LOW-COST STRATEGY IN THE AIR: AIR ARABIA- FIRST IN THE MIDDLE EAST

Amitabh Upadhya

Abstract:

This paper studies the impact of Air-Arabia, the first 'low-cost-carrier' in the region. Being the first of its kind in the entire Middle-East & North Africa (MENA) the low-cost-model was on test. The study compares the low-cost-carrier model as developed in the western world with the Air Arabia model. The study also evaluates the plausibility of the low-cost-model as a viable strategy for airlines operation in this region which is growing at a very fast pace. It was difficult to obtain vital information on 'operational costs' and actual 'market share' of the airline but a few written interviews with airline officials helped in analysing the 'model' in the current scenario of growing air travel. In conclusion it is observed that short-haul journeys by air have been significantly impacted upon by the 'price' factor in the region which has a large expatriate working class population.

Key Words: *Airline operations, Airline Strategies, Low-cost-No-frills, Regional Travel*

Introduction

The issue of Airline Strategy has always been fascinating. The latest addition to the various such strategies is "low-cost-carriers". It has been a bag of mixed results for the so called 'low-cost-no-frills-airlines' in the last few decades. Whether 'low-cost' is a viable strategy in the present scenario of intense competition? What is strategy after all? In the words of Stephen Shaw, "Successful airlines appreciate that adding product frills rarely produces long-term gains in market shares, because frills can easily be matched by competitors".(Shaw, 1999) The statement becomes the starting point of our discussion in the present study.

For the first time in late 2003 'Air Arabia' a declared low-cost-airline started its operations from Sharjah U.A.E. The declaration also announced arrival of the first such airline in the entire Middle-East and North-Africa (MENA). The idea to launch a low-cost airline in the region was prompted by the success stories of such airlines in North America and Europe. Being essentially regional in operations the prospects looked highly promising. Then came the results of the first year of operation and Air Arabia broke even. All this needed a closer look into the functioning and subsequent future of low-cost-airlines in a region where expatriate work force outnumbers locals. Price, undoubtedly is a major ingredient in the decision making process of a traveller, especially amongst the expatriates in the region. This study focuses on this aspect too to get the relevant insight.

The review of available literature and scrutiny of the management of low cost airline operations reveal certain facts that indicate the 'no-frills business model' of such airlines. South-West airlines in the US can be called the pioneer of this model which later became popular in the continental Europe with Ryne Air, Easy Jet & Go, refining the model to suit their regional needs and of course, the bottom lines. The strategy attracted many more around the globe for sheer penetration in the crowded market. For many it proved highly successful. The Middle East buzzing with global economic activity couldn't have been left behind. With the introduction of Air Arabia the air-travel market has received a new impetus.

The Intra-European market share of the low-cost-carriers is expected to increase from the present 5 percent to 25 percent by 2010, thereby establishing them on a long-term basis. (Mercer study, 2002) If this trend is an indicator other markets where such airlines have started operating may also see a change of market shares. The Middle East, which has seen the highest growth rate in 2005, is most notable. As per IATA statistics the growth rate is as follows:

	RPK	*ASK*	*PLF*	*FTK*	*ATK*
Middle East	*13.1%*	*10.6%*	*73.6*	*14.6%*	*11.6%*

- RPK: Revenue Passenger Kilometres measures actual passenger traffic
- ASK: Available Seat Kilometres measures available passenger capacity
- PLF: Passenger Load Factor is % of ASKs used. In comparison of 2005 to 2004, PLF indicates point differential between the periods compared.
- FTK: Freight Tonne Kilometres measures actual freight traffic
- ATK: Available Tonne Kilometres measures available total capacity (combined passenger and cargo)
- IATA statistics cover international scheduled air traffic; domestic traffic is not included.

This above cited trend initiated this study, to compare the market penetration of such low-cost-airlines and their impact on the Middle East Air Traffic. Other objectives of the study include, evaluating the aviation market and the market segments in the Middle East.

