Skift Presents: The Next Big Challenges for Low-Cost Airlines

Primera is the latest to fail after moving into long-haul markets. Can anyone make the transition successfully?

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A topic that's more relevant than ever

Primera Air

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PRIMERA AIR CEASES OPERATIONS

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Dear Passengers,

Airline Primera Air and IATA codes PF and 6F have been suspended as of today, October 2nd, 2018.

On behalf of Primera Air team, we would like to thank you for your loyalty. On this sad day we are saying Goodbye to all of you.

Please visit primeraair.com for further updates in next few days. Tour Operator passengers are kindly suggested to address their Tour Operators and Agents for further information and actions.

Kindly understand that the usual options for contacts (via email or phone) can not be offered any longer.

Sincerely yours.

Primera Air team

Back To News

Low-cost *short-haul:* the world's most consistently profitable airline business model

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Not the Only Way to Make Money in the Airline Industry, But...

9 AIRLINE weekly NOW PART OF Skift by the numbers

Global Earnings Scoreboard: Most Recent 12 Months Reported

July 2017 through June 2018 for most; operating margin is generally the most useful comparison between airlines of different sizes in different geographies (Source: company reports plus Diio Mi schedule data for airlines that don't report capacity)

- **Ryanair** the champion again, ranked by both operating and net margin; labor unrest and higher wages show no sign yet of hurting its performance
- In terms of raw net profit, no airline comes even close to **Delta**

Among 74 airlines in our profitability ranking, low-cost airlines appear disproportionately toward the top of the list.

By operating margin	
Ryanair	21%
Copa	16%
Allegiant	16%
Hawaiian	16%
Southwest	15%
Chorus	14%
Frontier	14%
Wizz Air	14%
IAG	13%
Delta	13%
SkyWest	13%
Air Arabia	13%
Spirit	13%
Japan Airlines	12%
Juneyao	12%
Alaska	12%
Cebu Pacific	12%
Jazeera	12%
Gol	11%
easyJet	11%
JetBlue	11%
Qantas	10%

What do these successful low-cost airlines have in common? Only one of them (Cebu Pacific of the Philippines) has ANY widebody (twin-aisle) aircraft at all!

Who wasn’t on that list?

norwegian

(Second from the *bottom* in the world, among the 74 airlines, with a negative 8% operating profit margin.)

Low-cost long-haul isn’t a new concept

1970s

1980s

1990s

2000s

What do these historical airlines have in common?

They’re all… well… history.

More recent trends

Short-haul LCCs creating long-haul units

Long-haul legacy airlines creating low-cost long-haul units

Who might try next?

JAL
JAPAN AIR LINES

IndiGo™

spiceJet
flying for everyone

And who was nowhere on *those* lists of airlines that are doing it or might try it?

American Airlines

DELTA

UNITED

Southwest

So what's going on? Why does the low-cost model – so successful with short-haul flying – have such a poor record with long-haul?

Think back to what made Southwest the most successful airline in the history of the world. Among many other things:

- ✓ Quick aircraft turnaround times – the airplane doesn't make money on the ground!
- ✓ Alternative airports with lower costs: Fort Lauderdale, not Miami

(Its fares were lower too, but it had such massive cost advantages that it could produce big profits anyway.)

Some of the most important cost advantages of all for low-cost airlines, like the quick turn times and lower airport costs, are actually on the ground, not in the air.

- ✓ These advantages really add up when an airplane is on the ground five, six, maybe even seven times per day, as at Southwest or Ryanair
- ✓ They're less important when a plane is on the ground only twice per day
- ✓ In other words, they're not the primary cost drivers for long-haul flying

The most important costs on long-haul flights are 1) fuel and 2) aircraft ownership. So:

"Unless you get very cheap fuel or very cheap aircraft, it's going to be hard to differentiate your costs from Lufthansa or Air France."

