

# Air Berlin: Best of Both Worlds

**In this 'Airline of the World', Airlines scopes out Air Berlin, currently the second largest carrier in Germany and the third largest low-fares airline in Europe. The company is privately owned and carries this year an estimate of 13,8 million passengers. Recently, Air Berlin also started passengers services between Amsterdam and Berlin. Reason enough for a couple of Airlines' editors to take a closer look behind the success of this German carrier.**

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## History

Berlin has had an unusual past, as the city has been divided into East and West until 1989 as a consequence of the Second World War. The Western part of the city was under allied supervision of France, the UK and the USA. Because only designated carriers of the previously mentioned allies were allowed to fly into Berlin, Air Berlin was founded in Oregon, USA. Former PanAm captain Kim Lundgren established the company under US law in 1978. One year after its foundation, the company started with its first flight to Mallorca when the first leased Boeing 707 took off from Berlin Tegel airport. Three years after the fall of the Berlin wall, the company became an air carrier under German jurisdiction. From 1978 until 1997, Air Berlin exclusively sold its seats to tour operators like TUI and Neckermann. The company took advantage of the deregulation within the European Union by first selling seat-only tickets in 1997 on its Mallorca Shuttle, followed in 2002 by its decision to enter the low-fares market and commenced low-cost operations to European city destinations.

## Business Concept

Following traditional literature on low-fares airlines, it is quite hard to classify Air Berlin as a low-fares airline, charter airline or legacy carrier, because it offers a mixture of several characteristics of different airline business concepts. Air Berlin still operates a single-class with a single

aircraft type and charging comparatively low-fares. It may be designated as a low-cost carrier and is often also referred to as the third largest low-fares airline in Europe, behind Ryanair (Dublin), and easyJet (Luton-London). Furthermore, the low-fare service Air Berlin offers includes all taxes and even in-flight catering. Some airline business rules that were identified by Air Berlin to differentiate the company from other (low-fares) airlines will be further discussed here.



## Route Network

Although the name 'Air Berlin' suggests the majority of flights of the company uses Berlin as its main hub, the company actually uses up to seventeen German airports. Berlin Tegel airport is the homebase of Air Berlin, but its 'blanket coverage' philosophy has urged the company to establish flights from many more German regional airports to serve its customers more closely to their home. The mission statement of Air Berlin is to get 'Closer to the Customer'. As a consequence, Air Berlin wants to take off where its customers live and

therefore has concentrated its business on outside airports. Seventeen German airports are connected to forty eight destinations, mainly located in and around the Mediterranean. The company operates both a point-to-point network and a hub-and-spoke route network having the hub airport outside its home country in Palma de Mallorca, Spain. Contrary to some other low-fare airlines, the company also flies to primary airports.

Mallorca Shuttle and City Shuttle  
Until recently, Air Berlin operated two important services. The first one was called the Mallorca Shuttle, connecting seventeen German airports with a number of classic European sunshine destinations around the Mediterranean through its hub airport Palma de Mallorca. Passengers flying to one of the fifteen destinations in Spain and Portugal have to transfer in Mallorca. The second service concept is called the City Shuttle and was launched in 2002 with the aim to connect an increasing number of European cities. This service aims at attracting both leisure and business passengers, whereas the Mallorca Shuttle was primarily designed for the

leisure market. After one year of City Shuttle operations, London Stansted had already become the most important destination of the route network of Air Berlin. Soon after, other city destinations like Vienna and Zürich became very popular as well. In a very short period of time, Air Berlin managed to transform its business model from a 100% leisure carrier to an airline business model that serves both the leisure market and the city destinations market. To reflect these changes, the above-mentioned shuttle services joined in 2005 and were branded as 'Euro Shuttle'.

Up until 1997, tickets were sold only via tour operators. After 1997, Air Berlin also started to sell seat-only tickets to the public for all its flights via its service centre, the website and ticket offices at airports. Air Berlin has a multi-channel distribution policy including classic CRSs like Amadeus, Galileo and Worldspan with a price unity across all channels. The share of distribution channels as a percentage of all sold tickets is 40 percent via the Internet, 40 percent through travel agencies, 15 percent by telephone and around 5 percent at airport ticket offices.

Although tour operators are of decreasing importance to Air Berlin, there are still destinations / flights that are wholly sold to tour operators. But as a share of its total business, the importance of tour operators has fallen to just less than 50 percent, according to Mr. Marc Heinicke, Manager Euro Shuttle at Air Berlin. Mr. Heinicke explained to us that Air Berlin takes into account the particular competitive environment on a certain city pair route when deciding to market this route as leisure service or as a low-fares business.

Seat-only ticket sales have been a major driving force for growth to the company, as Mr. Heinicke puts it: "single-seat sales has developed so tremendously well, that it was actually the main factor for Air Berlin's growth over the last eight years". The revenue at Air Berlin generated by tour operators has shrunk from 100 percent in 1997 to 46 percent at present. This year, the airline expects to fly 15 percent more passengers than last year.

It seems like the introduction of seat-



only ticket sales at Air Berlin has been of strategic importance for the company, as the trend of vertical integration of tour operators and charter airlines continues in Germany. Formerly important charter customers of Air Berlin, like TUI and Neckermann, have integrated with Hapag Lloyd Flug and Condor respectively. However, Air Berlin does not really regret this industry trend, as it signals a changing consumer behavior with more individual requirements of flights and choice of hotel, to quote Mr Heinicke: "As customer demand is so diverse, I don't think a package tour operator can actually cater for those requirements in the future".

