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## 2018 Top 10 Airline Ancillary Revenue Rankings

CarTrawler-sponsored analysis shows ancillary revenue continues steady advance by every measure, and asks the question, can too much of a good thing be a bad thing?



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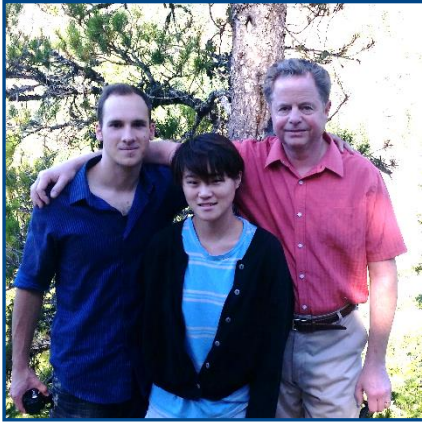


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## About Jay Sorensen, Writer of the Report

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 Symposiums in Abu Dhabi and Singapore, and has testified to the US Congress on ancillary revenue issues. His published



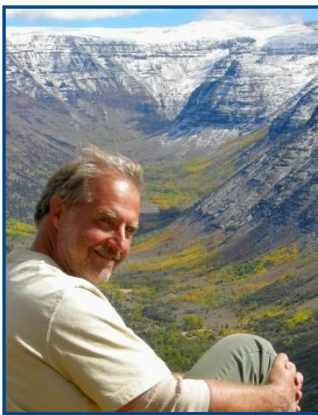
*Jay, with son Aleksei and daughter Annika, in North Cascades National Park in Washington.*

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 35 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,

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## 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](http://TrailNot4Sissies.com).

*Eric, at his favorite summer retreat, Steens Mountain, Oregon.*

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## 2018 Top 10 Ancillary Revenue Rankings

### Introducing you to Nebeneinnahmen

“Nebeneinnahmen” is practically unpronounceable for many of us. But it has become a term of endearment among German airline executives. It’s a German word for “ancillary revenue” and its increased usage demonstrates how it has remade the business models of the Lufthansa Group, the European airline industry, and the world.

Back in 2009, Lufthansa disclosed inflight sales and travel sales commissions representing ancillary revenue of one percent of revenue. Since then, Lufthansa’s ancillary world has grown to feature branded fares, seat-only fares within Europe and on transatlantic routes, and a collection of low cost carriers with 38+ million passengers annually. The 2018 disclosure by Carsten Spore, CEO of Lufthansa Group, caps all of these achievements – ancillary revenue now equals 8 percent of revenue.<sup>1</sup> This is a giant stride from 2009.

<b>Table 1: Top 10 Airlines – Total Ancillary Revenue (US dollars)</b>			
<b>Annual Results – 2018</b>		<b>Approximate Sources of Revenue</b>	
		<b>Frequent Flyer Program</b>	<b>A la Carte Such As Bags Travel Retail Commissions</b>
American	\$7,245,000,000	77%	23%
United	\$5,802,000,000	73%	27%
Delta	\$5,570,000,000	74%	26%
Southwest	\$4,049,000,000	84%	16%
Ryanair	\$2,801,536,938	None	100%
Lufthansa Group	\$2,628,328,912	32%*	68%*
Air France/KLM	\$2,579,438,796*	21%*	79%*
easyJet	\$1,597,900,258	None	100%
Spirit	\$1,493,108,000	3%	97%
Air Canada	\$1,452,733,488	39%	61%

*2018 carrier results were based upon recent 12-month financial period disclosures.  
\* IdeaWorksCompany estimate based upon updated past disclosure and other sources.  
Local currencies converted to US dollars at July 2018 rates of exchange.*

<sup>1</sup> Lufthansa Group 4th Quarter 2018 Investor Conference Call Transcript.

This top ten list has become a billionaire’s club, which of course includes Lufthansa Group and five other global players. By comparison, only three of the top ten reached a billion dollars of ancillary revenue in 2009. The group of ten represents ancillary revenue of \$35.2 billion, which is far above the 2007 result of \$2.1 billion. Table I indicates the club includes members in Canada, France, Germany, Ireland, the Netherlands, the UK and US. Total ancillary revenue is one measure of ancillary revenue prowess. This report describes the very best of ancillary results on the global stage, whether measured as total revenue, as percent of revenue, or on a per passenger basis.

