



Airline Ancillary Revenue and Loyalty Guide for 2020

The best single resource in your quest for revenue success

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About Jay Sorensen, Writer of the Report

Jay Sorensen's research and reports have made him a leading authority on frequent flyer programs and the ancillary revenue movement. He is a regular keynote speaker at the annual MEGA Event, spoke at IATA Passenger Services Symposiums in Abu Dhabi and Singapore, and has testified to the US Congress on ancillary revenue issues. His published



Jay, with son Aleksei and daughter Annika, in North Cascades National Park in Washington.

works are relied upon by airline executives throughout the world and include first-ever guides on the topics of ancillary revenue and loyalty marketing. He was acknowledged by his peers when he received the Airline Industry Achievement Award at the MEGA Event in 2011.

Mr. Sorensen is a veteran management professional with 35 years experience in product, partnership, and marketing development. As president of the IdeaWorksCompany consulting firm, he has enhanced the generation of airline revenue, started loyalty programs and co-branded credit cards, developed products in the service sector, and helped start airlines and other travel companies. His career includes 13 years at Midwest Airlines where he was responsible for marketing, sales, customer service, product development, operations,

planning, financial analysis and budgeting. His favorite activities are hiking, exploring and camping in US national parks with his family.

About Eric Lucas, Editor of the Report



Eric Lucas is an international travel, culture and natural history writer and editor whose work appears in Michelin travel guides, Alaska Airlines *Beyond* Magazine, *Westways* and numerous other publications. Founding editor of *Midwest Airlines Magazine*, he is the author of eight books, including the 2017 *Michelin Alaska* guide. Eric has followed and written about the travel industry for more than 30 years. He lives on San Juan Island, Washington, where he grows organic garlic, apples, beans and hay; visit him online at TrailNot4Sissies.com.

Eric, at his favorite summer retreat, Steens Mountain, Oregon.

Welcome Aboard – An Introduction by Jay Sorensen

IdeaWorksCompany continues a yearly tradition by identifying the airlines that have shown the greatest prowess in ancillary revenue, a la carte pricing, and loyalty marketing. Throughout 2019, we assessed the top ancillary revenue producing airlines and the most generous frequent flyer programs; our reports described the industry’s service and product innovations; and we offered practical advice for airline executives.

The culmination of this work is the *2020 Airline Ancillary Revenue and Loyalty Guide*. The Guide includes every published report and survey issued by us during the year. In reviewing this material, IdeaWorksCompany found the following initiatives clearly stood apart in the quest for ancillary revenue during 2019:

1. Ryanair is finding its baggage groove. Ryanair made more than one attempt during 2018 to create a bag policy balancing smooth airport operations, compliant customers, and attractive revenue. The need for change was identified by Ryanair in 2013, when its CEO Michael O’Leary confessed, “We should try to eliminate things that unnecessarily piss people off.” Baggage was one of the problem areas. Ryanair finally implemented a policy in November 2018 that found the balance identified above.

The policy is best explained by an article from CNN Travel, “Under the new policy, non-priority boarding passengers are still allowed to bring a personal bag into the cabin free of charge, but there will be a fee of €8 (\$9) to check in a small suitcase weighing up to 10 kilograms (22 pounds). Passengers who purchase priority boarding will still be allowed to bring a personal bag and a small suitcase onto the plane.” This policy is a stroke of genius because it combines two things passengers adore: early boarding and the certainty of stowing a roll-on bag. We imagine this service is the defacto choice for most consumers and sells out for almost every flight. It’s the no-hassle way to fly Ryanair and doesn’t cost more than €12.

2. “We model ourselves to a certain degree after Disney.” The quote is from Maury Gallagher, the chairman and CEO of Allegiant. Don’t look for Allegiant to begin producing movies and opening giant theme parks. But the airline knows it has found a niche in the smaller cities and towns of America where it provides nonstop flights to key holiday destinations such as Las Vegas, Phoenix, and Orlando. Allegiant management knows these smaller cities and towns offer plenty of opportunity in the form of empty retail space.

