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**Developing the Long Haul Low-Cost Model**

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**AirNeth Seminar  
The Future of Long Haul Low-Cost  
September 2007**

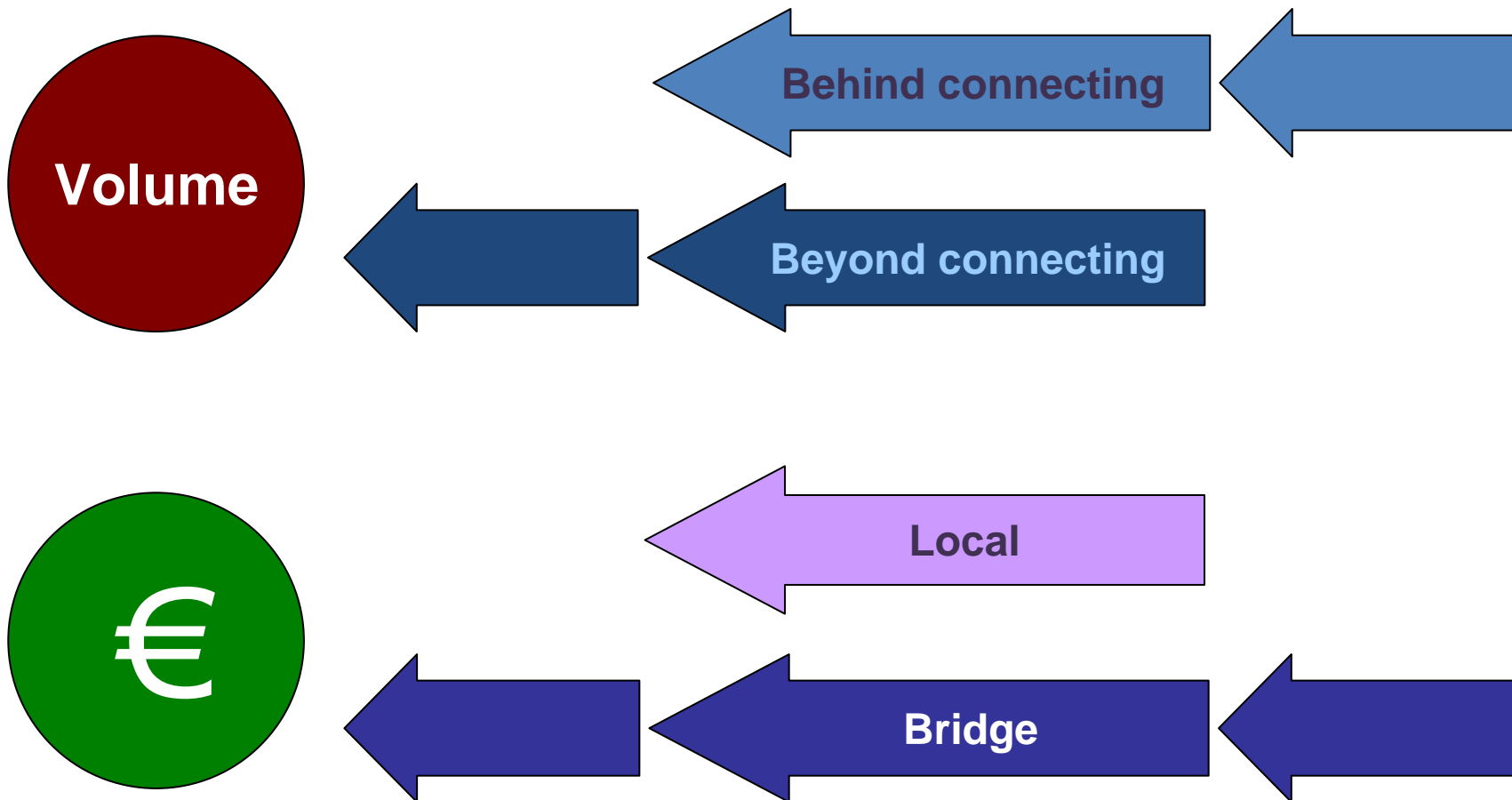
## Presentation Structure

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- Understanding conventional long haul
- Operating economics and characteristics
- Analysis of European market activity
- Developments in long haul low-cost
- Characteristics of selected long haul operators
  - Oasis Hong Kong, Eos, Maxjet, Silverjet, Viva Macau
  - Zoom
  - Tiger, Jetstar, Air Asia X
- Outlook for the sector
- Consumer benefit

## Understanding conventional long haul

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## Understanding conventional long haul

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- Low season economy class yields are very weak on point-to-point
  - US\$200 net-net round trip
- Prorated revenues for interline trips in economy can be poor
  - Price dumping in non-core markets reduces yields on long haul sector
- Strong hold on premium traffic in home markets is critical
  - Loyalty schemes and CVAs
- Operational economies of scale only possible with a significant route network
  - Fleet requirements for 10+ hour sectors
- Importance of B-end and feed traffic
  - Developing a global brand

