

Fee Fracas

Why fare transparency might be the best thing for the airline industry

By Raphael Bejar, CEO, Airsavings
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In the US, airlines are under fire again after American Airlines announced it would start charging passengers extra to sit in the first few rows of coach/economy on flights within the country. But this should come as no shock: the practice of charging additional fees for services that were previously included in the base fare is will hardly dissipate as airlines continue to look for additional revenue streams to survive. With the industry collecting \$2.7 billion in baggage fees, \$2.4 billion in reservation fees and \$2.7 billion from other ancillary fees in the US each year, fees make up an increasingly large amount of airlines' revenues.

But what might create a fracas is a recently introduced legislation in the US that would require airlines to *clearly* inform travelers of all additional fees and surcharges, and encourage price transparency throughout the industry -- which ultimately forces airlines to be much more transparent with their fees. And this isn't a bad thing.

Yes, increased transparency calls into question the very concept of unbundling, and would put at least US carriers in the uncomfortable position of having the federal government decide what services ought to be included in a base airfare. The separate taxation of these fees is also potentially threatening to an industry notorious for razor-thin profit margins. But price transparency would also create a level playing field for those airlines --including low cost carriers -- that compete primarily on the basis of price. Transparency would reward those airlines that develop sustainable, non-fee-based ancillary revenue streams, in effect creating a system of incentives that would be beneficial not only to these airlines but to the industry as a whole.

First, let's take a closer look at those fees that the US government has taken an interest in.

Baggage fees, reservation change fees, peak travel fees - there's a reason these are cash cows for the industry, because they are effectively compulsory. The rationale used is that "we are creating a customizable flight experience, where consumers can choose to pay for what they want or need," doesn't apply to this category of ancillary revenues. These are, for all intents and purposes, part of the base airfare; they're basically bundled already and there is little to be lost by presenting them as such.

Another question to ask is whether these fees are really the revenue solution that many airlines hold them to be? There is little to no sustainable growth associated with any fee-based ancillary revenue strategy; if an airline introduces some compulsory fee that produces a bump in gross sales one year, it must find another fee to institute next year if it wants to maintain a steady growth percentage. This process becomes unfeasible very quickly (as we have already seen), and is really only as effective as an increase in fare prices.

Simply, fare transparency would usher in an era of sustainable ancillary revenues.

Airlines would have to become more adept at offering relevant products and services to customers beyond the baseline seat and safe conduct, but that is the future anyway. The booking path would become more important as a sales platform, and the relationship with passengers would stretch out in both directions from the duration of the flight, encompassing post-flight sales opportunities as well. Commissions from travel partners would become the most important channel for revenues besides the basic fare. And those carriers that already embrace these strategies would be able to distinguish themselves, both to consumers and in terms of profitability.





Low cost carriers- despite the spirited testimony by LCC Spirit CEO Ben Baldanza before the House Subcommittee in July 2010 would be the primary beneficiaries of the level-price playing field. Because these airlines already engage in healthy cost mitigation practices, they are better able to offer authentically competitive fares, without resorting to fee breakouts. Those that also have an optimized booking path with multiple value-add offerings and strong commission-generating partnerships -- or a robust in-flight retail space, or an effective and active loyalty program, or a popular co-branded credit card -- are already ahead of the pack, and would be well poised to capitalize on a more transparent base fare environment.

In truth, the industry has been moving in this direction for some time now. Airlines recognize that fees are one-offs, and that sustainability is the dominant theme of tomorrow's ancillary revenue market. It seems with this new move by American, US airlines are just trying to get by in a still very turbulent economy and hitching on fees has become a part their business plan. It is not, however, a long-term solution for an increasingly disgruntled public as evidenced by the numerous consumer complaints recently.

Instead, airlines need to develop sustainable, non-fee-based ancillary revenue streams that improve the customer experience by allowing them to pick and choose the products and services they want and need, while the airlines are earning huge amounts of additional revenues.

It's the only way forward for the industry and I, for one, am excited about what the future will hold for the industry, fracas or not.

About Airsavings & Raphael Bejar

Airsavings has set the benchmark for ancillary revenue development solutions for low cost and regional carriers. The company's proprietary booking platform, AirlinePlus, is the engine behind sustainable, booking path-based ancillary revenue programs for more than 15 airlines operating on five continents. As the founder of Airsavings and with more than 20 years of experience in the airline industry, Raphael Bejar has been an authoritative voice advocating for the development of sustainable ancillary revenues and for the low cost business model. He has spoken and moderated panels at many high-profile industry events, and has written numerous influential articles and whitepapers on the subject of ancillary revenue development. For more information on Airsavings, please visit www.airsavings.net.

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