

# LCC

## Low Cost Carrier Market



Drew Magill

Director

Future Market

Boeing  
Commercial  
Airplanes

April 2004



# Agenda

# LCC

Global  
Perspectives

Business Model

Market  
Enablers

Long Term  
Outlook

Preferred  
Airplane

Summary

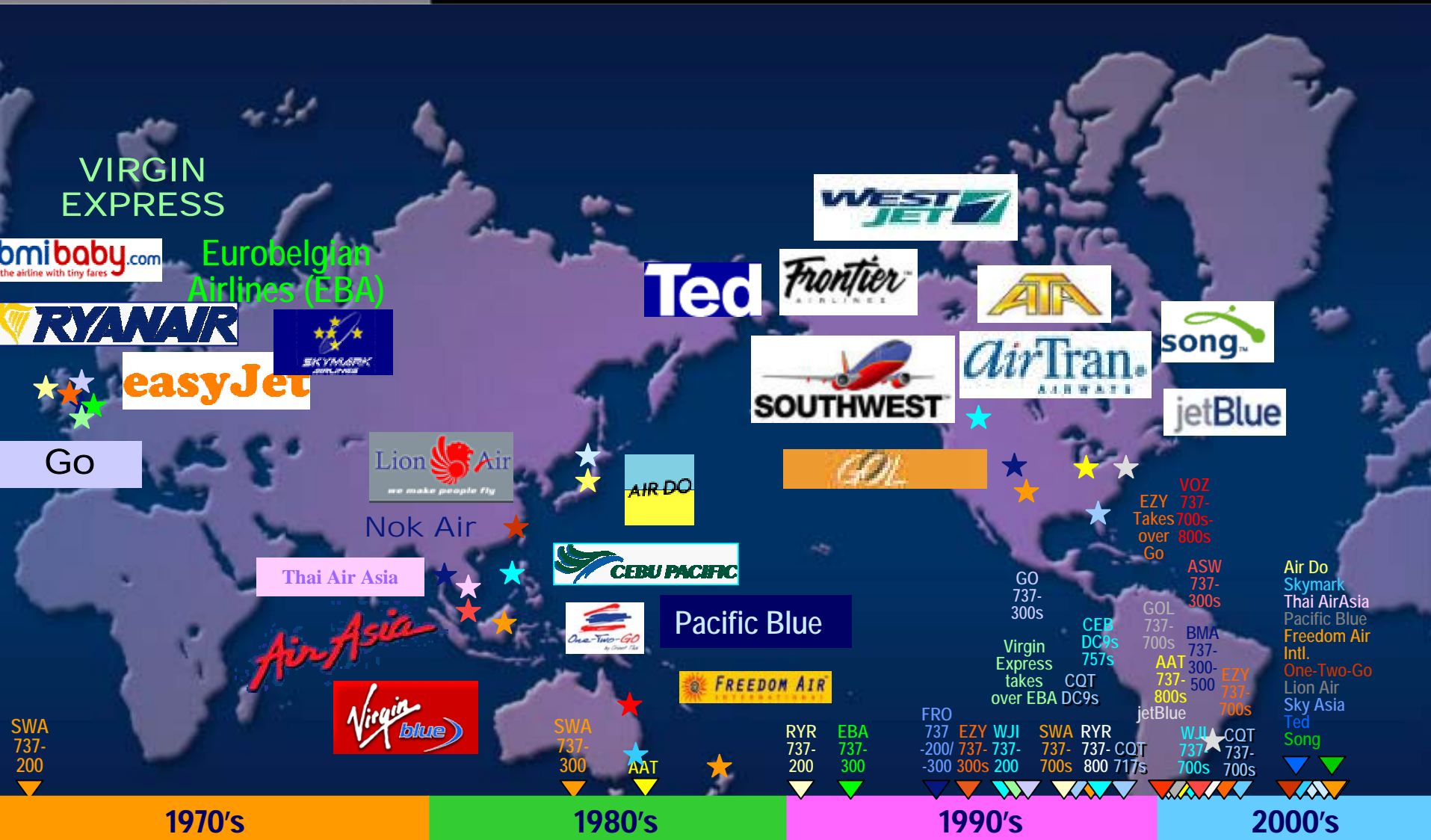
1. LCC Model Is Sustainable

2. LCC model driven by passenger needs for better service, lower costs

3. ...enabled by an environment of free competition via open, liberalized markets

# LCC

## Low Cost Carriers: Thirty Years of Innovation



# LCC

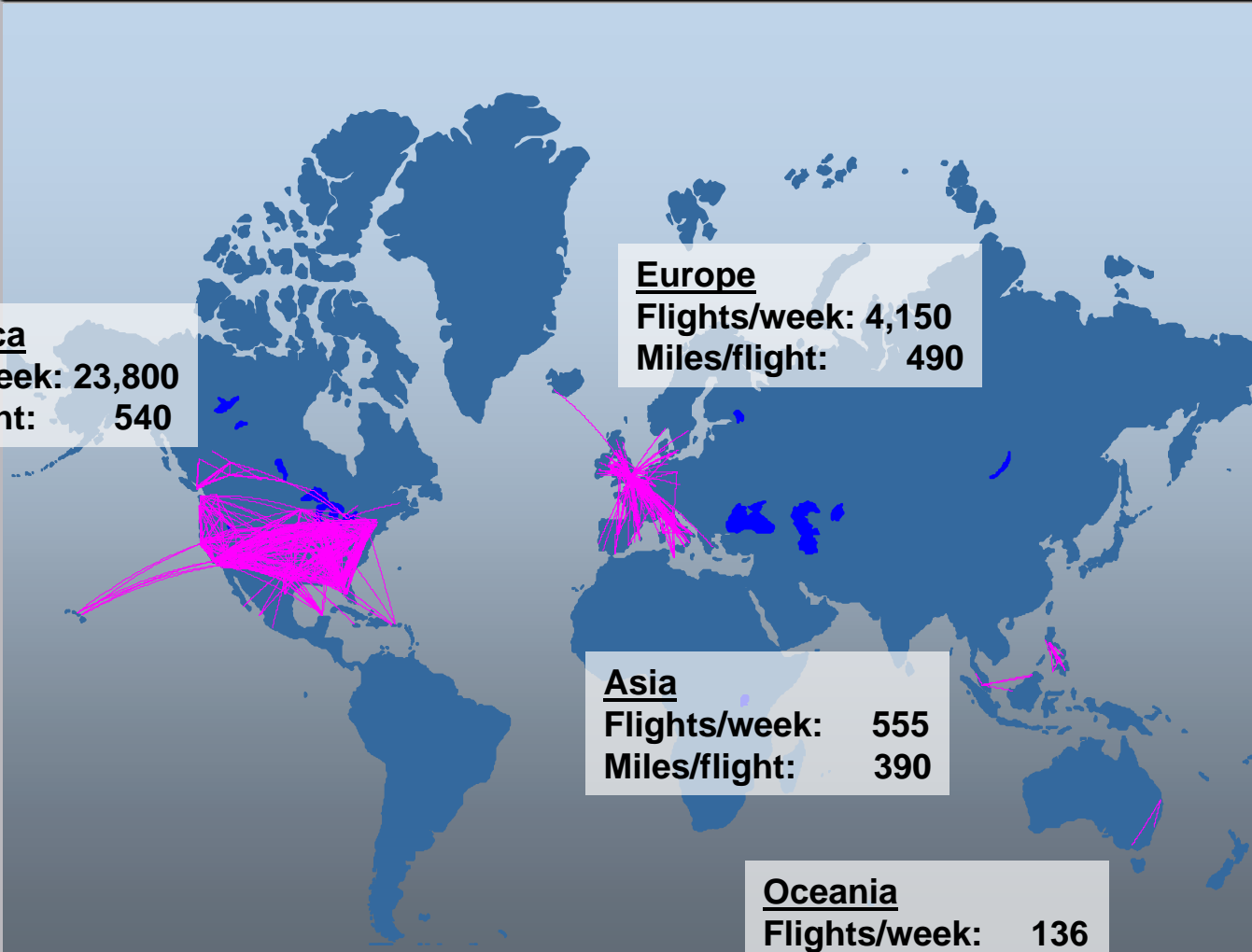
## Low Cost Carriers In 2000 Flights Per Week: 28,640