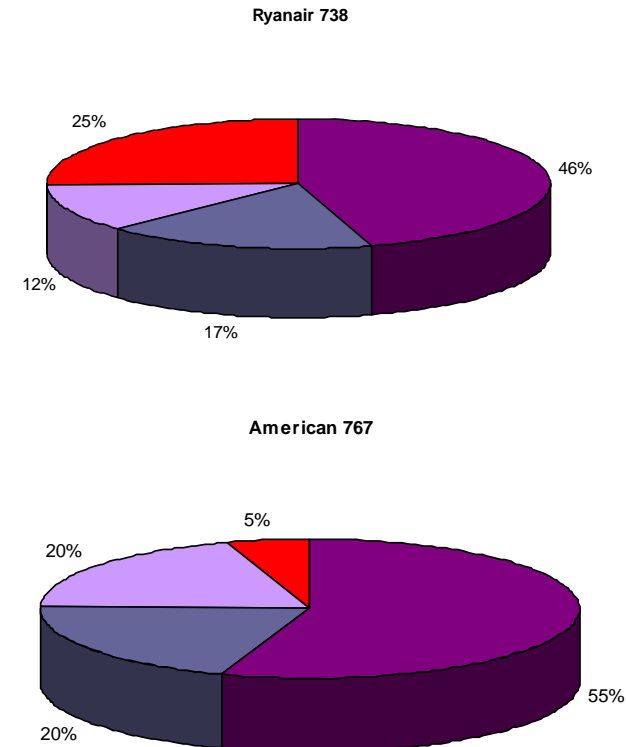
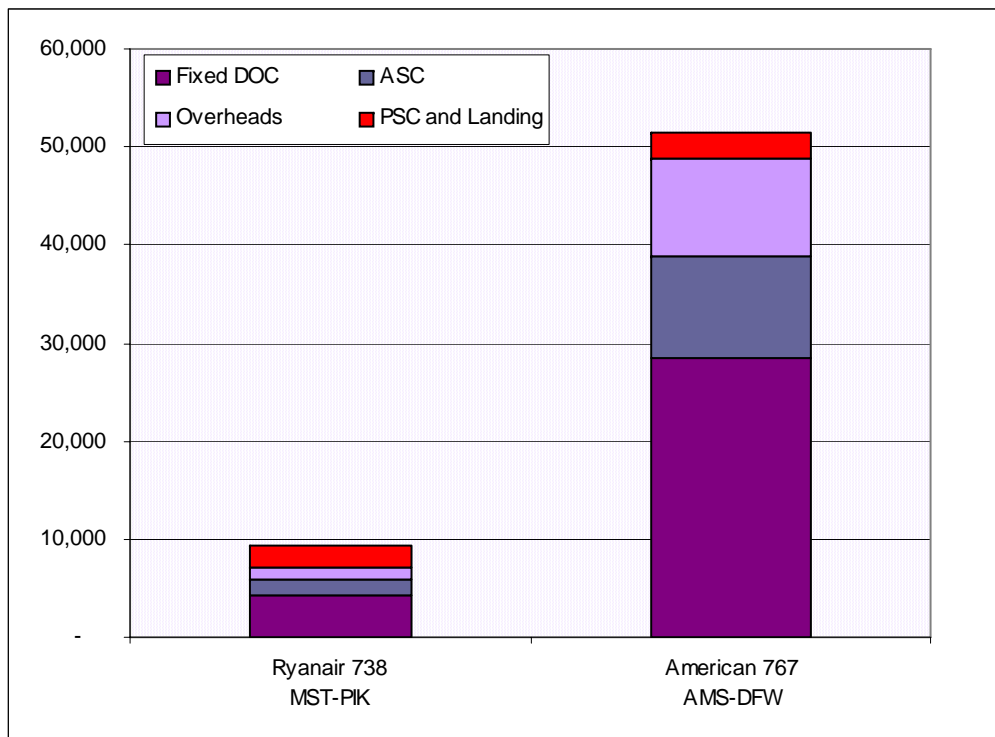
## Understanding conventional long haul

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- Route example: CDG-ORD, Air France B777-200ER
  - Breakeven 83.3% load factor at €353 one way net
  - Sector costs: €80k = 225 passengers @ €353

	Config	L/F	Pax	Ave Yield	Total Rev
Economy	202	91%	184	€ 131.69	€ 24,231.55
Business	56	66%	37	€ 1,244.57	€ 46,049.20
First	12	30%	4	€ 2,243.13	€ 8,972.50
<b>Total</b>	<b>270</b>	<b>83.3%</b>	<b>225</b>	<b>€352.24</b>	<b>€79,253.26</b>

