



## KAR 032 – Evolution of Indirect Ancillary Revenue and Profitability for Travel and Tourism Related Businesses

May 2016

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A global synthesis of leading thinking and insights (brochure and sample slides)

What is this report?

- ICG's 32nd Knowledge Area Review (KAR), covering the Evolution of Indirect Ancillary Revenue and Profitability for Travel and Tourism Related Businesses
- 106 pages (samples attached) of in-depth information, drawing on the best public-domain thinking and practice globally from consulting firms, academics and others
- Created by a global team with many years of collective experience
- Priced at US\$7,500 (plus any applicable taxes) per organization for an unlimited internal global license
- Published in May 2016

What questions does it answer?

- How much do travel and tourism businesses make by selling ancillary services? How is this revenue split?
- Which kind of business models are prevalent?
- How do loyalty programs improve cash flow through increasing leverage of their customer information and brand?
- What are emergent ancillary offerings, at the time of booking, before the journey, in-journey and post-journey?
- What are the emergent selling channels and platforms for promoting and selling ancillary revenue?

Why buy it?

Learn the potential for new ancillary services in the travel and tourism industry:

- How industry segments are learning from each other and transferring practices;
- The role of loyalty programs in driving profitability;
- The successes to date, and key learnings about customers and their take-up;
- The new era of revenue management and travel bundling thanks to improvements in data capture and analytics as well as interactions available from mobile devices and social platforms;
- What is coming next from incumbents and disruptors.

Where can I buy it?

- From your local ICG professional or office
- From the lead author Giorgio Baracchi (Sydney, Australia – [giorgio.baracchi@internalconsulting.com](mailto:giorgio.baracchi@internalconsulting.com))
- From ICG's web store at <http://internalconsulting.com/store/knowledge-area-review/>

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# Sample 1: Ancillary revenues are an important component for travel & tourism companies

## KEY FACTS

- Projected global revenue: **US \$59.2 billion** – traditional airlines are expected to make up the majority of this (33.8%)
- These revenues can be as much as 40% for airlines and car rental firms, 30% for cruise lines and up to 50% for theme parks
- In Asia Pacific, the estimated airline ancillary revenue is estimated to be **~US\$13.1 billion**
- FFP miles contribute to over half of these earnings in the US
- Globally, baggage fees make up the majority of earnings
- There are seven industry pillars:
  1. Airlines
  2. Cruise lines
  3. Car rentals
  4. Hotels
  5. Train operators
  6. Travel agencies
  7. Theme parks.

## THE TRAVEL AND TOURISM LANDSCAPE



# United: Company overview and ancillary spending (2012 – 2014)

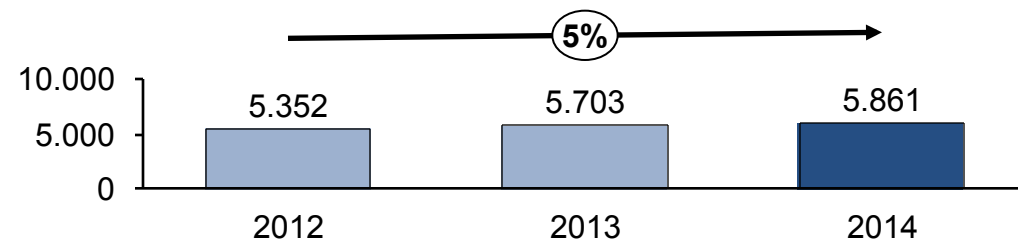
## COMPANY OVERVIEW

<b>Home base</b>	United States
<b>Commenced</b>	1931
<b>Alliance</b>	Star Alliance
<b>Fleet size</b>	718
<b>Destinations</b>	342
<b>Employees</b>	84,000
<b>FFP</b>	MileagePlus

