

*Recent developments in the European airline business:
**The growth of so called "LCC" and their
impact on airports***

*German Aviation Research Seminar, Berlin, Mai 17th, 2003
Fraport AG, Market Research, Andreas Deistler*



*The growth of so called
Low-Cost Carrier*

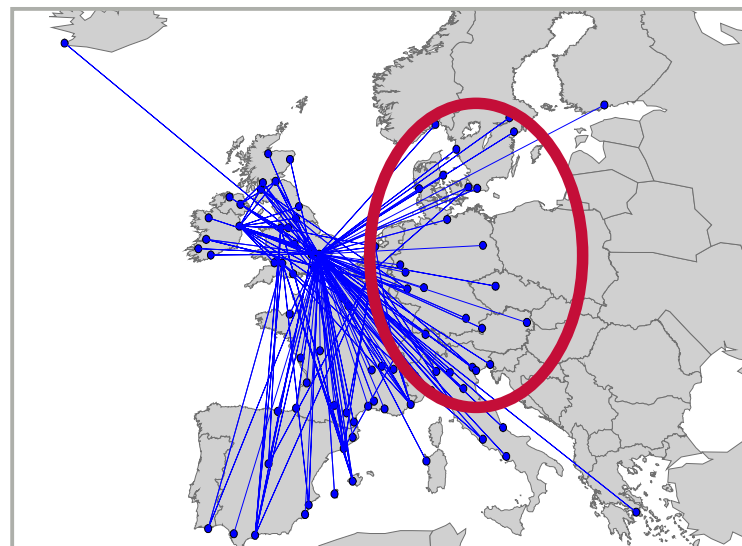
Low-Cost growth in figures.

1996



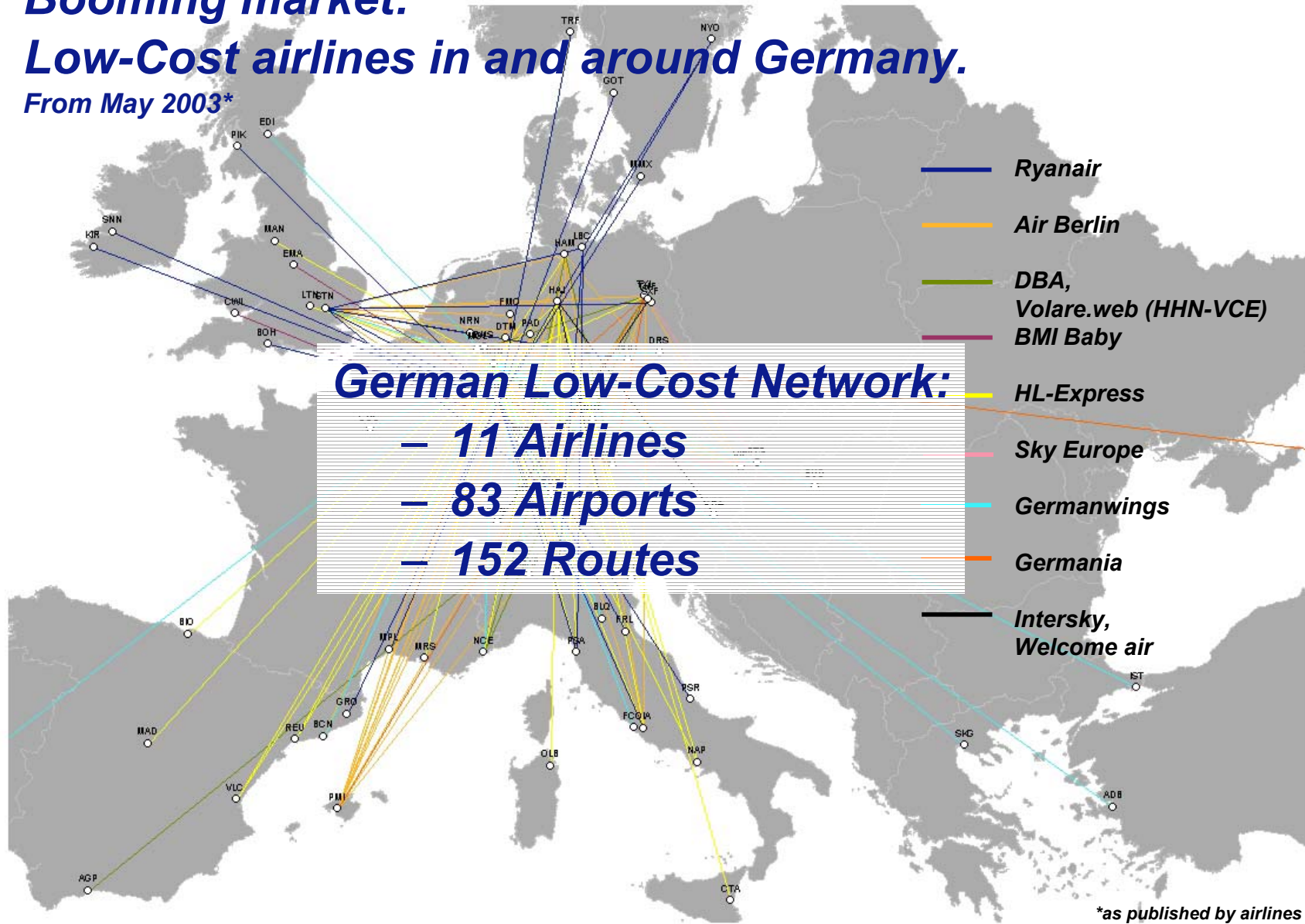
- 18 Airports
- 19 Airport-Pairs
- 804 Frequencies/week
- 2 Mio. Pax
- 35 Aircraft

2001



- 83 Airports
- 135 Airport-Pairs
- 4.457 Frequencies/week
- 26 Mio. Pax
- 106 Aircraft

