

CARTRAWLER ANCILLARY REVENUE SERIES

2020



Flight Plan 2020: Building Airline Revenue in the Recovery

This CarTrawler-sponsored report offers ideas for change fees and baggage policies and advice on innovation during the pandemic and period of recovery.

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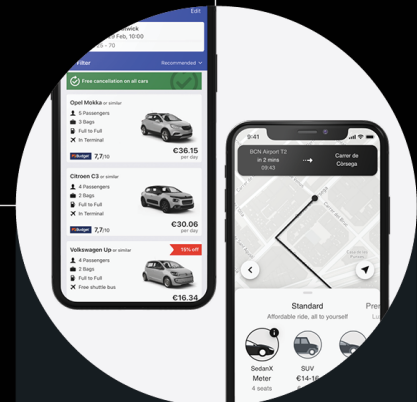
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Jay Sorensen's research and reports have made him a leading authority on frequent flyer programs and the ancillary revenue movement. He is a regular keynote speaker at the annual MEGA Event, spoke at IATA Passenger Services Symposiums in Abu Dhabi and



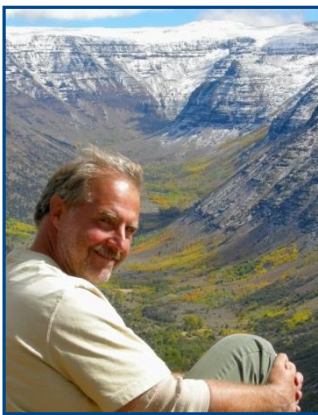
Jay and son Aleksei hiking in the Santa Monica Mountains National Recreation Area in California.

Singapore, and has testified to the US Congress on ancillary revenue issues. His published works are relied upon by airline executives throughout the world and include first-ever guides on the topics of ancillary revenue and loyalty marketing. He was acknowledged by his peers when he received the Airline Industry Achievement Award at the MEGA Event in 2011.

Mr. Sorensen is a veteran management professional with 36 years experience in product, partnership, and marketing development. As president of the IdeaWorksCompany consulting firm, he has

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Eric, at his favorite summer retreat, Steens Mountain, Oregon.

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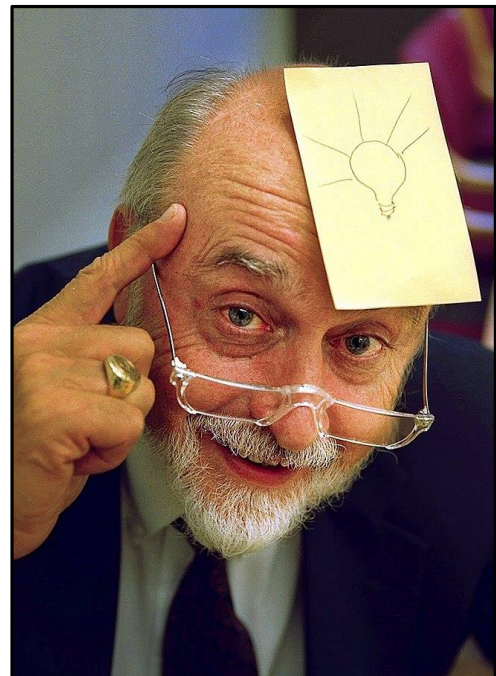
Flight Plan 2020: Building Airline Revenue in the Recovery

Complexity is a curse, innovation provides the cure

The airline business has a tradition of innovation, but for many decades we have too often relied on complexity to improve the bottom line, which leads to decreased consumer satisfaction. Complexity in consumer-facing policies abounds. Change fee policies have become labyrinths in the desire to capture every dollar, euro, and peso. Baggage rules compel passengers to bring all their bags to the gate in hopes of finding leniency from obtuse policies. These essential elements of travel had simple beginnings, but over time the quest for more revenue has created a structure poorly equipped for the COVID-19 era. In addition to this, the pandemic requires new sensitivity when developing revenue-producing plans. This report is written to help airlines understand how product innovation can improve financial results and simplify the travel experience.

Please don't be intimidated by innovation; you might be more comfortable calling it "product redesign." Whereas invention creates something which has not existed before, innovation is defined as "something new or a change made to an existing product."¹ Your company can innovate by applying the ideas of competitors to your products. Invention is in the realm of scientists, while innovation is the method of those who bring change. Both have the objective of creating improvement.

The culture of a company plays a giant role in encouraging or stifling innovation. One company that is very intentional in its efforts to cultivate innovation among employees is 3M, which is a leading provider of personal protective equipment. The company's "15% Culture" has existed for decades and encourages employees to set aside a portion of their time to pursue innovative ideas, think creatively, and challenge the status quo. As you have guessed, employees may devote 15 percent of their work time to these activities. This culture has created a legacy of new products, which includes something that likely sits in every desk drawer on the planet: Post-It notes.



Arthur Fry is one of the co-inventors of the Post-It Note courtesy of 3M's 15% Culture. We like the lightbulb reference for obvious reasons.

