The Low-Costs Airlines – a rewarding Effect of the European Integration, of Globalization

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Details about Sibiu airport / detalii privind Aeroportul Sibiu

Doganis fleshes out three different classes of airlines business:

- the traditional airlines which develop their own product and have organized their own services: electronic reservation, maintenance, catering, ground services etc.
- virtual airline companies that focus on their main activity and prefer outsourcing for all the complimentary ones in order to maintain low costs
- the airline concerns that include the flight as a main activity as well as all the resembling fields to the air transportation. The concerns may work also as single company as Lufthansa i.e. They obtain extra income by taking over the whole commercial flying services as well as the complimentary services.

The low-costs airlines (LCA) belong to the second category. Their activity relies on liner-flights, public, constant and professional promotion. They operate into the EU or US' air space, closed to the line-flights but also in competition with charter flights for holidays, mainly in Mediterranean or Caribbean areas.

According to Maurer "low-cost airlines, known as low-cost carriers, no-frill airlines or discount-airlines offer flights with reduced services on lower rates". Sterzenbach says that the so called low-cost-carriers make connections on short distances on a limited on board-service basis. The fact that, as a rule, they do not take place reservations and they serve no meal on board, as well as the shortage of luggage transfers and further connections decease the clients' interest. But the attraction of these discount companies is the net favorable price, that magnetizes not only the request of the passengers of the concurrent companies, but it also creates new potential clients; the transportation turns from terrestrial to aerial, shaping a new image of air transportation.

As this activity is pretty new, a comparative analysis shows up some common traits and rules but it can not illustrate a common low-costs strategy. Each company tries to find its own concept. We shall flesh out some elements more widely found:

- almost the same destinations as the line-flights
- the costs structure is similar to holidays charter flights
- direct selling by call-center or Internet that saves the agencies' commissions or the costs of a CRS (Computer-Reservation-System)
- discount prices (up to 70% of the usual rate in USA)
- low labor costs (lower wages, flexible work program)
- homogenous planes fleet (rather leased than bought, outsourcing for maintenance)
- a special net: short or medium distances, decentralized flights, PtP (point-to-point) connections, the use of the airports with low taxes, the avoidance of competition)
- buying up new groups of clients, ex customers of road and railway transportation
- organizing its own product: some of them offer only payable drinks and snacks, some frills, some a full on board service including the menu, drinks and press, some even selling of commercials, as well as down and upstream services, as car renting and hotels reservation
- time saving operating process, the cutting of costs by the shortage keeping the planes on the ground, a high flight frequency, shuttle system, simplified check-in and boarding procedures (electronic ticketing system)

Compared to traditional flights that are members of alliances and are able to offer a global net, the LCA limit themselves to the main component – the flight, and they can focus on it.

The European air traffic's policy was beingguided by the national sovereignty principle. Almost each state has its own company; it was holly financed by the state. The air companies were obliged through bilateral agreements with partners' countries to supply flight services on their own airports. The national companies – known as flag carrier – enjoy a good image and were being considered as a national symbol. Besides the emotional part they have played, the national companies have promoted tourism, being a main component of middle and long distance transportation. The fleets' development, the increase of the size of the planes, the even more performed technologies and even the protectionism and monopole rates couldn't arrive to keep positive results of this activity. The competition had been hardly noticed, only on additional services, as better schedule or a special on board service.

The agreements between companies and the decision of the governments organized the competing medium in international traffic as well as the domestic one. By multilateral accords were settled the right of over flight, the routes, the pooling, the tariffs etc. The European air traffic suffered of lack of concurrence; it was a closed market characterized by low productivity, too high tariffs, high bureaucracy.

The enlargement towards the North of the UE in 1973 with Great Britain, Ireland and Denmark incurred a major geographical reorientation of the common politics, air flights included. In US the rules resumed to a couple of regulations and laws; Europe has to unify a large variety of rules, laws and customs. A 3 steps process was settled up, in order to liberalize the air market. The multiple designing concept has brought a new tariff system and has offered the opportunity of low rates. The second step, two years later, has brought a higher flexibility of prices up to 70% under the reference price, and approvals of access on the airports and allotment of slots were being directed towards the new comers. The third step ended in 1992 by replacing the national regulation by the UE ones, which included: free prices, no limits to companies' flights volume, and the cancellation of coasting rule that has allowed the air companies to use any route on the airspace of the countries belonging to the UE. A competitional medium was being created.

