ANCILLARY REVENUE REPORT SERIES FOR 2014

Top 10 Things You Need to Know About Ancillary Revenue and Airlines

Reviewing the past, present and future of the ancillary revenue revolution in its 10th year

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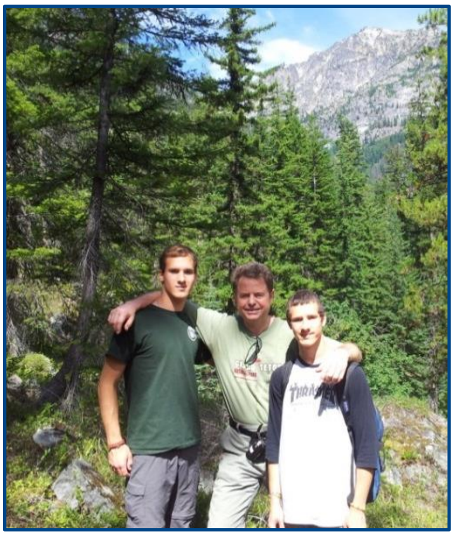
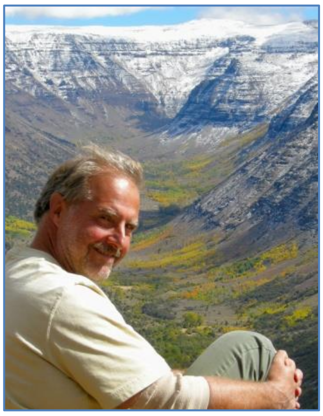


Jay, with sons Anton and Aleksei, on the North Fork Trail in North Cascades National Park in Washington.

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 and the MEGA Event in Vancouver; he spoke at the 2012 IATA Passenger Services Symposium in the Middle East. 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 30 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, natural history and business writer and editor whose work appears in Michelin travel guides, Delta *Sky* Magazine, *Alaska Airlines Magazine, Westways Magazine* and numerous other publications. Founding editor of *Midwest Airlines Magazine,* he is the author of eight books, including the 2013 Michelin Alaska Guide. Eric has followed and written about the travel industry for more than 20 years. He lives in Seattle, Washington, where he grows and sells organic garlic; visit him online at www.TrailNot4Sissies.com.

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

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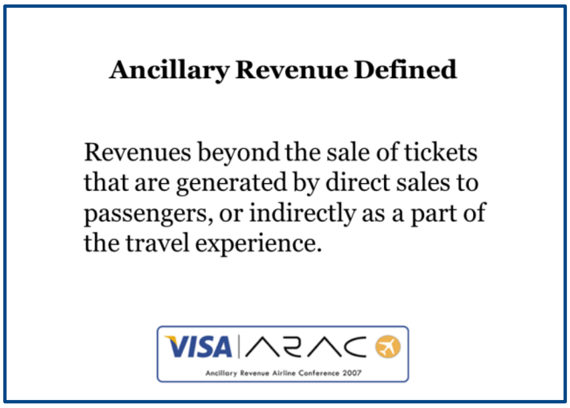
Top 10 Things You Need to Know About Ancillary Revenue and Airlines

“We are here to celebrate something new”

Back in November 2007 more than 240 airline industry professionals gathered in Frankfurt to experience something new, the first-ever conference dedicated to ancillary revenue. Opening comments made by Jay Sorensen, who chaired the Airline Information event, included the words you see above, *“We are here to celebrate something new.”* It’s perfectly appropriate to open this backward-glancing and forward-looking report with the same words for airline industry professionals all over the world. This philosophy explains the purpose of this report – to use past experience to guide airlines on their ancillary revenue path for the future.



Jay Sorensen used this slide at the 2007 Ancillary Revenue Airline Conference (ARAC) hosted by Airline Information, to define something new; it's a definition that remains salient today.

When defined in terms of online retail activity, the ancillary revenue revolution becomes ten years old this year. Airline lore credits Ryanair as leading the way for web-based a la carte sales . . . but au contraire. Back in 2005, United Airlines in the US and Flybe in the UK introduced ancillary revenue services at their websites.

