



ANCILLARY REVENUE REPORT SERIES FOR 2013

## Economy Class Meals Get an a la Carte Upgrade

Innovative carriers hope customers will forego free  
and pay for better food

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## **About Jay Sorensen, Writer of the Report**

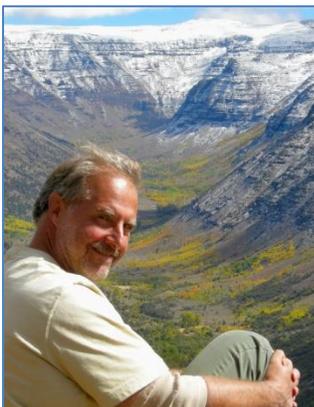


*Jay, with sons Anton and Aleksei, on the North Fork Trail in North Cascades National Park in Washington.*

Jay Sorensen's research and reports have made him a leading authority on frequent flier programs and the ancillary revenue movement. For 2013 he was a speaker at the FFP Spring Event at the Freddie Awards in Washington DC; he spoke at the 2012 IATA Passenger Services Symposium in the Middle East, and chaired the ancillary revenue track at the MEGA Event in San Diego. His published 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 28 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, at his favorite summer retreat, Steens Mountain, Oregon.*

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## Economy Class Meals Get an a la Carte Upgrade

### Buy on board appears, disappears, and returns

Irish playwright George Bernard Shaw wrote, “If history repeats itself, and the unexpected always happens, how incapable must Man be of learning from experience!”<sup>1</sup> Consumers, regulators, reporters, and airline executives should not be surprised a la carte meals are becoming more prevalent on the ancillary revenue buffet. It is, after all, how refreshments were first introduced to airline passengers.

Imperial Airways (now known as British Airways) unveiled its Silver Wing lunch service on 01 May 1927.<sup>2</sup> For one shilling and three pence (about 10 cents in US currency) passengers could purchase a luxury sandwich from the flight steward. But the eventual arrival of regulated fares and government oversight would prompt airlines to compete on the basis of amenities. A la carte practices slumbered for many years as carriers added full meals, chinaware and crystal, reclining seats, first class, and movies.

Airline deregulation brought back the purity of competing on price. Since deregulation – and as fuel prices rose – airlines all over the world have been on a severe economic diet and have cut spending anywhere they could. In the process, they also cut calories by reducing or eliminating meal services. Consumers and pundits might be surprised, but many managers at traditional airlines don’t embrace the zen of frugal inflight fare. It’s more glamorous (and easier) to provide fine dining free of charge. But it’s economically infeasible. This report analyzes the efforts by these airlines to create a positive perception of their economy class product by selling upgraded meals and generating some ancillary revenue at the same time.



*"Check please" or perhaps this passenger is just viewing a menu. Nevertheless, early airline food carried a price. Photo credit: British Airways Heritage Collection.*

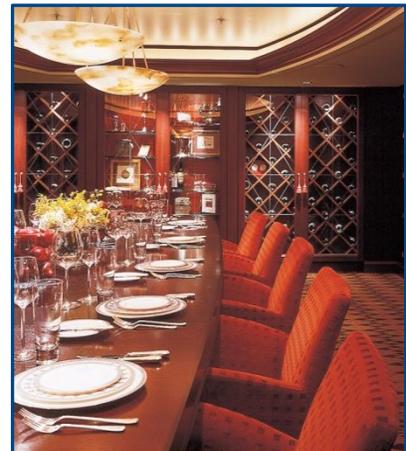
<sup>1</sup> George Bernard Shaw, *Man and Superman*, 1903.

<sup>2</sup> “85 Years of Airline Food” interview of Paul Jarvis (British Airways Heritage Centre Curator) 02 May 2013 at CNN.com.

The six airlines reviewed in this report (Air France, Austrian, Condor, Hawaiian, KLM, and US Airways) take a hybrid approach to a la carte. They continue to offer a basic meal service on longer flights. But they also tempt travelers with the opportunity to add a little luxury to the flight experience. Ironically, that was the likely motivation for Imperial Airways back in 1927 when it added sandwiches to its high profile London – Paris route. Much has changed in the interim 86 years, but at their core, successful airlines will always strive to create better comfort in the air for those willing to pay a little extra – yes, even at airlines as disparate as Ryanair and Emirates. That’s the soul of the ancillary revenue revolution, allowing consumers to click and choose a travel experience that’s just right for them.

