



ANCILLARY REVENUE REPORT SERIES FOR 2013

Bag Fees Sprout this Spring in Asia, Europe, and America

India approves bag and other a la carte fees, Europe's major airlines add bag fees to the continent, and large carry-on fees expand in America

Researched and written by Jay Sorensen
Edited by Eric Lucas

Sponsored by



Issued 08 July 2013

Bag Fees Sprout this Spring in Asia, Europe, and America

India approves bag and other a la carte fees, Europe's major airlines add bag fees to the continent, and large carry-on fees expand in America

Contents

Unbundling has the potential to make basic fares more affordable	5
Alaska Airlines is the gold standard for fee-based bag service.....	7
Air France and KLM jump on the bag fee carousel.....	9
British Airways counters with carry-on only fares at Gatwick.....	12
Frontier Airlines CEO defends \$100 carry-on fee.....	13
Clear and concise introductions help prevent consumer confusion	15

Disclosure to Readers of this Report

IdeaWorksCompany makes every effort to ensure the quality of the information in this report. Before relying on the information, you should obtain any appropriate professional advice relevant to your particular circumstances. IdeaWorksCompany cannot guarantee, and assumes no legal liability or responsibility for, the accuracy, currency or completeness of the information.

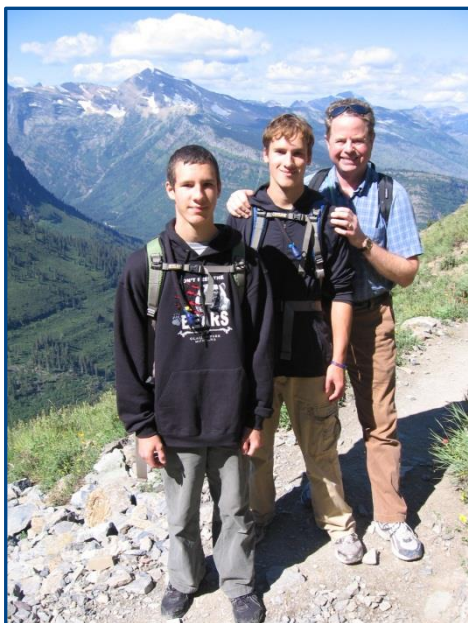
The views expressed in the report are the views of the author, and do not represent the official view of CarTrawler.



Issued by IdeaWorksCompany.com LLC
Shorewood, Wisconsin, USA
www.IdeaWorksCompany.com

**The free distribution of this report
is made possible through the sponsorship of CarTrawler.**

About Jay Sorensen, Writer of the Report



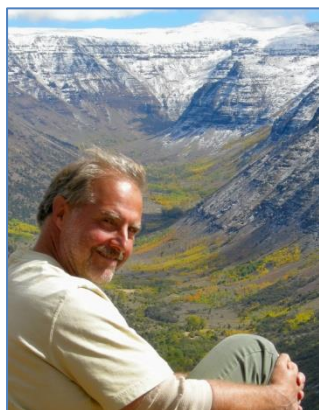
Jay, with sons Anton and Aleksei, on the Highline Trail in Glacier National Park in Montana.

Jay Sorensen's research and reports have made him a leading authority on frequent flier programs and the ancillary revenue movement. For 2013 he was a speaker at the FFP Spring Event at the Freddie Awards in Washington DC; he spoke at the 2012 IATA Passenger Services Symposium in the Middle East, and chaired the ancillary revenue track at the MEGA Event in San Diego. His published works are relied upon by airline executives throughout the world and include first-ever guides on the topics of ancillary revenue and loyalty marketing. He was acknowledged by his peers when he received the Airline Industry Achievement Award at the MEGA Event in 2011.

Mr. Sorensen is a veteran management professional with 28 years experience in product, partnership, and marketing development. As president of the IdeaWorksCompany consulting firm, he has enhanced the generation of airline revenue, started loyalty programs and co-branded credit cards, developed products in the service sector, and helped start airlines

and other travel companies. His career includes 13 years at Midwest Airlines where he was responsible for marketing, sales, customer service, product development, operations, planning, financial analysis and budgeting. His favorite activities are hiking, exploring and camping in US national parks with his family.

About Eric Lucas, Editor of the Report



Eric, at his favorite summer retreat, Steens Mountain, Oregon.

Eric Lucas is an international travel, natural history and business writer and editor whose work appears in MSN.com, Michelin travel guides, Delta Sky Magazine, *Alaska Airlines Magazine*, *Westways Magazine* and numerous other publications. Founding editor of *Midwest Airlines Magazine*, he is the author of eight books, including the 2013 Michelin Alaska Guide. Eric has followed and written about the travel industry for more than 20 years. He lives in Seattle, Washington, where he grows and sells organic garlic; visit him online at www.TrailNot4Sissies.com.



cartrawler

Cartrawler Powers Car Rental Partnerships Worldwide

We connect airlines, hotel groups and online travel brands with more car rental companies in more cities than you will find anywhere else.

with you **all the way**



For more information on how we can assist you and your growing business, please visit:

www.cartrawler.com



Bag Fees Sprout this Spring in Asia, Europe, and America

Spring has certainly sprung this year with a crop of new bag fee initiatives all over the world. It's not a surprising outcome as these fees have generated billions in much needed revenue for cash starved airlines. The 10 largest US airlines recently disclosed bag fee revenue of nearly \$3.3 billion for 2012.¹ Back in 2007, before bag fees became prevalent, the top 10 posted more modest revenue of just above \$445 million. That's more than a 650 percent increase in a mere 5 years. Airlines all over the world have been watching this very visible demonstration of ancillary revenue power.

