

Worldwide Review of Ancillary Revenue Innovation

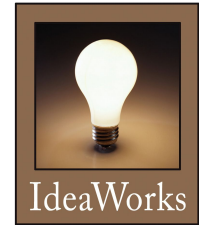
What works. What didn't work. What happens next.

Ancillary Revenue Airline Conference – ARAC 08

19 November 2008 – Budapest

Jay Sorensen – President of the IdeaWorks Company

We will have a very busy 30 minutes.

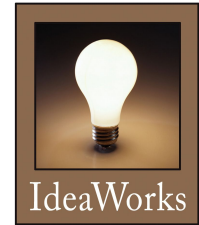


Innovation is everywhere.

Some things have worked well, and some not so well.

Strategies for success and the year ahead.

Let's begin with a definition of
Ancillary Revenue.

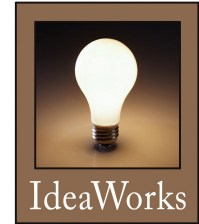


Revenue beyond the sale of tickets that is generated by direct sales to passengers, or indirectly as a part of the travel experience.

IdeaWorks further defines ancillary revenue using these categories: 1) a la carte features, 2) commission-based products, and 3) frequent flier activities.

Source: Ancillary Revenue Guide by IdeaWorks - 2008

Focus on these themes for 2009.

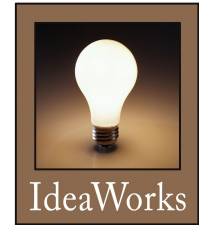


Employees - Do they support it?

Consumers - Do they understand it?

Media - Do they believe it's fair?

Innovation is everywhere.



It's amazing how quickly the ancillary revenue movement has spread worldwide.

Air Canada - On My Way (extra protection)

Air Berlin - Sansibar Gourmet Meals

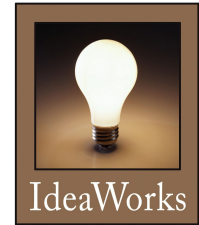
Vueling - Duo Seat (empty middle seat)

United - Travel Options by United



IdeaWorks Suggests: Look everywhere for ancillary revenue examples, consider a free subscription to Just4Airlines.com.

Air Canada - On My Way



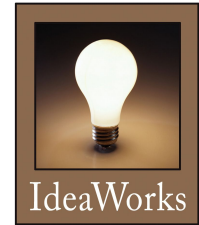
Protection against delay or cancellation for **whatever the cause**.

- ✓ Available for travel within Canada and United States.
- ✓ \$25 up to 1,000-mile trip, or \$35 for 1,001 miles or more (each direction).
- ✓ 24-hour priority telephone support.
- ✓ Priority rebooking on the first available Air Canada flight or another airline.
- ✓ Car rental or other transportation if air travel is not an option.
- ✓ If required, hotel room, meal vouchers, and more.



IdeaWorks Suggests: softer launch, more clarity on benefits.

Air Berlin - Sansibar Gourmet Meals

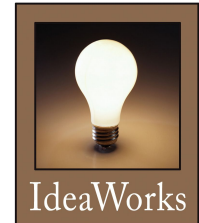


- ✓ Sansibar is a restaurant on Germany's North Sea coast.
- ✓ Passengers may upgrade to a gourmet meal (48+ hours before).
- ✓ Offered on flights of 90 minutes and longer.
- ✓ Or, passengers may opt for complimentary snacks and beverages.
- ✓ Booking process offers meal selections.
- ✓ Sansibar has become a component of the advertising campaign.
- ✓ Jetstar and AirAsiaX also offer advance purchase meals.



