



Fringe benefits take centre stage

Passenger numbers have plummeted, ticket prices are falling but per-passenger spend on ancillaries is up. So, is this the big opportunity for low-airfare airlines to lift their game and broaden their horizons to capture more of a traveller's spending? Michael Doran mines the data.

The 2020 CarTrawler Yearbook of Ancillary Revenue by IdeaWorksCompany reported 2019 global ancillary revenues of US\$109.5 billion and per-passenger spend at \$23.91. Their estimate for 2020 is for revenues around \$58.2bn and per-passenger spend of \$25.90, although a third-quarter 2020 survey showed spending of \$26.91.

IdeaWorks President Jay Sorensen says he is currently collecting the 2020 data, and without revealing too much, he took *LARA* through some initial findings of the 2021 yearbook. He believes Frontier Airlines will be the top carrier globally on a percentage

basis and that there is a shift in revenues from fares to ancillaries, particularly in the case of ULCCs.

"They have managed to shift more of their revenue from the fare to à la carte items, which is very attractive because it reduces the risk from fare fluctuations as à la carte prices have traditionally been far more stable," he states. "They have consciously made that shift, and it's not an accidental thing because the airlines want to generate more revenue from à la carte."

Ancillary revenues from seating are showing the most gains, compensating for reduced food and refreshments sales.

Sorensen says JetBlue has been successful with its 'Even More Space' offer, with average passenger revenue of more than \$21 per passenger.

"Seating has become a big factor as people want to have more space around them and want to sit near the front so they can leave the plane more quickly. It also gives them a sense of control where I think passengers are desperate to grab some type of control back from the travel experience."

While charging passengers for something they previously got for free is never going to be popular, it seems that doing so during a pandemic at least makes it understandable to customers. This year Lufthansa Group airlines, Lufthansa, Austrian and SWISS will eliminate free food and drinks in short-haul and medium-haul economy, replacing them with a buy-on-board menu.

"Another point of ownership for airlines is the risk of me buying a ticket and having



Bear necessities: US ULCC Frontier Airlines is at the top of the ancillary revenue food chain.

things go horribly wrong, and I think there are a couple of airlines that seem to be getting this right, easyJet and Delta,” Sorensen adds. “If you buy a package from them, there’s a tremendous amount of protection that’s provided to you in case things go wrong.

“There’s a way for airlines to become better retailers of travel, car rental, trip insurance and to promote destinations, and they will need to get a lot better at proactively equipping the consumer with information if they want to do that.”

EASY AS... NEW SKIES

Amadeus company Navitaire provides more than 55 airlines with technology-driven solutions, such as the New Skies e-commerce reservation and retailing system that enables airlines to create and deploy new products flexibly. Navitaire’s Director of Marketing, Susan Adelman, >>>

Trend Comparison



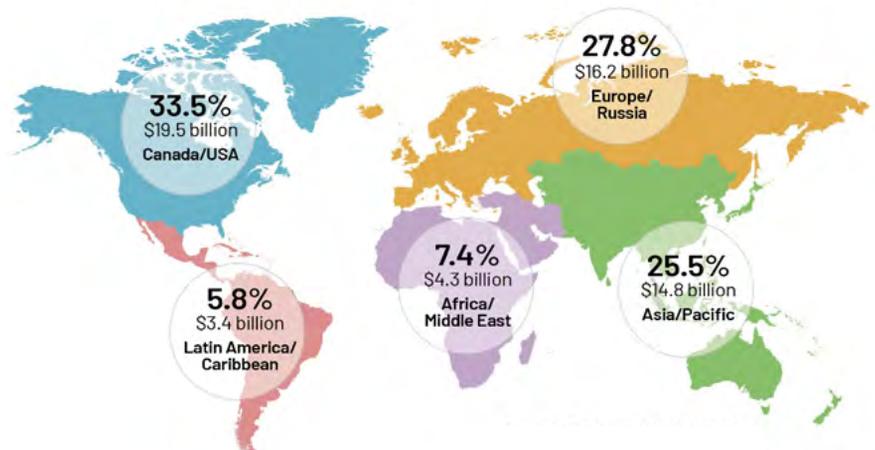
Source: CarTrawler Worldwide Estimate of Ancillary Revenue by IdeaWorksCompany. Fare data: IATA Economic Performance Report, June 2020

CarTrawler Worldwide Estimate of Ancillary Revenue



Source: CarTrawler Worldwide Estimate of Ancillary Revenue by IdeaWorksCompany.

