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Airlines expected to increase baggage fees, add others

By: Rich Rovito

IdeaWorks contributed information to this article - - see italics.

Checked baggage fees have created a major revenue stream for airlines and charges could climb even higher to offset recent failed attempts to raise airfares and ease growing concerns that oil prices will rise, according to industry observers.

“Baggage fees are here to stay and they are only going to grow in importance for carriers,” said Jay Sorensen, who operates IdeaWorks, a Shorewood airline consulting firm.

Sorensen said he also expects airlines to “tweak” baggage fees, with rates possibly being charged based on distance traveled.

Airlines first implemented baggage fees in 2008 as a “quick fix” to offset rapidly rising fuel costs, but quickly realized it provided a tremendous opportunity to generate additional revenue, he said.

Although consumers obviously haven’t been thrilled with the added charges, they haven’t been vocal in their opposition to the charges, giving airlines no motivation to reduce or eliminate the charges, Sorensen said.

“There was a lack of consumer backlash,” he said. “Consumers begrudgingly accepted their fate.”

Airline baggage fee collections rose to \$739.8 million in the third quarter of 2009, the most recent period for which data was available, according to the Bureau of Transportation Statistics. The figure represented an increase of 111 percent over the same period in 2008, when baggage fees generated \$350.1 million in revenue.

Airlines consider baggage fees the “holy grail of revenue treasure,” a report issued by IdeaWorks stated.

Midwest Airlines, which has the largest market share at General Mitchell International Airport in Milwaukee, raised its checked baggage fees in November 2009 to \$20 each way from \$15 for the first checked bag and \$30 each way from \$25 for the second.

Midwest currently has no plans for further baggage fee hikes, said Jim Reichart, spokesman for Midwest, which formerly had its headquarters in Oak Creek prior to being bought by Indianapolis-based Republic Airways Holdings last year.

Orlando, Fla.-based AirTran Airways, which is second in market share at Mitchell, currently charges \$15 each way for the first checked bag and \$25 for the second.

Kevin Healy, senior vice president of marketing and planning for AirTran, declined to discuss the airline's future pricing plans, but said the airline industry is merely catching up with the rest of the travel and hospitality sectors when it comes to creating ancillary revenue streams.

The lone holdout on baggage fees has been Dallas-based Southwest Airlines, whose "bags fly free" advertisements have been running for months. Southwest, the nation's largest discount airline, launched service at Mitchell in November 2009.

The campaign "virtually assures (Southwest) will remain on the sidelines for some time," according to the IdeaWorks report.

Southwest recently began circulating a survey to its customers examining a variety of fare options, including one that would allow for only one free bag instead of two. The survey isn't an indication that Southwest has any imminent plans to add charges for bags, airline spokesman Brad Hawkins said.

"We'll never say never, but it's nothing we are considering," Hawkins said.

Implementing baggage fees wouldn't make sense given that Southwest has heavily invested in an advertising campaign, Hawkins said.

Southwest has been successful in taking business from other airlines by not charging for checked bags, but it doesn't have other airlines thinking about dropping the fees, Sorensen said.

Airlines are looking at other ways beyond baggage fees to generate more ancillary revenue, such as charging passengers for early boarding, priority check-in and seat assignments, he said.

"The revenue stream is just too attractive and the airlines are terrified about getting caught up in a high fuel price environment again," Sorensen said.