



2013 Airline Ancillary Revenue Lifts to \$31.5 Billion – Up Nearly 1200% Since 2007

Analysis from IdeaWorksCompany, sponsored by CarTrawler, finds the top airline generated \$55.61 per passenger . . . back in 2007 it was \$14.36.

Dublin, Ireland & Shorewood, Wisconsin, USA, 16 July 2014: What began as a trickle – \$2.45 billion in 2007 – has grown to a flood. The annual CarTrawler survey of global airline ancillary revenue shows growth to \$31.5 billion for 2013 – an increase of 1200 percent since the first such survey in 2007.

IdeaWorksCompany researched the financial filings made by 114 airlines all over the world, 59 of which disclose ancillary revenue activity, to reveal that ancillary revenue¹ reported by airlines reached \$16 per passenger in 2013, easily surpassing global figures for profit per passenger. This press release describes highlights from this research and a top 10 list of best performing carriers in three categories (please refer to tables 1-3 in this document).

Annual Financial Disclosures of Ancillary Revenue						
2013 Results Posted by 59 Airlines \$31.5 billion	2012 Results Posted by 53 Airlines \$27.1 billion	2011 Results Posted by 50 Airlines \$22.6 billion	2010 Results Posted by 47 Airlines \$21.46 billion	2009 Results Posted by 47 Airlines \$13.47 billion	2008 Results Posted by 35 Airlines \$10.25 billion	2007 Results Posted by 23 Airlines \$2.45 billion
<i>Annual results are associated with a fiscal period that ended in the year indicated.</i>						

Ancillary revenue, consisting of a la carte charges, commissions on travel-oriented services, and the sale of frequent flier points, now provides the power to allow airlines to be profitable. Tony Tyler, Director General and CEO of IATA, stated at a recent conference the world’s airline industry hopes to achieve a 2.4% average net margin for 2014, which is less than \$6 per passenger.²

Average ancillary revenue per passenger for the 59 airlines disclosing results for 2013 was \$16. The high margins associated with checked bags and loyalty points easily ensure this amount provides profits beyond the \$6 threshold predicted by IATA. Among the 59 disclosing carriers, 44 achieved ancillary revenue above \$6, ranging from China Eastern at \$6.43 to Jet2.com at \$55.61 per passenger. The record number of airlines included in the 2013 review testifies to the importance ancillary revenue plays in the health of the global airline industry.

¹ The figures in this release relate to the revenue earned by the 59 airlines which disclosed through financial filings some type of ancillary revenue activity in 2013; including a la carte, or unbundled, services, commission-based services – such as hotel or car rental bookings – and other ancillary services revenue from co-branded credit cards, loyalty programs and other activities.

² Tony Tyler's State of the Industry speech, International Air Transport Association, 02 June 2014.

“Airlines the world over share a common evolutionary pattern; the shift in focus from being a purely aviation based service to becoming multi-product travel retailers,” says Michael Cunningham, CarTrawler Chief Commercial Officer. “The shop window for travel is no longer static. It follows the customer across more devices and locations than ever before,” continues Cunningham. “The opportunity for airlines is to continue to evolve their ancillary strategy so they take full advantage of the new technology and retailing practices that will enable them to proactively service this growing customer appetite for goods and services that previously may not have been considered core to their business.”

This year’s CarTrawler Review of Ancillary Revenue Results takes a look back at the beginnings of this still-youthful method of boosting revenue. IdeaWorksCompany first tracked ancillary revenue activity seven years ago for 2007. That was before global airlines started charging extra for checked bags, early boarding, and extra leg room seating. Total annual ancillary revenue of just \$71 million placed Alitalia in the top 10 ranking for 2007. Today, the #10 slot is held by US Airways at \$1.1 billion.

As a group, the 2007 top 10 carriers generated total ancillary revenue of nearly \$2.1 billion. Seven years later, some of the original airlines remain on the top 10 list. But the total revenue volume for the top 10 has undergone drastic change by surging to \$20.4 billion. It’s true, some have grown through mergers. But the primary reason for the bigger numbers is the fact that ancillary revenue has become so commonplace in today’s airline industry.

