

**Congratulations
to HK Express,
best ancillary percent
of revenue in Asia.**

**(See page 139 for
the rankings.)**



Airline Ancillary Revenue and Loyalty Guide for 2019

The best single resource in your quest for revenue success

Researched and written by Jay Sorensen

Edited by Eric Lucas



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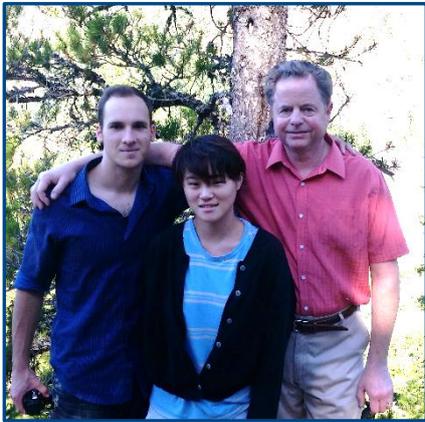
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Issued February 2019 by IdeaWorksCompany.com LLC
Shorewood, Wisconsin, USA
IdeaWorksCompany.com

About Jay Sorensen, Writer of the Report

Jay Sorensen's research and reports have made him a leading authority on frequent flyer programs and the ancillary revenue movement. He is a regular keynote speaker at the annual MEGA Event, spoke at IATA Passenger Services Symposiums in Abu Dhabi and



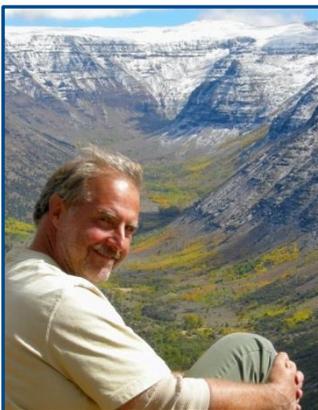
Jay, with son Aleksei and daughter Annika, in North Cascades National Park in Washington.

Singapore, and has testified to the US Congress on ancillary revenue issues. His published works are relied upon by airline executives throughout the world and include first-ever guides on the topics of ancillary revenue and loyalty marketing. He was acknowledged by his peers when he received the Airline Industry Achievement Award at the MEGA Event in 2011.

Mr. Sorensen is a veteran management professional with 34 years experience in product, partnership, and marketing development. As president of the IdeaWorksCompany consulting firm, he has enhanced the generation of airline revenue, started loyalty programs and co-branded credit cards, developed products in the service sector, and helped start airlines and other travel companies. His career includes 13 years at Midwest

Airlines where he was responsible for marketing, sales, customer service, product development, operations, planning, financial analysis and budgeting. His favorite activities are hiking, exploring and camping in US national parks with his family.

About Eric Lucas, Editor of the Report



Eric Lucas is an international travel, culture and natural history writer and editor whose work appears in Michelin travel guides, Alaska Airlines *Beyond Magazine*, *Westways* and numerous other publications. Founding editor of *Midwest Airlines Magazine*, he is the author of eight books, including the 2017 *Michelin Alaska* guide. Eric has followed and written about the travel industry for more than 25 years. He lives on San Juan Island, Washington, where he grows organic garlic, apples, corn and beans; visit him online at TrailNot4Sissies.com.

Eric, at his favorite summer retreat, Steens Mountain, Oregon.

Welcome Aboard – An Introduction by Jay Sorensen

IdeaWorksCompany continues a yearly tradition by identifying the airlines that have shown the greatest prowess in ancillary revenue, a la carte pricing, and loyalty marketing. Throughout 2018, we assessed the top ancillary revenue producing airlines and the most generous frequent flyer programs; our reports described the industry's service and product innovations; and we offered practical advice for airline executives.