Booming market: Low-Cost airlines in and around Germany. From May 2003*



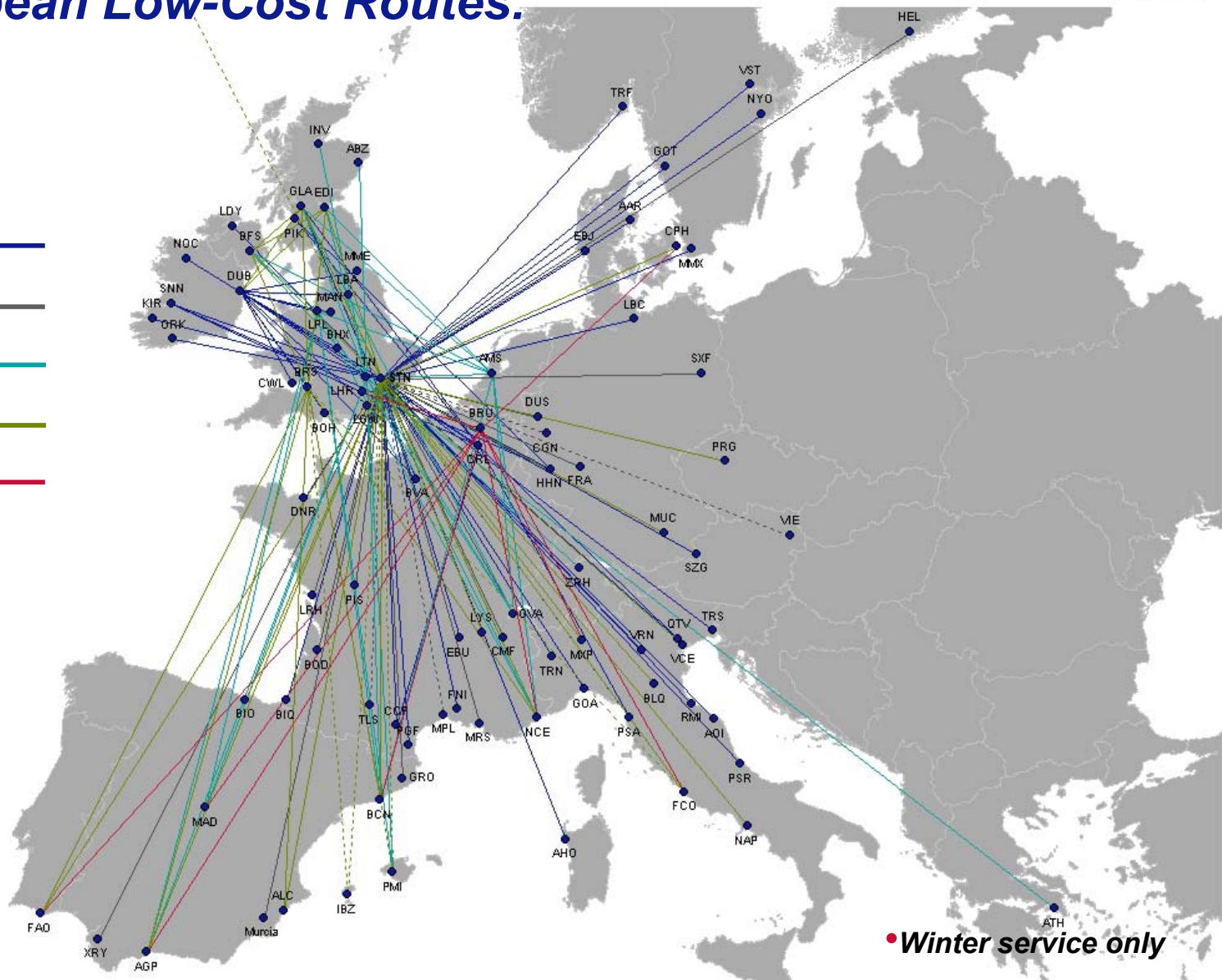
German Low-Cost Network:

- 11 Airlines
- 83 Airports
- 152 Routes

*as published by airlines

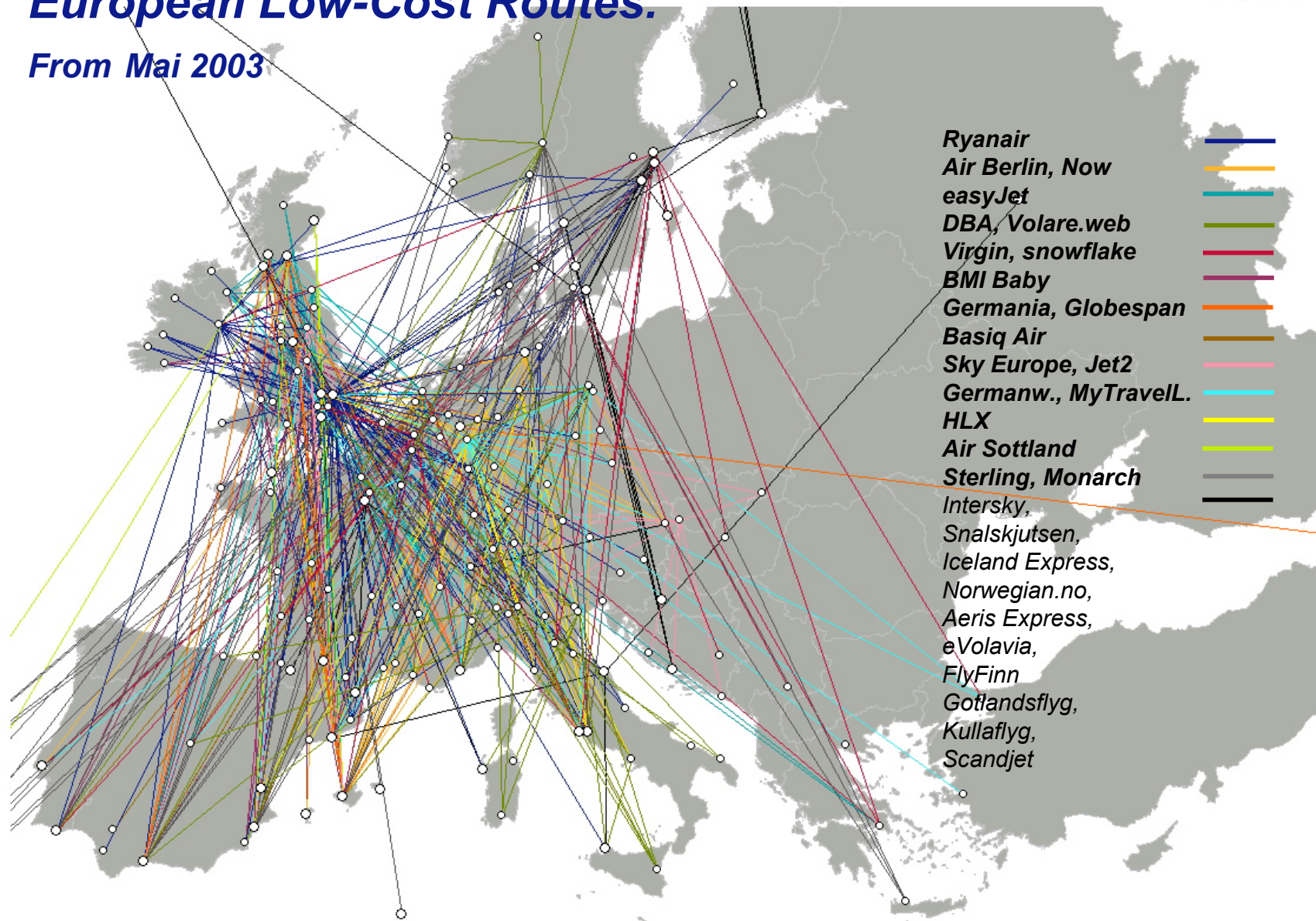
European Low-Cost Routes. 2001

- Ryanair** — blue line
- Buzz** — black line
- easyJet** — cyan line
- go** — yellow-green line
- Virgin** — red line