These factors, when combined with Allegiant’s unusual business philosophy, yielded the surprising concept of family entertainment centers. “Allegiant Nonstop” is the brand developed for the family entertainment centers with the tagline “Entertainment. Thrills. Adventure.” Behind the doors of this concept lies a desire to establish customer relationships on a broader scale and before the vacation planning process begins. It’s unlike anything an airline “should” be doing, but it’s how an innovative enterprise is seeking to redefine itself beyond the capabilities of its competitors.

3. EasyJet has broken ranks with this mediocrity with its “Inspire Me” search engine offered on its website. After clicking the link, visitors begin a search by entering their departure airport, travel period, length of stay, ticket budget, and holiday objective. EasyJet destinations, schedules, and fares are matched to the search criteria. It’s an encouraging initial effort that could be improved with the addition of hotel, car hire, and sightseeing elements.
4. The IdeaWorksCompany Reward Seat Availability Survey answers the question, “How easy is redemption for the most popular basic reward type offered by the world’s top airlines?” Excerpts from the Survey are included in this Guide. This year’s survey assesses 20 top airlines, with Etihad, Qatar, and Singapore as newcomers for 2019. Of the frequent flyer programs surveyed this year, 13 provided better overall reward availability for 2019, with only three programs showing decreased availability. That’s a meaningful improvement, with two carriers exhibiting big year-over-year availability improvements. British Airways jumped 17.9 points to an overall reward seat availability score of 80%, and Korean Air increased 15.4 points to 84%.

These initiatives, along with the efforts of hundreds of other airlines, have brought ancillary revenue to record levels. The *CarTrawler Worldwide Estimate of Ancillary Revenue* was \$109.5 billion for 2019, which represents an almost fivefold increase from the 2010 figure of \$22.6 billion, which was the first annual ancillary revenue estimate. More importantly, ancillary revenue is now estimated to represent 12.2 percent of global airline revenue, which makes it a crucial — and stable — slice of the revenue pie.

This brings us to the future and the trends that will push ancillary revenue to higher levels. My list of 2020 predictions for the business of airline retail does not convey giant changes. Rather it identifies incremental steps toward a future marketplace, which five years from now will look very different from today.

- **Airports will see more travel retail exposure.** Some innovative airlines will make use of their long-neglected real estate by creating pop-up stores to promote specific destinations and leisure travel products.
- **Online travel agents will experiment with bricks and mortar.** This is a lesson learned from the online world where Amazon and others are opening physical storefronts. Look for OTAs to test the idea of a presence at major airports or in big cities.
- **Google Flights will further upset the status quo.** This train has left the station and continues to hurtle down the tracks without any impediments from the airline industry. The industry will regret neglecting this threat someday.
- **However, Google/Alphabet will face growing regulatory pushback.** Governments around the world will toss sand into the gears of this information technology behemoth.

- **Peer to peer services will face significant scrutiny.** Airbnb and Uber will struggle with product integrity issues as scammers and ne'er-do-wells stay ahead of the cops. This is because a global network is a very difficult neighborhood to police.
- **We are in the first quarter of the ancillary revenue GDS game.** Thanks to the big efforts of suppliers such as ATPCO, Farelogix, global distribution systems, and others, the airline business is beginning to tap the big potential of generating ancillary revenue through agency distribution channels. Don't forget, there are three more quarters to go!
- **Airlines will make good progress on selling the big 3.** Car hire, hotel accommodations, and travel insurance represent the vast bulk of 3rd party sales. Carriers will continue to push here with modest success; larger revenue gains require a redesign of the online experience.
- **A few bold airlines will develop distinct consumer stores.** The online model which has existed since digital retail began will someday be replaced. Airlines, and other travel companies, will create discrete stores tailored to the different needs of business, leisure, and price-driven customers. This will begin with modest experiments by the most innovative companies.

I look to the traditional retail world for much of my idea inspiration. There are winners there, such as Target and Walmart in the US, which have redesigned the customer experience and are enjoying big financial rewards. They've made significant investments, while the "herd" has attempted to cost-cut their way to prosperity. In my experience, the latter is the beginning of the long, slow, and painful path of decline. The business of airline retail will be very different five years from now. Is your company prepared for that?

