

APG World Connect

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**Is the future in low cost
airlines ?**

**Marc Rochet
Monaco, November 2018**

Different opinions regarding LCCs

- Some **doubted LCCs very existence**
- Some believe now only **LCCs market leaders** will survive
- Long haul low-costs are **under scrutiny** as new players
- **Legacy business-model** is moving with more or less success

General state of the business

- **RISKS**

- Fuel price is going up
- Crew (experienced) shortage
- Strong downward pressure on Air Ticket
- Airports congestion

- **OPPORTUNITIES**

- Market forecasts still growing
- Revenue generation from Digital marketing
- Airline industry's **GAFA** will come
- New narrow bodies for Long haul

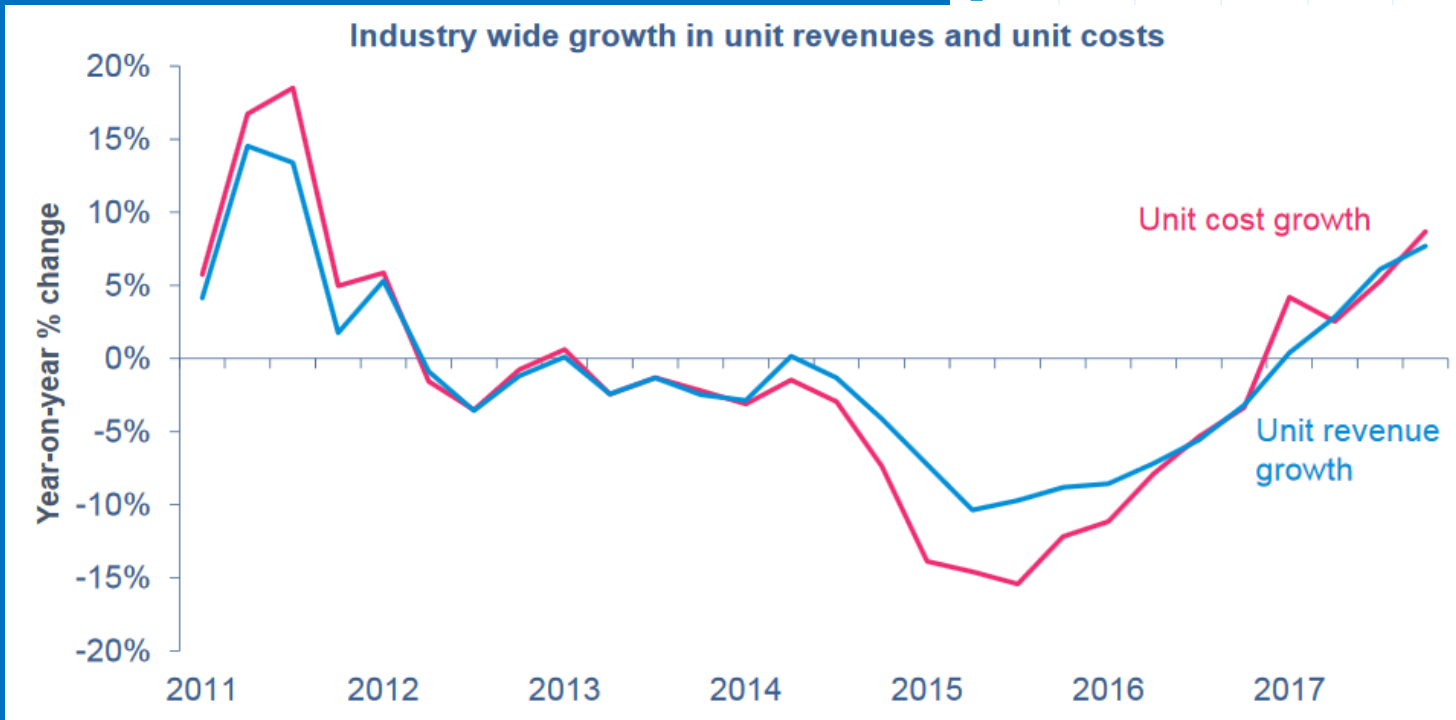
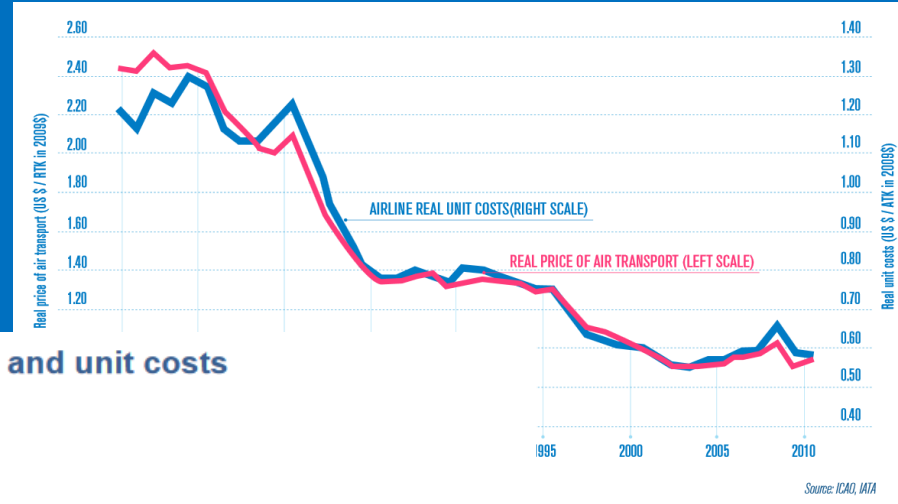
Recent news raise concerns

