



**I** used to work for Midwest Airlines – one of the best service carriers that ever existed,” recalls Jay Sorensen, president of Idea Works Company, a leading authority on research into airline ancillary fees. “For an economy fare, we provided free wine and three-course meals served on china. It was truly a Mercedes of a product – and yet, customers were opting for other airlines if it meant they could save US\$5.”

Ryanair chief executive Michael O’Leary echoed this sentiment a few years ago, when he said passengers would “crawl naked over broken glass to get low fares”. Despite the hyperbole, the success of low-cost carriers (LCCs) in Europe over the past decade suggests that there’s some validity to his claim.

*The Economist* recently reported that since 2006, Europe’s low-cost carriers have increased their passenger numbers by 12 per cent a year, while full-service airlines have grown by only 2 per cent annually. In 2010, trade body IATA reported that the LCC market share in Europe had shot up from 9 per cent to 39 per cent over the space of ten years.

What’s more, the uptake of LCCs by business travellers for continental air travel is on the rise. The percentage of Easyjet and Ryanair passengers travelling on business has grown to 18 per cent and 22 per cent respectively – and, at peak times on their key business routes, seats are often dominated by corporate travellers.

The role that ancillary fees play in boosting the revenue of LCCs is well known. In 1994 Ryanair became the first European airline to charge for food and drink on board – today, its reservation process is followed by a gauntlet of add-on charges to be dodged as they flash against a panic-enducing yellow background.

Those of us who book with the likes of Easyjet, Wizz Air or Germanwings are prepared to encounter charges for baggage, extra legroom, priority boarding and paying by credit card, and when we fly, we know we won’t be eating on board unless we’ve

brought our wallets. And, yet, this hasn’t stunted their success. In May, Ryanair revealed its latest annual results, boasting a record profit of €569 million, and a total revenue of €4.88 billion. Of this, €1.064 billion (22 per cent) was generated by the ancillary fees paid by passengers – a 20 per cent increase on the previous year.

It’s a similar story for all airlines that charge such fees – last month, Idea Works Company and car hire booking engine Car Trawler released the *Cartrawler Review of Airline Ancillary Revenue Results for 2012*, which found the ancillary revenue for 53 international airlines in 2012 to be US\$27.1 billion. And these were only the carriers that disclosed their ancillary revenue – there were 116 airlines included in the research.

The thriving LCC business model has left full-service airlines in a predicament. Unable to compete on base price (seeing as most LCCs’ fares don’t include fuel

surcharges) and reluctant to compromise their all-inclusive image, they are left with little room for manoeuvre.

As well as acknowledging the impact of the global financial crisis, Sorensen says: “Fuel prices remain high and you have this unrelenting pressure of low-cost competition. [Full-service airlines] are between a rock and a hard place. The consumer has opted for flying with Ryanair and Easyjet – they’ve voted, and the low-cost concept has won. The [full-

service] airlines are desperately trying to figure out what their role is in this changed marketplace.”

It’s this conundrum that is forcing traditional carriers to adapt, and begin to gradually mimic their low-cost counterparts on short-haul routes – without appearing to compromise their full-service reputation.

In February, BA introduced a hand baggage-only fare between Gatwick and Amsterdam, Dubrovnik, Jersey, Tunis and Turin. It has now extended it to all of its 32 short-haul routes from the airport. The fare starts from £39 one-way – passengers can then add a checked bag to their booking online for £20 each way, but if they arrive at the airport without pre-paying for checked luggage, will face an excess charge of £40.

An internet search for return BA flights from Gatwick to

*Passengers will ‘crawl naked over broken glass to get low fares’ – O’Leary*

**LOW-COST CARRIER PRICE BREAKDOWN**

**Monarch** London-Barcelona  
Essentials Pack fare – includes 23kg checked luggage, seat selection and online check-in  
Air passenger duty UK **£13**  
Passenger service charge UK **£13.50**  
Total taxes, fees and carrier charges per person **£26.50**

Ticket price **£50.97**  
Total charge **£77.47**

Prices checked in June for dates two weeks in advance

**LEGACY CARRIER PRICE BREAKDOWN**

**British Airways** London-Barcelona  
Euro Traveller (economy) fare – includes 23kg checked luggage, food, drink, and seat selection (24 hours prior)  
Air passenger duty UK **£13**  
Passenger service charge UK **£11.21**  
European fuel surcharge **£18.50**  
Total taxes, fees and carrier charges per person **£42.71**

Ticket price **£163**  
Total charge **£205.71**

ANCILLARY FEES

Amsterdam in July showed that the hand baggage-only rate was typically only about £10 cheaper than the regular economy return ticket – so unless you were unshakeably confident that you would only require hand luggage for your travels, the last-minute ancillary charge would negate the money saved.

Meanwhile, Swiss newspaper *Allgemeine Sonntagszeitung* recently speculated that its national carrier Swiss would begin to offer a hand baggage-only fare on flights from Geneva, while its chief executive, Harry Hohmeister, mentioned introducing such charges at the recent IATA annual general meeting. When asked to comment, Swiss said it “will inform customers once decisions are taken”.