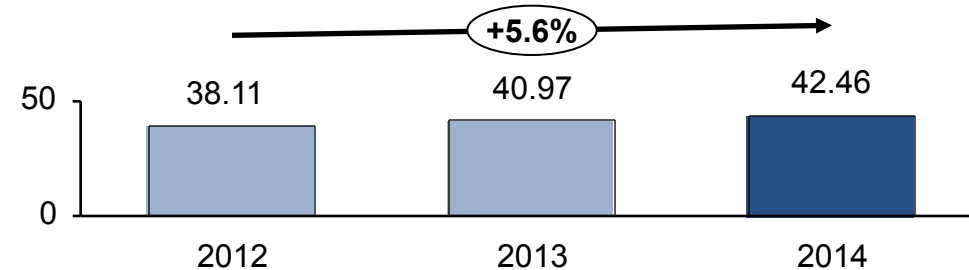
## ANCILLARY SALES ACTIVITIES

- In 2013, United Airlines made \$5.703 billion in ancillary revenue
- From 2007 to 2013, United increased its ancillary sales by 850% - \$600 million in ancillary sales for that year
- Ancillary revenue was ~15% of United's total revenue
- Ancillary revenue consists of:
  - Unbundling (checked bags and meals),
  - In-flight products (wfi and entertainment streaming),
  - Flight personalization and upselling (premier access, United Club, fare lock, and premium cabin selling).

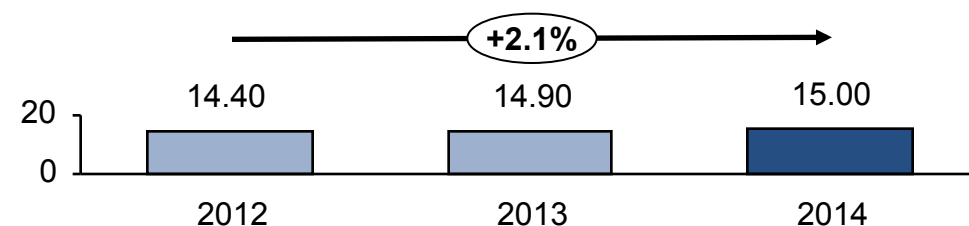
**Total Ancillary Revenue**  
(\$USD Bn)



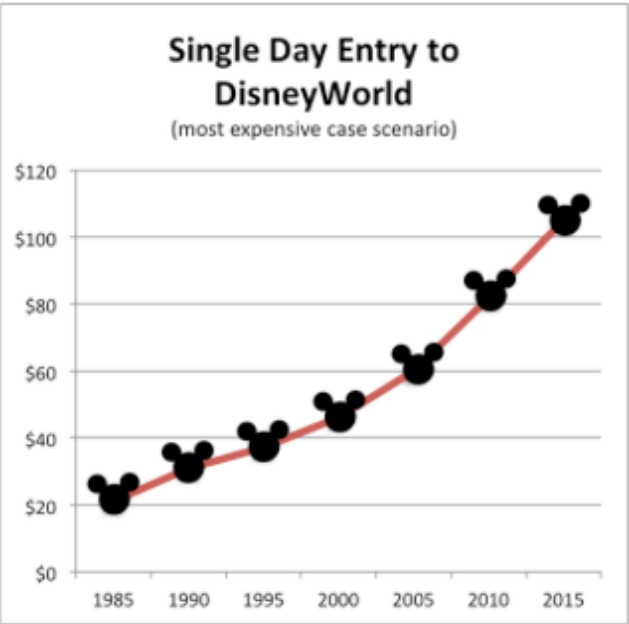
**Ancillary Revenue per Passenger**  
(USD)



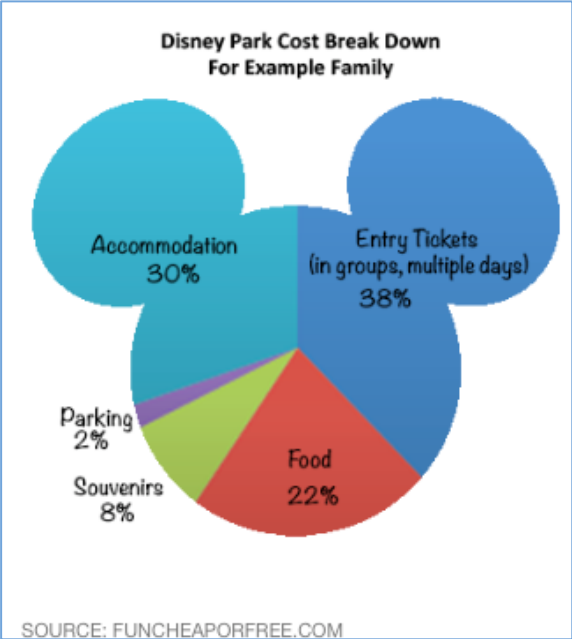
**Ancillary Revenue in Relation to Total Revenue**  
%



