

Consolidation and new business models in the air transport industry

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Legacy Carrier Strategies

– Opportunities and Threats to Survival and Revival –

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- Market
- Resources

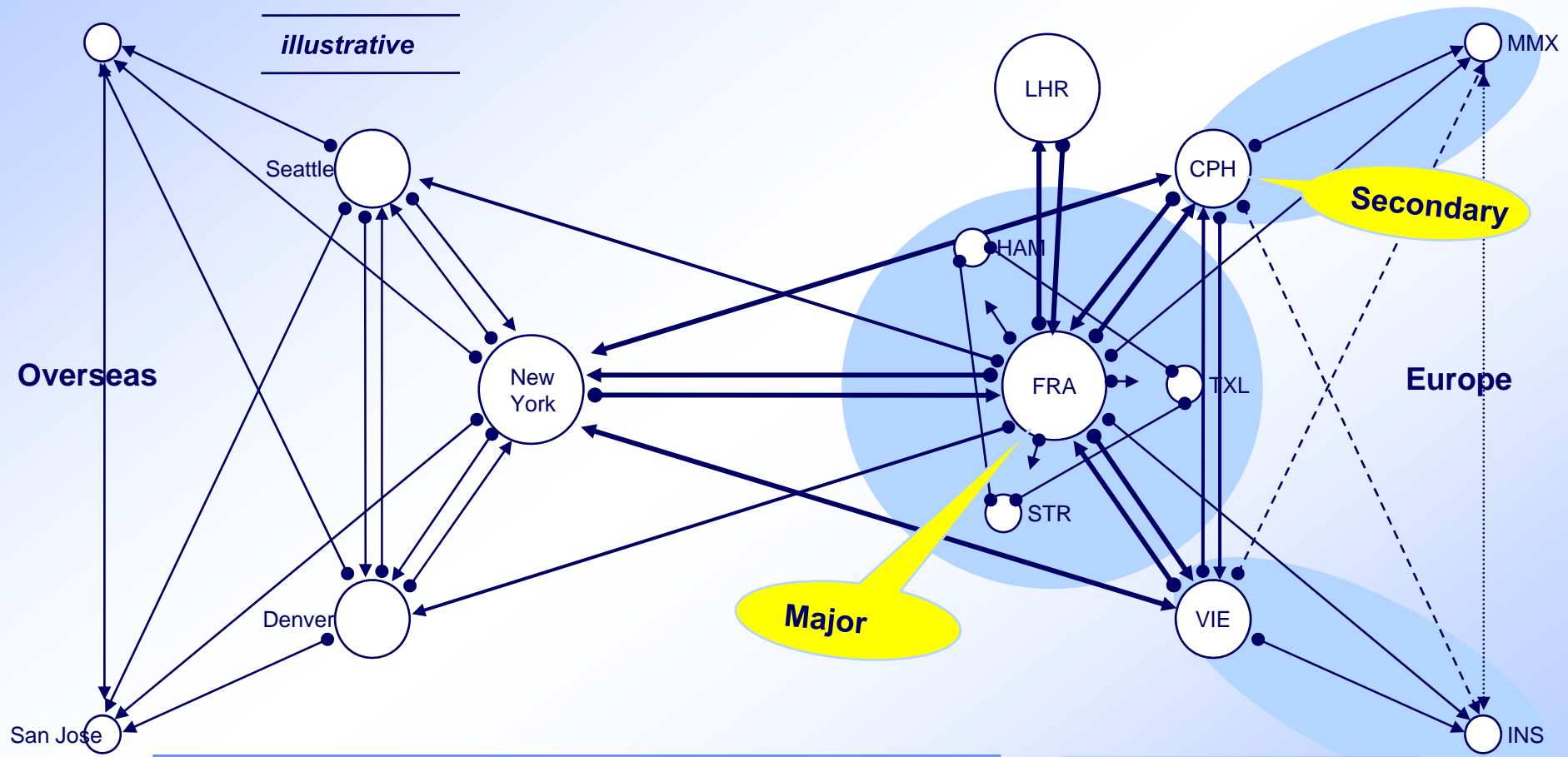
3. Short / Medium Haul Markets SWOT

- Market
- Resources

4. Conclusions

Legacy Carriers are National Carriers operating out, into and within their country of origin.

illustrative



Long haul operation allows for carrying both, passenger and cargo.