In April, KLM became the first full-service European carrier to introduce a fee for checked baggage on continental flights – €15 per case each way paid in advance, or €30 when paid at the airport. A spokesperson for the airline says: “An increasing number of major airlines introduce paid services these days, including some of our Skyteam partners. KLM, too, has introduced a variety of paid options. The basic idea behind this strategy is that we want to maintain an attractive price level, while offering customers the choice to obtain additional services and personalise their experience.” In other words, the strategy is to incorporate the methods of LCCs into its full-service offering.

But how will this go down with business travellers? For the executive who frequently hops over to continental Europe and needs to pack for more than an overnight stay, baggage fees begin to stack up. Add these to the fuel surcharges and higher base fares of major airlines, and the viability of this plan comes into question. “Charging high fares plus ancillary fees is not consumer-friendly and will further boost [LCC] sales,” says Daniel de Carvalho, corporate communications manager for

Wizz Air. “Wizz Air offers low fares, but the frills are still there for those who want them.”

Last October, Wizz Air became the first European carrier to charge for carry-on luggage of a certain size – a £9 online fee (up to £18 depending on the season and length of flight) is incurred for a case measuring over 42cm x 32cm x 25cm (but up to IATA’s maximum 56cm x 45cm x 25cm), while smaller bags remain free of charge, and the rate to check luggage starts from £13 and is £38 at the airport.

The carrier insists that the decision was not purely about gaining more revenue, but about enhancing passengers’ onboard experience – a couple of months testing the system on its London to Katowice route saw large

cabin baggage reduced by 20 per cent. “We’re not looking at what we can take away from our product and put back on sale for a fee,” De Carvalho says. “We did not start to charge a fee for a bag that had previously been free – large IATA-sized cabin bags had never been accepted by Wizz Air in the cabin until this fee was introduced. We created a new offer, while keeping a smaller rucksack-type size free.”

Believe it or not, there are arguably some benefits to ancillary fees. Sorensen argues that as well as increasing consumer choice, they can lead to higher standards. “When an airline gives something away for free – say, food or baggage, it’s a candidate for cost-cutting,” he says. “Look at what has happened to the quality of meals on European carriers over time – the free meal in the eighties was actually a decent meal, whereas now it has been whittled down. At the point that you start charging a fee for something,

smart companies realise it’s now a commercial product – and for it to sell well, they have to make sure it’s actually good. That’s what I like about the à la carte approach.”

Whether you agree with this or not, the good news is that airlines are under pressure to make it easy for us to understand what we are being charged for – and to opt out where possible. In July last year, following a complaint from consumer website which.co.uk against Ryanair, the Office of Fair Trading secured agreements from 12 airlines to include charges for payment by debit card early on in the booking process, in the headline price.

As a result, Wizz Air, Ryanair and Easyjet eliminated debit card (but not credit card) ancillary charges altogether – though in defiance, Ryanair added a 2 per cent surplus to its credit card charges and introduced a £7 admin fee to its booking process months later. Still, these irritating costs are clearly indicated as soon as you select your flights.

“We don’t get huge amounts of complaints about price transparency,” says Jackie Knight, consumer policy manager for the Civil Aviation Authority (CAA). “As long as people are fully aware about what they are paying for and how they can compare this with other airlines, then I think that reduces the risk of complaints.” The CAA website (caa.co.uk) has a table of the optional ancillary fees of 22 airlines operating in Europe – a mixture of low-cost and full-service – for passengers to compare their options.

So what is there to stop airlines charging whatever they like, and is there a cap in place at all? There will be for credit or debit card surcharges – according to the 2011 EU Consumer Rights Directive, which was transposed by EU members by December last year, fees charged for a particular method of payment “must not exceed the cost to the trader of using that method” – this will be implemented by next June. Rules regarding other airline ancillary charges are also covered: “Payments that are additional to the main price of the goods or services must be the subject of active



or express consent by the consumer (for example, pre-ticked boxes which the consumer must ‘untick’ will no longer be permitted).” So while add-ons such as checked baggage or extra legroom will have to be actively selected by the customer rather than sneakily added to their bill, there is technically no limit that the airlines can charge.

In May, a travelsupermarket.com survey of the ancillary charges for 12 airlines found that in some cases these fees had increased by 66 per cent since March 2012 – 24 times the rate of inflation. There were also examples where they made up 65 per cent of the total price, and where the overall cost was greater than if the journey was booked with a full-service carrier.

In June, United introduced an optional annual subscription fee for baggage charges. For US\$349, passengers can check in one standard-sized bag on all flights they take

within the US for that year – which works out the same as checking in 14 bags at US\$25, so it may be worth it if you make more than seven round trips with the airline per year. The subscription rises to US\$799 per year for passengers to fly with a bag on all

international flights they take that year. There are also options to add another checked bag for US\$50, and add another passenger to your subscription for US\$100. It will be interesting to see

if European carriers begin to follow suit. If ancillary charges keep increasing at the current rate, we will see the distinction between low-cost and full service become progressively blurred. For the time being, however, by conducting a bit of research before we travel, we can still jump through all the hoops and get worthwhile savings – albeit by sacrificing free food, booze, baggage and an assigned seat in economy. ■

MARKET SHARE OF LCCS VS LEGACY CARRIERS IN EUROPEAN COUNTRIES

(Measured by seats on international flights) Source: OAG, May 2013

