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## Domestic Airlines add tailwind to ancillary business

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

Domestic carriers are increasing focus on ancillary revenue as ticket earning remains under pressure due to low fares.

On Tuesday, Vistara announced a bouquet of ancillary products and services such as lounge access pass, seat upgrades and pre-purchase of excess baggage.

Customers can book the products online for a fee, thus helping the airline to increase revenue.

In a statement, Vistara's chief strategy and commercial officer Sanjiv Kapoor said the airline had several other ancillary products and services in the pipeline and those would be launched in the coming weeks.

Ancillary revenue refers to earning from non-ticketing sources and includes onboard sale of food and beverages and merchandise, advertising, fees and charges for ticket cancellation, and excess luggage fees.

Last week, Jet Airways decided to offer priority check-in and baggage handling for all its economy class passengers for a fee while IndiGo rolled out a handbag-only fare lower than its normal fare.

“Ancillary revenue, including cargo, accounts for 10-15 per cent of our operating revenue and it is growing fast. One of the ancillary products generating tremendous traction is seat selection,” said Prasad Kholkute, Jet Airways’ vice-president for revenue management.

Carriers from India trail their peers in ancillary revenue collection and have come under regulatory pressure with regard to certain levies. In June, the Directorate General of Civil Aviation imposed caps on cancellation fees and excess baggage.

However, figures for 2015-16 show an upward trend. In its annual report released last week, IndiGo revealed its ancillary revenue rose 27 per cent to Rs 2,001 crore in 2015-16 from Rs 1,572 crore in the previous year.

Ancillary revenue accounted for 12.4 per cent of IndiGo's operating revenue in 2015-16, up from 11.3 per cent in 2014-15, and comprised seat selection fees, cancellation charges, excess baggage charges, cargo, tour packages, advertising, commission and inflight sales.

SpiceJet, which introduced a number of add-on fee-based services such as priority check in, quicker baggage delivery and SpiceMax, reported a 30 per cent growth in ancillary revenue in 2015-16 with collection rising to Rs 561 crore from Rs 432 crore a year earlier.

For SpiceJet, the share of ancillary revenue in operating revenue rose to 11 per cent in 2015-16 from 8.2 per cent in the previous year.

Kapil Kaul, CEO (South Asia) of consultancy CAPA, believes domestic airlines still do not have strategy for ancillary revenue, relying mostly on excess baggage, cargo and cancellation charges.

According to Amber Dubey, partner and India head of aerospace and defence at KPMG, with base fares low due to competition, ancillary revenue is key and the full benefit of ancillary revenues can be realised only when services are completely unbundled.

“Inflight ads on carpets, sidewalls and overhead cabins are an untapped area. Some airlines do use the folding trays for ads. The next big change will come once inflight Wi-Fi starts in India. Domestic carriers may earn an incremental Rs 2 lakh per aircraft per day at the very least,” Dubey said.

***According to a survey by US-based consultancy firm IdeaWorks Company, airlines globally earned \$26 billion in ancillary revenue in 2015 with US carriers United, American and Delta topping the list. According to the survey, US-based low-cost airline Spirit earned about 43.4 percent of all its revenue from ancillary sources, followed by Allegiant Air and Wizz Air, which earned 37.6 per cent and 36.4 per cent, respectively, of their revenue from ancillary sources.***