, just like going into the beans aisle in Tesco. You've got your cheap beans and your organic beans side by side – you could see the market all in one place, get a good picture of what was out there, and go back to your customer."

With fragmentation, there are a lot more options – "do you want your can of beans to have a ring pull? Metal or plastic?" – but it also becomes harder to compare offers, as certain deals will only be offered to certain customers via certain channels. For example, Lufthansa recently announced that its cheapest European fares (Economy Light) would only be made available through NDC or direct from the airline.

This is clearly proving a concern to travel buyers. According to a recent survey by ACTE and American Express Global Business Travel, 89 per cent of travel managers fear that NDC, and the fragmentation arising from it, could threaten cost control and compliance with travel policies. Just under half of respondents highlighted the fact that travellers were already sometimes buying “out-of-policy ancillaries from airline websites”.

One buyer BBT spoke to echoed these concerns. “The biggest challenge as a corporate client is that this adds a lot more complexity, and complexity largely leads to higher costs and a greater chance of error.

“The other risk is that if people go through different channels – booking their flight via one channel but then booking their hotel independently – then we lose sight of them. That’s not just a problem in terms of the costs, but it’s also a problem for things like security and knowing quickly where our people are if we need to alert them to an issue.”

However, airline extras should be kept high on the buyer’s agenda in 2019, no matter which channel. Keeping these costs on the radar not only means a better grasp of ancillary spend, it also means comes better leverage when it comes to negotiating better bundled deals in the future with airlines.