Business Model – Long haul



- Out of Hubs into Hubs
- Wide Body
- First – Business – Economy
- On Board Service / In flight Entertainment
- Alliances / Code Sharing / Pooling → Global presence
- Passenger (upper deck) and Cargo (belly)
- (Freighters)

In short and medium range operation a fleet mix of regional and narrow body jets allows tailoring aircraft to demand.

Business Model – short haul



- **< 30 to > 210 Seats / A/C**
 - **One physical class**
 - **Economy / Business Service Classes**
 - **Home base focused (Aircraft / Crew / Maintenance)**
 - **Hub Feeder / Hub-and-Spoke / Spoke-to-Spoke**
 - **ACMI operation of Regional Fleet**
 - **Integrated support functions (MRO, Handling, IT, ...)**
 - **Domestic Brand / Market Leadership**
 - **Political backing / commitment**

Legacy Carriers exploit willingness to pay by operating complex fare class and yield management systems.

Rules and Restrictions

| Rule | Explanation |
|-----------------------|---|
| Penalty | What part of the fare, if any, is refundable? Can the value of the ticket be used as a credit for future travel? If so, what is the service charge? What is the change fee? You can't always change the ticket for the change fee.) |
| Res/Ticketing | When must the reservation be made? (e.g. 7,14,21 days in advance) When must the ticket be issued? (e.g. 24 hours after making reservation) Usually the earlier of the two deadlines takes precedence. |
| Minimum Stay | e.g. must stay over a Saturday night (often stated technically as "return travel valid on the 1st Sun after 12:01 am") |
| Maximum Stay | e.g. 30 days, 60 days, 365 days |
| Day/Time | Some fares are only valid on particular days of the week, or at particular times. For example, some fares are valid Mon-Thu only, or from 7 pm - 6 am only. |
| Season | Some fares, particularly overseas fares, have an associated season (e.g. 15SEP-12DEC). For overseas travel, usually the departure date determines the season for the round trip fare. |
| Blackout Dates | Some fare are not valid on certain dates - e.g. over a holiday weekend. |
| Eff/Exp | Effective/Expires: Many seat sale fares must be purchased by a certain date. Find this date in this section of the rules. |
| Flt Appl | Certain fares are only valid for particular flights - e.g. nonstop only, or flight 123 only. |

Booking classes serve in order to manage fare differentiation and availability management.

Airline Booking Classes (US Standard)

First Class Category

- R Supersonic or First Class Suite
- P First Class Premium
- F First Class
- A First Class Discounted

Business Class Category

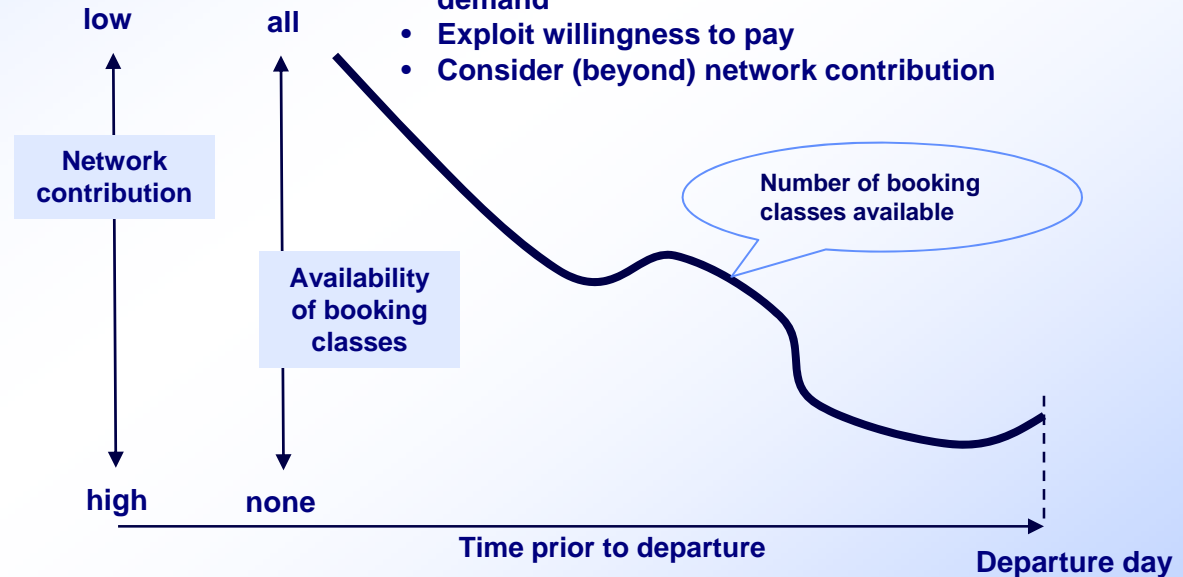
- J Business Class Premium
- C Business Class
- D Business Class Discounted
- I Business Class Discounted
- Z Business Class Discounted

