



Airline ancillary revenue projected to be \$49.9 billion worldwide in 2014

The CarTrawler worldwide estimate of ancillary revenue forecasts 17.2% increase above 2013, with \$28.5 billion of the total composed of a la carte fee activity.

Dublin, Ireland & Shorewood, Wisconsin, 3 November, 2014: IdeaWorksCompany, the foremost consultancy on airline ancillary revenues, and CarTrawler, the leading provider of online car rental distribution systems, project airline ancillary revenue will reach \$49.9 billion worldwide in 2014. The **CarTrawler Worldwide Estimate of Ancillary Revenue** represents a massive increase of 121% from the 2010 figure of \$22.6 billion.

Earlier this year, CarTrawler and IdeaWorksCompany reported the ancillary revenue disclosed by 59 airlines for 2013. These statistics were applied to a larger list of 180 airlines to provide a truly global projection of ancillary revenue activity by the world’s airlines in 2014. The **CarTrawler Worldwide Estimate of Ancillary Revenue** marks the fifth year IdeaWorksCompany has prepared a projection of global ancillary revenue activity.

Ancillary revenue is generated by activities and services that yield revenue for airlines beyond the simple transportation of customers from A to B. This wide range of activities includes: commissions gained from hotel bookings, the sale of frequent flier miles to partners and the provision of a la carte services – providing more options for consumers and more profit for airlines.

Revenue from optional services, such as onboard sales of food and beverages, checked baggage, premium seat assignments, and early boarding benefits was determined to represent \$28.5 billion of the projected global 2014 total. The smaller share, at \$21.4 billion, comes from non-fee activity such as the sale of frequent flier miles to program partners, and commissions earned on the sale of services to travelers, such as hotel accommodations and car rentals.

Worldwide Estimate of Ancillary Revenue				
2014 Estimate \$49.9 billion (6.7% of global airline revenue of \$746 billion)	2013 Estimate \$42.6 billion (6% of global airline revenue of \$708 billion)	2012 Estimate \$36.1 billion (5.4% of global airline revenue of \$667 billion)	2011 Estimate \$32.5 billion (5.6% of global airline revenue of \$577 billion)	2010 Estimate \$22.6 billion (4.8% of global airline revenue of \$474 billion)
Source: Ancillary revenue statistics applied by IdeaWorksCompany to individual airline revenue results for the year indicated from Air Transport World, Airline Business, and at airline websites.				

“Relevance is key to successful ancillary revenue generation. Data science has the power to unlock the secrets of customer behaviour, enabling airlines to align their technology strategy with their customers’ needs. The airlines that build their customer proposition around passenger data, will grow ancillary revenue and increase customer loyalty,” says Mike McGearty, CEO of CarTrawler.

Analysis performed by IdeaWorksCompany during the past five years reveals natural groupings (or categories) based upon a carrier’s ability to generate ancillary revenue. The “percentage of revenue” results associated with four defined categories have been applied to a worldwide list of operating revenue disclosed by 180 airlines.¹ The following describes the four categories:

- **Traditional Airlines.** This category represents a catch-all for the largest number of carriers. Ancillary revenue activity may consist of fees associated with excess or heavy bags, extra legroom seating and partner activity for a frequent flier program. Most European carriers now charge fees for the first checked bag. The average percentage of revenue increased to 3.6% from 3.1% last year. Examples include Etihad Airways, China Southern, Lufthansa, and Avianca.
- **Major US Airlines.** US-based majors generate strong ancillary revenue through a combination of frequent flier revenue and baggage fees. The percentage of revenue for this group remained at 9.9%, which was the same rate that applied for 2013. Examples include Alaska, American, and Delta.
- **Ancillary Revenue Champs.** These carriers generate the highest activity as a percentage of operating revenue. The percentage of revenue achieved by this group grew to 23.6% from 21.6% for 2013. Examples include AirAsia X, Allegiant, Pegasus, and Wizz Air.
- **Low Cost Carriers.** LCCs throughout the world typically rely upon a mix of a la carte activity to generate good levels of ancillary revenue. The percentage of revenue for this group was 12.1% and is above last year’s 10.5%. Examples include IndiGo, Jazeera Airways, Jeju Air, JetBlue, Norwegian, and Spring Airlines.

