

## **Editor's comment from *Travel Markets* No. 16 – February 2004**

### **Growth in demand for low-fare/low-cost carriers continues to amaze**

Around 25 million Europeans chose low-fare, or no-frills, airlines for their trips abroad last year, according to IPK International's European Travel Monitor (ETM) – almost double the level reached in 2002. Meanwhile, trips using 'traditional' airlines – although still accounting for 83% of international airline-based trips by Europeans – fell by 8% in volume.

These trends are corroborated by research from the transport consulting group Airclaims, which shows that the share of low-fare/low-cost carrier (LCC) seats in Europe has more than tripled in three years – from 5% in 2000 to 16% in 2003. In 1998, Airclaims says, 150 city pairs were operated by the LCCs; today, the total is 900.

The UK is still the largest market for LCCs, partly because the British tend to fly more often, and partly because LCCs took off relatively early in the UK. In 2003 they accounted for about one-third of total demand for airline travel. But their shares in other European markets are rising fast. The ETM shows that 30-40% of all German air trips (and 15-20% of international trips) last year involved flights costing less than euro 100 – though that includes discounted fares of the traditional airlines as well as the LCCs' operations.

### **Changing traditional business models**

Clearly the trend, which is having a major impact on traditional distribution patterns and is forcing leading European tour operators to change their business models, will continue. The aggressive growth rates and consistent profits of leading LCCs like Ryanair and easyJet – while the rest of the airline industry has suffered three years of losses – are encouraging more and more upstarts to enter the market.

The accession to the European Union on 1 May of ten new members – eight of them countries from the former Eastern Europe – has stimulated the development of LCCs in a number of these countries, such as Sky Europe in Slovakia. Although based in Bratislava, the carrier aims to be a European airline and has hub operations from airports in the Czech Republic, Hungary, Croatia and, from May, Poland.

### **Watch for new LCC developments in Asia Pacific**

Across the Asia Pacific region, the LCC success stories – especially Virgin Blue in Australia and Air Asia in Malaysia – have rapidly achieved market shares of up to 30% in their specific markets and are embarking on international services. Six new LCCs, at least, will enter service in Asia in 2004 and the Civil Aviation Authority of China is expected to allow more than one LCC to enter the Chinese market this year. There is little doubt that, as in Europe and North America, the LCCs are helping to dynamise civil aviation in Asia.

The common wisdom – that LCCs are a 'pure' form, targeted at budget, leisure travellers – has now been disproved. In the USA, the low-cost pioneer Southwest Airlines – now the fourth-largest passenger carrier in the world – and relative newcomer jetBlue are predominately business airlines with a focus on the larger cities. Europe has a variety of operators, some almost

exclusively leisure-oriented and others, like easyJet, which deliberately pursue business traffic by concentrating on major city airports. In Asia, the greater tendency for LCCs to operate from hub airports naturally enhances their attractiveness for corporate travel. In fact, LCCs increasingly come in many shapes and sizes.

As Geneva has already done, some airports are now looking to allocate dedicated terminal facilities to LCC traffic. Singapore Changi is studying the feasibility of building a new dedicated terminal for LCCs. Senior Minister Lee Kuan Yew, whose opinions still carry great weight in Singapore, believes that Changi Airport and Singapore Airlines (SIA) will have to adapt to the rapidly changing aviation landscape. At stake is not just SIA, he says, but Singapore's future as an airline hub.

**Further growth will bring new problems, but the verdict is still positive**

There are of course limits to, and constraints on, the growth of LCC operations. Of most concern, perhaps, is the limited airport capacity in some parts of the world, coupled with increasing airport and airways congestion. Growth could also be slowed by a lack of suitable routes as demand on the most attractive routes reaches a natural ceiling.

But for the time being, at least, the boost to the travel and tourism industry by LCCs is undeniable. Demand for short-haul and short-break traffic has risen strongly, problems of seasonality in travel demand have been eased, and research suggests that travellers who feel they have got a bargain in terms of their airline fares are likely to spend more than they would have done at their destinations. So everyone stands to benefit.