

# “Hybrid” airlines – Generating value between low-cost and traditional

**Cristina STOENESCU**

*The Bucharest University of Economic Studies, Bucharest, Romania  
cris\_stoenescu@yahoo.ro*

**Camelia Monica GHEORGHE**

*Romanian-American University, Bucharest, Romania*

**Abstract.** *Over the last years, the rise of low-cost airlines has determined significant changes in the airline industry and has shaped the evolution of the existing business models. Low-cost airlines started by offering basic services at very low prices; traditional airlines responded by equally cutting costs and reinventing the services offered, with an orientation towards braking down the fare and implementing add-ons, in order to become cost-efficient. As traditional airlines developed strategies to become competitive in this new environment, low-cost airlines started focusing on new ways of enhancing passenger experience and attracting new market segments. As a result, the fragmentation of the market segments addressed by low cost carriers and traditional airlines became less obvious and the characteristics of both business models started to blend at all levels (airline operation, distribution channels, loyalty programs, fleet selection). Thus, this new competition became the foundation of the development of a new „hybrid” carrier, between the low-cost and the traditional models. This article investigates the characteristics of the newly created business model, both from a theoretical perspective and by analysing several case studies. A particular attention will be granted to the evolution of the Romanian carrier Blue Air towards the “hybrid” model. The article focuses on determining the position of the “hybrid” airline in a market with carriers situated along both sides of this business model: lower cost vs. “better” experience and raises the question on how value can be generated in this context. Another aspect tackled is the understanding of the new segmentation of the market, as a consequence of the development of the new business model. In order to achieve this purpose, a survey has been conducted, aiming to mark out the travel preferences of the passengers travelling through the Henri Coandă International Airport.*

**Keywords:** hybrid carrier, low cost airlines, traditional airlines, airline business model, airline industry.

## Introduction

The increasing competition within the industry led to the emergence of a new „hybrid” airline, with attributes combined from both LCCs (Low Cost Carriers) and FSCs (Full Service Carriers) models (Lawton and Solomko, 2005).

The deregulation of the airline industry has significantly changed the evolution of both airlines and airports business models. On one side, the deregulation of air traffic contributed to the development of the FSC business model, based on interline agreements and the „hub and spoke system”, which allowed lower fares, extended network and an increased capacity (Gillen, Morrison, 2003).

On the other side, another significant consequence of the liberalisation of air traffic was the emergence of LCCs, with different operating models based on low fares and „no frills”. LCCs became a powerful competitor for FSCs, although in the beginning,

they targeted different categories of passengers (Gabor, 2010). An important role in this process was played by the evolution of technology.

In this context, FSCs lowered the fares and started to implement some of the strategies used by LCCs. Some of them introduced their own low-cost subsidiary as part of their development strategy.

At the same time, LCCs discovered the potential of expanding their target market and added to their business model some of the attributes used by FSCs (frequent flyer programs -FFP, expanded network, inflight services, upgrades to business class).

Both FSCs and LCCs have started to lead the way to a new airline type, the „hybrid airline”, with characteristics from both models.

This article focuses on the attributes of this new airline model and the main objectives of the paper refer to:

- Determining the factors influencing the evolution towards the „hybrid” business model
- Identifying the different strategies implemented by airlines
- Determining the impact on passengers behaviour and their preferences
- Identifying the characteristics of the „ hybrid” airline model

In order to achieve the mentioned objectives, the research was conducted using the following methods: an analysis of the secondary data included in various scientific journals and publications; case studies; primary data collection through a survey applied to passengers travelling through OTP (Henri Coandă International Airport). The results of the survey were analysed in the last part of the article.

## **Literature review - Hybrid airlines – how did they develop and who is their target market?**

According to Vidovic, Stimac, Vince (2013), there are three different business models in the airline industry: FSCs, LCCs and charter airlines. During the last years, their characteristics started to blend and led to a new concept of „hybrid airlines”. In order to understand this evolution, it is necessary to differentiate the attributes of each business model and to comprehend their interaction.

