

### The Future of Ancillary Revenues

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The U.S. Department of Transportation (DOT) recently called for airlines to provide in-depth reports on receiving fees from a variety of sources. This is a heated issue and it is one that has been developing since June 2010. Raphael Bejar, CEO of Airsavings, which helps airlines to lower costs and generate revenue, gives his view on the matter.

The subject of airline fees is continually in the press: most recently, the Department of Transportation's (DOT) call for fee transparency has added fuel to the fire. Yet clarity on additional fees should benefit both consumers and airlines. It is certainly not something that should cause airlines concern.

It is important to note that airlines already submit quarterly reports, which list revenues from baggage and reservation change requests. However, missing from the reports are, for example, lists of in-flight food sales, in-flight entertainment revenues and other add-ons.

#### A Shift in the Industry

As from mid-August, airlines had to disclose ancillary revenues charges on their websites with a link listing all fees. The DOT is still deciding whether airlines will have to provide ancillary fee information to travel agents and websites for further customer comparison. International Air Transport Association (IATA) branded the recent developments "troublesome" and its spokesperson, Perry Flint, claimed they were "a significant intrusion into the commercial marketplace."

New requirements on quarterly sales reports would add 16 categories for submission. They aim to encourage price transparency and to clearly inform travelers of all additional fees and surcharges. This is not necessarily a bad thing. Transparency can reward those airlines that develop sustainable, non-fee based ancillary revenue systems, in effect creating a system of incentives that would be beneficial not only to airlines but to travelers and the industry as a whole.



A recent report from IdeaWorks highlights the increasing pressure on airlines to find new means to increase ancillary revenues. Checked baggage fees are growing worldwide, with some of the most notable changes coming from prime routes, namely: New York to Rome, Los Angeles to Tokyo and Tokyo to London, plus domestic U.S. and intra-Europe flights. United Continental announced a new initiative to add second baggage fees to flights such as those covering Asia and the Middle East. The report clarifies: "the windfall of cash that bag fees provide at a time of economic peril is simply too compelling to ignore."



In most cases, that is very true. There is little doubt that ancillary revenues will increase – whether or not they are reported. Just like any fee structure, there is a natural give-and-take, which means additional bag fees will reach a ceiling, although airlines are still experimenting with how high that ceiling is. After reaching the potential in one ancillary revenue category, airlines need a new source to tap into. In-cabin sales are an essential part of airlines' ancillary revenues. In the Asia-Pacific region, 71 percent of airlines use a duty-free model of in-cabin sales to generate ancillary revenues.



## Looking Closer at Ancillary Revenues

After a flurry of new ancillary products and services, airlines are searching for sustainable ancillary revenue solutions. With the DOT's push towards transparency, sustainable and long-term revenues can provide a more enjoyable passenger experience while exploring advanced branding methods.



In other words, opportunity is knocking. IdeaWorks' report shows that ancillary revenues netted airlines more than \$22.6bn in 2010. Ancillary revenues at 47 carriers jumped a healthy 60 per cent to more than \$21bn last year. Delta Airlines made the second-highest ancillary revenue with \$3.7bn, industry experts note that the world's largest carrier has embraced the ancillary revenues model, adding fees like In-flight Wi-Fi, onboard dining, and on-demand movies. In addition, the U.K.'s airline easyJet's 2H revenues per seat are expected to improve by 5 per cent, due in part to new ancillary revenue.

Air Berlin earned over €38m (\$54.6m) in 2010 from duty-free and in-flight sales; JetBlue's "even More Leg-room" seating option contributed \$85m of revenue in 2010. Third-party sources for Allegiant Airways show revenues sources such as hotel accommodation and ground transportation topped \$24m. US Airways' economy seating option, Choice Seats, pulled in \$30 to \$40m revenue in 2010.



Ancillary revenues strategies can seem confusing to the uninitiated. Why complicate things with such an assortment of add-ons? Instead of focusing on each product and how it ties in to the rest of the onboard experience, it is more appropriate to think of the airline shop as a convenient one-stop destination. The ticket provides a chance to shop for destination-based products, forgotten travel essentials and gifts. This branding opportunity allows airlines to add value, add sales, and add experience – all the while keeping ticket prices down as an incentive to enter and experience the 'airline shop'.

The business class service can be greatly affected by the length of travel times. One new revenue initiative allows traveler to take advantage of local concierge services like hotel reservations, ground transportation and restaurant reservations prior to touchdown. As the programme can be implemented by airlines without any initial cost. It is an example of an investment that increases ancillary revenue streams while also increasing brand interaction. This new process could conceivably be placed at any stage of the booking process and with low costs to the user it provides airlines with plenty opportunity to increase revenue.





## Ancillary Revenues Heat Up

Innovation breeds new opportunity in any industry. As traditional fees reach their ceiling and as transparency becomes increasingly important for both airlines and travellers, airlines need to look towards adding new products and services that will create tangible value throughout the entire journey – starting in the booking path through the very end of the trip.

Airlines are experimenting with goods and services that show extraordinary promise. This popularity of concierge and destination-based products is growing and it appears that more airlines are willing to test and examine their efforts to

produce ancillary revenues of this kind. According to Amadeus and Forrester in January 2011's *Cross-Sell Your Way to Profit*, "By offering these services, airlines and other travel suppliers could fulfill many of the product areas in which they don't currently participate while also offering a more comprehensive travel experience to their customers."

It may appear that consumers respond negatively to additional fees however, the benefits additional services provide can arguable out-weigh any qualms. Hotel stays, concierge services, holiday insurance and weather protection are just a small number of additional options to be enjoyed by the average traveler. Moreover, as we see more airlines increasing their sources of ancillary revenue the industry undoubtedly find many more products and services to offer.

Untapped services promise substantial revenue increases, but additional revenue can also be garnered from the technology used to support these sales. Products and services will need to be adjusted according to the demographic, route, season, time, and carrier. Airlines should act now to experiment with optimising their customer experience.

Businesses must learn to adapt, particularly in changing times. The needs and desires of today's travelers have changed yet airlines have the opportunity to change with them. To do this they must incorporate more pre-sell, online, mobile, and virtual products into their offerings and create a more transparent and sustainable ancillary revenue strategy which appeals to passengers. Every product and partnership has the potential to generate revenue while also complementing a journey.

Sustainable ancillary revenue has vast potential. In light of industry expectations and the needs of passengers, airlines should pursue more revenue streams and services now – regardless of pending DOT decisions. While fee-based ancillary revenues have been criticised, sustainable initiatives provide the chance to improve their reputation and profits. Airlines need to start tapping into existing resources and technology, starting with increased transparency.

It may be a simplistic view, but why complicate the ancillary revenue debate any further?

