Competitive Dynamics in the European Low-Fare Airline Industry: Case Study

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SAMPLE ONLY

This document provides short extracts of the full case study and contents list for the teaching note.

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In total, the case materials consist of:

For students:

- The case study and data-attachments
- Spreadsheet data for all exhibits and attachments in the case

For instructors only:

- A Teaching Note describing the many strategy tasks that can be carried out
- The spreadsheet data (as for students) with completed analyses and charts
- A complete slide-pack of all case Exhibits, all analyses from the spreadsheet, and strategy implications for firms in the industry.

The case is also supported by a simulation-based business game, enabling students to practice implementation of a strategy in this industry 'The LoFare Airline Microworld'. See http://www.strategydynamics.com/microworlds/lofare/.

Case Study Contents

Teaching Note Contents

Competitive Dynamics in the European Low-Fare Airline Industry, to 2009

Data for the Exhibits and Attachments to this case may be provided by your instructor. See Glossary for an explanation of terms.

Since the mid-1990s, low-fare airlines have transformed European air travel. Deregulation by the European Union (EU) opened the market to new carriers, and cut the state subsidies that had propped up inefficient national airlines for decades. These new airlines, also known as low-cost carriers (LCCs), were largely inspired by the long-run success of the US company, **Southwest Airlines**, which had grown strongly since the 1970s, especially after deregulation of US air travel in the 1980s. Southwest's value-proposition was essentially simple. Travelers would be happy with much less service than offered by the major airlines – no on-board meals, no reserved seating, no connecting reservations between flights, and so on – in exchange for much lower fares.

The very low price point not only stole passengers from full-service airlines, but also attracted new customers who would otherwise have traveled by car, train or bus, or not have traveled at all. This opportunity was especially large for journeys between pairs of smaller cities that had previously not been served by direct airline routes. Southwest stimulated demand further by offering frequent services on such routes, and made flights reliable by avoiding congested airports.

Airlines offering low fares for limited service already existed in Europe in the early 1990s, but most were either small national carriers, or charter airlines, whose main business was to provide cheap air travel for companies selling inclusive holiday packages.

The 1990s emergence

The LCC industry came into focus with the 1991 re-launch of Ireland's **Ryanair**, an airline that had existed since 1985, but was forced by a cash crisis into a review of its strategy. The only viable option, it felt, was to launch true LCC services, initially between Ireland and the UK. So successful was this transformation, and so bold its expansion, that by its financial year-end in March 1997 the company was flying 12 aircraft – mostly 130-seat Boeing-737-200s –between 13 destinations, and had during the previous 12 months sold 3.3 million passenger journeys for an average fare of €46.30. Ryanair had become consistently profitable, and in that year delivered profits[1] of €49.5m on revenues of €173.2m – a margin of 28.5%. There followed a burst of new routes from London's Stansted airport (actually 59km/37miles north of the city) to destinations in France, Belgium, Germany, Scandinavia and Italy. By March 2000, Ryanair operated 26 aircraft on 35 routes, and during the previous year had sold 6.1m passenger journeys[2] at an average fare of €54.18, earning profit of €130.4m on revenues of €370.1m.

[1] Earnings before interest, tax, depreciation and amortization (EBITDA)

[2] This case refers to "passengers" as airlines do – to report the number of passenger *journeys* sold during a period. We do not know, say, whether 100 journeys came from 100 people flying once each, or 20 people flying 5 times each. There is also a difference between journeys or seats *sold* or *booked* and journeys or seats *flown*, because a fraction of people, up to 7%, do not take the flight they paid for – so-called 'no-shows'.

Common features of low-cost carriers

Most LCCs followed closely the Southwest business model, essential to minimising costs so that fares could be kept low. Seats were sold direct to customers via telephone call-centres, rather than through travel agents. As the decade proceeded, powerful websites came to capture nearly all sales, reducing in size the costly call-centres. LCCs offered no loyalty schemes and did not use customer data for direct marketing. Ground service was little more than the minimum handling of baggage, and on-board staffing was limited to the requirements of safety regulations. Only a small range of on-board food and drink was offered, and that was charged for.

(There is more content for this section in the full document)

Exhibit 1: Illustrative impact of very low fares on passenger traffic, revenues and profits for a typical LCC airport, late 1990s.

