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 Oct 19, 2009

How to charge more and still be a classy airline

— Karamjit Kaur

When Singapore Airlines (SIA) decided last year to charge economy customers US\$50 one-way for exit row seats with more legroom, a colleague sniffed: “Why so low-class? They going the budget airline way, is it?”

It's not to make money, the airline said then, insisting that the customer-driven move was good for travellers who needed the extra space and were willing to pay to make sure they got it.

Before that, the much sought-after seats were available on request and typically given to frequent fliers.

The global economic meltdown these last 12 months has been hard on airlines in general and especially hard on top-tier carriers like SIA. Not only are their overall numbers down but the fall has been proportionately greater for their first- and business-class seats — the cash cows that give premium airlines up to half their revenues.

To make up for the dip, fares have been cut to their lowest level in years. As a result, while economies are recovering and planes are beginning to fill up again, airlines are continuing to bleed. They are expected to lose an estimated US\$11 billion this year, and another US\$3.8 billion next year.

The crisis has forced several traditional carriers, especially those in the United States and Europe, to go the “low-cost way” to boost their balance sheets. Charging for preferred seats — like those on exit rows and along the aisle — and a second checked bag are common these days.

Industry-wide, airlines, including budget carriers like AirAsia and Tiger Airways, make good money selling items and services aside from tickets. Last year, airlines earned an estimated US\$10.25 billion by charging travellers not just for preferred seats and checked baggage, but also for food and drinks and even blankets. Airlines make money also from commissions for selling other extras like hotel rooms and insurance. The total amount collected was more than three times the US\$2.9 billion they earned in 2006 by such means.

While more and more airlines are turning to such ancillary revenue streams to shore up their bottom lines, Asia-Pacific full-service carriers like SIA and Cathay Pacific seem reluctant to do the same, for fear that this would affect their image and branding.

But desperate times call for desperate measures. From the International Air Transport Association to industry pundits, the consensus is that the time has come for major changes.

Governments and service providers should unshackle airlines from the chains that now prevent them from merging freely across borders and sourcing for international capital, among other restrictions. Airlines too should relook their business models and operating frameworks. Broadening revenue sources is one area that deserves more attention.

I'm no snob and I have no hang-ups about flying budget but I would draw the line if SIA, Cathay, Emirates, or any of the other full-service boys, started charging for food, drinks and blankets. I can live with paying for exit row seats.

But even without resorting to such extreme measures, these airlines could do more to boost their ancillary earnings and along the way, enhance customer service.

John Devins, the regional director for Asia-Pacific at GuestLogix, which provides on-board retail systems to the airline industry, suggested recently: “What if you could sell tickets to Disneyland on board a Hong Kong-bound flight, or a train ticket to the middle of the city?”

That is not a bad idea. Hotel accommodation, insurance, car rental, local transport passes, theatre tickets and tickets to places of interest — these are just some of the extras that airlines can offer their customers, either by direct selling or by providing relevant links on their websites.

Such initiatives are not just revenue-generating, but provide a service to travellers as well, and could be undertaken without an airline being labelled “low-class”.

British Airways (BA) is one full-service carrier that has done an excellent job at this. Go to ba.com and you can book practically everything, including your air ticket, rental car, London Eye tickets, sightseeing tours, helicopter rides over the Grand Canyon and kayaking in the Caribbean.

The airline also takes bookings for popular attractions such as theme parks, restaurants and top theatre shows in London's West End or New York's Broadway.

Unlike BA, other carriers do little more than allow customers to book flights on their websites.

Branding expert Shashank Nigam, who runs his own consultancy, suggested that airlines concerned about the impact of such non-core activities on their image could adopt several tactics, including what he calls “reverse-discounts”.

“So, instead of charging say US\$10 for checking in a bag, how about giving a discount of US\$10 during the booking process if no bags are being checked-in? Ultimately, the latter technique brings in the same cash for the airline, but has a profoundly positive effect on the customer's perception of the brand.”

In the end, whatever techniques airlines choose to deploy and however they decide to market such initiatives, there is much potential in this “side” business that carriers just cannot afford to ignore, especially in a crisis.

So to SIA and others like it: Be adventurous, think out of the box and, as long as you don't charge me for water and blankets, I promise I won't say you're low-class.

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