

EU network carriers, low cost carriers and consumer behaviour: A Delphi study of future trends

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Abstract

This paper uses a Delphi panel of 26 air transport experts to forecast the structure of air transport in the EU in 2015 in respect of network carriers, low cost airlines and passenger behaviour. Secondary research was used to construct a number of scenarios about the future structure and strategy of EU network and low cost airlines and also traveller behaviour. Consensus of opinions was sought amongst the panel in a two-round process. The consensus opinion of the Delphi experts was that; network carrier consolidation will reduce EU players to less than five, there will be only two or three large low cost carriers, Business Class products will disappear on short hauls, and leisure travellers will take an increasing number of multiple short-duration holidays.

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1. Introduction

The purpose of this study is to identify future trends in the European air transport sector over 10–15 years. While a full [European Commission \(2005\)](#) study covered many aspects of *Aviation in the EU*, here we focus on EU network and low cost carriers (LCCs) and also changes in consumer demand for air transport. The paper uses published literature to examine and establish the current position with respect of network and LCCs and consumer demand. This analysis is then used to develop possible future market scenarios. The likelihood of these scenarios coming into reality was then examined using a two stage Delphi survey of aviation experts.

2. EU air transport in the first five years of the 21st century

The major part of the European airline industry was in difficulty before the traumatic events of 11 September 2001. A number of factors had started to impact adversely on the industry's financial fortunes from 2000. A slowing down in

key economies, such as those of Germany and Japan, as well as several more in Europe led to a slowing in traffic growth. The collapse of the dot.com boom undermined business confidence which in turn impacted the demand for business travel. At the same time in many long-haul markets overcapacity was becoming a serious problem. This overcapacity and the very rapid growth of low cost operators, especially in intra-European markets, were creating strong downward pressure on average fares and yields. Yet costs were rising. Between October 1998 and October 2000 fuel prices doubled, while labour costs were rising as new wage agreements were negotiated in the aftermath of the very profitable years of 1995–1999.

The events of September 2001 turned a growing crisis into disaster as traffic levels in many key markets collapsed, more especially on the North Atlantic. Sabena and Swissair filed for bankruptcy. Most of Europe's scheduled airlines posted large losses or severely diminished profits for 2001. Only the large LCCs, Ryanair and easyJet, bucked the trend by showing increased profits.

The invasion of Iraq early in 2003, followed by the SARS epidemic in the Far East, hit Middle East and Asian routes. But as traffic growth started to accelerate again in 2004, a new challenge, the rapid rise in fuel prices began to

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undermine airline profitability once more. Against this turbulent and unstable market environment since 2000 the financial performance of Europe’s airlines was varied.

3. Network airlines

The position of the top 10 EU airlines, in relation to their share of available seat kilometres (ASK) and departures within the EU in 2004, is illustrated in Table 1. Clearly, British Airways, Lufthansa and Air France are the principal carriers in the EU market. These three carriers are responsible for over half the ASK and over 40% of weekly flights operated by the EU network airlines. If KLM’s operation is added to that its owner, Air France, 61% of ASK and 47% of departures are performed by the top three carriers. The rest of EU airlines offer much smaller shares of capacity.

Fig. 1 illustrates the financial performance of EU airlines. It is of interest to note that EU airlines have always struggled to make any profits on intra-European routes, however, their operations on these routes have been

Table 1
Largest EU network airlines, by share of network airline ASK

Airline	% ASK (2004)	Accumulated %
British Airways	20.4	20.4
Lufthansa	17.8	38.2
Air France	14.9	53.1
KLM	7.6	60.7
Iberia	6.8	67.5
Alitalia	4.9	72.4
Virgin Atlantic	4.0	76.5
SAS	3.8	80.3
Swiss	2.8	83.0
Austrian	2.8	85.8

Source: OAG (2004).

vital to feed traffic onto their more profitable long-haul routes. The profitability of European operations is a major issue for all EU network carriers, especially in recent years when they have faced very tough competition from the LCCs. The profitability of long-haul routes has encouraged carriers to focus on these types of routes in order to improve profitability.

Fig. 2 illustrates the EU airlines intra-European RPK as a percentage of their operations. While carriers such as KLM, British Airways and Air France are less dependent on intra-European traffic, others such as Luxair and Air Malta have been mainly operating on intra-European routes. Clearly, this latter group of carriers are more exposed to the threat of low cost airline competition than others.

Analysis of EU operations by airline shows that while the largest carriers (measured by ASK) have increased capacity at a lower rate, and in some cases they have made cut-backs, the smaller operators have increased their capacity at a higher rate. For example, over the five year period, 1999–2004, British Airways, Lufthansa and Air France have increased their ASK by an average annual rate of 1%, 6% and 4%, respectively, while the number of departures have changed by –2%, 2% and 4% (OAG, 1999, 2004). Over the same period, Austrian and Spanair increased their ASK at an average rate of 14% and 9% each year and departures at a rate of 20% and 17%. It is noticeable that the large East European airlines, LOT, Malev and Czech have been adding flights at an average rate of 10–13% per year.

4. Low cost carriers

The low cost airline sector in Europe has grown dramatically since Ryanair first started operating as a LCC in 1991, and easyJet established in 1995. The 9/11 terrorist attacks acted as a catalyst for a dramatic change

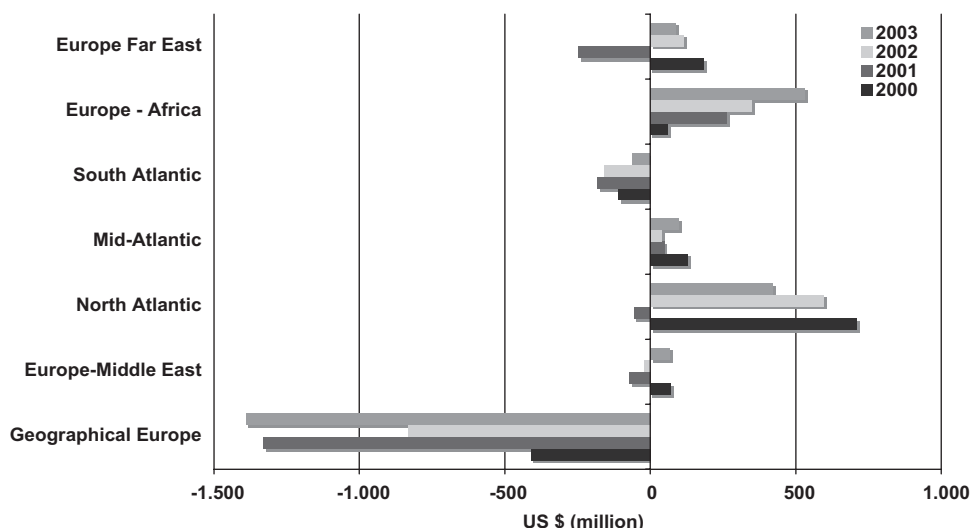


Fig. 1. European network carriers net profit by regions, 1999–2003. Source: Association of European Airlines (2004).

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