Table 1: Top 10 Airlines – Total Ancillary Revenue (US dollars)				
Annual Results – 2013		Ancillary Source	Annual Results – 2007	
\$5,703,000,000	United	Various	\$600,000,000	United
\$2,528,183,000	Delta	Various	\$521,429,760	Ryanair
\$2,079,000,000	American	Various	\$272,846,172	easyJet
\$1,714,598,496*	Air France/KLM	Various	\$194,200,000	Alaska Air Group
\$1,689,457,120	Ryanair	Various	\$91,306,080	Aer Lingus
\$1,623,500,000	Southwest	Various	\$83,664,000	Air Berlin
\$1,385,021,933*	easyJet	Various	\$79,747,344	Korean Air
\$1,282,738,470	Lufthansa Group	Various	\$78,585,787	WestJet
\$1,273,430,400	Qantas Airways	80% FFP	\$77,904,000	Austrian
\$1,102,700,000	US Airways	Various	\$71,074,080	Alitalia
\$20,381,631,432			\$2,070,759,229	
<i>Currency exchange based upon rates in effect when financial information was reviewed for each annual period. 2013 and 2007 carrier results were based upon recent 12-month financial period disclosures. * IdeaWorksCompany estimate based upon past disclosure updated for current report.</i>				

Some of the biggest brands in the business are now engaged in all aspects of ancillary revenue. Most global airlines rely on a buffet of activities with a large emphasis placed on checked baggage and the sale of frequent flier miles or points to partners. Qantas is the most successful in terms of loyalty marketing results with approximately 80% of its ancillary revenue associated with its Qantas Loyalty business unit. The carrier deemphasizes a la carte activities by continuing to bundle elements such as baggage, food, and beverages in its basic fares.

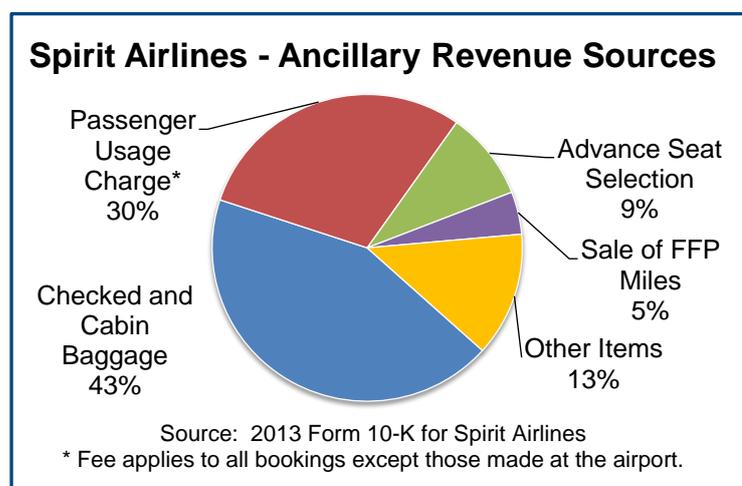
When ancillary revenue is described as a percentage of revenue, it is low cost carriers that dominate the results in 2007 and 2013. Michael O’Leary, the outspoken CEO of Ryanair, once mused, “The other airlines are asking how they can put up fares. We are asking how we could get rid of them.”³ His idea was to rely upon ancillary revenue as a replacement for passenger fares. Ryanair was the top performer in 2007 at 16.2% when measured on the basis of ancillary revenue as percent of total airline revenue.

It can be said, the “mighty have fallen” as the carrier slipped to 5th place for 2013. Leadership of the ancillary revenue revolution is now held by Spirit, Wizz Air, and Allegiant. These carriers have broken the 30% threshold that may forever elude Mr. O’Leary. Wizz Air joins the review this year courtesy of IPO filing disclosures; the IPO was canceled in June 2014 due to unattractive market conditions. Historically, the carrier always operated in stealth mode and guarded results like a state secret.

