### Management Decision

### Purpose

Making decisions is part of every manager’s job. To give you practice at managerial decision making, each chapter contains a “Management Decision” and a “Management Team Decision” assignment, each focused on a particular decision. You’ll need to decide what to do in the given situation and then answer several questions to explain your choices.

#### SHOULD WE TRY TO MAKE MORE MONEY?

To say that the airline industry has experienced some struggles would be a huge understatement. Faced with fears over terrorist attacks and sharp rises in the price of oil, airlines have been losing money at historic rates. In 2009, only four domestic airlines were able to turn a profit, while the five largest carriers lost more than $3 billion combined.

In the midst of these struggles, the industry found an unexpected, but highly lucrative, source of revenue—baggage. For many years, passengers were allowed to travel with up to three pieces of luggage—one item to carry on the plane, and two larger items that could be checked into the storage area. In 2008, American Airlines became the first major airline to charge passengers who wanted to check their baggage. Though this additional fee was much reviled, other airlines quickly followed suit, charging $15–35 per bag for each portion of a roundtrip flight.

The net effects of baggage fees have been incredible. In 2009, the airlines combined to collect nearly $2 billion in baggage fees alone; Delta Airlines led the entire industry with $550 million. The baggage fees have also led passengers to check fewer bags. This has allowed airlines to dedicate more space to cargo, which commands a premium price. What is more, there has been a reduction in the number of mishandled bags, which led to an additional $94 million in savings. Best of all, all of this is essentially “free money”—the airlines did not lower their fares after charging for checked baggage, and they have not had to increase other expenses (such as labor) to collect the fees.

All told, the checked bag fees have been such a success that Spirit Airlines now charges $45 for carry-on baggage that is stored in overhead bins. You are a manager of the lone holdout, Southwest Airlines, which allows passengers to check two bags with no charge. While Southwest has remained profitable during the industry’s struggles, it is difficult to see competitors rake in millions of dollars in additional revenue with virtually no labor. You begin to wonder if your company shouldn’t also charge for bags so that it can maintain a competitive edge. After all, as you well know, the airline industry is unpredictable, and your company could find itself in deep struggles very quickly.

## Questions

1. How is this decision emblematic of your job as a manager?

2. What are the advantages and disadvantages of following competitors by charging for checked baggage?