Flight plans – how major airline changes could affect your supplier programme

From new low-cost long-haul services to the disappearance of well-known European carriers, the global air market is shifting dramatically. What do four key aviation developments mean for corporate travel buyers?

Trend 1: Long-haul low-cost carriers
Low-cost airlines have thrived on European short-haul routes. But for years conventional wisdom dictated that the budget model would not translate successfully to inter-continental routes. Long-haul aircraft burned too much fuel to be low-cost; and while travellers would tolerate no-frills flying for up to four hours, anything longer was considered too uncomfortable.

A variety of airline and route launches over the past year have disproved this theory. Examples of the new breed of long-haul low-cost services to or from Europe include:

- Norwegian Air – Now flies from all three Nordic capitals plus London, Paris and Rome non-stop to the US plus Singapore.
- WOW Air – Flies passengers from 25 cities in Europe and 12 in the US through its hub in Iceland.
- LEVEL – Owned by British Airways and Iberia parent IAG, LEVEL flies to various destinations in the Americas from Barcelona.
- WestJet – The Canadian carrier operates to London Gatwick from Toronto, Vancouver and Calgary.

More could be on the way. Air France-KLM is setting up a carrier called Boost to fly to Asia, while JetBlue of the US has acquired aircraft that could fly transatlantic.

So why does low-cost long-haul appear to be a valid model after all? There are several connected reasons. One is that oil is much cheaper than a few years ago.

The second is that, at least in the case of Norwegian, it flies fuel-efficient Boeing 787s. But perhaps the main reason is that the service is now little different to what passengers experience in economy on traditional long-haul services, and travellers are also accustomed to the ancillary model – buying a basic ticket at a low price and then paying for everything else on top, from baggage to seat selection to food and entertainment.

What does this mean for corporate travel?

There are two issues to consider: can business travellers use these new services, and what effect will they have more widely on the air travel market?

The big advantage for all travellers is price. With basic fares as low as US$300 on Los Angeles-Gatwick for example, the potential for savings is clear. However, by the time ancillary charges are loaded on top, the final price of a low-cost carrier is much closer to the lowest fares offered by a traditional airline. Nevertheless, says Søren Schødt, managing director of TravelpoolEurope, "we carried out a study for one of our members and concluded that the low-cost alternatives are on average 16-33 per cent lower, even with extras included."

The quality of the new services is good. "We have business travellers flying long-haul with Norwegian and it is as comfortable as flying in economy on a traditional airline, thanks to its use of the Boeing 787 Dreamliner," says Schødt. "In common with some of the other low-cost long-haul carriers, Norwegian also offers a small premium cabin which is similar to premium economy on traditional airlines but costs less than one of their fully flexible economy tickets. The premium cabin is especially suitable for business travellers."

There are potential disadvantages. Business travellers are more likely to find themselves surrounded by leisure travellers than on traditional carriers. And not all the flights are between major airports. For example, although Norwegian flies to New York JFK and Boston's main Logan airport, it also flies to lesser known airports, such as T.F. Green Airport in Rhode Island, Bradley International Airport in Connecticut and Stewart International Airport, 110km north of New York City.

Flying to unusual airports can be a benefit, however, for business travellers who happen to be visiting locations nearby. And, for example, WOW will, in May 2018, become the first carrier to offer transatlantic service to St Louis since 2003.

But even if business travellers never set foot on the new low-cost carriers, they are still likely to benefit. Overcapacity has been blamed for soft pricing in the transatlantic market, and traditional airline executives have cited the competitive pressure they feel from the new entrants. That is enough to make them hesitant about pushing up fares.

Trend 2: New aircraft = new routes

Newer, more efficient aircraft are changing the economics of flying. One example is the 500 seat-plus Airbus A380, which has added massive capacity on some routes – for example, Copenhagen-Dubai, flown by Emirates. In fact, Emirates owns more than half of the A380s currently in the skies, using them to develop its mega-hub in Dubai. Emirates' success is based partly on a good product, but also on a model of flying passengers indirectly, and therefore cheaper than airlines which offer a direct service.

