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Airlines are pushing ancillaries to boost revenue, but new offerings slow to come

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Ancillaries are becoming a main character in the aviation finance plotline.

Last year, total airline revenue exceeded pre-pandemic results hitting \$918 billion, according to the recently published 2024 CarTrawler Yearbook of Ancillary Revenue.

Ancillary services played a role in that growth, with passengers increasingly willing to pay for options to personalize their experience - elements such as more legroom, early boarding or checked baggage. According to the CarTrawler report, 57 airlines together saw a \$7.4 billion rise in ancillary revenue in 2023, a more than 25% increase over 2022 - which was already up 50% over 2021.

With ancillaries acting as a clear revenue driver for airlines, why haven't more carriers expanded beyond common offerings?

Well, they're working on it.

FLYR announced Wednesday it is partnering with Riyadh Air to create a booking experience incorporating ancillary services as part of an effort to offer "All-in-One" planning.

The partnership will allow travelers to book add-ons with their flights including third-party services such as hotel reservations, activities and experiences, insurance and car transfers, along with the more typical bags, extra leg room and lounge access options.

"Using FLYR's comprehensive Offer, Order and Digital Customer Experience capabilities in the place of PSS [passenger service system] sets Riyadh Air apart as a forward-thinking airline," said Cole Wrightson, chief technology officer at FLYR.

He continued: "By offering customers a seamless way to book not just flights, but a full range of travel-related products and services, Riyadh Air is enhancing the overall travel experience while also tapping into new revenue streams, positioning them to compete more effectively in the broader travel marketplace."

And FLYR isn't the only technology firm making moves in the space. Amadeus launched Nevio, a new solution for airline retailing, in 2023 and Sabre launched SabreMosaic, its own retailing platform, in May.

Innovation in the space has been somewhat slow, but experts say airlines are working to extend offerings well-beyond those typical services that come to mind for most travelers today.

The "why" and "how" of ancillary services

The goal of airlines is to create a comprehensive retail environment, with a variety of products and services to meet travelers needs, according to industry experts.

"The dream of the airline is the marketplace - the travel marketplace," said Eric Léopold, founder and managing director of aviation consultancy Threedot.

That means selling hotel reservations, car rentals - whole travel itineraries in a single booking journey.

It's an idea that makes sense by Léopold's estimation. Many travelers purchase their flight first - so airlines have the first look at those travelers' plans.

"They know what you eat, because they serve the meal [on the plane]," Léopold said. "So if you can pick your preference in the meal, they say, 'oh, we noticed you like Italian food, by the way, when you arrive at your destination, here's the top five Italian restaurants when you arrive, and here's the 10% voucher discount if you come on our behalf.'"

Progress is slow in part because of the systems needs to support this type of retail strategy.

"The ancillary world, once you start to dig into it, is quite a complex world," said Sinead Finn, founder of Affinity airline consulting agency.

It's complicated because in order to offer new ancillary services, airlines have to alter their tech stacks. And changing airline systems - many of which have been in place for quite some time - takes a great deal of preparation, especially while also running a business that operates around the clock.

And it goes beyond the challenge of continuing operations. Airlines' systems need to be compatible with partner systems - those of airports and beyond.

Ancillary services were first offered through direct airline channels, but as technology has advanced, distribution has become possible through third-party channels. But for now many airlines are focused on ensuring their basic booking and servicing capabilities through NDC and APIs are functioning properly, said Damian Hickey, global head of travel partners at Travelport, and after those pieces are settled, there may be more interest in adding a la carte ancillaries to help personalize travelers' journeys.

"Global distribution systems, online travel agencies, travel management companies, online booking tools, agencies' custom user interfaces, back office and mid-office applications, etc. all need to speak the same language for the shopping, booking and servicing to flow smoothly," Hickey said.

"Then to add to that complexity, each airline is on their own timeline, has their own technical challenges, and is implementing their own unique strategy for their NDC journey. Nothing is 'standard.'"

And NDC itself may be adding another level of complication.

The intention behind NDC, Hickey said, is for travelers to benefit from NDC with more competitive ticket offers from airlines, personalization and improved merchandising.

The intention behind NDC is for travelers to benefit from NDC with more competitive ticket offers from airlines, personalization and improved merchandising. But airlines' retailing strategies vary - some offer customers the same selection of products whether they are purchasing travel directly or indirectly while others are limiting some offerings to their direct and NDC-enabled channels - potentially incentivizing them not to book through a travel agent, corporate booking tool, etc.

"This approach adds more layers to travel's technical complexity challenge, making it even more complicated for buyers and end travelers to shop and book," he said.

"Consumers don't need to know what NDC is, nor how it differs from EDIFACT. What matters to them are things like prices, flight times, bag allowances, Wi-Fi options and whether they get a free toothbrush — for them the distribution mechanism is irrelevant."

The needle had been moving forward before COVID shuttered the travel industry, and after a three year COVID-afflicted stretch, airlines started making a profit again in many areas of the world, Léopold said.

Now, as a result, ancillary service progress is picking back up.

Finn credits the progress to airlines' work on their systems during the pandemic.

"It gave them an opportunity to really look at technology," Finn said. "I think that's why we're seeing that ancillaries are now performing better than they were before COVID."

Additional considerations

It can be challenging for airlines to change what they're selling in terms of ancillary services because of their customers' expectations, which impacts what they are prepared to pay for.

Low-cost carriers, for example, may have an easier time selling a no-frills reservation that requires the purchase of ancillary services because of how consumers view that travel experience. On the flip side, established, legacy carriers may not get that same reception if they turn what customers expect will be included into add-on charges - even if the base fare is lower.

While ancillary services seem like an easy go-to to boost revenue, hurdles extend beyond the airlines' internal operations and customer relations.

Regulations are at play, too, Léopold said, citing the European Package Travel Directive and the United States' quest to regulate ancillary fees, a move for transparency from the airlines that the Travel Technology Association is urging to extend to all third-party sellers.

And inter-modality connectivity also poses a challenge when it comes to third-party ancillaries.

"The next stage will be, how do you connect rail with air? And how do you bring railways into that airline agreement so customers can be taken care of?" Léopold said, referencing the International Air Transport Association's policies on passenger rights. "Otherwise, it's going to be a mess. You're going to see hundreds of people stuck in cities and looking for hotels anyway."