108

Ultra-low-cost airlines make inroads in U.S.

Though they pay for trail mix, many travelers are pleased to snap up bargain airfares

By Peter Pae, Los Angeles Times
Posted Friday, June 1, 2007

LOS ANGELES -- How low can airfares go?

Try $10 for a one-way ticket from Burbank to Columbus, Ohio Or $9 from Los Angeles International Airport to Fort Lauderdale, Fla. Better yet, there is a 1-cent fare for flights from Los Angeles International to Guatemala.

Yes, those are actual fares offered by a new generation of carriers that are redefining budget travel by taking "low-cost, no-frills" service to new heights

Such as $15 for a pillow Or two bucks for water Don't want a middle seat? You can pay $10 and jump ahead of the line to board a Skybus Airlines plane

And the flight attendants are paid partly on commission from in-flight sales

"It's the extreme example of a la carte flying," said Michael Boyd, an airline industry consultant

Even so, flights on these cheapie airlines, dubbed ultra-low-cost carriers, can be a bargain and quite a trip even if you missed out on one of the limited number of $10 teaser fares

"The seats were comfortable, and the flight went pretty well," said Allyx Kronenberg, a Santa Monica resident who paid $105 last week for her round-trip ticket on a Skybus flight from Burbank to Columbus "But you do have to pay for everything "

These flights have been around Europe for several years, but they are now making a splash in the U S

Skybus offers 10 seats on every flight for $10, with the vast majority of fares ranging from $50 to $175 one way That's about half the cost -- or less -- of other airlines flying to Columbus

Spirit Airlines, which flies out of Los Angeles International, has promotional fares that range from 1 cent to $24, including the $9 tickets to Fort Lauderdale and Detroit.

The Skybus fares were so much cheaper than other carriers' that Shahla Salamat decided to fly her family to Columbus and then drive eight hours to Atlanta for her cousin's wedding during the Memorial Day weekend Renting a car and driving with her sister and three young sons was worth the estimated $2,000 savings, the Chino Hills resident said

Skybus says it will gradually expand its network to such places as Oakland and Seattle as it gets new Airbus A319 planes, which are on order The airline hopes to be profitable within a year, even with its rock-bottom fares

Discount airline Skybus debuts with tickets as low as $10

By Susanna Ray and Mary Schlangenstein, Bloomberg News

No-frills Skybus Airlines started service Tuesday, flying from Columbus, Ohio, to Burbank, Calif , and selling some tickets as low as $10 The goal is to charge even less

"We're sort of embarrassed our fares are as high as $10," CEO Bill Diffenderffer said in an interview

Closely held Skybus is betting it can mimic the success of Ryanair, Europe's biggest discount airline, which routinely gives away tickets while charging fees for baggage and selling merchandise and ad space in cabins Diffenderffer says fares initially will make up 85% of revenue, and will fall from there

Skybus is "really pushing low-cost, self-service to the limit," said Alan Sbarra of San Francisco-based Roach & Sbarra Consulting "But if the fare is low enough, I think people will do what it takes "

The carrier, which began flying with 14 jets, promises to sell at least 10 seats per flight for $10, with the rest costing about half of the pre-Skybus market

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Like Dublin-based Ryanair, Skybus will fly to smaller airports that charge lower landing fees and are less congested The airline's goal is to get planes airborne with a new load of passengers after just 25 minutes on the ground

In addition to Burbank, service started Tuesday between Columbus and two other cities Kansas City, Mo , and Portsmouth, N H , near Boston Flights begin in the next week to Fort Lauderdale, Greensboro, N C , Oakland and Bellingham, Wash , which is 78 miles north of Seattle

Skybus' leased Airbus A319 jets can carry 144 passengers, and the 65 new models being delivered starting next year hold 156 seats With one class of service, Skybus is able to expand beyond the plane's usual 124-seat configuration

Travelers have to book tickets and communicate with Skybus entirely online, saving the airline on staff Skybus also will shave maintenance and training costs by flying only one type of jet and by offering a simple route network that doesn't allow transfers

