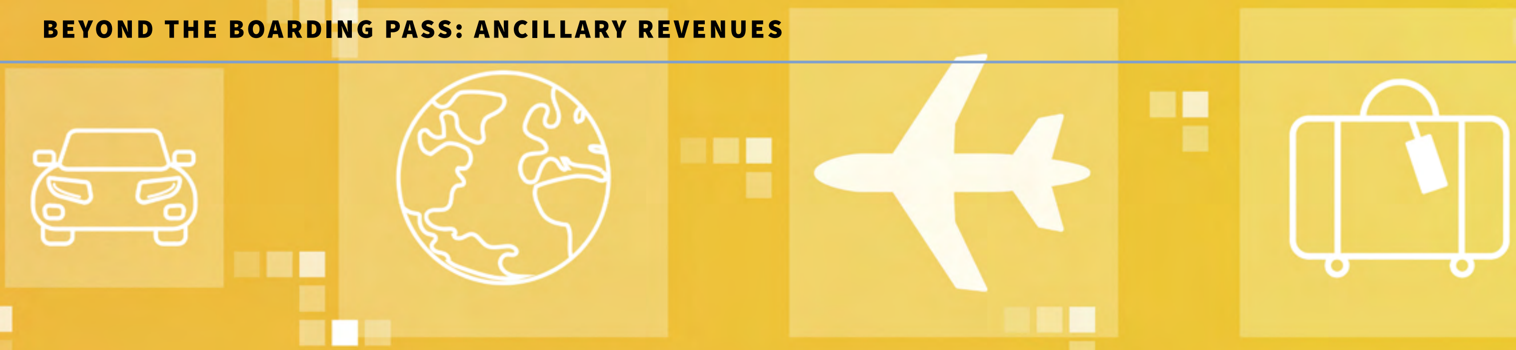

Revenue Raisers

The price of a ticket is now just a small part of the revenue income that passengers provide for an airline. Following the lead of the low-fare carriers, airlines now offer a host of upgrades and perks for those travelling, although all come at a price. Emma Kelly investigates this growing extra revenue provider.

Since 2014, global airline ancillary revenues have more than doubled, with airlines of all shapes and sizes following the lead set by low-cost carriers. Airlines have now set their sights on even greater ancillary revenues and are increasingly getting better at targeting the right ancillaries at the right customers, as well as deploying innovative techniques and technologies to reach and capture the spending of those customers.

Global management firm McKinsey puts global ancillary revenues at US$50-$55 billion per annum, not including revenues from frequent flyer programmes. McKinsey points out that this figure exceeds the industry's $31 billion 10-year average annual operating profit, noting: "Without them [ancillary revenues], the industry would not be profitable."

Ancillary revenue consultancy IdeaWorks is more descriptive when it comes to ancillary revenues. "Ancillary is an inoculation against the virus of financial failure, which seems ever present in the airline business," it says.

IdeaWorks has been tracking the growth of airline ancillary revenues – defined as revenue beyond the sale of tickets that is generated by direct sales to passengers or indirectly as a part of the travel experience – since 2010. For 2018, in conjunction with technology platform CarTrawler, IdeaWorks estimated total airline ancillary revenue at $92.9 billion – a 312% increase on the 2010 figure of $22.6 billion and 10.7% of the industry's global $871 billion revenue. In its figures, IdeaWorks includes any activity that yields cashflow beyond the transportation of customers from A to B, including frequent flyer programmes, commissions and a la carte services.

Ancillary Revenue Champs – those carriers that generate the highest activity as a percentage of operating revenue – are a growing band and are achieving greater results than ever before as airlines become better retailers, according to IdeaWorks' analysis. The champs include LCCs VivaAeroBus, Volotea, Allegiant Air, Pegasus Airlines, Ryanair and Scoot. The percentage of revenue achieved by this group jumped to 33.9% from 30.9% in 2017, says the report.

LCCs and the ancillary revenue champs are the "originators of ancillary revenue and have always effectively managed the combination of low fares and a la carte features", says IdeaWorks. "Whereas traditional airlines offer a handful of optional extras, the true ancillary revenue evangelists manage a buffet of choices in the online booking path, through mobile apps and solicitations sent after travel is booked," it explains.

According to IdeaWorks, a typical ancillary revenue-savvy carrier will have around 60% of its ancillary revenue coming from baggage fees; 12% from assigned seating; 9% from onboard services, including food, extra leg room and duty free; 15% from other a la carte services, such as charges from priority check-in, onboard entertainment and connectivity; 3% from travel retail, such as car, hotel and insurance; and 1% from the sale of frequent flyer points and miles.

Baggage alone contributes $28.1 billion to the ancillary revenue total, according to

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IdeaWorks, with stringent baggage fee policies being the “hallmarks of top revenue-performing LCCs”. Las Vegas-based discount airline Allegiant, for example, generates more than $16 per passenger from its baggage revenue policies, including fees for large carry-on bags. IdeaWorks says the surprising development over the last two years is that some of the world’s leading network carriers – particularly in Europe and North America – are also implementing bag fees. “Bit by bit, traditional airlines in Africa, Asia and Latin America are expected to test the basic economy method as they work to overcome the challenges of a slowing global economy and the ever-present threat of their low-cost airline brethren,” predicts IdeaWorks.