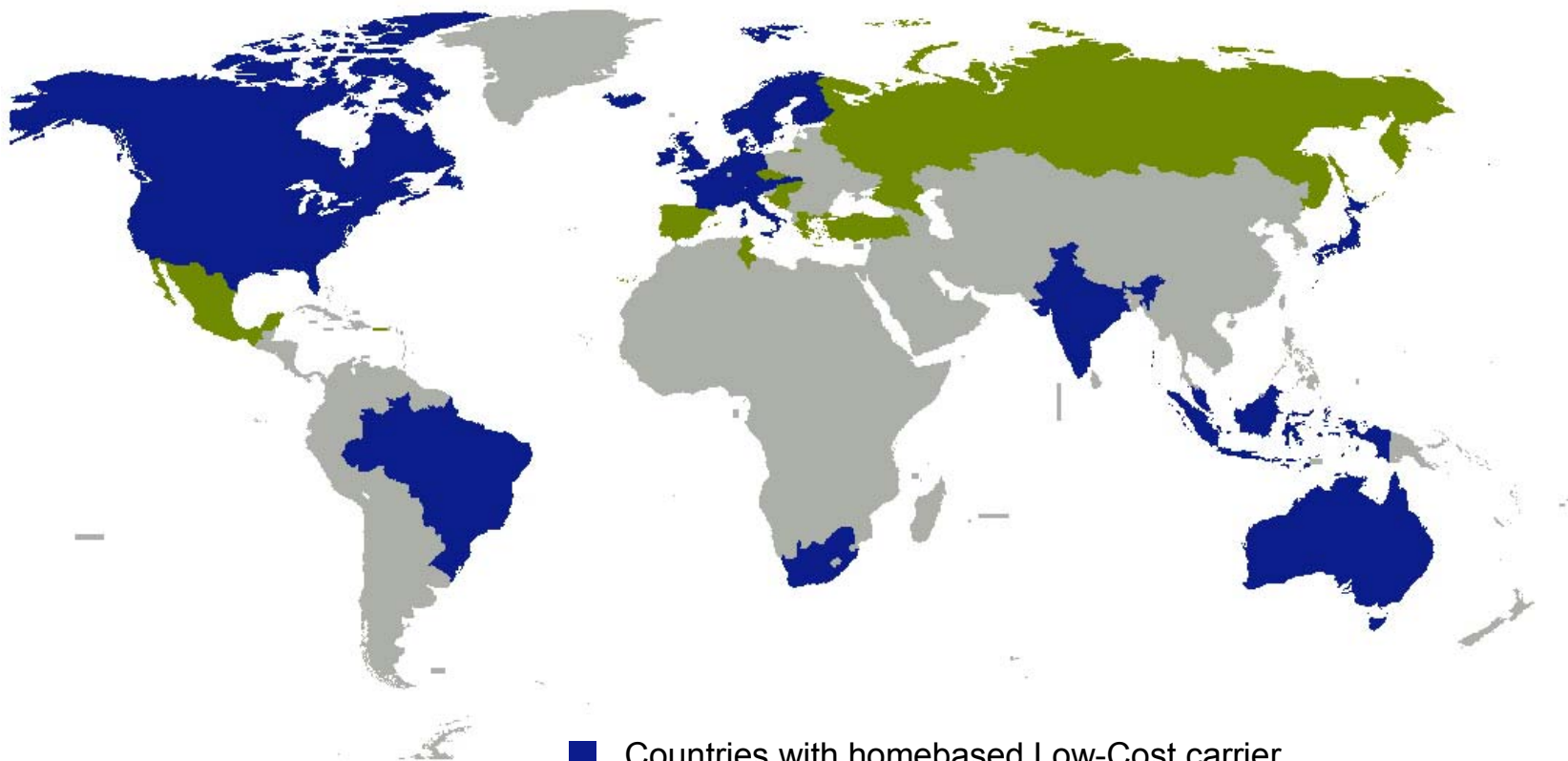


European Low-Cost Routes.

From Mai 2003



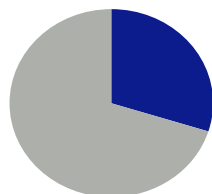
Countries with Low-Cost Carrier supply.



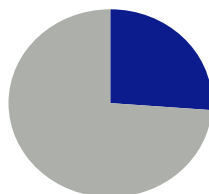
- Countries with homebased Low-Cost carrier
- Countries with Low-Cost routes but no homebased LCC

Growth potential in the Low-Cost segment.

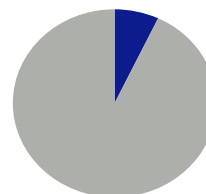
Market share Low-Cost Carrier – 2002:



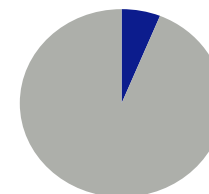
**Ireland:
30%**



**United Kingdom:
26%**



**France:
7%**



**Germany:
6%**

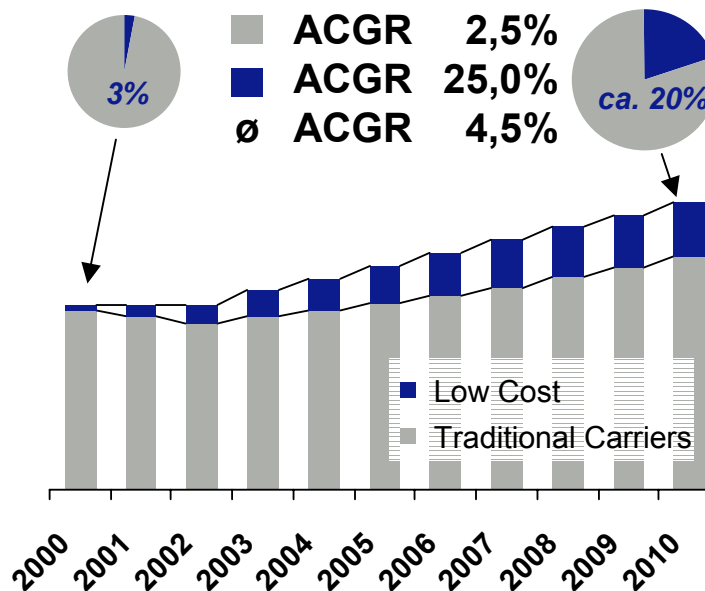
Market potential for Germany:

- 2002 already app. 8 Million Low-Cost passenger
(of together app. 140 Mio. passenger)
- 2005 app. 15-20 Mio. passenger of together app. 160 Mio. (~10% Market share)

Low-Cost in Europe: Far from Saturation.

Growing numbers of Low-Cost passengers:

