

Case study on the european no-frills airline industry

[Environment](#), [Air](#)



A 'no-frills' airline is one that operates with a lower cost structure than its competitors, the conventional airlines. It usually charges its customers lower costs and is less luxurious than its competitors; the frills airlines. The no-frills airline introduces additional costs such as the sale of food within the aircraft during flights, baggage charge etc, in order for it to make up on the differences for its reduced fares. This type of airline can also be called a low-cost carrier and it mostly controls a single class service. The cost to fly across continents can be as minimal as \$20, taxes inclusive and there is no allocated seating arrangement and no entertainment during flights. No Frills Air (2007). For instance, travelling to Venice from London by train takes 15 hours and costs \$246; by conventional aircraft; it lasts 3 hours and costs \$258; while by no-frills airline, the flight also lasts for 3 hours but costs only \$48, thereby, confirming this airline type to be a cheaper option. A no-frill airline would prefer to operate at uncommon hours, as slots at these times are cheaper in the airports. The origin of some of the no-frill airlines started in 1990, due to the privatization of airlines. No Frills Air (2007).

A no-frills airline cartel is made up of individual low cost carriers who come together as a team, with a common cause, to form an alliance or association. These individual airlines come together to practice what is known as 'Collusive Oligopoly'. Sloman and Garratt (2010). They do not compete amongst one another but may restrict the promotion of products, agree on certain target markets to concentrate on etc. to ensure that market forces do not interfere with their services and practices. There are certain factors which may lead to the breakdown of such a cartel that has lasted for five

years. In this essay, I intend to discuss these factors and also the strategies, this cartel can set up, to avoid such a breakdown.

FACTORS THAT MAY INFLUENCE THE BREAKDOWN OF THE AIRLINE CARTEL

Low Population of Customers

The 'no frills' Airline Cartel requires the patronage of customers to survive in the economy. It will thrive if it is patronized by a high population of customers on a frequent basis. The more amount of money it receives from customers guarantees its survival and thus keeps it in business. For the cartel, there is hardly competition amongst members since every constituent operates at an agreed cost. Pels (2009). There is a possibility of increase in fares from time to time and customers, who may not be able to afford the rates, do not have options to choose from as regards the different airlines involved. Therefore, if the cartel is utilized by only a minority, it may breakdown from lack of funds.

Cheating / Greed amongst Members

The airline cartel is made up of members that originally signed agreements to register as affiliates. The cartel grows stronger based on the honesty and collaboration of each constituent at all times. Assuming a member becomes greedy and decides to cheat, by charging its customers its own marked up fees, or by selling more than what has been allocated, unknown to the cartel as a whole, it may cause a breakdown of the cartel as trust will be breached, notwithstanding the effort put in by other members. However, when other members, discover this act, they may also be tempted to increase their own

prices and at the end the price would be plunged, and this is also likely to lead to the breakdown of the cartel.

Absence of Minor Target Locations

The cartel is usually made up of airlines that would rather avoid paying the taxes of the larger airports. They would prefer to land at smaller air strips close to the main airports. Therefore, the unavailability of secondary air strips, where these smaller airlines can land can cause the breakdown of the cartel as it may not be able to afford paying the taxes for the larger airports and this reason may influence the breakdown of the cartel. Kipp Report (2007)

Excessively Extreme Fees

In order to make up for its losses due to the minimal fares the cartel charges, it places heavy costs on excess baggage. Every customer is entitled to a certain baggage weight and as such if that weight is surpassed, a no-frill airline is likely to charge a high cost for every additional weight. Sometimes, the price for the excess baggage may be greater than the price for the ticket. This reoccurring action may tend to discourage customers and is likely to cause a breakdown of the cartel if there is unavailability of adequate customers.

Volcanic Ash Cloud Disruption

In May 2010, there was an outbreak of the Icelandic volcano and this caused disorderliness which affected the European air travel movement. The disruption was of minimal strength but it emitted a massive ash cloud in the

skies which could possibly affect the engines of aeroplanes. As a result of this, airlines were restricted to fly to certain parts of Europe by the aviation authorities and there are declarations of it, affecting the economy of the European airline industry. Therefore, passengers may decide to travel by train, ship or road instead of by air and as such depending on how long this lasts, the cartel might breakdown because of the restrictions and lack of adequate passengers. Mazzocchi, Hansstein and Ragona (2010)

Slot Allocation Restrictions

Low cost airlines strive to go for lucrative markets but are restricted from flying across transatlantic regions. Pels (2009). This impedes their chances to make more money, although if the restriction is taken off, their swift turn-around times may not be attained and this is important with regards to their strategies. If there are issues concerning their usual routes, the restriction may influence their breakdown. Also, assuming they are permitted across transatlantic regions, slots may not be available at the airports even for routes that have frequent customer demands.

