ANCILLARY REVENUE STREAMS

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WHERE IS THE INDUSTRY RIGHT NOW?

- Metasearch engines have created a flatter pricing environment for headline rates

- It is difficult to sell ancillaries on OTAs

- Reviews are a key differentiator between properties

WHERE IS THE INDUSTRY RIGHT NOW?

Ancillary revenue – airlines

- Estimated market size – USD59.2 billion in 2015

- 18.8% YoY growth (IdeaWorksCompany and CarTrawler, 2015)

- Airline ancillary revenue +69% from 2011 to 2014, meaning ancillary revenue per passenger was USD17.43 in 2014 (Concur, 2016)
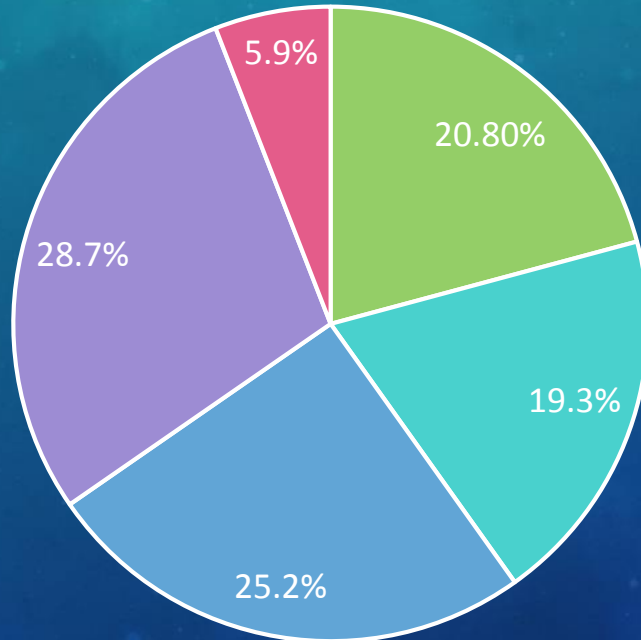
WHERE IS THE INDUSTRY RIGHT NOW?

