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The Skies Are Alive With Fees

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By Joe Sharkey

IdeaWorks contributed information to this article - see italics

THE low-fare European carrier Ryanair is the world champion among airlines in generating extra cash by charging customers fees for services and products that most airlines include in the ticket price: checked bags, beverages and — for a time before the idea was dropped amid public outcry — even using a wheelchair.



Travelers at the Ryanair terminal at Stansted Airport in London. The carrier is known for low fares and few amenities.

Ryanair is known for fares that are far lower than those of carriers in the United States, with sale prices sometimes less than \$15 each way on certain European routes. The Web site of this brash Irish airline offers commission-generating promotions for booking hotels and travel packages, but also generates cash from decidedly non-travel-related services, with gaudy screens providing online gambling options, including bingo.

For example, a satirical report on the British humor Web site Newsbiscuit.com says Ryanair is now charging “£39.99 plus VAT” to carry passengers’ “emotional baggage.”

Ryanair’s incessant push for spare cash to maintain cheap fares generates plenty of mirth.

Competitors are not so derisive. Parts of the Ryanair approach are tentatively being embraced by airlines in the United States, which are grasping for more ways to “unbundle” fares and charge extra money for an expanding variety of formerly free services and amenities. Already, the jokes are starting about coin-operated lavatory doors and overhead oxygen masks that rent by the minute in an emergency.

Ancillary revenues are “the magic bullet right now for the airline industry,” said Jay Sorensen, president of IdeaWorks, a brand-marketing company. “The airlines may be thinking mergers are their salvation, but the reality is ancillary revenues are going to be a tremendous source of revenue.”

The trend started as airlines struggled back financially after the 2001 terrorist attacks. Free meals disappeared from most domestic flights, replaced by snack boxes that now may sell for \$5 to \$7.

Now, major airlines are hoping to increase ancillary revenues in a climate where low-cost carriers exert strong pressure to hold down fares. Some are now charging for more than one checked bag. Others sell assigned seats and per-flight priority boarding privileges formerly reserved as perks for elite-status members in frequent-flier programs.

Some airlines, JetBlue among them, charge extra for some on-demand movies on seat-back video systems. Others charge extra to make booking changes by telephone, rather than on their Web sites.

With oil breaking through \$100 a barrel, "you have an industry that's grabbing at every opportunity they can to put more coins in the till," Mr. Sorensen said.

Allegiant Air, a low-cost domestic carrier that is one of the leaders in ancillary revenue, generates extra cash on everything from the rental of inflatable pillows and the sale of soft drinks on board to commissions from booking Las Vegas hotels when booking airline tickets. In 2003, Allegiant made about \$3.40 a passenger, on average, on revenue other than the actual sale of a ticket. Last year, that figure topped \$21 a passenger, the domestic industry's highest, says a detailed Ancillary Revenue Guide from Mr. Sorensen's company.

Ancillary revenues come from three categories: à la carte fees; online services that generate commissions and other revenue; and squeezing more revenue from frequent-flier programs.

Airlines are also generating cash by promoting the sale of day passes to their airport lounges. It typically costs \$400 to \$500 for an annual membership in these once-exclusive lounges. While day passes have long been available for about \$50, airlines didn't actively promote or discount them. Now, several major carriers sell transferable day passes with volume discounts to corporations, at fees as low as \$25 each.

BUT there is peril here, Mr. Sorensen said. Allowing more day-trippers into once-exclusive lounges can only exacerbate a complaint from regular annual members: many lounges are too crowded already.

À la carte pricing can further upset an airline's elite-status frequent-flier members. Already accustomed to fewer free upgrades as airlines sell more of their first-class seats at a discount, elite-status members are seeing a diminution of other perks that are now being sold daily, like priority boarding and first dibs on seat assignments.

"That's a slippery slope," Mr. Sorensen said. "The airlines have obligations to their elite members to provide more service. But I think the airlines are now more often looking at some of these things and saying, 'We don't have to give this stuff away; we can sell it.'"