

# An investigation into traveler preferences and acceptance levels of airline ancillary revenues



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## A B S T R A C T

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This study determines traveler preferences and acceptability levels for a range of airline ancillary products and services by employing an on-line passenger survey to examine booking preferences as well as attitudes toward a selection of air and non-air travel components sold by the airlines. The survey results are combined with expert opinions collated from a recent international conference, along with secondary data, to generate an acceptance ranking which can be used by a range of airlines to formulate their ancillary revenue strategies. It is found that airport car parking and checked baggage charges proved to be the most accepted commission based and unbundled products for airlines to sell respectively. Despite the recent focus and successes in ancillary revenues, however, it can also be observed that none of the ancillary products and services examined in this study achieved a high take up rating suggesting that airlines can do much more to convince travelers of the benefit and value in airlines selling non-core products and services to them.

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## 1. The growing importance of airline ancillary revenues

Profitability is becoming increasingly difficult for the airlines across the globe. With 0.1% average net profitability over the past decade, airlines went through one of the most challenging periods in the aviation history (International Air Transport Association, 2011). Almost ten billion dollars were the losses accounted by world's carriers in 2009 alone (International Air Transport Association, 2011), while a further \$49.1 billion were lost between 2000 and 2009 (International Air Transport Association, 2009 cited in O'Connell, 2011).

Several factors affected airline financial performance during the past decade. Firstly, due to the global economic recession, revenues fell 15% or \$85 billion throughout 2009, which is significantly more than the 7% or \$23 billion drop experienced after the 9/11 terrorist attacks (International Air Transport Association, 2010).

With the continued liberalization of air services, high levels of competition, rising fuel bills and volatile operating environments, yields continued to decrease, despite the constant drives to reduce operating costs in the recent years. This has forced airlines globally to seek opportunities to generate additional revenues from secondary sources such as “unbundling” the airline product, dynamic

packaging, retailing and advertising (see Fig. 1 for types classified by O'Connell, 2011). IdeaWorks (2011) describes ancillary revenue as “revenue beyond the sale of tickets that is generated by direct sales to passengers, or indirectly as a part of the travel experience”. Furthermore, ancillary revenue can be divided into three categories: a-la-carte, commission-based (also called third-party) and frequent flyer activities. The focus on ancillary revenue was initiated by the Low-cost carriers (LCCs), when airlines in Europe such as Ryanair and easyJet started to adopt a concept of optional fees. Nowadays the model of “unbundling” the airline ticket is used by both LCCs and full-service airlines (Onboard Hospitality, 2011).

Bejar (2009) traces the beginning of the airline ancillary revenues movement with the Low Cost Carriers, which were first to recognize the importance of internet as a facilitator of revenue generation. Ryanair, in year 2000 first launched hotel bookings and car hire on its website, which was good enough reason for many other airlines to follow. In the early years, ancillary revenues were mainly associated with the Low cost airlines. Nowadays, it is becoming a necessary activity increasingly adopted by all types of carriers, including traditional, full-service ones. Airlines did not solely rely on earning commission from third-party providers such as hotel, car hire and insurance, but they went a step further by beginning to “unbundle” their fares. IdeaWorks (2012) provides a breakdown of full-service carrier revenues by geographical region (US and non-US), which is shown in Fig. 2. In percentage terms, both US and non-US legacy carriers have now developed a diversity

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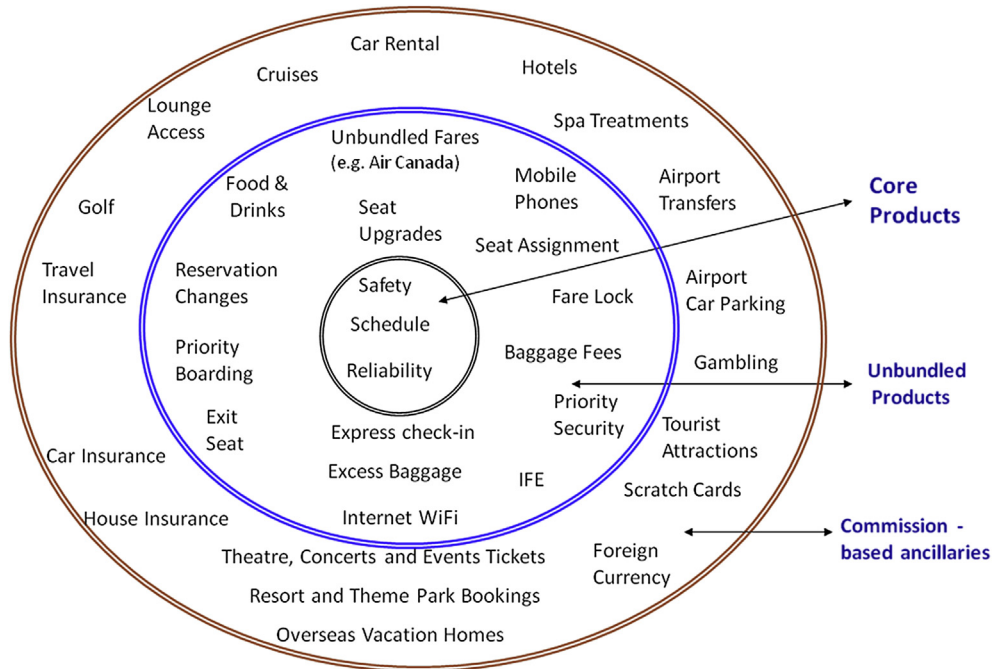


Fig. 1. Types of airline ancillary revenues. Source: O'Connell (2011)

in ancillary revenue streams with unbundled products and services now representing between 15% and 25% of all ancillary revenues made by legacy carriers. For the selected US carriers there is clearly more or a reliance on FFP related sales to date (average of 50%) whereas for non-US carriers, there is more of a balance between FFP sales and other commission based product sales.

Ancillary revenues have now become an integral part of airline accounts following the tremendous growth during the past few years. In 2007 IdeaWorks discovered that only 23 airlines around

the world disclosed revenues from ancillary activities, a total of \$2.45 billion. Four years later, the ancillary revenue reported by carriers globally has grown to \$21.46 billion (IdeaWorks, 2011).

