Journal of Air Transport Management 34 (2014) 78–85

Contents lists available at ScienceDirect

Journal of Air Transport Management

journal homepage: www.elsevier.com/locate/jairtraman

Grounded: Characterising the market exit of European low cost airlines

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Keywords:
Low cost carriers (LCCs)
Market exit
Europe

ABSTRACT

The aim of this paper is to undertake a comprehensive study of low cost carrier (LCC) market entry and exit in Europe between 1992 and 2012. In the 20 year period between 1992 and 2012, 43 LCCs have taken advantage of the progressive liberalisation of the European aviation market and commenced scheduled flight operations within the continent. Of these 43, only 10 remain operational, a failure rate of 77%. This paper contributes to extant literature on LCCs by examining the market entry, business practices, operating longevity and fate of failed operators to characterise European LCC market exit. Drawing on the findings of a detailed continental-wide study, the paper identifies that an airline's start-up date, the nature and size of its operation and the size and composition of its aircraft fleet are key factors which influence LCC success and failure. The implications for both European and emerging LCC markets are discussed.

1. Introduction

The reasons for, characteristics of and the myriad socio-economic and cultural implications resulting from policies of global airline deregulation, air transport liberalisation and the dramatic growth of low cost carriers (LCCs) worldwide have attracted considerable political, academic, and public attention. Worldwide, numerous articles, reports, and empirical analyses have been conducted into virtually every facet of LCC operation, from the corporate business philosophies, marketing, and revenue management strategies adopted by the principal protagonists, to the development of their route networks, their relationships with airports, and customer experiences of low cost flying (see Section 2). The majority of research has focused on the socio-economic benefits and 'success stories' associated with the emergence of a new type of airline that took advantage of the more liberalised operating environment to develop new business models and operating practices that avoided the expense associated with traditional full-service airline offerings, lowered their cost base and allowed them to pass the savings on to consumers in the form of lower fares.

Scholars from a variety of academic disciplines have examined the regional economic benefits that may result from the formation of new LCCs, the impact of new routes and destinations on competition and/or the effect of LCC product and service innovations on employees, subcontractors, consumers and competitors (see Section 2). In contrast, little research has explored the characteristics of LCC failure and market exit. Considering the volatility of airlines and air traffic, particularly during periods of economic recession, this is a significant omission. It thus represents a highly topical and critical issue for policy makers, regions, airports and consumers. Certainly, the implications of routes being withdrawn, links being severed at short notice and airlines ceasing operations are potentially far reaching, especially for regions with limited alternative air service provision or sources of employment.

In response to the paucity of empirical research into LCC failure and the need to identify factors which may contribute to LCC market exit, the aim of this paper is to undertake a comprehensive study of LCC market entry and exit in Europe between 1992 and 2012. The paper begins by reviewing the salient literature on low cost carriers before the method is described and the temporal, operational and spatial characteristics of European LCC market entry and exit are described. The paper discusses the characteristics of LCC market exit that have been identified and concludes by examining the implications of LCC market failure for airline and airport operators, competition, and consumers both within Europe and in emerging LCC markets in other world regions.

2. The LCC phenomenon

The emergence, expansion and evolution of low cost carriers over the last 35 years has been well documented and arguably represents one of the most significant developments in recent

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0969-6997/$ – see front matter
http://dx.doi.org/10.1016/j.jairtraman.2013.08.002

commercial aviation history (Calder, 2002; Lawton, 2002). Pioneered by Texas-based Southwest Airlines and widely adopted in the immediate aftermath of the 1978 US Airline Deregulation Act, subsequent policies of air transport liberalisation in Europe and parts of Latin America, Africa, the Middle and Far East, Indian subcontinent and Australasia from the mid-1990s onwards (see Doganis, 1994; Williams, 1994; Caves, 1997; Goetz and Sutton, 1997 for an overview) has meant that low cost carriers have become an increasingly global phenomenon that have dramatically reconfigured the patterns, processes, customer expectations and experiences of flight. Globally, the LCC sector has expanded rapidly to the point where LCCs now account for 22% of all passenger flights and 26% of all airline seats worldwide (OAG, 2012). Despite significant regional variation both between and within different LCC markets, some of the most dramatic growth is currently occurring in the rapidly expanding economies and recently liberalised air transport markets in Asia and the Middle East. However, in terms of regional market penetration, LCCs have arguably had the biggest impact in Europe where they currently account for over 28% of all passenger flights (OAG, 2011).

Although there is no universally accepted definition of what constitutes a low cost carrier, Button and Ison (2008) suggest that LCCs can be distinguished from other airlines on account of the former's close adherence to many (if not all) of the following cost-minimisation strategies: To reduce maintenance and training costs, ease scheduling, and take advantage of bulk purchase discounts from manufacturers, most LCCs operate a single aircraft type (usually Boeing 737 or Airbus A320 family airframes) and a single airframe–engine combination. These aircrafts are configured with an all-economy class cabin to maximise the numbers of revenue-earning seats that are available and they are flown on frequent short-haul point-to-point services, often between cheaper and less congested secondary regional airports. In order to maximise aircraft utilisation, each aircraft performs multiple services in a day and are turned around between flights in as little as 30 min. LCC operations are further characterised by their 'no frills' cabin service policy and limited customer service. Typically, LCCs also make extensive use of ancillary revenue generation and have transformed conventional cost items including hold baggage and in-flight catering into revenue streams. To further minimise costs, they often enter into commercial partnerships with third-party companies (such as accommodation providers and car-hire firms), subcontract aspects of their operation, engage in bold and often controversial marketing and use the internet for the majority of their distribution.

