

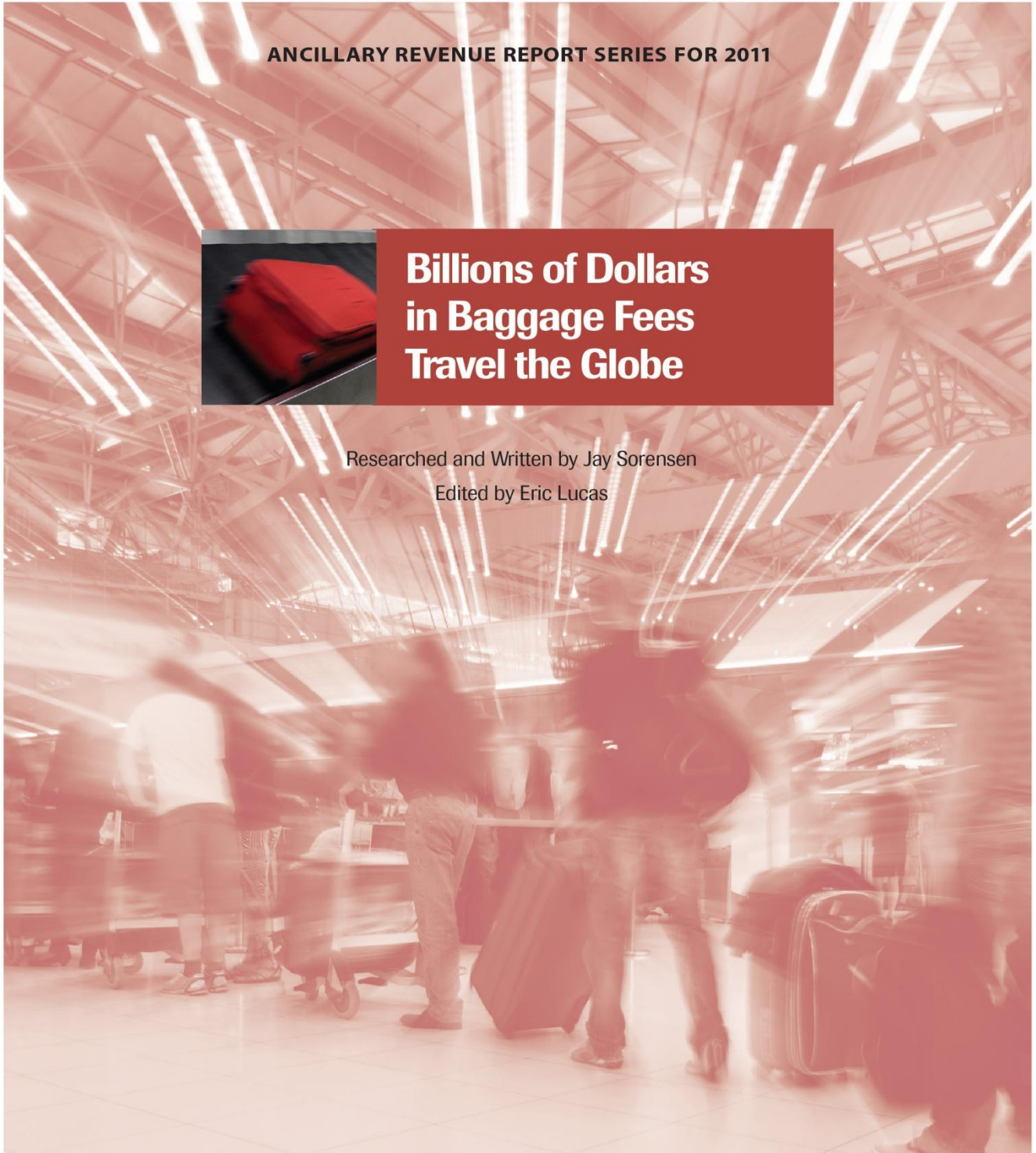
ANCILLARY REVENUE REPORT SERIES FOR 2011



Billions of Dollars in Baggage Fees Travel the Globe

Researched and Written by Jay Sorensen

Edited by Eric Lucas



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IdeaWorks Analyzes the Largest a la Carte Component

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Disclosure to Readers of this Report

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About Jay Sorensen, Writer of the Report



Jay, with sons Aleksei and Anton, in the Sunrise area of Mount Rainier National Park in the state of Washington.

Jay Sorensen's research and reports have made him a leading authority on frequent flier program development and the ancillary revenue movement. For 2011 he is a speaker at the World Low Cost Airlines Congress in London. His published works are relied upon by airline executives throughout the world. The 2010 Guide to Ancillary Revenue was the third edition of this popular report; it is regarded as a global resource on the topic of a la carte pricing. IdeaWorks also published its first Guide to Loyalty Marketing in 2010.

Mr. Sorensen is a veteran management professional with 27 years experience in product, partnership, and marketing development. As president of the IdeaWorks consulting firm, he

has enhanced the generation of airline revenue, started loyalty programs and co-branded credit cards, developed products in the service sector, and helped start airlines and other travel companies. His career includes 13 years at Midwest Airlines where he was responsible for marketing, sales, customer service, product development, operations, planning, financial analysis and budgeting. His favorite activities are hiking, exploring and camping in US national parks with his family.

About Eric Lucas, Editor of the Report



Eric, at his favorite summer retreat, Steens Mountain, Oregon.

Eric Lucas is an international travel, natural history and business writer and editor whose work appears in MSN/Bing Travel, Michelin travel guides, *Alaska Airlines Magazine*, *Westways Magazine* and numerous other publications. Founding editor of *Midwest Airlines Magazine*, he is the author of five books, including the 2009 Michelin *British Columbia Green Guide*. Eric has followed and written about the travel industry for more than 20 years. He lives in Seattle, Washington, where he grows and sells organic garlic; visit him online at www.TrailNot4Sissies.com.



