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Those Ancillary Fees Aren't So Ancillary Now

By Joe Sharkey

IdeaWorks contributed information to this article - - see italics.

I SHOULD have just paid the \$10.

At an airport two weeks ago, I fell into place near the end of the dreaded B boarding lane at a Southwest Airlines gate. My boarding pass said B53. There was a young woman behind me at the back of the line.

We were both rolling our eyes as the line inched forward. She glanced at her pass and said, "I'm B52, but that's O.K. if you insist on jumping the line." From our pitiful spots at the tail end of boarding, we both laughed.

On the plane, I ended up in a middle seat in the last row, wedged between a burly woman on the aisle and a man in the window seat with a very large child in his lap. I sighed. If I'd opted to pay \$10 for Southwest's Early Bird Check-In when I booked, I could have secured a far better position in the boarding line, probably in the coveted A section, with access to a much better seat.

Wait, you may be saying. We thought Southwest prided itself on not charging fees — unlike its competitors, who are rushing to add charges for everything on the plane except the cabin air.

Actually, for some time Southwest has been backpedaling on its no-fee stance. True, Southwest does not charge to check a bag, unlike its competitors (two of which, Delta and United Continental, just last week raised fees to check a second bag on flights to Europe).

Of far more importance to business travelers, Southwest does not charge to cancel a flight and book a new one. Its competitors charge up to \$150 for rebooking most coach fares on domestic flights (and \$250 on international ones).

But Southwest does seek to "create opportunities for incremental revenue growth," as its chief, Gary C. Kelly, said on his blog. Hence the \$10 fee to get a better shot at boarding, among other "new programs and processes," as Mr. Kelly put it.

I don't mean to deride the much-admired Southwest Airlines, because Southwest is a mere piker when it comes to charging fees.

Turns out that those “ancillary revenues,” as the industry refers to those fees, aren’t so ancillary anymore. As noted here a month ago, the Transportation Department has delayed for over a month its regular report on airline financial data for all of 2010 while its statisticians struggle to make sense of the numbers. In 2009, domestic airlines raised \$7.8 billion in ancillary revenues.

But while we wait for that report, another more comprehensive one, done jointly by the worldwide reservations processor Amadeus and the airline consultant IdeaWorks, found that global airline ancillary revenues totaled \$21.5 billion last year, double what they were in 2008. The report said that as airlines devise new fees, “ancillary revenue has become an enduring part of airline income statements.”

That report does not break out overall domestic fee revenue, but it does indicate how it is growing. In 2010, the merged United Continental airline had \$5.2 billion in ancillary revenues. Delta had \$2.6 billion in fee revenue, up from \$1.6 billion in 2009.

As to that Transportation Department report, Bill Mosley, a spokesman for the department, said that some airlines have had “difficulty adjusting” to new electronic filing requirements. “There are still 10 airlines that have failed to file accurate reports, including three of the larger airlines,” he said. The department “will not release the data until we are confident of their accuracy,” he added.

Jay Sorensen, the president of IdeaWorks, said that airlines resist reporting their fee revenue in such detail because “these Transportation Department statistics don’t allow them to package their story in their own way.”

Airlines began aggressively charging for checked bags and other services in 2008, when oil prices were approaching nearly \$150 a barrel. Oil recently fell below \$100 a barrel, but given the uncertainty in fuel costs and the reluctance of passengers to pay higher fares, airlines are becoming ever more creative in figuring out how to add new fees.

Since fares have been steadily rising, “I understand why people are upset by fees,” Mr. Sorensen said. “In a perfect world, an airline would introduce fees but also introduce a lower base fare as they unbundle the product. That didn’t happen.”

But, he said, airlines are still struggling for sustained profitability. “People feel they’re being ripped off, but if you look on the other side of the ledger, have airlines been running away from the table like robber barons with their pockets full of cash? No, they have not.”