The prevalence of LCCs in a region drives the growth of the industry’s ancillary revenues, says IdeaWorks. Europe leads the way for a la carte activity – including charges for onboard food and beverage, baggage and excess baggage, assigned seats, priority check-in, onboard entertainment and connectivity, but not frequent flyer programmes, commission-based products or fare or product bundles – according to IdeaWorks. LCCs in that region generate nearly 25% of operating revenue and airlines in the region achieve 9.7% a la carte revenue as a percentage of operating revenue. Europe also happens to be home to some of the largest ancillary revenue champs in the world, such as easyJet, Eurowings, Norwegian and Ryanair. Europe-based global network carriers like Air France/KLM, Lufthansa and British Airways are now following these champs.

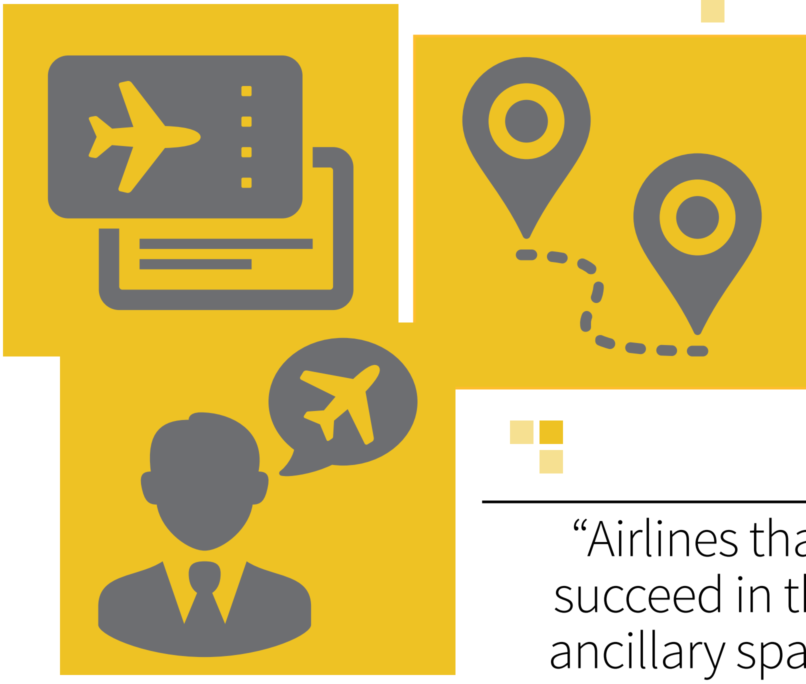
The same is true in North America, where the big three of American Airlines, Delta and United Airlines are following their LCC counterparts and boosting ancillary revenues by restricting or charging for access to seat assignments.

SELL, SELL, SELL

While Asia-Pacific is home to a significant number of ancillary revenue-savvy LCCs, including AirAsia, Cebu Pacific, Indigo, Jetstar, Scoot, SpiceJet, Spring Airlines and Vietjet, global network carriers in this region have been slow to adopt ancillary revenue methods.

Ancillary revenue champs and LCCs are simply better retailers than their full-service counterparts, according to IdeaWorks. These carriers are innovating in what they sell and how they sell it, increasingly personalising the offering and digitalising the process.

AirAsia, for example, saw its ancillary revenue climb 12% for the last quarter of 2018 and 7% for the full financial year. Group ancillary revenue for the year was RM2.06 billion, with the Malaysian operation achieving a 5% growth to RM1.49 billion; the Philippines was up 26% to RM297 million; and Indonesia’s ancillary revenues climbed 3% to RM273 million year on year. AirAsia attributed the growth to “dynamic pricing and ancillary personalisation resulting in better target marketing”.



> "Airlines that succeed in the ancillary space maximise their revenue by offering a larger array of travel products, including hotels, car hire and car transfer."

Baggage fees continue to account for most of AirAsia's ancillary revenues at 48% and this revenue rose 7% for the year to RM987 million, thanks to the use of personalisation methods, including tailoring dynamic pricing to individual customers. In-flight food and beverage sales climbed 8% to RM143 million; seat selection was up 18% to RM164 million; duty free revenues climbed 32% to RM37 million; while the Fly-Thru service, which allows passengers to transfer from one flight to another without having to collect and check-in baggage and go through immigration, achieved a 13% increase in sales to RM127 million.

As the number of AirAsia aircraft equipped with its Rokki WiFi increases, so will revenues. "We have installed 65 aircraft with Rokki WiFi. All our planes will be fully WiFi-enabled by the end of 2019, which will bring in more ancillary revenue," AirAsia Group CEO Tony Fernandes said recently at the group's financial results announcement.