- After Air Berlin & Monarch
- Collapse of Primera end of September
- Ryanair issued a profits warning same day (profit outlook to €1.1-1.2 billion still !!)
- Cobalt collapse mid-October
- Alitalia case still open
- And more to come

=> **strong headwind forecasted**

Revenues follow unit costs

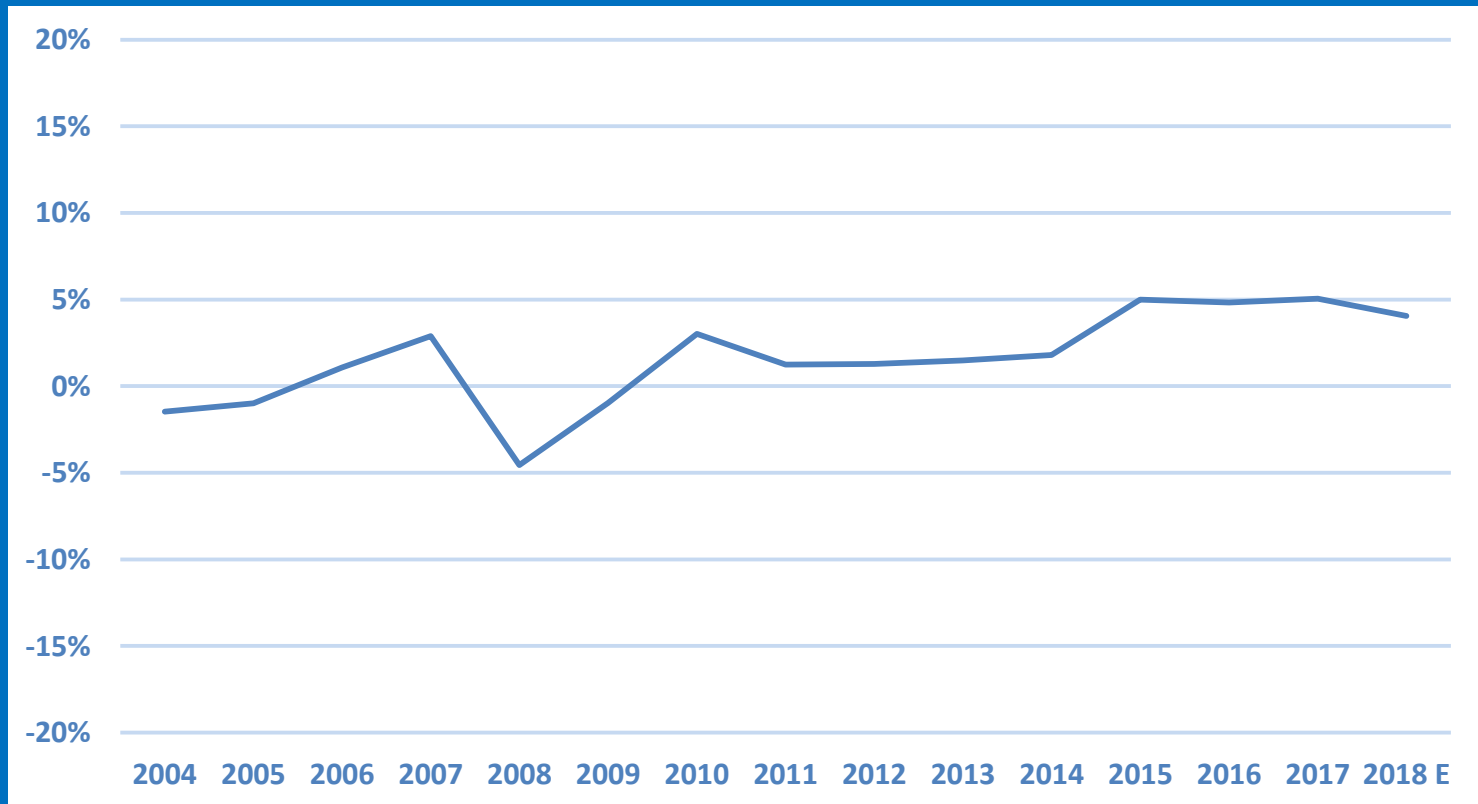
Chicken and the egg story, but the consequences are real ...



