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When full-service airlines go budget

IdeaWorksCompany contributed information to this article - - see italics.

By Clive Doman

Just five years ago, the rule of thumb was that an airline ticket included the cost of carrying your luggage. That was when the term “ancillary revenue” was little more than a twinkle in the eyes of airline money crunchers.

But in five short years, the amount of cash generated by global airlines from extras has exploded.

“The first report on ancillary revenue was issued in 2008 with only 23 airlines worldwide disclosing ancillary revenue activity in financial filings – and the result was a modest €1.72 billion (\$A2.2 billion),” according to the world’s self-proclaimed gurus of ancillary revenue, America’s IdeaWorksCompany (The Sky’s The Limit).

“Once largely limited to low-fare airlines, ancillary revenue has now become a financial necessity for airlines across the globe. Today, 50 airlines disclose ancillary revenue activity totalling €18.23 billion (\$A23.36 billion).”

When you consider that global airlines last year were estimated to have made a collective profit of less than \$5 billion, you can understand just how important the new craze has become for airlines’ survival.

Charging for baggage is the most obvious of the ancillary revenue imposts and charging around \$25 for even the first checked bag has now become commonplace in the US for both full-service and budget airlines.

Now British Airways has become the first of the big European full-service carriers to charge customers who check in bags higher fares than those who travel with hand luggage only. The airline has introduced the price difference on five routes from Gatwick airport and plans to extend it to all short-haul Gatwick flights.

According to UK consumer website Which?, BA said the hand luggage only “discounts” had been introduced to give customers choice as many chose to fly from Gatwick without checking in hold luggage.

But the change means that if you check in bags on the five routes (Amsterdam, Dubrovnik, Jersey, Tunis and Turin), and ultimately all Gatwick short-haul flights, you will pay up to £15 (\$A22) more for a one-way flight than if you travelled with hand luggage only.

Under BA's new system, if you book a hand luggage only ticket, but then add a bag before you fly it will cost £20 (\$A30) one-way.

Which? says the move is a major change for British Airways, which previously gave passengers at least one hold bag free on all its flights, unlike many other airlines.

It also allows passengers to carry on one piece of hand baggage plus a laptop or handbag for free, unlike many other airlines that have a one-bag only rule.

The spin that passengers can get “discounts” for not checking in bags is the same nonsense that Jetstar used about three years ago when it introduced “lite” fares.

In fact, what happened was simply that the headline fares no longer included a baggage allowance, which is effectively a price increase to haul in more of that irresistible ancillary revenue – a strategy now being pursued by British Airways.

The question is: how long before the extra charges spread from Gatwick airport to Heathrow, London's main business airport?

When that happens, it'll be a matter of time before Europe's other mega-carriers, Air-France-KLM and Lufthansa, follow suit.

As I reported here in 2010, Idea Works chief executive Jay Sorensen, believes it's a matter of time before all airlines are charging not only for all checked baggage, but meals as well.

Ancillary fees, he said, were here to stay because airlines were being successful in monetising services that cost very little to produce.

"What is amazing about this area (passenger convenience fees) is it's very profitable," Sorensen said. "The cost of a seat assignment or boarding early is almost none."

For the time being, Qantas will remain baggage-fee-free – if you're only checking in the one – which sets it apart from Jetstar, Virgin and Tiger, which all charge more – more than \$20 more, in some cases –if you're taking checked luggage. As part of its new alliance with Emirates, Qantas announced this month that its free baggage allowance would even increase from 23 kgs to 30 kgs for international travel.