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## **New United unit focuses on ancillary revenue**

By: Michael Fabey

*IdeaWorks contributed information to this article - - see italics.*

United, a leader among legacy airlines in generating ancillary revenue, is marshalling its resources to come up with even more fees and better ways to package and market them.

Looking for new ancillary revenue streams is vital to the airline, CEO Glenn Tilton said.

"It is so important we actually are putting a unit together that is focused solely on ancillary-revenue generation," Tilton said in an interview last month at a gathering of Star alliance executives at Newark Airport to welcome Continental into the alliance.

Tilton said the unit would be named Merchandising.

The new unit's name reflects the feeling by United and other carrier executives that the new fees represent more than just a bunch of trendy tacked-on charges.

*Jay Sorensen, president of the IdeaWorks consultancy, which publishes the "Ancillary Revenue and A La Carte Guide," likes the idea of a new unit and its "merchandising" moniker.*

*"I think there is much to do in this area," Sorensen said. "For example, you've seen airline snack boxes — you know, the ones sold for \$7 that have a plain white exterior and the logo of the airline. Can you imagine this very same box in a grocery store? They'd never sell. Why? Because the packaging was designed by the airline brand police and not by a designer who has worked for a consumer products company.*

*"And how are these boxes sold? Yes, on the very same trolleys that were used for giving away free food," he said. "Basically, it's a process that has seen zero innovation. This is where merchandising can make all the difference."*

How airlines view these charges does matter, said Peter von Moltke, CEO of UBM Aviation. "Ancillary revenue is an extension of the cultural mindset of an airline," he said.

Few airlines have been as active as United in identifying such products. The carrier recently started an annual checked-bag subscription, enabling passengers to pay one yearly fee to take care of their baggage charges.

United has been rewarded for its efforts: The airline tallied about \$276 million in ancillary revenue for the second quarter, surpassed only by Delta's \$924 million and Continental's \$277 million.

In all, the nation's nine top airlines reported about \$2.4 billion for the quarter in ancillary revenue.

Like United, other carriers are looking for more ways to create new revenue streams, especially in the absence of backlash to the fees. The airlines started charging extra fees last year to compensate for fuel price spikes. The practice continued through this year to help them cope with the recession.

As the airlines started to charge for checked bags, more passengers opted to leave their bags at home, said airline executives.

"What we're seeing is a behavior change," US Airways CEO Doug Parker said at the Star gathering.

While some passengers complain of being hit with nickel-and-dime charges, airline executives continue to defend the fees as equitable.

"As we seek additional revenues, we can give the customers choice of the product and service they want," said Continental President Jeff Smisek. "The addition of these service fees is more fair."

Asked if Star partners could integrate ancillary revenue plans, Parker cautioned, "It gets really tricky because it gets into pricing the product. When you start messing with pricing the product, certain airlines have different cultures. It's harder to do across the alliance. Furthermore, we can't talk about pricing with each other, absent any antitrust immunity."

***Sorensen said he doubted alliances could pull it off: "I generally see the alliances as an impediment to innovation, not an inspiration for innovation."***