Underlying growth in ancillary revenues be approximated if the reported amount of ancillary revenues in any given year is divided into the number of reporting airlines for that year. The result is that the average underlying intake from ancillary revenues grew from around \$100.6 million per airline in 2007 to around \$456.6 million per airline in 2010.

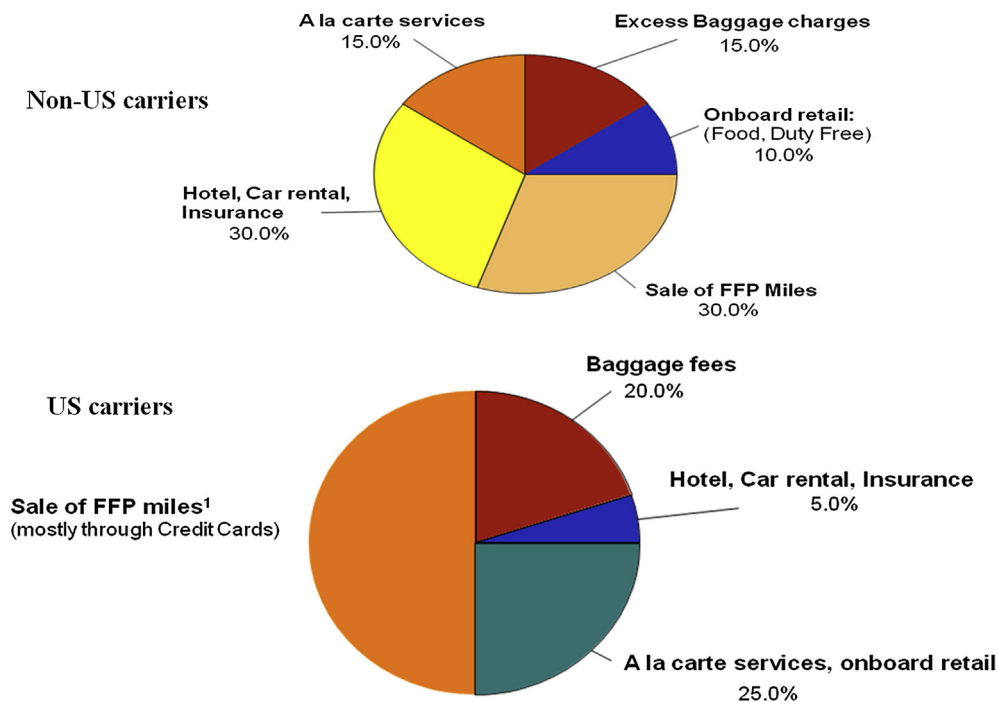


Fig. 2. Key ancillary revenue components for US and non-US carriers.

Airlines are realizing the positive impact of ancillary revenues on their profitability in what is an unpredictable economic environment. They develop strategies aimed at releasing this potential partly by engaging in customer participation. While there have been a few studies into ancillary revenues during the past few years, most of the emphasis has been on à-la-carte services. The purpose of this study is to provide the reader with a more holistic understanding of the types of ancillary revenues available to airlines inclusive of commission-based dynamic packaging revenue categories, namely accommodation, car rental, travel insurance and destination services among others and unbundled product categories namely extra leg room, seat reservation fees, checked baggage fees and priority boarding fees before undertaking an assessment of customer preferences and acceptance levels as a decision support mechanism for airlines wishing to introduce or intensify their secondary revenue streams.

## 2. Customer expectations

A real concern for all carriers but especially Full Service Carriers when adopting ancillary services is the impact on customer expectations and perceived service levels. Considering how FSCs currently struggle with profitability, maintaining customer satisfaction is essential to keeping passenger volumes up.

The primary risk of jeopardizing customer expectations is found within à-la-carte pricing or the unbundling of the product, but it can also be the result of pushing commission-based and FFP related services on passengers along with employing aggressive advertising campaigns. A notable example of pushy commission based cross-selling was the practice of automatically opting passengers into additional travel products such as travel insurance, which led to a full EU ban in 2010 (Cranfield Report, 2011). The alternative approach adopted by many carriers since the EU ban has also received negative feedback with the Head of Ancillaries and Product Development of one European LCC stating “customers respond better to dynamic and personalized offerings” in response to the later practice of forcing travelers to say no to additional travel products. Commission based ancillaries are generally viewed as non-offensive to the passenger, however, FFPs and commission-based ancillaries, for example, can be seen as value-added extras which are sometimes worth paying for. This is supported by a number of recent research studies including Martin et al. (2011) and De Boer and Gudmundsson (2012) with both finding that developing deeper forms of cooperation between airlines and related companies can lead to increased profitability.<sup>1</sup> Those airlines developing ‘autonomous’ or ‘arms length’ FFPs, for example, were able to generate loyalty and additional revenue from infrequent travelers by allowing them to collect and redeem miles in a wide variety of non-flying activities.

Unbundling the fare implies a charge for services which were previously complimentary. If the fare is lowered to offset the unbundling, passengers should not object in theory. However, such price reductions have not always been apparent. Additionally customers may not be aware of the price reductions and thus still bear resentment toward such changes.

Although LCCs appear to have been involved in training their customers to accept fees and charges in return for cheaper tickets, Bejar (2009) identifies that in general “the consumer backlash against à-la-carte fees [...] indicates a widespread failure on the part of the airline industry to effectively manage consumer expectations in a changed era”. FSCs have not yet succeeded in justifying à-la-carte pricing by convincing customers that they are still getting value

for money. Bejar (2009 p3) additionally states that “Changing these expectations will be inevitable, but also crucial to any carrier’s success as ancillary revenues continue their journey to prominence”. In other words, FSCs need to alter the inherent perception that their product is all-inclusive. If not, they will be incapable of increasing ancillary revenues through à-la-carte pricing, and are likely to continue to suffer whilst the LCCs prosper.

