



November 23, 2009

## **Winging It: Fees aid airlines, but travelers' costs too vague**

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

In the last year or so, some of those who run U.S. airlines surely must have wondered why it took them so long to adopt so-called a la carte pricing, or charging fees for services that were once included in ticket prices.

For the rest of us, of course, the more fees are adopted, the more we're left to wonder exactly what a flight is really going to cost.

*Airlines worldwide collected about \$10 billion last year in what has become known as ancillary revenue, according to IdeaWorks, a marketing firm that studies the topic.*

*The total includes sales of frequent-flier miles and other travel services through airline Web sites, as well as charges for changing a ticket, which has been a policy for most carriers since the late 1990s.*

In this country, airlines could take in more than \$2 billion this year for checked bags, premium seating, pillows and blankets, snack boxes, and dozens of other services and items.

Early in this decade, smaller, low-cost carriers in Europe started the practice of "unbundling" the cost of hauling passengers. Ryanair of Ireland was a leader in the effort, setting fares as low as \$5 or \$10, while piling on charges for everything else, and even contemplating putting credit card slots on airplane toilets.

*In its 2008 study, IdeaWorks calculated that leisure-oriented Allegiant Airlines derived almost a quarter of its revenue from fees. The major U.S. carriers, which started unbundling fares in mid-2008, are getting about 8 percent of their revenue from fees, the study found.*

Even Southwest Airlines, which advertises heavily that it doesn't charge for checked bags, received 1 percent to 2 percent of its revenue from fees for other services in the third quarter, its executives have estimated.

As annoying as many of the fees are to most customers, look at them from the perspective of the airlines.

When carriers began adding them last year, speculation was driving up the cost of fuel so fast that their very survival was dependent on finding more revenue. That was followed by the worst recession since the 1930s, causing double-digit declines in ticket revenue.

Heartening to the airlines, most of the fees - perhaps with the exception of US Airways' now-abandoned \$2 for a can of soda - have been largely accepted by customers as a standard cost of flying.

American Airlines justifies the fees it charges because it has two distinct types of customers who expect different levels of service, spokesman Tim Smith told me.

A quarter of customers are business travelers who are constantly on the road; many of them pay little or nothing in fees because of their frequent-flier status or the high fares they're charged. The other three-quarters of customers are infrequent leisure or business travelers who fly an average of once a year, and then only if a fare is low enough.

The second group "has said the most important thing to them is price," Smith said. "For us to be able to offer those low fares, we've chosen to unbundle those services they may or may not need."

To many airline analysts and consultants, some of whom are frequent critics of the industry, this new pricing model is one of the carriers' best moves in years. Fees are needed to supplement fare revenue, which airlines regularly fritter away with endless streams of discounted fares.

"Maybe airlines this time are on to something," said Kevin P. Mitchell, chairman of the Radnor-based Business Travel Coalition. "Finally, they may have a revenue idea that's not subject to cannibalization."

But fees also have raised serious issues for some of the airlines' best customers, issues the travel industry needs to deal with. Among those concerned are corporate travel and purchasing managers who oversee multimillion-dollar annual budgets.

They work for companies with managed travel programs, where employees follow set policies on which airlines and hotels they use, usually make their own reservations online, and must file detailed expense reports after a trip.

The travel managers say that the airlines, travel agencies, and the reservations systems the agencies use aren't doing a good job of reporting back to the customers how much they're spending on fees. Consultants' studies estimate that fees can add about 15 percent to the cost of the average airline trip.

What big companies spend on tickets is routinely tracked by their travel agents, and the data are used to negotiate volume discounts. Now, travel managers not only are calling for greater visibility in what fees are costing, but also are seeking to include them in the negotiations for discounts.

"The airlines have done a lot of things accounting systems weren't ready for," Mitchell said. "I can't think of anything quite this big. It's overwhelming. Previously, cost changes were incremental."

Individual airline customers have a similar need for clear information about what the total cost of a flight will be, fees included, something that is often hard to determine now before making a purchase.

The European Union already has stronger requirements than we do in this country requiring disclosure of the total cost of an airline ticket.

Surely airlines know that if they don't do more to clearly outline the full cost, Congress or federal regulators will force them to do it.