¹ Merriam-Webster Dictionary definition reviewed at Merriam-Webster.com, May 2020.

There are examples in the airline industry of defined innovation efforts. Lufthansa Group created the Lufthansa Innovation Hub as a team to define new digital business opportunities for the group. JetBlue has JetBlue Technology Ventures which seeks investment in start-up companies in the travel sector. These are robust efforts, but what I'm hoping to excite are initiatives on a more modest scale. One of my favorite quotes is from the 1962 movie *Lawrence of Arabia*, "Big things have small beginnings." This report describes how this can occur for airlines in the categories of change fees, baggage policies, and the overall process of boosting airline revenue.

The pandemic is making old methods obsolete

The passing of every week during the pandemic has created changes which before may have required many months. The industry faces two choices as it reacts to a cycle of change which will last a year or longer. Change can be forced upon an existing structure, which has been made unstable through years of similar activity. Or, the time can be taken to disassemble the old and begin with something purpose-built for the current travel environment. Many of today's baggage policies for network airlines were drafted decades ago when baggage was included in the price of a ticket. Change fee policies likely represent the worst offense with economic models developed when almost all business travelers were men wearing ties, suits, and fedora hats.

Low cost carriers, as they swarmed into global markets in the last 20 years, borrowed bits and pieces of this history. However, LCCs largely built policies from scratch. Major airlines offered complex solutions that varied by customer type, global region, distribution channel, airline alliance, and aircraft. Lost in these layers are the participants in these systems: travelers, customer service

employees, and travel agents. The scale of detail is universally daunting. For example, one global airline uses 1,900 words to define the terms and conditions associated with one of its non-refundable domestic fares. Of those, 387 words (displayed in the adjacent box) are dedicated to the task of making a reservation change.

Example of Rules for Making a Voluntary Reservation Change
<p>IN THE EVENT OF CHANGES TO TICKETED FLIGHTS BEFORE DEPARTURE OF JOURNEY - APPLIES WITHIN TKT VALIDITY CERTAIN DOMESTIC REISSUE PROVISIONS MAY BE OVERRIDDEN BY THOSE OF YY INTERNATIONAL FARES NO CHARGE FOR REISSUE OR HIGHEST FEE OF ALL CHANGED FARE COMPONENTS -/CATEGORY I9 DISCOUNTS APPLY - NO FEE FOR INFANTS W/O SEAT AND REPRICE USING FARES IN EFFECT TODAY PROVIDED ALL OF THE FOLLOWING CONDITIONS ARE MET- 1. YY FARES ARE USED 2. ADV RES IS MEASURED FROM REISSUE DATE TO DEPARTURE OF PRICING UNIT OR - REPRICE USING CURRENT FARES - ONLY BOOKING CODE CHANGES PERMITTED PROVIDED ALL OF THE FOLLOWING CONDITIONS ARE MET- 1. NO CHANGE TO FARE BREAKS 2. SAME TRAVEL DATES 3. YY FARES ARE USED 4. ADV RES IS MEASURED FROM REISSUE DATE TO DEPARTURE OF JOURNEY WHEN CHANGE RESULTS IN LOWER FARE SUBTRACT RESIDUAL FROM THE PENALTY THEN ADD-COLLECT/REFUND - REFUND VIA EMD ENDORSEMENT BOX- HIGHER NON-REF AMT AND NEW ENDORSEMENTS. OR - ANYTIME WITHIN TKT VALIDITY CERTAIN DOMESTIC REISSUE PROVISIONS MAY BE OVERRIDDEN BY THOSE OF YY INTERNATIONAL FARES NO CHARGE FOR REISSUE OR HIGHEST FEE OF ALL CHANGED FARE COMPONENTS -/CATEGORY I9 DISCOUNTS APPLY - NO FEE FOR INFANTS W/O SEAT AND REPRICE USING CURRENTLY TKTD FARE PROVIDED ALL OF THE FOLLOWING CONDITIONS ARE MET- 1. NO CHANGE TO 1ST FARE COMPONENT/FARE BREAKS 2. FULLY FLOWN FARE NOT REPRICED TO FURTHER POINT 3. YY FARES ARE USED 4. ALL RULE AND BOOKING CODE PROVISIONS ARE MET EXCEPT ACCOMPANIED TRAVEL 5. ADV RES IS MEASURED FROM ORIGINAL TKT DATE TO DEPARTURE OF PRICING UNIT OR - REPRICE USING FARES IN EFFECT WHEN TKT WAS ISSUED PROVIDED ALL OF THE FOLLOWING CONDITIONS ARE MET- 1. NO CHANGE TO 1ST FARE COMPONENT 2. FULLY FLOWN FARE NOT REPRICED TO FURTHER POINT 3. YY FARES ARE USED 4. WHEN SAME FARE USED - ALL RULE AND BOOKING CODE PROVISIONS ARE MET EXCEPT ACCOMPANIED TRAVEL - OTHERWISE ALL PROVISIONS MUST BE MET 5. ADV RES IS MEASURED FROM ORIGINAL TKT DATE TO DEPARTURE OF PRICING UNIT WHEN CHANGE RESULTS IN LOWER FARE SUBTRACT RESIDUAL FROM THE PENALTY THEN ADD-COLLECT/REFUND - REFUND VIA EMD ENDORSEMENT BOX- HIGHER NON-REF AMT AND NEW ENDORSEMENTS. OR - AFTER DEPARTURE OF JOURNEY - APPLIES WITHIN TKT VALIDITY CHANGES NOT PERMITTED/REFUND TKT-ANY REMAINING AMT WILL APPLY TO NEW TKT.</p>
<p><i>This is representative text of the gibberish offered by the majority of airlines; the YY two-letter code is IATA's generic airline identifier.</i></p>

