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## Airlines worldwide raked in more than \$22.6 billion in fees last year; why you're likely to see more fees

By Janet Cho

*IdeaWorksCompany contributed information to this article - - see italics.*

CLEVELAND, Ohio -- Airline passengers tend to think of fees as pesky extra charges for checking luggage, buying on-board meals or reserving seats with extra legroom.

But for major carriers worldwide, such fees are a lucrative -- and increasingly crucial -- source of additional revenue.

*More and more airlines see the dollars they rake in from selling frequent-flier miles, charging a la carte fees and earning commissions from co-branded travel products as a way to stay profitable despite rising costs, according to IdeaWorks Co., a Wisconsin consultancy that tracks such fees.*

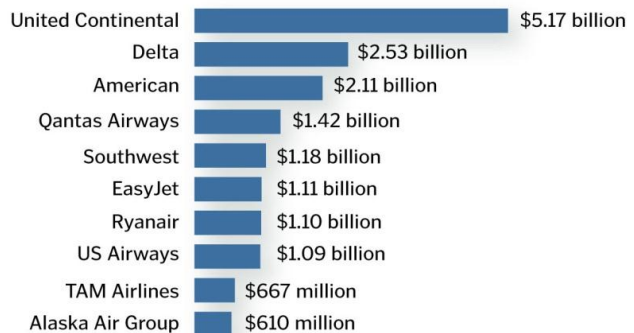
*"Once largely limited to low-fare airlines, ancillary revenue has now become a financial necessity for airlines all over the globe," said Jay Sorensen, author of IdeaWorks' Amadeus Yearbook of Ancillary Revenue.*

*Together, the top 50 airlines that report such revenue collected more than \$22.6 billion in fees last year.*

### Passenger surcharges big money for airlines

Fees for baggage, pillows, snacks and other extras add up to big income sources for the carriers. Here are the top 10 carriers for annual revenue from fees in 2011.

#### Annual revenue from passenger fees, 2011



#### Average fees collected per passenger, 2011



NOTES: Currency exchange based on rates in effect when the data were collected; 2011 carrier results were based upon recent 12-month financial period disclosures.

SOURCE: IdeaWorks Co.

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***That's more than nine times the \$2.5 billion they earned five years ago, when only 23 airlines were charging the still-new fees.***

***The airline that profited the most from the trend -- and made nearly a quarter of the industry total -- is United Continental Holdings Inc., the Chicago-based parent company of the merged United and Continental Airlines.***

***United's \$5.17 billion, which includes the money it makes from selling mileage, is more than the next two airlines -- Delta Air Lines' \$2.53 billion and American Airlines' \$2.11 billion -- combined.***

***That works out to about \$36.47 per passenger, IdeaWorks said.***

Consumers may loathe ancillary fees, but if you stop by any travel and tourism convention, "it's a very hot and sexy topic right now," with talk of even more fees, said Peter Belobaba, director of the Global Airline Industry Program at the Massachusetts Institute of Technology in Cambridge, Mass.

He said IdeaWorks' totals for ancillary revenue are misleading because they include revenues from selling miles and from branded credit cards and other promotions.

According to the U.S. Department of Transportation, U.S. airlines collected \$8.3 billion in ancillary fees in 2011, from baggage fees, ticket fees and other operating revenues.

"Whether it's \$6 billion or \$8 billion that consumers paid prior to departure or on-board, without that \$6 billion or \$8 billion, U.S. airlines would not have made a profit," he said.

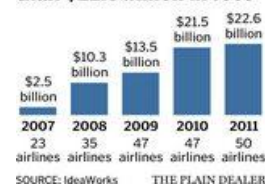
According to Airlines for America, a Washington, D.C., trade organization of the major U.S. airlines and airline-related companies, the U.S. airline industry made \$1.5 billion in net profit in 2011, with only \$600 million coming from carrying passengers.

Benet Wilson, a Baltimore aviation and travel writer who covered the airline industry for 20 years, said: "I'm certainly not a fan of the fees, but I understand why airlines feel they need to charge them.

"In the end, airlines are a business just like Eaton or Parker Hannifin. They all need to make money to stay in business."

Although airlines have repeatedly tried to raise fares to cover their costs, the average round-trip airfare rose only from \$307 in 2005 to \$368 in 2011, according to the Department of Transportation.