It is believed that the customers will choose different airlines for different purposes: flexible holiday & private travellers and price-conscious business passengers will prefer low-cost airlines for short routes, while the big network carriers will focus on long haul journeys. (Mercer Study, 2002) The study further intends to assess the challenge of providing innovative and differentiated service concepts to the customer and to study the impact of low-cost airlines on the airline industry and to find out if an equitable distribution of the market growth is achieved. The study also appraises the strategy of low-cost-carriers as a viable strategy; this could provide a fillip to more holiday opportunities to budget travellers of the region.

The present study is an attempt to scrutinize and appraise the functioning of no-frills options in the region. A case-study method has been adopted to evaluate the Air-Arabia Model of operation and compare it with other such local operators and also make a comparative analysis with the more established western model of low-cost-airline-operations. A survey of arriving and departing passengers was conducted with a structured questionnaire to ascertain their perception of cheaper air travel. The survey was conducted on three separate days of a high season month at the Sharjah International Airport which is also the base station of Air Arabia. In all 150 (3 X 50) passengers were surveyed. An elaborate interview too was conducted with the Marketing Director of the Airline where written replies were solicited. The interview helped in analysing & synthesizing the available data with the survey results. Scanning of secondary sources of information was done on an extensive basis and authentic data was sifted for use.

Low-Cost Strategy in the Air:

To answer the question of what is strategy, a wholesome definition must be taken into account which can be tested for its efficacy on the present topic. The term has been used extensively in management of all businesses in the recent past and has become synonymous with a business plan. The low-cost-airline model of airline operations too is, in a way, a strategy for achieving high financial results for the business. Strategy is the determination of the basic long term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals. (Chandler, 1962) This definition has undergone several changes but still holds good as a starting point of our discussion because it highlights the three major factors that would constitute any strategy namely; 'determination of basic long-term goals', 'adoption of courses of action', and 'allocation of resources'. The low-cost-airline model incorporates all of these towards achieving its financial success.

Since the liberalisation of international air transport in the early 1980s the airline industry has witnessed profound effect on market structure and operating patterns. This trend towards liberalisation of economic regulations significantly changed market conditions in most part of the world where such changes occurred. It is believed that longer term traffic growth over the years to 2010 as a whole will average close to 5% per annum; growth rates will differ markedly between key markets. (Doganis, 2001) A strong downward pressure on fares and cargo due to several reasons most importantly rising fuel cost is already showing its impact and the low-cost strategy is gaining strength.

Rigas Doganis in his book "The Airline Business in the Twentieth Century" (Routeledge, 2001) sounds prophetic observing the possibility of a change in airline business scenario. Already falling yields are reinforcing pressure to cut costs. Cost reduction is becoming a long term and continuous prerequisite for financial success. The main emphasis is in reducing costs, improved work practices and out sourcing, not only of functions such as catering but even the actual flying, to lower-cost operators. Airlines are also relocating certain activities and employees to low-wage economies. In order both to reduce costs and to improve service to customers, airlines are increasingly using electronic commerce not only to sell and distribute their products, but also their business–to-business relationships. The growing use of e-commerce in operations of airline business has put tremendous pressure on the traditional relationship of travel-agents and the airlines. The travel agents are being forced to adapt to the newer realities and in turn have started taking recourse to wide use of the world-wide-web for furthering their own cause.