### **Cruise lines embraced specialty dining a decade ago**

Norwegian Cruise Line introduced its Freestyle Cruise product in 2000 to differentiate it from competitors and to give customers more control over their cruise experience.<sup>3</sup> The plan broke from traditional dining practices and included new specialty restaurants. These required small cover charges, such as \$5, for upgraded menus and ambience. Company executives later conceded the transition from all-inclusive dining to a hybrid of inclusive and a la carte formats was difficult. One negative outcome was “guests felt like they had to pay for decent food.” But eventually Norwegian found a proper balance between “fee” and “free.” The company now reports ancillary revenue (called onboard revenue) of \$52 per person per day, which is nearly 30 percent of total average daily revenue.<sup>4</sup> Onboard revenue includes sales beyond the cruise ticket price, such as alcoholic drinks, shore excursions, onboard shopping, gambling, and of course a la carte dining.



*Crystal Cruises provides high-profile dining in the intimacy of its Vintage Room. Photo credit: Crystal Cruises.*

The remainder of the cruise industry quickly adopted Freestyle’s upgraded restaurant concept. A recent review of 12 top cruise lines identified 77 distinct specialty onboard restaurant brands charging fees from \$5 to \$1,000 per person.<sup>5</sup>

These restaurants are in addition to the all-inclusive dining rooms offered on the same ships. Norwegian Cruise Line alone offers 26 a la carte dining brands across its 12 ships.<sup>6</sup> Cover charges range from \$15 to \$75 for venues such as Cagney’s Steakhouse, Le Bistro French cuisine, Moderno Churrascaria, Mama’s Italian restaurant, and the Chef’s Table. Crystal Cruises tops the list with its \$1,000 per person “Ultimate Vintage Room Dinners.” Each event allows 12 to 14 guests to enjoy distinctive culinary experiences featuring some of the rarest wines in the world.<sup>7</sup> Specialty dining provides cruise lines new revenues and a reputation for more luxury, while providing passengers more freedom and flexibility.

<sup>3</sup> “Norwegian Cruise Line” Sibley and Johnson, Tuck School of Business, case study issued 18 June 2013.

<sup>4</sup> “Norwegian Cruise Line” Sibley and Johnson, Tuck School of Business, case study issued 18 June 2013.

<sup>5</sup> “Specialty restaurants, alphabetically by cruise line” at AllThingsCruise.com, reviewed September 2013.

<sup>6</sup> Freestyle Dining Guide at the Norwegian Cruise Line website reviewed September 2013.

<sup>7</sup> “Culinary Superstars to Host Crystal’s Extravagant Ultimate Wine Dinners in Europe” press release dated 28 March 2013 at CrystalCruises.com.

## Enjoy the following global selection of upgraded meals

The following six airlines provide complimentary meal service in economy class on longer flights such as Europe to the US. Some carriers with a la carte meal service are omitted. Delta and its DineUp meals don't appear because the feature is only offered on transcontinental flights which don't provide complimentary meals in economy. Likewise, Air Berlin was not included. The carrier is a pioneer of pre-order meals, but its Sansibar premium meals are not offered on long haul flights, and complimentary meals are not offered on intra-Europe flights.

