

2009 LOOKING BACK, *LOOKING FORWARD*

improving travel experiences by strategically separating passengers from their luggage



www.luggageforward.com

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INTRODUCTION

It could be argued that 2008 was the best of times and the worst of times for the travel industry – in precisely that order. The year began with most flights at or near capacity, hotels enjoying healthy occupancy rates and travel spending near an all-time high. In stark contrast, the year came to a close with airlines engaging in holiday fare wars to sell the fewer available seats and hotels reporting double digit declines in occupancy.

Looking Back, Looking Forward is an annual report published by Luggage Forward, Inc. The purpose of this report is to highlight patterns and trends the company has observed in empirical data and through client interactions. It is formatted to first give an overview of the year that was and then to share our thoughts about and predictions for the coming year.

This year marks the third edition of this report. Written by the founders of the leading provider of doorstep to destination luggage delivery, it has provided comprehensive, succinct recaps of years past and effectively predicted trends that have come to impact the way people and luggage travel.

About Luggage Forward

For travelers seeking the utmost in convenience, reliability and predictability, Luggage Forward guarantees delivery of baggage from doorstep to destination. Luggage Forward leverages a worldwide network of shipping partners, innovative technology and honest, unparalleled customer care to give seasoned travelers the peace of mind they deserve. The smart alternative to checking and carrying bags, Luggage Forward is transforming today's travel experience.

Founded in 2004, Luggage Forward has set the standard in the delivery of luggage and sports equipment for travelers. The company is the exclusive luggage delivery provider for many of the world's leading travel organizations including Abercrombie & Kent, American Express Vacations, Exclusive Resorts and Starwood Hotels & Resorts.

Media Inquiries

Zeke Adkins and Aaron Kirley, co-founders of Luggage Forward and authors of *Looking Back, Looking Forward*, are available to comment on this report. Please contact: press@luggageforward.com.

CONTENTS

2009 Looking Back, Looking Forward	1
Introduction	2
About Luggage Forward	2
Media Inquiries	2
Looking Back - 2008	4
Who was forwarding luggage in 2008?.....	5
Sports enthusiasts.....	5
Families	6
Seniors.....	6
Cruise passengers	6
Business travelers	6
What were they forwarding?.....	6
Where were they going?.....	7
Looking Forward – 2009 and beyond	7
What travelers can expect	8
Fees are here to stay, and they may increase:	8
Unbundling has only just begun:	8
Cracking down on the carry-ons:.....	9
No bags near the terminal:	9
Cruise lines count on reliability of forwarding luggage:	11
Broader adoption lowers price of forwarding:	11

LOOKING BACK - 2008

Last year was a turbulent year for the entire travel industry, but no segment was more affected than airlines. After a steady eighteen month trend of rapidly increasing crude oil futures, prices approached an all-time high of \$150 per barrel in July 2008. This had a massive impact on the bottom line of airlines, whose profitability is tied directly to the price of fuel. Airlines reacted by changing their fare structure, hedging fuel contracts and cutting capacity to maintain the highest possible load factors.

Of greatest consequence to the luggage forwarding industry was the across-the-board unbundling of airline ticket prices, a trend predicted in this report two years ago. The 2007 release of *Looking Back, Looking Forward* cited what was a seemingly obscure presentation given at the United Airlines Investor Day meeting in December 2006, which made the case that more revenue could be extracted from each passenger if each component of the ticket was a la carte. While some version of this pricing model has been adopted by most airlines, the specifics differ by carrier. Variations of this model charge passengers individually for such things as extra legroom, headsets, snacks, exit row or aisle seats, pillows, and most importantly checked baggage.

Though a la carte pricing was an effort that was initially introduced as a means of offsetting the skyrocketing price of jet fuel, we have seen that many of the fees are here to stay. Doug Parker, CEO of US Airways made the following comments in a December 2008 interview with USA Today: "While fuel prices have fallen, the economy has created a new uncertainty for us, and the industry's going to lose billions of dollars this year. Indeed, it was fuel-driven economic concerns, but now we have different economic concerns. And having said that, I, for one at least, believe it's the right model for the business, irrespective of what environment we're in."

