

THE EVOLUTION OF THE LOW-COST AIRLINES SERVICES MARKET IN ROMANIA

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Lucrarea prezintă un studiu asupra evoluției pieței serviciilor companiilor aeriene low-cost din România.

În România, zborurile la preț redus nu erau posibile acum câțiva ani, participarea companiilor aeriene low-cost precum Blue Air, My Air, Wizz Air și Sky Europe a devenit din ce în ce mai vizibilă, în special, pentru marii transportatori aeri.

Lucrarea face parte dintr-o cercetare mai amplă asupra pieței serviciilor de transport din România.

The work suggests carrying out a research on the evolution of the low-cost airlines services market in Romania.

In Romania, the flights at a moderate price were not possible several years ago, the participation of the low-cost companies as Blue Air, My Air, Wizz Air and Sky Europe became more and more visible, particularly to major airline carriers.

The work is part of an extensive research about the transport services market in Romania.

Key words: low-cost airline, competition, customer, services quality, passenger security.

1. Introduction

Services offered by the low-cost companies represent an alternative at the air transport placed at the customers' disposal by great airlines.

The syntagm "low cost company" means an airline which offers tickets at a price that most of the travelers can afford.

In Romania, people are enough suspiciously when hear about "reductions" or low prices, because the discount culture hardly penetrates our services industry. People usually expect the seller to increase prices with 50% then to apply a 50% discount or the quality of the displayed goods to be questionable.

One of the fundamental principles which rule the low-cost airlines is flights "democratization" between various destinations on the Earth. In this way, there is only one type of class for these flights. Therefore, those who want to have a comfortable flight (first class) will continue to choose traditional airline

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services. Moreover, passengers cannot book a certain seat in the plane, these are allotted after the rule first come first served and this contributes to a fast embarkation of the passengers.

2. The concept of “low-cost” business in airlines

The golden rule of the low-cost companies is costs reduction through elimination of the facilities as far as it does not affect the flight security.

- ☑ Therefore, the passengers do not benefit from free food and drinks; on the other hand, each passenger can choose a limited menu for cash. As a rule, water, tea and coffee are free.
- ☑ Plane tickets sold through tickets or travel agencies increase significantly the price of a travel, therefore it can be chosen straight sale of the tickets, particularly, on the Internet, on the web page of the respective company or through proper travel agencies.
- ☑ Planes use secondary airports which collect lower taxes, they are less crowded and have fewer delays caused by the traffic.
- ☑ Sometimes, employees of some companies have more tasks. In this way, air hostesses are responsible for cleaning the aircraft and checking up the passengers' tickets at the boarding gate, the fact leads to the staff limitation and implicitly, to fall in tickets prices.
- ☑ Most of the low-cost companies use only one type of aircraft, Boeing 737 or Airbus A320, the reason why maintenance costs are low.
- ☑ Particularly, these companies prefer to display the tickets price different from the airport taxes, emphasizing the low-cost of the travel (time and again it can be met paradoxical situations, when the airport taxes are considerably higher than the proper ticket).
- ☑ The simplified routes are followed up choosing direct and short routes instead of devious routes. In this way, passengers should not wait hours for the next connection and the risk to lose luggage during their handling is considerably reduced. As a rule, at long flights consumers become more exigent and require additional services that lead to price growth.

Therefore, a plane ticket at a moderate price does not represent anything miraculously and it is not a trick whereby some companies try to hide the true cost of the travel. The “secret” is assuming a plan of economy flights implemented by an efficient management. Although this concept is undertaken on the market of the civil aeronautical services in Europe, the low-cost companies cannot overthrow so easy the traditional companies, frequently “uneconomic”, for at least two reasons: these companies set up economical “alliances” with other similar companies to protect their interests, and sometimes, they are subsidized by the

State. Many passengers prefer to pay much money in exchange of the conveniences that they are accustomed to by such airlines.

In order to profit by the flights at a moderate price it is necessary a debit card for safety on-line payments and, of course, the ticket has to be bought on the Internet beforehand. It is simply to buy a ticket; the passenger has to follow up a standard number of steps which are usually explained clearly on the web page of the airline. It is important to remember that, once the customer bought the ticket, he or she would get a code which should be noted and shown together with the passport at the loading gate. Also, before setting out on a journey the customer has to find out which is the weight limit of the luggage to hold, because, sometimes, the low-cost companies allow traveling with lighter luggage than the “traditional” ones.

