

# Pricing in an era of ancillary revenues

*Reviewing the past, present and future of the ancillary revenue revolution in its 12th year*

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# The agenda for this presentation.

- **Defining ancillary revenue from 2007 to 2019.**
- **Noting significant airline milestones.**
- **Reviewing key a la carte components.**
- **Aligning a la carte design with customer expectations.**

This presentation is based upon source material from various reports issued by IdeaWorksCompany from 2014 through 2019. These are available for download at [IdeaWorksCompany.com](http://IdeaWorksCompany.com).

# About me

- Part of the Midwest Airlines start-up team, was Director of Marketing, threw bags, cleaned aircraft, and was an early believer in ancillary revenue.
- Started IdeaWorksCompany in 1996 to “Build Revenue through Innovation.”
- I’ve camped, hiked, and visited 90+ national parks in the US with my family, and just finished a 3-year volunteer project.



*With my kids at North Cascades National Park in Washington after completing the Daisy Weaver cabin renovation.*

**“We are here to celebrate something new.”**

### **Ancillary Revenue Defined**

Revenues beyond the sale of tickets that are generated by direct sales to passengers, or indirectly as a part of the travel experience.



Back in November 2007 more than 240 airline industry professionals gathered in Frankfurt to experience something new, the first-ever conference dedicated to ancillary revenue.

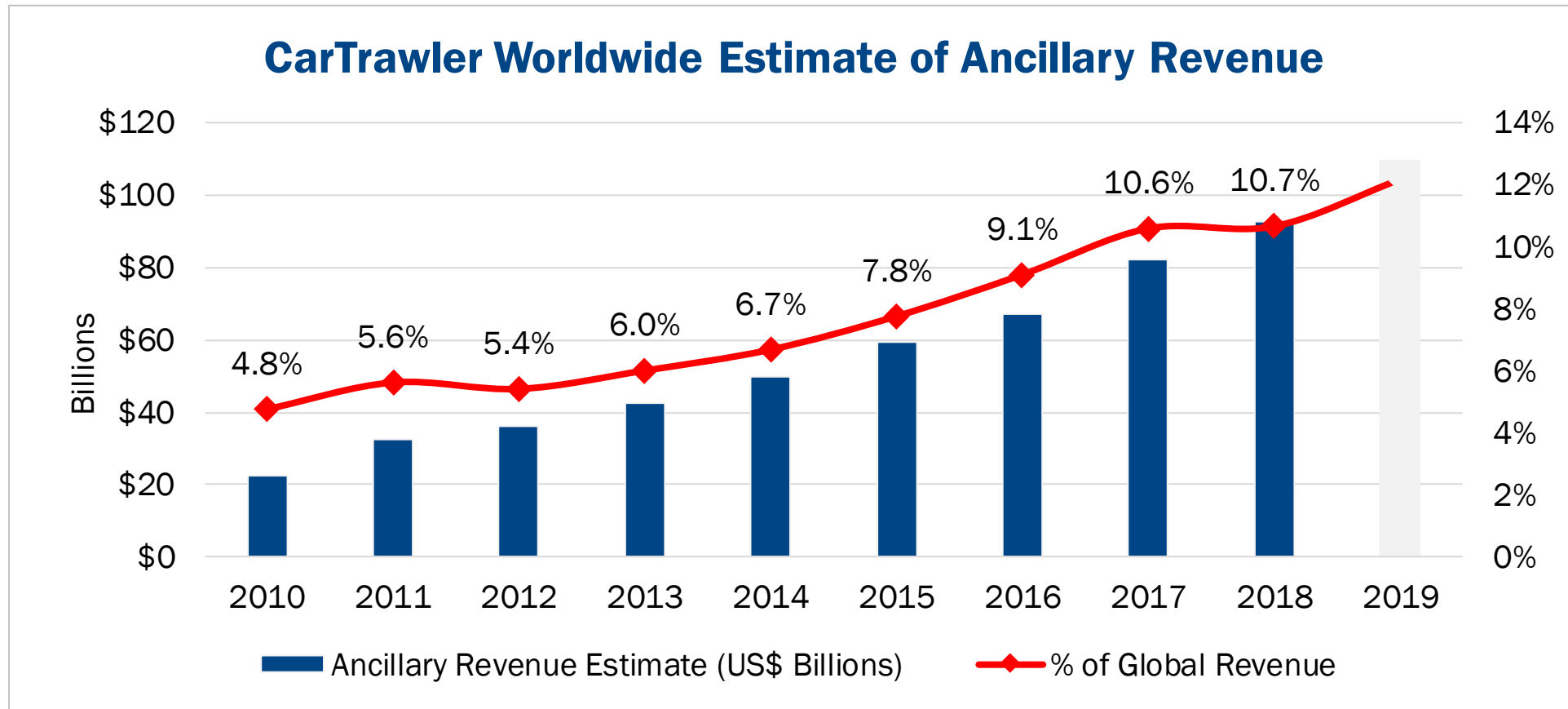
# What is ancillary revenue?

