Allegiant Flies Its Own Route to Revenue Success

CarTrawler-sponsored analysis describes how Allegiant is mastering the art of a la carte and seeks to capture even more of a consumer’s leisure and entertainment spending.
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Contents

“Sometimes you eat the bear, sometimes the bear eats you” ................................................................. 4
Being an ancillary revenue champ is in Allegiant’s DNA ................................................................. 5
Direct distribution makes retailing so much easier ................................................................. 6
Baggage is a boarding breeze and a revenue boost ................................................................. 6
The co-branded credit card is ever present and ever green ................................................................. 8
“Pay Monthly” immediately stuffs shopping carts ................................................................. 9
Allegiant sells destinations, not airline seats ................................................................. 10
A flight is a transaction. A vacation is an experience ................................................................. 11
“We model ourselves to a certain degree after Disney” ................................................................. 12
Will your airline survive and thrive? ....................................................................................... 14

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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 Symposia in Abu Dhabi and 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, beans and hay; visit him online at TrailNot4Sissies.com.

Eric, at his favorite summer retreat, Steens Mountain, Oregon.
Allegiant Flies Its Own Route to Revenue Success

“Sometimes you eat the bear, sometimes the bear eats you”

The quote above is from the 1998 movie, *The Big Lebowski*. Sam Elliott portrays a character called the Stranger who suddenly appears in the film to give these cryptic words of advice to the key character played by Jeff Bridges. Admittedly, this is an unusual way to begin an ancillary revenue report. The author of this report does confess a strong fondness for the movie. But the reference is entirely appropriate, as this report describes how Allegiant is a very unusual airline.

Elliott’s colorful aphorism conveys the idea of being the master of your own destiny or, alternately, being the victim of fate. As applied to Allegiant, this notion suggests even more. Most bears wander the wild engaging in little interaction with other creatures — they follow their own path. This combination of self-assurance and seeking unclaimed territory defines how Allegiant has thrived. Nature requires each species to create its own method of survival and in the business world, the rules of engagement are similar. Will your airline survive and thrive? Or will it be added to the roster of now-dead brands such as Air Berlin, Monarch, SkyEurope, and the Trump Shuttle?

Allegiant is based in Las Vegas, but it has never relied upon the notion of “luck” as part of its business strategy. The airline was born in 1997 and immediately challenged all the rules of how to start an airline. Rather than connect big markets with daily flights, Allegiant started service to tiny towns with flights timed for 3- and 4-day packages. Lower aircraft costs allowed the airline to park its fleet on off-peak days. Connecting Las Vegas to small towns scattered throughout the Western and Midwestern US also minimized competitive threats.

As of the end of 2018, among the carrier’s 419 routes, 75 percent were flown by the airline alone, without competition. 1 About 60 percent of these routes operate with only 2 or 3 roundtrip flights per week. These are examples of how the company maintains its industry leading margins by distancing itself from competitors, and as you will read in this report, by being very different from everyone else. As you might guess, this distinctive style includes remarkable ways to generate ancillary revenue.

1 Allegiant Management Presentation dated November 2018.
Being an ancillary revenue champ is in Allegiant’s DNA

IdeaWorksCompany started tracking ancillary revenue in 2007 and Allegiant has reliably been among the best performers when measured as a percent of revenue or on a per-passenger basis. This success has been attained through a rigorous approach to a la carte sales and travel-related packaging.

Allegiant Airlines - Ancillary Revenue History
As a Percent of Revenue 2007 - 2017

Allegiant’s results have been among the best in the industry, to include 2007 when ancillary revenue was just beginning to be defined and tallied.

Allegiant offers a complete array of a la carte services with an objective to ensure product simplicity which minimizes costs. Average flight length for the airline is a modest 2 hours and 20 minutes, which removes the need to offer the amenities expected on longer-haul networks.

Extra legroom seating on the aircraft is limited to the first row and exit rows; a zone of more spacious seating is not offered. This maximizes seating at a decent standard seat pitch of 30 inches.² The Airbus cabin configuration allows for a very spacious aisle when outfitted with Allegiant’s space-saving 17-inch wide seating. This allows galley carts and passengers to pass each other with ease and also speeds up boarding and deplaning.

The buy-on-board menu is designed to accommodate roundtrip catering at focus cities, minimize on-board food handling, and reduce maintenance cost. The food is shelf-stable, does not require heating, and payment is cash-free. Allegiant made an early decision to not include coffee makers in its fleet. This saves all maintenance and capital expense associated with coffee makers. Surprisingly, cabin crew members indicate passenger complaints are rare.