A survey conducted by L.E.K. Consulting in 2007 confirmed that passengers still “have ingrained reluctance to spend money in-flight through a long-held belief that all on board amenities should be included in the ticket price”. No studies since have been identified showing any significant change in this perception.

The dissatisfaction of various American airline customers who have had their fares unbundled is clear, when looking at the annual American Customer Satisfaction Index (ACSI). Ranging across accommodation, food and various transportation sectors, the airline industry has the lowest score of 65/100 (ACSI, 2011). These low scores were mostly identified as a consequence of fees & charges among other complaints made to the airlines.

The passenger perception of “value for money” is crucial to any airline’s success (Cranfield Report, 2011). The report argues that “customers will resent paying for something, which in the past was free, therefore it is essential to emphasize the added value of an ancillary item”. It is then indicated that FSCs should only charge for new and additional services, as opposed to Bejar’s (2009) view that FSCs should work on changing, i.e. lowering, customers’ expectations.

Titterton (2009) from Collinson Lattitude, explains that “if a brand makes no promise to deliver, that’s one thing. But if a premium brand is looking to make a quick buck, passengers won’t like it. For legacy airlines the challenge is to introduce ancillaries, which fit customer needs, and do not come across as another way of charging for something”. (Airline Business, 2009). This emphasis of brand alignment and continuously considering the brand promise is supported by Sorensen (2009), who also warns of the negative consequences of ‘nickel and diming’ customers.

This is clearly illustrated using the previous examples of Austrian and Swiss who had to reintroduce meals on-board due to the negative backlash from passengers unwilling to accept a deterioration in value for their money. To avoid a repeat of such a situation, it is clearly important for such carriers to a priori information about what might or might not be preferable and acceptable in their core markets.

A recent Amadeus study (Travel Gold Rush, 2020) found that ancillary services may be something of a balancing act for airlines. Ancillary services that offer win–win situations (such as improved food and seating arrangements) may indeed prove important to many airlines and would appear to complement extensions along the full customer experience. However, there is more doubt about the long term significance of ancillary services which seem opportunistic and do not appear to enhance a carrier’s value proposition. It is assumed for the purposes of this study that passenger *acceptability* is reduced with opportunistic à la carte or commission based sales and *preference* for particular services is increased when there is a personalized value proposition that exceeds the additional cost of the ancillary product or service to the individual traveler. It is therefore important to determine which ancillary service and products fall into varying levels of preference and acceptance the results of which are presented in Section 4.

## 3. Methodological considerations

The research question related to commission with some à la carte based revenues was tested in two separate stages; firstly an on-line traveler survey seeking to obtain views on a variety of

<sup>1</sup> In the case of Martin et al. (2011) it is stated as increased barriers to entry.

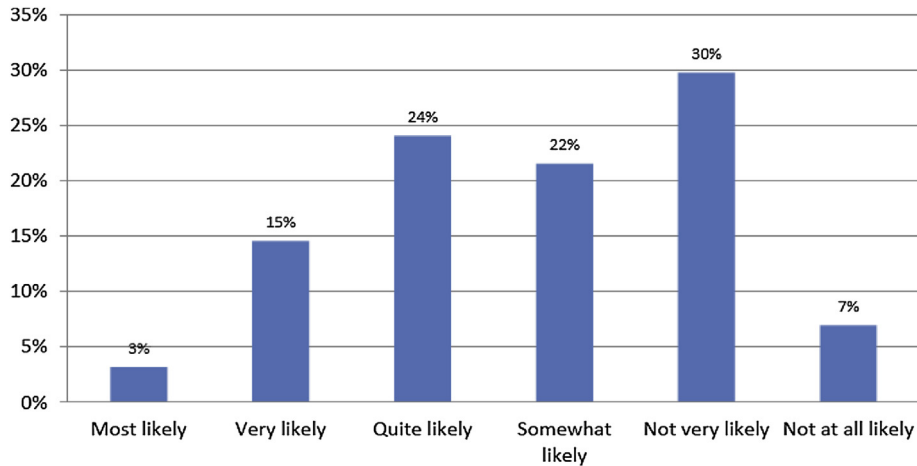


Fig. 3. Likeliness of purchasing 3rd Party products and services from an airline in the near future.

ancillary products was preceded by expert opinion extracted from a recent global conference to understand better what airlines are planning and implementing to meet the needs and expectations of their customers when it comes to ancillary revenues. Acceptability and preference levels are determined primarily through a comparative ranking of perceptions of ancillary items as identified by passenger responses and supported by a discussion of the views expressed in the conference regarding the adoption of enhanced customer touch points to generate additional acceptance and take up.

The two sets of results were then combined with a breakdown of revenue per passenger and ancillary revenue types by carrier from reliable secondary sources to arrive at a final shortlist of ancillary revenues that could be used by airlines to form an appropriate selection and execution of ancillary revenues.

The Ancillary Revenue World Europe Conference 2011, held by Terrapinn on 29–30th June in London, was attended to obtain further insight into the possible developments of ancillary revenues in the near-future and to set a basis for the passenger survey that followed it.

The traveler survey was conducted between 29th and 30th June 2011. The sample was selected from 268 conference attendees using a convenience sampling approach. A total of 171 responses were

collected of which 159 were fully completed from travelers residing in 29 countries giving a response rate of 93%.

An online survey was considered as the most appropriate method to study traveler preferences and opinions. According to Evans and Mathur (2005) online surveys could be characterized by some major strengths such as global reach, flexibility, speed and timeliness. The survey consists of 17, close-ended questions. Their number and design were kept simple and straightforward to avoid any confusion and discourage participants from completing it. The survey was conducted through WebFlyer's forum, called FlyerTalk and the questionnaire was posted on the same date (29th June). WebFlyer reports itself as the leading source on the web for travelers interested in learning about the best internet travel deals and managing reward miles. The website [WebFlyer.com](http://WebFlyer.com) has 500,000 page views per month and has consistently been named a Top 100 website by PC Magazine (WebFlyer, 2011).