The culmination of this work is the *2019 Airline Ancillary Revenue and Loyalty Guide*. The Guide includes every published report and survey issued by us during the year. In reviewing this material, IdeaWorksCompany found the following initiatives clearly stood apart in the quest for ancillary revenue during 2018:

1. **Ryanair's** investment in its Ryanair Labs technology endeavor is clearly paying dividends. Its mobile app gets high marks due to its ease of use, pricing transparency, and effective retail promotion. The booking path motivates purchase behavior by indicating the savings available for consumers at the time of flight booking with reminders such as "price goes up after you book" and "new everyday low price." The seat map in particular is filled with evidence of good design with seat description icons that change as the user scrolls through the seat map, and the ability to place select seats "on sale" with discounted pricing displays. Ryanair noted a big increase in the number of customers paying for allocated seating, from 23 percent in FY 2017 to 50 percent in FY 2018.
2. **Turkish Airlines** and its Miles&Smiles frequent flyer program zoomed to the top of the 2018 Long-Haul Flights Reward Availability ranking. Saver-style economy reward seats were found to be available for 98.6 percent of the queries conducted. This is a 31.4 point jump from the 2017 survey result. It's an amazing achievement when compared to the same measurement from the 2010 survey. Turkish was ranked close to the bottom with only 12.9 percent of long-haul queries producing saver-style economy rewards. Clearly the carrier's management made a conscious decision to create a more rewarding program for its members.
3. **Alaska Airlines** and its Mileage Plan program were found to offer extremely generous reward value. Reward payback is a simple benchmark to measure how these programs deliver their primary benefit to everyday travelers. It represents the reward value returned per dollar spent on base fares. Mileage Plan members holding its highest MVP Gold 75K status were found to receive reward payback of 26.3 percent. In other words, reward value of \$26.30 for every \$100 spent on air fare. Regular Mileage Plan members realized reward payback of 11.7 percent, which was far above the 5.8 percent average found for the largest US and Canada airlines.
4. **British Airways** is unique for its decision to offer basic economy fares throughout almost all of its global route network. The airline appears to be strategic in "where and when" its basic economy fares are not offered. In a sampling of London-Asia and London-South America routes, British Airways basic economy fares often offered prices below many of their nonstop competitors (even after adding the £40 bag fee British Airways charges for a long-haul flight). This indicates the basic economy fare represents true savings when compared to fares which include checked baggage.

These initiatives, along with the efforts of hundreds of other airlines, have brought ancillary revenue to record levels. The *CarTrawler Worldwide Estimate of Ancillary Revenue* was \$92.9 billion for 2018, a 312 percent increase above the 2010 figure of \$22.6 billion, which was the first annual ancillary revenue estimate. More importantly, ancillary revenue is now estimated to represent 10.7 percent of global airline revenue, which makes it a crucial — and stable — slice of the revenue pie.

This brings us to the future and the trends that will push ancillary revenue to higher levels. The following new products will likely encourage other airlines to adopt similar services in the areas of subscription programs, carry-on bag fees, smart booking paths, and loyalty program integration:

- **Frontier Airlines** added an amazing benefit to its Discount Den subscription program. Annual membership costs \$59.99 and provides exclusive access to lower fares. Starting in 2019 membership also includes a free kid ticket for every paid adult ticket. Select dates are offered which appear to average about 8 days per month, and individual flights must display the Kids Fly Free icon to qualify. Of course, Frontier hopes these free travelers add bags, assigned seats, and food to their shopping cart to boost revenue. Subscription programs create a level of loyalty far above frequent flyer programs and can be implemented by airlines from LCCs to global network carriers.
- **Ryanair** experienced what Queen Elizabeth II once described as an “annus horribilis” to sum up her difficulties during 1992. Ryanair’s “horrible year” was linked to the multiple revisions it made to its baggage policies during 2018. A recent article in the *Wall Street Journal* identified boarding procedures and carry-on bag hassles as key customer complaints. It seems Ryanair had developed a solution that customers appreciate, generates revenue, and keeps operations humming. Priority boarding, which sells for €6-10, includes a 10 kg. carry-on bag. The airline seems to limit Priority sales to 80 passengers on its 189-seat aircraft. Non-priority passengers are limited to a small carry-on and pay to check a bag in the hold. Look for more airlines to try paid carry-ons as a method to address baggage issues.
- **Wizz Air** added a “Family” discount benefit to its Wizz Go and Wizz Plus branded fares. Effectively, the airline has created a smart booking path which personalizes the experience based upon customer inputs. Adding children to a booking query automatically creates special branded fares for families. When families upgrade above the Basic fare (offering only a checked bag or smaller carry-on) the airline discounts the Wizz Go and Wizz Plus fare for all family members. This neatly encourages upgrading and provides some relief for the family travel budget.
- Airlines will use loyalty programs to boost ancillary revenue through bonus point accrual. This is already done by **AirAsia, airBaltic, AirArabia, Azul, Icelandair, JetBlue, and Pegasus**. More airlines will integrate accrual and reward features related to a la carte services into their frequent flyer programs.

