

Ancillary revenues – The game Changing Roadmap to Profitability

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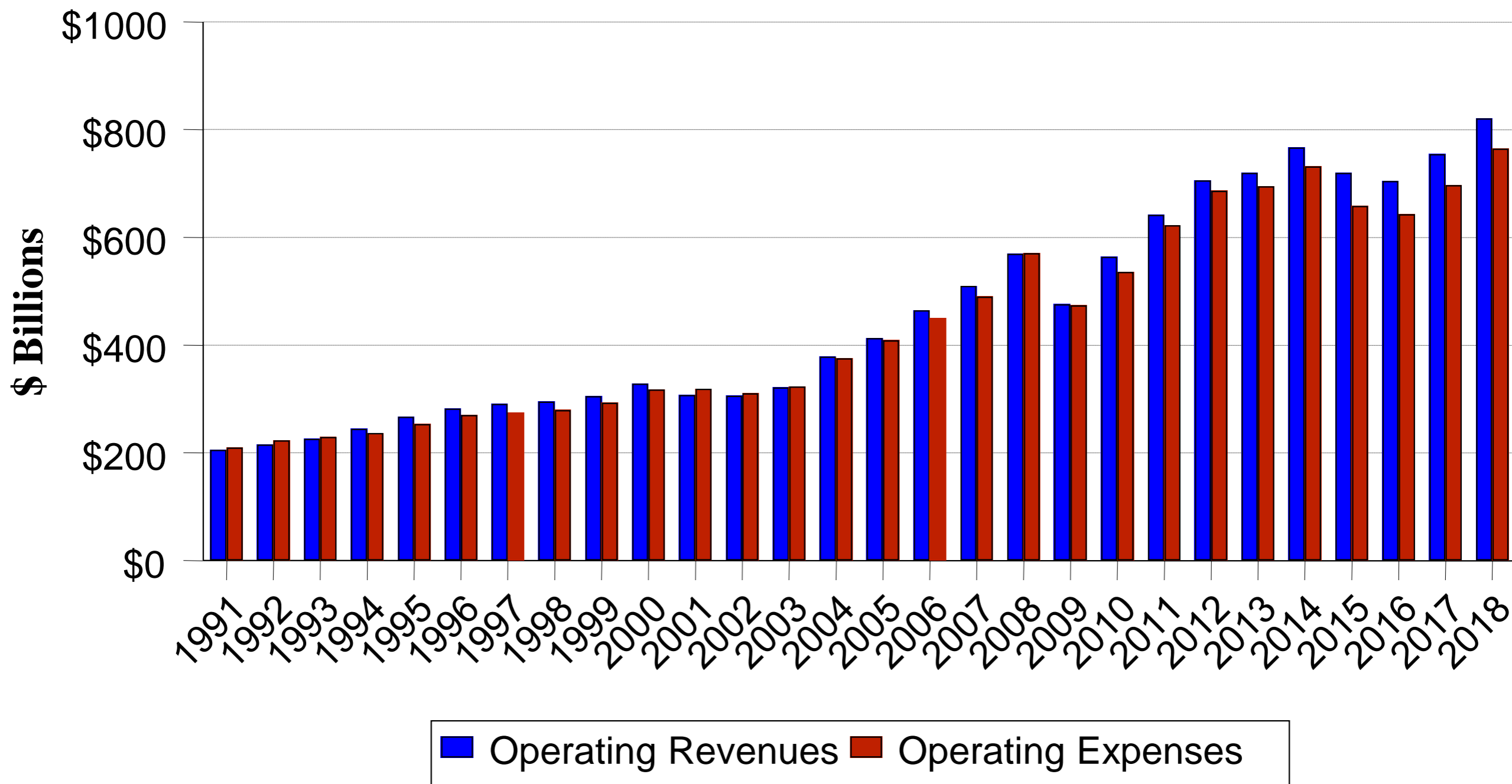


