

AIRLINE REVENUE AND TRANSFORMATION SERIES

The 2022

CarTrawler Yearbook of Ancillary Revenue

By IdeaWorksCompany

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The 2022 CarTrawler Yearbook of Ancillary Revenue by IdeaWorksCompany

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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 world and include first-ever guides on the topics of



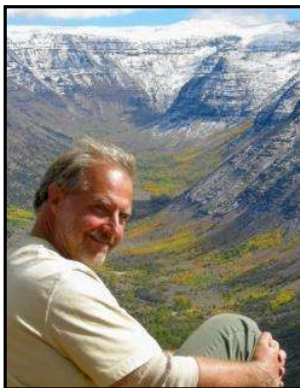
Jay with sons Anton and Aleksei at Artist's Point in Yellowstone National Park.

ancillary revenue and loyalty marketing. He received the Airline Industry Achievement Award at the MEGA Event in 2011.

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-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 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.

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Summary of the Results

At long last, better – but uneven – airline results in 2021

The story of ancillary revenue for 2021 must begin with a history of the airline industry’s past two years. The long shadow of the pandemic began to lift in 2021 in so many ways. Many people in the world received their first Covid vaccinations – but many also did not. Employment showed improvements, economic activity increased its pulse, and travelers carefully ventured back into the air. Border closures for travel and Covid testing requirements reduced the appeal of international trips which explains the difficulty faced by carriers traditionally focused on cross-border flights. The table below demonstrates the challenges of the past two years.

Global Estimate of Airline Traffic and Revenue				
Reporting Year	Traffic	Change	Revenue	Change
2019	4.6 billion		\$840 billion	
2020	1.8 billion	-60.9%	\$350 billion	-58.3%
2021	2.3 billion	27.8%	\$462 billion	32.0%

Source: 2022 Big Book of Travel Data by IdeaWorksCompany

The 60+ percent traffic and revenue drop for 2020 would’ve been far worse, if the industry had not had a strong pre-pandemic first quarter. Even with a good 2021, traffic and revenue were still approximately half the 2019 levels. This is an industry moving in the right direction, but with plenty of sand in the gears.

Airline management made every effort to slash costs and this unfortunately included professional staff with decades of experience. Tired and frustrated employees took early retirement or left the business for greener pastures elsewhere. Planes were idled – that’s never good for mechanical systems – and supply chains for aircraft parts, and every other material that an airline consumes, were disrupted. All this while, a repressed consumer market has been ever-so-eager to “get out there.” Perhaps they weren’t ready to see the world, but consumers certainly wanted to see friends and family, and visit domestic destinations.

The world did not readily cooperate with the rush to travel. Covid challenged vaccines with variants. Those in developing nations, who didn't have the luxury of choosing a particular brand of vaccine, continued their suffering. Some of these nations are bargain destinations for tourists, which created the additional threat of travelers bringing infections with them.

Governments flexed their policy muscles with border closures, threat assessments for travelers, and the dreaded test-to-return requirements. These variables were made unpredictable by the waxing and waning of infection levels. The airline industry responded with assurances of healthy aircraft environments . . . but everyone knew these were useless while standing shoulder-to-shoulder in a jetway or aircraft aisle.

The pandemic of 1918 had a 3-year duration and so it seems this will be repeated for our pandemic. Even with all of these obstacles, the yearning to travel remains an ever-present human desire. But the leap back did not evenly occur all over the world. The below table lists 2021 year-over-year traffic increases by global region.

Table 2: Passenger Traffic by World Region – 2021 Compared to 2020 Individual Carriers, Weighted Averages	
Middle East & Africa	102.8% increase
Europe	84.3% increase
US & Canada	79.0% increase
Latin America	66.0% increase
Asia & South Pacific	9.8% increase
<i>Source: 2022 Big Book of Travel Data by IdeaWorksCompany</i>	

Asia & South Pacific continued to battle Covid throughout 2021 with acute traffic disruption caused by border closures. It's true, Singapore Airlines Group saw a 560% traffic increase, but that was only because of absurdly low traffic of 514,000 passengers for 2020. The big 3 mainland China carriers (Air China Group, China Eastern Group, China Southern Group) maintained a stable traffic total of 240+ million for 2021 and 2020 – still far below the 2019 total of nearly 400 million passengers.

