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LOW COST CARRIERS: THE CASE OF OPORTO AIRPORT AND ITS TOURISTIC IMPACT IN THE REGION

Catarina Isabel Castanho Aragão

Student Number: 1545

A Project carried out on the Maritime Business course, under the supervision of:

Professor Luís Correia da Silva

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Abstract

Both Oporto and the North Region of Portugal definitions of tourism have evolved significantly during the past decade. In this journey it is relevant to highlight the contribution of the arrival of Low Cost Carriers (LCCs) at Francisco Sá Carneiro Airport, thus contributing to a rapid expansion of this region as a tourism destination.

Hence, this work project aims to understand the touristic and economic impact motivated by the entry of LCCs in Oporto and in the North Region of Portugal and tries to understand if this event was in fact an asset in the development of the aforementioned tourism destinations.

Keywords: Low cost carriers, Oporto, North Region of Portugal, tourism.

1. LCCs – Low Cost Carriers

1.1. Theoretical framework

The development of the airline industry during the past decades led to great changes in the concept of leisure and how business is done nowadays, allowing ourselves to enjoy higher standards regarding transportation accesses, with short comfortable journeys. The creation of the European Economic Community (ECC) provided a relevant incentive with regard to the European air space, enabling free access and the unrestricted movement of goods, services, capital and people (European Union, 2014).

The first sign of progress in the airline industry was the foundation of National/Flag Airlines under the Full Service Carriers (FSCs) business model. In fact, the same applied to the Portuguese case, with the foundation of "Transportes Aéreos Portugueses", better known as TAP Portugal, in 1954 (TAP, 2014).

By 1971 the aviation business started a new chapter, with the creation of the first airline adopting the so-called Low Cost business model. Thus, the American airline "Southwest Airlines" is considered the pioneer of this new concept of carriers. Nowadays, Southwest Airlines is also considered the world's largest LCC, and it is perceived as an inspiration model for many LCCs in Europe (Nathalie Thomas, 2013).

One of the key changes brought by the arrival of no-frills carriers was the increased competition in airline industry, because the FSCs faced little or no competition in their home country operation before the boom of the LCCs. In Europe, the LCCs business model was headed by the well-known Irish company Ryanair in 1985, with its primary operational bases at Dublin Airport and London Stansted Airport. By 1995, a British airline named EasyJet was founded and it settled its first operational base at London Luton Airport. In both cases, the low cost concept was much in line with the original business model designed by Southwest Airlines and its predominance overlapped with the European Union Air Deregulation, thus setting favorable economic conditions for the expansion of this new model of air travel.

According to ELFAA[1] most recent statistics, the number of annual passengers that flew with a LCC went from 58.6 to 223.2 million, between January 2005 and June 2014, almost quadrupling the number of passengers travelling with LCCs during the past decade. Moreover, in 2013 the rise of demand satisfaction by Ryanair was of approximately 37% and 28% for EasyJet, totaling 65% of the demand captured by these two airlines (ELLFA, 2014).

1.2. LCCs business models

Before focusing on the impact caused by the entry of LCCs at Francisco Sá Carneiro Airport, it is important to define and understand their business model and different variants, as well as the selection criteria factors for Ryanair's Oporto operational base.

When an airline is considered a LCC, the basic idea linked to this designation is that the airline has an operational cost minimization as a core characteristic to its strategy. In order to achieve minor operational costs - and later on offer low fare tickets - LCCs pursuit the reduction of certain FSCs standard services and focus on efficiency parameters (namely turnaround time reduction). On the other hand, the FSCs model is based on a differentiation strategy with the purpose of providing good travel experiences to passengers based on its facilities and services, i.e.: high frequency routes; operating in airports located within or close to important cities; providing ground service linkages in multi-flights destinations; differentiated offer to customers by creating distinct travel classes (executive, business, standard and discount); flexible

[1] European Low Fares Airline Association.

seats in terms of space and comfort on board; "inflight entertainment and free food and alcoholic drinks; frequent flier programs; free airport lounges" (Hunter, 2006). Travelling with a LCC usually implies a no-frills service on board, and one item of hand luggage with limited size and weight per passenger; checked baggage only by paying an extra fee; just one service class; use of secondary or regional airports with lower landing charges but also with lower traffic congestion (enabling on time flights). As a consequence of this operation model, these airlines can perform at very low rotation times, given that they do not need to restock food, drinks and duty free products with much frequency, and there is no cleaning between rotations (since the garbage is collected in the end of each flight), therefore enabling cost reduction in parking slots [2].

1.2.1. Southwest Airlines

Southwest Airlines is considered a clear example of sustainable competitive advantage, distinguishing itself from all other existing airlines operating throughout the world. This can be proven by the remarkable net income achieved by the carrier, keeping good results even in critical periods for air travel aviation (including September 11 and the Afghanistan and Iraq wars). Southwest´s main objective is to offer high service frequency at inexpensive fares, seeing as their main competitor buses and cars, not regular FSCs, since they provide "point-to-point service on short-haul urban markets" (Gillian et al., 2004). In order to reduce cost structure, its Southwest Airlines focus on: minimization of turnaround time to improve the use of production features (e.g. labor, aircraft and equipment); crew productivity; inexistence of hot meals during flights, just drinks or snacks like peanuts and raisins; preference for "less congested airports of small cities or less congested airports of large cities" (Gillian et al., 2004).

[2] See appendix 1.A for more aspects that distinguish air travel business models.