Ancillary revenue and a la carte revenue are terms which can be easily confused. Ancillary revenue – as defined below – is not limited to fees for optional services. It also includes other ways in which passengers generate revenue for an airline. The revenue produced by frequent flyer programs represents a very meaningful 55 percent of the total revenue listed in Table I. But not for all carriers, as Ryanair and easyJet don’t yet offer loyalty benefits to consumers. However, easyJet has announced plans to introduce a loyalty program, perhaps to generate co-branded revenue and attract more business travelers.

### **Financial documents for top ancillary revenue producers were reviewed**

Every year since 2007, IdeaWorksCompany searches for disclosures of financial results which qualify as ancillary revenue for airlines all over the globe. Annual reports, investor presentations, financial press releases, and quotes attributed to senior executives all qualify as sources in the data collection process. Some airlines limit disclosure to a single item such as duty-free sales or excess baggage fees, and this is normally associated with traditional airlines. This report focuses on top performers, which provide robust description of ancillary revenue activities to catch the attention of the investment community.

#### **IdeaWorksCompany offers a definition of 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.

IdeaWorksCompany 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.

From this list, total airline revenue and ridership data were collected to determine the top ten airlines in overall ancillary revenue, as a percentage of company revenue, and on a per passenger basis. In the process of collecting data for this report, we make note when details regarding the sources of ancillary revenue are identified. The collected data is reviewed and this results in a few adjustments. For example, throughout the results in this report, revenue from cargo and change fees was subtracted from results when possible. The results for the complete list of 70+ disclosing airlines will be released in September 2019 as the 12th annual *CarTrawler Yearbook of Ancillary Revenue by IdeaWorksCompany*.

## Banks boost revenue for big carriers

In Table 1, billion dollar ancillary revenue airlines are defined by two types: the world's largest low cost carriers and global network airlines with mature co-branded credit card portfolios. All sales generated from these activities qualify as ancillary revenue. The US market over the course of decades has become the land of revenue-rich card portfolios courtesy of payments made by American Express, Barclays, Chase, and Citi banks to airline frequent flyer programs.

Every time an airline cardholder makes a purchase, they accrue miles or points. These are paid by the bank issuer of the card and the miles or points are then deposited to the frequent flyer account of the cardholders. This is commerce on a grand scale. American Express SkyMiles cardholder spending increased from \$45.4 billion in 2012 to \$94.7 billion for 2018.<sup>2</sup> That's more than double the entire revenue of \$42.6 billion produced by Delta Air Lines during 2018.<sup>3</sup>

Table 2 contains a selected sample of 2018 results from our research. The results are staggering, with the US carriers on the list representing revenue of more than \$17.5 billion. Caution is advised, because not all the revenue is generated by co-branded credit cards. Frequent flyer programs have other sources too, such as miles sold direct to members, or points sold to hotel, car hire, and retail partners. However, 90 percent of this revenue is typically generated by relationships with bank partners.

Table 2: Key Frequent Flyer Revenue Disclosures (US dollars)			
Airline	Program Name	FFP Revenue per Network Passenger	Total Revenue (or Billings) From Program
Qantas Group	Frequent Flyer	\$37.51	\$1,144,803,233
American	AAdvantage	\$27.34	\$5,571,000,000
United	MileagePlus	\$26.71	\$4,229,000,000
Southwest	Rapid Rewards	\$25.26	\$3,407,000,000
Delta	SkyMiles	\$21.35	\$4,110,000,000
Hawaiian	HawaiianMiles	\$18.50	\$219,000,000
Aeromexico	Club Premier	\$11.44	\$250,253,456
Air Canada	Aeroplan	\$11.22	\$571,366,391
Virgin Australia	Velocity	\$11.08	\$275,463,650
Azul	TudoAzul	\$10.95	\$253,132,391
GOL	SMILES	\$6.95	\$232,294,093

*2018 carrier results were based upon recent 12-month financial period disclosures.  
Local currencies converted to US dollars at July 2018 rates of exchange.  
Revenue or billing amounts benefitting the airline either as wholly/partially owned entity or as a partner.*

<sup>2</sup> American Express 2018 Annual Report.

<sup>3</sup> Delta Air Lines Form 10-K for the year ended 31 December 2018.