**Revenue beyond the sale of tickets that is generated by direct sales to passengers, or indirectly as a part of the travel experience.**

IdeaWorks further defines ancillary revenue using these categories: 1) a la carte features, 2) commission-based products, 3) frequent flyer activities, 4) miscellaneous sources such as advertising, and 5) **the a la carte components associated with a fare or product bundle.**

*Source: CarTrawler Ancillary Revenue Yearbook*

# IdeaWorksCompany offers its global estimate.



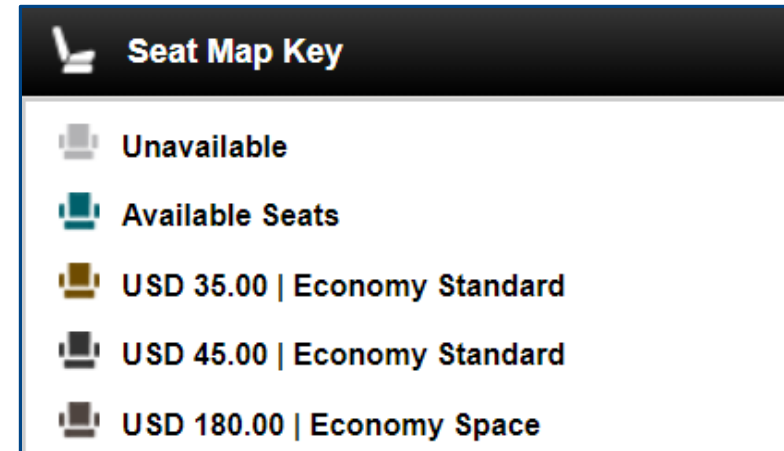
# Ancillary revenue nears 50% of airline revenue.

Ancillary Revenue as a % of Total Revenue			
2008		2018	
Allegiant	22.7%	Viva Aerobus	47.6%
Ryanair	19.3%	Spirit	44.9%
easyJet	15.5%	Frontier	42.8%
Jet2.com	14.8%	Allegiant	41.2%
Vueling	14.1%	Wizz Air	41.1%

Source: 2009 and 2019 Ancillary Revenue Yearbooks.

# In 2019, a la carte is now pervasive among network airlines.

- **Bag fees:** North American and European airlines for medium-haul services, and transatlantic routes (basic economy).
- **Seat assignment:** North American and European airlines, and now extra legroom options all over the world.
- **Buy-on-board:** North American and European airlines for medium-haul services, and more airlines worldwide for economy meal upgrades.



*Even Etihad. Effective July 2018, fees for standard seat assignments starting at AED 100 were introduced.*



# United swings low to match the LCCs.

Basic Economy restrictions apply, including:



No complimentary seat selection

- Advance seat assignments may be available for purchase during booking and up until check-in opens
- Complimentary seat assigned prior to boarding
- No group or family seating
- No Premier® member seating benefits