Agenda

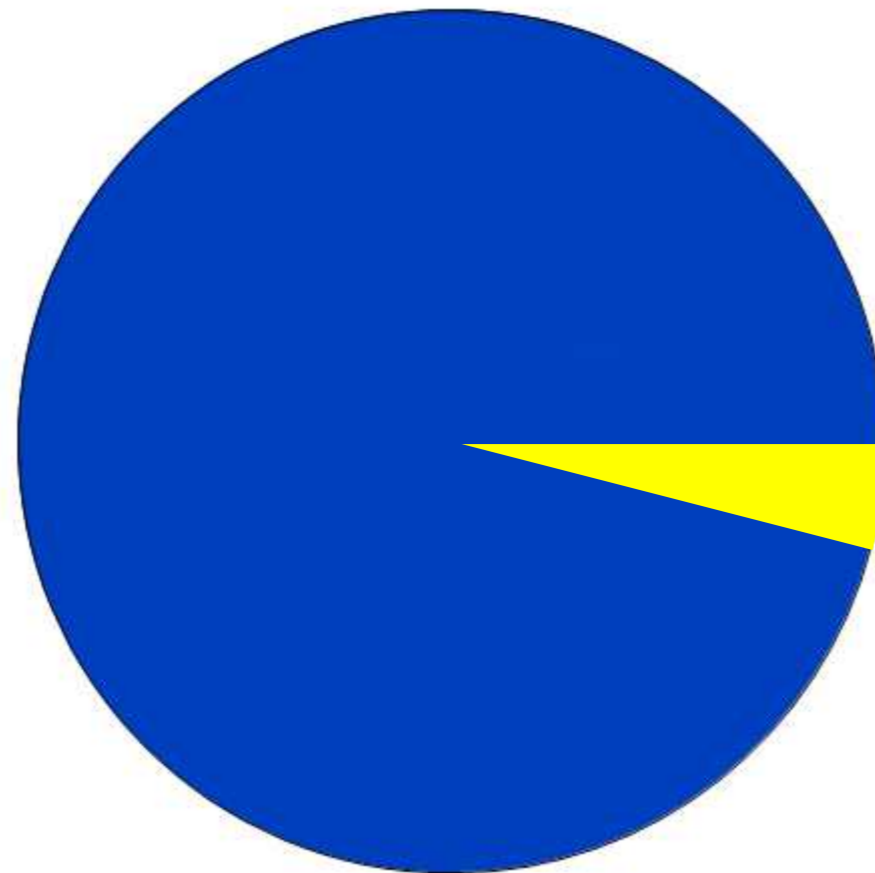
- Understanding the surge in Ancillary Revenues over the past decade
- Exploring the lucrative benefits from co-branded credit cards and their affiliation to Frequent Flyer Programs
- Commission based sales may well be the next innovative platform - an exploratory investigation



Global Airline Revenues and Expenses 1991 - 2018



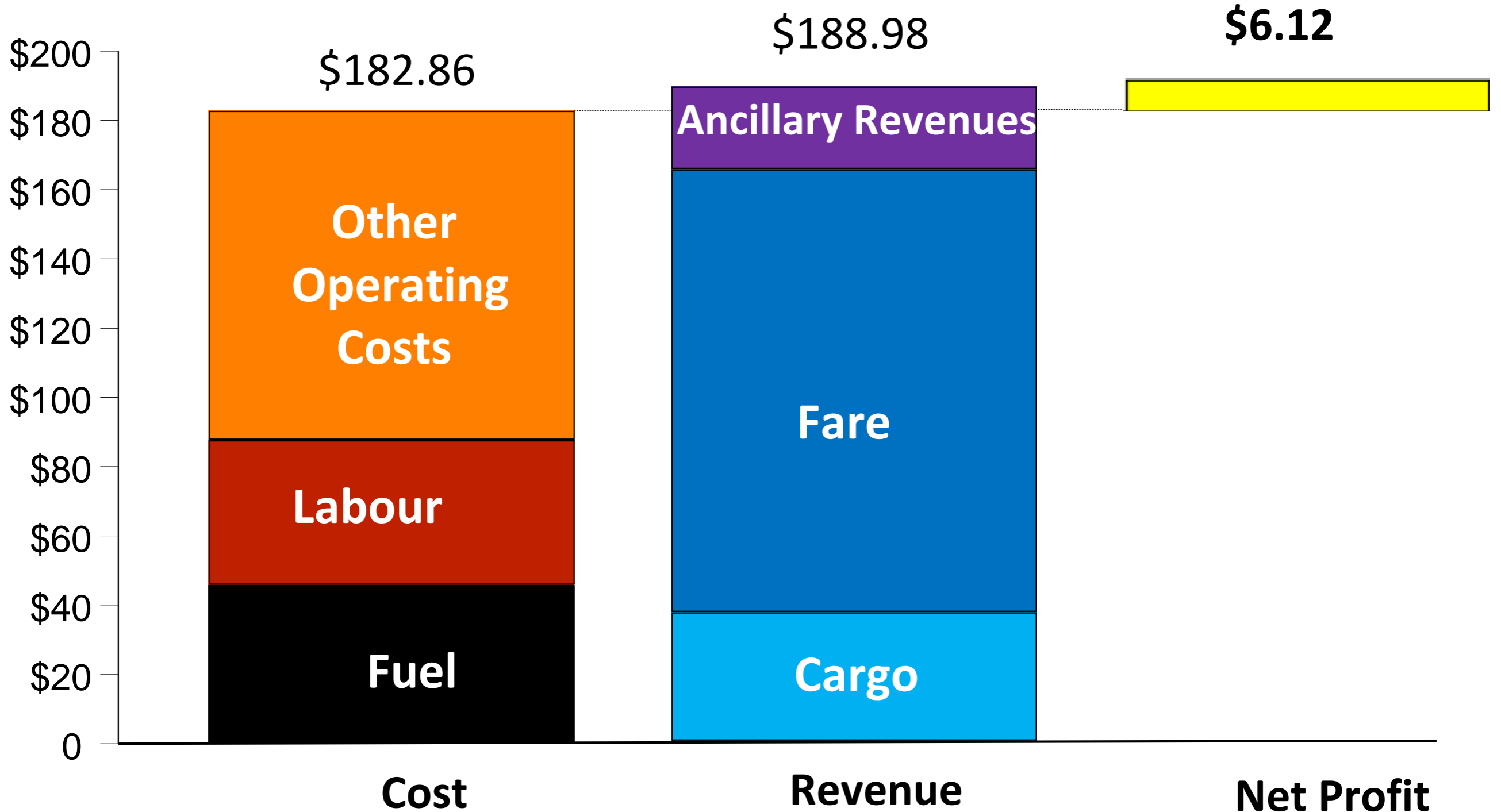
Proportion of Total Revenues to Total Net Profit (2018 data)