Per passenger results can also be stunning. Qantas believes 35% of credit card spend in Australia is on Qantas co-branded credit cards.<sup>4</sup> That type of number should catch the attention of Australia's secretary to the treasury. It's easy to see why these are popular products for airlines operating in countries where consumers eagerly use credit and merchant credit fees are lightly- or un-regulated. The latter is used by banks to fund the purchase of miles and points from airlines.

Air Canada, operating in an economy similar to the US, should be enjoying the \$20+ per passenger revenues of its US airline brethren. But Aeroplan operated during 2018 as an independently owned entity. The results listed in Table 2 represent sales of reward tickets to the program operator Aimia. The airline doesn't directly benefit from Aeroplan's co-branded credit cards beyond this ticket revenue. That's one of the reasons why the airline chose to buy back the program from Aimia during 2019.

Canadian banks are eager to continue the relationship with Air Canada and are paying huge amounts of cash to sweeten the Aeroplan deal. TD Bank and the Canadian Imperial Bank of Commerce have already made total payments of CAD 1.222 billion (\$913.4 million) linked to card marketing relationships and the pre-purchase of Aeroplan miles.<sup>5</sup> In addition, more payments tied to co-branded cards will be made by Visa and American Express. It's a windfall of cash that greatly exceeds the CAD 497 million (\$371.5 million) the airline paid to Aimia to buy the Aeroplan program back.



*Westjet opportunity? Banks are paying millions to ensure Air Canada and its frequent flyer program members remain loyal to their credit cards as the program changes ownership back to the airline.*

The co-branded credit card business also appeals to smaller carriers. Here are some additional findings from our ancillary revenue research:

- **Allegiant** in the US has recognized approximately \$33 million in third party product revenue from its co-brand credit card program since its introduction in 2016.<sup>6</sup>
- **Avianca** in Colombia has a portfolio of 680,000 co-branded credit cards associated with its LifeMiles program. This cardholder base represents nearly 8 percent of its 8.9 million program members.<sup>7</sup>
- **Volaris** in Mexico has 235,000 co-branded cardholders, who generated revenue of \$13.5 million for 2018.<sup>8</sup> The airline does not have a frequent flyer program.

<sup>4</sup> Qantas FY 2018 Results Presentation

<sup>5</sup> "Air Canada Completes Acquisition of Aeroplan Loyalty Business" press release dated 10 January 2019 at AirCanada.com.

<sup>6</sup> Allegiant Travel Company Annual Report Form 10-K for the year ended 31 December 2018.

<sup>7</sup> Avianca Holdings 2018 Annual Report.

<sup>8</sup> Volaris Aviation Holding Company SEC Form 20-F for 2018.



## Viva Aerobus is tops for ancillary as a percent of revenue

Viva Aerobus jumped Spirit this year with a record 47.6% of revenue. Table 3 below lists the top ten airlines for ancillary revenue as a percentage of total revenue. It's a stable collection of airlines that generally realize higher percentages year-over-year.

The big change to the 2018 list is the disappearance of WOW air which posted a 28.5% result for 2017. The airline became insolvent in early 2019 and did not share its 2018 results. Eight of the ten airlines achieved higher results when compared to 2017. Joining the top ten list for 2018 is AirAsia which had a dramatic increase from 17.3 percent to 29.0 percent for 2018. This was largely due to an overall 11 percent increase and better disclosure of the group's results.<sup>9</sup>

Table 3: Top 10 Airlines – Ancillary Revenue as a % of Total Revenue		
Annual Results – 2018		Notable Ancillary Revenue Activities
47.6%	Viva Aerobus	The airline improved the performance of its 3 branded fares.
44.9%	Spirit	Dynamic pricing for seat and bag fees was emphasized.
42.8%	Frontier	Frequent flyer program was relaunched with new elite tiers.
41.2%	Allegiant	Allegiant started offering a discount for roundtrip itineraries.
41.1%	Wizz Air	Fast track and lounge access added as mobile app functions.
34.8%	Volotea	Inflight entertainment via mobile app for €1.99 added.
32.3%	Volaris	Dynamic pricing for seat and bag fees was emphasized.
31.7%	Ryanair	Ryanair introduced priority boarding with carry-on bag benefit.
31.1%	Jet2.com	Airline employs 600+ customer helpers at resort locations.
29.0%	AirAsia Group	Onboard catering features more ASEAN-based SME vendors.
<i>2018 carrier results and activities based upon 12-month financial period disclosures.</i>		

Ancillary revenue as a portion of total revenue appears to have reached a ceiling of 50 percent. It's easier for a non-global airline to achieve this high rate because the underlying passenger fares are lower for short- and medium-haul travel. Every year the ancillary revenue percentage for the bottom entry on the top ten list tends to nudge upward; two years ago it was 22 percent and last year it is 27.6 percent.