The above observation brings the initial premise of this study in the forefront and establishes the importance of "cost leadership strategy". The term is integral to Michael Porter's Competitive Advantage Model (Porter, 1980) differentiation & focus being the other two parts of his model. The strategy of cost leadership in the airline industry became popular with the sustained success of the US based Southwest Airlines. Southwest has been continuously profitable almost since its foundation in 1971, it remained profitable even during the 1991-94 recessions when all the major carriers in the USA suffered immense losses, totalling more than $13 billion. Southwest, though its profits declined somewhat, remained profitable throughout this time. Not surprisingly, therefore, its strategy has been the subject of detailed scrutiny and several airlines attempting to clone its success have appeared both in the USA and Europe and more recently in the rest of the world. Southwest follows the philosophy of fleet commonality as one of its strategies and uses only the Boeing 737 aircrafts, bringing down costs in areas of pilot training and utilisation of spare parts inventories. Secondly, it has a very high asset utilisation practice having only about 20 minutes of turnaround time and about 10 hours of flying per day. A further aspect where Southwest has worked to achieve low operating costs is with the costs of distribution. Southwest doest not work with any major GDS firms such as SABRE or Galileo International, instead, the airline has put its own basic computer system terminals into offices of travel agents. To further reduce agency commissions it encourages its customers to book direct online on the Net or by phone facilitating ticket-less travel. (Shaw, 1999) "Traditionally, Southwest has done its own ticketing and has not made seats available on Sabre, Galileo or other global CRS systems, thus saving $3 or more per booking. It was also the first to introduce direct online booking. As a result and in contrast to the U S major airlines, around half of Southwest's sales are direct, which is a very high proportion. On these sales it saves agents' commissions which are 7-10 percent or so of the ticket price". (Doganis, 2001)

A peep into the practical operations of the low-cost strategy suggests the very robust managerial approach manifested in the entrepreneurial muscle of its promoters' approach. 'It's not rocket science,' Stelios Haji- Ioannou, the founder of easy-jet is fond of saying. "No frills airlines fly the same expensive piece of metal at the same speed as the traditional carriers. But they cut cost where ever they can, for example by plastering the reservation phone numbers on the side of the planes to save on marketing budget". When it comes to pricing, 'we look at the fare the customer can pay, not what the market can bear, 'says Rob Brown of Southwest." (Calder, 2003)

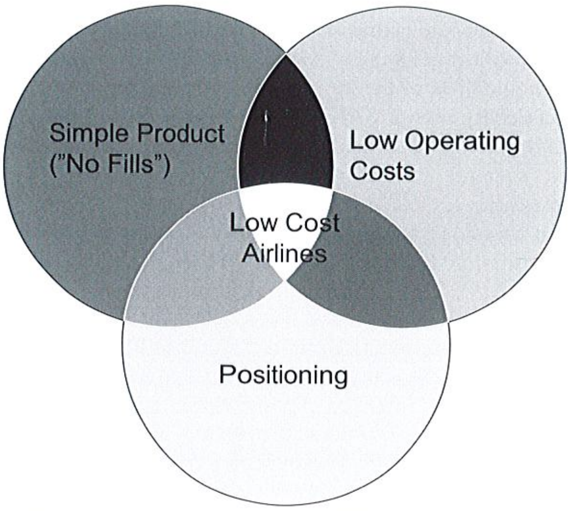
With the above arguments in place it can be safely accepted that the cost-leadership strategy is working well for the Low Cost Airlines though there have been casualties in the process. But it is equally arguable whether only cost-leadership will lead to the win-win situation? There has been several valid criticism of the famous generic strategy framework of Michael Porter. While porter argued that a business must choose between a differentiation and cost leadership strategy there have been evidences of companies doing well with a hybrid of low-cost and differentiation, and are not stuck-in-the-middle (Evans, Campbell, & Stonehouse, 2003) Virgin Airlines can be cited as an example.

For the present purpose at this level of the study a business model of low-cost-airlines can be drawn. This model is based upon the above discussion and the 2002 Mercer Study on 'Impacts of LCA on European Airlines' which is by far the best suited for this study. The "low-cost carrier" business design is defined by three key elements: Simple Product ("No Frills"), Low Operating Costs, & Positioning. The characteristics of these elements includes-

1. **Simple Product**
   - No meals; drinks and snacks for free
   - Narrow seating (greater capacity)
   - No seat reservation; free-seating
   - No frequent-flyer programs

2. **Positioning**
   - Non-business passengers, leisure traffic, price-conscious business passengers
   - Short-haul point-to-point traffic with high frequencies
   - Aggressive marketing
   - Secondary airports
   - Competition with all transportation carriers

3. **Low Operating Costs**
   - Low wages, low airport fees
   - Low costs for maintenance, cockpit training and standby crews due to homogeneous fleet
   - High resource productivity: short ground waits due to simple boarding processes, no air freight, no hub services, and short cleaning times.
   - Lean sales (high percentage of online sales)



Source: Mercer Management Consulting © 2002

Based on the detailed analysis and comparison of the US and European market the above cited Mercer Study concluded an interesting thesis. It argues that, "superior business design for inexpensive direct flights, will expand their European market share significantly. Further, given the attractiveness of this market, new airlines are bound to be founded. However, only purely "low-cost" business designs will be successful. In the long run, only two to three low-cost airlines will survive as major players on the intra-European market".

