



Ministry of Infrastructure and the
Environment

Changing LCC business models in the US and EU

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The structure of the LCC industry in the US and EU

LCCs Europe	mIn ASKs	LCCs USA	mIn ASKs
Ryanair	2200	Southwest	3061
EasyJet	1470	jetBlue	1001
Norwegian	353	Airtran	656
Wizz Air	306	Frontier	364
Vueling	298	Spirit	248
Germanwings	234	Virgin America	227
Blue Air	73	Allegiant Air	121
Bmibaby	70		
Air One	69		
Sky Express	41		
Total	5114		5678

- Concentration possible through
 - organic growth
 - take-overs
 - the LCC graveyard
- HHI EU 2010: 2821
- HHI US 2010: 3439
- HHI US 2011: 5005 ?

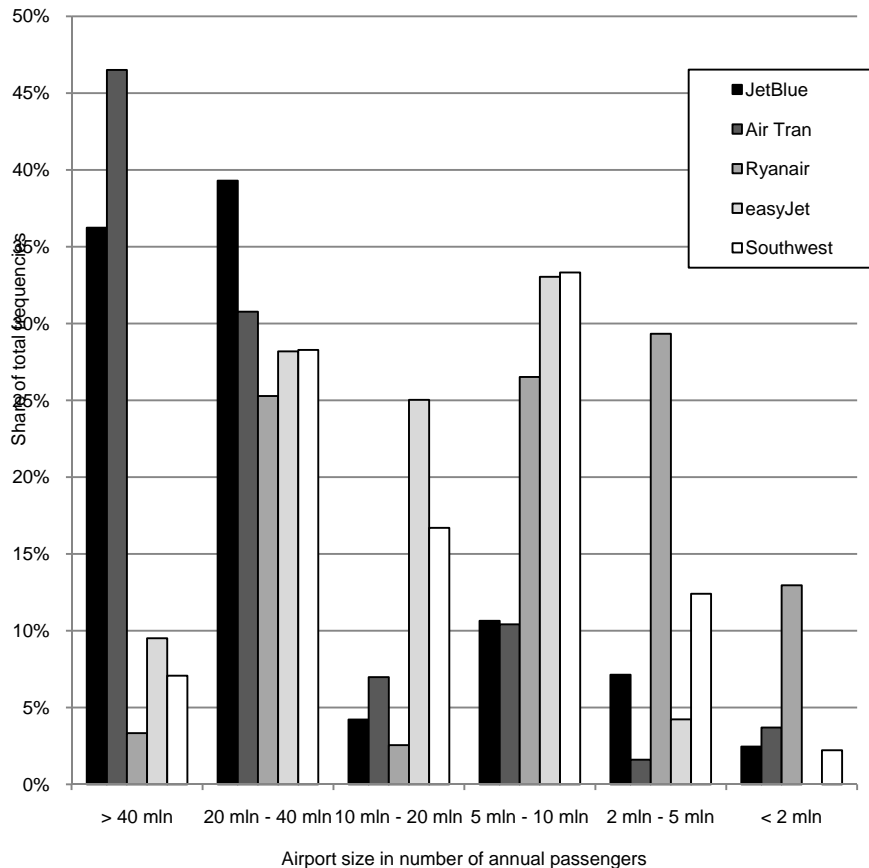


Formal features attributed to the LCC model: network characteristics too simple?

