



The future of long-haul low-cost

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Long-haul low-cost

– *Market Opportunities and Threats* –

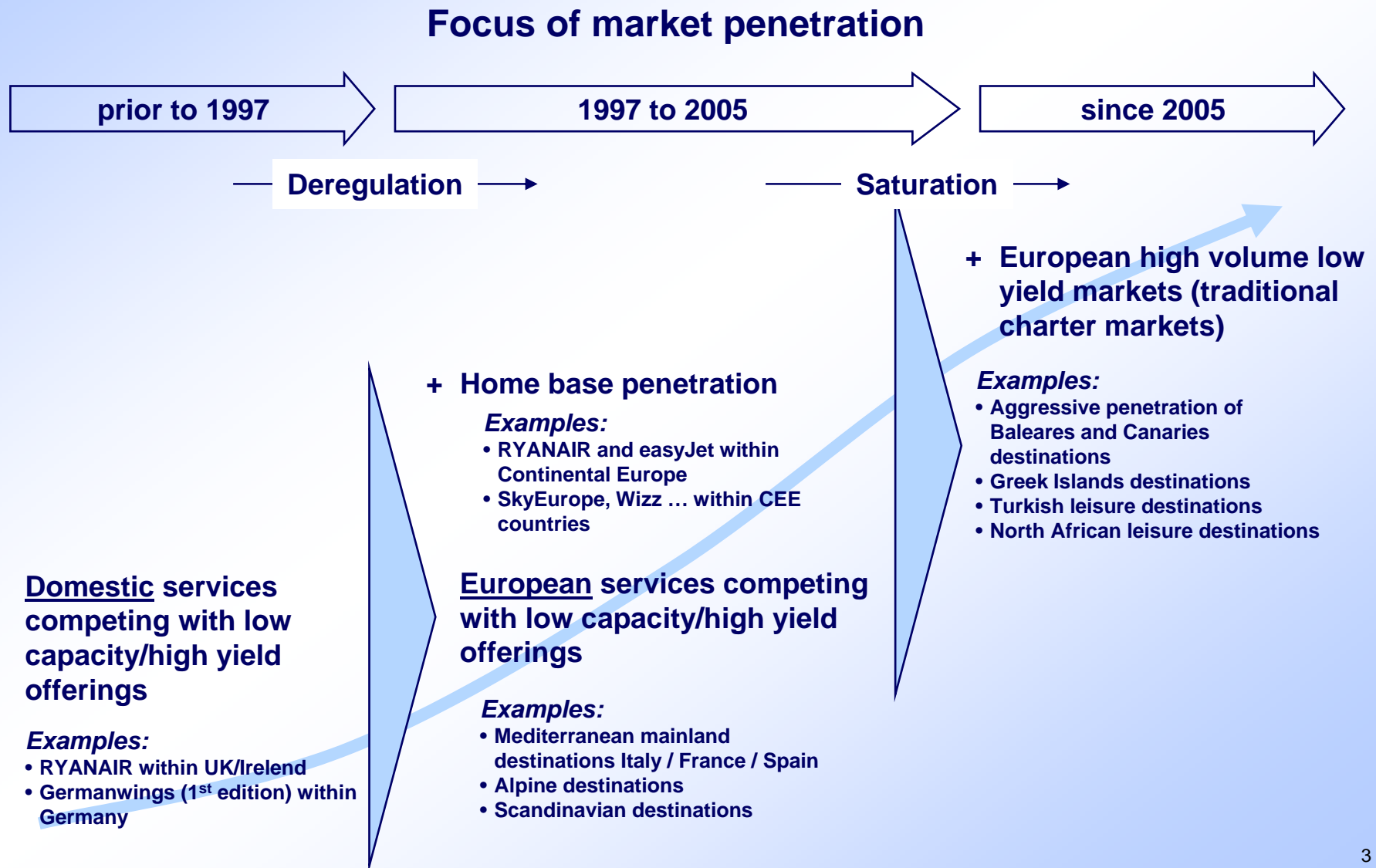
The Hague, Crowne Plaza Hotel
September 18, 2007

Content

1. LCC market success factors in short haul markets
 - Origin/destination focus
 - Product focus
 - Yield Management / Pricing
 - Ancillary revenues