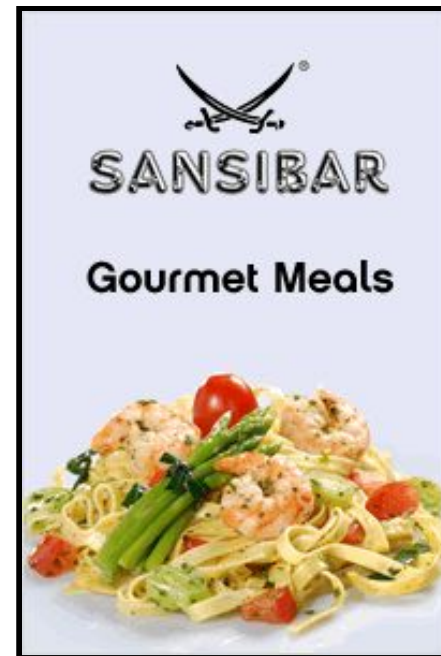
IdeaWorks Suggests: describe no-fee food features, offer chef's recipes.

Air Berlin - Sansibar Gourmet Meals

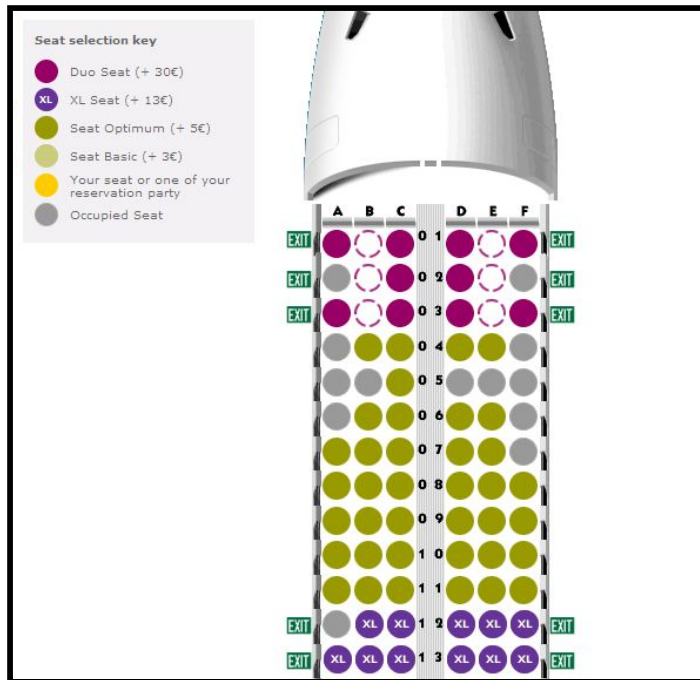
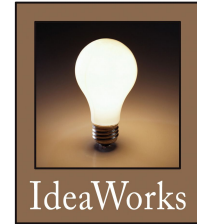


Examples of meal upgrades:

- Vegetable Lasagna €8.50
- Thai Style Chicken €9.50
- Chicken Breast Saltimbocca €9
- King Prawns €9.90
- Children Meal - Chicken Nuggets €6
- Chicken Satay €6
- The original Curry Wurst €6.50



Vueling – Duo Seating

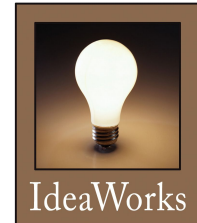


- ✓ Duo Seat - €30
(empty middle seat)
- ✓ XL Seat - €13
(exit rows)
- ✓ Seat Optimum - €5
(ahead of wing exits rows)
- ✓ Seat Basic - €3
(behind the wing exit rows)



IdeaWorks Suggests: offer more details on the website with a pop-up box.

United – Travel Options by United

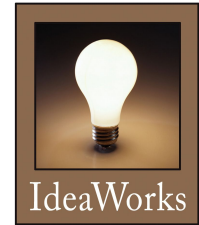


This airline is serious about ancillary revenue: over \$1 billion in annual revenue within the next few years.

United has created a new brand for its ancillary revenue activity.

Comfort	Economy Plus: <u>One-time</u> , Yearly, Give as Gift
	Red Carpet Club: One-time, Yearly, Give as Gift
	Upgrade kits: Frequent flier upgrades
Convenience	Door-to-Door Baggage via FedEx
	Foreign currency shipped via UPS
Reward	<u>Award Accelerator, 2X or 3X</u>
	Personal Miles, 1,000 mile increments
Peace of Mind	Trip insurance through Access America

Some things have not worked so well.