² Allegiant listing at SeatGuru.com reviewed December 2018.
Direct distribution makes retailing so much easier

Allegiant controls all of its distribution with the highest level of online receipts for a US airline at 94 percent of overall sales. The remaining 6 percent derives from the carrier’s call center and in-person transactions at airport counters. The latter is offered as a method to save the $18 per person, per segment fee for all website bookings. Airport staff report it’s not uncommon for small town consumers to make the trip to their local airport.

Distribution does not occur through global distribution services (GDS), such as Amadeus or Sabre. This does limit the potential for bookings by travel agencies, to include online agencies such as Expedia; this also avoids GDS fees. But most importantly, Allegiant completely controls how its services are promoted and sold through the direct networks of its website, call center, and airport ticket counters. Consumers are made perfectly aware of the benefits and terms associated with a la carte products and all are exposed to the complete array of travel services. This allows Allegiant to monitor and manipulate its booking path to deliver optimum results almost instantly. Consumers are better informed and drama at the airport due to fee confusion is mitigated. The airline indicates it will even limit the sale of rooms at its planned Florida resort to channels controlled by the airline.

Baggage is a boarding breeze and a revenue boost

Allegiant has thoughtfully designed a baggage process that nicely balances revenue generation, operational efficiency, and customer service. The table below lists revenue and fees associated with Allegiant and two competitors, American and Spirit. The results portray a position that’s more aggressive than American, and a little softer than Spirit.

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<table>
<thead>
<tr>
<th>Airline</th>
<th>Bag Revenue per Passenger*</th>
<th>During Booking</th>
<th>Airport Check-In</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Checked</td>
<td>Carry-On</td>
</tr>
<tr>
<td>Allegiant</td>
<td>$16.10</td>
<td>$25 to $35</td>
<td>$18 to $25</td>
</tr>
<tr>
<td>American</td>
<td>$8.17</td>
<td>$30</td>
<td>n/a</td>
</tr>
<tr>
<td>Spirit</td>
<td>$21.53</td>
<td>$31 to $35</td>
<td>$36 to $40</td>
</tr>
</tbody>
</table>

*Baggage Fees by Airline 2018 (January-September), Bureau of Transportation Statistics, USDOT website combined with carrier disclosures for systemwide traffic. US domestic bag fees observed at airline websites March 2019.

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Perhaps that’s why the flights observed in preparation of this report didn’t demonstrate the confusion and anger that often occurs at departure gates. Boarding passes visibly note when carry-on baggage is pre-paid. Gate agents are quick to address non-compliant bags before a passenger boards. Communication and fairness are key attributes, and the Allegiant customer community appears to accept the overall process. Flights departed with about 40 passengers (on full flights of 150+ travelers) having paid a fee for a larger carry-on. Surprisingly, passengers without large carry-on bags board before those with paid carry-ons. The lack of big bags, when combined with the wider aisle capability of Airbus equipment, allows the majority of passengers to board easily and safely. The last groups to board are those with paid carry-ons, and this activity was observed to be smooth and without incident.

This is achieved through a process that begins in the booking path, and well before departure of the flight. Allegiant has designed one of the best online bag presentations we’ve seen in the industry. After seats are selected, the booking path continues to baggage and boarding options. These are described simply with the ability to click for more details. It’s a forced choice methodology for bags, and consumers must choose “No Bags” or up to four pieces. Unlike most airlines, Allegiant wisely attaches the same fee to each. The airline encourages selection in the booking path by charging higher fees at the airport.

The carry-on fee is fairly priced at $18 to $30 (varies by route) and always below the price of a checked bag. This feels more equitable and helps avoid the common complaint, “The airline is charging me more for carrying my own bag than they charge to check it to the bin.” The example displayed on this page advises the consumer can save $45 when paying in advance. Many of these elements are unavailable at present when distribution occurs through non-direct channels (GDS). But in the case of Allegiant, they work together to deliver great revenue without a lot of fuss.
The co-branded credit card is ever present and ever green

Allegiant, and its bank partner Bank of America, are to be commended for the benefit design and product presentation of the Allegiant World Mastercard. All too often, low cost carriers treat co-branded cards as a bolt-on accessory. Booking a ticket and flying the airline proves the card is well integrated into the customer experience.

The Allegiant credit card represents a simple consumer proposition. Triple points accrue for all Allegiant purchases, which includes hotel, car hire, and attractions. Double points are earned for dining, and one point for all other purchases. Points can be redeemed for air and travel package purchases at Allegiant.com with each point equal to a penny of reward value; 15,000 points provides savings of $150. Card benefits are viewed in the myAllegiant online account used by customers to book travel, which makes reward redemption easy.

