

HOW LOW COST AIRLINES MAKE PROFIT

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ABSTRACT

Low cost airlines have become significant in the airlines industry. They focus more on cost and some alternative ways to handle passengers. The aim of the study is to find out how low cost airlines make profit. The research was conducted by referring to the case study and also the statistic that has been released by the aviation industry. The research methodology that has been carry out in this study is by referring to the secondary sources of the data.

Keywords

Low Cost Airlines, Profit, Secondary Source

1 INTRODUCTION

When air travel started in the 20th century it was very expensive. Only the rich people could afford travelling by plane. As time went on better planes were built. They were faster, quieter and could carry more people over longer distances. Flying was slowly becoming a means of transportation that normal people could afford.

Into the 60s and 70s many airlines kept selling expensive tickets to their passengers. They offered a comfortable way of travelling which included free meals, friendly service and other luxuries. In the 1980s a new type of airline emerged. Low cost airlines and also called budget airlines offered tickets that were much cheaper than those of other carriers. They manage this by cutting costs wherever they can.

In the competitive airline industry, low cost airlines continues to improve their corporate social responsibility and constructive management by being supportive and responsive towards its employee for any ideas that will reduce cost.

Today, low cost airlines had led to strong competition on the aviation market. Even low fares, they still can equate to very healthy profits for the low-cost airlines. They not only survive in the aviation market, and also keep expanding every year.

1.1 Problem Statement

Nowadays, low cost airlines had led to strong competition on the aviation market, also for the traditional airlines. Besides, they also led to a large extension in the number and density of civil airports. But even low fares, they still can associate to very high profits for the low-cost airlines. They not only success in the aviation market, and also keep growing every year. So that, how low cost airlines can make profit, since the ticket fares provided are very low, sometimes less than half of the traditional airlines.

The problems of this research is to find out whether saving cost is only the one way of low cost airlines to make profit. Second, whether the operation management strategy would help in making profit. Third, what kind of service would provide by low cost airlines in order to make profit. Lastly is whether the salary level of their customer would influence their profit

1.2 Objective

- 1.2.1 To study the way of low cost airlines saving cost to increase their profit.
- 1.2.2 To determine operation management strategy used by low cost airlines in making profit.
- 1.2.3 To analysis the services provided by low cost airlines in order to make profit.
- 1.2.4 To learn about whether the salary level of customers would influence their profit

2 LITERATURE REVIEW

Low cost airlines is an airlines that operates point to point network, pays employees below the industry average wage, and offers no frills service (Charles Nadja,2003). In the airline industry, low costs can only be sustained when an airline maximizes its operational efficiency. This can be achieved by a low cost airline by minimizing services and reducing overhead.

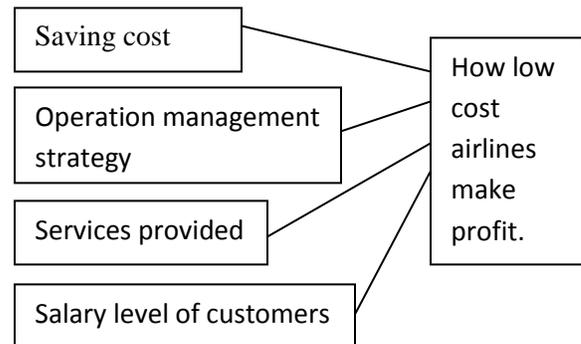
According to Quantify's website, there is not an absolutely sharp difference between the so called low cost carriers (LCC) and the traditional airlines, which are also called full cost carriers (FCC). Low cost carriers could be defined as airlines which operate on relatively short distances in a certain region without offering additional services.

2.1 The History of Low Cost Carriers (LCC)

According to Quantify's website, Pacific Southwest Airlines and Southwest Airlines (former Air Southwest Inc.) in the United States could be regarded as pioneers for low cost air services. The idea was to offer flights for prices which are attractive compared to car and train and much lower than those of competing airlines. Low prices were already offered in the 1950th by Pacific Southwest and from 1967 onwards by Southwest Airlines. But Southwest could offer this service first only in Texas. The real start for nation-wide low cost air transport was the Aircraft Deregulation Act from 1978, which meant liberation of the market for flight routes and flight prices between the states in the US. In a similar way the history of European low cost carriers began with the liberation of the flight market in the European Union. Air traffic was so far controlled by bilateral agreements between national airlines, but now it is legally permitted that airlines from other countries offer connections between two countries which are both not their home country.

In 1997 the Irish airline Ryanair began to offer connections from Dublin to London and several airports in continental Europe for low fares. In 2001 Ryanair and Easyjet began also to establish connections between two airports both in another country than their home country and to install parts of their aircraft fleet on key airports of their network in third countries. This was only possible due to a political decision allowing airlines to turn from more governmentally controlled transport providers to private companies on a free market.