No full-sized carry-on bag on board\*

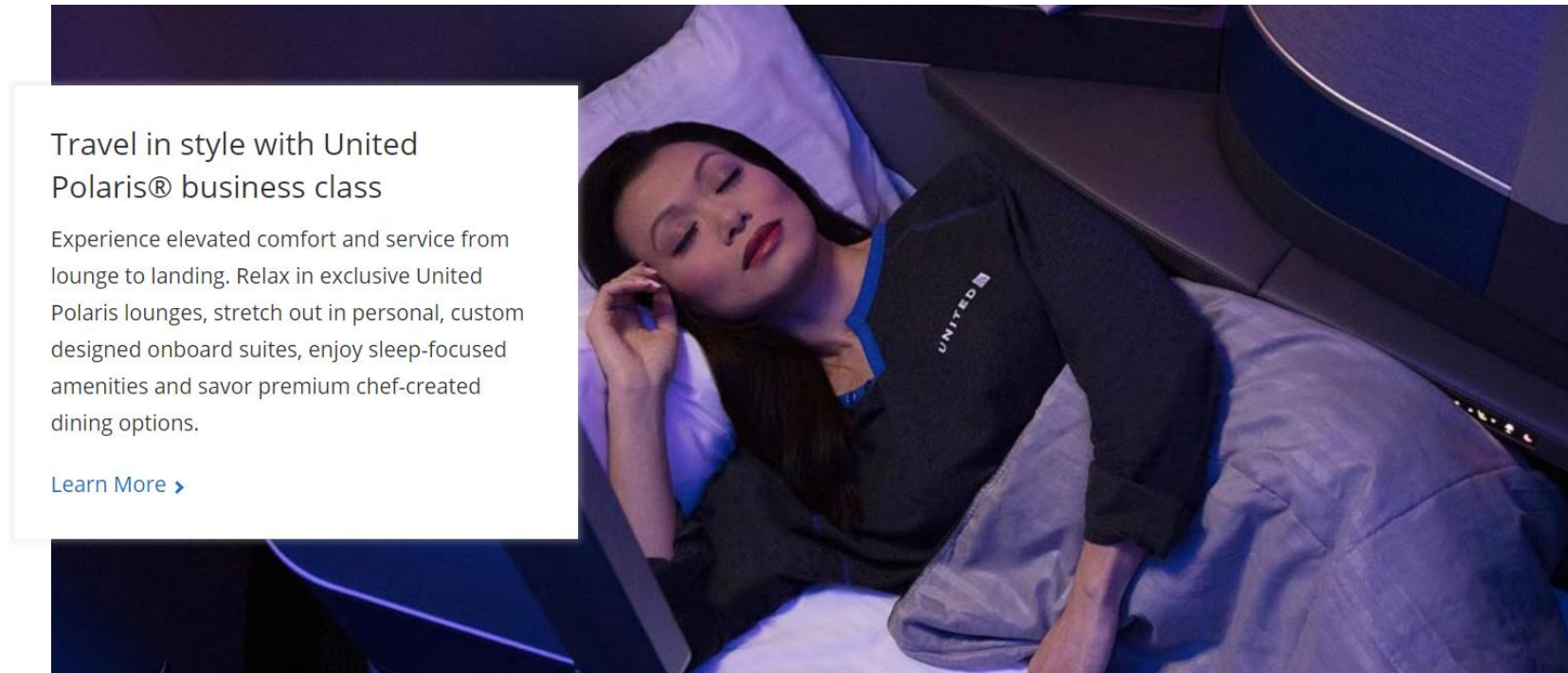
- Check bags before airport security for the applicable fee
- Bags brought to the gate incur an additional \$25 gate handling charge

\*This restriction does not apply to MileagePlus Premier members, primary cardmembers of qualifying MileagePlus credit cards or Star Alliance™ Gold members.

“No” appears 4 times in this pop-up that displays before a Basic Economy fare is confirmed.