Based upon early revenue results, and the lack of a consumer revolt, IdeaWorksCompany predicted in 2008 that "Baggage fees will spread to international markets . . ."² The events of each subsequent year have supported that prediction. But the spate of activity during early 2013 indicates the pace is quickening for a la carte fees and optional extras to become an everyday component of airline pricing. The Government of India has approved a la carte pricing; Air France, British Airways, and KLM introduced bag charges for intra-Europe flights; and a third US airline has added the controversial fee for carry-on bags. It's rather like green shoots poking through a melting blanket of snow.

Unbundling has the potential to make basic fares more affordable

That's the assessment announced by the Office of the Director General of Civil Aviation for the Government of India.³ The Office recently released an Air Transport Circular on 02 May 2013 (amended on 27 June 2013) that swings open the door for a la carte fees to become an accepted part of India's travel marketplace. The government based the new policy on the belief that the a la carte approach offers the potential to "make basic fares more affordable" by allowing consumers to pick and choose the services desired. The government identifies seven services that airlines may sell on an a la carte basis:

- 1) Preferential seating (limited to 25 percent of aircraft capacity).
- 2) Meal/snack/drink charges (except drinking water).
- 3) Charges for using airline lounges.
- 4) Checked baggage charges.
- 5) Sports equipment charges.
- 6) Musical instrument carriage.
- 7) Fee for special declaration of valuable baggage (allow for higher unit on carrier liability).

¹ "Baggage Fees by Airline 2012" from the Bureau of Transportation Statistics, Schedule P-1.2, USDOT.

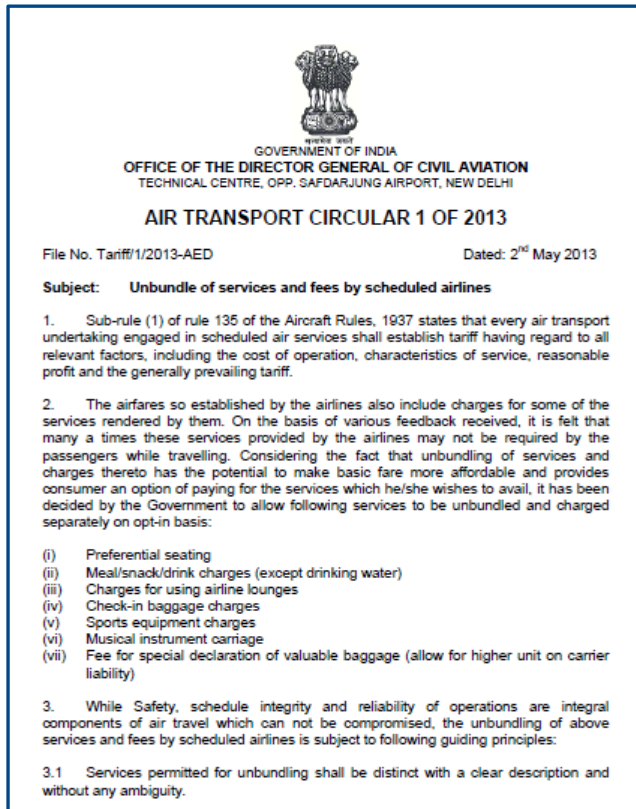
² "More Airlines Worldwide Choosing Revenue-Based Methods to Serve and Reward Customers" IdeaWorksCompany report dated 01 December 2008.

³ "Air Transport Circular 1 of 2013" and "Air Transport Circular 3 of 2013" issued by the Office of the Director General of Civil Aviation for the Government of India.

The new regulation specifically requires airlines to provide drinking water as a service included in the base fare. The Government of India joins its European and US counterparts by defining how a la carte services may be sold by excluding “opt out” methods which automatically include the sale of a service in the online booking path.

Specific requirements include full disclosure of fees to consumers and that services must be listed in travel agency systems in a manner similar to a carrier’s website. The government also requires airlines to file a tariff of fees with the Director General of Civil Aviation on the first of every month and to announce fees a minimum 30 days in advance of implementation. Dynamic pricing is prohibited, as the fees should be fixed at one rate and may not vary by the fare paid.

It’s a careful and measured start for the ancillary revenue revolution in India. Airlines have already taken small first steps. Air India and Jet Airways have reduced their free baggage allowance from 20 kg. to 15 kg. which will have more passengers paying overweight bag fees.⁴ Jet Airways is also opting to charge for pre-assigned seating on international routes operated by Boeing 737 aircraft. Other airlines, such as IndiGo and SpiceJet, have disclosed they are considering new fees. Fees to check the first piece of baggage haven’t appeared yet. But it’s easy to imagine the \$3.3 billion baggage revenue result from the US is not far from the minds of airline executives in India.



The first page of the Government of India’s circular – or perhaps better called an “ancillary revenue manifesto”.

The 2008 introduction of baggage fees produced interesting results beyond suitcases of cash for US carriers. Two key measures of consumer satisfaction with baggage services improved dramatically during the period: mishandled bags and baggage complaints. The occurrence of baggage mishandling, expressed as a rate per 1,000 passengers, has decreased every year. As of 2012, the rate has dropped by 58 percent since 2007, which is the year before bag fees appeared.