Ancillary revenue – airlines

- Ryanair - 24.7% of revenue

- Spirit – 45.4% of revenue

- United – 10.9% of revenue

WHERE IS THE INDUSTRY RIGHT NOW?
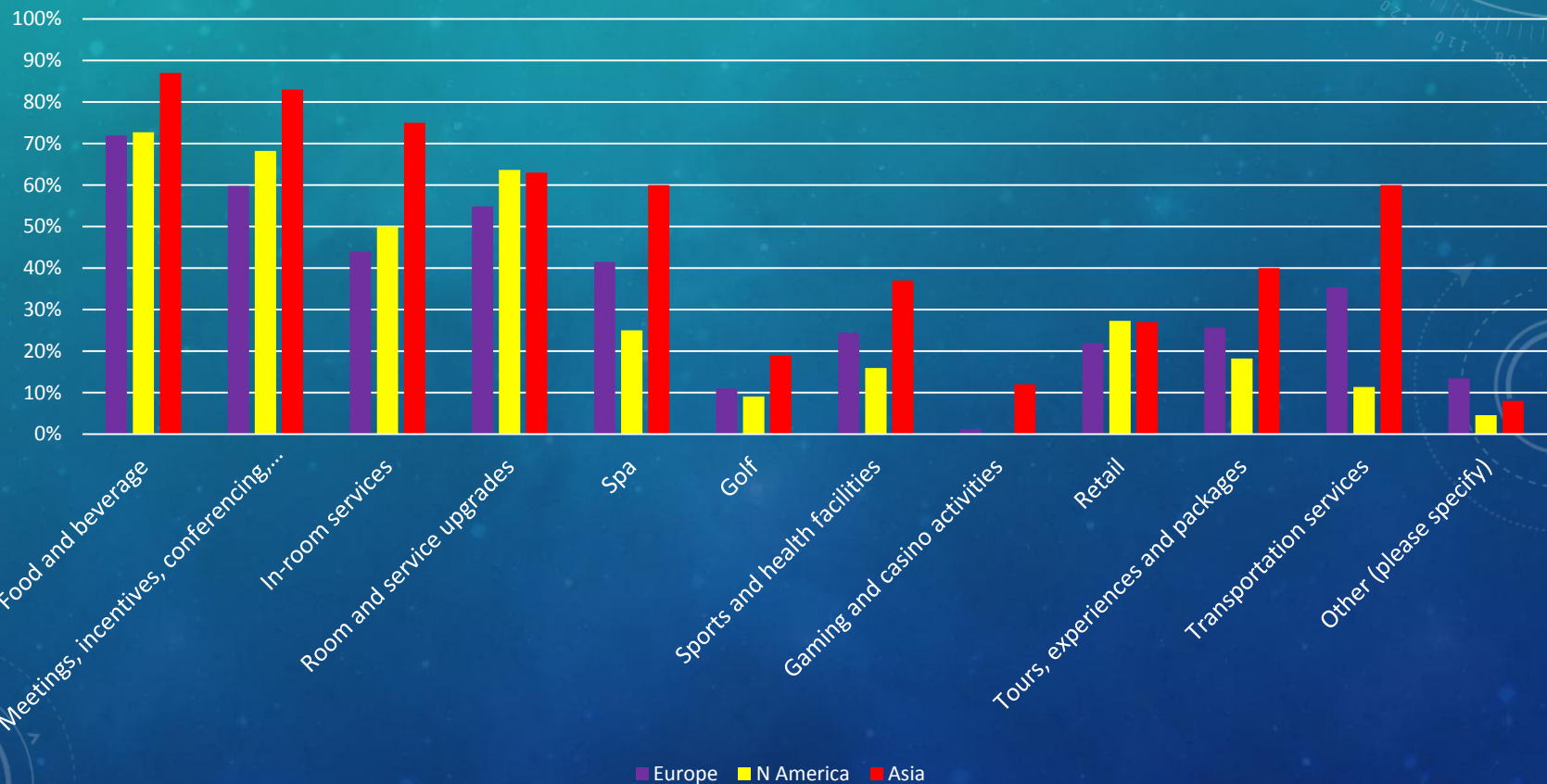
Ancillary revenue – hotels

What proportion of your total revenue is derived from ancillaries?

Pie chart legend:
- 0-5%
- 5-10%
- 10-25%
- 25-50%
- More than 50%

Pie chart values: 5.9%, 20.80%, 19.3%, 25.2%, 28.7%

WHERE IS THE INDUSTRY RIGHT NOW?