Airlines have aggressively pursued ancillary revenue this year
- - perhaps too quickly.

JetBlue - Travel Pillow and Blanket

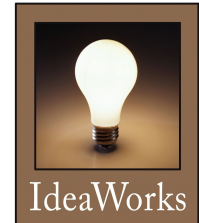
United - Transatlantic Buy on Board

US Airways - Buy on Board Soft Drinks



IdeaWorks Suggests: Seek consumer feedback such as the airline reviews posted by passengers at AirlineQuality.com

JetBlue – Travel Pillow and Blanket



It really was a great idea . . .

- ✓ \$7 eco-friendly pillow and blanket.
- ✓ Allergen-free pillow with a clean blanket.
- ✓ \$5 coupon at Bed Bath & Beyond stores.

But the media didn't agree . . .

“Fliers peeved at JetBlue's \$7 fee for pillows & blankets”

- *New York Daily News*

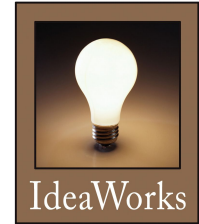
“JetBlue - Welcome to the Gotcha Hall of Shame”

- *MSNBC*



IdeaWorks Suggests: know your media environment before announcing.

United – Transatlantic Buy on Board



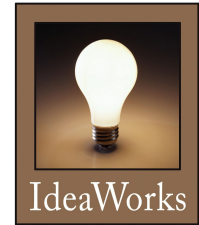
13 unlucky days for United.

- ✓ 20 August 2008 - United announces 4th quarter buy-on-board test.
- ✓ Free food in coach would disappear on all Washington - Dulles flights
- ✓ 2 September 2008 - United cancels plans for a test.
- ✓ United said the change was made due to consumer feedback.
- ✓ Or, did they forget about the impact on partners such as Lufthansa?



IdeaWorks Suggests: Coordinate product changes with codeshare partners.

US Airways – Buy on Board Soft Drinks



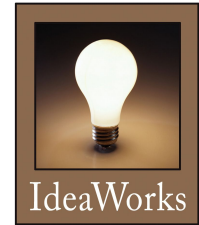
Employees found the idea revolting . . .

- ✓ \$2 for all non-alcoholic beverages (including sodas, juices, bottled water and coffee) in domestic coach | August 2008.
- ✓ \$7 for alcoholic beverages, up from \$5.
- ✓ It's part of an overall initiative (1st & 2nd bag fee, choice seats) to generate between \$300 and \$400 million annually.

“It's degrading to our profession. We are safety professionals, not grocery store clerks.”

- *US Airways flight attendant*

US Airways – Buy on Board Soft Drinks



. . . And labor revolted by talking to the media.

“We’re trained to keep order on an airplane and defuse confrontation. If it takes giving a free beverage to somebody to do that, so be it. I expect there will be flight attendants who just give everything away.”

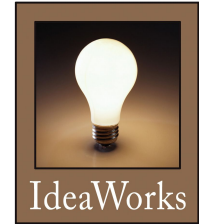
“This is the very tip of the iceberg on what they’re going to want us to sell ... It’s going to be everything from pillows and blankets to cell phone chargers.”

- Mike Flores, President of the US Airways flight attendant union.



IdeaWorks Suggests: Seek employee buy-in for new initiatives.

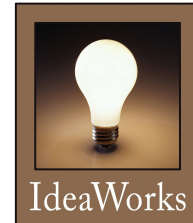
Returning to strategies for the year ahead.