Summing up, Southwest Airlines excel in efficiency due to their competence to simplify processes, which ultimately generates significant cost reduction.

1.2.2. Ryanair and Easyjet

Even though Southwest Airlines served as an inspiration model for Ryanair, its business strategy did not replicate from the American one. Founded in 1985, Ryanair's goal was to be distinguished in terms of customer service and, at the same time, by providing low fare ticket offer regarding other competing European carriers.

However, during the first years the airline did not have great returns, hence leading to a major reconstruction in its operating model in 1991, when there was a change in price focus strategy (Gillian et al., 2004). Consequently, they excluded every customer service that was not vital to the transportation core business, and Ryanair service was then characterized by having no food, refunds or insurances, no ticket, no special conditions for regular passengers, no jet ways, no connections and reserved seats. However, throughout recent years both Ryanair and Easyjet have created complementary services that are now available with an extra charge: seat selection (extra-large seat is also available); food, drinks and duty free products available during flights; possibility to purchase flight insurance; boarding priority.

Another essential feature is that, in contrast with Southwest Airlines, Ryanair has acquired the majority of services through outsourcing, with the exception of pilots and cabin crew, head office functions and travel reservation. This aspect was a key advantage for Ryanair for two reasons. On the one hand, it enabled a rapid expansion throughout Europe. The airline was able to successfully expand its network, operating currently "more than 1,600 daily flights, from 72 bases, connecting 189 destinations in 30 countries" (Ryanair, 2014). On the other hand, it gave first-mover advantage in negotiating with airports, allowing the signing of long-term contracts with favorable conditions for the airline. For EasyJet, the outsourcing task was more complicated, not only for being second mover, but also due to difficulties in managing the business connection with subcontractors because of shocks between corporate cultures, goals and visions (Gillian et al., 2004). In what concerns the fleet, there are similarities between Ryanair, Easyjet and American LCCs. They adopted a unified fleet strategy[3] and the Boeing 737 aircraft is the most prompted model by LCCs. Nevertheless, Easyjet decided to replace Boeings for A319 aircraft in 2002. So far, EasyJet operates with 156 Airbus A319 and 180 Airbus A320.

1.2.3. Ryanair - Airport choice

LCCs business model is strategically oriented towards cost minimization. So, one important decision faced by these companies is the choice of airports. As already mentioned, Ryanair enjoyed first-mover advantage in negotiating both with airports and subcontractors, and this was a decisive factor in their successful strategy during the past decade. There are several reasons that justify LCCs choice for starting operations in regional and secondary airports. First, the existing idle capacity would discard problems associated with slot availability. Second, it would also avoid congestion problems and ensure that schedules are fulfilled. Third, operational costs in these airports are in general very low when compared with primary airports. Fourth, LCCs may have higher negotiation power than lower competing airlines, to choose infrastructure like check-in counters and handling systems. On the other hand, the distance between these airports and the cities they serve constitutes one of the main disadvantages, given that sometimes there is not good road and rail access. Furthermore, and in case of high

[3] Operating with just one aircraft type aiming efficiency increase (especially in maintenance).

unemployment rates in secondary airports regions, partnerships can be fomented between LCCs and regional authorities in order to promote the expansion of aeronautical activities (Barbot, 2006).

1.3. Oporto Case: the arrival of LCCs at Francisco Sá Carneiro Airport

Oporto Airport is a Portuguese success case, since the arrival of LCCs completely changed the tourism system of the region. Inaugurated in 1945 with the name of "Aeroporto de Pedras Rubras", Francisco Sá Carneiro Airport is currently the Portuguese airport with the highest catchment area (Carballo-Cruz and Costa, 2014) and it is managed by ANA - Aeroportos de Portugal - which is the operator responsible for administrating the Portuguese airports, namely Lisbon and Faro. Oporto Airport is located 11 kilometers northwest of Oporto city, near an important industrial and commercial area of the country, and it has about 18 commercial airlines operating there, enabling flights to 65 different destinations (ANA, 2014) (see appendix 1.B). If cargo and charter airlines are included, the number of operating airlines increases to 31. The airport is normally "devoted to international regular traffic for business and tourism" (Carballo-Cruz and Costa, 2014). In 2013, the top 3 operators - based upon passengers' volume - were Ryanair (38,1% market share), TAP Portugal (27,7% market share), and EasyJet (12,4% market share), with a total of 6.372.650 passengers carried in an aircraft take-off or landing at Oporto Airport (ANA, 2013).

Francisco Sá Carneiro Airport is considered the second Portuguese airport with the highest passenger traffic volume; six LCCs operate in Oporto: Air Berlin, EasyJet, Flybe, Ryanair, Transavia and Vueling. The LCCs phenomena at Oporto Airport began in 2004 when Air Berlin opened the route Oporto - Palma de Mallorca. However, it only gained significant dimension in 2005 with the inauguration of Ryanair's first route to

London Stansted. Even though it enjoyed a slow increase on the demand side, it was only in 2009 that the airport saw big changes in the LCCs segment, when it announced the creation of Ryanair's operational base in Oporto. Ryanair market share in Oporto is a clear indicator of the airline's success: the 8,3% of regular flights in 2005 (LCCs market share of 11,8%) evolved to 38,8% until 2011 (LCCs market share of 47,8%) – (see appendix 1.C). In comparison with other Portuguese airports, Oporto Airport has lower LCCs market share than Faro Airport (close to 90% LCCs market share in 2011) (see appendix 1.D) and greater than Lisbon Airport (in the homologous year 13,8% of its regular flights operated by LCC) (see appendix 1.E).