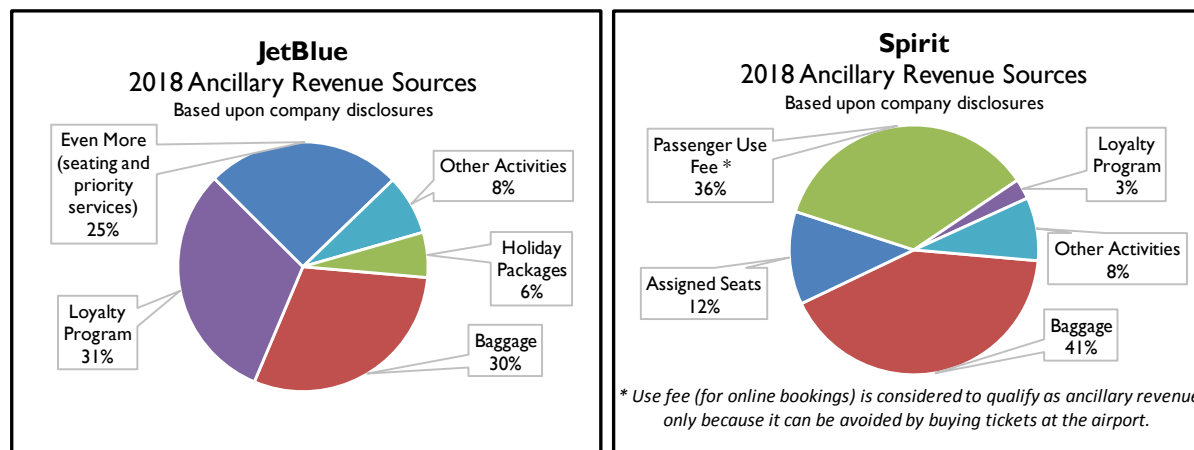
The right side column in Table 3 lists notable 2018 activities that contributed to each carrier's results. Dynamic pricing of a la carte services is referenced twice, for Spirit and Volaris. It's a phrase that is unreliably defined in the airline industry and we believe technical capabilities are sometimes exaggerated. Volaris did reveal its method relies upon multiple variables: season, route, customer attributes, time before purchase, type of market, time of purchase, and type of flight.<sup>10</sup> Essentially, this applies revenue management techniques to the pricing of a la carte services. Look for more of this because it works so very well.

<sup>9</sup> AirAsia 2018 Annual Report.

<sup>10</sup> Volaris Investor Day Presentation, 13 September 2017,

For some airlines, such as JetBlue and Spirit, disclosures from financial filings provide a rather complete picture of their ancillary revenue. The following pie charts feature red shading for baggage revenue, purple for loyalty, and blue for seating products.

### Low Cost Carrier Examples



Red dominates the two pie charts, which indicates the importance of revenue from baggage fees. Spirit generates a strong \$21.15 per passenger from baggage fees.<sup>11</sup> The carrier has an assertive baggage policy which includes fees for medium-sized carry-on bags. JetBlue disclosed average baggage revenue of \$7.70 which demonstrates the results of a more relaxed carry-on policy.<sup>12</sup> Assigned seating has earned a strong 2<sup>nd</sup> or 3<sup>rd</sup> place in ancillary revenue pies, and this holds true for both LCCs and traditional airlines.

### Ryanair is finding its baggage groove

But boy oh boy, it's a complicated story. Let's begin with a little history on the subject. Ryanair may have labeled 2018 as "annus horribilis," borrowing a phrase used by Queen Elizabeth to describe a horrible year experienced during her reign. Ryanair made more than one attempt to create a bag policy balancing smooth airport operations, compliant customers, and attractive revenue. The need for change was identified by Ryanair in 2013, when its CEO Michael O'Leary confessed, "We should try to eliminate things that unnecessarily piss people off."<sup>13</sup> Baggage was one of the problem areas.