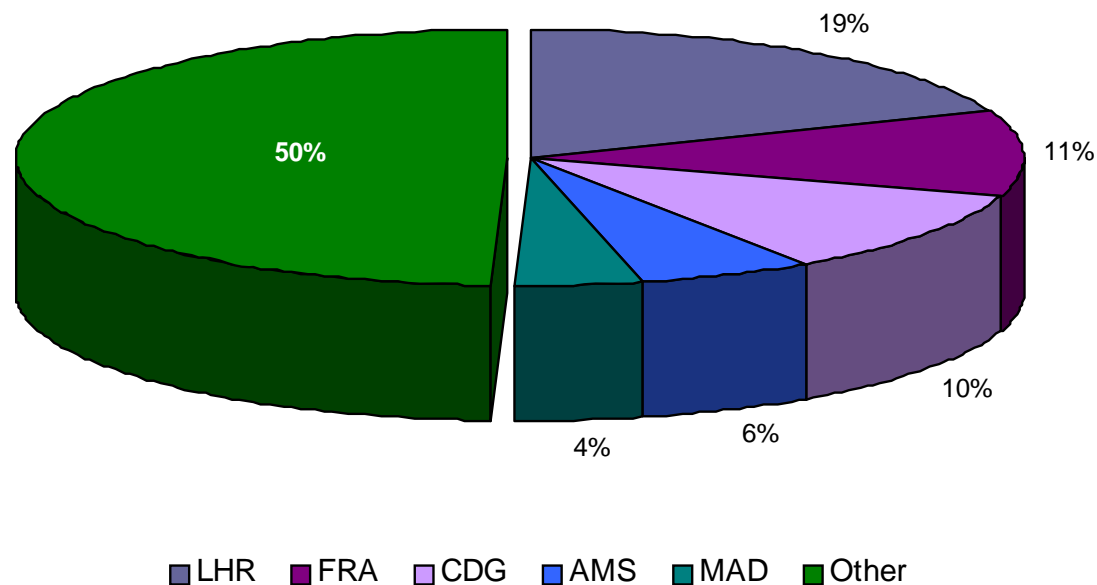
# Operating economics at full charges



Source: *route pro*, [www.airportcharges.com](http://www.airportcharges.com)

## Analysis of European market activity

- Five European hubs account for 50% of long haul seat capacity from Europe
  - Heathrow, Frankfurt, Paris CDG, Amsterdam, Madrid



## Analysis of European market activity

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- European long haul dominated by major alliance carriers
  - Heathrow, Frankfurt, Paris CDG, Amsterdam, Madrid
- Small-scale start of long haul low-cost
  - Small network
  - Low frequency
  - Niche markets
  - Several business models
- Increasing liberalisation
  - First movers?
  - Some talk from short haul LCCs of the long haul opportunity



## Developments in long haul low-cost

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- The main long haul low-cost operators can be categorised four ways:
  - Charter
    - **Oasis, Eos, Maxjet, SilverJet**
  - Pure long haul
    - **Zoom, Viva Macau**
  - Primarily long haul
    - **FlyGlobespan, Jetstar, Tiger, Air Asia X**
  - Network characteristics

## Developments in long haul low-cost

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- Total capacity from the study carriers equates to around 300,000 seats in August 2007:
  - Similar to long haul seat capacity from Brussels National
- Generally using older equipment
  - B767, B757, B747
- Start-up carriers yet to finalise long term fleet choice
- Network characteristic carriers more confident of future requirements
- Much interest in the sector over last three years but little concrete new development compared to short haul boom of early 00s

