

By: Hugo Martín

### **Desperate for revenue, the industry looks at a la carte pricing for a variety of services.**

Airline passengers who are fed up with all those extra fees now charged by carriers are in for some bad news: More of the same is yet to come.

That was the message from the Ancillary Revenue Airline Conference in Huntington Beach last week, a gathering of airline executives and businesses that serve the industry.

Throughout the three-day conference, the executives got tips on how to collect more "ancillary fees" without drawing the wrath of passengers.

The terms "ancillary fees" and "a la carte pricing" are business-speak for charges for products and services that passengers used to be given free, such as checking a second bag, or that airlines have recently added, such as wireless Internet.

Ancillary fees are not new. In 2008, airlines worldwide collected \$10.25 billion in such fees -- a 346% increase from 2006. Low-fare carrier Allegiant Air, the world leader in cashing in on ancillary fees, gets nearly 23% of its revenue from such charges, according to a survey on the subject.

But there's good reason airlines are so desperate for extra revenue. The steep drop in travel demand and unpredictable fuel prices have put the industry into a tailspin. By the end of this year, airlines worldwide are expected to lose \$11 billion in revenue, according to industry officials.

At the Huntington Beach conference, the two main questions asked were "What else can we charge for?" and "How can we add new fees without upsetting customers?"

The conference included such sessions as the "A-Z of introducing a la carte fees and ancillary revenue streams into a traditional airline environment" and "Using ancillaries to enhance your brand as well as being a source of income."

"I think we are going to see more of this spread throughout the United States," said Jay Sorensen, president of IdeaWorks, a consultant on airline ancillary fees and loyalty programs.

"The revenue is just too compelling."

The big trend in ancillary fees is called "unbundling," the practice of offering coach passengers separate products and services typically offered as part of a package to business- and first-class passengers.

For example, United Airlines lets passengers pay as little as \$19 to get priority seating and to cut to the front of the line at check-in and at the security checkpoint. For as little as \$39, United passengers can also get one-time access to the airline's cushy airport lounge. Both of these perks are typically reserved for passengers who pay an annual fee or buy a business- or first-class ticket.





Maria Walter, United's director of merchandising, told conference attendees that the airline wants passengers to see the new offers as "options," not as fees. "Options are different than fees," she said.

The other big trend for airlines is to sell third-party services, such as hotel and rental car reservations, on their websites. This puts them in competition with Expedia, Orbitz and other travel websites.

American Airlines, for example, now offers an entire Walt Disney World vacation – not just the flight but also the hotel, theme park tickets and transportation to and from the airport.

But industry experts warned that passengers would revolt if airlines took the fee trend too far. One expert cited the \$14 fee that Allegiant charges passengers to book a flight, either online or by phone. The only way to avoid the fee is to buy a ticket at the airport.

Alaska Airlines, on the other hand, took a different approach when it adopted new baggage fees. The fees come with a guarantee that the luggage will arrive at the baggage claim area within 25 minutes of the plane's arriving at the gate or passengers will receive a voucher worth \$25 for future travel.

In the future, airline passengers can expect to see ancillary fees repackaged to appeal to a variety of customers, according to experts at the conference.

For example, airlines may offer a package for young, hip, health-conscious passengers that includes Wi-Fi service and a vegetarian meal. A package for business travelers may include priority seating, Wi-Fi service and access to an airport lounge.

"We are not going back to the old ways," said Raphael Bejar, chief executive and founder of Airsavings, a consultant on ancillary fees for mid-size and low-cost airlines. It's easy for airlines to implement such fees, "and the public is getting used to it," he said.

It's cheaper to fly on 'unlucky' days

If you're looking to save money on a flight and aren't superstitious, consider flying on Friday the 13th or Sept. 11.

An analysis by Kayak.com, a travel search engine, found that a drop in airline demand on those days has led to prices that are 14% lower than the average flight. In other words, you can save money because people are terrified to fly on those "unlucky" dates.

The prices for flying on Halloween were also reduced but only by an average of 5%, according to Kayak spokesman Robert Birge.

The next Friday the 13th is in the second week of November. If you book a flight for that date, you can always use the money you save to buy a lucky rabbit's foot.

