



**Publication Alert October 2007 –
Future trends within the air transport industry in the EU, according
to aviation experts.**

In this publication, the authors try to forecast the spectrum of the air transport industry by 2015, using Delphi methodology. Their research is focused on the changes within Low Cost Carriers (LCC), Network Carriers (NC) and the market behavior of passengers. They conclude that there will be further consolidation in the EU-market: the largest LCCs will grow and will carry 50 percent of the intra-EU traffic, by 2015 there will be five main hubs and thus NCs. Other outcomes are that business class will disappear on short-haul flights, more short leisure flights during the year. Video-conference technology will not limit the growth of air travel. To come to this conclusion, they used the expertise and opinions of industry experts in a so-called Delphi panel.

The airline industry has suffered from the traumatic events of 11 September 2001. But more factors have led to a slowing in traffic growth in the EU. The collapse of the dot-com boom undermined business confidence. The low-cost carriers became a great competitor for the existing network carriers, especially on the intra-European market, the profit margins on these flights downed steeply. An extra problem were the fuel prices, that rose rapidly from 2004 on. This all resulted in losses for most airlines at the start of the millennium and even some bankruptcies. Although there was heavy growth, low-cost carriers reported marginal profit or losses.

Besides the industry itself, passenger behavior changed during the last years. Price, economic growth (since 2005), business confidence and people's desire to travel are the drivers of demand for air travel. Since 1996 leisure travel has grown faster than business travel, due to players like Ryanair. More short holiday trips in a year instead of one long annual is the trend. The reasons for the slowing growth on long-haul trips seem to be health (e.g. SARS), terrorism and security. The demand for business class travel has fallen, more passenger use low-cost airlines for their business trips. Price in this sector has become more important than service. The possibilities of satellite and communication technology have their impact, but it is still unknown if it attracts travelers or suppresses air travel, since these technologies are increasingly possible on flights.

From these issues, several scenarios in the near future (2010-2015) have been constructed and assessed in a Delphi survey. Twenty-six industry experts working in senior roles within low-cost, leisure, network, regional and cargo carriers reviewed these scenarios in two rounds. A 75 percent agreement was used as a broad consensus threshold. The results will now be discussed per sector.

Network carriers

In 2015 the focus of network carriers will be increasingly on long-haul, combined with franchising or alliances on the feeder routes. These feeder airlines will structure their costs to be competitive in the short-haul market. The Delphi survey also concluded that these carriers can never achieve the same cost structures as LCCs. Sustainable profit lays in the long-haul flights. This opportunity though, can lead to overcapacity and lower yields, especially on the North-Atlantic routes. The Gulf airlines will also become a threat, as they ordered the largest number of wide-body aircraft, including over 51 Airbus A380s. The routes to the Middle East and beyond will therefore become a lot more competitive.

The experts still believe in the strength of the hub and spoke system, and expect that this will continue to be the major component of intercontinental travel. On the other hand, the European hubs will decrease to an amount of no more than five, since most hubs are unable to keep their flights to small originating countries. With the decrease of the hubs, the expectation is also that there will be around five major network carriers by 2015. Small network carriers will be taken over, and only two to three medium sized carriers will survive, increasingly adopting low cost business models. Low cost subsidiaries of network carriers are unlikely to succeed, but are solely a short term tactic to lower the cost base in the network.

The survey could not agree on subjects as the role of the high-speed rail, the influence of trade unions and the amount of classes on long-haul travel.

Low cost carriers

In the low cost sector, economies of scale are crucial. The Delphi panel predicts that there will be two to three large low cost airlines by 2015 in Europe. Becoming more and more important on the intra-European traffic routes, they will serve more than half of these flights.

Trends that are implemented in network carriers, like codesharing or alliances will only used by few LCCs. They will not act as feeder airlines for long-haul services, main focus stays on point-to-point services. Last challenge for LCCs can be the EU regulations, but the panel believes that this will only have a minor impact on the growth in this sector.

Market behaviour

The expectation is that business class will disappear on the short-haul market. On the other hand, business class only services will be provided on a limited number of intercontinental routes. The development of video-conferencing will not limit the growth of air travel, the panel is unanimous that face-to-face contact is not replaceable by this technology. Last outcome is that the trend of multiple short holidays by air will continue to grow.

To conclude, main changes in the future of air travel will be: further consolidation within network and low cost carriers, more competition in the long-haul market, more low cost on short-haul and the decrease of business class services on short-haul.

Source:

Title: EU network carriers, low cost carriers and consumer behavior: A Delphi study of future trends.

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Source: Journal of Air Transport Management, 2007, 13, 299-310