United was an innovator of annual subscriptions when it started selling Economy Plus Access at United.com.[1] Travelers were invited to pay $299 for a 12-month subscription for more leg room in the first few rows of the economy cabin. Flybe introduced a very modest price of £2 per bag booked online and £4 when paid at the airport.[2] Wisely, the airline took a very careful approach to this early act of undbundling. In addition, Flybe cut fares by £1 and doubled the carry-on weight allowance concurrent with the new bag fee.

It was a month later in January 2006 that Ryanair introduced its scheme for checked bag fees and cheaper fares.[3] Over time the airline earned a reputation as the leading advocate for ancillary revenue. But 2013 brought something new again. Ryanair − having been chastened by relentless criticism of the way it treats passengers − publicly admitted it must improve its scandalous reputation for customer service.[4]

[1] “For a Fee, United To Expand Access To Roomier Seats” dated 02 August 2005 in the Wall Street Journal.
[2] “Flybe cuts ticket prices but introduces luggage levy” dated 16 December 2005 in the Guardian.
[3] “Ryanair to Revolutionise European Air Travel” Ryanair press release dated 25 January 2006.
[4] “Ryanair's Michael O'Leary vows to change 'macho' culture” dated 20 September 2013 in the Telegraph.

Ryanair has certainly learned risk is a companion of growth. Turning over every rock in search of revenue has often perplexed and frustrated the media, politicians, and consumers. Fortunately, these experiences can be used as teachable moments and provide an alternative to the painful method of trial and error. The ten tips offered in this report not only help airlines reduce the trips and falls they may encounter on the ancillary revenue path, but also boost the magical elixir of profit by providing better alignment with the expectations of consumers.

The Top 10 List — Ancillary Revenue Tips

- Baggage is the king of a la carte.
- Branded fares are easier for consumers and better for revenue.
- Subscription programs create the best loyalty.
- High value customers happily consume a la carte services.
- The best ancillary revenue managers are diplomats.
- Greed is not good for new a la carte fees.
- Transparency is a virtue for consumers, employees and your brand.
- Frequent flier programs provide big revenue potential.
- Create new products, not just new fees.
- A la carte shopping is good for consumers.

Commentary from the International Air Transport Association (IATA) demonstrates the global importance ancillary revenue has achieved, "Ancillary revenues are a key driver of improved financial performance . . . Without ancillaries, the industry would be making a loss from its core seat and cargo products."[5] An increasing number of airlines are becoming experienced ancillary revenue pros, while others are just beginning their journey. For the pros, novices, and every airline in between, IdeaWorksCompany offers its top 10 list for year 10 of the ancillary revenue revolution.

Baggage is the king of a la carte

The year following the Frankfurt conference marked the beginning of a global depression for the airline industry. Jet fuel prices in the US rocketed from $2 per gallon in 2007 to nearly $4 in 2008.[6] That doubling of fuel prices caused an economic convulsion that required immediate action. When air fares failed to keep pace, most US airlines quickly introduced fees for checked bags on domestic flights. In 2007 US airlines generated excess bag fee revenue of $464 million . . . the ancillary revenue revolution would push this to nearly $3.5 billion for 2012.[7]

Europe's network airlines took a similar approach during 2013 when faced with their own economic travails. Air France, British Airways, Iberia, KLM, and SWISS broke from tradition and introduced various schemes to charge bag fees throughout Europe or at select hubs such as flights from London Gatwick (British Airways) or Geneva (SWISS). It's a path well-trod by low cost carriers all over the world, which have long realized bag fees are a crucial component of their bottom line.

[5] "Airline Financial Outlook Strengthens" press release dated 12 December 2013 at IATA.org.
[6] U.S. Gulf Coast Kerosene-Type Jet Fuel Spot Price FOB at the US Energy Information Administration website.
[7] Baggage Fees by Airline, Bureau of Transportation Statistics at the US DOT website.

Positive things can happen when a company assesses a fee for a formerly "free" service. The revenue flow can encourage airlines to treat the service in a more business-like manner rather than as a "gift" given to the customer. This new revenue often allows an airline to reverse years of cost-cutting and invest resources to make a better product. For example, airlines worldwide are doing a much better job of handling customer bags. The rate of mishandled bags per 1,000 passengers has dropped more than 53 percent from 2007 to 2012.[8] It's notable that during the same period, passenger traffic increased 18.9 percent.

