



HOW AIRLINES GET PASSENGERS TO HAPPILY ACCEPT EXTRA FEES

News / Airlines



As add-on fees make up a growing percentage of airlines' profits, more carriers are introducing bundles of features on top of their base fares — and travelers are embracing them.

On a Delta flight from Dallas to Chicago this year, Paul Clough, a resident of Austin, Texas, who travels frequently, paid \$48 to upgrade to a Comfort Plus ticket, which included such amenities as additional legroom, early boarding and access to overhead bin space, and free drinks.

"I don't like being nickel-and-dimed, you know, paying for everything," Clough said.

"It's just a couple extra inches, but when you throw in the alcohol and priority boarding, it just makes it more appealing," he added. "I call it first-class light."

Have found a way for passengers to see value in add-ons, even if not so long ago they were included in the price of the ticket, said Jay Sorensen, president of the airline consulting firm IdeaWorksCompany.

"It's on the rise because it works, it generates more revenue per passenger and it seems to

generate fewer complaints as well,” Sorensen said.

A Delta spokesman, Anthony Black, said via email that Comfort Plus was developed to give travelers an option between first class and main cabin tickets.

“Our customers who are more engaged with our brand” — frequent flier members booking through Delta.com — “have responded most favorably to our new offering,” he said.

A recent IdeaWorksCompany report noted the growing importance of bundled or branded fares to the bottom line at airlines — not only major airlines but also low-cost carriers, which use them to lure business travelers.

Overall, the industry earned more than \$38 billion from ancillary revenue last year, the report said, although it did not break out how much was earned from branded fares.

Delta is not alone. JetBlue introduced its new Blue, Blue Plus and Blue Flex fares this year, which a spokesman, Doug McGraw, said via email were “designed to offer simple and affordable choices.” They will also be quite profitable: The airline told investors in January that the change would generate over \$200 million a year in additional operating income by 2017.

Making products out of fees

For a traveling public loath to pay fees, it’s a striking shift in sentiment. Behind it, though, is the psychology of consumer behavior, industry consultants and marketing experts say.

“The idea here is that people think of losses and gains differently,” said Ishani Banerji, a visiting assistant professor of marketing at the University of Texas, San Antonio. “The same gain will have less of an impact on us than the same loss.”

Studies have shown that people are more upset if they lose \$10 than they are proportionately happy if they gain \$10, she said.

“Because of this, people really, really like to avoid losses,” she said. “Anytime you can aggregate losses, put losses together, you will respond more favorably to that.”

Passengers will also be more likely to pick a bundle that is presented as a middle choice between a bare-bones fare and a first- or business-class ticket, like Delta’s Comfort Plus or JetBlue’s Blue Plus.

“Anytime you give the consumer three choices, more often than not they’re going to choose the middle choice because it feels like a safe compromise,” said Sorensen of IdeaWorksCompany. “And that’s the magic in this method.”

With their branded fares, airlines have succeeded in reframing extra fees as the price of admission for an enhanced in-flight experience, which circumvents customer ire over having to pay for something, such as checking a bag, that used to be included with the price of the ticket.

“The clever airlines came up with the notion of actually creating products,” said Max Rayner, a partner at Hudson Crossing, a travel industry consulting company.

Douglas Quinby, vice president for research at Phocuswright, a travel market research company, said: “These types of ancillaries are positioned as a kind of a feature upgrade, as a better experience, as opposed to simply an upsell. They can cater to very specific sets of travelers that

know they're definitely going to want Wi-Fi or extra legroom."

J.D. Power and Associates found that when people paid for benefits like more legroom, early boarding and in-flight Wi-Fi, their satisfaction with the costs and fees was actually higher than if they got those amenities free.

"If you paid extra, you were more satisfied with the value you received," said Rick Garlick, who leads the company's global travel and hospitality practice. "I think it's a perceptual thing. This is all about creating value."

For travelers, this is a mixed bag. Being able to get a bare-bones ticket from a major carrier or a ticket on a low-fare carrier with more bells and whistles blurs the lines between the two and gives people more options when they fly, Sorensen said. It's also less trouble for business travelers than having to account for tacked-on fees for each flight.

"It gives people more choice and it makes people feel like the airlines are throwing them a bone," said George Hobica, founder of the airline deals website Airfarewatchdog.com.

"It's going to make some people happy," he said, "and other people are going to try it once and decide it wasn't worth it."

Although travelers might get more choices, bundling means they have to be careful not to pay for amenities they will never use, and price-conscious travelers will have a tougher time comparison-shopping, because airlines put different elements into their branded fares.

"Absolutely, it's going to be more work," Banerji said. "It becomes hard to compare. These are no longer equivalent items, so you have to decide which items in a bundle really matter to you."

Travelers must be realistic about needs versus indulgences, which can sometimes be challenging.

"It might be tempting to get the French fries because it's part of the bundle, but if it's not something you really care about, try another bundle," Banerji said.

Henry Harteveldt, a travel industry analyst, said: "We, as humans, are far from being the most rational of beings. It's really about temptation, what the airlines are doing."

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