Airneth

Date of publication: June 2016

Airneth report 21: New Forms of Transfer in Air Transport Networks

18 May 2016

KiM Netherlands Institute for Transport Policy Analysis
The Hague

Report of the Discussion on New Forms of Transfer in Air Transport Networks

This document summarizes the discussion held during the seminar "New Forms of Transfer in Air Transport Networks". It does not necessarily represent the views or opinions of Airneth, the KiM Netherlands Institute for Transport Policy Analysis and the Dutch Ministry of Infrastructure and the Environment. For a good understanding of the discussion, it might be helpful to first familiarize yourself with the various presentations held during the seminar, which can be found on the Airneth website.

Potential for self-connect

There are many airline markets with too little demand for a direct service. There will always be a demand for connecting services on these smaller markets. Although the network carriers are connecting many of them, they will never be able to connect all. This creates a potential for self-connect.

Currently the share of self-connect passenger demand is estimated at around 1% of total demand. Although until now the concept is mainly used by the more adventurous and price sensitive passengers, it is expected that it will mature and become more attractive to the passenger. At the moment schemes as GatwickConnects, ViaMilano and SkyPicker still offer different products, which makes it difficult for the passenger to exactly know what he or she is getting. Standardization in terms of ticketing and conditions will probably make the concept more widely accepted. ICF expects that the share of self-connect will eventually grow to around 3%.

Partnerships between low-cost carriers and network carriers

Until now, only the network carriers have mastered operating a hub-and-spoke network. Such a network adds complexity and therefore costs to the operation in return for network economies. For instance, network carriers need to station aircraft and crew at remote airports to be able to fly into their hub early in the morning to feed their long-haul flights. Optimizing connections in terms of transfer times at the hub also negatively affects aircraft utilization.

If a low-cost carrier seriously considers feeding the operation of a network carrier, it should also take into account that this will increase the complexity of its operation, making it more costly. These low-cost carriers might end up being very similar to today's network carriers (which are already moving towards the business model of the low-cost carriers by charging passengers for bags and food, for example). According to one participant, by trying to sort out all the complexities of low-cost carriers feeding network carriers, we therefore might end up 'reinventing the wheel' and create the network carrier again.

Most low-cost carriers like easyJet, see self-connecting passengers as a nice 'extra'. It is most likely that they will stick to their low-cost profile, focus on carrying point-to-point passengers. This implies that they will probably only feed network carriers when this does not require significant (cost-increasing) changes to their operation. From a management perspective self-connect may however be interesting in periods with low-demand.

From the perspective of the network carriers, partnering with low-cost carriers at their own hubs may not always be very attractive. These airlines have invested a lot in customer experience and building their brand. Especially business class passengers expect the business class experience on all parts of their flight. Low-cost feeding services will dilute the customer experience and have a negative impact on the airline's brand.

In addition, low-cost feeders may be competing with the services of the network carrier. However, this will be less the case at foreign outstations. Partnerships at such outstations are therefore more likely. An example is GOL, a hybrid low-cost carrier based in Brazil. It feeds the long-haul flights of various SkyTeam members from various airports in South America. The feeder flights of GOL do not compete with the SkyTeam flights and the feeder traffic is therefore extra for the SkyTeam members.

Segmenting the market

Different types of customers demand different types of services. Most low-cost services and long-haul services of the network carriers are offered once daily or even less. Low-cost hubbing or low-cost feeders therefore lead to relatively long transfer times. If a connection is missed, a passenger needs to wait at least a day for the next flight. The impact of a missed connection can be quite substantial. This may be acceptable to price sensitive leisure passengers, but not to the more time-sensitive business passenger.

Also, in terms of convenience, leisure passengers may be willing to pick up a bag and go through check-in and security again, if that saves them money. The business passenger on the other hand values convenience and service. The business passenger prefers one ticket and no issues if a connecting flight is missed. Therefore, it comes down to segmenting the market and developing services for these specific segments.

Implications for the Dutch aviation industry

Schiphol

easyJet has a large base at Schiphol and claims that it feeds a substantial number of transfer passengers to KLM's intercontinental network. If this is additional feed, then this is beneficial to KLM. When these passengers used to be regular transfer passengers on KLM's network, then these passengers have substituted from KLM's short-haul flights to easyJet's.

Above it was mentioned that low-cost carriers will probably stick to their low-cost profile instead of developing costly hub operations. They are likely to feed to network carriers only when this does not complicate their operations too much. The threat to the hub carrier will therefore be limited.

Airports should generally be interested in capturing part of the self-connect market. An airport such as Schiphol could advise low-cost carriers on how to optimize their schedules to create optimal connecting possibilities towards their own flights and those of other carriers. This may however upset the hub carrier, which is the airport's most important client.

Regional airports

The Schiphol Group is developing a new commercial airport near Lelystad, around 60 kilometers from the city centre of Amsterdam. The airport is developed for point-to-point traffic and should free up capacity at Schiphol for mainport related traffic from hub carrier KLM and its SkyTeam partners. If a low-cost carrier moves to Lelystad, it can no longer benefit from Schiphol's large network in terms of self-connect potential. However, if the market is there as well as the route economics (lower airport charges etc), then a low-cost carrier might be willing to give up the extra 2-3% of self-connecting traffic and move to Lelystad. However, there are not many examples of airlines switching from primary to secondary airports.

The scale of the low-cost network at the Dutch regional airports is probably too small for a low-cost hub operation or for self-connect. Airports need enough frequencies to be able to offer attractive connections. There will probably be some markets in which attractive connections can be offered, but not too many. Having Schiphol close by is also a deterrent for airlines to move into Lelystad, Eindhoven or Rotterdam. These airports should therefore focus on the OD-potential and increase the number of links with hub airports to expand their networks and passenger demand.

Air transport versus public transport

In public transport everybody self-connects. The question that comes to mind is: *Why are so few air passengers self-connecting?* Air transport and public transport differ in many respects, such as (safety) procedures, frequencies and operational costs. In public transport, passengers can transfer easily between two trains or buses. In aviation however, safety procedures require that passengers and baggage are screened before going on board. This means that the transfer process needs to be organized, adding complexity and time to the process. In addition, due to the high frequencies in public transport, passengers generally do not need to wait very long for the next train or bus to arrive once they have missed the previous one. In aviation, frequencies are much lower, flight-specific bookings are required and much time may be lost when a connection is missed. Also, due to the higher operating costs of an airplane, airlines try to maximize load factors. Therefore it remains to be seen whether a passenger can actually get on the next flight.

In public transport there is a trend towards separation of the supply chain. Train and bus companies provide the services to the passenger. Chain operators provide information on ticketing and transfer options. Web-based platforms integrate all that information for the passenger. An example is the Rome2Rio-website which integrates all transport modes and offers the passenger a complete overview of all travel options from A to B.

This trend will also affect the aviation industry, because more and better information on connecting possibilities will become available. Passengers will be better informed than ever and can make their own trade-offs regarding travel time, price and the chance of missing a connection. In the more distant future, airlines may abandon the traditional interline agreements and let other parties, such as airports or third-parties take care of the transfer process. Airlines will then just operate point-to-point networks and will not be bothered about the complexities of interlining.