Leading from the front line: How airlines can boost ancillary revenues

Ancillary revenues are rising, and airlines increasingly depend on them. The next step forward: Efforts to help frontline employees collect these fees and charges more effectively.

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Ancillary revenues—the money airlines make from sales and fees for products and services such as food, checked bags, and extra legroom—have become a topic of great interest for airline executives over the past decade. Now estimated at $50 billion to $55 billion a year,[1] they exceed the industry's $31 billion ten-year average annual operating profit. Without them, the industry would not be profitable.

Airlines setting out to increase these revenues usually focus on the commercial functions—marketing, sales, pricing, and distribution—and digitize as much of the process as possible. Granted, the commercial functions do have an important role, and digitization is an effective way to overcome operational issues, encourage upselling, and minimize revenue leakage. However, frontline employees remain significantly involved in selling or delivering most ancillaries. These men and women are an important, though often missing, part of the equation (Exhibit 1).

What's more, the variation between the best and average frontline performance is significant. The cabin crews that sell duty-free products most successfully generate a multiple of an average crew's revenues. On the ground, compliance with fee-collection policies can vary a good deal among agents, so important opportunities can be lost here too: for example, one airline we know collected fees for overweight and oversize bags in less than 30 percent of all cases. The potential impact of helping companies to improve on this measure is considerable. Our research suggests that better collection and upselling by the front line could raise ancillary sales by 20 to 35 percent—or an additional $11 billion to $18 billion for the industry.

The overlooked role of frontline employees
Considering the large opportunity in ancillary revenues, you might expect frontline employees to be deeply involved in efforts to raise them. You would be wrong. Although some airlines have launched projects (and even separate departments) to increase these revenues in recent years, we find

that most carriers have not: they appear to consider this primarily a revenue issue, as the term ancillary *revenues* (rather than *products* and *services*) suggests. The ancillaries departments at over 95 percent of airlines in our recent survey[2] report to the senior commercial executive, either directly or through the teams for pricing, revenue management, sales, or distribution.

A commercially oriented ancillaries group focuses mostly on creating new products, optimizing prices, and merchandizing ancillaries to customers. The operational departments (such as airports and in-flight service) often have little or no opportunity to influence the concept or design. Execution is even more neglected. And when companies choose to focus on it, they often do so by issuing edicts on compliance (with their baggage-fee policies, for example). These moves typically aren't effective. To increase ancillary sales significantly, companies must take a more holistic approach.
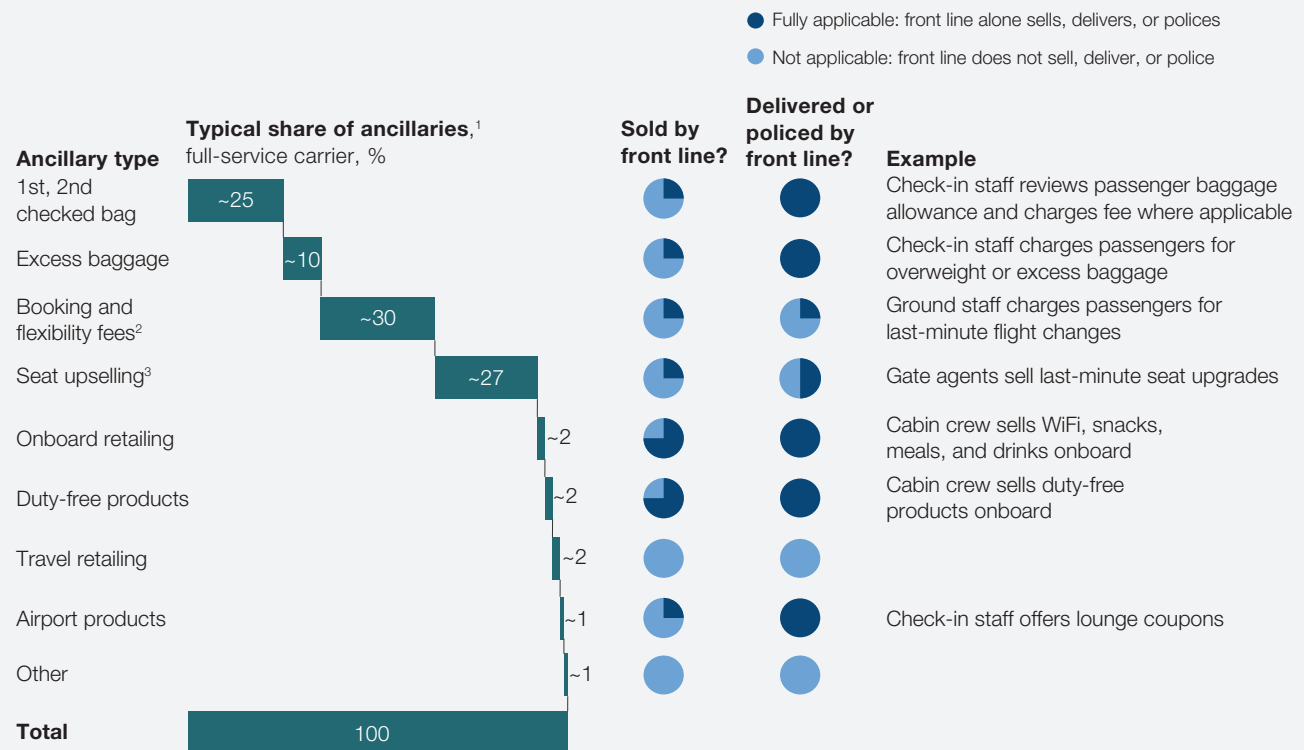
The four levers
Our work shows that four levers are essential: fostering understanding and commitment, providing appropriate tools and support, aligning processes and structures, and enhancing talent and skills. Exhibit 2 shows how to apply this approach in the check-in environment.