*Source: United Airlines website reviewed December 2018.*

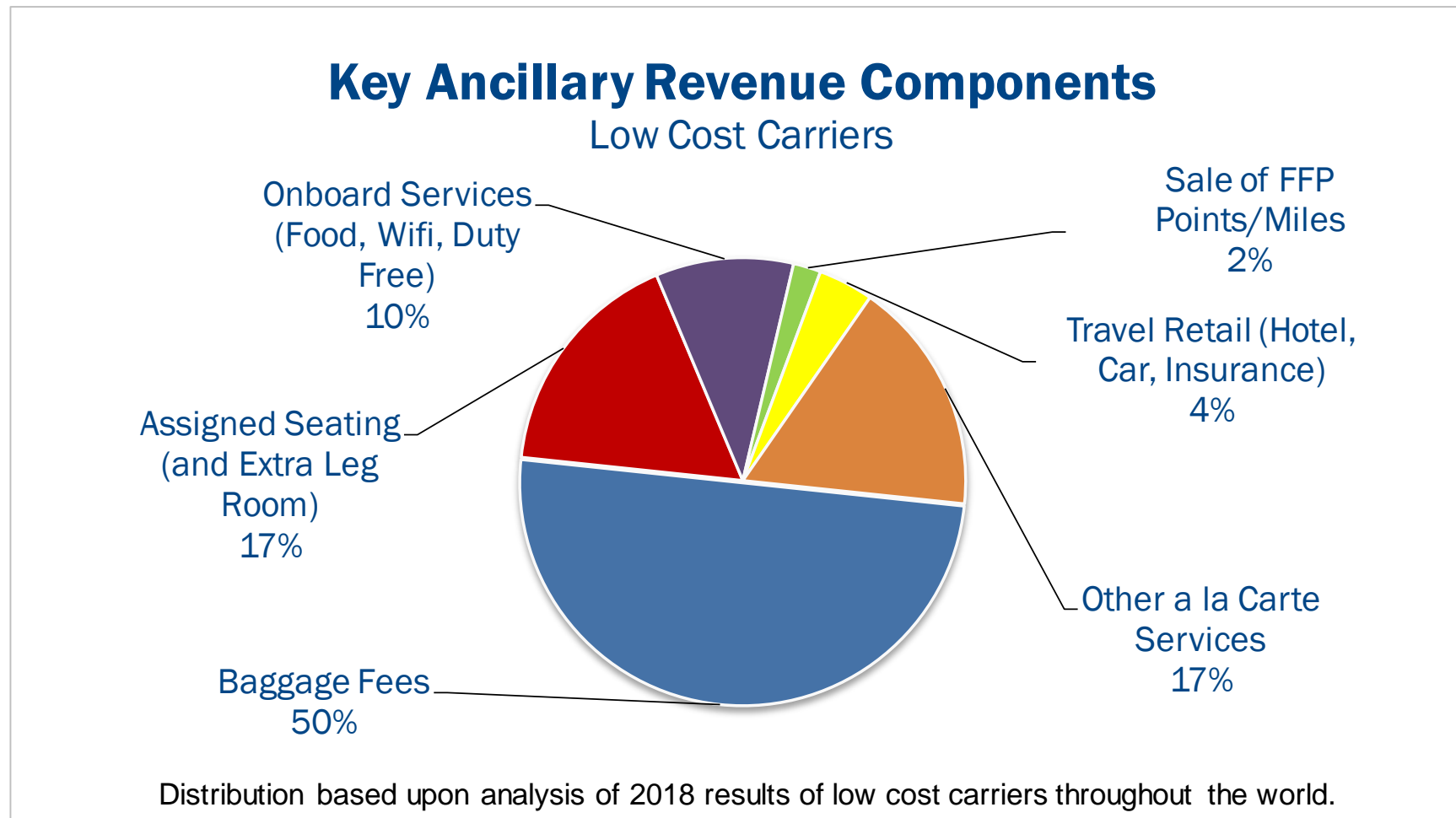
# Consumers (and employees) are confused by competing identities.



This high-style image and message greeted consumers on United's home page.

*Source: United Airlines website reviewed December 2018.*

# Baggage and seat assignment are crucial.



# Baggage offers the largest potential.

<b>Bag Fee Revenue – Selected US Carriers in 2015</b>		
<b>Carrier</b>	<b>Baggage Fee Policy</b>	<b>Per Passenger</b>
Spirit	Checked and large carry-on	\$16.92
Virgin America	No free bags	\$9.26
JetBlue	Fee for 2 <sup>nd</sup> checked bag in 2014	\$2.60
Southwest	No charge for 2 bags	\$0.53

*Source: 2015 CarTrawler Yearbook of Ancillary Revenue by IdeaWorksCompany. Note figures are for systemwide.*

