What's the Deal By Daniel Lesser

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Airlines generate revenue, hotels miss opportunities

(The views and opinions expressed in this blog are strictly those of the author.)

In case you missed it, early in December United Airlines announced a new fare category beginning in 2017.

Basic Economy, while offering the cheapest airfares, will restrict passengers to carry on one small personal item such as a purse, backpack or briefcase that can fit under the seat in the front of them. UAL will be the first major airline to ban roller bags and other full-sized carry-ons for travelers booking its lowest fares. UAL is introducing the relatively low price category to compete with ultra low-cost carriers such as Spirit Airlines, Frontier Airlines and Allegiant Air, which charge a fee for carry-on baggage.

For years now, the nation's major air carriers, namely American Airlines, Delta Airlines, Southwest Airlines, and UAL have nickeled and dimed passengers for items such as having a ticket agent print a boarding pass, checked and/or overweight luggage, early boarding/advance seat assignments, extra legroom, meals, drinks, pillows, blankets, headsets and Wi-Fi access. It is obvious that if reaction to UAL's new overhead bin use fee is not overly negative, it is only a matter of time before the other three big U.S. legacy carriers follow suit.

All of this is occurring while earlier this year a federal judge in Washington, D.C., overruled objections by the airline industry, and gave the go-ahead to a class-action suit alleging price fixing by the four largest U.S. air carriers. The aforementioned legacy carries have been accused of conspiring to raise fares by keeping seating capacity artificially low.

It is no secret that U.S. airlines have previously moved in tandem on pricing, capacity and ancillary fee strategies. Together with wide-ranging processing, add-on and change surcharges, North America's airlines have collected an additional US$11 billion in revenue during 2015, an increase of approximately 25% from 2014. At this point, one has to consider what air carriers might consider charging for next; perhaps reclining seats, utilizing on-board bathroom facilities, seat cushions, or oxygen masks.

This is not the first time I articulate my opinion that the lodging industry has missed profit enhancement opportunities that their airline brethren have taken full advantage of. I am baffled as to why the hotel sector has failed to behave similar to the airlines that have been very successful charging the same travelers additional fees for reservation changes, cancelations and a la carte goods and services.

While ownership and management of aircraft is much less fragmented than hotels, America's big five hotel brand families – Marriott, Hilton, InterContinental, Wyndham and Choice – have the ability to implement systemwide brand standards that deal with a wide variety of pricing and revenue enhancement opportunities.

Finally, the lodging industry continues to have a lot to learn from the airline sector relative to unbundling services. The industry should be able to offer a Basic Economy stay while offering guests the option to add on items such as early check-in, guestrooms in premium locations or with superior views, newly renovated guestrooms, Internet connectivity, daily maid service, self-parking, holding checked luggage, receiving packages, late check-out and

traveling with pets. Such opportunities would clearly have a positive impact on the hotel industry's profitability.

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