

The Airline Revenue Journey Continues –

THE CARTRAWLER REPORT SERIES FOR 2022

World's Newest Crop of Airlines Embrace Ancillary Revenue at First Flight

This CarTrawler analysis reviews
the a la carte tactics of new airlines
in the US, Europe, Asia, and Africa

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Driving Successful Partnerships

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About Jay Sorensen, Writer of the Report

Jay Sorensen's research and reports have made him a leading authority on frequent flyer programs and the ancillary revenue movement. He is a regular keynote speaker at ancillary revenue and airline retail conferences and has testified to the US Congress on ancillary revenue issues. His published works are relied upon by airline executives throughout the



Jay with sons Anton and Aleksei at Artist's Point in Yellowstone National Park.

world and include first-ever guides on the topics of ancillary revenue and loyalty marketing.

Mr. Sorensen has 38 years experience in product, partnership, and marketing development. As president of the IdeaWorksCompany consulting firm, he has helped boost airline revenue, started loyalty programs and co-

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About Eric Lucas, Editor of the Report



Eric Lucas is an international journalist whose work has appeared in Michelin travel guides, Alaska Airlines *Beyond Magazine*, *Epoch Times*, *Westways* and many other publications. Founding editor of *Midwest Airlines Magazine*, he is the author of eight books. Eric has followed and written about the travel industry for more than 30 years. He lives on San Juan Island, Washington, where he grows organic garlic, apples, beans and hay; visit him online at TrailNot4Sissies.com.

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

Disclosure to Readers of this Report

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World's Newest Airlines Embrace Ancillary Revenue at First Flight

SMALL FIRMS FIND THEIR NICHE

I had the recent privilege of a 2-day road trip with Eric Lucas, who is my friend, editor, and muse. The objective was a visit to the historic home, studio, and school of the great American architect, Frank Lloyd Wright, near Spring Green, Wisconsin. As Wallace of the Wallace and Gromit children's film series would say, "It was a grand day out." The fall beauty of my state was in gorgeous display, and so was the charm and sometimes quirkiness of small town Wisconsin. Yes, a business lesson does reside in this story.

We had a lunch decision to make while in Fort Atkinson. The usual ubiquitous fast food factories were present: Arby's, Burger King, McDonald's, and Taco Bell were ready, willing and able to serve us in this town of 12,455. These are giant franchises with overwhelming resources to lure us for lunch. And yet, we chose tiny Scottie's Eat-Mor.

This old-school main street café offers 16 stools at a counter, and a menu for breakfast and lunch. If you are a frequent customer, you can enter the café and the cook will automatically start preparing your usual order. The message learned from this road trip tale is "small firms can flourish even when giant competitors lurk nearby." This report reviews how savvy and nimble start-up teams – equipped with an ancillary revenue strategy – are finding their niche and making market share footholds upon which to build their airlines.



Jay Sorensen strikes a pose on Main Street in Fort Atkinson, Wisconsin. Be certain to try Scottie's fish fry on Fridays, available until 5 p.m.

WE IDENTIFIED 10 BRAVE PANDEMIC-ERA START-UPS

It's impossible to identify a time in which all the stars are perfectly in alignment for starting an airline. These include low fuel prices, inexpensive aircraft, damaged competitors, eager consumers, and willing investors. The pandemic offered some of these, such as low lease rates and an effectively bankrupt industry. But at the same time, consumers were staying home and investors were scurrying to protect existing commitments.

Nevertheless, there are always those intrepid few wishing to work through rounds of financing, certification, and that inaugural first flight. This report reviews the ancillary revenue efforts of ten airlines that leapt through those hurdles during the pandemic.

I compiled a fascinating list of new entrants that is far-reaching in terms of geography and network design. Four continents are represented with networks that are regional, medium-haul, long-haul, and intercontinental. But they share one attribute: ancillary revenue is a focus of their marketing strategies.

The below table reviews the following attributes for each carrier: retail / ancillary revenue method, the top premium seating offered, and the availability of frequent flyer program benefits. Ancillary revenue methods include branded fares, a single fare with a la carte add-ons (unbundled), or service bundles of optional extras. Each are defined on the following page.