The US market provides a dramatic portrayal of the revenue power exerted by aggressive bag fee programs. Table 1 displays the revenue results for consumer policies ranging from stringent to generous. Spirit, a self-described ultra-low-cost carrier, implemented the first fee for large carry-on bags. Ben Baldanza, CEO of the airline, disclosed, "On July 31, 2010 (the last day with no fee) 60 to 70 percent of our customers carried large roll-on type bags that required overhead bin stowage. Like a knife edge, this dropped to 15 percent on the first day of the new fee."[9]

Table 1 – Bag Fee Revenue – US Domestic Results for Select Carriers

Carrier	Baggage Fee Policy	12 Month Revenue*	Per Passenger
Spirit	Checked and large carry-on	$201 million	$19.54
Delta	Checked bags	$838 million	$8.58
JetBlue	2nd checked bag	$73 million	$2.84
Southwest	No charge for 2 bags	$158 million	$1.39

**12 month period ended September 2013, Source: Bureau of Transportation Statistics, US DOT, Domestic US Traffic*

In 2011 IdeaWorksCompany estimated Spirit's carry-on fee delivers more than $50 million annually for the carrier. It was a controversial move that has only been followed by Allegiant and Wizz Air. On the other end of the spectrum is Southwest, which has enjoyed a positive response from consumer advocates for its no bag fee promise. The investor community continues to challenge the wisdom of the decision . . . especially as annual domestic bag revenue at Delta is nearing $9 per passenger. Charging for every piece of checked baggage provides powerful attraction for investors and has become an accepted part of the US travel experience.

Branded fares are easier for consumers and better for revenue

More emphasis is being placed on how to better sell air travel and airlines are experimenting with different methods such as fare families and branded fares. The low cost carriers originally led the way with an array of a la carte items for sale at their websites. Airlines found it easy to add more items for passengers to click and buy during the booking process. These include pre-paid bags, early boarding, exit row seating, assigned seats, and pre-order meals. When offers for hotels, car hire, and travel insurance are added to the ancillary revenue buffet, the result becomes complex and often overwhelming. Branded fares have arrived to rescue consumers who have become confused by too much choice. Fortunately for airlines, the financial results have been very promising for this package-oriented method.

[8] Baggage Report 2013 issued by SITA, Industry Surveys and Reports page, SITA.aero.
[9] "Spirit Succeeds with the World's Only Fee for Carry-on Bags" report by IdeaWorksCompany dated 19 December 2011.

Branded fares may share their origin with the successful "meal deal" methods used by fast food restaurants all over the world. Consumers are comfortable and respond well to offers that bundle all the usual amenities in a single price. Of course, there is irony here, as that was the manner in which air travel was once sold. The difference today is the "seat only" price for traditional carriers has become more competitive with the lowest fares in the marketplace. Consumers may upgrade to higher-priced bundles that offer more perks. Each bundle is always available, including high demand flights. This follows a retailer's first rule to always keep every product stocked.

The message displayed here is instantly understood in any language.

On 12 December 2012 American Airlines adopted the branded fare method in a very big way - - by offering it on all flights within the continental US. The carrier filed three types of fares under an umbrella brand called travel options: Choice, Choice Essential, and Choice Plus. Branded fares apply retail psychology by assigning a simple price point to a better bundle of amenities. For $34 more, the consumer would receive a checked bag, priority boarding, and more flexibility. It might be a difficult concept for traditional airline folks to understand, but intuitively simple for most consumers. The Choice fare varied for each flight as determined by the revenue management process. The Choice Essential and Choice Plus prices were originally determined by a $34 or $44 premium above the Choice fare (double for roundtrip); the premiums are now higher.

Frontier Airlines was an early branded fares innovator when it introduced its AirFairs pricing structure in 2008.[10] The merchandising platform developed by Datalex allows the airline to offer four branded fares: Basic, Economy, Classic, and Classic Plus. The method certainly presents consumers with choices, and 35 percent of them upgrade themselves by booking the Classic or Class Plus fare brands. The airline also attributes a 22 percent revenue increase to the branded fare approach.[11] Positive results have also been disclosed by Air Canada. While the carrier uses a different revenue management approach, 46 percent of domestic consumers picked a fare bundle above the lowest price fare.[12] Yes, you read correctly . . . nearly half chose more comfort and convenience over the cheapest price. These carriers are proving − when properly merchandised − airline travel can fetch a premium.