Ryanair finally implemented a policy in November 2018 that found the balance identified above. The policy is best explained by an article from CNN Travel, "Under the new policy, non-priority boarding passengers are still allowed to bring a personal bag into the cabin free of charge, but there will be a fee of €8 (\$9) to check in a small suitcase weighing up to 10 kilograms (22 pounds). Passengers who purchase priority boarding will still be allowed to bring a personal bag and a small suitcase onto the plane."<sup>14</sup> Michael O'Leary's desire to eliminate the expense of handling customer bags has always eluded him. But with this policy, he has lightened the load by encouraging travelers to carry their own . . . and in an orderly manner.

<sup>11</sup> Spirit Airlines 2018 Form 10-K.

<sup>12</sup> JetBlue Investor Day 2018 Presentation dated 02 October 2018.

<sup>13</sup> "Ryanair unveils new strategy: be nice to customers" article dated 20 September 2013 at *Reuters.com*.

<sup>14</sup> "Ryanair changes hand luggage rules – again" article dated 01 November 2018 at *CNN.com*.

I watched the “Priority & 2 Cabin Bags” policy in action during travels to Dublin earlier this year. I observed a number of flights, counted bags and passengers, and had impromptu conversations with ramp staff and gate agents on the concourse. Of course this being Dublin (the primary hub of Ryanair) passengers are well practiced in the carrier’s passenger processes. This may have influenced the overall result – which was found to be exceptionally smooth and orderly. Gone were the public displays of agony that can accompany the boarding of Ryanair flights.

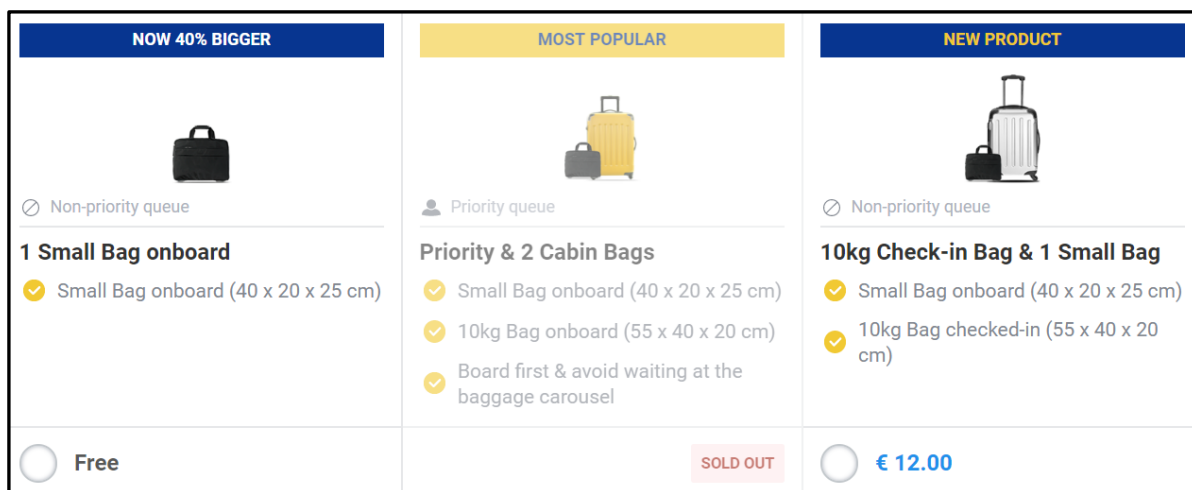
Operational staff had the following to say about the Priority & 2 Cabin Bags process: *“It’s better than the policies we had during 2018 in terms of delays. Generally the boarding process is smooth, though families can cause issues. This occurs when a parent buys priority boarding for some family members (likely the parents) and not for the kids. They are upset when the kids are not allowed to board with the parents. Often gate staff will allow kids to board with the parents. Out of Dublin, we see shorter haul flights with about 10 to 15 bags in the hold, with the rest carried by passengers into the cabin. For longer haul flights, 60 checked bags is a good average quantity. The priority boarding is capped at 80 passengers.”*

Observations and conversations from the Dublin airport visit are reflected in the Table 4 data and calculations. Ryanair does use variable pricing for a la carte services, such as priority boarding. Assumptions were made on the distribution of Priority & 2 Cabin Bags pricing for the Birmingham and Alicante flights; this information was not gathered from airport staff. Based upon a review of the booking path for the two city pairs, Ryanair appears to offer Priority & 2 Cabin Bags at €6, €9, and €12 per passenger. Prices increase as a flight books up with passengers.