Priority boarding, checking luggage and buying drinks or food onboard all come with separate fees Skybus flight attendants also peddle products such as perfume, and the carrier sells advertising space inside the plane and on the fuselage, where a full-body ad costs about $500,000 a year

"Skybus is very Ryanair-esque," said Dan Garton, executive vice president of marketing at American Airlines "We're watching that carefully, and the question is, 'Is that a direction we want to go?' "

Diffenderffer said Skybus has sold "a couple hundred thousand" tickets since they became available on April 24 and will fill more than 80% of its seats in the first month

Skybus has raised $160 million in start-up equity from backers including Morgan Stanley, Fidelity, Tiger Management and Nationwide Mutual Insurance

Skybus is bucking the move by most U S discount carriers to behave more like traditional airlines, bundling food and entertainment within the ticket price, said Michael Boyd, president of consulting firm Boyd Group in Evergreen, Colo

"In the U S , the trend in low-cost carriers is toward a higher-value proposition," Boyd said "They ain't Ryanair, and this ain't Europe "

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The basic difference between Skybus and most other low cost carriers is that they fly non-stop with a very slight chance of lost luggage, approx 50% lower fare, and admittedly less leg room I will pay for (or smuggle) the diet pop and get there quicker and cheaper Michael - Colorado could be the next destination - it ain't Europe either!

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How to survive the competition in an increasingly hostile environment: The case of airports

Received: 9th May 2006

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The airport industry has for decades been a very static market Tight regulation at both domestic and international levels has reinforced individual airports' positions as local monopolies and thus able to charge monopolistic rents More recently, however, evidence shows that industry deregulation and increased competition from industry newcomers, such as former military airports converted to civil use and high-speed trains, are putting unprecedented pressure on the industry's traditional business models The resulting dramatic changes in airports' market strategies have not been due to some narcissistic urge to improve their appeal, but a response to a real and pressing economic need to fight the downward spiral in aviation-related and handling incomes — a formerly stable source of revenue for airport authorities It is surely the case that airports that have not undergone a transition from the old to the new business model will almost certainly be marginalised and will only survive in a subsidised environment

Until recently, however, this kind of approach has not been perceived as a top priority by airport managers Indeed, managing the airport business has historically looked quite simple As with many other static market environments, success was defined by only a handful of basic indicators In the case of airports, the most important figure was increase in traffic, either on the passenger or cargo side, which was then compared with the IATA average industry forecasts In the short term, achieving this goal meant more revenues, in the form of increased passenger taxes, as well as landing and handling fees from the core aviation-related business And, from a longer-term perspective, increased traffic increased the chances of an airport's infrastructure being upgraded, as higher traffic levels and revenues raised the political visibility of its managers and improved the airport's standing among local stakeholders with the creation of new job opportunities for local communities At the same time, airports did not have to worry too much about controlling their own operating costs On the one hand, high barriers to competition, in terms of the number of players allowed, meant cost increases could be relatively easily passed on to customers On the other hand, spatial upgrades to cope with primary demand increases were almost completely financed by state, regional or

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local authorities or agencies in the form of huge subsidies, which were given with the aim of improving the effectiveness of a country's overall transport infrastructure Airports were, in effect, acting as a logistics medium, rather than a real business, to satisfy the undifferentiated air transportation needs of their catchment areas and as a point of access and facilitation between airline services and demand clusters Political diktats and the generation of consensus among the stakeholders within an airport's catchment area were much more significant for its managers than pure profit and loss figures

Unfortunately for airports, however, fundamental shifts in the business environment are rapidly changing the 'rules of the game' and dramatically impacting on the industry's traditional formulas for success, making traditional business models almost obsolete Value generation for airports is no longer linked to traditional core functions, but much more dependent on managerial ingenuity in seizing new strategic and market opportunities The traditional approach to airport management, as outlined above, underestimated the importance of a vast category of secondary activities, such as airport retailing services, conference and meeting services, logistics and property management services, tourism services, consulting services — all of which can be grouped under the broad label of 'non-aviation related' activities Rather than these being of little importance, such services may, in fact, play a significant role in complementing and supporting the primary service of an airport's infrastructure and become a major source of airport revenues A proactive and visionary airport management may gain a significant degree of entrepreneurial freedom when aiming to increase its overall revenues and profits by focusing on its non-aviation business side Adopting this business model can enable an airport to differentiate itself by the type and range of onsite services that it offers to its target audience, consistent with the positioning and branding it has already chosen