Comparing 10 New Entrant Airlines				
Carrier	Home Market / Launch Year	Retail Method	Premium Seating	Loyalty Program*
Air Premia	Korea / 2021	Branded	Premium Economy	■
Akasa Air	India / 2022	Branded	Extra Leg Room	
Avelo Airlines	US / 2021	A la Carte	Extra Leg Room	
Breeze Airways	US / 2021	Fare Family	2 x 2 Premium Cabin	■
Flyr	Norway / 2021	Branded	Empty Middle Seat	■
LIFT	S. Africa / 2020	Branded	Empty Middle Seat	
Lynx Air	Canada / 2022	A la Carte	Extra Leg Room	
Norse	Europe / 2022	Branded	Premium Economy	
PLAY	Iceland / 2021	A la Carte	Extra Leg Room	
Vietravel Airlines	Vietnam / 2021	Bundles	Extra Leg Room	
<i>* Defined as programs operated by the airline. Information Source: IdeaWorksCompany review of airline sites December 2022.</i>				

The top premium seating sold by each carrier is often designed to attract higher-spending consumers, such as business travelers. It's notable these new entrants have not included lie-flat seating in a defined business class cabin as earlier new entrants have done. This is a meaningful development because three of the airlines (Air Premia, Norse, and PLAY) operate intercontinental flights. Frequent flyer programs are rarely a feature for start-up airlines, and only three offer a loyalty program. This is undoubtedly something the others will add as they grow and evolve. These airlines are toddlers – not even teenagers – so we can expect plenty of changes as they learn which markets yield the best results, and which older competitors are the most vulnerable.

RETAIL METHODS DEFINE ANCILLARY SUCCESS

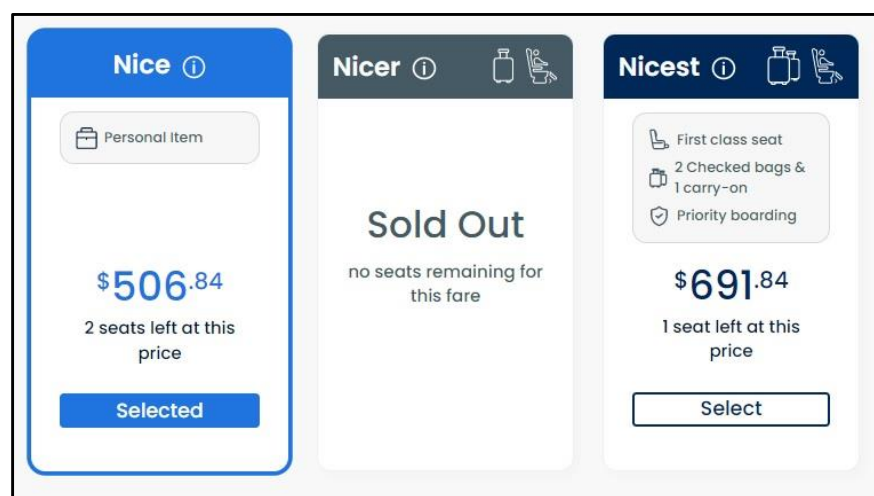
A la carte, branded, bundles, and fare families are phrases readily tossed about in the airline business, so I want to define these for you. The below table provides definitions first offered seven years ago, which remain applicable today.

Ancillary Revenue Methods			
Types	Definition	Revenue Management	Airline Examples
A la Carte (unbundled)	Consumers may add optional extras such as checked bags, assigned seats, and pre-order meals to any fare.	Lower priced fares sell out as demand increases, but optional extras remain available.	PLAY's optional extras such as carry-on bag, checked baggage, and assigned seats.
Branded Fares	Base fare provides minimal amenities and consumers may upgrade to higher-priced fares that offer more perks.	Each fare type is always available and has a fixed (predictable) price premium.	LIFT's 3 branded fares: Economy – No Bag, Economy – Bag, and Premium.
Service Bundles	Base fare provides minimal amenities and consumers may purchase packages that offer additional perks.	Bundles are always available and may have fixed price premiums or are dynamically priced.	Vietravel's 3 bundles: Standard Combo, Smart Combo, and Super Combo.
Fare Family	Bundles can be linked to existing fare codes (or limited by a seat type) with higher fares providing more perks.	Lower dynamically priced fares sell out as demand increases, which limits the choices presented to consumers.	Breeze Airways' 3 fares: Nice, Nicer, and Nicest.
Information Source: IdeaWorksCompany review of airline sites December 2022.			