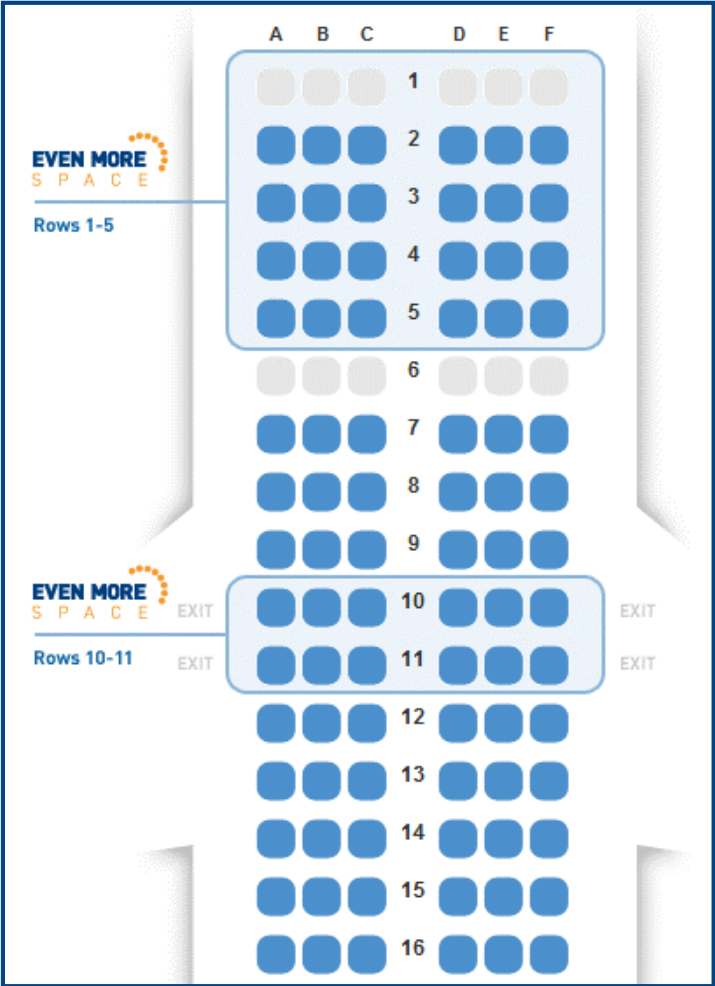
# Ryanair finally finds its ideal baggage policy.

- Priority boarding sells for €6-12 and includes a 10 kg. carry-on bag.
- Non-priority passengers are limited to a small (40x20/25cm) carry-on and pay to check a bag.
- Dublin-Alicante flight (3 hours) was observed with **70 priority passengers** ( $70 \times €10 = €700$ ) + 60 paid bags ( $60 \times €12 = €720$ ) for total revenue of €1,420 or **nearly €7.50 per passenger**.
- 3 non-compliant passengers were observed.



*The airline seems to limit Priority sales to 80 passengers on its 189-seat aircraft.*

# JetBlue – Even more legroom and speed.



**THIS SEAT INCLUDES:**

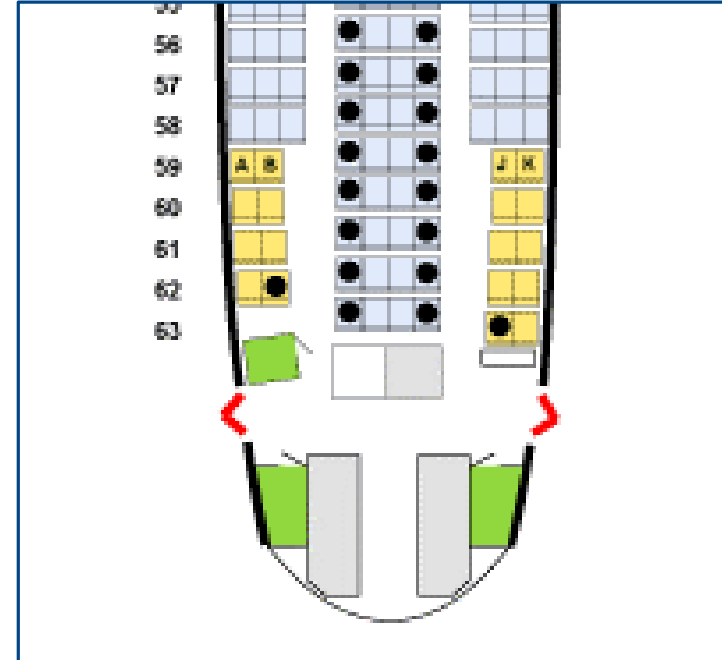
- \* Extra legroom
- \* Early boarding
- \* Early access to overhead bins

New! Here's even more - your Even More™ Space purchase comes with expedited security in this departure city.

