

Managing the Unmanageable Ancillary Airline Fees

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With a slumping economy and resulting decrease in air travel demand throughout 2009, the global airline industry incurred a mounting loss that totaled \$9.4 billion by year end, according to the International Air Transport Association (IATA). Airlines across the globe tackled the downturn in varying ways, but the principal tactic used was the introduction of new ancillary fees, which has also been referred to as airline merchandising, à la carte pricing, and attribute-based pricing.

According to the Bureau of Transportation Statistics, the airline industry accumulated at least \$1.9 billion in ancillary fees in Q409. During this same quarter, ancillary fees amounted to 6.5% of total revenue for the 32 reporting carriers. In total in 2009, the airline industry collected \$7.8 billion in ancillary fee revenue, compared to \$5.5 billion in 2008, a 42% increase. The grid below highlights the top 10 carriers ranked by ancillary fee revenue.

It is a commonly held belief in the industry that these ancillary fees will only grow, not decrease in the foreseeable future. New "merchandising opportunities" continue to emerge, as evidenced most recently in the announcement by Spirit Airlines of a \$30 fee for carry-on bags, which goes into effect August 2010. According to IATA, airlines worldwide are expected to generate \$58 billion in ancillary fees in 2010, which is estimated to be 12% of total revenue.

Aside from the obvious revenue generation, airlines charging for ancillary services also benefit by being more competitively positioned in low-fare displays, as total ticket cost is indiscernible. Additionally, airlines do not currently pay taxes on some ancillary fee revenue, like baggage fees, delivering even more money to their bottom line.

Over the last several years, the lack of standardization of fees among airlines, both in type and amount, and the inability to book them via the global distribution systems (GDSs) have made it very difficult for organizations to measure the effect on their program, including how to budget for these expenses and how to quantify them for future negotiations. Working toward a solution, the Airlines Reporting Corporation (ARC) is developing an Electronic Miscellaneous Document (EMD) that would record ancillary fees for settlement in an electronic format at the time of booking, similar to an e-ticket. IATA has set a deadline of 2012 for all airlines to be 100% EMD compliant, which provides a standard for the industry that is a necessary prerequisite for any sort of booking, tracking, settlement, etc., to be successful.

Q409 Ancillary Free Revenue*

Dollars in Millions (000,000)								
4Q 2009 Rank	Airline	4th Quarter 2008	1st Quarter 2009	2nd Quarter 2009	3rd Quarter 2009	4th Quarter 2009	Percent Change 4Q 2008-4Q 2009 (%)	Total 2009 Ancillary Fee Revenue
1	Delta	289.0	367.4	407.0	447.5	425.7	47.3	1,647.6
2	American	246.2	241.4	246.5	261.2	253.3	2.9	1,002.4
3	US Airways	227.0	221.3	228.2	230.8	231.8	2.1	912.1
4	Southwest	140.6	143.0	148.4	155.7	157.2	11.8	617.1
5	Northwest	185.2	168.1	173.7	223.2	156.7	-15.4	718.7
6	United	151.3	146.3	158.5	168.5	146.2	-3.4	619.5
7	Continental	77.5	144.0	136.0	130.5	129.1	66.6	539.7
8	AirTran	36.2	55.9	65.7	68.0	61.2	69.1	249.7
9	JetBlue	49.5	48.9	48.5	48.7	48.1	-2.8	193.1
10	Alaska	30.2	28.8	28.7	47.3	42.2	39.7	147.0
Industry Total**		1,615.1	1,875.3	1,949.5	2,089.8	1,911.1	18.3	7,825.7

Source: Bureau of Transportation Statistics, Form 41; Schedule P1.2.

* Ancillary fees include baggage fees, reservation change fees and miscellaneous operating revenue, including pet transportation, sale of frequent flyer award miles to airline business partners and standby passenger fees. Revenue from seating assignments and on-board sales of food, drink, pillows, blankets, entertainment, or any other ancillary items are reported as Transport Related Revenue and cannot be identified separately.