Ancillaries offered by region - hotels

Legend: Europe | N America | Asia
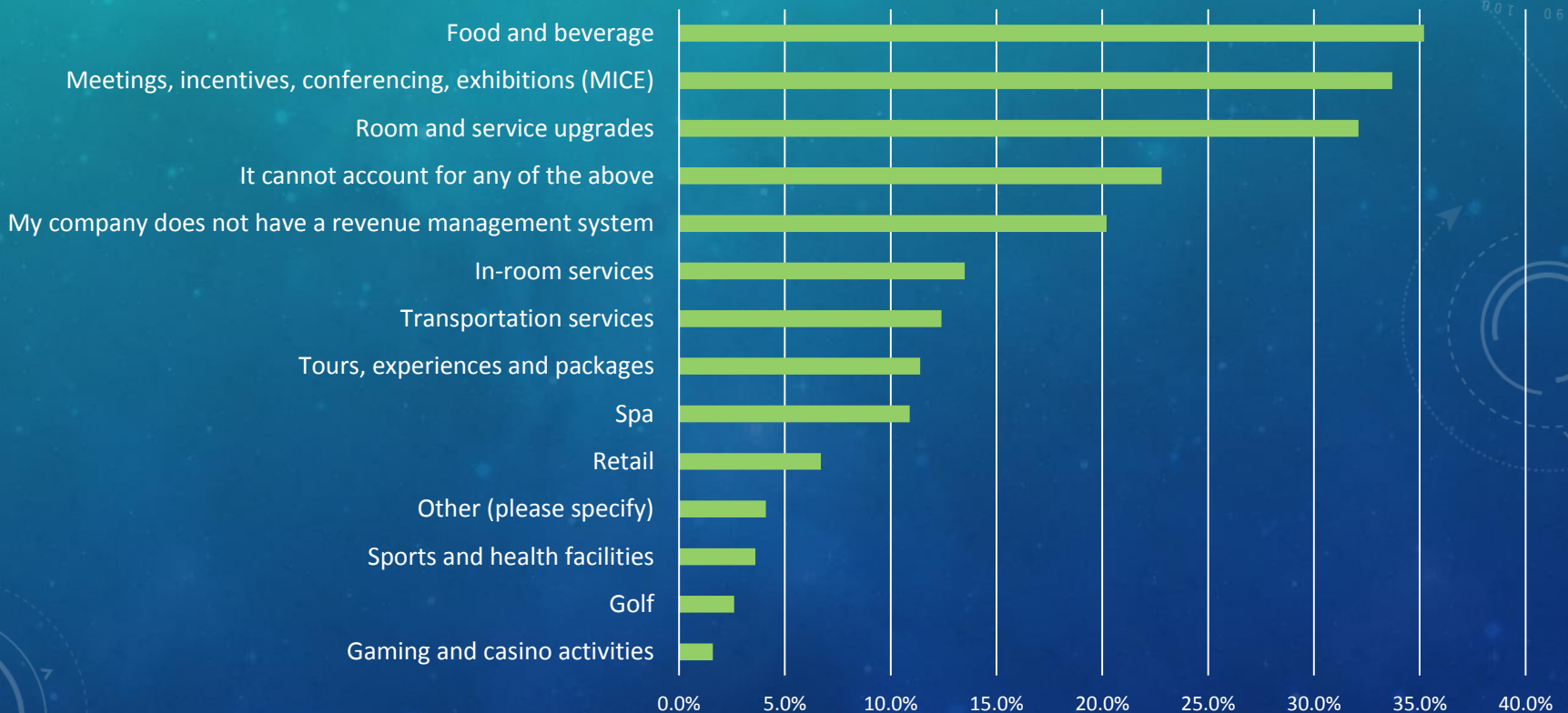
WHERE IS THE INDUSTRY RIGHT NOW?

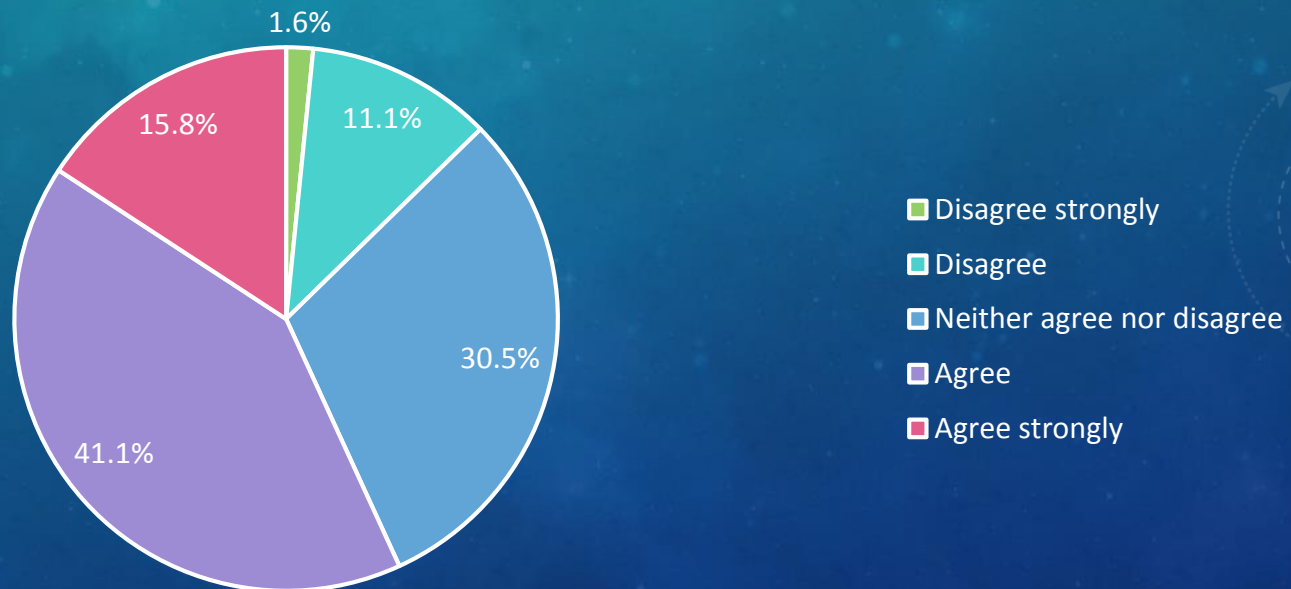## Measurement and management of ancillaries - hotels

