

# The trends in ancillary revenues that are significantly impacting the airline industry

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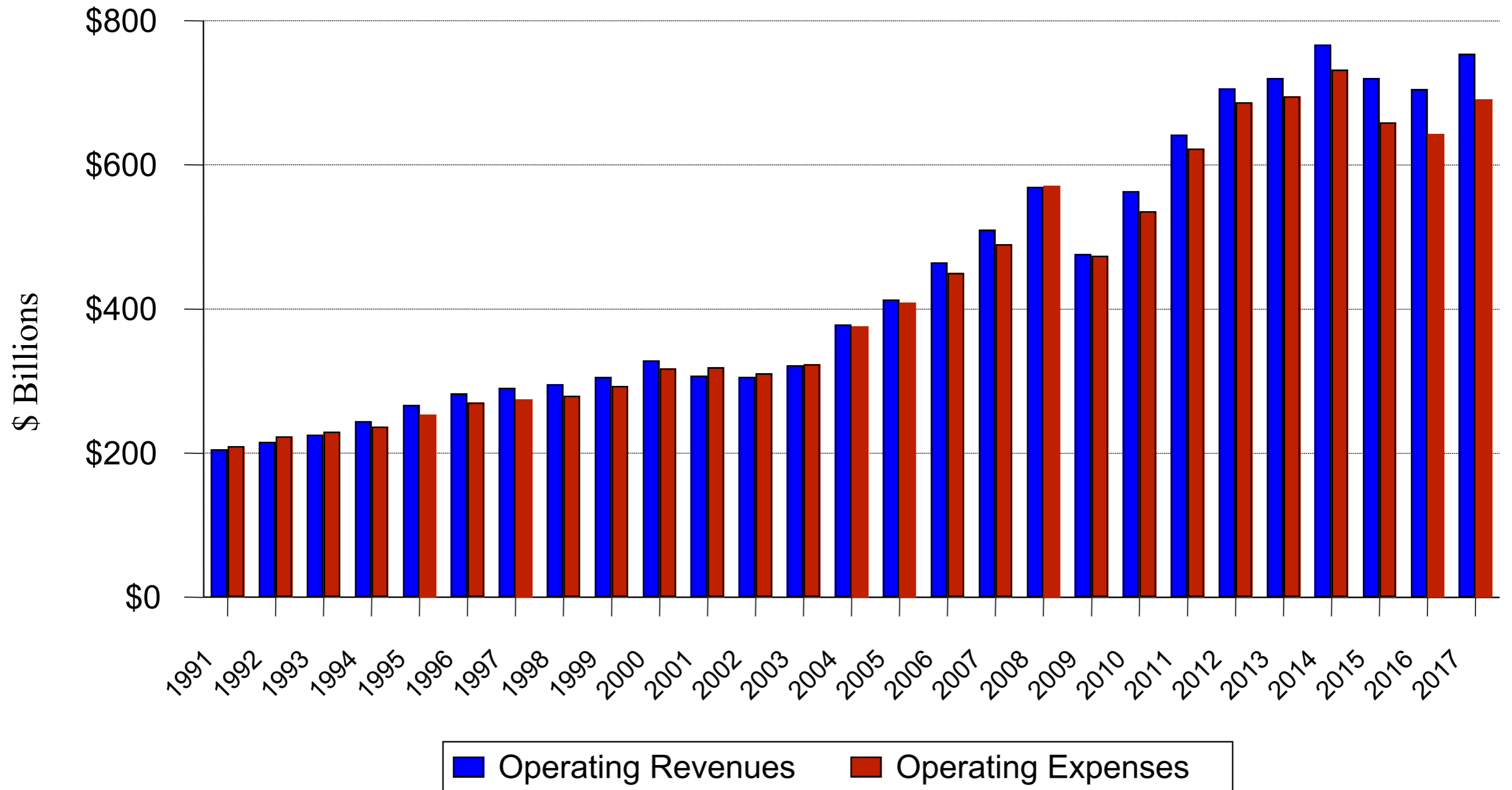


# Agenda

- **Overview underpinning the growth of Ancillary Revenues**
- **The earning potential of Frequent Flyer Programs**
- **The ROIC of Frequent Flyer Programs**
- **Market capitalization of Frequent Flyer Programs**



