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## Why the airline that inspired Ryanair still refuses to charge for luggage

*IdeaWorksCompany contributed information to this article - - see italics.*

Southwest Airlines may have provided the blueprint for Ryanair's low-cost business model in the early Nineties, but the two airlines separated at birth have retained one key difference. The American budget operator has never charged passengers for checked luggage.

In a recent announcement, Southwest reiterated that it would not be changing this policy, despite missing out on the enormous revenue it could bring in. On the contrary, Ryanair very much does, despite owing its strategy to its US cousin. It was a visit to the Texas-based airline that inspired Ryanair chief executive Michael O'Leary to introduce the Irish carrier's "no frills" service.

"You're not going to see basic economy from Southwest," CEO Gary Kelly stated last month. "That's not what we do. And I already said, we're not going to charge for bag fees."

It's a curious approach, given how vital these extra charges have become for profit margins on competing airlines. Indeed, the amount of money airlines earn from extras such as baggage fees and credit card charges has increased more than tenfold in less than a decade.

*An annual study of "ancillary" revenue, which includes all income beyond the standard airfare, shows that the top 10 carriers worldwide raked in more than \$29.7 billion (£23bn) in 2017, up from just \$2.1bn (£1.6bn) in 2007.*

*The CarTrawler Yearbook of Ancillary Revenue by IdeaWorksCompany analysed financial documents for 138 airlines. Unsurprisingly, Ryanair, and other low-cost carriers whose business models revolve around cheap fares and costly "optional" fees, feature prominently.*

***At last count (2017), United were found to have pulled in the most in ancillary revenue, with \$5.7bn in that year, followed by Delta and American. Southwest did, in fact, rank one spot higher than Ryanair overall, earning \$3bn, compared to \$2.3bn for the Irish carrier in 2017 - and it's the source of income that makes all the difference.***

#### ***The 10 airlines with the most ancillary revenue***

***United - \$5.7bn (£4.4bn)***  
***Delta - \$5.3bn (£3.96bn)***  
***American - \$5.2bn (£4bn)***  
***Southwest - \$3bn (£2.3bn)***  
***Ryanair - \$2.3bn (£1.7bn)***  
***Air France/KLM - \$1.97bn (£1.53bn)***  
***Lufthansa - \$1.94bn (£1.51bn)***  
***Alaska Air - \$1.339bn (£1.042m)***  
***Air Canada - \$1.334bn (£1.042m)***

***Seventy-nine per cent of Southwest's earnings came from its frequent flyer program (generated by the sale of miles or points), while for Ryanair, which doesn't even have one, 100 per cent was from "a la carte sources such as bags", according to the report.***

In short, Southwest has always sought to capitalise on its loyal following by prioritising its customer satisfaction ratings over the sort of extras Ryanair relies so heavily upon.

In 2018, Southwest was crowned number one on the The American Customer Satisfaction Index for the second year running. In contrast, Ryanair's CEO Michael O'Leary once said of his airline's in-flight experience: "We bombard you with as many in-flight announcements and trolleys as we can. Anyone who looks like [they're] sleeping, we wake them up to sell them things." And on another occasion: "Are we going to say sorry for our lack of customer service? Absolutely not.

So while Ryanair is forever increasing baggage fees, and Southwest refuses to charge for it at all, how does the latter make up for it?

#### **An unusual boarding policy**

Unlike almost every other airline in the business, Southwest doesn't assign seat numbers. Passengers are instead grouped into boarding zones - A, B or C - with whoever pays most getting top priority in choosing where they sit. This "open seating" system, despite involving the sort of sharp-elbow rush for seats very rarely seen at UK airports today, enables passengers to cough up extra should they want to make the zone A group - up to \$50 (£38) per flight.

It also favours members of its loyalty rewards program, by automatically reserving them priority zones before check-in opens for general boarding - which based on the CarTrawler Yearbook report, appears to be lucrative.

Its EarlyBird Check-In pass, for example, which costs between \$15 and \$25, bumps customers to a higher position in the boarding line; and in 2017, this earned them \$358 million, or 63 per cent of the total passenger fee revenue, according to USA Today.

As airlines choose to boost their ancillary offerings in the interests of raising profit margins, the practise shows no sign of slowing.

***"Resolute is a word that perfectly describes the determined and unwavering force known as the ancillary revenue movement," the latest CarTrawler Yearbook report surmised.***