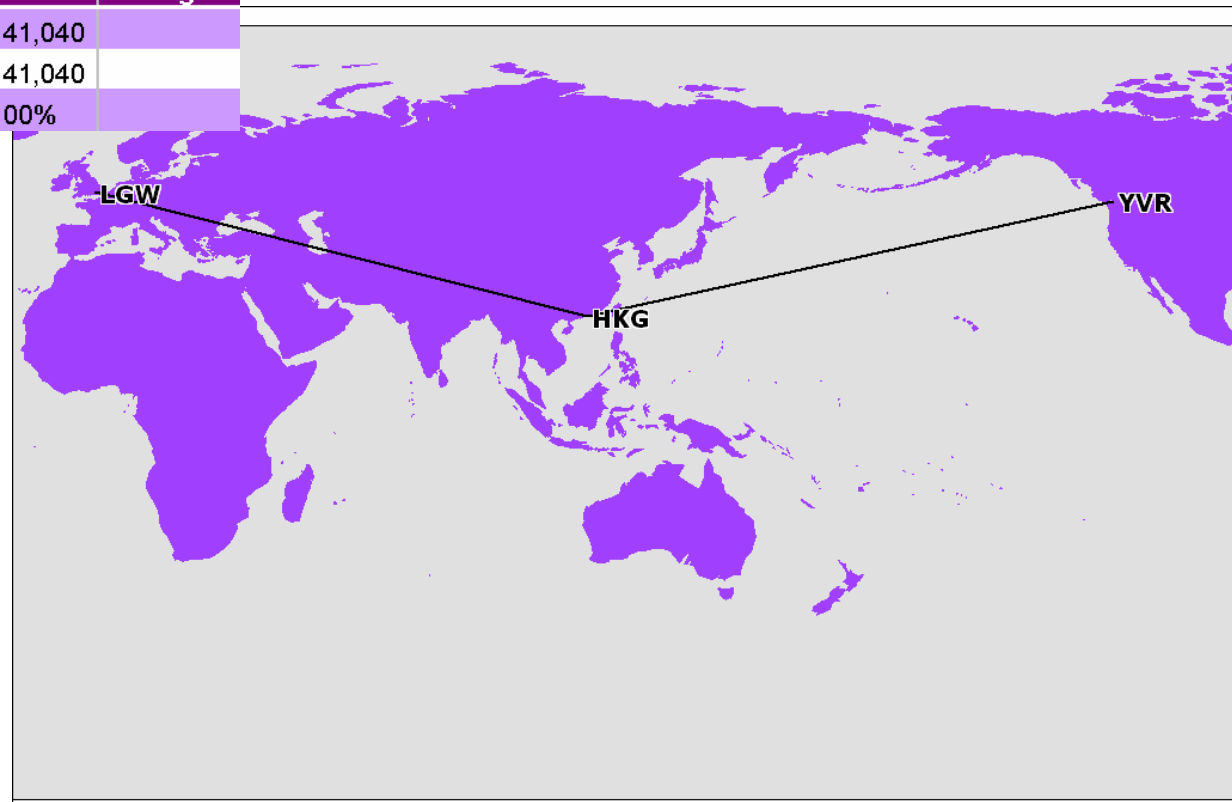
# Pure long haul

Began operations: Nov-06  
 Long haul fleet: B744 360 3 in fleet

**OASIS**HONGKONG

Productivity - August	2006	2007	Chg
Total seat capacity:	-	41,040	
Long haul seat capacity:	-	41,040	
% Long haul:		100%	

- Business: 81
- Economy: 278
- Est. load factor 60% (London)
- IPO planned for 2009



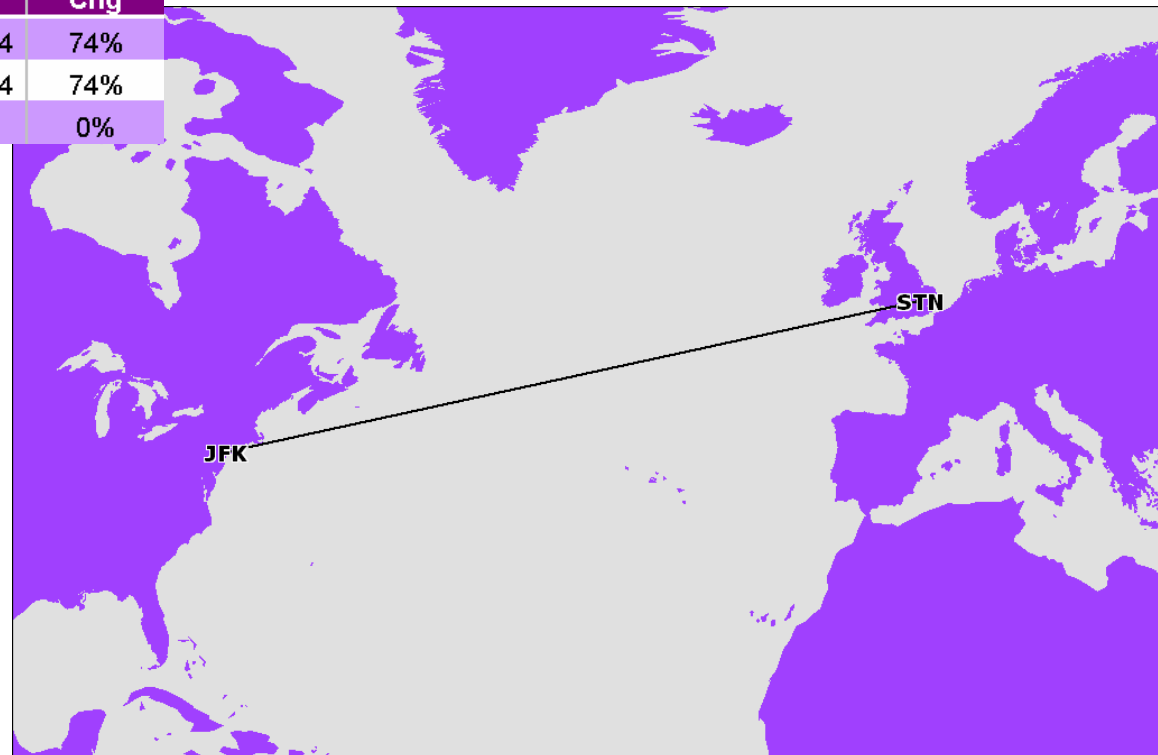
# Pure long haul

Began operations: Oct-05  
 Long haul fleet: B757-200 48 seats 4 in fleet



Productivity - August	2006	2007	Chg
Total seat capacity:	2,976	5,184	74%
Long haul seat capacity:	2,976	5,184	74%
% Long haul:	100%	100%	0%

