

On Airlines and Airports Strategy: Gert Jan Hermelink. Published on March 14 2003, Dutch Financial Times

Low cost aviation also affects Schiphol Airport's future

Commercial aviation is under strong pressure. The Iraq war may be over, but the outbreak of the SARS-virus brought air travel to a nearly complete standstill, causing national airlines to reduce both cost and staff or even face bankruptcy. Impactful as these circumstances may be, the real crisis in commercial aviation is caused by low cost airlines like Ryanair and EasyJet.

Back in 1993 Karel Noordzij, Amsterdam Airport's commercial manager, just before leaving the airport asked his policy makers to write a report on 'the state of the aviation industry in 10 to 15 years time, based on the notion that airports are just like railway central stations'. This concept may have seemed quite unimaginable at the time, but how close to reality is it if we look at today's situation.

Travelling by plane is much more like travelling by train and indeed, airports bare more resemblance to railways stations than ever before. But this might not just be the end of it. Low cost carriers could very well take over the traditional airlines' domination of commercial aviation. Until recently the welcome Schiphol bore to EasyJet was not exactly warm because of their noisy planes. Their contribution to the concept of 'Mainport Schiphol' was thought to be zero. No one realized just how pivotal the low cost carrier's influence would prove to be for the commercial aviation industry.

Compact airports will prove to be the future

These days low cost carriers fly modern planes and contribute substantially to the growth in passenger numbers. Traditional airlines fear the newcomers and some introduced their very own low cost subsidiary, just to find out how hard it is to win the competition, as the recent sales of 'Go' (KLM) and 'Buzz' (British Airways) show.

The low cost segment's growth will affect commercial aviation more severely. It is expected that, due to the growing number of frequencies and destinations, EasyJet and RyanAir will extend their portfolio beyond the obvious and popular destinations. They will get a firmer grip both on the European network and the end-customer: the passenger.

This may well lead to a fundamental shift in control and power. Traditionally European airlines serve passenger who travel to, from or within the continent. The pressure on this European network is immense, since in our opinion low cost carriers will have increased their European market share substantially, making the traditional airlines' transit network way too expensive. This might have a stagnating effect on intercontinental passengers' transit, thus adding pressure to the intercontinental network as well.

Low cost carriers wanting to increase their intercontinental market share might just as well buy seats and slots from airlines that offer intercontinental flights. The implication being that EasyJet invites national airlines to take part in a tender procedure regarding intercontinental destinations. A shift of power and control that has already taken place in the computer industry as Microsoft and Intel have taken the lead, putting hardware brands like IBM and Compaq in second place. Transferring 'Intel inside' to aviation could mean we might see 'EasyJet inside' or Ryanair inside' on Lufthansa planes.

It is not only traditional airlines that will be affected by this shift of control and power, the main European airports will too. It is KLM's intercontinental and European network that keeps Schiphol Airport in business. Airports will have to face the question whether their service level is up to standards with these latest developments. Flying these days is far from being an exclusive way of travelling, and passengers no longer consider airports to be special places that are worth spending time, but prefer their stay to be no longer than strictly necessary. No wonder that low cost carriers focus on speed and costs of airport handling. Take luggage handling – the process has to be simple and time and cost efficient.

Ryanair's preference for small airports like Eindhoven who offer efficiency and short reversing times will come as no surprise. Critics may claim that it takes large airports to enable intercontinental flights, but an increasing number of routes gain volume making direct flights possible. Take Cologne Airport(Germany) offering direct flights to North America by Boeing 737.

So Karel Noordzij was right, back in 1993. Commercial aviation faces major changes that will have their impact on traditional airlines and airports. The airlines had better take a close look at their networking strategies, because low cost carriers and the expected increase in direct intercontinental flights outplay their traditional networks.

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