

Special offers

As airline traffic recovers post-pandemic, so do ancillary revenues. Emma Kelly looks at what low-fare airlines are doing to boost them further.

Baggage and seat selection options have long accounted for a major chunk of low-fare airlines' ancillary revenues, but today they are exploring new opportunities, adapting their offerings and working with technology partners to further drive ancillaries.

“Three areas of innovation have caught my attention – lounges, super apps and booking flexibility,” says Jay Sorensen, President of IdeaWorksCompany and an expert on airline ancillary revenues.

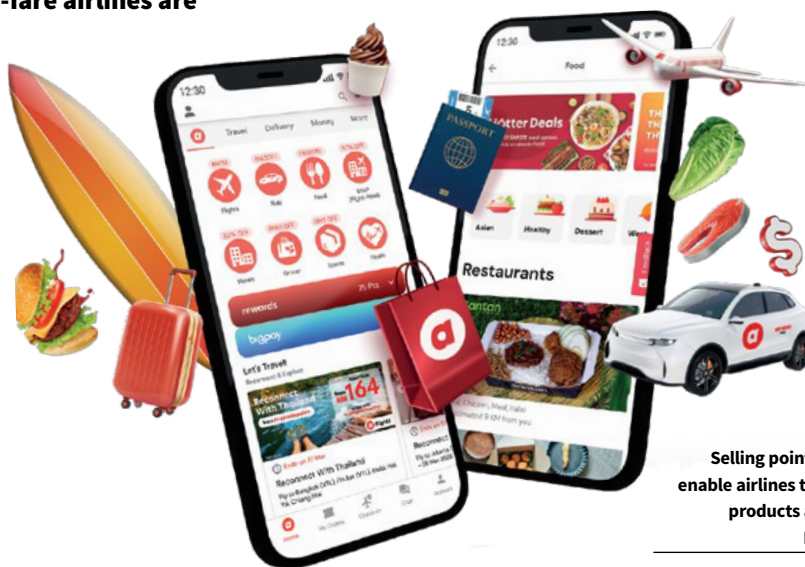
These innovations are highlighted in IdeaWorks' and CarTrawler's Airline Revenue Innovations: *A Global Sample of the Coolest Products and Services*.

Lounges are not normally associated with low-fare airlines, but there is increasing activity in this space, says Sorensen, pointing to easyJet's Gateway Lounge at London Gatwick Airport. Passes are available for one-, two- or three-hour visits from £18.99.

EasyJet has also experimented by including lounge access for passengers buying its Flexi Fare. EasyJet follows AirAsia, which has its Premium Red Lounge at Kuala Lumpur International Airport. IdeaWorks predicts that more LFCs will follow.

Super apps allow airlines to retail more services and products, says Sorensen, pointing to AirAsia. Capital A (formerly the AirAsia Group) is building an Asian conglomerate, including the airline and a digital travel and lifestyle platform, which is a very different approach for the airline industry. At the heart of this is the “Super App”, combining retail and media activities.

“Capital A represents a level of innovation on a scale the airline industry rarely sees; a successful outcome would be ideally



Selling point: super apps enable airlines to retail more products and services.

Photo: AirAsia

positioned to serve Asia's leisure-oriented, tech-savvy travellers," says the report.

Earlier this year, the app had 10 million monthly active users and annual gross bookings of approximately US\$2.5 billion.

“I am greatly intrigued by the super app concept being tested in large scale by AirAsia,” says Sorensen, adding that airlines have yet to “own” travel retail.

FLEXIBLE APPROACH

When it comes to booking flexibility, Jetstar is innovating.

“Airlines offering an a la carte option to ‘buy’ more booking flexibility is not new, but Jetstar now has a very effective product for this,” says Sorensen.

Jetstar sells Flex and Max bundles, which allow fee-free changes and cancellation of bookings, while the Starter Fare and Plus bundle are not refundable and have a fee for changes.

Prior to making a payment in the booking path, Jetstar offers a FareCredit option to

those selecting the restricted fares, which provides credit for the fare and a la carte options when they cancel a booking, in the form of a travel voucher.

“It’s an effective way to encourage additional spending from consumers before they close the transaction,” says the report.