Add more to the trip

Add Ancillary Services

CAN ANCILLARY SERVICES SOLVE THE PRICE COMPARISON CONUNDRUM?

In this report you will read about how a lot of airlines are earning a lot of money selling ancillary services.

This is partly an illusion. Some airline ancillary services earnings aren't additional revenue but shifted revenue. Airline base fares are at an all time low and ancillary services are supposed to make up the difference.

But can they do more than that? Can they shift the base of comparison from price to service? Behavioural economists talk about "priming". To understand this, think of the following experiment.

Ask a person to think of a number between one and ten. Then ask them how much they would pay for a service. Then ask someone else to think of a number between 500 and a thousand, and ask them how much they would pay for the same service. Chances are, person 2 will feel much more generous than person 1.

So low base fares and low-fare search brings out the miser in all of us. Amadeus is trying to counter this by building service-based search into its low-fare search tools. This would allow, for example, people looking for a flight on

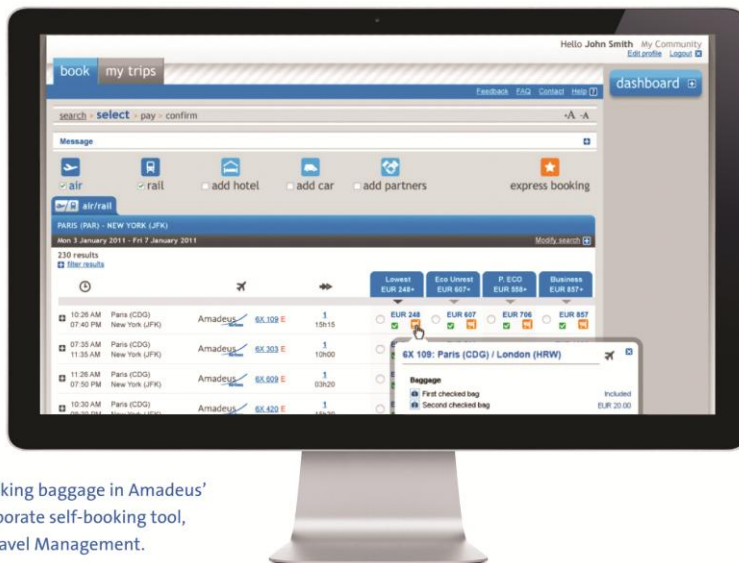
an online travel agency to search for all flights which include checked bags in the ticket, or all flights with extra leg-room. The idea is to prime users to think about service.

Will it work? We don't know yet, but it is surely worth a try.

Of course, once you have sold a service you'd better deliver it. So we thought about the whole ancillary service process from shopping to delivery. Our ancillary services IT solution (available to airlines using Amadeus Altéa) displays services to check-in agents and

ensures that passengers keep their ancillary services even if their flight is disrupted. Ancillary revenue numbers already look big, but as an industry we are still only at the beginning of understanding how to package and deliver these services to maximise value for airlines and their passengers.

At Amadeus we're delivering the technology to help you meet this challenge.



Booking baggage in Amadeus' corporate self-booking tool, e-Travel Management.

Amadeus Airline Ancillary Services is available across all touchpoints, including: travel agency desktop, corporate self booking tools, low fare search engines used by online travel agencies, airline sales offices (ACO/CTO and call centres) and airline websites.



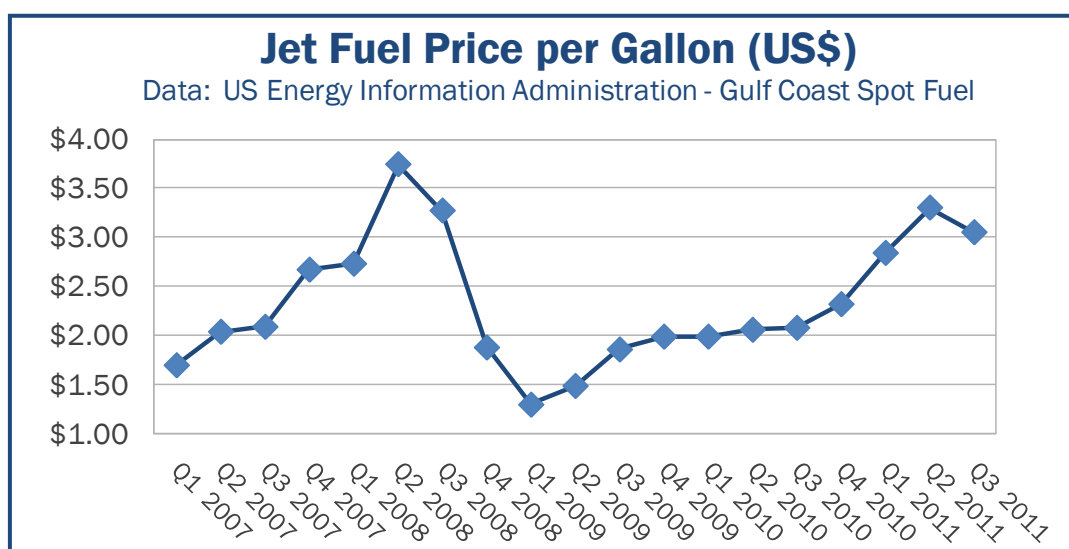
Billions of Dollars in Baggage Fees Travel the Globe

IdeaWorks Analyzes the Largest a la Carte Component

Checked baggage and frequent flier programs represent the largest sources of airline ancillary revenue. Income from a loyalty program largely depends on the size of the carrier's co-branded card portfolio. Some airlines have the advantage of operating in markets that offer abundant credit card potential. However, for most of the world's airlines, the largest revenue opportunity is provided by a universal component of the travel experience - - checked baggage. In this report, IdeaWorks evaluates how baggage fees are spreading across the globe, describes how these fees are on track to become the industry's largest source of ancillary revenue, and recommends strategies to boost baggage revenue.