Also, the aviation market will split in two major customer segments. Customers will choose different airlines for different purposes: flexible holiday and private travellers and price-conscious business passengers will prefer low-cost airlines for short routes, while the big network carriers will focus on intra-European and inter-continental business passengers.

Low-cost airlines also compete with European railways, especially on the lucrative, heavily used long-distance routes (roughly 400 to 700 km). The best counter-strategies are to further expand inter-modal transportation offerings in collaboration with airline companies (Rail & Fly) and to offer affordable prices for long distance rail tickets. Some airports, especially regional airports and former military bases (e.g. Frankfurt-Hahn), offer low-cost airlines remarkable opportunities for growth. However, only a few airports will be able to use their densely populated catchment area, good road and rail connections, and highly flexible systems of charges to attract market leaders. Medium-sized airports that do not serve as transportation hubs (e.g. Düsseldorf, Hamburg, Berlin-Tegel) must face the challenge of providing innovative and differentiated service concepts to major companies (or their shuttle services) and low-cost airlines on an equal basis at a single site. This will enable them to participate in the overall growth of the market.

This thesis is mainly based upon the US market as dominated by Southwest and the UK-European market dominated by Ryanair & Easyjet. These airlines started their operations in 1971, 1991 & 1999 respectively. They also enjoy a market share of 22%, 15%, and 5% apart from a healthy growth rate of 8%, 40% & 30% respectively. (AEA Economist, Meril Lynch 2000)

Air- Arabia- First in the Middle East:

The above discussed business model of low-cost-airlines is now extensively used by several airlines. Most of these have recently started operating in other then the US-European markets. South East Asia, South Asia and the Middle East with their promising growth rates have automatically got attracted to this model. Several such experiments have started and many of these have already made their presence felt.

Air-Arabia was the first in the entire Middle East and North Africa. Catching-on with the very fast pace of air-travel growth in the region the airline has already carved a niche for itself. Owned by the government of Sharjah, Air Arabia had to compete with at-least two of its own full service cousins' viz. Emirates & Al-Eitihad. Sharjah is one of the seven Emirates that constitute the United Arab Emirates and the two big brothers Abu-Dhabi and Dubai already had their national carriers in Al-Eitihad and Emirates. It is only the differentiated model of business that Air-Arabia chose for its operations that it is proving to be in a different league all together and contributing in expansion of the market.

Profile:

Air Arabia was established on 3 February 2003 and started operations on 29 October 2003. Air Arabia can be safely said as the first budget airline in the Middle East region. It was formed by Amiri decree issued by Dr Sheikh Sultan Bin Mohamed Al Qassimi. It is owned by Sharjah Civil Aviation Department (50%), Sharjah Airport International Free Trade Zone Authority (SAIF Zone) (10%), and other founders include Sharjah based and Bahrain based strategic investors (40%). It operates scheduled services throughout the Middle East and to the Indian subcontinent. Its main base is Sharjah International Airport. (Wikipedia, 2006)

A written reply was received from Mr. Kyle Haywood, Commercial Director of Air Arabia answering issues on operatinal profile of the airline in response to a questionnaire sent to him. This interview was conducted in the month of July 2006. It can be observed from the following details as provided by Mr. Haywood that the airline is following the established low-cost-model with moderate product differentiation.

