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PROBLEMS OF LOW COST CARRIERS IN THE MARKET

PROBLEMATIKA PŮSOBENÍ NÍZKONÁKLADOVÝCH LETECKÝCH DOPRAVCŮ NA TRHU

Abstract

Low cost carriers are air carriers which offer air transport for significantly lower prices than traditional carriers thus making air transport accessible even to those groups of travellers for whom air transport was unaffordable in the past. Low cost carriers also cause the air travel to be more popular and wide-spread kind of transport. From the point of view of constantly increasing number of transported passengers the low cost carriers are becoming an interesting segment of business.

Unfortunately, the influence of low cost carriers in the aviation market has its drawbacks as well. As an example of such a drawback can be used the effort to transfer as many cost categories as possible to other entities, which can subsequently experience economic troubles and are forced to operate with economic loss.

The article focuses on the evaluation of the influence of low cost carriers in the Czech market.

Abstrakt

Nízkonákladoví letečtí dopravci (low cost carriers) jsou letečtí dopravci, kteří nabízejí leteckou přepravu za výrazně nižší ceny letenek než klasičtí dopravci. Díky tomu mohou v současnosti využívat leteckou dopravu i skupiny cestujících, pro které byla letecká doprava v minulosti cenově nedostupná. Vlivem působení nízkonákladových leteckých dopravců se letecká doprava stává velice populárním a rozšířeným druhem dopravy. Z hlediska neustále rostoucího počtu přepravených cestujících se potom stává velice zajímavým segmentem podnikání.

Bohužel, působení nízkonákladových letekých dopravců na leteckém trhu má i své stinné stránky. Příkladem negativní stránky jejich působení na leteckém trhu je snaha přenášet co nejvíce kategorií nákladů na jiné subjekty, které se následně dostávají do ekonomických obtíží a jsou nuceny provozovat své činnosti s ekonomickou ztrátou.

Článek se zaměřuje na hodnocení působení nízkonákladových leteckých dopravců na českém trhu.

Keywords

Low cost carriers, Czech market, Regional airports.

1 INTRODUCTION

Nowadays, air transport is experiencing a dynamic development. The number of passengers, who use air transport is constantly growing. The cause of this phenomenon is the influence of the so called low cost carriers in the aviation market. A low cost carrier is an air carrier aiming at those

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clients who prefer low prices of air tickets to high standard during the transport typical of traditional carriers.

Business models used by low cost carriers have their positive and negative aspects.

The positive aspects are primarily the advantages for those passengers who haven´t used air transport so far. Their travel speed is higher and travel time shorter. Distant destinations are becoming more accessible, there is a higher mobility of workforce and further development of tourism which causes economic growth of the regions connected by air.

On the other hand the low cost carrier model causes troubles to other business entities who are forced to cooperate with them. Among those entities there are primarily smaller regional airports where the low cost carriers tend to operate. Small regional airports have a significant interest in low cost carriers as traditional carriers are not interested in operation at such airports – they are worried about insufficient demand for offered medium or high standard services. Therefore regional airports rely on low cost carriers. This situation is a source of major problems. Low cost carriers know well their dominant position regarding the airports and dictate their own conditions for operating at the airports. The conditions are uncompromising and if the airport is not able to meet them, the low cost carrier will not start operation of the air route at all, limit it during the course of the air schedule or even cancel it without replacement.

Regional airports in the Czech Republic (Brno, Karlovy Vary, Ostrava and Pardubice) are typical examples of airports affected by the business policy of low cost carriers. However, this situation is not only typical of the Czech Republic. Regional airports in the Slowak Republic (Košice, Poprad-Tatry, Piéšťany, Sliač and Žilina) are experiencing similar problems.

2 HISTORY OF LOW COST CARRIERS

The first mention of a low cost carrier comes from the USA, where in 1949 the air carrier Pacific Southwest Airlines was established. Later, this carrier ceased to exit, so the first truly successful low cost carrier was Southwest Airlines established in 1967. The model for contemporary low cost carriers, based on direct passenger transport of the “point-to-point“ type for the lowest possible price, comes from that time as well.

The first mention of low cost carriers in Europe comes from the 1970s. In 1977 SkyTrain came into operation and went bankrupt soon after. The first successful low cost carrier was Ryanair which entered the market in 1985.

A further increase of low cost carriers operation was brought by the liberalization of air transport. After the political changes in Europe in 1990 the arrival of low cost carriers changed the map of air transport by expansion of air routes network to all Europe without any limitations.

On the one hand the tariff policy of low cost carriers raised the demand for air transport; on the other hand it caused a need for building corresponding infrastructure at new civilian airports.[1] There was the so called low cost air travel boom. Other low cost carriers such as Euro Belgian Airlines, EasayJet and Wizz Air entered the market.

Figure 1 shows the development of the network of low cost carriers in Europe in 1990 and 2005.

