Ready for Take-off?

Why this report?

The emergence of low-cost carriers (LCCs) has been a key catalyst for the development of the aviation industry in the last decade.

Despite recent developments in the LCC markets in Asia and Latin America, much of the research has been focused on developed countries. Therefore, the purpose of “Ready for Take Off” is to identify the premises and prerequisites of the LCC model, and assess whether this business model could be successful in other less-developed countries, particularly in Sub-Saharan Africa.

LCCs are defined as carriers which, through a variety of operational processes, have achieved a cost advantage over full-service carriers. This cost advantage is, in most cases, translated into lower fares for the consumers.

What's the potential impact of LCCs?

Various studies, varying in scope and methodology, have shown air transportation to have a considerable positive impact on employment, gross domestic product (GDP), trade, tourism, and productivity, among other factors. Other studies have also looked into the impact of LCCs on the flows of labor, migrants, knowledge, business connectivity/investment, and mobile markets.

Specific focus has been paid to the impact of LCCs on traffic stimulation through lower fares and their overall impact on competition and fare levels in the market. However, the effects of low-cost airlines go far beyond fare levels and passenger traffic. There is, for instance, a particularly well-documented correlation between LCC entrance and tourism.

Note: LCC = low-cost carrier; SME = small and medium enterprises.
The European Low Fares Airline Association has grouped the benefits for tourism into three categories:

- An increase in tourist destinations due to usage of secondary airports;
- More even distribution of traffic throughout the year reducing “seasonality effects”; and
- Low off-peak fares, which have enabled mid-week holiday travel. This distributes traffic more evenly across the week and reduces congestion at airports.

What are some key factors for developing LCCs?

The success of LCCs in these markets, however, was dependent on certain market conditions, including:

- Economic growth and a sizable middle class to drive demand;
- Air transport liberalization and privatization of monopolistic state-owned carriers;
- The availability of adequate, low-cost air transport infrastructure;
- Availability of qualified human resources;
- Appropriate safety and security standards;
- Low-cost distribution channels;
- Availability of cost-effective financing for aircraft;
- Fuel availability and cost; and
- Good governance to provide a sound investment climate.

What are the key characteristics of LCCs?

- Simple service offering focusing on the key service of transport and removal of all “frills” (free baggage, on-board meals, assigned seating) or charging additional fees for them;
- Short-haul, point-to-point route structure rather than traditional and oftentimes expensive hub-and-spoke network;
- Usage of secondary airports with lower airport charges, higher availability of slots, and reduced congestion;
- High aircraft utilization through shorter turnaround times, longer routes, one or higher flight frequency;
- Fleet commonality and newer, more fuel-efficient fleet to minimize maintenance and personnel, increasing purchasing power in aircraft procurement and reducing fuel costs;
- High-density one-class configuration to maximize aircraft capacity;
- Low-cost distribution through online selling;
- High labor utilization through a higher number of average block hours per employee and/or higher passenger-per-employee ratio.

Although these common operating practices can be identified across a range of low-cost airlines, there is no one particular LCC model or a single driving element responsible for its competitive advantage.
What are the lessons from Mexico and South Africa?

The effects of reduced fares and traffic simulation in Mexico and South Africa have seen rapid LCC growth in the last decade, with significant benefits for air travelers.

In Mexico, LCCs have captured almost 60 percent of the domestic market in 2012. They not only increased traffic from existing air travelers, but also attracted new flyers into the market.

Similarly, in South Africa, traffic was drawn from users of alternative modes of transport. On the Johannesburg–East London route, which takes more than eight hours by car, the entrance of LCCs increased air traffic by 52 percent between the second quarter of 2004 and the second quarter of 2006. This is seen to have been a major factor in revitalizing the region’s tourism industry, resulting in a more than 50 percent increase in holiday packages.

Adherence to Low-Cost Model, 2011-12

![Chart showing adherence to low-cost model from 2011 to 2012 for various airlines, with percentages ranging from 14% to 95%. The chart includes airlines such as Ryanair, AirAsia, easyJet, and others, each indicated by a horizontal bar.]

Sources: Based on information from Weisskopf 2010, airlines' annual reports and presentations, SEC filings, Air Finance Journal, and Seat Guru. (See appendixes A and B for details.)