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What next? More airline fees possible in 2011

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IdeaWorks contributed information to this article - - see italics.

Air travelers who paid extra for everything from checked baggage to in-flight meals to reserving a seat last year can expect even more fees in 2011.

What will they think of next? How about a fee for talking to an agent at a ticketing counter.

The strategy of offering fliers low fares and then charging for anything extra has worked well for airlines. The global airline industry is poised to earn as much as \$22 billion from à la carte fees and other ancillary sources in 2010, according to Jay Sorensen, president of IdeaWorks, a company that tracks consumer trends.

“Once considered an aberration only associated with low-cost carriers, ancillary revenue is now a point of pride among senior executives at major airlines,” Sorensen said in the company’s latest report.

A fee for everything

Fact is, airlines have already thought of a lot more fees than many travelers, especially in the U.S., may realize.

According to Sorensen, the global airline industry currently offers 19 separate à la carte products and services, ranging from airport check-in charges to unaccompanied minor fees. Simply put, if it’s not tied expressly to transporting you from Point A to Point B, some airline, somewhere in the world, probably charges for it.

And there’s the rub. U.S. airlines didn’t invent à la carte pricing; they’re simply adopting a model that’s proving phenomenally successful around the globe.

According to forecasts during the Ancillary Revenues Airline Conference in 2009, ancillary revenues are likely to account for 35 percent of overall airline revenues in the future.

So, where's the money going to come from? Here are some potential twists in the ongoing saga of à la carte airfare:

De facto carry-on fees: Most U.S. airlines have stated that they won't follow Spirit Airlines' lead and charge you a fee to put your carry-on bag in the overhead bin. Funny thing, though, many, including American, United and US Airways, essentially have. They may call it priority boarding or choice seating, but the real benefit isn't faster access to a better seat.

“Savvy travelers know that early boarding provides the most important access of all,” said Sorensen, “and that is to empty overhead space.” In Europe, easyJet offers the service as an annual subscription (£109, or \$168), which not only brings in more money, but incentivizes people to fly the airline consistently.

Considering that United already offers annual plans for free baggage and extra legroom, consistent access to the overhead bins would be a natural addition.

International baggage fees: Two years ago, rising oil prices gave U.S. airlines cover to implement a first-bag fee on domestic flights. Now, with oil approaching \$90 per barrel, might they start doing the same for international flights?

They might, especially if they can't raise fares, said Hunter Keay, an analyst with Stifel Nicolaus. “Assuming airlines introduce a \$25 fee for [the] first checked bag on international long-haul flights, we believe the industry could add \$2.7 billion in earnings in 2011.” According to Keay, such “low-hanging fruit” would more than offset a \$20-per-barrel increase in the price of oil.

Infant fees: “Lap children currently fly free on domestic U.S. flights, but will this always be the case?” asked George Hobic of AirfareWatchdog.com. Considering that airlines already charge such fees on international flights (typically 10 percent of the adult fare), Hobic considers a similar domestic charge among the most likely additions for 2011. “If the government doesn't act to ban lap children,” he said, “we might see the airlines make a move.”

Counter costs: The more self-service options the airlines offer, the more they can save on salaries and other personnel costs. How to encourage people to use those options? By charging for the alternative: “If you can charge \$15–\$20 to talk to a human being on the phone,” Hobic said, “how about a charge to talk to a human being at the airport?”

Pulled privileges: Currently, many travelers avoid fees by being members of airline loyalty programs. But, suggests Robert Mann of R.W. Mann & Co., an industry analysis and consulting company, such programs are bottom-loaded with millions of less-than-elite members who could find their privileges on the chopping block.

“The airlines don’t necessarily want to upset them,” said Mann, “but they’re certainly not as important as their most loyal customers.” Cutting back on their exemptions, “not only creates opportunities to collect fees from a new group of customers, but also creates some real differentiation for the elite tiers of the program.”

The plot thickens

At this point, most of the above ideas are strictly speculative, but with the industry’s profitability riding, in large part, on ancillary revenue, it’s safe to assume that they (and others) are being discussed in corporate offices in Atlanta, Dallas and Chicago.

Which, it turns out, adds another twist to the battle now going on between American Airlines, Orbitz, Expedia and Sabre . While most reports portray the conflict as a fight over distribution costs, à la carte fees may prove to be at least as important. After all, if an airline can encourage a would-be traveler to book on its proprietary website, it can better promote its entire array of à la carte amenities, most of which currently don’t appear on third-party sites.

Whether the benefits of that strategy — for example, more upselling opportunities — outweigh the risks — such as lower visibility elsewhere — depends on who you talk to, but it’s not hard to see why an airline might find the prospect exciting.

“When you carry millions of passengers,” said Sorensen, “having even just a few take advantage of something adds up very quickly.”