IdeaWorksCompany looks forward to another year of ancillary revenue, a la carte, and loyalty marketing progress. I hope you enjoy reading this copy of the 2020 Airline Ancillary Revenue and Loyalty Guide. With 265 pages, it is one of our largest publications to date and remains the only single resource dedicated to the topics of ancillary revenue and loyalty marketing. I thank you for your support of my consulting firm and its mission to boost revenue through innovation.



President
IdeaWorksCompany.com LLC

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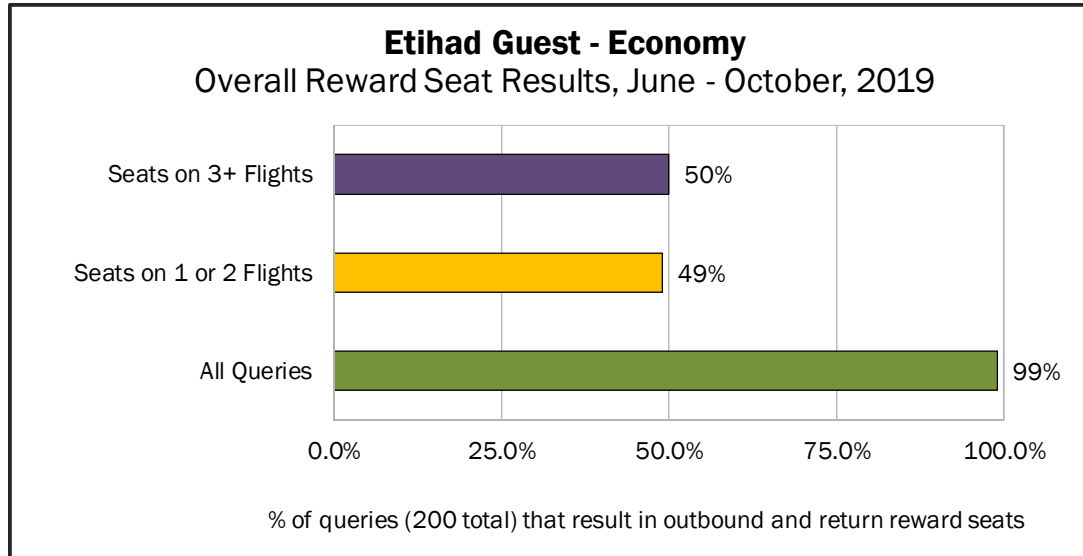
Etihad – Etihad Guest

Overview of Reward Availability		
Reward rankings:	Economy: #2 (total availability is 99%) Business: #5 (total availability is 82%)	City Pairs Queried
Reward level queried:	<ul style="list-style-type: none"> Economy GuestSeat Reward. Business GuestSeat Reward. 	
Summary of reward structure:	<ul style="list-style-type: none"> The airline has a complex reward structure with GuestSeat and OpenSeat categories. GuestSeat is a traditional capacity-controlled reward with zone-based mileage prices. The individual rewards are branded Guest Economy and Guest Business. OpenSeat reward prices are linked to the cash fares for the flight selected. There are 5 fare brands under this category: Economy Deal, Economy Saver, Economy Classic, and Economy Flex, and Business Flex. Reward prices may be below or above the GuestSeat level. First class (long haul) and The Residence (3 room suite) have single reward types. 	<p>251 - 2,500 Miles (10 total)</p> <p>AUH JED AUH CAI AUH KWI AUH DEL AUH BOM AUH RUH AUH DMM COK AUH AUH BAH AUH HYD</p>
Airline partners observed at online booking engine:	None observed.	
Alliance:	Etihad Airways Partners	2,500 + Miles (10 total)
Date queries made:	March 2019	
Pay with points/miles (same as cash)	Cash + Miles uses a slider tool to define the mixture of cash and miles desired by the member.	<p>AUH LHR BKK AUH AUH CDG AUH SYD AUH MNL AUH MUC AUH MAN AUH FCO AUH FRA AUH MEL</p>
Key non-air redemption opportunities:	Miles may be redeemed for a wide variety of merchandise, gift cards, raffles (exchange miles for raffle tickets), hotel bookings, car hire, experiences, holiday packages, Manchester City football fan club membership, excess baggage, and even a down payment on a Dubai apartment purchase.	
Search conditions:	None selected.	
Observations:	<ul style="list-style-type: none"> OpenSeat prices were found to be priced below and above the GuestSeat reward levels. Deal and Saver could be significantly lower than the GuestSeat reward price. 	

