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Airline Fees are Big Money; a Whopping 345% Jump

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IdeaWorks contributed information to this article - - see italics.

Everyone knows the growth of airlines' ancillary revenues has been extraordinary, but now there's a worldwide figure on just how extraordinary: \$10.25 billion in 2008. That tally represents a stunning 345% increase since 2006, and is likely to creep higher this year as airlines find traction with the new fees.

The data are from a report released Tuesday by IdeaWorks, a Wisconsin-based market research firm. "Ancillary revenue is one of the few bright lights in the dark and gloomy sea that has become the airline industry," IdeaWorks President Jay Sorensen writes in the bi-annual report, which costs \$449.

It is worth noting, additionally, that the International Air Transport Association (IATA) expects the industry to lose \$9 billion this year due to recession and fuel costs, although the U.S. industry is likely to eke out a small profit. Last year, however, was a far different story: U.S. airlines lost \$9.5 billion alone because of the record surge in oil prices. For 2009, global revenues are projected to drop 15%, or \$80 billion, according to IATA.

Into this financial distress come ancillary revenues, the monies airlines collect for choicer seats, advanced boarding, more legroom, checking a suitcase, a glass of wine, et al. For the first time, a U.S. carrier, Allegiant Air (ALGT), unseated no-frills king Ryanair (RYAAY) in the 2008 tally, with 22.7% of total revenues stemming from ancillary sales, compared to 19.3% for Ryanair. Allegiant was also the only U.S. airline among the top five, with European budget carriers holding the other four spots. At Las Vegas-based Allegiant, ancillary revenues surged to \$85.9 million in the first half of 2009 from \$56.3 million in the same period of 2008.

Financial pressures are the reason so many new air travel fees now arrive regularly. Last week, Southwest (LUV) surprised some people with a new \$10 "EarlyBird Check-in" product that allows passengers to check in 12 hours ahead of general online check-in, potentially bettering one's chance at snaring a decent seat and overhead rack space. And starting on Sept. 14, American (AMR) will impose a \$50 fee for checking a second bag on flights to India and eight European countries. The charge for a second checked item on international flights was matched almost immediately by Continental (CAL), Delta (DAL), and US Airways (LCC) for trans-Atlantic flights.

Top 5 Airlines – Total Ancillary Revenue			
Annual Results – Calendar Year 2008		Annual Results – Calendar Year 2006	
€1,650,000,000	American	€416,116,752	United
€1,200,000,000	United	€362,104,000	Ryanair
€1,125,000,000	Delta	€189,476,508	easyJet
€625,350,240	Ryanair	€134,662,086	Alaska
€458,622,000	Qantas	€63,407,000	Aer Lingus

Source: Worldwide Review of Ancillary Revenue Statistics from the 2008 and 2009 Ancillary Revenue Guide by IdeaWorks.
Some carrier results were based upon the most recent fiscal year.

The report also shows the growing importance of ancillary revenue for the large network airlines: 9.3% at American; 7.9% at United (UAUA) and 6.6% at Delta, which is now the world's largest airline. At JetBlue (JBLU), more than 10% of total revenue is from ancillary products and services. For American, checked bags, food, drinks and the like now represents roughly \$2.35 billion annually. The Fort Worth-based parent company does about \$21 billion in total sales. Delta is likely to push close to \$2 billion this year for ancillary revenue – essentially “new money” compared to past times – of its \$26 billion total.

Moreover, ancillary revenue growth is not merely the province of the lowest-cost players such as Allegiant, Ryanair and easyJet, the sort of airlines business travelers generally do not fly. Two of the top 15 airlines in terms of revenues per passenger – Qantas and Emirates – are regularly lauded as among the world's finest premium carriers. Qantas extracted 11.87 euros (\$17) per passenger in 2008 – nearly one euro more than Ryanair, while Emirates topped easyJet, 9.76 euros (\$13.98) vs. 9.08 euros (\$13.01), according to the report.

Sorensen predicts that nearly every carrier will charge bag fees for coach passengers at some point, a fundamental reordering of air travel that no one would have expected just a couple of years ago. And these fees are not temporary. “Consumers understood the link to costs,” Sorensen said in an email Tuesday on the subject of why the outcry about new fees was so muted. “And they now understand the fees are here to stay.”