Branded fares provide the best ancillary revenue results and is the most common method among the ten carriers. It's based upon social science which has shown many consumers prefer a "middle choice" rather than opting for the lowest or highest price. A well-designed branded fare strategy should encourage about 45 percent of consumers to choose a fare offering more comfort and convenience.

Traditionally about 50 percent of consumers will choose higher-priced fares. But poorly designed branded fares can overwhelm consumers during the booking process. When this occurs, almost all consumers default to the lowest fare. Branded fares ease decision-making for consumers by bundling the most popular optional extras into a single package. Consumers have the expectation of savings when they bundle the purchase of products. Unfortunately, this trust is violated when airlines exaggerate the actual savings offered by buying a bundle.

The fare family method delivers non-optimal results because it removes products from display based upon revenue management parameters, or the non-availability of underlying components. Full flights might only feature one fare, whereas empty flights include all fare family choices. This violates a basic rule of retail; stores should strive to keep every product in stock and on the shelf at all times.



No middle choice. Breeze links its Nicer fare to Extra Leg Room seating. When those seats are sold out, the "Nicer" option disappears from the store self of its online booking path.

A la carte is how the ancillary revenue revolution began. This method offers a base fare upon which the consumer continues through a booking path to add optional extras. It's a simple, durable, and proven method, but it can wear out consumers when online "store shelves" are stocked with too many a la carte items.

PLAY only offers baggage, cancellation protection, and assigned seats as a la carte options, and consumers can speed through the booking process. The best time to make a sale is when the consumer has their wallet open and is ready to pay. Lynx Air has many more optional extras in its booking path: 1) assigned seats, 2) checked baggage, 3) carry-on baggage, 4) priority boarding, 5) accessibility request – no fees, 6) additional assistance – no fee, and 7) pets in cabin. There is a balance that every airline will find by testing the revenue results of different a la carte configurations.

“THE MOST FLEXIBLE AIRLINE”

LIFT Air calls itself South Africa’s most flexible airline. The carrier, using Airbus 320 aircraft on two domestic destinations from its Johannesburg hub, promises to be consumer-centric. The website observes the following, “The industry has become overly rule-bound and rigid and customers need to be placed back at the centre of all decisions.” There’s a lot of truth in that statement. LIFT understands how unfriendly rules reduce trust in airline-consumer relationships and seeks to replace this with customer-focused policies.

Early in my airline career when I was manager of pricing for a start-up, I was entirely focused on enforcing change and cancellation fees. Station managers would get a call from me when counter agents would waive fees as a courtesy to customers. Rather than spending time lecturing, I should’ve designed methods to allow airport agents to make exceptions based upon an agreed-upon monthly budget for fee waivers. This would’ve placed decisions where they are best made – in the field – with the added benefit of self-enforced financial guidelines.



Flexibility is a key component of the carrier's brand.

Change and cancellation fees are a component of the passenger fare and not defined as ancillary revenue. There’s an exception to this, when airlines sell an optional extra to provide change and cancellation flexibility (as PLAY does). By not being controlled by a particular fare, the item qualifies as an ancillary revenue activity.

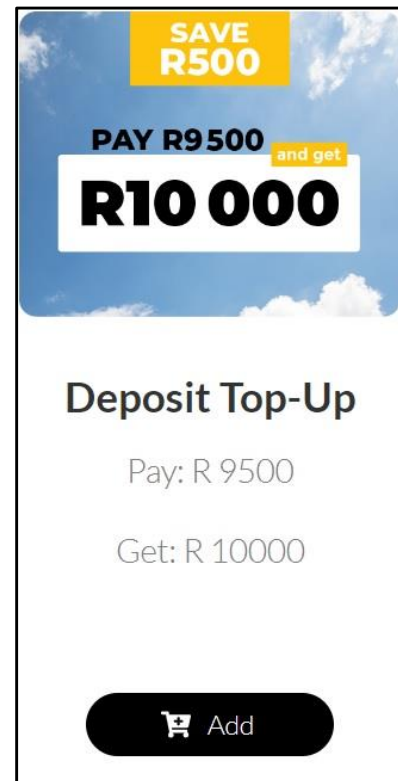
The pandemic has made flexibility a top-of-mind amenity for consumers. LIFT has removed the sharpest edges from traditional change and cancellation policies by allowing plenty of flexibility 24 hours prior to departure. No fees are charged for name changes, reservation changes, or cancellations made 24 hours prior to departure (economy cabin). Of course, the usual additional collection for higher fares continues to apply. For changes and cancellations within 24 hours, the airline charges ZAR 250 (approximately \$14) for economy cabin fares (plus additional fare collection).

