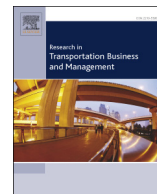


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Research in Transportation Business & Management



The role of secondary airports for today's low-cost carrier business models: The European case

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ARTICLE INFO

Article history:

Received 4 March 2016

Received in revised form 1 July 2016

Accepted 6 July 2016

Available online xxx

Keywords:

Low-Cost Carriers (LCCs)

Hybridisation

Secondary Airports

Regional Airports

Primary Airports

Airport-airline relationship

ABSTRACT

One of the core characteristics of Low-Cost Carrier (LCCs) is their use of secondary and regional airports. However, nothing is fixed as the market constantly evolves and carriers modify their strategies in order to achieve growth. This paper uses the examples of Ryanair, easyJet and Norwegian to show how changes to LCC business models are affecting secondary airports across Europe. Using a content analysis, this paper first describes how airport choice factors for LCCs have evolved over the last 10 years. This is followed by a data analysis of historical and current airline network capacity to identify how LCC traffic at secondary airports is developing. The paper finds that cost, demand and efficiency are still the most important criteria for LCCs when choosing an airport to operate from. However, it also identifies that LCCs have become more interested in serving business passengers, which is why they are increasingly using primary airports (accounting for 58% of their recent capacity growth). Through the use of a selection of case airports it is finally concluded that the evolution of LCCs increases competition between primary and secondary gateways. In most cases, secondary airports are losing a significant amount of LCC traffic and only sustain flights to less important destinations. This research puts into question the future importance of secondary airports for LCCs. As not all airports have been impacted by the hybridisation of LCCs to the same extent, the results are not equally applicable to the whole European airport industry.

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1. Introduction

The emergence of Low-Cost Carriers (LCCs) is one of the events that has revolutionised the aviation industry. The concept originating from the USA was adopted in Europe starting in the 1990s and developing rapidly. At the beginning of the 21st century, LCCs were growing at an average annual rate of 14%, compared with Full-Service Network Carriers (FSNCs) 1% (OAG, 2013). Currently, LCCs are the major players in the market- nearly 50% of the overall intra-European traffic is served by just 9 member airlines of the European Low Fares Airline Association (ELFAA, 2015).

One of the basic characteristics of the LCC business model is the use of secondary airports (Doganis, 2006), which has incentivised some countries to develop facilities or even whole airports dedicated to these particular airlines (e.g. Warsaw Modlin Airport). Indeed, the cooperation between LCCs and certain airports (e.g. Brussels Charleroi) has brought mutual benefits (Barbot, 2006). Nevertheless, numerous LCCs have recently moved to primary airports or expressed

an interest in doing so. This, in turn, calls the future role of secondary airports in the LCC business model into question. In fact, a wider change is taking place in the industry. The increasing competition has made both LCCs and FSNCs move away from their typical business models and evolve into hybrid forms in order to attract more passengers from intermediate market segments. Klophaus, Conrady, and Fichert (2012) recently found that a large percentage of low-cost carriers have evolved into hybrid carriers which blend low-cost traits with those of full service network carriers. Therefore, the aim of this paper is to investigate the role of secondary airports in today's more hybridised European LCC networks.

According to ICAO (2014), there are currently 19 LCCs in Europe. Since they differ in various aspects, such as market share and strategy, it is impractical to include all of them in one piece of research so this work focuses on the three largest European LCCs by passenger numbers in 2014, i.e. Ryanair, easyJet and Norwegian. The choice of airlines is motivated by their strong position in the market, the wide range of home markets across Europe they operate in, and the nuanced variations in business model between LCCs (Ryanair – pure LCC, EasyJet – hybridised LCC with dominating LCC elements and Norwegian – hybridised LCC with dominating FSC elements). As they are now well-established carriers with significant market power, secondary airports are under higher pressure to

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respond to any changes in their business models (Francis, Fidato, & Humphreys, 2003).

The research area ought to be specified in geographical terms as well. Because the European market includes numerous sub-markets of different sizes and maturity, LCCs and commercial aviation in general have not yet developed to the same extent across the whole continent. Hence, the scope of the research has been narrowed down to the four biggest LCC markets in Europe, i.e. the UK, Spain, Italy and Germany. These countries were the cradle of the European low-fare traffic revolution and currently account for 58% of the European market by number of seats (DLR, 2014). Therefore, they are considered to be a representative sample and provide authoritative data for the remaining European countries.

To lay the course for this investigation, the following research question was formulated: Will competition between primary and secondary airports for LCCs increase, making the latter lose low-fare traffic? The findings are reported in the following order. Section 2 summarizes the most pertinent literature on LCC airport choice factors; Section 3 details the content analysis methodology and results; Section 4 contains the results of the current LCC network analysis and primary/secondary airport case examples and Section 5 concludes.