Economy/Coach Class Category

- W Economy/Coach Premium
- S Economy/Coach Premium
- Y Economy/Coach
- B Economy/Coach Discounted
- H Economy/Coach Discounted
- K Economy/Coach Discounted
- L Economy/Coach Discounted
- M Economy/Coach Discounted
- N Economy/Coach Discounted
- Q Economy/Coach Discounted
- T Economy/Coach Discounted
- V Economy/Coach Discounted
- X Economy/Coach Discounted

The network carrier yield management model

- Booking classes used to manage availability of fares in parallel
- Nesting to reject low yield demand / prioritize high yield demand
- Exploit willingness to pay
- Consider (beyond) network contribution



- Most complex administration of fares
- Clustering of fares in booking classes according to network contribution
- Yield Management controls availability of seats per booking class

In long haul markets Network Carrier alliances allow for global coverage.

Long Haul Markets SWOT: Strength and Weaknesses

Network Footprints



Markets

Resources

- + Global Coverage
- + Both end hub feeders
- + Seamless connectivity
- + Strong local brands
- + World-wide presence in local distribution channels
- + Joint mileage program
- + Cargo contribution

- Conflicts of interest
- Uniformity of product / quality

- + Pooling of capacities
- + Interlining
- + Joint sourcing
- + Global support services
- + Sales organization partnering

- Conflicts of interest
- Mature organizational structures
 - „fat management“
 - State combine

European integration will offer opportunities to leverage on strengths in global alliances.

Long Haul Markets: Future Scenario of global Alliances

- The development towards corporate integration of European Alliance partners under the roofs of Air France, British Airways and Lufthansa will continue.
- Critical success factor will be to develop from alliances or groups of national European airlines towards European Airlines.
- European Airlines' networks must be managed out of one hand (Network profitability at European level).

→ Integration of former competitors at European level

- In the long run three global Alliances and – if not affiliated with one of them – some Middle East trouble makers will make up a landscape of three global IATA like cartels.

→ Split revival of former IATA cartel at global level



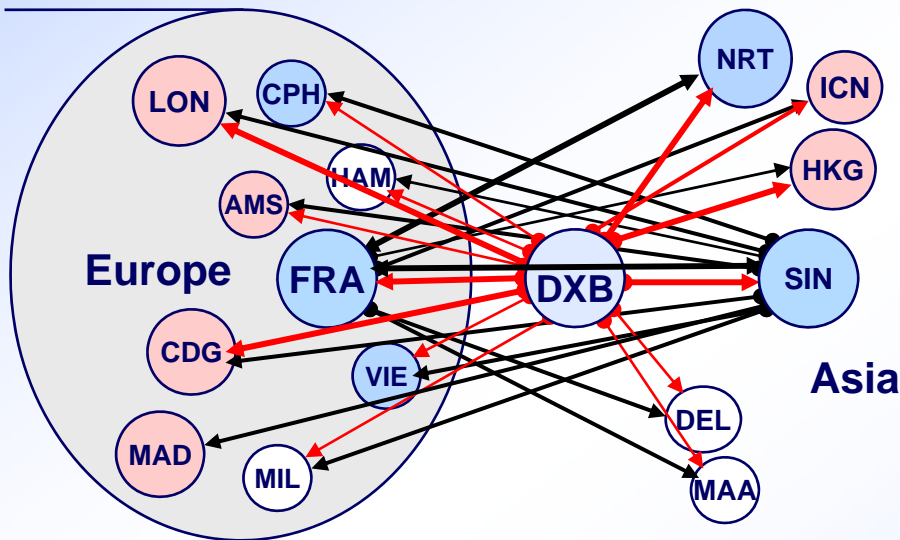
European Carriers
at / above eye level of global alliance partners

In order to outperform offenders from Middle East global alliances may cross link their networks to provide efficient non stop services to secondary hubs.