New economic concerns certainly do exist for the airline industry. High fuel prices gave rise to an unprecedented drop in consumer spending in the fourth quarter of 2008. The seemingly good news of \$35 per barrel oil was often of little import, as airlines remained bound to fuel hedging contracts that forced them to pay significantly higher per barrel prices. Despite cutting capacity and a last minute fare sale, airlines only ended up filling 74% of their seats in December 2008 according to The International Air Transport Association, a trade group that represents 230 airlines worldwide.

Given the reduced number of passengers due to capacity cuts (Figure 1), and a further reduced number of checked bags due to fees, airlines will post the first improvement in more than five years in their rate of lost, delayed or damaged luggage. However, the problem is still quite substantial with more than three million mishandled bags projected to be reported domestically in 2008.

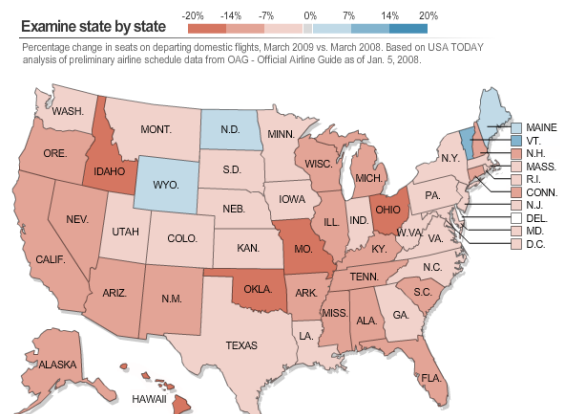


Figure 1: percentage change in seats on departing flights. Source: USA Today

As much of the travel industry saw declining numbers and a gloomy outlook for the near term, Luggage Forward's service has never been more relevant and 2008 was another year of substantial growth in number of bags forwarded, overall revenue and new clients. This growth was fueled by increased awareness within the overall travel market and the numerous, mounting disincentives to checking luggage. The question that fliers are now faced with is: if checking a bag continues to be unreliable and is no longer free, is there a better way to get it to my destination?

Who was forwarding luggage in 2008?

Having been the exclusive provider of luxury oriented travel brands such as American Express Centurion Card, Abercrombie & Kent, Exclusive Resorts and others, past perception has been that Luggage Forward's service was most suitable for the first class traveler. However during the past several years, Luggage Forward has seen a much broader spectrum of travelers using the service out of convenience or necessity. This is largely due to an across the board reduction in prices as well as the addition of more economical service options while still maintaining the high level of customer care and industry-leading guarantees that have always been hallmarks of the Luggage Forward experience.

When compared to new checked baggage fees, the net cost difference of checking and forwarding luggage has become quite small. In some cases, it is less expensive to send luggage ahead than pay the airline fees for checking. Further, Luggage Forward provides additional value by collecting luggage at a client's doorstep and delivering directly to the destination, eliminating the hassle of carrying bags to and from the airport, waiting in check-in lines or at the baggage carousel.

A challenge in promoting adoption of the service has been to change the behavior of travelers who might be accustomed to packing just a day before travel. Although Luggage Forward offers overnight service, clients who book further in advance have the opportunity to choose from the entire range of Luggage Forward service options: Overnight, two-day, three-day, five-day and seven-day delivery.

As forwarding luggage becomes a default element of booking any trip for many of our clients, we've seen them booking more days in advance of the scheduled pickup. This trend indicates that people are willing to plan farther ahead to have the convenience of luggage free travel.