This simple and fair policy is easily understood by consumers, preserves some revenue recovery for the airline, and reduces fee-collection drama at airline counters and boarding gates. The refund is applied as a credit to a digital wallet in the customer’s online account. This preserves cash flow for the airline and ensures the consumer will return to the airline to purchase future travel. Refund credits are valid for 36 months and can be used to purchase any fare or optional extras.

Flexibility is even better for LIFT's Premium service which occupies the first three rows of its aircraft and offers more space. Premium customers can change or cancel bookings up to one hour before departure without paying a fee.

Premium is a full-feature service with a generous 2 checked bag and 2 carry-on bag limit, along with drinks and snacks, priority boarding, fast track, and lounge access. As with many airlines – and this always surprises me – the “details” associated with upgraded service offers are lacking. LIFT provides a helpful summary of Premium service amenities, but no specific information regarding airport lounges, food, beverages, and what is meant by “priority customer support.” Creating options to access more content and images allows consumers to justify the additional fees charged.

The wallet function is not offered in a mobile app. The market in South Africa is probably ideal for bookings via mobile app, but an app is not referenced on the carrier's website, nor could one be found at Google Play or in the Apple App Store. LIFT encourages wallet use by offering an attractive discount for top-ups. For example, the ZAR 10,000 (approximately \$569) top-up costs only ZAR 9,500 (approximately \$540), which represents a 5 percent discount. The most expensive top-up of ZAR 100,000 (approximately \$5,690) generates a 10 percent discount. This can represent a frequent flyer solution for the airline, but the benefit is limited to those higher income travelers who can afford to pay in advance.



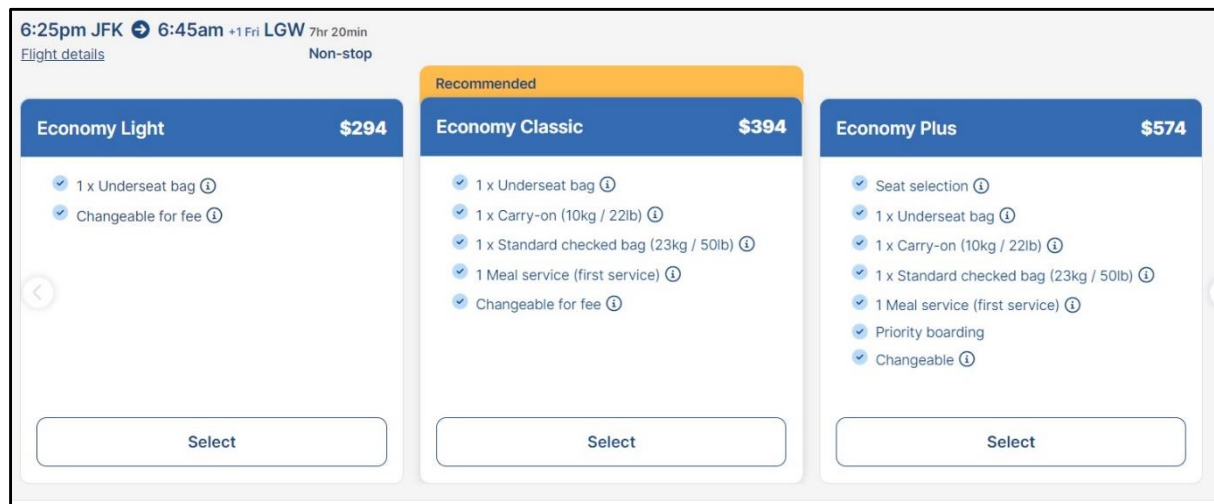
LIFT offers 4 top-up levels from ZAR 10,000 to ZAR 100,000.

