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A Study on The Future of Low Cost Carrier Business Model in International Air Transportation

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Abstract

It is seen that the low cost carrier business model in international air transport continues to increase its influence day by day, unlike other airline business models.

The purpose of this study is to analyse the international development process and the future situation of the low cost airline business model. This study aims to analyse the future situation by revealing the interaction of low cost carriers with other carrier business models and stakeholders.

Scope of this study; The concept of low cost carrier in international air transport, development process, interaction with other carrier business models, economic effects of spreading low cost carrier business model, sustainability and future forecasting situation are evaluated.

Keywords: Low Cost Carrier, Air Transportation, Business Model, Airline, Aviation

JEL Classification: L93, R12, R41

Uluslararası Hava Taşımacılığında Düşük Maliyetli Taşıyıcı İş Modelinin Geleceği Üzerine Bir Çalışma

Öz

Uluslararası hava taşımacılığında düşük maliyetli taşıyıcı iş modelinin diğer havayolu iş modellerinden farklı olarak her geçen gün etkisini artırmaya devam ettiği görülmektedir.

Bu çalışmanın amacı, düşük maliyetli havayolu iş modelinin uluslararası gelişim süreçlerini ve gelecekteki durumunu analiz etmektir. Bu çalışma ile düşük maliyetli taşıyıcıların diğer taşıyıcı iş modelleri ve paydaşlarla olan etkileşimini ortaya koyarak gelecekteki durumunun analiz edilmesi amaçlanmaktadır.

Çalışma kapsamında; uluslararası hava taşımacılığında düşük maliyetli taşıyıcı kavramı, gelişim süreci, diğer taşıyıcı iş modelleriyle olan etkileşimi, düşük maliyetli taşıyıcı iş modelinin yayılmasının ekonomik etkileri, sürdürülebilirliği ve gelecekteki öngörülebilir durumu değerlendirilmektedir.

Anahtar Kelimeler: Düşük Maliyetli Taşıyıcı, Hava Taşımacılığı, İş Modeli, Havayolu, Havacılık

JEL Sınıflandırması: L93, R12, R41

1. Introduction

Today, together with the progress of technology, significant developments have been recorded in the aviation industry as well as in all sectors. In recent years, with the introduction of the widely air tools air transport has shown even greater sense of progress. Increased competition depending on the development process, the search of new markets, to enter the industry of new air carriers, tax large amounts they have paid to the operator the airport of carriers using the airport terminals, rising fuel and staff costs, the authority restrictions and so on.

Depending on the increase in airline ticket prices, airline companies has led to different carriers seeking to enter the business models beyond the traditional air transport in order to provide a sustainable competitive advantage in the long term. Developments have prepared the ground for the emergence of low cost carrier business models and business model development as an alternative to conventional air carrier. Air transport has a delicate economic balance.

So much so that economic fluctuations and cannot be expected to remain indifferent to get competitive conjuncture. As a matter of fact, in this case Airlines require various policies and strategies in terms of sustainability necessitates the application. With the increase of in the market the competitive factor in today's business activities, various applications have been made to provide sustainability in this industry.

The flag carrier airline services preferred to enter the low cost transportation market by establishing subsidiaries beside the main carrier company in order not to sacrifice the service they offer and to live the loss of prestige.

2. Strategic Overview of the Low Cost Carrier Business Models

Companies are able to achieve competitive advantage and how it will continue is one of the basic strategic area issues.(Teece vd.,1997) Businesses domestic business activities are subject to equal working conditions for business activity and strategy inside anyone's priority is required for superior performance.(Porter,1980)

Strategy is a combination of the company's resources and capabilities as the product/service market is about choosing their activities.(Porter,1996) Overall corporate strategy can be offensive or vulnerable according to competitive power. (Prahalad and Hamel,1990; Barney,1991) Of course there are many precise strategies and which one of the best from each type depends on the circumstances determine.