Even More products generated \$274 million during 2018 or an average of \$6.50 per passenger.

## KLM – Seat in a Row of 2.

- Many airlines place a premium price on exit row seats.
- KLM might be the first airline to highlight **seating for couples**.
- The price is **€30 per flight** (or 6,000 Flying Blue miles) and seats can be reserved online as soon as check-in begins, or at an airport kiosk.
- Flying Blue elite members receive a discount (silver 25%, blue 10%).



*This seat map for a 777-300 displays "Seats in a Row of 2" shaded in yellow.*

## FFPs – Revenue exceeding checked bags.

Airline	Baggage Revenue Per Passenger	FFP Revenue Per Passenger
American	\$6.00	\$27.34
United	\$5.61	\$26.71
Delta	\$4.10	\$21.35
Southwest	\$0.37	\$25.26
<p>Sources: CarTrawler Yearbook of Ancillary Revenue by IdeaWorksCompany – 2019 and Baggage Fees by Airline for 2018 at US Dept. of Transportation website. Per passenger revenue is for one way trips.</p>		



# Subscription programs create the best loyalty.

Receba 5.000 milhas mensais, além de 5.000 milhas bônus nos quatro primeiros meses de adesão.

	Milhas do plano	Milhas bônus
1º mês	5.000	500
2º mês	5.000	1.000
3º mês	5.000	1.500
4º mês	5.000	2.000

Em um ano: 65.000 milhas

- **Gol's Club Smiles:** \$10 to \$200 monthly subscription delivers 1,000 to 20,000 bonus miles and more.
- **Vueling Pass:** Fast track screening (10 cities), priority boarding, and 10 lounge passes — €250.

Salas VIP disponibles en los siguientes aeropuertos

BARCELONA · MADRID · ALICANTE · MÁLAGA · AMSTERDAM  
PALMA DE MALLORCA · BRUSELAS · ROMA · LISBOA · MILÁN

# Not all travelers seek to save every penny, nickel, and dime.



*Big splurge on Delta for \$350 for VIP Select at Atlanta or a little-splurge €28 gourmet meal upgrade on Air France.*



- A core group of **10-30%** will consider fast track security, early boarding, extra leg room seating, and upgraded meals to be desirable services.
- **Don't confuse** this category with those having elite status in a frequent flyer program.
- When **branded fares** are properly retailed, **50+% will upgrade** to a better experience.

# Create new products, not just new fees.

- Alaska Airlines guarantees delivery within **20 minutes** after arrival at the gate (since 2010).
- If Alaska **fails to deliver**, the passenger receives their choice of a \$25 savings voucher or 2,500 frequent flyer miles.
- It's an approach that added value for the consumer and **placed a price** on slow.
- Everyone now expects and demands better quality for the price paid.



RACE YA TO THE  
BAGGAGE CAROUSEL.



