

An extremely brief primer on the past two decades in the airline industry, in case anyone needs a refresher: First came the streamlining of the air travel product, where meals and other 'perks' were reduced in a cost-cutting effort. Then the airfare was unbundled completely, allowing airlines to present a fare devoid of pesky line-items like taxes and airport charges. Then, in one of the most significant turning points in the economics of passenger aviation, airlines began levying fees and charges on those previously-included products and services.

Those measures, all designed to enhance revenue or increase the airlines' bottom line, represented the low-hanging fruit of the ancillary revenue development business. In the face of increased competition and high and volatile operating costs, it can be argued that it was necessary for airlines to pluck these in order to remain solvent.

Sustainable ancillary revenues

Now, however, the airline industry has begun picking more productive fruit, in terms of ancillary revenues. The trend now is toward reaping commissions from third-party providers in order to boost revenue, and the result has been a truly customizable flight experience for consumers. The fact that airlines and other companies are finding more (and more creative) ways to expand this market is a testament to how "fruit"ful it can become.

Commission-based ancillary revenues, distinguishable from fee-based ancillaries by the value received and perceived by the consumer, have always been marked by the Big Three: car hire, travel insurance, and hotel room. These options continue to be three of the most productive ancillary revenue streams for airlines, but newer ideas continue to emerge. It is worth reiterating, however, that most of the new developments in ancillary revenue development strategy have focused on creating value for the consumer, on identifying the needs and wants of various segments of travellers (business travellers, leisure travellers, etc.), and crafting or packaging unique solutions to meet them.

Today's ancillary revenue is less about levying a fee, and more about stimulating demand. And that is precisely why commission-based ancillary revenues are sustainable, and represent the best opportunity for growth in the airline industry. It should also be no surprise that many of these offerings are technology-based, and all are available through the airline's booking path.

Next generation offerings

Think Beyond Baggage Fees. One next-generation ancillary offering that has generated significant excitement involves a flexible 'concierge' service suite, which provides a traveller with a hotel, restaurant and event locator, taxi and transfer reservations, access to a doctor for non-emergency medical care abroad, and assistance rescheduling in the event of disrupted travel. Here is a programme designed to strip the anxiety out of travel, and airlines – once the very source of that anxiety – are earning a commission by providing it!

It is small wonder that this particular programme has shown great crossover potential between business travellers and leisure travellers. There are plenty of examples of this kind of innovation, from insurance-like ancillary offerings that provide monetary reimbursement in case of inclement weather, to 'bundled' ancillaries like travel insurance and Wi-fi access at airports. Others apply a retail model to the in-cabin shopping experience, while still others partner with airports and other travel-related agencies to provide service options at every step in the journey.

Innovation and experience equals revenue success

The fact is, this value-based approach to ancillary revenue generation has far more growth potential than a fee-based model, if only because there is a natural limit on the amount of fees that can be imposed. Once an airline institutes a fee, it must institute another fee next year (and next year, and so on) or double the fee itself just to maintain the same revenue growth rate it enjoyed in year one.

Value-based ancillaries have no such constraint. By providing a wholly customizable experience to travellers, and by partnering with the right companies to deliver that experience, airlines are realising the benefits of commission-based ancillaries. And that's a good thing for both consumers and the companies that serve them.

Read the article on Travel Bulletin [here](#)

