

Leisure travel in Europe and airline business models: A study of regional airports in Great Britain

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Abstract

Tourism and air transport are explicitly linked especially in the context of leisure traffic. This paper highlights this relationship by focusing on the impact of the three main airline business models (traditional scheduled, charter and low-cost) on regional airports using Britain as a case study. The panel data econometric results show that despite the current perception, low cost carriers are not the only ones to contribute significantly to airport aeronautical and non-aeronautical revenue. This observation has important policy implications and calls for transparency in airport subsidies as argued in the conclusion.

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1. Introduction

Tourism is a global phenomenon of major economic importance. It “comprises the activities of persons travelling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business and other purposes” (World Tourism Organization, 1994, p.5). The latter include activities such as visiting friends and relatives (VFR), health treatment and pilgrimage. The World Tourism Organization estimates that international tourism arrivals reached 760 million in 2004, an increase of about 10% compared to 2003 (World Tourism Organization, 2005). This is a very encouraging sign given the stagnation that prevailed over the previous years due to the 9/11 terrorist attacks, the war in Iraq and SARS. International tourism receipts were about €460 billion in 2003 (World Tourism Organization, 2004) and are expected to exhibit significant growth in the following years especially as China is gradually becoming a dominant player in terms of both inbound and outbound tourism. The Asian tsunami disaster is likely to have a negative impact in the short run, but the longer-term still looks very

promising especially when domestic tourism is also taken into consideration.

Air travel is intrinsically related to tourism mainly in terms of international flows, but also for domestic movements in larger countries. The tourism ratio (which shows the percentage of demand attributed to tourism over total industrial supply) of air transportation should exceed 90% (Smith, 1998). Even if we consider only leisure and VFR traffic, many destinations in the Mediterranean and the Caribbean region are still highly dependent on air transport. Leisure travellers have been traditionally regarded as time-rich, highly price sensitive people with preferences exhibiting a strong seasonal pattern peaking during holidays and festive periods of the year. Trips may last for one or two weeks usually with the family and involve both short- and long-haul destinations with in-flight service considered more important on the latter. The gradual emergence of the short-break trend, however, has created new peaks during weekends and is essentially associated with people who are better off but time constrained. Singles and people belonging to the double income no kids (DINK) family category are the typical representatives in this case. VFR tourists have similar attitudes to leisure travellers but are more likely to make last minute travel arrangements with limited flexibility,

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especially in urgency (e.g. attendance of a funeral). Expatriate communities established as a result of previous (South to North in the 1950s and 1960s) and current (East to West) immigration waves in Europe have enhanced VFR traffic; foreign students provide a further boost to such travelling.

Charter carriers were the primary air service provider of leisure travel in Europe until the early 1990s. The seasonal and/or occasional character of such flights matched well the pattern of leisure travellers. These airlines acted as the original low-cost ones by emphasising cost reduction: dense seat configuration and high passenger load factors allowed economies of density and low unit costs; irregular and sometimes inconvenient schedules plus the choice of somewhat secondary airports reduced airport fees; basic in-flight servicing cut operation expenses; and the explicit linkage with the travel distribution system in the context of an integrated tourist package led to very low publicity and distribution outlays. As a result of these low costs, charter carriers were able to offer low prices and satisfy the conscious leisure travellers. On the other hand, VFR traffic was a more active user of traditional scheduled carriers, as these fly throughout the year directly to major cities, where immigrants and students are likely to be based. Still, the relatively high cost of such air services discouraged frequent VFR travelling; in this context, charter carriers could offer a seasonal alternative.

The completion of the European air transport liberalisation in 1997 and the creation of a single aviation market had major implications for leisure and VFR travel (Papatheodorou, 2002). The abolition of any legal distinction between scheduled and charter carriers and the gradual emergence of low-cost carriers (LCC) as a third, robust player in the market were among the most important developments. Within a short period of time, LCC became leaders in cost reduction: they provided a basic quality service in a single class cabin of dense configuration; they flew to secondary airports and outsourced many activities to lower staff; and they instigated disintermediation by favouring the direct contact between the airline and the customer over the Internet. LCC also innovated by offering one-way tickets priced according to efficient yield management techniques, based on simplicity and very restricted conditions.

By the late 1990s, the differences in the airline business models have become clear: traditional scheduled carriers focused on service delivery offering a network-based product, which could serve well the business passenger and the affluent leisure and VFR clientele; LCC provided point-to-point flights of basic quality but priced so low that attracted many leisure and VFR travellers; whereas, charter carriers were sitting somewhere in-between with a rather uncertain future. This product differentiation framework, however, did not last for long as the dynamics of competition gave rise to osmotic phenomena: currently, it is becoming increasingly difficult to distinguish between the three types of carriers. For example, many European

traditional scheduled airlines such as British Airways, Lufthansa, SAS, Iberia and Aer Lingus engaged in a drastic cost-cutting exercise aiming to replicate many of the features of the LCC model, at least in short-haul flights. On the other hand, some LCC started upgrading their services; easyJet, for example, serves also primary airports (e.g. Paris Orly) and offers flexible tickets, while Jet Blue in the USA provides leather seats and a live satellite television programme. Charter carriers decided to radicalise their product according to the LCC prototype albeit in occasionally longer haul destinations. In some cases, charter carriers setup their own LCC affiliates as shown by the examples of My Travel Airways and My Travel Lite in Britain and Hapag Lloyd and Hapag Lloyd Express in Germany. As a result of this osmotic process and the acquisition of a new air travel culture based on knowledge and bargaining, a clear-cut customer segmentation is also difficult: illustratively, the results of the latest Barclaycard Business Travel Survey reveal that 70% of business travellers used LCC with satisfaction rates over 95% (Davies, 2005). Conversely, a recent report by the British Air Transport Users Council stressed the importance of considering the time of booking a flight as well as the “hidden” monetary and time transfer costs associated with secondary airports; interestingly, traditional scheduled carriers can occasionally offer a better-value-for-money than their low-cost counterparts (AUC, 2003).

Still, the various airline business models retain some differences regarding network structure and airport choice. In particular, the traditional scheduled airlines aim at adding value to the passenger by offering an extensive network based on own hub-and-spoke services and interlining agreements; its appeal is enhanced by airline participation in one of the three major strategic alliances (oneworld, Star Alliance and Sky Team) and the existence of sophisticated frequent flyer programmes. To deliver these network services, traditional carriers use primary airports with all necessary facilities. Regional airports play only a minor role in their business model as the majority of related services act as feeders to major hubs. On the other hand, LCC focus exclusively on basic point-to-point flights. This does not mean that LCC abstain completely from connecting traffic: the latter amounts to 30% of Southwest’s market, while in London Stansted Airport 14% of passengers engaged in do-it-yourself connections in 2003 (Mosner, 2005). However, LCC are not prepared to offer these extra services themselves to avoid complication and an increase in their cost base. They choose primarily secondary regional airports (Orly is one of the few exceptions) and benefit substantially from low airport charges and station costs. For example, Frankfurt Hahn costs Ryanair €4.25 per departing passenger and there is no landing fee; in contrast a B737 operator at Frankfurt Main pays €13 per departing passenger and a landing fee of about €1.75 (Button et al., 2002). In other words, the sustainable competitive advantage of LCC is mainly derived from the adoption of point-to-point services

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