Subscription programs create the best loyalty

Frequent flier programs can't motivate every member to spend more or remain loyal. The allure of points or miles can encourage the repeat purchase behavior craved by airline executives. But for a significant number of travelers, the perks sadly have little influence on how often one airline is chosen over another. For example, only 31 percent of travelers surveyed (sample size of 2,572) would stick with their preferred brand if a competitor offered a discount.[13] But there is no mystery associated with customers who choose to pay for perks up front with their own money. These consumers now have an economic interest and work to save money on a per trip basis by booking the airline more frequently. Executives at Air Berlin, United, and Vueling know their subscription customers will shop first at their airline before going "off the grid" to buy a ticket from another carrier. Table 2 offers examples of subscription products.

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[10] "A Whole New Way to Buy and Fly on Frontier Airlines" press release dated 18 Dec. 2008 at FlyFrontier.com.
[11] Case Study for Frontier Airlines reviewed March 2013 at Datalex.com.
[12] Air Canada 2006 Annual Report.
[13] "Rising above the Clouds Charting a course for renewed airline consumer loyalty" 2013 report issued by Deloitte.

Table 2 – Global Sampling of Subscription Programs		
Carrier *Program Name*	**Features Provided to Cardholders**	**Annual Prices**
Air Berlin *topbonus Service Card*	• Additional checked bag or sports baggage allowance. • Pre-assigned seat at no charge or a reduced rate for XL extra legroom seats. • Free night-before-departure baggage check-in service at many airports in Austria, Germany, and Switzerland.	€119 ($164)
United *Economy Plus Subscription*	• Provides Economy Plus seating. • Prices vary by travel region and number of passengers: single, companion, and single booking for up to 9 travelers.	Starting at $499 for one person
Vueling *Vueling Pass*	• Unlimited priority boarding on all flights. • Unlimited fast track screening at 3 airports. • Includes 10 VIP lounge passes valid at 16 airports plus ability to purchase more lounge visits for €25 ($34) each.	€250 ($345)
Source: Review of airline websites January 2014		

Spirit Airlines and Wizz Air also offer savings clubs which charge an annual fee for privileged access to discounted air fares. Wizz Air, a low cost carrier in Europe, introduced its Wizz Xclusive Club in March 2011.[14] Within five months the carrier sold 100,000 memberships at €29.99 which generated subscription revenue of just under €3 million ($4.1 million).

Beyond the benefit derived from subscription revenue, these airlines naturally enjoy the opportunity to sell more travel to subscribers. Service-based products and savings clubs also encourage members to book travel direct at the carrier's website; this is often required to receive club benefits. Perhaps most importantly, these programs treat the consumer as a type of "investor" which seems more engaging than merely belonging to a frequent flier program.

High value customers happily consume a la carte services

Europe's king of low fare travel, Michael O'Leary (CEO of Ryanair), believes consumers will "crawl naked over broken glass to get low fares."[15] The success of his airline, along with easyJet, Vueling, and Norwegian, would have us believe this describes the behavior of every consumer. But the high value consumer (HVC) stands happily with wallet-in-hand in protest to Mr. O'Leary.

High Value Customers (HVC) Defined
Passengers motivated to purchase premium services that generate top margins for an airline. They book high yield fares, don't hesitate to buy a la carte services, and are not constrained by company travel policies. These customers have a high expectation for luxury, comfort and personal service because they have a high level of disposable income.

[14] "Wizz Air greets the 100,000th Wizz Xclusive Club member" Wizz Air press release dated 01 September 2011.
[15] "Low-fare airlines celebrate in high style" article dated 16 September 2005 in the New York Times.

It's true, the majority of the market is composed of value-seeking consumers. It's easy to forget there exists a sufficiently large category of consumers to keep a world of premium brands, such as Peninsula Hotels, Orient-Express, and Crystal Cruises, buoyed by big spending habits. Not all travelers seek to save every penny, nickel, and dime. Don't confuse this customer category with those having elite status in a frequent flier program, who are often constrained by corporate travel policies that reign in free-spending ways.

HVCs are good candidates for premium class fares. However, they won't pay outrageous prices for mediocre service. In the absence of good value, they will click to create their own premium experience. Fast track security, early boarding, extra leg room seating, and upgraded meals are services that a core group of 10 to 30 percent of consumers will consider. Travelers in this category are also candidates for bigger splurges.