N. America  
Flights/week: 23,800  
Miles/flight: 540

Europe  
Flights/week: 4,150  
Miles/flight: 490

Asia  
Flights/week: 555  
Miles/flight: 390

Oceania  
Flights/week: 136  
Miles/flight: 590





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## Low Cost Carriers In 2003 Flights Per Week: 42,490 +50%

### N. America

Flights/week: 30,100 +27%  
Miles/flight: 643 +18%

### Europe

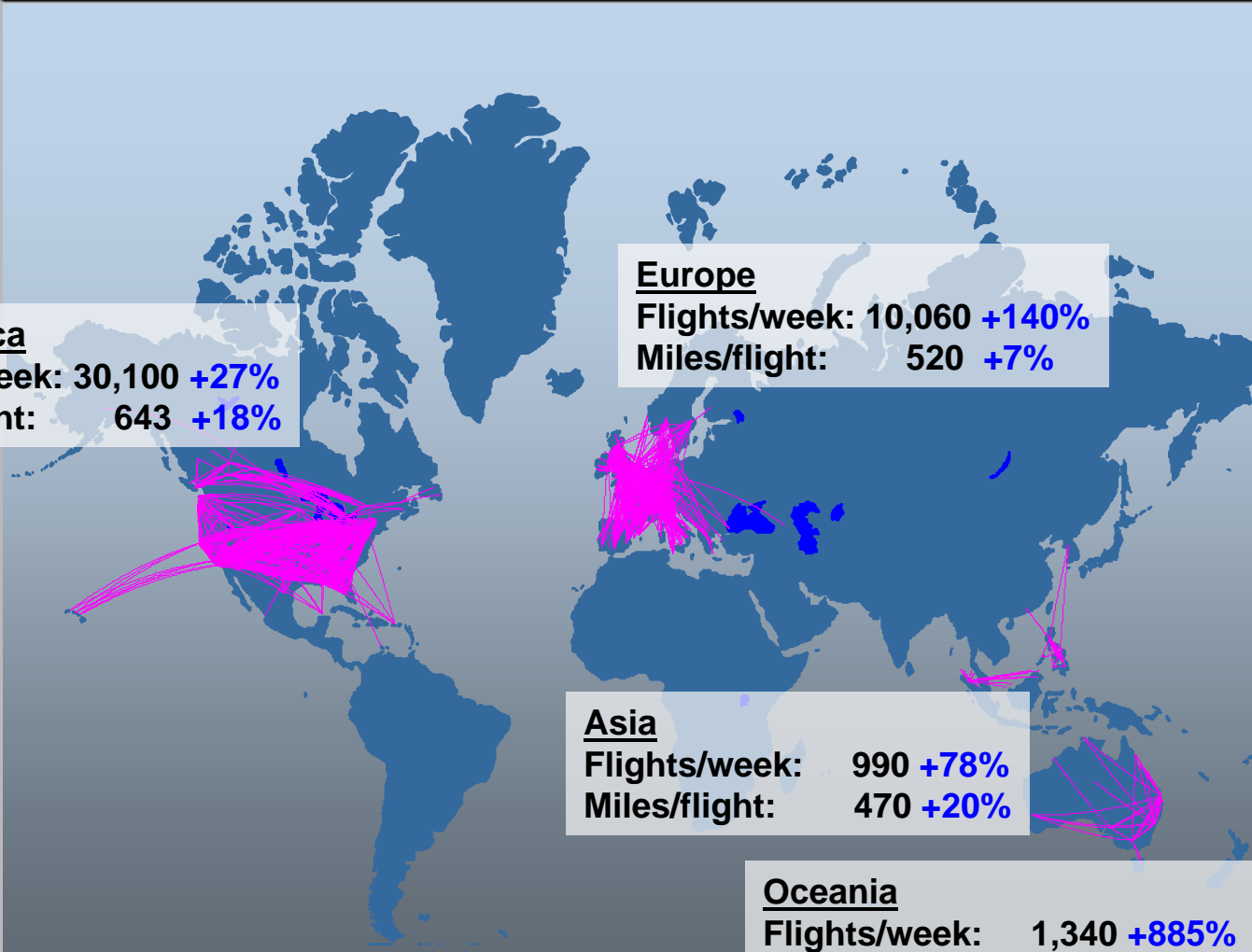
Flights/week: 10,060 +140%  
Miles/flight: 520 +7%

### Asia

Flights/week: 990 +78%  
Miles/flight: 470 +20%

### Oceania

Flights/week: 1,340 +885%  
Miles/flight: 700 +20%



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## Passengers Drive Airline Strategies