#### 4. Results

##### 4.1. Passenger preferences and acceptance levels

Respondents were asked to indicate how likely it is that in the near future they would purchase travel services such as

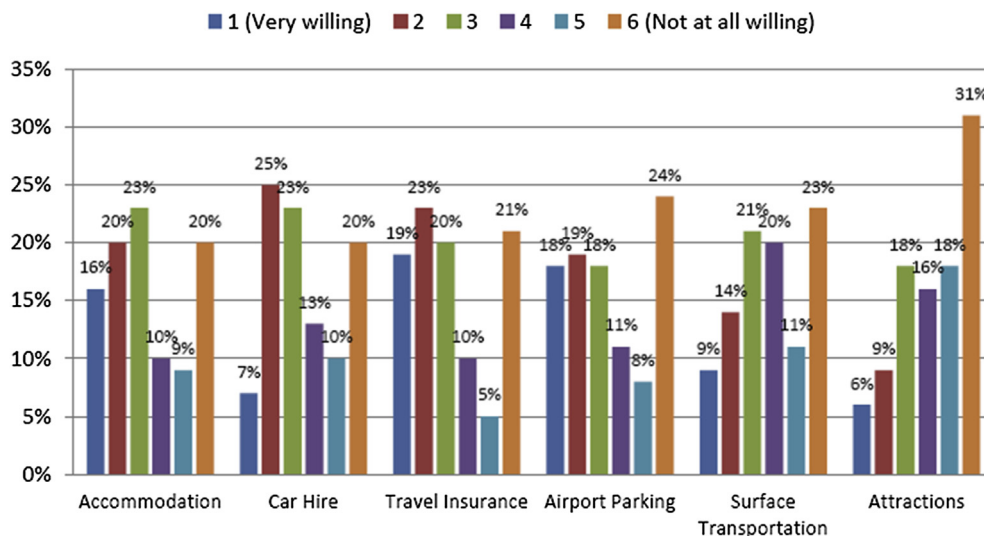


Fig. 4. 3rd party service preferences when booking with airlines.

**Table 1**  
Ranking of 3rd party services of willingness to purchase from airline.

3rd Party Service	Average rating (1-6)	Standard Deviation
Travel Insurance	3.14	1.81
Accommodation	3.31	1.77
Airport parking	3.38	1.86
Car Hire	3.51	1.63
Surface transport	3.72	1.70
Attractions	4.17	1.62
Average willingness	3.54	1.73

accommodation, car rental, travel insurance and others (Fig. 3). The share of negative responses represented around 37% of those respondents that completed the survey. If all the positive responses are taken together, then 63% of the travelers indicated that there is a certain chance that they will purchase non-air travel components from an airline website in the near future. On the other hand, only 18% of respondents stated that they were either very likely or most likely to purchase ancillary products/services in the near future suggesting that airlines should not be diverting too much attention away from the cited core products and services.

Fig. 4 illustrates the willingness of respondents to purchase accommodation, car rental, travel insurance, airport parking, surface transportation and attractions from the airline they are traveling with. Firstly, a variation of opinions could be observed. A large percentage of respondents indicate that they are not really willing to purchase any of the travel components from an airline (rating of 4, 5 or 6). However, a significant proportion also indicated that they would consider such travel products (rating 1, 2 or 3). The respondents were least willing to purchase attractions on airline websites possibly due to the perception that there is incomplete or partial information about destination attractions contained on airline websites. However, it should be noted that destination activities are not currently offered by the majority of the airlines. It is believed that in the following years, their relevance to travelers will increase as more airlines begin to promote such activities and give travelers the ability to book them directly through the airline website.

When 3rd party services are ranked by average rating (Table 1). Travel insurance comes out above both accommodation and car

hire as the type of product that returned the highest willingness to purchase. As travel insurance is not traditionally considered to be one of the main components of the overall travel package, being reminded of the need to have it while booking airline seats appears to be useful and convenient to many customers. Up to 62% of all respondents would consider purchasing travel insurance with an airline whereas this figure was less for accommodation (59%) and for car hire (55%). For car hire only 7% of respondents would seriously prefer having the option to make a purchase via an airline (Fig. 4).

Respondents were also asked how they booked the same range of travel components the last time they traveled (Question 6). The outcome is similar to the results shown in Table 1 and Fig. 5 though not as many respondents cited that they booked accommodation from an airline for the last journey compared with the hypothetical 'willingness to buy' question. The clear preference is still to book directly with the supplier, especially for surface transport and attraction products though airlines seem to be getting more of a foothold in car hire, airport parking and travel insurance sales. This further demonstrates that respondents generally not only understand the relevance of airlines offering related ancillary revenues but that a significant portion of them accept and realize the benefits of them to the point of making purchases through airline distribution channels.

Respondents were asked to express their opinion of airline's position to offer travel products other than. Some 55% agreed or strongly agreed that airlines are in a good position to offer such services; however 29% do not have an opinion with further 16% indicating that airlines should focus on their core service. This shows that aside from the complexity for airlines in choosing which ancillary products to push, they also have to be aware that a significant minority of travelers do not really accept the selling of any non-core services.

Respondents were also asked if their opinion of an airline influences their decision to purchase travel products other than flights. The results show (Fig. 6) that for the majority of respondents their purchase decision is influenced by the opinion they have of that particular airline. To some extent, this supports the suggestion that negative past experiences with an airline affects passenger decisions to purchase ancillary components. In addition, an unsatisfactory experience with a non-air component such as hotel or