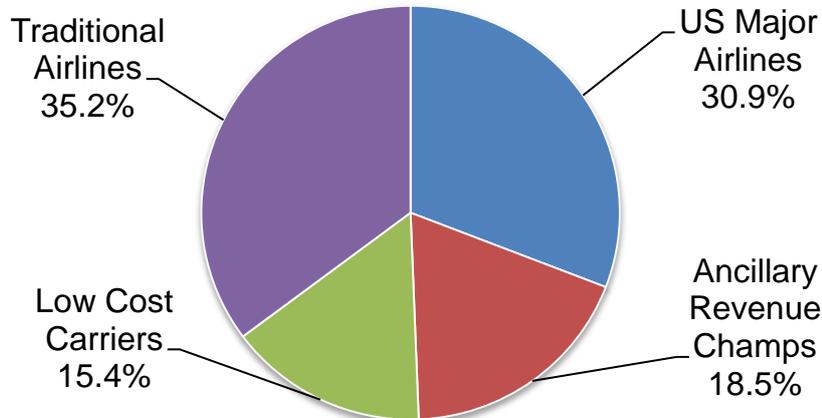
CarTrawler Worldwide Estimate of Ancillary Revenue – by Carrier Type for 2014			
Airline Category	Total Ancillary Revenue	Frequent Flier & Commission Based	A la Carte Activity
Traditional Airlines	\$17.5 billion	\$10.5 billion	\$7.0 billion
US Major Airlines	\$15.4 billion	\$10.0 billion	\$5.4 billion
Ancillary Revenue Champs	\$9.3 billion	\$0.5 billion	\$8.8 billion
Low Cost Carriers	\$7.7 billion	\$0.4 billion	\$7.3 billion
Worldwide Totals	\$49.9 billion	\$21.4 billion	\$28.5 billion

Source: Ancillary revenue statistics applied by IdeaWorksCompany to individual airline revenue results for the year indicated from Air Transport World, Airline Business, and at airline websites.

The US Major Airlines category produces a significant share of global ancillary revenue (see Graph 1). The \$15.4 billion result (30.9% of the global total) is generated by just seven carriers: Alaska Airlines, American, Delta, Hawaiian, Southwest, United, and US Airways. These carriers rely upon their frequent flier programs to generate a significant share of ancillary revenue. For example, 73% of Alaska’s ancillary revenue is produced by its Mileage Plan frequent flier program. The largest category at 35.2% is generated by carriers classified as Traditional Airlines. This group consists of 112 carriers out of the total 180 airline sample.

¹Operating revenue results were drawn from the World Airline Report published in the July 2014 issue of Air Transport World and the World Airline Rankings in the August 2014 issue of Airline Business. Additional sources were used, such as disclosures made at airline websites, to complete the list of 180 airlines. Adjustments were made to prevent duplicate reporting associated with regional affiliates. Pure cargo carriers, such as FedEx and UPS Airlines, were not included. Airlines are assigned to specific categories each year based upon an assessment of a carrier’s ancillary revenue profile.

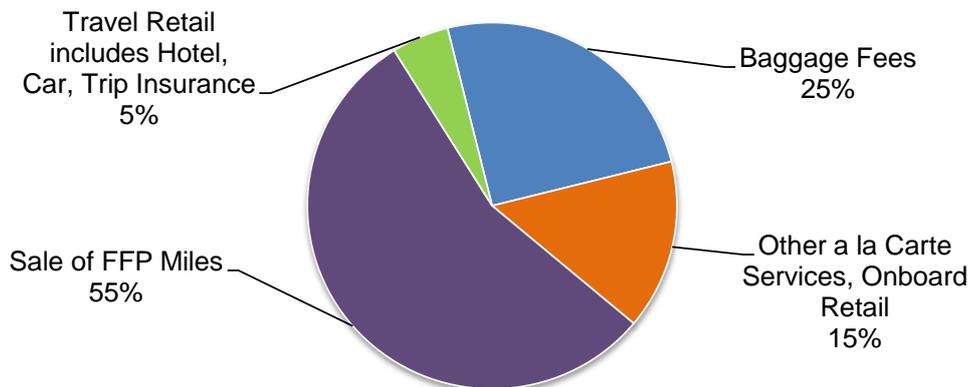
Graph 1: Ancillary Revenue Estimate for 2014
Sources by Carrier Type