Increased  
Liberalization

Airline  
Changing  
Strategies

Increased  
Airplane  
Capabilities

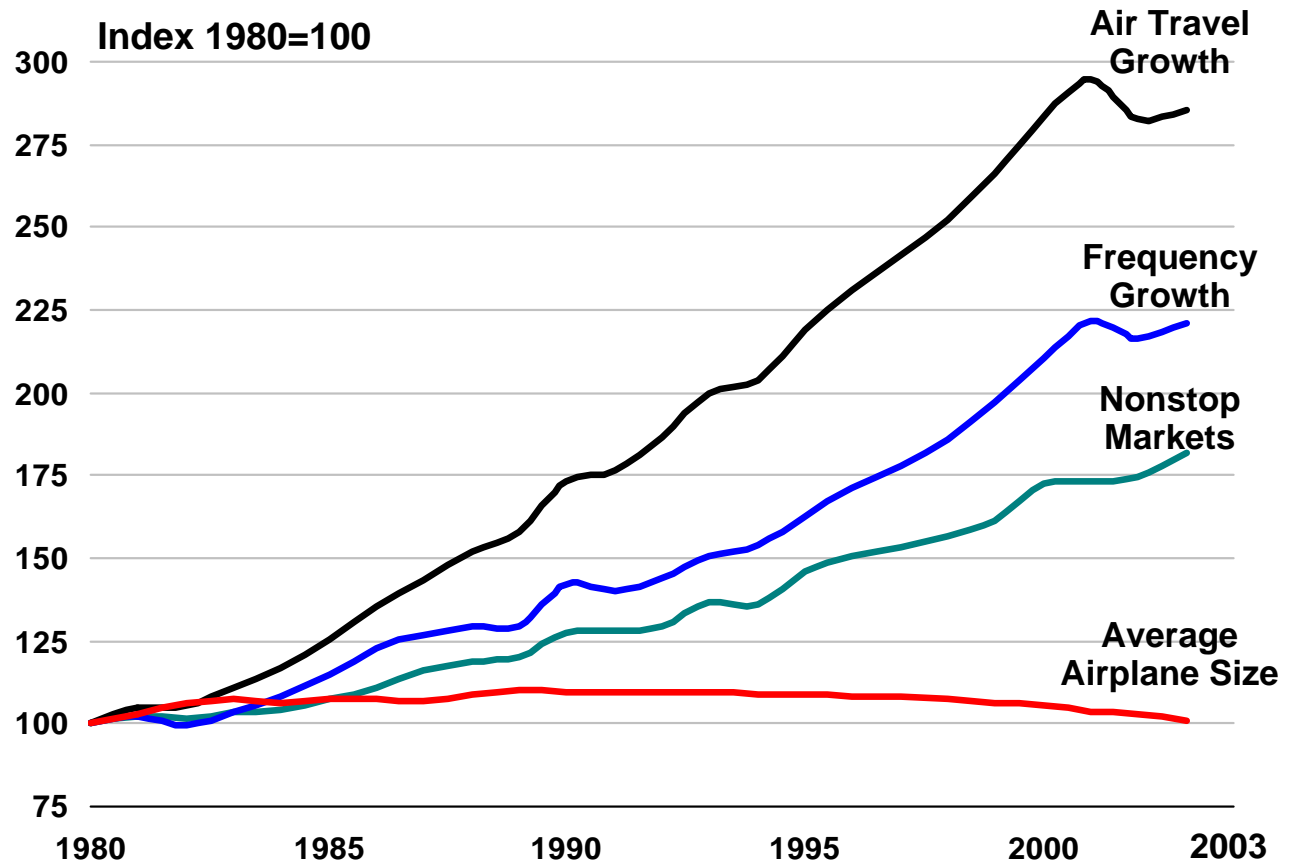


- Safe & Reliable Service
- Nonstop Service
- Lower Fares

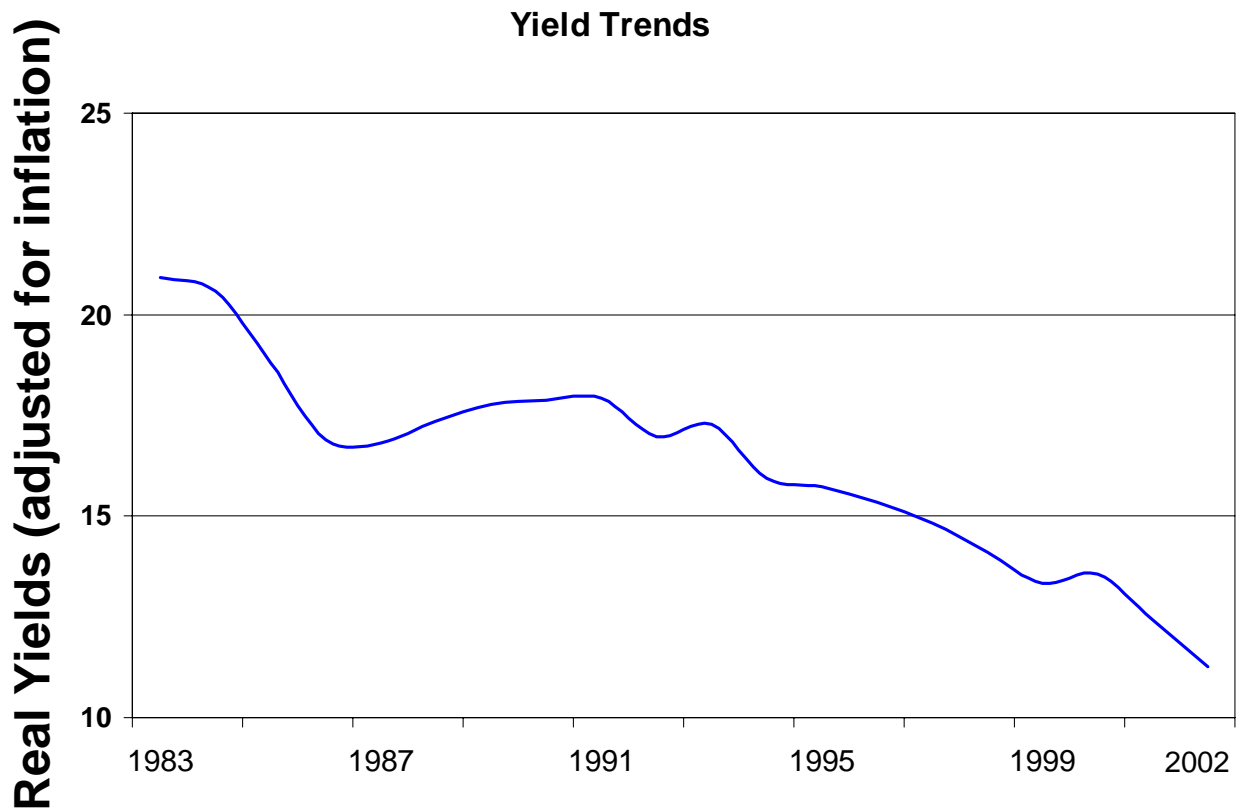
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## Airlines Are Giving Passengers What They Want – More Frequencies And Nonstops