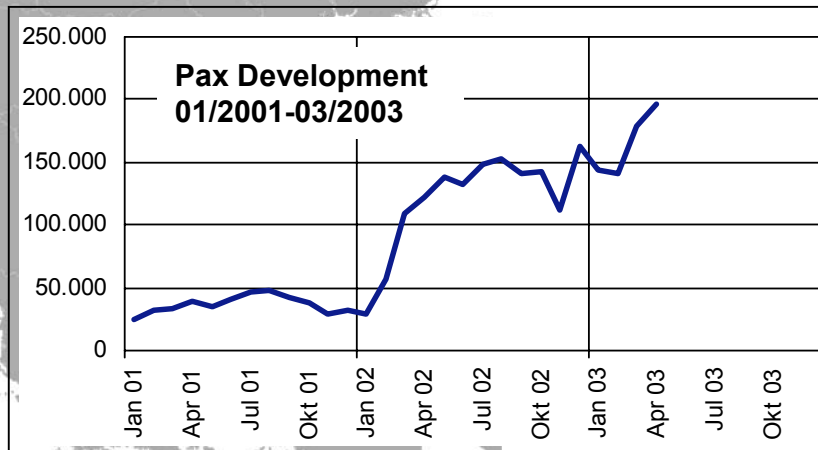
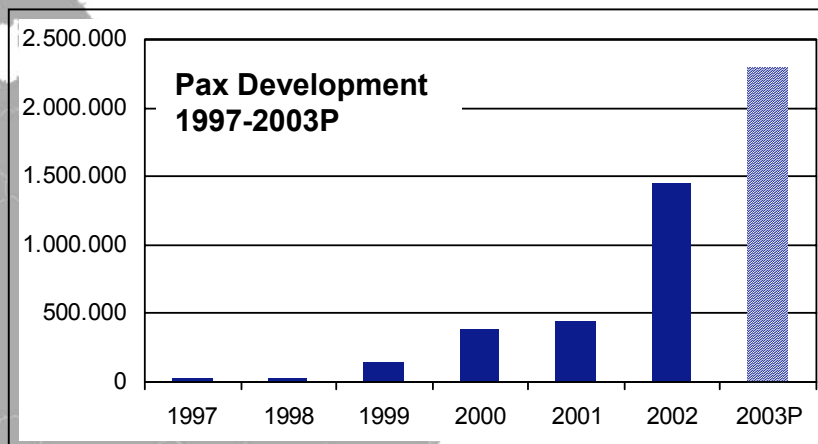
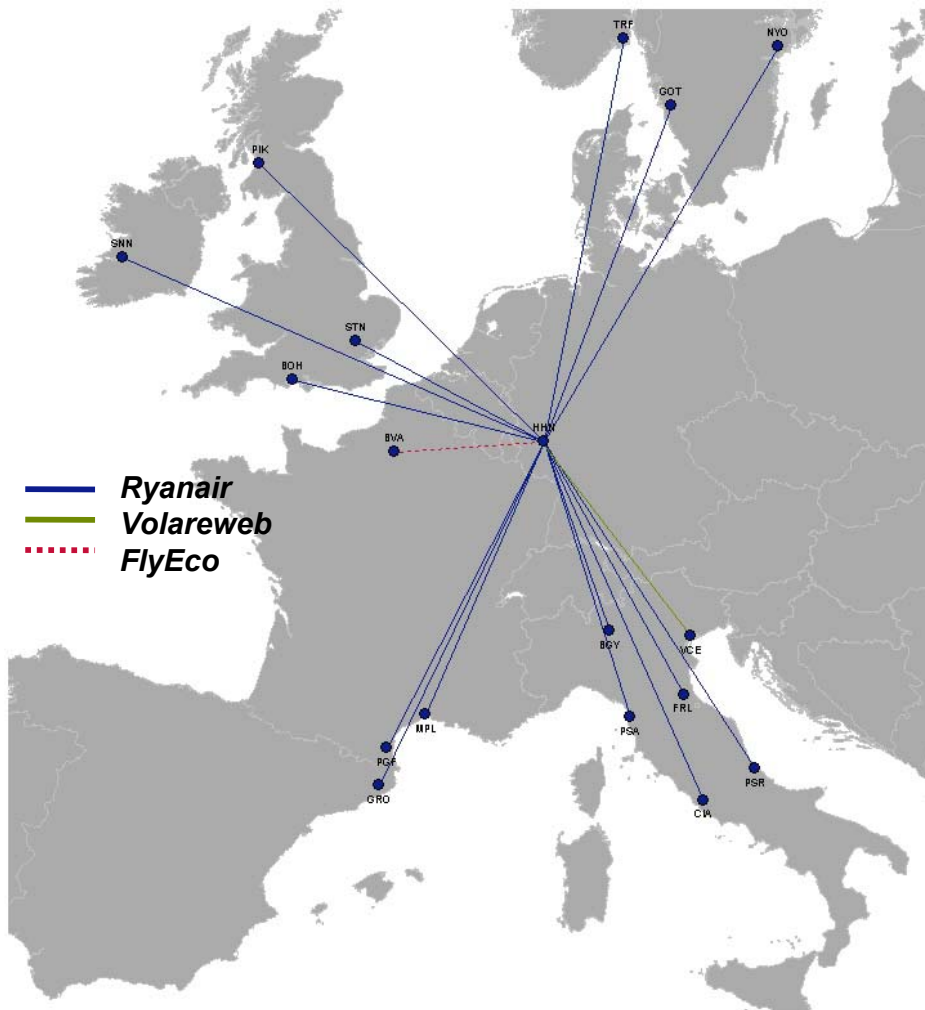
2000: ~10 Mio. passengers
 2002: 35 Mio. passengers
 2005: 70 - 80 Mio. passengers
 2010: 120 - 130 Mio. passengers



Growth of Market share :

- 50% from traditional carriers
- 25% from other traffic carriers
- 20% market stimulation ("would not have traveled")
- 5% from charter carriers

Passenger development at Frankfurt-Hahn airport.



Ranking of international airports in Germany: Passengers

Frankfurt-Hahn now in Top Ten!

Commercial Traffic, I/O+Transit

2000

Rank	Airport	Abs.	Δ%
1	FRA	49.360.620	7,6
2	MUC	23.125.872	8,7
3	DUS	16.027.889	0,6
4	TXL	10.343.697	7,7
5	HAM	9.949.042	5,2
6	STR	8.132.677	5,8
7	CGN	6.291.739	5,0
8	HEJ	5.530.284	8,5
9	NUE	3.149.881	13,3
10	LEJ	2.276.840	50,6
11	SXF	2.209.444	14,4
12	BRE	1.918.064	3,7
13	FMO	1.764.885	12,8
14	DRS	1.759.638	0,7
15	THF	757.426	-10,2
16	SCN	482.599	9,0
17	HHN	368.219	174,4

2001

Rank	Airport	Abs.	Δ%
1	FRA	48.559.980	-1,6
2	MUC	23.646.900	2,3
3	DUS	15.392.876	-4,0
4	TXF	9.909.453	-4,2
5	HAM	9.490.432	-4,6
6	STR	7.631.487	-6,2
7	CGN	5.705.819	-9,3
8	HEJ	5.157.558	-6,7
9	NUE	3.195.818	1,5
10	LEJ	2.174.031	-4,5
11	SXF	1.915.110	-13,3
12	BRE	1.819.831	-5,1
13	DRS	1.642.736	-6,6
14	FMO	1.607.138	-8,9
15	DTM	1.064.179	48,0
16	THF	774.329	2,2
17	SCN	480.030	-0,5
18	ERF	471.624	-2,1
19	HHN	441.993	20,0