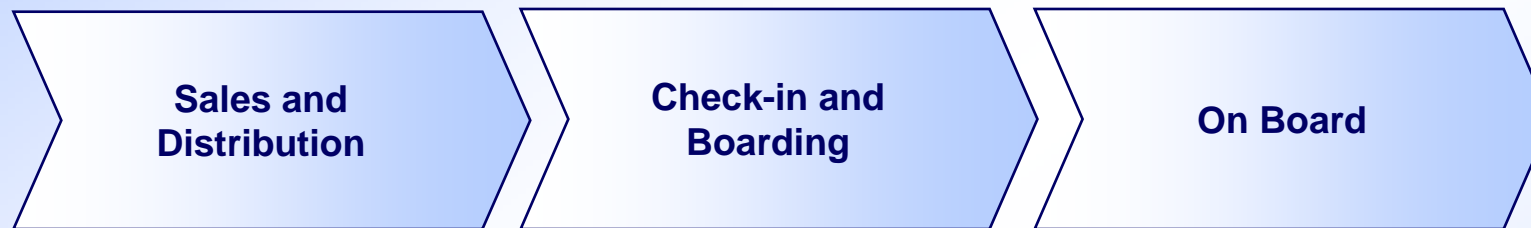
2. Opportunities from applying traditional market success factors of LCCs to long-haul markets
 - Origin/destination focus (including feeder issues)
 - Product focus
 - Yield Management / Pricing
 - Distribution
 - Ancillary revenues

Lacking capacities and competition have been key enablers for LCCs to enter into short haul markets.



Simple („no frills“) product features not only reduce cost but also ease processes for customers

Product Focus



- One class
- One price at a time
- »click and buy«
- Open 7/24

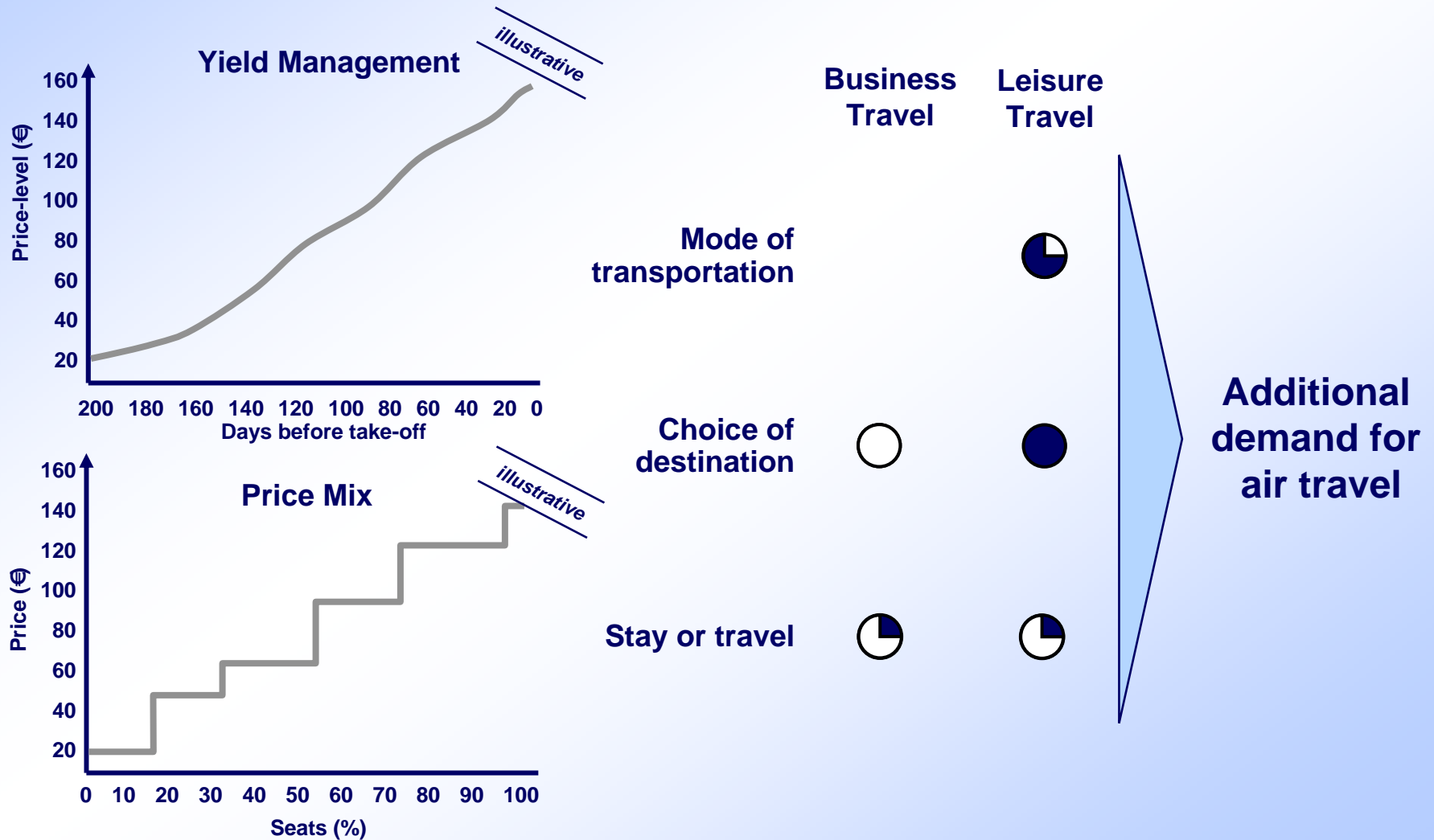
- No physical ticket
- Simple identification processes
- Simple seating procedures
- Non-stop