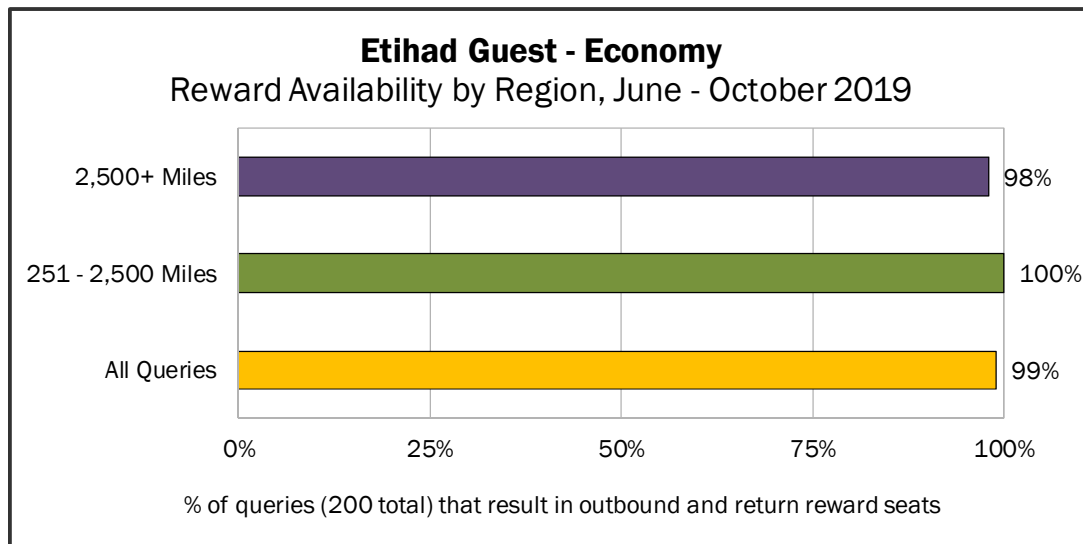
Etihad – 2

Economy Rewards

Overall Reward Seat Results. The results from each booking query were analyzed to determine flight availability based upon the number of flights offered.

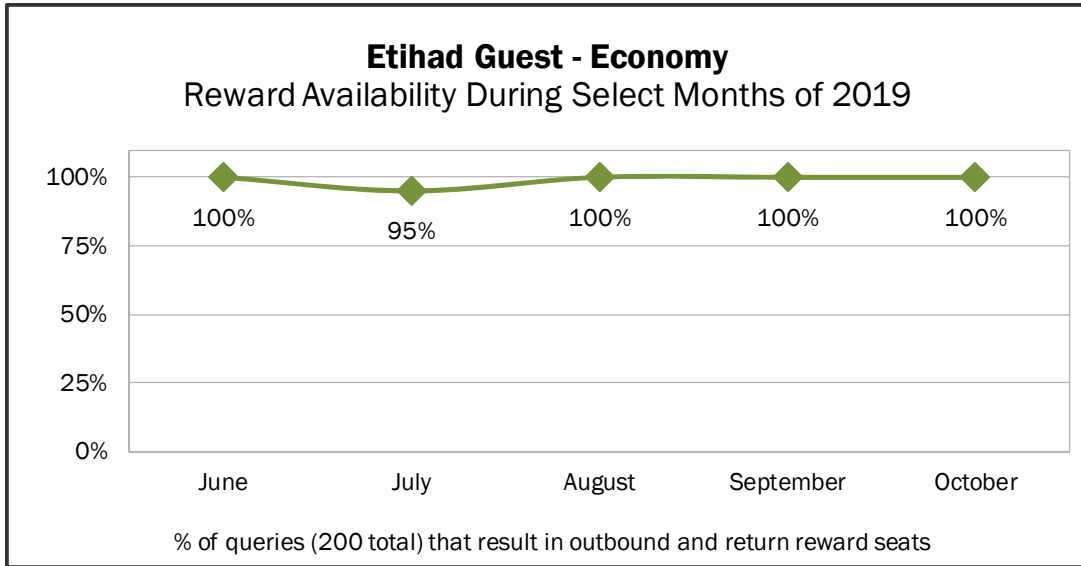


Reward Availability by Region. This graph displays the reward queries grouped by geographic region and length of flight. 50% of the queries were 251 - 2,500 mile city pairs and 50% were for city pairs at 2,500 miles or more.