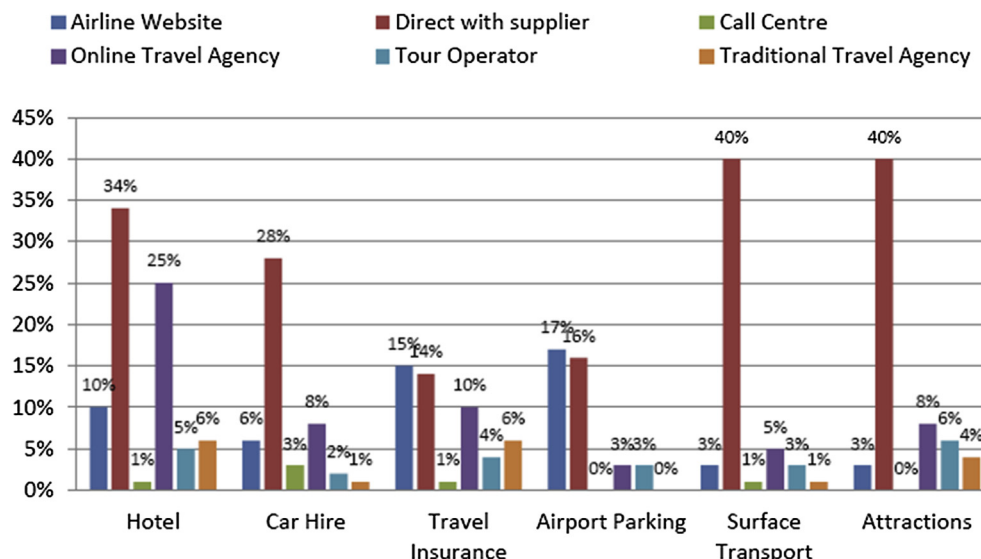


Fig. 5. Purchase channel of travel products/services needed for the last trip of the respondent.

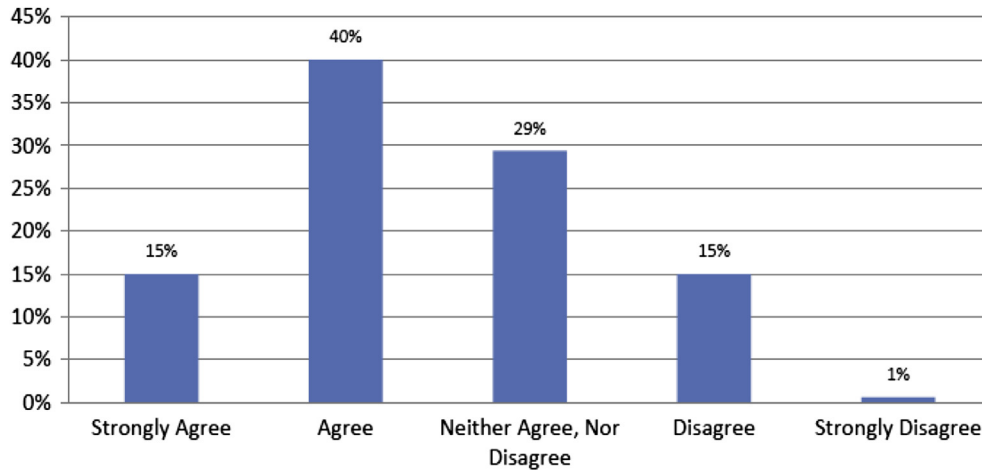


Fig. 6. Respondent's acceptance of airlines selling travel products other than flights.

car hire could affect future travelers' decisions to purchase those non-air elements or even air travel itself from that airline again.

Combining ancillary revenue categories by airline from a recent insurance report from Amadeus (2011) with ancillary revenue data by airline from the 2011 edition of the Ancillary Revenues yearbook by IdeaWorks, it is possible to compare the passenger take up of a range of ancillary revenues for a sample of mainline and low cost carriers, the results of which are shown in Table 2.

United-continental were able to earn the highest amount of ancillary revenues per passenger in 2011 among the sample airlines by a considerable margin. It is apparent however that the focus for United-continental with the exception of paying for checked bags has been on pushing commission based revenues rather than on unbundling elements of basic air fare for resale. American Airlines, who earned considerably less ancillary revenue per passenger, appeared to have a more incoherent ancillary strategy with more unbundled products being sold and less commission based products than United-Continental. Lufthansa, like United-Continental have chosen to focus on ancillary based revenues to date but the take up so far has been quite poor where as TAM has managed to develop something of a specialization in the areas of hotels and car hire given the fact that no other ancillary products/services were offered yet with a higher return than other mainline carriers

offering a wider range of products. China Eastern does not appear to have shifted its focus toward developing ancillary revenues to date.

For LCCs a different picture seems to emerge. Firstly the typical range of products and services is notably higher than the sample's mainline carriers and secondly all LCCs with the exception of Southwest Airlines sold at least two of the four unbundled products and services listed in Table 2 showing that there is a heavier focus on ancillaries and a greater willingness to exploit unbundled products and services when compared to mainline carriers. For LCCs perceived acceptability seems to higher for these unbundled products given the fact that passenger take up (revenue) appears to better for those LCCs offering a greater variety of unbundled services (e.g FlyBE, easyJet and Ryanair) compared to particularly Southwest but also Virgin America in their relatively poor returns on the ancillary revenues offered. In the case of Southwest, the picture reflects a concerted effort over many years to establish good honest relationships with their customers and have relied on the excellence and commitment of staff as well as removing cost from their value chain to be able to offer lower fares. Their unique service oriented-low cost business model reduces the scope for unbundling though can quite easily be extended for commission based services.

The results on views of commission based revenues were then combined to arrive at an overall acceptability ranking (index). Here

Table 2  
Ancillary revenue take up versus services/products offered for a sample of airlines.

Airline	Ancillary Rev per pax. 2010	Commission based products					Unbundled products			
		Car hire	Hotel	Car parking	Bus-train	Travel insurance	Priority boarding	Seat res. fee	Extra legroom fee	Payment for checked bags
United continental	\$34.32	Yes	Yes	Yes	Yes	No	No	No	No	Yes
FlyBE	\$20.99	Yes	Yes	Yes	Yes	No	No	Yes	Yes	Yes
easyJet	\$18.98	Yes	Yes	Yes	Yes	Yes	Yes	No	No	Yes
American Airlines	\$18.58	Yes	Yes	No	No	Yes	Yes	No	No	Yes
Ryanair	\$15.37	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes
TAM Airlines	\$14.73	Yes	Yes	No	No	No	No	No	No	No
Vueling	\$11.99	Yes	Yes	No	No	Yes	No	Yes	Yes	Yes
Virgin America	\$9.67	Yes	Yes	No	No	Yes	No	No	Yes	Yes
Southwest	\$5.56	Yes	Yes	No	No	No	Yes	No	No	No
China Eastern	\$4.60	No	Yes	No	No	Yes	No	No	No	No
Lufthansa	\$4.01	Yes	Yes	No	Yes	Yes	No	No	No	No
LAN	\$2.32	Yes	Yes	No	No	Yes	No	Yes	Yes	No

Key: Mainline carrier ■; Low cost carrier □

Sources: IdeaWorks (2011), Cranfield Report (2011).

purchases actually made are a sign of perceived acceptability and the likely take up rate of.

