

October 19, 2009

Analysts say United's checked-bag program could set trend

By: Michael Fabey

IdeaWorks contributed information to this article - - see italics.

With its new annual checked-bag fee option, United may have identified a way to satisfy two often-competing airline appetites: growing ancillary revenue and creating a loyal passenger base.

The United Premier Baggage program costs \$249 a year and covers fees on a year's worth of checked bags. It enables the purchaser and up to eight companions traveling under the same confirmation number to check up to two standard bags each on a flight, without fees.

Analysts predicted that not only was the plan likely to catch fire with other airlines, it's likely to spread into other flight service areas, as well.

Not only that, some said, but the airlines could start to repackage some services in novel ways to offer passengers annual service options that could grow customer loyalty.

"It looks like the airlines might have hit on something here," said Vaughn Cordle of the consultancy AirlineForecasts. "This front-loads that revenue during a very weak period."

Passengers, he said, will feel obliged to fly the several times needed on the airline to make their money back.

Others in the industry agreed.

"This is the next big thing, annual subscriptions," said Jay Sorensen, president of the consultancy IdeaWorks and author of the company's Ancillary Revenue and a la Carte Guide, published earlier this year.

"It generates upfront cash and virtually guarantees loyalty," he said.

Kevin Mitchell, chairman of the Business Travel Coalition, said he and other business travelers often don't check enough baggage to make such a deal worthwhile.

"But can this rebundling and repackaging enhance the image of a carrier? Most definitely," Mitchell said. "You see it in other industries. You see it in telecommunications. They were dying, and then they rebundled and repackaged everything."

Mitchell said airlines could, for example, combine onboard WiFi services, lounges and other services for similar annual subscriptions.

"You can look at this inside the plane and outside the plane. Door to door, that's where this will go," he said.

It could have worldwide implications, he added.

Cordle disagreed with Mitchell, saying the program could indeed prove attractive to the growing army of business travelers who are now being forced to fly coach and may no longer be eligible for some of the baggage-fee perks they had enjoyed before.

"Airlines may leave a little money on the table in the end for bag fees, but they are locking passengers in for more trips," Cordle said.

United now makes about \$5.81 per passenger on U.S. domestic flights from checked-baggage fees, according to the IdeaWorks' ancillary revenue guide. That's the best rate among the world's biggest airlines, IdeaWorks said.

United ranks second among the world's airlines with revenue generated from fees from unbundled or other extra services, earning about \$25.33 per passenger in 2008, the guide said. Allegiant ranks first, earning about \$29.57 per passenger. American came in fourth, with \$21.80 per passenger.

That kind of revenue has been a newfound gold mine for airlines, which are looking for more ways to mine it.

"Seemingly overnight, checked baggage became the major ancillary revenue associated with aircraft operations," the IdeaWorks' ancillary revenue guide said. "U.S.-based activity is spreading from the domestic market to international routes."

From one new bag fee alone, the guide said, Delta expects to earn an additional \$100 million annually.

United, the guide said, has proven to be a pioneer in not only leveraging baggage fees and other ancillary charges financially but also as a means to keep its passengers' fidelity, using their website as an anchor.

"United Airlines provides an exceptional example of how to build a brand and integrate a la carte services into the selling environment of a website and booking engine," the guide said.