In fact, when compared with most other industries, airports enjoy unique opportunities for gaining extra profits from non-aviation operations, thanks to a high degree of strategic control, primarily in the form of physical 'customer ownership' Airports have a customer base that any high-street retailer would willingly give their eye-teeth for and, moreover, these customers are a captive audience Airport customers tend to spend a good deal of time within the terminal walls because of the various operations and activities they need to go through before boarding their flights

Air passengers will often arrive at the terminal building well before the scheduled departure time, especially if flying to sunshine destinations with a charter carrier and be submitted to a series of operational duties and security controls Similarly, people meeting and greeting passengers will often have to wait for a long time at the airport, especially when incoming or departing flights have been delayed Meanwhile, employees of the various organisations and companies based at the airport will spend most of their day working inside the airport perimeter and will require a variety of goods and services And the better and more innovative the airport's goods and services appear, especially when compared with neighbouring retail parks, the longer people will want to stay in the terminal buildings — not least to justify the distances often travelled to reach the airport

Under this new business model, best-in-class airport infrastructures evolve from pure mono- or multimodal logistical media into more sophisticated market entities. The new model seeks to use the strategic advantages and potential of an airport's infrastructure to increase its appeal to customers as a 'multi-service provider', rather than just relying on traditional airline-related services. As such, airports adopting this business model are more likely to be able to charge premium rents in a highly competitive environment.

Adopting a business model that positions the airport as a multi-service provider, actively seeking to provide a range of goods and services, can potentially increase both the number and the per capita spend of customers, and this in turn leads to improved financial and economic performance. At a time of increasing industry privatisations, evidence clearly shows that increasing airports' 'non-aviation-related activities' increases earnings before interest, taxes, depreciation and amortisation (EBITDA) — and that definitely sounds like good news.

The latest business model for low-cost airports: The case of Frankfurt-Hahn airport

Received (in revised form) 5th September 2006

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has been connected with the airport sector for more than 18 years Born in 1959 he studied legal sciences at the University of Mainz before qualifying as a lawyer He began his airport career at Frankfurt Airport (Fraport AG) in 1987 and working from the bottom up over the next 11 years got to know every single area of the airport — in particular the cargo business From April 1995 to December 1997 he held the position of Cargo Dispatch Manager at Fraport AG With the accession of Fraport AG as the majority shareholder in January 1998 he was appointed Managing Director of Flughafen Frankfurt-Hahn GmbH His responsibilities are mainly concerned with customer acquisition, marketing and public relations

INTRODUCTION

In the past few years, the European aviation market has undergone enormous changes Low-cost carriers have taken over the market and are confronting established airlines with significant opposition Flying all over the world at impossibly low prices — the latest trend a few years ago — has now become standard practice The spectrum of providers is widening apace, route networks are growing and competition is getting stiffer all the time In 2005, the number of passengers in the low-cost segment increased by approximately 38 per cent and now accounts for 19 per cent of the total volume in Germany — with an upward trend [1] This cannot fail to affect the airport scene Apart from traditional international and regional airports a new category has cut out a niche for itself low-cost airports

STARTING FROM SCRATCH

The airport operator Fraport AG recognised the opportunities in the low-cost sector at an early date and secured a majority stake in Frankfurt-Hahn airport in 1998 This corporate group pursued a double strategy that kept the market segments clearly separated While the Frankfurt airport functions as an intercontinental hub, Frankfurt-Hahn airport offers infrastructure and services tailored to low-cost carriers and their passengers This is how Frankfurt-Hahn became the first low-cost airport in Germany The infrastructure did not offer the best of conditions at the outset The site's military history was undeniably evident The passenger terminal, for instance, was a converted officers' club, nor were the traffic connections of the best In the long term, however, these apparent drawbacks proved to be advantages because it was possible to start from scratch, planning and building the low-cost airport to fit the need exactly