HVCs can self-upgrade on Air France with premium €28 ($39) meal branded by famed restaurateur Maison Lenotre of Paris.

Eleven airlines in the world offer VIP airport services to create a high level of customized attention on an a la carte basis. HVCs every day book Delta's VIP Select Service at select airports to ensure personal pampering with the bonus of ramp level transfer in a Porsche automobile. While the Red Carpet service offered by Air Asia is less glamorous at $38 with an electric cart transfer, the revenue intent is the same. Both carriers are serving a niche that will gladly pay a premium to enhance the civility of air travel. This defines the ancillary revenue revolution – to create a la carte services that allow every consumer to meet their individual travel style.

The best ancillary revenue managers are diplomats

Low cost carriers were built to deliver ancillary revenue. Everyone in the organization from flight attendants to the CEO lives in a sales-oriented culture. Cabin crew are hired to promote and deliver products inflight, managers have perfected the art of selling services online, and these CEOs are conversant with the investor community on the topic of ancillary revenue. Network airlines found themselves adapting to this world by creating ancillary revenue czars to champion the cause. This method didn't work very well in a silo-oriented corporate world. Departments such as cabin services, airport operations, and loyalty marketing, were reluctant to cede control (and revenue reporting) to a central authority . . . even if it had the blessing of the CEO.

The kinder, gentler, and more effective model places the ancillary revenue manager in a coordinating role with a heavy emphasis on diplomacy. The best manager candidates have good knowledge of how an airline operates, are self-motivated, and diplomatic. Operational awareness prevents the ancillary revenue department from recommending or designing services that impede efficient operations. An innate eagerness to succeed is required to overcome the obstacles thrown in the path of anyone attempting to change an organization and create something new.

Skills in the art of compromise, and the ability to engage others in the pursuit of ancillary revenue objectives, are most crucial. Ancillary revenue departments always rely upon others to deliver services and products. Likewise, the revenue associated with these activities should remain in their respective departments. This creates a greater sense of ownership and encourages departments to operate in a businesslike manner. Of course the greatest measure of diplomacy will be required to bid for the IT resources that seem to be in short supply at every airline.

Greed is not good for new a la carte fees

Air Arabia had a problem . . . its primary low fare competitor was charging for checked bags − and Air Arabia was not. Perhaps a network airline would be pleased by the apparent advantage. However, revenue-savvy Air Arabia was not satisfied. FlyDubai launched services in 2009 and always charged bag fees.[16] By 2012, FlyDubai was charging AED 50 ($13.61) for 20 kg. of checked baggage with a 7 kg. carry-on bag allowance. Most other carriers in the same situation may have considered implementing bag fees and by matching the competitor's price.

Air Arabia took the path of moderation with a tiny step that offered a price of AED 10 ($2.72) [17] for 20 kg. of checked bags (20 percent of FlyDubai's fee). At the same time, Air Arabia also raised its carry-on limit from 7 kg. to 10 kg. With one move, Air Arabia introduced baggage revenue to its bottom line, offered a lower bag fee than its competitor, and aided consumer acceptance with a more generous carry-on limit. This demonstrates the rare quality of self-constraint.

The obvious path was to merely match the market with an AED 50 price for a 20 kg. bag. Consumer acceptance is always best guided with low introductory pricing. It's easier to increase prices over time than to face the embarrassment of a price decrease if initial sales are a flop. Air Arabia adhered to this wisdom and the original AED 10 price was eventually increased to AED 20 ($5.45). One can easily imagine the small price increase has not reduced bag check activity. But the outcome doubled the carrier's potential revenue, all because Air Arabia relied upon the virtue of moderation.

Transparency is a virtue for consumers, employees, and your brand

The ethics of an airline are reflected by the methods used to sell and deliver services to customers. One US-based airline once used opt-out methods to sell a $15 hotel shuttle transfer to every consumer. That opt-out practice was eventually banned by the US DOT in a far-reaching rule published April 2011.[18] But before that, the carrier's executives hoped consumers wouldn't notice they had purchased roundtrip transfers. The company was very aware this was occurring because no-show rates for the shuttle were very high. This represented a double profit, the first being the commission earned on shuttle sales, and the second being the money pocketed from unused tickets.