Air Berlin has grown over the past years, despite external events hitting the aviation community, like 9/11, SARS, the war in Iraq and the economic downturn in general. The company has managed to be attractive

for passengers to fly with. The only external factor that's affecting Air Berlin, as every other carrier, is the fuel price development. Despite high fuel prices, based on figures provided by Air Berlin, the costs per available seat kilometer have dropped over the past four years to 0.041 eurocents, which puts them between Ryanair (lower) and easyJet (higher).

The average yield of Air Berlin is 86 EUR compared to 68 EUR of easyJet. One could wonder how such an average yield is accomplished at an airline that market its fares as low as 29 EUR. Air Berlin differentiates its customers into price-sensitive and less price-sensitive customers: the 29 EUR deal needs to be booked long in advance. Less price-sensitive customers need flexibility and, as a consequence, they are willing to pay a much higher price. According to Mr. Heinicke, the major difference between Air Berlin and the leading European low-fares airline Ryanair (apart from the frills) is revenue management. Whilst Air Berlin manages for yield, Ryanair manages for load. Resulting load factors at Ryanair are close to 90 percent compared to around 80 percent at Air Berlin.

Because Air Berlin operates in a low-fares competitive environment, the company has to have some advantages over legacy carriers to survive.





A number of competitive advantages, that had been clarified by Mr. Heinicke, is the many point-to-point flights operated, allowing for four rotations per aircraft a day compared to network airlines that often have just three.

Air Berlin has profiled its Euro Shuttle customers. Most passengers are relatively young: 54 percent is 39 years old or younger, 40 percent of the passengers holds a higher education degree and two thirds of all passengers travel for private reasons, while one third flies for business purposes. These customers consider ticket price as the single most important decision criterion for which airline to book.

### Fleet Composition

Air Berlin operates a highly modern fleet, that comprises of Boeing 737 - 400, -700 and -800 aircraft and these are all less than three years old. In addition, the company also has wet-leased three Fokker F100 aircraft from Germania Airlines (recently merged with independent German airlines DBA) to increase capacity in the short term. Last November, Air Berlin ordered sixty Airbus A320 aircraft to be delivered starting October this year. A dual fleet composition, like easyJet, offers an airline the advantages of flexibility in responding to market circumstances, and of power in negotiations with manufacturers and lessors. The aim of this order is not to replace Boeings with Airbuses, but to facilitate growth by operating two aircraft types, according to Mrs. Angelika Schwaff, Press Officer at Air Berlin.

### Other Opportunities

Air Berlin is not a member of one of the world's global airline alliances. However, the company has established a partnership for its low-fare business with the small Austrian airline NIKI, founded by the famous formula one veteran of Austria, Niki Lauda. Air Berlin owns 24 percent of the shares of NIKI and carries out the companies' route management, sales and marketing. The business model of NIKI is more or less the same as Air Berlin's. The ultimate aim of the tie-up of these two companies may be the establishment of a hub at NIKI's homebase Vienna serving Eastern Europe, which would be mutually beneficial to both airlines. According to Mr. Heinicke, Vienna has already become the most important destination within the route network of Air Berlin. With an estimated number of one million passengers this year, Air Berlin expects to become the second largest operator at Vienna (after Austrian). It is even the market leader on every route it flies out of Vienna.

Air Berlin is a fast growing and dynamic company. German newspaper Die Welt announced in May that Air Berlin will be the first German low-fare airline that offers cargo capacity on its planes to shippers. The cargo-carrying capacity of the aircraft will be marketed by Leisure Cargo, a subsidiary of another German carrier LTU, that specialises in cargo sales and marketing for tourist orientated carriers. This recently announced development reflects the dynamic nature and unconventional character of the company.

### Best of Both Worlds

Low-fares airlines are often associated with 'no frills', but Air Berlin combines (in its own words) the 'best of both worlds' by selling tickets from 29 EUR (one way) including taxes and airport charges and including complementary on-board service, snacks, drinks, newspapers and entertainment. The 'best of both worlds' also includes seat reservation, free rebooking (when holding a silver Top Bonus card) and cancellations with fares that are up to 50% below prices of traditional airlines and a Frequent Flyer Program (FFP) called 'Top Bonus' to cater for the business traveler. For large corporations, a tailored travel program is available, offering up to 60 percent reduction on fares. The FFP is carried out in co-operation with several accrual partners such as hotel chains and car rental companies. After customers have joined the program, they benefit from higher baggage allowance, free seat reservation when booking, as well as a zone-based bonus miles system.

Because low-fares airlines have become more or less similar to no-frills airlines in the last decade, Air Berlin combines low-fares with frills. Since the authors of this article sampled an Air Berlin flight between Amsterdam and Berlin, we certainly agree with the 'Best of Both World's'-claim of Air Berlin. Compared to other providers of low-fare air services, Air Berlin serves its customers pretty well. Punctuality, on-board service, seat pitch and the kind service of the cabin attendants were highly appreciated. Air Berlin has successfully adapted to the changing demand of today's price-aware and internet-enabled consumers and is absolutely recommended to fly with. We expect that the recently ordered Airbus A320 aircraft will facilitate growth that offers passengers from Europe to keep enjoying the Best of Both Worlds!

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