- Free seating
- Service on demand

Easy to buy – easy to fly

LCCs pricing strategies create additional demand for air travel.

Yield Management and Pricing



LCCs consequently search for ancillary contributions to allow for low ticket prices.

Ancillary revenue

- Subsidies for local infrastructures
- Success fees from incoming tourism boards and airport non aviation concessionaires
- Sales commissions from car rentals, hotels, ... for cross-selling via LCC web page
- Separate charges for in flight services and other additional services (i.e. seat reservation, baggage, ...)

Examples

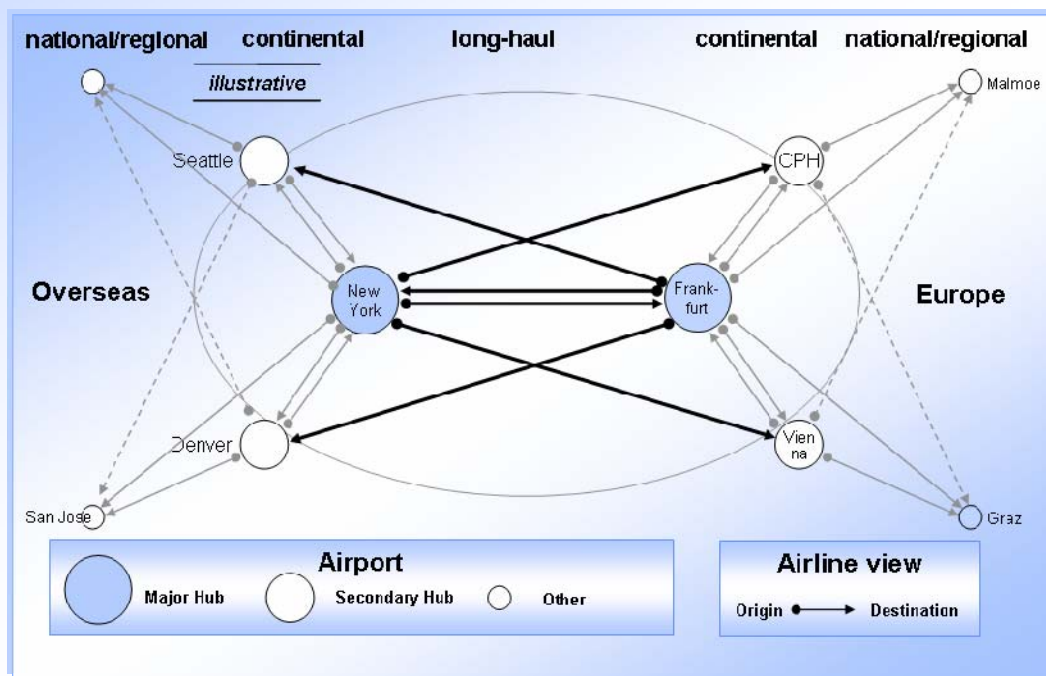
Ancillary revenue driven by transaction rather than by flight distance

Would all this bring any innovation to the long haul markets?