A la carte fees are a product of turbulent times

Baggage fees became a newsworthy topic in 2008 when the majority of US-based airlines introduced first-time fees for the second piece of checked luggage. This was quickly followed by the addition of fees for a passenger's first piece of baggage. By the end of 2009, the time-honored domestic travel benefit of two free checked bags was eliminated by every major US carrier with the exception of Southwest Airlines. The tipping point occurred when jet fuel approached an unprecedented price of \$4 per gallon.



Three years later the price of fuel is again a significant challenge for airline profitability. With political and social revolutions affecting many oil-producing countries, airlines are anticipating another attack on their financial statements. This compels airline executives to consider adding new a la carte services, increasing existing fees, and boosting existing ancillary revenue products.

Baggage fees have been a revenue success story

The bounty provided by bag fees has been spectacular and has encouraged the growth of these fees. Before the advent of first and second bag fees, US-based carriers reported baggage revenue of \$464 million for 2007.¹ That amount largely represents charges for overweight and oversized baggage. Baggage fee revenue jumped above \$3.4 billion for 2010, a year that saw the full effect of a mature fee environment in the US. Amazingly, the revenue was accompanied by lower costs. According to a US government study,² when faced with fees, travelers checked 40 to 50 percent fewer bags on some carriers. This decrease lowered bag handling costs such as ramp labor and mishandled luggage expenses.

And so US-based airlines discovered a revenue solution. During 2009 the two-bags-fly-free tradition largely disappeared on transatlantic routes between the US and Europe. Delta Air Lines originally planned dramatic changes when it announced a \$50 second bag fee for all international flights in a April 2009 press release. The fee was later scaled back to only affect transatlantic flights. Other US-based carriers found the transatlantic plan more acceptable and matched Delta. Eventually global alliance partners were compelled to match the fees because of the confusion caused by codeshare activity on transatlantic routes.

Fees for the second bag became pervasive throughout the Americas. Travelers flying between the US and Canada, Mexico, the Caribbean, Central and South America can expect to pay fees for the second bag . . . and sometimes even the first. Certain destinations, such as Brazil, largely maintain the two-bags-fly-free tradition.

All of this a la carte activity has saved the bottom line of the US airline industry. 2008 was a terrible year with industry-wide losses in excess of \$27.3 billion.³ The industry made slow headway during 2009 but still posted a loss. During 2010 the baggage fee revenue nearly equaled the \$3.6 billion total profit posted by the US airline industry. Without the contribution from baggage fees - - along with other a la carte revenue - - the US airline industry would have lost money.

United expands baggage fees to more global destinations

United Continental understands the financial benefits derived from baggage fees. It disclosed baggage fee revenue in excess of \$654 million for 2010.⁴ The company reported net income of \$253 million for the same period.⁵ The presence of baggage fee revenue delighted shareholders and management; it allowed the newly merged company to post a profit for the year. And so it shouldn't be surprising United Continental announced on 14 July 2011 a major baggage fee initiative. The new policy takes effect immediately for travel on or after 15 August 2011 with fees for second bags now in place for travel to practically every United Continental destination.⁶

¹ USDOT Bureau of Transportation Statistics, Form 41 data reviewed July 2010 at www.transtats.bts.gov.

² US Government Accountability Office, "Commercial Aviation: Consumers Could Benefit from Better Information about Airline-Imposed Fees" dated 14 July 2010 reviewed at www.gao.gov.

³ USDOT Bureau of Transportation Statistics, Form 41 "net income" data reviewed July 2010 at www.transtats.bts.gov.

⁴ USDOT Bureau of Transportation Statistics, Form 41 data reviewed July 2010 at www.transtats.bts.gov.

⁵ "United Continental Holdings, Inc. Form 10-K for 2010 reviewed at United.com.

⁶ "United Continental Holdings Announces New Checked Bag Polices" press release dated 14 July 2011.

United Continental – New Fees for 2 nd Checked Bags		
For travel between	Prior to New Fee	Travel after 15 August 2011
US/Canada and Asia (does not apply to Japan and Hong Kong)	Free	\$70
US/Canada and Australia/New Zealand	Free	\$70
US/Canada and Micronesia	Free	\$70
US/Canada and the Middle East	Free	\$70
US/Canada and Africa	Free	\$70

Note: New baggage fees apply for travel purchased on or after July 15, 2011 and travel on or after August 15, 2011.

The new revenue will help offset the \$1.1 billion fuel bill increase the company experienced during the second quarter of 2011 compared to the prior year.⁷ Past practice indicates the latest move by United Continental will surely be the first of many more to come. Major US-based competitors, such as American and Delta, will be inclined to match the increase. They too fear the economic impact of fuel price increases.

Global partners all over the world are also digesting the news. United Continental is a key member of the Star Alliance. Pacific-based members, such as Air China, Air New Zealand, Singapore, and Thai Airways, will consider the bag fee opportunity associated with flights to Asia, Australia, and New Zealand. Partners on transatlantic routes, such as Lufthansa, SWISS, and South African, will evaluate the financial potential associated with Africa and the Middle East. Once again, history will likely repeat itself as these airlines opt to match the fees rather than swim against the tide by not charging for a second bag.

The fee introductions are prompted by the same industry nemesis as before . . . the economic threat posed by rising fuel prices. There is little evidence to suggest the price of oil will stop its upward trajectory. Consumers and airline executives outside the US should prepare for an inevitable addition of first bag fees for international travel. IdeaWorks believes these will begin to creep into the market - - courtesy of US-based airlines - - during the latter half of 2011.