BETTER BRANDED PRESENTATION

Norse operates transatlantic routes between Europe and the US using Boeing 787 aircraft in a two-class configuration. Clicking on the “our cabins” page on the website reveals the same branded fare presentation used in the booking path. It's a genius move because it prepares consumers for the decision-making process required for booking travel. Premium is a separate cabin providing 19-inch wide seating, with a 7 inch recline, and 46-inch seat pitch.¹ Once again, consumers would benefit from more content and images to promote the upgraded service. For example, seat configuration details were best found on a third-party website, not the carrier's website. The airline does a far better job of displaying its ancillary revenue offer.

¹ SeatMaps.com listing for Norse Atlantic Airways Boeing 787 reviewed December 2022.

Norse follows the branded fare presentation used by Lufthansa Group airlines for many years. I call this the “good, better, and best” method because it uses three branded fares to encourage consumers to choose the “safe compromise” of the middle. When only two fares are presented, the consumer defaults to a “savings mode” with the overwhelming majority choosing the cheapest fare. Introducing four branded fares creates too much choice (and confusion) with consumers again favoring the lower fares. Norse first asks consumers to choose the economy or premium cabin and offers three branded fares for each.



Follow the leader; Norse hits all the notes with its branded fare display for its economy cabin.

Three smartly designed branded fares hit the revenue sweet spot when this advice is followed:

- True branded fares don't sell out purely for revenue management reasons. For example, the lowest priced fare doesn't sell out as a flight fills up.
- Price jumps between the fares are rational and not extreme. For example, a \$100 good fare, would not be followed by a \$400 better fare and a \$1,500 best fare. This extreme example removes the credibility of choice and the majority of consumers will buy the \$100 fare.
- Bullet points are the best method to display fare benefits, and these should increase in number for the better and best fares. Don't fall into the trap of adding too many benefits, as this adds confusion to the comparison process.
- Offer the ability for consumers to “click for details,” for those wishing to learn more.
- Highlight the middle fare with graphic signaling such as the word “Recommended” to direct awareness.

When this advice is followed, airlines can expect 50 percent of customers to book the lowest fare, with 45 percent choosing the middle fare, and 5 percent opting for the top fare. As you can see from the Norse example, the carrier provides an exceptional example of branded fares done right.

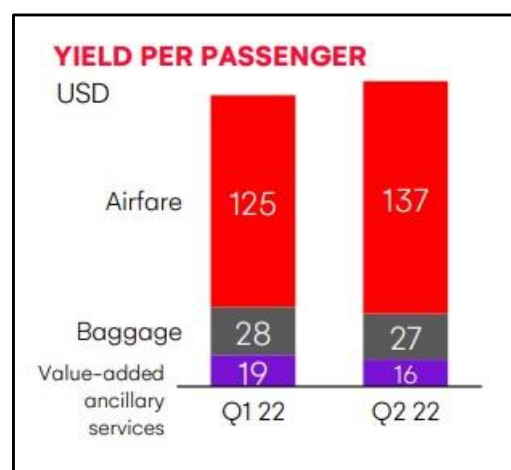
BAGGAGE BOOSTS THE BOTTOM LINE

Baggage delivers the most a la carte revenue for airlines, but the share generated by pre-assigned seat fees is catching up. PLAY follows the seemingly persistent practice that tiny Iceland must have two hometown airlines. Much to the annoyance of rival Icelandair, PLAY is steadily adding destinations in Europe and the US from its Reykjavik hub. Iceland plays the perfect mid-Atlantic role of offering 5- to 6-hour flights to the US and 3- to 4-hour flights to key destinations in Europe. The airline has chosen the a la carte method with optional extras in the booking path limited to the key items of baggage, assigned seating, and cancellation protection. This yields a quick booking process that doesn't overwhelm the customer.

Option	Weight	Fee	Status
Personal bag	10 kgs/22 lbs	Included	Selected
Carry-on bag + priority boarding	12 kgs/26 lbs	USD 57.00	Available
Checked-in bag	20 kgs/44 lbs	USD 86.00	Available
Special equipment	-	-	Available

PLAY presents a great example of easy-to-book (and understand) carry-on and checked bag fees.

The airline limits no-charge carry-ons to a personal bag up to 10 kg or 22 pounds. Above that weight, travelers can add a large carry-on bag of 12 kg or 26 pounds for an added fee. This can range from \$27 to \$66 when paid during the booking process (various routes). Similar to Spirit Airlines in the US, baggage fees increase at each step from booking, to online check-in, and then at the airport. PLAY had average baggage revenue of \$27 per passenger for the 2nd quarter of 2022, which represented 15 percent of average revenue (fare + ancillary) per passenger.²



Baggage is the largest ancillary revenue item for PLAY. Chart from PLAY's 2nd Quarter 2022 results presentation.