The business model of FSCs focuses on operating a hub and spoke system through major airports and providing a full range of classes of services. Moreover, FSCs offer a wide range of products and a high level of customer service, since their image is associated with the country they usually represent as national airline (Vidovic, Stimac, Vince, 2013). FSCs are equipped with several aircraft models, as they have long-haul, regional and domestic flights, with a focus on their home country (Vidovic, Stimac, Vince, 2013).

On the other hand, LCCs use a younger homogenous medium sized fleet which means lower fuel, lower costs for maintenance and training (Vidovic, Stimac, Vince, 2013), one single class of service with higher density of seats (Vidovic, Stimac, Vince, 2013), „no frills” (Morrell, 2008), point to point network (Vidovic, Stimac, Vince, 2013), simpler means of fare differentiation by time of booking (Morrell, 2008), alternative marketing and distribution channels, avoiding intermediaries, lower input prices (Morrell, 2008).

**Table 1.** *Differences between FSCs and LCCs*

|                         | <b>FSCs</b>   | <b>LCCs</b>                             |
|-------------------------|---|---|
| <b>Fleet</b>            | Mixed   | Homogeneous medium sized fleet          |
| <b>Fleet use</b>        | Prolonged stops at airports                               | Short stops at airports                 |
| <b>Airports</b>         | Major/conventional  | Regional/Secondary                      |
| <b>Flights</b>          | Hub and Spoke   | Point to point                          |
| <b>Distribution</b>     | GDS, intermediaries                                       | Online                                  |
| <b>Network coverage</b> | Domestic, short/medium haul, long haul                    | Short Haul                              |
|                         | Interline agreements                                      | No                                      |
| <b>FFP</b>              | Network Alliances or own programs                         | No                                      |
| <b>Process design</b>   | Full service  | No frills                               |
|                         | Different classes of services (dilution of seat capacity) | Economy (high density of seats)         |
| <b>Fare</b>             | Large price range, different fares by customer/channel    | Fare differentiation by time of booking |

Source: Adapted after Sabre (2011), Gillen, Morrison (2003).

Another important characteristic of LCCs is the concentration of services at secondary/regional airports (Dobruszkes, Givoni, Vowles, 2017) with direct flights, bypassing major hubs. Through this strategy, airlines reduce costs and optimize their operations, dealing with less congestion than in major hubs. In this context, low-cost airlines can contribute to network deconcentrating and drive route development (Dobruszkes 2013; Suau-Sanchez and Burghouwt, 2011). According to Dobruszkes (2013), LCCs determined changes in the way people travel (Gabor, 2010), the geography of air services and the competition between regions or airlines.

Passengers' interest towards LCCs is reflected both by their interest in low fares and direct flights, as well as other benefits such as less congestion, confusion, long walking and waiting times than at hub airports (Barrett, 2004; De Wit, Zuidberg, 2012).

Hub-bypassing strategies of airlines, the economic growth of non-hub regions and the use of smaller size, efficient long -haul aircraft (Suau-Sanchez and Burghouwt, 2011) have determined the development of direct flights from non-hub airports, even for intercontinental services. Moreover, the possibility of implementing the low-cost model to the long-haul market is also been examined by researchers (Morrell, 2008).

Less congested regional airports and direct flights by-passing major hubs are two important elements which determined the successful development of low-cost airlines, especially in the context of regional economic growth.

Dobruszkes (2013) also shows that, besides metropolitan areas, LCCs 'over-serve' sub-central areas (post-industrial areas), which represents an advantage for the local community.

