



## Low-Cost Aerial Transport in Europe

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### **Abstract**

*Fast and continuous development of the low cost airlines is due to the low prices that have attracted more and more clients. These companies react to the market conditions and search to develop their operating fields towards areas with high potential. Low cost operators are very dynamic meaning that they continuously develop not only their network but also their price strategy. Competition in aerial transport is very tight especially because of low cost lines that attract customers with low charges for the consumers who do not want to invest a lot of money in a plane ticket.*

*Airlines industry in Europe is continuously adapted to the reality and conditions of the low cost airlines that consists of most European customers and constantly increase their market.*

**Keywords:** *low cost air lines, airlines, price politics*

**JEL Classification:** M40

### **1. Air Transport**

The easiest and most precise definition for air transport would be: moving people and merchandise through aerial transportation for various aims. All nonmilitary air force, meaning private and commercial air lines form one of the most important category of air transport, meaning aerial civilian transport. Most of the countries of the world are part of the ICAO (International Civil Aviation Organization) and work together to establish mutual standards and suggest practice for aerial civil transport. ([www.transportleague.com/comprehensive-guide-civil-air.html](http://www.transportleague.com/comprehensive-guide-civil-air.html))

Air traffic covers a large area of commerce and the planes are used to transport passengers merchandise and mail, the destination can be intern and international, local or regional. Nowadays, air transport represents the most dynamic way of transport, it has the lowest rate of accidents and incidents and opens new and great perspectives for international tourism circulation (G. Stanciulescu, p. 163). The main aim of the aerial transporter is to make profit of its activity, namely transport.

Civilian aerial transport includes two main categories: regular aerial transport and general aviation ([www.transportleague.com/comprehensive-guide-civil-air.html](http://www.transportleague.com/comprehensive-guide-civil-air.html)).

Commercial aviation is in almost all flights rental, especially in regular airline services. On the other hand, private aviation includes pilots flying for personal purposes, without obtaining any compensation. There are five main producing aircrafts for civil aviation ([www.transportleague.com/comprehensive-guide-civil-air.html](http://www.transportleague.com/comprehensive-guide-civil-air.html)): Airbus (founded in Europe), Boeing (founded in the USA), Bombardier (founded in Canada), Embraer (founded in Brazil) and United Aircraft Corporation (founded in Russia). Boeing, Airbus and Tupolev Ilyusin are jets with long fuselage and narrow fuselage, while aircraft Bombardier, Embraer and Sukhoi pay more attention to regional airlines. Major parts suppliers specialized networks worldwide supporting these manufacturers, which sometimes only provide preliminary design and final assembly of aircraft components. Air traffic has commercial value national and therefore in addressing national policies in air transport were established practices regarding protection of internal trafficking for air carriers and national granting access to foreign carriers in domestic traffic on a reciprocal basis. (Gh. Caraiani, p. 126)

Among the categories of passengers airlines there are people who opt for air travel regardless of cost (business) people forced to use this means of transport because it is the only way that they can begin their journey and people who choose this middle compared to the advantages and disadvantages with other modes of transport (road, rail, maritime). For them, air carriers have adapted over time marketing policy, both in terms of tariffs, as well as the adaptation of the comfort of aircraft (Gh. Caraiani, p. 223). In the analysis of literature specialist, we identified the following advantages and disadvantages of air transport. Air transport has the following advantages:

- The rapidity: defining attribute of air transport. Development in air transport allows pleasant travel speed with superior services;
- Services: stands number, quality and diversity, the main reason being even the competition between the airlines. Services covers both the in-flight and on the ground, main reason for the development of complex services to satisfy the needs and requirements of passengers and creating competitive advantages;
- Prices: Due to the reduction of the operating costs, airlines practice attractive prices accessible to all categories of consumers;
- Comfort: when selecting the airline passengers take into account both the conditions of the aircraft and those offered by the airports where they land or take off.
- As for the disadvantages of air transport, they may be:
  - Flights depends on weather conditions and have uncertainty regarding compliance of schedule, achieving journey, landing and / or taking off in maximum security;
  - Poor accessibility: to arrive or depart from an airport outside the settlements need another means of transport;
  - Large investments in regarding construction and operation of modern airports

Until recently, most airlines were supported by national governments and they were protected from competition. But the liberalization of airspace convention was adopted, and the free choice for consumers, lead to increased competition. The fall in prices for airlines and high fuel prices along with low rates and high salaries of the staff led many airlines to base its old rescue plans in case of bankruptcy. Meanwhile, low-cost airlines included in the civil air transport, such as Ryanair and WestJet have prospered.

