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BUSINESS

Airline Fees Keep Climbing

Some Carriers Bundle Charges for Former Freebies, Framing Them as a Service

By SUSAN CAREY

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Airlines are repackaging their fees.

Under pressure to find new sources of revenue as ticket prices remain depressed, airlines for years have been tacking on baggage fees and charging for meals that used to be free. The fees are continuing to multiply and increase. In late April four of the largest U.S. airlines raised fees for changing a domestic flight to \$200 from \$150, posting the notifications in small print on their websites.

There are also fees at many U.S. airlines for early boarding, unaccompanied minors, processing a ticket purchased with award miles, getting a ticket issued by an airline reservations clerk, using a mileage-based upgrade, and overweight bags and oversize luggage.

Counting Up Fees

Compare travel fees for various items among the major airlines.



But airlines are also bundling some of the fees differently and framing them as a service, mixing the good with the bad. Last December AMR Corp.'s American Airlines began selling packages called Choice Essential—for \$68 round trip on domestic tickets—that spare the traveler from paying a reservation-change fee and provide a free checked bag and priority boarding.

The more costly Choice Plus package, at \$88 round trip, also lets the flier stand by for a different flight on the same day and awards 50% more frequent-flier miles. "We're a retailer trying to create a product line," said Rick Elieson, American's managing director of digital marketing.

United Continental Holdings Inc. announced early last month that it is bringing back annual subscriptions for its roomier Economy Plus coach seats and for checked baggage.

Free No More

Carry-on bag: \$40 on Spirit

In-flight TV: Up to \$7.99 on United

Extra legroom in coach: \$8 to \$159 on American

Early boarding: \$10 on Delta

Source: the airlines

United's new Economy Plus annual subscription for a customer flying in the continental U.S. costs \$499. A couple would pay \$699. The new bag-fee subscription would cost a person traveling in the continental U.S. \$399 a year to check two standard bags a trip. A global subscription for that person is \$799 a year. There are other variations as well.

Delta Air Lines Inc. and JetBlue Airways Corp. now also sell access—on a per-trip basis—to such seats, and American Airlines is making a similar offering.

Actual ticket prices account for just 70% of the revenue at major airlines, down from 84% in 2000, according to the Department of Transportation. Fees tacked on for checked luggage and reservation changes alone rose to a record \$6.1 billion in fees last year, up from \$5.7 billion the year before. Overall revenue was \$159.5 billion last year.

Add-on fees are expected to rise further.

Perk Payments

- Carry-on pet: \$125 on United
- Wi-Fi access: \$8 on Southwest
- Blanket/pillow: Up to \$5.99 on Jet Blue
- Headset: \$2 on Delta

John Thomas, head of the global aviation practice for L.E.K. Consulting, estimated that by 2020 U.S. airlines will double to \$12 billion a year the amount they take in from selling different elements of the trip, some of which used to be included in the ticket price.

Aside from the now-commonplace fees for baggage, changing reservations and better seats, fees will include items such as onboard Wi-Fi and speedier security screening.

"Ancillary revenue is massively underpinning the economics of the industry," Mr. Thomas said.



While U.S. airlines have rebounded from staggering losses in the past decade by trimming their unprofitable routes and going through bankruptcies and mergers, their 2012 revenue per passenger exceeded costs by a mere 37 cents, according to the Airlines for America trade group. Without \$8.49 per passenger in ancillary revenue last year, revenue would have been \$8.12 lower than per-passenger costs. Put another way, from 2000 through last year, inflation-adjusted domestic fares declined 15%. With the ancillary revenue added, the decline would have been 10%, the trade association said.

Jay Sorensen, an airline revenue consultant for IdeaWorks Co., said he believed fees for advance coach seat assignments and international checked baggage are on the horizon. Neither idea is that far-fetched, based on moves that some major European carriers are already making, he said.

While low-cost Spirit Airlines Inc. and Allegiant Travel Co. successfully have imposed fees for just about everything—including carry-on bags—to augment their rock-bottom fares, carriers that have fewer fees tend to be more popular in traveler surveys.

The Middle Seat

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- [A Platinum Frequent-Flier Bidding War](#) 6/27/13
- [If the World Were Run Like Airlines](#) 6/21/13

Southwest Airlines Co. doesn't charge for the first two checked bags and doesn't impose a fee for changing a reservation. JetBlue lets the first checked bag fly without charge.

Both companies outscored their rivals in a North American passenger-satisfaction poll by J.D. Power & Associates released in May.

Fliers appear to be getting used to bag fees. The J.D. Power survey, of nearly 12,000 passengers, found the satisfaction gap narrowing between fliers who pay for luggage and those who don't. Among those who do, 37% found the fees reasonable, up from just 18% in 2011.

Mark Cibulka, a financial analyst for a Pittsburgh bank, said fliers obviously don't like bag fees. "But I can see where [airlines] are coming from," he said, given the price of fuel.

Airlines are likely to keep looking for new ways to nickel-and-dime customers on formerly free items.

George Hobic, a consumer advocate who runs the airfarewatchdog.com website, said he wouldn't be shocked if big carriers eventually adopted fees for carry-on luggage. But he said they are more likely to start zoned-baggage fees, which vary based on the length of the flight, and to impose fees on passengers who carry their infants on their laps on domestic flights, matching the practice on international flights.

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