

English summary

This literature assignment has tried to answer several questions concerning the long-haul low-cost airline industry's potential. There were three main topics that should be included;

- Describe the four different airline business models; legacy, charter and low-cost in short and long-haul
- Draw the history of LCC on short-haul, determine their costs cutting factors and define their success
- Find out the history of LCC on long-haul, the current airlines operating, their business models, differences and similarities with the short-haul model and the potential of new improvements that could cut costs

For the first point, describing the different airline business models it was important to draw the market airlines are facing. The comparison of these different models showed many differences. Legacy airlines are mostly big companies who originated from former state companies. For years they had a monopoly for their specific country and local regulations minimized competition. This made them to large bureaucratic organizations without a strong focus on cost reduction. They provided the luxury of flying with high level of service, good connections and a strong reliable brand name. Later charters hired by big tour operators found their way to the market. These flights were holiday specific and provided cheap leisure destinations without the frills of legacy airlines. Within these two business models there was room for a mix of both, low-cost and no frills from the charter business model combined with the frequency of current legacy airlines.

The last decades the low-cost short-haul industry has taken a giant leap. Airlines like Southwest in the United States and Easyjet, Airberlin and Ryanair in Europe have grown to large and sustainable low-cost carriers. Low-cost airlines have cut costs by several measures; improving aircraft utilization, minimizing cabin crew, faster turnaround of aircraft, pay for frills (meals and drinks), no connections, smart use of internet bookings, lower wages, e-ticketing, use of secondary airports, one class of seating and more (see table 2.1). All of these cost factors have been evaluated on their usability and transferability on long-haul low-cost operations.

From the first attempt of Laker Airways in 1977 there have been several airlines who took a shot at long-haul low-cost routes. Many eventually failed due several different reasons. With the introduction of the internet and the success of short-haul low-cost operations, the long-haul variant draw new attention. Currently there are three operators namely Airberlin, Jetstar and AirAsia X. The report and research on this topic has showed that looking at these current airlines, there is definitely market potential for long-haul LCC airlines. Comparing the business models and expenses of these three, 4 major fields have been defined in which there is room for improvement. These fields are; aircraft utilization, fuel consumption, amount of cabin crew and their wages, and overhead costs. These potential improvements are a combination of current business differences of LCC on short and long-haul plus developments in equipment. Furthermore opportunities like implementing cargo on low-cost aviation can generate new revenue.

Several methods can improve aircraft utilization. One of them is improving the aircraft load factor. Currently all the airlines are close to a load factor of 80%. This can be increased to 90% or even higher but its complex because it requires good planning, reduces flexibility and can influence turnaround time. Another downside is that history has shown that the measures to improve the load factor are easily copied by other airlines so the advantage is minimal and temporary. More advantage can be made in finding an optimal aircraft configuration. As shown in chapter 4 and 6 the seat pitch and different classes are important factors in aircraft utilization. Comparing an Airbus A330 of Jetstar and KLM, a three class sett-up of KLM takes 20% less passengers only due to seating pitch. Another option is making the configuration as flexible as possible. This results in different configurations per route, travel purpose and seasonal demands. Developing a mathematical model predicting the ratio of business/leisure and wealth of passenger could determine the perfect configuration.

One of the major costs in flights are the fuel costs. On average 30-40% of the cost are accounted for fuel. To reduce these costs there are mainly two solutions. One is to increase the amount of passengers in the aircraft. This is however a trade-off as explained in the previous paragraph. Furthermore one has to take into account that more passengers, means more weight, so more fuel needed. The second and most favored option is the use of new, more efficient aircrafts like the Boeing 787 or the Airbus A380. As the table 6.2 and 6.3 shows these aircrafts can reduce 15% for B787 and 30% for A380 on fuel expenses compared to Jetstar's current operation.

Another substantial cost factor are the wages of the personnel (8-31%). According to the difference in GDP (see table 6.1) wages differ greatly around the world. Lower wages, means cheaper personnel so lower costs. As the GDP is also an indicator of a countries wealth and standards, cost can be reduced on the secondary needs like foreign overnight stays and meals. This could be interesting for airlines operating out of countries like India or China.

The final opportunity for reducing the costs is the amount of money spend on overhead cost. From comparing the different airlines in chapter 6 a large variation in expenses where shown. To learn more about this and apply it, more research needs to be done. The percentage of cost varies between 4-11% with AirAsia X spending only 3,93% on overhead cost. The relative difference of ruffly 7% indicates that there is room for improvement.

Apart from cutting costs, exploring new opportunities is another option. The transport of cargo is definitely such an opportunity. Current low-cost airlines have left this possibility aside due to it's complexity were legacy airlines have year of experience in transportation of cargo. With advanced and well implemented resource management (RM) cargo can generate significant revenue without compromising the turnaround time.

Overall this report has proven the potential for long-haul low-cost airline operations. The literature assignment has also shown that the business models of traditional airlines and low-costs have shifted towards each other. Therefore airlines in every segment try to differentiate and market their unique selling points. Combing this with the four potential cost cutting factors, the introduction of new aircrafts like B787, the development of secondary airports and seizing new opportunities, long-haul low-cost is ready to revolutionize the aircraft industry as the model already did on short-haul.