Benefits provided by the card are designed to be visible to travelers and create “card envy” among non-cardholders. As with other airline cards, priority boarding is provided for cardholders. But unlike others, flashing the card onboard provides a free beverage, such as wine, beer, or soda. These benefits can be extended to others by adding cardholders to an account. Using the card to buy a holiday package provides buy one, get one free airfare. The card offers a generous sign up bonus and charges a $59 annual fee, which is not waived.

The card was introduced September 2016 and management disclosed it had 130,000 active cardholders at the end of 2018. The portfolio is expected to generate earnings of $50 million by 2020. Allegiant makes maximum effort to promote sign-up with inflight announcements and offers placed in the booking path. Airline management says 70 percent of applications originate in the booking path. Promotions are frequent and have included $100 off the price of an air+hotel+car holiday package. It’s very clear, Allegiant is deploying its card to generate sales beyond traditional co-brand revenue to include the entire range of products the company is serving up to consumers.

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4 Allegiant press release dated 06 September 2016 reviewed at AllegiantAir.com.
5 Allegiant Travel Company Management Presentation, November 2018.
“Pay Monthly” immediately stuffs shopping carts

The booking path for Allegiant concludes with the option to “pay monthly” through a supplier relationship with California-based Uplift. Consumers can pay the full amount or click to instantly apply for a 12-month travel loan. The relationship with Uplift was introduced November 2018 and within a month already generated notable results.

According to Allegiant management, the inclusion of the pay monthly option has not reduced overall booking conversion. That’s good news, because airlines might worry consumers declined for credit might abandon their shopping carts. The shopping cart size, in terms of dollars, for pay monthly bookings was nearly 300 percent larger than those paid in full (without Uplift). The take rate (percentage of consumers buying) for hotels doubled and the car hire take rate increased more than 20 percent. Not surprisingly, consumers buying on credit spend more freely on travel extras, with these take rates increasing more than 20 percent for the first month: baggage, seat assignment, priority access, and Trip Flex.

The pay monthly service is now integrated into Allegiant’s booking path from beginning to end. Hotel, car hire, and seat assignment pages promote the pay monthly installment price and provide a pop-up message to describe the Uplift payment option. This introduces the option earlier so the consumer can better anticipate the offer on the final payment screen.

Qualification requires just a few questions and the approval decision is quick. Consumers may click to learn why a loan request was declined. The response clearly says the decision is made by the vendor and not the airline. The lack of a negative impact on overall booking conversion indicates the process is efficient and meets consumer expectations for transparency.
Allegiant receives full payment from Uplift at the time of approval during the booking process. Payment by the consumer can also be made using debit and credit cards, to include the Allegiant World Mastercard. While Uplift has a current focus on the US market, activities are underway for the service to expand outside the US.

**Allegiant sells destinations, not airline seats**

The airline has always looked beyond the sale of just airline seats. Consumers selecting the “flight” search option at Allegiant.com are treated to a selection of hotels and car hire. Even clicking on “hotels” delivers a screen which prompts the consumer to select an Allegiant departure city. Every activity supports the company’s slogan, “Travel is our deal.”

Technology is a crucial element of Allegiant’s business and the carrier is proud of the robust booking platform it has developed. The core of the holiday package program is operated with about 12 employees who manage relationships with 150+ hotel properties and a wide range of other suppliers, and keep package fulfillment and accounting operations running smoothly. Bookings are handled through the call center.

Allegiant knows it can direct consumers to destinations, because airline booking is traditionally the beginning of the planning process. For a consumer living in Rockford, Illinois, the choice begins with nonstop flights to Las Vegas, Orlando/Sanford, Phoenix/Mesa, Punta Gorda/Ft. Myers, and St. Pete/Tampa. In the grocery business, manufacturers can pay a premium to ensure a more attractive shelf location. The same practice is true with Allegiant, with promotional fees, discounted room rates, and added features determining whether a destination or hotel receives a “featured” display location at the top of the screen. Rather than viewing the default “most popular” hotel display, consumers may opt to sort by lowest price.

Traditionally, the airline has emphasized value-priced hotels. But Allegiant is learning its passenger demographics can support higher price points, and better quality hotels have been added. Selling to millennials has provided another learning experience. They don’t respond as well to traditional package offers which bundle all elements into a single opaque price. Rather, they want to build it themselves and see the savings multiply as items are added; the more you add the more you save. Allegiant accommodates this desire by noting special savings in the shopping cart. This level of travel knowledge is unusual for an airline management team. Yet for Allegiant, the sale of airline tickets has never been the sole focus. It was probably just a matter of time before management realized it could expand vertically and enter the hotel business.
A flight is a transaction. A vacation is an experience.