2002

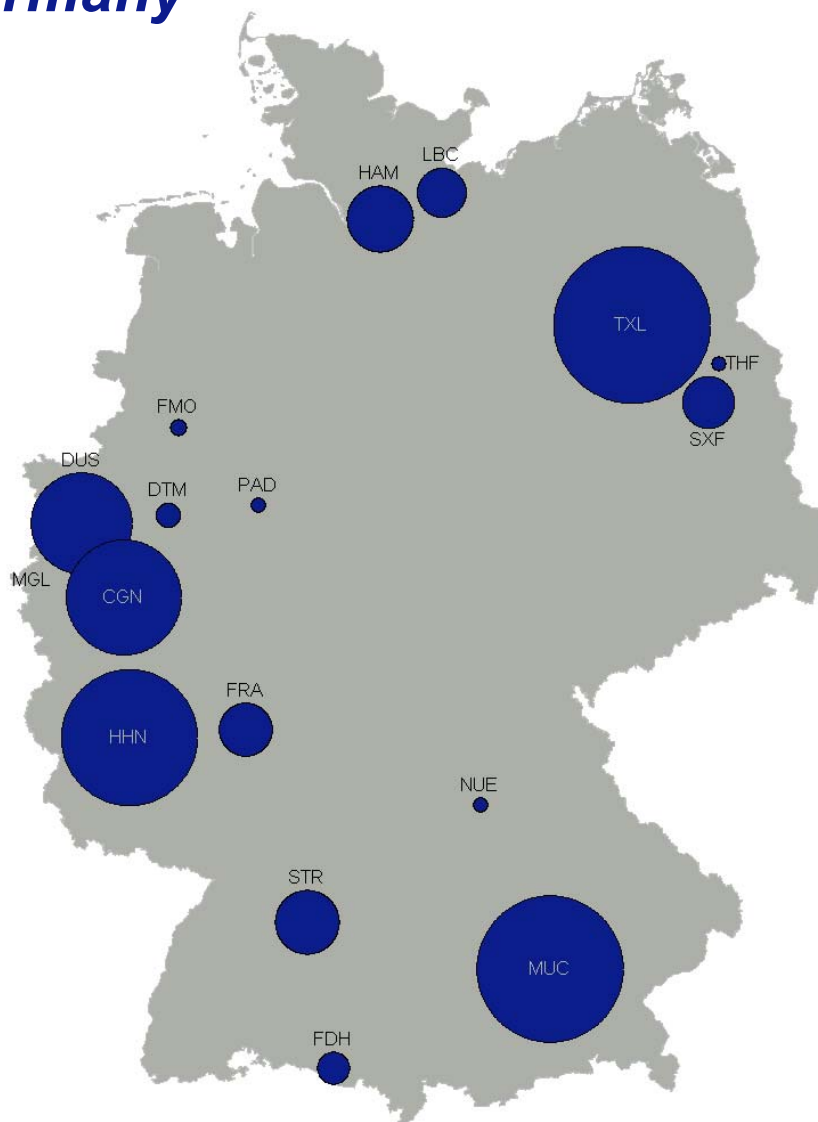
Rank	Airport	Abs.	Δ%
1	FRA	48.450.357	-0,2
2	MUC	23.163.720	-2,0
3	DUS	14.741.951	-4,2
4	TXL	9.879.888	-0,3
5	HAM	8.946.505	-5,7
6	STR	7.274.131	-4,7
7	CGN	5.375.126	-5,8
8	HAI	4.751.921	-7,9
9	NUE	3.208.287	0,4
10	LEJ	1.968.429	-9,5
11	BRE	1.693.015	-7,0
12	SFX	1.688.028	-11,9
13	DRS	1.518.784	-7,5
14	FMO	1.476.734	-8,1
15	HHN	1.450.079	230,7
16	DTM	994.478	-6,5
17	THF	612.867	-20,9
18	SCN	461.299	-3,9
19	ERF	445.504	-5,5

2003 Q1

Rank	Airport	Abs.	Δ%
1	FRA	10.566.133	0,5
2	MUC	5.482.805	11,0
3	DUS	2.897.758	1,5
4	TXL	2.427.781	19,4
5	HAM	2.104.891	11,4
6	CGN	1.535.538	50,2
7	STR	1.455.694	7,4
8	HAI	941.372	-0,8
9	NUE	773.201	4,2
10	HHN	464.257	137,6
11	BRE	360.114	1,5
12	LEJ	325.837	-1,2
13	DRS	308.273	11,7
14	SFX	275.010	-11,1
15	FMO	261.737	13,1
16	DTM	200.301	12,8
17	THF	121.143	-21,7
18	ERF	72.288	12,5
19	SCN	66.508	-2,0

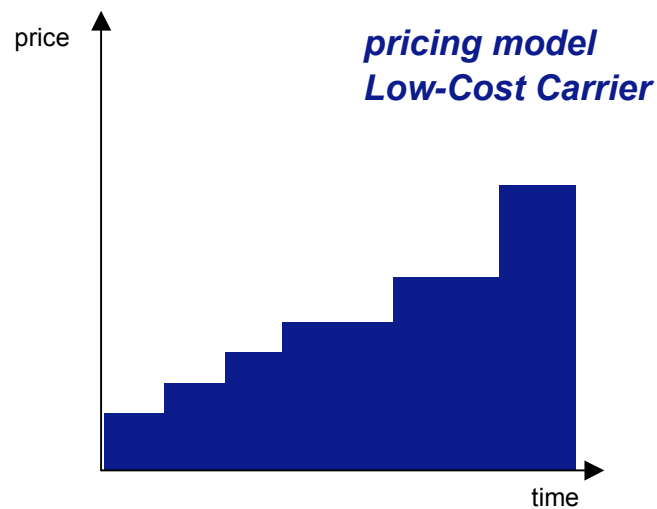
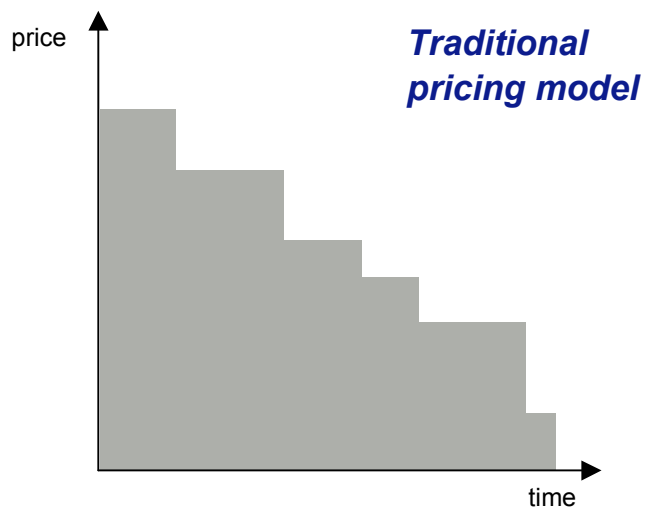
LCC passengers in Germany 2002

TXL	1.869.459
MUC	1.633.651
HHN	1.412.559
CGN	1.012.876
DUS	783.568
HAM	339.285
STR	318.152
FRA	221.589
SXF	214.131
LBC	189.128
FDH	83.005
DTM	48.651
FMO	22.113
NUE	18.722
PAD	18.456
THF	16.977
MGL	0
DRS	0
LEJ	0
SCN	0
Total	8.202.322



Growth factors.