Baggage fees throughout the world are amazingly consistent

Network airlines, such as United, British Airways, and Japan Airlines, seek to align baggage fee structures. This occurs primarily due to the desire to match the prices charged by competitors. But increasingly, the fee matching is also prompted by participation in a global alliance such as SkyTeam, or a joint venture in the manner of British Airways and American Airlines. These relationships involve codeshare operations and a promise to deliver a seamless travel experience to travelers. By definition, these parameters virtually require the participating carriers to coordinate prices and policies related to checked baggage.

⁷ United Continental Quarterly Earnings Webcast on 21 July 2011.

But change does occur and US-based airlines have become leading proponents for bag fees. The a la carte revolution was initiated by low cost carriers in Europe in the 1990s. However, it seems fate has US-based carriers leading the introduction of a la carte methods all over the globe through the implementation of baggage fees.

IdeaWorks researched baggage policies of top carriers operating in five major global air travel markets: 1) New York to Rome, 2) Los Angeles to Tokyo, 3) London to Tokyo, 4) within Europe, and 5) within the United States. Baggage fees for ten leading airlines are provided in each table along with a summary of how many bags may be checked free of charge. Each carrier’s policy was applied to an example of a first piece weighing 15 kilograms (33 pounds) and a second piece (also weighing 15 kilograms) checked by an economy class traveler. The per-piece weight is based upon a European passenger survey which found 16.7 kilograms was the average weight checked by passengers.⁸

Notes in each table describe special features offered by airlines. For example, some carriers provide a more generous free baggage allowance for full fare economy class travel; this is designated by “Full fare benefit.” Air France/KLM and Cathay Pacific allow frequent flier program members to redeem miles for an additional baggage allowance; this is noted as “Pay with miles.” The Flying Blue program allows Air France/KLM members to redeem 10,000 miles for one additional baggage item and 40,000 miles for two additional pieces.⁹

Most airlines also provide checked baggage benefits to frequent flier program members who hold elite status. These members may enjoy a higher weight allowance, or the ability to check one or two bags, free of charge. The benefits described apply in general to the carrier’s program members and may vary by elite status such as silver and gold levels.

The first market is transatlantic - - travel from New York JFK to Rome. The prices listed apply for one way travel originating from New York. The point of departure typically defines the currency used by airlines to describe fees.

Baggage Fee Policies for Major Airlines					
Transatlantic Market – JFK to Rome (one way travel originates JFK)					
Airline	Free Checked Allowance Summary	Fee for 1 st bag @ 15 kg.	Fee for 2 nd bag @ 15 kg.	Notes	Baggage benefit for elite members
Air Berlin	One piece, 23 kg. max.	No fee	\$70		Higher kg. allowance
Air France/KLM			\$75	Pay with miles	One additional bag
Alitalia			\$75		One additional bag
American			\$60	Full fare benefit	One additional bag
British Airways			\$51 online / \$60 airport	Full fare benefit	One additional bag
Continental			\$70	Full fare benefit	1 or 2 additional bags
Delta Air Lines			\$60 online / \$75 airport		One additional bag
Lufthansa			\$70		1 or 2 additional bags
United			\$70	Full fare benefit	1 or 2 additional bags

⁸ “Survey on standard weights of passengers and baggage” dated May 2009, European Aviation Safety Agency (EASA), reviewed at www.easa.europa.eu.

⁹ “Earn and spend Flying Blue miles” at www.AirFrance.com reviewed July 2011.

Among the carriers listed, all offer the same free checked baggage allowance. Alliance membership can be discerned by the fees charged for the second bag. For example, Air France/KLM, Alitalia, and Delta belong to the SkyTeam alliance and charge the same \$75 fee. This consistency also appears to hold true for the benefits provided to elite members.

Some network airlines have borrowed methods used by low cost carriers and offer a 15 to 20 percent discount when checked bags are prepaid. Bags are not prepaid during the booking process, but rather are paid prior to departure by retrieving the reservation. This is good policy to encourage as pre-payment removes the fee collection burden from the airport environment. Low cost carriers have learned to “ask for the sale” during the booking process and usually provide a larger discount. For example, AirAsia offers a 30 percent discount and EasyJet promotes savings of 50 percent when consumers pay for bags during the flight booking process.

The checked baggage policies for the Los Angeles to Tokyo market offer a more generous allowance of two bags, with each weighing up to 23 kilograms (50 pounds). The ten carriers researched are perfectly aligned with no fees charged for two checked pieces. Policy alignment of this type exists throughout other transpacific routes. United’s new second bag fees deliberately omit the Japan market - - but this omission will likely be short-lived.

Baggage Fee Policies for Major Airlines							
Transpacific Market – Los Angeles to Tokyo (one way travel originates LAX)							
Airline	Free Checked Allowance Summary	Fee for 1 st bag @ 15 kg.	Fee for 2 nd bag @ 15 kg.	Notes	Baggage benefit for elite members		
Air China	2 bags, 23 kg. per bag	No fee	No fee		One additional bag		
American							
ANA - All Nippon						Same limit as first class	
Cathay Pacific						Pay with miles	One additional bag
China Eastern							Higher kg. allowance
China Southern							One additional bag
Continental							One additional bag
Delta Air Lines						Full fare benefit	Higher kg. allowance
Japan Airlines						Full fare benefit	One additional bag

The Asia Miles frequent flier program associated with Cathay Pacific allows members to redeem miles for an additional weight allowance, extra piece, and even oversized baggage. The reward uses zones which are based upon flight distance. For example, 6,500 frequent flier miles are required for an extra 10 kilograms (22 pounds) of baggage between Hong Kong and Shanghai.

While travelers flying London to Tokyo can still check two bags free, they can face significantly tighter weight restrictions that are wildly different. On some routes a 20-kilogram weight limit means that passengers with two 15-kilogram bags - - which would fly free between Los Angeles and Tokyo - - must pony up an astounding \$600 in excess bag weight plus piece charges. In some cases that is more than the cost of the flight itself.