2. The study: tourist profile of Oporto city and the North Region of Portugal

2.1. Study Objectives

When one searches for data about LCCs business model at Oporto airport, he or she realizes that there is little information with regard to passengers´ profile, their spending preferences and interests during their visit and stay in Oporto and the North Region. Bearing this in mind, this study aims to understand the key features of this target population - through a survey - and also aims to analyze the consumer impact brought by LCCs entry in Oporto.

2.2. Methodology

The target population of this study was tourists who visited Oporto and/or the North Region of Portugal, flying with LCCs and departing from Francisco Sá Carneiro Airport. Fifty responses were collected during two days[4] spent on the departure floor of

[4] 13th and 14th September.

Oporto Airport[5]. To ensure that passengers where qualified to answer the survey, two eliminatory questions were asked: “Are you travelling with a Low Cost Airline?” and “Did you visit Oporto and/or the North Region of Portugal during this trip?”. Both answers had to be “Yes”.

The questionnaire contained several survey questions with the goal of collecting relevant insights about tourists, ranging from generic data (e.g. age, gender and household composition) to more specific figures (e.g. consumer preferences and intention to return or recommend). The questions used in the survey are available in appendix 2.A[6].

2.3. Data analysis

In the collected sample was identified that 88% travelled to Oporto and/or the North Region for Leisure/Vacations and that Ryanair is the most used LCC in this airport. Therefore, using Oporto Airport as an operational base may enable the expansion in destination offered in regard to other LCCs. These results are in line with the study made by INAC in 2011, where from the 47,8% operating LCCs, 38,8% was fulfilled by Ryanair, meaning a 81% market share in the LCCs segment.

Some generic indicators of tourists who visit Oporto city and/or the N.R, and flew with LCCs:

- 54% are women;
- 66% of sample has ≤ 30 years old;
- The average tourist is 33 years old;
- 44% are students;
- 38% are single;
- 32% live with their parents;
- 52% have university education and 36% have a master´s degree or higher;
- More than half travels 2 to 3 times per year;
- 40% are French, 20% are Belgium and 18% are German;
- 56% visited for holidays/leisure, 12% for cheap flights and 9% for cultural events.

5 In the statistics course a study developed with a sample of fifty responses has significance for designing relevant conclusions about the population. When a random variable $\bar{X}$ is developed from a large sample, i.e, $n \geq 30$, the shape of the sampling distribution is normal, the expected value is $E(\bar{X}) = \mu$, and the standard deviation $\sigma_{\bar{x}}$ is developed using the ratio of the population standard deviation to the square root of the sample size.

6 Due to the extension of the information collected, only more relevant figures will be explored in this chapter. In appendix 2 are displayed the results for each survey’s question.

On average tourists spend 8 days in Portugal, 6 days both in Oporto and the North Region, approximately 4 days in Grand Oporto and another 4 in the North of Portugal (excluding Grand Oporto)[7] (appendixes 2. P and 2.Q). 66% of people visited only the Grand Oporto, 18% visited both Grand Oporto and the North of Portugal and 16% opted to visit other localities of Northern Portugal than those that belong to Grand Oporto[8]. On average visitors are grouped into four people (appendix 2.R).

2.3.1. Accommodation in Oporto and the North Region of Portugal

As to the preferred accommodation type chosen by visitors, it is possible to grasp that the Grand Oporto has lower dispersion than the North Region, as the top 5 accommodation of the first sum up 72% and the second accounts 66% (appendix 2.S). Likewise, was realized that the majority of the sample is first time visitors (86%) (appendix 2.U) and 33% decided to visit other Portuguese localities besides the North Region: Lisbon (with higher incidence); Figueira da Foz; Évora; Sines; and some Algarve localities (Sagres, Silves and Lagos) – see appendix 2.W. This information shows a preference for seacoast locations in complement to the Northern Region visit.

2.3.2. Intention to return and recommend

When asked about their intention to return to Oporto and/or the North - in a scale from one to seven - tourists were very conservative, as the average answer was at 3,08, which is below the medium point (appendix 2.X). This result was supported by another question, where only 16% answered that in the future they would “absolutely visit again Oporto and/or the North of Portugal”. More than half responded that in the future they would prefer to visit another Portuguese city (53%), and approximately a quarter did not

[7] This average takes into account a base of visitors for the specific area.
[8] In Grand Oporto we include Oporto, Espinho, Gondomar, Maia, Matosinhos, Póvoa de Varzim, Santo Tirso, Trofa, Valongo, Vila do Conde and Vila Nova de Gaia.

discard the possibility of another visit but only in the distant future (27%) (appendix 2.Y).

