

WHAT WILL AIRLINES THINK OF NEXT?

A look at what's on the horizon for air travelers from Airline Consultants, Airsavings

Ladies and Gentlemen, the golden age of air travel and being spoiled by your favorite airline is past. Those multi-million dollar pieces of machinery being flung into the open skies are really just airborne busses; only now have US legacy airlines begun to realize that. So what's on the horizon for air travelers? Raphael Bejar, CEO of airline consultants Airsavings, works with carriers on three continents and shares some of his insights on the next round of cost-cutting and revenue-increasing measures that passengers can expect;

Extra Space

Like a room night in a hotel, or a seat on a bus, a passenger's fare does not buy a tangible item. What is being purchased is the right to occupy a certain space for a certain period of time. So why not quantify that space? Of course, airlines have been doing this for years with class-divided cabins, though bundled with extra services. But Spirit Air has gone a step further, offering more leg room or emergency aisle seating for an extra charge. No word yet on the rumor that airlines are installing subway straps at the back of the plane. Who knew they would introduce a standing-room only section?

Extra Time

In the same vein, many airlines have extended 'priority boarding' privileges to frequent fliers and other VIPs. With the avalanche of carry-on bags brought about by the airlines poo-pooing checked luggage, being first aboard will assume extra value. Look for Southwest, with its first-come, first-serve boarding lineup, to hire more WWF referees to monitor the overhead bins. Expect to see some hair-pulling and teeth-snarling too, as passengers fight for the coveted space.

Human touch

How much is a real, human voice worth to you? How about face to face contact? Airlines like US Airways and United are betting \$10 to \$20 - the fee they charge if you'd like to book over the phone or at the airport counter. We thought most consumers would be happy for the Muzak-free internet booking experience, and the vast majority purchase their tickets that way. But sadly, there are some folks who like to fork out \$20 to a surly check-in attendant, for the privilege...

Choose your own (seat)

Even disregarding the exit row or more legroom choice, some airlines now levy a fee just for determining where you'd like to sit. Allegiant and AirTran both charge between \$5 and \$11 for the right to choose your seat. Before travel sites like Orbitz began offering this service and before airport kiosks began prompting for seat choice as a value-add, where you sat was a secret shared by your travel agent and the airline. It's another no-charge extra that, when determined by airlines that it was worth something to the consumer, has created a veritable monster.

Re-banking frequent flier miles

If travelers are savvy enough to ferret out the absolute lowest fare possible, then they should be knowledgeable enough to optimize the use of their frequent flier miles. Airlines charge a fee if a passenger cashes in loyalty points, then changes his or her mind and needs to re-insert those miles into their account. Their thinking? *Serves 'em right, the flip-flopers.*

Checked luggage

We'd be remiss if we didn't broach this now-famous subject. American is hardly the first airline to charge a fee for checked bags, **just the first major to charge for the first bag**. Many carriers jumped on the second-bag bandwagon earlier this year, and almost every carrier has historically charged a fee for a third or fourth checked bag. Airlines have always charged third parties for cargo shipping aboard passenger flights, so why not charge the passengers for their all own cargo? *Note: gives new meaning to the phrase "travelling light".*



Charge for Critters

By which, of course, we mean both pets and children. Pet passage fees have been rising steadily, approaching the \$100 per pet mark in recent months. Lap-sitting children also earn a fee, though they theoretically occupy the same space as their parent. But every ounce is translatable to jet fuel, and just as there is no such thing as a free lunch these days, no one rides for free anymore.

Airport Lounge Privileges

Lounges are typically offered as loyalty inducements – e.g., the Admiral’s Club - though the general public is clearly interested in lounge day passes as an upgrade option. The cost for building and maintaining airport lounges is spread across an airline’s total manifest, so offering it for free to only a percentage of passengers doesn’t make sense. Better to sell it as an ancillary, and open it to all comers. Watch this space.

New Communication Technology

On the horizon are onboard communication options that are relatively cheap to implement and could command a high selling price to the consumer. Midair internet access and revamped cell phone usage can be purchased by passengers with only moderate infrastructure investment. Indeed, once installed, the fees collected are strictly gravy for the airlines. The cost to travelers? With consumer demand for 24/7 connectivity, the sky is the limit, we are quite sure.

Group Purchasing and hedging

Both processes are already widespread throughout the industry, but as operating commodities like fuel continue to escalate in price, more airlines will align in purchasing alliances (or outright consolidation) to try and squeeze every last drop of savings out of their supply chain. Economies of scale are the tried and true method of conserving cost when sale prices are virtually intractable, though there is a limit to what consolidation can accomplish, as airlines are so large already. Hedging was also fashionable last year, when crude was at \$75/per barrel, but is quickly losing its allure now.

Post script

Struggling to keep pace with deteriorating market conditions, more US carriers are beginning to institute a draconian mix of cost-cutting and fee increases aimed at passing the exorbitant cost of operating a flight onto the end user. Frankly, we’re surprised it took them this long. The trend, further evidenced by this week’s American Airlines announcement that it will begin charging an extra \$15 for each bag checked by an economy passenger, is just the start for US passengers. AA, which also announced cuts in both domestic capacity and jobs, is citing higher fuel costs and a slowing US economy as the impetus for these measures.

Ultimately, this process of “unbundling” is inevitable for US legacy carriers, who are slowly but surely collapsing under the weight of their bloated, regulation-era operating. For years, low cost carriers in Europe and Asia have recognized the state of air travel as one of artificially low prices coupled with rising expenses, and have done away with the frills American legacies have continued to tout – and the American consumers have come to expect. In contrast, the successful low cost airlines have found a way to sell those ancillary services to passengers, allowing them to personalize their flying experience while the airlines develop new lines of revenue with only marginal per unit cost.

For years, our group purchasing and ancillary revenue development strategies have been helping LCCs achieve what airlines like American are clumsily beginning to initiate: a streamlined, nimble operation, represented by a core product and multitudinous extras that can react to consumer and market demands in an effective and rapid way.

These airlines – low-cost- are the future. While it may be an initial shock for millions of US passengers, their business model, which is finally being emulated by legacies carriers, is the only way forward.