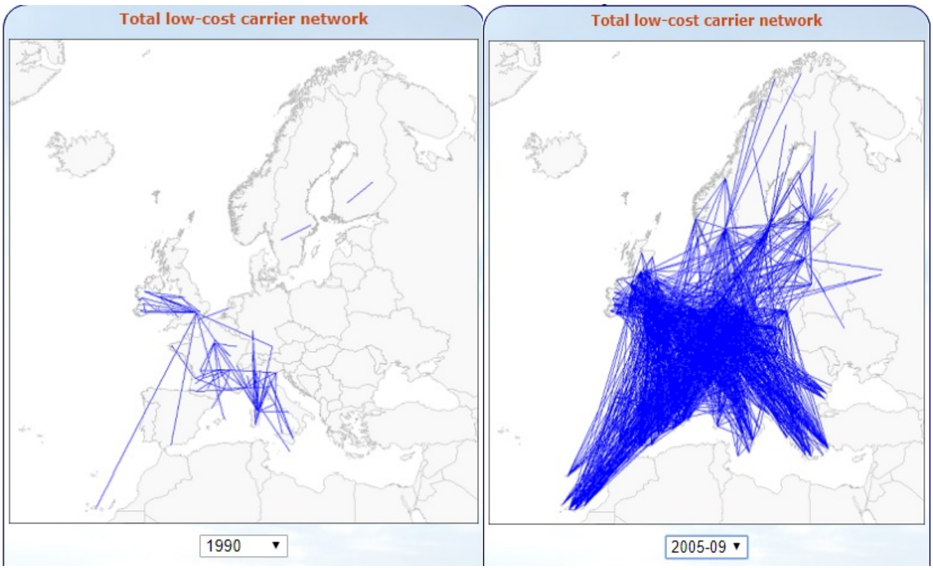

Fig. 1 Total low-cost carrier network 1990 and 2005 – Source: European low-cost carriers

Other low cost carriers entered the market at the turn of the 20th and 21st century in Asia, Africa and Australia e.g. Kulala, Soth African Express, Atlas Blue, Jetstar and Virgin Australia.

3 OPERATION OF LOW COST CARRIERS IN THE CZECH REPUBLIC

The first low cost carrier, which entered the Czech market even before the Czech Republic became a member of the European Union, was the British carrier GoFly in 1999. Thanks to this carrier there was a rise of 2.9% in the number of passengers travelling to the Czech Republic. In 2005 Ryanair entered the Czech market. This carrier is one of the most important low cost carriers currently operating in the Czech Republic.

Currently in the Czech market, the dominant position is still occupied by traditional carriers. However, their market share is steadily declining. In 2010 low cost carriers occupied 22% of the market share and at the moment they occupy more than one third of it.

At Prague airport we can now meet the following low cost carriers: Ryanair, Wizz Air, EasyJet, Volotea, Jet2, Eurowings, Smartwings, Transavia, Norweigian and Flybe. There are yearlong scheduled air services from the airports in Brno, Ostrava and Pardubice operated solely by Ryanair.

From Brno airport Ryanair flies to London and Milan and the Brno – London air route was the first Ryanair operation in 2005. From Ostrava airport there are also flights to London and Milan. From Pardubice you can travel to London and Alicante. Prague airport offers yearlong air services provided by low cost carriers to almost 50 destinations.

The graph below shows the percentage share of inividual low cost carriers in the Czech market in 2017. As you can see more than a fifth of the market was operated by EasyJet which occupies the first place. The second place belongs to Ryanair with 14%. The Czech carrier Smartwings, a subsidiary of Travel Service, occupies the fourth place with 9%. It is expected that Ryanair will soon take the first position in the Czech Republic.