IdeaWorksCompany first reported on Allegiant’s plans to build a resort in Florida in the 2017 Top Merchandising Innovations to Delight Air Travelers and Boost Profits report. Back then, the airline planned to build a hotel-condo resort which included a sizeable portion of condominium sales. This has evolved to focus on hotel activity because room rentals create more guest check-ins which boosts ancillary revenue. In its September 2018 Investor Day presentation, the airline laid out the latest plans for its Sunseeker Resort in Florida.

The mission has evolved to build a full service destination resort with the desire to capture the maximum share of traveler spending. Allegiant is budgeting $420 million on 500+ hotel rooms, about 180 longer-stay units, restaurants, bars, retail and meeting space, and a 200-slip marina. First year revenue is projected to be $88+ million and is expected to grow to $113+ million by year five. At today’s annual traffic, that adds $6+ per passenger of ancillary revenue systemwide. Room rental will generate 65 percent of the amount with the remaining 35 percent from food and beverage, retail, meeting, and marina activities.

It’s a “fork in the road” moment for Allegiant. Does it identify more markets, add more aircraft, and become a larger airline? Or does it expand vertically in the travel category and become a true leisure company by owning, managing, and packaging individual holiday package elements? The answer is provided by the carrier’s knowledge of its customers.

The bar graph below describes the inherent booking window advantage owned by the airline industry. Allegiant’s customer survey indicates air travel is the first item booked for 83 percent of customers. It stands to reason that airline websites are strong candidates to attract every holiday element that follows, including hotel, car, and activities.

In what order do you book the following for a leisure trip?

Allegiant survey results - Investor Day September 2018

<table>
<thead>
<tr>
<th></th>
<th>1st Booked</th>
<th>2nd Booked</th>
<th>3rd+ Booked</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air</td>
<td>83%</td>
<td>57%</td>
<td>13%</td>
</tr>
<tr>
<td>Hotel</td>
<td>30%</td>
<td>30%</td>
<td>17%</td>
</tr>
<tr>
<td>Car</td>
<td>0%</td>
<td>83%</td>
<td>9%</td>
</tr>
<tr>
<td>Activities</td>
<td>3%</td>
<td>9%</td>
<td>3%</td>
</tr>
</tbody>
</table>
Airline management says about 33 percent of its customers qualify as “avid” travelers. They take ten or more roundtrips a year and indicate price is the most important factor for choosing an airline. Allegiant also knows travelers want to spend their airfare savings on other holiday elements. Vertical integration allows the airline to capture more of this travel spending. Management asks the question, “Why should we give this to someone else?”

The route map portrays the “funnel” of origin cities that feed passengers to the Punta Gorda Airport. The Allegiant business model allows the company to shift the expenses associated with online travel agencies and global distribution systems, to spending on advertising and promotion in smaller feeder markets. Once perfected at Punta Gorda, the resort concept can be replicated across Allegiant’s destination network.

Allegiant is evolving from being a package oriented airline to a vertically integrated leisure travel company. The September 2018 Investor Presentation is an intriguing document because it offers expansive detail on Allegiant’s customer demographics and hotel competitors, but very little is said about other airlines. Allegiant has even identified a future opportunity of managing independent hotels in other Florida destinations, with the obvious benefit of placing these properties into its holiday packaging platform.

All of this describes a company which is consciously moving beyond the constraint of being just a low cost carrier. The investor community is naturally conservative and has not greeted these innovations with robust support. They would perhaps prefer the predictability of an airline team that continues to grind down operating expenses while identifying underserved markets. That’s hard work, and it has become a crowded and competitive space that US-based global network airlines, and other LCCs, are striving to fill. Undaunted, Allegiant is pursuing an even more untraditional opportunity for an airline – the development of what it calls “family entertainment centers.”

“We model ourselves to a certain degree after Disney”

The quote above is from Maury Gallagher, the chairman and CEO of Allegiant. Don’t look for Allegiant to begin producing movies and opening giant theme parks. But the airline knows it has found a niche in the smaller cities and towns of America.

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6 IdeaWorksCompany interviews of Allegiant executives conducted December 2018.
In many of these places, the airline provides nonstop flights to key holiday destinations such as Las Vegas, Phoenix, and Orlando. Other airlines might not provide any service, or at best operate flights to connecting hubs such as Chicago or Atlanta. Allegiant management also knows these smaller cities and towns offer plenty of opportunity in the form of empty retail space. These factors, when combined with Allegiant’s unusual business philosophy, yielded the surprising concept of family entertainment centers.

