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Airline fees becoming the new normal

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IdeaWorks contributed information to this article - - see italics.

To travelers, it may seem that the cost of flying just keeps soaring.

Airlines now charge for everything from exit row seats, meals, and headphones, to doing things such as redeeming miles or speaking with an agent on the telephone. The fees, known as unbundling or a la carte pricing, will keep coming as airlines struggle to navigate a weak economy and volatile fuel prices, airline industry analysts say.

Spirit Airlines earlier this month said that it would begin charging up to \$45 for carry-on luggage, while all but two carriers already assess fees for checking a bag. In May, American Airlines will join JetBlue Airways in selling pillows and blankets. And European low-cost carrier Ryanair has proposed charging passengers to use lavatories on some flights.

Despite all the new fees, the Air Transport Association, an airline industry trade group, said that flying has actually gotten cheaper: The price of a domestic air travel averaged just under 14 cents per mile in 2008, the group says, compared with an inflation-adjusted 25 cents a mile in 1978, the year the industry was deregulated.

Meanwhile, revenue that carriers generated from additional fees reached \$10.4 billion worldwide in 2008, a jump of more than 350 percent over 2007, according to an estimate by IdeaWorks, a consulting company that advises major airlines on their ancillary revenue programs. US airlines generated about \$1.76 billion this year in baggage fees alone, the company says.

“Under the old approach, you could check your bag, talk to an agent, and be served a meal, whether you wanted those things or not,” said Jay Sorensen, IdeaWorks’ president. “The airlines are dismantling that model and allowing passengers to pay for only what they want. It’s about choice.”

Sorensen said he expects airlines to expand the practice of charging for perks previously available only to top level frequent fliers, such as airport lounge access, dedicated check-in counters, and expedited security lanes. He said they may experiment with subscription models similar to one being used by United Airlines, which charges \$425 a year for priority access to its Economy Plus section. And free in-flight dining, Sorensen says, will be a thing of the past.

Sorensen says the new fees US air lines are generating from unbundling — long a practice in Europe — helps to shield them from volatile jet fuel prices, which more than doubled between 2007 and 2008. He said that while continuing to add new fees might alienate some passengers, it's a chance the airlines have to take.

“This industry has squeezed out every single cost that it possibly can . . . the only place to go now is on the revenue side,” he said. “From a business standpoint, they had no choice but to do this.”

But some consumer advocates say that leaves travelers with no choice. “These fees are about tricking people into paying more for their ticket,” said Christopher Elliott, a consumer advocate.

“If this were really about choice, airlines would disclose the fees when passengers buy their tickets, rather than hitting them when they get to the airport.”

Anne Banas, senior editor at SmarterTravel, called passengers “hapless victims.”

“If they want to fly, they have to just roll over and accept these fees, and they’re angry about it,” she said.

Backlash over the new Spirit Airlines’ fee has been especially severe, with two US senators sponsoring a bill that prohibits airlines from charging for carry-on bags, and a survey conducted by TripAdvisor.com showing that only 9 percent of respondents would pay to stow their carry-ons. And several major airlines have taken pains to differentiate themselves from Spirit.

“We don’t charge for carry-on luggage and have no plans to do so,” said JetBlue’s Bryan Baldwin. “Our customers will continue to enjoy free use of overhead bins.”

Southwest, one airline that has stayed largely on the sidelines during the current fee frenzy, said that it also does not plan to charge the additional fee. Southwest, which allows passengers two free checked bags and doesn’t charge booking fees for tickets purchased over the phone or in person, said its strategy of not charging additional fees is paying off.

“We’ve seen a year-over-year market share gain of approximately 1 percent, which translates to \$1 billion in new revenue,” said Southwest’s Paul Flanigan. “And we believe one of the reasons is that we’re not nickel and diming passengers.”

Author William Poundstone, who writes about consumer behavior, said that because the human mind has a limited ability to deal with numerical information, a la carte pricing tends to work in the airlines’ favor.

“People focus on one number first, and that is usually the price of the ticket,” he said. “Unbundling keeps that base fare low.”

He also said any outrage over the fees will subside, thanks to a psychological principle known as adaption level. "When the price of something goes up or a new fee is assessed, people get angry but end up quickly adjusting. After a few weeks the new price is seen as normal and natural." He says this phenomenon is why despite initial protest airline fees usually stick.