Passengers prefer more nonstops and more frequency choices



In real dollar terms the price of air travel decreases over time



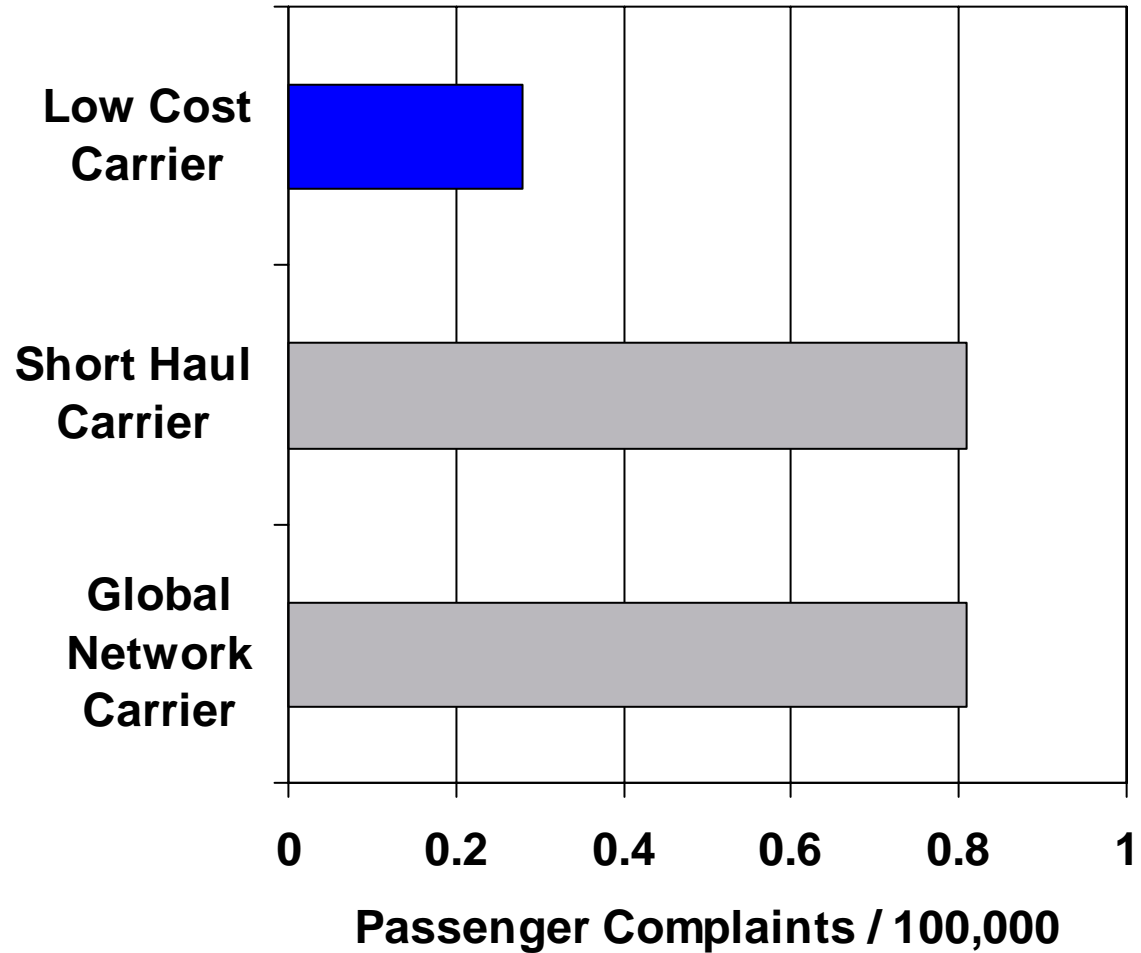


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## ...Which Results In Fewer Complaints And Increasing Market Share

- Direct flights
- Fewer delays
- Multiple frequencies
- Lower and consistent pricing

• Note: US Market. Europe / Asia model evolving.



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# LCC

## Low Cost Carrier Business Model

Disciplined execution and focus

Significant cost differential

Brand awareness and presence

Stay with the plan  
Relentless pursuit to reduce cost/complexity  
Hands on management  
Instilled corporate culture

Distribution  
Product  
Operational

- Utilization
- Point to Point
- Secondary Airports
- Demand stimulation: Europe/Asia

Low overhead

Simple value proposition  
Consistently setting and meeting expectations

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## Unit Cost Advantage Is Derived From Many Factors

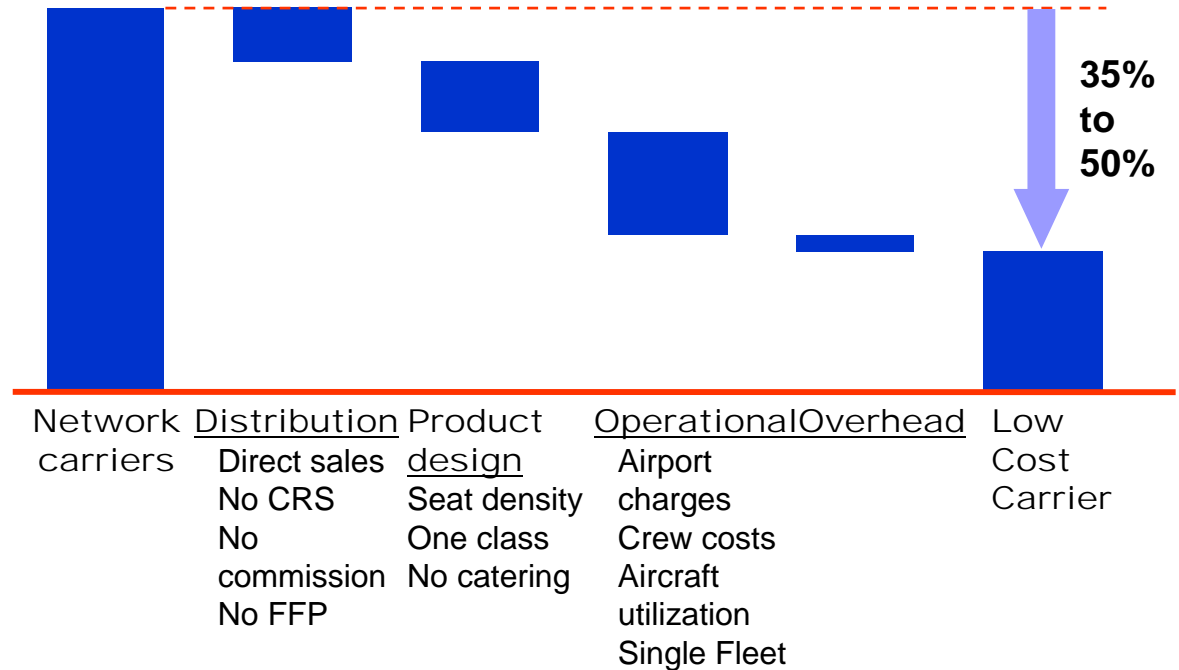
High Labor Productivity

>>NOT "cheap" labor

High Airplane Utilization

>>NOT "cheap" airplanes

Unit costs (\$ / ASK)



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## High Airplane Utilization And Crew Productivity Is Essential

More Flights

On-time,  
Reliable  
Service

Fewer Aircraft  
/ Other Assets  
Needed

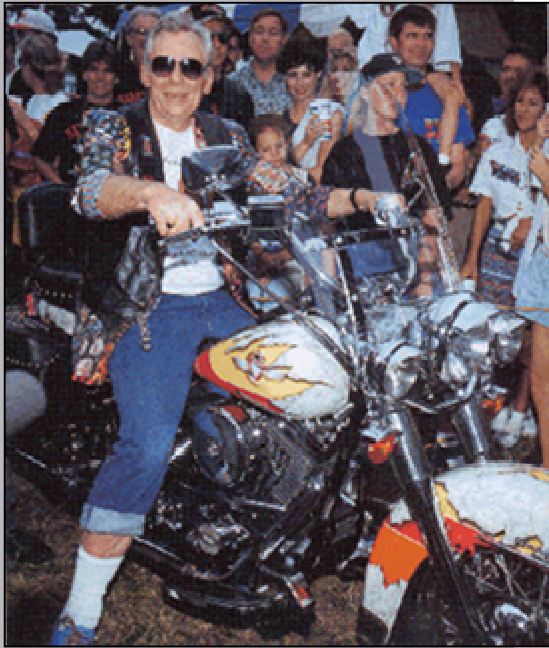


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## Internal Business Culture Drives High Productivity



Liberty (our rebadge) will matter our affairs. And, if they do, we'll simply leave them  
straight away - Michael O'Leary, chief executive of Ryanair

