

Preface

The debate on the future of the aviation sector and the viability of its traditional business practices is the core of this book. The liberalization of the EU market in the 1990s has radically modified the competitive environment and the nature of airline competition. Furthermore, the new millennium began with terrorist attacks, epidemics, trade globalization, and the rise of oil prices, all of which combined to push the industry into a “perfect storm”.

Airline industry profitability has been an elusive goal for several decades and the recent events has only accentuated existing weaknesses. The main concern of industry observers is whether the airline business model, successful during the 1980s and 1990s, is now sustainable in a market crowded by low-cost carriers. The airlines that will respond rapidly and determinedly to increase pressure to restructure, consolidate and segment the industry will achieve competitive advantages. In this context, the present study aims to model the new conduct of the ‘legacy’ carriers in a new liberalized European market in terms of network and pricing competition with low-cost carriers and competitive reaction to the global economic crises.

The current evolution of the aviation sector in Europe can be described in terms of the combination of two main factors: (1) the liberalization process which began in the EU during the 1990s and the succeeding boom of the low-cost carriers. This has changed the nature of competition, as new entrants or potential entrants have different business models, especially concerning the network organization; and (2) the set of specific exogenous factors such as terrorism, epidemics, trade globalization, and the rise of oil price.

The traditional model that was successful during the 1980s and 1990s is evolving in a market where there is fierce competition from the low-cost carriers. The low-cost carriers have had a serious impact on the airline industry, but the extent and nature of this effect have been largely regionalized. The concept of ‘low-cost carrier’ originated in the United States with Southwest Airlines at the beginning of the 1970s. In Europe, the Southwest model was copied in 1991, when the Irish company Ryanair, previously a traditional carrier, transformed itself into a low-cost carrier and it was followed by other low-cost carriers in the UK (e.g. easyJet in 1995). In the literature, there are several similar definitions of a low-cost carrier, also known

as a ‘low fare’ or ‘no-frills’ airline, which is described by core characteristics that seem to be common to the majority of the low-cost models. These are high aircraft utilization; Internet booking; use of secondary airports; minimum cabin crew; lower wage scales; lower rates of unionization among employees; one class of seating; short ground turn-around times; no cargo carried; very simple fare structures and price strategies; adoption of strict yield management techniques; e-ticketing; often no seat allocation (for faster boarding); no frills, i.e. the passengers having to pay for food and beverages; no connections; point-to-point services. It should be noted that this increased competition in the aviation sector led the traditional airlines to adopt some of the characteristics of the low-cost airlines in an attempt to better survive in this new deregulated environment.

This book represents a revised version of my PhD thesis. The original decision to start researching the observed phenomena in airline economics was based on two motivations: my passion for aviation and the great positive influence of a few outstanding persons whom I have met during the course of my life. My passion for aircraft and flying began as a childhood dream, and today in writing this book I am still living the dream. First, I would like to thank Prof. Aura Reggiani. She introduced me to the international academic arena by offering me the opportunity to work at the University of Italian Switzerland in Lugano. With her intellectual stimulation and pragmatic and tenacious attitude, she convinced me to publish my thesis as a book.

Aura also introduced me to Prof. Peter Nijkamp and Prof. Piet Rietveld. They agreed to promote my thesis despite my busy agenda with KLM Royal Dutch Airlines, and I could not have had better supervisors. I would like to thank Peter and Piet for the style, quality and efficacy of their supervision. At every meeting or work session and in emails, they never forgot to add inspiring and encouraging words to their indescribable professionalism and scientific knowledge. Even their tacit criticism was motivating and aimed at getting the best out of me. I was impressed by Peter because, in just two lines of comments, he identifies and solves issues, and by Piet because he is always right when commenting on mathematical or econometric models.

Dr. Marco Alderighi of Milan Bocconi University and Valle D’Aosta University was a great help. He closely followed all my work and contributed actively. His intuitions, innovative ideas and collaboration have made my thesis a better work. I consider Marco one of the most intelligent young researchers I have ever met in my life. Above all, I have found a friend whom I will never forget.

KLM Royal Dutch Airlines has been my employer for the last eight years and has provided me with the facilities to finalize the book successfully. In particular, I would like to thank Anton van Dasler, Domingo De Cola, Hester Bruijninx, Peter Bootsma, Paul Gregorowitsch, Just Kerckhoff, Toon Balm, Harm Kreulen, all the staff at the Revenue Management Department in Amstelveen, and my colleagues in the KLM Italian office, from whom I have learned the best business practices of the airline industry and some of the “secrets of KLM success”. A ‘thank you’ to Patricia Ellman, who took care of the English correction with incredible speed and quality. Thanks also to Dr. Eric Pels and Dr. Oliviero Baccelli who offered me the

opportunities to organize a few workshops with the students of the Free University of Amsterdam and Milan Bocconi University.

Finally, Cristina, my love, and our children Marco, Ester and Luca. Words are not enough to describe the strength you were able to give me. There were uncountable nights and week-ends when I could hear Cristina singing a lullaby to our little ones while I was busy writing a new section. A special thank you for your patience and your faith in me, that helped this flight arrive at its final destination.

Milan, Italy
12 May 2008

Alessandro Cento



<http://www.springer.com/978-3-7908-2087-4>

The Airline Industry
Challenges in the 21st Century
Cento, A.

2009, XVIII, 184 p., Hardcover

ISBN: 978-3-7908-2087-4

A product of Physica-Verlag Heidelberg