This is merely one example of how most airlines present the fine print of a fare to consumers. The use of all upper case font is a tradition from decades ago when terms and conditions appeared in paper tariffs. Saying this is unreadable for consumers is an understatement. The excerpt represents customized text for just one of the innumerable fares filed by a global network carrier. Many carriers helpfully provide pages at their websites to summarize key points by fare category. But even here, this method often fails to provide a quick answer to an everyday question: “What’s the fee to change to a different flight?” The advice provided by the summary is vague and merely indicates a fee will be charged – but not specifying the exact amount. It’s a universal condition.

No one would ever design a similar system if beginning the task today. This is but one example within the topics presented in this report. The travel industry does have a window of opportunity in which many of its troublesome practices can be revisited and redesigned for improvement. Innovation can be deployed to create methods better aligned with today’s consumers and technological systems, and the dynamic revenue environment.

Change fee policies are adapting to a changed consumer

One silent victim of the pandemic is the personal calendar. Do you remember when plans could be made reliably for a year from now? Summer travel could be planned during the winter. Conference attendance was scheduled a half year in advance. Weddings, birthday parties, new air routes, and grand openings for cities could be placed on a calendar with confidence that little would prevent the event from occurring.

This is all very challenging for the delivery and purchase of leisure and business travel. The travel industry has reacted admirably by implementing a hodgepodge of well-intentioned policies to remove the financial risk of booking in advance. Every week seems to bring an extension of these policies, which vary for every airline. As a result, consumers have become accustomed to the favors granted by airlines during the early phase of the pandemic. The entire travel industry has joined the effort, and change waivers might encourage consumers more than masks, hand sanitizer, and social spacing.

I believe this is evolving into an addiction that won’t be easy to stop for consumers . . . and for the travel industry. This “concern for the future” is best addressed through these waivers. Airlines may carefully experiment with curtailing the practice, but the thought of a competitor gaining an advantage will quickly change this behavior. This new habitat will likely exist beyond the end of 2020, which suggests innovating for the long term is prudent.



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- On existing bookings for travel between 12th & 31st March, 2020.*
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*T&C Apply.

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Airlines, hotels, car hire, and vacation rentals add consumer confidence when booking change policies are relaxed.

Create a brand for your change fee policy

I will confess a dislike for this topic because of painful memories when I was managing an airline pricing department. I was insistent airport station staff follow the rules and not waive collections for reservation changes. In gratitude for my revenue-focused approach they happily suggested disgruntled customers send their complaints to me. My role quickly devolved into a customer response function of writing letters and calling angry customers.

Change and cancel fees were exempted from the definition of ancillary revenue because they are rarely chosen by consumers as a la carte items. Rather, change and cancel fee policies are automatically coupled to the particular fare booked by a consumer. Some offer a branded change product, and this allows the activity to be recorded as ancillary revenue. The following table displays the standard policies (non-pandemic) offered by three US carriers and includes the change and cancel fee revenue reported to the US DOT.

Table 1: 3 Types of Change/Cancel Fee Policies Before Waivers Related to Select Travel Dates during Pandemic			
Airline Examples	Delta	Allegiant	Southwest
Change/Cancel Policy Type	Fare Based <i>(tied to ticket purchased)</i>	Flex Product <i>(called Trip Flex)</i>	No Fees
Change/Cancel Fee Revenue *	\$5.11 per passenger	\$2.55 per passenger **	None reported
Flight Change Summary <i>(Fare difference always charged to consumer for flight changes.)</i>	<ul style="list-style-type: none"> Policy is tied to the fare purchased: basic economy, economy, and flex. Basic economy bookings can't be altered. Economy charges a fee of \$200 to \$500 for changes. Flex may be changed without charge. There are conditions to the above, such as changes made 24 hours before departure. 	<ul style="list-style-type: none"> Trip Flex is included as a feature for the Bonus and Total fares. Trip Flex is an optional extra for the lowest priced Basic fare. One single change is allowed (no charge) and may occur one hour or more before departure. Without Trip Flex, changes are \$75 (per segment) and are only permitted 7 days before departure. 	<ul style="list-style-type: none"> No change fee charged.
Flight Cancel Summary	<ul style="list-style-type: none"> Not permitted for Basic Economy. Non-refundable fares, refunded as travel credit less fee starting at \$200. Refundable tickets refunded to form of payment. 	<ul style="list-style-type: none"> With Trip Flex, a full travel credit when made one hour or more before departure. Without Trip Flex, a full travel credit less \$75 when made more than 7 days before departure. 	<ul style="list-style-type: none"> Wanna Get Away fare qualifies for full travel credit; must be cancelled minimum of 10 minutes before departure. Higher-priced branded fares are fully refundable.
Other Features		Trip Flex can apply for package components.	
* US DOT, Bureau of Transportation Statistics, Schedule P-1.2 for 2019. ** Very likely represents fee revenue and excludes revenue from Trip Flex sales. Sources: Airline websites reviewed May 2020.			

