

What Charging for Bags Costs Airlines?

Bag fees are thought to be a huge profit center for the airline industry. And while the revenue is a very visible line item in the annual report, no one analyzes the added production costs to charge these baggage fees.

For example, it has been reported that the big airlines generate hundreds of millions of dollars annually in baggage fees, a very big number, that looks great on the Balance Sheet.

But on the production side, as is obvious, bag fees push many more bags to the gate. Not only does this require additional effort by the agent, very late in the boarding process, to check the bag (i.e., more confusion and variance, especially if you are in the last boarding group), it also adds minutes to the boarding process as passengers try to find overhead space for their bags and then, once the overhead bins are full, carry them to the front of the aircraft to be checked.

Additionally, it typically requires even more time to move the now gate checked bags from the jetway to the cargo hold.

Also, during the de-planning process at the destination, the extra bags in the overheads adds additional time to de-plane the aircraft.

Next also consider that bag fees has tended to move the frequent flyers to the head of the boarding queue to guarantee that they have room for their bags. Typically, these customers have aisle seats, which then requires the frequent flyer to get up to allow the later boarding passengers to access the middle and window, seats. Again, increased production set up time at the gate, where the aircraft is making no money.

In other words, bag fees adds a upwards of 5 minutes (or more) to the gate boarding and de-planning process, and this is for just the narrow body aircraft.

And the cost of this 5 minutes per flight of lost production time is not trivial. For example, Southwest said that "*It would cost us approximately 8 to 10 airplanes of flying per day if we were to add just a couple of minutes of block time to each flight in our schedule.*" (March 3rd, 2011, Chicago Tribune).

Using Southwest's statement as the baseline for an airline with 600 aircraft, the 5 minutes of lost aircraft production time would require an airline to purchase, crew and operate at least an additional 18 aircraft to fly the same schedule with bag fees versus an airline operation without bag fees.

And while the cost of ownership of these additional 18 aircraft is large in its own right, it is the lost opportunity cost that is the much bigger problem.

For the 18 aircraft, using an average number of seats of 175 per aircraft, an 80% load factor, 3.5 flights per day for each aircraft and an average revenue per passenger to the airline (i.e., minus taxes, PFCs, etc.) of \$220, this equals a lost revenue of \$708 million per year.

Or consider Southwest's early 1970s experience when they lost one of their 4 aircraft. At the time Lamar Muse was in charge and he tasked his operational people to fly the exact same schedule with 3 aircraft that they were flying with 4 aircraft. The solution - the now 10 minute turn.

Now, I am not saying that we can get back to a 10-minute turn, but 30 to 35 minutes for a B737 or A320 would free up a fair amount of production time for airlines to increase revenue. In other words, bag fees are the neighborhood of a wash. Add in the customer frustration over the bag fees and the schlepping the bags through TSA security and the airline bag fee profit is minimal or a loss.

But the bag fees are just the tip of the iceberg. Once you add in other things like the airline's large scheduled block/gate time buffers, crew/gate/maintenance inefficiencies and irregular ops that should never have deteriorated to the point it does, the airline's Cost of Poor Quality for their current 1950s "day of" production process for individual large airlines costs Billions in direct and lost opportunity costs (see below).

Finally, it is long past time to bring the airline curb to curb production process out of the 1950s and into the Big Data, Supply Chain, 21st century world?

Airlines could. Airlines should. Airlines don't.