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Airlines Saw Boost in Revenue from Ancillaries in 2020

By Mitra Sorrells

This article is based upon a report issued by IdeaWorksCompany.

While air passenger traffic and revenue were down more than 50% in 2020 due to the impact of COVID-19, several carriers got a boost in revenue from their ancillary products and services.

According to the 2021 CarTrawler Yearbook of Ancillary Revenue, produced by IdeaWorksCompany, Allegiant, Spirit, Viva Aerobus and Wizz Air all earned more than 50% of their total revenue from ancillaries last year.

Wizz Air is in the top spot – with ancillary revenue accounting for 55.9% of its total revenue, which the report says beats the prior record of 47.6% from Viva Aerobus in 2018.

The report includes data voluntarily disclosed by 75 airlines around the world. Seventy-three of those airlines were part of the prior year's report, and for them, total ancillary revenue was down \$34.7 billion in 2020.

Along with the four airlines that crossed the 50% threshold in 2020, 50 airlines saw their "ancillary revenue as a percent of total revenue" figure increase in 2020 compared to 2019. And for the 75 airlines that provided data, ancillary revenue accounted for 14.6% of total revenue, an increase from 12.1% in 2019.

Some of this, of course, was due to lower seat revenue during the pandemic. As the report acknowledges, "The improved results for 2020 occurred because fares were discounted during the pandemic (representing a smaller piece of the revenue pie) and take rates for key a la carte services, such as checked baggage and assigned seating, were higher."

But CarTrawler chief commercial officer Aileen McCormack says it also shows the power of ancillary revenue as a source of support for airlines.

"You saw some key carriers who during the pandemic ancillary revenue was over half their revenue, which is amazing given it's not their core business," she says.

“It also goes to show travelers’ appetite to purchase non-core products from the airlines, to trust the airlines in purchasing, whether it’s their car rental, their mobility, their hotels, activities, other products. And it reinforces the piece from the revenue point of view around how much airlines can benefit if they have a proper ancillary revenue strategy.”

The report indicates passengers have also shown a willingness to pay for things they believe reduce their risk of COVID exposure, such as front-of-cabin seats to enable quick exit from the plane and seats with extra personal space.

McCormack says all the airlines she works with are revising their ancillary strategies, looking for new opportunities to maximize this source of revenue. One opportunity she says carriers could be missing is related to the idea of blocking middle seats: Rather than either not doing it at all or doing it for the entire plane, McCormack suggests airlines could generate revenue by maintaining empty middle seats in a few rows and charging more for seats on either side.

The report says another type of ancillary revenue – from frequent flyer programs that sell miles or points to partners such as co-branded credit cards, hotel chains, car rental companies and retailers – was also crucial for airlines since it is not linked to passenger traffic.

The five largest airlines in the United States – Alaska, America, Delta, Southwest and United – generated \$19.5 billion from frequent flyer programs in 2019, which equates to \$25.71 per passenger, with 90% of that from co-branded credit card programs. In 2020, that figure dropped to \$11.1 billion, but on a per-passenger basis that amounted to a 46.4% increase to \$37.64 per passenger.