- Business: 48
- Est. load factor 62% (London)
- Washington, Los Angeles and Boston in network expansion plans



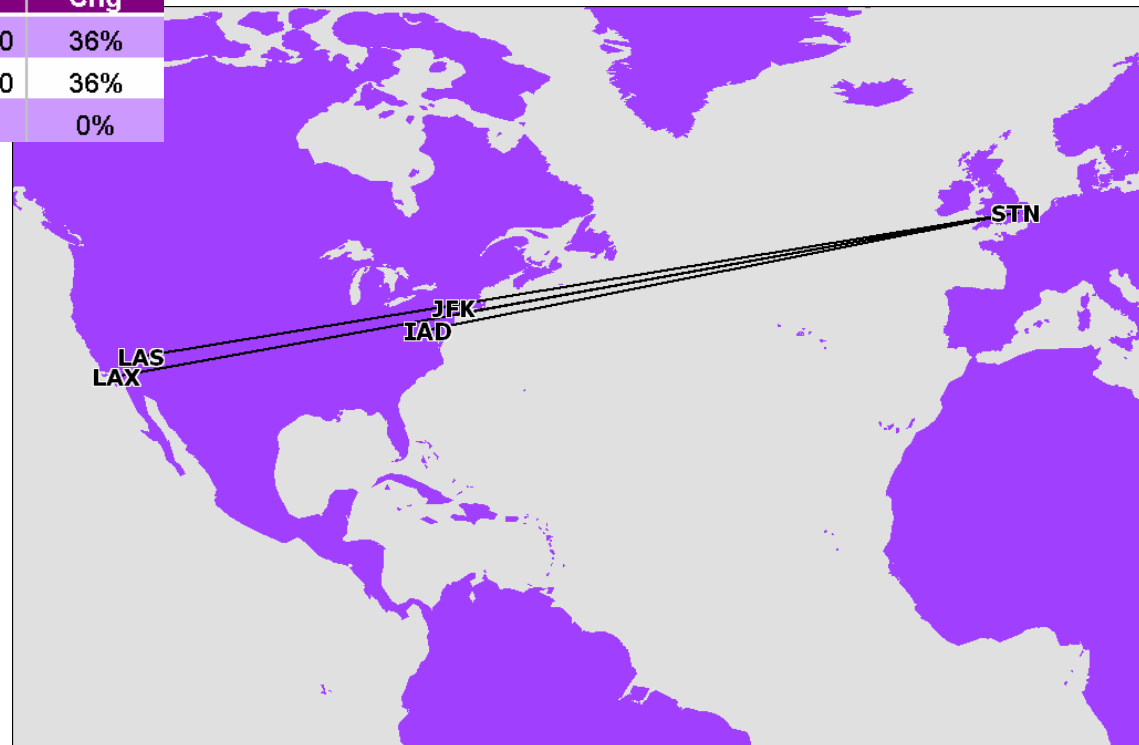
# Pure long haul

Began operations: Nov-05  
 Long haul fleet: B767-200 102 6 in fleet



Productivity - August	2006	2007	Chg
Total seat capacity:	8,976	12,240	36%
Long haul seat capacity:	8,976	12,240	36%
% Long haul:	100%	100%	0%

- Business: 102
- Est. load factor 62% (London)
- Ave fleet age 18.7 yrs
- Shanghai to Sea-Tac and London to Florida and California under evaluation



