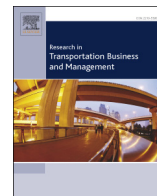




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Low cost carriers and the changing fortunes of airports in the UK

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ABSTRACT

This paper investigates how low cost carrier (LCC) developments have affected the traffic and financial performance of UK airports from 2002 to 2014. Considerable growth in traffic was experienced from 2002 to 2007, especially at regional airports as a result of LCC expansion. This was replaced with a more volatile period from 2008 to 2014 where many of the regional airports that experienced the greatest increases in traffic during the early years, then experienced the largest reductions. This has clearly had an impact on their financial well-being, resulting in reduced profits for many airports. It has also meant that many regional airports that seemed like attractive investments as a result of LCC expansion are now less financially appealing, especially given that the LCC sector in the UK appears to be shifting capacity to larger regional airports, and in some cases, London airports.

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1. Introduction

The UK was one of the first European countries to experience substantial growth of low cost carrier (LCC) services due to the rapid expansion of easyJet and Ryanair in the late 1990s. This had major consequences for UK airports, especially those serving the regions, which were able to exploit the opportunities provided by these new airlines and significantly grow their traffic. However, the boom period has been replaced with a more challenging situation in recent years that has been brought about by the maturing of the LCC sector in combination with more volatile economic times. In addition, the LCC business model continues to evolve with evidence, for instance, of a greater use of larger and more centrally located airports, a larger unit fleet size, and a longer average sector length.

The aim of this paper is to assess how LCC developments have affected airports in the UK, especially those serving the regions. In particular, the paper investigates how LCC operations have affected airport traffic and financial performance. The paper is therefore written from an airport rather than an airline perspective. Strong and weak performing airports are identified and implications for the future are considered. The findings are based on an analysis of airport schedules and financial data from 2002 to 2014.

In terms of the structure of this paper, Section 2 provides the context with a literature review that looks in general at the development of the LCC sector including the relationship with airports, and then links this to previous research related to the UK. The literature review also leads to the formulation of two key research questions. This is followed in

Section 3 by a discussion of the methodological approach and data sources that have been used. The results are presented and discussed in Section 4. Section 5 provides a conclusion including implications of the findings for future managerial practice.

2. Literature review

2.1. Development of the LCC sector

Increased liberalisation of air transport markets and the subsequent development of LCCs has been well documented (e.g. Gudmundsson, 1998; Lawton, 2002). Typical features of the original LCC business model included a high seating density and single class of service, no free in-flight food/drink or other frills, use of a single aircraft type, direct selling via the internet, high aircraft and crew utilisation, and point-to-point short/medium-haul routes. This created much discussion regarding how legacy or network carriers were reacting to LCCs (Dennis, 2007; Franke, 2004; Windle & Dresner, 1999), including the setting up of their own subsidiaries or 'airlines within airlines' (Gillen & Gados, 2008; Morrell, 2008) and the role of leisure carriers in serving tourism demand (Bieger & Wittmer, 2006; Williams, 2011).

In spite of a large failure rate, as high as 77% in Europe (Budd, et al., 2014), the LCC sector has continued to grow rapidly and be of considerable interest to researchers (e.g. Budd & Ison, 2014; Gross & Luck, 2013). However, as the sector has evolved and matured, more types of LCCs have emerged (Dobruszkes, 2013), and the distinctiveness between LCCs and both mainline and leisure business models has become increasingly blurred. Notable changes witnessed within the LCC industry include more focus on attracting business travellers (by providing more flexibility in terms of ticket sales and priority boarding),

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engagement in code sharing and membership of alliances, and the addition of 'frills' such as seat allocation (Aviation Strategy, 2014; de Wit & Zuidberg, 2012; Klophaus et al., 2012). Moreover, there has also been considerable discussion about the viability of long-haul operations, particularly with more efficient longer range aircraft such as the Boeing 787 Dreamliner (Daft & Albers, 2012; Morrell, 2008; Poret et al., 2015).

Another key characteristic of the original LCC model, which made it stand out from the other existing models, was the use of secondary airports as substitutes for primary airports in the same area (Barbot, 2006; Barrett, 2004a; Zhang et al., 2008). De Neufville (2008) identified around 30 such secondary airports worldwide, including a few ex-military airports, and noted that around half of these had previously been underutilised. Moreover, as well as using secondary airports, LCCs moved into regional airports, again many underutilised, and often some distance from main population centres. Such LCCs were able to stimulate new demand from a much wider region, primarily by offering significantly lower fares (Dennis, 2007; Pantazis & Liefner, 2006). As a result there were some routes that appeared to serve 'nowhere' at least at one or both airports on the route (Barrett, 2004b).

The choice of airport was chosen to fit in with the LCC operating model and in particular to allow LCCs to reduce costs and exploit density economies through high utilisation of aircraft with quick turnaround times and lack of congestion (Pitt & Brown, 2001). Another important requirement was low aeronautical charges and other user costs (Francis et al., 2003), or at least flexibility in negotiating airport charges deals, especially if in competition with other airports (Barrett, 2004a; Gillen & Lall, 2004). Mason and Morrison (2008) constructed an 'attractiveness of airport' index as a key element of the LCC model and this included four factors (airport cost, airport size, number of competing airlines and monopoly routes) whilst by contrast through asking eight European LCCs themselves Warnock-Smith and Potter (2005) found the four most important factors to be the demand/catchment area, convenient slot times, quick turnaround facilities and aeronautical charges.