Baggage Fee Policies for Major Airlines London – Tokyo (one way travel originates London)					
Airline	Free Checked Allowance Summary	Fee for 1 st bag @ 15 kg.	Fee for 2 nd bag @ 15 kg.	Notes	Baggage benefit for elite members
Air France/KLM	One piece, 23 kg. max.	No fee	€ 100		One additional bag
ANA - All Nippon	2 bags, 23 kg. per bag		No fee		Same limit as first class
British Airways	One piece, 23 kg. max.		€43 online / €50 airport	Full fare benefit	One additional bag
Cathay Pacific	20 kg. limit, no piece limit		\$600	Pay with miles	Higher kg. allowance
Emirates Airline	30 kg. limit, no piece limit		No fee		Higher kg. allowance
Japan Airlines	2 bags, 23 kg. per bag		No fee		One additional bag
Korean	20 kg. limit, no piece limit		\$170 (15% of full fare fee)		Higher kg. allowance
Lufthansa	One piece, 23 kg. max.		€50		Higher kg. allowance
Singapore Airlines	20 kg. limit, no piece limit		\$600		Higher kg. allowance

Two carriers charge a hefty \$60 per kilogram above the 20 kilogram limit. Unreasonable fees likely create anger and resentment among consumers and lead to collection issues at the airport. Korean uses a more esoteric calculation which assesses a fee equal to one percent of a typical full fare for every extra kilogram of extra weight. The lack of consistency in this market implies the non-presence of US airlines leads to pricing disparity. Or perhaps, coordination among alliance partners is less crucial between Europe and Asia.

The lack of fee coordination among carriers is also obvious for travel within Europe. This is largely explained by the disruptive influence of low cost carriers, such as EasyJet, Norwegian, and Ryanair. While these airlines do charge for the first checked bag, their air fares are traditionally below those charged by network airlines.

Baggage Fee Policies for Major Airlines Within Europe					
Airline	Free Checked Allowance Summary	Fee for 1 st bag @ 15 kg.	Fee for 2 nd bag @ 15 kg.	Notes	Baggage benefit for elite members
Air Berlin	20 kg. limit, no piece limit	No fee	€110 online / €150 airport		Higher kg. allowance
Air France/KLM	One piece, 23 kg. max	No fee	€ 55	Pay with miles	One additional bag
Alitalia	One piece, 23 kg. max	No fee	€ 55		One additional bag
British Airways	One piece, 23 kg. max	No fee	€39 online / €45 airport	Full fare benefit	One additional bag
EasyJet	No free baggage	€11 to €17 online / €22 to €34 airport	€119 to €125 online / €142 to €154 airport		
Iberia	One piece, 23 kg. max	No fee	€50 online / €60 airport		One additional bag
Lufthansa	One piece, 23 kg. max	No fee	€ 50		Higher kg. allowance
Norwegian	No free baggage	€10	€80 airport only	Full fare benefit	
Ryanair	No free baggage	€15 online / €35 airport	€35 online / €70 airport	Higher fees for peak periods	

Ryanair and EasyJet have developed complex pricing methods for checked baggage. Ryanair provides abundant incentive to pre-pay baggage fees by charging a premium of 133 percent for consumers paying at the airport. The carrier’s baggage fees are also higher for summer and year-end holiday travel periods. In addition, higher fees apply on all flights on the following routes: international Canary Islands (excluding Spanish domestic), and flights to/from Kos, Rhodes, Volos and Larnaca.

EasyJet uses the phrase “baggage allowance” which may lead consumers to believe the carrier doesn’t charge for checked bags. The phrase refers to the 20 kilograms of weight covered by the base checked bag fee. It doesn’t refer to a free allowance as EasyJet charges for all checked bags. The best bag price is offered during the booking process with savings of 50 percent off airport fees. In addition to higher fees at the check-in counter, EasyJet adds £15 more for each bag checked at the aircraft gate. Ryanair has a similar policy to charge a higher fee for baggage checked at the gate instead of the bag drop counter. Charging a premium for each successive step of the travel process is a revenue-savvy method; it rewards consumers who buy baggage online and discourages hand luggage.

Baggage fees for domestic travel in the US are contrary to trends elsewhere in the world. Southwest and JetBlue, as leading low fare airlines, offer a free checked baggage allowance. But Europe’s leading low cost carriers, Ryanair and EasyJet, charge fees for checked bags. Leading US network airlines, such as American, Delta, and United, charge fees for the first checked bag. By contrast, British Airways, Air France/KLM, and Lufthansa, allow travelers within Europe a free checked piece.

The disrupting influence in the US is Southwest Airlines and its decision to use “bags fly free” as an almost singular point of product distinction. It’s a policy the carrier’s CEO claimed in 2010 brought more than \$1 billion by taking market share from rival airlines.¹⁰ Meanwhile, US-based and self-described “ultra low cost carrier” Spirit is flying in the opposite direction with the industry’s most aggressive baggage fee policy.

Baggage Fee Policies for Major Airlines Within the US					
Airline	Free Checked Allowance Summary	Fee for 1 st bag @ 15 kg.	Fee for 2 nd bag @ 15 kg.	Notes	Baggage benefit for elite members
AirTran Airways	No free baggage	\$20	\$25		1st and 2nd bag free
Alaska Airlines	No free baggage	\$20	\$20		1st and 2nd bag free
American	No free baggage	\$25	\$35		1st and 2nd bag free
Continental	No free baggage	\$25	\$35	Full fare benefit	1st and 2nd bag free
Delta Air Lines	No free baggage	\$25	\$35		1st and 2nd bag free
JetBlue Airways	One piece free	No fee	\$35		
Southwest Airlines	Free 1st and 2nd bag	No fee	No fee		
Spirit	No free baggage	\$28 online / \$38 airport	\$35 online / \$45 airport	Discounts for \$9 Fare Club	
United	No free baggage	\$25	\$35		1st and 2nd bag free

¹⁰ “Southwest says lack of bag fee helps increase revenue” 20 May 2010 article reviewed at www.USAToday.com.