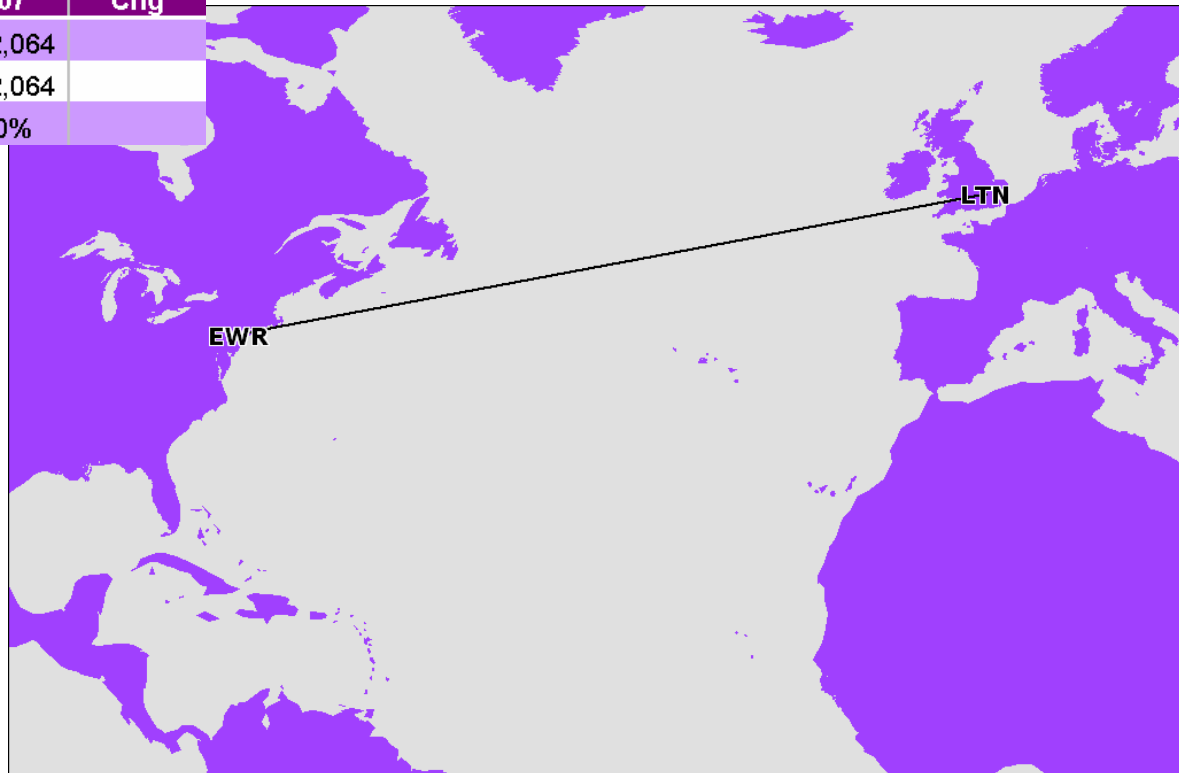
# Pure long haul

Began operations: Jan-07  
 Long haul fleet: B767-200 100 2 in fleet



Productivity - August	2006	2007	Chg
Total seat capacity:	-	12,064	
Long haul seat capacity:	-	12,064	
% Long haul:		100%	

- Business: 100
- Est. load factor 61% (London)
- Launched off the back of IPO
- “Carbon neutral”



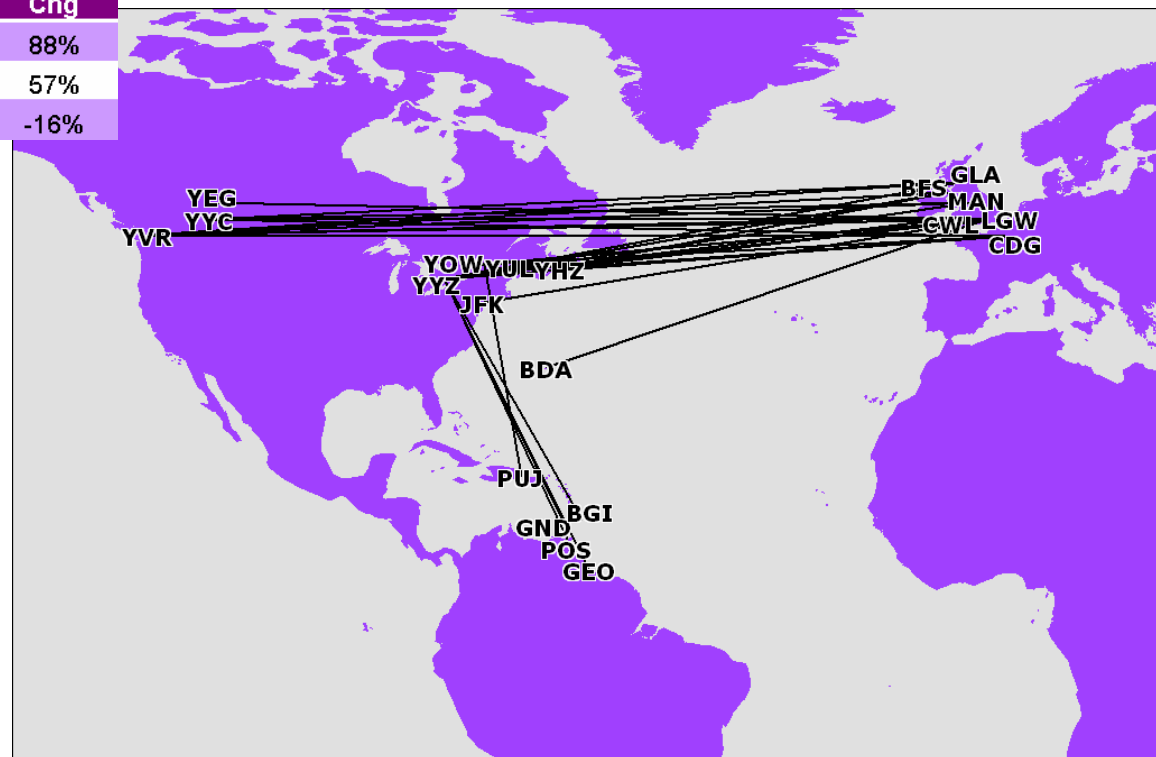
# Primarily long haul

Began operations: May-02  
 Long haul fleet: B767 268 5 in fleet  
 B757 201 1 in fleet