Feature	Benefits
Modern aircraft fleet, often with single aircraft type	Lower maintenance and training costs; fuel efficiency; better crew utilisation
Single class cabin	Reduced cabin crew costs; higher seat density
→ Point to point services	Reduced complexity – no transfers
Few or no on board frills	Reduced cost of on board service
Extras charged separately	Cost and price transparency (e.g. reduced hold baggage and associated costs); and additional revenue, enabling lower fares
Direct (mainly Internet) Ticket Sales and no sales via travel agents	Direct relationship with customer; reduced cost of sales
Strong Load Factor Management	Better fleet utilisation, higher ancillary revenue
→ Use of secondary airports	Lower airport charges, less congestion in the air and on the ground
Simple ground facilities	No requirement for cost of premium terminal facilities (e.g. airbridges)
Short turnaround times	Higher aircraft utilisation
Highly incentivised workforce	Higher employee productivity



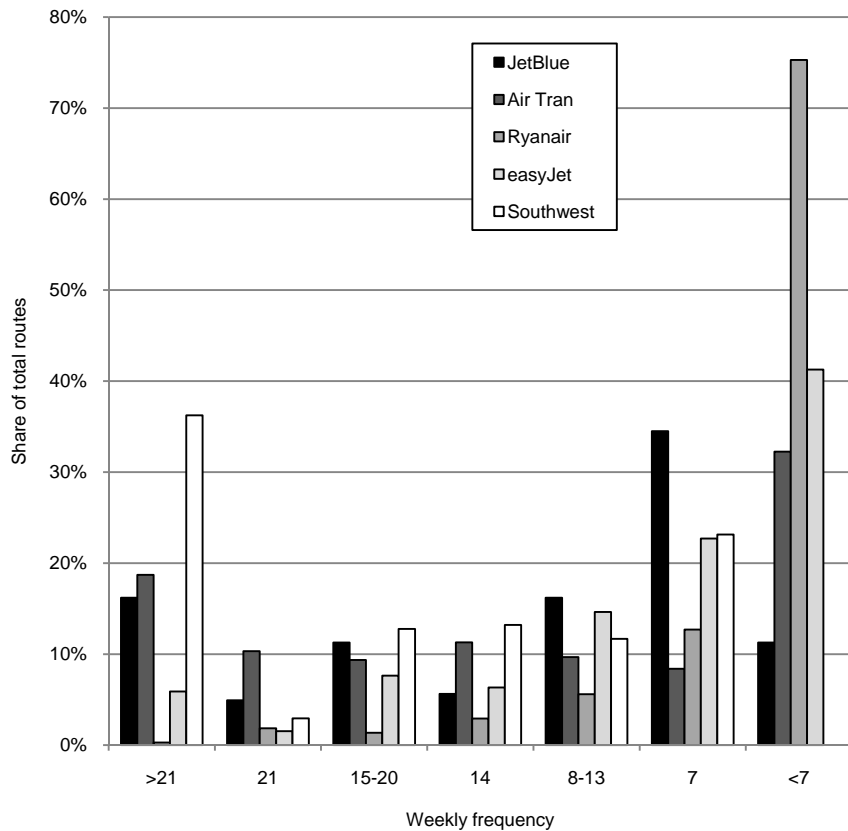
The feature of secondary airports



- The strongest contrast is between Ryanair and JetBlue/AirTran
- easyJet and Ryanair operate in the same market, but are different with regard to airport size
- easyJet better comparable with Southwest