The key event establishing the success of the former US airbase was when the Irish carrier Ryanair began flying from Hahn in April of 1999 At this time, low-cost flights in Europe were practically nonexistent outside the UK and Ireland The no-frills principle was entirely unknown in Germany and required a good deal of explanation Most

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competitors underestimated the potential concealed in this new business model Ryanair's first schedule consisted of two daily flights to London Stansted Over the years it successively expanded its offer Then, in February 2002, Ryanair set up a hub at Frankfurt-Hahn airport Now the airline has seven aircraft stationed there At present, Ryanair serves 27 European destinations from its base at Frankfurt-Hahn In addition, three other low-cost airlines fly to Frankfurt-Hahn Blue Air, Iceland Express and Wizz Air

The first low-cost airport in Germany has undergone an impressive development From 90,000 passengers in 1999, the volume at Frankfurt-Hahn airport rose to 3 1 million in 2005 Thus, it now occupies 11th place among German passenger airports,[2] and it keeps on growing An agreement with its strong partner Ryanair calls for successively increasing the number of aircraft stationed at Hahn to 18 by the year 2012 Two new ones will be stationed there in the coming autumn — bringing the total up to nine — and 16 more destinations will be added to the winter schedule The Frankfurt-Hahn hub ranks third among Ryanair's 15 European hubs Focusing on being a low-cost airport has brought Hahn this huge success But what distinguishes a low-cost airport from conventional airports?

EFFICIENT BUSINESS MODEL

Low-cost carriers can afford to offer cheap tickets and make a profit at the same time only if they keep their costs down This also includes the airport costs Yet airport operators are also expected to work economically The fees and charges at Frankfurt-Hahn airport are very competitive and meet the typical needs of low-cost carriers Certain services, eg landing and take-off, are free of charge, allowing the carrier to minimise the fixed costs per turnaround With a total charge of less than €10 per passenger including handling and security, the passenger also enjoys the advantages of a low-cost airport Nonetheless, this young airport is constantly reducing its start-up losses and is planning to bring its operative business into the black soon How will it accomplish this with such low charges? Very simple the low-cost carriers have already shown how it is done Creativity and new solutions are needed Frankfurt-Hahn airport took on the concept of the low-cost carriers right from the outset and has completely tailored its business model to these carriers

The process begins with the operative business The aircraft turnaround time at this airport amounts to a mere 25 minutes Its punctuality and rate of baggage loss are exemplary Each aircraft stationed at Frankfurt-Hahn can fly to at least four destinations each day and return to its base in the evening In this way, the flight personnel can be deployed efficiently and the airline does not have to pay for any overnight accommodation This results in considerably higher productivity than conventional airlines achieve Speed, flexibility and highly-motivated airport staff are additional factors that contribute to the airport's success Staff in this region with less well-developed infrastructure and few job opportunities identify very much with 'their' airport In 2004, the labour productivity at Frankfurt-Hahn airport was 11,561 average work units per employee By way of comparison, the figure for Cologne was 7,560, for Leipzig 7,148 and for Munich 3,972 [3]

An important cost factor at airports is the nature of the infrastructure High investment costs burden a company irrevocably and for the long term At a low-cost airport, therefore, the question asked before a construction project begins is whether it is absolutely necessary and what can be left out if need be? Recent experience has shown that low-cost carriers can get along very well without marble floors in the terminal, docking fingers and computerised reservation systems There is no cost cutting when it comes to safety-related investments Frankfurt-Hahn airport builds what is needed, that is, what customers — meaning low-cost carriers — demand and need, and only when they need it, at a low level of costs In the past few years, airport spending on building new passenger terminals in relation to passenger capacity per year was €18 25 at Hamburg airport, €32 40 at Cologne-Bonn and a whopping €60 00 at Munich By contrast, the investment costs for the passenger terminal at Frankfurt-Hahn airport are €3 50 per passenger per year This pays for itself out of retail revenues alone in the course of a few years In principle, therefore, costs are only imposed where they arise Lower landing charges are offset by earnings from the non-aviation sector The share of non-aviation income was, after all, 35 per cent of total revenues in 2005 Like the passenger figures, the amount of space for shops, restaurants and parking facilities has grown steadily through the years While in 2002 retail space amounted to a mere 180m^2, it was already 3,300m^2 in 2005 The number of parking spaces rose in the same period from 3,433 to 9,736

