

# Airline baggage fees and Southwest

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October 15, 2009

## Airline Baggage Fees: Southwest vs. the Industry-

Most airlines now add fees for everything from checking your baggage to getting a pillow. Free meals are long gone. Southwest ([LUV](#)) has *attempted* to use their no-fee policy in media advertisement to entice passengers away from their - *charge for everything* - competitors.

Last week the DOT released data showing many airlines are now achieving approximately 4% of their operating revenue from ancillary fees. *These are the add-on costs to the base airfare such as baggage fees and charges to change a reservation.*

Some industry commentators have suggested these ancillary fees are pushing traffic from the old legacy airlines over to Southwest.

Before getting into the data, let's set the stage. Typically, airline data is compared year-over-year (y/y). In more stable times, y/y comparisons actually had some relevance but with today's volatility caused by unexpected and significant changes in fuel costs and monthly double digit capacity changes, I suggest more attention needs to be placed on the month-to-month and quarter to quarter (q/q) data.

Adding baggage fees did not get into full swing for all of the participating airlines until early 2009. As such, there is very little meaningful impact from ancillary fees when comparing current y/y data.

One rumor I'd like to address is that there has – *supposedly* - been some relevance to an airline's y/y drop in operating revenue being attributed to their ancillary fee charges. The fact is all airlines have had a drop in revenue including Southwest. Legacy carrier revenue has also been pressured lower by large reductions in international yields and historically weak demand for premium/business fares.

For those not aware, the 3<sup>rd</sup> quarter of last year had the highest average air fares in history. As the recession moved full steam ahead into 2009, passenger/traffic demand fell off a cliff. Typical to the industry, in order to entice passengers, airlines reduced fares. The simple fact is the y/y drop in revenue has occurred because fewer people were willing to fly at the higher fares and not because of baggage fees.

The following detailed analysis compares month-to-month mainline traffic over the past year for the 3 Texas based airlines: Southwest, Continental ([CAL](#)) and American ([AMR](#)).

Figure 1 shows month-to-month revenue passenger miles (RPM's).

Figure 2 shows the month-to-month percentage change in RPM's.

*Note: revenue passenger miles are the miles a seat is filled with a passenger. RPM's are typically used to measure market share.*

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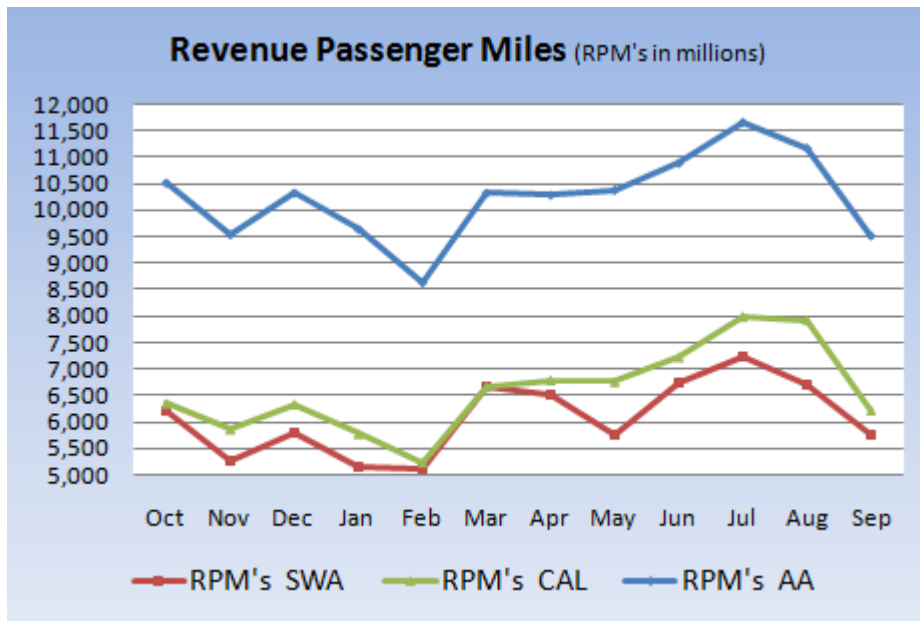