<b>Economy Class Meal Upgrades</b> Airlines offering premium meals in lieu of standard meal service.				
Airline & Meal Brand	Meal Description	Pricing	Routes	Ordering Information
Air France <i>A la Carte</i>	Five meals are offered: Traditional French cuisine, BIO organic, Maison Lenotre selection, Italia menu, and the Ocean menu. Includes starter, bread, and hot entree.	From €12 to €22 with the Maison Lenotre selection at €28.	A la carte meals are offered on long haul flights which feature hot meal service departing from (not to) Paris (except Delhi, Mumbai, Amman, Damascus, Montreal, Toronto and Bangalore). Limited selections from Fort-de-France, Pointe-à-Pitre, Cayenne and Saint-Denis (Reunion).	Order during booking and online 90 days through 24 hours before departure (60 days for BIO organic).
Austrian <i>DO&amp;CO a la Carte</i>	Nine Austrian and international meals are offered, such as schnitzel, Caesar salad, and all-day breakfast. Meals usually include salad or appetizer, bread, cold or hot entree, and dessert.	Meals priced at €15 (\$20)	DO&CO a la Carte is offered on international flights to and from Vienna except Budapest, Prague, and Zagreb, and from Bangkok, Chicago, Delhi, Beijing, Tokyo, Toronto, Washington and Dubai.	Order during booking and online 36 hours or more before flight, and may be ordered at Vienna one hour before departure.
Condor <i>Premium Meals</i>	Short haul flights feature a cold breakfast or cold meal. Medium haul (ex. Europe to Egypt) feature a hot meal. Long haul flights (ex. Europe to US) feature 2 meals, one hot and one cold. Entree will vary by time of day. Meals usually include salad or appetizer, bread, cold or hot entree, and desert.	Pricing varies by route: short haul €7 (\$9), medium haul €10 (\$13), long haul: €15 (\$20). Fee also applies for special meals such as kosher and diabetic.	Premium Meals are available on all flights except those operating within Germany (domestic flights).	Order during booking and online 48 hours or more before flight. Entree selections are fixed; no choice of entree is offered online to passengers.

*Continued on next page*

<b>Economy Class Meal Upgrades (continued)</b>				
<b>Airline &amp; Meal Brand</b>	<b>Meal Description</b>	<b>Pricing</b>	<b>Routes</b>	<b>Ordering Information</b>
Hawaiian <i>Premium Island Meals</i>	Entree selections to Hawaii: Asian prawn & rice noodle salad, island chicken salad, and cheeseburger meal. Selections from Hawaii: Chinese chicken salad, BBQ chicken salad, and cheeseburger. Meals include Hawaiian potato chips and shortbread, and a bottle of water.	Meals cost \$14.	Premium Island Meals are available on routes between the mainland US and Hawaii.	Requested and purchased in the gate prior to departure; meal is delivered on the flight.
KLM <i>A la Carte</i>	Five meals are offered: Traditional Dutch cuisine, Japanese delight, Bella Italia, cold delicacies, and Indonesian rice dishes. Includes a starter, bread, dessert, and hot or cold entree.	Each meal costs €12 to €15, or 5,000 Flying Blue miles.	A la Carte meals may be ordered for travel on all intercontinental flights departing from (not to) Amsterdam, to all destinations except for Cairo, Tel Aviv, Toronto and San Francisco.	Order while booking, or online 90 days through 48 hours before departure, and during online check-in (30 to 24 hours prior to departure).
US Airways <i>DineFresh</i>	Eastbound meals: Asian chicken or beef with noodles, assorted meats & cheeses, orzo with Portobello mushrooms. Westbound meals: marinated lime chicken, antipasto, and vegetarian tabbouleh. Meals include starter, crackers, dessert, cold entree, and a split of Chilean wine.	Meals cost \$21.99. Double miles when paying with US Airways card.	DineFresh is available on flights between the US and Europe, the Middle East, and South America.	Meals may be ordered online a minimum of 24 hours before departure. Not offered during booking.
<i>Sources: Review of airline websites and online references, September 2013.</i>				

Catering professionals claim premium meals are developing a loyal following. Consumers appreciate the better food quality and convenience of knowing a meal will be waiting for them. These travelers also feel it offers good value compared to the expense and hassle of buying food at the airport. On the negative side, the provision of fresh food currently requires cut off times that don't allow travelers to make impulse purchases. Cabin crews are sometimes not enthused about the added responsibility of supporting the process. And of course, when the door is opened to offering more choices . . . the consumer has been conditioned to expect an ever improving array of meals such as gluten free, low calorie, and additional entree options.