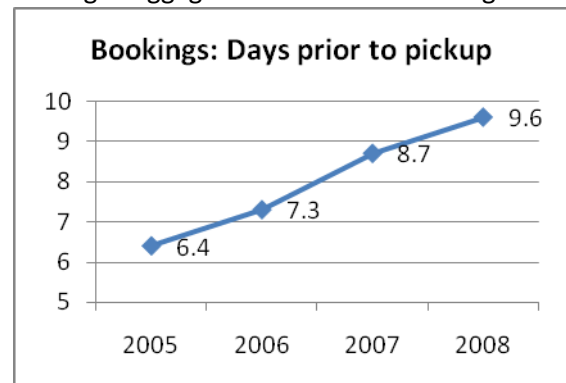


Figure 2. Source: Luggage Forward

Some groups of travelers who regularly forward their luggage include:

Sports enthusiasts avoid carrying the most inconvenient items, be they golf clubs, bicycles, skis or snowboards, to the airport. Luggage Forward's domestic on-time guarantee gives peace of mind that is otherwise unavailable from airlines or other luggage forwarding providers.

Families traveling with multiple children, bags and any sports equipment tend to find that forwarding luggage is especially valuable, particularly if a parent is traveling alone with children. The focus can remain on the kids, rather than the multiple bags that need to come off the carousel.

Seniors who may have trouble managing heavy bags can now travel without worrying about how they will handle their burdensome luggage. Forwarding luggage is often a marriage of convenience and necessity. Some clients lie further to one end of the spectrum than others, but all of them appreciate the high level of service and broad range of forwarding options.

Cruise passengers are the most quickly growing segment of Luggage Forward's client base. The logistics of a typical cruise trip make forwarding luggage a very practical solution. Typically, passengers are embarking for a week or more and absolutely require timely arrival of their luggage.

Business travelers, especially those with multi-destination trips, appreciate the efficiency of not having to wait in long check-in lines or at the baggage carousel. It is common for those combining a business trip with pleasure to forward their clubs directly to the course for a weekend golf outing, eliminating the need to haul them through multiple airports.

What were they forwarding?

Luggage Forward can send virtually any item that a traveler would need to have during a trip. The overwhelming majority of the items that Luggage Forward sends are suitcases; however sports equipment such as skis, snowboards and golf clubs comprise a significant portion of our bookings. Often, bulky equipment is not only undesirable to haul to the airport, but also more likely to be subject to oversize or overweight checked luggage fees.

Compared to the previous year, 2008 saw an increase in the forwarding of all types of items. However, the proportional mix saw an increase in luggage and skis, which is largely attributable to the new checked baggage fees.

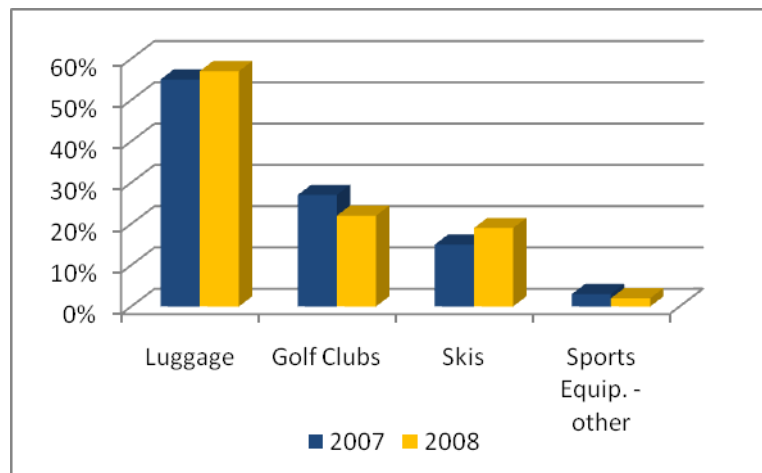


Figure 3. Source: Luggage Forward

Where were they going?

Most significantly in 2008, Luggage Forward saw strong growth in international shipments in 2008. As Luggage Forward has become known for its expertise in moving luggage to and from international destinations, this has been a trend for the past several years. The addition of strategic partnerships with global destinations including Starwood Hotels & Resorts, American Express and Exclusive Resorts helped drive this acceleration in 2008.

