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'The responses of traditional airlines to the low-cost carrier threat'

In past years, traditional airlines have come under pressure due to the growth of low-cost carriers (LCCs), in particular on short-haul routes. Dennis (2007) examines whether these traditional airlines have adapted new strategies or copied measures from their new competitors on the short-haul services. Dennis discusses nine changes that have occurred in various extents. These will be discussed shortly below.

Raise labour productivity and outsource more services
Various measures have been undertaken to establish the first goal: freezing or reducing salaries and/or benefits and hiring staff on less generous terms and conditions. The second goal contained the outsourcing of catering, cleaning and ground handling services.

There is evidence that traffic has grown faster than the employee numbers, which has led to a higher productivity. The largest changes can be found in the divesture of departments (e.g. ground handling at bmi). The UK and Ireland have moved further in these measures than their European counterparts, this is possibly due to the high concentration of LCCs in this area. What differs in comparison to the LCCs is that the major airlines do not shift to lower cost economies for flight and cabin crew. They still put these people in expensive hotels instead of setting up a local crew base. The personnel of the outsourced business units suffer the most, they are confronted with work conditions and terms far below their initial ones.

More use of regional aircraft
In the United States, regional aircrafts (operated by regional partner airlines) are more and more used on short-haul routes for two main reasons. First, the airline can keep the frequency at a required level (maintaining frequent flyer programs (FFPs)), while reducing capacity. Second, these regional aircrafts operate under much lower labour cost.

In Europe, the extent of this trend is much smaller. This is mainly due to the heavily congested hub-airports. The opportunity cost of using a slot for a small aircraft is enough to favour a larger aircraft.

Run-down of secondary hubs
Most major airlines have reduced or abandoned their secondary hubs and their point-to-point services. This was a trend already visible due to hub creation, but has been set forth, since LCCs identified these airports as the softest targets of the major airlines.

Revise pricing and remove minimum stays on low fares

Major airline had their measures to identify the business traveler. They used different fares for essentially the same product. The cheaper fares were surrounded by certain conditions, often including a minimum overnight stay on destination. Since the business traveler is less flexible in their time schedule, they were often confronted with the higher fares. LCCs however, charge prices without any conditions. This caused business travelers to switch to these airlines, the reliability and the FFP could not compete with the price of LCCs. Reactions differed among the major carriers: BA abandoned minimum stay on routes where it competes with LCCs, but mostly kept the requirement of a return journey to secure a differentiation in the fare structure. Bmi went further by pricing on one-way tickets. Air France, KLM and Lufthansa did not react intensively. They sometimes offer tickets without the minimum stay requirement, but at very poor times. Ticket prices of return trips to cities with no LCC competitor remain very high (i.e. Madrid-London-Madrid).

Charge for catering or reduce free provision

There has been a drift towards reducing provision in economy class on short-haul flights by the major carriers. This has been done for competitive reasons as well as adding benefit to the business class section. However, this is one of the most visible differences with LCCs. By reducing this service, the danger exists that passengers have few reasons (except FFPs) to choose for a major airline, since the ticket price of LCCs is generally lower. In the US, this has led to great losses for the legacy carriers.

The problem with paid catering is that it is a quite inefficient process. It is highly unsure how many people will order food or drinks, differing on all routes. Most major carriers therefore still offer some drinks of food for free, although it is much less than before.

Abandon business class

All major airlines (except Aer Lingus) still offer two classes for roughly three reasons. First, most flights serve as feeders for the long-haul, so first and business class passengers should be offered the same class on the short-haul. Second, most European airlines still do not face competition on all their short-haul destinations. Third, some passengers or companies are simply willing to pay for the highest level of service and this can thus be profitable. Airlines without a long-haul network do not offer business class any more.

Reduce distribution costs

Most major airlines offer online booking of tickets on their website (mainly in their home market), axing the commission costs of travel agents. This tendency has caused the commission rate of these agents to drop to one percent on average. This does not mean that the lowest price on a certain point-to-point connection can be found on these company websites. Travel agents have a broader view of the prices and flights of competitors.

Increased aircraft utilization

The constraints of a hub operation makes it hard to increase the utilization of the aircraft. Turn-around times are longer, because of the use of loading bridges, more intense cleaning and assigned seating. They still have managed to increase the utilization (around one hour a day extra), but it is unclear where the optimum comes from.

Set-up a low-cost subsidiary
Almost all set up subsidiaries have suffered from losses or have on their turn been taken over by easyJet for example. The exception in this case is GB Airways (subsidiary of BA), which serves holiday destinations in southern Europe that were initially not in BA's network.

Conclusion
Although major carriers have faced some challenges on the short-haul, the model still seems to work as most carriers have made increasing profits in the last years (percentages are comparable to the LCCs). The most successful strategy seems to be focusing on the hub, outsourcing services and increase crew and aircraft productivity. Product specification should be on free-service economy class. The power of the network carriers lies in the connectivity and the protected position on the hubs. The most interesting battles between the LCCs and majors may be yet to come.

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