



## Base abandonments by low-cost carriers



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### ABSTRACT

This paper is the first attempt to systematically investigate the phenomenon of base abandonments by low-cost carriers (LCCs) in the world, from 1997 to 2014. Our results identify 109 cases where the LCCs decreased their presence in airports by at least 50 per cent in terms of offered seats. In 28 cases, the LCCs completely abandoned the airports. The incidence of downsizing is significantly reduced for important base airports. The abandonment by LCCs can be reversed, even though this is not very likely; in only 7.3 per cent of cases the same LCCs recovered full capacity. The impact on airports of LCC abandonments depends on the carrier level of dominance. The presence of middle size alternative airports increases the likelihood of downsizings.

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### 1. Introduction

A recent study on airport competition, the report commissioned by ACI Europe to [Copenhagen Economics \(2012\)](#), discussed airline switching, that is the ability of an airline to relocate its services, as a factor generating competitive pressure on airports. One key finding was that about 15–20 per cent of routes opened and closed each year on account of airlines redeploying their fleets to maximize profitability. Such airline instability is a threat to an airport's ability to correctly invest and plan its future developments and may detrimentally affect the economy of the airport's surrounding areas.

An extreme form of airline instability is de-hubbing, by which the hub carrier abandons the airport. Previous studies have shown that de-hubbing is most often irreversible. The fact that all main hubs nowadays include in their master plans a worst-case de-hubbing scenario speaks volumes about the gravity of the perceived risk. Similarly, low-cost carriers (LCCs) can abandon or reduce their presence significantly in airports.

In replies to an Airports Council International (ACI) report, the [IATA \(2013\)](#) remarked that 'point-to-point' carriers, primarily LCCs, are responsible for the majority of switching activities, because their business model allows changing airports easily. Compared to de-hubbing, where the relationship between hubs and hub carriers is generally balanced, and in some cases even symbiotic, the market

power in switching is markedly on the LCC side.

Indeed, some LCCs are famous for their occasionally aggressive approaches to obtain favourable deals with airports and other suppliers, and often we read newspaper reports about LCCs threatening to abandon airports. In 2013 Ryanair cut flights from London Stansted, its main base, because of increased fees.<sup>1</sup> More recently, the Irish carrier threatened to withdraw all aircraft based at Oslo Rygge, after the Norwegian government announced a new passenger tax.<sup>2</sup> A threat of abandonment can be a very effective deterrent against airports' untoward behaviours, such as planning an increase in charges. Probably, this is because a component of leisure demand can be geographically diverted by low fares (affecting the so-called footloose passenger). The issue of LCCs abandoning bases has been covered so far only with anecdotal evidence.

We intend to examine how frequently LCCs abandon an airport completely or partially, whether this is an increasing or decreasing trend, and whether it is a European phenomenon or is common among LCCs the world over.

We analyse the variation in seats offered at airports. Our analysis covers 813 airport-low cost carrier (LCC) pairs in which the carriers offered at least 500,000 seats annually. Further, even if point-to-point carriers do not hub, they have bases where aircrafts stand overnight and some logistic activity takes place. We

<sup>1</sup> <http://www.bbc.com/news/uk-england-essex-21631597>.

<sup>2</sup> <http://www.ch-aviation.com/portal/news/42836-airlines-warn-of-repercussions-over-norways-new-flight-tax>.

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consider the de-hubbing process similar to aircrafts leaving a base airport.

The remainder of this paper is organised as follows. Section 2 reports the relevant literature on the LCC–airport relation. Section 3 describes the data and research methodology, Section 4 includes descriptive statistics of the dataset, and Section 5 reports and analyses the results of the empirical analysis. The final section concludes and proposes directions for further research.

## 2. Literature review

### 2.1. LCC and airport relation

There is wide agreement that the development of LCCs and airport commercialization significantly changed the airport–airline relationship. An understanding of this relationship would shed light on the reason for generating instability and abandonments since they too depend on the how LCCs choose their airports and on their long-term relationship. For a complete review of the topic, see the work of [Graham \(2013\)](#), who analyses all the features affecting the airport–LCC relationship. She finds that ‘LCCs choose airports that meet the needs of their operating model, whilst taking into account the extent of airline and airport competition,’ with higher airport competition welcomed by LCCs, most probably because the presence of alternatives increases the bargaining power of LCCs ([Gillen and Lall, 2004](#)). The low-cost model tends to serve airports offering low aeronautical charges and other user costs or airports that are flexible in negotiating deals ([Francis et al., 2003, 2004; Barrett, 2004](#)). Nevertheless, the conclusion of [Graham \(2013\)](#) is that ‘not all the evidence pointed to airport costs being the overriding influencing factor’. Moreover, the literature is not exhaustive on the topic because it focuses on factors affecting LCC airport choice without attempting to rank them. One notable exception is [Warnock-Smith and Potter \(2005\)](#), who through a survey of eight European LCCs find that the demand for low-cost services is the most important choice factor, with aeronautical charges ranked fourth. The recent move of LCCs for a primary airport even in Europe indirectly confirms that the level of airport charges is not the only factor determining LCC airport choice.