As with the overall travel industry, Luggage Forward's business tends to be cyclical. Typically, shipments to ski resorts and the Caribbean make up the bulk of our bookings in the winter months and golf and international shipments are more popular in the summer months. However, as in past years, specific events in 2008 drove demand.

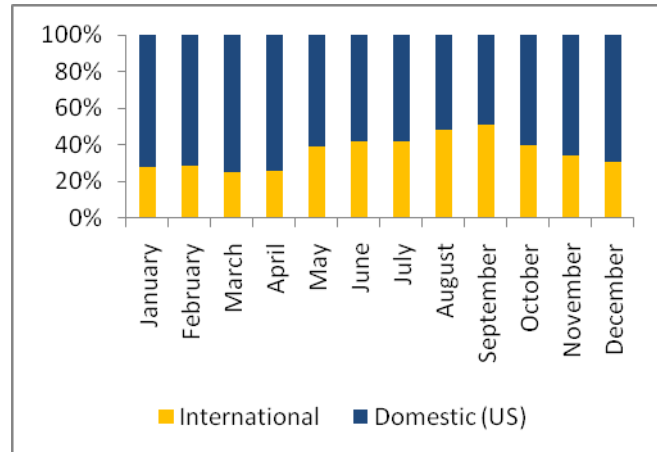


Figure 4. Source: Luggage Forward

The botched opening of Terminal 5 at Heathrow in March of 2008 was well documented in the press. As bags piled up at the rate of thousands per day, passengers grew understandably concerned about the likelihood of their bags making it to their final destination if they had a connection at Heathrow. Luggage Forward saw an increase in bookings to destinations throughout Europe, specifically for people who were taking cruises and could not afford the risk of having luggage lost or delayed, for fear that they would be on a ship for a week or more with just the items from their carry-on.

Events like this often prompt travelers to look for a more reliable alternative to their standard procedure of checking bags. However, many of them become frequent users of Luggage Forward because in addition to the guaranteed on-time delivery of their luggage, they are able to bypass the check-in line, skip the wait at the baggage carousel and avoid hauling heavy bags to and from the airport.

LOOKING FORWARD - 2009 AND BEYOND

As is true for most global industries, the worldwide economic realities will pose significant challenges for the travel industry in the year ahead. However, looking out over the longer term there is cause for optimism that the global market will grow substantially over the next decade.

Virtually every reliable travel indicator is pointing to a decidedly sharp and protracted drop in travel spending both in the US and abroad. Domestic hotel occupancy fell from 63.1% to 60.4%, according to data from Smith Travel Research. It is likely that this number will continue to drop until confidence is restored in the economy. Many noted economists expect the economy to begin rebounding in late 2009 and once consumer confidence is restored, travel spending will gradually increase.

Despite the current environment, those who study travel trends closely – and have seen cycles like this before – generally agree that rates of global travel are likely to increase in the coming decades. According to the National Tour Association, global travel demand is expected to double by the year 2020 with the rise of middle class markets in large countries such as India and China.

As with any growth of this kind, there must be some fundamental changes in the infrastructure of the system as well as the behavior of travelers. At some point, the existing checked baggage infrastructure will reach something of a breaking point.

What travelers can expect

In the years to come, there are certain to be myriad changes and developments in how people and luggage are moved from one place to another. As checking luggage continues to be inconvenient, unreliable, inefficient and now costly to travelers, most indications are that more and more people will seek alternatives, such as forwarding bags directly to their destination. As in past years, we have outlined some of the trends that we see as likely to serve as catalysts for widespread adoption of this new method of travel in 2009 and beyond:

Fees are here to stay, and they may increase: Since mid-2008, fees for checking luggage have been introduced and increased. Despite the fact that 78% of respondents to a November 2008 IBM survey called baggage fees “rip-offs”, it appears that airlines have determined that the fees do not deter people from flying. Consequently, these fees appear to be in place permanently and will potentially increase as airlines search for new ways to wring every last dollar of revenue from passengers.