IdeaWorksCompany looks forward to another year of ancillary revenue, a la carte, and loyalty marketing progress. I hope you enjoy reading this copy of the 2019 Airline Ancillary Revenue and Loyalty Guide. With 267 pages, it is one of our largest publications to date and remains the only single resource dedicated to the topics of ancillary revenue and loyalty marketing. I thank you for your support of my consulting firm and its mission to boost revenue through innovation.



President
IdeaWorksCompany.com LLC

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LCC a la Carte Goes Mobile: A Review of the Top 15 Low Cost Carriers

Mobile is how the world connects

IdeaWorksCompany issued a predecessor to this report in 2017 which assessed the a la carte capabilities of mobile applications for the world's largest 25 airlines.¹ That list only included six low cost carriers. Theoretically, the mobile applications evaluated in this report should represent state-of-the-art examples of ancillary revenue excellence. After all, the LCC category should naturally excel in the art of ancillary revenue.

Mobile use now surpasses access to the internet, with the number of mobile phone accounts outnumbering the global population by 3.5 percent for 2017.² By comparison, less than half (48 percent, to be precise) of the world's population accessed the internet. Even the luxury of broadband mobile has become widespread with 97.1 percent of the developed world enjoying rapid data access. Globally, the same statistic drops to 56.4 percent (for developed and developing countries) and even that penetration exceeds the 48 percent having simple access to the internet.

Mobile is the perfect technological platform to enable communication between humans through social media, text messages, and email. It has also become a global payment tool through digital wallets, such as Apple Pay, MasterPass, and PayPal. Within developed countries, 30 percent of the population have used smartphones to buy products, and this jumps to 51 percent within developing countries.³ Overall payment rates are highest for China, India, and Japan.

The most amazing statistic describes how users are tethered to their devices, with 20 percent of consumers checking their phones more than 50 times a day.⁴ The highest rates are reported for Argentina, Brazil, Mexico, and South Korea. US mobile users were found to spend an average of 3+ hours a day on their phones for non-voice purposes.⁵ Never before has humankind entrusted so much daily living activity to a single device. Mobile phones can connect, entertain, inform, transact, and even inspire. It's the intersection of these qualities that airlines must master to ensure commercial success and competitive advantage.

¹ "Ancillary Revenue Goes Mobile: the Best Methods Used by the Top 25 Airlines" issued 21 February 2017.

² Global and Regional International Telecommunication Union (ITU) data for 2005-2017 at www.itu.int.

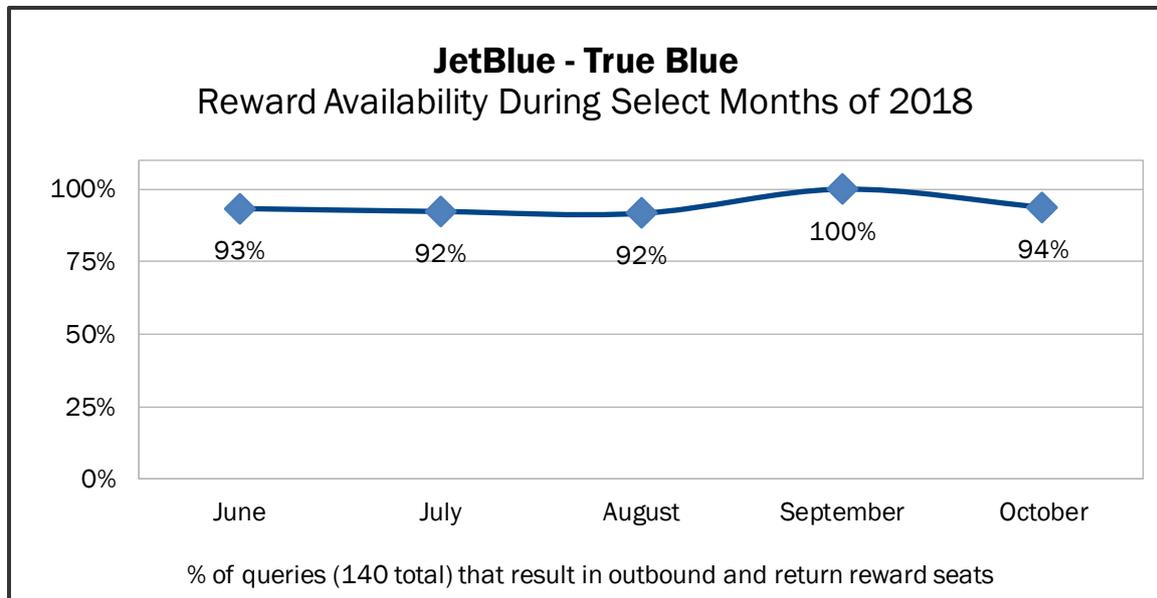
³ "Global mobile consumer trends, 2nd edition" (2017) at Deloitte.com.

