“WHY ANCILLARIES SHOULD DRIVE PRICING STRATEGY: A PRACTITIONER’S VIEW”

Research Opinion

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“Abstract”

Airlines have been lately earning a large share of revenue from ancillaries (Bags, seats, bundles, and loyalty add-ons). This commentary argues that the pricing teams should start treating ancillaries as first class pricing inputs to optimize the total passenger yield, instead of optimizing fares in isolation. This paper covers industry evidence and a live pricing experiment, with three practical recommendations, which is making expected ancillary value visibly in pricing decisions, test ancillary offers with small A/B experiments and keeping bundles simple and transparent for customers. Short, actionable steps are provided so commercial teams can start capturing ancillary value without major systems overhaul.
Keywords: Ancillaries; airline pricing; revenue management; dynamic pricing; experimentation; offer retailing; customer experience

1 Introduction

Traditionally, the base fare has been treated as the center of revenue management, accordingly, fare is set and inventory is managed around it. Likewise, pricing for products such as baggage, seats, priority services and other optional products are often considered later in the customer journey. That older approach is becoming harder to justify under current circumstances.

Ancillary revenue is an integral part of how airlines make money. According to IATA (2026) Global Outlook for Air Transport, ancillary revenue is expected to reach US $165 billion in 2026, which is an increase of 12.6% compared to 2025. IATA also expects that ancillary revenue will grow faster than passenger ticket revenue in upcoming years and this is possible because airlines want to make money from every customer to help pay for higher fuel costs. Having said that, the commercial question should no longer be only:

- “What is the right fare?”

Rather it should be:

- “What is the total value of this passenger?”

2 Importance of ancillaries

Ancillaries are no longer just extra items which are sold after the fare has been chosen. Instead, products like baggage, seat selection and other priority services now add direct value to the booking. IATA (2026) outlook shows that ancillary revenue is expected to increase in upcoming years. For example, passenger ticket revenue is forecasted to reach US $839 billion in 2026, likewise, ancillary, and other revenue is projected to reach US $165 billion. Even though airlines face pressure due to increasing fuel costs, IATA expects ancillary revenue to grow faster than ticket revenue. This aspect is important to consider because passengers paying lower fare, however, purchasing ancillaries like seats and priority services will generate more total revenue than a passenger paying a higher fare but not purchasing anything beyond the ticket. This pricing decision should be therefore looked at more than the fare shown at the start of the booking journey.

There is also evidence that the ancillaries pricing itself can be improved. Shukla et al. (2019) tested customer context pricing for airline ancillaries in a live booking environment. Their production A/B experiment compared model-based pricing with human curated pricing and found a conversion rate of 13.92% conversion versus 10.18% for human approach, furthermore revenue was 10% higher for the model approach. The key implication here is that ancillaries should not be treated as something to be sold after the pricing decision has already been made, instead ancillaries should be considered as part of the pricing decision itself.

3 Rethinking airline pricing

3.1 From fare to full passenger value

The optimal change should be to look beyond the base fare. A passenger paying a lower fare but purchasing baggage, a seat or other priority services may be more valuable than the passengers paying a higher fare who purchases nothing else. Revenue teams should therefore consider expected ancillary value alongside the fare. This doesn't require airlines to replace their existing revenue management systems, instead a first practical step would be to simply make expected ancillary value visible when pricing decisions are being made.

3.2 Bring ancillaries into the pricing conversion earlier

Ancillaries should be considered when the offer is designed rather than treated as an additional component. The fare, seat, baggage, and other products presented to a passenger increasingly form one commercial proposition. The objective should not be to sell the maximum number of products rather the aim should be to offer the right combination of products at the right price for both the passenger and for the airline.

3.3 Learn through small experiments

Airlines are not required to make large changes to learn what works and what fails. Small, controlled experiments can compare different baggage prices, seat offers or bundles on selected markets. The aim here should be straightforward, which is,

- Did more customers buy?
- Did total revenue per booking improve? and
- Did the offer affect the main booking decision?