Mishandled Baggage Reports – US DOT					
Reports per 1,000 passengers					
2007	2008	2009	2010	2011	2012*
7.03	5.26	3.91	3.58	3.39	2.97

*Most current results are for January – June, 2012. All other results are full calendar year.
Source: Air Travel Consumer Report, Aviation Consumer Protection Division, USDOT

⁴ “Jet Airways to charge for seat selection” article dated 14 May 2013 in the Times of India.

The rate reflects mishandled baggage reports filed by passengers with airlines, and includes those which did not result in claims for compensation. A healthy portion of the rate decrease can be attributed to fewer bags entering the system. It's true, when a price is applied to a formerly-free service, consumers will naturally buy less of it. US Airways experienced a significant decrease of checked baggage activity after fees were implemented during 2008. Doug Parker, Chairman and CEO, noted an overall decrease of 25 percent (1st and 2nd bags combined) and the carrier specifically credited the drop for allowing the carrier to deliver better overall baggage handling results.⁵

Technology and operational improvements have also helped. The 2013 Baggage Report issued by SITA, a global technology partner for the airline industry, describes the many initiatives undertaken by carriers to reduce baggage mishandling, especially in the troublesome area of transferring bags between connecting flights. Baggage handling has improved throughout the world since 2007.

When measured by fewer complaints, consumers seem happier about bag services with consistent decreases during the last six years. Consumer complaints voiced to the US DOT in the "baggage" category dropped by 33 percent from 2007 to 2012.⁶ The category includes complaints regarding damaged, lost, or delayed baggage and even excess baggage charges. Just to prevent readers from thinking all is rosy for airline passengers, the rate of complaint regarding "customer service" deteriorated by 30 percent for the same period. The US airline industry has not had equal success in areas defined by the US DOT as "rude or unhelpful employees and inadequate cabin service."

It's not been an easy path for the US airline industry to collect \$3.3 billion annually from bag fees. There have been abundant mistakes, follies, and missteps. But the statistics listed above portray acceptance by consumers and a better level of baggage service by the airlines. It's an attractive combination of outcomes that has undoubtedly been noted by airline executives in Europe, India, and throughout the world.

Alaska Airlines is the gold standard for fee-based bag service

If airlines want to model their efforts after a best practice example, they need look no further than Alaska Airlines. The carrier has taken a thoughtful, prudent, and business-case approach to the dilemma it faced in 2008. While major airlines were implementing bag fees, the carrier's management was genuinely pained by the unbundling concept. Alaska Airlines always maintained a contrarian streak that strives to provide better service in an industry infused with mediocrity. But on the issue of bag fees, its consumer radar was picking up confusing signals.

Surveys conducted by the airline indicated passengers were truly confused by the array of bag fees in the marketplace. A fair number of travelers believed Alaska Airlines charged these fees, when in fact it did not. Casual observations at airports indicated no-fee airlines experienced carry-on bag rates comparable to those charging a fee. Ultimately, it was the bottom line - - at that time fuel prices were spiraling upward - - that swayed management.

⁵ US Airways Group, Inc. Q3 2008 Earnings Call dated October 23, 2008.

⁶ "Air Travel Consumer Report" from the US DOT for 2007 and January-June 2012.

The airline did not experience market share gains on routes where it competed with carriers that charged bag fees. In reality, the story of bag fees was big in the media, but consumer purchase behavior appeared indifferent to fee or no-fee policies.

Here's where Alaska Airlines diverged from the standard practice of other airlines and embraced its contrarian streak. Rather than merely add a new fee, Alaska Airlines opted to design a new service. Many months after most competitors assessed fees for the first checked bag, Alaska Airlines carefully announced a \$15 fee for a first bag on 23 April 2009⁷ and disclosed details of a new Baggage Service Guarantee (BSG). Rather than merely pocket all the proceeds from a new bag fee, the airline would deliver enhanced service.

Customers received 2,500 Alaska Mileage Plan miles or \$25 off a future flight when luggage did not arrive at bag claim within 25 minutes after a flight chocked in at the gate. Alaska did follow industry precedent by waiving bag fees for elite tier members of its frequent flier program. Amazingly, the carrier subsequently announced it would shave five minutes off its guaranteed delivery time as of June 2010.⁸ Customers would receive their bags within 20 minutes of arrival. The reward dropped slightly to 2,000 miles or \$20 off a future flight. It's unusual for an airline to guarantee a delivery time for checked bags; it's a miracle when the same airline promises to deliver bags even faster than before.

AGENT USE ONLY	Customer Information Attach "bingo" tag or complete customer information.		RESERVATION	<i>Alaska Airlines</i>		ESSENTIAL MILEAGE	
	Acic # / Employee #:	Date:		BAGGAGE SERVICE Guarantee			<p><i>At Alaska Airlines, we take our goal of delivering your checked bags to baggage claim within 20 minutes of your flight's arrival very seriously. We are extremely sorry we were not able to meet that goal today.</i></p> <p>As part of our continued commitment to fulfilling our Baggage Service Guarantee, we would like to offer you \$20 off a future flight or a deposit of 2,000 Alaska Airlines miles into your personal Mileage Plan™ account.</p> <p>We strive to meet or surpass your expectations on all our flights. We sincerely hope that you will give us another opportunity to demonstrate this commitment on an Alaska Airlines in the near future.</p> <p><small>Terms and Conditions Highlights (See complete Terms and Conditions at www.alaskaair.com). Valid on Alaska Airlines flights, including flights operated by Horizon Air or SkyWest Airlines on behalf of Alaska Airlines. Voucher must be claimed within two hours of flight arrival. One voucher per qualified passenger, for one or more checked bags. Choice of \$20 Discount or 2,000 Mileage Plan miles must be claimed at www.alaskaair.com/Bag12 by August 31, 2012. Not redeemable at ticket counters or through travel agent. Your Authorization Code may not be redeemed for cash, bartered, or sold.</small></p>
	Flight #:	BMAS Freq. Loc.:		<p>20 MINUTES OR LESS</p> <p>Please read and follow these three easy steps:</p> <p>1 Begin by recording today's travel date and arrival city _____.</p> <p>2 At www.alaskaair.com/bag12, enter the traveler's name, travel date and arrival city (recorded above in Step 1), along with the following: Program ID: ECBSG12 Authorization Code: _____</p> <p>3 Follow the on-screen instructions to claim either a \$20 Discount or to have 2,000 Mileage Plan miles deposited into your Alaska Airlines Mileage Plan account.</p>			
	Customer's First Name:	Customer's Last Name:					