Long Haul Markets: Opportunities to Survival

Example: Star Alliance

illustrative



- European alliance partners contribute to an integrated global network profit center
- European alliance major hubs serve non-stops
 - to Asian alliance partners' major hubs
 - to Asian secondary alliance partners' hubs
 - to Asian alliance partners' competitor hubs
- Asian alliance major hubs serve non-stops
 - to European alliance partners' major hubs
 - to European secondary alliance partners' hubs
 - to European alliance partners' competitor hubs
- Operation of flights allocated to partners based on best practice effectiveness (reliability, quality) and efficiency (unit cost / on time performance).

Intra European Networks of Legacy Carriers lack European best practice standards.

Intra European Markets SWOT: Strength and Weaknesses

Operational Bases



Not including home bases of affiliates / ACMI partners

<http://www.ryanair.com>

Markets

Resources

- + Strong brands in home markets
- + Presence in local distribution channels in home lands
- + Joint mileage program
- + Service to regional locations

- Conflicts of interest in bilateral and non alliance markets
- Focused on out/in of home land and domestic services
- Perceived being "National" brands
- "Handicap Pricing"

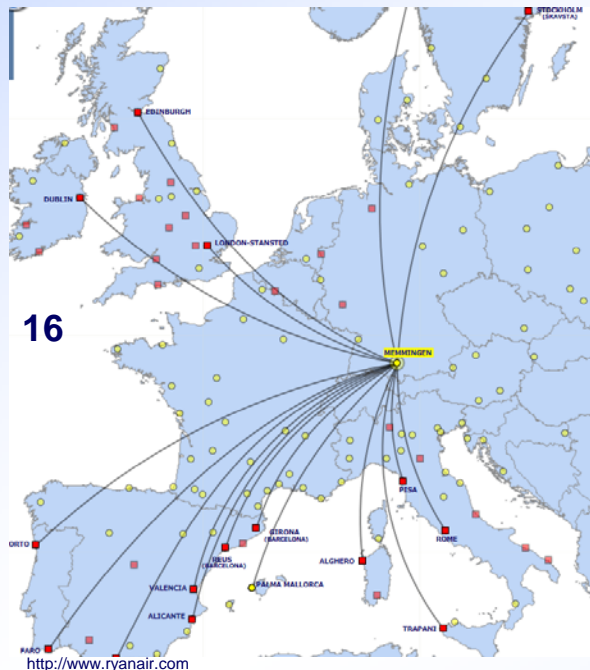
- + Pooling of capacities
- + Interlining
- + Joint sourcing
- + Local support services
- + Integrated sales organization
- + Fleet portfolio
- + Yield management capabilities

- Conflicts of interest
- Redundant organizational structures
 - Product & Marketing
 - Support functions
- Lack of operational bases in non home markets

European Legacy Carrier groups will have to go European in order to keep up with LCC flexibility in Network Management.

Intra-European Markets: Opportunities to Survival

Example: Ryanair services to Munich area market (Summer 2011)



- From its 42 European home bases Ryan Air is flexible to offer multiple point-to-point services without positioning any aircraft or crew!
- Network is managed (fully centralized) out of Dublin head offices

Legacy Carrier strategic option to survival in intra European competition

- Based on their current paradigms of operation, Legacy Carrier (groups) are very much restricted in markets other than their country of origin.
- Even domestically fleets and crews are focused on home bases.
- In order to keep up their competitiveness, Legacy Carrier groups should set-up home bases (not airlines) abroad.
- Network Management and so responsibility for overall P&L should be integrated.
- Group Airlines should serve as “Charter” carriers on behalf of Network Management.
- Individual carriers’ brand capital should be leveraged in local markets however.