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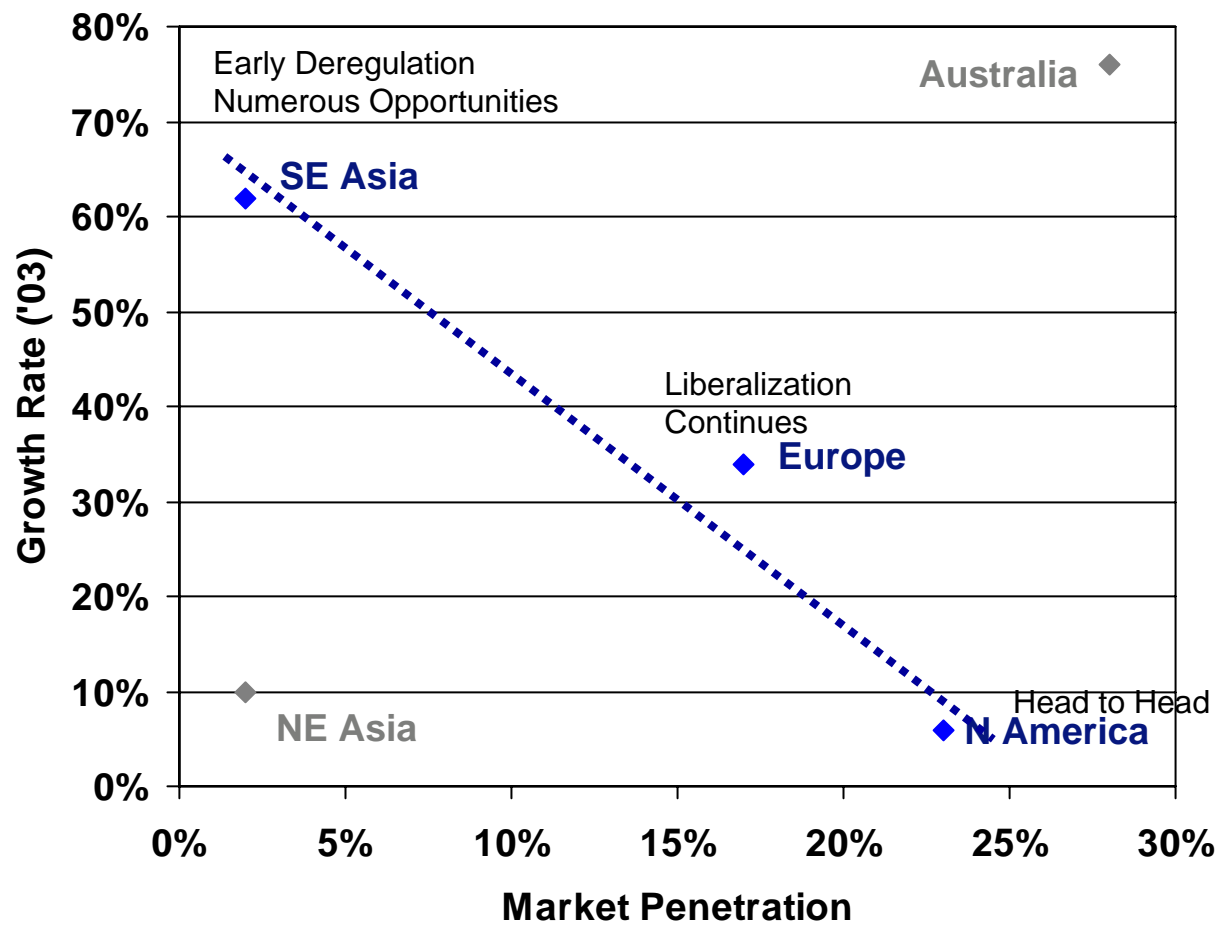
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## Key Low Cost Market Characteristics

- Ability to compete: open liberalized/[liberalizing](#) markets
- 30% to 35% lower fares / lower cost opportunity
- Sizeable and balanced traffic flows
- Underserved markets



## LCC Are At Different Stages Of Maturity





# LCC

## Air Travel Markets Have Unique Characteristics



### North America

- U.S. Deregulation 1978
- Canadian deregulation complete in 1988
- 1/6 population density of Europe
- U.S. & Canadian population centers are on opposite sides of the continent
- Majority of Canadian population lives within 100 miles of the U.S. border
- Airspace and airports relatively open
- Rail is a minor competitor; autos compete for short distances
- No loyalty to flag carriers (just \$ and ff miles)
- Very little charter
- Price transparency

### Europe

- Deregulation staged: 1997
- 20% population & 24% GDP in 7% of territory
- Congested airspace and airports
- High speed subsidized rail is a direct competitor  
Rail is a minor competitor; autos compete for short distances
- Lingering loyalty to national carriers: link to culture
- Vertically-integrated charter
- Prices becoming transparent
- Single currency adopted
- More leisure time

### Asia Pacific

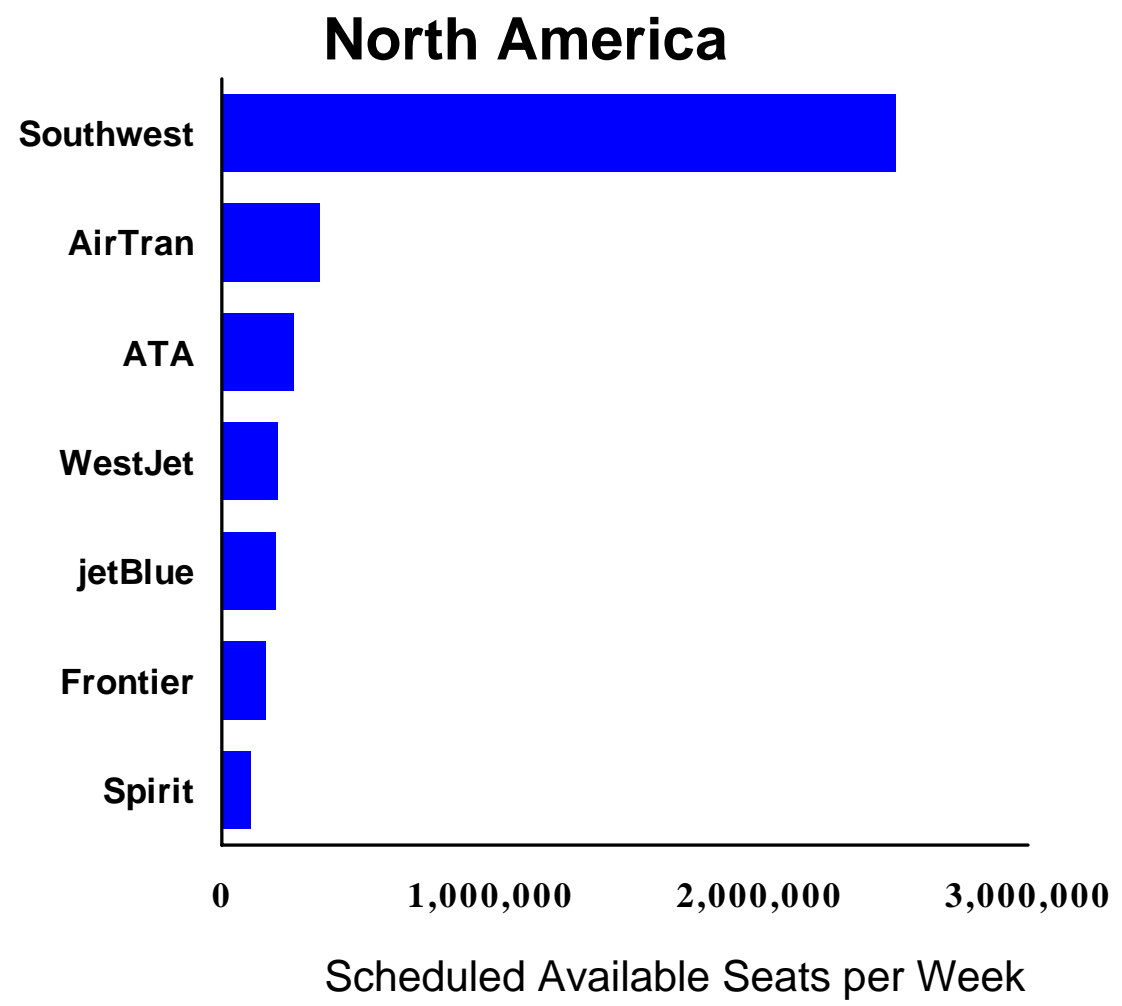
- Various stages of regulated markets and government ownership/influence.
- Large geographic dispersion of population centers
- Significant portion of travel requires flying
- Underutilized regional Airports
- Except for Japan, less competition from other transportation modes
- Mixed loyalty at most national carriers
- Very little charter
- Closely held pricing, generally
- Generally low but rising average income levels in many countries



