Low-Cost Airline engends Low-Cost Airport

This spring both the director of Rotterdam Airport (RA) and the director of Maastricht Aachen Airport (MAA) discussed the topic "low-cost airlines" in their respective airport magazines. It is interesting to further study the different views on the role of low-cost carriers in the development of these two airports.

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The director of Maastricht Aachen Airport sees the airport as a means to link the region with other regions. In his article he mentions the strong growth and almost the capture of the European continent by the low-cost airlines. Ryanair, for instance is starting a service from MAA to its base at London Stansted. He expects that this will turn into a great opportunity for the whole region. A good example of the influence Ryanair services have on the local economy can be found in Carcassonne (France) were the start of two Ryanair services led to an increase of 25% in the real estate prices and created an estimated 2.800 jobs in the area (see also Dombey et al., 2002). Further, the director of MAA mentions the Belgium Ardennes as an attractive reason to fly to MAA, although Ryanair also flies to Charleroi Airport, which is much closer to the Ardennes than MAA. However, he fails to mention that KLM Exel/ Air Exel stopped its services from both MAA and Eindhoven Airport to Stansted and back, as an answer on the start of the Ryanair service. In the industry it is well known that Ryanair is not eager to pay landing and handling fees and that the airline even expects a lot of marketing support (see for example Francis, 2003). So the question remains, how the airport as a company can gain revenue and eventually make profit.

Rotterdam Airport's vision is that hub bypassing is the future focus market for a regional airport. Rotterdam Airport therefore wants to develop as a niche player a 'specialist shop' for the business traveller who is time-conscious. This raises the question were this major difference originates.

To understand the difference in views, first a definition of a low-cost airline is necessary. Low-cost airlines are airlines that are profiling themselves in their strategy as a company that via relative simple, standardised production processes and means of production tries to keep the cost structure of the company as low as possible. They are also known for making full use of the mechanism of price elasticity. The best-known model, is that of Southwest Airlines (United States), which is also known as the mother of the low-cost model. Southwest only uses small or regional airports. Contrary hereto, in Europe there are low-cost airlines flying to major hub airports as well (like Virgin Express and Easyjet). They get discounts for flying outside the peak hours, usually caused by the home carriers at these hubs. The hub airports realises their turnover and profit because of the presence of these home carriers, so there is no need to finding substitute sources of income and if there is, the pressure is less.

For a regional airport the picture is quite different. The ownership structure and the way in which services are provided have an important influence on the cost structure of the airport. Doganis (1992) distinguished four different levels of ownership, public state ownership with direct government control, public ownership through an airport authority, mixed public and private ownership, and full private ownership. Dependent on the country the airport ownership and control are regulated differently. In Italy for example, the owning city is responsible for the fire brigade on the airport and not the airport itself, while in The Netherlands the airport authorities are responsible. This affects the airport income substantially. More important is, for example in France, where the regional airport authorities are formed by the local chamber of commerce and thus the airport authorities / shareholders are less interested in the profitability of the airport and primarily the welfare of total region is the steering factor in airport management. Also in Belgium (see for example the investigation of the European Commission in the Ryanair – Charleroi Airport deal) the state is convinced of the positive role of an airport in the development of the region. However, the airports still have to realise a certain turnover and therefore airports where low-cost airlines are based have to stimulate non-aeronautical activities such as concessionaires and parking fees in order to increase their income (See for example Doganis, 1992 and Francis, 2003).

The low-cost traveller may not spend as much money as the 'traditional' traveller but Mason (2001) noted that 40 to 80% of the low-cost travellers are travelling with business motives (actually there is no empirical evidence that low-cost travellers spent less or more money than other travellers). These percentages might not comprise the top managers of the bigger international companies but there is no reason to assume that these passengers spend less or more money. The short haul business travellers are, en masse, becoming increasingly price sensitive (Mason, 2001). So, is there a big difference between the low-cost and more traditional passenger? It is not certain yet. But it is certain that the airport has to find other non- traditional sources of income, because the low-cost airlines are not willing to pay the full amount of airport fees. This can create the necessity for the airport to convert the airport to a low-cost airport with a no frills concept in answer to survive the low-cost airlines.

The low-cost airport can be recognised by loads of shops and catering, small ticketing areas (concentration on low cost sales on Internet), fast check in, while the quality of the location is of secondary importance (control of speed is essential). Other differences of low-cost airports compared to traditional airports are :

- Less space needed for terminal services (such as food, etcetera) are of secondary importance,
- Low tech gate facilities (air steps),
- Power in and out of gate (wasting push back time),
- Economy lounges only,
- Ability to separately route incoming and outgoing passengers preferable to save time,
- Minimal catering and cleaning facilities present (staff and equipment),
- Minimal facilities (a hangarage instead of expensive offices and check in desks),
- No standby aircraft parking during day time,
- An efficient removal and loading of aircraft baggage and cargo available (Pitt and Brown, 2000).

The new cost and unbounded focus of airlines induced several changes in the industry, for instance the competition between airports (Barrett, 2000), and the competition on the price of air services. Therefore, the deregulation made the quick rise of the low-cost airline model and airport competition in Europe possible. These two factors combined are forcing smaller regional airports to develop into low-cost 'no frills' airports.

Different focuses are possible for the development of an airport. On the on e hand, the geographical region can function as basis, meaning that the development of the region has the first priority. On the other hand, the focus can be on the business economics where the airport will be developed as a profit driven company. Depending on the ownership structure of the airport one of these two views dominates the development of the airport.

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Jasper Spruit on board a Boeing 737 NG