1. *Fostering understanding and commitment.*
   Executives at almost two-thirds of the airlines we surveyed feel they don't make employees such as flight attendants and airport agents sufficiently aware of the important role that ancillary revenues play in the success of their companies. Airlines should carefully explain the rationale for baggage charges and other ancillary revenues—particularly in the context of the decades-long decline in ticket prices—and demonstrate their contribution to the company's success. They should also show the potential impact of the front line's efforts: for instance, the revenue per passenger generated when compliance

Exhibit 1

The front line plays a significant role in ancillaries, selling products and services responsible for about 30 percent of these revenues and delivering or policing about 60 percent.

● Fully applicable: front line alone sells, delivers, or polices
● Not applicable: front line does not sell, deliver, or police

Ancillary type	Typical share of ancillaries,[1] full-service carrier, %	Sold by front line?	Delivered or policed by front line?	Example
1st, 2nd checked bag	~25			Check-in staff reviews passenger baggage allowance and charges fee where applicable
Excess baggage	~10			Check-in staff charges passengers for overweight or excess baggage
Booking and flexibility fees[2]	~30			Ground staff charges passengers for last-minute flight changes
Seat upselling[3]	~27			Gate agents sell last-minute seat upgrades
Onboard retailing	~2			Cabin crew sells WiFi, snacks, meals, and drinks onboard
Duty-free products	~2			Cabin crew sells duty-free products onboard
Travel retailing	~2			
Airport products	~1			Check-in staff offers lounge coupons
Other	~1			
Total	100			

Although many ancillaries are now sold online or through self-service options, frontline staff delivers or polices about 60% of ancillaries and can both limit revenue leakage and upsell products and services.