Porter offers three general strategy to deliver an outstanding performance from its competitors in the long term: (1) cost leadership, (2) differentiation strategy, (3) focus on strategy. (Porter,1980)

There are also four basic business model separation in airline transportation. These include web carriers, low cost carriers, charter carriers and regional carriers. (Bieger and Agosti, 2005). Low-cost carriers on the basis of sustainability components when taken from the strategic point of view can be summarized as follows: (Chesbrough and Rosenbloom, 2002);

Table 1: Strategic Component of Low Cost Carriers

Strategic Components	Low Cost Airlines
(1)Value recommendation	Low-cost and simplified service delivery
(2)Market Segment	Cost-sensitive business or travel with other transportation modes alternative to passengers
(3)Value chain	Lowest price designed for activities appropriate to the cost effectiveness of presentation
(4)Revenue and profit structure	Low prices and lower costs, fragile and low profit margins. High side income ratio
(5)Location of value network	The use of secondary airports, price-sensitive passengers flown to contribute to the growth of the industry
(6)Competitive strategy	A unique business process that makes it possible to offer low-cost access to prices and product design

Low Cost Carriers, by applying cost focus strategy and mixed strategy, airlines can be created to try to keep costs under control to attempt and to minimize all items. In this context, the fee will be charged for all other services except the seat in the aircraft, the tax advantage by using secondary airports, to provide their own personnel location services is the question of the maintenance and operation costs by using a single type of aircraft to be tried to be minimized.



3. Development Process of the Low Cost Carrier Business Model

After the deregulation of air transport in the world that the then state-sponsored airline liberalization process as well as the private sector has increased competition to enter the market with the start and began to gain importance profitability accordingly. As one of the most important consequences of the liberalization policies have emerged and low-cost carriers has prepared the ground for the formation of a dynamic economy airline in this case.

It emerged in 1973 and then in 1978 South Western Pacific Southwest Airlines in America with the first low-cost carrier business model has begun to called together today largely succeeded. Southwest, the airline has opened a new era in transportation and has managed to gain a different perspective on the sector. Southwest has assumed the role model of the low-cost carrier in the transportation flag.

This model can be good competition also has managed to prove that, because just before the flag carriers and national companies while air transport market size, then the needle is completely reversed, and service providers We call the concept rather than consumer customers and passengers started to gain importance.

Low-cost carrier business model first, although the flag was rejected by carriers, though, agreed that after the low-cost carrier business model of a serious market share acquisition and the situation with maintaining the sustainability gained quite a serious structure. Low-cost carriers, so many that make up the cost item in the aircraft service just by removing the passenger seat rental they aims. (Routledge, 2006)

On the American continent at a time when low-cost transportation earlier start showing on the continent of Asia as the situation quite different according to America late in the year 2002 and Jal Express, Air Do and Skymark appeared when companies such as Citilink with low cost carrier in Japan has taken its place in the market. Martial devastating to an element of competition encountered from Asia, America and Europe are faced with the opposite situation, because it has a lot of respect for the importance of Asian culture.

After America, Ryanair started a low-cost carrier business model for air transport in Europe. This is the first airline companies strategically focused situation, sell tickets at a low price and it also has to be able to achieve by



reducing costs. only sell seats throughout the flight, the basic principle is to sell everything except wages it may be may come from customers or demand. The main objective is to keep the maximum air planes and then to ensure profitability.

Overall, low-cost carriers prefer to use secondary airports instead of using primary airports called central airports. This provides the advantage of lower airport tax payment while at the same time providing flexibility in determining ticket prices.

In this way the changes experienced on the continent of Asia, and has revealed a new phenomenon on the European continent. Anymore, rather than air transport only a certain revenue level began to appeal to almost every industry. Of course, this does not have an sufficient at first maturity in today's low-cost carriers, while market share has reached a remarkable level.

Especially when looking at Europe, Ryanair and Air Lingus carried between 1997 and 2003 that they have managed to increase the potential of too many passengers, and also have a global sense of competitiveness. With the together of fall in unit cost in the low wage competition they were able to crave out say somethings. Ryanair has provided in the Irish market to be one of the sharpest example of this business model.

While Ryanair had a capacity of 0.7 million passengers in 1991, Air Lingus has achieved 3.7 million passengers. In the early days, Air Lingus had 70% of the market in Dublin-London and Cork, and when it entered the Ryanair market, it managed to turn it in its favour (Barrett,1999).