² PLAY, 2nd Quarter 2022 results presentation dated 23 August 2022.

The a la carte method does offer an advantage of allowing travelers to customize baggage needs for their specific needs. It's more complicated to sell carry-on and checked bags within the structure of branded fares. Airlines can separate baggage from the branded fare offer or sell large carry-on bags as an optional extra following branded fare selection.

GREAT GRAPHIC DESIGN SELLS SEATS

The best seat maps benefit from the same attention once given to window displays in a department store. The objective is to visually encourage customers to buy a product. This is achieved through visual design that instantly conveys a product's key attributes.

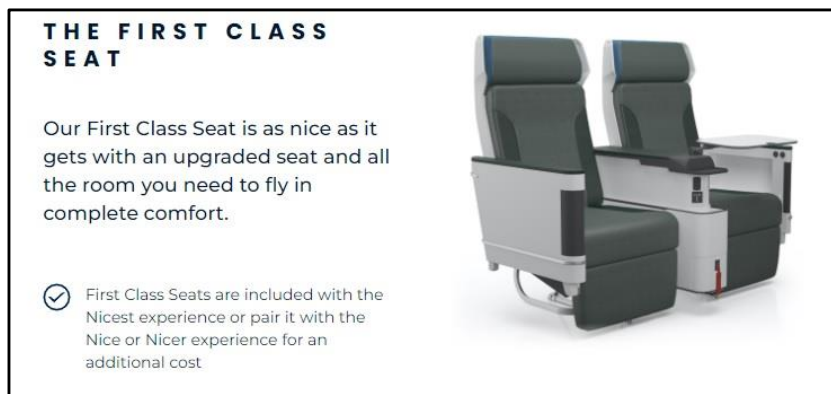
Breeze provides an exceptional example of great graphic design in the booking path. The example shown to the right conveys a lot of information but has a clean and uncluttered look. Best of all, it doesn't distract with an artist's palette of colors to define individual seat attributes. This requires consumers to continuously glance at a legend to visually connect seats with attributes such as extra leg room.

The Breeze map relies on a style I first saw used by Spirit Airlines which uses prices to convey the value of seat locations. Consumers understand that a higher price equates a better experience. Cruise lines use the same logic when pricing cabins on their ships. Breeze identifies each "section" of the aircraft with an easily understood label . . . such as Extra Legroom Seating, or First Class Seating.

This is a partial view of Breeze's seat assignment map for its 27-row Airbus 220 aircraft, which includes a premium section with 2x2 seating.

First Class Seating					
A	C		D	F	
\$129	\$129	1	\$129	\$129	
x	x	2	x	x	
x	\$109	3	\$109	\$109	
\$109	\$109	4	x	x	
\$99	\$99	5	\$99	\$99	
\$99	\$99	6	\$99	\$99	
\$99	\$99	7	\$99	\$99	
\$89	\$89	8	\$89	\$89	
\$89	\$89	9	\$89	x	
Extra Legroom Seating					
A	C		D	E	F
\$69	\$69	10	\$69	\$69	\$69
\$69	\$69	11	\$69	\$69	\$69
Standard Seating					
A	C		D	E	F
x	x	12	\$39	\$39	\$39
\$39	\$39	13	\$39	\$39	\$39

Selecting a seat in the Breeze booking path helpfully displays a large graphic image to describe the seat. Shown on the right is the graphic for its first class seats. Breeze uses a unique approach for its first class product. It's not linked to a first class fare, but rather can be selected by a consumer



choosing the carrier's lowest-priced Nice bundle. The service does not include additional amenities which maintains operational simplicity at the gate and on aircraft. This product shares similarity to Spirit's Big Front Seat.

Perfect promotion. Breeze defines its first class, extra leg room, and standard seats with a large graphic appearing adjacent to the seat assignment map.

