

Bundle Up

Ancillary products are growing and becoming more creative.

By Chris Sloan

Ancillary fees have become a significant part of how almost all airlines generate revenue. In the air transport business, they really started with budget airlines like Ryanair in Ireland and Spirit Airlines in the US, which offered passengers the cheapest base ticket along with optional fees for the add-ons that people wanted.

Over recent years, ancillary fees have become far more mainstream across the entire industry, including major airlines, and the amount of revenue collected through ancillaries for services like a pre-assigned seat or checked bag has grown both as a number and as a percentage of overall revenue.

In 2019, according to a report by IdeaWorksCompany and CarTrawler, worldwide airline ancillary revenue hit an all-time record of \$109.5 billion. While that slumped to just below \$60 billion in 2020, the first year of the pandemic, it was back up to almost \$103 billion in 2022.

In the US, the Department of Transportation (DOT) is challenging how airline ancillary fees are applied and presented to customers in proposed regulation that has been described as “impractical and unworkable” by IATA in comments it has submitted to DOT (see *interview with IATA VP member and external relations North America Doug Lavin, page 32*).

Nevertheless, there is worldwide practice and acceptance of ancillaries as how airlines do business, even if customers complain about being “nickel and dimed.”

“It took a decade, but consumer acceptance is very high now,” Ben Baldanza told *ATW*. Baldanza, a former CEO at Spirit who now serves on the boards of JetBlue and India’s GoJet, believes educating travelers with the value proposition, and carriers being absolutely transparent, have been key to turning the tide.

“People hate it when airlines don’t do what they say they’re going to do,” he said.

With labor costs rising and a competitive skilled

labor market, there is a move to unbundle some aspects of travel handled by humans to self-service, such as bag tagging, customer service, reservations, printing boarding passes and check-in. Where customers need human service, these can be sold back in the form of ancillaries.

“That’s a real interesting category because it has the advantage over time of reducing costs and allowing everybody to pay a cheaper fare,” Baldanza said.

PREMIUM CABIN ANCILLARIES

Emirates Airline, Qatar Airways and Finnair have unbundled their business cabins on select flights with so-called business-class light products, offering the same inflight experience but eliminating a mix of accepted standards like advanced seat selection and lounge access unless the passenger pays extra for those. Reducing frequent flyer point multipliers is another differentiator.

Finnair takes it a step further by not including checked bags, priority check-in and priority boarding in the cost of the ticket.

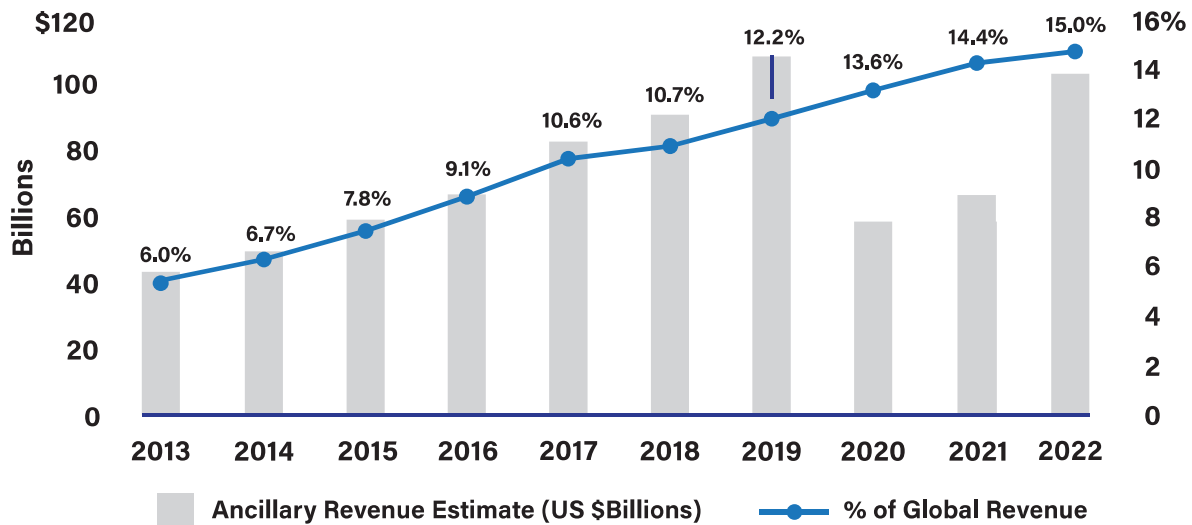
“The level of flexibility is the biggest product differentiator,” Valtteri Helve, head of product offering at Finnair, said. The leisure-targeted product doesn’t allow any itinerary changes or cancellations, in contrast to the business-oriented classic and flex fares it offers.

Finnair launched the business light product in June 2021 when Helve says, “We saw a huge increase in demand for this kind of premium type of product for the leisure travel segment. It was in the middle of the COVID crisis where, of course, the business purpose demand wasn’t really booming.”