Frankfurt-Hahn airport has more than one pillar to stand on when it comes to ensuring the commercial success of the enterprise Alongside the passenger and non-aviation divisions, cargo is another significant business unit For years now, Frankfurt-Hahn has already been counted among the most important cargo airports throughout Europe and around the world In Germany, it ranks fourth behind Frankfurt, Cologne-Bonn and Munich In Europe, it comes up 17th Its geographical location in the middle of the so-called 'blue banana', an area in central Europe between London and Milan, which is characterised by economical growth, is advantageous A 24-hour operating permit and the short distances to drive from the apron to the street and vice versa are among its most important competitive benefits Well-coordinated operational procedures, internal logistics at the airport and the presence of the offices of all authorities of importance to the overall approval process at Frankfurt-Hahn are also of great value Flexibility, individual customer support and easy handling are written large here, a philosophy that is winning more and more popularity among airlines, companies and brokers While cargo at many German airports is no more than something extra added to passenger aircraft, genuine cargo aircraft dedicated exclusively to carrying import and export goods are put to use at Frankfurt-Hahn — and in a big way

COOPERATION WITH PARTNERS

Like many others, Frankfurt-Hahn airport focuses on its core business, which is 'airport' This means that divisions not directly involved with airport operations are outsourced For instance, IT, check-in, security checks, baggage handling and industrial cleaning are all handled by external companies While this is common procedure at most airports nowadays, Frankfurt-Hahn airport goes one step further One example of its creativity in this domain is the airport's snow and ice control in the winter *Maschinenring* (equipment co-op) is the magic word A *Maschinenring* is a self-help organisation of farmers who act as labour and equipment agents There are around

300 *Maschinenrings* in Germany with more than 200,000 farmers as members Since 1998, Frankfurt-Hahn airport has had a service contract with this organisation, which provides the airport with workers for the winter services The preparations begin each year in October, when around 50 persons prepare for their duties Work is performed on call, in three shifts of up to eight hours each All partners profit from this cooperation The farmers are happy to have work and the extra earnings in the wintertime, the airport saves on costs as the workers do not have to be employed the whole year through, but only when they are really needed Furthermore, the farmers have experience with heavy machinery and know the value of the machines Hence, they handle the expensive equipment required for the work with all due care Moreover, incorporating the farmers in airport processes creates good relations and positive acceptance in the region

Important to the growth of the airport is also the support of the responsible politicians, who have recognised its relevance to the state's commercial development They were instrumental in enabling the traffic connections to be improved without delay In this way, a four-lane connection to the nearest highway was pushed through in a very short time They also intend to reopen a stretch of railroad that had been closed down One clever entrepreneur from the region has helped improve traffic connections with an hourly shuttle bus service to nearby cities

Last, but not least, the advantages of its cooperation with its 'big brother' airport in Frankfurt are worth mentioning For Frankfurt-Hahn, these consist primarily in the form of synergies Combining purchasing, product development and using common standards enables an attractive price and supply policy, which ensures operational security

STEPS TOWARDS THE FUTURE

Low-cost carriers are forecast to continue enjoying above-average growth in the future Thanks to their low prices, they can appeal to whole new customer groups Low-cost carriers make offers that allow everyone to travel by air and directly reach destinations that used to require changing planes several times This will further affect European airports by sharpening competition Germany's biggest low-cost airport, Frankfurt-Hahn, along with Europe's largest and most profitable low-cost airline, Ryanair, as its main customer, will most certainly be important parts of this development The next steps that need to be taken are obvious plans are already being made for a new passenger terminal with yet more retail space, as well as for the construction of new apron areas, parking lots and a hotel Equipment and furnishings? Only what is really needed, of course — no frills!

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