Table 4: Comparing Typical Ryanair Bag Activity		
City pair	Dublin - Birmingham	Dublin – Alicante
Flight duration	About 1 hour	About 3 hours
Aircraft capacity	189 economy seats	189 economy seats
Priority & 2 Cabin Bags sales <i>(includes 10 kg cabin bag)</i>	30 passengers @ €6 = €180 50 passengers @ €12 = €600	30 passengers @ €9 = €270 50 passengers @ €12 = €600
Bags checked at counter <i>(assume basic 20 kg bag)</i>	15 bags @ €15 = €225	60 bags @ €25 = €1,500
Bag exceptions handled at the gate with fee applied	2 bags @ €25 each = €50	3 bags @ €25 each = €75
Total ancillary revenue	€1,055 (\$1,184)	€2,445 (\$2,744)
<i>Baggage activity is based upon observations and discussions with operations staff at Dublin Airport during early 2019. Assumes standard fares, with “Priority &amp; 2 Cabin Bags” prices increasing as a flight fills.</i>		

This policy is a stroke of genius because it combines two things passengers adore: early boarding and the certainty of stowing a roll-on bag. Ryanair obviously did the math and found its overhead bins comfortably fill up with the carry-on bags of the first 80 passengers. It’s an intuitive offer for consumers. Plus non-priority passengers spend many minutes at the gate observing the benefit of the Priority & 2 Cabin Bags option. Then these non-priority passengers board afterwards and are checked by gate agents for non-compliant carry-on bags. These passengers are pulled aside and their bag is checked for a €25 fee.

Ryanair appears to be using Priority & 2 Cabins Bags as a revenue platform upon which to test new services and refine how baggage is merchandised. The carrier’s booking path is complex and uses every opportunity (and screen space) to sell baggage services and assigned seating. At times the distinction between early boarding, baggage, and seating becomes a blur of pop-up boxes and interruptions. It all has the feeling of being unstructured and experimental – which probably reflects the involvement of the Ryanair Labs group.



*It’s true, it’s true! Ryanair’s former small bag limit was 35 x 20 x 20 cm. And yes, Priority is the most popular product, and yes it does sell out as indicated by the shaded imaging and text in the center.*

After selecting a flight, the consumer chooses from three branded fares: Standard, Plus, and Flexi Plus. Standard does not include a checked bag, while Plus includes a checked 20 kg bag, but the higher priced Flexi Plus does not. Seat assignment is promoted next courtesy of a pop-up display in the website booking path. Baggage choices are offered later on; the baggage retail presentation varies according to the fare purchased.

Standard fare passengers can consider a new “10 kg Check-in Bag & 1 Small Bag” which removes the priority boarding benefit and restricts travelers to the smaller carry-on. The added sales almost don’t matter, as the carrier has found a strong revenue base with the Priority & 2 Cabin Bags offer. We imagine this service is the defacto choice for most consumers and sells out for almost every flight. It’s the no-hassle way to fly Ryanair and doesn’t cost more than €12. We anticipate the top end of this fee will increase.

Finding the operational, customer service, and revenue balance is difficult for airlines. Wizz Air continued in 2018 to see declining revenue from years of baggage policy changes. For FY 2019 it was €5.30 per passenger, which represents a decline from €8.10 for FY 2018, and €10.10 for FY 2017.<sup>15</sup> Fortunately for investors, the airline has increased ancillary revenue from other areas. As of November 2018, Wizz Air has a baggage policy similar to Ryanair. The first carry-on bag is free for all passengers; buying the Wizz Priority option adds a medium-size carry-on bag. Wizz Air management says the new policy has created more efficient operations and improved on-time performance. During a recent investor call, Iain Wetherall, Wizz Air CFO, said Priority was generating average revenue of more than €1 per passenger.<sup>16</sup> On an annual basis, that would be more than €34 million.

<sup>15</sup> Wizz Air FY 2019 and FY 2018 Results Presentations.

<sup>16</sup> Wizz Air FY 2019 3rd Quarter Investor Call.