Much of the early literature on the emergence and growth of European low cost aviation examined the nature of the low cost model and the operating practices of its principal protagonists (see Lawton, 2002; Calder, 2002; Alamdari and Fagan, 2005). This body of work quickly expanded to include the impact of LCCs on legacy operators and on competition (Francis et al., 2007; Doganis, 2010; Fageda et al., 2011), examine how LCCs have changed the nature of the airline–airport relationship (Francis et al., 2003, 2004; Starkie, 2012; Graham, 2013) as well as the economic impact of new LCC services on patterns of business, tourism, and migration (Graham and Dennis, 2010; Castillo-Manzano et al., 2011). Other studies have focused on LCCs' revenue management and pricing strategies (Gillen and Morrison, 2003; Alves and Barbot, 2009), their use of ICT and the internet (Hanlon, 2007; Calder, 2002), the spatial distribution and evolution of their route networks (Dobruszkes, 2013), the charismatic management styles of LCC leadership (Calder, 2002) and customer experiences of low cost flying (Mason, 2000).

Crucially, and with the notable exception of Button (2012), very little has been written about LCC failure or market exit despite the volatile and highly competitive nature of the European airline sector. In order to identify the characteristics of market failure and LCC market exit in Europe, a comprehensive continent-wide study of LCC market entry and exit in Europe between 1992 and 2012 was conducted.

Table 1
The 43 European LCCs operational between 1992 and 2012.

Airline	Country of origin	Type of operation
Air Berlin	*Germany*	*Diversified charter operator*
Air Polonia	Poland	Southwest copycat
Air Scotland	UK	Diversified charter operator
Air Turquoise	France	Southwest copycat
Basiq Air	Netherlands	Diversified charter operator
Bmibaby	UK	FSC subsidiary (bmi)
Buzz	UK	FSC subsidiary (KLM)
Centralwings	Poland	Southwest copycat
Click Air	Spain	FSC subsidiary (Iberia)
Color Air	Norway	Southwest copycat
Dba	Germany	FSC subsidiary (British Airways)
Debonair	UK	No category identified
easyJet	*UK*	*Southwest copycat*
EU Jet	Ireland	Southwest copycat
FlyGlobespan	UK	Diversified charter operator
Flying Finn	Finland	Southwest copycat
FlyMe	Sweden	Southwest copycat
FlyNordic	Sweden	Diversified charter operator
Germania Express (gexx)	Germany	Diversified charter operator
Germanwings	*Germany*	*FSC subsidiary (Lufthansa)*
Get Jet	Poland	Southwest copycat
Go	UK	FSC subsidiary (British Airways)
Goodjet	Sweden	Southwest copycat
HLX	Germany	Diversified charter operator
Iceland Express/WOW	*Iceland*	*Southwest copycat*
Jet2	*UK*	*Diversified charter operator*
MyAir	Italy	Southwest copy-cat
MyTravelLite	UK	Diversified charter operator
Norwegian	*Norway*	*Southwest copycat*
Ryanair	*Ireland*	*Southwest copycat*
SkyEurope	Slovakia	Southwest copycat
Snowflake	Scandinavia	FSC subsidiary (SAS)
Star1	Lithuania	Diversified charter operator
Sterling	Denmark	Diversified charter operator
ThomsonFly.com	UK	Diversified charter operator
Transavia	*Netherlands*	*Diversified charter operator*
V Bird	Netherlands	Southwest copycat
Virgin Express	Belgium	FSC subsidiary (Virgin)
Volare Web	Italy	FSC subsidiary (Alitalia)
Vueling	*Spain*	*FSC subsidiary (Iberia)*
Windjet	Italy	Diversified charter operator
Wizz Air	*Poland*	*Southwest copycat*
Zoom UK	UK	Diversified charter operator

Airlines listed in italics were operating in January 2013.

3. Method

Every low cost carrier that was registered and actively operating revenue-generating flights in Europe – defined here as members of the European Economic Area (i.e. European Union members plus Norway, Switzerland and Iceland) – between 1992 and 2012 was identified from an exhaustive online interrogation of aviation databases, airline resource sites, and academic publications. Only European airlines that flew under their own air operator's certificate and/or functioned as a distinct low cost operation were included in the study. Non-European based LCCs that serve European destinations, 'virtual' LCCs that sold tickets on behalf of other operators but who did not operate their own aircraft and 'paper' LCCs which were proposed but which never operated a revenue service (such as UK-based low cost operator 'Now') were not considered. Similarly airlines including Monarch (UK) and Aer Lingus (Ireland) who experimented with cost cutting in the mid-