Not really!

Beyond hub-to-hub and hub-to-spoke routes only few O&Ds offer potential for non-stops.

Network economics of long haul markets

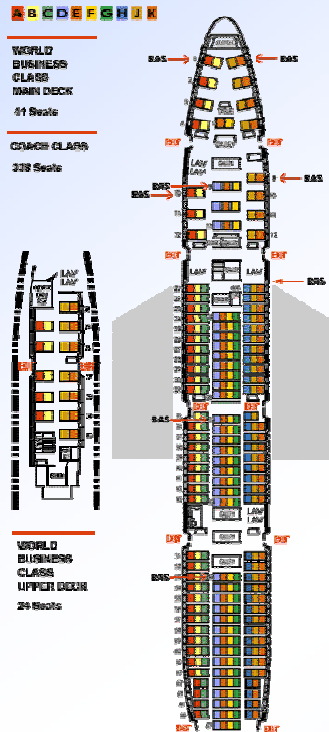


1. Long haul operations depends on feeder at the one or the other or even at both ends.
2. Network carriers don't charge but even »pay« passengers for accepting being feedered.

Network carriers' long haul aircraft offer Y-class seating capacities in excess.

Standard seat configuration

B 747-400

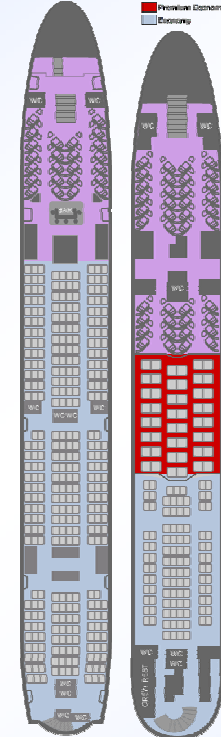


65 F/B
338 Y

A 380

Please Note: For the sake of our clients from outside the EU we have shown the cabin layout on the basis of a probably not existing aircraft.

AGB possible seatmap
64J 48Y 423Y



Singapore Airlines

	B 747 -400	A 380 -300	+/-	+/- %
Suites	12	12	+0	-
Business	50	60	+10	+20 %
Economy	399	313	+86	+27 %

- Network carriers operate huge Y-class seating capacities in order to materialize large aircrafts' unit cost advantage.
- A 380 will add even more surplus capacities.

To fill capacities Economy-class tickets are dumped into markets at rates hardly covering DOC.

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Suche 2: Die günstigsten 24 Flugangebote aus 200 Suchergebnissen

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Düsseldorf, Deutschland - New York, USA
Fr 23 November 07 - Mi 28 November 07 | 1 Erwachsener | 0 Kind | 0 Baby

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Markierte Flüge per E-Mail senden >

Nur Flüge mit E-Tickets

Sortieren nach: Preis

1	Hinflug: Fr. 23 November 07	Rückflug: Mi. 28 November 07	<input type="checkbox"/> Markieren
	Abflug: 13:25 , Düsseldorf, Deutschland	Abflug: 20:30 , Newark International, New York	EUR 325,13 ** Preis pro Erwachsener inkl. Servicepauschale
	Ankunft: 18:40 , Newark International, New York	Ankunft: 12:45 + 1 Tag/e , Düsseldorf, Deutschland	EUR 325,13** Gesamtpreis inkl. Servicepauschale
	Flugdauer: 11:15 + 1 Stopp/s	Flugdauer: 10:15 + 1 Stopp/s	
	Fluggesellschaft: United Airlines	Fluggesellschaft: Lufthansa	Auswählen

21	Hinflug: Fr. 23 November 07	Rückflug: Mi. 28 November 07	<input type="checkbox"/> Markieren
	Abflug: 13:30 , Düsseldorf, Deutschland	Abflug: 17:45 , John F Kennedy International, New York	EUR 420,66 ** Preis pro Erwachsener inkl. Servicepauschale
	Ankunft: 16:00 , John F Kennedy International, New York	Ankunft: 07:10 + 1 Tag/e , Düsseldorf, Deutschland	EUR 420,66** Gesamtpreis inkl. Servicepauschale
	Flugdauer: 08:30, Direktflug	Flugdauer: 07:25, Direktflug	
	Fluggesellschaft: LTU Intl Airways	Fluggesellschaft: LTU Intl Airways	Auswählen