**20**  
MINUTES OR LESS

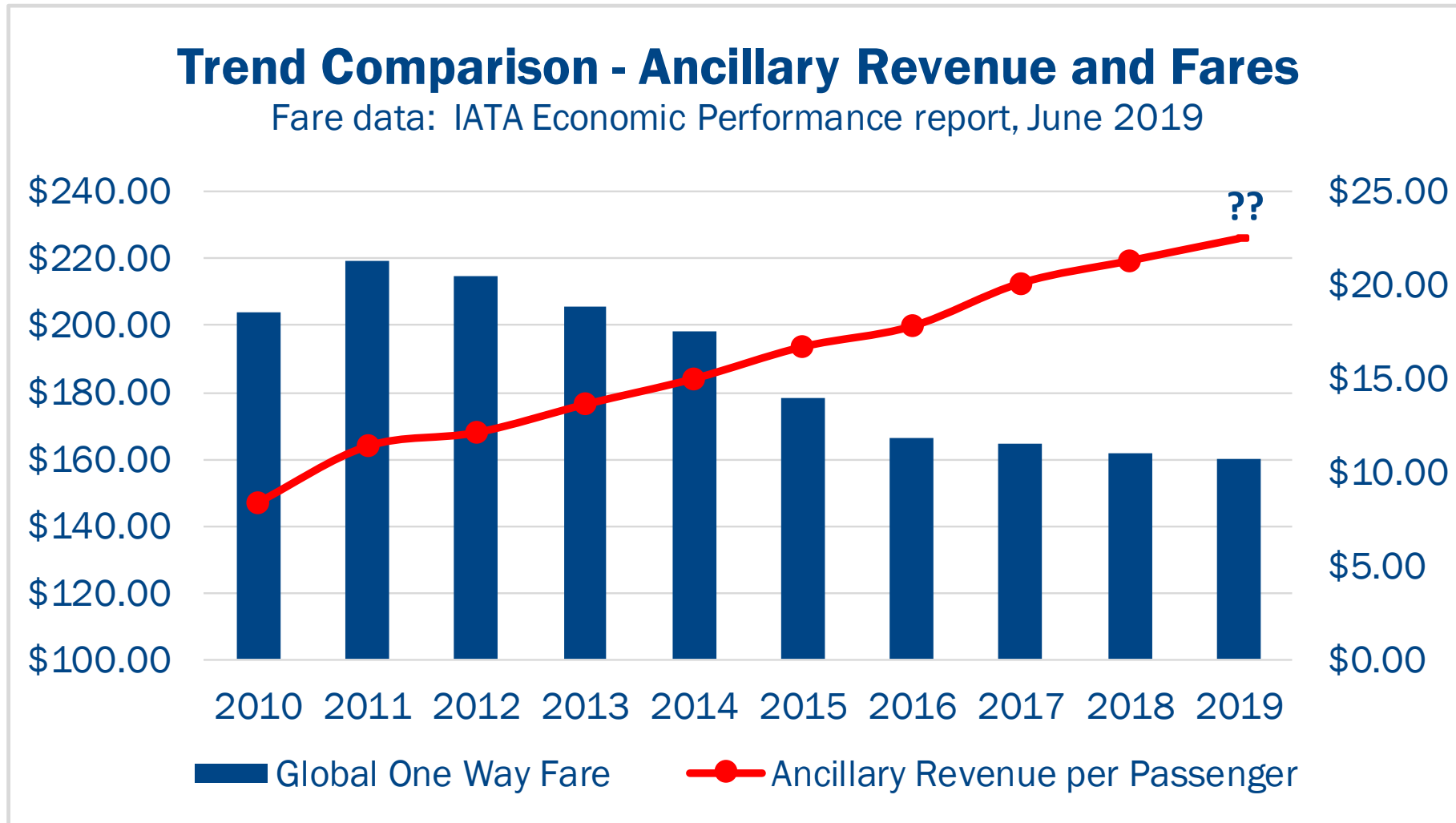
**BAGGAGE SERVICE GUARANTEE**  
Be reunited with your bag today less than 20 minutes after your plane parks at the gate, or receive a \$20 discount on a future flight or 2,000 Mileage Plus® Bonus Miles. Guaranteed. See a Customer Service Agent for more information or visit [alaskaair.com](http://alaskaair.com).

*Alaska Airlines* / *Horizon Air*

## 5 trends to watch for.

- Seat only or **Basic Economy will grow** beyond Europe, North America, and Transatlantic markets. Joint ventures and alliances encourage “sameness” and this helps spread innovation.
- Seat assignment fees, already prevalent across the world for premium seating, **will expand** throughout the economy cabin.
- Branded fares are **easily understood** by consumers, and deliver **premium profits** and will become the primary product design.
- Retail savvy airlines will dedicate **extensive resources** to develop robust mobile booking platforms.
- Pricing will move from fixed to **dynamic methods** for more a la carte services.

# A final point — a la carte retail is good for consumers.



# Sometimes you need to take risks.



*Those who didn't take this trail in Lassen Volcanic National Park in California missed a wonderland of snowfields, geysers, mud pots, and boiling cauldrons of water.*



**About IdeaWorksCompany:** IdeaWorksCompany was founded in 1996 as a consulting organization building revenue through innovation in product, partnership and marketing. Its international client list includes the airline, hotel, marine, railroad, and consumer product industries. The firm is a leading expert on creating ancillary revenue opportunities for airlines. IdeaWorksCompany has worked with airlines on ancillary revenue projects in Europe, the United States, and South America. The consulting firm has helped create frequent flyer programs and helped develop co-branded credit cards in the USA, Europe, and South America. Learn more at: [IdeaWorksCompany.com](http://IdeaWorksCompany.com)

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