## **2. The concept of low-cost**

No common definition is good enough for the concept of low-cost carrier. However, a low-cost carrier is a company engaged in general, lower fares and fewer amenities. To compensate for lost income from low ticket fares, low-cost operator may charge additional fees for catering, priority boarding, seat reservation, luggage, etc. The concept comes from the aviation industry and refer to airlines with an operating cost structure lower than their competitors. Low-cost air carriers should not be confused with regional carriers operating short flights without additional services or the line that only provide some discounted rates for some destinations.

Low-cost airline phenomenon began in the United States and has proven to be a solid service concept in terms of financial and operational (.R Macário, JViegas, V Reis p. 10). This has been one of most discussed aspects of commercial air services in the last 15-20 years. In Europe, the market share of low-cost operators represent 5% of the entire area of air transport, but 10 years later, in 2011, the share increased to 26% ([www.oag.com](http://www.oag.com)). Of course those who have freely entered airspace regulation in 1990 throughout the European continent predicted that a new era of freedom aviation should lead to reduced tariffs, expanded access and increased tourism, trade and markets.

Low-cost web development went hand in hand with liberalization. Since aviation markets domestic were deregulated gradually in several countries and agreements on market orientation of air services is increasingly becoming the new norm international airlines low-cost took the opportunity to provide air services innovative gave rise to a New applications for passengers.

For example, Ryanair, Easy Jet, Wizz Air and other low-cost airlines have taken advantage of creating a European Common Aviation Area in the European Union to capture 37% of the seating capacity on scheduled flights, starting in 2012. In contrast to this figure there is the capacity share of only 9% of low-cost airlines in Africa, where barriers to entry remain high. In Asia, the share of low-cost airline operators in 2012 was 23%. ([Http://www.icao.int/sustainability/Pages/Low-Cost-Carriers.aspx](http://www.icao.int/sustainability/Pages/Low-Cost-Carriers.aspx))

Even if the low-cost air carriers have pursued a number of different business models, common to all is the focus on the client, namely the identification of how passengers are willing to pay and offering products that meet the demand. In a cyclical industry, subjected surge in the cost of fuel and crises such as terrorist attacks and contagious diseases, airlines low-cost understand that maintaining a competitive advantage requires a continuous effort to cut costs, expansion and revenue maximization efficiency.

## **3. Characteristics of low-cost airlines**

To analyze the characteristics of low-cost operators, we must first compare various low-cost air carriers and to analyze the differences between them and the line. For example, the airline Ryanair was able to give life to airports not very well known and very sparsely populated; It has been able to expand the network of connections, ie to set increasingly more new bases in order to create more connections between flights possible and desirable, very low cost, giving passengers very agreeable prices. Ryanair has achieved a dominant market share on all routes and flights that operate many low-cost airlines have followed suit. Instead, the air carrier easyJet was focused more on major airports, representing perhaps the greatest threat to other major low-cost airlines.

After analyzing the literature, we found that this type of companies differ from each other through our services and are characterized by some or most of the following principles:

- Direct flights without stopovers;
- Serve short routes, usually from / to secondary or regional airports that charge low landing and providing marketing support, this means foregoing airports requiring high taxes;
- Focus strongly on price sensitive traffic, most often passengers traveling for leisure;
- It gives one class passengers, loyalty programs are limited or non-existent;
- Additional charges for services. Most costs are shifted to the customer, eg payment of the booking fee, surcharge large hand luggage at baggage or high commissions for services during flights, seat reservation fee, etc .;
- Have a low average tariffs, with a strong focus on price competition;
- Tariffs vary depending on the load factor of the aircraft and / or the length of time before takeoff;
- Have a very high percentage of online bookings, thus lowering personnel costs and commissions partner travel agencies;
- Avoid contact centers or charge extra for this service;
- Online check-in desks can be conducted for fewer check-in for the same extra charges;
- Maximum utilization of aircraft with short breaks between flights, using the principle less ground time and more flights per day. Aircrafts maintain as little time as possible on the ground due to decreases of residence;
- Standardized fleet consists of only one or two aircraft types most often Airbus A320 or Boeing 737, of course there are exceptions. This reduces training costs and aircraft maintenance;
- They are private sector companies;
- Some companies do not allow reserving places, encouraging rapid boarding and other fees for seat reservation or priority boarding;
- Personnel costs are limited. It fulfills multiple tasks cabin crew check tickets at the gate and handles the airplane is clean;
- Some companies eliminate certain essential features such as seats that do not skew or prolonged flight schedules existence;
- It impose taxes because it requires personal baggage for the office storage and people to load and unload the plane. This allows additional revenue for each piece of checked baggage;
- Do not use walkways for access to aircraft, thus avoiding extra costs of airports. The birds need large airports for avoiding chaos on the ground;
- Purchase fuel in advance when it is cheap;
- Carrying little extra fuel to reduce aircraft weight and thus rapid consumption of fuel;
- Have routes planned before the plane to land at the airport, this saves the time of stay;
- Get the privilege of partnering with hotels and car rental companies.