The lowest checked baggage fees on Spirit are offered to members of its “\$9 Fare Club” which charges an annual fee of \$59.95 for a package of amenities and benefits. The fee structure follows a recommended pattern of graduated pricing with the best price offered online and the highest fee charged at the aircraft gate.

Spirit Airlines – 1 st Piece Checked Baggage Within the US				
Customer Category	During Booking	Online Check-In	Airport Counter	Carry On Bag at the Gate
\$9 Fare Club Members	\$18	\$23	\$38	\$45
All Other Customers	\$28	\$33	\$38	\$45

Review of baggage policies at www.SpiritAir.com July 2011

In 2010 it was the first airline to implement a fee for carry-on bags. Spirit called it a “carry-on bag fee” and the tactic was undoubtedly designed to create controversy; a more appropriate name would’ve been a “roll on bag fee.” The ploy may have worked a bit too well as the media uproar and consumer backlash compelled the US Congress to involve itself in the issue. Legislation was subsequently proposed to discourage the industry from embracing carry-on fees. Spirit’s policy allows travelers to bring a personal item, such as a purse, small backpack, or briefcase, with dimensions not exceeding 16 by 14 by 12 inches. (40 x 35 x 30 cm.). Other small items are also allowed such as an umbrella, camera, diaper bag, and newspapers.

YOUR BAGS

Buy your bags now and **save at least \$10 per bag** compared to paying at the airport.

FREE OF CHARGE	FOR PURCHASE	
<p>Personal Item 16 x 14 x 12" (40 x 35 x 30 cm) Must fit underneath a seat. One per person. For instance: Purse, small backpack, briefcase, laptop bag etc.</p>	<p>Carry-On¹ 22 x 18 x 10" (56 x 46 x 25 cm) Must fit in the overhead bin. One per person. Includes Priority Boarding. \$10 discount for \$9 Fare Club Members.</p>	<p>Checked Bags Size: 62 linear inches Weight: 40 lbs (158 cm / 18 kg) (linear = length + width + height) Discount available for \$9 Fare Club Members.</p>

Spirit provides the following prompt during the booking process at its website.

Spirit charges a fee for anything larger, such as a business traveler’s best friend . . . the ubiquitous black roll on bag. Anything large enough to require stowage in the overhead (to include a large backpack) is assessed a \$30 fee when paid online and up to a \$45 charge at the gate. The fee includes the benefit of early boarding which ensures the passenger has first access to overhead space. Throughout the media firestorm, the airline remained committed to the carry-on fee. This suggests the policy has met management expectations in terms of revenue produced from carry-on and checked baggage fees.

Spirit has obviously learned from the experience. One can argue about the fairness of the policy, but the carrier can’t be faulted for failing to provide full disclosure during the booking process. However, clarity regarding baggage fees is definitely an industry-wide rarity, as most airlines require consumers to navigate a labyrinth of website pages, tables, and poor grammar if they wish to learn the cost of checking a bag.

Online fee information is almost universally confusing

Pity the poor consumer who merely wishes to determine how much it costs to check a bag for an upcoming holiday. The vast majority of airlines have made this simple query a bewildering task that would often test the intellect of a certified public accountant. Checked baggage fees are determined by a bewildering number of factors: cabin class, fare type, route, season, frequent flier status, date of purchase, date of travel, currency used, and when and where the fee is paid.

Low cost carriers ask consumers to arrange checked baggage during the booking process. Drop-down menus specify prices and allow customers to choose the number of bags to be checked. Often these websites describe the savings associated with pre-payment and the higher fees charged at the airport. And yes, sometimes this information is missing, incomplete, or impossible to decipher. But the quality of information among these airlines is generally superior to all others.

The world's largest airlines are generally the guiltiest. Some require consumers to locate airport destinations on a table to determine which "zone" applies. Another table specifies the "per kilogram" fee for travel between different zones. Additional tables are provided when stopovers or connecting flights are involved. The following baggage tariff text was copied from the website of a major international airline; it provides an exceptional example of the confusion which awaits consumers:

"For excess baggage carriages with the Weight Concept where a secondary airline is involved if the through check in is made by the first airline, levels identified between Zone-5 (Table 1) will be applicable disregarding the origin region and destination point. If the through check in is realized by another airline, the applications of the airline performing the check-in will be applicable."

Baggage fees which involve complex calculations are truly frustrating. One method is practically impossible for consumers to compute on their own: "1.5 percent of adult one-way normal IATA Published fare from origin to destination per 1kg/2lbs." Consumers must call the reservation center to learn the excess baggage fee associated with their reservation. One imagines five different calls could easily yield five different price quotes.

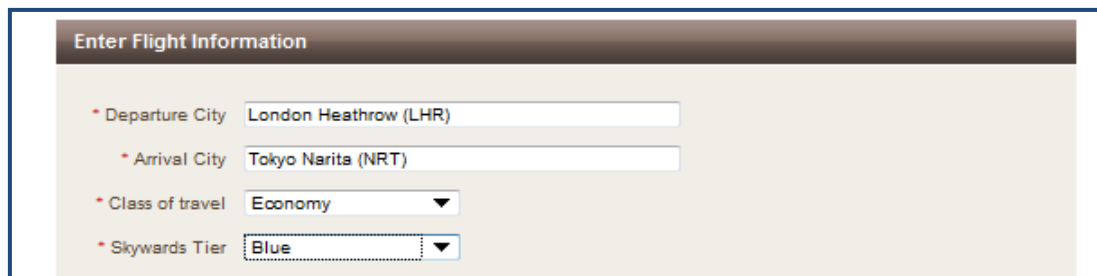
Some airlines - - and they are indeed a minority - - provide easy-to-understand fee information. US Airways uses a simple graphic illustration to instantly convey the price based upon routing and number of pieces.

