

December 13, 2010

## **Baggage fees send airline revenue soaring**

By Julie Johnsson, Tribune reporter

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

The sky appears to be the limit when it comes to the revenue airlines reap from passenger fees.

The 20 largest U.S. carriers collected \$906.4 million in baggage-related charges during the third quarter, a 23 percent jump from 2009 results, according to data released Monday by the Bureau of Transportation Statistics.

New baggage fees for international routes, a rebound in air travel and passenger frustration over limited overhead space in airplane cabins all contributed to the skyrocketing fee income, observers said.

Some travelers are getting tired of dragging bags onto planes, while carriers are cracking down and forcing travelers to check jumbo-size carry-on bags before they leave airport lobbies, said Tom Parsons, founder and chief executive of BestFares.com.

"It could be that more people elected not to fight for overhead space, too," Parsons said.

Baggage fees are the most famous, or infamous to some, of the many new charges that reflect a fundamental shift in the way airlines interact with customers. Rather than offering a single, all-inclusive rate for food and other onboard offerings that often bordered on the mediocre, airlines are offering a menu of new services — for a charge.

*"We were given pizza with all the works. If you just wanted a pepperoni or cheese pizza, you couldn't order it," said Jay Sorensen, president of IdeaWorks, a Wisconsin-based airline consulting company.*

*The concept has been around for decades and was a hallmark of early bargain-basement carriers like People Express in the 1980s. It was revived two years ago, when airlines found themselves in a desperate fight for survival as oil prices hit the stratosphere and Wall Street's collapse triggered a global recession.*

But even as passengers sample new airline wares, ranging from satellite television to champagne brunch, many remain frustrated with the unbridled commercialization on display and uncertainty about the costs they face at the airport.

"You want to watch TV? Swipe the card," said Jason Schmidt, who was collecting his luggage at Chicago's O'Hare International Airport on Monday. "You want to eat? Swipe the card. You get nickel-and-dimed for everything."

Schmidt, 43, of McAllen, Texas, got a rude surprise when he checked his bag to Chicago. To avoid fees and carry-on hassles, Schmidt had jammed his possessions into one suitcase.

But at the check-in counter, his bag weighed 7 pounds over the 50-pound limit, costing Schmidt \$75, instead of the \$35 he would have paid for a second checked bag. "I think it's ridiculous," he said.

Much of the passenger frustration stems from the idea that they are paying for services that were once free, and that fees continue to proliferate even though airlines are again profitable.

***United Airlines is making money — and lots of it — with a slew of new services, generating \$1.88 billion last year in ancillary revenue, more than any other global carrier, according to a study by IdeaWorks and Amadeus, a global clearinghouse for airline transactions.***

United continues to roll out new offerings such as FareLock, which for a \$9 fee lets travelers lock in ticket prices on corporate sibling Continental Airlines for as long as seven days.

Another area of focus is meal service in United's economy cabin. The carrier is testing a champagne brunch, ordered before flights and available for \$24.99 to passengers on some transcontinental flights. Those flying from San Francisco, London and Frankfurt can buy a "premium" meal, with a choice of three entrees, for \$19.

This perk won't replace the free meal that's standard on international flights, said Rahsaan Johnson, a United spokesman.

"Customers were loud and clear that they wanted choice, but they wanted that choice to include a complimentary offering," he said, alluding to the firestorm United created several years ago when it considered replacing free meals with buy-onboard snack boxes on flights to Europe.

Baggage fees, however, remain the largest source of new income for most airlines by a wide margin, analysts said. Adopted by every U.S. carrier except Southwest Airlines, the controversial charges for checked luggage continue to be lucrative for U.S. airlines, which are on pace to report an annual profit this year for the first time since 2007.

Over the first three quarters of 2010, the top 20 carriers pocketed \$2.6 billion in baggage fees and \$1.7 billion in fees to cancel or change reservations, according to the Bureau of Transportation Statistics. The federal agency doesn't break out other ancillary fees.

U.S. carriers boosted revenue earlier this year by adding \$5 to existing bag fees and adding a new \$50 charge to check a second bag to Europe. As with other baggage fees, elite frequent fliers and first- and business-class travelers are exempt.

Airlines will expand the fees to more overseas routes and target a greater number of customers next year, predicted aviation consultant Robert Mann. "I think the next stage is to peel off layers of people who are exempt and make them pay."

The volume of luggage handled by American Airlines has leveled off this year, averaging 0.8 to 0.9 checked bags per passenger, or roughly 205,000 checked bags per day, said Tim Smith, spokesman for the Texas-based American.

That's down from about 1.1 checked bags in 2008, when American and other major carriers turned to fees to offset losses prompted by high oil prices and the recession.

But passengers have changed their buying habits because of the new fees. Jeff Dumas, 26, of Bartlett, said he now checks Southwest's fares because it doesn't have fees, even though he prefers to travel with only a backpack carry-on.

While analysts question what else carriers can do to wring greater baggage income from passengers, no carrier has followed Spirit Air Line's example and begun charging passengers for carry-ons.

But the new policy appears to have reaped rewards for the ultra-low-cost carrier. After Spirit rolled out the new charges Aug. 1, its baggage fee revenue rose to \$22.9 million during the third quarter, up 36 percent from the previous quarter.