Customers request this voucher to claim 2,000 frequent flier miles or a \$20 voucher if the 20-minute guarantee is not met. The left side of the voucher is perforated and kept by the baggage service agent. The claim process is all online.

Creating this new service has led to profoundly positive unintended consequences. Before the guarantee was implemented, airport staff delivered bags “as quickly as possible” to passengers. Delivery time was not measured or tracked. Once the initial 25-minute guarantee was in place, airport operations employees had an aggressive goal to meet. Alaska’s Ian Kemp, Director of Operations Support, offered this observation to IdeaWorksCompany about how the guarantee changed the carrier’s culture:

“Because of the BSG, we closely analyzed our shortcomings and gained understanding of what obstacles caused us to miss our goal. There have been several benefits we've seen since adopting this policy. For example, the way we load bags into an aircraft has directly changed as a result of our baggage guarantee. We have standardized the loading process to try to ensure that we allow each airport the ability to deliver on our guarantee.”

⁷ “Alaska Air Group Reports First Quarter Results” press release dated 23 April 2009 at AlaskaAir.com.

⁸ “Alaska Airlines And Horizon Air Speed Up Baggage Service Guarantee” press release dated 16 June 2010 at AlaskaAir.com.

On the customer service agent side of the house, the BSG has simplified our processes at the airport, as well. The guarantee allows our frontline employees to offer customers a quick "win" if we do not deliver on our promise to our passengers. It is a hassle free solution for both the passenger and our agents."

Imagine the changes this created within the carrier's management team. Baggage service moved from being a cost center to a profit center. Requests for new equipment and other resources are more likely to be met with approval rather than groans. Alaska Airlines disclosed to IdeaWorksCompany that, of the 20,574,500 checked bags delivered last year, 99.89 percent were delivered in 20 minutes or less. This has been accomplished largely through third-party ground handling. With the exception of operations in Alaska, the airline relies upon vendors to provide airport ground handling at airports throughout its system, to include its Seattle hub.⁹



Outrageous and advantageous. Alaska is probably the only airline on the planet to promote how quickly it delivers bags.

Perhaps inspired by Alaska, Porter announced on 03 July 2013 a new 30-minute delivery guarantee and first bag fees for US-Canada flights. Airlines might consider additional measures to improve upon the results posted by Alaska Airlines. For example, costs associated with the guarantee could be charged to individual airport locations to link performance to financial results. Baggage delivery time statistics could be publicly shared as a component of monthly operational results. This would highlight the importance of the guarantee and leave competitors to explain why they don't disclose similar statistics.

Air France and KLM jump on the bag fee carousel

Air France-KLM has a continental-sized problem; it's no longer making money on its continental routes in Europe. The carrier disclosed during its 2012 Investor Day negative operating income of approximately €700 million for 2011 on its medium haul network. It hopes to break even on these routes by 2014 by implementing various initiatives, such as adopting the methods of low cost competitors.

	MINI	CLASSIC
Price	Starting at 49 euros including tax one-way	Starting at 69 euros including tax one-way
Ticket modification	-	At a fee
Seat selection	At airport only	•
1 st checked baggage	+15 euros online +30 euros at the airport	•
Flying Blue miles	-	•
Cabin bag weighing 12 kilos	•	•
Free newspapers on board	•	•
Choice of free drinks and snacks on board	•	•
AF Connect service	•	•

The "New Economy Offer" was implemented 06 February 2013 to 58 Air France destinations on its short- and medium-haul network.¹⁰ Customers can choose from an all-inclusive "Classic" product or a new "Mini" product which does not accrue Flying Blue miles, does not provide pre-assigned seating when booked, and only allows carry-on bags.

Viva la irony — a la carte arrives in a big way to France with Mini fares from Air France. Source: AirFrance.com viewed June 2013.

⁹ "Item 2 – Properties" from the 2012 Annual Report for Alaska Air Group (page 21).

¹⁰ "New Economy Offer: Air France Quality Accessible to All" press release dated 07 January 2013 at AirFrance.com.

The carrier found through surveys that 60 percent of Air France customers are simply seeking the lowest fare and a nonstop flight, with little regard for other amenities.¹¹ It's these consumers that Air France seeks to lure with Mini fares starting at €49 (includes tax but €1 online fee is extra). The introduction of Mini fares has been an apparent success because the carrier expanded the offer to 139 routes as of June 2013. Passengers may pay €15 online to check a bag or a higher fee of €30 if purchased at the airport.

