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Airlines to charge for food, seats and other facilities to up ancillary income

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This article is based upon a report issued by IdeaWorksCompany.

EMIRATES, the world's largest airline by international passenger traffic in 2015 which saw a 75% drop in profit for the six months to September this year, is now charging a seat assignment fee for its lowest price fares.

Come Jan 11, British Airways will start charging for snacks and drinks for its European flights on economy class, complimentary now, on short-haul flights defined as five hours or less.

This is part of the plan to grow ancillary income, which is non-ticket sources such as baggage fees, on-board food and services, seating, selling frequent flier miles to parties and even early boarding.

Ancillary revenue for long was the domain of low-cost carriers (LCCs), but increasingly, full-service carriers (FSCs) are into the game, given the handsome returns.

Why the FSCs want to be part of this is due to depressing yields and intense competition. The new wave of digitalisation has also opened new channels for them to sell services.

A recent report by ancillary revenue consultancy, IdeaWorks, and online car rental booking company, CarTrawler, predicts that ancillary incomes will reach US$67.4bil this year. This is a 200% increase from US$22.6bil in 2010. It based its projections on the ancillary revenue activity of 178 global airlines.

Globally, ancillary revenue is estimated to represent 9.1% of the US$740bil airline revenue for 2016.

The split was US$44.9bil from optional services, such as onboard sales of food and beverage, checked baggage, premium seat assignments and early boarding benefits, and US$22.5bil from non-fee activity such as the sale of frequent flyer miles to programme partners, and commissions earned on the sale of ground-based services to travellers, such as hotel accommodation and car rentals.

Last year, the reported ancillary income was US$40.5bil.

It is the traditional airlines such as Air New Zealand that will make the big bucks from ancillary revenue.

Last year, the top ancillary earners were United States ultra-LCC Spirit Airlines at 43% of revenue, followed by fellow American Allegiant Airlines at 38%, and Hungary's Wizz Air at 36% and Britain's Jet.2.com at 29%.

The US carriers that earned big bucks in ancillary income last year were United Airlines with US$6.2bil, American Airlines with US$4.7bil and Delta Air Lines with US$3.8bil, which are adopting the business models of their low-cost competitors.

Locally, AirAsia Bhd has seen a steady increase in ancillary income year-on-year, and with technological advancement, it wants to push revenue per passenger from RM46 now to RM60 next year, an RM14 rise.

By 2020, European plane maker Airbus expects ancillary revenues to hit US$130bil.

Airbus believes the growth will be from real-time purchases on the aircraft over connectivity pipes rather than in the booking channel.

A Sabre Corp survey says that travellers are willing to spend an average of up to US$99 per flight if it improves their travel experience. Africans are willing to spend the most, while Asia-Pacific travellers the least.

There are plenty of ways airlines can boost ancillary income by getting the traveller to part with more money while on board.

But for the FSCs, they should not try to sell food and drinks on long-haul flights when the ticket prices are "all-inclusive" of meals and the rest. Unless that equation changes, they should stick to the norm, at least Malaysia Airlines Bhd will, because it needs to gain traveller confidence for now.

Malindo Air is slowly but surely getting into the game too.

With such rosy predictions for ancillary income, it is up to the airlines to leverage on technology to find new revenue streams. Hopefully, they would be able to make enough from this segment so as to not burden the travellers with fuel surcharges when oil prices eventually go up.

Oil prices jumped about 10% yesterday after the Organisation of the Petroleum Exporting Countries said it would cut production.