- **Total Revenues (\$821 billion)**
- **Total Net Profit (\$32.3 billion)**

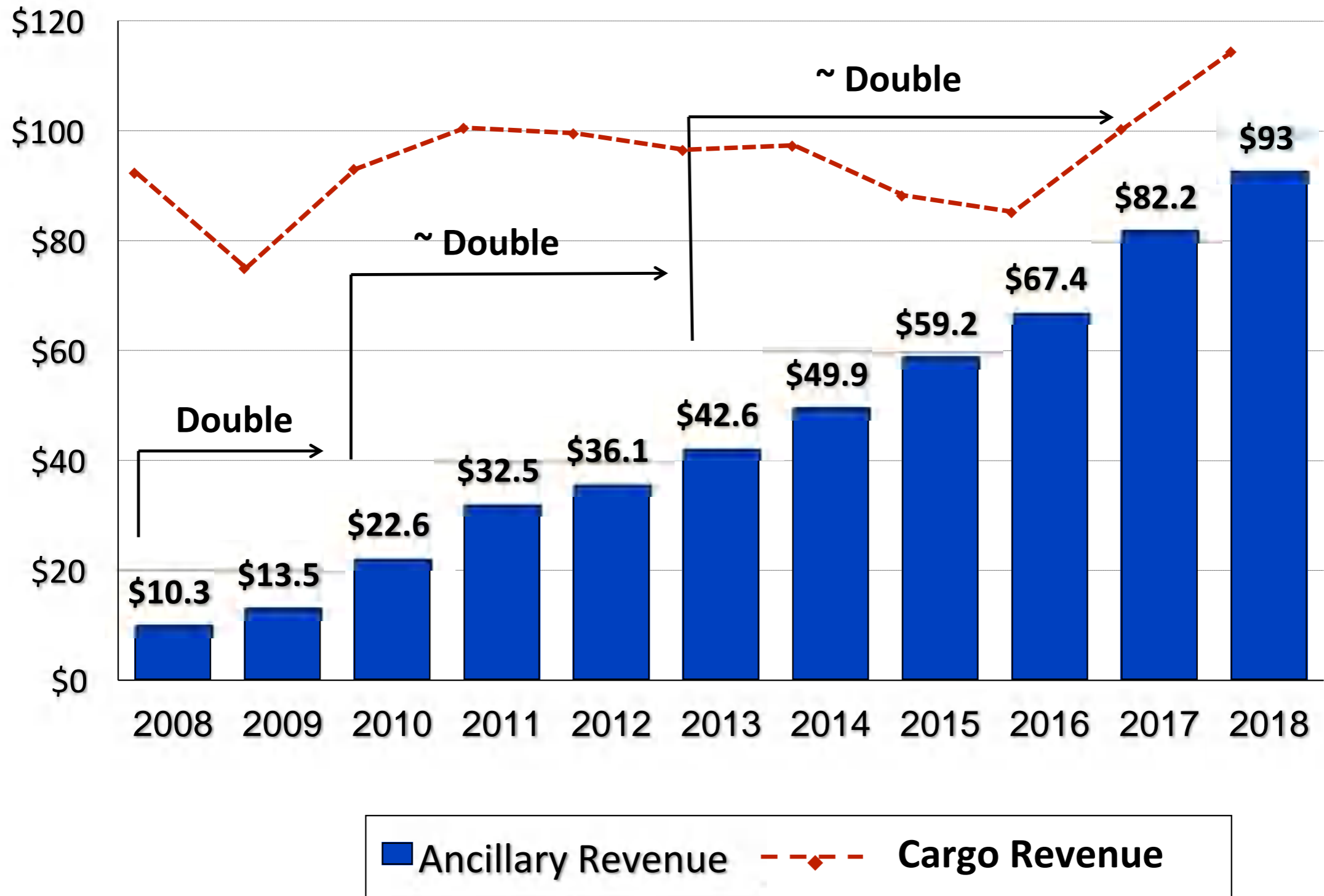


Net Profit per departing passenger for mid year 2019