[1] Excludes loyalty-program revenues.
[2] Not recognized as ancillary by all carriers.
[3] For some carriers, the largest amount; also includes upselling in the form of seat choice, upgrades.
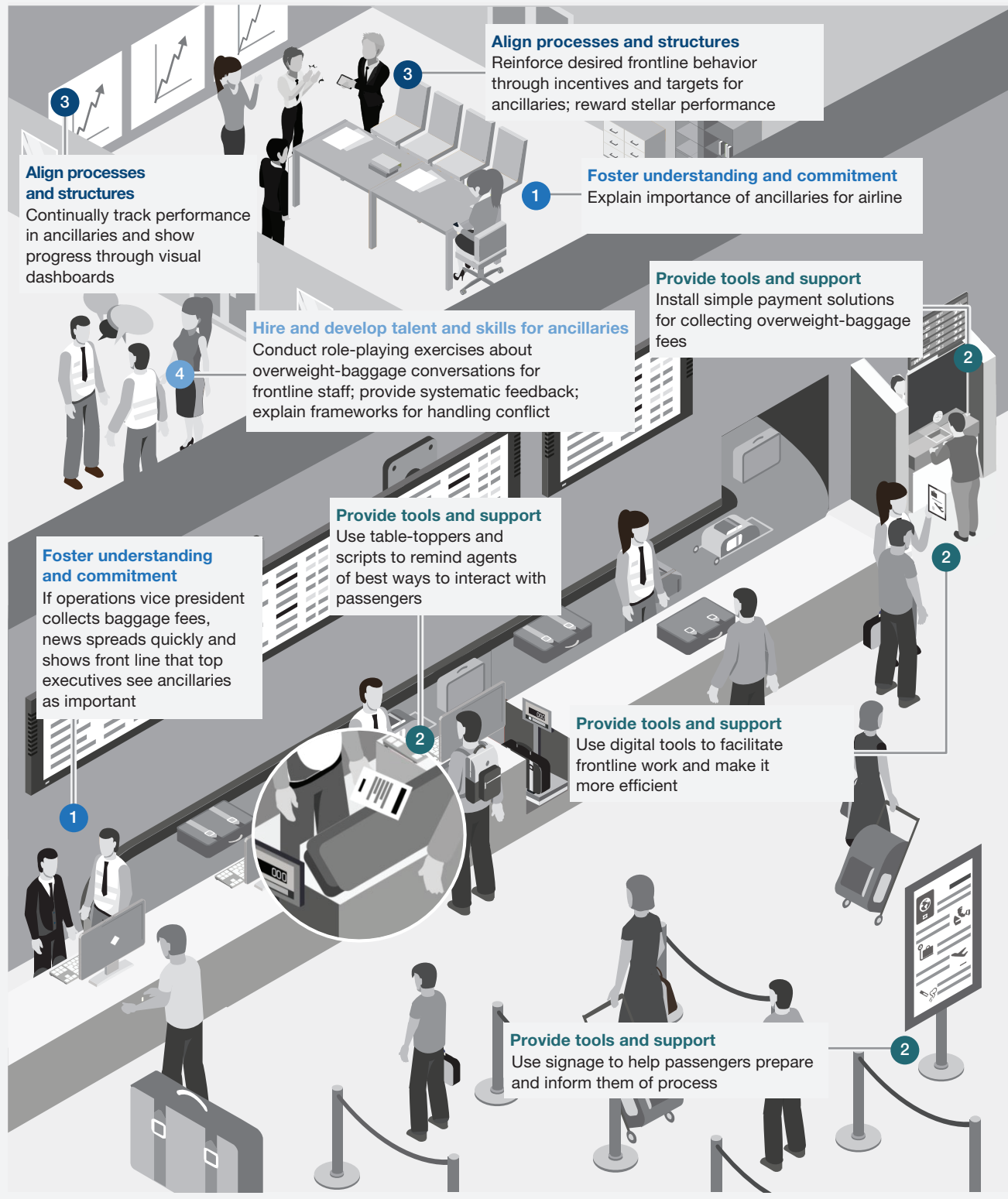Source: Company reports and presentations; US Bureau of Transportation Statistics; expert interviews

increases. Finally, airlines must ensure that frontline employees understand that ancillary fees are fully transparent to customers, who are informed about them during the booking process, in confirmation emails, and through signage.

