Economy

Maxim Lachmann

Low Cost Concept for Long-Haul Destinations. A Feasibility Analysis of Eurowings' Strategies

Master's Thesis

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Master-Thesis

for attainment of the academic degree of

Master of Business Administration (MBA)

Issue:

An Assessment of Low Cost Concept in Long-Haul Destinations: A Strategic Feasibility Analysis of a German Commercial Airline Carrier

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Cologne, 19 September 2016

Executive Summary

On the March 4, 2015 during the ITB international tourism fair in Berlin, the management board of directors of Lufthansa presented the “new” German low-cost, long-haul carrier “Eurowings”, which would be operated by SunExpress Deutschland. The “new” Eurowings marked the first low-cost carrier in the history of Lufthansa to start its operations for long-haul destinations from Cologne Bonn Airport. The last long-haul destination from Cologne Bonn Airport was offered at the end of 1980s, between Cologne Bonn and New York – Newark. Decreasing flight demand and financial crisis in the last 20 years forced Lufthansa Group to stop all long-haul connections from Cologne Bonn Airport. At the present time, Cologne Bonn is again the airport where Eurowings starts its long-haul flights to major tourist and business cities. Today, Eurowings is a subsidiary company of Lufthansa, with headquarters in Dusseldorf and offers flights from Germany and Austria to different cities in Europe and around the world. What is more, Eurowings has received four wide-body aircrafts from Lufthansa for their long-haul destinations such as Dubai, Bangkok, Phuket and tourist destinations in the Caribbean. After first successful marketing campaigns and sold out aircrafts, Eurowings started its first long-haul flights in company history to the Caribbean and Asia-Pacific regions. Nevertheless, Eurowings ran into problems with respect to flight cancellations and unpunctuality. In this connection, Eurowings has rapidly encountered image problems and was often criticised by travel journals and German press. For Eurowings, a delay in flight or general flight cancellations are connected with an increase in costs.

Above, the commercial aviation industry and its development is positively influenced by external factors such as political, social, economic and technological developments. In this connection, airlines are forced to adjust their business models to the external factors and new market requirements, as well as to introduce new business concepts with the objective to gain more market shares and competitive advantages. The European market is divided into different low-cost carriers, which are fighting for more customers, image and profits. What is more, the “new” Eurowings is a new player in this low-cost business, in particular in the market for long-haul destinations, which could become an opportunity to be the first successful low-cost German airline and the third biggest low-cost carrier in Europe. Whether this opportunity works in reality will be shown in this paper.

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List of Abbreviations

7S	McKinsey Framework
ABM	Airline Business Model
ACMI	Aircraft, Crew, Maintenance and Insurance
ASK	Available Seat Kilometres
ATAG	Ait Transport Action Group
CAI	Commercial Aviation Industry
CAI	Commercial Aviation Industry
CC	Charter Carrier
CGN	Cologne-Bonn Airport
DLR	German Institute of Air Transport and Air Research
DUS	Dusseldorf
EBIT	Earnings Before Interest and Taxes
ERA	European Regions Airline Association
FSC	Full Service Carrier
GDP	Gross Domestic Product
GDS	Global Distribution System
HAC	Higher Administrative Court
HaS	Hub-and-Spoke System
IAG	International Airline Group
IATA	International Air Transport Association
ICAO	International Civil Aviation Organisation
JACDEC	Jet Airliner Crash Data Evaluation Centre
LCC	Low Cost Carrier
LCLH	Low-cost Long-haul
LHG	Lufthansa Group (includes SWISS, Austrian and Brussels Air)
MH	Multi-Hub System
P5	Porter’s Five Forces
PEST	Political, Economic, Social and Technological Analysis
PtP	Point-to-Point System
RC	Regional Carrier
RPK	Revenue passenger Kilometre

SWOT	Strengths, Weaknesses, Opportunities and Threats Analysis
SWOT	Strengths, Weaknesses, Opportunities and Threats
TSA	Transportation Security Administration
UAE	United Arabic Emirates
UK	United Kingdom
UNWTO	World Tourism Organizations
US	United States of America (USA)
WWW	World Wide Web

1 Introduction

We have a strategic plan. It's called doing things.

— Herb Kelleher (2005), CEO Southwest Airlines.

The aviation industry in the 21th century has been changing continuously. Thus, airlines have been offering their customers more flexibility, destinations and services. According to the International Air Transport Association (IATA), in 2015 all the airlines worldwide transported more than 3.5 billion passengers (IATA, 2015), which means that with respect to the world's population of 7.3 billion people in 2015 (PRB, 2015), over 47 per cent of the world population used the air transport services for whatever purposes.

The low-cost carrier (LCC) business model has revolutionised the commercial air transport industry, first in the USA, followed by Europe and then the rest part of the world (Maertens, 2015, p. 3). LCCs such as Ryanair, EasyJet, Norwegian, Air Asia, JetBlue, as well as Air Asia and Scoot carry a growing number of passengers each year. However, in 2013, LCCs carried worldwide over 3.1 billion passengers on 33 million scheduled departures. The market shares of LCC in comparison to the full service carriers (FSC) are shown in the next figure (IATA - Air Transport , 2015).

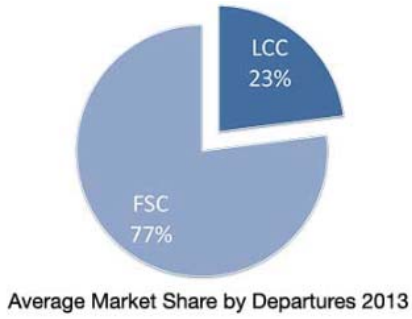

Figure 1: Market shares LCC vs. FSC (Airlineprofiler, 2015)

With respect to figure 1, LCCs account for 23 per cent of market shares (worldwide, by departures), while 77 per cent are FSC. In the European realm, LCCs have a market share of 28 per cent (DLR, 2016, p. 8).