At the same time, evidence suggests that, while most of the LCC use secondary airports, some of them started to focus on conventional major airports and main tourist destinations (Dobruszkes, 2013; Dobruszkes, Givoni, Vowles, 2017). Moreover, according to Dobruszkes (2013) and Tchouamou, Niemeier (2011), several large and medium-sized airports increased investments in low cost terminals, in order to attract LCCs. As an example, RyanAir, the leading European LCC has increased the number of primary airports served in Europe, focusing on attracting business travellers (De Witt, Zuidberg, 2015).

According to De Wit and Zuidberg (2012), the presence of LCCs at hub airports can determine a connect system between LCCs and FSCs, or even codeshare agreements such as those between WestJet and Air France-KLM, JetBlue and Lufthansa, Vueling and Iberia, the next step being to add baggage transferring on connecting flights.

Although initially, LCCs were addressing a specific market not properly supported before (Olipra, 2012) and were perceived as „market makers” instead of „market takers” (Gillen, Morrison, 2003), their development also included taking market share from incumbent airlines “CAA, 2005 (in Morrell, 2008)”. According to De Wit and Zuidberg (2012), LCCs engaged passengers from both full service carriers and other transport modes, by offering lower fares.

Nowadays, low-cost airlines are targeting all segments and categories of passengers, from young globe-trotters (Shaw and Thomas, 2006), to business travellers “Mason, 2000; Huse and Evangelho, 2007; Graham and Shaw, 2008 (in Dobruszkes, 2013)”. Still, passenger’s expectations differ from one category to another (Martinez-Garcia and Royo-Vela, 2010).

In this context, LCC started to focus on addressing these expectations, by providing flexibility in terms of ticket sales and priority boarding for business travellers, by extending their network through interline agreements (Halpern, Graham, Dennis, 2016) and upgrading their products (De Wit, Zuitberg, 2015).

On the other side, the expansion of LCCs determined changes in the strategies adopted by FSCs, which started to focus on reducing fares. Some of the strategies used were inspired by the low-cost airline business model (simplifying the fare, adding ancillary revenue, online distribution). Moreover, some airlines created their own low-cost subsidiary.

As a consequence and also, following the emergence of this new form of branding „loyalty to the lowest price” (Gillen, Morrison, 2003), LCCs started to further focus on a new strategy, based on differentiation, which led to the new „hybrid” concept.

In this context, as the sector evolved, different LCC business models were identified (Halpern, Graham, Dennis, 2016; and Dobruszkes, 2013). Taking into consideration the network development, Dobruszkes (2006) identifies the following business models in Europe:

- Small networks with many exclusivities (Intersky);
- Broad networks with many exclusivities (Ryanair);
- Small networks imitating charters (Windjet);
- Broad networks imitating charters (EasyJet).

Another classification reveals five types of LCCs derived from the original model “Francis, Humphreys, Ison and Aicken, 2006 (in Diaconu, 2012 and in Gabor, 2010)”:

- Southwest copy-cats (direct services, single type of aircraft, quick turnarounds, use of secondary or main airports);
- Subsidiaries (set up by FSCs in order to gain share of the low-fare sector);
- Cost cutters (FSCs attempting to cut their costs under the pressure of LCC);
- Diversified charter carriers (charter carriers’ low cost);
- State subsidized competing on price (state ownership or subsidy with the purpose to develop tourism or promote a hub).

Some low-cost airlines choose to mainly operate from majors airport hubs (Easy Jet) and offer connecting flights (Germanwings, Air Asia), implement Computer Reservation Systems (Vidovic, Stimac, Vince, 2013) (Easy Jet, Germanwings), introduce FFPs (Germanwings, Wizzair), offer full service level on board (Air Berlin) and differentiated fare packages (Norwegian, Germanwings).

Norwegian operates transatlantic flights to US and the Caribbean, connects Europe to Asia, has a FFP and offers the possibility to Upgrade to Premium. Wow Air is another LCC operating transatlantic flights using Reykjavik as main hub. The airline has a mixed fleet, offers different packages of service and partners with tourism

organizations giving passengers the possibility to book online hotels or tours. Moreover, Wow air introduced „Wow Stopover in Iceland”, program allowing transatlantic transfer passenger to spend a few days in Iceland without additional fees.

