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## INTERRELATION BETWEEN FREE BAGGAGE ALLOWANCE AND TICKET PRICE IN AIR TRANSPORTATION

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*In this article the notion of free baggage allowance and ticket price in air transportation are being studied. The investigation of the problem provided a clear view of need in reduction of free baggage allowance level. The main goal of this research is to show the distinctions in ticket prices of low-cost carriers with different free baggage allowances. The intention of the case study was to undertake researches in the field of tariff formation in air passenger transportation with regard to the maximum permission on checked luggage.*

**Keywords:** checked baggage, low-cost airline, tariff, air ticket, free baggage allowance.

*У статті сформульовано поняття норми безкоштовного провозу багажу, а також вартості квитків на авіап перевезення. Дослідження проблеми представило необхідність у зниженні рівня безкоштовного провозення багажу. Основна мета даного дослідження — показати відмінності в цінах на квитки різних бюджетних авіаліній з різними нормами безкоштовного провозу багажу. Мета тематичного вивчення полягає у проведенні досліджень в області формування тарифів у пасажирських авіап перевезеннях з оглядом на максимальний дозвіл на багаж.*

**Ключові слова:** зареєстрований багаж, бюджетна авіакомпанія, тариф, авіаквиток, норма безкоштовного провозу багажу.

### Introduction

At the present stage of air transportation development air carriers have become increasingly interested in the question of the ticket pricing. The main problem in this matter is the installation of free baggage allowance by the Government of Ukraine. Any airline that offers the passenger transportation services, is facing stiff competition in the market. But, unfortunately, this competition is not observed on the territory of Ukraine. For creation of the sound competition, and as a consequence — for expansion, development and enrichment of the aviation industry, it is necessary to build competitive advantage that will be needed not only for airlines entry to the market and increase the presence on it, but also to retain their positions.

### Problem statement

Despite the large number of theoretical studies on the formation of prices for tickets, the scientific literature contained insufficient specific recommendations for air passenger transportation on the territory of Ukraine.

The problem is being considered in terms of active ways of decreasing maximum weight per each free checked baggage which also should be reasonable enough to produce a lower price of air ticket. Thus, the public interest in air transportation will increase. The investigation will provide a clear view of need in reduction of free baggage allowance level.

### Recent researches and publications analysis

This article discusses the fundamental Interrelation between free baggage allowance and

ticket price in air transportation, and their implications for airport and airline management. This problem is being considered in the works of Jean-Paul Rodrigue, Dr. Richard de Neufville, Gyrych V.Yu., Michael Strauss, Gross, S. Schroeder, A., etc. [1–5]. They are investigating the companies' competitiveness with slight regard to free baggage allowance, but a are not examining the possible ways of ticket fare reduction after the deletion of free checked baggage option.

### Aims of research

The main goal of this research is to show the distinctions in ticket prices of low-cost carriers with different free baggage allowances. The intention of the case study was to undertake researches in the field of tariff formation in air passenger transportation with regard to the maximum permission on checked luggage. The investigation of the problem provided a clear view of need in reduction of free baggage allowance level. The research should also provide airlines' stakeholders and governmental entities with an understanding of the potential of aviation taxes and fares as an innovative form of climate finance.

### Main material

Here should be stated that there are two types of air transportation: scheduled flight and charter flight.

Air charter is the business of renting an entire aircraft (i.e., chartering) as opposed to individual aircraft seats (i.e., purchasing a ticket through a traditional airline).

While the airlines specialize in selling transportation by the seat, air charter companies

focus on individual private aircraft and itineraries, urgent or time-sensitive cargo, air ambulance and any other form of ad hoc air transportation. These air charter companies offer a large variety of aircraft, such as helicopters, and business jets. This includes light jets, mid-size jets, super mid size jets, heavy jets, and airliners. Package holiday companies often charter aircraft specifically for the holidays they sell.

So, ticket for charter flight comes only along with the vacations package, and is not available for booking by stranger passengers, not clientele of some travel company. Thus, we will consider in this article only scheduled flights.

Usually, the ticket price for two thirds consists of the cost of the tariff, and 1/3 of the cost of fees (taxes). Tariff - is the payment of the airline. Paying taxes, you pay the airport service. The fare depends on the class of service on board the aircraft (first, business, economy). The ticket price also varies within each class. And it does not affect the amount of drinks and food quality that are provided on board, and the additional fare conditions: whether to change the date or time of departure already purchased ticket, refund the full cost or part of the fare. The more expensive fare, the more opportunities for passengers without compromising its wallet to make an exchange or change the parameters of departure. But the modern trend is to reduce the fare as much as possible. That is why "low-cost carriers" were introduced.

A low-cost carrier or low-cost airline (also known as a no-frills, discount or budget carrier or airline) is an airline that offers generally low fares in exchange for eliminating many traditional passenger services.