Productivity - August	2006	2007	Chg
Total seat capacity:	100,232	188,860	88%
Long haul seat capacity:	86,296	135,878	57%
% Long haul:	86%	72%	-16%

- Premium economy: 62
- Economy : 207
- Ave fleet age 14.1 yrs
- Hold Canadian and UK AOC
- Zoom Airlines Ltd (UK) part-financed by Bank of Scotland



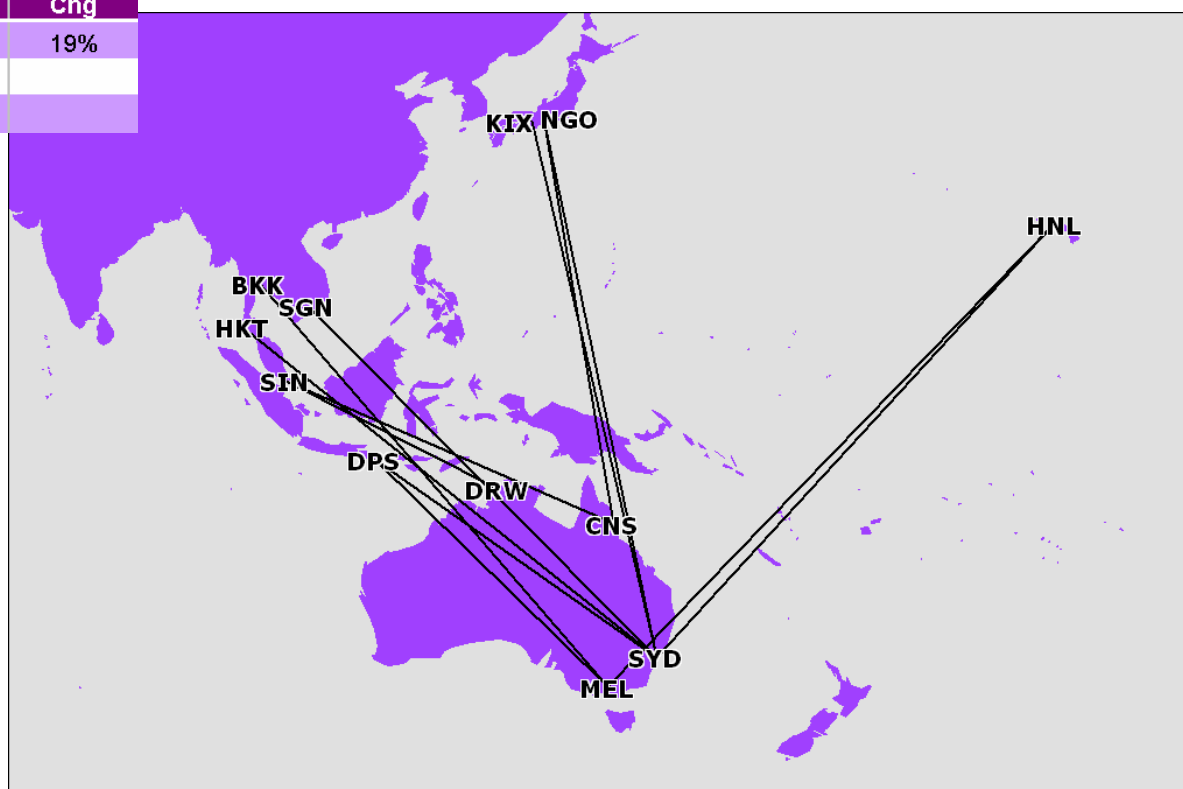
# Network characteristics

Began operations: Dec-04 (long haul)  
 Long haul fleet: A330 303 6 in fleet  
 B787 unknown 15 on order



Productivity - August	2006	2007	Chg
Total seat capacity:	886,914	1,053,156	19%
Long haul seat capacity:	-	114,060	
% Long haul:	0%	11%	

- Premium economy: 38
- Economy: 265
- Australia and Singapore AOCs
- Singapore venture 49% owned by QF
- Merged with Valuair in 2005
- Young fleet