(There is more content for this section in the full document)

Detail differences between business models

Although LCCs nominally followed the same 'low-cost' formula, airlines differed significantly in their detailed policies and positioning. **Southwest** Airlines claimed, for example, that a key to its success was the enthusiasm of its customer service staff, who often performed stunts to entertain passengers. No European carrier came close to matching this feature, and **Ryanair** made no attempt at this supposed culture advantage – employees were another big cost to be minimized through tough employment terms. Public relations stunts, though, were common, with **easyJet** battling British Airways and Go, and Ryanair attacking easyJet's higher fares.

The LCCs differed significantly in their choice of destinations and routes. **Ryanair** flew to many smaller cities, and kept mostly to shorter routes. It also targeted secondary airports, often far from the city they nominally served. Paris-Beauvais, for example, is 80km/50miles from the centre of Paris. Passengers tolerated the inconvenience in exchange for fares claimed to be the lowest in the market, made possible by the much lower aircraft handling charges at such airports – less than €9 per passenger in 2000. **easyJet** favoured established airports, closer to population centres, such as London-Gatwick, Edinburgh and Geneva, hoping to offset the higher charges with larger customer volumes, including from business users for whom lengthy ground-travel was unacceptable.

easyJet and **Go** also added more distant destinations. Many of the cities served by LCCs were not traditional vacation destinations, but a switch of strategy in 1999 saw Go offering flights to Mediterranean holiday centres and winter ski resorts. Passenger volumes on such routes were better-established, and thus offered more confidence that a service would be viable, but the cost advantage of rapid turn-round was somewhat less than on shorter routes.

(There is more content for this section in the full document)

2001-2007: A flood of new entrants – and failures

By 2000, over 20 airlines offered some form of LCC service in Europe, and the following years saw a powerful synergy emerge between the demand-side and supply-side of the industry – new low-fare services stimulated growth in demand, which then encouraged new airlines to start, and to offer more routes and more frequent services. This dynamic also made it feasible to start services to destinations that were not previously viable. Once the citizens of a mid-sized city and its surrounding area were served by a single LCC service, then flights could open up to other destinations from its airport. If enough new routes proved worthwhile, then an LCC could open a new operating base at that airport and thus multiply its route-network more quickly than it added airports. (*Theoretically, a network of 3 airports offers 3 possible routes, while a network of 10 airports offers 45*).

Market and competitive conditions

The early 2000s saw rapid changes in economic and market conditions, and in development of the LCC sector. The European economy struggled in 2001, following the collapse of the dot-com technology boom, but recovered again thereafter. Unfortunately, this pushed up oil prices which almost tripled from $20/barrel in 2003 to $60/barrel in 2005, causing a jump in jet-fuel costs. (*Unlike retail gasoline and diesel fuels, jet fuel prices follow the crude oil price quickly and closely, see the IATA jet-fuel monitor*)[3]. Air travel was also hit by the 2001 terrorist attacks in New York, further attacks in London during 2005, and health scares such as SARS.

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Although mainly aimed at price-sensitive tourist traffic, low-cost and reliable airlines started appealing to cost-conscious business travelers. On busier routes, finding a flight time that was convenient for business meetings ceased to be an issue – there were so many flights that business users could simply choose a departure time that best met their needs. Some would even book two or three different departures, only ever intending to take the one they needed on the day. After all, if two reservations could be made for €40 each, why pay €120 for a full-service flight? This buying strategy was only limited by the need to book long enough in advance to get these low prices.

New entrants

The economic recovery, collapsing regulatory barriers and some spectacular LCC successes brought a flood of new competitors (Exhibit 3 and Attachment 1). 2003 alone saw 13 new airlines start, most in the April-June period to benefit from the summer travel peak. By 2005 nearly 50 airlines claimed to be LCCs, though few were entirely new firms, although this number cannot be precisely specified – some airlines who claimed to be LCCs picked only certain elements of the formula, and others were parts of larger groups offering diverse services, such as charter, long-haul and cargo transport.

Exhibit 3: Start-ups and exits of European LCCs, 2000-2009.