⁴ "Global mobile consumer trends, 2nd edition" (2017) at Deloitte.com.

⁵ "eMarketer Updates US Time Spent with Media Figures" dated 09 October 2017 at emarketer.com.

JetBlue – 3

Reward Availability During Select Months. This graph displays the reward queries grouped by departure month. June represents seat availability with a 3 month booking window, as queries were made March 2018. October statistics provide longer term results with a 6 – 7 month booking window.



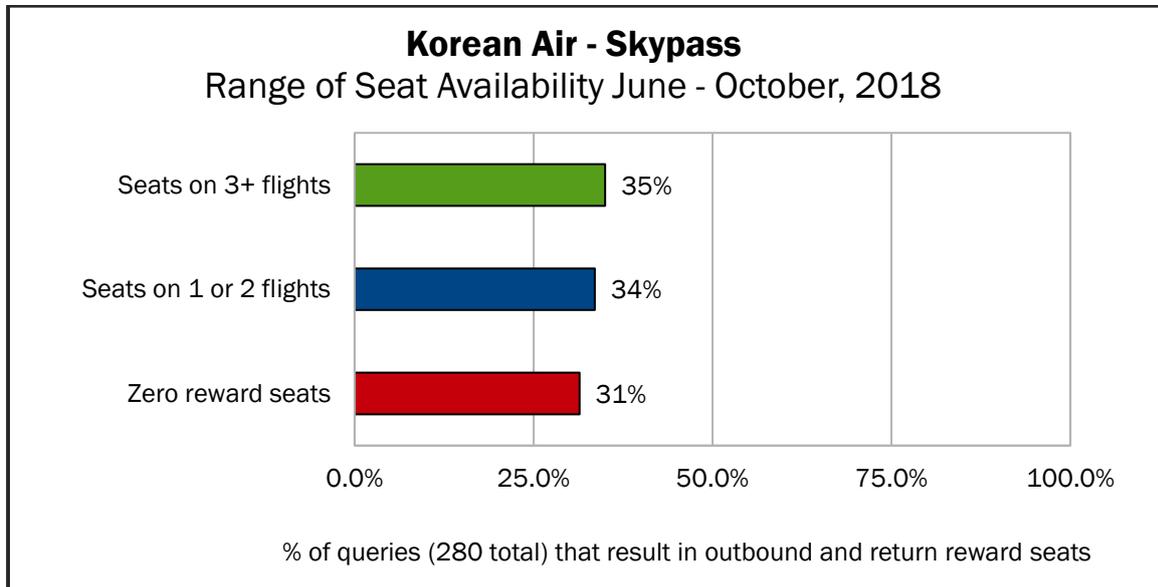
Reward Availability by City Pair Type. This graph is not provided for JetBlue as the carrier focuses on routes of 251 - 2,500 miles.