Even if in the past low-cost airlines were initially focused on short-haul flights, they now expand their services markets increasingly on medium-distance flights and even longer distances. The main reasons for entering markets with intense competition on medium-distance routes need analysis and demand new Air Services Agreement between Europe and third countries. For example, Ryanair and easyJet have started flights from airports in Western Europe to Morocco after the new agreement on air traffic between Europe and Morocco has become effective.

This is an example of the positive effects that low-cost airlines have on market liberalization and competition and benefits to users of air services. In general, increasing competition and lowering tariffs can be seen on all routes and city pairs operated by low-cost airlines. In addition, the presence of low-cost's regional airports uncrowded contribute to the development of regional economy and, in some cases, help the region maintain or enhance air services when, for example, the main airport in the area has a limited capacity, potential-free future growth. Rhine-Ruhr are examples in Germany and London, where a significant increase in secondary airports (Cologne, Dortmund, Stansted and Luton) helped partially exemption capacity restrictions in Dusseldorf and Gatwick airports.

From the point of view of environmental protection, low-cost airlines, despite a significant contribution to the absolute growth in the aviation sector, have an emission of CO<sub>2</sub> / km / passenger relatively low when operating a modern fleet and a low fuel consumption with more seats than their competitors. (a Vidović I Štimac, D Vince, p.69-81)

Therefore, the basic model of low-cost airlines which have their operating costs significantly low is based on the characteristics listed above. Among these features, the most important are: focus on cost and minimum prices and maximum efficiency; using a fleet composed of young, most often from a single model airplane; use of secondary regional and uncluttered airports; network of direct flights; direct sale of tickets (most often online); one class passengers.

#### **4. Pricing of low-cost airlines**

Pricing strategies of carriers depend mainly on the company's decisions and revenue management. But there are three main external factors that have a significant impact on the development of prices: the market structure, demand and operational factors. Market structure refers to the overall external environment in which flights the airline operates and how it is organized aviation industry in the country.

The environment is influenced by many governmental regulations, the economy, the market competition, international relations, etc. It is known that the demand affects the price of tickets. If demand is greater than supply, ticket prices will increase. Otherwise, if the demand for air transport is less than what the airlines offer, the market can expect cheaper air. Operational factors represent a broad category that combines a variety of factors, such as fuel, booking online, aircraft maintenance, flight schedules, etc.

Politics regarding cost to low-cost airlines is usually very dynamic and flexible. For example, these companies offer significant reductions in price if a person reserves a ticket long in advance (in February 2016, the airline Blue Air has had a 15% discount for all flights to all destinations available, purchased that day, for the travel period between the months of February-October 2016), leading to the opening of markets for passengers who otherwise would travel by other means of transport.

Low-cost airlines is focused on reducing costs so as to implement a strategy of price prevailing in the markets in which it operates and generates additional income from the sale of products and services in flight or on their web sites.

Most low-cost airlines market segment is based on their willingness to demand pay airfare with different conditions and restrictions. Instead, these companies offer a fixed price ever for a product at each takeoff (L Fedorco, JHospodka p.34) In general, the price increases around the time of departure. Tickets cannot be returned, and the change of the ticket is banned or subject to administrative fees. The only problem is that low-cost airlines decide when to close the sale of tickets at a certain price and the opening price of sale to the next level. This requires a better integration of the department pricing and sales management. The main objective of revenue management is to maximize revenue through dynamic pricing, which means the management level of prices currently on sale.

Using a fleet of young, homogeneous and medium size usually results in reduced fuel costs, maintenance and personnel, and large aircraft orders, resulting in lower capital costs. The high density of seats in the airplane resulting in lower unit costs for all cost categories such as fixed (including the cost of air traffic control). The only variable costs, namely places during flight (additional costs associated with fuel) increases with increasing number of passengers on board. Delays can be reduced by using small airports and by focusing on direct flights without connections, which provide low-cost airlines daily hours of blocking and maximizing the use of aircraft.

"The free seat philosophy" contributes to lower operating costs because it encourages passengers to board early and thus reduce delays. (L Fedorco, JHospodka p.72) Besides not being crowded, small airports usually practice fees below the main one and are willing to co-promote new routes. Finally, unit costs are reduced through direct sale online ticketing, high density seating and eliminate all forms of free services such as in-flight catering, entertainment, etc.

