

AVIATION SERIES

AIRLINE ANCILLARY REVENUE



IN FOCUS - ASIA PACIFIC

WHAT IS AIRLINE ANCILLARY REVENUE?

Revenue from ancillary fees has become a critical income source for airlines, particularly in the low cost carrier (LCC) space. Under pressure from cost-conscious consumers looking for cheap fares and more competition, the traditional airline business model is shifting, as carriers look for more creative ways to drive profits. The focus on ‘unbundling’ all the components that traditionally were included in a full service airfare such as baggage, seat selection, meals and entertainment – are still available but at an additional cost! Checked baggage and excess baggage generates the most revenue across ancillaries sold.

‘Ancillary revenue’ is income generated from the sale of the individual components that make up the price of an ‘airfare’. It is money earned by the airline for anything above and beyond the flight and your seat. Commonly referred to as the ‘unbundling of airfares’, airline ancillary revenue is generated from the sale of baggage, premium seats, food to passengers, or indirectly as a part of the in-flight entertainment, consumer goods or travel experiences, which are sold at commission back to the airline.

SETTING THE TREND

The unbundling of airfares and charging passengers for separate fare components, started in the USA nearly 20 years ago. The unbundled fee model now has been replicated and refined by airlines around the world as they search for alternative sources of income in the face of growing competition and leaner ticket prices. Technically, ancillary fees are a product of low-cost air travel, which relies on a business structure that focuses on unbundling the air product and places greater emphasis on incremental, high-margin revenue in addition to the core product, the seat.







The unbundling of airfares is not only confined to LCC airlines, which traditionally have been competing for leisure travellers. Increasingly business travellers are happy to forgo the flight extras for a cheaper LCC or full service airline ticket as a way of reducing their travel costs on short-haul flights.

Travellers should be aware however, while a basic or lead-in ticket price may seem extremely cheap, by the time food, baggage and entertainment are added on, the price of the ticket can end up being more than a full service fare.







With consumerism heavily reliant on a user’s ability to ‘personalise’ a product or an experience, the combination of improved LCC reliability and increased traveller confidence, the growth of the ‘ancillary fee model’ is on the rise.

ANCILLARIES

TRADITIONAL

-  ENTERTAINMENT
-  PRIORITY BOARDING
-  MEAL SELECTION
-  SEAT SELECTION
-  BAGGAGE
-  WiFi

EMERGING

-  SMS ITINERARY
-  PURCHASE LOYALTY POINTS
-  CREDIT CARD FEES
-  AIRPORT PARKING
-  INSURANCE
-  CAR HIRE



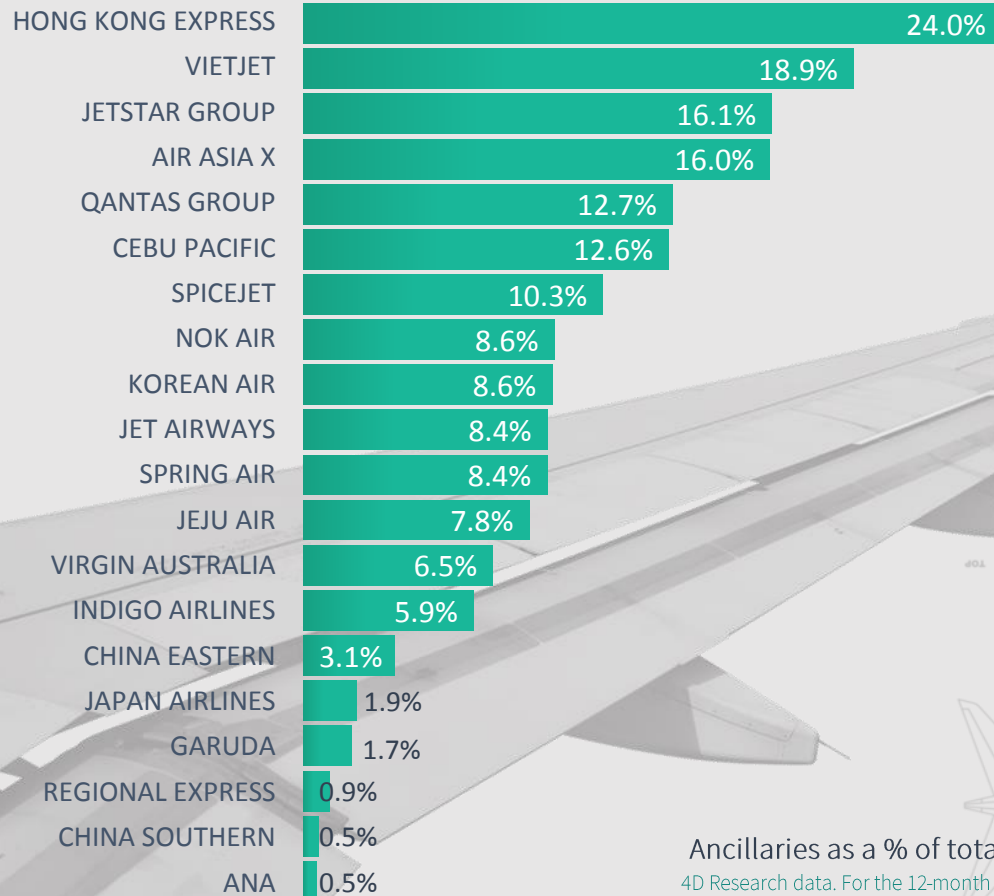
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OUTLOOK



Ancillaries as a % of total airline revenue
4D Research data. For the 12-month period ending mid 2017

Asia Pacific is expected to lead the way in consumer demand for air services between now and 2035, with an estimated 1.8 billion in additional passengers travelling to and from the region* per year.

The rise in demand will deliver even further increases in airline ancillary revenue to Asia Pacific carriers, adding to the US\$70-75B that will be generated in airline ancillary revenue globally in 2017. Which is +20% increase in revenue from 2016.

Research indicates the unbundling of individual flight services will deliver more innovation and diversity in ancillary offerings particularly around the non-flight services. These non-flight services will be where the real opportunities are for airlines. The focus, for many airlines, will be on the full end-to-end experience for travellers with pre- and post-flight services expected to enhance or differentiate each carrier's offerings in a market where business and leisure travellers want more choice, flexibility and value.

*IATA 20 Year Forecast

If you want to review your true airline costs & how your current airline contracts are performing, contact the 4D team:

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