Paradigms of pricing in Short-/ Medium Haul Markets should be reviewed.

Intra-European Markets: Opportunities to Survival

Duesseldorf, Germany to Paris, France **return**
 Thu, May 19, 2011 - Sat, May 21, 2011 | 1 Adult
[Change Your Search](#)

"Total" for e-tickets incl. taxes & fees. Add'l fees for paper ticket. Baggage fees are not included and may apply.

| | | | | | | | |
|--|-----------------------|-----------------------|--------------------------|------------------------|------------------------|----------------------------|----------------------------|
| | Air France | Lufthansa | KLM Royal Dutch Airlines | Swiss Intl Air Lines | British Airways | Qantas Airways | Scandinavian Airlines |
| Nonstops Only 10 flights | \$ 21 Total \$ 148 | \$ 80 Total \$ 187 | 0 nonstops | 0 nonstops | 0 nonstops | 0 nonstops | 0 nonstops |
| All 82 Flights displayed below | \$ 21 Total \$ 148 | \$ 80 Total \$ 187 | \$ 68 Total \$ 301 | \$ 161 Total \$ 337 | \$ 271 Total \$ 547 | \$ 2,377 Total \$ 2,666 | \$ 3,913 Total \$ 4,243 |

Duesseldorf, Germany to Paris, France **one way (out)**
 Wed, May 18, 2011 | 1 Adult
[Change Your Search](#)

"Total" for e-tickets incl. taxes & fees. Add'l fees for paper ticket. Baggage fees are not included and may apply.

| | | | | | | | |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|--------------------------|
| | British Airways | Lufthansa | Scandinavian Airlines | Czech Airlines | Air France | Swiss Intl Air Lines | KLM Royal Dutch Airlines |
| Nonstops Only 11 flights | 0 nonstops | \$ 729 Total \$ 638 | 0 nonstops | 0 nonstops | \$ 370 Total \$ 478 | 0 nonstops | 0 nonstops |
| All 231 Flights displayed below | \$ 156 Total \$ 303 | \$ 227 Total \$ 388 | \$ 226 Total \$ 394 | \$ 364 Total \$ 476 | \$ 370 Total \$ 478 | \$ 370 Total \$ 522 | \$ 547 Total \$ 727 |

Paris, France to Duesseldorf, Germany **one way (in)**
 Sat, May 21, 2011 | 1 Adult
[Change Your Search](#)

"Total" for e-tickets incl. taxes & fees. Add'l fees for paper ticket. Baggage fees are not included and may apply.

| | | | | | | | |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|--------------------------|----------------------------|
| | British Airways | Lufthansa | Scandinavian Airlines | Air France | Swiss Intl Air Lines | KLM Royal Dutch Airlines | Qantas Airways |
| Nonstops Only 7 flights | 0 nonstops | \$ 498 Total \$ 610 | 0 nonstops | \$ 382 Total \$ 493 | 0 nonstops | 0 nonstops | 0 nonstops |
| All 123 Flights displayed below | \$ 148 Total \$ 298 | \$ 158 Total \$ 360 | \$ 263 Total \$ 410 | \$ 382 Total \$ 493 | \$ 355 Total \$ 504 | \$ 800 Total \$ 995 | \$ 1,375 Total \$ 1,539 |

- Discounting rates based on return conditions triggers irrational fare displays
- Transparency of internet search engines endangers credibility
- Value added from unrestricted fares must be built into one-way offerings in order to further exploit willingness to pay.

In conclusion: There is need for change for some of the legacy carriers' paradigms in order remain competitive

- In long haul markets consolidating legacy carriers must develop to European airlines rather than to European groups of National Carriers.
- There is room for three European Legacy Carriers, one for each of the global alliance networks.
- Network and overall product profitability to be managed out of one hand.
- »Going European« to additional markets by setting-up additional operational bases and, may be, additional brands – but not by acquisition or setting up of national airlines.
- National brand potentials should, however, not be spoiled.
- Local operators to be managed at »full charter« conditions.
- Pricing of intra European services to be reviewed.