Source : IATA











Revenues follow unit costs

- Our profits are small, very small



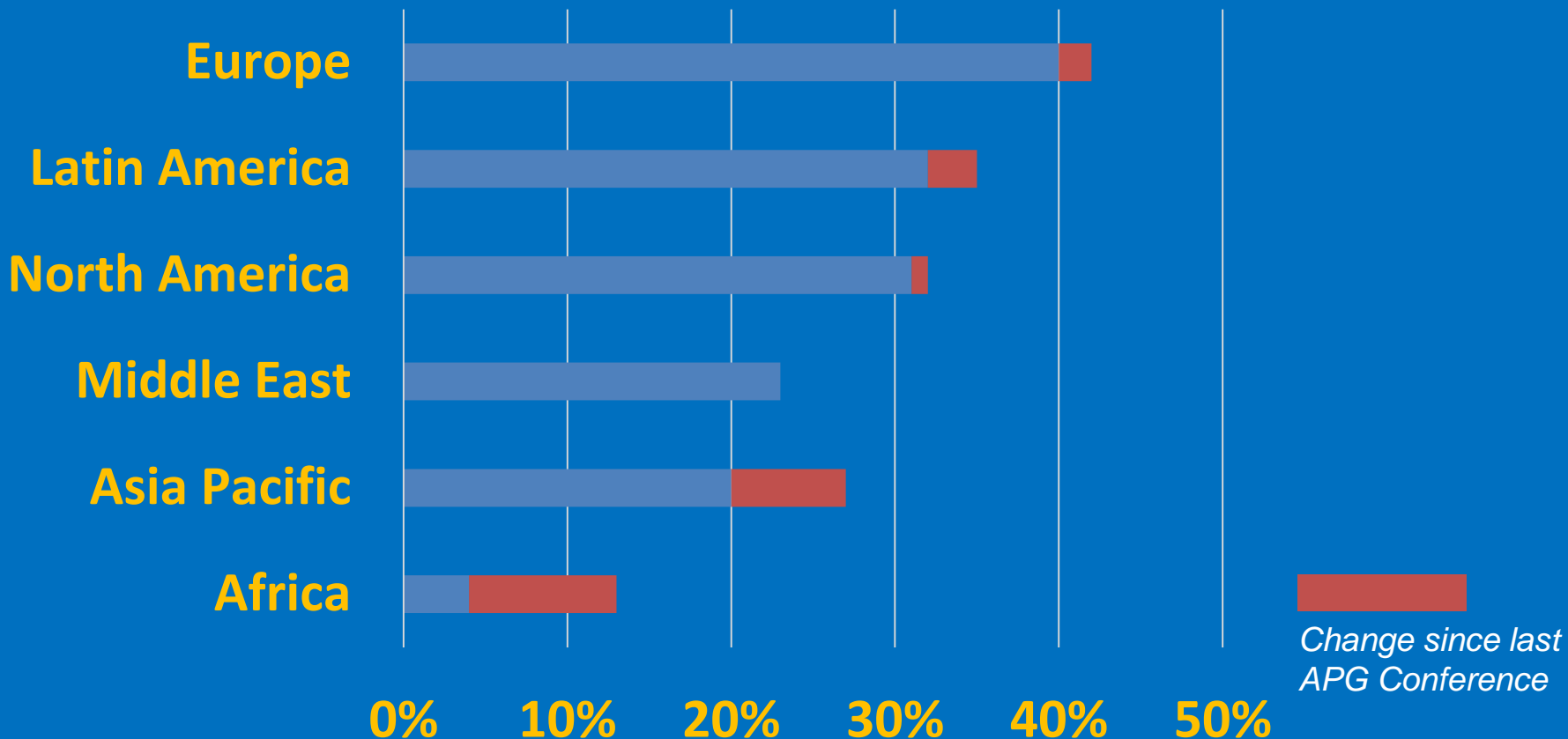
Airline profit margin
Source : IATA

A unique LCC-model does not exist

Ultra Low Cost	Traditional Low Cost	Modern Low Cost	Long haul Low Cost
<ul style="list-style-type: none"> - Single class, maximized seat density - Aggressive seat pricing, with strong focus on ancillaries - Focus on leisure travelers - Mainly secondary airports 	<ul style="list-style-type: none"> - Point-to-point - High frequency - Leisure travelers and price sensitive business travelers - Mainly primary and secondary airports 	