

Elite airport lounges are falling victim to airline industry downturn

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NEW YORK: Membership lounges at airports are the latest casualty of the current crisis in the airline industry.

United Airlines announced earlier this month that it was shutting four of its Red Carpet clubs at U.S. airports, after closing three others in the United States and overseas in the past few years.

Delta recently closed nine of its 47 Crown Rooms in the United States and at Gatwick Airport near London, while both American Airlines and US Airways are closing one club each.

With one exception, the U.S. carriers are continuing to serve airports where they are shutting lounges. American closed its lounge at Stansted Airport near London when it stopped flying there earlier this month.

The lounges are just one of the many targets of cost cutting by U.S. airlines as they reel from the double whammy of soaring fuel costs - which have skyrocketed more than 80 percent since last year - and a weakening economy. Carriers are also cutting capacity and staff, increasing fares and imposing new fees for everything from checking in luggage to redeeming frequent flier program mileage for free travel.

"Airlines are looking to take fixed costs out wherever they can," said William Swelbar, a research engineer at the International Center for Air Transportation at the Massachusetts Institute of Technology. "If a lounge is being used three, four or five times a day for only a small number of passengers, it just makes prudent sense to stop paying for it. In this high-cost environment, can I continue to offer all amenities to all people when I'm not being compensated?"

For many frequent fliers and business travelers, airport lounges have become an important place to wait out the longer times before, and between, flights, waits that have become typical in an era of increased security. Most provide free snacks and drinks, along with comfortable chairs, television, desk space and Internet connections.

Gary Chase, airline analyst for Lehman Brothers, said he believed that the "majority" of savings in the industry would come from retiring inefficient aircraft and cutting capacity. But "it is easy to underestimate the power that exists in lots of little actions," he said.

Carriers generally rent space from airports for lounges, on either a short-term or long-term basis. In addition, they must pay the salaries of lounge staff, and buy food and beverages and other services, like WiFi.

They derive some income from travelers who purchase memberships in lounge programs or passes for one-time entry to clubs. Some lounges also charge guests for alcoholic beverages and WiFi access.

United, Delta and US Airways declined to comment on their lounge closings or operation, while American declined to provide specifics on the cost structure for its Admirals Clubs, although it said that they were profitable.

In addition to the American closure at Stansted, US Airways is closing its lounge at Baltimore-Washington International Thurgood Marshall Airport. In the past two years, United has closed lounges at airports in Cleveland and overseas in Sydney and at London Heathrow Airport.

By Oct. 10, it will also shut lounges at Hartsfield-Jackson Atlanta International Airport, the Baltimore airport, Dallas/Fort Worth International Airport and Minneapolis-St. Paul International Airport.

In May and June, Delta reduced the number of its clubs from two to one in Boston, and from three to two in Cincinnati, one of its hubs. It has also eliminated lounges at airports in Kansas City, Missouri; Seattle; San Juan, Puerto Rico; Phoenix, Arizona; Denver; Honolulu and at Gatwick.

At airports where they are shutting down their own lounges. United and Delta say that members can use lounges run by their alliances - Star and Sky Team, respectively - and by alliance partner airlines. Star Alliance, for example, operates a lounge at Heathrow, while Northwest, a member of the Sky Team like Delta, operates a lounge in Honolulu.

But Tim Winship, publisher of FrequentFlier.com, a Web site devoted to travel loyalty programs, says he believes that such reciprocal agreements do not always favor business travelers.

"The lounge needs to be in the same terminal as the traveler," Winship said. "Business travelers can't fritter away time schlepping from one terminal to another."

The consolidation in the airline industry might be another factor in the lounge closings. Delta and Northwest recently announced a merger, while United and Continental created a marketing and operational alliance.

"Delta's closing lounges in Seattle and Kansas City means they are saying it's not worth it to offer our own lounges, but with our merger with Northwest, maybe there are other lounges we can offer," said Henry Harteveltdt, travel analyst for Forrester Research.

In addition, he interprets the decision by United and US Airways to shut down their Baltimore lounges as an admission that "Southwest is the big airline there."

The lounge closings could affect more than the travelers who belong to the clubs, who pay fees that can go as high as \$450 annually for a new member. The lounges are also open to passengers who buy day passes, those who purchase certain first-class or business class air fares, to holders of elite-level credit cards, like the American Express platinum card; and to travelers who belong to the Priority Pass program, which provides access to about 500 lounges worldwide.

Many industry analysts expect the latest round of lounge closings to be permanent, as was the case with most lounges shut by airlines after Sept. 11.

Winship, for one, predicts that more closings will be announced.

The question for some business travelers is whether the airlines will lose more in good will than they will gain in savings.

The airlines will save "peanuts" in closing the lounges, said Jeff Miller, a lawyer in Columbia, Maryland, who represents travel companies. But the lost confidence, he said, "is significant."

Paul Metselaar, chairman and chief executive of Ovation Travel Group, a travel management company based in New York, agreed. "The more barriers suppliers put in front of having a comfortable travel experience, the less likely it is that business travelers will travel," he said. "To the extent that you remove these oases of calm, it's just another nail in the coffin of business travel service."

The shutdowns may provide an opportunity, however, to a few companies like Escape Airports USA, which operates a lounge at Kennedy International Airport in New York which offers food, beverages, showers and WiFi service. The lounge is open to select passengers on airlines like Asiana, and to passengers on other airlines who pay a \$40 fee for one-time access.