1990 year until the beginning of the 2000s from Ryanair has managed to grow every year and on an annual basis, this rate has increased up to 30.5% in the year 2000. This company moving 40 million passengers in 2002, has managed to become the low-cost airline carrying the most passengers in Europe. In March 2004, 51 of the Boeing 737-800 series crowned this success. By the year 2016, Ryanair had become the largest passenger carrier in Europe, carrying 117 million passengers.

Low-cost carriers have some common characteristics. This situation is similar in Asia, Europe and America. First, by choosing to use a single type of aircraft models at a single kind of structure called aircraft fleet maintenance costs have lowered their rates, and reduce staff training costs. (Doganis,2001)

Secondly the point-to-point transport has been adopted. National carriers in hub and spoke model, using the so-called low-cost carriers collect deploy



such a situation is not in question. Point to point transportation is the biggest advantage to prevent the loss of time. In other modes of transportation, passengers can be missed their connections, which causes delays and loss of revenue. They also can provide short-time ground time in the airline field advantage in that they have to pay taxes for that use.(Calder,2002)

Third, the low-cost carriers do not deserve any trade union employees. Unionized employees have more rights than those of unionized employees and the obligation to observe a certain standardization of working hours creates extra costs for low-cost carriers. Accordingly, by employing low-cost carriers in the time zone they want their employees according to their operational intensity and time interval, are better protected from the restrictions will bring about the union.

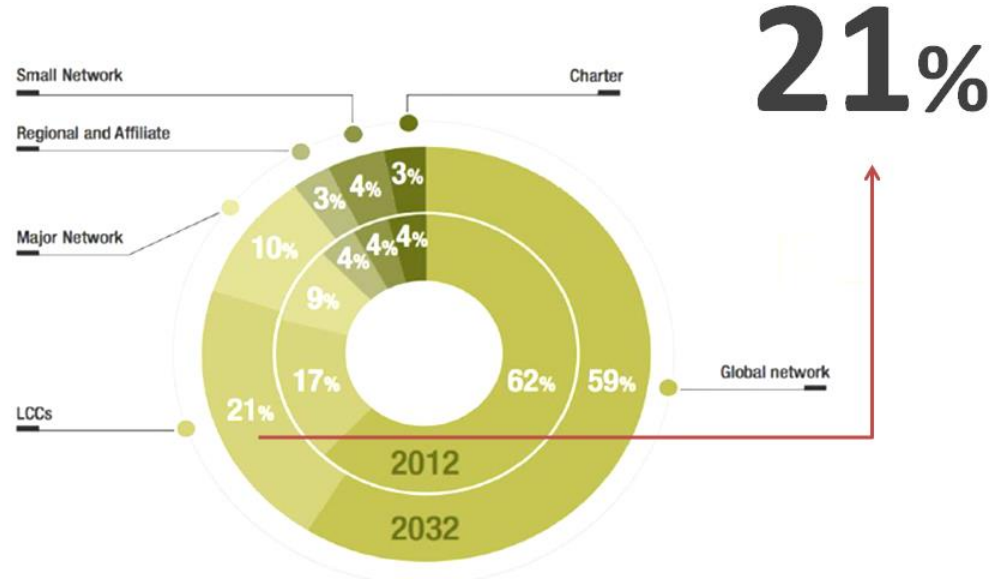
Low-cost carriers are the way to go shortening the distance between placing more seats into aircraft seats. Thereby increasing the amount of passenger occupancy rate is intended to be greater. Thus, profitability is achieved by increasing the amount of income per seat.

4. Low Cost Carrier Business Models of the Future Vision

Current developments in the air transport of the future shows will continue to develop low-cost carrier business model. In his market research business model based airline's Airbus (Airbus, 2013);

In the next 20 years perspective; (1) global scale airline of air transport will decline to 59% levels from 62% level of the total share of the market, (2) non-scheduled flights that, (3) small and (4) to change the 3-4% band of the market shares of the regional airline, (5) shares large airline would show an increase of 9-10% 1% level, (6) low cost carrier level of 17% to 21% of the total share of the market foresees increased.



