



Exploring characteristics of passengers using traditional and low-cost airlines: A case study of Belgrade Airport



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ABSTRACT

Low cost carriers entered the Serbian air travel market after Serbia joined the European Common Aviation Area (ECAA) in 2006, prompting the development of healthy competition among airlines and resulting in significant traffic increase at Belgrade Airport. The aim of this paper is to examine the characteristics of passengers traveling on low-cost carriers (LCC) in comparison with those traveling on traditional airlines by using cluster analysis, and to provide practical implications to airport management in tailoring their strategies to meet growing demand. A comprehensive passenger survey was recently conducted at Belgrade Airport on the routes where competition between traditional and LCC carrier exists. The results reveal that emigrants, primarily encouraged by favorable fares, constitute a substantial portion of LCC passengers. Affordable service offered by LCC has also been a positive stimulus for emigrants, who purchase tickets for their friends and relatives to visit them in their host countries. On the other hand, passengers using traditional airlines could be generally classified into two segments, those who fly on business and those who fly for leisure purposes, and each had specific needs when choosing their airline.

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1. Introduction

The aviation market in Europe was liberalized through three legislative “packages”, and culminated in establishing the eighth freedom (also called “consecutive cabotage”) in 1997. As a result of these regulatory changes, European carriers obtained practically unlimited freedom to choose their routes, capacity, and schedules (ELFAA, 2004). Moreover, the liberalized skies were a positive stimulus to so called “low-cost carriers” to penetrate the market and boost the air passenger growth across Europe. Low-cost carriers brought perhaps the most revolutionary changes in the aviation industry over the last 40 years, by adopting the strategy of achieving substantive operational cost savings through maximum utilization of their aircraft and of the work force, developing networks focused on point-to-point routes, offering a single class with no frills services, and taking advantage of various incentive schemes offered by governments (Barbot, 2006; Dennis, 2004; Graham and Vowels, 2006; Hunter, 2006; Pels et al., 2009). This simple consumer product with lower ticket price was particularly appealing to the price-sensitive segments of potential passengers

who would not have flown in the absence of LCC services. Franke (2004) and Tretheway (2004) investigated the emergence of LCCs and their competitive advantages over major network carriers. Dobruszkes (2006) found that LCCs represented 18% of the total air transport supply in Western European market in terms of seats and had been creating networks that diverge from the traditional ones, either parallel and competing via secondary airports, or really innovative networks for the niche market.

Pioneered by Ryanair, and later easyJet, the LCCs services have led to a new landscape of mobility patterns and interactions in the now expanded single European aviation market, which facilitate the movements of millions of people and Euros around Europe (Gössling and Upham, 2009). Dobruszkes (2009) considered the new west-east routes, which stem from the expansion of liberalized skies, reflecting the new forms of mobility, primarily post-migration flows from the East by those who have gone to work in West Europe, new tourist flows and undoubtedly new types of business as well. The densest west-east links are certainly those between Poland and the UK where Ryanair has played a significant role in defining the collective dimension of traveling for migration. Despite the fact that many countries of the Western Balkans remained out of the EU, ratification of the Multilateral Agreement on European Common Aviation Area enabled them to experience the positive effect of liberalized market. As it has happened

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elsewhere, LCCs' entry on this market became a serious threat to traditional carriers since they were gradually losing their market share with their passengers diverting to LCC services.

Although there is a sizable body of scholarly literature on differences between LCCs and FSNCs passengers (Chiou and Chen, 2010; Mikulić and Prebežac, 2011), there is generally a lack of relevant research on characteristics and differences of passengers who use FSNCs and LCCs in the Western Balkans. The aim of this paper is to analyze the characteristics of the Serbian air travel market after Serbia joined the ECAA in 2006, the event which introduced LCCs to the Serbian market and increased mobility of Serbian inhabitants. The investigation of passengers' profiles and traffic structures also has practical implications to Belgrade Airport in tailoring their strategies to meet the demand of rapid growth in the number of passengers and the number of LCCs. For this purpose, a comprehensive survey has been recently carried out at Belgrade Airport among passengers on the routes that are served by both LCCs and FSNCs. After a brief overview of Serbian air travel market in Section 2, the data and the methodology are described in Section 3. Section 4 discusses the results that reveal the major segments of passengers for FSNCs (later referred as traditional airlines) and LCCs, with a focus on differences and similarities among them. Finally, concluding remarks are given in Section 5.

2. Socio-economic environment and air transport demand in Serbia

Serbia is situated in the Western Balkans, the region which has been the center of political and ethnic unrest over the last two decades. The breakup of Yugoslavia in 1991, followed by the ethnic war eventually led to the constitution of five independent republics, Serbia and Montenegro, Croatia, Bosnia and Herzegovina, Slovenia, and Macedonia. The air transport sector in Serbia, as in other countries of former Yugoslavia, was highly affected by these events. Although there is a number of airports in Serbia, the main airport is *Nikola Tesla Airport* (BEG) located 12 km west of central Belgrade. There were 22 airlines operating at Nikola Tesla Airport in May 2013, serving 38 non-stop destinations (see the Appendix).