## KLM adds “Choice and Control” with a la carte meals

KLM pioneered upgraded economy class dining when it introduced a la carte meals in 2011.<sup>8</sup> The new feature was built upon the experience of a one year trial to eight long distance markets from Amsterdam. The program was rolled out to almost all intercontinental destinations from Amsterdam (with the exception of four markets). Consumers may order a meal while booking online or return to the KLM website and add a meal to an existing reservation. It’s a very visible component of the carrier’s “Choice and Control” strategy that allows consumers to customize their travel through paid options such as checked bags, duty free purchases, preferred seating, and car rental bookings.



*KLM's Japanese Delight is a multi-course meal featuring sushi, smoked salmon, chicken, soba noodles, rice, steamed vegetables, and dessert.*

Air France/KLM believes there’s a direct connection between improving customer satisfaction and boosting profits. Christian Herzog, SVP of Marketing for Air France described it this way:

***“We want to offer more choice to our customers. To be more flexible. To focus on value for money . . . We want to increase customer satisfaction in order to increase profitability.”***

Air France followed KLM in 2012 by introducing a similar a la carte meal program.<sup>10</sup> The move acknowledges the current plight of dining in economy class . . . it’s the victim of relentless cost cutting. Passenger behavior has taught airlines that low air fares are the primary motivation for choosing a flight. The addition of a la carte allows these airlines to serve the small

segment of passengers who seek – and are willing to pay for – an enhanced dining experience.

IdeaWorksCompany believes these a la carte offers attract 3 to 6 percent of economy class travelers. For Air France/KLM this might represent 290,000 to 580,000 meals and ancillary revenue of €4.4 million to €8.7 million annually. This estimate is based upon 2012 traffic disclosures by Air France/KLM of 24.15 million passengers on intercontinental routes and an average meal price of €15. Furthermore, it’s assumed half these passengers depart Paris or Amsterdam (which qualifies as an a la carte meal flight) and 80 percent travel in economy class for a potential market of 9.66 million consumers.



*Air France upgraded its premium offer with a €28 meal branded by famed restaurateur Maison Lenotre of Paris.*

<sup>8</sup> KLM Introduces “À La Carte Meals” press release dated 28 July 2011 at KLM.com.

<sup>9</sup> Investor Day 2012 comments by Christian Herzog, at AirFranceKLM-Finance.com.

<sup>10</sup> “News April 2012” page at the AirFrance.com website reviewed September 2013.

Air France and KLM surmounted the usual technological hurdle of inadequate IT resources. That's often the culprit when a viable a la carte product is not displayed in the booking path . . . the marketing department hasn't secured coveted space on the website development calendar. As shown below, Air France makes its a la carte feature very visible in the booking path for bookings that meet flight route and directional (only from Paris) restrictions:

**A la Carte Menus**  
Varied menus, designed to meet everyone's tastes.

Menus starting at **12 €**

Discover our menus

Choose our daily menu or indulge in one of our "A la Carte" Menus to enhance your onboard experience and enjoy a gourmet moment!  
Go ahead and spoil yourself by customizing your flight.

▶ See the general conditions

Consumers may click “Discover our menus” for a very thorough description and tempting display of the meal choices offered. Air France is an admirable example of how airlines should promote premium meals. The contents of the tray are fully described by course and an enlarged view of the tray provides further clarity.

Select your in-flight menu

■ On the menu for your flight : Paris CDG - Boston BOS , 9 October 2013

Today's Menu / no charge    Menu « Ocean » / 15 €    Menu « Tradition » / 18 €    Menu « Une Sélection LENÔTRE » / 26 €    Menu « Bio » / 22 €

**Menu « Ocean » / 15 €**

Hors d'œuvre  
Shrimp marinated with coriander. Zucchini purée with niora pepper, arugula salad

Main course  
Dieppe-style fish hotpot of salmon, Alaskan hake, scallops, shrimp, cream, white wine and mushroom sauce. Polenta with mushrooms and carrots, zucchini, celery julienne

Cheese  
Camembert cheese

Dessert  
Lemon meringue shortbread

Unfortunately, the consumer is confronted with very unfriendly text when the “general conditions” link is selected. It's obvious the corporate attorneys got involved here; there simply must be a kinder and gentler method to communicate this information to consumers. Air France doesn't provide a la carte meals on flights operated “to” Paris from the vast majority of airports. Airlines often assume consumers read all the fine print, but here's the shocking news - - they don't. The booking path should also inform consumers why a product is not offered. Kudos to Air France for offering an image of its “no charge” option among the menu choices.

