

## Wall Street Journal

March 7, 2011

### Airlines to Load On More Fees

After Checked Bags, Carriers Seek to Charge for Early Boarding, Fancier Foods and Reclining Seats

By Susan Carey

*IdeaWorks contributed information to this article - - see italics and graph.*

Airlines are digging around for ways to pile on more fees.

In recent years, airlines from AMR Corp.'s American Airlines to Spirit Airlines Inc. found new ways to boost profits—and annoy fliers—by charging fees for checked bags, selecting a choice seat or other services once included in ticket prices.

Now they're mulling and testing various new fees for services that never were part of a ticket: Want a seat that reclines more? A pre-ordered champagne brunch in coach? Insurance against a blizzard that waylays a trip? Access to speedy security lines and early boarding? Soon you might be able to get them all—for a price.

Airlines started charging for checked bags, snacks, pillows and other items in a big way in 2008. Last year, such fees brought in an estimated \$22 billion, or 5% of global industry revenue.

Carriers could tap into "billions and billions of potential revenue" says Tom Douramakos, chief executive of GuestLogix Inc., a Toronto technology supplier that helps airlines sell products and services. "The airlines are only scratching the surface" with baggage and seat fees, he insists. They could become virtual shopping malls, offering captive travelers a variety of buy-while-they-fly items such as theater tickets or a handbag, he says.

Two small, low-fare carriers, Spirit and Allegiant Travel Co., have led the way in the U.S. by charging for almost everything but lavatory access and by marketing travel packages including hotels, rental cars and theme-park tickets along with air travel.

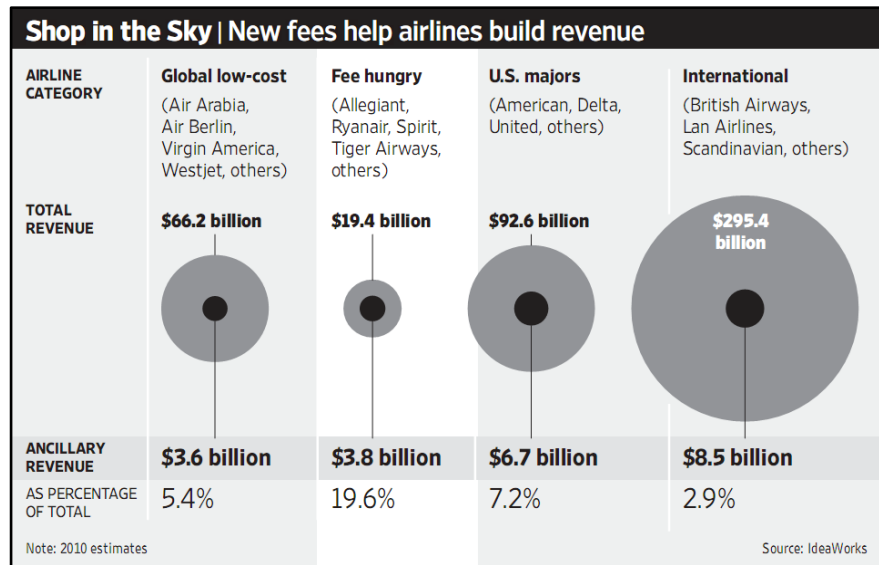
Spirit derives 27% of its revenue from fees, says the U.S. Department of Transportation. Last summer, it began charging between \$20 and \$30 for a second carry-on bag. Spirit also charges between \$10 and \$18 for advanced seat assignments. Allegiant last year piled an average of \$34.58 in fees and commissions from travel-related services atop its average fare of \$76.26.

Andrew Levy, Allegiant's president, says it is looking at copying Spirit's carry-on fees.

A rich new vein for airline fees is early boarding, which American and United Airlines already sell to their non-elite frequent fliers. As more passengers avoid paying checked luggage fees by hauling their bags on board, overhead bin space is at a premium. That means getting to board ahead of other travelers can be worth a few extra bucks.

**Jay Sorensen, president of Shorewood, Wis., airline consulting firm IdeaWorks Co., predicts that charging non-elite fliers for advanced seat assignments is inevitable.**

Big carriers already have discovered passengers will pay for better seats in coach. Delta Air Lines Inc. recently said it will remove seats from its international planes by summer to create an "Economy Comfort" zone that offers up to four inches more legroom and 50% more recline than regular coach seats.



Seating there will cost an extra \$80 to \$160 each way. Delta's top elite fliers won't have to pay, and its two lower tiers will receive 50% and 25% discounts, respectively.

United Continental Holdings Inc. said it plans to expand the roomier Economy Plus seating it already offers in coach cabins of its United Airlines planes to the aircraft of merger partner Continental Airlines. Elite frequent fliers get access automatically, but other travelers can "buy up" to these seats. United even sells an annual upgrade to Economy Plus for \$425.

Scott Kirby, president of US Airways Group Inc., says some fliers are "absolutely willing to pay for a better seat on the airplane." US Airways sells Choice Seats, window or aisle seats in the front of coach with no extra legroom. He says he thinks that program ultimately could yield between \$200 million and \$300 million annually, up from about \$40 million this year, once US Airways expands its sales efforts.

While some new ideas may never make it off the ground, the industry is clearly feeling the pinch of higher fuel prices and seeking new revenue sources. So far this year there have been six successful domestic fare increases by U.S. carriers, compared with just three for all of last year, says FareCompare.com, a tracking service.

Jetblue Airways Corp. sells first-run movies. Delta offers Wi-Fi for a fee. Most carriers sell coach food and charge for transporting minors and pets, having reservations agents help book a ticket and changing ticket times, dates and destinations.

Airsavings S.A., a Paris-based business that creates products for airlines to sell, thinks the industry "is at the end of the road" for charging for once-free services, says CEO Raphael Bejar. Now, carriers' emphasis is shifting to new services that allow flyers to customize their travel, he says.

Airsavings offers weather insurance and runs a travel concierge service that consumers can buy on a per-trip basis. It recommends restaurants, arranges for theater tickets and re-books travel when necessary.

U.S. carriers, he says, "are moving in the direction of bringing value to their clients. That's what they forgot when they were unbundling their fares. They needed to find some money and it was wrongly perceived by the client."

Airlines also are experimenting with improving the options and quality of cuisine in coach. It could prove to be more of a passenger-pleaser than money-maker, though. U.S. airlines now sell economy-class customers boxed snacks and shelf-stable meals costing between \$6 and \$12, a pursuit that is, at best, breakeven.

Delta says it plans to begin a test of high-end meals in coach this spring on its New York to Los Angeles flights. United last year began selling two flavors of champagne brunches in coach on its premium service flights from New York to Los Angeles and New York to San Francisco. They run \$24.95 each and can be ordered in advance on the carrier's website, says Sandra Pineau-Boddison, United's vice president of food services.

The test extended to international flights from the U.S. to London and Frankfurt, where business-class style meals priced between \$16.95 and \$18.95 compete with complimentary coach meals.