Despite the above results regarding the intention to return, the satisfaction level showed superior outcomes with an average satisfaction of 5,32 (appendix 2.Z). Tourists' perception of Oporto city is superior to their impression of the North of Portugal: 41% had a very good impression of Oporto city and 33% a good one, while the satisfaction with the Northern part of Portugal is classified as good - for 46% - and very good – for 31%. Even though Oporto city has a greater percentage of "very good" feedback, the sum of satisfied tourists in the North Region is superior to Oporto city (appendix 2.AA). After exploring the several dimensions which contribute to the overall satisfaction level, it is noticeable that tourists are more satisfied with nature and landscape, transportation, weather and the price/quality relation, since all of them show percentages above eighty-two. On the other hand, tourists were less impressed with commerce, LCCs service and experience and sports events, which obtain scores between 4 and 4,5, out of 7 possible points. The average satisfaction regarding the several dimensions explored is of 75% (appendix 2.AB). Finally, the intention to recommend Oporto to relatives and/or friends was a variable also measured in the survey. Among the intention to return and level of satisfaction, this dimension was the one that showed better results. On average, the intention to recommend to friends and relatives a visit to Oporto city and/or the North Region is 5,32 on a scale from 1 to 7, meaning that approximately 77% of visitors will recommend it. Therefore, we figure out that 44% of visitors will recommend Portugal in general, 16% will recommend specifically Oporto and 7% both Oporto and the North Region (appendixes 2.AC and 2.AD).

2.3.3. Means of transportation, activities during stay and spending patterns

After analyzing the data, it was also possible to estimate the spending proportion allocated to transportation and accommodation. On average each tourist spent 207,36 € in airline tickets and means of transportation used during stay. Thus, 47% of the total spending is for transportation (appendix 2.AH). As to accommodation, tourists spent about 32,04 € per night and per person, leading to a total spending in accommodation of 190,32€ per visitor, for an average of 5,94 nights in the region. Therefore, the spending on accommodation represents 38% of the total expenses with the visit[9]. Taking into consideration these results, approximately 85% of the total spending is for transportation and accommodation cost, leaving 15% of the expense (67,85€) for other costs. On average each passenger spent a total of 445,34€ per visit to the region.

2.4. Study conclusions

In conclusion, it is relevant to highlight some indicators which may give important insights about tourists who visited Oporto city and/or Northern Portugal. First of all, tourists have a proactive personality profile, since 44% of the respondents used the internet to plan their visit and 37% planed the trip by themselves. Only 6% resorted to a travel agency (appendix 2.AJ).

As to factors that triggered the visit to Oporto and the North Region, the more relevant ones were cheap flights (14%), the weather (12%) and natural beauty (12%) – see appendix 2.AK. This information leads to two distinct conclusions. First, some of the tourists might not have visited the region if there weren't low fares tickets (offered by LCCs). Second, the marketing plan for this region should explore the favorable

[9] 8% of the sample acquired a pack which included accommodation and transportation and for that reason it was not possible to use those inputs in the estimation of the average accommodation spending (appendix 2.AL).

weather conditions and the natural beauty as a potential source to attract new visitors. The first point has particular importance and it was reinforced in the question where tourists were asked if they were willing to pay more for a ticket from a regular company (in a scenario where low cost airlines did not operate at Oporto Airport). Clear evidence showed that the majority of these travelers were not willing to do so and for that reason they would not visit Oporto or Northern Portugal. Only 14% of the sample responded affirmatively regarding spending extra money in an airline ticket. Fifty percent answered that they would not do it now but maybe in the future, and 32% said that they would not do it. The remaining 4% of the sample was not sure about the answer (appendix 2.AL).

3. Oporto and the North of Portugal as a tourism destination

According to “Turismo de Portugal”, Oporto and the N.R. should be seen as two distinct brands – the Oporto sub region brand and the North of Portugal sub region brand. This distinction is done because of the connotation associated to the word “Oporto”, having by itself strong characteristics that are easily distinguished from the North Region. Nevertheless, and given the purpose of the work project, this distinction will not be considered, and Oporto and the North Region will be assumed as a singular area/entity.

3.1. International recognition of Oporto and the North Region

Another relevant factor that cannot be ignored in the touristic evolution of Oporto and the North Region is its international recognition in recent decades, namely the UNESCO nominations for the World Heritage Honors. In the North Region there are four places listed as world heritage sites: the historic center of Oporto, the Alto Douro

Wine Region, the historic center of Guimarães and the Prehistoric Rock Art Sites in the Côa Valley and Siega Verde.

> *Oporto is of outstanding universal value as the urban fabric and its many historic buildings bear remarkable testimony to the development over the past 1,000 years of a European city that looks outward to the West for its cultural and commercial links.* (UNESC0, 2014)

The historic center of Oporto city was included in the World Heritage List in 1996, bringing with it new responsibilities regarding its administration and management, so as to promote its full potential. Consequently, a rehabilitation project and a management plan were created for this historic area, to ensure that these assets do not disappear nor degrade. When properly managed, World Heritage elements get tourist valorization and attract more national and international visitors. Thus, "Plano de Gestão do Centro Histórico do Porto" dedicates one of its five action plan axis to tourism, as a well preserved historic city center brings huge potential for attracting more tourists and generating important benefits for the region´s economic system (Appendix 3.A).

Tourism represents a relevant segment for the country´s economy. Tourism not only creates new business opportunities and stimulates local commerce, but it also contributes to increase employment and to provide better living standards for those in the community. When well-managed, the tourism segment is likely to refresh the image and reputation of the city and to attract new investment, either national or international. Oporto was a clear example of that, after its nomination as World Heritage Site and the subsequent reconstruction plan of the historic center. Indeed, the efforts done on this direction, enabled the distinction of Oporto city as European Best Destination 2014 promoted by European Consumers Choice.

3.2. Oporto Case Studies – the rising of new business models

3.2.1. Hostel business models

The arrival of the "Hostel"[10] business model to Portugal is quite recent, and the first Portuguese hostel opened in 2005. Nowadays the hostel accommodation concept can be found in several regions of the country and Oporto is one of the cities where this trend has grown more, due to the number and variety of hostels in the region. As such, the possible link between LCCs in Oporto and the success of hostel business models should not be disregarded.