2. Airport choice factors for LCCs

The general airline requirements for airports have been described by various authors, such as Jarach (2005) and Halpern and Graham (2013). LCCs specifically were the subject of analysis in Warnock-Smith and Potter (2005), who ranked airport choice factors based on a survey carried out among European budget carriers. The findings of the work are presented below (See Table 1).

High demand in the regions for LCC services came out first with other important factors being quick turnaround times and convenient slot times. Less important or indeed negative factors influencing LCC choice included high level of airline competition and good prior experience of dealing with LCCs.

3. Content analysis methodology and results

To investigate whether these requirements have changed, a similar ranking method has been conducted for the purposes of this paper. A list of 13 potential airline requirements was extracted as part of a detailed literature search (Table 2). The list included some of the factors mentioned by Warnock-Smith and Potter (2005), but

Table 1
LCC airport choice factors (10 years ago).

| Rank | Factor |
|------|---|
| 1 | Demand for LCC services |
| 2 | Quick and efficient turnaround facilities |
| 3 | Convenient slot times |
| 4 | Good aeronautical discounts |
| 5 | Positive forecasts for business and tourism |
| 6 | Cost conscious airport management |
| 7 | High airport competition |
| 8 | Good surface access |
| 9 | Spare airport capacity |
| 10 | Good environmental policy |
| 11 | Ambitious expansion plans |
| 12 | Privatised, deregulated airport |
| 13 | Good non-aeronautical revenues |
| 14 | Good experience of LCCs |
| 15 | High level of airline competition |

Source: Warnock-Smith and Potter (2005).

Table 2
LCC airport choice factors (current).

| Rank | Factor | Frequency |
|------|--|-----------|
| 1 | Airport costs/availability of discounts | 15 |
| 2 | Demand for LCC services/catchment area | 11 |
| 3 | Quick and efficient airport operations | 10 |
| 4 | Proximity to the primary city | 9 |
| 5 | Free airport capacity/slot availability | 8 |
| 6 | Airport potential to attract business passengers | 6 |
| 7 | Airline competition | 5 |
| 7 | Airport competition | 5 |
| 9 | Airport potential to attract leisure passengers | 4 |
| 10 | Availability of LCC - dedicated facilities | 2 |
| 10 | Good non-aeronautical revenues | 2 |
| 10 | Positive experience of LCCs | 2 |
| 11 | Airport ground accessibility | 1 |

Source: Adapted from trade press/content analysis.

it was also updated with additional requirements determined through the trade press. The next step was to conduct a content analysis by collating 27 different secondary reference materials in which airline managers and industry executives described their network policies (i.e. interviews, press publications, conference materials). The articles were obtained using a range of search terms in a meta-search database called Summon in late November 2015. Articles were sifted for relevance and for a balance of views between industry managers and expert industry observers to arrive at the final pool of 27 articles (see Appendix A). The material was analysed and the requirements ranked according to how frequently each of them was mentioned. Table 2 presents the results of the analysis.

The most frequently mentioned factor was airport cost and availability of discounts, which confirms a lasting focus of LCCs on ever lower operational costs. Secondly, LCCs expect their airports to support quick and efficient operations, primarily with regard to aircraft turnaround, which they require to be no longer than 20–25 min. Norwegian, for instance, organises special training for ground handling providers, during which employees are taught how to turn the aircraft around quicker (Bjørn Erik Barman-Jenssen, Norwegian's Director of Ground Operations in an interview for Eva, 2013). Ryanair's CEO, Michael O'Leary, acknowledged his airline will never enter the top three busiest airports in Europe (i.e. LHR, CDG and FRA) due to inability to achieve such turnaround times there (Clark, 2014). Efficiency of passenger-related processes (e.g. fast track security control) was mentioned to a lesser extent within the gathered material.

The demand for LCCs services was ranked the second most important criterion. On the one hand this indicates that demand is still a significant factor for the carriers. On the other hand, it appears to be a little less important than 10 years ago, which may suggest maturity of the European LCC market. Statistics show that currently LCCs are responsible for 45–50% percent of the European market compared to 22% in 2005 (in terms of the seat capacity offered; ELFAA, 2015; Khan, 2014). In other words, while a decade ago the airlines were still developing and needing to look for demand in order to grow, today they are much more established and therefore more attractive automatically.

Proximity of the primary city was the fourth most important factor. This reflects the increasing focus of LCCs on primary airports. They are more attractive for business passengers (the other joint fourth ranked factor), which constitute a growing 20–25% of all the passengers carried by LCCs. It is, however, debatable whether a much higher share is achievable. According to a CAA Passenger Survey carried out in 2013, business travellers constitute a comparable 23% share of total airline traffic, which suggests that LCCs are already close to the average. Interestingly, airport attractiveness for leisure passengers was mentioned less frequently (ninth), which

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