

SMARTERTRAVEL

September 27, 2016

Airline Fees: The Naked Truth

By Ed Perkins

This article is based upon a report issued by IdeaWorksCompany.

Airline fees remain a “pain point” for many travelers, and the pain is getting worse. Despite all the focus, however, you still see some public confusion. The latest exhaustive report (104 pages!) from IdeaWorks presents a good starting point for a dispassionate assessment of the realities and myths of airline fees.

Big, But Not That Big

Airline fees are big—but not as big as some might think. Last year, reports IdeaWorks, aggregate “ancillary revenues” from the world’s top 10 airlines amounted to almost \$26 billion, up from \$8 billion in 2008. That figure has already generated “wow, look at all those fees” stories in the press, as some writers conflate “aggregate revenues” with “fees.” But that would be wrong. American, Delta, and United accounted for about half that total, and more than half of those lines’ ancillary revenues came from sale of frequent-flyer miles to the banks that issue the lines’ co-branded credit cards—revenues, yes, but not fees.

Ultra-low-fare lines, on the other hand, do generate a lot of their revenue from fees. A detailed breakdown of Spirit’s total revenue shows that only 57 percent came from base fares, with rest coming from fees: 18 percent from checked bags, 14 percent from online and call center, and the remaining 11 percent from various minor sources. And that sort of breakdown is probably similar for other ultra-low-fare lines.

Not Really “Hidden”

Most flak about “hidden airline fees” is a red herring: Any fee you have to pay to fly is included in the posted fare from the get-go, with no subsequent surprises. That’s a requirement from the U.S. Department of Transportation and corresponding agencies throughout most of the developed world. Once you pay the posted base fare, you can complete your trip without paying anything else.

Granted, fees for what used to be “free” can range from annoying to enraging, and in many cases, supposedly “optional” extra services are actually necessary for many travelers. But those fees are not hidden, at least when you buy your ticket through an airline website: As you go through the purchase process, the airline gives you the chance—or, more accurately, urges you—to buy more, along with the airfare. And fees that aren’t part of the normal purchase process are disclosed in various consumer documents.

Some fees really are “hidden,” in the sense that you have to dig to find them. The most onerous is the ticket change fee, which is disclosed in the fine print but does not pop out in the normal purchase process. Another is the “fuel surcharge” or “carrier-imposed fee” some lines incorporate in their fare structure. But those fees are fully included in posted ticket prices; they come into play only on some frequent flyer trips, companion tickets, and corporate fare deals. And when you buy a ticket through a third-party online travel agency, you may not encounter the fees for the various “optional” services.

Few Cost-Based Fees

Some legislators have proposed rules requiring that all fees be based on cost, but that proposal misses much of the target. The only two major fees that actually cover airline out-of-pocket expenses are for checked baggage and onboard meals and beverages. You can argue about whether the prices are “fair,” but clearly handling checked bags does involve both a direct labor cost and the cost of amortizing extensive baggage-handling systems and hardware, and airlines have to pay someone for what they serve in flight.

Because They Can

Airlines charge some of the most annoying fees simply because they can. Among those are early boarding, advance-seat assignment, carry-on baggage, and such. Airlines figure that as long as some customers are willing to pay, they’ll charge them. Providing the service costs the airline virtually nothing; the revenue is pure gravy. Of course, the problem for travelers is that some of these fees are a form of blackmail: If you don’t pay, you’ll wind up in a middle seat and away from your traveling companion who is in a middle seat in a different row.

Influence Behavior

Arguably the most onerous fee consumers face is the fee to exchange a ticket. Airline critics often harp on the fact that changing a ticket costs an airline virtually nothing: a few automated computer entries. But cost isn’t the point. Airlines claim that they experience an “opportunity cost” when someone cancels and asks for a change: We lost the chance to sell that seat to someone else. That’s isn’t the point, either. Take an example: A consumer buys a cheap excursion ticket a month in advance for \$500; a week before departure, he or she has to cancel. Given today’s high load factors, there is at least a 75 percent chance that the airline can resell that seat at a business-travel fare of \$800. So instead of an opportunity cost, the airline nets an extra \$300, plus whatever fee it charges.

The real reason for those high change fees is to discourage business travelers from buying cheap advance-purchase fares. With a minimal cost-based change fee, say \$25, a business traveler could book a trip a month in advance and gamble on being able to take those flights. If plans change, the business traveler could exchange the ticket for the expensive late-purchase ticket that the airline wants him or her to buy in the first place, with only a trivial change penalty. That’s the reason for the high fee. Ordinary consumers caught by those huge fees are collateral damage—perhaps unintended, but damage the airlines are obviously willing to inflict.

Fees to print out boarding passes at the airport, and fees to use a check-in counter rather than use an automated check-in are also designed mainly to get travelers to perform these routine tasks themselves. The airline will take the revenue, of course, but it really wants to lower the workload—and therefore staffing—at airport check-in counters.

Relief Unlikely

Very few industry folks believe that proposals to regulate airline fees will gain any traction, at least in the U.S. Airlines do a lot of lobbying and make a lot of campaign donations to assure that no “re-regulation” succeeds.

But airlines have a collective tin ear. Historically, they’ve ignored cries of pain from consumers about problems they could have solved by themselves but didn’t. They drone, “Let the marketplace decide.” But when the marketplace remains inert, and consumers get fed up with the stalling and bogus reassurances, the airlines act surprised when frustrated consumers turn to government for help. This scenario might well take place with ticket change fees: Keep watching.

Self Help

Travelers can avoid two of the more onerous fees—ticket change and checked baggage—by flying Southwest. At least for now. The financial press reports that Wall Street is pressuring Southwest to change its no-fee policies so as to improve profits. Southwest still seems to believe that the net effect is positive: Improved market share outweighs loss of potential fee revenue. But Wall Street favors improved results the next quarter, not long-term growth.

Meanwhile, travelers worried about outrageous change fees have the option of buying cheap insurance. In Europe, a high percentage of leisure travelers do so, and some in the industry wonder why so few U.S. residents do.

Beyond those options, you have a choice: play by the airline rules and pay what you think you need. Overall, that strategy will increase your costs, but at least you’ll have a better flight.