The concept of “low-cost” business was been initiated by the Americans more than a half of century ago with the first flight of Pacific Southwest Airlines in 1949. The first low-cost transatlantic company, Laker Airways, operated in the 1970s flying between London and New York with the famous “Sky train”, until British Airways and Pan American forced them to go off the market [1].

Later, in the 1990s, the concept was extended in Europe by means of the Irish company Ryanair and then farther away in Australia through Virgin Blue or in Asia through Air Asia (Malaysian company). On our continent, at present, there are about 50 airlines that offer low-cost services [1].

3. The low-cost airlines services market in Romania

A first effect of Romania integration in the European Union was the increasing offers of the low-cost companies.

The frontiers inside the European Union disappeared. In the airspace, the frontiers resisted longer, till two years ago each European country managed its civil airspace independently of the other states.

Coming into force, on the 31st December 2004, the European Unique Sky, a legislative package adopted by the European Parliament, completely changed the state. The objectives of this initiative are elimination of the European Unique Sky airspace division into fragments and setting up a sky without frontiers, competitive, efficient and safe.

The European Unique Sky arose through the fusion of all national regions in only one region. Inside this area, the aerial communication services are provided after the same procedures.

A measure of the airlines with reduced fares was reorientation towards markets less saturated, as those from the East Europe. In this way, although cheap flights avoided Romania several years ago, the presence of low-cost companies such as Blue Air, My Air, Wizz Air and Sky Europe in Romania became more

and more visible particularly for big air carriers whose sales decreased for charter flights, which these new players covered them with minimum costs.

In Romania, through the first companies (after Volare who failed) and, for the moment, the most known low-cost and charter airline is Blue Air. The only Romanian low-cost, Blue Air, was founded in 2004, it has pilots from Tarom and, for the moment, has an air force of three aircrafts Boeing 737. The company had a market share of 70% in 2006, and estimates that will transport 800 000 passengers this year, that is double compared to last year [2].

The competition of Blue Air (Romania) represented initially by My Air and Alpi Eagles (both from Italy), Sky Europe (Slovakia) and Tarom, which is not a low-cost airline, but sometimes it has lower prices than other airlines, recently it has threatened with the entering of Wizz Air (Hungary), Clickair (Spain) and Germanwings (which belongs to Lufthansa).

The admission on the Romanian market of the low-cost airlines reduced the flight cost towards many external destinations for the last two years.

The low-costs attack as a rule the touring car transport, determining transport companies to focus on shorter drives (for maximum a day and a half). Eloquently in this sense is the evolution of the passengers' number who uses the two means of transportation (Fig. 1 and Fig. 2).

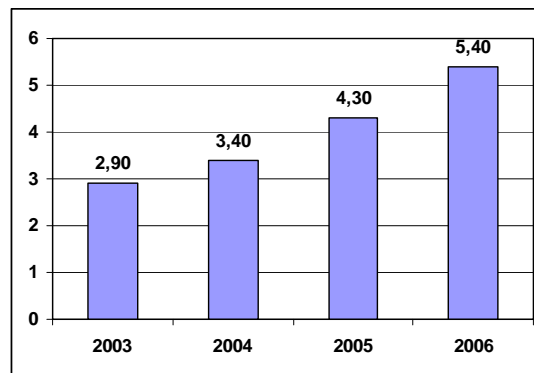


Fig. 1. The evolution of the passengers' number embarked and disembarked on the Romanian airports (mil. passengers) [3]

At present, it has come to the situation that airlines display fares with some dozens of euro than the ones required to the same destinations by the firms which offer services of touring car transport. For some periods, the low-cost companies have tickets of 1 or 0 euro per person, without airport taxes.