## **This is more complicated than delivering a pizza**

The local pizza place enjoys a far easier process for delivering a gooey delight of pepperoni and mushroom. Customers dial their mobile and order a pizza. About 45 minutes later the doorbell rings, the bill is paid, and you have a hot and tasty treat. The distribution chain for an a la carte meal has far greater challenges in terms of timing, distance, and disruption.

The preferred method to solicit sales is in the booking path while customers have their wallets open. There are a few cultural hurdles that will pass with time, such as the hesitation to choose an entree days or weeks before departure. Airlines have also found email solicitation delivered a few days before departure to be very effective. Combining the two, with emails only sent to customers who have not already booked food, should push take rates above 5 percent for routes with flight duration in excess of 3 hours.

Pre-ordered meals require technological and customer service support. Air Meals is a vendor that counts Delta, Westjet, and US Airways as customers. Their platform integrates into the booking process, and also provides an online static meal order page. Their system processes individual meal requests and delivers order information to catering kitchens. The actual sale transaction occurs when the consumer enters a credit card number. The caterer queries the system at the order cutoff time, such as 24 to 48 hours before departure, and assembles the meals. Tags are printed with the passenger name, seat number, and meal description, and attached to meal trays before the galley carts are loaded.

The galley configurations of a carrier's fleet will determine the style and complexity of meals offered. Galley ovens have disappeared from aircraft as carriers cut catering costs and sought to reduce aircraft weight. Of course, the solution to this can be an artfully presented chilled plate of gourmet goodies. There is a caveat here, however, as many consumers respond more positively to premium meals that include hot food.

Ideally the cabin crew delivers the meal before the regular meal service. This creates additional exposure as fellow travelers crane their necks to see what the passenger received. Jealousy and envy can provide strong motivation for future meal customers. Crews vary in their commitment to the process . . . some take ownership and gain product knowledge. Building awareness of how premium meals benefit travelers and the airline, along with providing tools for service recovery, are crucial to securing cabin crew support.

Air Meals provides 24/7 call center and email support to address customer service issues, such as missing meals and product quality complaints. Follow up surveys via email measure customer satisfaction and seek feedback on product improvement. Mark Allen, Vice President of Business Development and Operations for Air Meals, estimates 3 to 4 percent of orders encounter some type of difficulty that requires customer service support, which might include a refund. Passengers do change reservations and flight disruptions also occur. At present, consumers must update their itineraries at the Air Meals website – before the cutoff time – to ensure meal delivery. Flight disruptions, such as aircraft swaps, are a difficult issue with the catering kitchen and airline making a best effort to board a meal on the correct aircraft.

## Austrian tried full frills and now relies on a la carte

After many years of financial difficulty, Austrian Airlines is expecting 2013 to be a turnaround year.<sup>11</sup> The airline nearly broke even during 2012 with a small operating loss of €10.2 million. This long-struggling unit of Lufthansa Group has tried to fix its problems through an array of maneuvers to include significant and controversial labor restructuring and dramatic swings in the philosophy of its onboard product design. The latter is of particular interest because it demonstrates the failure of relying on all inclusive methods to deliver profits in markets affected by low fare competitors. Ryanair's Michael O'Leary offered his special style of wisdom on this topic when he said passengers will "crawl naked over broken glass to get low fares."<sup>12</sup>

Austrian began swimming against the no-frills tide in late 2006 when it reintroduced free meals on international flights between 65 and 150 minutes.<sup>13</sup> The carrier abandoned its prior practice of buy-on-board service and implemented a "high value free service" with menu items such as



*Imagine getting this on your next economy class flight! It is food that is beautiful to behold and delicious to eat. Shown here is the a la carte Tapas meal from Austrian and DO & CO.*