## The top ten list for ancillary revenue per passenger is a mix of airlines

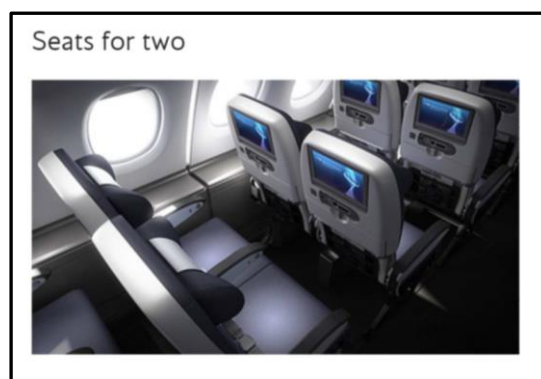
The top performing airlines in this list were once dominated by low cost carriers, but traditional airlines are now more numerous (Table 5 below). The definition of ancillary revenue includes the results produced by a carrier's frequent flyer program and provides a substantial per-passenger revenue boost for global airlines such as Qantas and United.

Table 5: Top 10 Airlines – Ancillary Revenue per Passenger				
Annual Results – 2018 (in US dollars)		Ancillary Source	2008 Comparison (in US dollars and % increase above 2008)	
\$50.94	Spirit	Various	\$18.61	174%
\$50.01	Allegiant	Various	\$26.66	88%
\$47.62*	Frontier	Various	\$3.70	1187%
\$43.91	Jet2.com	Various	\$19.04	131%
\$41.15	Qantas Airways	FFP	\$15.83	160%
\$36.64	United	Various	\$22.86	60%
\$35.56	American	Various	\$19.67	81%
\$34.74	Virgin Australia	Various	Not available	
\$34.28	AirAsia X	Various	Not available	
\$32.70	Hawaiian	Various	Not available	

2018 and 2008 carrier results were based upon 12-month financial period disclosures.  
 \* IdeaWorksCompany estimate based upon past disclosure and updated for current report.  
 Local currencies converted to US dollars at July 2018 and July 2008 rates of exchange.

Hawaiian appears on this top ten list for the first time. The ancillary revenue identified for the carrier includes the sale of frequent flyer miles, baggage fees, and its Extra Comfort seating. The service provides more leg room, fast track screening (7 airports), early boarding, at-seat power, and on select flights, expanded IFE choices, and an amenity kit. Traditional airlines, like Hawaiian, have quickly moved to expand revenue opportunities associated with seating. Extra leg room seats, premium economy, and the basic element of assigned seating have become surprisingly routine for this airline category.

The arrival of basic economy fares has opened the door for traditional airlines to experiment with an ever-expanding list of a la carte fees. These are indeed interesting times with unexpected outcomes. It's true, these fares allow carriers like Delta, British Airways, and Air France to compete with low cost carriers like Frontier, Norwegian, and easyJet. One can forgive consumers who are confused by the dizzying array of choices, and also confused by how this relates to the inherent promise of a global airline brand.



British Airways with "Seats for two" borrowed an idea from KLM which is called "Seats in a row of 2."

Image: From BA.com booking path

We took the opportunity to further examine seat-related fees. The highly competitive New York – London market is a good choice, notably because low cost Norwegian has a significant presence. In this unscientific exercise, the lowest priced departure was chosen and we looked at the assigned seating options available to consumers booking a basic economy fare. The comparison in Table 6 simply displays fees for assigned seating and doesn't consider how the price of fares might make one airline a solid choice over another for best value. A date far into the future was chosen to reduce the influence heavily booked flights might have on the pricing of fees.

<b>Table 6: Assigned Seating Comparison</b>						
New York – London, travel on 01 October 2019, one way						
<b>Airline</b>	<b>American</b>	<b>British Airways</b>	<b>Delta</b>	<b>Norwegian</b>	<b>United</b>	<b>Virgin Atlantic</b>
City pair	JFK-LHR	JFK-LHR	JFK-LHR	JFK-Gatwick	Newark-LHR	JFK-LHR
Fare type	Basic Economy	Basic Economy	Economy Light *	Economy Low Fare	Basic Economy *	Economy Light *
Flight example	AA #100 6:15 p.m.	BA #112 6:30 p.m.	DL #1 7:30 p.m.	DI #7018 10:10 p.m.	UA #110 6:00 p.m.	VS #4 6:00 p.m.
Free advance assignment?	No	No	No	No	No	No
Seat Assignment Options – Lowest Fees Found						
Standard	\$11	\$32	Seat assignment only allowed after check-in	\$45	\$20	\$25
Preferred – front of cabin	\$75	\$60		\$45	\$49	\$25
Extra leg room	\$103	\$91		\$45 <i>Seats not noted in map</i>	Not sold to Basic Economy	\$62
Joint venture	AA/BA	AA/BA		DL/VS	None	None on route
<i>*Airline requires roundtrip booking to qualify for basic economy fare. VS fees are approximate due to £ conversion.</i>						