A study developed by Abrantes and aimed at understanding the impact of LCCs in the development of hostel business models in Lisbon and Oporto ascertained the following hypothesis[11]: LCCs have visibly influenced the number of existing hostels in Lisbon and Oporto; the majority of hostel guests flew with LCCs; the bulk of hostel clients are young backpackers (Abrantes, 2013). In the obtained results it is important to point out the ones obtained in Oporto city, where 94,1% of tourists staying in these hostels were foreign and 100% of these entities stated that their clients' predominant age is between 19 and 30 years old, thus representing 66% of guests that slept at their hostels in Oporto. In what regards the transportation means used to visit the city, 9 out of 11 hostels said that LCCs were the most common means used by their guests. Every hostel enquired in Oporto recognized that LCCs positively contributed to hostels' development in the region: 3 hostels assumed that LCCs transported tourists from other cities/regions where regular airlines do not operate; 3 hostels assumed as main influence the fact that LCCs carry tourists that are not willing to pay much; finally, 4 hostels

[10] Read the more about Hostels in appendix 3.B.

[11] The study was constructed based on a survey made to hostel members of the "Associação de Hostels de Portugal" and other hostels that are present in common hostels' websites (for instance hostelword.com) and it was made in November 2011. 23 hostels in Lisbon and 11 in Oporto were enquired.

answered that the majority of their clients are backpackers and these tourists typically use LCCs. Thereby, without the presence of LCCs in the region, and according to 80% of Oporto hostels' answers, tourists would not visit the city nor use their accommodation if LCCs did not operate there.

3.3.2. Tourist navigation in the Douro River

Crossing the North of Portugal, the Douro has its river mouth in the province of Foz do Douro within the Oporto district and for that reason it has always been an important resource in the economic activities developed in the North of Portugal. Evidently, tourism constitutes one of the dimensions explored with another relevant activity - the winery industry developed near the river. At the present time the tourist navigation in the Douro River is one of the preferred activities for tourists that visit the region. There are approximately 14 companies and 50 touristic boats operating in this sector[12], providing a wide range of sightseeing cruises, with boats' capacity varying from 20 to 350 passengers. Douro River Cruises satisfy short and long duration tourism: for instance, the six bridge cruise is one hour; the Oporto-Régua is a one-day cruise; the ship-hotel can navigate the Douro upstream for 7 nights, and so on.

Within the sightseeing experiences offered in the Douro, the recent concept of boat-hotel cruises should be highlighted. Douro Azul, the leader company of river cruises in the Douro river, pined hopes regarding boat-hotel investment with its two new ships in 2013 and it reinforced its leadership with the launch of two other ships in 2014 (DouroAzul, 2014). As a consequence of its expansion and business success, the company opened 222 new work posts in diverse working areas (GreenSavers, 2013). This information constitutes a clear indicator of the company's success, since 2013 was

[12] The presented number is according to the "Instituto Portuário e dos Transportes Marítimos" website.

a year marked by high unemployment rates in Portugal because of deep economic crisis. Douro Azul was the winner for Europe's Leading River Cruise Company 2014 in the last World Travel Awards, and it consolidated its position as leader in national and international markets.

According to the last IPTM report, the number of passengers navigating in the Douro river in the past 2 years has almost triplicated. In 2013, number of passengers who travelled via boat in the Douro was of approximately 550.000 (see appendix 3.C.)

3.3.3. City & Short Breaks and Gastronomy & Wine

During the past decade tourist demand in Oporto and the North Region enabled the development of tourist segments, and the City & Short Breaks and Gastronomy & Wine should be highlighted. Both are considered strategic products for the region, and the city & short breaks is more associated to urban areas, whereas the gastronomy segment is linked to the winery offer whose quality is known internationally.

As to the city & short breaks, it is relevant to point out the increasing importance of LCCs in the tourism sector, by enabling the connection between important European airports and Portugal. With their low price offer, LCCs capture new market segments and support the development of the City & Short Breaks segment (Turismo de Portugal, 2011). The same logic is applied to Oporto and the North in the sense that it has opened new opportunities to attract more European visitors who wish to have a short stay in another European city without spending too much. Hospitality, quality/price, tradition, safety, gastronomy and wine and Historic Centers classified by UNESCO, are the best advantages associated to a City & Short-Break in this tourist region (Turismo do Porto e Norte de Portugal, 2014).

4. Conclusion

Even though one cannot estimate the precise economic impact with the entry of LCCs at Oporto Airport, it is possible to conclude that their arrival attracted new tourist markets which were not explored before this event, along with a greater visibility and reputation gained by Oporto and the North Region during the past decade. Moreover, and associated with an increase in tourist demand, new business opportunities were another key element that enabled the economic development in this geographical area.

Looking at the data obtained in the study, on average each person spends a total of 445,34€ during his or her stay in Oporto and/or the North Region. By assuming that 15%[13] of the LCCs passengers to Oporto would still visit the region if LCCs did not operate in this airport and also that 50% of movements target a visit to the North, we calculate an approximate 3.5 billion euros income increase in the region, triggered by the LCCs presence between 2005 and 2013 [14]. However, the result obtained has some limitations, not only due to the uncertain percentage of passengers assigned to Oporto and/or the North visit, but also because the expenditure per traveler is likely to vary because of other external factors, such as the purchasing power of each tourist, average wage and consuming or saving preferences.