Blue Air is a Romanian LCC operating on 51 airports, most of them regional, but also main European hubs and secondary airports. Starting 2015, Blue Air introduced free airport check-in for all flights and routes and free hot meals for all passengers on flights to Spain. Moreover, as part of its development strategy, Blue Air signed a contract with Amadeus, allowing the airline to have a new distribution channel, via full e-ticketing. Blue Air also has an extended interline agreement with Hahn Air, which allows the airline to become an interline partner with over 250 other airlines.

Regarding the geographical coverage of its network, besides operating flights between Romanian airports and airports in Europe, Blue Air managed to have an important impact on the domestic market. By introducing internal flights at low fares, the airline stimulated the domestic air traffic, monopolized previously by TAROM. Moreover, by operating flights between regional airports, by-passing the OTP hub (Oradea-Constanta, Oradea-Iasi), its evolution is expected to have a significant impact on the development of regional airports, the tourism industry and the regional economic growth.

According to “Klophaus, Conrady & Fichert, 2007 (in Tomova and Ramajova, 2013)”, the following carrier models can be identified:

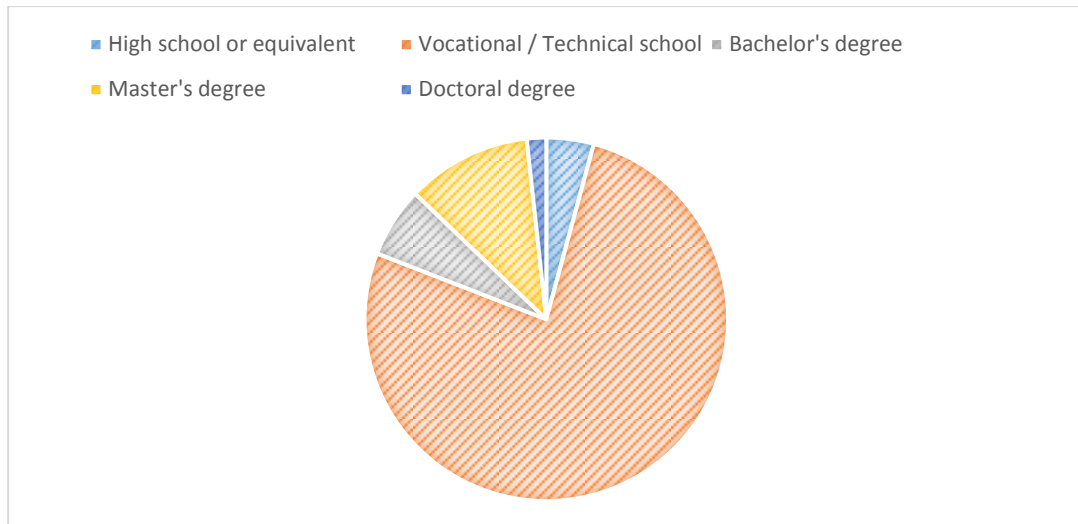
- pure low-cost carrier model (Ryanair, Wizz Air);
- hybrid carriers with dominating low-cost elements (Easyjet, Vueling);
- hybrid carriers with dominating FSC business model elements (Germanwings, Norwegian);
- traditional full service carrier business concept (Air Berlin);

## Research Methodology

In order to support the secondary data and understand travellers' flight preferences and their perception of the existing airline models, a survey was conducted among passengers having travelled through OTP. The questionnaires were written in English language. They were randomly distributed between December 2016 and February 2017, in the airport lounge before departure, in order to cover different flights and destinations, and online, to persons having previously travelled through OTP.

The questionnaire asked for economic and socio-demographic information such as gender, age, nationality, income or level of educational attainment.