SCOTTIE'S EAT-MOR HAS BEEN AROUND FOR 18 YEARS

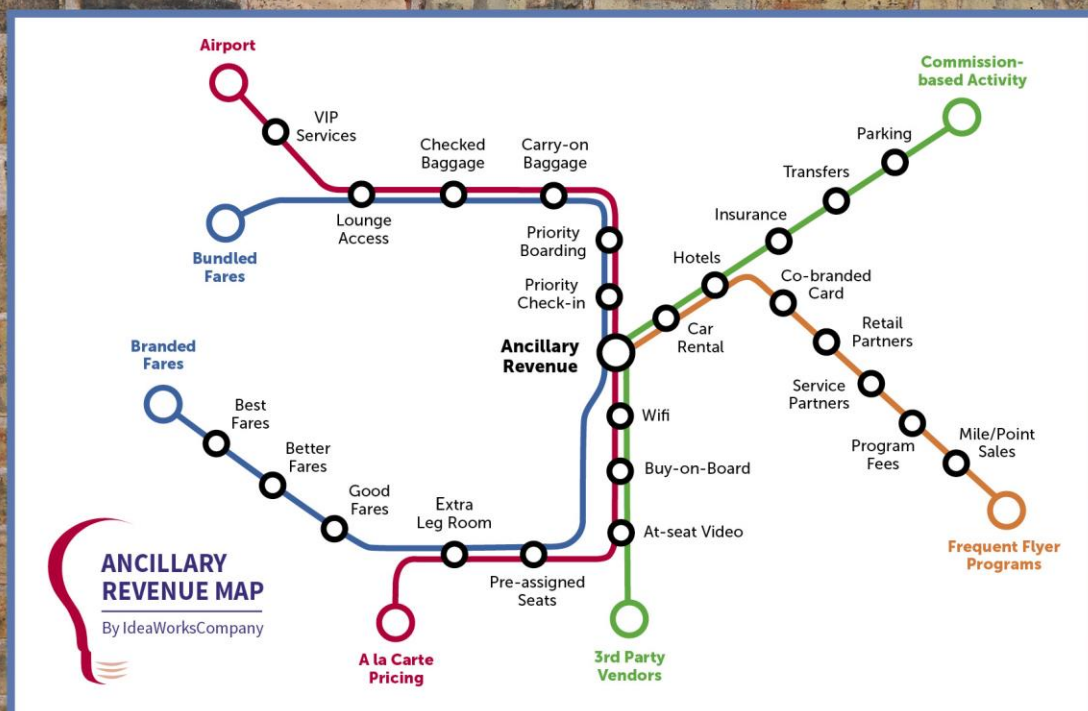
Time provides the true test of a business model. Leadership, profits, and fads come and go, but a business that stays in business for a long time has identified the magic of longevity. The ten airlines included in this report are tiny and oh-so-young when compared to their competitors. Air Premia is flying the same routes as Korean Air, PLAY shares its Iceland hub with an airline having roots back to 1937, and Norse is flying hotly contested transatlantic routes operated by the world's largest airlines. These ten new airlines face significant challenges, and the mechanism of the marketplace will reward some with growth, and some with failure.

Scottie's Eat-Mor competes against McDonald's . . . a global behemoth with revenue in excess of \$23 billion and thousands of headquarters staff dedicated to the production and sale of hamburgers. And yet, Scottie's Eat-Mor persists by serving a small but loyal clientele in Fort Atkinson, Wisconsin. It doesn't compete by being bigger, better, or bolder. It competes by successfully identifying customers who are not well served by global restaurant chains.

That is the secret to surviving as a start-up airline: find an underserved market and serve it with all the youthful passion and nimble moves you can muster. Each of these airlines operate as low cost carriers, as this is the prevailing model of today's airline industry. Ancillary revenue is at the core of this movement because it honors customer choice and delivers the amazing alchemy of low fares and more revenue.

IdeaWorksCompany connects key ancillary revenue destinations

IdeaWorksCompany knows all the ancillary routes, from the Airport to A la Carte, Bundled to Branded, and Commission-based to 3rd Party.



IdeaWorksCompany offers the hands-on-experience of a team of former airline executives and the innovative spirit of a leading travel consultancy. Since 1996 we have helped 70 client companies including airlines, loyalty programs, passenger railroads, and hotel brands. Jay Sorensen has presented on-site workshops in Europe, the Middle East, South America, Asia, and North America, and has issued 96 reports, 15 yearbooks of ancillary revenue, and more than 20 other publications on frequent flyer programs and travel industry statistics.

IdeaWorksCompany clients do better.

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