Your departure flight **Monday 1 July 2013**

Sort flights by

Mini ? Non-modifiable baggage as a paid option	CLASSIC ? Modifiable with fees Baggage included	PREMIUM ? Modifiable without fees Baggage included	Departure		Arrival		Duration	Operated by
<input checked="" type="radio"/> 41 €	<input checked="" type="radio"/> 62 €	<input type="radio"/> 235 €	18:15	Paris (CDG)	18:30	London (LHR)	01h15	Air France
<input type="radio"/> 41 €	<input type="radio"/> 62 €	<input type="radio"/> 235 €	19:05	Paris (CDG)	19:20	London (LHR)	01h15	Air France
<input type="radio"/> 41 €	<input type="radio"/> 62 €	<input type="radio"/> 235 €	20:15	Paris (CDG)	20:30	London (LHR)	01h15	Air France
<input type="radio"/> 51 €	<input type="radio"/> 72 €	<input type="radio"/> 235 €	16:00	Paris (CDG)	16:15	London (LHR)	01h15	Air France
<input type="radio"/> 71 €	<input type="radio"/> 91 €	<input type="radio"/> 415 €	17:40	Paris (ORY)	18:00	London (LCY)	01h20	CityJet
<input type="radio"/> 71 €	<input type="radio"/> 91 €	<input type="radio"/> 415 €	19:40	Paris (ORY)	20:00	London (LCY)	01h20	CityJet
<input type="radio"/> 86 €	<input type="radio"/> 106 €	<input type="radio"/> 415 €	15:45	Paris (ORY)	16:10	London (LCY)	01h25	CityJet
<input type="radio"/> 106 €	<input type="radio"/> 106 €	<input type="radio"/> 235 €	10:05	Paris (CDG)	10:25	London (LHR)	01h20	Air France
<input type="radio"/> 106 €	<input type="radio"/> 126 €	<input type="radio"/> 415 €	12:55	Paris (ORY)	13:20	London (LCY)	01h25	CityJet
<input type="radio"/> 121 €	<input type="radio"/> 121 €	<input type="radio"/> 235 €	07:30	Paris (CDG)	07:50	London (LHR)	01h20	Air France

Mini Fares are sometimes available and sometimes not. The above AirFrance.com display indicates the typical €20 savings for the Mini fare. Surprisingly, it's not always "on the shelf" which violates a basic retail premise (see red circles).

Once on board, the airline promises equality for all, with drinks, snacks, and newspapers provided regardless of whether a passenger pays the Classic or Mini fare. The onboard environment, along with other amenities, is the line drawn by Air France in its battle with the likes of Ryanair, easyJet, and Vueling.

Consumers and travel industry pundits might expect Air France and KLM to take similar approaches to their economic troubles, but au contraire. KLM implemented bag fees on 22 April 2013 for economy class passengers regardless of the discounted fare paid.¹² Exceptions exist, such as anyone with a Flying Blue frequent flier program relationship (all member categories, not just elites), recognized corporate client relationship, or the purchase of a fully flexible Y or B fare. KLM has set its lead price at €99 for a roundtrip ticket (includes tax but €10 online fee is extra), rather than Air France's €49 each way. KLM's low fare passengers obviously get to accrue Flying Blue miles. The two carriers agree on the fee for checked bags; KLM also charges €15 in advance or €30 at the airport.

¹¹ "With Mini fares, Air France's quality accessible to all" press kit dated 24 April 2013 at AirFrance.com.

¹² "KLM Introduces Renewed European Product and Price Policy" press release dated 13 February 2013 at KLM.com.

KLM requires consumers to have a “relationship” with the airline as a condition for waiving the checked bag fee. By itself, it’s a savvy move to boost the attractiveness of the Flying Blue frequent flier program. Undoubtedly, new members will receive solicitations for ancillary revenue boosting co-branded credit cards. But when combined with Air France’s different checked baggage policy, these changes likely confuse travelers, travel agents, and the media.

The method in which the policy is presented online is less transparent than Ryanair and easyJet. Ticket conditions (see below KLM.com image from June 2013) fail to reference the bag fee and a visit to KLM’s “fares structure” website page doesn’t disclose the existence of bag fees for economy class travel within Europe. However, details are provided in the “all about baggage” section of the website. Low cost carriers almost always require consumers to click and confirm their checked bag selection during the booking process. KLM is perhaps unintentionally more obscure by asking consumers to consider “extra options” during the booking process. Ryanair knows that requiring consumers to choose boosts pre-paid activity but also quiets the concerns of regulators.

Ticket conditions

Economy: Attractive Economy Class fares

- Change is permitted at a fee of EUR 70. If you change your ticket, the price of the ticket may change due to tax recalculation and fare availability.
- Cancellation is not permitted. If you do not take all flights or legs of this journey, or in the specified order, extra costs may be charged.
- 374 miles earned by [Flying Blue members](#)

[More conditions](#)

Change ticket conditions

[View options >](#)

Extra options



50% off checked baggage

- Want to take baggage with you? Arrange your checked baggage now and get 50% off the airport rate.
- You are permitted to take 1 piece of hand baggage and an accessory with you on board.

[Read more about baggage >](#)

from EUR 15.00

[View options >](#)

Sometimes a hard sell is better for the consumer. Ryanair would add flashing lights and require consumers to choose before moving to the next booking page. KLM deploys an approach that might be missed by some.

