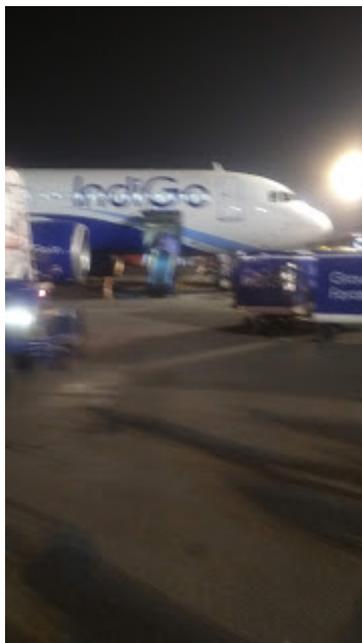


# Ancillary Services Rescue Airlines

Airlines in India are succeeding to some extent in milking a few millions of additional rupees from their customers for “extra” services that are now used to be included in their fare prices.

## The Role of Ancillary Services



Airlines all over the world are on their way to rake in nearly \$110 billion in revenue this year from the sale of so-called “ancillary services”. These services have nothing to do with the operations of the aircraft: fuel consumption, maintenance, landing, parking or navigation charges. They are simply the extras best described as marketing gimmicks. These extras range from a choice of the seat to the volume of leg-space. Depending upon the way an airline fancies its marketing strategies, these may also include the ability to check one or more bags, chose an aisle seat, select seats together and/or in advance, to get reduced ticket change fees or additional frequent flier mileage points, or to get favoured check-in and security clearance procedures. Airlines clearly have today established the practice of charging more for such

ancillaries.

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The latest trend for the airlines has been:

to present a fully-stripped down, seat-only “Basic Economy” fares as well as various higher-priced “branded fares” that include various combinations of additional services.

But in the process, airlines have found in their customer feedback notes that they have disappointed more than half of their customers and left as many as 75% of them unhappy with their airline adventures. Such services historically were included in the price of the air-ticket. The airlines are yet to learn how to use customer data effectively to present fare options specifically tailored to the preferences of individual consumers. The skills required for revenue optimization (how a company dynamically adjusts the prices of its services to get, ideally, the highest revenue from a customer who is ready to pay for a service or product) have not yet been developed.

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More and more evidence is coming up which shows that a large segment of travellers:

- leisure travellers,
- less frequent travellers,
- high mileage business travellers and/or
- very frequent fliers

are surely not very happy with the kind and constituents of various fare price options that the airlines offer. There is indeed a visible sense of hopelessness across the spectrum of airline patrons.



Despite that impediment, despite the still-not-well-defined way of unbundling and re-bundling service packages in their unpredictably priced fares, airlines' efforts at raising ancillary revenues are setting new records with every passing year.

Ancillary revenue now signifies 12.2% of global airline revenue. That's more than double considering the industry's forecasted 5% operating profit margin in 2019. In other words, ancillary revenues have impacted greatly on airlines' profitability.

The global industry's \$109.5 billion in ancillary revenue now is more than half of the industry's total amount spent on fuel. In 2019, the fuel bill is expected to be around \$206 billion. This trend reveals that the rapidly evolving ancillary revenues have become a vital hedge against escalating fuel prices.

# The Role of ATF Prices

Airlines in India have long rued the high cost operating environment and high fuel prices. On November 20, 2019, the Parliament was informed through a written reply by the Civil Aviation Minister Hardeep Singh Puri in the Rajya Sabha that four domestic airlines including Jet Airways and JetLite, have shut their operations over the last three years for want of funds and unavailability of aircraft. The government has said that it is conscious of the financial difficulties being faced by the airlines and is responding to the industry situation.

The Minister listed out a slew of measures taken by the government to enable growth in the aviation sector. He said that the government was coordinating with all the stakeholders to resolve their issues.

As a result:

- the central excise duty on aviation turbine fuel (ATF) has been reduced,
- 100 per cent FDI has been allowed under the automatic route to ensure modernisation of airports and establish high standards,
- foreign airlines are allowed to invest up to 49 per cent in Indian carriers under the automatic routes and liberalisation of domestic code-share points in India within the framework of the Air Service Agreement (ASA).

However, the Minister made it clear that the government has no role in raising funds for private airline companies as it is an internal matter of the airline and each airline has to prepare its business plan on the basis of its own market assessment and liabilities.

## The Aviation Sector Elsewhere.

In Thailand, Thai AirAsia, Thai Smile Airways, Thai Airways International, Nok Air, Bangkok Airways, Thai VietJet Air and Thai Lion Air have submitted a request to the government to cut the excise tax on jet fuel to avoid downsizing or shutting down operations. They said they have been badly affected by the weak economy, the local currency's strength, and intense competition. This has reduced tourist inflows.



The Excise Department has proposed the seven low-cost and full-service carriers to increase the frequency of flights to second-tier provinces to enhance tourism there in return for a reduction in the excise tax on jet fuel. The Excise Department will cut the excise tax provided the airlines offer proposals that benefit the public, including more frequent flights to second-tier provinces.

"The government support is surely required if airlines are expected to take part in stimulating tourism in particular provinces," the airlines say. "Promoting travel in second-tier provinces is crucial for Thailand's tourism."

The United Arab Emirates's (UAE) is home to two of the biggest

global airlines, Emirates and Etihad. The share of the aviation and tourism sector in UAE economy is set to double to \$128 billion; is likely to support 1.4 million jobs in the next 20 years, from 800,000 jobs now as per International Air Transport Association (IATA) observations.

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