2.4 Theoretical Framework



3 RESEARCH METHODOLOGY

The research methodology that has been carry out in this study is by referring to the secondary sources of the data. Therefore, this research will refer to the case study and books that found in internet and library. The samples of low cost airlines are Ryanair, EasyJet, Airasia, and Southwest Airlines. The research instruments are case study, article and journal from books and internet.

4 FINDINGS

4.1 Saving costs

4.1.1 Cost reduction strategy by Ryanair

To achieve its goal of having a competitive position in the airline market, Ryanair uses a cost reduction strategy. Such cost reduction strategy relies on five main aspects like fleet commonality, contracting out services, airport charges and route policies, managed staff costs and productivity and managed marketing costs.

4.1.2 Easyjet – Tight reigns on cost

Easyjet was particularly successful because it had tight reigns on costs and overheads. It could make savings where other airlines could not. For example:

- i) Easyjet maximised the utilization of assets - with faster turnaround on flights.
- ii) It only flew its aircraft point to point, with no connecting flights - thus it did not incur the costly ticketing procedures associated with flight connections.

- iii) It had no ticketing (paperless office) - customers used e-mail reference numbers to board flights. All these aspects helped to keep its costs to the minimum.

4.1.3 Southwest Airline- Fuel hedging

Southwest only uses Boeing 737s. This saves money on maintenance and repair, since the company only has to stock parts for the one make and model of plane they use. They also save money on pilot and mechanic training, since they don't need separate training programs for each different type of aircraft.

Besides, one of the most important ways for an airline to save money is through fuel hedging. Between 1991 and 2008, Southwest Airlines had paid \$3.5 billion below the industry average for jet fuel by using aggressive fuel hedging.

4.1.4 Airasia- Keys of saving costs

High aircraft utilisation	Aircraft is kept flying as much as possible, the first flight starts as early in the morning commercially possible and the final flight typically ends at midnight.
Streamline Operation	<ul style="list-style-type: none"> • Single type of aircraft • Single class seating • Standard Operating Procedures
Basic Amenities	Secondary airports
Point to point network	Embraces the simple point to point network.
Lean distribution system	Keep their distribution channel as simple as possible.

4.2 Operation management strategy

4.2.1 Ryanair- Marketing strategy

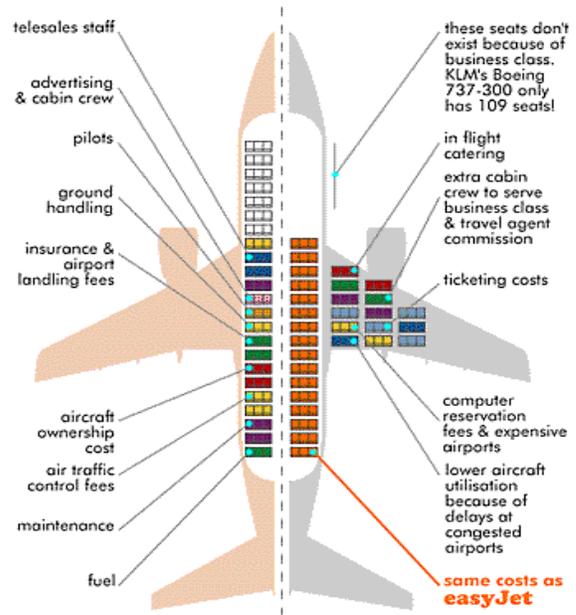
Ryanair implement different marketing strategy to make the company survive in the competition and to

be able to gain competitive position in the airline market. The company continuously concentrates on driving down its costs to offer the lowest fares possible and remain profitable. Ryanair offer minimum standards of service and very low process for point to point, short haul flights. The goal of Ryanair is to meet the needs of travelling at the lowest price.

4.2.2 Easyjet Business Model

EasyJet are not afraid of competition, simply because they have developed a business model that ensures a built-in business advantage. EasyJet hack away at costs and overheads where ever they occur. Sometimes this means taking an unconventional approach. For example, easyJet operate modern 737 aircraft because operating costs are low (compared to older aircraft), but also because crew training is simplified (avoiding the overhead of needing crew for several different aircraft types).