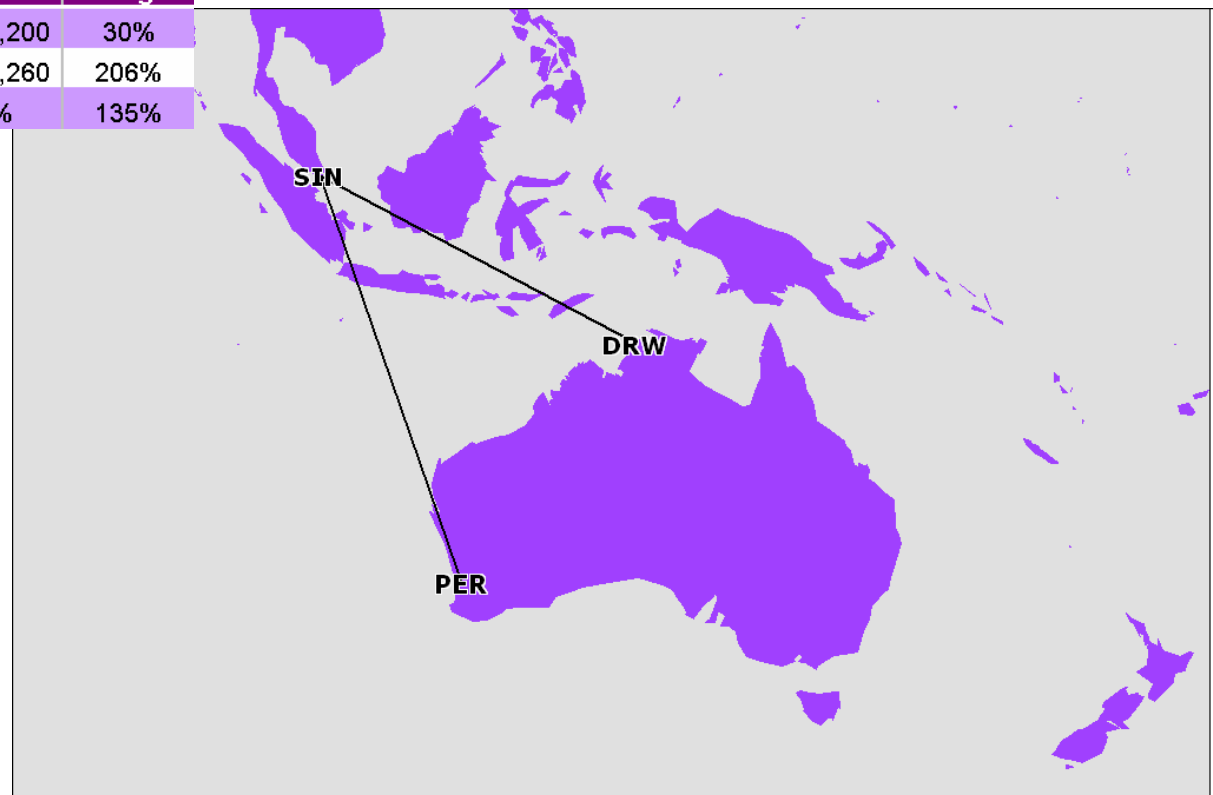
# Network characteristics

Began operations: Aug-04  
 Long haul fleet: A320 180 16 in fleet



Productivity - August	2006	2007	Chg
Total seat capacity:	157,860	205,200	30%
Long haul seat capacity:	6,300	19,260	206%
% Long haul:	4%	9%	135%

- Economy: 180
- Singapore and Australia (pending) AOCs
- SQ, Indigo and Ryan family major shareholders



# New entrants



Began operations: Dec-06  
 Long haul fleet: B767 270 2 in fleet

Productivity - August	2006	2007	Chg
Total seat capacity:	-	25,920	
Long haul seat capacity:	-	25,920	
% Long haul:		100%	

- Primary long haul
- Premium economy and economy class



- Primary long haul A330
- Economy class: 396

## Charter sector

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- Charter carriers under pressure in short haul core market
  - LCCs have added significant capacity to traditional holiday destinations
  - Charter model achieves high utilisation but at the expense of schedule
  - Some ‘frills’ still maintained
  - Less opportunity to add ancillary revenues from luggage, lounges
- Increased interest in long haul holidays
  - Capacity now flying into Far East, Caribbean, North and South America
  - Development of enhanced economy product
- Charter/scheduled crossover
  - FlyGlobespan, Air Transat

## Challenges to survival

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- Long haul costs lead to far greater financial requirement for start-up capital
  - Less likely that the similar numbers of long haul low-cost airlines will appear as have been seen in short haul
- Cash-burn can be quick if network not performing
  - Can be offset by profit potential
- Traffic rights likely to restrict growth opportunities
  - Use of single-sector bookings to get around need for sixth freedom traffic rights
- Vulnerability of small route network
  - As part of mixed network, prospects likely to improve
- Increasing burden of environment and security taxes

## Outlook for the sector

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- Niche opportunities will exist for premium model but a limited number of city pairs can justify this type of service
- SME and premium leisure sector offers further opportunity
- Development of long haul in conjunction with a solid short haul network may have higher chance of success
  - Brand position of some LCCs now very strong
  - Balance sheet would support expansion
  - Some feed potential with connections underwritten
- Long haul low-cost is here to stay but it looks unlikely to revolutionise travel in the same way as for short haul

**Peter Hind**

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