Today, the major two low-cost airlines are Ryanair and easy Jet, the most famous and recognised of all the no-frills carriers on the territory of European Union. Also there are a number of other low-cost air companies and despite their different destinations, the one thing all these airlines have in common is the need to pay more if passenger wants anything more than the seat itself. Carrying bags, enjoying a meal, pre-booking a seat, sometimes even checking-in at the airport are all viewed as "extras" and as such if passenger really wants to enjoy them, he will need to cough up more.

The price policy of the low cost carriers is usually very dynamic, with discounts and tickets in promotion. Like other carriers, even if the advertised price may be very low, it often does not include charges and taxes. With some airlines, some flights are advertised as free (plus applicable taxes, fees and charges). Depending on the airline, perhaps as many (or as few) as ten percent of the seats on any flight are offered at the lowest price, and are the first to

sell. The prices steadily rise thereafter to a point where they can be comparable or more expensive than a flight on a full-service carrier.

Most airlines charge additional taxes and fees on their tickets. Some low-cost airlines have been known to charge fees for the seemingly ridiculous, such as levying a credit card charge where credit card is the only payment method accepted. Many consumers and governments consider this to be fraudulent, but some still allow this and similar practices.

Traditional perceptions of the "low-cost carrier" as a stripped-down, no-frills airline, as seen on Southwest Airlines, have been changing as new entrants to the market adapt the business model in new ways. Some airlines even have services not available on some legacy carriers, such as mood lighting, found in Virgin America.

Low-cost airline principles:

- All Low-cost airlines have a different service offering, by definition they offer some or most of the below;
- Standardized fleet (Lower training, maintenance costs. purchase aircraft in bulk);
- Remove non-essential features (Non-reclining seats, no pilot autothrottle, no frequent flyer schemes);
- Use of secondary airports (Lower landing fees, marketing support);
- Rapid turnaround (Less time on the ground, more flights per day);
- On-line ticket sales (No call-centres or agents);
- On-line check in (Fewer check in desks);
- Impose baggage charges (Less bags mean quicker loading of aircraft, extra revenue for checked bags);
- Have staff do multiple jobs (Cabin crew also check tickets at the gate, clean aircraft);
- Hedge fuel costs (Buy fuel in advance when it is cheaper);
- Do not use reserved seating (Slows down the loading of the aircraft);
- Charge for all services (On board services, reserved seating, extra baggage);
- Fly point to point (Passenger transfers to other flights not accommodated).

There are extra services are actually worth paying for and there are also such that should be avoided.

*Food:* The cost of the meals varies hugely between airlines. But mostly, prices are slightly higher than regular ones. On the whole, one of the simplest ways to save money when flying on a low-cost airline is to pack your own meal.

*Speedy boarding:* This is one of the least popular extra charges of all. Costing around \$10 (80UAH), this allows passenger to board the plane first, and therefore get passenger pick of the seats.

*Airport check-in:* Paying the airline for pleasure of checking-in to the flight can seem a step too far for most passengers. Check-in online will save time in queues and actually money of passenger.

*Baggage:* This one can not be avoided. Most of the low-cost airlines now charge to check in bags. If passenger wants to carry baggage in the hold, there should be additional charge for that. Again, costs vary but the average is about \$30 per bag each way. However, some companies, such as “Wizz Air Ukraine” to achieve competitive edge make this option free of charge.

According to the Ministry of Infrastructure of Ukraine № 735 of 30 November 2012 “On approval of rules of air transportation of passengers and baggage”, registered in the Ministry of Justice on December 28 number 2219/22531, the airlines are required to provide passengers with the possibility of free delivery in baggage, in particular, the weight of bags not more than 23 kg. “The sum of the three dimensions of a single piece of baggage (length, width, height) must not exceed 158 cm”, — said in the text of the order. Baggage that does not meet these requirements must be registered by the passenger for transportation as cargo. Information on the maximum weight of luggage and received by the carrier for transportation at no additional cost indicated in the carrier's own rules and the contract of carriage of the passenger.

This also concerns low-cost carriers operating on the territory of Ukraine.

With regard to very strong competition in the sector of low cost transportation in European Union, which, of course, encourages companies to improve the quality of service (price competition among low cost airlines has almost exhausted). Unfortunately, at the Ukrainian market has come out only several low-cost carriers, and hence, there is a lack of competitiveness.

The governmental decree stated above was about to make air transportation more affordable for the public. But if we will try to analyze other countries' position in question of baggage allowance, we will find out they all tend to reduce free baggage allowance along with its future deletion. Because there are different kind of passengers, who travel either for business purpose, or for leisure, or just for personal business reasons. Similarly, dimensions and weight of baggage differs: some people fully packed and some just take a suitcase with them. And here is a question: why should people, travelling light, pay the price of baggage they do not have?

To prove this statement we made an investigation involving low-cost carriers and different types of passenger. Investigation was held in two airports: Kiev Zhuliany Airport (IEV), and Kiev Boryspil Airport (KBP). The total passengers were processed during the questionnaire — 600, where 40.6 % — business trip passengers, 50.5 % — leisure passengers, 8 % — personal business travelers, 1 % — others. Below is presented the graph showing the percentage of each type of passenger participated in the investigation (fig. 1).