Unbundling has only just begun: The principle behind unbundled fares is to charge passengers for exactly what services that they use at a price based on the what those services cost the airline. The purest form of this model would be to charge passengers for total weight: passenger weight + checked bags + carry-on.

While the thought of divulging one’s body weight at the check-in counter is unthinkable to some, it is already happening today. Cape Air, a small airline that exclusively operates eight seat Cessna aircraft to destinations such as Nantucket, Martha’s Vineyard and the Florida Keys, requires passengers to disclose their weight as a part of their standard booking procedure. Though the impetus behind the disclosure is driven by the need to know precisely how much weight is on the small airplane and your answer to the question does not currently impact your ticket price, the salient question is “Could it in the future?” We think so.

The FAA already requires airlines to estimate the body weight of each passenger (Figure 5), which was updated in 2005 following the crash of US Airways Express Flight 5481. This airplane crashed on takeoff partially due to the fact that the FAA approved passenger weight estimates were on average 20 pounds lighter than the actual weight of the passengers. Following this incident, the FAA was compelled to revisit the passenger weight estimates that had been in place since 1936.

In the future, passengers could very well be charged based more closely on exactly how much they cost the airline, which is tied closely to total weight of passenger plus bags. Airlines employ a dynamic yield management system that results in the complexity of airline prices that we see today, so simply charging people per pound is unlikely as there are many other factors that determine a fare.

FAA Mandated Average Passenger Weight		
	Pre-2005	Current
Female – winter	150	184
female – summer	145	179
Male – winter	190	205
male – summer	185	200
Child – winter		87
Child – summer		82

Figure 5. Source: FAA

The simplest way to work within the current model would be to allow every passenger a predetermined amount of total weight (passenger plus baggage) included in the price of their ticket, perhaps using existing FAA guidelines above. Then, for every pound over this threshold, passengers would pay a per pound fee.

Though there would certainly be pushback from passengers and lawsuits claiming discrimination, this is not different than how virtually everything else that is transported by airplane is charged. The concept is essentially people shipping (or forwarding, as we prefer) and it could be coming to an airline near you.

Cracking down on the carry-ons: It is plausible to conclude that most airlines will implement a procedure that verifies the size of carry-ons at the check in counter. They must solve the nascent problem of passengers carrying on too much at the gate, which requires flight attendants to gate check dozens of bags per flight. This is not only an on-time departure issue but also a revenue issue as well, since fees for overweight and oversized bags are only charged at check-in.

Early in 2008, Delta implemented a program that required passengers to obtain a red tag at check-in for any carry-on item. This requires an agent to verify that the bag is actually of carry-on size. Any bag without a red tag will not be permitted at the gate as a carry-on.

Ryanair, a low-cost European carrier, has long been known for its strict luggage policies and were often maligned for nickel and diming passengers as they were one of the first airlines to routinely charge for all checked luggage. Ryanair recently announced that they will charge people 30 Euro if they try to bring more than one piece of carry-on luggage on the plane, or if that luggage weighs more than 10kg. While it is unlikely that we'll see every carrier going to this extreme, Ryanair has a track record of setting precedents that are later broadly adopted by the industry.

No bags near the terminal: As a result of the increased threat of terrorism, travelers have had to endure more and increasingly invasive security procedures before boarding commercial flights. The effectiveness of these procedures is the subject of some debate. What is not being debated or seemingly addressed is the threat that baggage poses at the airport before it is screened.

Currently, the security environment at some international airports necessitates preventative measures, such as at Ben Gurion International Airport in Tel Aviv where passengers are effectively screened at their cars and bags are screened prior to entering the airport. Procedures like this, today considered extraordinary, may well become the norm in the United States should there be an incident that occurs at an airport outside of the current luggage screening area.

More pain ahead for aging checked baggage infrastructure: The worldwide checked baggage mishandling epidemic is a top concern for both airports and airlines. As we have seen in recent years in the United States, the number of lost, damaged and delayed bags has been on the rise in each of the last five years that full year data is available.