# World Airline Revenues and Expenses 1991 - 2017



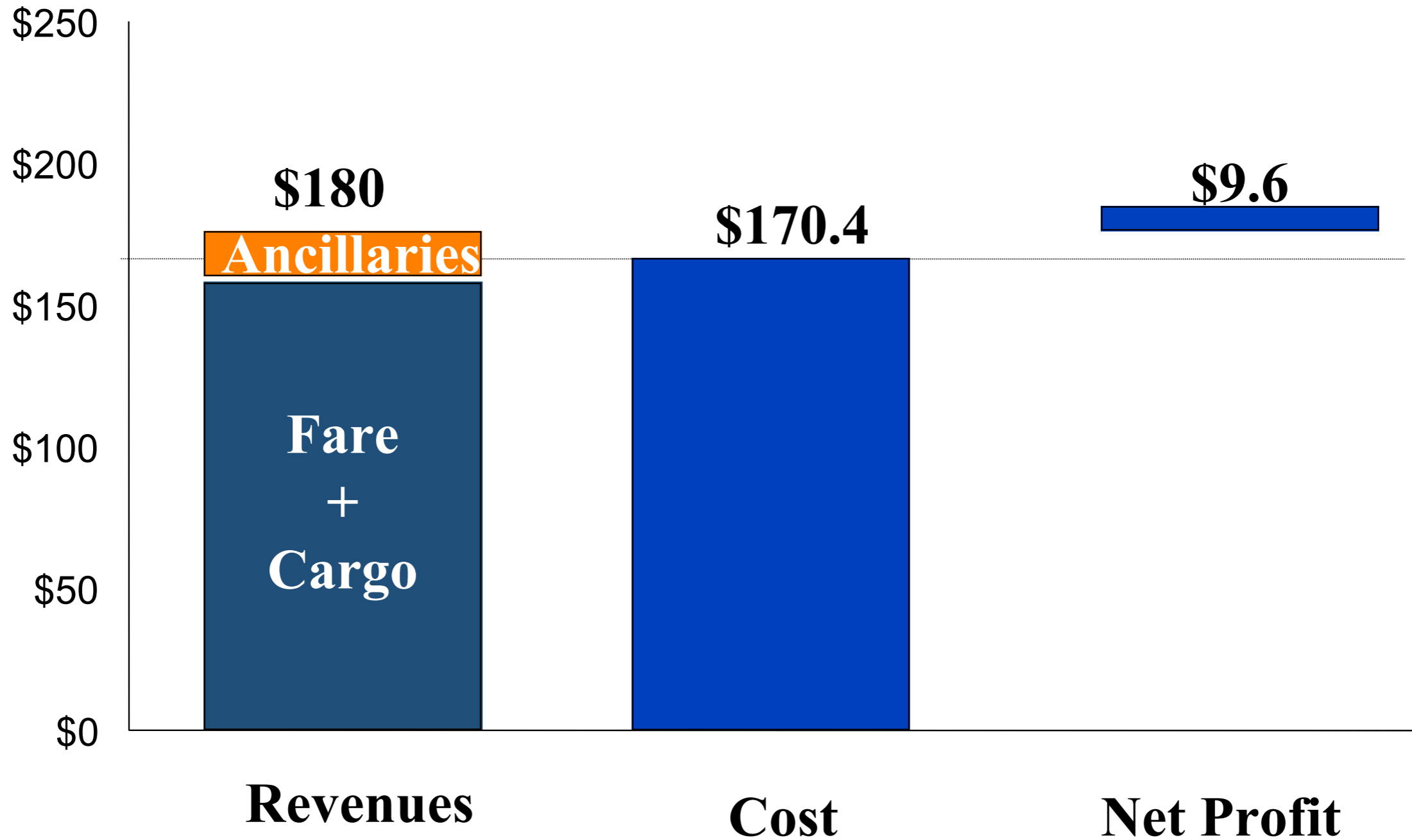


## Global Passenger Yields (excluding surcharges & ancillaries)



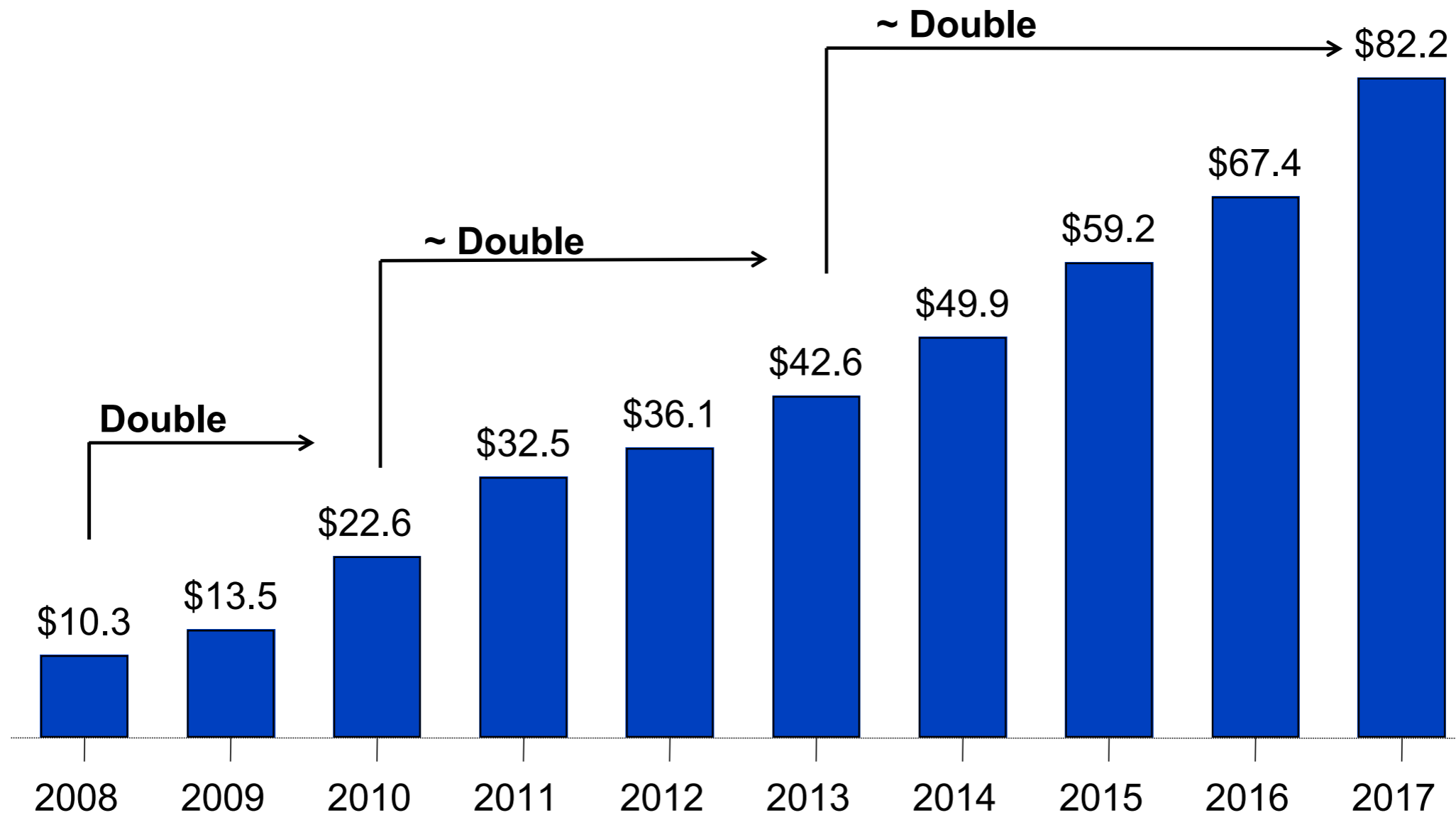


# Cost versus Revenue per passenger in 2016





## Ancillary Revenue Growth in US\$Billions



**By 2017 Ancillary Revenue** was worth **\$82 billion**, while **Air Cargo** which has been carried since the Wright Brothers **only generated \$53 billion in revenues**













# How big is this ?

Airlines selling Miles to Banks ???