<ul style="list-style-type: none"> - Point-to-point and network - Leisure travelers and price sensitive business travelers - Premium cabin, compromised seat density - Frequently primary airports 	<ul style="list-style-type: none"> - Point-to-point and network - Leisure travelers and price sensitive business travelers - Premium cabin, compromised seat density - Frequently primary airports
 	 	 	   

low-cost – short-haul / market penetration

- Europe is the most developed market for LCC



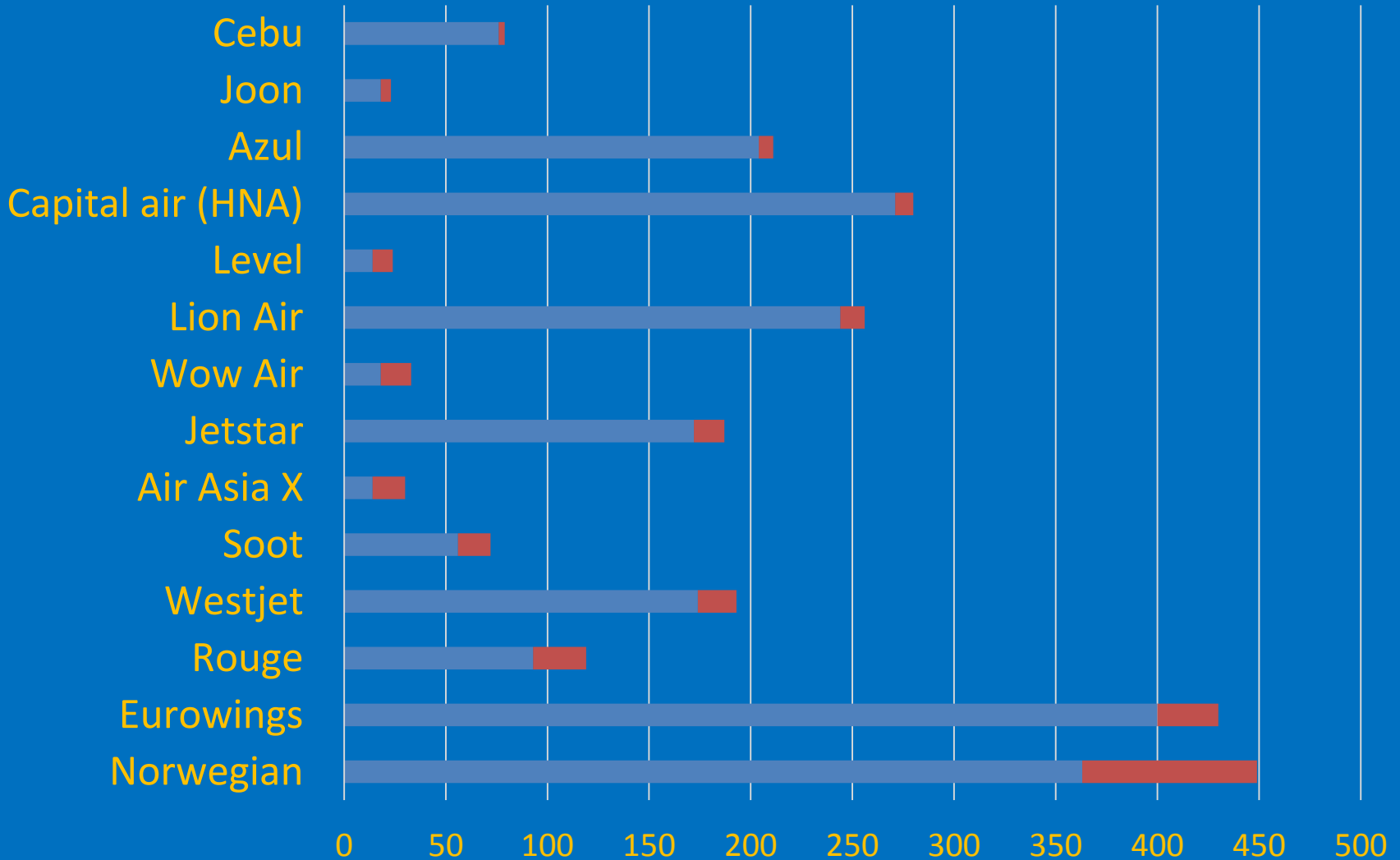
Share of LCCs in domestic and intra-regional ASK, by region (in 2017) – source Airbus Market Outlook