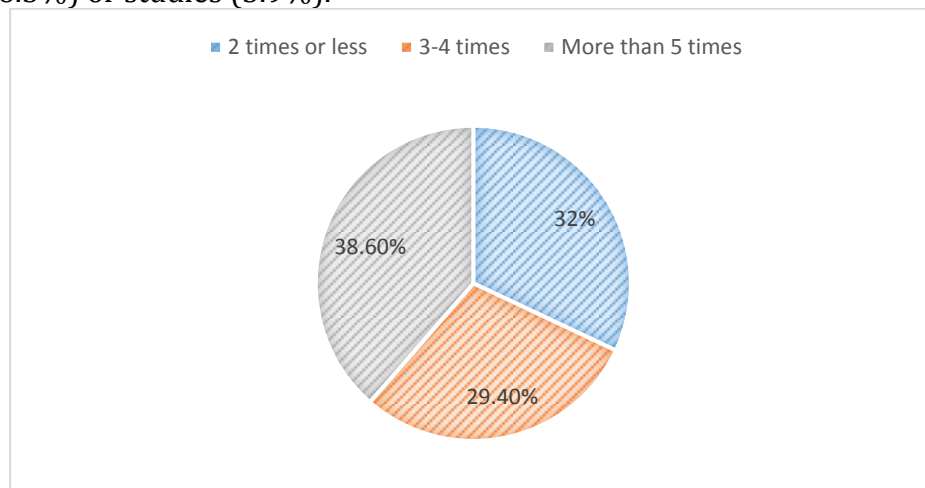
153 persons were interviewed, out of which, 56.9% women and 43.1% men. 40.5% of them are between 26 and 35 years old, 26.8% less than 25 years old, 20.3% between 36 and 45 years old, 9.2% between 46 and 55 and 3.3% over 56 years old. Among them, a high percentage (46.4%) are holders of a Master's degree, 26.1% of a Bachelor's degree, 17.6% of a high-school diploma, 7.2% hold a PhD, while 2.7% are graduates of a vocational school.



**Figure 1. Highest education level completed**

Source: by authors.

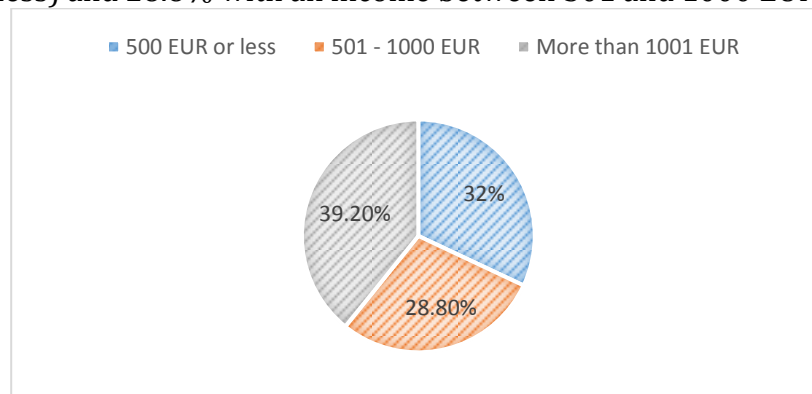
The respondents are both frequent flyer and occasional travellers, travelling for leisure purposes (48.4%), business purposes (29.4%), VFR - visiting friends and relatives (16.3%) or studies (5.9%).



**Figure 2. Yearly travels by plane**

Source: by authors.

The respondents also fall under different income classes, with 39.2% of them in the highest income range (over 1001 EUR/month), 32% in the lowest range (500 EUR/month or less) and 28.8% with an income between 501 and 1000 EUR.