Combine rankings from survey results on selected ancillaries with results from secondary data on other variables to generate a combined index of acceptance (perceived or behavior illustrated).

Though the results in Table 3<sup>2</sup> should be taken with some caution given the small sample size, some tentative observations can be made regarding traveler perceptions of categories of ancillary revenues. For both mainline and low-cost carriers the first observation is that average acceptance of the nine ancillary revenues used exceed tgree, that is the willingness to purchase such products whether they are commission based or unbundled are not seen as a priority for many travelers in comparison to the core airline product/service (a reserved seat to a desired destination). The second observation is that generally speaking LCC travelers are more willing to take up ancillary products and services than mainline passengers though the observed differences in the average acceptance levels does not appear to be as significant as expected.<sup>3</sup> The third observation is that, despite perceptions being influenced by airline practice over time, levels of acceptance for unbundled products and services were less than general levels of acceptance for commission based products and services. There was a lower take up of unbundled services among mainline travelers as compared to low-cost travelers, however, suggesting that the generally higher fares paid by mainline passengers combined with the brand image portrayed by such carriers makes it slightly less acceptable in the minds of travelers to introduce unbundled charges and fees.

One notable exception to this according to the results in Table 3 is that of checked baggage which actually achieved the highest take up ranking among all the ancillary services offered by mainline carriers. The take-up was surprisingly lower in this category for low-cost travelers (but still ranked equal 3 among all ancillary services offered by LCCs). This differential could be due to the fact that an increasing number of mainline carriers have now started to charge for checked bags and for some, fees for checked bags have now been in effect for many years. This has given travelers more time to become accustomed to the practice and gives them less scope for complaint given the increasing universality of the practice among mainline carriers. This evidence is supported by ? (see Table 4), which shows that most of the selected mainline carriers (with the exception of Singapore Airlines and Cathay Pacific) charge extra fees for second checked bags with some American carriers going as far as to charge additional fees for first checked bags, in line with most LCCs.

#### 4.2. Ancillary revenues conference

A recent Ancillary Revenue World Conference (2011) highlighted four key sources of business improvement in ancillary revenues; (1) optimization of touch points, (2) use of mobile technology/platforms, (3) enhancing the customer experience, and (4).

<sup>2</sup> Scale conversions for the secondary results were computed as follows: Revenue per pax values were converted into low medium and high classes (\$0–11 = Low, \$12–23 = Medium, \$24–35 = High) before being combined with the dichotomous variable ancillary product/service (Yes/No) yielding the following scale permutations: High/Yes = 1, Medium/Yes = 2, Medium/No = 3, Low/No = 4, Low/Yes = 5. The mean average 1–5 rating was then calculated and used as is in the case of unbundled products and together with the survey averages in the case of commission based products.

<sup>3</sup> In a recent Idea Works Ancillary revenues report it is stated that low cost carriers are known for low fares and thus it is easier for ancillary revenue to represent a larger piece of the revenue picture.

**Table 3**

Take up index (acceptability level) of a variety of ancillary revenues by carrier type.

Ancillary revenue type	Airline type	
	Low cost carrier	Mainline carrier (rank)
Car hire	3.51 (8)	3.34 (4)
Hotel (accommodation)	3.41 (7)	3.32 (3)
Car parking (airport)	3.19 (1)	3.28 (2)
Surface transport	3.36 (6)	3.53 (5)
Travel insurance	3.32 (2)	3.65 (6)
Priority boarding	3.33 (=3)	3.67 (7)
Seat reservation fee	3.33 (=3)	3.83 (8)
Extra legroom	3.67 (9)	4.00 (9)
Checked baggage	3.33 (=3)	3.00 (1)
<b>Average take up (all)</b>	<b>3.38</b>	<b>3.51</b>
<b>Average (commission)</b>	<b>3.36</b>	<b>3.42</b>
<b>Average (unbundled)</b>	<b>3.42</b>	<b>3.63</b>

Notes: 1 = high take up (acceptance), 5 = low take up (acceptance). Commission based ranking were computed by taking the mean average of survey ratings (Table 1) and secondary results (Table 2). Unbundled product ratings were computed using the secondary results only (Table 2).

Key: Commission based ancillary revenue ■; Unbundled products/services □.

Sources: IdeaWorks (2011), Cranfield Report (2011), Traveler survey.

The importance of optimizing the user touch points was discussed by LCCs, FSCs and IT providers alike. However, there was a general concern from LCCs and FSCs that adding too many ancillary services within the actual booking path may scare customers away and lose focus from the original purpose; that of selling air fares. This notion is clearly backed up by the survey and secondary results which show a general feeling of apathy among LCC and FSC passengers toward the increasing presence of ancillary products and services sold through airline distribution channels.

The discussion mainly encompassed the importance of optimizing how items are presented within the booking path and what other touch points are available and underdeveloped. Mr. Hooft (2011), Ancillary Revenue Manager at KLM, for instance, emphasized the necessity of providing ancillary services at more points than merely as stand-alone offers on the website or within the online booking path. Customers should be offered à-la-carte and commission-based services repeatedly such as at the time of booking and when checking in online.

As the case seems to be with many FSCs, Magnus Zetterberg (2011), VP E-commerce & Distribution at SAS, identified that, although SAS is strong within the pre-travel touch points and ancillaries, areas such as 'on-board' and 'post-travel' could and should be improved to increase ancillary revenue levels though these two views may not stack up when set against the survey feedback, especially if travelers perceive that they are being pestered into buying products they do not wish to consider.