The Middle East became a go-to destination for luxury in the sun; Emirates and Qatar Airways carried an additional 25.7 million passengers in 2021. In Europe, Ryanair had an outstanding 2021 with a 253 percent traffic increase with 97.1 million passengers carried. The carrier's traffic count dominated the European statistic; removing Ryanair from the results drops the year-over-year increase to 36.9 percent (from 84.3 percent).

In the US & Canada, traffic growth was robust among carriers with the exception of Air Canada, which experienced a 4 percent decrease. Within Latin America, the airlines of the LATAM Group and Volaris added 23.1 million passengers which significantly boosted the region's increase for 2021.

2022 is already demonstrating rapid traffic and revenue gains compared to 2021. In fact, the summer of 2022 is exposing the risk of a too-quick recovery with passenger traffic overwhelming the capabilities of airlines and airports to deliver reliable customer service. The expense slashing and employee reductions of 2020 are now hampering the industry's recovery.

Operationally, too many airlines are caught in a problem of their own making. The good news is – and it is very good news – demand for leisure travel is quickly rebounding to 2019 levels. Business travel has been dented, and the outcome remains unresolved as employers and employees determine what the workplace will look like in the future. The airline industry, and every professional in it, will overcome these challenges – as we always have.

Airlines gain ancillary revenue traction in 2021

The results from the yearbook don't reflect the entire airline industry, just the world of the 75 airlines for which research identified complete or partial elements of ancillary revenue. The **CarTrawler Worldwide Estimate of Ancillary Revenue**, to be released in December 2022, will offer a global assessment. But this yearbook's collection of 75 airlines includes the world's most prolific producers of ancillary revenue, so there are lessons to be learned from the data.

This yearbook often compares 2021 results to the pre-pandemic period of 2019, rather than the mid-pandemic year of 2020. Results for 2020 were significantly affected by the pandemic in every way and the year does not provide a helpful basis of comparison.

Table 3 on the following page lists the top 10 high-performing carriers based upon ancillary revenue as percent of total revenue. This metric defines carriers which place tremendous focus on the sale of a la carte services, or better called "optional extras" in consumer language. As a reminder, "ancillary revenue" should remain an industry phrase, as it bears no relevance for consumers. The fascinating element of the table is the almost universal positive results for 2021 compared to the pre-pandemic period of 2019.

Table 3: Top 10 Airlines – Ancillary Revenue as a % of Total Revenue				
Rank	Airlines	2021 Result	2019 Result	Change from 2019
1	Wizz Air	56.0%	45.4%	↑ 10.6 points
2	Frontier	54.9%	43.6%	↑ 11.3 points
3	Spirit	54.3%	47.0%	↑ 7.2 points
4	Allegiant	51.3%	46.5%	↑ 4.9 points
5	Viva Aerobus	44.8%	45.0%	↓ 0.2 points
6	Ryanair Group	44.7%	34.5%	↑ 10.3 points
7	Volaris	42.9%	38.5%	↑ 4.4 points
8	GOL	33.0%	17.0%	↑ 16.0 points
9	easyJet	31.4%	21.6%	↑ 9.9 points
10	Pegasus	30.8%	26.4%	↑ 4.4 points

2021 and 2019 carrier results were based upon 12-month financial period disclosures for each year.

As a group, these high-performing airlines learned how to “up their game” in the following ways:

- Expanded product offerings such as large carry-on fees, extra leg room zones, subscription-based benefits, freeze your price, and prepaid change flexibility.
- Adopted better retailing methods for mobile apps, web sites, and online travel agencies to facilitate easier booking and more visibility.
- Raised prices as driven by consumer demand while the industry moves through the pandemic recovery period.
- Applied revenue management techniques perfected for decades in the pricing of air fares.

Of course, these methods have also been adopted by all types of airlines. In the group of 67 airlines disclosing ancillary revenue results for 2021 and 2019, nearly 80 percent posted a better 2021 result for “ancillary revenue as a % of total revenue.”

