

March 23, 2011

5 Fees Airlines Should Add Now

By Ted Reed

IdeaWorks contributed information to this article -- see italics and graph.

CHICAGO (TheStreet) -- We know that many people like to complain about airline fees, but for a change, let's look at this phenomenon in a different way.

It is in all of our interests -- since we can't personally invest in Amtrak -- that U.S. airlines make money. That way, they can continue to assure safe, reliable travel, buy more new airplanes and expand human interaction throughout the world.

Unfortunately, airlines historically have lost money. As US Airways (LCC) CEO Doug Parker has said, it is counter to our national interest for an industry so important to be so fragile economically.

What we need, therefore, is to have more airlines add more fees -- and soon.

Sometimes it seems that airlines are hesitant to add fees because they fear the media will say bad things about them. But here at TheStreet, we have no fear.

We compiled a list of five fees the airlines should add right now. We had help from Jay Sorensen, president of the airline marketing consultant for Shorewood, Wis.,-based IdeaWorks, and Raphael Bejar, CEO of Paris-based Airsavings, which develops ancillary products for airlines.

Sorensen noted that if you look around the world, "whenever there is something that could be charged for, there is already a case where that is being done at some airline somewhere in the world. It's just that many of these [practices] are not prevalent in the U.S."

We should note, however, that U.S. airlines are testing various new fees and in some cases are routinely selling them. We say stop the tests. Implement the fees! Read on for the five we most need, right now.

Passengers Pay to Pre-Order Meals

"When passengers can order a meal during the booking process, magical things happen," Sorensen said. "The airlines have to provide something attractive because suddenly, they are selling it. That means the food will be fresher, because airlines will not be so concerned about spoilage."

Today's airline food, by contrast, is selected partially on the basis that it is less likely to spoil quickly.

United (UAL) is already testing this concept. Last year, the carrier introduced the sale of "champagne-style" brunches and premium meals for about \$24.95, on 37 flights worldwide. The flights include transcontinental trips between New York's Kennedy Airport and both Los Angeles International Airport and San Francisco International Airport, as well as transatlantic flights to and from Frankfurt and London Heathrow.

"About 90% of the customers who bought the meals were satisfied or very satisfied," said United spokesman Rahsaan Johnson. "Of the 10% who weren't satisfied, many tied their dissatisfaction to the selection they chose rather than with the product overall."

Johnson said United is likely to expand its testing.

Charge for Early Boarding

Many airlines already do this in one form or another.

For \$9 to \$19 each way, American Airlines (AMR) offers a "boarding and flexibility package" upon buying tickets that includes early boarding and a \$75 credit if passengers need to change their itinerary.

United offers a package, starting at \$19, that includes early boarding and the ability to use a premium line to get through security at more than 70 airports as well as a ticket counter line offered to premium passengers.

At Southwest (LUV), you can pay \$10 for Early Bird boarding, which enables you to board early and find the seat you want.

Also, at US Airways, early boarding is offered to passengers with a US Airways Dividend Miles MasterCard. (Disclosure: this reporter lives in Charlotte and has such a card. His only complaint: "Why does every single person who lives in Charlotte have zone two boarding?")

"With the ability to get on the airplane first, you have a guaranteed shot at overhead bin space," said Sorensen.

Surely that is worth paying for, especially if you have one of those rollaboard suitcases that takes up too much space in the overhead bin.

Charge for Select Seat Assignments

To an extent, some airlines are already doing this as well. US Airways, for instance, enables passengers who book online to pay extra for an exit row seat. The practice was pioneered by AirTran(AAI). Even JetBlue(JBLU), which touts "more" legroom in every seat as well as free food and wireless, sells a product called "Even More Legroom," which includes four extra inches of legroom and early boarding, starting at \$20.

At airport self-service check-in machines, American Airlines' "Express Seats" allows coach passengers to select a seat closer to the front of the plane. The service, which also includes Group 1 boarding, costs \$19 to \$39 one way depending on the length of the flight -- and availability.

Delta(DAL) offers a product called "Economy Comfort," which is really not that economical: it costs \$80 to \$160 each way. The package includes extra legroom, extra seat recline, early boarding and free alcoholic drinks.

Sorensen said that going forward, "all seats will be assigned on a fee basis, which will vary by location." The fallback option will be to get an assignment at the gate right before departure.

Charge for Soft Drinks, Water

This one is so obvious that US Airways tried it for seven months a couple years ago. The carrier gave up, beaten back by media hysteria and a lack of competitive response.

Obviously, it makes no sense for an airline to spend the money to lift 400 cans of soda on a fully-stocked Airbus A320 six miles into the atmosphere and fly them around, with fuel costs high, to only give them away.

At a 2008 investor conference, President Scott Kirby noted that without free drinks, "the cabin environment is much calmer and more efficient." In the past, he said, because drinks were free, nearly every passenger had one. The charge also meant that carts no longer clogged the aisles, restroom lines diminished, less trash was left on board and the frequency of aircraft catering diminished.

Sell Insurance for Everything

Airsavings' Bejar said the proper approach to selling insurance is "to show passengers the value, then they are happy to pay."

Among the products AirSavings has developed for the Czech carrier SmartWings is weather protection. A passenger flying from Prague to Nice to lie on the beach by the Mediterranean can pay about \$17 to \$28, and then, for each day it rains a quarter inch or more in Nice, can collect about \$43. The airline collects 8% to 12% of the cost of this insurance, which is sold with the ticket.

U.S. airlines all sell travel insurance with tickets, but Bejar said only about 2 to 3% of passengers buy it. At SmartWings and Dublin-based Aer Arann, the purchase rate is closer to 20% or 30%. Why? "We increased the perceived value by including 30 minutes of free WiFi access during the trip, either in the airport or in the hotel" -- but not in the airplane -- he said.

Airlines get 20% of this revenue.

One more product, being prepared for Spanish carrier AirEuropa, is Genius 365, a concierge service. It provides assistance in finding anytime a traveler might need -- finding a cab, having a doctor visit the hotel, restaurant bookings, even rescheduling a flight in the event of a travel disruption. The cost is \$35, for a trip, no matter what the length is.

Airlines get about 15% of the revenue.

What's not to like?