



Revenue characteristics of long-haul low cost carriers (LCCs) and differences to full-service network carriers (FSNCs)



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ABSTRACT

Low cost carriers (LCC) have smaller cost advantages on the long- than on the short-haul compared to network carriers (FSNCs). Hence, revenue competitiveness is critical. To evaluate long-haul LCC performance, this paper contributes a new metric for bench-marking the revenue per equivalent flight capacity. Second, a revenue model combining traffic, fare, load factor, and seat data is developed. Third, the revenue per flight capacity is evaluated across selected city-pairs. Long-haul LCCs earn revenue per flight capacity comparable to FSNCs. Lower direct yields compensated by fewer low-yield connecting passengers and significantly more passengers per aircraft have been identified as key factors.

1. Introduction

Low cost carriers (LCCs) that operate long-haul routes are a phenomenon that has received attention as early as the 1970s starting with Laker Airways' Skytrain. All early long-haul LCC attempts eventually ceased operations as can be observed from [Table 1](#). In recent years, a number of European and North American long-haul LCCs serving mainly the North Atlantic market have emerged.

Previous studies that have analyzed this phenomenon have focused on cost aspects of the business model. Long-haul LCCs operate with around 20–30% lower unit costs compared to full-service network carriers (FSNCs) (cf. [Soyk et al., 2017](#); [Whyte and Lohmann, 2015](#); [Francis et al., 2007](#)). This difference is much lower than the 50–60% advantage that LCCs have achieved on short-/medium-hauls (cf. [Fu et al., 2015](#); [Oliveira and Huse, 2009](#); [Morrell, 2008](#)). With lower cost advantages on the long-haul, the revenue performance of these carriers is of particular interest to evaluate the overall business model viability. The key question arising from this is as follows: Are long-haul LCCs able to generate sufficient revenue to compensate for the relatively smaller cost advantages, and hence, to be competitive to FSNCs? In the few studies that have tried to shed some light on long-haul LCC revenues, significantly lower average yields were estimated, often based on few major assumptions (cf. [De Poret et al., 2015](#); [Daft and Albers, 2012](#); [Morrell, 2008](#)). Due to the lower LCC cost advantage on the long-haul and the expected lower average yields compared to FSNCs, the economic viability of the business model has been questioned (cf. [Francis et al., 2007](#)).

This paper makes three major contributions. First, a new flight capacity revenue metric is introduced that enables the comparison and evaluation of revenue performance across different routes, carriers, aircraft types, and cabin classes. Second, a revenue model is established that joins extensive sets of actual data from various sources to provide an accurate base for conclusions. Third, differences in revenue performance between LCCs and FSNCs are uncovered, including underlying reasons.

The remainder of this paper is structured as follows: [Section 2](#) provides an overview of previous studies on long-haul LCC revenue, evaluates existing airline passenger revenue metrics, and develops the hypotheses. [Section 3](#) introduces the data sources, the revenue model, and the data sample used in this analysis. In [Section 4](#), results of the revenue comparison across carriers are presented and

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Table 1

Overview of long-haul LCC operations.

Sources: Daft and Albers (2012), airline websites.

Name	Continent	Long-haul operations started	Status
Laker Airways' Skytrain	Europe	1977	Operations ceased in 1982
People Express	North America	1983	Operations ceased in 1987
Zoom Airlines	North America	2002	Operations ceased in 2008
Oasis Airlines	Asia	2006	Operations ceased in 2008
Jet Star	Australia	2006	In service
Air Asia X	Asia	2007	In service
Scoot	Asia	2012	In service
Norwegian Air Shuttle	Europe	2013	In service
Eurowings	Europe	2015	In service
Westjet	North America	2015	In service
Wow Air	Europe	2015	In service
Level	Europe	2017	In service

discussed. Section 5 concludes this paper.

2. Literature review and hypotheses

This section begins with a review of previous studies that have examined revenue characteristics of long-haul LCCs followed by the definition of central hypotheses. Subsequently, the complication of bench-marking revenues in the airline industry is discussed and previously used revenue units are reviewed and adapted for the purpose of this analysis.

2.1. Previous studies on long-haul LCC revenue

Most previous studies that examined long-haul LCCs focused on cost advantages over other carrier types, mainly FSNCs. Table 2 lists those studies that also discussed revenue aspects.

Previous studies have assumed significant revenue disadvantages of long-haul LCCs compared to FSNCs: De Poret et al. (2015) have estimated LCC revenues for a 7.8 block hour long-haul flight by applying lowest available advance-booking fares from FSNCs across all passengers and using FSNC-level load factors of 80%. Daft and Albers (2012) have estimated the round-trip fares for a 8.5 block hour long-haul flight with a 20% discount to FSNC economy fares, applying FSNC-level load factors between 65% and 80%.

In both cases, significant fare discounts to FSNC carriers have been assumed, while load factors have been kept at FSNC levels. As these assumptions are far-reaching, they build the key motivation for an in-depth analysis of revenue characteristics in this work. We agree that a fare discount of long-haul LCCs is likely present to be able to attract customers. However, the revenue per equivalent flight capacity unit may not differ significantly since previous studies have identified that the unit cost advantage of LCCs is lower on

Table 2

Previous studies with relevant insights on long-haul LCC revenue.

Author/year	Study type	Revenue-related insights
Tretheway (2004)	Comparison of short-haul point-to-point LCC and hub-and-spoke FSNC operating characteristics	FSNCs offer too much capacity than is economically viable due to the overestimation of network revenue contributions to individual routes (i.e., beyond revenues) and due to a short-term pricing focus
Francis et al. (2007)	Evaluation of applicability of LCC model to long-haul; assumption-based quantification of cost differences	Absence of high yield premium passengers reduces economic viability of long-haul flights. Without connecting passengers at hubs, demand would be insufficient
Morrell (2008)	Evaluation of applicability of LCC business model advantages to long-haul	Lowering long-haul fares significantly from current fares is not feasible also for LCCs. Connecting passengers are needed, as FSNCs have often > 50% connecting passengers on their route
Douglas (2010)	Evaluation of long-haul LCC market entries using strategic frameworks	Premium classes allow long-haul LCCs access to high-yield leisure traffic and price-sensitive corporate travellers
Wittmer et al. (2011)	Differentiation of airline strategies and their interdependence with network management	FSNCs have a tendency of pricing transfer connections at marginal cost, particularly when in competition to other hub carriers. This pricing approach can imply serious long-term financial risks
Daft and Albers (2012)	Route profitability analysis of long-haul low cost flight scenarios	Revenue considerations are important when analyzing viability of long-haul LCCs. Sufficient demand to fill long-haul aircraft is key. Ancillary revenues can significantly contribute to profitability
De Poret et al. (2015)	Assumption-based profitability analysis of two long-haul LCC routes	Larger wide-body aircraft can be operated economically on routes with high point-to-point leisure demand or when feeder traffic at the ends of a flight leg can be found. Ancillaries are a key source of revenue
Wilken et al. (2016)	Estimation of potential traffic for long-haul point-to-point routes	Hub feeder traffic may be an important requirement for long-haul LCCs

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