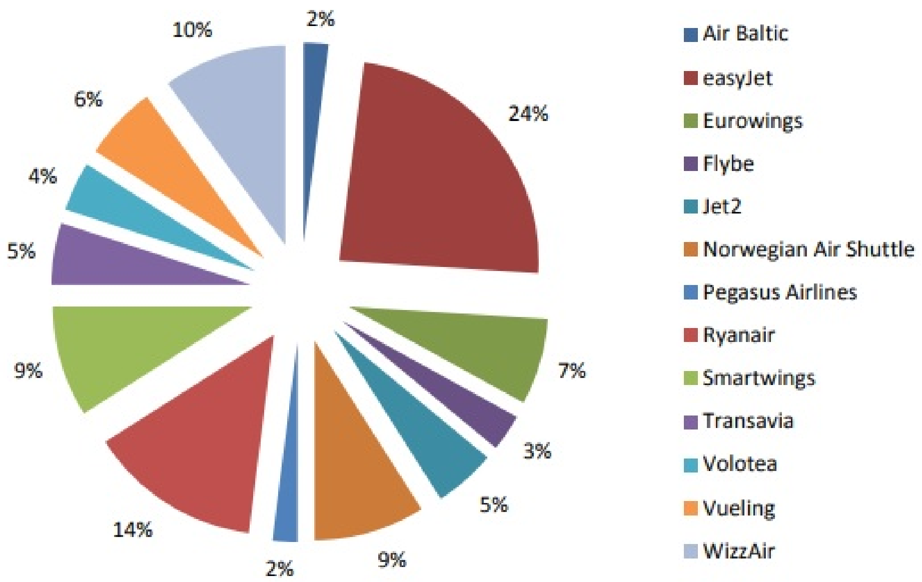

Fig. 2 Share of low cost carriers in the Czech market – source CAPA

4 BUSINESS AND OPERATIONAL MODEL OF LOW COST CARRIERS

The low cost carriers model, which has been expanding constantly in the last two decades, focuses mainly on business and operational procedures which can reduce costs.

The requirements for cost minimization affect the following fields:

- air fleet
- stopping time at airports
- air route operation time
- staff costs
- air ticket sales method
- business terms and conditions
- variable air tickets prices
- range of services offered on board during the flight
- marketing costs

However, the minimization of air tickets costs cannot reduce the safety of flights.

A characteristic feature of this model is the usage of secondary (regional) airports. Secondary or regional airports have lower frequency of flights, which means a lower risk of delayed flights. The other reasons are lower fees for services at the airport e.g. landing charges, handling, passengers check-in and lower fuel prices. As a disadvantage can be mentioned for example a possibly bad accessibility for passengers.

Low cost carriers usually use one type of aircraft. The most widely-used type is Boeing 737 and Airbus A319/320.

Fig. 3 Aircraft Boeing 737-800 – Source 3D Warehouse

Tab. 1 Aircraft parameters Boeing 737-800

Height	12,5 m
Span	34,3 m
Maximum Take-off weight	78 240 kg
Cruising speed	785 $km.h^{-1}$
Maximum speed	959 $km.h^{-1}$
Capacity	162 – 189 passengers
Range	5 445 km
Ceiling	12 500 km

Fig 4 Aircraft Airbus A320-200 – Source Fly level free

Tab. 2 Aircraft parameters Airbus A320-200

Height	11,8 m
Span	33,91 m
Maximum Take-off weight	75 500 kg
Cruising speed	840 $km.h^{-1}$
Maximum speed	925 $km.h^{-1}$

Capacity	150 – 179 passengers
Range	5 615 km
Ceiling	12 500 km

Low cost carriers generally purchase new aircraft, which ensures lower costs for their maintenance and operation. Aircraft are bought for shorter operation time. Internal arrangement of the aircraft is adjusted to maximize the amount of seats without breaching any safety regulations, with minimum spacing among them, which reduces comfort for passengers but also lowers the risk of loss of profits.[4]

Low cost carriers try to minimize the stopping time of their aircraft at the airports where they operate. When preparing the aircraft for another takeoff it is necessary to perform only inevitable tasks such as navigating the aircraft to the handling area, securing the aircraft, boarding and exiting of passengers, unloading and loading of luggage, aircraft condition check and refueling. Carriers try to minimize the stopping time to 20 – 30 minutes.

Operation of air routes provided by low cost carriers usually starts early in the morning and the carriers try to use their aircraft to the maximum. Air routes are generally operated on medium-length and short distances. Most of the routes often run as scheduled air services so that the aircraft could fly the route several times a day. Only some of the carriers try to use their aircraft to the maximum on long haul flights.

Low cost carriers use simple tariffs and a direct method of air tickets sale. They make use of call centers and online sales, which lowers their sales costs. Passengers are offered only one-way tickets, which are irrevocable and nonrefundable and in one class. Low cost carriers never offer return tickets. If a passenger requests a return ticket, it is created by combining of two one-way tickets directly by the passenger. Low cost carriers air tickets are not accepted by other carriers.[2] The air tickets usually get more expensive with the approaching departure. For maximazing their profits on individual routes low cost carriers decide how many seats will be sold for a lower price on a certain route. After they are sold out, more expensive tickets enter the sale. This process continues until all seats in the aircraft are sold out. Passengers must pay for the selected tickets immediately after booking and it is not possible to cancel them later. The most favourable time for air tickets purchase for flights around Europe is a month or two months before departure, for flights outside Europe two or three months before departure. The profitability of flights is easily detectable thanks to the simplicity of the tariffs and structure of the route network.