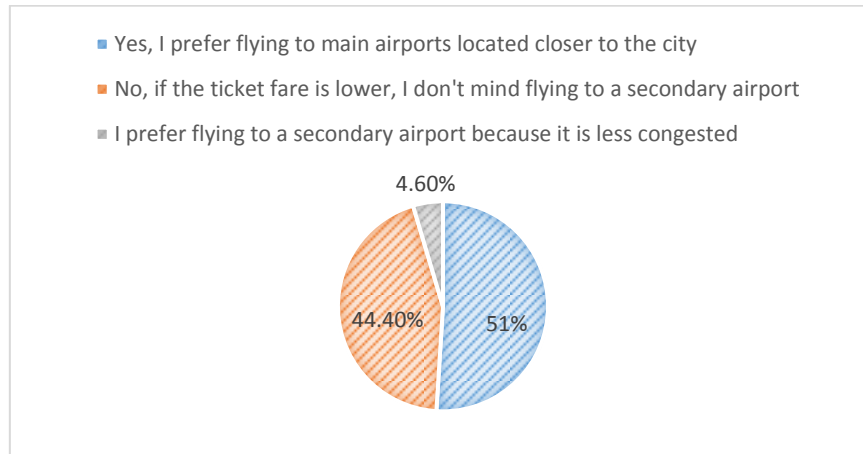


**Figure 3. Current monthly income**

Source: by authors.

## Results and discussions

The results of the survey show that, while most passengers (51%) prefer flying to a main airport, a high percentage (44.4%) may also consider flying to a secondary airport if the ticket fare is lower. This represents the primary reason why low-cost airlines started to expand in the first place. Besides, while main airports have different advantages, such as location, network (being part of the hub-and-spoke systems), facilities, secondary airports become an interesting option for passengers, being less congested but having good connection with the city. Moreover, secondary airports serve sub-central areas of cities, which might become an advantage for the residents, as well as for business travellers interested in these locations.

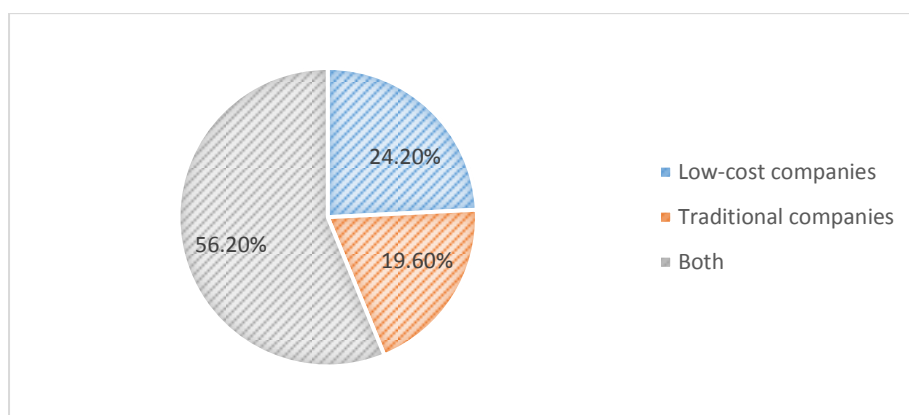


*Figure 4. Is airport location a decisive factor in flight selection?*

Source: by authors.

Regarding the loyalty programs, 56.9% of the interviewed persons were not members of any FFP, which may reflect that modern passengers are more oriented towards the lowest fares available than being loyal to a specific airline. In addition, depending on the destination of their flight, passengers might choose an airline over another, according to the possibility of having a direct flight. Previously, loyalty programs offered passengers the possibility to select flights within the network created by each airline and its code-share partners. Most of the flights were following a similar hub-and-spoke system. As low-cost airlines started to offer direct flights between non-hub airports, another important factor in passengers' decision of choosing an airline became whether it offers a direct flight. In this context, loyalty programs started to become less popular.