Revenues generated by Ancillaries and by Air Cargo





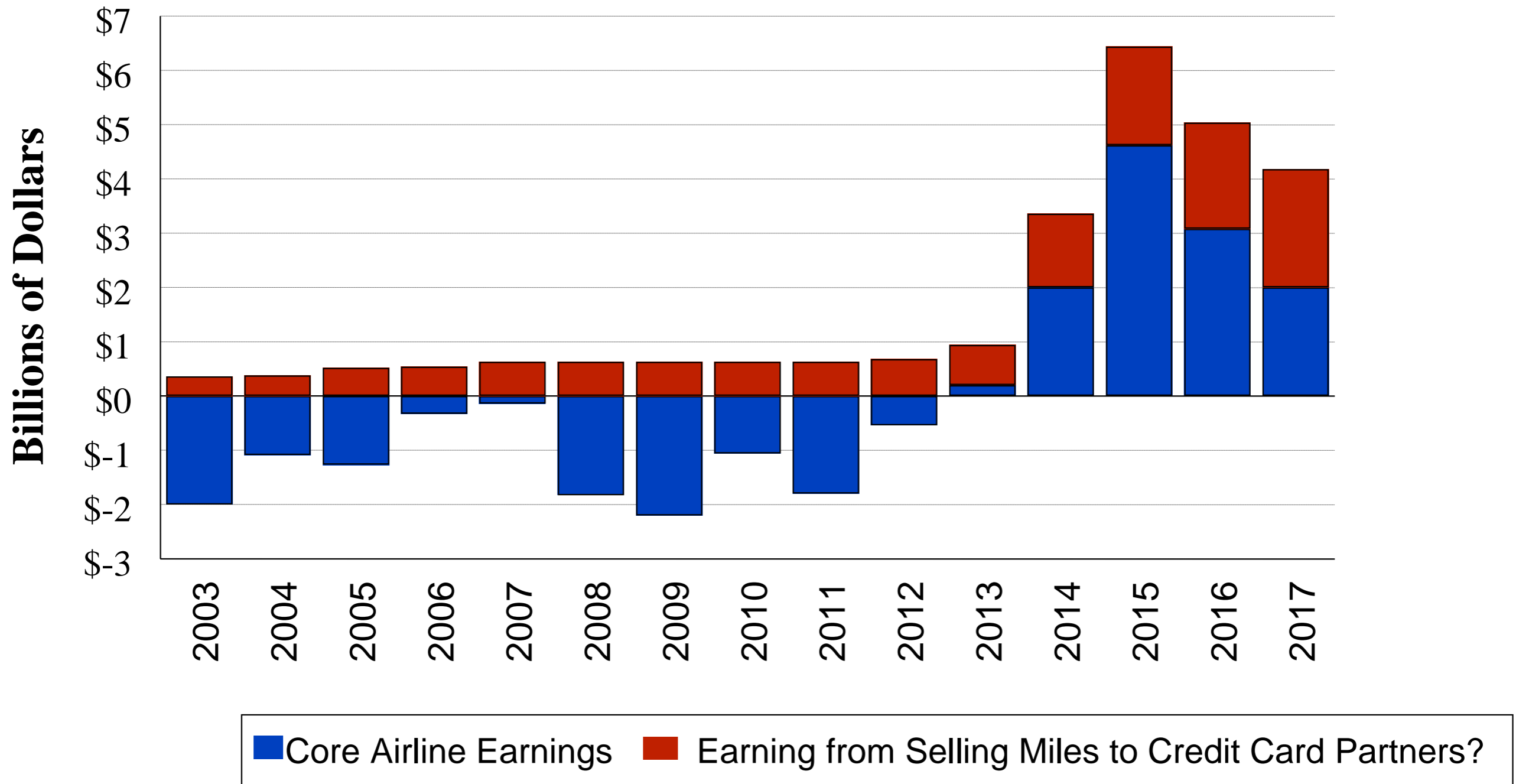
Ancillary Revenue Breakdown for selected airlines – 2018 data