In the queries performed for this report, Allegiant was found to routinely charge \$29 per passenger, per one way trip for the Trip Flex product. The price remained unchanged regardless of flight length and for itineraries including hotel accommodations and car rental. At lower fares, this is uneconomic for consumers because the Trip Flex price may exceed the air fare. One query provided a very low one-way fare of \$6.90 between Cincinnati and Las Vegas plus a “carrier usage charge” of \$16. Terms and conditions indicate the “carrier charges” portion for bookings is not returned under the cancellation provisions. For consumers who spend a substantial amount on higher-priced air fares, hotel accommodations, and car rental, the minor expense of Trip Flex provides exceptional value.

Avoid paying change fees of \$0.00.
Get Trip Flex™ and Save!

Add flexibility to your travel plans with Trip Flex. You can change your itinerary once or even cancel your trip without paying change fees.

<p style="margin: 0;">With Trip Flex</p> <ul style="list-style-type: none"> · \$0 change fees. · Changes allowed up to 1 hour before departure on air-only itineraries and up to 72 hours for air+hotel packages, for any reason. 	<p style="margin: 0;">Without Trip Flex</p> <ul style="list-style-type: none"> · \$75 change fees per passenger per flight. · No changes within 7 days of departure.
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Yes, add Trip Flex to my trip for only \$29.00
 No, do not add Trip Flex to my trip.

As shown in Table 1, Allegiant, being a low cost carrier, has a simple approach for change and cancellation policies. The modular approach of Trip Flex creates an easy binary choice for consumers: Choose the standard terms or purchase Trip Flex. This compares very favorably to the traditional airline practice of writing terms and conditions for each fare. For consumers this creates complexity and often very high change fees (in excess of \$200). This treatment survives as a legacy of an era when airlines sought to financially punish business travelers who purchased the low-priced fares promoted to leisure travelers.

Airlines can sell flex products through two methods: a la carte and bundled fares. The a la carte method places the flex product in the booking path and when purchased, it’s added to the shopping cart. Allegiant places Trip Flex after hotel accommodations, car rental, baggage, and seat assignment. Trip Flex is also a feature included in the carrier’s Bonus and Total branded fares. Table 2 provides estimates for the sale of Trip Flex to Allegiant customers. Take rates for flex products sold through a la carte are traditionally low, and range from 3 to 8 percent for airlines. If this were applied to 100% of a carrier’s traffic (at a \$29 price) the per passenger revenue would range from \$0.87 to \$2.32.

Table 2: Allegiant Trip Flex Revenue Estimates			
Branded Fares	Assumptions	Calculation	Per Passenger
Basic Fare (A la carte)	50% buy fare; 6% of these buy Trip Flex	$50\% \times 6\% \times \$29$	\$0.87
Bonus Fare	45% buy fare, Trip Flex is discounted 30% within the bundle (70% of retail price).	$45\% \times \$29 \times 70\%$	\$9.14
Total Fare	5% buy fare, Trip Flex is discounted 35% within the bundle (65% of retail price).	$5\% \times \$29 \times 65\%$	\$0.94
Revenue from the sale of Trip Flex (excludes \$75 change fee revenue)			\$10.95
Sources: Allegiant.com prices observed May, 2020 and IdeaWorksCompany estimates.			

However, Allegiant very effectively uses bundled fares, which significantly changes the revenue outcome. Branded fares, when properly designed, use a “good, better, and best” approach with the better products priced at modest and predictable increments. Consumers are familiar with this presentation, and see it in everyday applications such as the grades of gasoline at a petrol station and the choices associated with an automated car wash. Very predictably 50 percent of consumers opt for the lowest-price choice, with 45 percent buying the middle choice, and 5 percent splurging on the best product. The figures in Table 2 reflect a discount (65 or 70 percent) applied to Trip Flex price of \$29 when it is bundled with Allegiant’s Bonus and Total branded fares.