Air tickets prices are also dependent on the air schedule which is divided into summer and winter air schedule. Summer air schedule usually means a higher frequency of flights and more expensive air tickets. However, in the winter air schedule the frequency lowers and the air tickets are cheaper. Over years low cost carriers have come to a conclusion that it is better not to use some airplanes during winter than to operate them with a lower profit. Other circumstances which lower the air tickets prices are the day of the week and time of departure during the day. Air tickets prices are the most favourable in the middle of the week on Tuesday and Thursday – these flights are usually not fully booked. On the other hand at weekends the prices rise. From the time point of view early morning and late evening flights are the most favourable ones. The least favourable times of the year are summer holidays, Christmas and long weekends.

Low cost carriers strictly adhere to the weight limits of transported luggage. Passengers are allowed to carry one piece of small cabin luggage free of charge. In case they want to travel with a bigger piece of luggage, they must pay an extra charge. Different carriers allow different sizes and weight allowances. When combining air tickets from different carriers the above mentioned fact can complicate significantly passengers’ journey.

Compared to the traditional carriers low cost carriers do not offer any on board entertainment (multimedia screens and devices) during the flight. However, there are several services subject to charge such as sale of drinks, food and refreshments or little gifts. Passengers are usually given the air carrier's magazine or daily press free of charge.

Low cost carriers manage their marketing themselves. They also try to promote their return flights. They do not use any partner companies for promotion of their products.

At present, some lost cost carriers are trying to change the model by offering their passengers more comfort and a small snack on board. Passengers do not have to pay for their checked-in luggage.

There are also some low cost carriers which try to distinguish themselves even more from the given model e.g. Virgin Australia, Jazeera, WestJet. They use more types of aircraft and concentrate on primary airports. They lower their costs by using smaller transfer airports with connecting flights. They want their passengers to use their services to/from more destinations. They also offer more expensive classes such as business or economy plus.Some text some text some text some text some text some text some text some text some text some text some text some text some text some text some text some text some text some text some text some text.

5 BUSINESS STRATEGY OF LOW COST CARRIERS CONCERNING REGIONAL AIRPORTS

As it has already been mentioned before in chapter 4, the current business strategy of low cost carriers is based on lowering of costs. They try to transfer as many costs as possible to other business entities. Some low cost carriers put pressure on the airports and thanks to this pressure the airports often meet their conditions. After including all operating costs the economic result of such an airport can be unprofitable.

Low cost carriers are very often uncompromising towards the airports. That can lead to a situation when an air carrier diverts its flights to other, more obliging or closer airport in the region.

If the airport cannot support such an air route financially, from resources made for example from non-flight activities, it is necessary to cover the loss by creating programmes to support development of new air routes and increasing flight frequency.

Considering the fact that small airports are often owned by public sector and the countries are members of European Union, it is essential to follow strictly the new aviation guidelines stated by Directive 2014/24/EU of European Parliament and Council. This directive states the conditions for providing compatible public support for airports and air carriers. The new guidelines were adopted within the process of the so called modernization of rules for public support.

Among the conditions for granting the financial aid in Europe is stated that:

- the aid is limited to 3 years, exceptionally to 5 years
- the company must make everything available for inspection by the European Comission
- the financial aid must decrease every year.

The Rome Convention says that the state authority, which is granted to the airport, is in accordance with the principle of common market only in case that the development of economic activities happens without any disruption of competitive environment. However, the airport management do not often decide on granting subsidies to air carriers, as these are very often political decisions not the decision of the airport owners. In case of regional airports the decisions are usually made by the region, city, chambre of commerce or other entities connected with the public budget.

6 CONCLUSIONS

There are several reason why low cost carriers find use in the aviation market.

The first of them is the existence of an important group of passengers who have a need to travel, however, they are not willing to use the traditional air carriers as they find their services very expensive and regionally unavailable.

The second reason is the unwillingness of traditional carriers to operate at regional airports as there is not enough demand for their services.

Another reason for the success of low cost carriers is the fact that they enter markets where the traditional carriers do not meet the demand for short and medium-length flights.

As a part of their business policy the low cost carriers put constant pressure on operated airports. Those airports that want to start operation of a new air route often find themselves in a difficult position as the carriers choose only those airport which offer support. This support often reaches such a level that the airports then handle the aircrafts for prices which do not even cover their operating costs. The carriers claim that the airports gain profit from other activities such as parking fees, higher turnover from shops and services at the airport, which is not always true. Airports with low number of passengers rarely develop the necessary infrastructure which could provide services at the required level. The situation is even more complicated as for those customers who use only seasonal flights or flights with low cost carriers the air ticket price is the most crucial factor and they are not willing to spend more funds on additional services provided by the airports.

The focus of this article is to draw attention to very disadvantageous economic position of some regional airports in the aviation market and give reasons for their situation. On the one hand low cost carriers force them to lower their costs for offered services and passengers are not willing to pay for provided additional services. If the passengers are not willing to pay for additional services at the airport, there is no interest in their operation. On the other hand airports must meet very strict security measures and keep operational a whole range of supporting infrastructure. This results in a very bad economic situation of regional airports.

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