

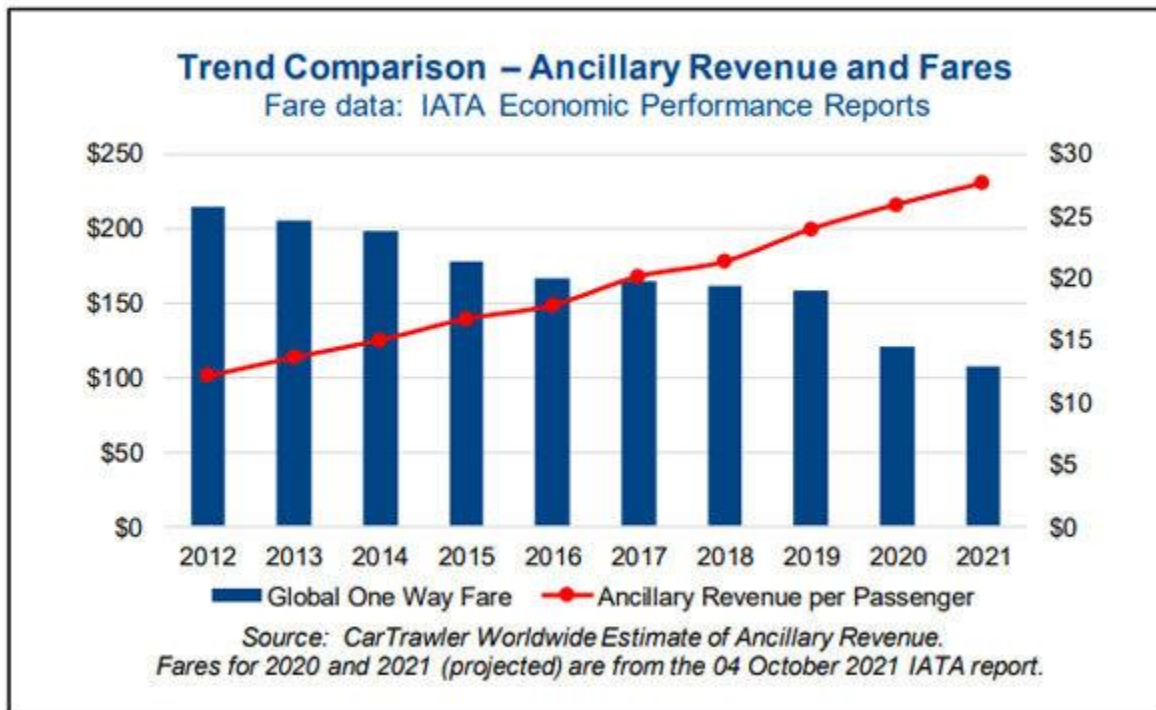
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Airline ancillary revenue begins recovery with a 13% increase to \$65.8 billion for 2021

By Tatiana Rokou

This article is based upon a report issued by IdeaWorksCompany.

The CarTrawler global estimate holds good news for global aviation, with increased ancillary revenue per passenger and on a percentage basis.



CarTrawler, a leading provider of online car rental distribution systems, and IdeaWorksCompany, the foremost consultant on ancillary revenue, project airline ancillary revenue will increase to \$65.8 billion worldwide in 2021, compared to \$58.1 billion in 2020. The CarTrawler Worldwide Estimate of Ancillary Revenue represents an increase built upon 2021 passenger traffic gains, with consumer support for a la carte services and co-branded credit cards holding steady.

Earlier this year, CarTrawler and IdeaWorksCompany reported the ancillary revenue disclosed by 75 airlines for 2020. These statistics were applied to a larger list of 109 airlines to provide a truly global projection of ancillary revenue activity by the world's airlines for 2021. This marks the 12th year IdeaWorksCompany has prepared a projection of ancillary revenue activity.

Ancillary revenue is generated by activities and services that yield cashflow for airlines beyond the simple transportation of customers from A to B. This wide range of activities includes commissions gained from hotel bookings, the sale of frequent flyer miles to partners, and a la carte services – providing more options for consumers and more revenue for airlines.

"As the travel industry continues its recovery, ancillary services have become an increasingly important revenue stream for airlines, and we project this grew by more than \$7 billion in 2021 compared to 2020," said Aileen McCormack, Chief Commercial Officer at CarTrawler. "Consumers are seeking more flexible, personalized services and offerings from airlines, opening up huge opportunities for the market. As we look to 2022, the airlines that come out on top will be the ones that find creative ways to use ancillary services to meet the evolving demands of travelers."

