The european low cost airline industry

Environment, Air

The European airline industry is a competitive and dynamic industry whose fortune is closely linked to the performance of the overall European economy.

In 1997 the European Commission deregulated commercial aviation within the European Union (EU) with an ‘ open skies’ agreement allowing any airline to fly any route in Europe. Over the last 10 years European aviation has moved from a highly regulated market, based on bilateral agreements, to a highly competitive single market. The liberalization of Europe’s airline industry was hailed as a turning point. Another major turning point to this industry came as a result of the terrorist attacks of September 2001.

Although this hurt the aviation industry the resulting turmoil provided an opportunity to reshape a troubled sector. While America’s federal government propped up its ailing airline industry with cash and loan guarantees, the European Commission limited aid. Swissair and Sabena, the national carriers of Switzerland and Belgium respectively, filed for bankruptcy that October. The big winners of the shake-out were low-cost airlines who continue to grow in market share. The established network carriers slimmed down and began fighting back. Most of the big airlines have pursued marketing alliances.

In October 2003 two European airlines, KLM and Air France, announced they were hooking up. In a further step towards market consolidation, talks began in October 2003 between the EU and the United States over extending the liberalization of transatlantic traffic. This could be a final momentous agreement that will alter the industry so it may begin a phase or maturity.

Over the medium term a new market beckons in the ten countries joining the EU in 2004.

These countries have a combined population of 75 million. There is every chance for existing airlines to exploit market opportunities. The new members of the EU will become part of the EU Open-Sky Treaty allowing point-to-point services between EU countries. The demand for air travel in Europe increased three-fold between 1980 and 2000, and is set to double by 2020. It is predicted, preliminary, that overall, air traffic in Europe will increase overall by 7. 5% in 2004.

While the full-service carriers are struggling to get back to the traffic levels they enjoyed in 2000, the budget airlines are growing by more than 10% a year and little is getting in their way. 1. 0 Intention of the Report: This report will look sequentially at the marketing environments of the European airline industry and will analyse the main forces shaping its future. It will concentrate on the impact of low-cost airlines on this industry. 2.

0 The Marketing Environment: An organization's marketing environment can be defined as: "… the actors and forces external to the marketing management function of the firm that impinge on the marketing management's ability to develop and maintain successful transactions with its customers" (Kotler et al 1997)There are three key perspectives in the marketing environment which all need to be considered in order to undertake a comprehensive analysis (see diagram below):* The ' macro-environment'* The ' micro-environment'* The ' internal environment'Figure 1

Source: http:// www. marketingteacher.

com/Lessons/lesson_marketing_environment.

htm3. 0 Situation Review: The European Airline Industry: The European air transport industry comprises more than 130 airlines, a network of over 450 airports and some 60 air navigation services providers. The European Short-haul Airline sector is one of the world's most competitive air travel markets. With the amount of passengers flying within and out of the U. K.

expected to increase from 180 million in 2000 to 500 million in 2030, there appears to be huge demand in this industry. 4. 0 Segmentation of the European Airline Industry: The airline market in Europe has traditionally been divided among five types of carriers: large international carriers (e. g. Lufthansa, Air France), small nationals (e. g.

Iberia, A Italia) and their local market competitors (e. g. Span air, British Midland), regional companies, and charter carriers. Research suggests that by 2010, this industry structure will undergo fundamental change, leaving only three primary segments as highlighted in the diagram below: Figure 2 Source: AEA, IATA, Mercer analysis* Network carriers/alliances-each of the major international carriers is likely to solidify its position as an alliance leader. Most regional and second tier airlines will likely enter into alliances with the network carriers as feeder/shuttle services to the air traffic hubs and to provide complementary services. According to Mercer one-third of flag and second tier carriers will exit the market.

* Low-cost airlines will gain significant share of the intra-European air market for leisure travelers and cost-conscious business travelers.* Charter carriers will see only marginal growth, and are likely to face market share losses to low-cost carriers on intra-European routes. They will need to strengthen their integration with leisure groups to protect their niche package tour market. 5.

0 European Airline Industry vs. US Airline Industry: The diagram below views the European airline industry in relation to the US airline industry; it shows how the US carriers receive state funding unlike those in the European Union. This may distort competition within the industry. Non-reimbursed costs: Hand-outs from US Government: 800 million Euros USD 3 billionFigure 3 Source: IATA Legal Symposium 2004Figure 3 highlights how security costs cause distortion of competition between European and US carriers.

A future transatlantic competitive landscape that is heavily weighted against European airlines will add further pressure to the problems already faced through intra-Europe competition.