Source: <http://www.OPODO.de>, 15.09.2007

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Schiphol, Amsterdam, Netherlands - New York, USA
Fri 23 November 07 - Wed 28 November 07 | 1 Adult | 0 Child | 0 Infant

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Display e-tickets only

Sort this page by: Price

email highlighted flights >

1	Outbound: Fri. 23 November 07	Inbound: Wed. 28 November 07	<input type="checkbox"/> Highlight
	Departing: 12:20 , Schiphol, Amsterdam	Departing: 20:30 , Newark International, New York	GBP 260.40 ** Price per adult including taxes and booking fees
	Arriving: 19:19 , La Guardia, New York	Arriving: 12:45 + 1 day(s) , Schiphol, Amsterdam	GBP 260.40** Total price including tax and booking fee
	Duration: 12:59 + 1 stop(s)	Duration: 10:15 + 1 stop(s)	
	Carrier: United Airlines	Carrier: Lufthansa	Select

	Outbound: Fri. 23 November 07	Inbound: Wed. 28 November 07	<input type="checkbox"/> Highlight
	Departing: 10:45 , Schiphol, Amsterdam	Departing: 20:30 , Newark International, New York	GBP 271.80 ** Price per adult including taxes and booking fees

16	Outbound: Fri. 23 November 07	Inbound: Wed. 28 November 07	<input type="checkbox"/> Highlight
	Departing: 09:05 , Schiphol, Amsterdam	Departing: 17:30 , John F Kennedy International, New York	GBP 312.30 ** Price per adult including taxes and booking fees
	Arriving: 11:35 , John F Kennedy International, New York	Arriving: 07:20 + 1 day(s) , Schiphol, Amsterdam	GBP 312.30** Total price including tax and booking fee
	Duration: 08:30, Non-stop	Duration: 07:50, Non-stop	
	Carrier: Delta Air Lines	Carrier: Delta Air Lines	Select

Source: <http://www.OPODO.co.uk>, 15.09.2007

Applying the »Product Specialist« approach to premium class services might offer a niche.

Product Specialist



Eos Airlines
JFK - STN
48 seats per B757

Focus:
High-Yield
Corporate VIPs

Key Differentiators:
Large horizontal bed
with personal service



MAXjet Airways
JFK / IAD / LAS -
STN
100 seats per B767

Focus:
Large and small
business
Affluent leisure

Key Differentiators:
Low, flexible fares for
traditional Business
Class

Source: John Wensveen: OPPORTUNITIES FOR THE LONG-HAUL LOW-COST MODEL

However, even Business-class yields are not up in seventh heaven any more.

Examples

Suche 8: Die günstigsten 17 Flugangebote aus 200 Suchergebnissen

Sie haben gesucht nach: **Düsseldorf, Deutschland - New York, USA**
Fr 23 November 07 - Mi 28 November 07 | 1 Erwachsener | 0 Kind | 0 Baby

Sortieren nach: Preis

1	<p>Hinflug: Fr. 23 November 07</p> <p>Abflug: 13:30, Düsseldorf, Deutschland</p> <p>Ankunft: 16:00, John F Kennedy International, New York</p> <p>Flugdauer: 08:30, Direktflug</p> <p>Fluggesellschaft: LTU Intl Airways</p>	<p>Rückflug: Mi. 28 November 07</p> <p>Abflug: 17:45, John F Kennedy International, New York</p> <p>Ankunft: 07:10 + 1 Tag/e, Düsseldorf, Deutschland</p> <p>Flugdauer: 07:25, Direktflug</p> <p>Fluggesellschaft: LTU Intl Airways</p>	<p>EUR 1.479,66 **</p> <p>Preis pro Erwachsener inkl. Servicepauschale</p> <p>EUR 1.479,66**</p> <p>Gesamtpreis inkl. Servicepauschale</p> <p>Auswählen</p>
2	<p>Hinflug: Fr. 23 November 07</p> <p>Abflug: 17:55, Düsseldorf, Deutschland</p> <p>Ankunft: 22:50, John F Kennedy International, New York</p> <p>Flugdauer: 10:55 + 1 Stopp/s</p> <p>Fluggesellschaft: British Airways</p>	<p>Rückflug: Mi. 28 November 07</p> <p>Abflug: 19:30, John F Kennedy International, New York</p> <p>Ankunft: 11:25 + 1 Tag/e, Düsseldorf, Deutschland</p> <p>Flugdauer: 09:58 + 1 Stopp/s</p> <p>Fluggesellschaft: British Airways</p>	<p>EUR 1.860,49 **</p> <p>Preis pro Erwachsener inkl. Servicepauschale</p> <p>EUR 1.860,49**</p> <p>Gesamtpreis inkl. Servicepauschale</p>