# Disney's fast-rising park entry prices are being leveraged into substantial ancillary revenue contributions



INFO SOURCE: DISNEY/TIME MAGAZINE



SOURCE: FUNCHEAPORFREE.COM

# Sample 3: two types of frequent flyer loyalty programs exist

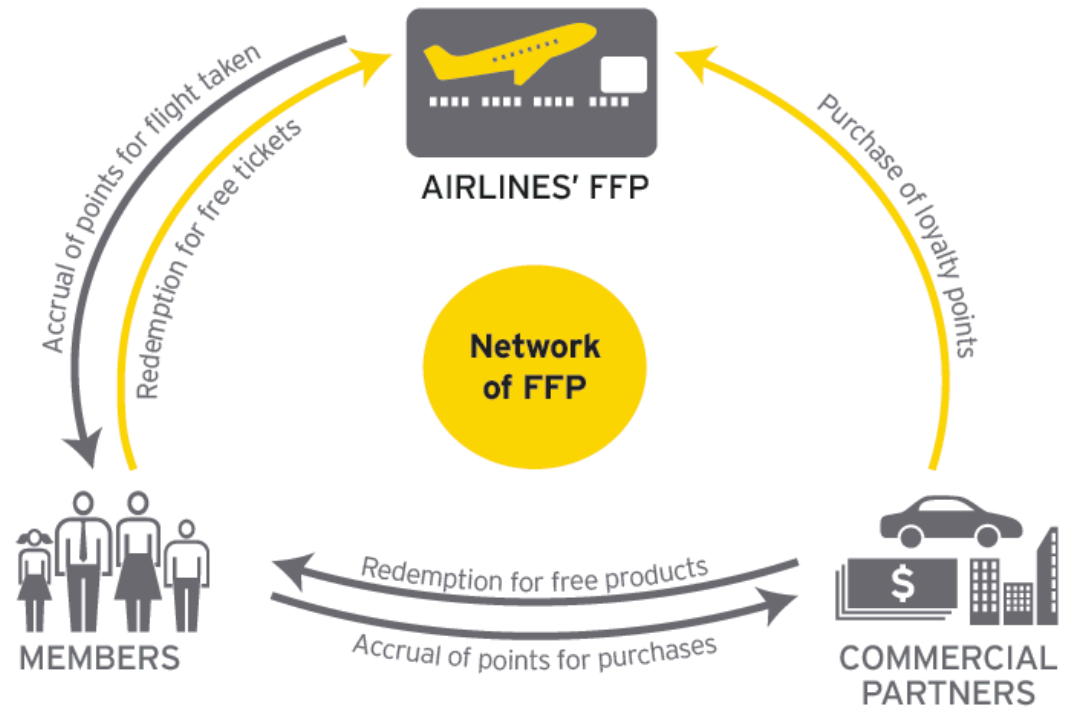
## TWO TYPES OF LOYALTY PROGRAMS

- Two main forms of loyalty programs exist
- **“stand-alone” programs** enable the accumulation and the redemption of points from a single provider
- **“coalition” programs** (see diagram opposite) allow members to accrue and redeem points with many commercial partners affiliated to the network.

## BENEFITS OF COALITION PROGRAMS

- Members have more opportunities to accumulate and redeem points, leading to a better perception of the value of the program
- Commercial partners can collect data on customers at reduced marketing costs, allowing them to optimize the impact of their marketing campaigns
- The coalition program offers commercial partners the ability to acquire and retain at lower member cost
- Companies can also increase the exposure of their individual brand through this network association.

## COALITION PROGRAM



# ARC is beta testing a mobile app in NA to counter the power of airline and Google platforms in controlling ancillary revenue access – made available as a brandable offer to travel agents

An inventory of ancillary services offered independently from main operators ...



ARC MarketPlace®



Plus signing up additional services provided by main operators ...

Air Canada to Offer Ancillary Products Through ARC's Better My Trip Mobile App Offers to Include Seat Upgrades and Lounge Day Passes for Travel Agency Clients



Made available via a white-label mobile app

## Product Offerings

- Destination Activities
- Car Rentals
- Passports & Visa Services
- Agency Tools, including discounts on Business Services
- Learning Center

## Commission

Everything you book through ARC MarketPlace earns you a commission for that sale.

