

Fees Find Their Way to Frequent Flier Programs

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Say goodbye to bonus miles. US Airways, on Aug. 6, is eliminating this standard perk. Not only will elite Dividend Miles members no longer earn extra miles on flights with US Airways and partner airlines, but they'll also pay processing fees on flight award redemptions ranging between \$25 and \$50.

Such is the state of frequent flier programs, as airlines struggle to find new sources of revenue. Carriers are in a "lifeboat moment" throwing everything overboard to keep from sinking into extinction, said Jay Sorensen, and airline industry consultant and president of IdeaWorks, Milwaukee.

Frequent flier mile redemption fees are just the latest tactics airlines have instituted. Little luxuries that once were free are now assessed a fee from checked-in bags at the gate to soda and snacks served on the plane.

Frequent fliers club members are no longer exempt. "These programs are supposed to be free," said Sorensen. "What we're seeing is the degradation of the entire product. Frequent flier programs are as challenged as the rest of the airline product."

Frequent flier miles are big business. American Airlines reported selling in its 2007 annual report that it sold 100 billion AAdvantage miles to credit card company, hotels, car rental company and other third parties that use airline miles for their own customer loyalty outreaches. Those miles can generate at least \$1 billion in revenue.

A Bear Sterns report last year estimated that American's loyalty program, which at the time had about 50 million members, was worth at least \$2 billion. Today it has about 60 million members. Before United Airlines climbed out of bankruptcy during 2006, court filings stated that its Mileage Plus program—it's only profitable operation at the time—generated \$800 million in revenue.

Despite the prevailing sentiment that too many miles—1.3 trillion miles among worldwide carriers by some estimates—are chasing too few award seats, a study released in May by IdeaWorks.

"These programs have an impact on the carriers financial healthy and is very important for their liquidity at the moment," said Sorensen. "Airlines have to be smart enough not to degrade these programs, but we'll see a decrease in advantages and perks until business comes back."