The global declines as a result of the recession and the Golf war during the early '90 have brought important losses to European flag carriers. LCA were one of the ways to boost the airlines business. Because of the natural isolation, Ireland and Great Britain started through Ryanair (Ireland) (discount division of US Southwest-Airlines) followed by Easyiet, Go, Virgin Express and Buzz (Great Britain). The starting impulse was given by the open and liberal politics of British governments which settled simple rules for labor costs and flexible work program. During the year 2000 the air market reached 105 bil. USD by line companies (i.e. Lufthansa), charter flights (i.e. LTU), discount companies (i.e. Ryanair) and regional companies (i.e. Eurowings) distributed as followed: line-carrier 84.70%, charter-carrier 5.50%, Regional-carrier 8.20% and low-cost-carrier 1.60%. (Raymond James & Association, Inc. (2002): pag. 90)

Even if during 2000 the low-cost share was of only 1.6% two years later it has reached 5%. There is a general opinion that the law-costs traffic will take over the role of "air taxi" on medium distances.

Examining the main points:

- the low-cost airlines need a unique space; Romania will be into this space in 2007;
- the low-costs are allowed by the land facilities offered by secondary airports closed to main destinations;
- the low-cost flights means more quick businesses, that means development.

An example will be eloquent: in November 2004 a flight ticket Bucharest – Paris –Bucharest was 378, 401, and 379 € by CSA, Air France and Tarom. or from Budapest 222, 180, 223 € by Malev, Airfrance and Lufthansa. We have to add the costs Sibiu – Bucharest – Sibiu (about 20 € + parking 10 €/day) or Sibiu – Budapest – Sibiu (45 € by train). In the UE, a flight Bratislava – Paris – Bratislava is 123 € by SkyEurope. The train Sibiu – Bratislava – Sibiu is 60 €. The advantage is clear. But there is a different meaning we have to learn.

The Sibiu airport is an international one, but secondary compared to Otopeni. Even Otopeni is a small one, but it serves the Romanian capital. Looking to the enlargement process in Hungary we found out that the majority of foreign investments locate the Western part of the country. A similar scenario for Romania might be possible; the up to day made investments show a bias for Transylvania, Bucharest and Constanta. Inside Transylvania the competition might be among Timisoara, Arad, Oradea, Cluj, Targul Mures, Brasov and Sibiu. Targul Mures with a Hungarian component and Sibiu with a German one. As a matter of fact Carpathair is already operating flights from Cluj, Sibiu and Timisoara to the North of Italy. Tarom is operating flights to Munich through Sibiu and Frankfurt through Cluj.

We have to take into consideration two main factors: the access routes and the number of possible clients. For the latest one the number of the population might be a criterion. Bratislava collects clients from Bratislava, Vienna (65 km far) and even Budapest (200 km far by highway). Timisoara can collect people from Belgrad, even from Budapest but also Arad, Oradea, Deva and Craiova. Cluj might collect clients from Sibiu, Targul Mures, Brasov, Sibiu, Deva. Sibiu might collect clients from Deva, Ramnicul Valcea, Brasov, Targul Mures. We have to notice the involvement of the future highways in Romania: that one which connects Oradea to Bucharest through Brasov, that one which connects Arad to Bucharest through Sibiu and the fast road Sibiu Brasov. That might bring closer, as spent time the town of Pitesti.

There are 3 airports in Transylvania that might count for low-cost flights: Timisoara, Cluj and Sibiu. Timisoara has a substantial advantage, given by Belgrade that is not supposed to joint the UE soon. But Cluj and Sibiu are being in competition. The development of Central Transylvania relies also on which airports will be used by low-cost airlines. That will be decided on political basis too. The lobby made by the local authorities and the facilities offered by the local airports will play a major role. The most important argument is the information: who will be the first to start and, after that, the best informed on the subject!

The globalization, the integration into the UE might come as being fruitful by low-cost airlines, too.

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