Shukla et al. (2019) experiment shows why this approach can be valuable, which is changing ancillary pricing produced measurable improvements in both conversion and revenue. The important lesson here is not the technology behind the model, however it is the approach, which is test, learn and improve.

3.4 Not complicating the customer experience

Introducing more ancillary products does not automatically mean better pricing and more revenue. Customers need to understand what they are buying and what is included. Too many options, unclear prices or aggressive selling can damage trust, and airlines may end up losing their loyal customers too. The objective should therefore be better monetization, not simply more monetization.

3.5 Risks and Limitations

While integrating ancillaries into pricing strategy can bring in more revenue and other commercial benefits, this also introduces many risks and limitations which should be considered carefully. Firstly, there is a chance of customer dissatisfaction and reduced trust if ancillary pricing feels hidden, inconsistent or too aggressive, which may mislead passengers about the true travel cost of travel. Second, regulatory oversight is becoming much stricter. Regions such as Europe and North America have been watching closely on how airlines display and price ancillary products, particularly around airline fee disclosure. The U.S. DOT has proposed rules requiring upfront disclosure of baggage, change and family-seating fees, and European consumer groups and national authorities have filed complaints and opened probes into airline ancillary and baggage practices (Department of Transportation, 2022; Noëth, 2025).

Third, which are operational and technological constraints. Updating ancillaries dynamically based on market conditions involves different teams working together. Additionally, when there are legacy systems involved, this creates further challenges and the whole process becomes very hard and expensive too. These risks and limitations do not mean that ancillaries are bad. They mean that airlines should find a fine balance between making money while still being clear, simple and following all the rules.

4 Practical Examples

4.1 Case A: Ryanair

Ryanair sets a clear real-world example of how important increase in ancillary revenue is for airlines commercial models. In the quarter ending Jun 2026, Ryanair reported in form 6K €1.47 billion in ancillary revenue, which is 5% up compared to last year (Ryanair Holdings plc, 2026). It also reported that approx. €24 of ancillary revenue was made per passenger. This report mentions that ancillary revenue includes products such as priority boarding, reserved seats, car hires, travel insurance, airport transfers, accommodation, and excess baggage. This clearly indicates that the relationship with customers is way beyond only base fare of the booking.

4.2 Case B: United Airlines

United airlines being a full-service carrier compared to Ryanair which is a Low-cost airline, has clearly stated in their 2025 annual report that they generated US $4.8 billion in ancillary fees, compared with US $4.5 billion in 2024 and US $4.1 billion in 2023 (United Airlines Holdings, 2026). United specifically mentions baggage fees, premium-seat fees, inflight amenities, and other ticket-related fees as ancillary services. This clearly states that ancillary revenue has become important across different airline business models, let it be full service or low-cost carriers which segregate their base fare from other ancillaries. Therefore, ancillary strategy should be part of mainstream airline revenue management.

4.3 Case C: Ancillary model-based experiment

The Shukla et al. (2019) study provides a real example of what happens when an airline actively tests ancillary pricing rather than relying only on fixed prices. The models were deployed in an airline's booking environment and tested against human curated and random pricing for a window of 120 days. The model-based approach achieved 13.92% conversion compared with 10.18% for human curated pricing, which produced 10% more revenue per offer. The important point is not the complexity of the model, rather it is that the airline was able to test different pricing approaches in a real booking environment and measure the commercial result. The key takeaway here is airlines can start with small pricing experiments and scale approaches that demonstrate better customer and commercial outcomes.

5 Conclusion

Ancillaries should no longer sit at the edge of airline pricing strategy. They are already a significant part of airline economics, and their importance is continuing to grow. IATA projects US$165 billion in ancillary and other revenue in 2026, with ancillary revenue growing faster than ticket revenue as airlines respond to higher costs and changing market conditions (IATA, 2026). The next step is not to abandon traditional revenue management. It is to make the pricing decision more complete.

Revenue teams should consider expected ancillary value alongside the fare, bring ancillary products into the offer discussion earlier, and use small experiments to understand customer response. At the same time, airlines should keep the customer proposition simple and transparent. The real opportunity is therefore not simply selling more ancillaries. It is using ancillaries to make the entire airline pricing strategy smarter.

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