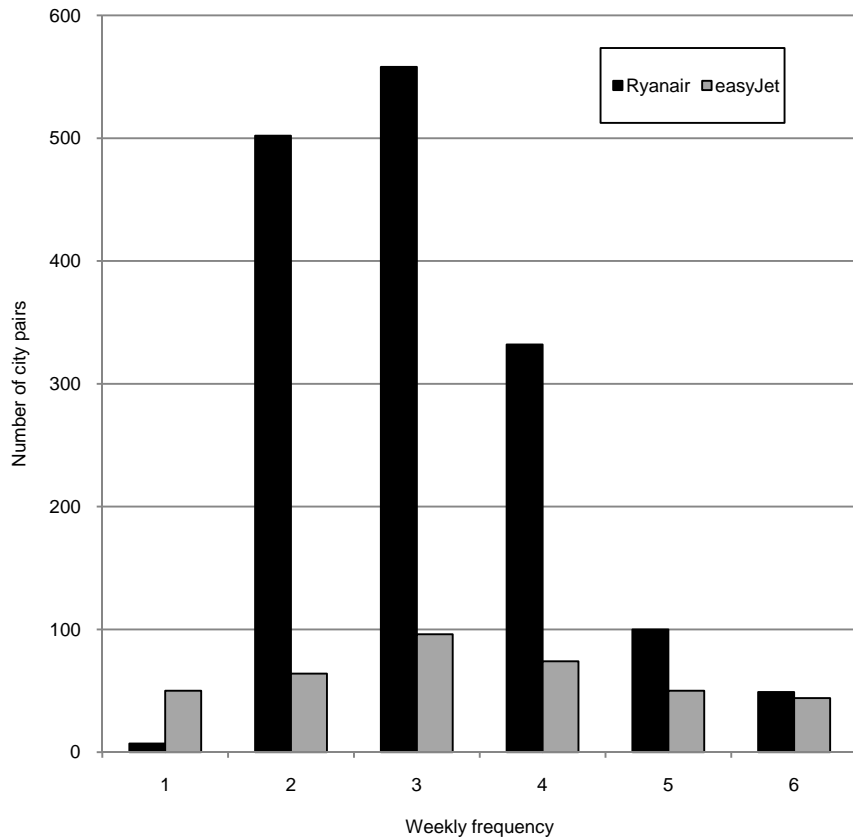
What about frequencies?



- Southwest does not operate less than one daily frequency per route; 35-40% of its routes served more than 3 times a day
- Ryanair operates less than a daily frequency on more than 75% of its routes
- easyJet follows with 40% of its routes
- Does this reflect a growth perspective in the European market or a growth limit?



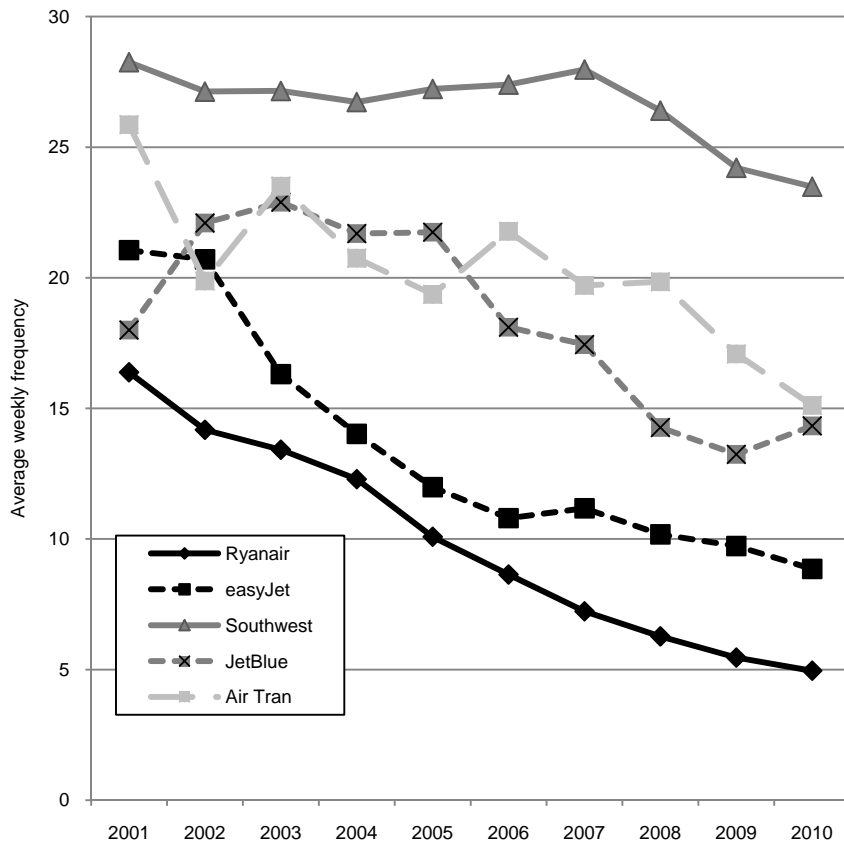
Frequencies in the lowest density markets of FR and U4



