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A defining moment for measuring ancillary revenue?

By Martin Cowen

This article is based upon a report issued by IdeaWorksCompany.

IdeaWorks has released a summary of its latest look at airline ancillary revenues, saying that it will change its definition to include fare families.

The headline findings from 2014 come as little surprise – revenues are up, low-cost carriers are at the forefront but legacy airlines are catching up, Europe and US are the most active regions.

The report, sponsored by CarTrawler, leads with the statement that "2014 Airline Ancillary Revenue Leaps to $38.1 Billion – Up Nearly 21% in a Year" – an impressive increase, although the $38.1 billion is based on financial filings from 63 airlines, whereas last year the total came from 59 airlines.

The fact that there are more airlines providing this level of transparency into their ancillary revenues is a sign that investors at least are increasingly interesting in this aspect of an airline's performance. When IdeaWorks first produced its report in 2008 (based on 2007 results) it was only able to reference 23 carriers.

However, the airline industry has changed since 2007/8. "Ancillary revenue" sounds like a term from a different age – almost all airlines are generating ancillary revenue of some description and the conversation has moved on to merchandising, personalization and targetting.

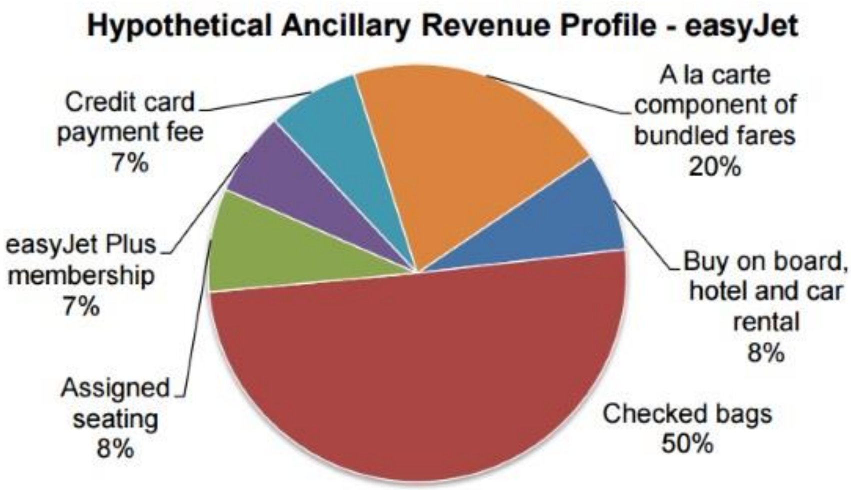
As Michael Cunningham, chief commercial officer for CarTrawler, says: *"The secret to unlocking this revenue stream can be found in the data that customers generate with every transaction."*

IdeaWorks has, to an extent, recognised that the ancillary landscape has changed, particularly in terms of low-cost carriers offering more bundled products, at the same time as full service carriers start to offer a la carte.

The definition of ancillaries used in the study will change as a result: "It is time to recognize the growing importance of fare bundles by including ancillary revenue generated by 'the a la carte components associated with a fare or product bundle'."

It adds that “fare bundles sell very well through a GDS” and mentions Ryanair’s recently introduced fares for business travellers, bookable via the GDS, which includes items that previously sold separately at the airline dotcom.

easyJet has been offering products for business travellers through the GDS and also via its airline.com for some time. This gives IdeaWorks the opportunity to take “an educated guess” at how easyJet’s $1.5 billion of ancillary revenue breaks down:



Source: Based upon past and present company disclosures and financial information from the UK Civil Aviation Authority.

Nearly 25% of the revenues comes from easyJet Plus and the a la carte component of bundled fares – products aimed at the business traveller. IdeaWorks argues that as more LCCs look to capture the business travel market, the amount of ancillary revenues generated across the airline industry will increase.

Another change since the first report is that the end of the idea that airlines can exist on ancillaries alone. This gained traction a few years ago thanks to comments from Ryanair’s Michael O’Leary.

> *“This dream now seems elusive for all LCCs. The fine tuning of fees and the tweaking of product design may allow top carriers to surpass 40%. However, attempts among the most fee-conscious carriers to reach higher now seem stalled just below that mark.”*

The full report will be issued in September, and will go into more detail about the 63 airlines which comprise the main body of research. A new section will excite distribution and GDS geeks – a list of items sold through Amadeus, Sabre, and Travelport for each of the 63 airlines.