The Product:

- Meals & drinks are served at a reasonable cost to travellers
- Better seating than legacy airlines 32 inch seat pitch vs. 28, 30 offered by other airlines.
- No pre seating, seat numbers issued at check in

Positioning:

- Price conscious passengers: mix of family, leisure, businessmen, students, first time travellers
- Short haul point to point traffic
- Aggressive price based marketing strategy
- Primary airports as not many secondary airports in MENA & Subcontinent
- Niche market & new breed of travellers but occasionally compete with traditional airlines on certain routes

Low Operating Costs:

- Wages are as per industry standards & airport fees are similar to traditional airlines as we use the same airports
- Homogeneous fleet resulting in using same pilots, crew & spare parts
- Faster turnaround times, maximum 45 minutes & all turnaround flights (no crew layovers)
- Still 70-80 % sales through offline channels, but highest percentage of online sales among Middle Eastern carriers

Financial performance:

- 1st year breakeven
- 2nd year profit of AED 32 MILLION

Note: Market share: data not disclosed

Selection criteria for new destinations:

- Intra government agreements permit – or indicate they would like to discuss – between Sharjah & xyz destination.
- If it is within a 4 hour flying reach of Sharjah.
- If there are relevant commercial interests between those cities/ countries that would support sufficient traffic.

- Competition on the route is a factor i.e. – the market already saturated or still has potential to grow.
- Political situation.
- Safety & security at the chosen airport/city.

Fleet strength:
- 6 A-320 aircraft & 2 more by end of this year

Note: Unit operating cost: data not disclosed

Staff strength:
- Over 600 and growing.

Note: Promotional & operational budget: data not disclosed

Air Arabia travellers' composition:
- Traditionally 60% Arab, 40% other but with the mix of destinations now coming on line to Europe/India etc, the percentage is starting to move towards 55/45.

Safety of low cost airlines:
- From inception safety & reliability of operations have been key objectives. Has a brand new fleet with average age of 1.5 years. Operates on the same air operator's certificate from GCAA like Emirates & Eitihad. 100% safety record.

Hidden cost in fares:
- Very transparent in fares to customers & when they book online can view the break-up of taxes & surcharges. The taxes are as stipulated by the governments of the countries the airline flies to and the surcharges are to cover the spiralling fuel cost and are in line if not lower than most airlines in the region.

Distribution channels:
- Travel agents, online, call centre, sales shops & cash collection points.

Out sourcing:
- In some overseas markets where staff number is low. There are commercial agreements in place with representative companies to handle the day to day duties on the airline's behalf; within strict Air Arabia operating guidelines.

Competition from full service airlines:
- The airline has niche market of cost conscious travellers & have created a new breed of travellers however, occasionally competes with traditional airlines on certain routes

Future strategy of Air Arabia:
- There are over 60 potential destinations in the 4 hours radius so the airline is looking forward to growing its operations & increase its fleet as per growth in demand. Within existing routes we are looking at increasing frequencies especially within the GCC (Gulf Cooperation Council).

Business strategy of Air Arabia in a word:
- Ambitious.

Analysis:

The above discussed profile of Air Arabia clearly substantiates the low-cost-carrier model, though there is an effort not to compromise too much on basic facilities in the enthusiasm of cutting cost. In this regard two examples are worth a mention: (1) the seat size is more or less equal to legacy airline economy class & (2) the baggage allowance is a regular 20kg. (www.airarabia.com). Further, if the first three points are compared to the European model as discussed above citing the Mercer Study it can be observed that though the product remains simple but it has differentiated itself on seat pitch and seat allotment. The *positioning* is more or less on similar lines but the Airline is trying for niche markets and also competes with a few traditional carriers on certain routes. On the *low-operating-cost* front the airline claims that the wages are comparative to network carriers and it is using primary airports. It is notable though that the home base of the airline being Sharjah and also the Civil Aviation department & SAIF being its promoters a definite cost advantage is enjoyed by the airline.