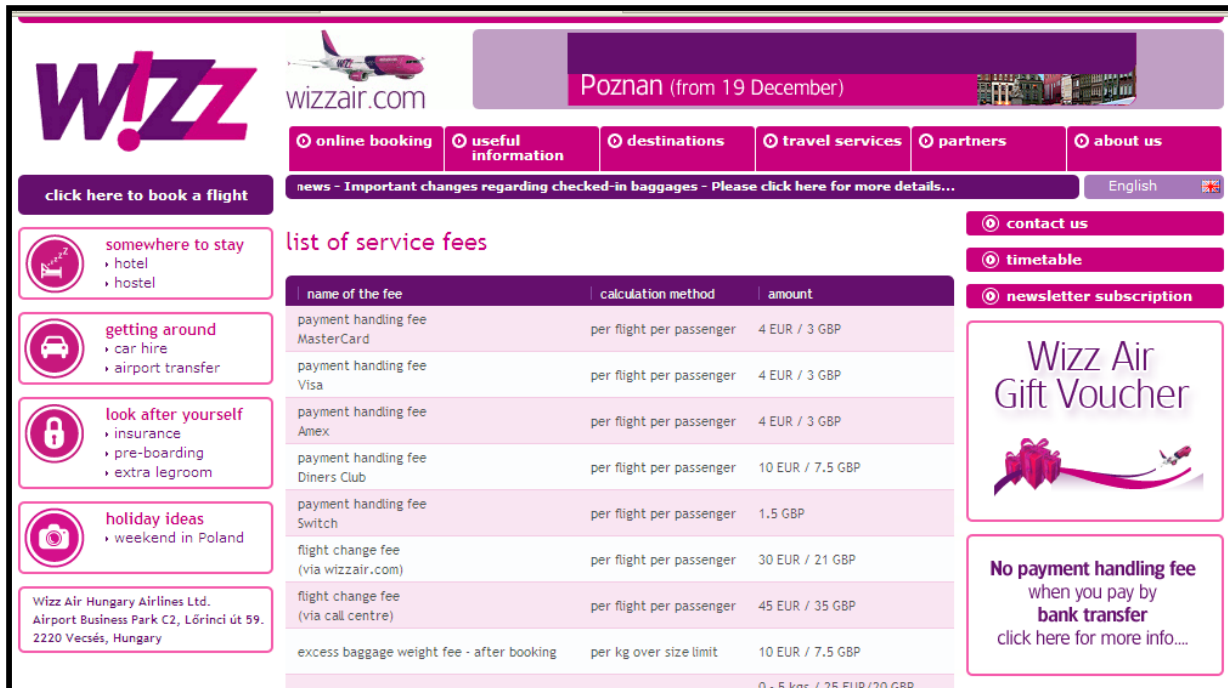
IdeaWorks suggests a 3-point manifesto for 2009:

- ✓ Earn the support of **employees** through participation, patience, and pay.
- ✓ Create value for the **consumer** through information and innovation.
- ✓ Educate the **media** through disclosure and discussion.

Make sure you passengers know what to expect.



Hometown airline Wizzair offers exceptional clarity on its fees.



The screenshot shows the Wizzair website interface. At the top, there's a navigation bar with the Wizzair logo, the website URL 'wizzair.com', and a search bar containing 'Poznan (from 19 December)'. Below the navigation bar are several menu items: 'online booking', 'useful information', 'destinations', 'travel services', 'partners', and 'about us'. A news banner reads 'news - Important changes regarding checked-in baggages - Please click here for more details...'. On the left side, there are four categories of services: 'somewhere to stay' (hotel, hostel), 'getting around' (car hire, airport transfer), 'look after yourself' (insurance, pre-boarding, extra legroom), and 'holiday ideas' (weekend in Poland). The main content area is titled 'list of service fees' and contains a table with the following data:

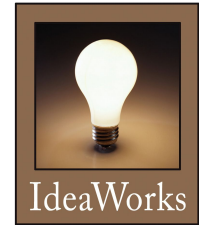
name of the fee	calculation method	amount
payment handling fee MasterCard	per flight per passenger	4 EUR / 3 GBP
payment handling fee Visa	per flight per passenger	4 EUR / 3 GBP
payment handling fee Amex	per flight per passenger	4 EUR / 3 GBP
payment handling fee Diners Club	per flight per passenger	10 EUR / 7.5 GBP
payment handling fee Switch	per flight per passenger	1.5 GBP
flight change fee (via wizzair.com)	per flight per passenger	30 EUR / 21 GBP
flight change fee (via call centre)	per flight per passenger	45 EUR / 35 GBP
excess baggage weight fee - after booking	per kg over size limit	10 EUR / 7.5 GBP
	0 - 5 kgs / 25 EUR/20 GBP	