Source: <http://www.OPODO.de>, 15.09.2007

Search 1: Best 16 fares of 200 results

You searched for: **Schiphol, Amsterdam, Netherlands - New York, USA**
Fri 23 November 07 - Wed 28 November 07 | 1 Adult | 0 Child | 0 Infant

Sort this page by: Price

1	<p>Outbound: Fri. 23 November 07</p> <p>Departing: 16:40, Schiphol, Amsterdam</p> <p>Arriving: 21:30, John F Kennedy International, New York</p> <p>Duration: 10:50 + 1 stop(s)</p> <p>Carrier: American Airlines</p>	<p>Inbound: Wed. 28 November 07</p> <p>Departing: 19:30, John F Kennedy International, New York</p> <p>Arriving: 10:55 + 1 day(s), Schiphol, Amsterdam</p> <p>Duration: 09:25 + 1 stop(s)</p> <p>Carrier: British Airways</p>	<p>GBP 1,356.70 **</p> <p>Price per adult including taxes and booking fees</p> <p>GBP 1,356.70**</p> <p>Total price including tax and booking fee</p> <p>Select</p>
14	<p>Outbound: Fri. 23 November 07</p> <p>Departing: 18:10, Schiphol, Amsterdam</p> <p>Arriving: 20:20, John F Kennedy International, New York</p> <p>Duration: 08:10, Non-stop</p> <p>Carrier: KLM Royal Dutch Airlines</p>	<p>Inbound: Wed. 28 November 07</p> <p>Departing: 21:00, John F Kennedy International, New York</p> <p>Arriving: 12:55 + 1 day(s), Schiphol, Amsterdam</p> <p>Duration: 09:55 + 1 stop(s)</p> <p>Carrier: Air France</p>	<p>GBP 2,234.20 **</p> <p>Price per adult including taxes and booking fees</p> <p>GBP 2,234.20**</p> <p>Total price including tax and booking fee</p> <p>Select</p>

Source: <http://www.OPODO.co.uk>, 15.09.2007

Where »Product Specialists« enter into markets, incumbents have lowered fares to defend their stake.

Business class fares London – New York 23.11.2007 – 28.11.2007 as of 15.09.2007

opodo let the journey begin		Rank	Airline	London	New York	Return fare (UK£)	Stops
Home Flight + Hotel		1.	Maxjet	STN	JFK	835,10	nonstop
Search 1: Best 24 fares of 200 results		2-5.	Silverjet	LTN	EWR	997,50	nonstop
You searched for: London, United Kingdom - New York, USA Fri 23 November 07 - Wed 28 November 07 1 Adult 0 Child 0 Infant		5.	Air India	LHR	JFK	1.085,60	nonstop
Back		6-36.	Air France	LHR	JFK / EWR	1.358,10	1 stop
<input type="checkbox"/> Display e-tickets only		37-41.	American Airlines	STN	JFK	1.466,68	nonstop
Outbound: Fri, 23 November 07		42-76.	American Airlines	LHR	JFK	1.472,40	nonstop
Departing: 14:30, Stansted, London		77-124.	KLM / Northwest	LHR / LCY	JFK / EWR	1.564,20 – 1.567,80	1 stop
Arriving: 17:30, John F Kennedy International, New York		125-148.	KLM / Air France	LHR	JFK	1.604,60 – 1.608,20	1 stop
Duration: 08:00, Max stop		149 - 151.	EOS	STN	JFK	1.666,68	nonstop
Carrier: Maxjet Airways		152-157.	Delta	LGW	JFK	1.706,10 – 1.753,70	nonstop
Outbound: Fri, 23 November 07		158 - 159.	Continental	LGW	JFK	1.776,10	nonstop
Departing: 10:00, Luton Airport, London		160-189.	Northwest/KLM	LCY	JFK/EWR	1.792,80 – 1.808,20	1 stop
Arriving: 13:00, Newark International, New York		190-198.	Lufthansa	LHR	JFK/EWR	1.813,50 – 1.817,70	1 stop
Duration: 08:00, Max stop		cheapest	British Airways	LHR	JFK	2.108,00	nonstop
Outbound: Fri, 23 November 07		BA¹⁾					
Departing: 10:00, Luton Airport, London							