	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
LCCs at year-end	**24**	**29**	**37**	**41**	**44**	**48**	**43**	**40**	**38**	**31**
Start-ups	5	5	10	13	10	10	4	1	1	1
Failures			1	5	7	5	7	2	2	5
Merged or acquired			1	3		2	2	2	1	3

Source: Various – see Attachment 1

(There is more content for this section in the full document)

In spite of the many new LCCs, direct competition between them on shared routes remained limited for some years, simply due to the very large number of potential city-pairs between which flights

[3] See http://www.iata.org/whatwedo/economics/fuel_monitor/Pages/price_development.aspx [taken 30-09-2010].

could be offered. As each airline grew, the number of city-pairs each could serve increased much faster than the number of airports in the network. By 2007, for example, **Ryanair** served 139 destinations, but offered over 600 routes amongst them. Not all LCCs, however, chose to exploit such additional route opportunities, limiting themselves to return services from one or two main bases (see Exhibit 5).

Exhibit 4: Europe's low-cost airlines, 2010, including LCC initiatives by already-existing airlines.
(* = estimated LCC scale for diversified airlines)

			Scale: 2010		
Start	**Airline**	**Country**	**Aircraft**	**Seats**	**Destinations**
1990	SunExpress	Turkey	21	4044	82
	airberlin	Germany	97*	16644*	130*
1991	Ryanair	Ireland	232	43848	155
1992	Onur Air	Turkey	29	6820	79
	Eurowings	Germany	34	2526	48
1995	easyJet	UK	189	33501	116
	Air One	Italy	64	6477	14
1997	Germanwings	Germany	30	4500	67
	TUIfly	Germany	41	7339	74
1998	Aer Arann	Ireland	12	420	26
2000	transavia	Netherlands	28	4838	88
	flybe	UK	72	6204	45
2001	atlasjet	Turkey	9	1780	17
	Sverigeflyg	Sweden	11	1100	20
2002	InterSky	Austria	5	250	15
	bmibaby	UK	14	1988	35
	Norwegian	Norway	49	8680	85
2003	Jet2	UK	34	5754	54
	Wind Jet	Italy	13	2150	22
	flyniki	Austria	15	2400	33
	Cimber	Denmark	26	2174	53
2004	SmartWings	Czech Republic	10	1794	27
	Monarch	UK	15	2250	22
	airBaltic	Latvia	30	3154	74
	Wizzair	Hungary	30	5400	63
	Vueling	Spain	37	6660	45
	Blue Air	Romania	12	1740	24
	Condor	Germany	12*	2160*	33*
2005	Pegasus	Turkey	26	4738	70
	BH Airlines	Bosnia	4	278	10
	Brussels Airlines	Belgium	43*	4300*	72*
	Corendon Airlines	Turkey	7	1198	30
	belleair	Albania	5	750	24
	Jetairfly	Belgium	14	1980	77
2007	SkyExpress	Russia	9	1239	9
2008	AnadoluJet	Turkey	13	2097	40
2009	Avianova	Russia	5	900	19

Source: Various – see Attachment 1.

Exhibit 5: Airports, routes and aircraft for selected LCCs, December 2007.

		Airports	Routes	Aircraft
easyJet	UK	89	360	137
flybe	UK	53	162	76
MyAir	Italy	28	42	12
Norwegian	Norway	74	132	33
Ryanair	Ireland	139	606	148
SkyEurope	Slovakia	39	92	14
Sterling Airlines	Denmark	60	124	25
Sverigeflyg	Sweden	17	17	9
transavia	Netherlands	98	107	28
Wizzair	Hungary	36	70	13

Source: European Low-Fare Airlines Association, www.elfaa.com

The response of established airlines

The early 2000s were not a happy period for established European airlines, with declining passenger numbers in their total world-wide operations between 2000 and 2003. This caused negative operating margins in 2001, and reasonable profitability only returned when global traffic recovered in 2004. Some suffered more than others, with **Sabena**, **Swissair**, **Alitalia** and **Aer Lingus** being widely expected to fail– a fate made more likely with continued EU pressure to eliminate state subsidies. Surprisingly, their cross-border traffic within Europe was stable during 2000-2003, actually grew by nearly 10% in 2004, and continued growing through to 2007 suggesting that the LCCs were growing more by stimulating new travel demand than by stealing passengers from full-service rivals[4].