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## North American Low Cost Carriers

Southwest supplies two-thirds of available seats in North America LCC market



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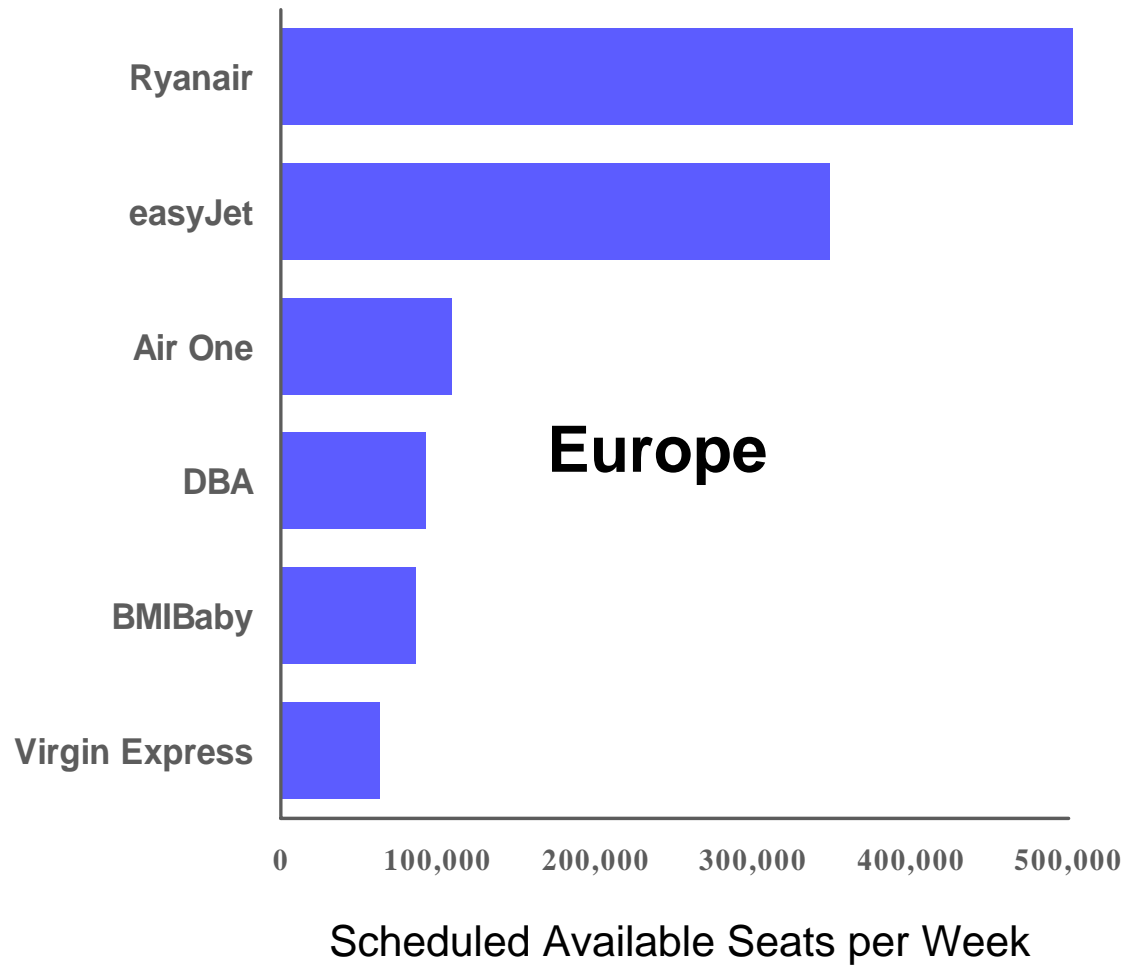
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## There Are Two Major Competitors In Europe

Ryanair and easyJet have accelerated growth using acquisitions and large numbers of airplanes

Ryanair has the largest market presence with 20% more available seats



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## The European Arena Is Crowded With Low Cost Entrants