2020 Estimated Ancillary Revenue by Global Region



Source: CarTrawler Worldwide Estimate of Ancillary Revenue by IdeaWorksCompany.

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Jay Sorensen, President, IdeaWorks



says airlines are looking for technology that can help them quickly and easily create new offers for à la carte ancillaries and bundled fare products “to sell virtually anything they believe customers will value”.

She continues: “Carriers get especially inventive with ancillaries that are within their control to deliver, making offers on-the-fly to respond to opportunities such as ‘buy the seat next to you’ or special family fares with tailored perks,” she tells *LARA*. “They want to launch the ancillaries or bundled products across all booking channels to make it easy for customers to buy them through any device.”

It is this approach that Navitaire customers, including LCCs Vueling, Wizz Air, Scoot, AirAsia and GoAir, have used to good effect in a range of seating and ancillary offerings. The New Skies program is structured to ‘sit on top’ of the reservation platform, eliminating the need for a separate merchandising platform, which reduces cost and complexity for the airline.

“Our carriers are highly successful in this space. Seven of the top 10 ancillary leaders use the Navitaire Airline Platform to generate sales from non-flight ancillaries,” she says. “The platform is self-service, letting airlines create and sell any product or service without new development work which improves speed to market and reduces cost.”

All airlines are looking for new revenue streams, and beyond selling their own services, there are many opportunities for pre- and post-flight sales, such as airport

transfers, car hire, accommodation, insurance, tours, and parking.

“Travel Commerce allows airlines to sell add-on products at any point throughout the travel journey and are added to the original order, so travellers have all the information for their trip in one place,” Adelman explains. “This fosters loyalty by improving customer experience and satisfaction.”

WIN-WIN CONNECTION

On a point-to-point flight, selling ancillaries is straightforward, but when a trip involves a second carrier, capturing revenue on the connecting flight is not so easy.

“With the rise of LCCs and airline partnerships outside of alliances, that kind of cross-selling isn’t automatically possible,” says Patrick Edmond, COO Air Black Box. “So to connect from an LCC to a network carrier usually means a passenger buying two separate tickets and taking on a whole lot of inconvenience.”

Apart from checking-in and collecting bags twice, there is the added anxiety of what will happen if the first flight is delayed and the connection missed, with no one in between to sort out a new itinerary.

Air Black Box (ABB) solves these issues by enabling airlines to cross-sell each other’s seats and ancillaries, thru-check bags and shift the complexity of managing the process to ABB technology.

“So, if the first flight is delayed and the passenger misses their connecting flight and has to be accommodated, we take care of that, and the airline doesn’t have to,”

Edmond tells *LARA*. “ABB is building an umbrella over that connecting piece and taking away the pain points of connecting LCC and network carriers.”

Apart from solving connection issues, ABB’s technology brings LCCs a host of opportunities to boost ancillary sales that it would otherwise miss out on. “So, for an LCC, this is a fantastic opportunity to offer value-added ancillary revenue to their passengers, and for the network carrier, they are getting a passenger, so it’s a win-win,” he explains. “Previously, these were two different worlds.”

As airlines look to rebuild, Edmond observes more network carriers are showing interest in linking to LCCs and tapping into potential new revenue streams.

“I’m astonished at the number of enquiries we’re getting from network carriers who have cut back routes and seen alliance partners suffer during the pandemic. They need to rebuild and find new partners, and because LCCs are growing market share, they’re the obvious partners.”

Predominantly ABB saw its technology as a way for low-cost carriers to cooperate. It developed the technology for Southeast Asia’s Value Alliance, which encompasses Scoot, JEJU, Nok and Cebu Pacific.

“We’re seeing so much network carrier interest in connecting to LCCs. I was talking to an LCC recently who is moving to a prime airport because slots have become available, and they want to target feed for network carriers,” he says. “I think the time for this solution has come.” ■