(There is more content for this section in the full document)

High-speed trains

European passenger transport was also being changed by the extension of high speed train (HST) services. These became a significant competitive factor, spurred on by the EU's drive for European integration and reduced environmental impact. France's SNCF, for example, claimed that only 4% of its costs were energy-related, HSTs requiring only 0.7 litres of fuel per 100 passenger kilometers, compared with over 3 litres for private cars and 7 litres for air travel. SNCF had led the way for HSTs with the first European service from Paris to Lyon in 1981, a distance of 420km (260 miles) at speeds of over 250km/hour. Other countries soon followed, so that by 2000 more than 10 major routes linking 15 cities operated services of at least 200km/hour (125mph), and carried over 50bn passenger-km[5]. For comparison, **Ryanair** carried about 4.5bn passenger-km in the same year.

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Airline failures

The flood of new entrants to the market soon led to over-capacity, price-wars, financial losses, and business failures. Exhibit 6, for example, shows that **Ryanair** fares fell by more the €6.50 in the year

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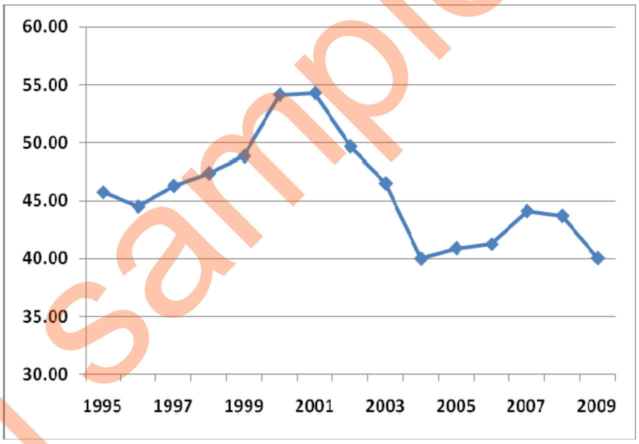
[4] Association of European Airlines, 2007 Yearbook, from http://www.aea.be/press/publications/index.html.
[5] Terry Gourvish, 2009, High-Speed Trains: History and Prospects, UK Department for Transport. http://www.dft.gov.uk/pgr/rail/pi/highspeedrail/hs2ltd/historyandprospects/pdf/report.pdf : retrieved June, 2010.

to March 2004. This seems to have worked well for the company, as during the winter of 2003-04 alone, seven LCCs went out of business. In total, these failures accounted for over 50 aircraft with capacity of more than 4,000 seats, serving over 100 destinations – equivalent to losing one competitor almost as large as Ryanair itself (see Attachment 1). Meanwhile, the company's own passenger volumes jumped by 47%, revenues rose by 27%, and operating profits were slightly higher.

Surprisingly, as noted above, the more established airlines actually grew their European business during 2004, in spite of this private war amongst the LCCs. That year was only the start of the LCC blood-bath, however, with a total of 20 LCCs going out of business between 2004 and 2007. This did not, though, deter a further 25 new airlines from starting up during the same period. By this time, though, collective experience was starting to pay off, since most of those later startups still survived in 2009, and some grew strongly.

Exhibit 6: Ryanair average fares (Euros), 1995-2009



Source: Company reports

The 2008-09 recession.

The global, banking-led recession initiated one of the toughest periods ever for the notoriously volatile airline industry. European economies grew just 0.8% in 2008, and actually declined by 4.2% in 2009. Consumer spending held up in 2008, but fell by 8.4% in 2009. The major European airlines, who had just got used to steady year-on-year growth, saw falls of up to 10% in passenger volumes.

1st quarter, 2008

The LCCs began 2008 in optimistic mood. Rapid expansion of fleets, airport numbers and route networks continued, fuelling further growth in passenger numbers, which in turn encouraged further expansion. The only serious challenge came from rocketing crude oil prices, which passed $100/barrel.

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2nd Quarter, 2008

airberlin reported passenger volumes up only 3.4% for the quarter, reflecting a small drop in German GDP, and warned of little or no growth for 2009. It cut 8 destinations and reduced its seat-capacity somewhat. Although a large business, both in the LCC sector and other air transport services, the company had never been especially profitable, and apart from the summer months had consistently made losses over the previous 18 months, leading management to refocus on profitability.

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One bright spot in Europe was Turkey, whose economy had been transformed over the previous decade, driven by its low labour costs, well-educated population, and cultural and trade links facing both to Europe and the Middle East. Not only were the country's **atlasjet**, **Pegasus** and **Corendon** airlines surviving or thriving, but this quarter also saw the launch by Turkish Airways of its own LCC operation, **Anadolujet**.