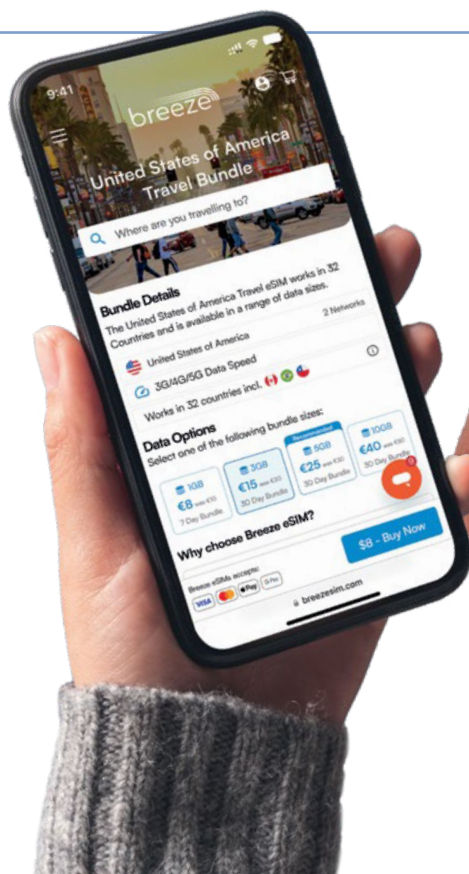
Offering an empty middle seat is also nothing new, but Eurowings has automated the process in its booking path.

“Blocking the middle seat is an expedient method for LFCs to create a premium seating zone to attract business travellers,” says the report.

Eurowings' product is simple, with no in-flight service perks or early boarding, and can be purchased with any branded fares, with prices starting at €10.

Airlines are working with new technology partners to help boost ancillaries. Wizz Air recently partnered with eSIM Go to provide passengers with data eSIM bundles when they travel, thereby avoiding expensive data roaming charges.





Wizz Air and eSIM Go have joined forces to provide passengers with data eSIM bundles. Photo: eSIM



Power of three: Renacen has developed advanced virtual tours that allow the user to move through an aircraft in 3D.

The eSIM Go Powered by Breeze solution is an easy, reliable and digital way of accessing mobile data, rather than traditional SIM cards, says eSim Go.

“We’ve seen strong take-up from passengers,” says Mitchell Fordham, Chief Commercial Officer at eSIM Go.

“Wizz have been educating passengers on the savings they can make on their overall holiday budgets with eSIM, across marketing channels from email and social to in-app SMS notifications,” he explains, resulting in strong top-up rates and order values.

TECHNOLOGY PARTNERS

Fordham reveals that eSIM is in “advanced discussions” with several airlines. Bristol Airport and Sydney Airport are also selling offerings supported by eSIM Go.

“The response has been overwhelmingly positive in the airline sector and wider travel industry, driven in part by increased eSIM awareness among air passengers, as well as wider appreciation of the

commercial eSIM opportunity for travel brands,” he says.

“As more passengers now travel with eSIMs, airlines see the value in being the ones to offer that solution. They see how it aligns with their customer strategies around digital engagement, as well as customer retention and loyalty.”

The process itself is easy, with little technical resource needed, allowing airlines to generate revenue in just weeks, says Fordham. What’s more, it provides passengers with a compelling add-on they actually need.

“Passengers are extremely positive about the eSIM technology and we make the experience ultra-reliable,” he says.

“No more fiddling around sticking pins in the side of their phones to swap SIM cards or relying on sketchy Wi-Fi.

“They can add a cheap data bundle to their booking and be online from the minute the plane lands.”

In return, airlines benefit from richer

passenger data. “All that insightful data helps personalisation of offers, can inform other aspects of targeted marketing activity and even influence strategic decisions on new routes and destinations,” Fordham adds.

DIGITAL DEVELOPMENTS

Increasingly, it’s not what you sell but how you sell it. While seats continue to account for a major chunk of LFC’s ancillary revenues, the latest technology is helping airlines upsell and ensure passengers know what they are getting.

Renacen’s 3D SeatMapVR allows passengers to see what they are paying for during the seat selection process and is fully customisable to individual airlines.

The company works with a number of LFC, charter and regional operators, including Iberia Express, World2Fly, Evelop and LEVEL, and is in talks with “more than 15 LFCs to integrate our solution into their digital channels”, says CEO Diego

Cachero Rodriguez, adding that integration is a simple process.

“Data from our customers has shown the positive impact of 3D SeatMapVR in conversion, revenue and user satisfaction,” he says.

