

Air Transport Management and Technology:

9. Airline business models

Methodological concept to effectively support technical key competencies using foreign languages ATCZ62 – the CLIL as a university teaching strategy



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Airline business models – basic distribution

- Based on regularity
 - Scheduled - Flights according to the flight schedule
 - Non-scheduled - **Charter or leisure airlines**
- Based on served markets
 - Domestic
 - International (US vs EU approach)
- Based on payload type
 - Passengers - **traditional airlines** vs. **Low-Cost Carriers** model (LCC)
 - Combi - cargo on the main deck behind the passengers' area and in the belly
 - Cargo
 - Mail
 - Integrators

Air routes network conceptions

Source: Rodrigue et al., 2006

There are two very different ideas for planning flight routes:

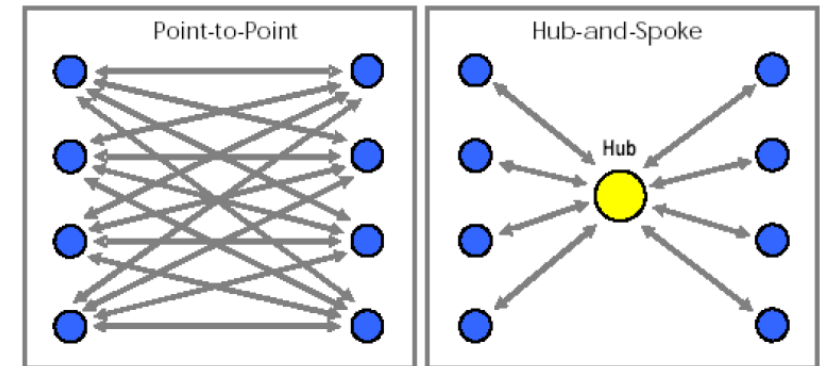
- Hub-and-Spoke model (H&S);
- Point-to-Point model (P2P).

Hub-and-Spoke (benefits):

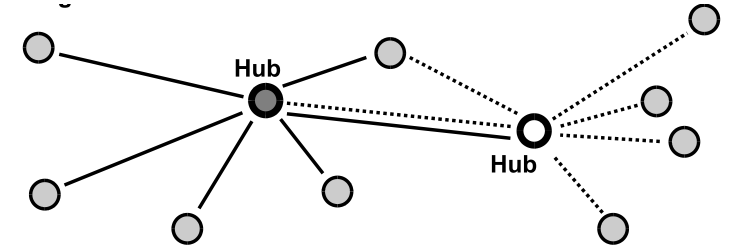
- Significantly less routes are needed to serve the network.
- Since there are less routes, assuming the number of planes are the same, airlines can schedule more frequent flights along each route and make full use of the capacity of each plane.
- Centralizing operations at the hub leads to economies of scale.

Point-to-Point (benefits):

- Minimizes connections and travel time.
- No interdependency of flights and hubs – a delayed flight or a closed airport will not significantly affect other flight schedules.



Traditional passenger airlines



Main features:

- Seat capacity is offered to general public according to published schedule
- Hub and spoke system
- Traditional services (2-3 classes, food and beverages, on-board entertainment, business lounges, frequent-flyer programmes, other)
- Offering of flights via travel agents
- Cooperation with other airlines – multisector tickets offered also on flights of partner airlines (complex revenue management)
- Transfer flights

Low-Cost Carriers (LCCs)

How is it possible they are offering flight tickets for low prices? (main examples)

- Operating at costs consistently below its revenues
- Strategy of operating short sectors, low and unrestricted fares, high point-to-point frequencies, excellent punctuality
- No traditional frills such as free meals, pre-assigned seats or connecting flights
- Mainly using secondary airports – lower airport charges
- Operating aircraft longer hours – spreading fixed costs over more hours
- Mainly using single type fleet (of economic aiplanes with high density seats)
- Mainly using on-line booking
- Selling the meals, drink and souvenirs on-board.

Charters

Main features:

- Low cost model – no frills, high seat density
- Whole capacity sold to the customer (usually travel agencies or interest clubs) under a “charter contract”
 - Competitive pricing based on real costs but also external factors
 - Low utilisation during winter season (wet lease as solution)
 - Very high utilisation during tourist season (15 to 17 hours)
 - Absolute necessity of flying during the night
- Customer responsible for using the seat capacity
- Customer’s choice of destinations

Cargo airlines – all airplane capacity for freight

- General (or heavy) air freight
 - larger commodities
 - traditional airport-to-airport services (**pure cargo carriers** - for example CargoLux)
 - around 85% of the total
- Express freight
 - integrated door-to-door services (**Integrators** - for example FedEx, UPS, DHL, TNT)
 - around 11% of the total
- Mail
 - distribute as part of the national mail system
 - international shipping by airlines contracts
 - around 4% of the total

Global Alliances of airlines

The highest form of cooperation, especially of traditional passenger airlines - the globalization of offer and distribution of air transport services. Main features:

- Coordination of Alliance partners flight schedules;
- Harmonization of seat capacities offered on flights;
- Unification of reservation and check-in systems;
- Offering of continual prices of tickets to Alliance destinations;
- Creating a common "frequent flyer program" (FFP);
- Alliance offer of additional services to passengers;
- Unification of the fleet and repair capacities;
- Integration and sharing other activities ..