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Driving growth with airline ancillaries

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What are ancillaries in the airline industry?

Seats with additional legroom. Extra baggage. Lounge access. Trip insurance.

Ancillaries are additional products and services that airlines offer beyond the base airfare. More than an “extra,” ancillaries have become a significant source of revenue for airlines. This approach gives the airlines healthier margins and has become strategically important.

Rising leasing costs for aircraft, increasing training costs for pilots and crews and fluctuating fuel prices have put pressure on airlines to find ways to grow revenues without incurring additional costs. Ever since lower-cost airlines such as Southwest and Ryanair disrupted the market with their unbundled fares, traditional carriers have followed suit, looking to stay competitive and investing in New Distribution Capability (NDC).

A shift is under way, and it promises a better, more personalized customer experience, along with potential for new revenue streams. However, there are also challenges that airlines face in offering ancillary services. Customer satisfaction and loyalty can be affected if customers perceive ancillaries as hidden fees or unfair charges.

How can airlines capitalize on the revenue opportunity and enhance the customer experience? Let’s start by looking at the current landscape for ancillaries and how they’re growing globally.

The ancillary landscape and key metrics

As the travel industry recovers, it's looking for new and different revenue drivers. For their part, travelers are looking for ways to enhance their travel experience and take more control. Ancillaries play a key role in those goals and over the past several years, ancillary revenues have rebounded. ***In late 2023, travel industry firms CarTrawler and The IdeaWorks Company projected that airline ancillary revenue would increase to \$117.9 billion worldwide for 2023. That would represent a 275% increase over ancillary revenues in 2013, which were \$31.5 billion.***

While ancillaries are growing overall, ancillaries per passenger ticked down in 2023 significantly. In 2024 and beyond, airlines will focus on maximizing ancillaries per person. Although other factors such as increases in average ticket price can influence customer behavior, it's important to keep a special focus on ancillaries.

As they progress in the journey to ancillary services maturity, airlines will look to define new products, determine prices by service and customer behavior and balance revenue opportunity with the customer experience. They'll ask:

What are the right price points?

How can we reach various customer segments?

How can we market our ancillaries in the most appealing way to travelers?

Trends toward enhanced personalization, digitalization and a connected cabin experience can be addressed by offering the right ancillaries at the right prices through the right channels. Everyone is competing to own the customer journey and ancillary services can drive loyalty. By incorporating discounts, point redemption and accelerated points accrual, airlines can appeal to cost-conscious customers with ancillary purchases for enhanced loyalty.

But challenges are part of the ancillaries landscape, too. They include complex data management, effectively targeting customer segments and ensuring cost efficiency.