It is heartening to note that the airline has done very well to earn profits in only its second year of operations. In the present scenario where most of the established airlines are finding it difficult to post profits, the Air Arabia results are a shot in the arm of airline business in the region. Though, it is noteworthy that the Middle East is having the largest growth rate in the world in this sector. Despite repeated requests the actual market share and unit operating costs were not disclosed officially. The aircraft-employee ratio in Arabia's case at present is 1:100 which even in legacy airlines' comparison, quite high. This ratio also indicates that if wages, as claimed, are competitive the airline is not saving costs on its salary bills. It is only when the number of aircrafts increases, with no substantial increase in staff strength that the airline would become more cost effective on the salary front. Also noteworthy is the outsourcing of services despite a large staff strength there are services which the airline out sources. The official website declares that, "in March 2006, Air Arabia crossed the 2 million passenger milestone since it started operations". With the meagre figures available at the site it can be deduced that the passenger growth rate is more than 35% per annum. It can also be concluded that the low-operating-cost of Air Arabia is more because of preferential airport charges, no-commission to the agents, and savings on in-flight catering. More information and analysis is needed to find out the actual market share as it stands of date, and an effort is being made by the author of this study to further expand this study into an analysis of market penetration of the low-cost-airlines in the region.

As mentioned earlier, a survey was conducted for this study to compare the passenger perception of the claims made by the low-cost-model of airline operation. The questionnaire was administered to 150 Air Arabia passengers on three separate days in sets of 50 each. A total of 139 questionnaires were found complete in all respect for the analysis. The survey questions were easy to comprehend and mostly close ended. This was deliberate to gain attention of the passenger who is either in a hurry to catch a flight or tired from a journey. At an average a willing passenger spent about 4-5 minutes in completing the questionnaire. For the purpose of analysis the questions can be divided into three broad categories: (1) relating to factors for choosing an airline, (2) relating to services and holiday travel, & (3) relating to safety of travel. All these categories are also indicators of major concerns that an airline traveller might have. In single words these concerns are **Price, Convenience, and Safety (PCS).** Of-course the questionnaire had a question on the purpose of visit to ascertain the market segment most attracted by the low-cost-operators.

The results are interesting to note. Demographic results show a very large 69%, travellers were expatriates; this is interesting also because the UAE demography includes over 80% expatriates, unique only to this country, suggesting that quite a substantial number (31%) of nationals too opted for flying with a low-cost-carrier. The purpose of visit for the Air Arabia travellers surveyed gave mixed results where in 38% were travelling for annual vacation mostly to home countries, 35% on holiday, 22% on business, and 5% for other reasons . The result proves the hypothesis of this study correct in confirming the need of travel for expatriates in the U.A.E. The 35% holiday goers outnumber business travellers, which again is interesting to note and suggests that cheaper air fares encourage regional holiday travel. Together the 73% holidayers & vacationers constitute a major segment as against high number of small-business travellers using low-cost-carriers in Europe. Another question received 85% positive reply in favour of 'better holiday options' with low-cost-travel. 68% passengers feel that they will opt for more holidays at nearby destinations if the fares are low. Yet another interesting observation is about the 'fun' of airline travel, 33% passengers are of the opinion that the fun is not lost where as 38% feel it is lost 'some-what' and 22% feel that without the full services and when one has to buy the meals and drinks, the fun is actually lost.

On the price front 80% passengers chose Air Arabia because of the low price and an overwhelming 87% consider price as the most important reason to choose an airline. At the same time 88% out of the 13% for whom price is not the most important factor consider safety is an important criterion for an airline choice.

Further, 55% of those surveyed are sceptical about safety and believe that it may be compromised to offer low-cost. This opinion has been refuted by the Airline by citing hundred percent safety records since its operation. Another concern about 'hidden-costs' is belied by the survey and 48% trust the airline and consider the airline claim of low-fares as transparent enough.

Ninety-two percent passengers think that 'online' bookings are a very convenient method for reservations and 68% of them were actually travelling on reservations done online.

Seventy-two percent Air Arabia travellers feel that the region as such ahs benefited by the low-cost-airline and there is need for more such operators. Air India Express is cited as the other such carrier which is operating in the region since 2005.