Checked bag fees				
<small>Maximum weight is 50 lbs per bag and you can check a maximum of 9 bags. Fees are in USD and will be charged in the local equivalent currency.</small>				
	1 st	2 nd	3 rd	4 ⁺ per bag
Within the U.S. / Canada / Latin America / Caribbean <small>(Includes Bermuda)</small>	\$25	\$35	\$125	\$200
To/from Europe	Free	\$70	\$200	\$200
To/from Israel	Free	Free	\$200	\$200
To/from Brazil	Free	Free	\$85	\$85

If you're traveling to/from Brazil, you are allowed 70 lbs (32 kg) per bag for no additional fee.

Bravo to US Airways for bringing clarity to the baggage fee question.

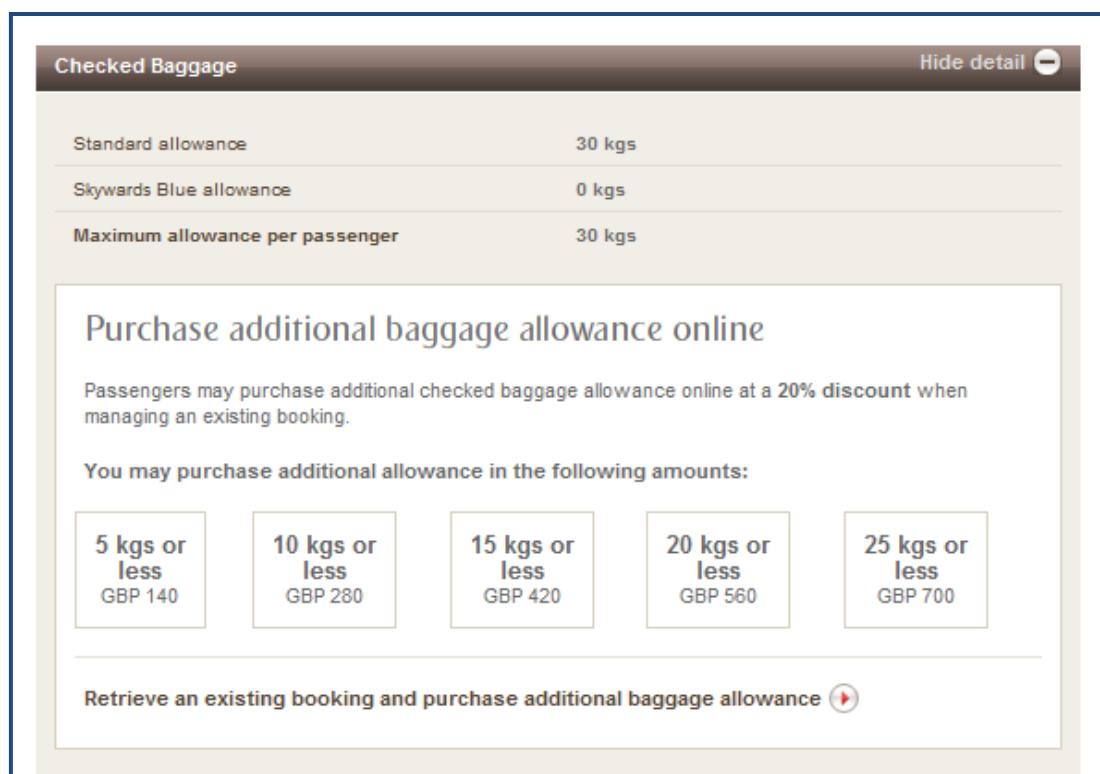
Granted, the US-centric route structure of US Airways may make the task easier. Emirates operates a truly global network of flights which provides connections to every region of the world. The airline offers the best user interface encountered by IdeaWorks for determining checked baggage charges. The consumer simply enters four pieces of information: origin, destination, cabin class, and frequent flier status.



Enter Flight Information

- * Departure City: London Heathrow (LHR)
- * Arrival City: Tokyo Narita (NRT)
- * Class of travel: Economy
- * Skywards Tier: Blue

Voila! The website delivers a customized response which describes the free baggage allowance and the online price for purchasing additional baggage allowance. The 20 percent discount is an incentive to prepay and avoid hassles at the airport.



Checked Baggage Hide detail

Standard allowance	30 kgs
Skywards Blue allowance	0 kgs
Maximum allowance per passenger	30 kgs

Purchase additional baggage allowance online

Passengers may purchase additional checked baggage allowance online at a **20% discount** when managing an existing booking.

You may purchase additional allowance in the following amounts:

5 kgs or less GBP 140	10 kgs or less GBP 280	15 kgs or less GBP 420	20 kgs or less GBP 560	25 kgs or less GBP 700
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[Retrieve an existing booking and purchase additional baggage allowance](#)

But wait, there's more! Emirates provides an additional calculator to determine baggage fees collected at the airport. The consumer continues by entering the number of bags checked and the weight of each piece. The result lists the additional weight to be purchased and applicable price. The website does all the work without the need for customers to have a university degree in baggage science. Providing anything less is an unforgivable retail sin in today's online world. Sloppy methods merely invite regulatory intervention by governments.

Maximizing bag revenue in a time of trouble

Consumers believe airline executives will leap at any opportunity to charge customers more fees. With rare exceptions, such as Ryanair and Spirit, the truth is quite the opposite. Unbundling the airline experience into separate a la carte components is difficult work. Employees are often reluctant to support retail sales initiatives. It's challenging to integrate a la carte methods through all distribution channels. And consumers rarely embrace new fees unless more convenience and comfort are provided. The implementation of baggage fees touches all of these points. But the windfall of cash that bag fees provide at a time of economic peril is simply too compelling to ignore.