-Former Ryanair CFO Howard Millar, as quoted in *Airline Weekly*

Meanwhile, legacy airlines have massive revenue advantages in long-haul markets

- ✓ Premium cabins
- ✓ Corporate travel contracts
- ✓ Lounges and premium ground services
- ✓ Loyalty programs
- ✓ Robust connecting networks

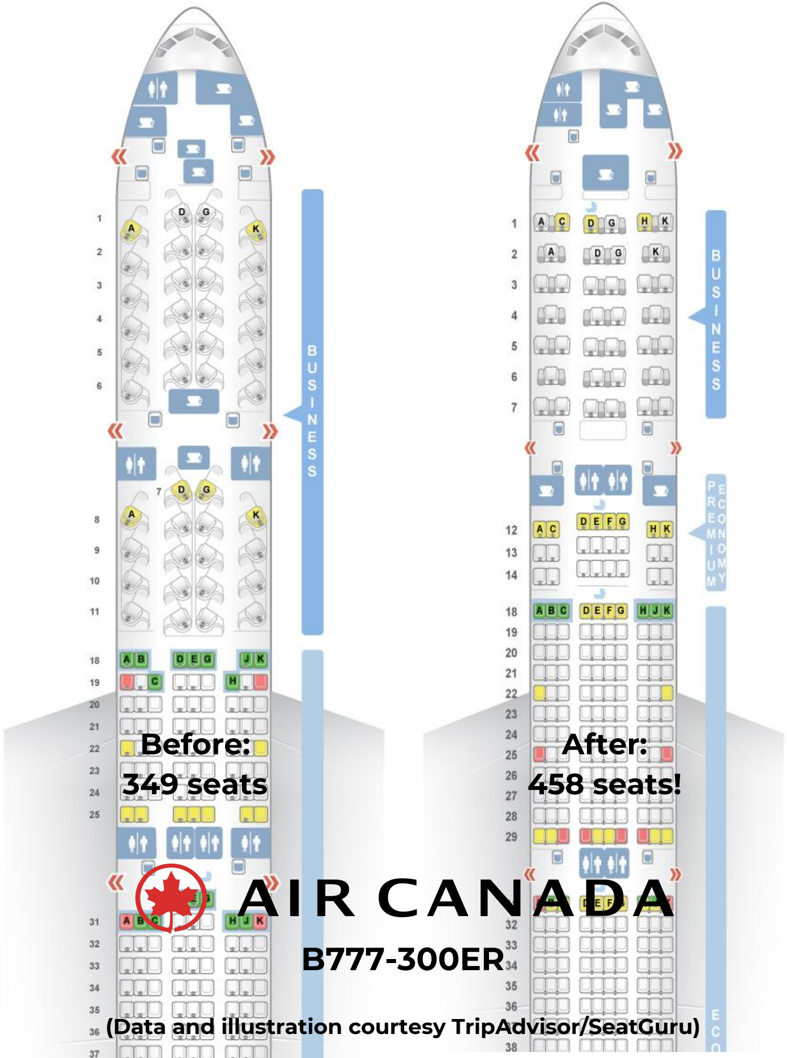
And low-cost carriers tend to rely on stimulating discretionary traffic, which is harder to do with long-haul. (Lots of people will hop on an unplanned two-hour flight just because it's cheap. An eight-hour flight? Fewer people.)

There's one sure way for an airline to drive down long-haul unit costs (i.e., the cost of carrying one seat one mile): Add seats to the plane!

Indeed, low-cost long-haul airlines have done this.

Courtesy Norwegian

But legacy airlines have done this too. Low-cost airlines have no structural advantage in this area.



(Data and illustration courtesy TripAdvisor/SeatGuru)

What about new aircraft technology?
A competitive advantage?

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INDEPENDENT WORLDWIDE COVERAGE

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The Wizard of Oslo?

Or biting off more than he can chew? *Airline Weekly* talks with Norwegian Air CEO Bjørn Kjos

If you have to be an airline in ... aircraft [100 of them MAX jets]. ... ing. But the NEO is two years

Airline Weekly: Low-cost long-haul is an unproven business model with a spotty record.... Why will Norwegian succeed?

Bjørn Kjos: If you look at shorthaul, nobody was successful running a low-cost operation before the arrival of A320s and B737s. Those models paved the way for the successful launch of short-haul LCCs. You will see the next thing now is the launch of the Dreamliners. We have done a lot of calculations, and this is the first time, actually, when you have the tool to perform the same thing on the long-haul as you've seen on the short-haul.... You need a tool like the B787, which will be a game changer.

Bottom line:

In short-haul markets, low-cost airlines have *massive cost advantages* and only *modest revenue disadvantages.*

In long-haul markets, low-cost airlines have *modest cost advantages* and *massive revenue disadvantages.*

A couple of possible exceptions to the dismal record of low-cost long-haul:

AIR CANADA rouge

Jetstar

Note: We're not talking in this discussion about integrated tour operators with airline units, such as Transat in Canada or TUI in Europe, which can profit even if the airline unit isn't profiting because of cross-subsidies from other business units.

Q&A

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