Middle East, with its fast growth rate has, seen two more low-cost-carrier start-ups since the commencement of Air Arabia. Air-India Express, which started in April 2005, is part of the government-owned national carrier Air India. It operates flights between Dubai, Sharjah, Abu Dhabi and Al Ain in the UAE and three cities of Kerala, the southernmost state of India that has a large expatriate population in the UAE. Kuwait's Jazeera Airways flies to 12 destinations in eight countries. For both, India and West Asia are strong markets, simply because of the demography. Business is really taking off, with Jazeera and Air Arabia continuously expanding their routes. Air-India Express has plans to fly to Amritsar and Mangalore, both in India. In fact, the carriers are satisfied with the volumes, with all three running to capacity on all their routes during what is considered the peak season between July and September and turning impressive numbers the rest of the year. While in terms of expansion of routes, Air Arabia and Jazeera Airways have been growing rapidly. In less than three years of operation, Air Arabia now flies to 28 destinations in 18 countries. (Gulf News July 2006)

As well as owning the Air Arabia, the Sharjah government also owns the airport. That was an advantage Air Arabia started with. Sharjah airport presents itself more like a secondary airport that provides the airline with the benefit of a quick turnaround. The first six months of 2006, according to the latest report by Sharjah Airport Authority, has seen an increase of 37.6 per cent. The $22 million airport expansion is going on at a rapid pace to handle increased passenger and cargo traffic. In more ways than one Air Arabia's operations out of Sharjah International Airport closely resemble, on a much smaller scale the successful "no frills" budget airlines of Europe and the United States. Ryanair and EasyJet in Europe mostly operate at smaller secondary airports. Business is also being carried from bigger international airports. The two other low-cost carriers in the region, Air-India Express and Jazeera Airways, are flying to Dubai International Airport. In fact, Jazeera uses Terminal 1 and is still able to maximize efficiency and costs, while Air-India Express operates to and from the less-congested Terminal 2 of the airport to minimize costs and to maximize a quick turnaround of 45 minutes. To sustain low fares, discount carriers need high loads. And for that they need to operate on routes between large population centres. (Gulf News July 2006)

Although they have to deal with challenges, the emerging low-fare airlines have a strong advantage, in some cases there is little competition in their home market. "Jazeera Airways, for example, was the only home-base competitor to Kuwait Airways when it started operations. That's a huge advantage". The three are, however, not directly competing, except for Air Arabia and Air-India Express which have flights to Kochi, India. Air-India Express, however, has flights to Kozhikode and Thiruvananthapuram too. The sheer volumes on the Kerala route provides enough business for both carriers and until now have not posed a threat to each other. While Jazeera operates from Kuwait, Air Arabia operates from Sharjah. "It seems there is plenty of room for both at the present time." On its home turf, Jazeera Airways is in direct competition with Kuwait Airways and the national carriers of countries it operates in. In a recent interview with Gulf News, its chairman Marwan Boodai, citing Kuwait's Directorate General of Civil Aviation figures, claimed that in its first four months Jazeera gained up to 50 per cent market share on more than half of its routes, flying 100,000 travelers. This was achieved with just two aircraft. Consequently, though it's uncertain by how much, it's eating into the profits of its competitors. Air Arabia has started flying to Delhi, and Jazeera to both Delhi and Mumbai, pitting the carriers against Air India and Emirates Airlines. Air Arabia claims to have flown two million passengers so far. It's quite possible that the bigger airlines are losing some numbers to the smaller carriers. (Gulf News July 2006)

In the three years Arabia has been operating, direct online purchases have gone up from a minuscule 2 per cent of the total bookings to about 25 per cent. "In the next two to three years, I expect (direct) online booking to go up by 30-40 per cent," says Adel Ali, chief executive officer of Air Arabia. The share of direct online booking in Air-India Express and Jazeera Airways is currently 30 per cent. (Gulf News July 2006)

Conclusion:

In the past decade there has been a dramatic increase in the air traffic carried by low-cost carriers. (Franke, 2004) The increased penetration by low-cost carriers has spurred network or legacy carriers to lower their costs and to offer competitive fares. The lower fares offered by both low-cost carriers and legacy carriers are attractive to business and holiday travelers alike. (Mason, 2000, 2001) As discussed above, there is some evidence that low fares are affecting travel patterns, such that the percentage of holiday passengers is witnessing an increase. The growth of low-cost-carriers has shown that in following a strategy of "no-frills', low-fare alternative, they can successfully compete with full-service carriers. (Colette, 2006) The low-cost strategy in most cases has proved successful.