This type of hooliganism doesn't benefit anyone. Consumers hate being cheated and will readily express their ire through online posts and letters to their elected representatives. Eventually these abuses invite the government to intervene, and then the entire industry must be called to task due to the actions of a few bad actors. The above referenced rule has also affected how airlines all over the world sell and promote a la carte services. The US DOT has the authority to regulate any airline website that sells travel on US bound flights.

These airlines are now required to "Through a prominent link on their homepage . . . have one, central webpage on their website, linked from the carrier's homepage, which lists all ancillary fees." A check on US-based carrier websites found compliance, although one could debate whether all links meet the test of being prominent. However, compliance among foreign airlines serving the US is not complete with some surprising omissions by major brands.

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[16] "Dubai's First Low Cost Airline Takes Off" FlyDubai press release dated 16 June 2009.
[17] "Air Arabia introduces low cost pre-booked baggage policy" Air Arabia press release dated 24 June 2012.
[18] "Enhancing Airline Passenger Protections; Final Rule" in the US Federal Register dated 25 April 2011.

The rule of law is one test, while ethics demand a higher standard. Airline executives should ask themselves how their mothers would react if they learned what they are doing. Based upon the example described above, the CEO of one US-based airline would've received a vigorous scolding from mom. The ethics of a company are displayed by the methods it uses to sell a la carte services. Employees watch this and live through the consequences of this behavior. Companies − and families − function at their best when relationships are open, honest, and transparent.

Frequent flier programs provide big revenue potential

There is much to learn from the world's most effective revenue generating loyalty program. The Qantas Frequent Flier Program produces more revenue per member, and per passenger flown, than any other. For fiscal year 2013, the Qantas Loyalty business segment of the Qantas Group posted revenue of AUD 1.205 billion ($1.09 billion).[19] With 48.3 million passengers, that's more than $22 per passenger. By comparison, Delta expects its SkyMiles program to post revenue of $1.3 billion for 2014[20] or $7.90 per passenger based upon 2013 traffic of 164.7 million passengers.[21]

The Jetstar MasterCard allows travelers to accrue Qantas Frequent Flyer points or Jetstar dollars.

How Qantas Frequent Flier Boosts Ancillary Revenue

- Qantas Frequent Flyer was made a separate business segment in 2007 to create a stand-alone business premise and encourage an entrepreneurial environment.
- Efforts to boost membership have paid off; the program added 3.6 million members in 4 years. That's growth in excess of 60 percent.
- When banks compete, consumers win. Bank relationships are not exclusive with 18 banks offering cards (and unique offers) to members in Australia.
- The program boasts more than 400 partners covering a wide swath of retail activity.
- Partnership with Woolworths, Australia's largest grocer with 873 stores, allows accrual to be an everyday event.

Qantas statistics from the Qantas Data Book 2013 at the Qantas.com.au website.
Woolworths statistic from "Who We Are" page at the WoolworthsLimited.com.au website reviewed March 2014.

The reward of revenue from frequent flier programs is largely tied to co-branded cards. Airlines serving significant populations of credit-worthy customers use cards to tap a stream of retail revenue activity. This allows airlines to create daily transactions with members beyond the 2 or 3 trips a consumer might take each year. Frequent flier programs can also encourage consumers to buy a la carte services. It's a pity most airlines fall short here, as few provide bonus miles or points for the purchase of early boarding, assigned seating, or buy-on-board food. Pegasus Airlines has a very robust frequent flier offer in this regard. Members of its Pegasus Plus program accrue points for any purchase made with the airline such as seat assignment, excess baggage, and pre-ordered meals. Virgin Atlantic sweetens the offer for its VIP airport service, which is called Guest List, with a bonus of 5,000 Flying Club miles per booking.

[19] Qantas Data Book 2013 (for the year ended 30 June 2013) at the Qantas.com.au website.
[20] Delta Investor Day 2013 (11 December 2013) at the Delta.com website.
[21] "Delta Reports Financial and Operating Performance for December 2013" at the Delta.com website.

Create new products, not just new fees

The ancillary revenue revolution has resulted in the introduction of many new services and products. These include the upgraded meals offered by KLM, Marhaba VIP airport services from Emirates, the on time arrival guarantee by Wizz Air, and the annual checked baggage subscription from United. The development of a new service changes the discussion from one in which "fees replace free" to one which involves something new. Consumers are not always privy to the economic travails of the airline industry; and perhaps they shouldn't be. So it's understandable they complain when faced with a new fee today for a service that yesterday was included in the fare. The need to generate new revenue quickly often clouds a carrier's appreciation for this consumer perspective.