	Ancillary Revenues (US \$Billions)	Frequent Flyer Program	A La Carte (Bags, seat assignment, etc) Commission based (Hotels, cars)
 American Airlines	\$7.2	77%	23%
 UNITED	\$5.8	73%	27%
 DELTA	\$5.5	74%	26%
 Southwest	\$4.0	84%	16%
 RYANAIR	\$2.8	Zero	100%
 Lufthansa	\$2.6	32%	68%
 AIRFRANCE KLM	\$2.5	21%	79%
 easyJet	\$1.34	Zero	100%
 spirit	\$1.5	3%	97%
 AIR CANADA	\$1.4	39%	61%

Selling Miles to Banks has become the Game Changer

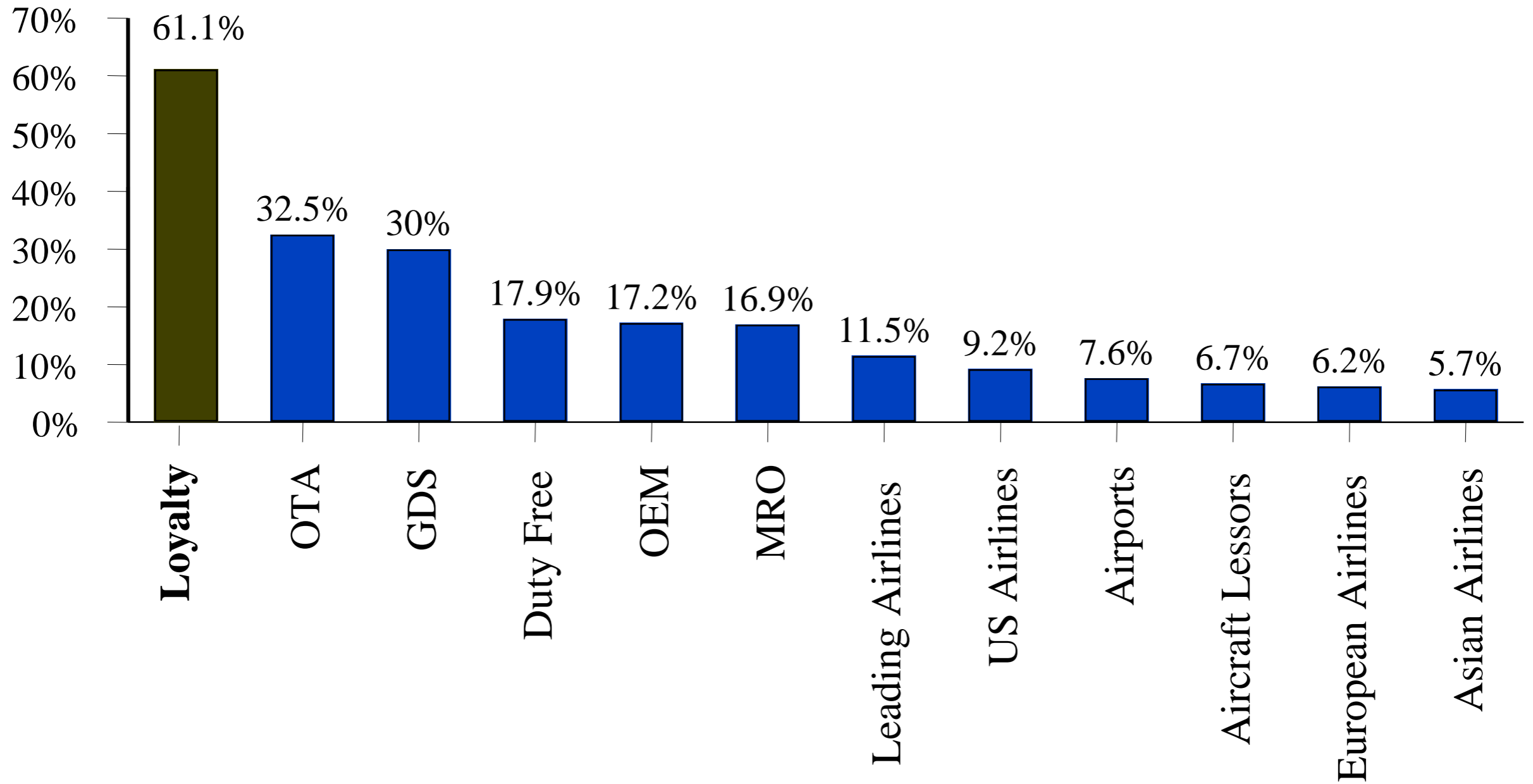


American Airlines Earnings (2003 – 2017)



