



THE COMPLETE GUIDE TO BECOMING A LOW-COST AIRLINE

*The expert's guide to becoming a successful low-cost carrier, **Patrick F. Murphy** sets out the essentials.*

Fact

Recent years have seen a flurry of new low-cost airlines as the traveling public responds ever more enthusiastically to cheap and frequent services. While the competition is hot, success in the long-term can only come from getting all the ingredients right.

The essential pre-requisites

Three things need keeping in mind from the outset. First, that starting up a low-cost airline requires a deregulated market on both the domestic and the international fronts to allow full reign for innovation – paramount in this fiercely competitive business. Second, it's a costly business demanding significant financial resources in the form of equity, loans or guarantees. And third, that to keep ahead of the game needs top-class management talent with strong leadership and negotiation skills.

The keys to ongoing success

Ongoing success depends on three key factors: low costs, high efficiency, and innovative marketing.

Achieving low costs

Airline operations cost a lot of money, and for low-cost airlines in particular it's vital to trim wherever possible. Here are a few examples where the innovative operator can achieve significant savings.

Aircraft costs

Smart decisions on aircraft purchase will save money - whether to buy or lease, and whether new or second-hand. These decisions will of course depend on cash considerations – that is, the availability of capital or loans. Obviously buying new directly from the manufacturer not only allows negotiation on quantity discounts but also on specifications such as seating density, cockpit layout, cabin configuration and passenger amenities, which in turn impact on operating revenues. And regardless of nature of purchase, direct operating costs can be kept down with careful decisions about stage lengths, altitude, fuel consumption levels and airports served.

Staff-related costs

Market forces always drive pay rates so there isn't much room for maneuver here. But conditions of employment can be imaginatively geared to getting higher productivity and keeping staff numbers at cost-effective levels. Employment contracts can be offered to provide flexibility in hours, shift-work, leave entitlements and pension contributions and thus reduce unit costs. Reasonable job flexibility means fewer staff with broader skills; and outsourcing maintenance, ground handling, catering, reservations and information technology can reduce core staff overheads effectively.

Other low cost factors

Many of today's highly successful low-cost airlines use secondary airports, which are only too eager to offer financial and operational incentives to attract them there. Whilst the latest information technology for reservations, departure control and accounting necessitates high initial investment, this will definitely pay off in the long run. And most passengers these days are ultimately looking for cheaper fares so are quite content to forgo high levels of on-board service, which means that staff numbers can be held at the statutory minimum.

Achieving high efficiency

Just as important as cost trimming is to ensure that resources are used to full efficiency. Again, here are some examples.

Aircraft related efficiency

Get the most out of equipment investment by maximizing aircraft flying hours, minimizing turnaround times and optimizing on-board seating density.

Staff related efficiency

Maintain optimum staffing levels. Highly trained employees with a range of multi-tasking skills will attain higher levels of productivity. Encourage a working relationship of mutual trust and interaction by treating unions as partners, not adversaries, or perhaps even by creating employee interest groups as alternatives to conventional trades unions. And financial incentives to staff will without doubt encourage a higher level of productivity.

Other high efficiency factors

Avoid copying traditional and legacy carriers because the nature of their operation is different and costs more. They provide interline services, a two- or three-class service, seat selection and frequent-flyer programs, and they carry cargo. All these features necessitate complex pricing and fare rules. Low-cost airlines fly point-to-point only, provide a one-class service with no seat selection nor frequent-flyer programs, do not carry cargo, and so have simplified pricing and fare rules.

Innovative marketing

Innovative marketing will stimulate travel, create new markets, beat the competition, and find new revenue sources. Here's how.

Pricing

In addition to gaining market share from existing competitors, a highly effective revenue management system can tweak seat pricing to stimulate new air travelers and divert them from surface transport.

Distribution

The website lets the end-user book and buy directly on-line, cutting out the costs of travel agents and other intermediaries. Also, payment at time of booking means money up front for the airline; and restricting refunds minimizes reimbursements and the consequent administration costs.

Promotion

Develop a dynamic public profile so that the world knows you're out there and active. Keep up a steady stream of sale offers, and keep announcing new routes. Sell up from the lowest available fare. Take advantage of low-cost advertising through posters, leaflets, competitions and the like.

Non-ticket revenue sources

Opportunities abound for non-ticket revenue earners, and here are some examples. Use the website to promote and sell hotels, car hire and travel insurance. Offer seat assignment and checked baggage, and charge for them. Charge for paper tickets and for any changes to bookings and cancellations. Charge a transaction fee for phone bookings and the use of credit cards. On board sell food, drinks, newspapers and magazines, tobacco, perfumes, leisure products, and mail-order goods. In addition advertising space is a revenue source – not just in the in-flight magazine but also on monitors, seats, the overhead bins – even on the aircraft fuselage!

THE REWARDS

A smart combination of imaginative cost trimming, highly efficient use of resources, and innovative and energetic marketing are the three keys to sustained success and growth in this highly competitive and exciting young market.

About Patrick Murphy



Patrick Murphy

Patrick Murphy is on the International Advisory Board of Performance Consultants International and is Chairman of Aviation Performance Consultants.

Patrick has over 30 years experience with the airline industry including as Chairman of the Board of Ryanair; as Director, Corporate Development with the International Air Transport Association (IATA); and managing commercial operations at Aer Lingus. He has been a speaker at airline conferences and has been engaged by a number of airlines to advise on competing against low cost airlines, future trends in air transport, environmental sustainability, and improving performance.

A full background is available at:

<http://www.performanceconsultants.com/aboutus/patrickmurphy.html>