“Especially for a LFC, implementing 3D SeatMapVR is one of the easiest tools they have at their disposal to boost seat sales and improve the user experience.”

With seat choice increasing, such a tool is more important than ever.

“It is one of our selling points, as the choice of seat type is becoming more and more complex,” says Rodriguez.

“With new classes, premium economy, extra legroom seats, emergency exist, front zone seats offering faster disembarkation – there are all sorts of variations that affect

the price of the seat. That’s why it’s vital to provide passengers with the best possible information to help them understand why one seat costs \$20 more than another.”

Renacen has also developed advanced virtual tours, allowing the user to move through an aircraft in a 3D environment, take a seat in different classes, and be informed on seat sales, upgrades, in-flight catering and retail sales.

CUSTOMER EXPERIENCE

Other LFCs are using sophisticated ancillary revenue management solutions to improve the experience and drive ancillaries.

Flyr works with a large number of LFCs on end-to-end optimisation and customer experience, including SunExpress, Condor, Vueling and HK Express, with many large LFCs and full-service carriers choosing to adopt its revenue management and

A rising tide lifts all boats

Airlines reported “robust” results from ancillary revenues in 2022 as traffic recovered, *The 2023 CarTrawler Yearbook of Ancillary Revenue* by IdeaWorksCompany reveals.

As author Jay Sorensen points out: “A rising tide lifts all boats, and this adage applies to the link between airline traffic and ancillary revenue.”

As traffic and revenue increased during 2022 – three billion passengers and US\$693 billion in revenue, up 30.4% and 50% on 2021 respectively – total ancillary revenue in raw numbers also rose significantly.

The latest report of the industry’s most comprehensive annual study of airline ancillary revenues, released in late September, is based on the 65 airlines for which research identified complete or partial elements of ancillary revenue and includes the “world’s most prolific producers” of ancillary revenue.

The pandemic had a positive impact on



Sky's the limit: easyJet recorded a massive 273% increase in ancillary revenues compared with 2021. Photo: easyJet

ancillaries. The report says: “As airports and aircraft become more crowded, consumers are more inclined to spend money on comfort and conveniences, such as extra leg room, assigned seats, early boarding, checked bags, and priority screening. This reactive spending to crowding was heightened by the pandemic.”

LFCs Southwest, Ryanair, Spirit, easyJet and JetBlue all make the top 10 in terms of total ancillary revenues, reporting strong gains (see table). JetBlue, for example, saw its ancillary revenue climb 69.4%, while easyJet achieved a massive 273% gain on 2021.

When it comes to ancillary revenue as a percentage of total airline revenue, that

declined during 2022 and Sorensen expects this may continue in 2023.

“As demand returned, airlines increased their fares, and yields, during 2022,” the report says. “When fares increase, ancillary revenue as a percentage of total airline revenue tends to shrink. If average fares make a big jump, the result can reduce ancillary revenue as a share of total revenue.”

IdeaWorks says there are opportunities for ancillary revenue to “catch its breath” during the second year of the industry’s recovery.

The top 10 airlines in terms of ancillary revenue as a percentage of total revenue are all LFCs, with Spirit leading the pack at 51.5% (down 2.7 points on 2021), and

ancillary revenue management solutions.

Neils Colémont, Head of New Optimisation Programmes, says Flyr helps airlines realise their ancillary revenue potential in a number of ways.

“First, by helping them improve their customer experience,” he says.

“It’s very important how products and services are presented, whether on a carrier’s website or mobile application.

Our optimisation of the booking flow and the ability to use rich media for a more modern retail experience is helping airlines increase the conversion rate of their ancillary products.”

Secondly, Flyr’s Commerce Engine product allows airlines to onboard and sell new products and services faster to direct channels, as well as indirect channels such as travel agents and consolidators.

Flyr also provides airlines with better insights into the optimal ancillary price through its Ancillary Revenue Management product.

Colémont says: “Airlines have typically managed their ancillary revenues through IT systems that are siloed and separate from their fare revenue management systems.

“That’s made it difficult for them to understand how changes in dynamically priced fares can also impact their ancillary revenues.

“We help airlines overcome this by combining all available historical and ongoing data with deep learning algorithms to determine the optimal pricing and distribution strategy.”

