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## Airlines go à la carte: Why travellers should get used to baggage fees and more ‘unbundling’

By Kristine Owrarn

*This article is based upon a report issued by IdeaWorksCompany.*

The luxuries depicted in a Pan Am commercial from 1958 are almost laughable for their contrast with today’s typical air travel experience. Women powder their noses in roomy bathrooms, trays of lobster and roast beef are brought around to travellers lounging on couches, and the flight attendant bends down to light a man’s cigarette while he plays chess with his wife.

Flying was a luxury in those days, and it was treated as such.

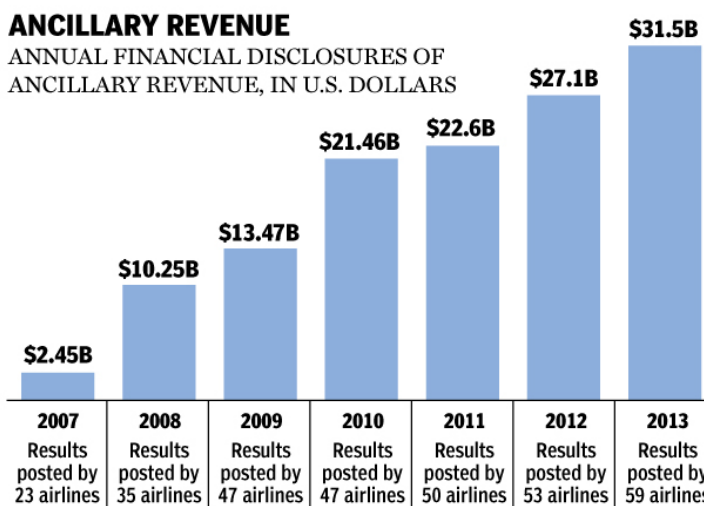
Today, it’s more of a commodity — a necessity you have to face before your vacation starts — filled with little annoyances like the mad rush to board, people trying to cram oversized luggage into bins, cramped seats and pricey buy-on-board sandwiches.

Adding to those inconveniences, both WestJet Airlines Ltd. and Air Canada announced this week that they will begin charging passengers travelling on the cheapest fares an extra \$25 for first checked bags.

But the move towards à la carte pricing is widely seen as an inevitability in an industry that’s under increasing pressure from its shareholders to embrace new sources of revenue.

### ANCILLARY REVENUE

ANNUAL FINANCIAL DISCLOSURES OF ANCILLARY REVENUE, IN U.S. DOLLARS



### TOP TEN AIRLINES

BY TOTAL ANCILLARY REVENUE, 2007 - 2013, IN MILLIONS OF U.S. DOLLARS

2007 RESULTS			2013 RESULTS		
1	United	\$600.0	1	United	\$5,703.0
2	Ryanair	\$521.4	2	Delta	\$2,528.2
3	easyJet	\$272.8	3	American	\$2,079.0
4	Alaska Air Group	\$194.2	4	Air France/KLM	\$1,714.6
5	Aer Lingus	\$91.3	5	Ryanair	\$1,689.5
6	Air Berlin	\$83.7	6	Southwest	\$1,623.5
7	Korean Air	\$79.7	7	easyJet	\$1,385.0
8	WestJet	\$78.6	8	Lufthansa Group	\$1,282.7
9	Australian	\$77.9	9	Qantas Airways	\$1,273.4
10	Alitalia	\$71.1	10	US Airways	\$1,102.7

SOURCE: IDEAWORKSCOMPANY.COM

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“We predict that the inclusion of free baggage as a benefit of a fare will disappear worldwide over the course of the next few years,” said Jay Sorensen, president of IdeaWorksCompany, a Wisconsin-based consulting firm that helps airlines generate more revenue through ancillary fees.

According to research by IdeaWorksCompany, global airline ancillary revenue soared nearly 1,200% between 2007 and 2013 as more carriers embraced the concept of “unbundling,” or charging separately for a variety of services.

Last year, airlines around the globe generated US\$31.5-billion in ancillary revenue, consisting of à la carte charges like baggage fees, commissions on travel-oriented services like car rentals and hotels, and the sale of frequent-flier points. That’s up from US\$2.45-billion in 2007 and amounts to an average of US\$16 per passenger.

“It’s creating the difference between a global profit and a global loss for the airline industry,” Mr. Sorensen said in an interview.

While ancillary fees take many forms, depending on the airline — everything from advanced seat selection to printed tickets — baggage fees are by far the most important, said Brett Snyder, founder and author of the blog CrankyFlier.com.

“The first bag fee can bring in so much money, more than any other fees,” Mr. Snyder said in an interview. “The others are helpful to the bottom line but nothing is like a first bag fee.”

Air Canada should generate \$60-million in annual revenue from its new baggage fee, which will apply to flights within Canada and to and from Mexico and the Caribbean, according to Cowen and Co. analyst Helene Becker.