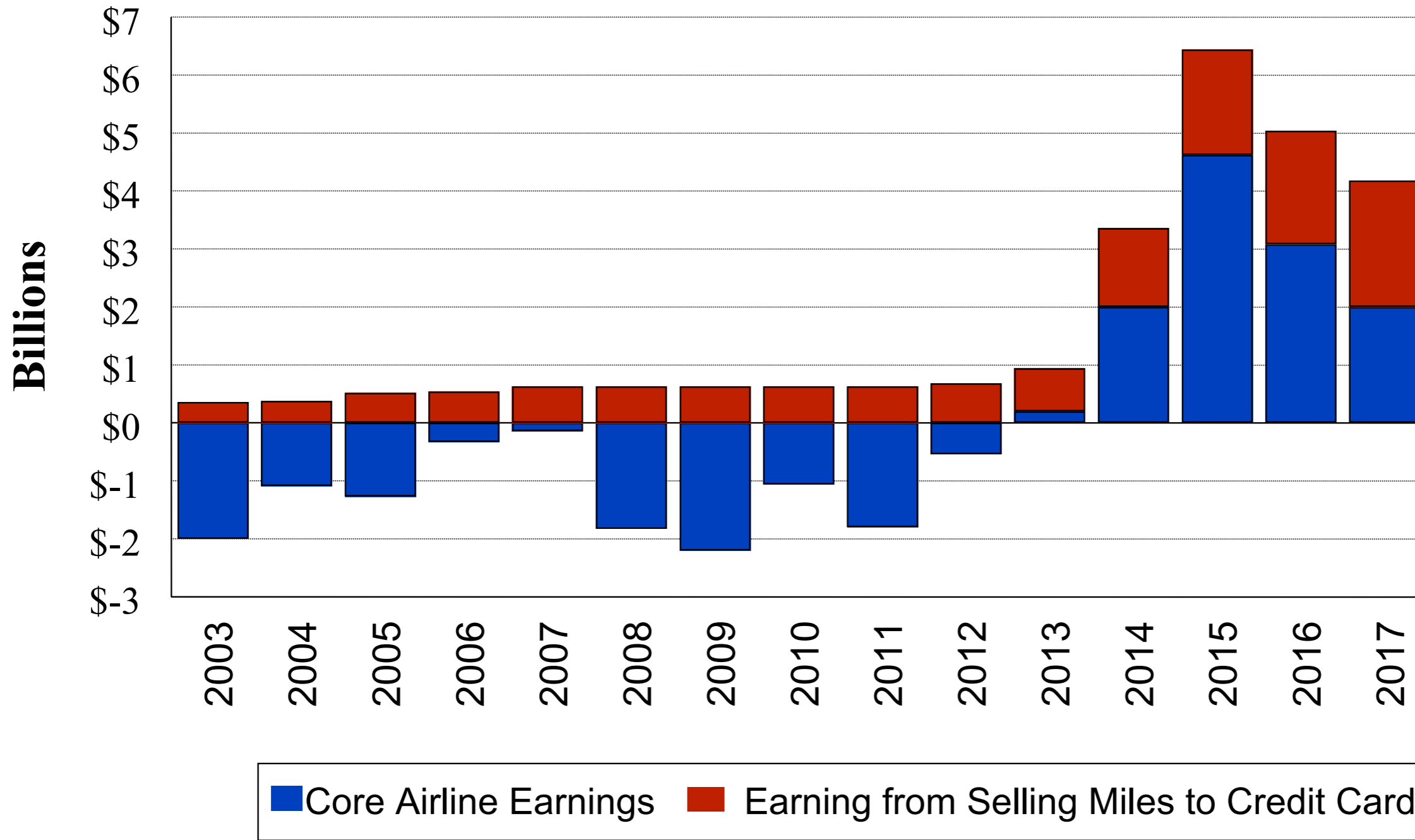


## Ancillary Revenue Breakdown for selected airlines – 2016 data

	Ancillary Revenues (US \$Billions)	Frequent Flyer Program	A La Carte (Bags, seat assignment, etc) Commission based (Hotels, cars)
 UNITED	\$6.2	48%	52%
 DELTA	\$5.1	52%	48%
 American Airlines	\$4.9	43%	57%
 Southwest	\$2.8	80%	20%
 AIRFRANCE KLM	\$2.1	33%	67%
 RYANAIR	\$1.9	Zero	100%
 easyJet	\$1.35	Zero	100%
 Lufthansa	\$1.34	57%	43%
	\$1.2	90%	10%
 AIR CANADA	\$1.1	45%	55%

