Summary - The main findings of the Long Haul Low Cost seminar

On the 18th of September 2007, Airneth organized a seminar concerning the feasibility and future of new low-cost business models. The purpose of the seminar was to find an answer to certain questions regarding the consequences for airlines, airports and policy makers. Here, we summarize the most important results. The presentations where to is referred in the text, can be found at http://www.airneth.com/activity.php?page=32 .

Is it operationally, commercially and network technically possible for low-cost airlines to start a long-haul operation?

Yes. A number of carriers does offer low-cost economy or business travel on the long haul: Oasis, Eos, MaxJet, JetStar, Silverjet, Zoom, Tiger Airways, Air Asia and Viva Macau [more info, see presentation *Peter Hind*]. The two criteria towards this category is that these airlines offer international scheduled services with flights during at least four hours en charge lower fares than their (legacy) competitors (like Air France, British Airways). These airlines offer point-to-point services between mainly secondary airports in large cities (for example: Hong Kong – London Gatwick by Oasis airlines). Research shows that these new players significantly charge lower fares. However, opportunities for low-cost on the long-haul are much more limited than on short-haul (see below). Although there is a future for long-haul low-cost, the shock will not be as heavy as with the short-haul low-cost carriers.

What are the limitations of long-haul low-cost in comparison to their short-haul colleagues?

Some key elements of the low-cost business model are difficult to translate to long-haul operations:

- Opportunities for cost reduction on long-haul limited [more info, see presentation *Nigel Dennis*]
- Fleet utilization on long-haul operations of legacy carriers is already high
- More efficient crew scheduling is difficult
- Potential for use of secondary airports is limited since many secondary airports lack sufficient runway length/facilities to accommodate long-haul aircraft.
- Airport costs are only small proportion of total costs on long-haul flights
- Some frills must be maintained on long-haul flights, such as minimum seat pitch
- Difficult to create fare advantage with all-economy long-haul flights. Legacy carriers offer long-haul economy class capacity in excess in order to materialize large aircraft unit costs advantages. Economy class tickets are dumped at low fares into the market in order to fill the excess capacity

[more info, see presentation *Christoph Brützel*]. More opportunities may exist to tap into the premium market. [more info, see *presentation John Wensveen*]

Furthermore, there are a number of obstacles for long-haul low-cost entry:

- Bilateral agreements still in force on many long-haul routes
- There are few dense intercontinental routes. Hence, hub-feed crucial to operate thinner long-haul routes But hub-feed undermines the pure low-cost business model.
- On long-haul markets it is more difficult to stimulate the number of trips by lowering fares than on short-haul due to passengers' availability of time.
- No diversion from surface modes possible as on short-haul.
- Far great financial requirement for start-up
- Cash-burn can be quick if the network is not performing

What are the opportunities for the long-haul low-cost carrier?

The long-haul low-cost model seems most promising for price specialists in pure leisure markets (visiting friends & relatives (VFR) markets) were frequencies can be kept at low levels. This works well were legacy carriers are not able to operate profitably or where excess demand can be stimulated by lower fares. Here, labour is an area in which costs might be reduced if the carrier locates in a low-cost of low-tax economy.

Furthermore, a niche opportunity will exist for the premium model, but a limited number of routes is able to support these kind of services. Such premium product specialists capitalize on the relative strength of legacy yields in premium cabins of long-haul flights.

New operators may eventually end up reinventing the traditional airline network model. They will have to break free from the pure low-cost model in order to feed their long-haul flights and offer a premium cabin class.

Online ticketing, the technological development of aircrafts and a large reduction of labor costs that can be achieved, are elements that are ready for adjustment. Also the increased long-haul activity from secondary airports and the increased propensity to fly by the leisure segment (especially the VFR segment) are opportunities to gain market share using this model. Because hub-airports get congested and new carriers have difficulties to obtain slots, they are forced to use other airports. Passengers of the leisure segment are less sensitive to frequency and do less care than business passengers when frills are reduced. A new long-haul low-cost entrant does not have to achieve a large impact on the market to be successful; they can already gain success by hurting the established legacy carriers on a certain route.

<u>Sources:</u>

Presentations of the speakers at the seminar:

Christoph Brützel - *Christoph Brützel Aviation Consulting*

Nigel Dennis - *University of Westminster*

Peter Hind - *rdc*

John Wensveen - *President & CEO of Airline Visions and co-founder of MAXjet Airways*

Master thesis: Van der Bruggen, J. (2007). Low-cost in for long-haul: new low-cost business model: the feasibility of long-haul low-cost. *Forthcoming*.