Table 4: Carrier Categories – Ancillary Revenue as a % of Total Revenue **				
Periods	US Major	High Performing LCC	Other LCC	Other Carrier
2021	22.2%	36.3%	10.5%	7.4%
2019	16.1%	27.0%	9.0%	6.7%
Change from 2019	↑ 6.1 points	↑ 9.3 points	↑ 1.5 points	↑ 0.7 points

*** Average of all carriers in each category.
2021 and 2019 carrier results were based upon 12-month financial period disclosures for each year.*

- Air France/KLM Group revenue for 2021 was €14,315,000,000; deducting Transavia revenue of €1,101,000,000 leaves a result for Air France and KLM of €13,214,000,000. The group disclosed the following segment results:
 - Air France: €8,744,000,000.
 - KLM: €6,065,000,000.
 Please note the above total is larger than the group result disclosed. This is likely due to double reporting of some shared activity between the segments.
- 2018 – 2020 commentary (see data below): 2018 results were for the entire Air France/KLM Group, which represents more traffic and revenue activity than just Air France and KLM Airlines. 2019 - 2021 excludes subsidiary carriers such as Transavia.

Historical Ancillary Revenue

2018	\$2,579,438,796 (Air France/KLM Group)
2019	\$1,712,952,448 (Air France/KLM)
2020	\$1,262,249,758 (Air France/KLM)
2021	\$1,368,270,785 (Air France/KLM)

Source: current and prior year editions of the Yearbook of Ancillary Revenue.

Air Greenland

Source and Type	Tour and sightseeing activities sold to passengers
Ancillary Revenue	\$4,906,989
As a % of Revenue	2.5%
Dollars per Passenger	\$15.88
Financial Period	Calendar year ended 31 December 2021
Total Revenue	\$199,516,336
Passengers	309,000
Information Source	Annual Report 2021 for Air Greenland
Ancillary Revenue Definitions and Other Notes from Financial Reports	<ul style="list-style-type: none"> • All figures are in Danish kroner (DKK). • Air Greenland is the principal airline of Greenland and generates ancillary revenue from hotel (Hotel Arctic) and tour operations (Greenland Travel). • During 2021, together with the rest of the tourism industry in Greenland, the airline succeeded in attracting more tourists during the low seasons (shoulder seasons such as fall and winter), when it made extra effort to market the Northern Lights,

	<p>overnight stays in its igloo lodges in Ilulissat, dog sledding, the ice fjords and New Year trips.</p> <ul style="list-style-type: none"> Greenland Travel purchased the World of Greenland business in 2021. This added the following accommodations: Glacier Lodge Eqi north of Ilulissat, Ilimanaq Lodge south of Ilulissat and Iglo Lodge. In addition, the company is developing a new lodge project, Nuuk Icefjord Lodge in Nuuk Fjord. Air Greenland disclosed “other revenue” of <u>DKK 30,775,000</u> which is likely attributed to revenue produced by its wholly owned hotel and tour operations. The airline is the primary method of transportation to the country, which suggests its passengers are the principal customers of Greenland Travel and Hotel Arctic. Air Greenland revenue for 2021: DKK 1,251,300,000.
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Historical Ancillary Revenue	
2018	\$10,241,519
2019	\$9,166,763
2020	\$3,864,225
2021	\$4,906,989

Source: current and prior year editions of the Yearbook of Ancillary Revenue.

airBaltic

Source and Type	Multiple ancillary revenue activities
Ancillary Revenue	\$21,244,953
As a % of Revenue	9.2%
Dollars per Passenger	\$13.05
Financial Period	Calendar year ended 31 December 2021
Total Revenue	\$229,712,982
Passengers	1,628,000
Information Source	Air Baltic Corporation Sustainability and Annual Report for the Year Ended 31 December 2021
Ancillary Revenue Definitions and Other Notes from Financial Reports	<ul style="list-style-type: none"> All figures are in euros. Activity for Air Baltic Group includes Air Baltic Corporation (airline), loyalty services (airBaltic Club FFP), and cargo, crew training, and pilot services. The Republic of Latvia owns 96.14% of the company. Ancillary revenue includes sale of ticket related services, like advance seat reservations, baggage fees as well as different service fees, and income on

inflight service. Total ancillary revenue was €17,918,000.

- The annual report made significant disclosures for airBaltic's distribution activity:
 - Mobile is the main device generating traffic to airBaltic.com with 60.49% share.
 - AirBaltic.com accounts for 63.8% (+0.8 points vs 2020) of all airBaltic flight bookings. 72% of bookings are made on personal computers, while 28% (-3 points vs 2020) on mobile phones and tablets.
 - In 2021, 13% of all flight bookings came from the company-owned direct media channels, from which the biggest share was emails, with more than 80,000 booked flight segments.
 - At the end of 2021, the airBaltic newsletter subscriber database contained 467,118 active subscribers (+9% vs end of 2020).
 - For 2021, 7% of bookings on the company's website came from a metasearch engine. In total, metasearch partners brought more than 65,000 booked flight segments to airBaltic.
- The airBaltic Club has 599,400 members (early 2022) which represents a significant decrease from 2021 membership of 2,360,000 members. The program is now operated by the airline. The prior operator, Loyalty Services SIA, has been closed and liquidated. Revenue from the loyalty program for 2021 was €222,0000.
- AirBaltic revenue for 2021: €193,740,000 (described as Contracts with Customers).

