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How airlines squeeze more money out of us

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IdeaWorksCompany contributed information to this article - - see italics.

Competition is keeping airfares down, but that doesn't extend to all the extras.

Selling inflight food and drink, booking fees and baggage charges are part of the lucrative income that airlines worldwide make from travellers. Irish budget airline Ryan Air even considered charging passengers to use the onboard toilet, but shelved the idea after negative feedback.

Charging for extras on top of an airfare was initially driven by low-cost carriers, but ancillary revenue is now an important earner for all airlines. US consultancy IdeaWorks Company forecasts it will increase 19% worldwide to US$59.2 billion in 2015, up 163% on five years ago.

The consultancy's 2015 ancillary-revenue report found US-based Spirit Air, which charges passengers up to US$100 for a cabin bag, was most reliant on extras, which contributed about 38% of its total revenue. UK-based Jet2.com made the most per -passenger, at US$56.

Air New Zealand is not on the list as it declines to disclose those figures. Most ancillary revenue – US$37.6 billion – came from optional à la carte services ordered while travelling, such as checked baggage, and the other US$22.5 billion came from non-fee activity such as selling frequent flier miles to partners, co-branded credit cards and commissions earned on selling such services as car rentals and hotel bookings.

New Zealand's national airline began a big push on ancillary revenue a few years ago when fuel costs were high and airfare margins low. It had not been as aggressive on this front as other airlines and it represented a lower percentage of revenue than most. Chief executive Christopher Luxon talked about a drive for ancillary revenue through direct and indirect channels in 2011. With airfares accounting for only 35% of trip expenditure, it was a clear -opportunity, he said.

Back then, he was group -general manager international. When recently questioned about ancillary revenue, the chief executive was more reticent, saying the carrier was winning business from other airlines for its engineering services and that he looked just at: “how do we maximise total revenue”.

A spokesman says ancillary revenue continues to be a “focus” for Air New Zealand. It is expanding the number of travel-related products available for customers to buy when booking fares, including rental cars, hotels, airport parking, campervans, cruises and tourist experiences.

Australia’s Qantas Airways earned an average of US$50 a passenger last year on top of ticket sales, mostly from selling frequent flyer points, said IdeaWorks. That was 12% of total revenue, which is high for a full-service airline. However, Qantas disputes the figures, saying Qantas Loyalty is a separate entity with its own profit and loss and the revenue comes from its retail partners and banks.

“Our business model, compared with that of low-cost carriers, doesn’t depend on driving revenue from unbundling things such as meals, baggage and inflight entertainment,” a spokesman says.

But he admits Qantas Loyalty is a profitable and integral part of the overall group, along with subsidiary Qantas Holidays.

Qantas offshoot Jetstar, which is taking on Air New Zealand on regional domestic routes, makes $35 a passenger on extra charges and expects that figure to grow. Jetstar group chief executive Jayne Hrdlicka told a 2015 investor day that growth per passenger had flattened out as a result of changing consumer behaviour around baggage, which is the key ancillary product. That was making the airline consider “how to more dynamically price ancillaries”.

Jetstar fare bundles, which combine a range of extras and flexibility for a discounted price, are becoming popular, says group chief commercial officer Catriona Larritt.
On a flight from Christchurch to Melbourne, for example, a bundle costs $57 on top of the fare and includes 20kg of baggage (worth $28), a meal ($8), seat selection ($5) and a Jetstar $15 flight voucher or Qantas or Emirates loyalty points, and no fee for unlimited changes to the flight times ($50 value per change).

Later this year, Jetstar is starting personalised ancillary offers such as outlining a range of baggage options to customers booked to fly to Queenstown in winter who may want to increase their baggage allowance to allow for ski equipment and clothing.

In a February report, IdeaWorks praised Air New Zealand’s website as being one that avoided “trashy call-outs that beg visitors to ‘buy now’”.

The report advised airlines how best to sell other services during the online booking process and said they should avoid being tempted by poor ethical choices such as opt-out clauses for such things as travel insurance, one of the most lucrative areas of ancillary revenue.

Last April, Air New Zealand ditched an opt-out clause that automatically sold customers travel insurance unless they chose not to include it during the online booking process. That was only after it had been given a formal warning by the Commerce Commission, which urged all other New Zealand companies to switch to an opt-in approach. House of Travel, Dash Tickets, Ticket Direct and Naked Bus all agreed to fall into line.

Nearly a year later, the commission has forced Jetstar to follow suit after threatening legal action. The airline kept up the practice until now, gaining a financial advantage over its local rival.

Consumer NZ said in 2015 Jetstar's booking process meant travel insurance, seats and baggage were preselected as extras, adding $42.95 to the cost of a return flight from Auckland to Wellington.

Jetstar will end the opt-out clause on its website by April 30 and the agreement stops it reintroducing it.

The airline said given the commission's position, it expects other low-cost carriers operating in the market, such as Air Asia, to remove preselection as well.

The IdeaWorks report says European and US consumers don't have the "online shopping surprises" caused by opt-out clauses, with "forced choice" instead requiring passengers to pick yes or no to offered extras.

Credit-card surcharges are another passenger bugbear. The Australian Government is about to crack down, and other countries have banned them. Airlines are deemed the worst culprits worldwide. In New Zealand, Labour politicians recently questioned the Commerce Commission's efforts to eliminate overcharging on credit-card surcharges, but the regulator said there is no Fair Trading Act breach if they're clearly disclosed.

It investigated Air New Zealand without finding any breach. The airline's website says credit-card surcharges range between $4 a person for a one-way domestic fare up to $17.50 a person one-way for long-haul flights.

Air New Zealand may have promised cheaper air fares this year in response to growing competition, but it and its rivals didn't say anything about discounting the extras.