2. *Providing appropriate tools and support for success.* To find out exactly which tools frontline employees need, airlines should identify the pain points in ancillaries; without purpose-fit mobile terminals, for example, the collection of payments in-flight is difficult for passengers and employees alike. Receipts can be even more annoying: some airlines don't give them at all, while others offer them only through a cumbersome postflight process over the web, significantly complicating reimbursement for business travelers and therefore discouraging purchases.

Exhibit 2

Carriers have four levers to help the front line drive ancillary revenues more effectively: Examples of initiatives.

Align processes and structures
Reinforce desired frontline behavior through incentives and targets for ancillaries; reward stellar performance

Align processes and structures
Continually track performance in ancillaries and show progress through visual dashboards

Foster understanding and commitment
Explain importance of ancillaries for airline

Provide tools and support
Install simple payment solutions for collecting overweight-baggage fees

Hire and develop talent and skills for ancillaries
Conduct role-playing exercises about overweight-baggage conversations for frontline staff; provide systematic feedback; explain frameworks for handling conflict

Provide tools and support
Use table-toppers and scripts to remind agents of best ways to interact with passengers

Foster understanding and commitment
If operations vice president collects baggage fees, news spreads quickly and shows front line that top executives see ancillaries as important

Provide tools and support
Use digital tools to facilitate frontline work and make it more efficient

Provide tools and support
Use signage to help passengers prepare and inform them of process

3. *Aligning processes and structures.* Airlines must have the right processes and structures to motivate and support frontline workers so that they focus on ancillary revenues. Many carriers don't—for example, only about a quarter of the COOs in our airline sample had an ancillaries-related key performance indicator (KPI) in their top-level scorecards. Visual dashboards that track KPIs not only help people understand how they can improve but also make them want to improve.

Airlines seeking to harness these impulses should recognize that change programs reinforced by targets and by monetary and nonmonetary incentives are significantly more successful because they help to align the personal interests of frontline employees with a company's goals for ancillary sales and collections.[3] Nonetheless, we find that only a slight majority of the airlines we surveyed use incentives (and for only a small subset of the front line) and that targets are relatively uncommon, too. They shouldn't be.

4. *Enhancing talent and skills.* Check-in agents undergo frequent training in processes and policies, but our research suggests that it rarely includes instruction in the softer aspects, such as upselling. Flight attendants who offer duty-free products, food, and beverages onboard don't get a lot of sales training and rarely generate as much revenue as they could. And almost two-thirds of the airlines we surveyed don't train airport agents for difficult conversations with passengers about baggage fees, so fee waiving and revenue leakage are common. Yet frontline employees trained to conduct these conversations and to understand the mind-sets of passengers know how to resolve conflicts with them. The training should include role-playing such encounters, scripts of the best lines of argument, and frameworks for handling conflict. Intrinsic qualities are important, too. Airlines can screen job applicants for persuasiveness and the ability to show empathy, handle conflict, and stay calm under stress.

Some airlines have outsourced all their frontline staffing at airports, and almost every airline has at least some contractors in their networks who check in passengers. Carriers therefore may not have full control over the check-in staff. Nonetheless, our overall framework and some individual levers remain valid: airlines can influence the way outsourced employees work, either directly or through relationships with third-party ground handlers.

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Digital channels are taking over important parts of the sale and collection of ancillary revenues, but this approach can take airlines only so far. Frontline employees will continue to play an important role in collecting payments and selling products and services. Our four-part framework helps companies not only to increase ancillary revenues but also to make frontline employees—who are the face of the airline for most passengers—significantly happier with their work. ■

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[1] This estimate excludes revenues from frequent-flyer programs.

[2] The survey, involving 31 airlines across a broad range of sizes, geographies, and business models, was conducted from August 2017 to July 2018. In this article, all mentions of a survey refer to this one.

[3] *Voices on transformation: Insights from business leaders on creating lasting change*, 2010, McKinsey.com; and "How to beat the transformation odds," April 2015, McKinsey.com.

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