This report observed earlier, "The ethics of a company are displayed by the methods it uses to sell a la carte services." That's why the management team of Alaska Airlines struggled with the concept of charging a fee for the first checked bag as its competitors added similar fees during 2008. The carrier delayed moving on this issue, but eventually announced a first-bag fee in April 2009. Concurrent with announcing a $25.4 million quarterly loss, Alaska Airlines said it would start charging $15 for the first bag effective July 2009.[22] But Alaska added a decidedly innovative twist to the news; the airline would provide a 25-minute delivery guarantee. This moved bag fees from the realm of unbundling to a product with an inspired identity and higher standard.

The carrier said, "Customers whose luggage is not at baggage claim within 25 minutes after their flight parks at the gate will receive 2,500 Alaska Airlines Mileage Plan miles or $25 off a future flight." Alaska had more news to share in June 2010 when it improved its guarantee by shaving 5 minutes off the delivery time.[23] Now the carrier promised to deliver bags within <u>20</u> minutes after arrival. The benefits for the airline went beyond the revenue produced by the change. Managers disclosed the baggage service department now enjoys a higher profile in the company. These outcomes created an environment which allowed a former cost-center to become a profit-center with management more likely to invest in the business. But best of all . . . everyone from managers and employees to consumers now expects and demands better quality for the price paid.

A final point – A la carte shopping is good for consumers

Advertising for the now defunct People Express Airlines said it best in 1981, "You pay only for baggage you want to check, drinks you want to drink, and the snacks you want to snack." It's difficult to argue with that logic, because it places the consumer in the driver's seat. IdeaWorksCompany offers a troika of reasons why a la carte shopping is good for consumers:

- Let's be fair, many airlines need the money. Financially healthy airlines provide better service, operate newer aircraft, and have more staying power.
- Consumers can tailor their travel. While many travelers may mourn the passing of the proverbial free lunch, consumers are better served when they are free to pick and purchase services based upon individual preference.
- Fee-based services are often better than free. A magical thing occurs when a service is no longer a gift, but becomes something that earns money . . . companies provide better service.

[22] "Alaska Air Group Reports First Quarter Results" press release dated 23 April 2009.
[23] "Alaska Airlines And Horizon Air Speed Up Baggage Service Guarantee" press release dated 16 June 2010.

A la carte methods have replaced free with fee, and this often is a positive development for travelers. For example, why be limited by a paltry pantry consisting of a complimentary sandwich victimized by years of cost-cutting? Ryanair and easyJet both offer more than 85 items in their buy-on-board menus. Today's consumers are learning to rely upon a carrier's desire to sell items for a profit, rather than to depend upon a diminished menu of free edibles. IdeaWorksCompany analysis reveals a wide range of purchase behavior, with 15 to 40 percent opting to buy food or drinks on a flight.

Something has quietly occurred in the US airline industry since bag fees were added; baggage service has improved considerably. It's true, there are fewer bags, and this has allowed baggage systems to operate more efficiently. But the improvements reach beyond this change. By charging fees, once neglected baggage service departments have become star revenue performers for airlines. Department managers can now justify new technology and equipment. Where before, baggage service only represented a cost, it now provides millions in revenue. Passengers who used to check bags free of charge have become customers who pay a price and rightfully expect better service.

When a la carte shopping is successfully implemented, it's not an evil method. Quite to the contrary, it's the ultimate compliment to the consumer – it acknowledges their right to choose.

Branded Fares and Ancillary Revenue now fly high at SATA International with help from IdeaWorksCompany

SATA International is the airline of the Azores with flights throughout this mid-Atlantic collection of islands, and service extending to North America and Europe. The airline selected IdeaWorksCompany to guide design of a strategy to meet the challenges of low fare competition from Europe, rising operating costs on long haul flights, and consumers seeking best value.

IdeaWorksCompany provided on-site knowledge-building through its Master Class Workshops program. This was followed by a custom-designed strategic plan that identified which ancillary revenue activities would maximize revenue, add value for consumers, and be quickly deployable.

Seek your ancillary revenue bliss with guidance from IdeaWorksCompany.

Reach Jay Sorensen direct at Jay@IdeaWorksCompany.com

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