Table 2: Top 10 Airlines – Ancillary Revenue as a % of Total Revenue				
Annual Results – 2013		Ancillary Source	Annual Results – 2007	
38.4%	Spirit	Various	16.2%	Ryanair
34.9%	Wizz Air	Various	14.2%	Vueling
32.6%	Allegiant	Various	12.8%	Allegiant
27.7%	Jet2.com	Various	9.0%	Air Deccan
24.8%	Ryanair	Various	8.8%	easyJet
23.6%	Tigerair	Various	6.8%	AirAsia
20.6%	Jetstar	Various	6.8%	SkyEurope
19.6%	AirAsia X	Various	5.8%	Alaska Air Group
19.2%*	easyJet	Various	4.2%	Aer Lingus
17.6%	AirAsia Group	Various	4.2%	WestJet

*2013 and 2007 carrier results were based upon recent 12-month financial period disclosures.
* IdeaWorksCompany estimate based upon past disclosure updated for current report.*

Spirit Airlines earns its top listing through aggressiveness. The airline is simultaneously proud of complementary objectives. It’s proud of its ability to deliver ultra-low fares for consumers, and equally proud of pushing the limit on fees. It introduced the idea of charging fees for large carry-on bags in 2010.⁴ That same year, the average fare charged to consumers fell to its lowest point since the carrier had changed to a low fare strategy in 2005.⁵ Not surprisingly, the non-ticket component (ancillary revenue) increased from \$3.38 to \$31.28 during the same period.



³ “Flying for ‘free’ on Ryanair” BBC News article dated 13 May 2011.
⁴ “Airline to charge for carry-on bags” CNN article dated 06 April 2010.
⁵ S-1 Registration Document for Spirit Airlines dated 17 September 2010 (page 54).

Spirit's results include the passenger use fee paid by all passengers except those who opt to buy tickets at airport locations. This "optional fee" qualifies as ancillary revenue only under the most liberal interpretation. The fact the fee can be avoided by buying tickets at the airport does indeed make it optional, but in practice the fee is paid by the vast majority of Spirit's customers. The fee, which ranges from \$8.99 to \$16.99 each way, is part of the base fare displayed at the carrier's website. Consumers must scroll through the small print at the bottom of the booking page to learn it can be avoided by booking at the airport.

It's the type of opaque practice that one low cost carrier on the other side of the Atlantic no longer seeks. Michael O'Leary began his charm offensive at the end of 2013 by remaking Ryanair into a kinder and gentler airline. The carrier introduced a number of new policies to significantly enhance the customer experience. These include a 24-hour grace period for bookings, lower bag fees, and the addition of a free 2nd small carry-on.⁶ Cabin crew will also stop the seemingly continuous announcements to sell cigarettes and lottery cards on flights between 9 p.m. and 8 a.m. Civility will have a price, as this limits a la carte revenue.

As airlines search for every penny, peso, and pound, the a la carte methods used by global and low cost carriers are beginning to converge. British Airways, the very icon of airline civility, now has seat assignment fees for many travelers and bag fees for some fares within Europe. The airline disclosed in its 2013 annual report revenue of £40 million (\$68 million) from seat assignment fees and approximately £45 million (\$77 million) from checked baggage. Equally iconic Singapore Airlines took a different approach, and launched an entirely new low cost carrier to scoop up its share of ancillary revenue. Its Scoot Airline unit is as aggressive as any other LCC and even suggests on its home page that consumers pre-pay bag fees online to "avoid being slapped with hefty baggage fees" at the airport.⁷ All of these behaviors provide evidence the ancillary revenue revolution has reached every nook and cranny of the airline industry in terms of geography and business models.