The airline has seen no evidence of cannibalization from the higher fare buckets but does notice customers trading up from cabins like premium economy.

Premium cabin unbundling is contributing to the purchase of à la carte extras. The most common up-purchase is a checked bag, unsurprising for long-

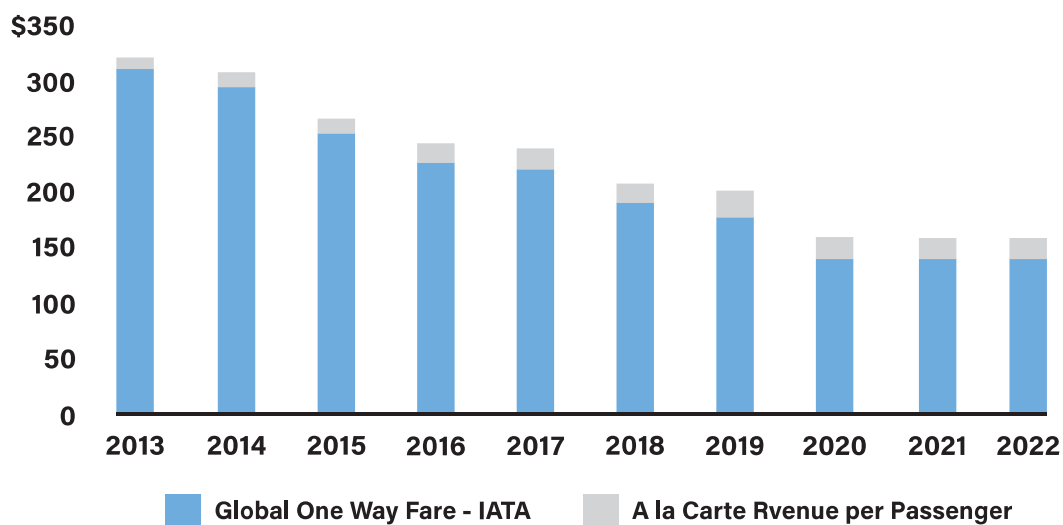
Worldwide Estimate of Ancillary Revenue



Source: CarTrawler and IdeaWorksCompany

Trend Comparison - A la Carte Revenue and Fares

Expressed in 2022 US dollars. Fare data: IATA Economic Performance Reports



Source: CarTrawler and IdeaWorksCompany

haul travel. Advanced seat selection is also proving popular. With such a nontraditional new product, Helve says, “Communicating the proposition to the customer is really the key because the customer experience and satisfaction in the end is about ful-

filling the expectations.”

The light product is typically sold through Finnair’s own digital channels, allowing very clear sign-posting through the booking process. Educating front-line staff at the airport and onboard is also critical to

handling passengers who still might not quite understand what they have, or have not, purchased.

Baldanza believes there is room for more creativity in ancillary offerings. "There are lots of things that consumers would be willing to buy from the airline if the airline could reliably deliver it," he said.

The CarTrawler Yearbook cites examples like Aeromexico's branded 84 physical travel stores; China Southern Airlines' home baggage delivery; Eurowings' booking of empty middle seats in advance (to keep an adjacent seat free); and Lufthansa's sleepers' row, which offers a full seating row of three seats, including preferential boarding, a mattress cover, a blanket and a pillow.

Inflight Wi-Fi has long been a prominent in-cabin

ancillary product, but Baldanza predicts within a few years most airlines will follow JetBlue Airways' and Delta Air Lines' lead and make it free. This stands in contrast to the unbundling philosophy but "it's becoming weird to have to pay for Wi-Fi anywhere when it's free everywhere," he said.

But not all airlines are ready to discard fees for Wi-Fi. US startup Breeze Airways is just beginning deployment of its new ViaSat Wi-Fi product on the Airbus A220 fleet. Customers will have the option of purchasing it à la carte or as part of a bundle. Breeze CCO Lukas Johnson says their product will be family-friendly and not tied to a specific, single device.

"We are viewing this more of a product experi-

The Ancillary Fee Battle

The US Department of Transportation (DOT) is proposing a set of new rules that would affect how airlines and ticket agents apply ancillary service fees. IATA has submitted comments to DOT contesting the need for such regulation, arguing there is no problem to fix, and the rules would do more harm than good for airlines, agents and passengers. IATA VP member and external relations North America Doug Lavin spoke with ATW editor-in-chief Karen Walker on a Window Seat podcast to explain airlines' concerns. The following is an excerpt from that conversation.

Walker: Why does IATA feel this regulation is misguided?

Lavin: Because it's in a sense a solution in search of a problem. Today, passengers know what fees they're going to incur before they purchase the ticket. I did an informal survey and tried it myself, and not only do they know the fees before they purchase the ticket, but they know them within a few clicks of selecting their itinerary. In this case, DOT is going above and beyond any expectation of second-guessing airline practices and is calling for a fundamental change in the way airlines distribute tickets. This will have a significant harm to consumers on a number of fronts, and most importantly, it can't be done. It can't be done certainly within the six-month timeframe that DOT is proposing for implementation.