Most of the new LCA start-ups, more or less, in Asia and the Middle East are following similar business models and have so far proven to be quite successful. There have been large number of misadventures in this category also and quite a few start-ups of this model could not sustain beyond a few years and had to shut business. As discussed above except for Air India express which had to adjust its route selection in the beginning the other two, Air Arabia and Jazeera have performed well. The highlight of the analysis is that it is not only the business travelers, unlike Europe, who prefer low-cost-carriers but due to a large expatriate population in the region the annual vacationers and holiday travelers are increasing in number. Price is a major and important variable in the choice for selection of an airline. This is enlarging the market composition and competition at the same time. Success of Air Arabia has encouraged such operators and a few new companies are in the final stages of launch.

Low-Cost-Carriers fly to short haul journeys. It is an essential need of their business model. This can give a boost to regional tourism. As discussed above the traveler now has yet another holiday option. Low-Cost flights can tie up with nearby resorts and destinations for low-cost-holidays within the region. It is suggested that a net-work of low-cost-packages can be developed within the flying radius of the airline to create yet another niche. An extra market can open up for smaller not so popular destinations if they fall within the flying radius of a low-cost-airline base. Air Arabia has definitely provided that impetus to several destinations which are closer and now cheaper to fly to, from and within Middle East, for example Alexandria, Luxor, Almaty & Jaipur.

Safety has been a concern of many a low-cost-airline traveler but as is the case of Southwest in the US, so far an impeccable safety record has been maintained by Air Arabia again boosting confidence of passengers. It is common knowledge in airline operations that maximum number of accidents take place during 'take-off' & 'landing', as such the low-cost-carriers fly short haul, using only one take-off and one landing for a journey, in the process reducing statistical risks. On the other hand, punctuality is a question mark for several low-cost-airlines and most of them are struggling to keep their schedules delay free. A large number of Air Arabia passengers have shown their displeasure with delays as reflected in the survey conducted. It is suggested that the no-frills airlines must maintain schedules and not let the basic product get distorted or stigmatized.

Another major impact of the 'low-cost revolution in the skies' has been upon the Travel Agents. Saving on agents' commission is an important cost-cutting tool of the model. This trend has had a rub-off effect even on the net-work carriers. The agent is suffering a big blow due to the rising numbers of low-cost travelers. It is suggested that the agents should form regional consortiums and become more techno-savvy. Use of the Net has become imperative for the agents now and the competition has moved on to innovation and services rather then price. A tie-up with airlines for links in airline web-sites will certainly minimize the blow for the moment.

An interesting shift is taking place in the airline industry. There is need to further study the phenomenon with various comparative analyses. Most notably the comparison of previous air-traffic carried by full service air lines and the change in pattern, if any! This change is to be noticed from the point of view of change in population, demographic constitution and income within the catchment area of the low-cost-carrier. It will also be interesting to find out seasonal changes to the traffic. The above discussed expatriate annual vacationer of this region travels once in a year to home country. As it is, during the vacation period the traffic is high and the three airlines mentioned above are cashing-on over this large market and less carrying capacity so far available. A better picture would emerge to compare the change in choice of the low-cost-carrier during lean season.

The low-cost 'revolution' in the skies of the Middle East too has begun. Time only will tell how sustainable will this prove. If the US and European success stories are an indicator there is all reason for the story to get replicated here.

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Dr. Amitabh Upadhya
Associate Professor
Travel & Tourism Studies
Skyline College, Sharjah.UAE
Tel. + 971 6 5441155
amitabh@skylinecollege.info