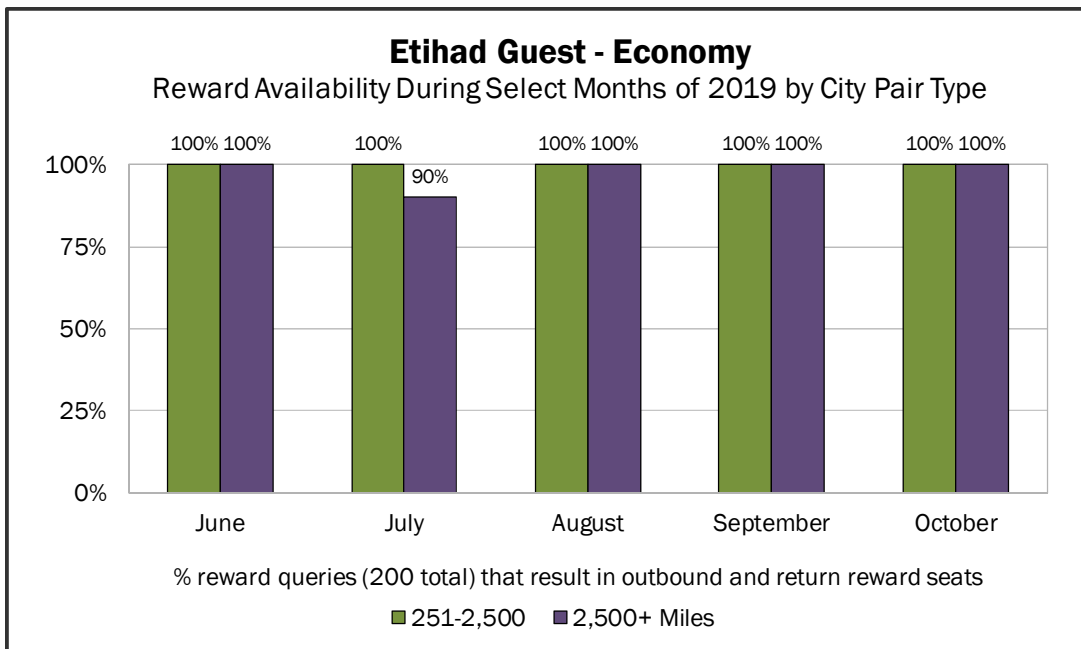


Etihad – 3

Reward Availability During Select Months. This graph displays the reward queries grouped by departure month. June represents seat availability with a 3 month booking window, as queries were made March 2019. October statistics provide longer term results with a 6 – 7 month booking window.



Reward Availability by City Pair Type. This graph displays the reward queries grouped by departure month and city pair type.