- Activities and Excursions: 6%
- Car Rentals: 5%
- Passports & Visa Services: 15%

## Affiliate Program

Your clients can quickly and easily purchase thousands of activities and tours, including shore excursions and ground transfers, as well as car rentals around the world. The one-time set up is quick and easy, and every purchase your clients make directly through the links on your company's website earns you commission – just as if you booked it for them! [Learn more](#) >

BetterMyTrip

Email address  Password

Forgot your password?

By checking this box you agree to the [Terms & Conditions](#)



## Announcing the BetterMyTrip app!

Better My Trip is a mobile application designed to help agents stay engaged with their clients in the post-ticketing phase of their trip by providing a simple mobile interface for itinerary management, bookable content and easy agent contact.

## What value does BetterMyTrip offer agents?

It has been challenging time for travel agencies as many travelers have migrated to direct travel booking. Better My Trip will assist agencies in improving the overall travel experience for business and leisure travelers.

## What value does BetterMyTrip offer travelers?

The app will allow travelers to have up-to-the minute travel information, from flights to other aspects of their trips, as well as the option to contact the agency at any given time!





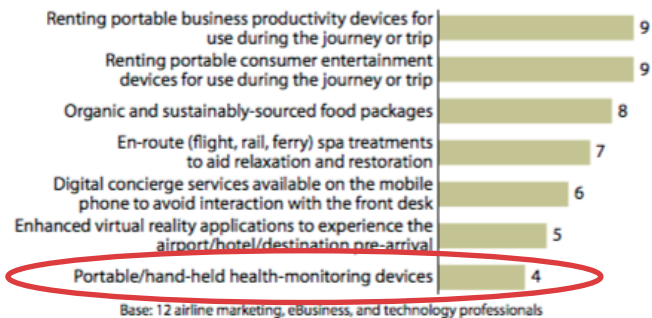
# A key risk is underestimating the pace of development in enabling channels, and bundling opportunities

## 2010 – Airlines Consider Renting Portable Health-monitoring Devices by 2020

## 2015 – Airlines Introduce Loyalty Incentive Based on Customer's Own Wrist Mounted Health Monitoring Device

**Figure 14**  
Among Extreme Third-Party Ancillary Services, Entertainment And Productivity Devices Most Interest Airlines

"Looking out ten years to 2020, do you anticipate any of the following third-party ancillary services to be made available by your company?"

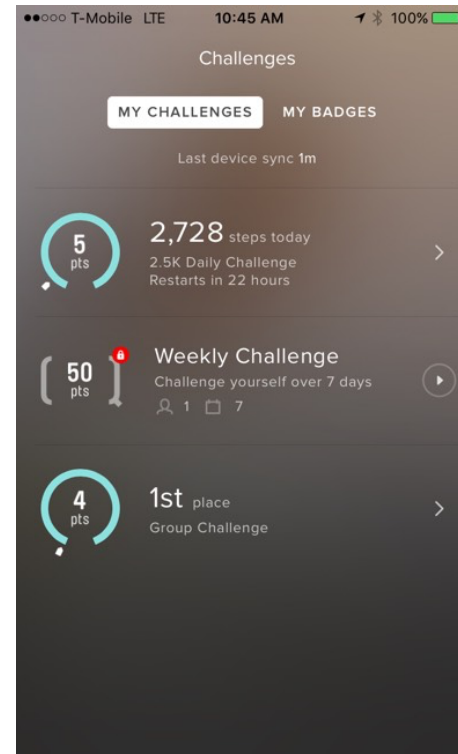


Base: 12 airline marketing, eBusiness, and technology professionals

Source: A commissioned study conducted by Forrester Consulting on behalf of Amadeus, Q4 2010



### QANTAS ASSURE APP



- API works on iOS, Android platforms
- Smart phone, Apple Watch, Fitbit
- Earn FFP
- Gateway to ancillary revenues
  - Health insurance
  - Travel insurance.
- Collaborative partners
  - Nib insurance (underwriter)
  - Apple (watch offer).

### Acceleration Beyond Expectations – Key Lessons

- Developments and uptake in personal mobile computing
- Innovation pace for mobile application platforms
- Collaborative value propositioning
- Customer franchises as commercial platforms.



**Internal Consulting Group**

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