Which of the following ancillary revenues can your revenue management system account for?

WHY ARE ANCILLARIES IMPORTANT?

Investment in ancillaries - hotels

How far do you agree with the following statement? "We will increase our investment into ancillaries in the next 12 months."

Legend:
- Disagree strongly
- Disagree
- Neither agree nor disagree
- Agree
- Agree strongly

Pie chart values: 1.6%, 11.1%, 30.5%, 41.1%, 15.8%

WHY ARE ANCILLARIES IMPORTANT?

Point 1 – Review scores are critical for hotel demand and hotel rates

- A 1% increase in a hotel's online reputation score leads to:
    - a 0.89% increase in ADR
    - an occupancy increase of up to 0.54%
    - a 1.42% increase in revenue per available room (RevPAR) (Anderson, 2012)
- A 10% increase in the ratings of user reviews can boost the index of online hotel bookings, by more than 5% (Gu & Chen, 2010)
- Review scores were most critical for high-end and luxury hotels (Blal & Sturman, 2014)

WHY ARE ANCILLARIES IMPORTANT?

Point 2 – Poor provision of ancillaries leads to poor review scores

- WiFi is now critical to guests

- More important than all other ancillary factors measured in the study

- Free WiFi was found to increase review scores by 8% (Bulchand-Gidumal, Melian-Gonzalez & Lopez-Valcarcel, 2011)

WHY ARE ANCILLARIES IMPORTANT?

Point 3 – Therefore ancillaries are important not just as standalones to increase revenue but also for overall guest satisfaction and therefore hotel performance

WHY ARE ANCILLARIES IMPORTANT?

Ancillaries are a competitive advantage

- 10% increase in Airbnb supply is associated with a price decrease of 0.19%

- Hotels without meetings and conference spaces suffered a further 0.15% fall per 10% expansion of Airbnb supply

- Luxury and high end hotels were the least affected by increased Airbnb supply (Zervas & Byers, 2016)

WHAT SHOULD BE THE STRATEGY?

Total revenue management

- Measure it

- Test it

- Cost-benefit analysis

- Consider the price elasticity of the good

- Consider the property's market and segment appropriately

- Get customer service, quality and price point right – master the basics

WHAT SHOULD BE THE STRATEGY? SEGMENTATION

F1: Flush Families	**F2: Secure in Suburbia**	**M1: Golden Globetrotters**
M2: Affluent & Aging	**Y1: City Slickers**	**Y2: Consuming on Credit**

WHAT SHOULD BE THE STRATEGY? SEGMENTATION

F1: Flush Families

- Average age of head of household: 40-44

- Median household income: USD159,527

F2: Secure in Suburbia

- Average age of head of household: 35-39

- Median household income: USD89,566

M1: Golden Globetrotters

- Average age of head of household: 60-64

- Median household income: USD160,819

M2: Affluent & Aging

- Average age of head of household: 65-69

- Median household income: USD107,337

Y1: City Slickers

- Average age of head of household: 30-34

- Median household income: USD126,061

Y2: Consuming on Credit

- Average age of head of household: 30-34

- Median household income: USD66,375

WHAT SHOULD BE THE STRATEGY? SEGMENTATION

Consuming on Credit

- The most engaged on social media

- Most likely to actively enjoy mobile media and advertising

- They are the most likely to prefer package deals

- But they are also impulse buyers

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