Source: <http://www.OPODO.co.uk>, 15.09.2007

1) Source: <http://www.britishairways.com>, 15.09.2007

Last but not least, incumbent leisure carriers apply LCC pricing strategies for long haul services.

Examples

The screenshot shows the Thomsonfly.com website interface. At the top, there's a navigation bar with 'Thomson.co.uk', 'Holidays', 'Build Your Own Holiday', 'Flights', 'Hotels', 'Extras', 'Deals', and 'TV'. Below this is the Thomsonfly.com logo and a search bar with a language dropdown set to 'English'. A 'Book a flight' button is prominent, along with tabs for 'Destinations', 'Farefinder', 'Timetable', 'Extras', and 'Flying with us'. A world map titled 'Map. Condor Destinations Worldwide.' shows various regions with price tags: 'from €99' for North America, 'from €29' for Europe, and 'from €99' for Africa and Australia. A 'Special Offer' box highlights 'Off to the Mediterranean! Shorthaul Flights from €29*'. A table of offers lists destinations like 'ca', 'a', 'd', 'm', 'lights', 'haul Flights', and 'aul Flights' with prices from €4* to €29*.

On the left side, there's a section for 'Best prices' with a list of destinations and their starting flight prices:

Destination	Flight from
Canada	
Toronto	Flight from 229,-
Vancouver	Flight from 249,-
Cuba	
Varadero	Flight from 324,-
South Africa	
Cape Town	Flight from 249,-
Thailand	
Bangkok	Flight from 249,-
Koh Samui	Flight from 324,-
Phuket	Flight from 349,-
USA	
Fort Myers	Flight from 224,-
Las Vegas	Flight from 254,-
Los Angeles	Flight from 299,-
Melbourne Florida	Flight from 289,-
Miami	Flight from 199,-
New York/DFK	Flight from 199,-

Below the list, there's a 'taxes & charges' section with a table of prices:




ca	from £ 29.99
ia	from £ 29.99
ia	from £ 39.99
ian	from £ 44.99
ian	from £ 44.99
m	from £ 44.99
ura	from £ 49.99
is	from £ 49.99
ca	from £ 64.99
*	from £ 89.99
*	from £ 124.99
a*	from £ 144.99
ca*	from £ 149.99

There's also a 'Superior service' section with bullet points: 'Legroom up to 33"', 'Aldo Zilli menus', and 'Pre-bookable seats'. A 'News' section mentions 'More summer 2008 flights on sale today - from just £34.99 one way!' and 'Thomsonfly launches first low-fares flights to Tel Aviv'.

Long-haul low-cost – what makes the difference?

In conclusion, economics of long haul markets, timing and reactions of incumbents leave little opportunity for long haul LCCs.

Summary of opportunities

Key enablers of LCCs	Reasoning	Drivers	Rating
Origin/destination focus	<ul style="list-style-type: none"> ▪ Hub&spoke ▪ Oversized economy compartments due to addiction to »optimize« unit cost 	Market economics	
Product focus	<ul style="list-style-type: none"> ▪ Leisure travel O&Ds served by leisure carriers at LCC cost standards ▪ Higher share of hardly manageable DOC (i.e. fuel, air traffic control) ▪ Web based distribution has been adopted by incumbent players 	Market economics & timing	
Yield management / pricing	<ul style="list-style-type: none"> ▪ Strategies applied by incumbent players 	Timing	
Ancillary revenues	<ul style="list-style-type: none"> ▪ Lower impact because of higher share of DOC 	Market economics	