**Airlines raking in more than \$22.6 billion in fees**



"That's not much money," Wilson said. "So airlines are going to get that money from travelers one way or another, which is why they've turned to ancillary revenue like bag fees, buy-on-board food, flight-change fees, selling frequent-flier miles, etc."

Victoria Day, a spokeswoman for Airlines for America, said that charging ancillary fees enabled airlines to achieve razor-thin profits. "For all of 2011, U.S. airlines earned less than 77 cents per enplaned passenger," she said via email.

"The ancillary-service structure is a win for consumers," she said.

"When the airlines are able to be sustainably profitable, everybody wins. Passengers are able to pay for the services and amenities they value, keeping base fares lower for all, while a profitable airline industry can support more jobs, enabling airlines to reinvest in their product with new planes and provide greater choices."

United spokesman Joe Micucci declined to comment on IdeaWorks' report, saying: "It's difficult for me to offer comment on a report that is not ours."

United passenger Shirley Garcowski of Willoughby, who flies two or three times a year, doesn't buy the idea that charging extra fees lets airlines keep their fares low.

"They're still raising the fares if you have to pay all these fees," she said.

She dislikes that some airlines charge extra for families who want to sit together, and she said that having a United credit card doesn't always get them the early-boarding privileges they are supposed to receive.

"Now all the hotels are starting to do this because they see how much the airlines are making," she added.

Christopher Elliott, an Orlando-based author, consumer advocate and journalist who covers the airline industry, said ancillary fees don't benefit consumers.

"One, they are rarely disclosed and often hit consumers when they least expect it," he said. "Remember that Ryanair passenger who had to pay that outrageous 60-pound (per-person) fee to print out her boarding passes?"

"A lot of ancillaries, from 'convenience' fees to pay by credit card, to seat assignment fees, are hidden in plain view on the airlines' web sites - and, truth be told, should probably be part of the fare anyway.

"Two, they often take something that was included in the fare and separate it, without also lowering the fare," he said via email. "So you're getting less and spending more."

Elliott says that while elite-level frequent fliers who don't have to pay most of the fees don't care about them and others "believe the airline rhetoric, that ancillary fees increase their choices," most of the passengers he talks to think fees are "nothing more than a money grab, and wish there were laws to protect them from it."

***Southwest Airlines, whose Airtran Airways is the biggest carrier out of Akron-Canton Airport, made \$1.18 billion in ancillary revenue in 2011 -- the first time it cracked the list of top 10 airlines.***

Southwest started flying out of Akron-Canton on Aug. 12.

That \$1.18 billion includes \$96 million for its Business Select program and \$110 million in baggage fees that AirTran collected from its passengers.

AirTran, which Southwest acquired on May 2, 2011, charges \$20 for the first checked bag, \$25 for the second and \$50 for the third through ninth bags, or any bag that's too big or weighs more than 50 pounds.

AirTran also charges \$75 to change a ticket after it has been purchased.

AirTran also charges to transport pets, buy liquor, choose your seat in advance and use the call center.

Southwest doesn't charge to check bags, but it made \$142 million from an EarlyBird check-in program that lets passengers buy a place in the line to board the plane right behind Business Select for \$10 each way.

Southwest also charges \$50 each way to escort unaccompanied minors.

Its Pets Are Welcome on Southwest (PAWS) program lets fliers bring small dogs and cats into the cabin for \$75 each way.

"Unlike our competitors, Southwest doesn't charge hidden fees -- like bag fees or change fees," the airline said in an emailed statement. "We're focused on giving our customers choices for the products and services that matter most to them. We're a large airline, carrying more passengers than anyone else in the United States, and therefore we have several sources of revenue.

"But we stand alone in our belief that some things should still be included in the cost of a ticket, like taking your bag on vacation with you."

Wilson, the Baltimore aviation writer, said she tends to fly Southwest.

"Southwest gets almost all of my personal and business travel because they don't charge for bag fees, phone reservations or flight changes and cancellations," she said.

"I do pay the \$10 Early Bird fee to get that 'A' boarding pass [that lets passengers who check in first board first].

"That \$20 [round-trip] is worth it for me to get the aisle seat I want because I'm claustrophobic. Plus, they never make me feel like I'm being nicked and dined to death."

Wilson was furious when United recently charged her \$150 to change her ticket and \$50 round-trip to check her bag.

"They also wanted to charge me \$25 because I needed to speak with a human being about my ticket change, which they didn't after I pushed. Annoying," she said. "And again, I say all of this knowing that airlines do have to make a buck."