3rd quarter, 2008

Europe as a whole was now well into recession, with falling GDP in most countries and still lower consumer confidence. September saw a 0.5% fall in total European air-passenger traffic. **Ryanair**'s forecast of airline failures proved to be accurate with bankruptcies such as LTE, XL and Futura – charter carriers that also offered some low-fare scheduled services. The transatlantic LCC, **Zoom**, also went bust. Adding to the gloom, oil prices hit a high of over $140/barrel.

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Wizzair took on its 19th aircraft, added or increased services to Oslo, Venice, Rome, Milan, Barcelona and Valencia, and opened a 10th base in Romania. However the sharp reduction in Polish workers in the UK caused a reduction in services between those countries.

4th quarter, 2008

By now, the banking-led crisis had created what was widely expected to be the most severe global recession for 50 years, with continuing trouble for the airline industry. German air-traffic-control company DFS reported a 7% fall in November/December flight numbers compared with 2007. October saw the first substantial LCC casualty of the recession, when Denmark's **Sterling Airlines** ceased services. The company's assets were picked up by Danish rival, **Cimber** (now named Cimber-Sterling).

(There is more content for this section in the full document)

1st quarter, 2009

The economic outlook worsened further, with the IMF predicting a 4.2% contraction of the European economy in 2009 and a 5.6% contraction for Germany. The AEA reported that its members' European passenger volumes were down 9.5% in the quarter, against a capacity reduction of just 2%, leading to average load factors falling by 5.7% to 63.1%. At least fuel costs improved, with oil prices collapsing to under $50/barrel.

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The torrid market conditions led to further LCC casualties. Poland's **Centralwings** (11 aircraft) closed down, as did Lithuania's **flyLAL** (13 aircraft) after a long-run price war with Latvia's **airBaltic** – the national airline with LCC services in Europe. **SkyEurope** was forced to return six aircraft to its leasing company due to financial problems, though the company struggled on into the summer. **transavia**, though, reported carrying 5.5m passengers in the year to March, slightly up from the previous year but saw profits nearly halved to €15m operating income on revenues of €698m.

2nd quarter, 2009

This quarter saw the first signs that the recession in European economies was bottoming out, along with the decline in European air travel. Nevertheless, AEA member airlines reported total passenger numbers (not just within Europe) down by over 7% vs 1Q08. LCCs, on the other hand, continued to see growth in volumes, albeit at lower fares that the previous year. The oil price recovered to over $60/barrel.

Denmark's **Cimber** group reported a 26% increase in passengers to 1.8m for the year to April, but revenues up only 13%, leading to a small financial loss. Taking over bankrupt **Sterling Airlines** brought four Boeing 737 aircraft, increasing Cimber's fleet to 26, and enabled 15 new destinations, mostly in S Europe. Cimber planned to add more destinations in the coming 12 months, and more flights on existing routes, aiming for a 25% increase in revenue. Spain's **clickair** and **Vueling** completed their merger, and the EU approved **Lufthansa**'s acquisition of **Brussels Airlines**.

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3rd quarter, 2009

Although European economies did not continue to contract in the quarter, neither did they resume growth, and many were stuck at low levels of activity, with widespread job-losses or reduced-hours working. Consumer spending, and travelling, therefore remained depressed, leaving intense pressure on the air travel market. September 2008 had seen the sharpest drop in traffic of the down-turn, so comparable volumes of traffic in 2009 hardly represented the return of good times. **Lufthansa** reported a drastic loss of passengers from its European economy-class services as a direct result of what it described as crippling price wars.

Exhibit 7: LCC presence on top 100 routes, ranked by primary airport

Airline	Number of top-100 routes served	... if services to secondary airports are included
easyJet	39	45
BA	29	29
Lufthansa	27	27
Alitalia	19	19
AirFrance/KLM	18	23
Iberia	16	16
airberlin	15	15
SAS	12	12
Vueling	11	11
Ryanair	9	36

Source: easyJet

(There is more content for this section in the full document)

Exhibit 8: Estimated total low-fare passenger volumes, 1996-2009, millions of passenger journeys.