A strong future development within ancillary revenues was also identified as being through the use of mobile platforms. Although many FSCs now have apps on the market, few of these facilitate up-selling or other ancillary services. Offering services via the passenger's mobile device opens up an opportunity for a new touch point that may entice passengers to increase their spend. SAS has worked on an iPhone app over a period of 18 months, but have yet to release anything as they have not been satisfied with the final results. However, they do acknowledge the importance of being a part of this innovative development. Andy Newman, Mobile Innovation Manager at British Airways, envisions an app in the near future which will enable passengers to maximize ancillary spend by offering e.g. last-minute upgrades and additional/excess luggage. It is also not hard to envisage items such as lounge access and fast-track security access being added to the mobile platform, where applicable,

KLM is an example of an FSC that has already rolled out their mobile strategy, with Mr. Hooft (2011) further aiming to add car

**Table 4**

A la carte tariffs for a sample of legacy and LCC carriers worldwide.

Airline	Airline type	Carry-on bags	First checked bag	Second checked bag	Excess baggage	Advance seat selection	Priority boarding	In-flight food & drink	In-flight connectivity
North America :									
Delta	Legacy	Free	\$25	\$35	\$125–200	Std: Free Prem: \$8–180	N/A	Food:\$0–10 A/c: \$5–7	\$12/flight \$399.95/year
United	Legacy	Free	\$25	\$35	\$100	Std: Free Prem: \$9–63	N/A	Food: \$0–9.49 A/c: \$6–9	\$12.70–39.95
Southwest	LCC	Free	Free	Free	\$50–100	N/A	\$10	Snacks: Free A/c: \$5	\$5/flight
Allegiant Air	LCC	OL:\$10–30 Apt:\$35	OL:\$15–30 Apt:\$35	OL:\$15–30 Apt:\$35	\$75	\$25	\$9.99	Food: \$2–13 A/c: \$7	N/A
Europe :									
British Airways	Legacy	Free	Free	\$51–119	\$60	Within 24h:Free Else: \$15.60	N/A	Free	Only LCY-JFK: Roaming fees
Finnair	Legacy	Free	Free	\$19–100	OL:\$19–127 Apt:\$38–200	Within 36h: Free Else:\$7.60–76	N/A	Food: \$1.90–19 A/c: \$5–12.60	N/A
Easyjet	LCC	Free	OL:\$14–25 Apt:\$28–50	OL:\$22+ Apt:\$44+	\$15.60/kg	\$4.70–19	\$22	Food:1.60–11 A/c: \$5.60–25	N/A
Ryanair	LCC	Free	OL: \$19–63 Apt: \$76–205	OL:\$44–79 Apt:\$190–236	\$25–32/kg	\$12.60–15.60	OL:\$6.30–7.85 Apt:7.60–9.50	Food: \$2.50–9.50 A/c:5.70–9.50	N/A
Asia Pacific :									
Singapore Airline	Legacy	Free	Free	Free	\$109–164	Std:Free Prem:\$50	N/A	Free	\$12–30
Cathy Pacific	Legacy	Free	Free	Free	\$10–0/kg	Std:Free Prem:\$25–100	N/A	Free	N/A
Air Asia	LCC	Free	\$11–34	\$11–34	\$13.20/kg	\$1.90–9.40	N/A	Food:\$1.25–5.70	N/A
Tiger Airways	LCC	Free	OL: \$12–55 Apt:24–55	OL: \$12–55 Apt:24–55	\$15.80–\$23.70/kg	N/A	\$4.75	Food:\$1.60–7.90 A/c : \$4.75	

Notes: Tariffs based on short-haul economy class tickets Values converted to \$ at rates as of 29 June, 2012.

Key: OL: Online price. Apt = At airport price .std = standard seating. Prem = Premium seating. Food: including snacks, meals &amp; soft drinks. A/c = Alcoholic.

Source: Aircraft Commerce, 2012.

rentals as an option. This would allow for a vast catchment increase as passengers may not decide to rent a car until arrival at their destination airport. This sort of improvement to distribution channels may benefit mainline passengers more than low-cost passengers given the survey and secondary results which show a higher take up among mainline passengers for car hire. This may be due to the fact a larger proportion of mainline passengers than low-cost passengers look for convenience over price and would thus see a greater benefit in purchasing a wider range of travel components through one supplier as long as it works out more convenient for them to do so. Easy access to car hire through a mobile platform would certainly help to offer this level of flexibility and convenience for them.

Another focus within ancillary revenues was identified as being the importance of enhancing the customer experience. As previously identified, passengers can feel resentment toward FSCs when they unbundle the product and offer them a lower service proposition than previously. Therefore, the key to successful use of à-la-carte and commission-based ancillaries is emphasizing what added value it brings to the customer. Air Asia's 'Red Carpet' offering and American Airlines' 'Luggage Delivery' service are just two examples of innovative airline products that are designed to add value to the overall travel experience (IdeaWorks, 2012). While it is generally accepted that there is some risk with innovation it is also clear that the forecasted benefits from unbundling traditional airline products and services will become increasingly limited.

Guy Parson (2011), CEO of Travelodge hotel chain, discussed the use of micro-bundling and price tiers to enhance revenue. Although in Travelodge's case it is one uniform product (all rooms are identical), the same concept has been seen with Air Canada - offering different prices within e.g. economy or premium economy, depending on the flexibility of the ticket and whether e.g. meals and luggage is included is a way of ensuring that the airline secures as much revenue as the customer is willing to pay.

Magnus Zetterberg (2011) stated that only ancillaries that are perceived to add value would be enforced within SAS, as they do not want to "nickel & dime" their passengers by unbundling the whole package (although it should be noted that they have already removed the previously complimentary meals and drinks on short-haul flights). Alan Lias, Head of Loyalty and Ancillary Development at Virgin Atlantic, concurred and added that their focus is on "maximising pleasure and minimizing pain" for the passenger. It was admitted, however, that Virgin Atlantic struggles to incentivize cabin crew to sell new, additional items on-board as this was not previously a part of their job description. Having the support of the employees, such as Ryanair's cabin crew, who are incentivized through commissions, is essential to drive ancillary revenue at face-to-face touch points.