The Boeing 787 is in many ways the opposite model. It flies far fewer passengers but ultra-light materials make it very fuel-efficient. That means the 787 can profitably fly "thin" routes other aircraft cannot. For example, BA has recently launched routes from London to Nashville, Austin and New Orleans.

What does this mean for corporate travel?

More direct long-haul options are presenting corporate travel buyers with a choice: do they fly their travellers as quickly as possible or as cheaply as possible? There is no one answer to this question, but it may become necessary to formulate a policy one way or the other and communicate it clearly to travellers. And the price difference is not always as large as you might think: taxes are often higher on indirect routes.

Trend 3: Problems for the big Middle Eastern carriers

Over the past decade, fares have changed little on many long-haul routes. One significant explanation has been the relentless expansion of the three Gulf majors – Emirates, Etihad and Qatar Airways – plus Turkish Airlines. Turkish alone now serves 302 destinations.

But recently these giant hub carriers have encountered significant problems. After Hoovering up more and more passengers criss-crossing the world, Middle East airline passenger growth (which doesn't include Turkish) slowed to 2.7 per cent in June, the lowest rate for years. Recent problems have included:

- A terrorist massacre at Istanbul airport in 2016 and international opposition to President Erdogan in Turkey.
- Laptop bans (since lifted) on flights to the US plus attempted bans on passport holders from some mainly Muslim countries.
- The cutting of diplomatic ties with Qatar by various other Gulf countries, including closure of their airspace to Qatar Airways. Flights to Africa in particular are severely delayed.
- Etihad's disastrous investments in Air Berlin and Alitalia (see below), a combined financial exposure of $4.5 billion.
- A growing opinion that the indirect long-haul market is saturated. Emirates announced an 82 per cent fall in profits in May 2017. In June 2017, load factors on Middle Eastern airlines were below 70 per cent.
- The potential for regulatory action by the EU and US.

What does this mean for corporate travel?

Today, severe overcapacity is creating a buyer's market, with deep discounts on long-haul flights via Istanbul, Abu Dhabi, Dubai or Doha. Longer term, there are question marks about the sustainability of this model – which is why, for example, orders to Airbus have almost totally dried up for the A380. If the giant Middle Eastern airlines started to reduce capacity by cutting unprofitable routes, it could push up long-haul fares significantly.

Trend 4: The disappearance of European airlines

The number of airlines in Europe is steadily reducing, with two more notable names potentially set to disappear from the market. One is Air Berlin, which filed for bankruptcy in August 2017 after years of financial difficulties. Lufthansa and Ryanair are among interested parties to have submitted bids for the remaining assets.

Also in severe trouble is Alitalia, only still flying thanks to a bridging loan from the Italian government. Alitalia is for sale, a process scheduled for completion by October. Whoever buys the airline's assets is thought likely to close it down or only continue operating it in a severely reduced form.

What does this mean for corporate travel?

Alitalia has already become more or less an irrelevance, no longer the largest airline in Italy – Ryanair is. From a travel buyer's perspective, the main concern will be reduction in competition on long-haul routes Alitalia still operates.

Air Berlin made a play for corporate travellers a few years ago, but its business model was inconsistent and had more recently swung back to a strong leisure focus. Nevertheless, it did offer an alternative on certain European and transatlantic routes.

Looking at the wider picture, consolidation of airlines in Europe may prove beneficial. A smaller number of strong airlines can compete more vigorously than a larger number of weak carriers – and the low-cost airlines continue to ensure competition in Europe is indeed robust, especially as carriers like easyJet and Ryanair have worked harder to attract corporate customers. Corporate buyers also benefit from potential access to discounts across a wider network. For example, a deal with Lufthansa could mean lower corporate fares with Swiss, Austrian Airlines and Brussels Airlines as well.

The TravelpoolEurope perspective – Review your air suppliers

Geo-politics, technology and economics are all making their mark on the global aviation market right now. Review your current supplier programme to understand which parts could be affected. Take steps to nullify the threats but also take advantage of the many new opportunities being created.