'95	'96	'97	'98	'99	'00	'01	'02	'03	'04	'05	'06	'07	'08	'09
13.6	19.5	26.7	35.5	44.5	56.3	69.5	87.9	108.0	128.6	160.8	196.0	234.0	266.0	282.4

Source: Company reports and estimates

(There is more content for this section in the full document)

Exhibit 9: Aircraft fleets, routes, flights and passengers for comparable LCCs.*

	2006	2007	2008	2009
Aircraft at year-end	339	444	510	586
Routes served at year-end	1077	1454	1767	2174
Flights per day (December)	2128	2614	2923	3086
Passengers carried (millions)	93.3	111.1	130.8	143.1
Average load factor %	83.3%	82.5%	82.6%	82.7%

Source: ELFAA, www.elfaa.com

** A 'comparable' airline is one that has operated and reported data throughout the period covered by the table, i.e. excluding new ELFAA members and airlines that closed.*

Where next?

The years from 2010 presented many challenges for all LCCs. As 2010 began, the timing and pace of any economic recovery seemed uncertain. European countries had tried to stimulate renewal with ultra-low interest rates and strong rates of public spending. Unfortunately, the heavy public expenditure of the pre-2008 boom years had led many nations to build high levels of debt, and some – Greece, Italy, Spain, Ireland and the UK – continued to run high rates of new borrowing, adding further to the debt burden. This led to a crisis for Greece, and the threat of similar crises elsewhere. Actions to reduce these high debts, especially by deep cuts in public spending, became unavoidable. This, though, risked putting large numbers of people out of work, raising governments' welfare costs, and renewing the recession. Consumer confidence, and thus spending, remained depressed.

The remaining potential for the air-travel market was also uncertain. It was not clear how many potential destinations remained unserved, or how many more routes might be viable. Large LCCs and full-service airlines had already rationalised routes and service frequency during 2009. The recession had led to a collapse in the S Europe vacation-construction boom, with thousands of holiday-home developments left uncompleted and, where complete, unsold. The previously large volumes of passengers flying to such areas had fallen sharply, leading airlines to reduce services, or cut them completely. Some people found themselves with part-finished holiday-homes in locations they could no longer easily reach, and expressed their anger at the LCCs who had let them down.

It was not clear, then how the larger LCCs could continue their previous strong growth, or even whether they should try to do so. They had inflicted serious passenger losses on the full-service airlines, but that prize had perhaps been largely taken. Passengers on most routes had been able to choose between cheap flights and more comfortable but expensive alternatives for some years, and most had chosen the balance that worked best for them. There was even some significant variety amongst the services offered by different LCCs, and the fares charged (*Attachment 2*).

Ryanair made clear its intention of winning new passengers with low fares, while **easyJet** and **airberlin** seemed to be adding back some service elements. Another option for the larger LCCs could have been to target their smaller rivals. Weaker airlines had already been forced out of the market by a combination of depressed demand and aggressive expansion into new bases.

In spite of this assault by larger rivals, some newer LCCs seemed not just to have survived the recession but to have positively thrived. Although not quite as large as Ryanair, easyJet or airberlin, LCCs such as **Vueling**, **Wizz** and **Norwegian** were big enough to acquire aircraft cheaply, and to negotiate low charges from airports and other providers, yet remained sufficiently focused on compact route networks to be profitable. Was it a coincidence that these strong secondary rivals was each focused on a different region of Europe? A further option for smaller LCCs was to seek an attractive exit by selling out to larger airlines. **Lufthansa** had shown an appetite for acquiring LCCs, **transavia** was working well for the **KLM/Air-France** alliance, and Turkish airlines **AnadoluJet** too seemed to be thriving.

Neither could airlines expect much relief from lower oil prices, which by early 2010 had recovered from their low-point at the bottom of the recession. For **Ryanair**, for example, fuel costs accounted for 30% of the average €35 passenger fare for the year to March 2010. Increasing global scarcity of easily-extracted oil, more cautious exploration following the BP disaster in the Gulf of Mexico, and still-rising demand from other sectors of the global economy could be expected to keep prices high, relative to the low-price years of the early 2000s.

Glossary

Aircraft utilization: The number of hours per day that an aircraft is flying, rather than being on the ground.

Ancillary revenue: Revenue an airline earns from the sale of goods and services other than the flight itself, such as on-board food and ground transportation, and commissions made on the sale of other services, such as hotels and hire-cars.

Average fare: The average fare paid by customers who have booked flights during a period. This will be lower than the average fare per passenger *flown* (not usually reported), due to 'no-show' customers who do not take the flight they have paid for.