IdeaWorksCompany believes the majority of ancillary revenue for US major airlines is generated by the sale of frequent flier miles, mostly linked to co-branded credit cards. Graph 2 displays the typical ancillary revenue sources for carriers such as American, Delta, and United. Baggage fees for US carriers represent approximately 25% of their ancillary receipts. The remaining revenue is produced by an array of a la carte and commission-based products. The profile for Southwest is certainly different because it does not charge for the first or second checked bag.

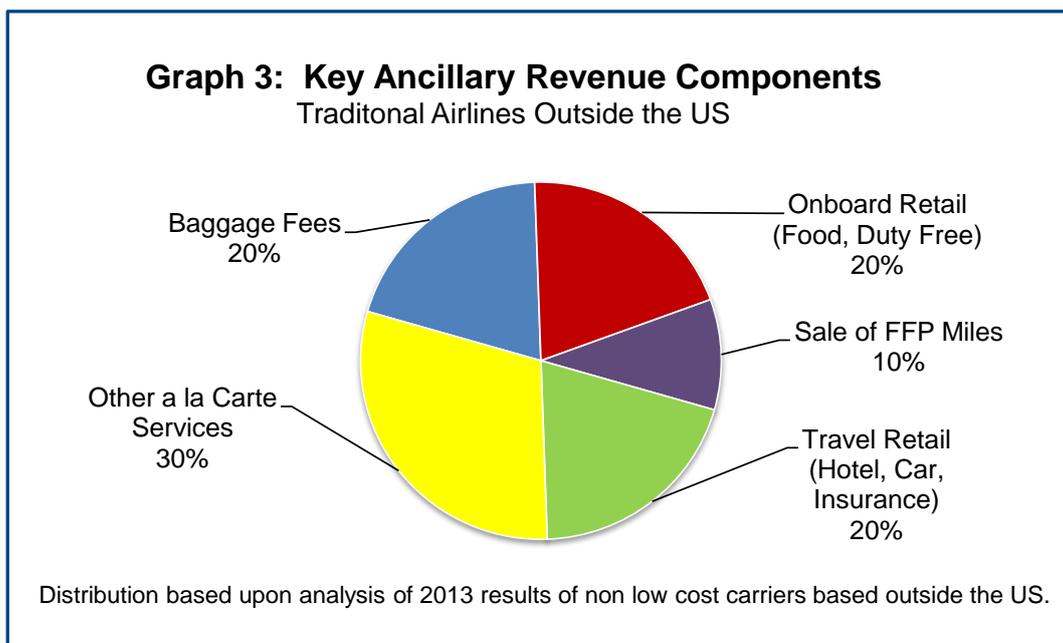
Other sources include onboard sales of food, beverages, Wifi, and commissions from hotel bookings. In addition, airlines offer an ever-increasing selection of services that add to traveler convenience such as priority security screening, early boarding, exit row seat assignments, single visit access to airport lounges, and VIP-style services at the airport.

Graph 2: Key Ancillary Revenue Components
Typical US Major Airline



Distribution based upon analysis of 2013 results of major US airlines.

The Traditional Airline Category (for carriers outside the US) is the largest piece of the pie at \$17.5 billion. The revenue profile for these carriers (see Graph 3) is distributed across a variety of a la carte activities. Baggage revenue for these carriers is increasing as more major carriers implement charges for the first bag. Air France, British Airways, and KLM implemented bag charges for intra-Europe flights during 2013. Just recently, Air Canada and WestJet (a low cost carrier) introduced bag fees on intra-Canada routes in September 2014. Additional data provided by airlines during 2014 indicates revenue from the sale of frequent flier miles and points represents a smaller portion for many airlines outside the US, Canada, Brazil, and the South Pacific; accordingly, the percentage was reduced.