Austrian beef salad and apple strudel. Austrian Airlines hoped the change would meaningfully differentiate the carrier's brand among economy passengers. However, during 2009 the recession forced Austrian to reconsider its approach and economy class catering expenses in Europe were reduced due to austerity measures.<sup>14</sup> The airline again approached its caterer, DO & CO, during 2013 to request additional "cost-cutting measures."<sup>15</sup>

The change from a frills-based strategy to one that focuses on a la carte was helped by the addition of economy class meal upgrades during 2012. Austrian introduced DO & CO a la Carte meals to travelers on long haul flights to the US and on international services within Europe. Free snacks and hot meals are still provided to economy class

passengers, with the new option positioned as a "major product upgrade for our customers."<sup>16</sup> The airline's vendor, DO & CO, is a highly regarded Austria-based hospitality, restaurant, and catering icon. DO & CO provides all Vienna-based catering support for Austrian and also operates the carrier's premium class lounge at the airport.

<sup>11</sup> Austrian Airlines Annual Report 2012.

<sup>12</sup> "Strings attached" article dated 01 July 2013 in *Business Traveller Magazine*.

<sup>13</sup> "Austrian brings back free economy class food from today" article dated 16 November 2006 in *Business Traveller magazine*.

<sup>14</sup> DO & CO Annual Report 2009/2010.

<sup>15</sup> DO & CO Annual Report 2012/2013.

<sup>16</sup> "Effective Immediately: Premium Catering on Request also for Economy Class Passengers on Regularly Scheduled Flights" Austrian Airlines press release dated 14 June 2012.

This extensive relationship explains the presence of the DO & CO a la carte desk at Vienna Airport. Travelers may book a meal for their flight at least one hour before departure. The brand's physical presence along with the convenience of a one hour cutoff time (compared with the online policy of 36 hours) undoubtedly works to boost the take rate for meal upgrades.



*Calling all famished and impulsive travelers! The DO & CO a la Carte Desk is located in Vienna Airport near check-in area 3.*

Austrian disclosed to a publication it sold approximately 600,000 meals during 2012.<sup>17</sup> The carrier flew 10,855,700 passengers on scheduled routes within Europe and intercontinental routes during the same year.<sup>18</sup> While the DO & CO a la carte service is not available on every route, assuming a market of 10.8 million passengers should provide a decent proxy of the potential market size. These results generate a take rate of 5.6 percent . . . with the possibility the actual number is closer to 6 percent.

The airline is slowly enjoying financial success as it learns how to navigate European skies that are crowded with low cost carriers. Austria's own Vienna hub is also served by low cost competitors, such as Aer Lingus, EasyJet, Germanwings, Norwegian, and Pegasus. The DO & CO a la Carte program permits the airline to bridge the gap between LCCs and global competitors such as Air France, Emirates, and Japan Airlines. Consumers can enjoy low Redticket roundtrip fares such as Vienna – Copenhagen for €87 and Vienna – Rome for €97 which include a snack. Luxury can be added to the flight experience by paying €15 to upgrade to a delicious and filling tray of food. The strategy helps preserve a lower cost structure and supports Austrian's reputation as a high quality airline brand.

### **How to add sizzle to your product and beef up the bottom line**

There are two primary motivations for developing economy class meal upgrade options. First and foremost is the desire to make higher quality service available to travelers. This may surprise most consumers and industry pundits, but the six airlines featured in this report have a genuine desire to provide a better product experience. The economics of the airline industry prevent these airlines from improving existing economy class food. Better food and full meals cost more money. Airlines have learned the vast majority of economy-class consumers are not willing to accept higher fares in return for quality cuisine. But some passengers do greet the a la carte opportunity with enthusiasm. This allows airlines to add the option of luxury to their marketing message . . . instead of always focusing on cheap, cheaper, and cheapest.

<sup>17</sup> "Economy class goes gourmet" article dated 05 February 2013 in Business Traveller Magazine.

<sup>18</sup> Traffic Results for the Year 2012 issued by Austrian Airlines on 10 January 2013.