Korean Air – Skypass

Overview of Reward Availability																						
Reward ranking:	#15 (total availability is 68.6%)	City Pairs Queried																				
Reward level queried:	Economy reward	<p style="text-align: center;">251 - 2,500 Miles (10 total)</p> <table style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <tr> <td style="border-bottom: 1px solid black; padding: 2px 5px;">CJU</td> <td style="border-bottom: 1px solid black; padding: 2px 5px;">GMP</td> </tr> <tr> <td style="padding: 2px 5px;">ICN</td> <td style="padding: 2px 5px;">HKG</td> </tr> <tr> <td style="padding: 2px 5px;">ICN</td> <td style="padding: 2px 5px;">BKK</td> </tr> <tr> <td style="padding: 2px 5px;">GMP</td> <td style="padding: 2px 5px;">HND</td> </tr> <tr> <td style="padding: 2px 5px;">ICN</td> <td style="padding: 2px 5px;">NRT</td> </tr> <tr> <td style="padding: 2px 5px;">KIX</td> <td style="padding: 2px 5px;">ICN</td> </tr> <tr> <td style="padding: 2px 5px;">FUK</td> <td style="padding: 2px 5px;">ICN</td> </tr> <tr> <td style="padding: 2px 5px;">ICN</td> <td style="padding: 2px 5px;">PVG</td> </tr> <tr> <td style="padding: 2px 5px;">ICN</td> <td style="padding: 2px 5px;">MNL</td> </tr> <tr> <td style="padding: 2px 5px;">ICN</td> <td style="padding: 2px 5px;">SGN</td> </tr> </table>	CJU	GMP	ICN	HKG	ICN	BKK	GMP	HND	ICN	NRT	KIX	ICN	FUK	ICN	ICN	PVG	ICN	MNL	ICN	SGN
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KIX	ICN																					
FUK	ICN																					
ICN	PVG																					
ICN	MNL																					
ICN	SGN																					
Summary of reward structure:	One single reward level is available in economy, business (Prestige), and first class. Reward prices vary by travel season with peak and off-peak levels. One way rewards are 50% of the roundtrip price.																					
Airline partners observed at online booking engine:	Air France, Alitalia, China Airlines, Czech Airlines, Delta, Garuda Indonesia, KLM, Vietnam, Xiamen.																					
Alliance:	SkyTeam Alliance																					
Date queries made:	March 2018																					
Pay with points/miles (same as cash)	None offered.																					
Key non-air redemption opportunities:	See note below.																					
Search conditions:	None selected.																					
Observations:	<p>The airline assesses a fuel surcharge for reward travel, but it is not separated from the tax amount.</p> <p>Members may redeem for accommodations at 5 hotels (Korea and USA), Seoul airport shuttle, car rental (Jeju only), and airport coat storage. Miles may also be redeemed to pay excess baggage fees and for admission to 15 domestic and international lounge locations.</p> <p>The Family Plan allows up to 5 family members to pool their miles for reward redemption.</p> <p>Members of the Morning Calm Premium Club (top elite tier) qualify for off-peak mileage redemption for award travel during peak season.</p> <p>Booking site was easy but very slow to respond. The booking result displays how many reward seats remain in inventory.</p>	<p>First market underlined is intra-Korea; others are international</p> <p style="text-align: center;">2,500 + Miles (10 total)</p> <table style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <tr> <td style="padding: 2px 5px;"><u>ICN</u></td> <td style="padding: 2px 5px;">LAX</td> </tr> <tr> <td style="padding: 2px 5px;">ICN</td> <td style="padding: 2px 5px;">JFK</td> </tr> <tr> <td style="padding: 2px 5px;">SIN</td> <td style="padding: 2px 5px;">ICN</td> </tr> <tr> <td style="padding: 2px 5px;">ICN</td> <td style="padding: 2px 5px;">SFO</td> </tr> <tr> <td style="padding: 2px 5px;">CDG</td> <td style="padding: 2px 5px;">ICN</td> </tr> <tr> <td style="padding: 2px 5px;">HNL</td> <td style="padding: 2px 5px;">ICN</td> </tr> <tr> <td style="padding: 2px 5px;">DPS</td> <td style="padding: 2px 5px;">ICN</td> </tr> <tr> <td style="padding: 2px 5px;">ICN</td> <td style="padding: 2px 5px;">LHR</td> </tr> <tr> <td style="padding: 2px 5px;">FRA</td> <td style="padding: 2px 5px;">ICN</td> </tr> <tr> <td style="padding: 2px 5px;">ICN</td> <td style="padding: 2px 5px;">SYD</td> </tr> </table>	<u>ICN</u>	LAX	ICN	JFK	SIN	ICN	ICN	SFO	CDG	ICN	HNL	ICN	DPS	ICN	ICN	LHR	FRA	ICN	ICN	SYD
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ICN	SYD																					

Korean Air – 2

Overall Reward Seat Results. The results from each booking query were analyzed to determine flight availability based upon the number of flights offered.



Reward Availability by Region. This graph displays the reward queries grouped by geographic regions and length of flight. 50% of the queries were 251 - 2,500 mile city pairs and 50% were for city pairs at 2,500 miles or more.