Overall, AirAsia has boosted ancillary revenue per passenger from RM42 in 2013 to RM49 in 2017.

AirAsia intends to increase ancillary revenues this year through its digital initiatives, including the use of data, machine learning and artificial intelligence, with further development of its website and mobile apps expected to be a major contributor. "AirAsia.com has already generated more than RM16 billion in gross merchandise revenue from our online flight ticket sales in FY2018. This platform is in fact one of the largest revenue-generating platforms in Asia today. Hence, we are also increasing our efforts to sell additional travel-related services such as hotels, tours, insurance and more to millions of our guests who fly with us," says Fernandes. "We intend to transform AirAsia.com into a platform of choice for all to fulfil any travel needs. We believe that this platform has enormous potential and will generate a significant increase in revenue," he adds.

Likewise, Ryanair has focused on digital initiatives, driven by its Ryanair Labs, to further drive ancillary revenue. The LCC now has three Ryanair Labs, in Dublin, Wroclaw and Madrid, employing 600 digital experts. Half year results, reported last October, saw ancillary revenues rise 27% to €1.3 billion, with Ryanair attributing this to Ryanair Labs' initiatives.

"Key drivers of this growth were improved conversion of priority boarding and reserved seating," says Ryanair. IdeaWorks estimates that Ryanair's annual revenue from assigned seating alone is €455 million or $4 per passenger. In addition, membership of MyRyanair increased to 50 million members, while the Ryanair digital platform receives more than one billion visits per annum.

AMAZON-IAN AMBITIONS

Another Ryanair Labs initiative, Ryanair Rooms is a major part of the LCC's aim of becoming the "Amazon of travel". It now offers more than 10 million rooms from five suppliers and is a prime example of ancillary innovation. The airline successfully encourages its customers to book their accommodation via Ryanair Rooms by effectively returning its 10% commission in the form of travel credits which customers can use to fly with the airline within the next six months.

More can be expected from Ryanair in the near future. "A major upgrade of our digital platform is under way – website, app and third-party ancillary product plug-in – which will facilitate improved personalisation and capacity for traffic growth to 200 million per annum as we roll out relevant ancillary products which fit to each individual customer's profile and buying patterns," the airline says.

Earlier this year, the LCC announced its latest batch of "customer care improvements" which include a frequent flyer programme, Ryanair Choice, which will cost members UK£199 annually in exchange for free seats, fast track and priority boarding, while its digital offerings

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have expanded with the sale of sports and events tickets.

Fellow European LCC easyJet reported earlier this year that its ancillary revenue for the last quarter increased by 19.9% to £271 million, attributing this to "better bag and allocated seating sales". Meanwhile, easyJet's invitation-only Flight Club encourages its members to remain loyal and spend more.

With the bulk of LCC's ancillary revenues coming from baggage charges, not surprisingly, airlines are becoming increasingly clever in their sales tactics. Last September, Australian LCC Jetstar announced that passengers could now purchase 3 kg of additional carry-on baggage, increasing the total carry-on allowance from 7 kg to 10 kg, starting from A$13 on Starter Fares. What the airline failed to mention was that up until 2014, Jetstar passengers could get onboard with 10 kg of carry-on luggage free of charge, but reduced it to 7 kg in 2014.

US discount airline Allegiant is one of the world's most innovative and effective airlines when it comes to ancillary revenue initiatives, according to IdeaWorks. Many of these are not related to its core business of flying, including its Sunseeker Resort in Florida, which is projected to contribute in excess of $6 per passenger; family entertainment centres; and the Allegiant World Mastercard, which provides a free in-flight beer or wine for cardholders and is expected to generate annual earnings of $50 million by 2020.

"Airlines that succeed in the ancillary space maximise their revenue by offering a larger array of travel products, including hotels, car hire and car transfer. It's important for airlines to focus their efforts on where customers are willing to spend, presenting them with products relevant to their booking through personalisation of content," explains Aileen McCormack, chief commercial officer of travel technology platform CarTrawler.

PEOPLE INVEST IN PEOPLE

While the use of new technologies, new revenue sources and different forms of distribution are all boosting airlines' ancillary revenues, McKinsey points out that this approach can only take airlines so far and it's important for frontline staff to be part of the equation.

Frontline staff are responsible for about 30% of ancillary revenues and delivering or policing about 60%, according to McKinsey. "Our research suggests that better collection and upselling by the frontline could raise ancillary sales by 20-35% – or an additional $11 billion to $18 billion for the industry," it says.

Airlines need to foster understanding and commitment; provide appropriate tools and support; align processes and structures; and enhance talent and skill, McKinsey says.

Whichever way airlines go about increasing ancillary revenues, IdeaWorks believes rising ancillary revenues are good for both airlines and the consumer. It says: "The connection between ancillary revenue and financial health for airlines is now clear and is a solid component of the industry's financial profile. Consumers too are learning to appreciate the a la carte choice as revenue-savvy airlines have become better shopkeepers. Consumers will always reward companies that treat them honestly with fairly priced products that provide what is promised."