IdeaWorksCompany estimates the bag fee policies implemented by Air France-KLM will generate revenue in excess of \$104 million annually (€81.3 million). The company disclosed the medium-haul network carried 20 percent of its total 77.4 million passengers for 2012 (15.48 million passengers).¹³ This traffic statistic broadly represents the area covered by the new policy. The bag-revenue estimate was generated by multiplying traffic by a rather modest 35 percent take rate and revenue of €15 per checked bag (which does not include the higher price paid at airports). When added to the €924 million disclosed by the company as 2012 ancillary revenue,¹⁴ the result will push the group’s ancillary revenue above €1 billion for 2013. The company is quickly becoming one of the world’s leading ancillary revenue powerhouses.

¹³ Traffic for France, the other European countries and North Africa as listed in the Air France-KLM Registration Document 2012.

¹⁴ Air France-KLM Registration Document 2012.

British Airways counters with carry-on only fares at Gatwick

Consumer attraction to low fare and a la carte offers made by Ryanair and easyJet has forced a response from London's hometown global airline. British Airways introduced carry-on only fares to all 32 short-haul routes at Gatwick Airport on 02 April 2013.¹⁵ Swiss may have borrowed the concept when it announced on 02 July 2013 a similar carry-on only fare scheme for flights at its Geneva hub.

The new fares might be an attempt to isolate a low fare identity to a single London airport or a glimpse of things to come throughout the British Airways network. Customers choosing the "hand baggage only" fare can bring a traditional carry-on-sized bag onboard plus a handbag or laptop bag. The fare includes a traditional airline experience with pre-assigned seating within 24 hours of departure, onboard food and drink, and Avios frequent flier points. British Airways leaves nothing to doubt and provides complete clarity during the booking process with a "no bag" icon used for Gatwick flight departures.

Sun 09 Jun from £70	Mon 10 Jun from £70	Tue 11 Jun from £84	Wed 12 Jun from £109	Thu 13 Jun from £164	Fri 14 Jun from £134	Sat 15 Jun from £104	Hand baggage only No checked baggage allowance	With checked bag 1 x 23kg checked baggage allowance plus hand baggage	2 x 23kg checked baggage allowance plus hand baggage
Sort flights by: <input type="text" value="Departure airport"/>							London Gatwick only		
Departs	Arrives	Flight Operator		Economy			Business Class		
Gatwick (London) LGW departures > Hide									
06:40 12 Jun LGW	09:50 12 Jun BCN	British Airways BA2706		Lowest £194 Only 4 seat(s) left at this price	£206 Only 4 seat(s) left at this price	£227 Only 2 seat(s) left at this price			
11:35 12 Jun LGW	14:45 12 Jun BCN	British Airways BA2708		Lowest £194 Only 1 seat(s) left at this price	£206 Only 1 seat(s) left at this price	£227 Only 1 seat(s) left at this price			
13:05 12 Jun LGW	16:15 12 Jun BCN	British Airways BA2710		Not available	£248 Only 5 seat(s) left at this price	£227 Only 1 seat(s) left at this price			
Heathrow (London) LHR departures > Hide									
06:25 12 Jun LHR	09:25 12 Jun BCN	British Airways BA0472		Not available	Lowest £109	Lowest £148			
07:10 12 Jun LHR	10:15 12 Jun BCN	British Airways BA0478		Not available	£134	Lowest £148			

Consumers booking at BA.com can view departures from London Gatwick and London Heathrow simultaneously and might make the surprising discovery that fully-bundled tickets from Heathrow are sometimes cheaper.

Source: BA.com viewed June 2013.

Airlines in Europe have certainly felt the pain of the recession and have been quick to find relief through a la carte fees. This might explain the awkwardness of one quirk of the booking system. Consumers might think "hand baggage only" fares are not offered on flights to Gatwick. The British Airways website initially displays outbound fares and a "not available" designation for the return flight. However, hand baggage only fares do display after the outbound flight is chosen. Hand baggage only fares are not combinable with any other fare, such as those allowing a checked bag.

¹⁵ "British Airways to Extend New 'Hand Baggage Only' Fares at Gatwick" press release dated 12 March 2013 at BA.com.

Consumers will likely be confused by that discrepancy, along with a few others. As demonstrated in the BA.com booking display, the hand-baggage only fare is not always offered on every flight. Pricing from London Heathrow, which includes a checked bag, can sometimes be lower. Airline executives undoubtedly understand the latter as a condition of competitive pricing. But pity the poor consumer who is trying to sort out the marketing message that savings are provided when one chooses Gatwick and doesn't check a bag. Consistency of message is something Ryanair never worries about. It's Michael O'Leary's aim to be low cost all the time and often to the chagrin of travelers, his fee policy is rock solid without exceptions.

Similar to Air France-KLM, the attraction to a la carte is linked to revenue, and the need for cash necessitated by Europe's recession. It's an acute pain that creates the economic need to quickly identify solutions. IdeaWorksCompany estimates the effort will contribute ancillary revenue of \$18 million (£11.9 million) in a typical year. It was not an easy task to calculate the revenue as British Airways discloses little about its Gatwick operation.

The estimate is based upon British Airways 14 percent share of traffic at Gatwick¹⁶ less those carried on long-haul flights (about 3.4 million net passengers). In addition, it was assumed 35 percent of these passengers would opt for the higher bag-inclusive fare (almost 1.2 million travelers) which typically is £10 more than the hand baggage only price. The assumptions are intentionally conservative which suggests actual ancillary revenue results are higher.

easyJet Weighs in on Bags

"I think what we have seen is quite a lot of flattery from the legacies around cheap lead-in fares and with a bag. So Air France have had their €50 fares and BA have done a similar no-frills fare. So that seems to be their latest way of trying to compete."

