

OLIVER WYMAN

Ancillary Revenue Airline Conference, 2007

**Ancillary Revenue:
Where is the money?**

Andrew Watterson
Oliver Wyman

Deep industry knowledge combined with specialized expertise in strategy, risk management and operations

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We recently joined forces under the name **Oliver Wyman**, creating one of the world's leading consultancies.

Ancillary revenue: Where is the money?

Q. Which market segment is best suited for ancillary revenue programs:

- Business
- VFR
- Leisure?

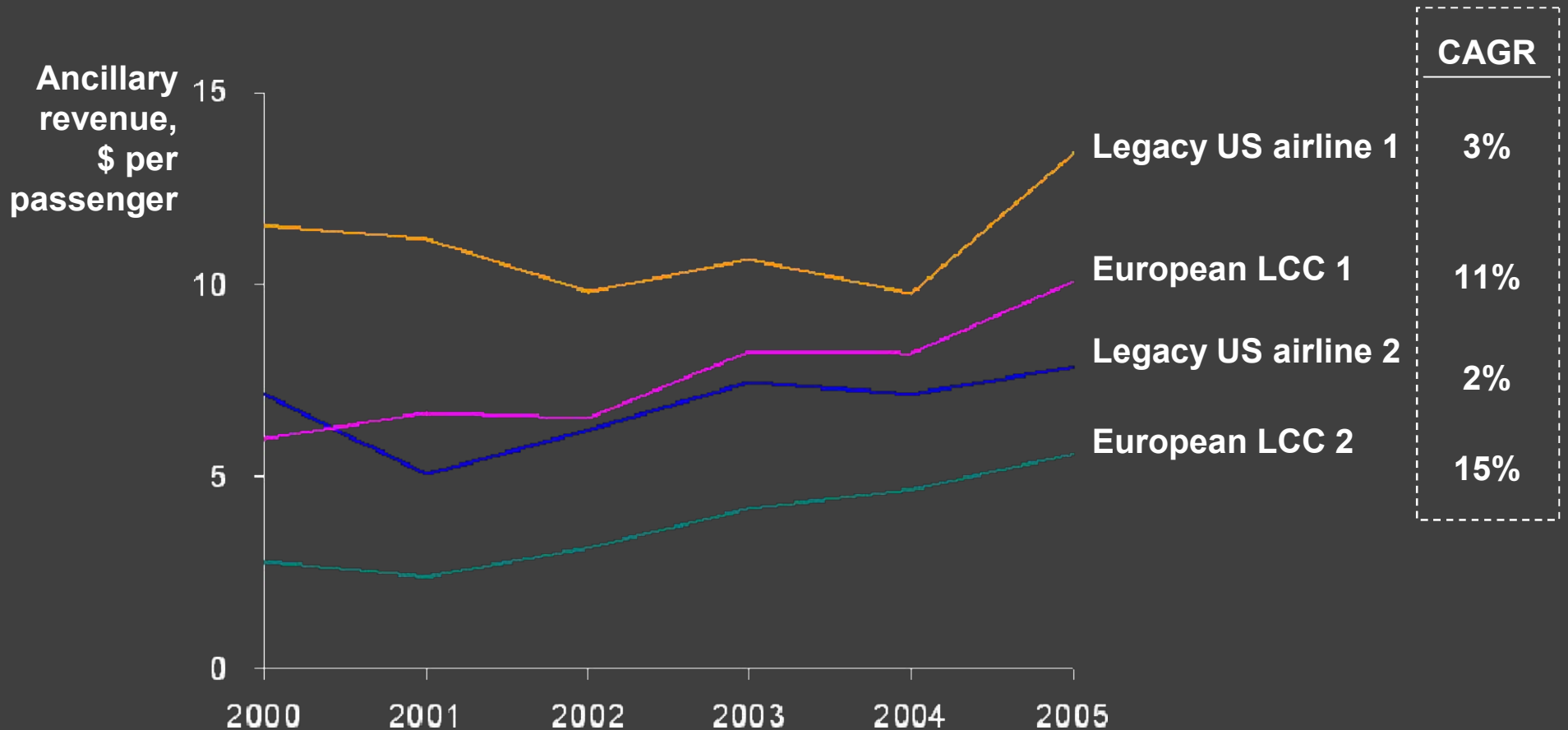
A. *All of the above*

Regardless of the customer segment, we see some of our clients 5%-10% of their revenues from ancillary sources, and some are growing ancillary revenues at 10%-15%

Oliver Wyman perspective

- Both legacy carriers and LCCs are generating ancillary revenues - albeit in different ways
- We believe the ancillary revenue space is substantially larger - there is potential to generate ancillary revenue streams from nearly all customer segments
- Extending and maximizing revenues rests on three activities:
 - **Cultivating ancillary partner networks** around the customer lifecycle, not just the travel experience
 - **Converting customer loyalty** into long-term ancillary revenue streams
 - **Building retail capabilities** in the value chain to harvest the ancillary revenue streams