Airlines in the Low Cost Carriers and Ancillary Revenue Champs categories are having an increased influence on the airline industry. In many cases, global airlines now own LCCs in hopes they can compete with low fare disrupters such as AirAsia, Norwegian, Pegasus, and Ryanair. Global airlines relying on this strategy include Air France, Lufthansa, Qantas, and Singapore. The corporate offspring designed to combat the effect of low cost competitors include Transavia (Air France), Germanwings (Lufthansa), JetStar (Qantas), and Scoot (Singapore). These initiatives also have the effect of teaching their elders about the revenue-producing benefits of a la carte methods. Call it the viral effect of having different business models under the same corporate umbrella . . . they eventually influence each other.

The largest contributor to ancillary revenue growth for 2014 is the bigger number posted by the Traditional Airline category. Approximately 41% of the \$7.3 billion year-over-year increase is contributed by traditional airlines improving their ancillary revenue efforts. Many of these carriers are desperate to add revenue due to sluggish local economies and price competition. Airline executives are compelled by these factors to embrace a la carte methods to boost revenue. Consumers are more accepting (or perhaps less combative) and the introduction of no-frill fare options – which don't include a checked bag – can provide leverage against low fare competitors.

The world's airline industry is projected to carry more passengers and generate more passenger revenue in 2014 and this contributed to 30% of the projected increase. Low Cost Carriers and Ancillary Revenue Champs added a la carte services, tweaked pricing, and improved their marketing efforts; this represented 29% of the projected ancillary revenue increase for 2014.

CarTrawler Worldwide Estimate of Ancillary Revenue – by World Region for 2014			
Airline Category	Total Ancillary Revenue	Frequent Flier & Commission Based	a la Carte Activity
North America	\$18.7 billion	\$10.5 billion	\$8.2 billion
Europe	\$14.9 billion	\$3.9 billion	\$11.0 billion
Asia/Pacific	\$11.2 billion	\$4.7 billion	\$6.5 billion
Africa/Middle East	\$3.0 billion	\$1.6 billion	\$1.4 billion
Latin America/Caribbean	\$2.1 billion	\$0.7 billion	\$1.4 billion
Totals	\$49.9 billion	\$21.4 billion	\$28.5 billion
<i>Source: Ancillary revenue statistics applied by IdeaWorksCompany to individual airline revenue results for the year indicated from Air Transport World, Airline Business, and at airline websites.</i>			

“Traditional airlines are projected to boost their ancillary revenue by nearly \$3 billion for 2014,” says Jay Sorensen, President, IdeaWorksCompany. “That’s a meaningful result for reasons beyond the economic benefit these airlines value so highly. It indicates traditional carriers are becoming more assertive and aggressive in the search for new revenue. But traditional airlines face risks if they choose this path with little planning. Consumers are best served when choice is accompanied with better value. Merely charging a fee for a service that was once free may quickly degrade the brand of a traditional airline and alienate their core consumer base.”

The desperation of some airlines can be understood, because so many airlines still suffer poor margins. According to the International Air Transport Association (IATA) the world’s airline industry will earn an \$18 billion after-tax profit for 2014.² What at first may seem like a large number is in reality a mere \$5.42 per passenger and a skimpy 2.4% profit margin. The importance of ancillary revenue is easily understood when the IdeaWorksCompany \$49.9 billion projection is divided by IATA’s estimate of 3.32 billion passengers. This yields ancillary revenue of \$15.02 per passenger, which is up from the 2013 projection of \$13.64. Clearly, ancillary revenue for many airlines now defines the distinction between profit and loss.

Tony Tyler, Director General of IATA, stated in a recent speech said the world’s airline industry faces these immediate challenges: *To be profitable, safe and secure businesses. To provide efficient, customer-focused services. To be sustainable in all that we do.*³ His words provide a mantra for airline executives to follow when contemplating the allure of ancillary revenue. When a la carte shopping is implemented with a customer focus, it’s the ultimate compliment to the consumer – it acknowledges their right to choose

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² “Economic Performance of the Airline Industry” released by IATA on 01 June 2014.

³ “Tony Tyler’s State of the Industry” speech given in Doha, Qatar on 02 June 2014.

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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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