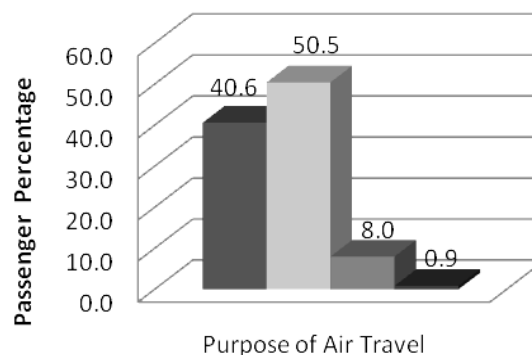


Fig. 1. Differentiation of air passengers by trip purpose

The differentiation of people with checked baggage (W), and without checked baggage (WO) was next: for people traveling with business purposes: W-17 %, WO-83 %; for people travelling with leisure purposes: W-77 %, WO-23 %; for passengers with personal business trip: W-32 %, WO-68 %; for people traveling with other purposes: W-81 %, WO-19 %.

This investigation shows that more than half of all passengers do not have checked baggage. Here we can state the rule of majority: as long as here is majority of consumers by choices, then their opinion should be taken into account. Thus we can say that it is more preferable to introduce air tickets without charges for checked baggage, but with the extra payment for the latter prior to departure — online, or at check-in — in airport.

Let us provide a proof of benefits created by the excluding the baggage charge from the ticket price. Further we will consider Wizz Air Ukraine (Hungarian low-cost airline, operating on the territory of Ukraine).

Each passenger is entitled to a maximum of four pieces of baggage with the maximum dimensions of 100×80×30 cm. The fee for checked-in baggage will be charged according to the travel period, as follows:

- in High Season (7 June — 22 September and 14 December — 20 January) the fee will be 20 euro/passenger/ flight segment;
- in Low Season (21 January — 6 June and 23 September — 13 December) the fee will be 17 Euro/ passenger / flight segment.

In the situation in which the checked-in baggage is paid at the departure airport within check-in/ticketing formalities, the fee is 40 EUR/flight segment.

The maximum allowed weight for the checked-in baggage is of 32 kilos per piece. Baggage weight cannot be accumulated between two or more passengers.

For children up to 2 years old (Infants), a free checked-in baggage up to 32 kg is accepted. If a stroller of one or more pieces is brought for the infant, it will be considered checked-in baggage, and other baggage will be charged according to the conditions of carriage for luggage for adults.

Let us compare almost equal flight segments from Ukraine and from Russia (where the free baggage allowance now is 15 kg per passenger): Kiev–Istanbul, and Krasnodar–Istanbul (IEV-IST, KRR-IST correspondingly).

The price for IEV-IST is \$270 (round trip) in high season with one free checked baggage for 32 kg, and ticket price for KRR-IST is \$210 (round trip) per passenger with one free checked baggage for 15 kg, the same, in high season. After the introduction of lowered free baggage allowance on the territory of Russia, the ticket prices decreased accordingly. Such difference in \$60 makes think about need in such a big amount of kg per each person, but still is not a good reason for rejection of old rules for baggage transportation by air.

Now let us compare flights Kiev-Budapest and Budapest-Brussels: for IEV-BUD it takes \$300 for round trip with one free piece of baggage, and for BUD-BRU it takes \$50 for one-way-trip with no free checked baggage, but with the extra charge of \$55 per each checked baggage. So the total will look like next: IEV-BUD: \$300, BUD-BRU: \$210.

On the figure below we can see differences in ticket price depending on low-cost operator (fig. 2).

Now, after the comparisons of charges in Ukraine, Russia, and European Union, we can say that the introduction of free baggage allowance in 20–23 kg on the territory of Ukraine is meaningfulness.

The removal of the requirement to the carrier of free baggage allowance will create in Ukraine the necessary conditions for the low-cost market development.

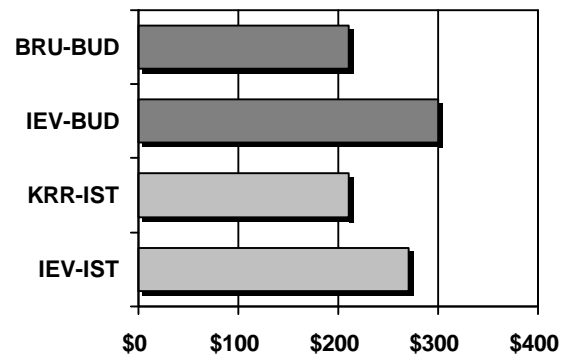


Fig. 2. Ticket price comparison by route

### Conclusion

If we want to create competitiveness, and as a consequence -development, expansion and effective staffing of the aviation industry, it is necessary to build competitive advantage that will be needed not only for airlines entry to the market and increase the presence on it, but also to retain their positions. The investigation of the problem provided a clear view of need in reduction of free baggage allowance level. The research should also provide airlines' stakeholders and governmental entities with an understanding of the potential of aviation taxes and fares as an innovative form of climate finance.

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