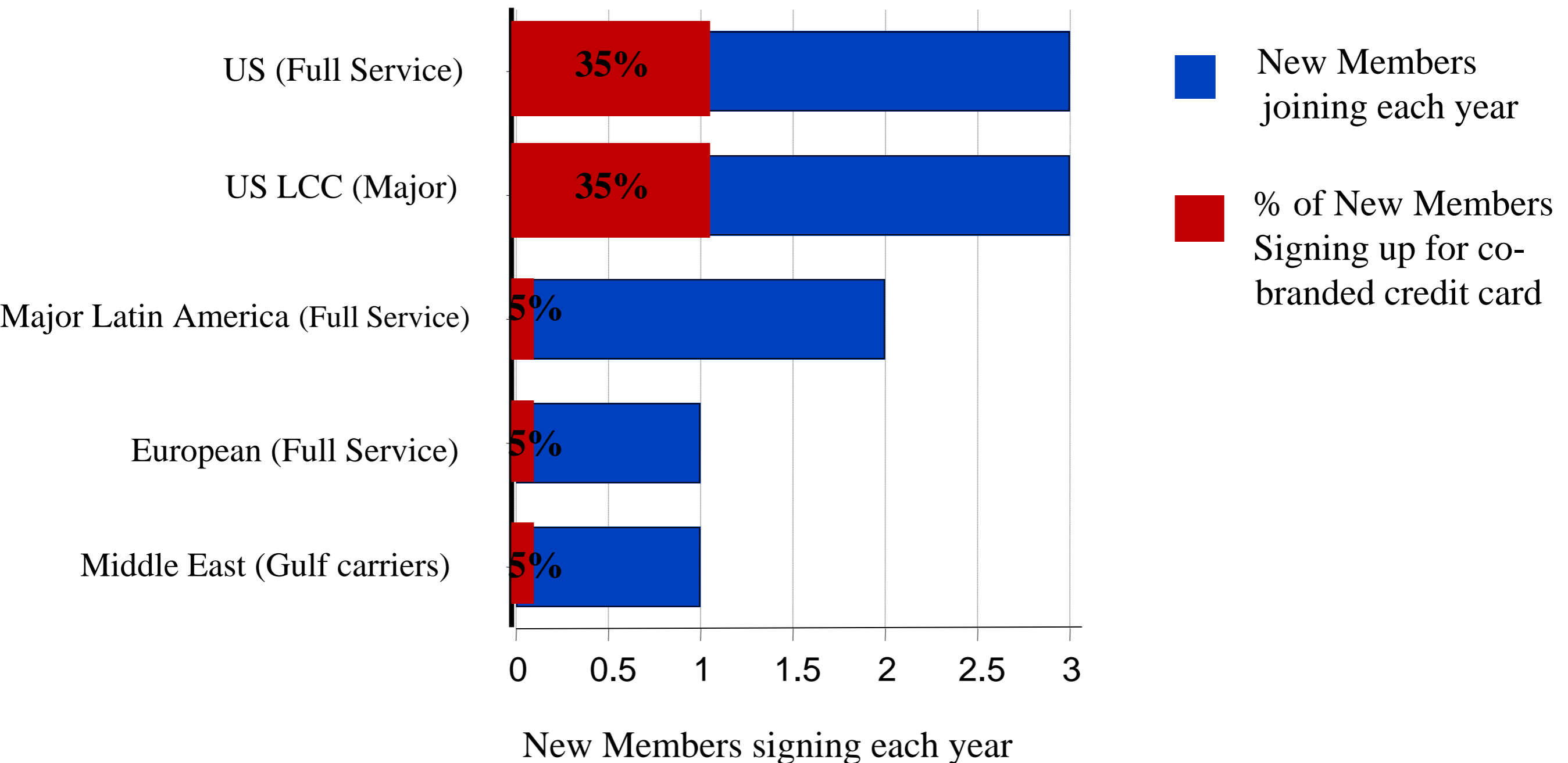


Return on Invested Capital (ROIC) - 2017 data



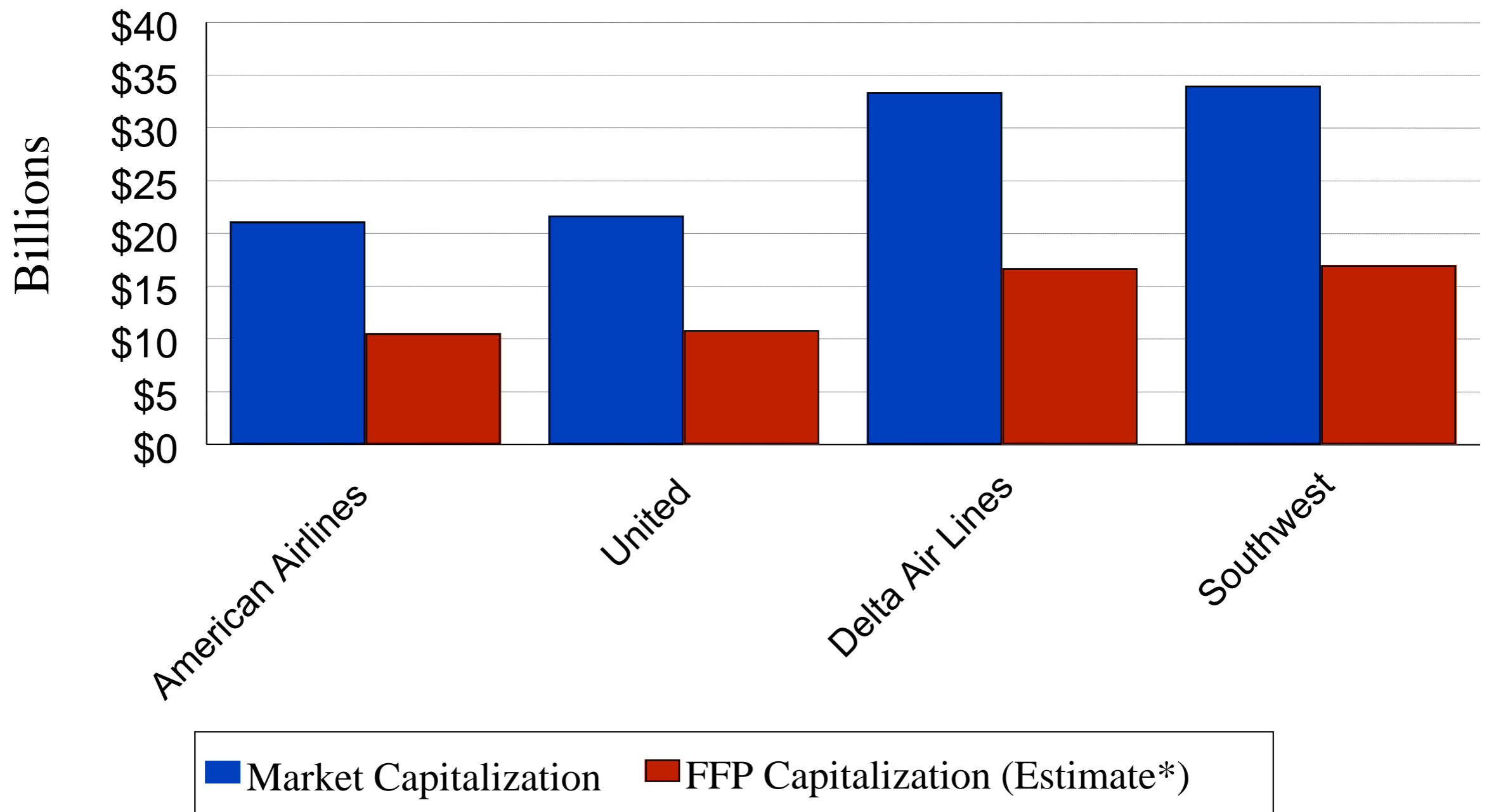


Number of new members signing up for FFP program each year and the percentage signing up for Co-branded credit card





Market valuation of Frequent Flyer Programs – 2017 data



*Research by O’Connell through a survey conducted at a Co-Brand 2016: Driving Loyalty & Spend conference in Philadelphia, USA