The results are surprising because of the price variance in the economy cabin, between airlines, and within joint ventures such as American and British Airways. Assigned seating fees for the American flight ranged from \$11 to \$103. Surprisingly every seat on Norwegian has the same \$45 fee, and this includes extra leg room seats. These are unmarked in Norwegian's booking path; consumers must rely upon another source such as SeatGuru.com to find these hidden values. Delta and Virgin Atlantic, partners in a joint venture, indicate free seat assignments for basic economy fares are only available at the time of check-in. However, Virgin Atlantic sells assigned seating later in the booking path, while Delta does not offer any seat assignment in the booking path for basic economy.

There's no economic need for airlines to strive for consistency when setting prices for assigned seats and extra leg room seating. Quite to the contrary, the trend for all a la carte fees points to more variation as airlines apply revenue management concepts to create variable prices. Whether intentional or not, this complexity certainly provides challenges for distribution intermediaries, such as Expedia and Google Flights. The outcome at present is truly baffling for many consumers. But this is an unfortunate though expected effect when companies are reworking how products are sold and priced in the marketplace.

## Too much chocolate is not a good thing

The ancillary revenue revolution is now in its 12<sup>th</sup> year. The marching orders given by top airline executives to ancillary revenue managers have been “onward and upward.” The numbers tallied by IdeaWorksCompany since 2007 have been ever-increasing and each new year provides record results. When measured by financial outcomes, ancillary revenue has become one of the most solid and durable successes of the modern airline industry. But will this revolution eventually fail due to this success?

During my high school years I made pizzas at a chain restaurant called Pizza Inn. One of the many managers who passed through the place cautioned me on adding too many ingredients to the pizzas. He was not only worried about food cost, he was also concerned about taste. He told me, “Jay, if you keep adding chocolate powder to a milkshake, at some extreme point it becomes inedible.” This was another way of saying, too much of a good thing, is not a good thing.

The pop-up box displayed on this page is from American’s booking path. This box appears when a consumer selects a basic economy fare. The question posed at the top — Are you sure? —

	You chose <b>Basic Economy</b> Most restrictions	Move to <b>Main Cabin</b> Good value with benefits
Bags	✗ Pay to check bags	✓ 1 free checked bag <sup>1</sup>
Seats	✗ Pay to choose seats (or we'll assign seats at no charge during check-in) <sup>12</sup>	✓ Choose seats at no charge (when available) <sup>2</sup>
Upgrades	✗ Not eligible for upgrades <sup>1</sup>	✓ Eligible for upgrades on American flights
Boarding	✗ Board in last group <sup>1</sup>	✓ General boarding
	Round trip <b>\$ 356</b> per person Total \$355.03 (all passengers)	Round trip <b>\$ 496</b> per person Total \$495.03 (all passengers)
	<b>Accept restrictions</b>	<b>Move to Main Cabin</b>

*The need to ensure consumers understand their choice is completely understandable. But is the desire to promote or dissuade?*

reminds me of the lesson learned at the Pizza Inn. Too much eagerness to build ancillary revenue can be a bad thing. If an airline feels compelled to make this effort to warn a customer against buying a product . . . then they should really reexamine what their brand means to the customer.

American Airlines is merely an example among many, and is not unique in this regard. All revolutions involve actions which are someday regretted, and the ancillary revenue revolution is not immune to this. Traditional airlines are copying LCCs in almost every regard, and LCCs can be accused of stretching too far to woo high flying business travelers.

The question to ask is, “What is your brand and does it matter?” Almost every airline is branded by behavior, and not through rigorous intention. Ancillary revenue is best when it aligns with and supports the brand of an airline. Adding chocolate can be good up to a point, but the best results occur when you have a recipe.

**Please note:** CarTrawler and IdeaWorksCompany will release a 100+ page compilation of results and overall rankings from the 70+ disclosing airlines during September 2019. A companion report, scheduled for November 2019, will use these results to extrapolate the total ancillary revenue generated by a global list which exceeds 180 airlines.



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