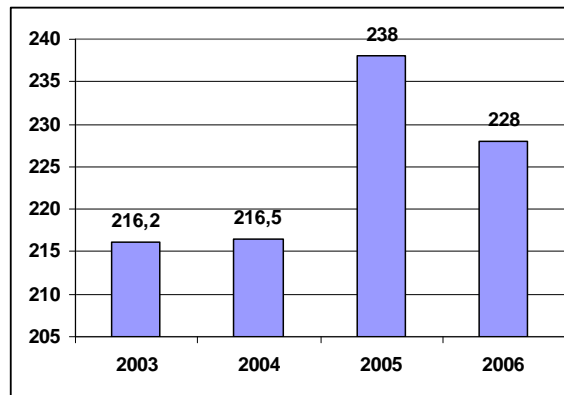


Fig. 2. The evolution of the passengers' number on the road transport market (mil. passengers) [3]

Concerning the rail freightage of passengers, it knew a slight increase of 2% last year, the greatest growth of 13% was scored on the international routes (Fig. 3).

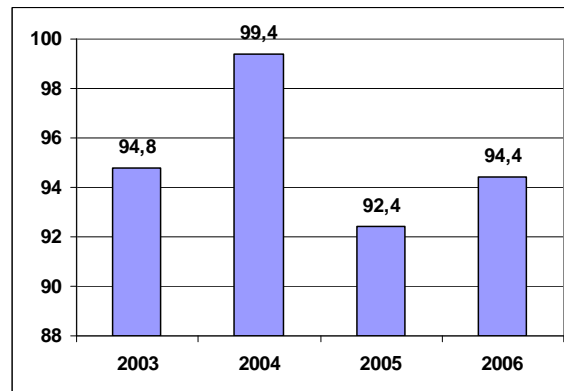


Fig. 3. The evolution of the passengers' number on the railway transport (mil. passengers) [3]

As for the advantages and disadvantages, it is obvious that the length of the travel represents the main reason why many Romanians prefer the plane. The touring car reached the destination in two days and the aircraft in two hours. Whenever a country is conveyed in transit a road charge has to be paid. If three countries are conveyed in transit this is tantamount to a plane ticket without charges.

In Romania, the low-cost operators have about 18% from the local market (100 mil. euro). In the European Union the rate was 16% last year and it is estimated that it will reach about 30% till 2010 [3].

Nevertheless great companies are still waited. The specialists from the market estimate that merely for the next two years it may happen that the most important low-cost companies such as Ryanair or Easy Jet to enter on the Romanian market.

As Romania has not been yet either a tourist destination of first position or the number of the persons with medium incomes – the favorite target of the low-cost companies – has not reached to a critical mass.

Ryanair, Easy Jet and Air Berlin, the first three big European low-cost operators have not come in Romania yet. The nearer routes are in Hungary. Ryanair is the European leader of the low-cost flights, who transported 3.44 millions of passengers in April 2006 growing with 29% compared to 2005. The Irish company operates on 332 routes, on 17 airports from 22 countries. The main competitor is Easy Jet that operates on 258 routes, on 72 airports [4].

Air Berlin, the third big air transport company with low prices operates on 73 airports from Europe.

The coming out of the “heavies” from the low-cost transport on the Romanian market is looked forward. The coming out of some companies such as Ryanair, Easy Jet or Air Berlin will change the data of the problem. It will be much more advantageous for Romanian passengers, because they will go everywhere in Europe at token prices, practically, of a few euro.

The traffic on the airports from Romania was 5.5 millions passengers last year. The increase was stronger on the low-cost segment than on the regular flights that registered a growth of only 5.9%, coming to 3.5 millions passengers according to IATA Romania [3].

The large crowd of demand and the fact that the low-cost operators want better flight hours (in order to compete more with the traditional operators, which fly at convenient hours) make the battle on the air corridors to be stronger and stronger.

Moreover the low fares, the low-cost operators have promotional periods when the customers pay only the airports charges and the overweight charges. For example, Wizz Air flew free on charge on the first months of 2007. A passenger will pay for a round trip ticket to Budapest only 130 lei, a price lower with about 50% than the cost of a travel by train rail. Sky Europe offers flights to Rome at 15 euro plus the airport taxes [5].

The offers and the promotions of the low-cost competitors go as far as to provide tickets for Frankfurt, for example, or Bratislava at 1 euro, in addition to the airports taxes. On the other hand, Wizz Air has brought an offer of 10 000 free tickets once its entrance in Romania this year. The prices vary depending on destination and, of course, on the provided services (if it is necessary), but on an average it costs about 100 - 150 euro (without charges).