Walker: How might this affect consumers in a not good way?

Lavin: The rule proposals focus on what they consider

core ancillaries: baggage change, cancellation fees and family seating for children under 13, and they want airlines and the ticket agents to present complete information on those fees on the first search page. When you do a search on Travelocity or airline.com, you'll get 50 to 100 different itineraries that you can look through and decide which one you want to use. In this case, [DOT] is proposing that the airlines and the agents provide all of the information in terms of potential fees or exact fees in the case of a specific passenger on the first search page. That's an incredible calculation for airlines to do. But more importantly, it will overwhelm passengers in terms of the information. It will make searches incredibly more difficult. It will result in higher costs for airlines and will likely result in less choice for consumers because certainly airlines, and more likely ticket agents, will reduce the number of itineraries presented because of the cost associated with doing all those calculations and presenting that. And then finally, it will change the forward path, the modernization of airline distribution. Airlines are trying at this point to get to the point where you can say, "Hey, Siri, book me a flight to Las Vegas." And they won't be able to do so if this comes in place because you'd have to listen to a half-hour of every itinerary and every bit of information.

Walker: Is it even possible to put all that information on a phone?

Lavin: It's not possible. It won't be possible on a phone, where 44% of tickets are now booked on mobile devices. So too little real estate for too much information.

ence than a larger revenue generator,” he said.

Breeze offers à la carte pricing on every aspect of its service and has three branded bundles anchored around the seat: Nice is the basic seat; Nicer adds checked and carry-on bags, priority boarding, bonus loyalty points and extended legroom; Nicest is a domestic first-class seat for a premium economy price with purchase of snacks and drinks optional.

Johnson explains why the airline leans into the bundles. “We wanted to make it kind of smack-you-in-the-face easy that you’re going to want to buy a bundle in terms of the value proposition. We’ve had really great take-up rates,” he said.

During the pandemic, one of the biggest ancillary revenue streams was eliminated.

“Change fees on our scale were \$700-\$800 million on a 2019 base,” American Airlines CCO Vasu Raja American Airlines said, but pointed out the loss of that revenue is being more than offset with more customer-friendly options, particularly where creating more flexibility translates to more engagement with loyalty programs.

“There’s plenty of ways where you can go create a lot more value. The total value from the customer from consolidating more spend on [co-branded credit cards] far dwarfs the transactional value of charging you 200 bucks on the one of six times you travel and actually have to make a change. That’s actually small compared to what happens if you take a seventh trip,” Raja said. **ATW**

Walker: It seems to me the issue isn’t really transparency. Let’s be frank, ancillary fees tend to be something that people moan about, but they know about them and see them or they wouldn’t complain about them.

Lavin: Yes, in the DOT proposal, they pointed out that they get a number of complaints about ancillary fees, but they honestly state that they can’t tell if that’s because of transparency or because they actually don’t like to pay fees. The bottom line here is DOT does not like ancillary fees. If you explain to the passengers that they get a lower overall price because of this, because it gives people the freedom to choose what they want to buy or not buy, they would understand it more. But, unfortunately, DOT doesn’t seem to understand that.

Walker: If you look at the wider sphere of the travel sector, hotels, resorts, stadiums charge ancillary fees. Why is it that people can’t see the difference there?

Lavin: I think people complain about those fees across the board, but if you go to DOT and say, why are we being singled out? They say, “We don’t have jurisdiction over hotels or stadiums, so we’re only focused on your unfair and deceptive practices.”

Walker: They pass the buck.

Lavin: Exactly.

Walker: Is this indicative of a shift in government thinking and policy when it comes to airline regulation?

Lavin: Yes. The [US] Airline Deregulation Act was enacted with the expectation that the free market will do

a better job to protect consumers and give them better services than government intervention. The Obama administration decided to second-guess that and issued a major passenger rights rule. This is the fifth time that the DOT has attempted to do something on ancillaries. This [Biden] administration has decided to go and pursue what they’ve always wanted to do, which is essentially to try to put ancillary out of business.

Walker: To be clear, DOT can’t actually ban ancillaries, but what we’re talking about here is a way to make them almost impossible to implement.

Lavin: That’s correct. Either impossible to implement or so costly that airlines will decide it’s not worth it.

Walker: What happens next?

Lavin: Well, we’ve all submitted our comments. DOT will mull over those comments and issue a final rule under the legal process. We have the ability to challenge it in federal court. We are challenging. There’s a procedure whereby they have to prove that it’s unfair and deceptive, or they can offer us a hearing to argue that it’s not unfair and deceptive. We’re pursuing that path, but we think it’s basically going to be a rubber stamp against this, and they’ll be able to continue with this rule. Frankly, we’re unfortunately going to be likely stuck with whatever DOT comes out with. **ATW**



Listen to the full interview with Doug Lavin on our air transport Window Seat podcast at bit.ly/3XE03T1.