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## **Welcome aboard, can I buy you a drink?**

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*IdeaWorksCompany contributed information to this article - - see italics.*

The good news is that the airlines are running out of things to charge you extra for. Supposedly invented by Ryanair chief executive Michael O’Leary back around 2001, when he began brainstorming the idea of selling on-the-ground stuff like car hire to his passengers, so-called ancillary revenue took off as an idea in 2007, when the price of fuel went through the roof.

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Suddenly, fuel went from about 20 per cent of an airline’s costs to 40 per cent or more, thanks in large part to the manipulation of the world oil market by futures traders.

So, for a reason that had nothing to do with the merits of ancillary services, airlines were compelled to find new sources of revenue.

It was just too bad they had to enrage their customers in the process.

*In fact, ancillary revenue is now so big, it has created an industry, led by marketing think tanks like America’s Ideaworks Company.*

*In 2007, according to Ideaworks, airlines worldwide were just starting out on the new craze and found a comparatively puny \$US2.45 billion they could charge passengers extra for.*

*In just four years, that had skyrocketed to an estimated \$US32.5 billion in 2011, but the exponential growth in the numbers is at an end, it would appear. Last year, Ideaworks estimated, ancillary revenue amounted to just \$36.1 billion, a pathetic 11 per cent increase.*

Nevertheless, that's 5.4 per cent of the \$667 billion gross revenue the airlines made last year – an average of less than three per cent of the revenue of traditional full-service carriers (including the revenue they make from selling frequent flyer benefits, which is included in the ancillary revenue total) and the aggressive charging of the low-cost carriers, some of which are pulling in around 20 per cent of their total revenue on items like baggage fees and preferential seating.

In addition of the in-flight stuff, airline websites these days are also awash with accommodation and car hire booking services and all sorts of gift buying options.

Airlines are still feeling the pinch from high fuel prices, but they are running out of new ways of taking money off their customers. It's such a price-sensitive industry that they dare not increase fares.

It's far better to "unbundle" fares into separate chargeable components so they can reduce the "headline" fare while increasing the overall take.

(Well, that's the theory. The airline industry's projected profit this year – around \$8 billion globally – represents just over one per cent on turnover. Much better to keep the money in the bank.)

Which brings us to the latest ancillary revenue idea from Virgin America, the Australian carrier's step-sister, which markets itself as ultra-cool.

To mark the launch of the airline's first flights to Las Vegas last month, Virgin unveiled a "first-of-its-kind seat-to-seat delivery service" on all US routes that allows flyers to order a drink, meal or snack for travellers at other seats.

Virgin said the technology could be used in conjunction with its unique seat-to-seat chat function.

"Travellers can now send an in-flight cocktail to that friendly stranger in seat 4A and then follow up with a text message ... making getting lucky all the easier," Virgin America's publicity blurb said.

In an accompanying video, newspapers reported, Virgin founder Sir Richard Branson adds: "I'm not a betting man but I'd say your chances of deplaning with a plus-one are at least 50 per cent".

Nevertheless, the reception in America has at the very least been mixed. It would not even be attempted by any airline in super-sensitive Australia, where Virgin and Qantas last year became embroiled in controversy over their policies of not allowing adult males to sit next to unaccompanied minors.

"Do you want strangers buying your wife a drink in flight?" Australian blogger Ben Sandilands asked.

It was inevitable that such out-there ideas would eventually be tried when the ancillary revenue bubble is leaking, if not bursting.

It was a masterstroke of marketing when airlines discovered a decade ago or less they had saleable “products” like stowed baggage and assigned seating which could now make them billions.

But don't expect “unbundling” to go away anytime soon. There are still airline managers out there like Ryanair's Michael O'Leary who dream about the ultimate marketing trick: giving away air travel for “free” and making all their revenue from “optional” add-ons.

The airline has commissioned a series of paperbacks for Platinum frequent flyer members tailored to the length of route being flown on the basis that the average reader can get through 200-300 words a minute. The idea is for flyers to put away their Kindles and iPads and enjoy an old-fashioned paper book.

Platinum FFs are mainly male so the books are predominantly non-fiction, thrillers and crime-based short stories, written to match the flight time of each route.

“The suite of books will be for Platinum One Frequent Flyer members as a gift and will be issued between now and the end of this year by courier to individual members,” a spokeswoman says.