Ineffective Coordination

Cartel members, during the finalisation of the initial agreement, agree on a due to be paid seasonally and at a certain time. The cartel needs these funds to promote its functionality and to ensure that the association is being run efficiently. However, if the cartel is not properly coordinated and some members are unprofessional, with the intention of cutting corners, may avoid paying these dues when expected or even at all and thus, may lead to the failure of the cartel. Levenstein and Suslow (2006)

EU Commission's Involvement

No-frills airline cartels are formed for various reasons. Some of the reasons may be beneficial to the economy and industry as a whole while others may be illegal. For instance, the European Commission recently fined a number of airlines for establishing a cartel with the aim of slashing prices of air cargo transfer. They were 13 in number, some of which are British Airways, Cathypacific and Air France-KLM. The total fine to be paid amongst the parties involved is 800 million Euros. To this end, this no-frill airline cartel may be in this situation and may eventually breakdown if its policies are illegal. News KF (2010)

It is possible to avoid the breakdown of a cartel by mapping out strategies which will act as a guide to aid the individual members work as a team to improve the standards of the cartel as a whole.

STRATEGIES THAT CAN BE USED TO PREVENT ITS BREAKDOWN

Value For Money Guarantee

Since the low cost airlines charge a lot less than the conventional airlines, some customers will normally associate the no-frills airlines' low cost for low quality and will not trust the services they render. To this end, the cartel should endeavour to invest in the quality of their service in order to provide satisfaction to their customers; this will automatically instil allegiance and confidence. When customers are satisfied, they will continually patronize the no-frills airline cartel and thus, will enable them stay in business. Forgas, Molliner and Sanchez (2010)

Integrity Between Cartel Members

The Cartel should instil honesty within the association. Constituents have come together for a common cause and should not entertain deceit. Shanley says that 'Economic reasoning would suggest that a person willing to sacrifice self interest to create a public good, would also sacrifice self interest to avoid destroying that same public good' (2007: 523). Therefore, the cartel should formulate credible reasons to back up its decision making and policies, otherwise it may end up like the present cartel that the European Union has fined.

Cost Saving

Excess costs and taxes should be avoided as frequently as possible.

Mismanagement of air traffic flow should not be overlooked and in as much as airlines prefer to be available at airports during rush hour, aircrafts can also be made available at the times when the airport fees and taxes are minimal. Burnis (2006)

Competition with Frill Airlines

The introduction of a unique approach will help the cartel stand strong. For instance, launching a product or service on-board, that no-frills airlines are originally not known to offer, it may or may not be an existing service rendered by the frills airlines, but something to make it prominent, in order to attract additional revenue from customers. An example can be offering a souvenir to customers for their loyalty and patronage or sending gratitude messages to customers after flights. Forysth et al (2005)

Effective Communication among Members

An operational procedure should be developed whereby; correspondence and operational conveyance of information is properly passed across members. Each member should be encouraged to confirm receipt of information at all times and a thorough insight of the subject matter being discussed. Lack of information will make members unhappy and it is also important to boost the frame of mind of each member because, less effort will be contributed and less profit will be made when an affiliate is not satisfied with the efforts of the cartel. Lee (2010). There should be a penalty for parties that do not adhere to these rules and incentives for members that exceed targets set and performance standards.

Harmony in Decision Making

The cartel can succeed if there is an accord in its decision making process. A representative of each constituent ought to be present during a decision making process. Resolution of key issues must be favourable across board, in order to promote membership loyalty.

CONCLUSION

In the essay above, I have analytically and vigorously explained the factors that may cause the breakdown of a five year old cartel and also strategies this cartel can embrace, in order for it to avoid this breakdown. Cartels generally are not known to last for too many years and they require solid strategies to ensure that they last as long as they ought to. In setting up these strategies, it is important for the cartel to take into consideration the previous performance of its competitors and make suppositions based on it.