The ancillary revenue result is a very attractive \$11 per passenger. This revenue forms a meaningful component of Allegiant’s typical ancillary revenue of \$50+ per passenger. The change fee revenue disclosed to the US DOT (\$2.55 per passenger) very likely reflects individual \$75 fees charged to customers who do not purchase Trip Flex. Calculations suggest 3.4 percent of passengers pay the change fees. When assessed overall, the branded approach is a very attractive alternative to traditional fee-based methods. Passengers are more accepting of change fees when presented the choice of buying or not buying the additional change and cancellation protection. Network airlines have strayed from this logic by placing big premiums on flexible fares and charging punitive amounts for change fees.



Southwest readily promotes its change fee policy . . . which is something other airlines never do.

Of course, this brings us to the unique policy provided by Southwest Airlines. The carrier made its promise to not charge change fees and baggage fees a focal point of its marketing message. When combined with its enviable record of profitability, the result provides proof that profits and the absence of change fees can co-exist. This is a permanent feature for Southwest, whereas the COVID-19 measures introduced by other airlines are largely presented as temporary measures.

Southwest believes lost fee revenue is more than recovered through stronger passenger loyalty which generates higher yields and larger market share. Competitors believe their punitive approach is more financially astute, as it encourages consumers to take the flight booked, rather than give back a seat just before departure. The belief is that a seat released last-minute will likely remain unoccupied and unsold . . . in other words, a lost revenue opportunity. Very likely, Southwest compensates for any higher no-show factor by adjusting its overbooking ratio, and this would mitigate any potential revenue loss. But I think the reservation change activity of Southwest’s passengers aligns with industry norms. Travel involves multiple date obligations from an itinerary of lodging, car rental, sightseeing, live performance, and dining reservations. Changing these is something all travelers desperately seek to avoid.

Southwest's flexible policy nicely addresses a problem for the airline industry, which has been highlighted by the pandemic. What about passengers who become ill with an infectious disease before departure? Change and cancellation fees provide a strong and unfortunate financial incentive for passengers to fly when sick. That's never been a good thing, and today's pandemic worries add a higher level of urgency to fix this. Demanding a note from a doctor requires more administrative support and encourages consumers to find "creative" solutions to produce some type of proof. Allegiant's Trip Flex product provides a very feasible solution. Any solution developed by airlines should seek to avoid placing consumers into painful situations for everyday occurrences that are a part of life.

Airlines find success with carry-on baggage policies

Baggage in all forms, from checked pieces to personal carry-on items, remains a complexity for airlines. Passengers checked an estimated 4.6 billion bags in 2017 and of these 22.7 million were delayed, damaged or lost.² These mishandled bags represent a tiny 0.5 percent of all checked baggage, but the expense to the industry was a significant \$2.3 billion for 2017. Michael O'Leary, CEO of Ryanair, once thought he found the perfect solution in 2009 when he announced the airline would change to a 100 percent carry-on policy, with no provision for checked bags.³ It never happened.

Low cost carriers have long embraced fees for checked bags; this originally represented a significant distinction from their traditional airline brethren. Now many network airlines charge for checked bags, either as an a la carte fee or as a feature of a bundled fare. Passengers have abundant financial motivation to carry bags onto their flight to avoid the fees. The result creates pandemonium at the gate with airlines either adhering to policy and charging fees or encouraging repeat behavior through the courtesy of waiving fees. The all-too-frequent outcome allows passengers to trundle down the loading bridge with too many carry-on bags. This creates another set of problems with heated exchanges between cabin crew and passengers, departure delays, and injuries from falling bags. It's madness.

Reviewing the baggage processes for three airlines provides a lesson to help choose a better path. Let's start with Southwest Airlines, which makes its "bags fly free" policy a key advertising message. Consumers buying any fare are permitted to check two bags with a very generous weight limit of 50 pounds (22.7 kg) per bag. Southwest shares a plight



American, Delta, and United charge for bags, Southwest does not.

Image: Southwest Airlines

common to other airlines; those boarding last often don't have access to overhead bin space. It's one of the reasons the airline generates millions from early boarding fees. Even when bags fly free, passengers cling to the certainty of placing their bag in the overhead bin.

² The Baggage Report 2018, SITA, reviewed at the sita.aero website.

³ "Ryanair chief Michael O'Leary wants passengers to carry all their bags to the plane" article dated 24 June 2009, *The Telegraph*.

Allegiant Airlines charges passengers for bringing a larger carry-on, with no fee applied to a smaller personal item to fit under the seat. The larger carry-on fee is sold on an a la carte basis and also included as a feature in the carrier's higher-priced Bonus and Total fares. Its all-Airbus fleet carries between 156 and 186 passengers with a minimum 30-inch seat pitch. The website indicates the larger carry-on fee ranges from \$10 to \$75. A few flight queries performed during May 2020, for flights of varying distances, suggest the usual amount is \$20 each way.

