LCCs face major changes

The Centre for Asia Pacific Aviation (CAPA) says that the global low cost airline movement has undergone a fundamental change of direction in the past two years, but the biggest shifts in the model are coming, according to its Global LCC Outlook report.

The Global LCC Outlook report, published today by The Centre and available for download at www.centreforaviation.com/lcc/report, covers over 130 LCCs from around the world, with commentary from some of the foremost thinkers on the LCC segment, including Professor Michael E. Levine, Professor Nawal Taneja, Bill Franke of Indigo Partners and Dr Julius Maldutis.

The report also extensively cites LCC leaders, including Gary Kelly, Ceo of Southwest Airlines, Dave Barger, Ceo of JetBlue Airways, Michael Cawley, Deputy Ceo and COO of Ryanair and Tony Fernandes, Ceo of AirAsia among others.

Peter Harbison, Executive Chairman of CAPA said that looking to the future, ‘in most of the more likely scenarios, yield will become increasingly attractive as a refuge for all but the lowest cost operators. ‘High fuel prices – the main threat – are the most likely catalyst of change in the short term. With the unlikely levels already experienced despite the global financial crisis, speculative activity is tipped to push prices even higher as the economy improves. Surges in price can be highly destabilising and one of the few risk management options that most low cost operators have to guard against this is to search for higher yields.

‘This and other uncontrollable externalities – both in cost and demand – will relentlessly force most low cost airlines towards reconstituting the network model, domestically and internationally’, he said.

‘NEW NETWORK VERSION’

According to the report, the new network version will differ in two main ways using unbundled pricing methodology and a new low cost mentality will pervade all phases of operations.

‘Perhaps the most marked example of this evolution is found in the AirAsia/AirAsia X short haul-long haul combination. It is early days to pronounce this a format which can be imitated everywhere, but it does have characteristics that point the way to building an international network system. Virgin Blue is following a more conventional, but still expansive, full service approach in its New World Airline model’, said Harbison.

‘Other, more tentative steps are being undertaken by carriers such as JetBlue, partnering and code sharing with Lufthansa, Southwest and others code sharing with foreign LCCs and going international. There is a common theme in much of this evolution, so a pattern develops.

‘In turn this drives suppliers such as GDSs and IT providers to explore new lower cost, stripped-down initiatives. Airports and airways’ systems feel the pressure to drive costs down and cooperate progressively in innovating – all of which supports the need to find more environmentally friendly ways of maintaining the global tourism and travel industry.

‘All of these centripetal forces offer probably an even greater threat to the full service flag carriers than has the short haul movement. The possibility to deliver a networked high quality long haul service at low cost – much easier to achieve when extrapolating from a low cost local base than by contracting from an existing full service global model – represents a serious challenge for the legacy carriers.

‘That will be the fiercest battlefront for the next decade, as input costs rise and yields recover’, concluded...
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Harbison.

The full report, can be downloaded free of charge at: http://www.centreforaviation.com/lcc/report