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Airlines look for new fees to boost revenues

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IdeaWorksCompany contributed information to this article - - see italics.

It's no secret that airlines are charging more and more for different services, whether it's early seat selection or checking a bag.

So it wasn't surprising to learn this week that U.S. airlines collected more than \$6 billion last year from baggage and reservation change fees alone, on total revenues of nearly \$160 billion.

in change fees — that are reported separately to the U.S. Department of Transportation. Other fees, for duty-free sales and extra leg room and even priority boarding, aren't identified separately.

Transport Canada does not require such statistics to be filed. Air Canada does not disclose what it collects in ancillary fees.

In 2012, WestJet reported \$137.3 million in ancillary revenues, which included fees and on-board sales, up nearly 11 per cent from \$123.9 million in 2011. That translated into \$7.89 per guest.

For the first three months of 2013, WestJet generated \$37 million, up 4.2 per cent from \$35.5 million in the same quarter of the prior year.

While low-cost carriers such as Ryanair and Spirit Airlines pioneered charges for everything from bringing along carry-on bags to using non-affiliated credit cards, all airlines now look at ways to generate more revenue.

“It was a tool used by low-cost airlines to say ‘Hey, we’re different from a global airline. We’re going to unbundle. You’ll pay for what you want and need,’ ” said Jay Sorensen, president of IdeaWorksCompany, an airline consulting firm in Wisconsin.

“By virtue of charging, it creates the perception that the fare must be cheaper,” he said. “Gosh, this airline is so cheap they even charge you for a can of pop.”

In a joint study with technology firm Amadeus, IdeaWorksCompany estimated that airline ancillary revenue would top \$36 billion (U.S.) worldwide last year.

While consumer advocates will complain about the fees, Sorensen argues that airlines are in the business of making profits. It's a competitive industry that has struggled for years to stay out of the red.

"I'm not a consumer advocate so you're not going to hear from me, 'Oh my god, the airlines are nickeling and diming everyone to death,' " he said. "The fact of the matter is when something is provided the airlines are paying for it. Nothing is free."

He said that when airlines began to charge for checked baggage in 2008, they were forced to make sure bags arrived undamaged and on time, because the airlines know they needed to provide value.

BlackBerry

The Internet has changed the way travellers look for deals, quickly comparison shopping online. Because passengers are notoriously price-sensitive, a few dollars can make a difference, so airlines are reluctant to tinker with the fare price — plus they don't want to engage in fare slashing.

More recently, airlines are starting to bundle services for a fixed price, including a better seat, a meal or even a checked bag.

WestJet, which is introducing premium economy, has brought in three different fare structures; fees will vary depending on which bundle was chosen.

Air Canada has also revamped its categories, and when its discount carrier Rouge launches in July, it will have three fare classes.

The premium economy class is a way for airlines to boost revenues, especially when corporate clients are trying to keep costs down by reducing business-class travel. Air Canada's president and CEO Calin Rovinescu said during a conference call with analysts earlier this month that some companies have restrictions on travel in business class.

"We have seen a tremendous uptake of folks who are buying upgrades near-in if they aren't buying a business class ticket upfront," Rovinescu said. "It has been a good source of revenue for us."

Air Canada spokesman Peter Fitzpatrick could not quantify how much is collected, adding fees depend on the route, the original fare paid and availability. The airline wants to ensure some full-fare seats are available for last-minute purchase, as well.

WestJet has reconfigured 24 seats on each of its aircraft for its Plus class, which rolls out later this spring. In the meantime, the airline is hoping to capture extra revenue by letting passengers upgrade to those seats, if available, for a \$45 fee on each flight leg.

Airlines are beginning to realize that they need to think more like retailers, figuring out how to make extra money. In fact, Delta Airlines hired an executive from giant retailer Target to head up its e-commerce arm.

“From an airline’s perspective, you want to up-sell as many things as possible because they want to make a lot of money,” said Markus Nilsson, head of sales for Paxport, a Swedish company that offers technology to help airlines boost their ancillary revenues.

“It’s a strategy of, ‘What do I want to sell and when,’ and then decide on the products.” If a passenger is booking for travel the next day, then an airline can try sell everything at once, from travel insurance to meals. But if the trip is six months away, the airline could send an email every month leading up to the departure, offering different items and services.

Nilsson cautioned that such sales are a bit of trial and error as airlines look for a pitch that doesn’t annoy their customers. If the pitch is focused, say offering a preferred seat for a price, a passenger may be pleased that the airline remembered she prefers a window seat near the rear of the plane.

Raymond Kollau, founder of Amsterdam-based airlinetrends.com, believes airlines know they have critical data on passengers, but the key is figuring out how to monetize that information.

“Making the more personalized offer is the holy grail for airline marketing in the years ahead,” he said, adding that the key is making a relevant personal offer, not a generic one. “But execution is hard. It’s uncharted territory.”

The irony is that airlines are finding ways to generate more fees because of their policy changes.

Overhead bins are often jammed, especially on U.S. carriers, because people don’t want to pay to check their bags, Kollau said. So instead, airlines are now offering early boarding for a fee so passengers can find space for their carry-ons and not face the crush of people at boarding time.

“Interestingly, one kind of ancillary fee leads to a certain behaviour, which creates an opportunity for a new ancillary fee,” he said.

Sky’s the limit

Airlines find ways to boost sales

- For economy passengers who don't want to eat typical airline food, carriers are offering more choice for a price. For \$15 to \$20, KLM serves up five a la carte meals, ranging from Dutch, Italian and Indonesian food, for most of its long-haul

routes from Amsterdam. Passengers can order up to 48 hours beforehand, though the option isn't available on the Toronto-bound route.

- Passengers can bid as if they were at an auction to upgrade to a better seat, whether it's in premium economy or business class, on certain airlines such as Air New Zealand. But it's a blind bid, so they won't easily know if they have offered too much or not nearly enough to win.

Virgin Atlantic spokesman Joshua Crouthamel said the Your Bid auction service was first offered on a trial basis in 2011, and the takeup rate has been good, though it is always subject to availability. More expanded routes are planned.

- Hate feeling squished in the middle seat? Some airlines let you pay a fee to ensure you have an empty seat next to you. AirAsiaX has the empty-seat option, where passengers can pay to sign up for the privilege, plus pay for the empty seat. When it was introduced in 2012, the CEO estimated it could generate \$1 million (U.S.) that year.
- AirBaltic, a discount carrier in Latvia, has focused on selling services beyond just a flight, urging passengers to pre-purchase trips on a shuttle or taxi service (which it owns) to and from the airport.
- Virgin America lets passengers send a drink or food to a fellow traveller as if they were in a bar or pub. The airline has an "open tab" function on its in-flight service, so passengers swipe their credit card once, make more purchases during the flight, then settle up at the end, not unlike a bar tab.