Historical Ancillary Revenue

2018	<i>No data</i>
2019	\$39,223,784
2020	\$13,363,408
2021	\$21,244,953

Source: current and prior year editions of the Yearbook of Ancillary Revenue.

Croatia Airlines

Source and Type	Multiple ancillary revenue activities
Ancillary Revenue	\$1,416,807
As a % of Revenue	1.0%
Dollars per Passenger	\$1.80

Financial Period	Calendar year ended 31 December 2021
Total Revenue	\$141,110,581
Passengers	788,000
Information Source	Annual Report for the Year Ended 31 December 2021
Ancillary Revenue Definitions and Other Notes from Financial Reports	<ul style="list-style-type: none"> All figures are in Croatian kuna (HRK). Croatia Airlines disclosed ancillary revenue of <u>HRK 8,946,000</u> from the following ancillary revenue activities: <ul style="list-style-type: none"> Mileage related revenue (frequent flyer): HRK 2,668,000. Revenue from advertising services: HRK 6,278,000. Croatia Airlines revenue for 2021: HRK 891,000,000. 2018 commentary (see data below): 2018 mileage related revenue was significantly above 2019.
Historical Ancillary Revenue	
2018	\$3,494,322
2019	\$2,463,712
2020	\$1,813,991
2021	\$1,416,807
<i>Source: current and prior year editions of the Yearbook of Ancillary Revenue.</i>	

easyJet

Source and Type	Multiple ancillary revenue activities
Ancillary Revenue	\$631,042,418
As a % of Revenue	31.4%
Dollars per Passenger	\$30.93
Financial Period	Fiscal year ended 30 September 2021
Total Revenue	\$2,008,864,293
Passengers	20,400,000
Information Source	Annual Report and Accounts 2021 and Results and Presentation for the Year Ending 30 September 2021
Ancillary Revenue Definitions and Other Notes from Financial Reports	<ul style="list-style-type: none"> All figures below are in Great Britain pounds (£). Ancillary revenue was <u>£458,000,000</u> (2020: £706 million). This reflected the reduction in passenger volumes during FY 2021. FY 2021 was a busy year for ancillary revenue activity with the following introductions:

- Standard Plus Fare (January 2021) includes premium seat, large cabin bag, speedy boarding.
- Cabin Bags, Phase 1 (February 2021) sold with premium seat.
- Cabin Bags, Phase 2 (November 2021) addition of cabin bag as a standalone product.
- Leisure Fare, Essentials (November 2021) includes standard seat and 23kg checked bag. This activity generated incremental revenue of £2.64 per seat.
- The airline shared these additional ancillary revenue developments for FY 2021:
 - Baggage bundles exceeded expectations and benefitted from strong revenue management focus.
 - The airline will seek to improve revenue from inflight retail as a focus area for 2022.
 - Dynamic pricing of ancillary revenue products was implemented, which the airline says was an industry first.
- Ancillary revenue includes revenue from checked baggage, allocated seating and change fees, package holidays revenue (excluding flights which are recognized as passenger revenue) and commissions earned from services sold on behalf of partners, and inflight sales. It is measured as the price paid by the customer for the service booked.
- EasyJet introduced easyJet Holidays at the end of 2019. The airline disclosed the following results from FY 2021:
 - Fastest growing package company in Europe.
 - On track to achieve profits before taxes of £100 million.
 - 63% of hotel bookings are directly contracted properties (not through a 3rd party).
 - More than 50% are made via mobile.
 - Predicted FY 2022 customers are just under 1 million.
 - 75% of bookings are through direct channels (no commissions).
- The following information was shared during easyJet's 2021 investor calls:
 - Ancillary revenue on a per-seat basis increased during 2021, led by a new baggage policy with fees for large carry-on bags (introduced February 2021) and the introduction of the Standard Plus fare.
 - Johan Lundgren, CEO: He called the new carry-on bag policy "the kind of dream activity you're