Annual Results – 2013		Ancillary Source	Annual Results – 2007	
\$55.61	Jet2.com	Various	\$14.36	Allegiant
\$51.22	Spirit	Various	\$13.75	Vueling
\$45.67	Qantas Airways	80% FFP	\$12.27	Ryanair
\$44.87	Allegiant	Various	\$10.58	Aer Lingus
\$44.43	AirAsia X	Various	\$10.32	LTU
\$40.97	United	Various	\$8.65	United
\$38.93	Korean Air	Various	\$8.27	easyJet
\$34.41	Wizz Air	Various	\$8.19	Spanair
\$33.92*	Virgin Atlantic	80% FFP	\$8.08	Alaska Air Group
\$32.61	Alaska Air Group	Various	\$7.19	Austrian

*Currency exchange based upon rates in effect when financial information was reviewed for each annual period. 2013 and 2007 carrier results were based upon recent 12-month financial period disclosures.
* IdeaWorksCompany estimate based upon past disclosure updated for current report.*

⁶ "Michael O'Leary promises 'significant' enhancements to Ryanair experience" Irish Independent article dated 31 December 2013.

⁷ Home page advertisement viewed at FlyScoot.com June 2014.

The top 10 list of airlines based upon ancillary revenue on a per passenger basis provides a diverse array of airlines. Topping the list is Jet2.com which is a leisure-oriented airline with bases in Scotland and northern England. The carrier has clearly mastered a la carte skills and readily promotes a variety of extras in its booking path and eagerly offers holiday elements such as car rental and hotel accommodations. Qantas and Virgin Atlantic make the list due to very successful co-branded credit card portfolios.

The definition of ancillary revenue offered by IdeaWorksCompany includes the revenue produced by frequent flier programs along with a la carte items such as checked bags and the commissions earned on services such as car rental and hotel bookings. Loyalty programs are becoming increasingly integrated into the business of ancillary revenue. Co-branded credit cards in the US now include perks such as checked bags, early boarding, and airport lounge access. These represent optional extras once directly purchased by consumers, that have become card amenities purchased by banks from airline partners.

United Airlines has made its MileagePlus program into an ancillary revenue powerhouse. The carrier disclosed mileage sales in excess of \$2.9 billion for 2013.⁸ Spending by co-branded credit cardholders increased by 35% and active card members increased 16% over the last 3 years.⁹ Activity has spread far beyond the US with co-branded cards offered in 15 countries with Japan and Mexico added during 2013.

United's experience nicely summarizes the state of ancillary revenue today. It's ever growing in terms of revenue results, consumer acceptance, and geographic coverage. Perhaps it's time to stop referring to the movement as a "revolution." Ancillary revenue has become so commonplace, and such a necessary part of economics, that it has matured from a revolutionary state to something benignly called . . . "a good business practice."

Specific ancillary services identified by this review

Airlines are increasingly more revealing about their approach to ancillary revenue. During the course of its global review of ancillary revenue activities, IdeaWorksCompany uncovered the following examples:

- **Aeroflot** sales of frequent flier miles to partners leaped to \$173.6 million for 2013 from a 2012 result of \$73.5 million.
- **Air Greenland** generated \$8.1 million from the operation of its 100% owned Hotel Arctic, the world's "most northerly 4-star hotel."
- **Allegiant** has an exclusive agreement with Enterprise Holdings for rental cars packaged with air travel. The relationship generated 844,858 car rental days during 2013.
- **Hawaiian** realized revenue of \$6.6 million from the sale of preferred seating for a 12-month period during 2013.
- **Norwegian** donated 1 krone from the sale of each water bottle sold onboard to UNICEF. The carrier sold 1.3 million bottles during 2013 and donated \$212,000 to UNICEF.
- **Southwest** realized \$195 million during 2013 from its EarlyBird check-in feature which provides earlier boarding and better access to overhead carry-on space.
- **Spirit** gained \$28.5 million from the sale of Free Spirit mileage credits to loyalty program partners, such as the issuer of its co-branded credit card.
- **Volaris**, a low fare airline in Mexico, generated \$1.8 million from the sale of memberships in its V-Club, which provides access to members-only low fare deals.

Currency exchange based upon rates in effect when financial information was reviewed for each annual period.

⁸ United Continental Holdings Annual Report for 2013.

⁹ United Airlines Investor Day presentation dated November 19, 2013.