(There is more content for this section in the full document)

Common terms found in airline financial reports

Source: Ryanair Annual Report, 2010.

Available Seat Miles (ASMs): the number of seats available for scheduled passengers multiplied by the number of miles those seats were flown.

Average Booked Passenger Fare: the average fare paid by a scheduled fare-paying passenger who has booked a ticket.

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Attachment 1: Low-cost Airline start-ups and failures, 1990-2009.

Sources: Company website, and Wikipedia, cross-checked with diverse other sources.

Airlines not surviving at June 2010 appear in gray text. '(e)' indicates estimated data for the LCC operations of diversified airlines.

		New LCC airlines	country	origins, notes and outcomes	Status June 2010			LCC failures or mergers	Scale on failure		
					aircraft	seats	destinations		aircraft	seats	Destinations
pre-1990		Air Littoral	France	1975 French regional airline, bankrupt 2003							
1990		SunExpress www.sunexpress.com	Turkey	originally charter airline	21	4044	82				
		airberlin www.airberlin.com	Germany	established on German re-unification, a diversified airline, with LCC from 2007	97 (e)	16644 (e)	130 (e)				
1991		Ryanair www.ryanair.com	Ireland	relaunch of former regional airline	232	43848	155				
		Maersk	Denmark	evolution of older airline , UK subsidiary became Duo 2003							
1992		DeutscheBA/DBA	Germany	via BA stake in regional airline : renamed DBA 2003: bought by airberlin August 2006							
		Onur Air www.onurair.com.tr	Turkey	new startup	29	5940	79				
		Eurowings www.eurowings.com/en/	Germany	from merger of two previous airlines, 49% Lufthansa from end-2006	34	2526	48				

(There is more content for this section in the full document)

2009	q1							FlyLAL	13	1820	13
								Germanwings	acquired by Lufthansa		
								Volare/Air One	acquired by Alitalia		
								Centralwings	11	1500	36
	q2							SkyEurope	13	1680	30
								clickair	merged with Vueling		
								Brussels Airlines	acquired by Lufthansa		
	q3	Avianova www.avianova.ru	Russia	new startup, focus on Russia internal routes	5	900	19	MyAir	7	807	27
								bmibaby	acquired by Lufthansa		
	q4							flyglobespan	9	1461	24

Attachment 2: Competitive fares in Euros on selected routes

The following tables give available fares, one way, between a sample of city-pairs, in May 2009. These fares were sampled early in the day, and could be expected to change significantly, especially for the same week, if tested later on the same day.

Prices quoted in the main table are the total cost of the flight, including any extra charges that are identified below. Only **airberlin** offers fully-flexible fares, in addition to lower-priced, non-flexible fares.

The flight frequency should not be taken as indicative of these airlines' relative intensity of service. For example, Ryanair offers much more frequent services on other routes than is the case for these three examples.

Other notes:

'full' = no seats available, seats sold out

'flex' = flexible fare, allowing passenger to change flights

'n/s' = no service on that day

'n/a' = not applicable. Each airline differs in which charges it chooses to make explicit. easyJet quotes inclusive fares only; Ryanair makes no fuel surcharge, but states the total of taxes and airport fees separately.

* higher fare than expected, due to seats selling out well in advance

A: Major inter-city route: London-Munich (920km / 570 miles)

	Ryanair		**easyJet**		**airberlin**		
Flights per week	7		33		30		
Total in Euros, one-way	min	max	min	max	min	max	flex
Same day Monday	full	full	full	full	319	339	full
Next day Tuesday	95	95	77	123	269	359	465
3-4 days Thursday	61	75	52	77	188	289	465
following week	24	95	34	147	159	309	465
2 weeks ahead	61*	95	30	83	109	269	465
4 weeks ahead	17	41	27	83	86	179	465
8 weeks ahead	17	32	27	52	86	135	465
Extra charges included:							
booking fees	5	5	n/a	n/a	10	10	10
fuel surcharge	n/a	n/a	n/a	n/a	50	50	50
other fees and taxes	30	30	n/a	n/a	1	1	1

Source: Author research

Attachment 3: Income statements and other data for selected airlines

Source: Company Reports
The data in these tables is available at www.strategydynamics.com/airlinecase
Financial amounts in Euros millions per year

EBITDA = earnings before interest, tax, depreciation and amortization

EBITDAR = EBITDA minus costs of aircraft rental/leasing (a comparable result between airlines that differ in their use of owned vs. leased aircraft).