Innovative ideas currently added by AirBaltic include bicycle rental, on-board flower delivery, betting on whether or not the flight will be delayed and sales of a branded Samsonite bag that can travel for free as checked luggage for one year. Janis Vanags (2011), VP of Corporate Communications, emphasized that being at the forefront of such à-la-carte ancillaries plays an important role for the success of the airline. In future studies such novelty products and ideas could be added to the list of ancillary categories to help determine the sustainability of take up and acceptance levels for these products in the longer term.

Furthermore, CarTrawler challenged the traditional commission-based offering of car rental from the destination airport and for the full duration of travel. Bobby Healy (2011) (Chief Technical Officer) argued that customers have different needs and offering the flexibility of choosing the number of days and the pick-up location (e.g. the city centre where the passenger is staying), would increase the commission-based catchment.

Finally, the significance of informing the customers of how most FSCs are not (fully) unbundling the fare and "nickel & diming" them was also raised. SAS are running a "no hidden fees" campaign comparing themselves with BA, easyJet, Ryanair and Norwegian,



for instance. Advertising the all-inclusiveness provides them with a crucial competitive advantage, emphasizing the value offered, setting them apart from their LCC competitors. Customers may not know how much the additional fees amount to with LCCs, and therefore FSC should take advantage of such advertising and branding opportunity. British Airways has recently adopted a similar approach by launching a generic “Value Finder” comparing easyJet and Ryanair’s additional fees with British Airways’ inclusive price. The survey and secondary results also support this type of strategy as there is clearly a lower average willingness to purchase unbundled products among mainline passengers than there is for low-cost travelers.

The final key focus area within future ancillary revenues was seen as the use of FFPs. SAS is currently incorporating the spending of miles with on-board sales of food & beverages along with duty free products. FSCs typically e-mail the members of their FFPs with special offers to redeem miles through flights. However, many customers would rather redeem the miles in other ways such as through purchasing gift vouchers, car rental and hotel accommodation with the airlines’ partners, or through online earn & burn stores according to LoyLogic. LoyLogic has incorporated spending of miles when purchasing items online on e.g. SAS’ Eurobonus shop, where customers have the option to decide how many miles to spend and what portion is to be paid by cash. Emirates with its virtual ‘High Street’ have developed a similar idea, where FFP customers can collect and redeem miles over a greater number of products regardless of location.

Finally, LoyLogic suggested that FFP redemption could also be incorporated on a mobile platform by e.g. offering music downloads and other mobile-related services to be paid with accumulated miles. This again might make the offering of non-core products and services a bit more palpable for travelers at the same time as being less overt and direct, which can, as previously stated, turn travelers off.

## 5. Managerial implications and conclusions

Taken together, the ideas and innovations raised by the experts during the ancillary revenues conference in addition to the current take up and acceptance ratings stemming from the study’s survey and secondary analysis clearly demonstrate that, while ancillary revenues are becoming more prevalent in the airline industry, there are still many ways to develop them further and a number of critical pitfalls to avoid as and when ancillary revenue strategies are formulated.

From the preceding analysis and expert opinion it is important to reflect on the products and services which carriers could generally focus on as well as those which could be more beneficial to mainline carriers than low-cost carriers and vice versa. In terms of the overall rankings it appears that airlines offering airport car parking and those that charge for checked baggage yield the greatest acceptance and willingness to pay in terms of commission based and unbundled products respectively. Perhaps a greater number of travelers see a strong connection and added value in airlines selling airport car parking as a commission based service in comparison to other commission based products and given the widespread charging for checked baggage among both mainline and low-cost carriers, it appears travelers are now starting to accept this as something of a reality that is here to stay. It is also something that can at least be related to airline costs in comparison to some of the other unbundled type products and services that are offered. Generally the take up and acceptance levels demonstrated by travelers responding to the survey was quite weak (no ancillary product or service achieved a take up ranking under three below). This shows that it is important for airlines to take a balanced approach toward developing ancillary

services and take active steps to ensure the core/product and service remains the primary focus going forward.

By disaggregating the overall results by carrier type it was possible to see if there were any differences in the overall ancillary product rankings. Generally, the differentials were a bit smaller than expected. However, it is worth noting that acceptance levels for mainline travelers were invariably lower than for low-cost travelers both for commission based and unbundled services. This suggests that mainline carriers would be wise to take a more prudent approach to developing ancillary revenues perhaps by initiating links between FFP programmes and carefully chosen value added products and services that can be redeemed in full or in part with FFP points as suggested by LoyLogic in the recent Ancillary Revenue conference.

As mainline carriers fight back in terms of branding and offering inclusive fares which may at times work out cheaper than bundling the same travel components with a low-cost carrier, it is important for low-cost carriers to understand how best to respond. This survey respondents almost unanimously suggested they are not much more willing to buy commission based products from LCCs as they are from FSC’s (though a small difference can be observed). Secondly, while unbundled products achieved better take up ratings for LCC travelers, the variation in revenue per passenger outcomes for LCCs offering the same products and services makes it hard to recommend that all LCCs should look to aggressively and openly unbundle fares to generate additional ancillary revenues. The case of Southwest proves that sometimes dependence on unbundling can be low yet due to the productivity and engagement of staff as well as the efficient management of the value chain, it is still possible for Southwest to offer low fares with seat reservations, and checked bags among other included. If the basic fare is truly competitive and cost leadership is consistently achieved as is the case with Ryanair then there will be a core of passengers who see the benefit of picking and choosing how many add-ons they want to arrive at a value based fare grounded on willingness to pay. Ryanair’s ancillary revenue per passenger figures show that they are able to consistently achieve good returns with the existing products and services they offer and their heavy reliance on unbundling components of the travel experience.

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