US Airways, as shown in the pre-flight email below, accomplishes this by using phrases such as “upgrade,” “treat yourself,” and “fresh” in customer communications and branding:



This being a report on ancillary revenue, it will of course review the second primary motivation for airlines. There is revenue to be gained from a la carte activities and savings associated with reducing existing food expense. Air France/KLM likely generates €4.4 million to €8.7 million annually from its a la carte meal program. This amount could double or triple as Air France and KLM continue to enhance the service. Future initiatives could include making the meals available on flights operating to (not just from) their Amsterdam and Paris hubs, developing more effective marketing and promotions, and perhaps offering an annual subscription program for frequent fliers.

#### Lessons Learned – Building Better Customer Value and Ancillary Revenue

- Keep route and flight limitations simple. US Airways offers an eloquently simple guideline, “You can buy a premium meal for flights to and from Europe, the Middle East and South America.”
- Avoid directional programs which only offer meals from a carrier’s hub.
- Seek to integrate meal ordering into the booking path to maximize sales and exposure.
- Allow consumers to click for more details such as a large image of the full meal tray and a description of each food item, as used by Air France.
- Don’t require customers to enter reservation codes to view entree selections. They are reluctant to provide this information for fear of an unintentional purchase.
- Provide a Q&A section that is plainly worded and thorough.
- Remember, simplicity is key, consumers will not invest the time to learn every nuance.
- Engage cabin crew as supporters with training, customer service recovery tools, and regular product sampling of the meals they are serving.
- Products should have a high degree of visual appeal and should be honestly displayed.

Airlines are advised to take care; there will be customers angered by a solicitation to buy an upgraded meal. The behavior is likely influenced by the demographic of age; older travelers remember when an acceptable meal was bundled in the price of a ticket. But memories are often selective, and complaints about economy class airline food are a firmly established part of travel lore. It may have been free, but it probably wasn't memorable. The a la carte approach is intriguing because its success or failure depends upon the unrelenting economics of the market. This approach will only work if the product provided is attractive to consumers.

Economy class meal upgrades are a commercial endeavor, not a gift or inclusive amenity. Airlines can be expected to quietly shelve their a la carte programs if attractive results are not produced. But in reality, the opposite has occurred – this is a category of ancillary revenue activity that is expanding and attracting the interest of airlines all over the globe. These meals have become a successful endeavor because the process is based upon the essence of the ancillary revenue revolution – allowing consumers to click and choose a travel experience that's just right for them.



# Pegasus Airlines soars with 42% more ancillary revenue

The results tell a compelling tale of ancillary revenue bliss and a productive relationship. IdeaWorksCompany started working with Pegasus Airlines in 2010.

IdeaWorksCompany helped Pegasus boost a la carte activity in core ancillary revenue areas such as onboard café, baggage fees, and seat selection.

For its latest full year, the airline disclosed per passenger ancillary revenue jumped by 42% in the three core areas since 2009. The total ancillary revenue increase was in excess of €36 million. That's the type of return that delights CFOs, CEOs, and airline investors.

The advice and expertise offered by IdeaWorks Company, when combined with the carrier's entrepreneurial spirit and outstanding people, has established a firm flight path to better profits.

## How IdeaWorksCompany builds ancillary revenue bliss...

- Series of on-site workshops on the topics of ancillary revenue, a la carte pricing, and loyalty marketing.
- Extensive background research through interviews of Pegasus frontline employees, program managers, and company executives.
- 90-page strategy document providing a ranking of opportunities, service design, revenue projections with 75 individual revenue benchmarks.
- Ongoing support to ensure revenue-producing results.

## 2009 to 2011 Ancillary Revenue Results



**Onboard Café**  
Increase of 17%  
per passenger



**Baggage**  
Increase of 60%  
per passenger



**Seat Selection**  
Increase of 109%  
per passenger

## Turkish Delight...

“ We worked with Jay Sorensen and IdeaWorksCompany in the areas of ancillary revenue, frequent flier programs and international marketing opportunities, and I have observed he is one of the best experts in the industry in these areas. He uses his deep knowledge and experience to bring together customized analysis and solutions based upon the customer's needs, marketplace, customer profile, and the best practices in the world. His analysis and recommendations have always been solid and executable and therefore generate incremental revenue opportunities. Pegasus highly recommends IdeaWorksCompany. ”

— Onur Dedekoylu, Vice President of Marketing

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