- Ryanair shows a substantial part of its network at 2, 3 or 4 frequencies a week



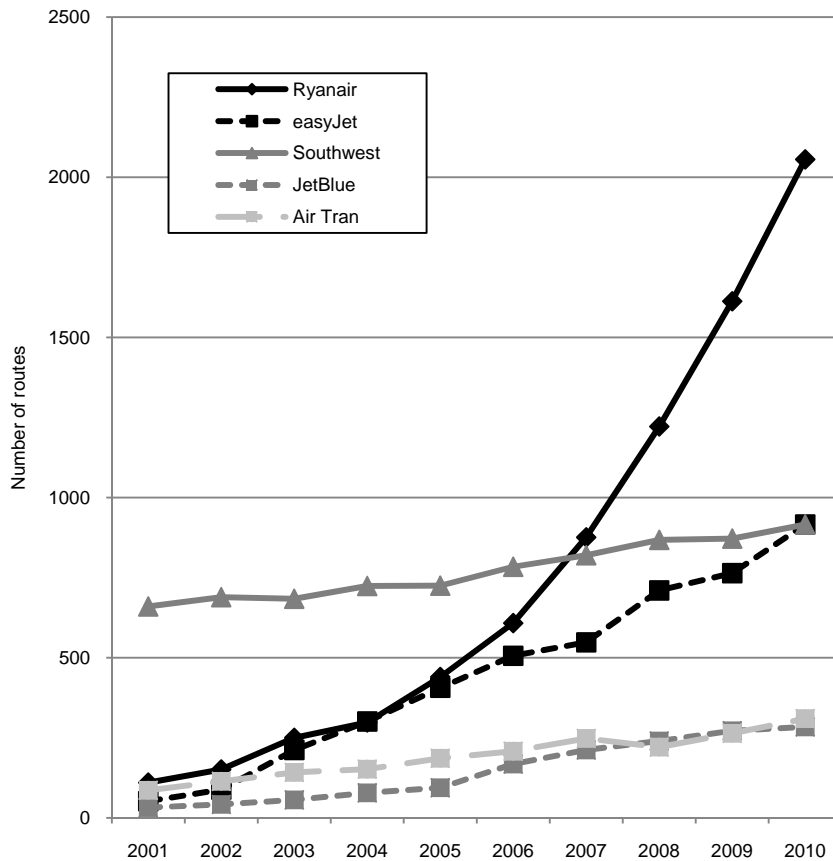
average frequency during the last decade



- It seems that the growth limit perspective is a little more likely in the European market:
 - A constant decrease in average frequency by adding more and more low density routes to the two European networks
 - Note that FR's network wide *average* weekly frequency has decreased to a level of 5 a week.
 - See also next slide



Dynamics in network expansion: one exception



- An ever increasing number of low density routes has been added to the FR network
- the FR network has reached now more than twice the size of the Southwest network
- easyJet operates a network of the same size as the SW one
- But the density of the SW network is much higher



