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Literature, Russian Literature

Legacy vs. Low Cost Carriers Task In the current economic recession, airlines have a lot of trouble regulating costs and making profits. More so, that legacy carriers are going the route of low cost carriers, by trying to cut costs to match the costs provided by low cost carriers in the market (Hinton, 2010). However, the main question that should be answered is the origin of low cost carriers. With increasing costs in the airline industry, low cost carriers came as a solution to the transport industry. Low cost carriers are a representation of cheap flight tickets in the airline industry, which serve as direct competition to the legacy carriers. What legacy carriers failed to understand in the past is the combined efforts by low cost carriers to introduce cheap tickets and short flights. However, from an economic point of view, this can be explained using economics of scale, many cheap, short flights incur less costs than a few costly, long flights. Therefore, the logic behind the low cost airline strategy is to cut operational costs and increase service revenue (Huse and Evangelho, 2007).

With the current economic downturn, the strategy utilized by low cost airlines is finally beginning to take shape, the executive decisions to hem down costs by engaging in short haul flights are reducing costs by a big margin, resulting in the ultimate profitability of the industry. In the current market, the influx in online booking and the increase in the services offered by an airline have completely changed the airline industry; services like high-seat density, package delivery, flight insurance and baggage charges have served to increase the revenues for low cost airlines. The graph below shows the change in economic niche of legacy carriers and an example of a low cost carrier, Southwest airlines (Adapted from Neal and Kassens-Noor, 2010).

This discussion has focused on the cost cutting factors and success of low cost airlines in the industry. Due to this success, some legacy carriers are trying to get in the low cost industry market (Bowerman, 2011). However, the question is; will the market serve both the low cost carriers and revamped legacy airlines? The answer to this question is no, as discussed in the following analysis.

The assumption that all carriers will achieve profits if they engage in low cost business is based on the economic principle of ceterus paribus, meaning all things equal (Miller, 2005). However, in the airline industry, not all things are equal, because for the low cost industry to survive there must be legacy carriers against which to compete. The profits resultant from the low cost carrier business is realized because of the competitive factor witnessed from the competition with legacy carriers. Analysis of the market reveals that there are some structural factors unique to the airline industry that affect profits and increase competition.

The first of these factors is the power of supply and demand, since, in the airline industry, the consumers are faced with a problem of choice (Mason, 2001). In the airline industry, there are some powerful consumers and suppliers of business; therefore, an airline should be careful to provide the services needed because substitute costs are very low.

The second factor unique to this industry is the relatively low barriers to entry and high barriers to exit. This means that carriers in the low cost industry have ease of entry, but the exit costs are very high, a factor that results in too many players in the industry. Therefore, legacy carriers would

not survive in the low cost airline industry, because of the competitive and cost factor associated with the industry.

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