On the right side of the page, there are links for 'contact us', 'timetable', and 'newsletter subscription'. A 'Wizz Air Gift Voucher' is also featured, along with a note: 'No payment handling fee when you pay by bank transfer click here for more info...'. At the bottom left, there is contact information for Wizz Air Hungary Airlines Ltd. located at Airport Business Park C2, Lőrinci út 59, 2220 Vecsés, Hungary.



IdeaWorks Suggests: Make your a la carte fees easy to find.

Empower your employees to deliver.



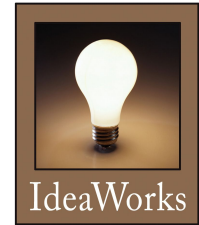
Employee incentives are key to ancillary revenue success.

- ✓ Ryanair flight attendants earn nearly 10% of their salary from onboard sales.
- ✓ The carrier likely paid buy-on-board incentives of €7 million for the year ended 31 March 2008.
- ✓ That's an annual average of €2,290 per flight attendant.
 - *Based upon Ryanair financials, IdeaWorks calculations, and conversations with cabin crew.*



IdeaWorks Suggests: Pay incentives to positions that promote a la carte services such as cabin crew and call centre staff.

Be thoughtful about change.

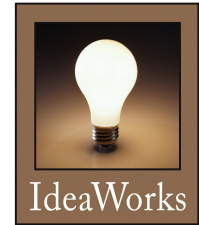


- ✓ Don't forget - - ancillary revenue should be **optional**.
- ✓ **Service fees** assigned to every booking are really part of the base fare.
- ✓ Link fees to your business model, not to **cost increases**.
- ✓ Did US carriers demonstrate **need** or **greed** with baggage fees?
- ✓ Replacing **free with fee** is not unbundling if fares stay the same.
- ✓ A la carte pricing should support your **brand**, not change it.
- ✓ Ancillary revenue is not an **ad-hoc** project, it's meaningful cash flow.



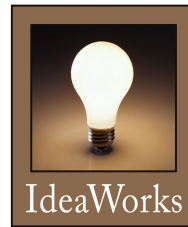
IdeaWorks Suggests: Create guidelines to define how ancillary revenue will affect your brand

An innovation manifesto.



“Your time is limited, so don't waste it living someone else's life. Don't be trapped by dogma - which is living with the results of other people's thinking. Don't let the noise of other's opinions drown out your own inner voice. And most important, have the courage to follow your heart and intuition. They somehow already know what you truly want to become. Everything else is secondary.”

- Steve Jobs, Founder of Apple Computer



About IdeaWorks: IdeaWorks was founded in 1996 as a consulting organization building revenue through innovation in product, partnership and marketing. Its international client list includes the airline, hotel, marine, railroad, and consumer product industries. The firm is a leading expert on creating ancillary revenue opportunities for airlines. IdeaWorks has worked with airlines on ancillary revenue projects in Europe, the United States, and South America. The consulting firm has helped create frequent flier programs and develop co-branded credit cards in the USA, Europe, and South America. Learn more at: IdeaWorksCompany.com

New Consulting Package for Airlines: IdeaWorks presents a fixed-price solution for airlines seeking to build ancillary revenue. This consulting package provides a week of on-site consulting services that supports three primary ancillary revenue areas: 1) commission-based products at the website, 2) travel-related a la carte services, and 3) onboard a la carte features.

Disclosure: IdeaWorks makes every effort to ensure the quality of the information in this report. Before relying on the information, readers should obtain any appropriate professional advice relevant to their particular circumstances. IdeaWorks cannot guarantee, and assumes no legal liability or responsibility for the accuracy, currency or completeness of the information.

Contact the Speaker: Jay Sorensen, Jay @ IdeaWorksCompany.com, Direct: 414-961-1939