# LCC

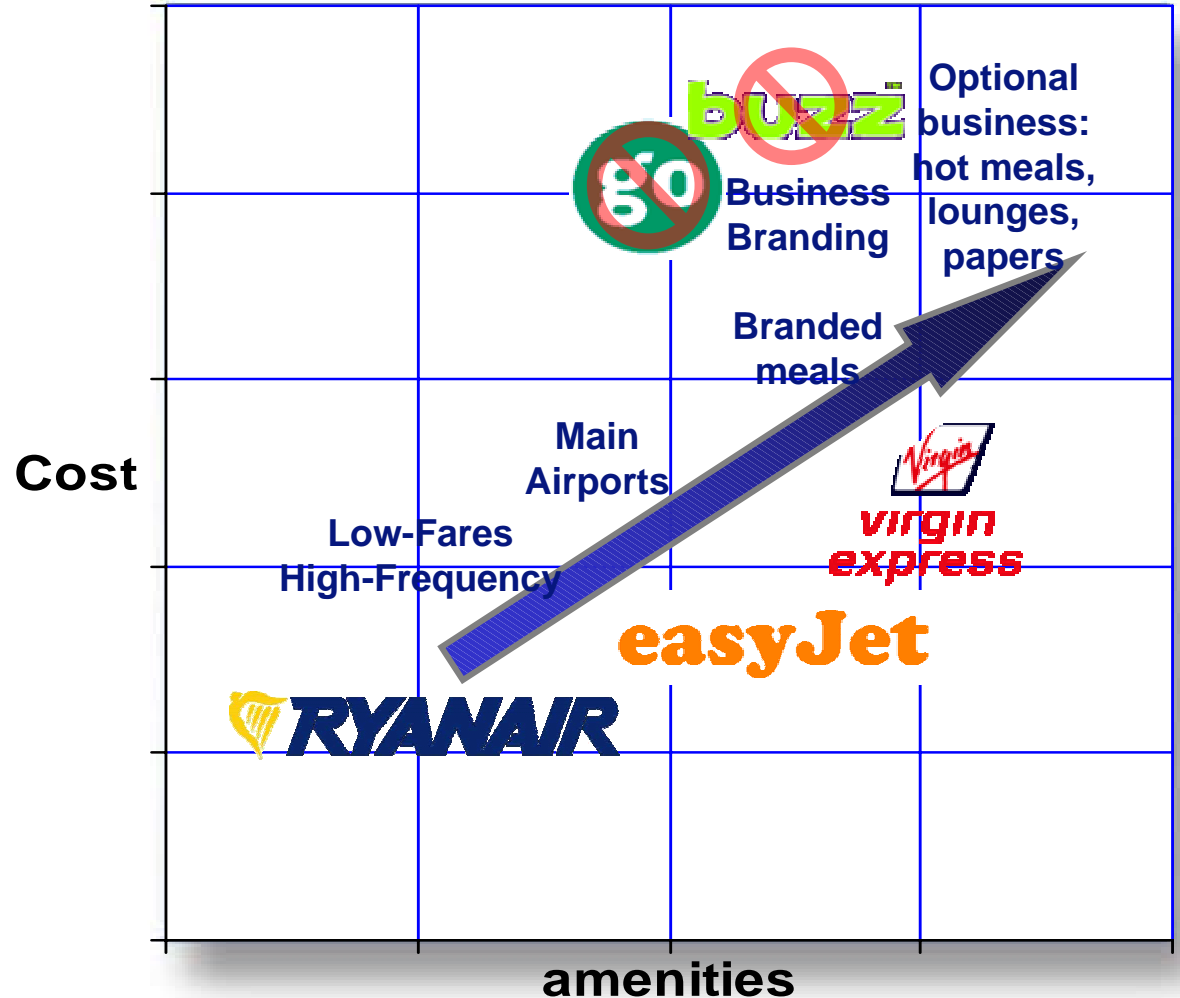
## Low Cost Carriers Have Differing Market Strategies

### Pure Low Cost Carriers

- Year round traffic
- Independent travelers
- Balanced directional flows
- Grow the market
- Single airplane type

### Hybrid Models

- Mix of business and leisure
- A la carte services
- Compete in some charter markets





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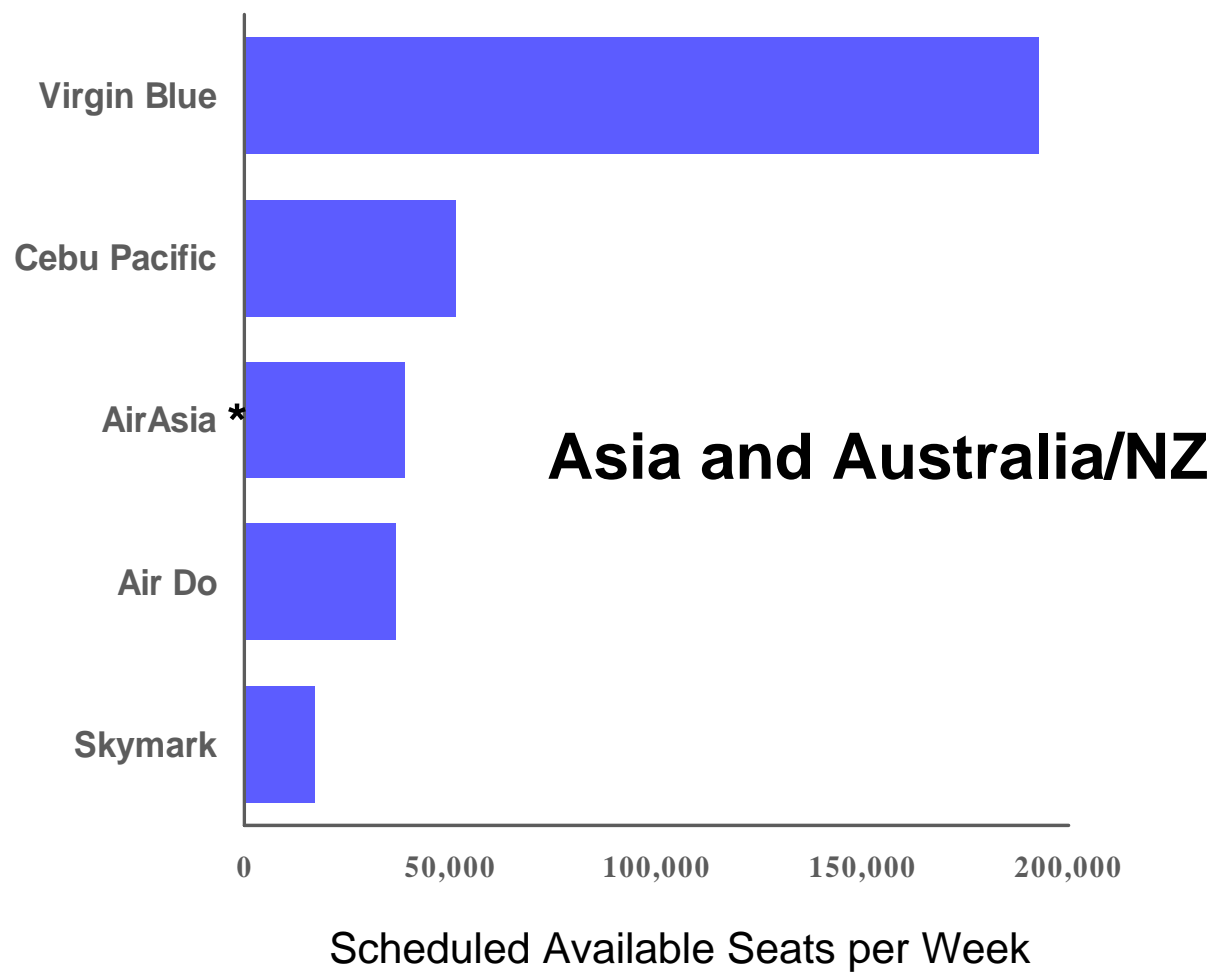
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# In 2003, There Were Few Competitors

Virgin Blue and AirAsia have recently expanded to regional operations



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## Many New LCCs Are Emerging In Asia



# LCC

## Tony Fernandes Chief Executive Officer, AirAsia



"Our aim is to fly to every airport in Malaysia that can handle a Boeing 737 aircraft."



# LCC

## Brett Godfrey Chief Executive Officer, Virgin Blue



"And they've come because they've wanted to work in a company that's a little bit different."