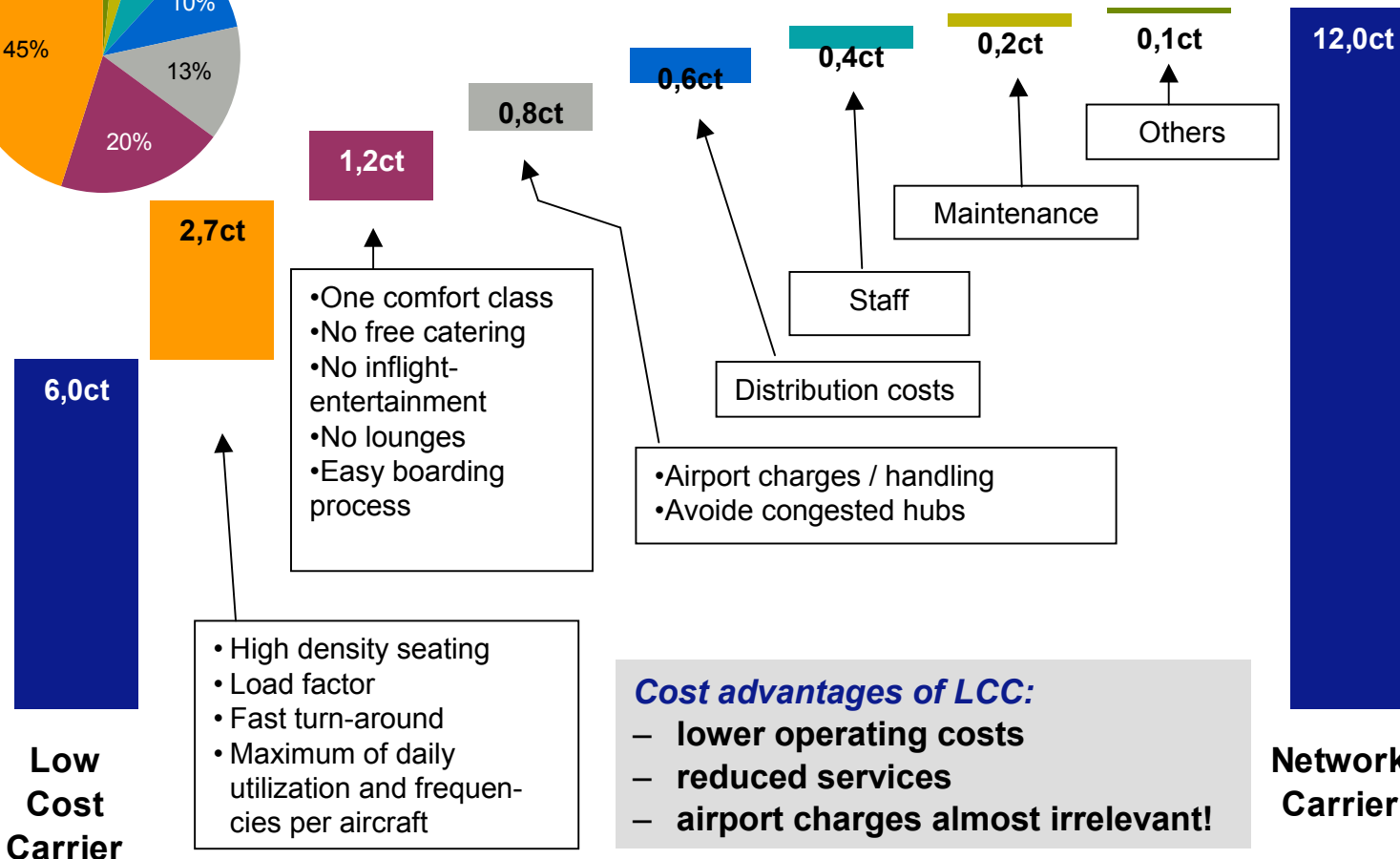
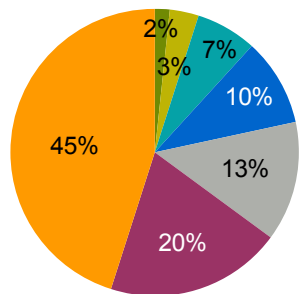
- Speed
- Cost control and permanent cost pressure
- Aggressive marketing / high public awareness
- Reversed demand function



Different cost structures

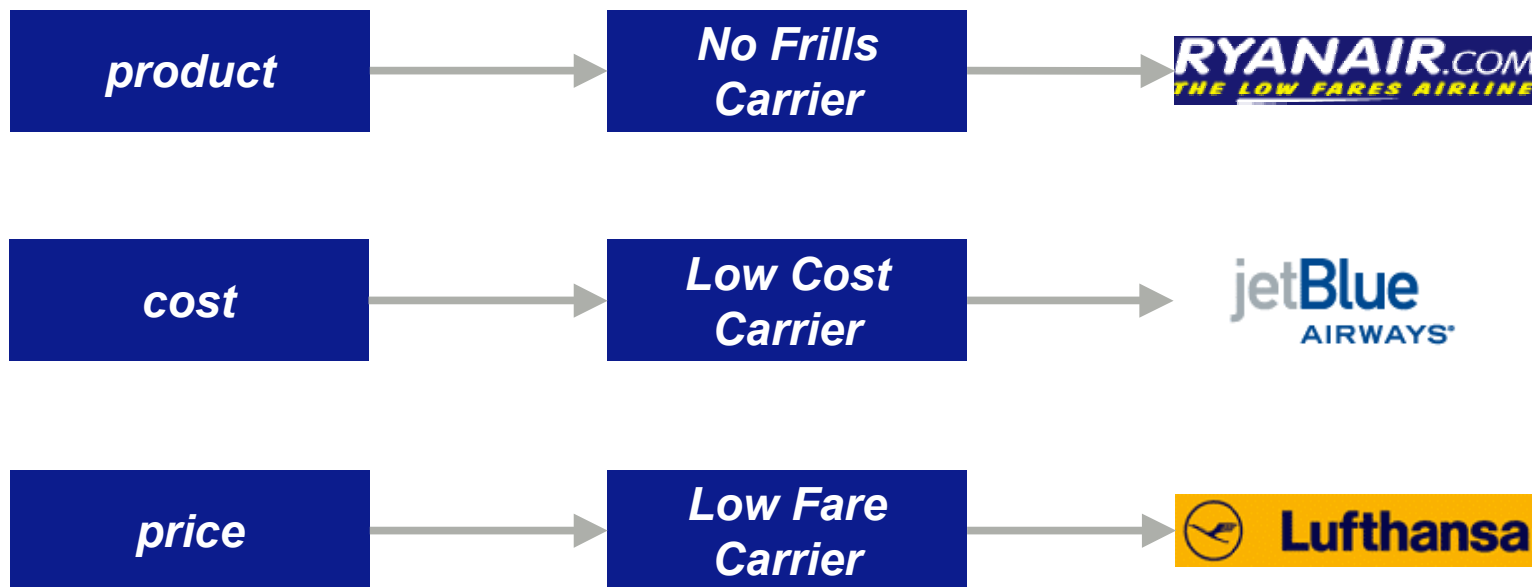
How cost advantages are generated...

cost / ASK ('Available Seat Kilometers')