Others aspects that are not considered in the economic analysis are related to subsequent effects which are not directly linked to the arrival of LCCs at Oporto Airport, but somehow influence the region's economic development. One of them is the reputation and recognition that this destination gained as a result of several events. This

[13] 15% represents the 14% of respondents that would still visit the region without the existence of LCCs, plus 1% which is half of the respondents who answered "not sure".
[14] The revenue calculated was estimated using the number of passengers who travelled to Oporto Airport by LCCs, using annual statistics from 2005 to 2013. From the passengers total it was assumed that 50% of them were assigned to Oporto and the North of Portugal visits and multiplied by 85% which corresponds to passengers' proportion that would not visit the region if LCCs did not operate. Finally, the "number of passengers that would not visit Oporto and/or the North Region" was multiplied by 445,34€ (spending per traveler that visited the region with a LCC).

reputation is an important asset for the entity as a whole, as it may lead to competitive advantage and bring sustainability in the future. This leads to the conclusion that even though it is difficult to measure, a good reputation of the tourist destination may be a key advantage for the region. In addition to the good data results regarding the intention to recommend, the reinforcement of the region was supported by the award aforementioned. Good touristic reputation will attract more visitors and increase the income originated by this economic sector. This subject introduces the second limitation of the study, the increased touristic visibility that Oporto gained in closer regions which are accessible by other transportation means (i.e. car, bus and train). Here we include Portuguese or Spanish citizens that have never given great credibility to Oporto as a touristic destination for holidays or short-breaks, but also backpackers who have started to include Oporto and other Northern locations in their itinerary.

In conclusion, and to support the tourist development which Oporto and the North have targeted during the past years, some key indicators for the sector were compiled in table 1. Bed capacity suffered an increase of over six thousands beds between 2006 and 2012, which can be justified by a rise in demand, given that the bed occupancy rate had an increase of five percent between the 2005 and 2013. As for the total income generated by the region, it is important to highlight an increase of forty-two million between 2006 and 2013. The same tendency was estimated for 2014, considering that until September the income represented already 85% of the 225,7 million accomplished in 2013. The global overnights in Oporto and the North contributed to these satisfactory results, as they consistently grew in the past years. The RevPar (Revenue per Available Room) had some variations between the 2007-2014 period, reaching its minimum in

2012. This fact may be explained by increasing capacity in the region, which subsequently translated into a decrease in room occupancy.

For the above listed indicators, it is relevant to highlight the contribution of the passengers in transit at the Douro/Leixões harbor and the passengers who arrived in international flights. The number of passengers in transit at Douro/Leixões duplicated its cumulative number between 2005-2009 and 2010-2014. A total of 251,2 thousand passengers is estimated during the second period, i.e. until September 2014. Regarding the passengers arriving from international flights at Oporto Airport, twice more passengers were registered in 2012 in comparison with 2006. The total number of passengers who arrived with international flights showed a continuous evolution with the only exception in 2009, where a small decline was felt due to the impact of a major decrease of 400 thousand passengers carried by the traditional airlines segment.

In the light of these indicators, it is possible to reinforce the conclusion that LCCs assume a driving role in the development of Oporto and the North Region, considering that the key tourist indicators registered improved their results since the arrival of these airlines, despite major economic contractions experienced in Portugal since 2008.

	2005	2006	2007	2008	2009	2011	2011	2012	2013	2014 [15]
Capacity in beds (Thousands)	-	35,5	36,4	38,8	38,8	38,4	40,2	41,8	-	-
Evolution of the external demand (share)	5,4	6,2	6,6	7	7,5	8,2	8	-	-	-
Room occupancy rate	46	48,9	49,6	49,3	49,4	47,8	47,2	43,8	-	-
Bed occupancy rate	38,2	40,1	32,4	31,5	40,9	39,5	39	41,2	43,6	42,9

[15] 2014 indicators correspond to statistics collected until September of the same year.

Total income[16] (in millions €)	-	183,5	208,4	213,7	207,6	218,3	223,8	212,9	225,7	193,1
Global guests (Thousands)	-	2144,1	2373,6	2412,8	2466,8	2545,9	2642	2626,5	-	-
Global overnights[17] (Thousands)	-	3844,4	4229	4250,8	4270	4437,8	4547	4541,9	-	-
% of global overnights satisfied by external demand	-	40,4%	41,6%	43,1%	40,7%	43,4%	45,8%	47,7%	-	-
RevPar	-		25,94	27,95	26,5	26,7	26,2	23,92	25,1	25,8
Passengers in transit at Douro / Leixões (Thousands)	17,5	20,5	13,1	24,1	27,1	41,4	41,4	74,7	45,6	48,1
Passengers arrived from international flights at Oporto (Thousands)	-	1254,6	1460,9	2141,1	1803,2	2102,9	2486,5	2529,6	-	-
% passengers transported by LCC's	-	28%	42%	44%	55%	59%	61%	62%	-	-

Table 1 – Tourist indicators of Porto and the North Region; source: Turismo de Portugal.