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## 737 - Airplane Of Choice For LCC Market

Global Perspectives

Business Model

Market Characteristics

Long Term Outlook

Preferred Airplane

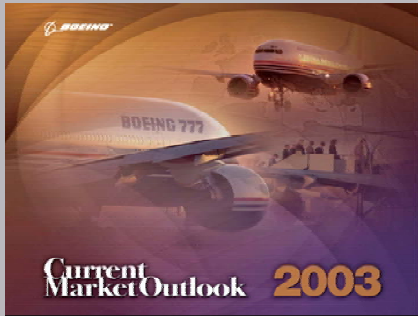
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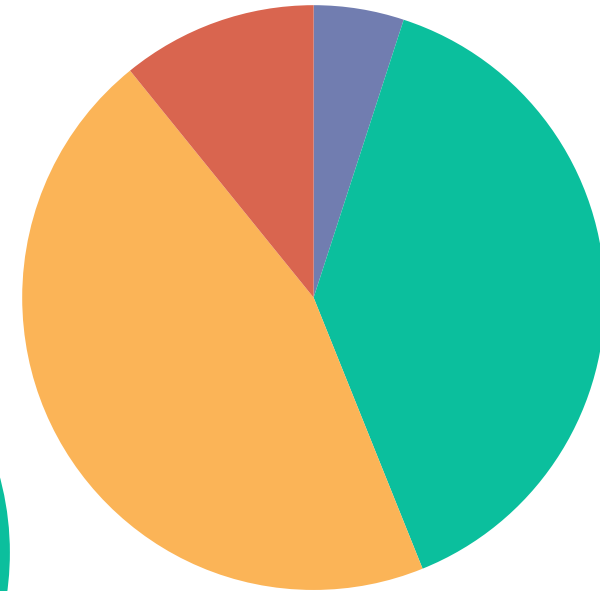
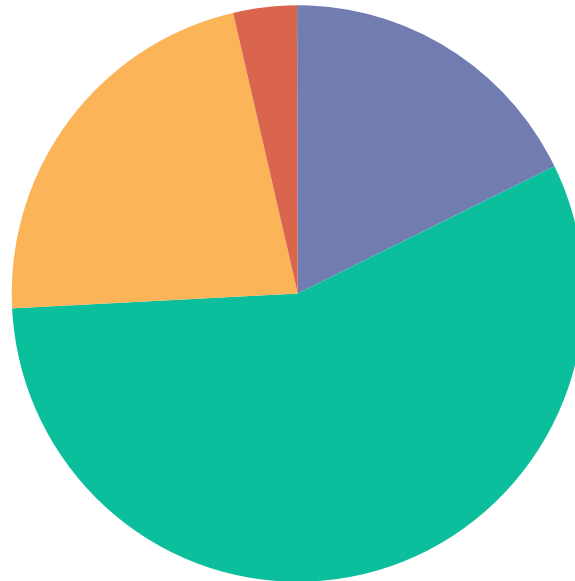


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## Low Cost Carriers Will Account For A Significant Portion Of Delivery Demand

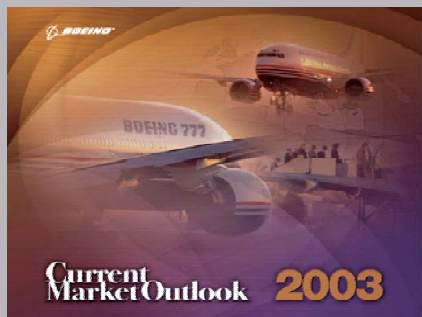


- Smaller regional jets
- Single-aisle
- Twin-aisle
- 747 and larger

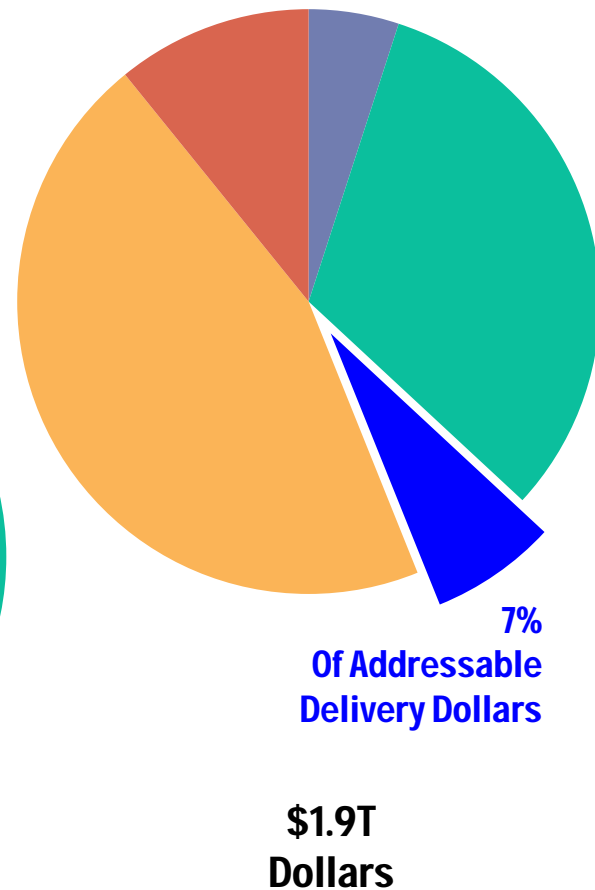
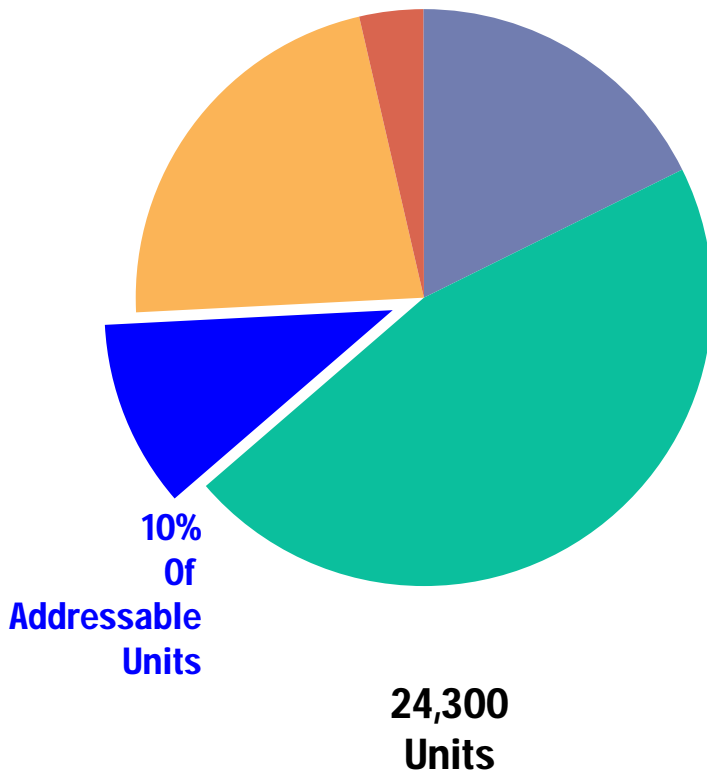


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- Single-aisle LCC**
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## Low Cost Carriers Are Here To Stay

LCC Model Is Sustainable

LCC growth driven by passenger preference for better service (more non stops, more freq) AND lower costs

LCC emergence is enabled by free competition in an open, liberalizing environment





 **BOEING**



# A Winning Combination

Boeing and Low Cost Airlines