*Different cost structures are the key
for different business models...*

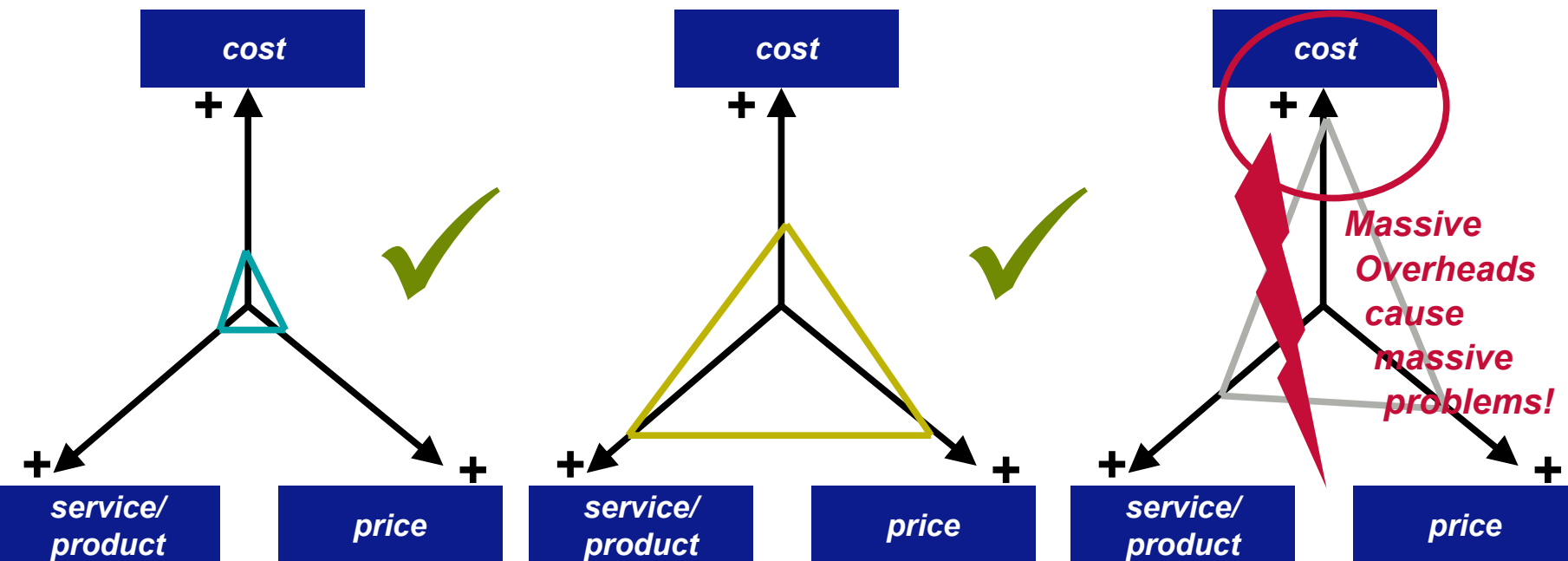
Different approaches for participation from forecasted market growth.



Excursus: The right combination of cost, product/service and price is essential.



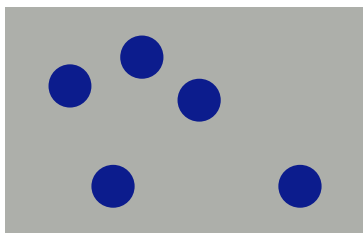
etc.



A new approach?

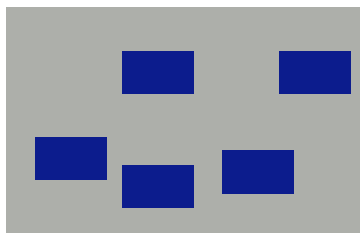
A new approach to airline segmentation:

"Ultra simple Travel"



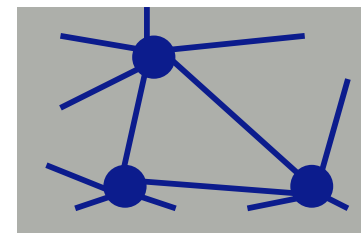
- No service
- Secondary & tertiary airports
~100 km from city centers
- E.g. Ryanair in Frankfurt-Hahn

"Simple Travel"



- Low service and product amenities
- O&D-traffic
- Secondary airports and un-congested hubs near urban areas
- easyJet, HLX, Germanwings, dba

"Advanced Travel"

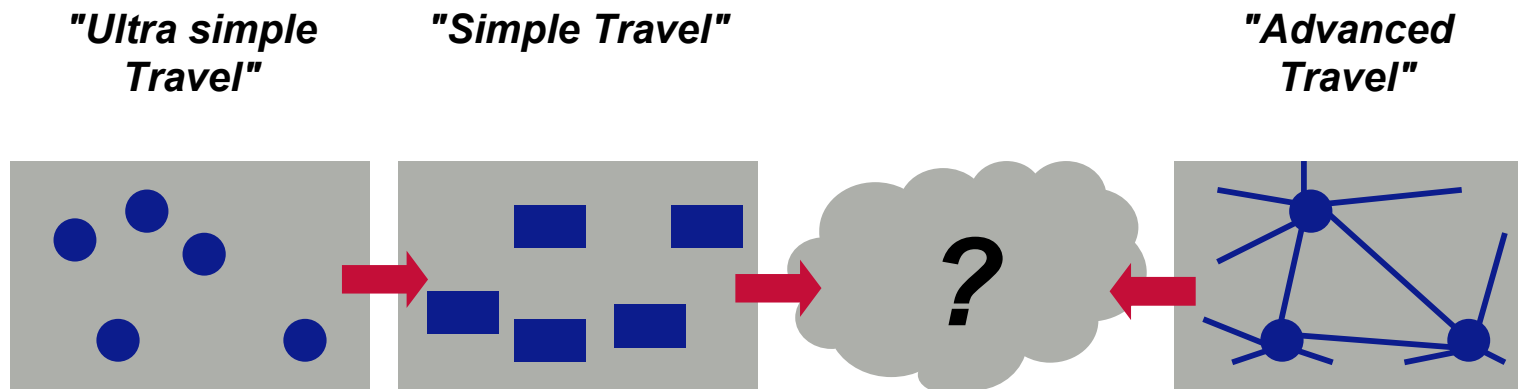


- Network-carrier
- Hub&spoke- as well as O&D-traffic
- High connectivity
- High service level
- Alliances & code-share
- Intra- & Inter-continental traffic
- Lufthansa/Star

Comparison of Airline Products: Ultra Simple vs. Advanced Travel.

<i>Ultra Simple Travel</i>	<i>Advanced Travel</i>
Short haul point to point traffic	Hub & spoke with short to long haul
Single aircraft fleet (B737 or A320)	Mixed fleet (CRJ100 to B747)
Maximization of daily aircraft flight time	Schedule optimized for feeder services
Short turn-around times of max. 25 min.	Turn-around optimized for hubbing
No snacks, no service during flight	Full service according to booking class
No interlining	Interlining with systems & cost-structure
No transfer tickets	Transfer tickets with systems & cost-structure
No designated seats	Seat reservation
Secondary and tertiary airports	Hub airports, sometimes congested
(Almost) no distribution costs (Internet, Call Center)	Distribution via GDS & Travel agencies
Market-driven yield management: The early bird catches the worm	Rigid yield management system: What to do with unsold capacity?

...but more to come!



"(Ultra) Simple Travel" Airlines extend their business model:

- Added value through selective addition of service & amenities ("Added Value")
- Supply of simple route-connections (just starting - the Southwest pattern)
- Additional distribution channels (business portals, travel agencies etc.)

Network-carrier adopt cost advantages of Simple Travel:

- Reduced services, pricing system, marketing, distribution channels, etc.
- De-hubbing (e.g. Chicago)

Trends

(R)Evolution of the market.

From market segmentation...

- Ongoing diversification of market segments
- Growing customer expectations "value for money"
- Growing individualization in customer behavior
- Incipient saturation effects

...to customer segmentation

- Creation of *new* added values along the complete travel chain
- Intensifying of Customer Relationship Management
- Continuous search for ready-to-spend consumers
- Individualization of target groups ("each client is a market segment")
- Development of taylor-made products (full scale of chargeable services)

Consequences for an airport-operator.