Both legacy carriers and LCCs are generating ancillary revenues – albeit in different size and growth paradigm



▶ **European LCCs are growing ancillary revenues much faster than US carriers**
However, US legacy carriers are generating 5%-10% of their total revenue from ancillary sources

Source: Company annual reports, *The Airline Monitor*

Different players are cultivating different ancillary revenue sources, but most are capturing only a fraction of the opportunity

Key ancillary revenue sources



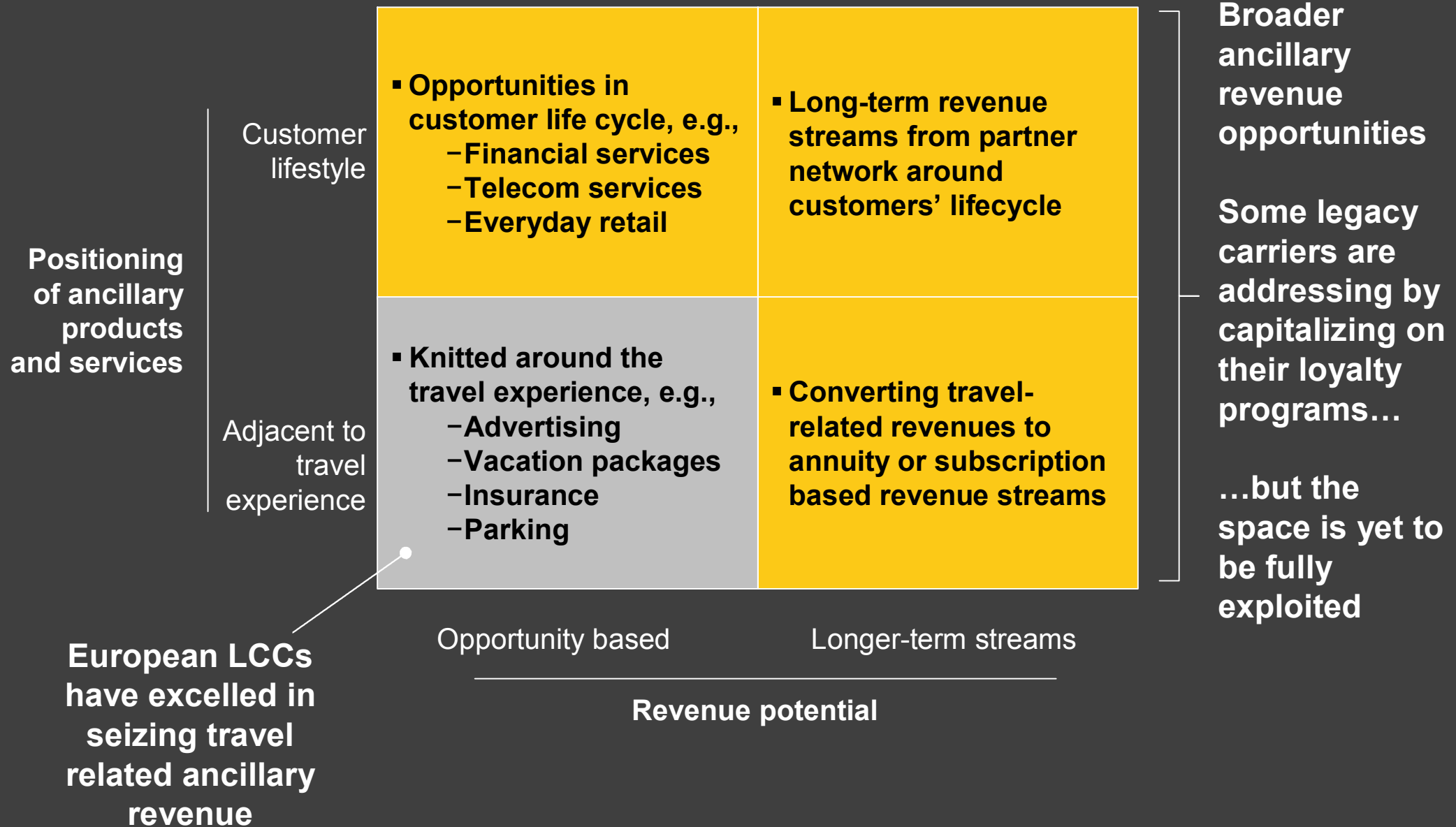
- Who is benefiting?**
- Primarily legacy carriers by virtue of their loyalty programs
 - Typically 80%-90%, from credit card and other partners

- LCCs, particularly in Europe, by capitalizing on a retail-capable value chain

- Primarily LCCs
 - Particularly no-frills and “bus-service-minded” carriers



The ancillary revenue space is much larger than what is being cultivated



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