

# Budget airlines make money from extra charges, but savvy travelers benefit, too

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If you're about to jet off on a summer flight, the chances of you having secured a bargain at this peak time of the year are slim. And as well as the cost of your tickets, you may have grudgingly paid various amounts

on top for your bags, your choice of seat, and the chance to be one of the first to board.

So you may well be pleased that the Spanish government recently imposed a [€150 million \(£128 million\) fine](#) on four budget airlines—Ryanair, easyJet, Vueling and Volotea—for adding on these kinds of fees. Among the practices under investigation were charges for bringing cabin luggage and for parents to sit next to their children.

And so continues our love-hate relationship with cheap flying. Many of us enjoy the relatively low prices and convenience, but resent the lack of leg room and having to pay for these "extras."

Europe as a whole seems to take a similarly conflicted view. Notwithstanding the Spanish fine (which is subject to appeal), national governments have resisted calls to [end the privilege](#) of tax-free fuel for planes. This is despite [air travel accounting](#) for around 2.5% of CO<sub>2</sub> emissions and 4% of global warming.

Regional airports around the continent even compete to offer the [likes of Ryanair subsidies](#) in the hope of attracting the revenue that tourists deliver.

Meanwhile, those airlines have found new ways to bring in more revenue of their own. When low-cost airlines first took off in Europe in the 1990s, the increase in available flights led to [lower prices for everyone](#).

The sector subsequently streamlined its operations to ensure that planes fly almost without interruption (planes on the ground cost money), while reducing passenger comfort to the basics and [cutting staff pay](#).

When it comes to selling tickets, [commercial airlines](#) tend to use a method called ["yield pricing"](#), which means increasing the price of

tickets as the plane fills up. For instance, the first ten economy tickets for a flight to Corfu might cost £20 each, while the next 20 cost £50, and any remaining ones sell for £100 each.

Yield pricing is a form of price discrimination, offering different deals to different consumers. And to complicate matters further, low-cost carriers often [use the well-known practice](#) of advertising their flight with the cost of the cheapest option.

Once consumers are reeled in by this price (which may not be available), they will then see charges for choosing a seat, bringing luggage, and flexible booking options. There will no doubt also be options to add on insurance, a meal and car rental.

This kind of selling can be [profitable](#). After finding the ticket options they want, few consumers start comparing the prices of other services with other providers again.

But yield pricing and charging for add-ons are not illegal, and nor do they necessarily harm consumers. Those who really want to save money make sure to book early, only take hand luggage, and wait longer to board the plane.

Others pay more because they can afford to. If consumers understand all the rules, then authorities primarily need to ensure there is enough competition, so that one airline doesn't dominate the market—and pricing. The European Commission [banned](#) Ryanair from buying its competitor Aer Lingus for this very reason.

But there are limits. In the Spanish case against four airlines, the government ruled it was unreasonable to expect passengers not to carry hand luggage, nor to sit far away from their children, and that any related charges should be made clear at the beginning of the booking.

## Up in the air

This followed a [principle](#) already determined by the European court of justice: that all unavoidable charges should be made clear to consumers at the beginning of the booking process.

For instance, if there is an "online check-in" charge, but no option to check in for free at the airport, this is not really an extra, just a way to hide part of the price. The same applies to adding VAT or credit card fees later on in the process.

[Research shows](#) that advertising tax-free prices and only [adding VAT at the end](#) makes consumers buy more than they would have if they had known the full price in advance.

Research also suggests that opaque options and add-ons negatively affect consumers who are [not "savvy" enough](#)—like an elderly couple [charged £110](#) because they had printed out the wrong boarding pass.

More attentive consumers benefit from these kinds of mistakes. In a [competitive market](#), that £110 charge can end up subsidizing discounts enjoyed by other travelers. And there is evidence that savvy consumers generally [benefit from the extras](#) paid by others.

So, travelers who pay for the cheapest tickets on a plane are being subsidized by those who fork out for the more expensive flights sold when the plane is nearly full. And they are subsidized again by all those baggage and early boarding fees.

As a general rule then, those who book earliest, travel the lightest and plan ahead most will pay the least. But if the courts continue to favor price transparency and competition, those of us who are less organized may start to benefit.

In fact, when consumers are better informed about the choices available, they may even find that "budget" airlines don't always offer the [best deals](#) at all.

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