The persistent power of ancillary revenue, even during airline industry upheaval, becomes obvious when viewing the graph below. The average fare recorded by the International Air Transport Association (IATA) shows a declining trend with a significant drop during 2020, which continued in 2021. But ancillary revenue stands contrary to this trend with annual increases, to include the most challenging of aviation periods – the pandemic of 2020. In 2012, ancillary revenue per passenger was estimated to be \$12.13; by 2019 this had increased to \$23.91, and the 2021 projection is \$27.60.

Consumer purchase behavior of a la carte services changed during the pandemic. Checked baggage activity increased because travelers might be relocating their lives or staying at destinations for a longer period. Because business travel declined, a greater share of passengers consisted of leisure travelers. Since leisure travelers tend to check more bags, this boosted baggage revenues. Seat assignments, which for many carriers now involves a fee, are more frequently purchased. Popular choices were up front seats, to ensure less waiting in congested aisles upon arrival, and exit-row seats to provide more personal space. Onboard entertainment and Wifi access (sometimes a paid option) allow travelers to avoid conversation with seat mates, reducing the opportunity for viral transmission. In effect, travelers bought a la carte services to create a personal cocoon of protection from Covid-19.

Sales for all these services increased during the pandemic. Fluctuations do occur as consumer confidence in travel safety varies by region. The increase of vaccinations in a region allows consumers to feel more confident, and this likely leads to lower a la carte activity. Likewise, a wave of increased Covid-19 infections encourages consumers to seek comfort in up front and extra legroom seating. This explains why ancillary revenue for individual carriers may jump or dive as the pandemic wears on.

However, ancillary revenue statistics have been trending upward since 2019, as shown by a sampling of calendar 2021 results for these airlines:

Allegiant disclosed ancillary revenue per passenger was up 14.6% for the 2nd quarter of 2021 from 2019 mostly due to better results from fare bundles, car rentals, and the co-branded credit card.

- EasyJet saw its per seat ancillary revenue improve by nearly 27% for the 2nd quarter of 2021 compared to the 1st quarter. The carrier added fare options which include up front seating, speedy boarding, and larger carry-ons.
- Jetstar ancillary revenue per passenger grew 33% for the fiscal year ended 30 June 2021 versus the same period ending 2019.
- Ryanair posted ancillary revenue for the 2nd quarter of 2021 which was more than 16% higher on a per passenger basis than the same period for 2019.
- Viva Aerobus ancillary revenue per passenger increased by 16% for the first half of 2021, compared to the same period in 2019. The carrier has introduced an economy basic fare and extra leg room seating during the pandemic.
- Volaris posted a 51% increase for per passenger ancillary revenue for the first half of 2021, compared to the same period for 2019. The airline added bundles which include flexibility, assigned seating, and carry-on bag benefits.
- Wizz Air disclosed ancillary revenue per passenger increased by 25% for the 2nd quarter of 2021 compared to the same period in 2019.

The results above consist of 'ancillary revenue champs' because these airlines readily disclose details of quarterly a la carte sales. In this group, a la carte easily represents 90% of ancillary revenue. But as a single category, these airlines are behind traditional airlines in global ancillary revenue sales at just above a 17% share. Traditional airlines, at a 46% share, represent the largest category of passenger traffic and revenue. The emphasis these carriers have given to ancillary revenue has significantly increased in the last five years. Globally, approximately 63% of ancillary revenue is generated by a la carte activity. The remaining 37% is courtesy of revenue produced by frequent flyer programs and the commissions paid by travel related companies from car rental, hotel, and travel insurance bookings. Largely absent from competitive behavior is price discounting of a la carte fees. While airfares have been under extreme pressure since the pandemic, a la carte prices have held steady.

CarTrawler and IdeaWorksCompany offered the first worldwide estimate of ancillary revenue in 2010 at \$22.6 billion. Much has happened in the 11 years since, with steady annual advances, and new heights reached every year until the pandemic. The current year signals the bottom has been reached, but the return of passenger traffic has been uneven across the globe. The per passenger estimate of \$27.60 demonstrates the big role ancillary revenue plays in the airline industry. However, a la carte sales are not a standalone product and only occur after a journey is booked.

The timeless allure of 'being there' ensures passengers will return. Grandparents are eager to deliver a Lego toy to a grandchild. Lovers seek a return to that outdoor café across from the Louvre. Friends want to begin a night in Hong Kong with a trip on the Star Ferry. Moms and dads are promising to repeat the ritual of a family trip to Yellowstone. These are not ancillary needs, but are central to our human identity. The market will reward airlines which are aggressive, creative, and honest in their approach to consumers. In many ways, the future of the airline business will change, but the key role played by ancillary revenue is firmly set.