Spirit Airlines, a discount carrier out of Miramar, Fla., now relies on ancillary fees for 33.2 percent of its total revenue, including \$42 million from charging passengers to pick their seats in advance.

Spirit, which also charges \$20 to \$40 per carry-on bag, made headlines in 2010 when it started installing thinner seats that don't recline, enabling it to pack up to 33 more people per flight.

### **More airlines charging more creative fees**

Not only are more airlines charging such fees, they are becoming more creative about the many ways they raise money:

Aeroflot earned more than \$140 million from selling duty-free items, whose retail prices were raised 121 percent.

GOL earned \$19.9 million selling its miles for credit card users.

Jet Airways made \$9.7 million in baggage fees.

SAS Scandinavian made \$3.7 million from on-board sales of food and drinks.

Korean Airlines yanked out 13 seats from its Airbus A380 jets to install a fully stocked, 64-item duty-free shop on board. "It's a smart and savvy innovation," Sorensen wrote.

KLM gives passengers the option of pre-ordering upgraded meals on intercontinental flights, for 12 to 15 euros (about \$15 to \$20).

AirAsia offers a Red Carpet Service with a fast-track security check, lounge access, early boarding and a trip to the plane via electric cart, for 20 euros (\$26).

Vueling promises to keep the middle seat empty and gives you early boarding, a drink and a snack for 60 euros (\$77).

Qantas sells a permanent Q Bag Tag with wireless RFID that lets passengers self-check bags throughout Australia for 39 euros (\$50).

### **Selling frequent flier miles for cash**

*IdeaWorks says airlines reap huge benefits when passengers choose to fly their airline over another to earn miles on their frequent flier program.*

*"That's why an estimated 1.25 percent of American's 64-plus million frequent-flier members delivered 26 percent of the carrier's worldwide passenger revenue in 2009," the report said.*

*The draw is so powerful that the airlines regularly sell their miles, especially to banks, which tie them to branded credit cards that let users "earn" more miles with purchases.*

*In 2010, only 38 percent of American's AAdvantage miles were earned by people taking flights; the other 62 percent were sold for cash.*

*"The vast majority of the 114 million miles sold by American during 2010 were purchased by Citibank, which is the primary issuer of credit cards linked to the carrier's AAdvantage program," the report said.*

*IdeaWorks estimates that Citibank paid more than \$1 billion for the miles earned by its cardholders.*

*But United Continental by far profited the most from selling miles in 2011: United's Mileage Plus program earned \$1.82 billion, while Continental's OnePass program earned \$1.35 billion.*

*The combined \$3.17 billion that United and Continental earned from mileage sales in 2011 was 61 percent of their total ancillary revenue for the year.*

*It was also 47 percent higher than the \$2.16 billion they earned the year before.*

*"It's the highest in the world," Sorensen said. "Of course, it's the result of combining two very successful credit card portfolios that had the good fortune of having one bank issuer," JPMorgan Chase.*

Paul Hartwick, spokesman for JPMorgan Chase & Co., said he couldn't comment on the airlines' financial statements, but that "in general, our agreements with airlines call for us to purchase frequent-flier miles from them to provide to credit card customers."

As an extra incentive for its credit card customers to fly United, Chase's United Mileage Plus Explorer Visa gives users -- for a charge of \$95 the second year (the first year is free) -- their first checked bag for free, two airport lounge passes, early boarding and bonus miles.

Southwest reported that it made \$854.9 million in miscellaneous revenue, including a \$250 million increase in annual revenues from its Rapid Rewards co-branded credit cards.

And banks aren't the only ones buying miles. Hotels, car rental agencies and retailers also purchase airline miles to make themselves more attractive to potential customers, in addition to the miles passengers buy for themselves.

People see ancillary fees as "the airlines looking for secret ways to seek out extra money from passengers," but Belobaba said airlines have to compensate for what they can't charge in airfare to cover their costs, invest in their equipment and compete with no-frills carriers like Spirit Airlines.

"Everybody who goes on Orbitz or Travelocity or any other web site is looking for the lowest fare," he said.

As much as people say they'd be willing to pay more to check their bags and get on-board meals for free, "whenever airlines have tried to charge more for their product, passengers have voted overwhelmingly that they will go for the lowest fare."

"You can't say 'I want better seats, I want meals on board, I want to check my bags, and I want you to charge a \$49 fare,'" he said. "It's arithmetic."