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With airfare hikes a no-go, airlines will get creative with fees to offset rising fuel cost

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IdeaWorks contributed information to this article - - see italics.

Add this to the list of things you'll be searched for before you get on an airplane: more cash.

Recent attempts to jack up airfares haven't stuck. Now it seems all but inevitable that carriers will find other ways to offset oil prices that are projected to rise 21% this year.

A logical place to look is in passengers' pockets. Industry observers expect airlines to get creative with everything from baggage fees to special levies for passengers who book tickets using a credit card.

"I think you're going to see some wild things," says Jay Sorensen, president of Wisconsin-based IdeaWorks Co., which advises airlines on ways to generate additional revenue. He expects airlines to build on existing fees, such as baggage charges. Flat rates for checked bags could give way to charges that vary by distance, he notes.

Another possibility: charging a premium for travelers who want to get their bags first instead of waiting around the baggage carousel, similar to the fee airlines charge those who want to get through security more quickly.

"When people say the sky's the limit on fees, they're not half wrong," says Henry Harteveltdt, a San Francisco-based airline analyst at Forrester Research Inc. "We joke that pretty soon the pilots are going to come on and say, 'We'll be cruising at 30,000 feet and likely feel a little turbulence. But for an extra 10 bucks, we can cruise at 35,000 feet to avoid the turbulence.' "

In the meantime, Mr. Harteveltdt predicts airlines will continue to carve up their fares. "I could see different fares with different privileges, like a base fare without frequent-flier miles," he says.

Airlines will keep looking to fees to offset costs, perhaps charging passengers if they buy tickets with credit cards, something European airlines have done, Mr. Sorensen notes. This is tricky territory, though, since U.S. airlines team up with credit card companies on frequent-flier programs, an important revenue source. One possibility is to charge customers who don't use a frequent-flier credit card.

United Airlines recently increased the fee coach travelers must pay to check luggage by \$5 per bag, which is expected to add \$80 million in revenue this year. Photo: Erik Unger

Fees are going up because airlines' costs are rising and their pricing power remains weak. After dropping in 2009, oil prices are expected to rise to a full-year average price of \$75 a barrel vs. last year's \$62. Travel demand, while showing signs of picking up, hasn't rebounded sharply enough to undo the damage of 2009, when passenger travel fell 6%, taking fares down 13%.

"It's easier to raise fees than fares right now," Mr. Sorensen says.

The major U.S. carriers, including United Airlines, tried unsuccessfully to increase fares by \$6 a week ago but were able to raise the fee coach travelers pay to check their luggage by \$5 per bag.

Ancillary revenue, or income from "unbundling" the parts of air travel that passengers used to get for free, has provided a rich target for the cash-strapped industry. U.S. airlines saw such revenue soar 36% to \$2 billion in the third quarter of 2009 from a year earlier, according to the Bureau of Transportation Statistics.

Chicago-based United, which claims credit for starting the baggage-fee train rolling 18 months ago, drummed up \$1 billion in additional revenue from extra fees for everything from bags and extra legroom to a cut of hotel and car rentals booked on its Web site. The recent \$5 increase in bag fees will mean \$80 million for United this year.

"Ancillary revenues are an ongoing focus for us," John Tague, the airline's president, told analysts last week.

But there's a delicate balance in seeking new revenue without making customers feel like they're being gouged, Mr. Harteveltdt says. He points to Arizona-based US Airways Group Inc. and Ireland's Ryanair Holdings PLC as airlines that went too far: US Air for trying to charge for soft drinks in coach, and Ryanair for threatening to charge passengers to use the bathroom.

"There's a line between what the airlines can do and what they should do," Mr. Harteveltdt says.