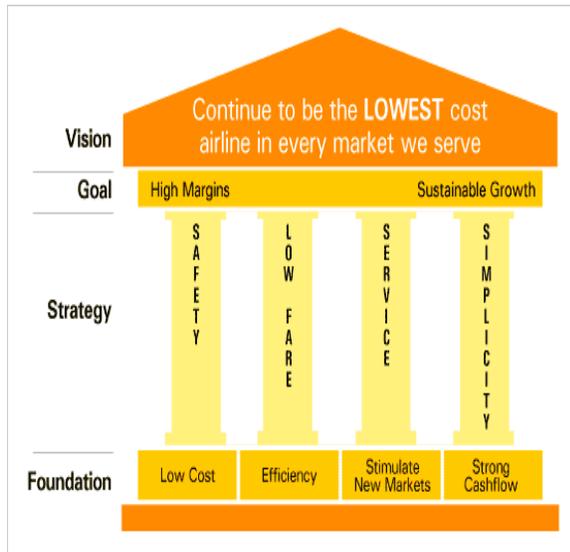
This approach allows easyJet to develop a cost per seat model comparison with competitor airlines. Seats are sold accordingly. Seat prices start off very low, with the price increasing as more seats are sold (satisfying the principle that the early bird definitely catches the worm). Yet the passenger is always guaranteed the lowest price.



4.2.3 Southwest –The Southwest Model

- Use non-conventional models for low cost
- Have fun together
- Treat employees as family
- Hire people who form the fit
- Involve employees
- Controlled solid growth for the airline

4.2.4 Airasia’s strategy and business model



Sources: From Airasia.com

AirAsia follows the Low-Cost-Carrier (LCC) business model in the airline industry, which can be characterized as below:

Low Cost Carrier (LCC) Business Model

Simple Product	<ul style="list-style-type: none"> • Catering on demand for extra payment • Planes with narrow seating and only a single class • No seat assignment • No frequent flyer programmes
Positioning	<ul style="list-style-type: none"> • Non-business passengers, especially leisure traffic and price-conscious business passengers • Short-haul point to point traffic with high

	<p>frequencies</p> <ul style="list-style-type: none"> • Aggressive marketing • Secondary airports • Competition with all transport carriers
Low Operating Costs	<ul style="list-style-type: none"> • Low wages • Low airport fees • Low costs for maintenance, cockpit training and standby crews due to homogeneous fleet • High resource productivity • Short ground waits due to simple boarding processes • No air freight, no hub services, short cleaning times, and high percentage of online sales

4.3 Services provided

4.3.1 Ryanair – Prices, Punctuality and Service Commitment

Ryanair commits to:

- Offer the lowest price at all time on all routes
- No fuel surcharge guaranteed
- Honour the agreed fare after payment.
- Notify passengers of known delays, cancellations and diversions.
- Minimise the numbers of passengers facing delays.
- Allow reservation changes.
- Respond quickly to passenger complaints and provide prompt refunds.
- Speed up check-in.
- Minimise involuntarily denied boarding.
- Provide Passenger Information
- Information to passengers at the time of booking.

4.3.2 Easyjet -- Operation efficiency and customer service

In terms of operating efficiency, it means:

- Aircraft fly out of low cost airports. These are normally not the major airport serving any destination and can be some distance from them;
- Aircraft are tightly scheduled. They are allowed only 25 minutes to off-load one set of passengers and load another, less than half the time of its scheduled full-fare rivals.
- Aircraft must leave and arrive on time (they will not wait for passengers), and if there are delays they can have horrendous knock-on consequences for the timetable. Nevertheless punctuality is varied, with the low-cost carriers just as good as full-fare airlines on some routes;
- There are no 'slack' in the system. easyJet admits to having "one and a half planes' worth" of spare capacity compared with the dozen planes BA has on stand by at Gatwick and Heathrow. If something goes wrong with a plane it can lead to cancellations and long delays;
- There are fewer cabin crew than full-fare rivals and staff rostering is a major logistical problem. In terms of customer service, it means:
- No 'frills' such as free drinks, meals or assigned seats;
- There is no compensation for delays or lost baggage;
- The low-cost airlines do not guarantee transfers as the planes could be late;
- The low-cost airlines concentrate on point-to-point flights, whereas the full-fare airlines tend to concentrate on hub-and-spoke traffic.

4.3.3 Southwest Airlines

- One Plane Fits All
- Point-to-Point Flying
- Simple In-Flight Service
- No Frills, No Fees

4.3.4 Airasia

4.4 Salary level of customer

"Most air passenger are sensitive to airline travel cost; however service quality also affects passengers' choices, but is in many ways subjective" (Martin, Roman and Espino 2008). It can be expected that customers would have varying degrees of willingness to pay for services and product attributes.

The salary level of customer will influence their willingness to pay for a few airline services and product attributes.

5 CONCLUSION AND RECOMMENDATION

As a conclusions, majority of low cost airlines focus on reducing cost to make their profit. They tried to cutting the cost wherever they can. They also fully utilise their aircraft and assets as much as possible. Low cost airlines had tried their best to provide the lowest ticket prices to attract more customers. However, there are still has some spaces to make improvement in customer service and in decreasing the inconvenience that will bring to customers.

- Low ticket price
- No frills, No fees