As with any existing infrastructure, the current systems have a useable life which can be extended with incremental upgrades. However, at some point the age of the equipment or capacity demands will dictate that the entire system will need to be scrapped in favor of a new, originally designed system. Of course, this type of overhaul will be an expensive undertaking. So far, despite significant investment, most technology-based solutions have proven ineffective.

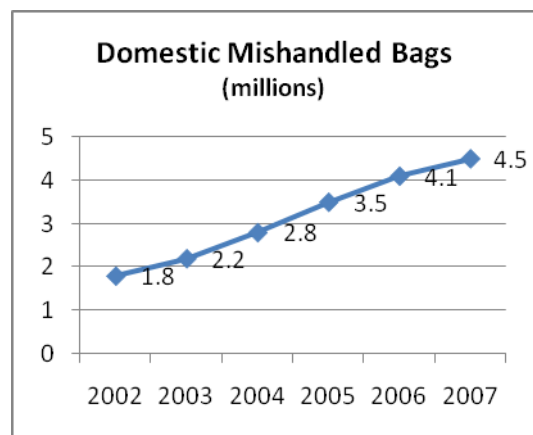


Figure 6. Source: Department of Transportation

- A consortium of airports and airlines are working on a RFID based baggage tracking system within the United States. In airports such as McCarran Airport in Las Vegas, which currently support RFID technology, the cost-benefit ratio remains very high.
- Despite state-of-the-art baggage sorting technology, Terminal 5 at Heathrow Airport had a disastrous opening in late 2007 with record numbers of mishandled bags.
- Denver International Airport's attempt at a fully automated baggage sorting system in the early 1990s led to a well documented failure, which cost the airport more than \$185 million according to published reports.

In difficult economic times, we can expect that spending on projects like this will be reduced. Further, we will almost certainly see a temporary reduction in checked bags due to the consequent decrease in passenger traffic. However, this will only serve to delay the inevitable. When the travel industry rebounds, the problems with our current generation of checked baggage systems will again be evident.

The best solution that is available today with no additional up-front investment is to entirely circumvent the hopelessly antiquated system altogether via the use of luggage forwarding services. As more bags are forwarded fewer are checked and that reduces the strain on the entire system.

Cruise lines count on reliability of forwarding luggage: Anyone who has taken a cruise can attest to the anxiety created by the wait for their bag to appear on the baggage carousel prior to their week of ship-bound relaxation. A late bag might as well be a lost bag at that point.

Forward thinking cruise lines such as Celebrity Cruises, Azamara and Holland America Line have chosen Luggage Forward as their exclusive provider of luggage delivery to and from their ships. Passengers who forward luggage directly to the ship will know before leaving their home that their bag is already safely at the embarkation port ready to be loaded onto their ship. This peace of mind is simply unavailable to those who check their bags on their flight. Because of the uniquely high stakes of on-time arrival of luggage, we expect the cruise industry to continue leading the way in promoting this fundamental shift in the way people and luggage travel.

Broader adoption lowers price of forwarding: Checked baggage fees are now an accepted part of air travel and as we have outlined, they are unlikely to decrease, rather they are likely to increase. As this occurs, the net price difference between hauling a bag to the airport to check it and simply having it forwarded from your doorstep to destination will be increasingly small. In some cases, forwarding luggage is actually the less expensive option.

As demand continues to build for the service, Luggage Forward has been able to reduce prices as much as 25% in the past year. As volume builds and efficiencies are gained, this trend is likely to continue to the point of being largely comparable to the ever increasing fees for checking luggage.

Luggage Forward was founded on the principle that travel can be made more efficient and enjoyable if luggage travels separately from people. In conclusion, 2008 was a year that moved the travel industry significantly closer to widespread adoption of this model, a trend that Luggage Forward anticipates to continue through 2009 as checking luggage remains not only inconvenient, unreliable and inefficient but is now costly as well.



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