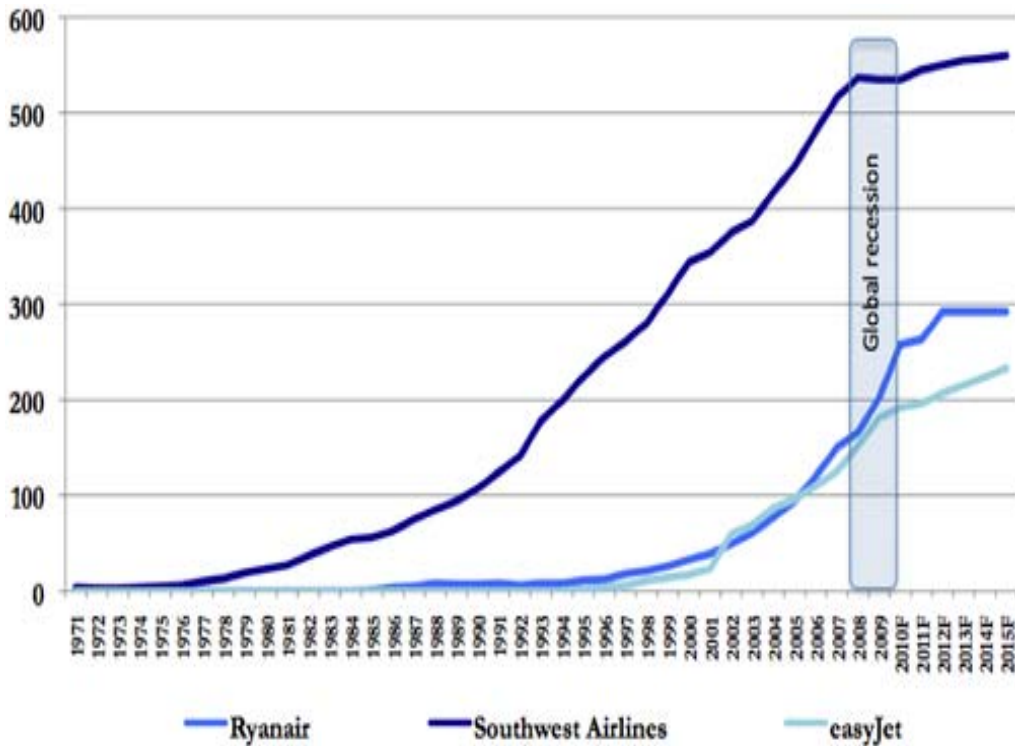
SW's well known secret: high frequencies enable connect services

Airport	Non local passengers on board	Share of non local passengers
Chicago Midway (MDW)	1,446,217	43.2%
Houston Hobby (HOU)	731,461	37.0%
Baltimore (BWI)	906,573	36.6%
Nashville (BNA)	422,578	35.8%
Dallas Love Field (DAL)	625,128	33.4%
Denver (DEN)	645,809	31.90%
Saint Louis (STL)	341,286	30.2%
Phoenix (PHX)	860,513	28.8%
Las Vegas (LAS)	1,060,372	27.9%
Kansas City (MCI)	211,382	20.9%
Total	7,251,319	33.2%

- Next step is the AirTran takeover by SW
- How to learn to run the ATL hub?
- What about fleet commonality?



CAPA indicates stagnating fleet expansion of the market leaders: SW 500+, FR 300-, U4 200+





easyJet shows symptoms of changing from volume growth to yield growth à la SW

CEO Carolyn McCall stated the carrier is targetting European network carriers as it seeks to increase its share of the business travel market and boost revenues, marking a significant change in strategy for the LCC.

“We do leisure and we do it really well. The business traveller proposition is another kind of product. It’s quite a different thing. For the first time ever, easyJet has two product propositions,” Ms McCall said.

The premium includes preferential boarding, free hold luggage and the ability to change aircraft just two hours before flight time.”

Will FR follow or will ancillary revenues make the difference?