- Massive cost pressure!
- Continued "Flag Carrier Darwinism: Survival of the fittest!"
 - Change of fare-/supplystructure
 - Change of business model
 - Giving up markets
- Individualization of customer behavior
 - Diversification
 - Development of niche market
- Growing demand for tailor-made airport products
 - ... paid by the passenger(?)
 - ... paid by the airline (?)
 - ... paid by the government (???)

"Brandmanagement"

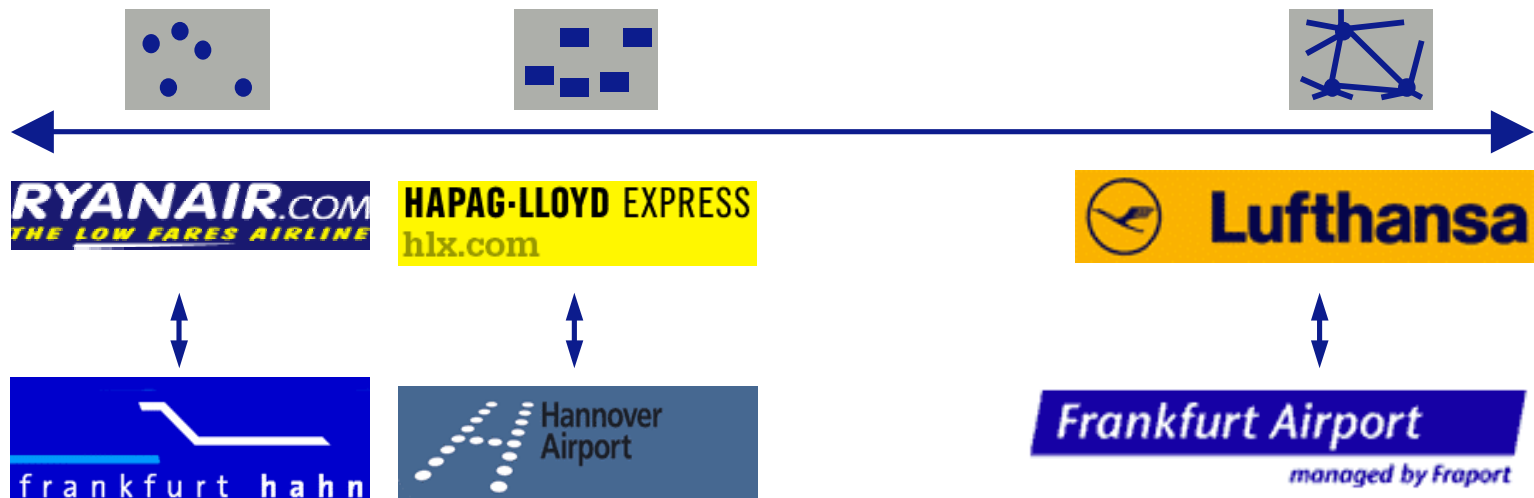
Success depends,...

... on the ability to understand and react to customer's demands and subsequently generate added value.

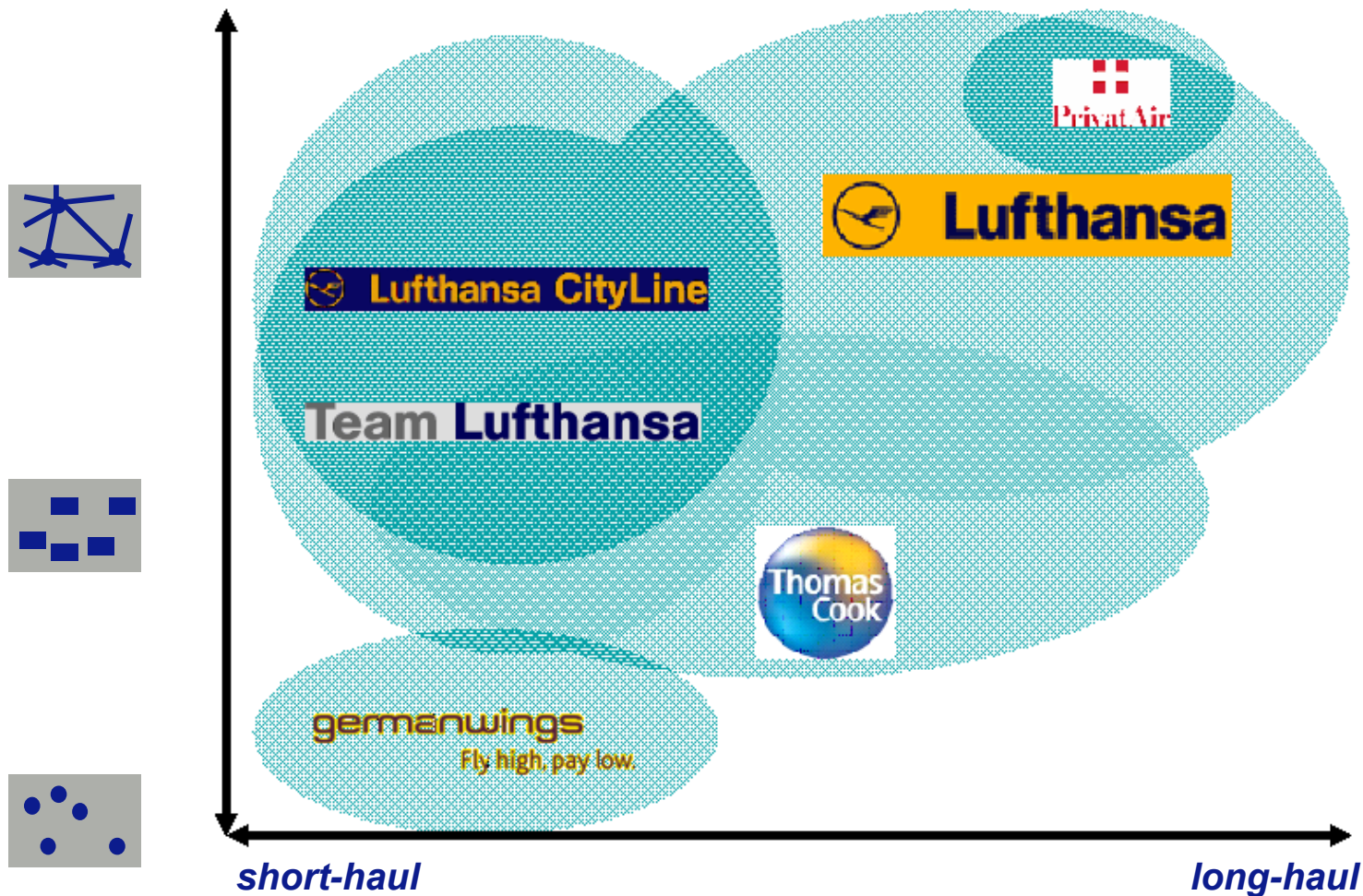
Participating in market growth requires...

... a complete coverage of market segments with own products, services and brands.

... flexibility to react to changing markets.



Example of re-defining the Product Portfolio. (Lufthansa-Group)



Conclusion.

- Passengers want cost-transparency for airline services.
- Airlines want cost-transparency for airport services.
- Airports and airlines have to define individualized products and services along the travel chain that are honored and paid by the customer.
- If possible, airports have to specialize on one segment to avoid yield erosion and traffic cannibalization.
- If not specialized, an airport has to straddle the divide with cafeteria systems for both passengers and airlines: customize the product according to wishes and needs.

Thank You.



Tomorrow?