Flyr’s solutions help airlines sell everything from pre-ordered meals to **»»»**

Top 10 airlines – ancillary revenue as a percentage of total revenue

Rank	Airlines	2022 Result	2021 Result	Change from 2021
1	Spirit	51.5%	51.3%	↓ 2.7 points
2	Frontier	50.8%	54.9%	↓ 4.1 points
3	Allegiant	48.9%	51.3%	↓ 2.4 points
4	Wizz Air	48.0%	56.0%	↓ 8.0 points
5	Viva Aerobus	44.5%	44.8%	↓ 0.2 points
6	Volaris	41.4%	42.9%	↓ 1.5 points
7	Breeze	38.9%	18.2%	↑ 20.7 points
8	Ryanair Group	35.7%	44.7%	↓ 9.1 points
9	easyJet	33.9%	31.4%	↑ 2.4 points
10	GOL	29.3%	33.0%	↓ 3.7 points

Source: 2023 CarTrawler Yearbook of Ancillary Revenue by IdeaWorksCompany

including Wizz Air (48%, down 8.0 points), Viva Aerobus (44.5%, down 0.2 points) and Ryanair (35.7%, down 9.1 points).

EasyJet was one of the few in the top 10 that saw an increase in ancillary revenue as a percentage of total revenue, at 33.9% and up 2.4 points (see table).

LFCs, described as “the master practitioners of ancillary revenue”, also dominate the top 10 when it comes to ancillary revenue per passenger, with UK low-cost leisure airline Jet2.com leading at \$84.72 per passenger.

Allegiant, Spirit, Frontier, Sun Country, JetBlue and HK Express also feature in the top 10, with the majority increasing their percentage.

“That LFCs made gains during extreme economic turbulence points to the durability of the a la carte model and the consumer’s growing embrace of it,” the report says.

The report also highlights some interesting ancillary revenue achievements by LFCs. For example, in 2022, 26% of new users of AirAsia’s Super App who purchased hotels and packages were later converted to purchase AirAsia flights.

EasyJet, meanwhile, made £15 million from its easyJet Plus card, which provides expedited bag drop, speedy boarding, seat assignment and fast track security in return for a £215 subscription – meaning it sold 70,000 subscriptions.

Jetstar’s Dynamic Seat Map, which provides more interaction, differentiated pricing and a faster booking time, resulted in a 26% lift in revenue compared with FY2019.

South Korean LFC T’way Air improved its unique t’pet loyalty programme, increasing the allowable weight of pets in the cabin to 9 kg (including transport container), and pets receiving a boarding pass and benefits for multiple trips. T’way flew 27,000 pets during 2022, generating US\$623,000.

Meanwhile, Europe’s Wizz Air offers a unique Sitting Together alternative to assigned seating for a €20 fee that ensures two adults will be seated next to each other.

While ancillary revenue cannot replace ticket revenue, it has proved to be a “reliable economic partner in good times and bad”, says the report.

It warns, however, that: “For any product to perform at its very best, it must always deliver value for the customer. That’s a truth sometimes neglected in the pursuit of profits.”

Wi-Fi access and seat upgrades, in addition to hotels, transfers and other travel experiences.

The company's Commerce Engine provides airlines with full control of their distribution and direct their offers through any channel to any customer, while its Ancillary Revenue Management helps airlines better understand customers' willingness to pay for products like seat selection, luggage or priority boarding, and set the price dynamically.

CATCHING UP

IdeaWorks' Sorensen says the pandemic stymied ancillary revenue innovation and it will take time for airlines to recover.

However, he doesn't believe there are "giant opportunities" to create lots of new products.

"The big advances will occur in how services are priced, to maximise revenue," he says. "It's more profitable to manage existing products than to incur the start-up expense of introducing new items."

Changes are occurring, says Flyr's Colémont, pointing to seat selection. "Since Covid-19, it's become increasingly important for travellers to be able to choose where they sit on the airplane," he says.

Airlines are now seeing the same trend with ground services, with fast security lanes and priority boarding.

But the biggest change involves airlines

moving to provide the modern retail experiences and personalised travel journeys that customers want, says Colémont.

To do this, he says airlines should be focusing on three areas – creating a seamless experience, ensuring the booking or making changes process is not a burden; providing dynamic intelligent offers based on travel habits and recognising loyalty to an airline; and acting as a retailer, selling a wide range of products that can be connected to the flight.

"Airlines that are not addressing those three things in the near future will likely lose market share," he warns. ■

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