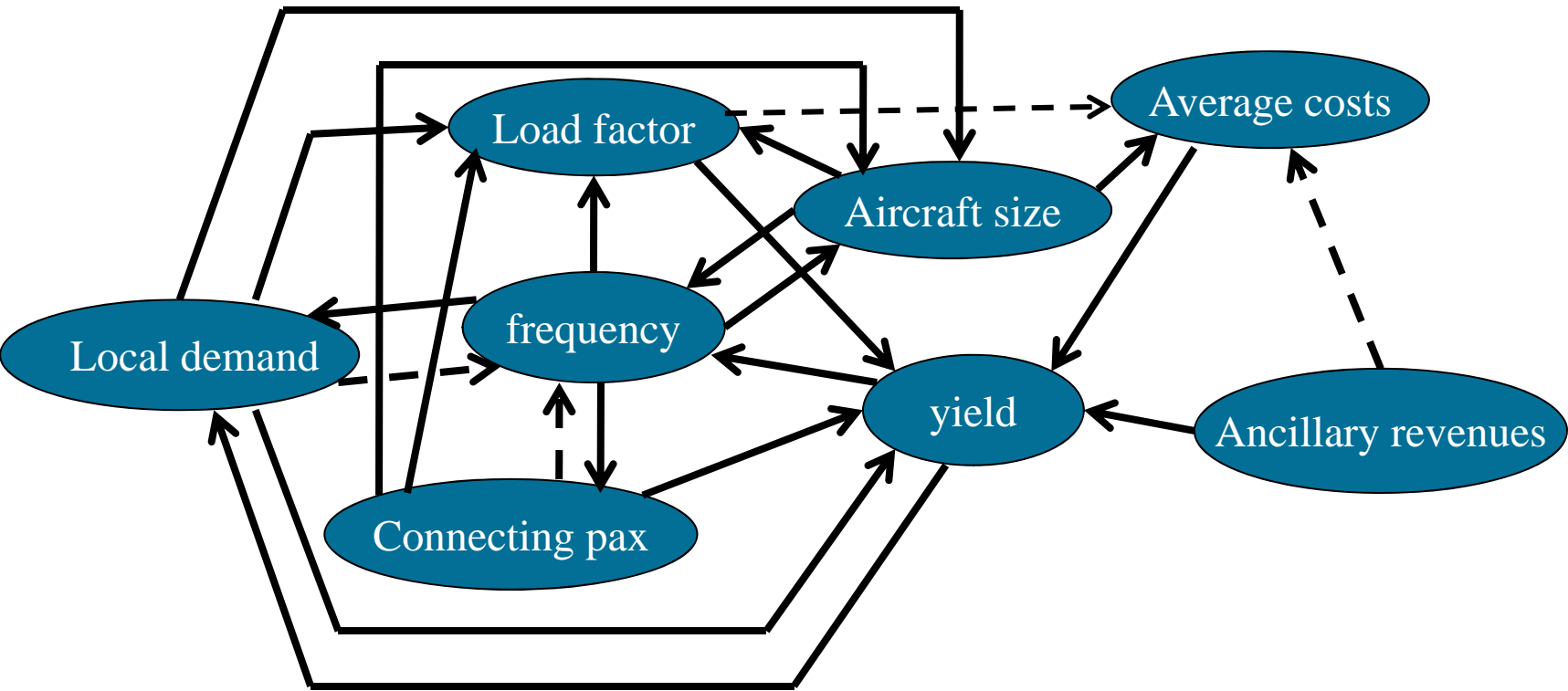


Some preliminary conclusions and questions

- Two major LCCs operate relatively large networks in terms of number of routes in Europe
- Especially the Ryanair network rapidly expanded in number of routes
- These networks are being served with decreasing weekly frequencies, especially FR
- This corresponds with the size of airports served by FR
- U4 seems to move to yield growth instead of volume growth
- Will FR follow to the upmarket segment?
- Can this migration be postponed through growing ancillary revenues?



The role of ancillary revenues in the LCC model





Some differences in the role of ancillary revenues

	Annual results 2009		Annual results 2008
Allegiant	29.2%	Allegiant	22.7%
Spirit	23.9%	Ryanair	19.3%
Ryanair	22.2%	easyJet	19.3%
easyJet	19.4%	Jet2.com	14.8%
Tiger Airways	19.4%	Vueling	14.1%
Jet2.com	18.1%	Aer Lingus	11.0%
Aer Lingus	14.4%	Aer Lingus	11.0%
Alaska Airlines	13.3%	JetBlue	10.3%
Flybe	13.2%	Flybe	9.8%
Air Asia	13.1%	SkyEurope	9.6%