Table 3: Allegiant Carry-On Bag Revenue Estimates			
Branded Fares	Assumptions	Calculation	Per Passenger
Basic Fare (A la carte)	50% buy fare; 8% of these buy carry-on	$50\% \times 8\% \times \$20$	\$0.80
Bonus Fare	45% buy fare, carry-on is discounted 30% within the bundle (70% of retail price).	$45\% \times \$20 \times 70\%$	\$6.30
Total Fare	5% fare, carry-on is discounted 35% within the bundle (65% of retail price).	$5\% \times \$20 \times 65\%$	\$0.65
Total revenue from the sale of carry-on bags			\$7.75
Sources: Allegiant.com prices observed May, 2020 and IdeaWorksCompany estimates.			

Allegiant disclosed revenue from baggage fees equaling \$17.66 per passenger for 2019.⁴ The \$7.75 estimate for carry-on revenue represents 44 percent of this total bag revenue. This attractive revenue is in addition to the speedier boarding and deplaning benefit it provides. The policy nicely reduces the quantity of carry-on baggage and prevents the bottleneck of passengers in the cabin (and safety issues) when too many bags are wrestled into overhead bins. In the era of COVID-19 this issue is a worrisome contributor to viral transmission. The time spent jostling with bags in close face-to-face proximity is a situation to be avoided. The agony of carry-on congestion seemingly becomes worse upon arrival at a destination.

Be forewarned, as extra effort is required to implement fees for large carry-on bags. For this to work well, the airline must thoroughly communicate and enforce the policy from the point of purchase to boarding of aircraft. Low cost carriers benefit from direct distribution of ticket sales. Communication becomes more of a challenge when this rather unique method is sold through indirect channels, such as global distribution systems.

Airlines wishing to convert, should consider the important issue of consumers perceiving the change as a downgrade to the current customer experience. That's because many will balk at paying to bring a bag that currently can be carried free of charge. The timing of a sudden change would be a challenge because flights during the early phase of the pandemic are largely empty. The fee for larger carry-ons only delivers operational benefits when load factors increase. Airlines could sweeten the offer with bonus frequent flyer points or miles. Or, a carrier could consider the innovative service sold by Ryanair. This option nicely combines the benefit of priority boarding with a larger carry-on as a single a la carte service.

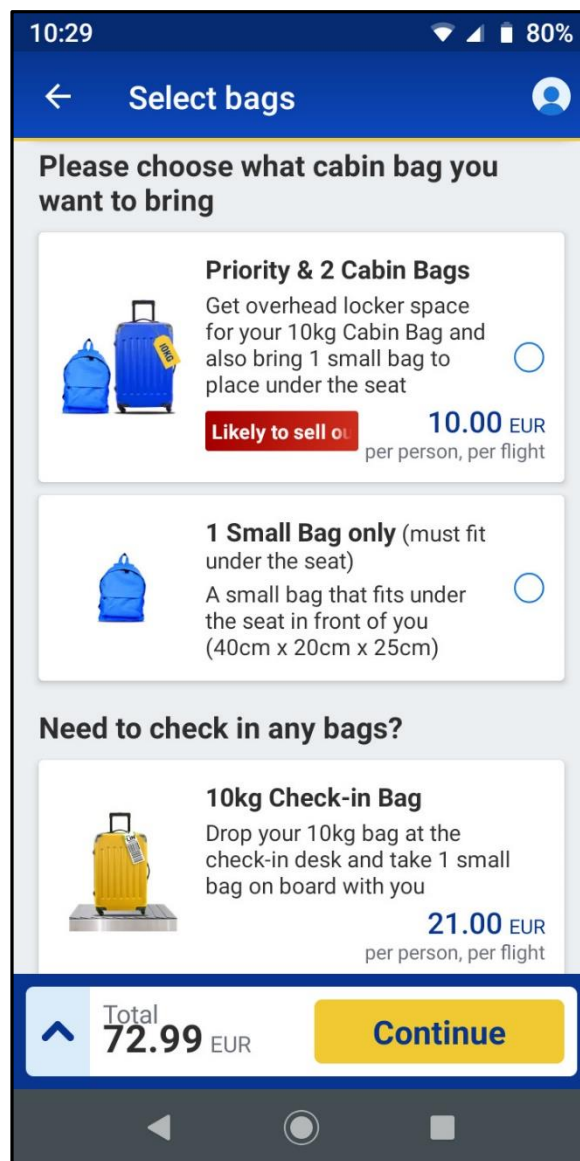
⁴ US DOT, Bureau of Transportation Statistics, Schedule P-1.2 for 2019.

Of all the ancillary revenue topics discussed in the Master Class programs conducted by IdeaWorksCompany all over the world, Ryanair’s “Priority & 2 Cabin Bags” policy generates the most interest among airline staff. It’s not surprising LCCs are keen on the idea, but what has been surprising is the curiosity shown by global network airlines. This is because airline executives all over the world, along with passengers, realize the traditional baggage method is broken because it’s overwhelmed by carry-on bags.