Whilst it is certainly true that there were many services that developed from regional and secondary airports in the initial stages of the evolution of the LCC sector, in reality the situation was more complex than this. For example, Dobruszkes (2006) identified five different types of European airports used by LCCs, namely medium or large traditional airports; secondary urban airports of large cities; regional airports serving a large city fairly close; remotely located regional airports with access to leisure tours or tourist areas; and traditional airports of beach tourism - in further research he confirmed that a range of different types of airports were used (Dobruszkes, 2013). Moreover, in recent years there has been a drift away from the use of secondary airports and indeed in a study of 20 European LCCs, Klophaus et al. (2012) only found three airlines that used predominantly secondary airports. One of the major trends has been LCCs moving into primary airports for a number of reasons including a more convenient location, which will be more attractive to business markets and provides an opportunity for flight connections, at the same time as limits to growth for secondary airports due to market maturity (de Wit & Zuidberg, 2012; Fageda et al., 2015). At primary airports the LCCs may also be able to offer a pricing premium, compete head-on with network carriers or feed/code-share their services. Moreover, the average aircraft size of LCCs appears to be increasing and so more centrally located primary airports rather than more remote secondary or regional airports are now needed to ensure that there is enough demand to fill the aircraft.

One of the other consequences of aviation liberalisation and the subsequent evolution of the LCC sector, is that the airline environment has become more dynamic with a high degree of switching and churn (de Wit & Zuidberg, 2016). This has encouraged greater competition between airports, particularly in Europe where pan-European airlines have emerged (Thelle et al., 2012). At the same time there has been privatisation of some airports, and corporatisation of many others, which has led to a more commercially focused airport industry. Offering airport charging discounts as well as other incentives to encourage LCCs

(and other airlines) has become commonplace (ACI-Europe, 2015; Jones et al., 2013; Malina et al., 2012). Such incentives may make sense because of the high fixed airport costs and low marginal airport cost of attracting additional services but do not guarantee long-term sustainability. A more stable environment can be created by having long-term contracts between airlines and airports, which Bush and Starkie (2014) have contended is the way forward.

Arguably airport operators can off-set reductions in aeronautical revenues with higher non-aeronautical or commercial revenues. Graham and Dennis (2007) noted that LCC passengers are not necessarily budget spenders on commercial facilities - a view supported by Njoya and Niemeier (2011). However, whilst Francis et al. (2003) and Gillen and Lall (2004) found that LCCs did favourably contribute to non-aeronautical revenues, Castillo-Manzano (2010) observed the opposite. Given this situation, it seems likely that the presence of LCCs could have a major impact on airport financial performance and efficiency, but this has been scantily explored in the literature. Two rare examples include Choo and Oum (2013) who found that efficiency at US airports decreased when there was a low level of LCC presence but increased when LCC services became dominant. For Spanish airports, Coto-Millan et al. (2014) found that LCC traffic had a positive impact on efficiency although this was solely due to scale efficiency produced by the significant increase in LCC traffic.

2.2. The UK situation and the focus of this paper

As mentioned in the introduction to this paper, the UK was one of the first European countries to witness LCC growth, and has been at the forefront of some of the general developments which have been discussed in Section 2.1. The impact of early stages of this development on airport traffic performance has been well documented from a UK perspective (CAA, 2006) and from a UK regional airport perspective (CAA, 2005, 2007). However, there is an absence of more recent detailed analysis that has followed the evolution of this sector. Clearly of relevance here must be the fact that the early stages of LCC expansion in the UK coincided with the UK airport industry as a whole adopting a more commercial management outlook (Ison et al., 2011).

As regards research on LCC developments and airport financial performance, whilst there has been some coverage of the UK situation, the results are not up-to-date, nor totally comparable because of different time periods and samples. Graham and Dennis (2007) found no apparent link between LCC operations and profitability, whilst Lei and Pagliari (2013) observed that most airports dominated by LCCs experienced below average growth in operating profit. As regards cost, Graham and Dennis (2007) found lower unit costs for LCC dominated UK airports. Voltes-Dorta and Lei (2013) also concluded that LCC passengers imposed significantly lower costs to UK airports. Furthermore, Bottasso and Conti (2012) observed that the cost advantage of private airports started to fall in the late 1990s as the LCC market developed rapidly, suggesting that such traffic could have a cost-reduction effect on all types of airports.

Finally considering revenues, Graham and Dennis (2007) found lower unit revenues at airports dominated by LCC traffic, whilst Papatheodorou and Lei (2006) noted that other airline models had a higher contribution to aeronautical revenues. For Graham and Dennis (2007), the situation for non-aeronautical revenues was less clear, but nevertheless overall the airports which were dominated by LCCs still had lower unit revenues. Lei and Papatheodorou (2010) also observed lower non-aeronautical spend for LCC passengers, a finding that was confirmed by Lei et al. (2010), although it was noted that with the smallest airports in their sample, the LCC passengers were the largest contributors to commercial revenues.

In summary, it is evident that the LCC sector has experienced considerable growth within the last two decades. Moreover, the traditional LCC business model has evolved and has become more varied as the industry has matured, and there is growing convergence between LCCs

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