- The exception SW: 'fees don't fly with us'
- Allegiant: the modern version of the classic touroperator
- Spirit Air: the enfant terrible in à la carte pricing

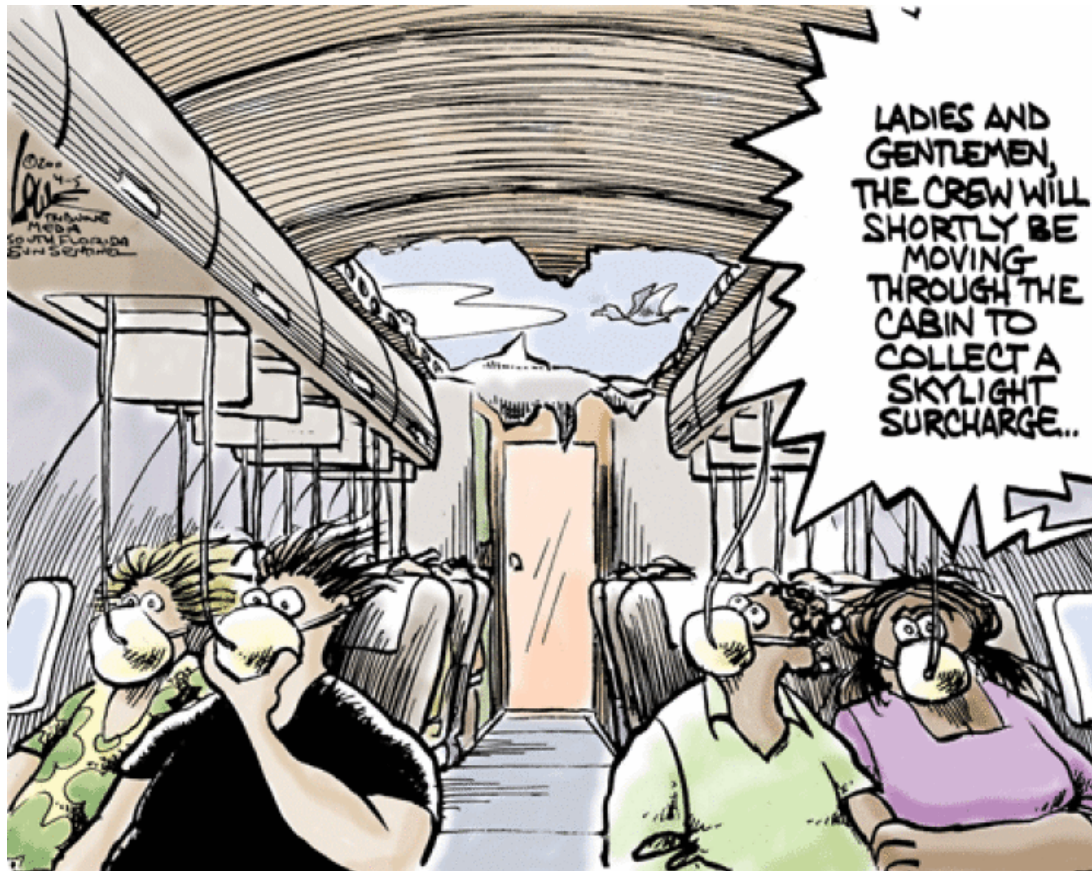


Never ending new perspectives on new fees? the carry-on bag fee

[Ben Baldanza](#)



But if fees don't fly with them, this can't be Southwest!





However, if.....

- LCC ancillary revenues level off,
- LCC volume growth is increasingly replaced by yield growth
- and FSC feeder systems are simplified
- then
- Further integration of LCCs in network alliances is not unlikely
 - JetBlue (Lufthansa: feeders or slots JFK?)
 - Air Berlin (oneWorld partner)
 - WestJet (Canadian feeder Skyteam)
 - Vueling feeder to Iberia
- The only question remains: who pays the cost of hubbing?



Thank you for attention!