However, not all low-cost airlines have implemented all aspects savings listed above. For example, the company EasyJet low-cost air operates flights to more hubs (Amsterdam, Madrid, Munich, Paris Charles De Gaulle) and use CRS (Computer Reservation Sistem). Germanwings is one of the few low-cost airlines which introduced FF -Frequent Flyer program – Frequent Passenger, loyalty program, although travelers must pay a registration fee to cover administrative costs. Com Flybe and InterSky introduced low-cost strategy in the regional market. Ryanair and Wizz Air are typical representatives of the original model of low cost. These two companies ultimately used in particular for secondary airports and baggage handling fees. Air Berlin, the second largest airline in Germany, operates a business model which is a combination of typical elements of low-cost, full-service airline network and business model charter. Air Berlin is a typical example of hybrid airline.

## **5. Low-cost airlines in Europe**

The aviation industry in Europe is adapting to the reality and the conditions created by low-cost airlines that captures much of European travelers and steadily increases their market share. Europe has a total of 168 airlines, of which 24 are low-cost airlines. ([Http://www.icao.int/sustainability/Documents/LCC-List.pdf](http://www.icao.int/sustainability/Documents/LCC-List.pdf))

To meet this direct competition and develop, several airlines have included economic class lines offering a limited number of tickets at prices approaching those of low-cost rivals. These companies have resorted to this measure to face constant challenges coming from low-cost settings, but without giving up the historical rates for business class or first tourist.

Low-cost airlines offer discounted rates in Europe, with the following implications:

- Baggage cannot be registered in advance for both flights. When a route is performed by two flights with a stopover, passengers must collect their baggage to register again for the next flight, even when flights are operated by the same company;
- Without free catering on board. Most low-cost airlines in-flight food is served at a reasonable price;
- Little or no help when delays. Generally and most often passengers do not receive any compensation if their flight is cancelled or delayed (exceptionn where passengers have chosen to ensure arriving on time);
- A single segment. The flight schedules are not coordinated with those of other airlines, and some airports are flying only a few times per week;
- Baggage limit. Most low-cost airlines offer passengers the opportunity to bring on board a small hand luggage free (size and weight limits). For each extra baggage, both hand and hold baggage fee must be paid. Strict rules are introduced to the weight limit, and passengers must pay a very high fee for each kilogram exceeding the permissible limit.

Low fares airline tickets, low-cost services come with fewer limits than high tariffs charged by traditional airlines. Among the restricted services there are: cancellation ticket is impossible in most companies, changing of name or tickets may be impossible or cost, as well as changing the time or date of the flight and the last but not least, nutrition during flight may not be included it is obviously in the fare and extra charge.

Increased competition in the aviation industry in Europe coming from low-cost airlines has led to the closure of several companies, for example Belgian Sabena, Swissair, Malev Hungarian Airlines and Spanair S.A. On the other hand, this competition has led to the creation of mergers between companies, as demonstrated by the companies Air France and Dutch KLM. Not just the scheduled airlines were affected, even some low-cost airlines have gone bankrupt or were bought by other companies because they did not cope with the aggression coming from the powerful low-cost competitors.

Examples of low-cost airlines that have been purchased are Flynordic (acquired by Norwegian) and Virgin Express (acquired by Brussels Airlines). Among those who failed are SkyEurope, Sterling Airlines, etc.

Europe's economy and in particular the euro zone still has to find a comfortable way after seven years of global financial crisis. However, air transport continued to grow at strong rates. For 2015, the increase in RPK (Revenue Passenger per Kilometer) to airlines operational base in Europe was around 6%, the same as in 2014 and slightly lower than the global average for 2015. (Projections show that the percentage RPK will not shrink in 2016). At first glance, this seems impossible due to accumulation of macro uncertainties or due to increased risk of geopolitical events.

In Europe there are two divisions separating the rapid growth of more modest rates. The first division is geographical and concerns rather Eastern Europe than Western Europe in terms of passenger traffic growth.

Air transport growth in Eastern Europe starts with a higher growth in GDP and receives an additional boost from the fact that it has a low penetration air transport, thus playing the role of catching up. The second is defined business model, low-cost airlines increasing much faster than the line. In the 12 months ending in June 2015, and ELFAA members have stepped up the number of passengers by 11% compared with a growth rate of only 4.4% of the members of AEA (Association of European Airlines) in the first nine months of 2015.