In 2006, Sky Europe was the only operator that addressed also to the firms offering them corporate packages, which were packages of tickets having fixed price guaranteed for one year, without the payment of other extra charges in case of changing destination, data of travel or passenger's name.

The low-cost companies are also extremely vulnerable at the market fluctuations and the same operator Volare, who was the first operator which took action in Romania, after it failed operating only in Italy for two years; finally, it was brought by Alitalia. At the beginning the company's success was given by an

efficient booking system through the Internet (Volare being known as “volareweb.com”) but when other companies implemented a similar system, the company’s benefits were reduced considerably.

As regards the Romanians responsiveness at the low-cost “trend”, normally people are delighted at traveling with some money. However, the distrust continues in many cases particularly because of the association of the low-cost concept with the lack of security. On the other hand, facts are different. The pilots’ responsibility and the comfort are “all in price”.

The National Authority for Consumers Protection (NACP) draws the consumers’ attention that refer to the low-cost airlines services to take into account the other taxes which are not in the ticket price, respectively:

- the airport taxes (that can get to values of which you have to mind);
- travel expenses from the airport where the plane lands to the city of final destination (the offer is towards a town but the landing is on an airport situated at a longer distance from it, that can be up to 100 km);
- taxes for overweight luggage (larger tariffs);
- taxes for telephone booking or through the tourism agencies, which can be bigger.

The European regulations determine the airline operators:

- after two hours of waiting, to offer meals and soft drinks proportional to the period of waiting, plus the possibility to make a call twice and to send written messages, e-mail or fax;
- after five hours of waiting, the passenger has the right to claim the repayment of the ticket;
- if the flight is postponed a day, they have to offer accommodation with meals and transport free of charge;
- if the flight is cancelled, they have to offer an offset of 250 – 600 euro.

Both the tour operators and those from the low-cost airlines agree that the coming out of the flights at attractive price has played a great part in the fast development of the tourism. For example, the biggest percentage from the total number of Blue Air company’s passengers is represented by persons with incomes of more than 500 euro and from this market share most of the customers are those who go to city breaks – short weekend holidays for shopping or cultural tourism [2].

From a market almost absent in 2004, the development of the weekend tourism due to the low-cost flights has been nearly 100% every year. However, the coming out of the low-cost airlines led also to the development of the tourism generally, not only of the weekend’s one. The larger and larger number of companies from which one can rent aircrafts (for charter flights) made that the tour operators on the tourism market, which sold only premium products in small volumes, to develop charter flights and to be able to offer low-cost packages.

4. Conclusions

The work is part of an extensive research about the transport services market in Romania.

Although, recently, the low-cost market was intense mediated emphasizing the deficiencies of the firms that provide air transport services, this concept has to

be and will remain a certainty on the Romanian market, a potential market, only integrated into the European space under some well grounded requirements.

A careful examination of the low-cost market shows that, after all, this is based particularly upon the increase incomes as the claims in consumption and the low-cost segment could not be developed in an economy where the middle class does not exist or at least does not outline itself. The best example is even Romania, where these businesses have begun to be developed since 2004 when the salaries have started to rise for many more categories of employees from various fields [6].

As a conclusion, among the main factors which have led to the increase of the passengers' traffic, especially in the low-cost segment could be mentioned:

- The improved opportunities to work abroad and an increased turnover of labour;
- The important economic growth and of the available earnings.
 - Romanian customs have been changed relative to spending holidays. Therefore, after the increase of the middle budget allocated for holidays with over 15% than last year, Romanians begin to be orientated towards more frequent but shorter holidays. Middle budget for a package of tourist services is 400 – 500 euro per person.
 - Romanians became more exigent concerning both holidays destinations and services quality and prefer to spend their holidays abroad. The increase demand estimated for this year for abroad destinations has been 30% than 2006.
- A growing interest for tourism and development investments as regards Romania;
- The increasing number of firms that send their employees to various refresher courses abroad;
- The grown competition in the air transport area led to increasing attendance and various range of destinations and to lower transport prices for customers [7].

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