** 32 carriers reported baggage fee, reservation change fee, or miscellaneous operating revenue in Q409.

The Airline Tariff Publishing Company (ATPCO) is also working toward a solution that will allow airlines to load ancillary fees into the global distribution systems (GDSs) for purchase at the time a traveler books their airfare. And announced on May 11, Carlson Wagonlit Travel, along with other industry-leading travel management companies, online agencies, and GDSs, pledged support for plans to implement recently developed, industry-wide technology standards that enable shopping, booking, payment, and reporting of ancillary services. Use of these common technology standards will create the opportunity for airlines and agencies to sell ancillary services seamlessly, and corporations to optimize their business travel programs by better anticipating and tracking their full air spend. For more information click [here](#).

In addition to these pieces of the puzzle, the individual air carriers, GDSs, online booking tools, and agencies will all need to do their own technology development to make the ticketing process, settlement, and fulfillment work together.

Once the pieces are in place, booking and tracking should then be possible; however, this solution will not happen with the flip of a switch. Each entity will finish their development at varying times and the ability to book ancillary services at the time of booking will happen in stages, as additional airlines, GDSs, etc., launch their piece of the puzzle. Some of these initial capabilities are expected in the third quarter of this year at the earliest. Even at such a time when these systems are in place, there are certain ancillary fees that will be difficult to purchase in advance because they are not always predictable at the time of booking, such as on-board meals. Until these booking and tracking systems are in place, there are a few things companies can do to manage these fees:

- Work with credit card providers and attempt to capture this spend by fee type for budgeting purposes and future carrier negotiations.
- For clients without a centralized T&E credit card, expense reporting tools are the next best method for identifying spend on ancillary fees.
- Request that ancillary fees be waived, reduced, or, at a minimum, included in overall spend calculations during contract negotiations.

- Examine the organization's travel policy and implement measures that will limit ancillary fee exposure (e.g., only reimburse for one checked bag, unless there is a business reason to check two or more, forbid company-paid seat upgrades on-site, etc.).
- Negotiate elite-level frequent flyer status for as many travelers as possible, since many ancillary fee charges are not applied to elite members.

Until there is a consistently recognized industry process, ancillary fees will continue to be a burden for travel management and procurement groups. Travel buyers would do well to quantify these expenditures as best they can, for budgetary and negotiations purposes. There are no "silver bullets" to solve this problem today, and the best that can be done as an industry is to continue the open dialogue about an industry-wide solution. CWT continues to advocate on behalf of its clients, encouraging the airlines and GDSs to work together in developing an efficient solution, satisfactory to corporate buyers, GDSs, and airlines alike. ■

Industry-wide standards to enable sale of ancillary products across distribution channels are on the horizon

Last May, CWT joined the industry's leading travel management companies, online agencies, and global distribution systems (GDSs) in support of plans to implement recently developed, industry-wide technology standards which enable shopping, booking, payment, and reporting of ancillary services. These standards will also facilitate the use of new capabilities that are being developed by the GDSs to help agencies manage the complexity of unbundled offerings, while enabling airlines to differentiate through the sale of ancillary services across all distribution channels. Use of these common and recently launched technology standards will create the opportunity for airlines and agencies to sell ancillary services seamlessly, and corporations to optimize their business travel programs by better anticipating and tracking their full air spend.

By combining ATPCO's (Airline Tariff Publishing Company) category for optional services «OC» fare filing capabilities with soon-to-be-enabled Electronic Miscellaneous Documents (EMD), airlines will be able to quickly introduce their revenue-building ancillaries to the broadest travel audience through both indirect and direct distribution channels. The group of travel industry buyers also endorses the development of common messaging standards for direct API solutions for those airlines that wish to manage the ancillary data directly with a GDS, enabling the easy and efficient shopping, selling, payment and reporting of ancillaries.

Many capabilities enabling the sales of ancillary services already exist within the GDS environments. Airlines that adopt industry technology standards are expected to plan how to best leverage it this year. The GDSs plan to provide corporations and travel agencies the ability to shop, book and fulfill airline ancillary services to travelers by late 2010.