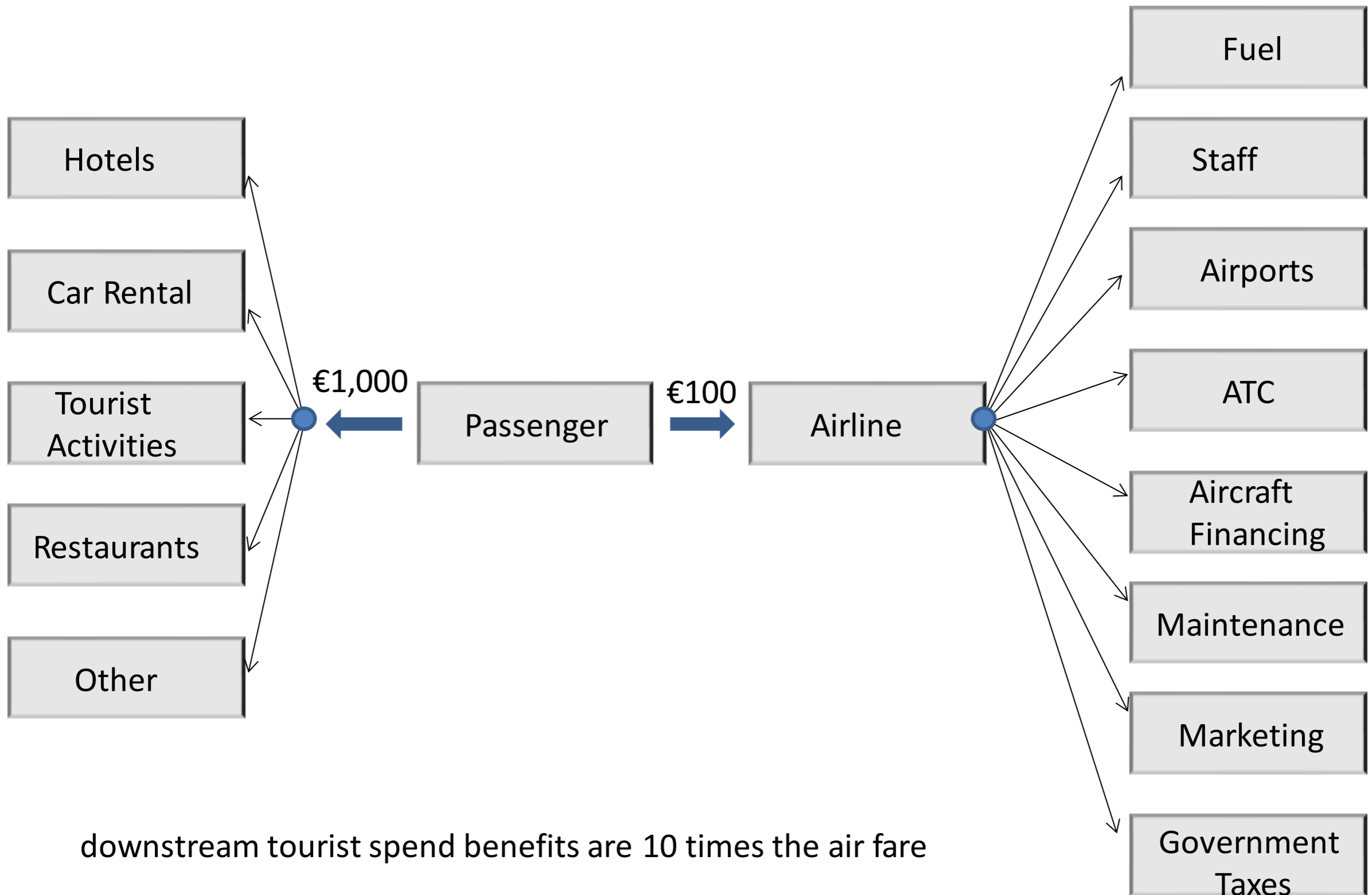


Loyalty Program attributes

- So different from other ancillary products as **passengers regularly complain** about the **unbundled** nature of the industry that **charges** for Bags, Seat Assignment, etc
- **Enabling and Sustaining Loyalty** has become **Paramount** in driving **repeat purchase** and continued patronage
- **Travel has now become a Lifestyle** – Customers substitute their reward points from multiple sources and purchase a flight
- **Airline FFPs** are increasingly becoming **Digital Disruptors** as the programs are quickly spreading **to capture new areas** where **customers ‘spend’** such as:
 - ❖ **Co-branded credit cards** – 35% of all credit card spending in Australia earns Qantas FFPs
 - ❖ **Qantas is Disrupting the Health Insurance market** and is on target to gain 5% of Australian market by 2019
 - ❖ **Qantas Life Insurance Policies**
 - ❖ **Car Insurance for your personal car** – **Ryanair trialled this 10 years ago**
 - ❖ **House Insurance??**



Next Game Changing Ancillary for airlines will be Commission based



downstream tourist spend benefits are 10 times the air fare



Thank you for your attention!

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