5. Recommendations: what's next for the Oporto and the North Region tourism?

Given the increased importance that the tourism sector has gained in the economic development of Oporto and/or the North Region, it is essential to understand the tendencies and factors which may impact, positively or negatively, the future of the region. This comprehension may enable the creation of realistic strategies and the setting of goals and objectives for the future, with the purpose of developing competitive advantage for this touristic destination. Taking this into consideration, the first step to create a good strategy is to understand the environment, which will be done through a SWOT analysis. The SWOT analysis method consists of a matrix which

[16] In hotels, resorts and holiday apartments.
[17] In hotels, resorts and holiday apartments.

enables the construction of different scenarios by exploring both internal and external influences, divided in Strengths and Weaknesses (internal), and Opportunities and Threats (external). Due to the versatility of this methodology, it can be applied to companies, industries, specific products or places. Therefore a SWOT analysis is an adequate tool for analyzing Oporto and the North Region of Portugal as a touristic destination.

Strengths	**Weaknesses**
● The New Cruise Terminal of Leixões can be considered a strength for tourism in this region as it can attract more tourists through long stay cruses; ● Strong brand, with an attractiveness index above the national average (North Portugal with 66,4 against 59,1 for the national average). The North Portugal attractiveness can be explained by several variables, such as hospitality offer, urban landscape, gastronomy, cultural events, climate and local population (friendliness) (Brandia Central, 2009); ● Strong LCCs presence and a modern airport with enough space to grow; ● Tradition, heritage, history and culture are some of the characteristics associated to Oporto and the North of Portugal tourism.	● Lack of a singular entity responsible for tourism decisions, depending on the approval of CCDRN, AMP and Turismo do Porto e Norte de Portugal, which creates limitations in following a strategy, due to the absence of coordination among these entities; ● Great dependency from LCCs for attracting new visitors, particularly from Ryanair. In 2013 it was the carrier with more passengers carried - 38,1% of the passengers at Oporto Airport used the Irish airline (ANA Aeroportos Porto, 2013); ● "Oporto politicians seem unable to influence decision making at national level, which is often favoring Lisbon" (EMI, 2012)..
Opportunities	**Threats**
● Nacional economy starts giving signs of recovery and the unemployment ratio showed a positive tendency during the current year; ● The opening of EasyJet's operational base in Francisco Sá Carneiro Airport in the spring of 2015 can be the vehicle to promote homogeneity in routes offered by LCCs and reduce the dependency from Ryanair to attract more passengers[18]. ● The proximity with Spain may create new opportunities, namely the creation of a program with the goal of attracting more Galician inhabitants to spend holidays in the North Region of Portugal, which could be targeted to Nature & Relax;	● The tendency to concentrate business activities around the capital constitutes a threat for Oporto and the North, as companies prefer to establish their headquarters in Lisbon suburbs. This possibility might constitute a risk for Oporto, as it contributes to the weakening of the local economy but it might also lead to the concentration of highly qualified people around the capital; ● The LCCs expansion in the Lisbon Airport might jeopardize the tourism in Oporto and/or the North of Portugal, reinforced by the opening of Ryanair´s new

[18] By establishing an operational base, EasyJet will create 80 new work positions and possibly expand its route offer to passengers that travel for leisure and business reasons.

● The touristic development could be the link to promote regional integration across urban and more rural areas (EMI, 2012) and possibly eliminate current existing discrepancies; ● Oporto suburban areas possess relevant traditional industries, including the shoe industry and the Porto wine. This may produce benefits to the region through modernization strategies and achieve greater visibility in foreign markets; ● Possibility of new business opportunities to take advantage of the increasing touristic demand in the region. This can be achieved by the combination of entrepreneurship and innovation, which younger generations have been mastering.	routes in 2015 (Bremen, Eindhoven, Hamburg, Milan, Rome and Warsaw); ● Political instability might be another constraint, given that politics focuses its attention in major issues, including reducing unemployment rates and the national budget, and this may lead to a limitation in public investment, namely in tourism affairs.

Table 2 – SWOT analysis of Oporto city and North of Portugal

Another important strategic tool, which enables the comprehension of the main macro-environmental factors, is the PEST analysis (it englobes Political, Economic, Social and Technological analysis). As such, it is relevant to understand them in the North Region tourism context.

Political: Due to the political structure in Portugal, politicians responsible for Oporto and other North regions do not have much power to influence government decisions, namely in funds allocated to regions and to tourism.
Economic: Even though the unemployment rate in Portugal has increased during the past years (due to economic crisis) and the disposable income per household in Portugal is low (ranked 25/36 in OECD countries), the major touristic potentialities are well classified in disposable income: France 8/36, Germany 6/36 and Belgium 10/36 (OECD, 2013). Main international targets for Oporto and/or Northern Portugal tourism have higher expenditures for travel items on International Tourism[19]. In addition, the spending power in developed countries is likely to increase in the near future, which may lead to an increase in tourism.
Social: Population ageing tendency in Portugal due to the decrease in fecundity and to the increase in average life expectancy. Current ageing index - proportion of individuals with more than 65 years in relation to 100 residents with less than 15 years - of 136, thus suffering an increase of approximately 10 points during the past decade (INE, 2014). Increased demand by academic students to experience a year/semester abroad, particularly within Europe, under the Erasmus program.

19 According to 2012 statistics, France spent 38,936,000,000 U.S. dollars, Germany 83,035,000,000 U.S. dollars and Belgium 21,622,000,000 U.S. dollars (compared with 3,784,000,000 U.S. dollars for Portugal).