“Priority & 2 Cabin Bags” was implemented by Ryanair in November 2018 after the carrier made multiple attempts during a one-year period to create a bag policy to balance smooth airport operations, compliant customers, and attractive revenue.⁵ That the product continues today provides testimony of success. The policy allows all passengers to bring a personal bag into the cabin free of charge, provided it can fit under the seat. Those wishing to bring a large carry-on with them can purchase the Priority & 2 Cabin Bags service as an a la carte item or as a feature of Ryanair’s Regular and Flexi Plus bundled fares. The larger bag can weigh up to 10 kg (22 pounds) and must fit in the overhead bin. For added convenience, the service can be added online two hours or more before departure and by using the Ryanair app a minimum of 40 minutes before a flight departs.

The service includes the benefit of boarding before other passengers. This helps with consumer acceptance by providing a visible service distinction at the boarding gate. It’s easy to imagine those queuing for early boarding feel a little special. This feeling has its limits, as the group is often very large. Ryanair limits sales to 80 passengers which meets two operating criteria.

First, the overhead bin space has been found to reliably fill with the bags carried by 80 passengers. Secondly, flights boarded using an apron bus typically have capacity for 80 to 110 passengers per bus (prior to the pandemic). The first bus departing from the gate can be filled with Priority & 2 Cabin Bags passengers. Ryanair’s typical passenger count on a flight was approximately 180 passengers in 2019, which would have 44 percent boarding in the priority group. The product is popular with passengers and it’s not unusual for it to sell out on most flights.



Passengers booking via Ryanair’s mobile app see an easy to understand display of the Priority & 2 Cabin Bags option. The carrier’s website booking path provides less clarity. The “Likely to sell out” message in red offers accurate advice based upon our observations.

⁵ “2018 Top 10 Airline Ancillary Revenue Rankings” IdeaWorksCompany report dated 24 July 2019.

I watched the policy in action during travels to Dublin during 2019. I observed a number of flights, counted bags and passengers, and had impromptu conversations with ramp staff and gate agents on the concourse. Of course this being Dublin (the primary hub of Ryanair) passengers are well practiced in the carrier’s passenger processes. This may have influenced the overall result — which was found to be exceptionally smooth and orderly. Operational staff said the following about the process, “Out of Dublin, we see shorter haul flights with about 10 to 15 bags in the hold, with the rest carried by passengers into the cabin. For longer haul flights, 60 checked bags is a good average quantity. The priority boarding is capped at 80 passengers.”

Observations and conversations from the Dublin airport visit are reflected in the Table 4 data and calculations, with prices reflecting current query results. Ryanair does use variable pricing for a la carte services, such as priority boarding. Assumptions were made on the distribution of Priority & 2 Cabin Bags pricing for the Birmingham and Alicante flights; this information was not gathered from airport staff. Based upon a review of the booking path for the two city pairs, Ryanair appears to offer Priority & 2 Cabin Bags at €10 (\$11.13) and €14 (\$15.59) per passenger. Prices increase as a flight books up with passengers.

Table 4: Comparing Typical Ryanair Bag Activity		
City Pair	Dublin - Birmingham	Dublin – Alicante
Flight Duration	About 1 hour	About 3 hours
Aircraft Capacity	189 economy seats	189 economy seats
Priority & 2 Cabin Bags Sales <i>(includes 10 kg cabin bag)</i>	30 passengers @ €10 = €300 50 passengers @ €14 = €700	30 passengers @ €10 = €300 50 passengers @ €14 = €700
Total Ancillary Revenue	€1,000 (\$1,107)	€1,000 (\$1,107)
Per Passenger <i>(assumes 95% load factor)</i>	€5.56 (\$6.18)	€5.56 (\$6.18)
Bag Exceptions at Gate <i>(€25 fee charged)</i>	2 bags	3 bags
Counter Checked Bags	15 bags	60 bags
<i>Baggage activity is based upon observations and discussions with operations staff at Dublin Airport during 2019. Assumes standard fares, with “Priority & 2 Cabin Bags” prices increasing as a flight fills.</i>		

This policy is a stroke of genius because it combines two things passengers adore: early boarding and the certainty of stowing a roll-on bag. Plus non-priority passengers spend many minutes at the gate observing the benefit of the Priority & 2 Cabin Bags option. Then these non-priority passengers board afterward and are watched by gate agents for non-compliant carry-on bags. These passengers are pulled aside and their bag is checked for a €25 (\$27.83) fee. This was observed to be a very infrequent occurrence. The overall smoothness of gate operations was in contrast to the drama often seen for airlines which don’t seek to limit carry-on activity. The key to reducing congestion in the cabin is to reduce the quantity of large carry-on bags. Ryanair’s policy, with similar services offered by Wizz Air and Swoop, supports the need for smoother boarding and deplaning during the pandemic.