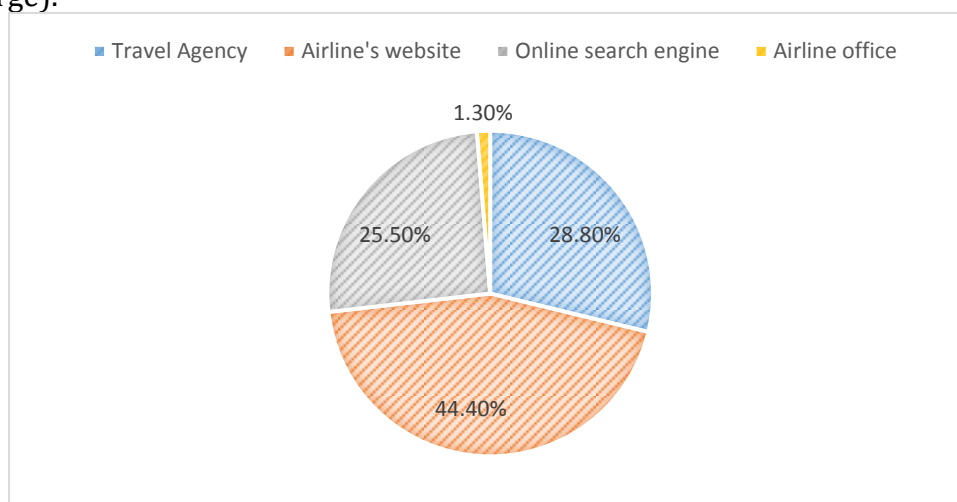
56.2% of the respondents admit usually traveling on both LCCs and FSCs, while 24.2% prefer LCCs and 19.6% FSCs. The high percentage of passengers traveling on both types of airlines reflects the fewer differences between these two categories nowadays, as well as the uniformization of their target markets.



**Figure 5. Do you usually fly on?**

Source: by authors.

Most of the passengers purchase their flight ticket online, either through the airline's website (44.4%) or through Online Search Engines (25.5%). This context was favourable to the development of LCCs, allowing them to reach their customers without the fees involved when using GDSs (Global Distribution Systems). Still, a high percentage (28.8%) still uses travel agencies for the flight purchases, mainly because there are still people in the society (Gen X) feeling more comfortable with traditional sales channels but also because complex itineraries or travel packages are easier to be booked through travel agents. Still, during the last years, airlines have been focusing on minimizing the role of travel agents in the sales process, by reducing commissions, introducing online offers and more recently by introducing GDS fees (Lufthansa Group applies a 16 EUR GDS surcharge).



**Figure 6. Usual purchase of flight ticket**

Source: by authors.

Regarding inflight services, 32% of the passengers would like to be offered hot meals, 30.1% extra leg room, 28.1% entertainment (movies, magazines) and 26.1% Wifi. Still, 28.8% of them do not consider that having any kind of services on board is an important aspect for them. This reflects airlines' necessity to introduce ancillary services available on board but not included in the fare, giving passengers the option to select and pay according to their needs.

Moreover, when asked to describe what would be the ideal option of purchasing a flight ticket, 52.3% of the respondents agreed that they should be given the possibility to choose from different packages (from the most basic to a more sophisticated one), 32.7% would like to have all the services included in the fare they pay.



Only 15% consider that the best option would be to pay the lowest available fare with the minimum services included. This reinforced airlines' decision to diversify the services offered, while still keeping the prices low and determined them to adapt their business models, mixing attributes from both low-cost and traditional airlines.