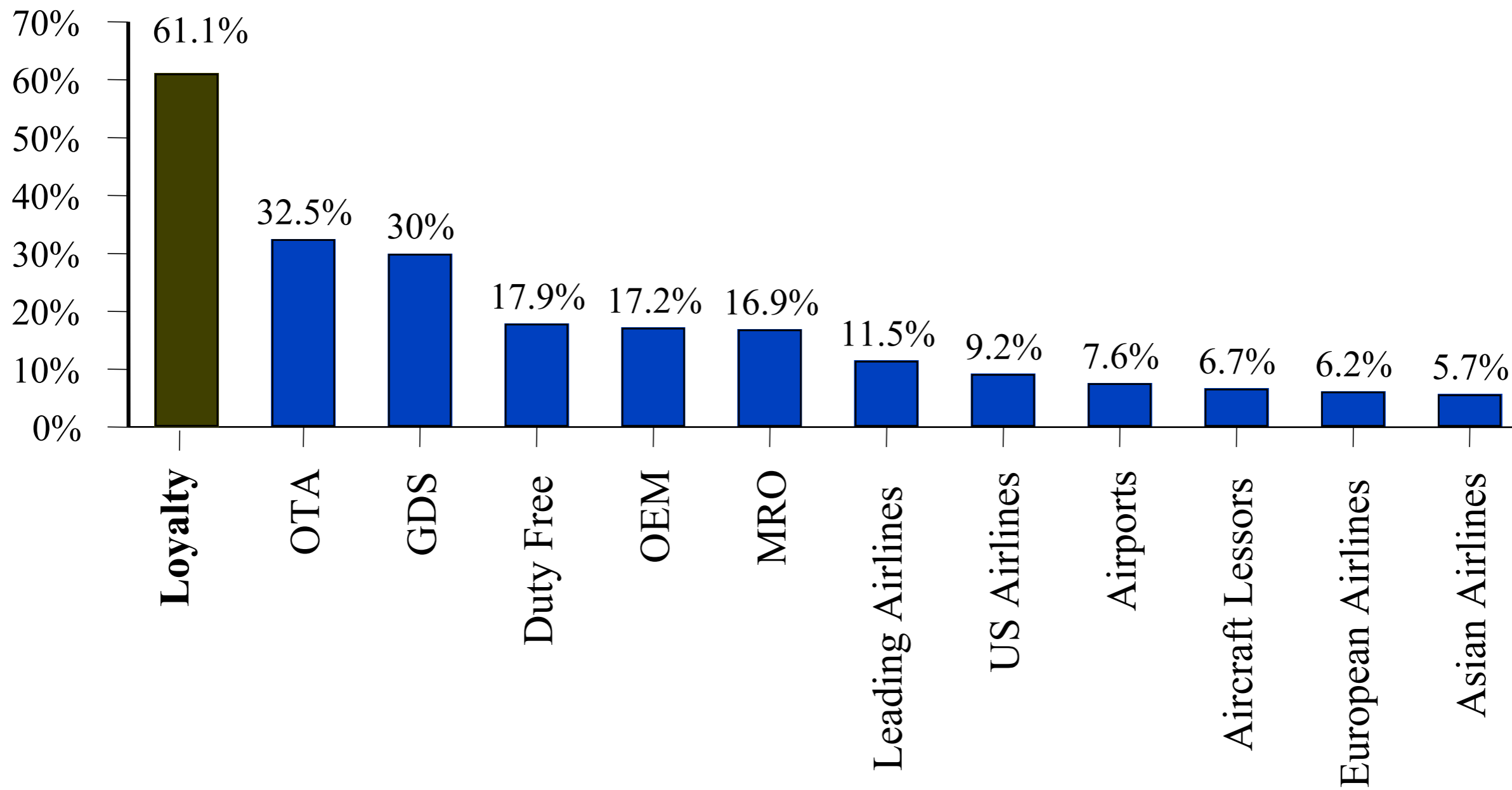


# American Airlines Earnings (2003 – 2017)



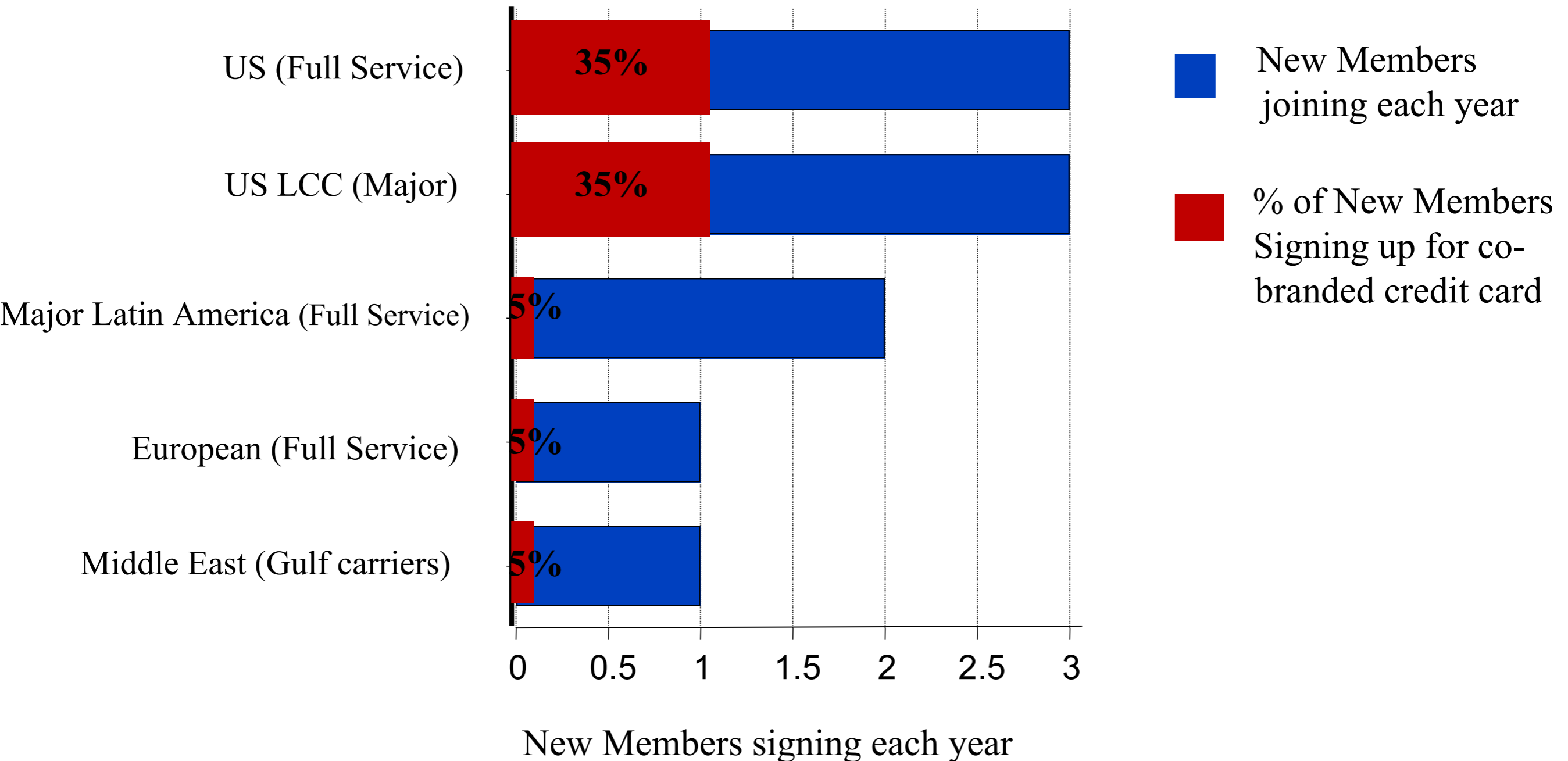


## Return on Invested Capital (ROIC) - 2017 data



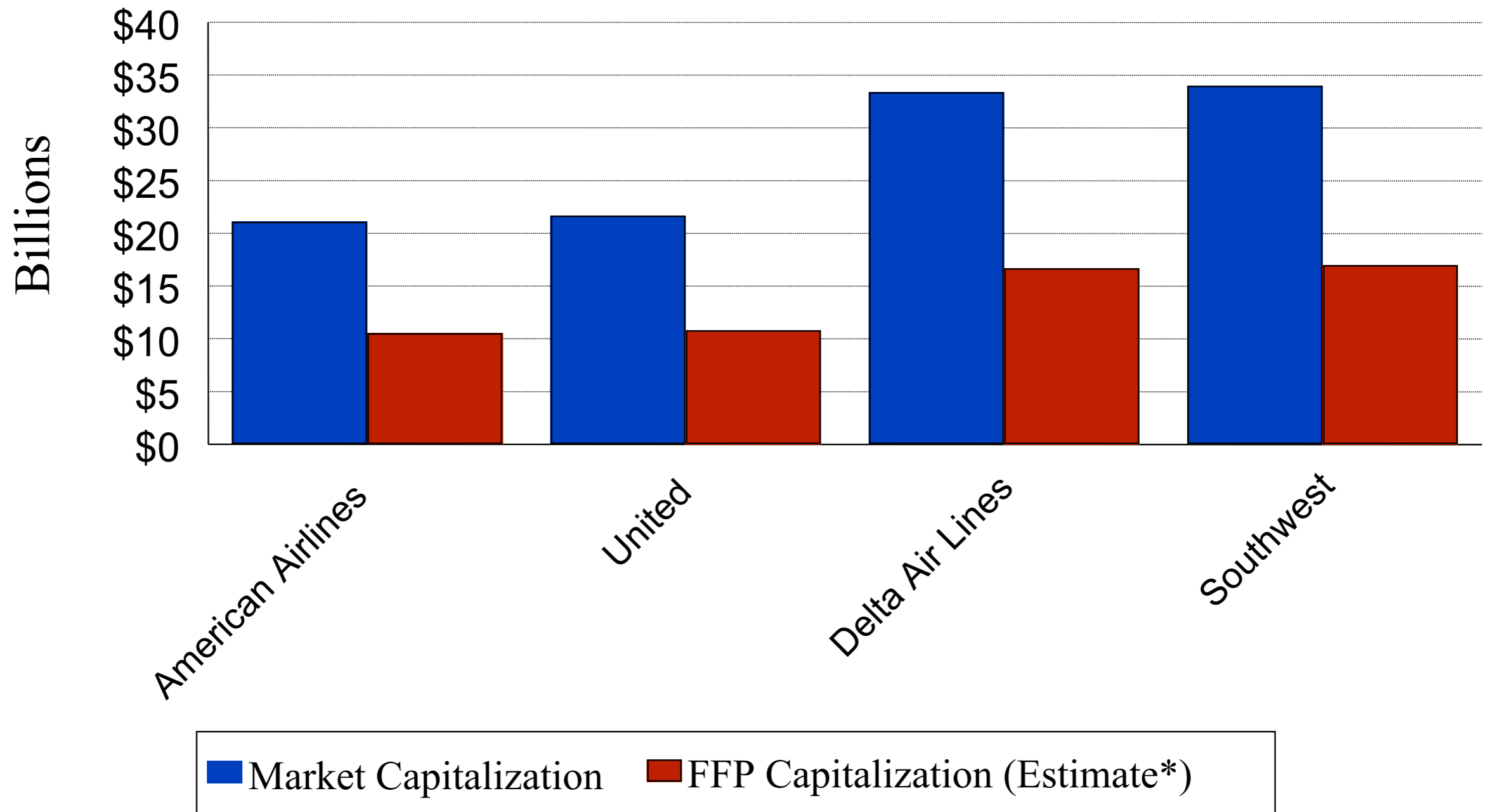


# Number of new members signing up for FFP program each year and the percentage signing up for Co-branded credit card





## 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

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- 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??**



**Thank you for your attention!**

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