Travelling is becoming an activity more valued and it is reaching more classes (instead of only upper class families). Greater demand for self-discovering and cultural activities during vacation periods, creating touristic opportunities, namely in the culture and heritage dimension.
Technological: The use of new technologies has influenced tourists' habits, due to the amount of available information on the internet. Nowadays the internet has an important role in tourism as it not only facilitates the research of information regarding tourist destinations but it also shows recommendation about places to visit and activities to do (websites like TripAdvisor or VirtualTourist create rakings of the best destinations and allow tourists to share and evaluate their experiences). More importantly, booking flights and accommodation is now mostly done via the internet (either in the airlines website or other websites like Momondo, Booking or Trivago). There are also other leisure activities that try to sell their products/services even before tourists arrive at their destination, by providing internet discounts. The technological progress has enabled the simplification of the boarding process at airports, through the creation of e-tickets and internet platforms for passengers to check-in online. Facebook, Twitter and Instagram are important platforms for tourists to share their experiences and to motivate friends to have a similar experience.

Table 3 – PEST analysis of Oporto city and North of Portugal

Negotiation strategy for future agreements

The Initiative.PT 2.0 consists of a project "aimed at attracting or developing air routes of tourist interest for Portugal, which promote increased passenger flows and the generation of tourism business for national destinations" (ANA Routlab, 2013) [20].

Bearing in mind that the Program initiative.pt 2.0 is operational until October 2015, the assessment criteria must not diverge from the regulations initially established. Nevertheless, it is important for Oporto and the North Region to plan a strategy for future negotiations regarding the incentives for airlines to establish new routes in the airport, so as to maximize the region's value, and for the economic development of the region as a whole. For this reason, it is essential to determine the future goals for this destination and to build a strategy where the regional entities - ANA Airports and

[20] Read more about Initiative.PT 2.0 on appendix 3.D.

Tourism of Portugal - can achieve successful results, thus gaining competitive advantage for this destination. Given the percentage of passengers travelling with LCCs departing from Francisco Sá Carneiro Airport, it is vital to ensure their operational sustainability in the long run and to avoid potential risk. One of the main concerns is the high level of concentration ratio in the LCCs segment, since there is a strong dependency from Ryanair at Oporto Airport. In 2013, 2.427.687 passengers traveled with Ryanair, in a total of 3.623.134 passengers transported by LCCs. Therefore, 67% of LCCs demand is achieved with Ryanair routes. In this sense, measures should be taken in order to avoid a decrease in the number of passengers transported in case the airline decides to close its operational base or to eliminate certain routes. Hence, SMART[21] goals and objectives should be created regarding the presence of LCCs in the region, such as: within the next 5 years, the number of passengers transported by LCCs should increase 15% and Ryanair's current concentration ratio in Oporto, within the LCCs segment, should be lowered to at least 10%, by increasing the number of passengers travelling with other LCCs. However, and before pursuing global goals for this destination, it is necessary to understand the individual interests and main roles of all entities:

"Turismo de Portugal" – It is the central public authority, inserted in the Ministry of Economy. Some of its responsibilities include fostering tourism promotion, enhancement and sustainability. The "Turismo de Portugal" (T.P.) mission englobes: supporting touristic investment; promoting Portugal, nationally and internationally, as a touristic destination; qualifying and developing touristic infra-structures and so on (Turismo de Portugal, I.P., 2014).. In the initiative.pt 2.0 program, T.P. interest is to

[21] Specific, Measurable, Assignable, Realistic and Time-Related.

create more visibility of Portugal as a tourist destination and to attract more visitors by opening new routes or increasing their frequency.

"Turismo do Porto e Norte de Portugal" – It is the regional tourism entity of Oporto and the North of Portugal, responsible for managing and promoting its seven strategic tourism products[22]. Its main goal is to attract more tourists for the several tourist products, to increase the profits generated by this activity and to increase the reputation of the region as a tourist destination.

"ANA - Aeroportos de Portugal" - ANA mission includes the efficient management of airport infrastructures and the contribution for the economic, social and cultural development of the regions where it operates. Its main interest with the program is to increase the number of passengers in its airports, because each passenger pays a fee to the entity responsible for managing the airport. Given that the number of passengers is strictly linked with ANA profits, the opening of new routes will generate high financial feedback, namely in LCCs routes, as their business models focus more in quantity rather than quality. Moreover, the development of tourist regions constitutes an advantage for ANA, since this appeal will further on increase the demand of new routes in its airports (ANA Aeroportos de Portugal, 2014).

LCCs: LCCs interest with this program is to obtain financial support in the advertisement of new routes or an increase in the frequency of flights, which might step up the demand of this specific route by passengers.

Possible solution for Initiative.pt

Even though Program initiative.pt 2.0 explores variables on the agreement that it enables value creation for the four parties involved, it lacks tailored measures toward

[22] Seven strategic products include: Business tourism; City & Short Breaks; Gastronomy and Wines; Nature Tourism; Religious Tourism; Cultural Touring & Landscape and Heritage; and Health and Well-Being. (T.P.N.P., 2014).

long run sustainability for each tourist destination. The priority axis set by each region, including for Oporto and the North, is built according with short term needs and it focuses on the creation of new routes in which the existing supply is not enough. Therefore, incentives for long term sustainability in the tourist region should be incorporated, taking into consideration the strategic goals. Here, different variants such as the type of airline preferred (LCC or FSC) or the incentives stimulating a diversified airline offering can be included. These incentives could be diversified by adding other points of negotiation besides the economic funding, which could be done by including other type of advantages for LCCs, namely discount on airport charges or reducing handling costs.

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