IdeaWorks offers tips for airlines that are about to embark on, or are already well along the baggage fee path. At the core of every strategy should lie a simple axiom - - treat your customers as you would wish to be treated. All carriers need tread carefully when unbundling air travel; consumers are sensitive to paying fees for services which once were free.

The management team at Alaska Airlines struggled mightily over the concept of charging for bags back in 2008. The carrier relented when it decided to take a product-oriented approach. Delivery is guaranteed within 20 minutes after arrival at the gate. If Alaska fails to deliver, the passenger receives their choice of a \$20 savings voucher or 2,000 frequent flier miles. It's an approach that added value for the consumer and placed a price on slow baggage delivery. Delta took a similar approach when it introduced bag track capabilities to consumers during April 2011. Travelers simply enter their last name and the claim check number at Delta.com to retrieve information about their baggage.

Bringing on Baggage Bliss

- **Create a product, not another fee.** Consider the examples established by Alaska Airlines and Delta. Alaska promises a 20-minute delivery guarantee and Delta has introduced FedEx style tracking for checked bags. Allow frequent flier program members to accrue points on bag fees.
- **Limit bag fees to economy class.** Consider exempting full fare itineraries only if consumers are truly aware of the fare they purchase.
- **Begin modestly and test price levels.** Introduce a second bag fee followed later by a first bag fee. Test price increases to determine overall revenue impact.
- **Provide a 25 to 50 percent discount for pre-payment.** Promote the savings in the booking path of the website.
- **Strive for simplicity.** Complicated fee schedules will only frustrate customers, travel agents, and employees.
- **Introduce subscription pricing.** United offers Premier Baggage which provides a year of first and second bag benefits for a flat fee. Its new MileagePlus Explorer Visa credit card provides first bag checked free and other benefits to cardholders.
- **Provide an online baggage fee calculator.** Provide customized baggage fee information for individual itineraries and promote online pre-payment.
- **Include bag perks for your elite members.** Silver and gold level members should benefit from an extra bag allowance.

Pre-payment for any a la carte service is a proven revenue booster. Consumers enjoy savings in exchange for the purchase commitment. Airlines make a sale and avoid the hassle associated with collecting funds at the check-in counter, or worse yet, at the gate. But paltry discounts of 10 to 15 percent probably won't sway consumer behavior to any large degree. Low cost carriers have learned that boosting the discount simply delivers more revenue and eases consumer acceptance. Frequent flier miles and points offer an exceptional incentive to pre-pay online.

It's a truism of mercantile activity - - an educated consumer is a good customer. Ensuring clarity and creating fairness is a savvy strategy to boost revenue. Begin simply and build complexity after processes are perfected and consumers become more accepting. Communicate value to those who pay for checked bags through service guarantees and efficient online retailing.

And for those who don't check bags . . . don't forget to stress the savings delivered by a la carte methods. An early People Express advertisement from 1981 said it best, "You pay only for baggage you want to check, drinks you want to drink, and the snacks you want to snack." That's a promise every consumer can appreciate.



IdeaWorks is a consulting organization building revenue through innovation in product, partnership and marketing, and building profits through financial improvement and restructuring. Our international client list includes the hotel, airline, marine, railroad, and consumer products sectors.

Enhancing Profits, Products and Partnerships

ANCILLARY REVENUE ACTIVITY

A La Carte Features • Commission-Based Products • Frequent Flier Activities • Onboard Marketing and Promotion • Employee Buy-In and Training • Revenue Analysis • Ancillary Revenue Guide by IdeaWorks

LOYALTY MARKETING AND FREQUENT FLIER PROGRAMS

Financial Modeling • Customer and Member Projections • Accrual and Reward Design • Business Plan Development • Operating Manual and Training • Partner Selection and Negotiation • Partner Marketing • Mileage and Point Valuation • Loyalty Program Spinoffs

CORE MARKETING ACTIVITIES

Brand Development • Sales & Distribution • Interactive Marketing • Advertising and Promotion • Customer Research

FINANCIAL IMPROVEMENT

Cost Reduction Programs • Business Restructuring • Capital and Long Term Lease Renegotiation • Enhancing Stakeholder Support and Communication

EDITORIAL AND COMMUNICATION ENHANCEMENT

Web Site Content • Newsletter Design and Development • Research • Copywriting • Editing and Proofreading

Our clients:

AirAsia X

AirTran Airways

ATA Airlines

British Airways

Esprit Airways

Flybaboo Airlines

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Vueling Airlines

Amtrak Intercity

Baymont Inns and Suites

Forever Resorts

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Hawaii Superferry

Kalahari Resorts

Lake Michigan Carferry

Marcus Hotels and Resorts

Marcus Theatres

Aeroplan

Alterra Coffee Roasters

Amadeus

A.T. Kearney

ezRez Software

Kwik Trip Petroleum

Lacek Group - OgilvyOne

Ogilvy One Worldwide

Radixx International

Visa



The IdeaWorks Mission Statement

IDENTIFY A CLIENT'S UNIQUE PRODUCT ADVANTAGE

IdeaWorks strives to identify and enhance the following attributes:

- 1) where the client is strongest,
- 2) where the competition is weakest, and
- 3) what is most valued by the customer.

Enterprises that focus on these areas enjoy the greatest success and deliver the best return for stakeholders.

STRIVE TO INNOVATE, BE NIMBLE, AND EXCEED CLIENT EXPECTATIONS

Innovation excites the consumer and frustrates the competition. Nimbleness excites the client and sharpens staff intellect. Exceeding expectations earns repeat business and encourages referrals.

FOLLOW THE ADVICE OFFERED BY MAX EHRMANN'S "DESIDERATA"

Speak your truth quietly and clearly; and listen to others. Enjoy your achievements as well as your plans.

Keep interested in your own career. Strive for high ideals. Be yourself.

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