Chris Kennedy, CFO, easyJet PLC
Source: Interim 2013 Results

While British Airways' \$18 million result is considerably less than \$100+ million likely realized by Air France-KLM, the experience provides a grand opportunity for British Airways. The potentially savvy move limits the a la carte experiment to its less-critical London hub airport. However, the overall message will likely cause confusion about the carrier's brand - - is British Airways an easyJet "wannabe" or a global network airline seeking to recover from Europe's recession?

Frontier Airlines CEO defends \$100 carry-on fee

It's a headline no airline CEO ever wants to see. But it was the headline carried by a leading US public radio newscast. Unfortunately, it was largely avoidable, as pointed out by the broadcast, "The fee, which made headlines and shocked many, seemed like a public-relations blunder. But Frontier's management is standing behind it."¹⁷ The financial validity supporting the fee has already been proven by Spirit Airlines. IdeaWorksCompany estimated Spirit generated \$50 million from its carry-on fee policy during 2011.¹⁸ Frontier added too many complications to its version which left the media confused and consumers frustrated. The experience provides a lesson for airlines considering new a la carte fees - - start small and keep it simple.

¹⁶ Gatwick facts & stats reviewed June 2013 at GatwickAirport.com.

¹⁷ "Frontier Airlines CEO defends \$100 carry-on fee" 05 June 2013 Marketplace radio news story.

¹⁸ "Spirit Succeeds with the World's Only Fee for Carry-on Bags" IdeaWorksCompany report, dated 19 December 2011.

The airline introduced the carry-on fee on 01 May 2013 with this hopeful press release headline, “Frontier Enhances Services for Customers Using FlyFrontier.com.” The release used more than 400 words before it arrived at the news . . . taking a carry-on bag would cost some customers \$25 to \$100. Consumers paying higher fares and those having elite status would be exempt from the fee. While it might be a surprise to many airline executives, this represents sufficient complexity for most consumers, reporters, and politicians to absorb at one time. But the press release added more terms and conditions and even left some things undefined . . . and to be determined in the future.

Before the carry-on fee was announced, the carrier already offered a complex — but well conceived — selection of branded fares. These consist of Economy, Classic, and Classic Plus fares. Economy represents the lowest price option offered at FlyFrontier.com with a la carte fees charged for soft drinks (starting 01 July 2013), snacks, and a checked bag. There is a fourth fare called Basic which is sold through travel agents. The Basic fare is similar to Economy but offers fewer amenities. Additional layers of complexity are provided by two elite tiers (called Summit and Ascent) and three seating types: Standard, Select, and Stretch.

The new carry-on bag policy only applies the fee to consumers buying Basic fares through “third party sites” which includes Expedia.com. The language neglects to specify the new policy also applies to tickets purchased through travel agencies; only travel booked through FlyFrontier.com is always exempt from the carry-on fee. The same press release also describes a new policy for formerly-free beverages such as coffee and soft drinks; these would now cost \$1.99 for Economy and Basic fare passengers. Frequent flier program accrual would also drop for consumers booking the Basic fare through travel agencies.

The changes are designed to steer consumers away from travel agencies to book directly with the airline at its website. The carrier’s press release specifically says, “FlyFrontier.com will become the only channel through which customers will continue to enjoy free carry-on bags on all tickets.” There’s controversy here too. The American Society of Travel Agents (ASTA) counters it’s not true and says the Economy fare (which permits a carry-on) can be booked with “some effort” through agency systems.¹⁹

The announcement was lacking in many respects, but was weakest when it failed to provide a date of implementation, “This change will take effect in summer 2013, with the start date to be announced later this spring.” This allows the entire news story to be recycled in the future when the carrier tells consumers a start date for the policy. Furthermore, the exact price of the fee was not specific; the release merely referred to a range of \$25 to \$100. Not surprisingly, reporters referenced the top \$100 price in their articles.

One of Frontier’s primary competitors at Denver was pleased by the news. Gary Kelly, CEO of Southwest, commented, “This is a gift from our competitors to pursue nickel-and-diming customers and charging hidden fees. We’re going to pursue improving the customer experience.”²⁰

¹⁹ “Travel agents say Frontier memo on economy seats is misleading” article dated 19 May 2013 at TravelWeekly.com.

²⁰ “Southwest CEO: Frontier Airlines is ‘nickel and diming customers’” article dated 08 May 2013 in the Denver Business Journal.

More than a month after the announcement, the carrier's website omitted any reference to the new fee with the exception of the 01 May 2013 press release. FlyFrontier.com pages describing fare options, seating options, and even baggage policies didn't reference the carry-on fee. Oddly enough, text found on the page for carry-on policies says carry-ons are allowed for all passengers: "We allow each passenger one carry-on bag and one personal item which fits underneath the seat."

The idea of carry-on fees is at best controversial, or worse, begs the US Congress to become involved. That's why care must be taken when new fees are introduced. At the very least, a carrier's website must be thoroughly reviewed to support a new initiative. Websites are the primary retail storefront for an airline and are the primary source of intelligence to describe a company's products and policies. The poor methods used by Frontier to announce its new carry-on fee provide valuable lessons to the industry about clarity, preparation, and fair play.