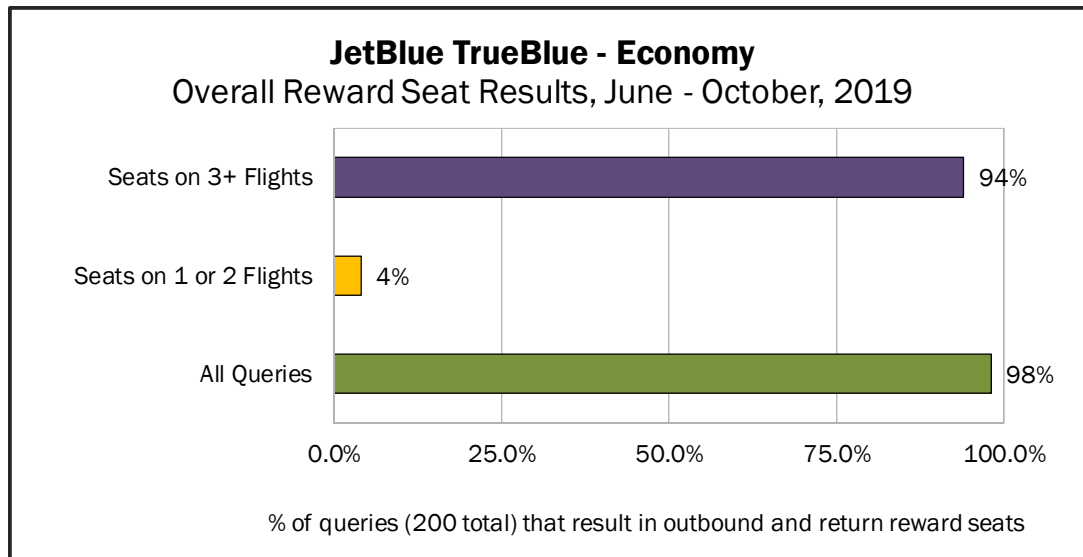
JetBlue – TrueBlue

Overview of Reward Availability																						
Reward rankings:	Economy: #3 (total availability is 98%) Tied with Turkish Business: Not sufficient activity to assess. See note in observations below.	City Pairs Queried																				
Reward level queried:	<ul style="list-style-type: none"> Search for economy rewards having a value of 12,500 points or less one way. 	<p>251 - 2,500 Miles (10 total)</p> <table style="margin: auto;"> <tr><td>JFK</td><td>LAX</td></tr> <tr><td>JFK</td><td>MCO</td></tr> <tr><td>FLL</td><td>JFK</td></tr> <tr><td>MCO</td><td>BOS</td></tr> <tr><td>DCA</td><td>BOS</td></tr> <tr><td>MCO</td><td>EWR</td></tr> <tr><td>RSW</td><td>BOS</td></tr> <tr><td>BOS</td><td>FLL</td></tr> <tr><td>BOS</td><td>PBI</td></tr> <tr><td>JFK</td><td>PBI</td></tr> </table> <p><i>Caribbean (international) routes are excluded because they are not equivalent to the domestic 25,000-mile reward markets queried for the US major airline programs.</i></p>	JFK	LAX	JFK	MCO	FLL	JFK	MCO	BOS	DCA	BOS	MCO	EWR	RSW	BOS	BOS	FLL	BOS	PBI	JFK	PBI
JFK	LAX																					
JFK	MCO																					
FLL	JFK																					
MCO	BOS																					
DCA	BOS																					
MCO	EWR																					
RSW	BOS																					
BOS	FLL																					
BOS	PBI																					
JFK	PBI																					
Summary of reward structure:	<ul style="list-style-type: none"> TrueBlue uses a revenue managed pay-with-points system. Points accrue on the fare paid by the member, not by distance flown. Rewards are not subject to date restrictions. Last available seats have higher point prices. Rewards are for one way travel. 25,000-point roundtrip query level for economy was established after a review of other US-based frequent flyer programs. These provide a “saver” reward for domestic travel after credit card charges of \$25,000; the same is true of the JetBlue Card from American Express. As card activity is an important accrual source, the 25,000-point level was adopted as a proxy for a saver level with TrueBlue, as it’s the prevailing level in the US. 																					
Airline partners observed at online booking engine:	Hawaiian																					
Alliance:	None																					
Date queries made:	March 2019																					
Pay with points/miles (same as cash)	Only pay with points; standard reward chart is not provided.																					
Key non-air redemption opportunities:	Members may pay for Getaways vacation packages using a combination of TrueBlue points and cash.																					
Search conditions:	Did not include nearby searches. For example “Boston” would be chosen rather than “Boston area.”																					
Average Reward Price: (US markets)	2019: 16,708 miles 2018: 17,660 points																					
Observations:	<ul style="list-style-type: none"> Members may choose from Blue, Blue Plus, and Blue Flex fares which offer different features regarding reservation changes and amenities such as checked bags. Mint business class is only available for select transcontinental routes. The majority of top 10 routes, based upon seats offered for sale, did not include Mint service. Thus, business class queries were not conducted for JetBlue. 																					

JetBlue – 2

Economy Rewards

Overall Reward Seat Results. The results from each booking query were analyzed to determine flight availability based upon the number of flights offered.



Reward Availability by Region. This graph is not provided for JetBlue as the carrier focuses on routes of 251 - 2,500 miles.