Figure 1: Airline Based Business Model Change in Market Share

Source: Airbus Global Market Forecast,2013

According to the survey; low-cost carrier market shares of all other air carriers decreased in modes other than the business model of the future 20 years, the market share of low-cost carriers companies is expected to increase 5% base points.

The size of the air transport airline, implementation strategies, addressed the audience, activities, etc. of the display. such matters are also significantly affect the airline will use the aircraft during operations preferences. Low cost carriers operating / maintenance costs and reduce prefer to control more uniform and single-aisle aircraft.



Figure 2. Number of Aircraft Replacement According to Size



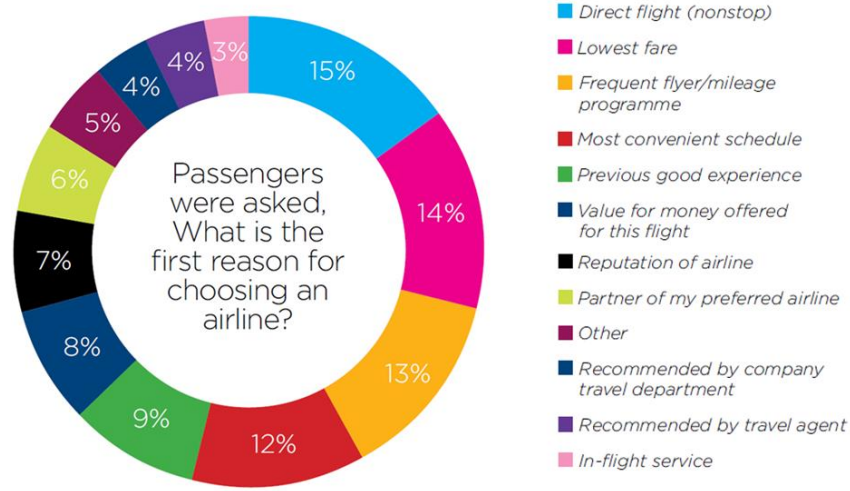
Source: Boeing Current Market Outlook,2015

Airlines Boeing aircraft types and numbers of market analysis that is needed by (Boeing, 2015); Airlines in 2014, according to data of the number of aircraft in their fleets, 21600 level, until the year 2034 foresee will come to the 43560 level. The fact that the demand for airplanes will be increased about 2 times in the perspective of the next 20 years is an important indicator of the major growth trend of the airline industry.

When analysed according to the type of aircraft the airline demands; 70% of single-aisle aircraft in the next 20 years, with a ratio shows will take an important place in the fleet of the airline. When the general operation of the low-cost carrier in the single-aisle aircraft believed to prefer a low cost of a significant portion of the demand for single-aisle passenger aircraft it will not be wrong to say that realization will occur by carriers.

Airline passengers increased competition in the transport market with the introduction of low cost carriers, service providers and demand rather than passengers has increased more foreground expectations. This process takes into account the expectations of airline passengers is clear that they contribute to the availability of choice and will capture a sustainable competitive advantage.



Figure 3: Priorities preferred airline passengers

Source: IATA Annual Report,2015

According to a survey conducted by IATA (IATA, 2015); Ranked first in the preferred airline passengers are from direct flights and low wages facilities. Low cost airline ability of flexibility on short-haul direct flights between points and low price policy of implementation provides further competitive advantage compared to other low-cost airline carrier business models. In this case, in the future, support will contribute to the increase and sustainability of the market share of the low-cost carrier.

5. Conclusion and Summary

Low Cost Carrier business model will continue to increase growth in the next 20 years as different from other traditional airlines. Rates advantage of the low cost airline companies, the ability to make direct flights between short distances, short ground time, the time of landing and take Simultaneously, the flexibility offered in flight, low maintenance costs, low airport taxes and so on. Issues such as low-cost carriers to economically compared to other traditional carrier model will provide more sustainable competitive advantage.

Low Cost carrier business model in the outside air carriers other traditional business models in market share in the coming periods pursuant to occur airline will decrease should take various policies and development strategies and actions.



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