Clear and concise introductions help prevent consumer confusion

Rather than losing strength, the ancillary revenue revolution appears to be gaining global traction. It's good news for consumers who will be increasingly offered the choice between the maximum savings of a basic product or the added comfort and convenience of optional extras. It's also good news for airlines, especially those experiencing the effects of a European recession. Ancillary revenue, in all its forms - - commissions earned on hotel rooms and car rentals, the sale of miles to frequent flier program partners, and checked bag fees - - is helping the financial health of airlines. A healthy industry naturally provides better service and preserves more competitive choices for consumers.

Bag fees remain the single largest revenue-producing a la carte service; IdeaWorksCompany continues to predict these fees will become commonplace for economy passengers all over the globe. Air France, British Airways, and KLM could learn plenty from the existing a la carte expertise of low cost carriers.

Lessons Learned – How to Maximize Bag Revenue

- When bag fees are implemented, allow baggage operations to take a profit center approach.
- Reinvest a portion of new revenue back into the business to improve service.
- Don't just introduce a fee – create a new service.
- Introduce customer focused quality measures or tighten existing service criteria.
- Create online baggage pricing to facilitate special rates for elite travelers and class of service (see the Baggage Allowance Calculator at the Emirates website).
- Test understanding of new policies with frontline employees and everyday consumers before announcing.
- Write press releases to explain a new policy and avoid the temptation to bundle too many announcements into a single event.
- Avoid layers of complexity as they will be misunderstood by regulators, media, and consumers. Failure here leads to unnecessary regulations, negative coverage, and lost revenue.

As a group, Air Asia, easyJet, Ryanair, and Spirit have likely implemented every commercially viable ancillary revenue product. They have done so under the extreme scrutiny of regulators, media, and consumers. Most tellingly, their financial results have passed the scrutiny of investors with flying colors. In short, there's more to be learned from their successes than from their failures. Successful low cost carriers aggressively seek every revenue opportunity. They achieve the objective through abundant disclosure of a la carte fees during the booking process.

Every airline wants to create its own brand identity and customer service methods. And there are natural distinctions between low cost carriers and global network airlines. But too often airline marketers believe their message is of utmost importance to consumers and is always fully comprehended. But in reality, a high level of complexity simply leaves too many passengers dazed, confused, and angry. Pity the poor airport staff and cabin crew members who ultimately try to align customer expectations with the reality of the carrier's true terms and conditions. As with many things in life, it's often best to begin slowly and simply.



IdeaWorksCompany is a consulting organization building revenue through innovation in product, partnership and marketing, and building profits through financial improvement and restructuring. Our international client list includes the hotel, airline, marine, railroad, and consumer products sectors.

Enhancing Profits, Products and Partnerships

ANCILLARY REVENUE ACTIVITY

A La Carte Features • Commission-Based Products • Frequent Flier Activities • Onboard Marketing and Promotion • Employee Buy-In and Training • Revenue Analysis • 25-Item Ancillary Revenue Strategic Plan and Projections

LOYALTY MARKETING AND FREQUENT FLIER PROGRAMS

Financial Modeling • Customer and Member Projections • Accrual and Reward Design • Business Plan Development • Operating Manual and Training • Partner Selection and Negotiation • Partner Marketing • Mileage and Point Valuation • Loyalty Program Spinoffs

FINANCIAL IMPROVEMENT

Cost Reduction Programs • Business Restructuring • Capital and Long Term Lease Renegotiation • Enhancing Stakeholder Support and Communication

EDITORIAL AND COMMUNICATION ENHANCEMENT

Web Site Content • Newsletter Design and Development • Research • Copywriting • Editing and Proofreading

Our clients:

Air Arabia

Air New Zealand

AirAsia X

AirTran Airways

Baboo Airlines

British Airways

Estonian Airlines

Finnair

Flybe Airlines

Frontier Airlines

Icelandair

LAN Airlines

Monarch Airlines

Pegasus Airlines

Virgin America

Vueling Airlines

Amtrak Intercity

Baymont Inns and

Suites

Forever Resorts

Fosshotel of Iceland

Kalahari Resorts

Lake Michigan Carferry

Marcus Hotels and

Resorts

Marcus Theatres

Aeroplan

Amadeus

A.T. Kearney

ezRez Software

Kwik Trip Petroleum

Lacek Group - OgilvyOne

Ogilvy One Worldwide

Radixx International

Visa



The IdeaWorksCompany Mission Statement

IDENTIFY A CLIENT'S UNIQUE PRODUCT ADVANTAGE

IdeaWorksCompany strives to identify and enhance the following attributes:

- 1) where the client is strongest,
- 2) where the competition is weakest, and
- 3) what is most valued by the customer.

Enterprises that focus on these areas enjoy the greatest success and deliver the best return for stakeholders.

STRIVE TO INNOVATE, BE NIMBLE, AND EXCEED CLIENT EXPECTATIONS

Innovation excites the consumer and frustrates the competition.

Nimbleness excites the client and sharpens staff intellect.

Exceeding expectations earns repeat business and encourages referrals.

FOLLOW THE ADVICE OFFERED BY MAX EHRMANN'S "DESIDERATA"

Speak your truth quietly and clearly; and listen to others. Enjoy your achievements as well as your plans. Keep interested in your own career. Strive for high ideals. Be yourself.

How To Reach Us

ONLINE IdeaWorksCompany.com

EMAIL Jay "at" [IdeaWorksCompany.com](mailto:Jay@IdeaWorksCompany.com)

VOICE 1-414-961-1939 (direct to Jay Sorensen)

MAIL 1916 E. Kensington Blvd.
Shorewood, Wisconsin, 53211
USA

SKYPE JayLouisSorensen