[Gil-Moltó and Piga \(2008\)](#) analysed the exit and entry strategy followed by easyJet, Ryanair, and British Airways during 1997–2004. They find the possibility of entry and exit more likely in a large market. If we interpret this as LCC preference for a known market, it confirms the proposition that demand is one of the most important factors for airport choice. [Dennis \(2007\)](#) found that low-cost airlines perform best on dense routes involving no major airports and leisure routes between northern and southern Europe but reveal little growth in thin north European routes. The fact that LCCs enter into some kind of ‘nowhere’ airport does not mean that they do not care about the level of demand, but that their evaluations are based on a greater catchment area, as suggested by [Dennis \(2007\)](#). Thus, the first reason for LCCs to reduce services could be the decrease in expected demand for LCC services. Among the possible reasons for reduction in demand, the deterioration of socio economic conditions appears the strongest.

LCCs take decisions on their airport entry and exit in the light of their overall network development. [Dobruszkes \(2013\)](#) analyses the evolution of the LCC network in Europe and finds that the network evolved by increasing its average route length and expanding toward eastern Europe but remaining mainly focused on the intra-Western market and large cities and tourist destinations. [De Wit and Zuidberg \(2012\)](#) highlight that the new routes opened by LCCs in Europe progressively became thinner and less densely served. They argued that this represents a sign of growth limitation that could lead to a change in LCC strategy in the future. They

hypothesize the possible greater focus on primary airports and LCCs engaging in codesharing agreements.

The progressive shrink of newly introduced routes ([De Wit and Zuidberg, 2012](#)) can also deter LCCs from exiting their existing airports from where they offer more dense routes. This prediction is partially corroborated by [Dobruszkes \(2013\)](#), who finds relatively good service stability at the city level but significant volatility at the inter-city level.

Small airports that are not suitable for potential strategy switch and particularly those that have accommodated LCC services in recent years with less dense routes are potentially exposed to a higher risk of abandonment.

An important aspect of previous findings is that the majority of studies relate to Europe and that the findings cannot be easily transferred to the rest of the world. For example, in the United States, where the low-cost model was introduced during the seventies, LCCs have increasingly developed hubbing activities, departing from the point-to-point model ([De Wit and Zuidberg, 2012](#)).

The few studies relating to the Asia-Pacific region highlight that the scarcity of secondary airports and the presence of other barriers cause LCCs to choose the same primary airports served by traditional airlines ([Forsyth, 2003; De Neufville, 2008](#)). Having dedicated low-cost terminals as well as other advantages is another factor distinguishing those areas from Europe.

Since the development process and some key features vary across countries, we expect the intensity of LCC downsizing to be geographically heterogeneous. As discussed by [Winston and de Rus \(2008\)](#), air transport regulation and privatization significantly differ among Countries and macro regions, so affecting the competitive landscape and the performances of their aviation systems. This limits the comparability among areas and the ability to identify common behaviours that affect LCCs downsizing around the world.

### 2.2. Benefits of LCC presence

The entry of LCCs can directly benefits consumers by offering services at lower prices compared to traditional carriers, and indirectly by generating price reductions also on routes offered by other carries, due to the positive effect of direct, adjacent and potential competition ([Morrison, 2001](#)). To attract LCCs and increase traffic, some airports developed dedicated LCC terminals as a way to gain a competitive advantage at least for a time window ([Njjoya and Niemeier, 2011](#)).

However, as pointed out by [Graham \(2013\)](#), previous literature has not clearly identified the financial benefits for airport of LCC services. Analyses of commercial revenue often provide controversial results; in some studies, few impacts are detected due to the extremely marginal commercial infrastructure at the LCC airport. [Bottasso et al. \(2012\)](#) studied a UK airports sample over the 2002–2005 period and investigated whether LCCs had any impact on the airports’ total factor productivity (TFP). They find that ‘empirical results are consistent with the hypothesis that conspicuous entry of LCCs on European markets has impacted positively on the vertical chain by facilitating airports’ productivity improvements’.

In contrast, as mentioned at the beginning of this section, LCCs were undoubtedly successful in terms of passenger growth generated in several airports (from less than 1 million passengers to 9 million in Bergamo Airport and from less than 5 million in the beginning of 2000 to about 20 millions in London Stansted). In Europe, during the early 2000s, the illusion of a traffic boom, thanks to low costs irrespective of airport and territorial features, appeared to come true.

An increase in number of passengers is strongly beneficial for airports with unused capacity. This may pose some questions on

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