Figure 1

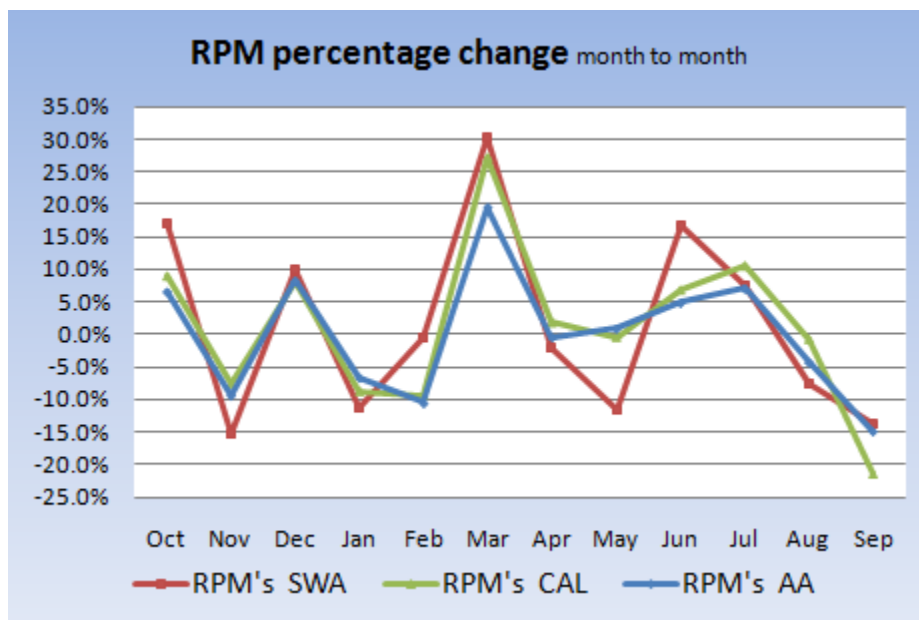


Figure 2

Figures 1 & 2 show at the time American & Continental were steadily increasing add-on baggage fees, Southwest did not have any consistent increase in market share.

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For a bigger picture view, figures 3 & 4 show available seat miles (ASM's) for the same time period.

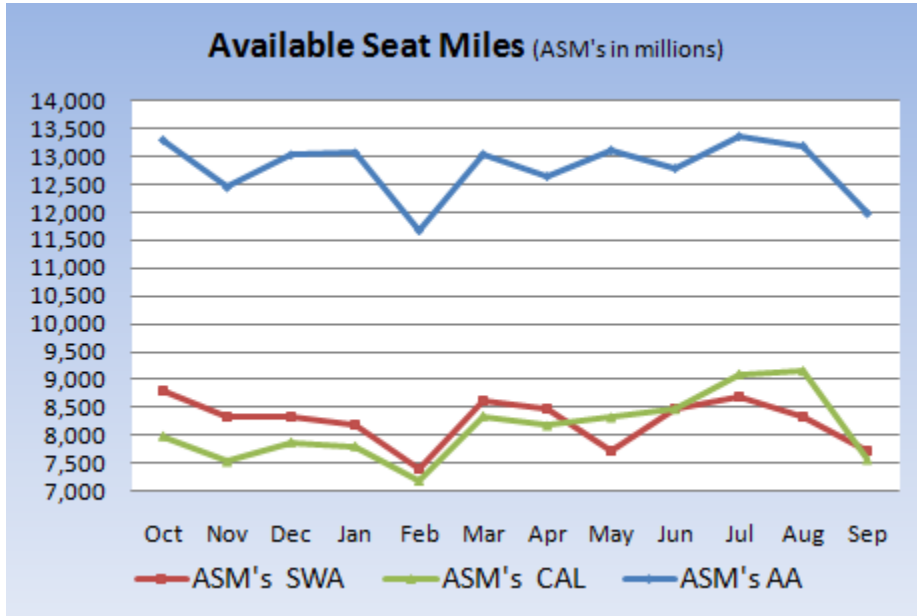


Figure 3

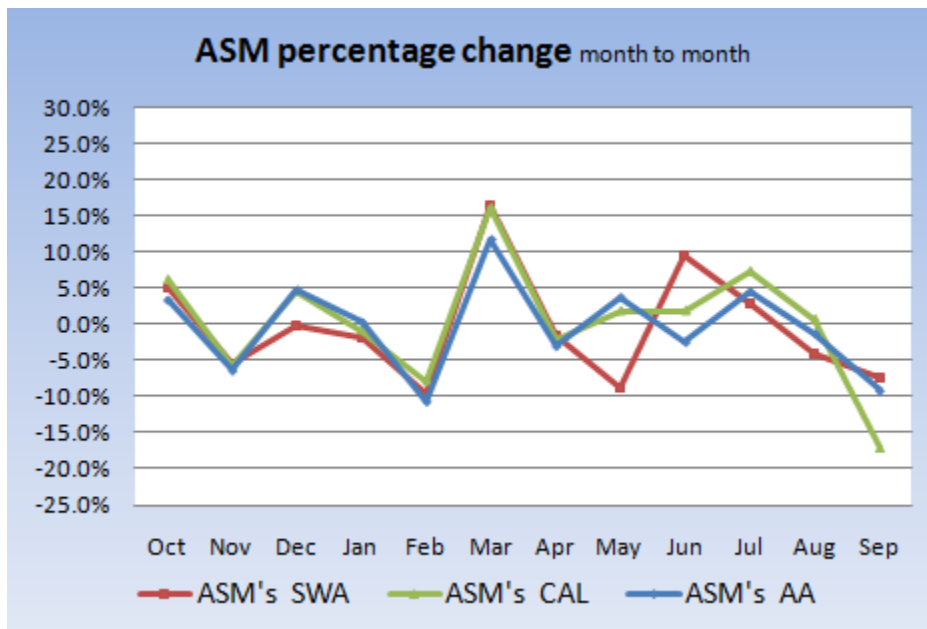


Figure 4

Figures 3 & 4 show ASM capacity for Southwest had a similar monthly up and down range as both American and Continental.