Build back your business gently

We don't know how or when the pandemic will end. With that in mind, we effectively have two choices: Wait and exclude oneself from the world until a vaccine is produced, or venture out carefully to our communities, regions, countries, and planet. We have already learned this will not be a smooth and integrated global process. Travel will likely start with a long-awaited visit to nearby family. The next outing might be a pub or restaurant for dinner. The summer might include travels to a traditional family holiday spot in a rented SUV and a week spent at a vacation rental property. Some will consider the traditional package of flying, car rental, and a resort stay. People will return from these experiences and tell others about the positive effect of seeing friends and visiting places. Like any grass-roots movement, activity will grow based upon the positive posts made to social media.

The certainty of this outcome is based upon an inherent human desire. I offered this mantra in the first installment of the Flight Plan 2020 report collection: *Travel is an essential element of being human. We work in a business that is a very meaningful part of modern life. People love to travel and business people need to travel. Travel will return again. Our obligation is to carry people from one place to another efficiently, safely, quickly, and with a reasonable operating margin. We will adapt to the pandemic as we interpret the expectations of consumers.*

Never be ashamed of your role of encouraging people to travel and working to increase airline revenue. Our travel industry creates jobs that you can't even directly connect to an airline. These jobs create paychecks that keep families functioning. We know as a service-based industry, many are lower income workers and therefore very vulnerable to economic disruption. This is something we must work to correct as we fly our industry out of this pandemic. Fewer corporate resources spent on stock buybacks and more money placed in the pockets of entry level employees would be a very humane start.

Airlines can increase a la carte prices during this time of troubles. There is a delicate balance today between the perception of greed and the action necessary for survival of an airline.



Frontier's "More Room" product was announced on Monday and gone by Wednesday.
Source: ABC Channel 13 Las Vegas

Frontier relied upon its a la carte DNA and introduced a plan in May to charge \$39 to guarantee an empty middle seat.⁶ Within days the idea was dropped due to complaints from members of the US Congress who said, "The flying public should not be charged to stay healthy on flights." It was a stumble that teaches the value of treading carefully when considering new products during the pandemic. The reaction was somewhat unpredictable, as similar services introduced by airlines in China have not received political scrutiny.

⁶ "Frontier Airlines won't charge passengers to keep the middle seat empty following backlash from lawmakers" article dated 07 May 2020 at CNN.com.

Building revenue during the pandemic and recovery will require steadiness and carefulness. This will have old methods replaced by innovations, which should strive to reduce complexity. To assist airline professionals in the innovation process, we offer the checklist and suggestions provided in Table 5. For a good fit within the era of the pandemic, the answers to the questions should be answered with a “yes.”

Table 5: Checklist for Initiatives during the Pandemic	
These questions should be answered “yes.”	Possible solutions if answered “no.”
1. Does the change improve consumer confidence during the pandemic (or at a minimum, not degrade it)?	<ul style="list-style-type: none"> • Do not link the change as being tied to your carrier’s pandemic response. • Or, try to modify the change to create a confidence-building benefit.
2. Is the reason behind any pricing increase tied to the higher cost of doing business during the pandemic, and not just a desire to boost revenue?	<ul style="list-style-type: none"> • Do not be tempted to assess a “COVID-19 surcharge.” Use normal price mechanisms instead. • Be cautious when raising prices as this may be interpreted as profiting from fear.
3. Has the change been reviewed by frontline departments such as airport operations, cabin crew, and reservations?	<ul style="list-style-type: none"> • Pause introduction and solicit feedback to ensure the initiative is operationally feasible within the pandemic environment and policies.
4. Has the change been reviewed by media relations, social media, and an outside resource, such as a consultant?	<ul style="list-style-type: none"> • Keep an outward looking perspective by reaching beyond your normal resources. It’s easy to become sheltered from reality while working from home.
5. If the airline has received public support due to the pandemic, has political reaction to the change (if thought meaningful) been considered?	<ul style="list-style-type: none"> • Keep your new “investors” informed; politicians do not like “surprises.” • Change the initiative to address anticipated complaints.
6. Has a review of similar services offered by competitors determined the change justified and reasonable?	<ul style="list-style-type: none"> • Be careful not to charge for pandemic-related features which are provided without charge by other airlines.
7. Has an expiration date been considered to allow consumers to understand the change will likely expire as conditions evolve?	<ul style="list-style-type: none"> • Initiatives developed during the pandemic will likely have a “best by” date when the need is no longer applicable. Allow consumers and employees to anticipate this.

Change and innovation cause confusion for consumers, whereas reducing the complexity of an initiative helps improve consumer comprehension. Be patient and lenient with customers and front-line employees when products and new pricing are introduced. Anticipate mistakes will occur, as this is the natural byproduct of the innovation process. Be gentle with managers as this pandemic is a completely new and alien experience. Recover goodwill by offering discount vouchers, travel credits, and bonus points to negatively affected customers. Transparency helps earn forgiveness.

COVID-19 has made travel an unfriendly experience with masks, no food, social distancing, and uncertainty. We need to compensate by offering more favorable terms for policies related to change fees and baggage. It’s the only way to inject more humanity into travel.

Build your revenue through innovation

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