During the political and ethnic unrest period, the number of passengers at Nikola Tesla Airport dropped sharply from 2.8 million in 1990 to only 350 thousand in 1994 (see Fig. 1). At that time, a broad range of problems persisted in the Serbian economy resulting in the sparse demand for air travel: hyperinflation at an unprecedented rate, low income and large proportions of the population living in extreme poverty. Under such circumstances the national flag carrier, *Jat Airways*, struggled to survive, plagued with low productivity and lower quality of services. The number of passengers, which was over 4.5 million in the period of “golden

years” (in the late 1980s), fell to less than a million in 1992. Nevertheless, the national carrier retained the dominant market position on the majority of its routes, operating 33 routes out of the 37 routes at Belgrade Airport in 2001.

The economic stabilization which took place after 2000, together with regulatory changes in the aviation sector, became one of the most outstanding events that helped to reinvigorate air transport development. The number of passengers at Belgrade Airport gradually increased from 1.28 million in 2000 to 3.54 million in 2013. In June 2006, the Republic of Serbia (together with other countries in the South East Europe) signed the ECAA agreement with EU to join the European Common Aviation Market by 2010. This entailed the implementation of ambitious reforms within a short timeframe, including the adoption of the aviation-related acquis and comprehensive sector restructuring at the national level (European Commission - World Bank, 2007). It has facilitated the entry of low-cost carriers to the Serbian market through offering a vast number of routes from Belgrade Airport. The first entry was on the Cologne–Belgrade route by *Germanwings* in autumn 2006. North-Rhine Westphalia in the western part of Germany has traditionally been the area where many Serbian emigrants live and thus this route was deemed promising due to the nature of emigrants' migration.

The abolishment of visa requirements for Serbian citizens traveling to the Schengen Area countries in December 2009 swiftly helped Belgrade Airport to attract new airlines. Wizzair, the Hungarian low-cost carrier, was one of those airlines, and has quickly positioned itself as one of the leading foreign airlines at Belgrade Airport. Wizzair offered reasonably lower prices on the routes which connect Belgrade Airport to countries with large number of migrant communities and carried almost half a million passengers in 2013.

As indicated in Fig. 2, the national carrier's market share gradually declined as low-cost carriers achieved this prosperous growth. Adopting the strategy of tracking the migratory patterns, low-cost airlines have further facilitated the intensive migration mobility of the Serbian community. Increasing flow of tourists, mostly foreign visitors, have also contributed to the substantial air traffic growth. Since low-cost carriers have attracted the price-sensitive segments, it is expected that the passenger composition at Belgrade Airport has shifted towards more leisure passengers. Moreover, the low-cost carriers have particularly played an important role for family reunions, seasonal commuters and students who study abroad, triggering the growing demand from those who wish to visit them. It is worth emphasizing that the Serbian economy, as other emerging economies, comprises a large proportion of the population living in poverty, and thus traveling by plane is reasonable only if the ticket price is sufficiently cheaper than the ticket price offered by competitors from other modes of

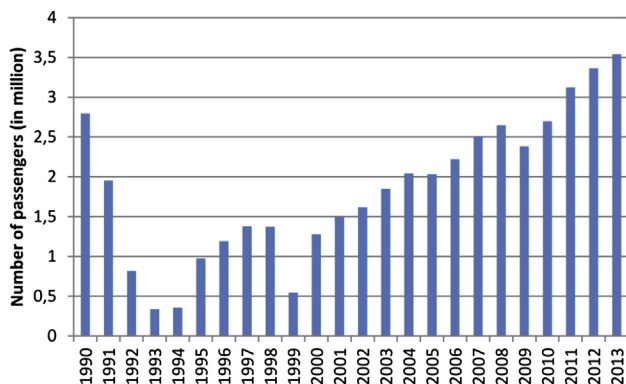


Fig. 1. Total number of passengers at BEG in the period from 1990 to 2013. Source: compiled by authors from annual reports.

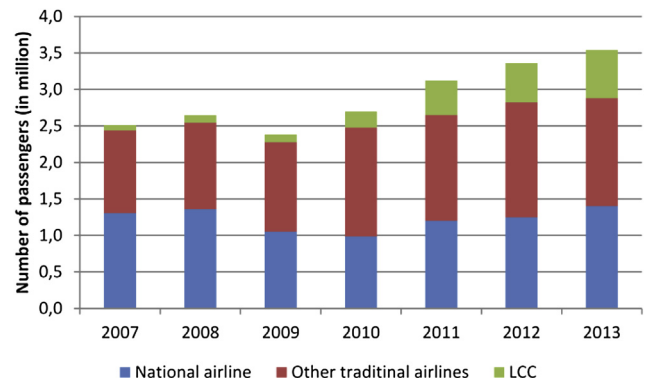


Fig. 2. Number of passengers at Belgrade Airport by type of carriers. Source: Authors' own database.

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