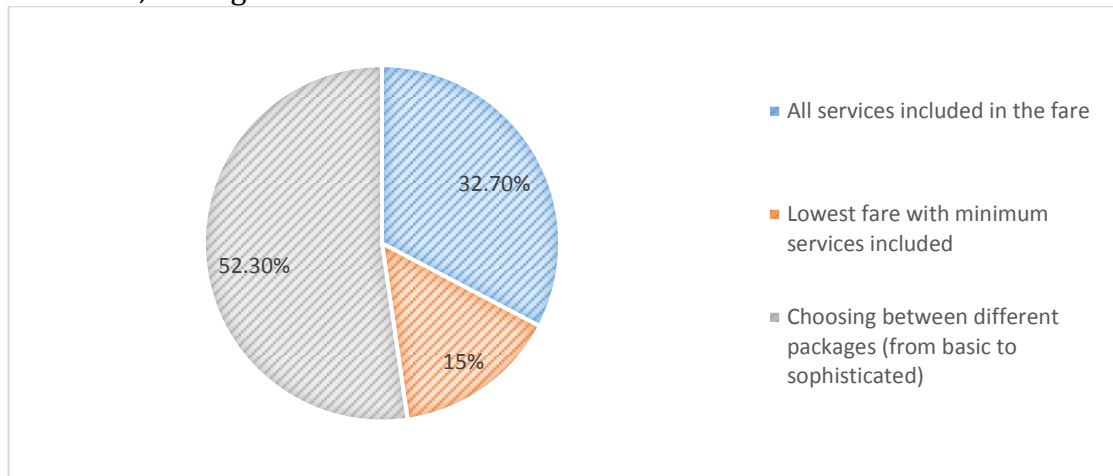


Figure 7. Ideal option for purchasing flight tickets

Source: by authors.

The main factors influencing passenger's decision to purchase a flight ticket are: price, price/quality ratio, type of flight (direct/indirect), airport location. While the decisive factors in choosing a LCC are the price level and the direct flights, FSCs are mostly chosen because of the airport location, their connectivity, the advanced ticketing advantages, interline agreements, as well as the services offered.

Table 2. Passengers' reasons for preferring an airline

| LCCs             |                  | FSCs                          |                               |
|------------------|------------------|-------------------------------|-------------------------------|
| Very important   | Important        | Very important                | Important                     |
| Price level      | Airport location | Connectivity                  | Airport location              |
| Direct flights   | Direct flights   | Airport location              | Interline agreements          |
| Airport location | Price level      | Advanced ticketing advantages | Inflight services             |
|                  |                  | Interline agreements          | Advanced ticketing advantages |
|                  |                  | Inflight services             |                               |

Source: by authors.

In terms of general characteristics that a modern airline should have nowadays, an important aspect is being price competitive, having an extended network, as well as offering a wide range of auxiliary services and differentiated classes of service.

## Conclusions

The results of the survey indicate that, while price remains an important factor influencing the decision to purchase a flight ticket, passengers are more demanding in terms of quality and variety of the services offered. The one-size-fits-all approach used by low-cost airlines fails to address the complex needs of passengers nowadays. From this angle, the option of choosing from different packages or tailored offers should be given to passengers, in order to address their specific needs. According to the modern passenger, an airline should be price competitive, while providing differentiated packages, a wide range of auxiliary services, and an extended network.

At the same time, in an era where the lowest fare represents a new „loyalty” criteria, airlines are forced to find ways to differentiate from competitors and expand their target markets, attracting multiple social categories.

In terms of passengers’ needs, the evolution of technology determined significant changes; always connected, the modern passenger is using self-service technologies and is comfortable purchasing products and services online. He has access to information and prefers having control over processes (documentation, purchase, operations). In this context, both traditional airlines and low-cost carriers started adapting their strategies, by interacting with the passenger on the online environment and through self-service instruments.

This context represents the basis which allowed „hybrid” airlines to develop, by mixing attributes from both the low-cost and the traditional model. Nowadays, the airline industry became a complex system, but in lack of any standards related to the constantly changing strategy models adopted by LCCs or FSCs. For the moment, “hybrid” airlines represent either LCCs with traditional characteristics or FSCs with low-cost features, but there is no clear line determining the moment an airline becomes “hybrid”. This paper contributes to the limited literature regarding “hybrid” airlines and represents the basis for future research. In the future, the “hybrid” model might apply to all airlines and, due to this highly competitive sector, will lead to other new business models.

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