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New Airline Revenue Goes Beyond Baggage Fees

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Those fees for checked bags or in-flight meals? They are just the start. Now that airlines have realized how much money they can make by selling more than just a seat on their planes, they are coming up with all sorts of income-producing ideas — including selling flight interruption insurance and producing merchandise with their logos.

From the airlines' perspective, the revenue from these so-called nonticket items has become critical to their bottom lines, keeping them out of the red even as fuel prices rise. Last year, such revenue rose to an estimated $32.5 billion worldwide, up 43.8 percent from the estimated $22.6 billion a year earlier, according to the Amadeus Worldwide Estimate of Ancillary Revenue.

Airlines must learn from Amazon and "transform themselves from airline companies to e-tailers" said Raphael Bejar, a revenue specialist at Airsavings, a company based in Boulogne, France, that works with airlines to cut costs and find ways to raise revenue. "As long as the airline is thinking the old way, it will die. The airlines moving up and transforming themselves will succeed."

So Air New Zealand, in what airline revenue specialists say is a first for any airline, has ventured into banking. It is converting its frequent-flier club members into financial services clients, giving them its OneSmart card. The card, a debit card, stores cash as well as airline miles and foreign currency.

"It gives us the opportunity to build a larger revenue channel, the ability to make money from foreign revenue conversion," said Simon Pomeroy, director of loyalty at Air New Zealand. The airline also collects a small percentage each time the card is used for purchases and charges a monthly fee if the card is activated but not used.

"We make money off the individual as well as the collective use of the card every day," Mr. Pomeroy said, pointing out that the card gives Air New Zealand a revenue source unaffected by the tyranny of fuel prices. "If fuel goes up, we'll still be making money," he said.

In the first month after the OneSmart card was introduced in December, 100,000 people opted to activate it, a promising start, said Ben Woolsey, director of marketing and consumer research for creditcards.com. “I can see where this could really take off,” he said. “That’s an empowering thing for the frequent flier to be able to access their miles instead of going online and transferring it. It’s pretty innovative.”

Continental Airlines, which merged with United Airlines last year, is also taking business ideas from the world of finance. A year ago, it began selling options on ticket prices. The program, FareLock, lets would-be travelers freeze a ticket price for as many as seven days by paying a small fee which the airline keeps regardless of whether the customer ultimately makes the purchase. United will adopt the program next month, when its reservations system is merged with Continental’s.

“It’s a value to people like a stock option is a value,” said Jeff Smisek, the president and chief executive of United Continental Holdings. It lets you buy stock at a fixed price. Well, this is an option on a seat.”

“Fare locks have the potential to become a good revenue generator for airlines,” said Jay Sorensen, who wrote the Amadeus report. But he cautioned that a new Department of Transportation rule ordering all airlines in the United States to hold a price quotation for 24 hours on flights at least one week away may cut the number of fliers who buy this option.

Still, FareLock is a variation on the established practice of offering low-fare customers some of the services that come with higher-priced tickets, said Lauren Sullivan, a travel specialist and site editor of Cheapflights.com. “High fare-class and first-class tickets offer much more flexibility,” she said, but airlines are starting to provide “bite-sized ways for fliers to buy into that element of elite travel.”

In Canada, where weather can make winter flying unpredictable, Air Canada sells customers a promise they will be accommodated if their flight is disrupted — even if the airline is not at fault.

For $25 each way for short trips and $35 for trips exceeding 1,000 miles, the On My Way program rebooks passengers on another flight — even on another airline — provides ground transportation or puts them in a hotel.

“A family with children going on a special winter holiday, to a sun destination or on a cruise, for example, and who don’t want to have to deal with a change in plans are typical On My Way customers,” said John Reber a spokesman for Air Canada.

The program is another example of selling economy-class customers better-than-economy service said Brett Proud, executive vice president of GuestLogix, a company that helps airlines sell products to passengers. “They’re all finally moving to figure out what can we do to enhance passenger experience and charge a fee for that.”

Because the flight disruption insurance is not sold through travel agents, it is also a way to woo passengers to the airline’s Web site as companies like Ireland’s Ryanair show the industry how much more money there is to be made by controlling the traveler from the start. Advertisements for vacation packages, car rentals and hotel reservations, even airport parking populate Ryanair’s Web site. ***Ryanair is an “Ancillary Revenue Champ” in the Amadeus report, because the percentage of its operating revenue from added services is among the highest of any airline, 19 percent.***

And while the airlines are constantly looking for new things to sell travelers, passengers are not the only targets. Lufthansa sells its logo to manufacturers of leather jackets, luggage and compression socks. Other airlines sell commercials that play on seatback screens or charge the makers of products in amenity kits. In Virginia, an aviation company is working on an idea to emblazon company logos on head guards that are then placed on the upper edge of the doorway on regional airplanes. These bumperlike devices keep people from bumping their heads when they board.

“It happens every single day, hundreds of times every day,” said William Norwood, vice president of JDA Aviation Technology Solutions. Airlines would not have to pay for the head guards, Mr. Norwood said, because the business plan calls for the airline to make money from the sale of the ad space. “Passengers would definitely see them,” he said. “It’s not like you’re running to get a plane and you pass a poster in the airport.”

Whether it is placing a sponsor’s name at eye level or turning a frequent-flier account into a banking tool, the airline industry’s journey to enhanced profitability is far from over, Mr. Smisek said.

“There are many products we have in the pipeline,” he said. “There’s a broad range of things we’ve thought of, and there’s an even broader range of things we haven’t thought of yet.”