Tables 1a and 3a – euros

The following tables reflect actual euro disclosures by Euro-zone airlines. All other financial disclosures have been converted to euros using rates in effect for 2013 and 2007. Carrier rankings remain the same as dollar-based tables but year over year changes for individual carriers will be different due to exchange rate fluctuations.

Table 1a: Top 10 Airlines – Total Ancillary Revenue (euros)				
Annual Results – 2013		Primary Source	Annual Results – 2007	
€ 4,209,954,600	United	Various	€ 416,116,752	United
€ 1,866,304,691	Delta	Various	€ 362,104,000	Ryanair
€ 1,534,717,800	American	Various	€ 189,476,508	easyJet
€ 1,265,760,000*	Air France/KLM	Various	€ 134,662,086	Alaska Air Group
€ 1,247,200,000	Ryanair	Various	€ 63,407,000	Aer Lingus
€ 1,198,467,700	Southwest	Various	€ 58,100,000	Air Berlin
€ 1,022,394,742*	easyJet	Various	€ 55,380,100	Korean Air
€ 946,950,000	Lufthansa Group	Various	€ 54,573,463	WestJet
€ 939,932,400	Qantas Airways	80% FFP	€ 54,100,000	Austrian
€ 814,013,140	US Airways	Various	€ 49,357,000	Alitalia

*Currency exchange based upon rates in effect when financial information was reviewed for each annual period. 2013 and 2007 carrier results were based upon recent 12-month financial period disclosures.
* IdeaWorksCompany estimate based upon past disclosure updated for current report.*

Table 3a: Top 10 Airlines – Ancillary Revenue per Passenger (euros)				
Annual Results – 2013		Primary Source	Annual Results – 2007	
€ 41.05	Jet2.com	Various	€ 9.95	Allegiant
€ 37.81	Spirit	Various	€ 9.55	Vueling
€ 33.71	Qantas Airways	80% FFP	€ 8.52	Ryanair
€ 33.12	Allegiant	Various	€ 7.35	Aer Lingus
€ 32.79	AirAsia X	Various	€ 7.17	LTU
€ 30.24	United	Various	€ 6.00	United
€ 27.25	Korean Air	Various	€ 5.74	easyJet
€ 25.40	Wizz Air	Various	€ 5.69	Spanair
€ 25.04*	Virgin Atlantic	80% FFP	€ 5.61	Alaska Air Group
€ 24.07	Alaska Air Group	Various	€ 4.99	Austrian

*Currency exchange based upon rates in effect when financial information was reviewed for each annual period. 2013 and 2007 carrier results were based upon recent 12-month financial period disclosures.
* IdeaWorksCompany estimate based upon past disclosure updated for current report.*

Please note: CarTrawler and IdeaWorksCompany will release an 80-page compilation of results and overall rankings from the 53 disclosing airlines during summer 2014.

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Accompanying Graphic: CarTrawler and IdeaWorksCompany offer a graphic in JPG format to further illustrate the topic of ancillary revenue. Permission is granted to use this item for educational and news media, provided the source is credited. Download the graphic at IdeaWorksCompany.com/category/press-releases.

About CarTrawler

Established in 2004, CarTrawler is a leading technology company providing fully managed, multi-brand car rental solutions across all travel industry segments including airlines, online travel agents and hotel groups. CarTrawler partners with over 1,000 online travel retailers enabling them to offer their customers car rental at 30,000 pick-up locations in 174 countries. The company is led by CEO Mike McGearty and a highly experienced executive team headquartered in Dublin, Ireland with additional offices in Boston and London. CarTrawler also owns online car rental brands Holiday Autos and Argus Car Hire. For more, visit www.cartrawler.com.

About IdeaWorksCompany

The IdeaWorksCompany was founded in 1996 as a consulting organization building airline revenue through innovation in ancillary revenue, loyalty marketing, and a la carte shopping. Its international client list includes airlines and other travel industry firms in Asia, Europe, the Middle East, and the Americas. IdeaWorksCompany specializes in ancillary revenue improvement, brand development, customer research, competitive analysis, frequent flier programs, and on-site executive workshops. Learn more at IdeaWorksCompany.com.

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