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What's keeping the airline industry alive

By Clive Dorman

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The flying business has a cute name for it: “a la carte”. That’s how the airline industry now dresses up all the extras airline passengers are hit with in its latest marketing fad. But don’t be mistaken that the so-called ancillary revenue fad, which has been around only since the middle of the last decade, is temporary.

The crude mathematics in last week’s definitive annual report on the subject, by a US consulting firm, IdeaWorksCompany, show how desperately dependant the airline industry has become on ancillary revenue.

Put bluntly, if ancillary revenue were to disappear, so would the airline industry.

According to the IdeaWorks report for 2013 released last Wednesday, ancillary charges levied by airlines now account for at least $US31.5 billion ($A33.56 billion) a year – a rise of more than 16 per cent on 2012’s $US27.1 per cent.

But the more shocking figure is that the International Air Transport Association reckons the airline business is such a basket case that it will make a collective profit this year of just $US18 billion ($A19.17 billion) on sales of $US746 billion ($A794.86 billion).

In other words, if you take away the extras now charged for baggage that used to be “free” and other recently invented options like preferential seating (we’re not talking extra legroom here, just simply stuff like being able to sit together with the rest of your family or travelling group), the airlines are collectively bleeding tens of billions of dollars a year.

The airline industry’s average profit margin of 2.4 per cent in 2014 works out to just $US6 ($A6.39) per passenger. The average ancillary revenue charge – to put it another way, the amount by which the advertised fare understated the true amount you paid – was $US16 ($A17.04) per passenger in 2013.

The top 10 airlines for ancillary fees as a percentage of revenue is a who's who of the low-cost airline industry: Spirit (US), Wizz (Europe), Allegiant (US), Jet2 (UK), Ryanair (Europe), Tigerair (Australia/Asia), Jetstar (Australia/Asia), AirAsia X (Asia), EasyJet (UK/Europe) and AirAsia (Asia). At the top of the list, ultra-low-cost carrier Spirit earns 38.4 per cent of its revenue from ancillary fees.

If you look at Spirit's ancillary revenue pie chart, 43 per cent comes from baggage charges, but the next-biggest charge is the doozy: 30 per cent from a "passenger usage charge" – a zero-service fee ranging from $US9 to $US17 ($A9.58 to $A18.11) per person.

The airline is charging passengers for carrying them, but with an asterisk to enable the fee to be avoided if a numbers of hoops are jumped through.

This is the same zero-service fee as the $8.50 Jetstar/Tigerair ($7 Qantas/Virgin Australia) impost that used to be called a credit card fee that is the subject of action being taken by the Australian Competition and Consumer Commission, with Federal Court cases scheduled for next month.

Qantas actually makes the world top 10 list for average ancillary fees per passenger, getting $US45.67 ($A48.65) per head, but IdeaWorks points out that 80 per cent of that figure comes from the revenue being earned by Qantas Frequent Flyer in fees charged to banks, credit card companies and retailers.

The UK's Jet2 actually tops that list with an average of $US55.61 ($A59.25) charged per passenger in ancillary fees, but AirAsia X, which flies to five Australian destinations, comes in at No.5 with an average of $US44.43 ($A47.33), just ahead of United Airlines at $US40.97 (A$43.65).

So you are now expected to play cat and mouse with the fees gotchas every time you book an airline ticket and that's the way it's going to stay until the airline business thinks up a new fad.