Ryanair

12 months ended March ...	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**
Fare Revenues	2324.5	2343.9	2225.7	1874.8	1433.3	1128.1	924.6	732.0	551.0	437.4
Ancillary Revenue	663.6	598.1	488.1	362.1	259.2	208.5	149.6	110.5	73.1	50.0
Total Revenue	**2988.1**	**2942.0**	**2713.8**	**2236.9**	**1692.5**	**1336.6**	**1074.2**	**842.5**	**624.1**	**487.4**
Staff costs	335.0	309.3	285.3	226.6	171.4	141.0	123.6	93.1	78.2	61.2
Fuel & oil	893.9	1257.1	791.3	693.3	462.5	265.3	175.0	128.8	103.9	63.5
Maintenance	86.0	66.8	56.7	42.0	37.4	37.9	43.4	29.7	26.4	20.1
Marketing & distribution	15.0	12.8	17.2	23.8	13.9	19.6	16.1	14.6	12.4	21.5
Aircraft rental	95.5	78.2	72.7	58.2	47.4	33.5	11.5	0.0	4.0	7.3
Route costs	336.3	286.6	259.3	199.2	164.6	135.7	110.3	68.4	46.7	35.7
Airport & handling charges	459.1	443.4	396.3	273.6	216.3	178.4	147.2	108.0	84.9	66.3
Other	129.8	139.1	122.0	104.9	79.6	97.2	78.0	59.6	44.2	38.6
Total operating costs	**2350.6**	**2593.3**	**2000.8**	**1621.6**	**1193.1**	**908.4**	**705.1**	**502.2**	**400.7**	**314.2**
Profit EBITDA	**637.5**	**348.7**	**713.0**	**615.3**	**499.4**	**428.2**	**369.1**	**340.3**	**223.4**	**173.2**
Profit EBITDAR	**733.0**	**426.9**	**785.7**	**673.5**	**546.8**	**461.7**	**380.6**	**340.3**	**226.0**	**180.5**

(There is more content for this section in the full document)

easyJet

airberlin (limited data)

Cimber-Sterling (limited data)

transavia.com (limited data)

Attachment 4: Scale and performance data for selected LCCs

Source: European Low-Fare Airlines Association,

‘ - ’ indicates that values are not reported

***Bold text** indicates ‘comparable’ airlines, i.e. those that have been operating consistently, and been members of ELFAA, throughout the period covered by these tables.*

Aircraft

Airline	Country	Jun-06	Dec-06	Jun-07	Dec-07	Jun-08	Dec-08	Jun-09	Dec-09	
Blue Air	Romania	-	-	-	-	-	-	-	11	
bmibaby	UK	-	-	-	-	-	-	-	14	
clickair	Spain		started	-	-	25	24	23	merged with Vueling	
easyJet	**UK**	**120**	**121**	**137**	**137**	**163**	**166**	**172**	**183**	
flybe	**UK**	**38**	**36**	**82**	**76**	**69**	**68**	**69**	**71**	
Hapag-Lloyd	Germany	18	18	merged into TUIfly						
Jet2.com	UK	-	-	-	-	30	30	30	32	
MyAir.com	Italy	-	5	7	12	12	9	9	bankrupt	
Norwegian	**Norway**	**20**	**20**	**22**	**33**	**36**	**41**	**45**	**46**	
Ryanair	**Ireland**	**107**	**120**	**137**	**148**	**166**	**169**	**196**	**210**	
Sky Europe	Slovakia	16	16	14	14	15	14	14	14	bankrupt
Sterling Airlines	Denmark	27	24	25	25	26	25	bankrupt		
Sverigeflyg	**Sweden**	**7**	**6**	**9**	**9**	**9**	**12**	**11**	**11**	
transavia	**Netherlands**	**31**	**27**	**28**	**28**	**34**	**34**	**34**	**30**	
Vueling	Spain	14	-	21	-	20	-	-	35	
Wizzair	**Hungary**	**9**	**9**	**13**	**13**	**18**	**20**	**25**	**35**	

(There is more content for this section in the full document)

Average age of fleet (years)

Countries served

Destinations (airports)

Routes

Employees

Flights per day (latest month)

Passenger journeys in previous 12 months

Load Factor % in previous 12 months