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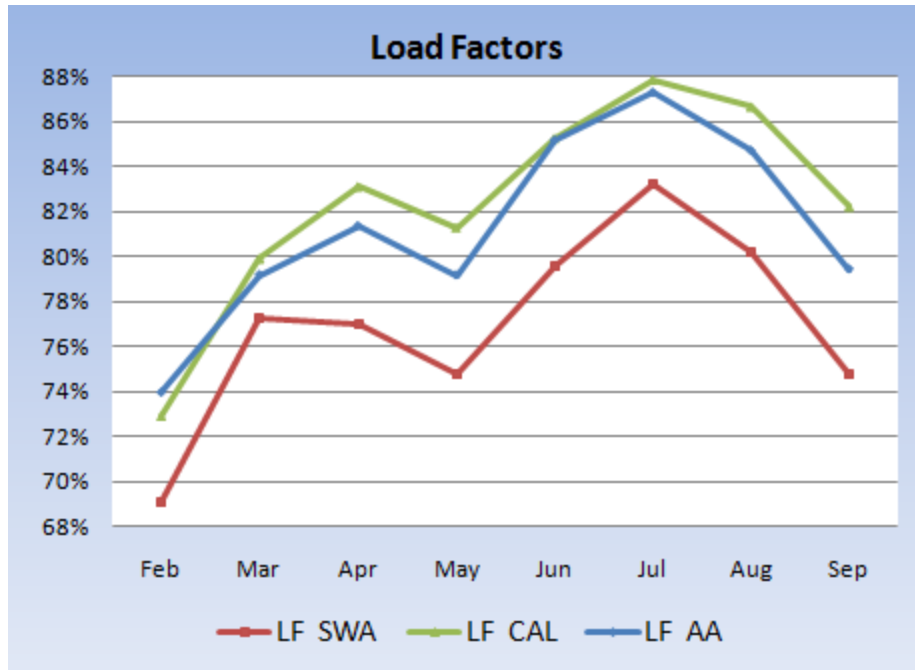


Figure 5

Figure 5 shows the most recent 8 months' load factor (LF) for each airline.

Once again, Southwest's LF moved up and down relative to Continental and American.  
*Note: load factor is the percentage of seats filled and reconciles capacity with demand.*

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Conclusion: There is no evidence to show Southwest's competitors lost passenger traffic as they increased add-on baggage fees.

The question should be how many hundreds of \$millions is Southwest giving up by not joining the crowd? Southwest typically gets credit for being more of an industry leader than a follower. This time, Southwest needs to do some catching up.

Below is an updated chart showing month-to-month revenue passenger miles (RPM's) with the month-to-month percentage change. These are mainline system miles which include international for all airlines except Southwest.

The far right column shows Southwest and JetBlue with the weakest average market share performance over the most recent six month time period.

		2009						avg
		Apr	May	Jun	Jul	Aug	Sep	Apr-Sep
RPM's	RPM's AA	10,284	10,381	10,889	11,663	11,173	9,515	
m/m chg	RPM's AA	-0.4%	0.9%	4.9%	7.1%	-4.2%	-14.8%	-1.08%
RPM's	RPM's AIA	1,513	1,542	1,763	1,959	1,846	1,367	
m/m chg	RPM's AAI	-4.6%	1.9%	14.3%	11.1%	-5.8%	-25.9%	-1.50%
RPM's	RPM's ALK	1,475	1,495	1,644	1,790	1,779	1,450	
m/m chg	RPM's ALK	-5.4%	1.4%	10.0%	8.9%	-0.6%	-18.5%	-0.72%
RPM's	RPM's CAL	6,790	6,761	7,220	7,982	7,923	6,222	
m/m chg	RPM's CAL	1.8%	-0.4%	6.8%	10.5%	-0.7%	-21.5%	-0.58%
RPM's	RPM's DAL	13,330	13,669	15,417	17,010	16,377	13,176	
m/m chg	RPM's DAL	-0.9%	2.5%	12.8%	10.3%	-3.7%	-19.5%	0.26%
RPM's	RPM's JBLU	2,223	2,095	2,228	2,545	2,562	1,920	
m/m chg	RPM's JBLU	-1.1%	-5.7%	6.3%	14.3%	0.7%	-25.1%	-1.77%
RPM's	RPM's LCC	4,989	5,104	5,433	5,655	5,498	4,567	
m/m chg	RPM's LCC	1.5%	2.3%	6.5%	4.1%	-2.8%	-16.9%	-0.89%
RPM's	RPM's SWA	6,518	5,772	6,731	7,241	6,694	5,772	
m/m chg	RPM's SWA	-2.0%	-11.4%	16.6%	7.6%	-7.6%	-13.8%	-1.77%
RPM's	RPM's UAL	8,306	8,400	9,321	9,815	9,703	8,093	
m/m chg	RPM's UAL	-2.0%	1.1%	11.0%	5.3%	-1.1%	-16.6%	-0.38%

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