European market is currently defined by some uncertainty as geopolitical risks that seem to have a greater focus on the east side. The crisis in Ukraine continues to slow demand for air travel to and from that country and Russia, which is also affected by economic sanctions. Geopolitical events could affect air travel not only in 2016 but also in the future. Civil war in Syria, and Western powers and Russia's campaign against terrorist organizations in Syria and Iraq leaves Turkey exposed to the risk of shocks in demand. Any escalation of conflicts in those countries and / or neighboring countries could have a negative impact not only on air transport in Europe, especially its eastern part, but also on the global level.

In Greece, increased traffic continues to defy fragile macroeconomic environment. Greek market, stimulated by setting up operational bases of Ryanair in Athens and increasing network links the national airline Aegean Airlines, will remain in largely dependent on inbound tourism. Turkey is the largest and one of the markets with the fastest growing aviation in Eastern Europe. The largest company of its national airline is Turkish Airlines (partly owned by the government), followed by low-cost carrier Pegasus Airlines. Both airlines in Turkey have experienced a downward pressure revenue in 2015, but were able to increase operating profit mainly due to lower fuel prices. Most of the network connection is Pegasus airline to Europe, where he grew up, mainly by increasing flight frequencies in 2015, and by adding new routes and destinations to the Middle East. The airline Pegasus is one of three ultra-low-cost airlines in Europe, the Company's goal is to remain profitable.

Wizz Air is another airline ultra-low-cost besides Pegasus, but the two companies largely operate in different markets. Relying on low costs and strong ancillary revenue, Wizz Air is able to offer discounted rates and stimulate increased demand. Its focus on Central and Eastern Europe, which has a low penetration rate compared to air transport Western Europe, gives a very high potential for development. The company faces growing competition from the company Ryanair, the largest low-cost carrier in Europe and the only one with lower unit costs than those of Wizz Air. However, the airline Wizz Air is the market leader in selected geographical and in addition, the company has built this position while he was in competition with Ryanair.

Currently, the largest low-cost carrier in Europe is Ryanair, which carried 101.4 million passengers in the year 2015. Ryanair is the largest airline in Ireland, Italy, Poland and Spain. Significantly expanding the network of connections in the past year to serve as many major airports in Europe, Ryanair continues to establish its low-cost business model across the continent. Recently, the company has intensified its network of connections in Romania, planning further development.

EasyJet, which recorded its fifth successive year of record profit in 2015, has a strong network connecting all European countries based mainly on airports primaries, a successful strategy and a cost base very competitive compared with companies national airline with which they compete. The challenges include overcoming performance of 2016 and previous years limiting growth in fuel costs.

The economic crisis in Europe seems to have greatly affected the low-cost airlines because they focuses on price sensitive passenger service. However, low-cost airlines have a strong presence on the European market and the dominant air carriers (Ryanair, easyJet) future is unpredictable.

## **6. Conclusions**

Currently, air transport service is available to all categories of people and is adapted tariff plan and the degree of comfort to the needs and market demands. The two main categories are the traditional airlines and low-cost. Traditional airlines offers two different types of quality products: economy class vs. first class; vs. refundable tickets tickets are non-refundable; access to the VIP area vs. without access to the VIP area. In contrast, low-cost airlines offer one type of product: economy class tickets refundable and not allow access to the VIP area. The application is divided into two types of passengers: passengers travelling for business purposes and leisure. Both passengers have different preferences and take into account the quality of service provided.

The European market for short-haul flight is supplied by traditional airlines and a younger group consisting of low-cost airlines. Low-cost airlines, such as Wizz Air, Ryanair, EasyJet, benefit from relatively simple business models, a much larger aircraft, higher productivity of staff and therefore unit costs more. All lines that offer low-cost competitive advantage allows them to practice discounted rates and attract a large number of consumers.

Central and Eastern Europe offers huge opportunities for low-cost airlines. Regional economic growth and cheap labor can help develop not only the low-cost model, and aviation in general. Except Russia, Turkey and Greece, the region has very few large national airlines and fewer still financially strong.

Increased competition in air transport costs requires discipline, and those companies profitably manage their costs become more resilient and optimistic, providing a growing number of jobs.

The liberalization of the aviation market has proved to be a positive development means for airlines. Liberalisation is also favorable and the communities served by these airlines. Thus, with Wizz Air, the ability to initiate international service connecting the capitals and cities of Central and Eastern Europe with the most important business centers and destinations of leisure in Western Europe, facilitates the integration of the company throughout Europe. This connectivity of Wizz Air has improved over the years and can help the prosperity of towns that are part of these network connections. But the cities that benefit most from the expansion of connectivity design are those where Wizz Air has operational bases.

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