“Allegiant Nonstop” is the brand developed for the family entertainment centers with the tagline “Entertainment. Thrills. Adventure.” Behind the doors of this concept lies a desire to establish customer relationships on a broader scale and before the vacation planning process begins. It’s unlike anything an airline “should” be doing, but it’s how an innovative enterprise is seeking to redefine itself beyond the capabilities of its competitors.
Families are an important component of Allegiant’s leisure travel business, including kids, parents, and grandparents. All are candidates to enjoy a holiday package to any of the popular leisure destinations offered by the airline. For Allegiant, the key objective is a comprehensive relationship involving the leisure and entertainment dollars spent in these communities. In this regard, there are multiple points of contact: family entertainment center, co-branded credit card, direct marketing database, and eventually an Allegiant holiday package.

Many of Allegiant’s markets also feature minor league baseball franchises . . . which is why the airline has a partnership with Minor League Baseball. Welcome to small town America – where a savvy company can blend itself into the fabric of the community.

The centers are ideal tenants for the readily available big box store sites that sit empty due to the rise of online retail. What once was a local Sears or Kmart store can now accommodate a giant selection of activities: arcade games, laser tag, bowling, bumper cars, go-carts, climbing walls, party rooms, restaurant, snack bar, bar lounge, and much more. Four locations have been identified for development: Ogden and Provo in Utah, Flint, Michigan, and Fort Wayne, Indiana. Each location is on Allegiant’s route map. The company plans to deploy all of its marketing tools to refer business between family entertainment centers and the leisure airline.

The business risk for Allegiant is minimal. The footprint for a family entertainment center is a 50,000 square foot building, and these can be easily leased on attractive terms and pricing. The capital requirement per location is a modest $2 to $3 million and buildout can occur relatively quickly. IdeaWorksCompany believes branding elements could include a travel center to inspire customers to consider a destination served by Allegiant from their hometown. In a cross functional twist, staffing could consist of dual purpose employees trained to sell packages. This is a small example of the linkages that can exist when a company designs itself to serve the convergence of leisure and entertainment.

Will your airline survive and thrive?

Publicly held companies, such as Allegiant, are sentenced to a cycle of continuous growth. The beast of the stock market must be fed with larger revenue, bigger margins, growing networks, and the improbability of shrinking expenses. All the while, your competitors are striving for the same objectives. It’s a brutal and nasty business.

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7 G4 Complete Entertainment presentation (Allegiant Travel Company) dated September 2018.
8 IdeaWorksCompany interviews of Allegiant executives conducted December 2018.
Anyone who doubts the credibility of the Allegiant management team should consider the unlikelihood of their current success. It’s an airline that parks large portions of its fleet on off-peak days, connects small towns with major holiday destinations, and spares the expense of equipping its fleet with coffee makers. These elements have helped the airline earn profits every quarter for 15 consecutive years through 2018. There are lessons here for the rest of us.

Allegiant has zero desire to be the biggest airline. Rather, its management has identified multiple niches and consequently designed a company to be the best provider in these markets. It may seem reckless, but they don’t spend their time fretting about the competition, be it American, Delta, or United. Instead, they identify target markets and create products and services designed to capture more discretionary spending by offering good value.

There’s a small town charm to this company. It’s personified by a leader who has a desk cubicle like the rest of his team. The edge of the desk has a simple printed identifier: Maury Gallagher, Executive. The soul of a company is reflected by its employees. The character of a company is created by its leadership. In this regard, Allegiant is a company which delivers good value to its customers without fuss and pretension, and with the flair of an entrepreneur.
Boost Your Carrier’s Revenue IQ

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The following is a sample of the presentations available in the Master Class workshop curriculum:

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- Delivering the a la Carte Offer – Boosting Revenue by Booking Path, Digital and Email
- The Airline CEO Guide to Merchandising
- Moving to Merchandising Methods in the Cabin

Frequent Flyer and Loyalty Marketing
- Revenue-Based Accrual as the New World Order
- Loyalty by the Billions
- Learning about Loyalty and FFP Trends

Join the airlines that have boosted ancillary revenue awareness through the Master Class experience:

Air New Zealand  Alaska
Eurowings  Finnair
Pegasus Airlines  WOW Air

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- Jump start your strategic and practical knowledge of ancillary revenue.
- Determine what’s best – a la carte, bundled alternatives, or a hybrid approach.
- Create a blueprint for success based upon lessons from all over the globe.
- Generate consumer preference and trust by avoiding the “fee trap.”
- Build employee support and prevent media and regulatory backlash.

Create your own on-site learning experience.
Contact Jay Sorensen, President, IdeaWorks Company
Jay “at” IdeaWorksCompany.com  IdeaWorksCompany.com