Low-cost at global level / growth rate

- Model is particularly successful in Asia Pacific.
 - Average LCC growth rate 24.5% / past 10 years
- By comparison, during the same period :
 - Europe's LCCs grew 13.4%
 - North America's LCC grew 2.2%
- Vast majority is short-haul /single-aisle airplanes

Routes vs sector length

> 4.000 km
< 4.000 km



LCC growing into Long-Haul

- **Disruptive influence** in markets
- Challenge is to **attract enough demand** and lack of connecting passengers vs legacies
- Many of the markets may **prove sustainable** : large trunk route, high VFR traffic proportion, Demand elasticity to pricing is a real story
- Model is "**lower cost**" rather than true low-cost.
- Single aisle long-haul another **game changer** ?



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Risk& on LCCs model

- Risks
 - Current full order books of aircraft manufacturers
 - Pilots shortage
 - Congested airports and airways
 - Fuel Price and \$/€ exchange rate (Europe)
 - European regulations such as compensation of travelers
- Moving fast is crucial
- Airlines are taking the best elements of each model leading to some homogeneity.

Business-model convergence

- Like LCCs, a fully converged short-haul legacy could offer :
 - Higher seat configurations
 - Ancillary revenues : fares with unbundled fees for luggage, meals, and early boarding
 - Schedules designed for peak passengers rather than in rigid bank structures.
- But like a traditional full-service carrier, LCCs could also make use :
 - loyalty programs, connections, GDS sales to premium customers.

More significant impact on LCCs than FSCs

- Benefits of the white sheet of paper :
 - Finding **innovative ancillary revenues**,
 - Lowering all possible **costs**,
 - target : **price-sensitive customers**,
 - Keeping the **employees** satisfied
 - **Customer perception to exceed expectations**
 - **Big data techniques** : improve organizations, create better services and products, increase customer satisfaction and improve airlines safety

Business-model convergence

The short-haul model converges

- Hybrid consensus
- **Cost base is driving differentiation**

Industry is moving. All options opened !

- “LCC versus full-service” => “short-haul vs Hub,”



Level will start operating from Vienna with four leased Airbus A321, which were part of Air Berlin's insolvency estate, and plans to increase its fleet to 30 within the next five years, Walsh said.

Its 14 European destinations include routes which are already served from the Austrian capital such as Palma de Mallorca and Barcelona.

IAG has already ordered more aircraft for its carrier, and is in talks with Boeing and Airbus about buying more planes, Walsh said.



Europe's airline industry is in a consolidation frenzy and Lufthansa, the continent's largest airline, can't seem to resist getting involved. This week, CEO Carsten Spohr admitted he is in contact with Norwegian Air Shuttle, confirming rumors that the German flag carrier may be looking at a bid for the budget airline.

"In Europe, everyone is talking to everyone. There's a new wave of consolidation approaching. That means we are also in contact with Norwegian," Mr. Spohr told Germany's Süddeutsche Zeitung. Asked whether Norwegian would fit with Lufthansa, he said: "Takeovers are always a question of strategic value, the price and anti-trust. There are no easy answers."



LINK — CULTURE

JETBLUE FOUNDER ANNOUNCES LOW-COST AIRLINE, MOXY

Nicknamed Moxy and scheduled for take-off in 2021, a low-cost airline from JetBlue founder David Neeleman will traverse uncommon international routes. The tech-focused carrier will cut out phone lines and paper tickets—opting for an automated, app-centric experience for users. The airline will focus on non-traditional hubs—for instance, Scranton, Pennsylvania or from Florida to smaller cities in northern Brazil. Most of the flights will be non-stop, and Neeleman believes that most of their routes will never see competition. Read more about the project at Skift.



At the end of the day.....

Growth is coming from VFR and Leisure market:

- Customers don't care about business models
- They care about price and service reliability
- **Cost base is driving differentiation**

Industry and our world are changing every day

- Tomorrow success story !
- The 4 Cs story

The 4 Cs

➤ **C**ustomers care

➤ **C**osts

➤ **C**apabilty to move

➤ **C**hallenges everyday