Virtual hubs & self-connection for LCCs?
– An overview

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Outline

- Where do we stand?
- What are the benefits?
- What are the challenges?
- What are potential solutions?
- Summary
Where do we stand?

• Continued growth of low cost carriers
• Anecdotal evidence: passengers create their own connections with LCCs
• Hybridisation of LCC business model(s) ⇒ LCCs increasingly open to transfer connections

• The role of airports ⇒ Facilitated self connection schemes already 5-10 years old but less successful than planned:

• Meta search engines / online travel agencies ⇒ self-hubbing ticketing options displayed, sometimes additional services provided:
Where do we stand?

- Example of an online travel agent’s services:

The potentials of LCC connections have been identified by stakeholders. Airports, airlines, online travel agents and meta searchers try to exploit benefits and set up business models accordingly.
What are the benefits?

- For passengers: more alternatives, lower fares

Example: One-way Cologne/Bonn to Valencia, 18\textsuperscript{th} November 2016, booked one week in advance

Substantial air fare savings are possible on “thin” city pairs or one-way bookings, where FSNCs so far have enjoyed substantial pricing power.
What are the benefits?

• For airlines: more demand, network effects
  
  ⇒ LCCs may not want to promote self-connections actively, due to complexity involved
  ⇒ Other stakeholders need to become active!

• For airports: Attractiveness for LCCs improved if connectivity can be provided
  
  ⇒ Support airlines to offer more routes that would be unprofitable without feed
  ⇒ Attract more LCCs due to network effects
  ⇒ Promotion of future long-haul services, when LCCs can provide feeder flights
What are the benefits?

A quantification of the potentials for LCC transfer connections

15,932 Airport Pairs (+109%)  
LCC 2015 (vs. 2006)

162,310 Connections (+150%)

25,310 Airport Pairs (+11.5%)  
Network Carrier 2015 (vs. 2006)

724,217 Connections (-9.6%)


Network carriers: On average 29 weekly frequencies per airport pair  
LCCs: On average 10 weekly frequencies per airport pair
What are the benefits?

Which airports could benefit from LCC connections?

- Centrality measurement of LCC connections
- As with FSNC hubs, concentration effects observed
- Top 5 – LCC hubs include Barcelona, Gatwick, Stansted, Dublin and Oslo

<table>
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<th>LCC Rank</th>
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<th># Connections</th>
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What are the challenges?

Customer search process / asymmetric information
• Why should a traveller wishing to travel from Valencia to Hamburg look at the websites of Milano or Cologne/Bonn airport for booking a trip?

Frequency issue
• Many LCCs operate routes at a low frequency (<7 frequencies per week)
• Routes via one particular LCC “hub” may not be available on a specific day demanded by the traveller

Directionality issue
• Many transfer connections work in one direction, but not in the other – example: It is possible to connect from Cologne via Bergamo to Palermo, but not in the opposite direction

⇒ Limiting the LCC transfers over one particular hub is insufficient for passengers and does not exploit the potential benefits of LCC connectivity
What are the challenges?

Baggage handling
• To be attractive, LCC transfer connections should feature through baggage handling
• Data exchange between airlines and airports necessary

Passenger handling in case of missed connections
• Who should care for passengers (re-booking, hotel accommodation...)
• LCCs dislike any additional complexity / costs

Passenger processes at LCC airports to be improved
• LCC airports not built for accommodating transfer passengers
• Need to leave terminal air side for check-in ⇒ double security checks

⇒ Innovations needed outside the established IATA processes to create an attractive product for all travellers
What are potential solutions?

- Hypothesis: A single airport cannot provide the connectivity required by travellers in terms of travel alternatives (low frequency and directionality issue)
- LCCs’ aversion to complexity opens chances for airports to increased participation in the value chain
- Airports should carefully consider if costs of baggage handling, maintaining transfer desks, provision of passenger assistance can be offset by additional revenues
- Airports could cooperate and create an information and technology platform to solve key issues on baggage and passenger handling (regular & irregular)
- Airports should move pro-actively, otherwise IT / technology providers may develop their own business models
Summary

• LCC transfer connections are a growing market ⇒ particularly meta search engines offer comfortable market comparisons already today ("facilitated/supported self-hubbing")
• Risk of missed connections is a perfectly insurable risk ⇒ some limited offers by online travel agents (e.g. kiwi.com) or airports (ViaMilano) exist
• Benefits for passengers, airlines and airports are substantial ⇒ high potential also for current/future long-haul LCCs
• Solutions focussed on a single airport insufficient ⇒ high potential for multi-airport cooperative solutions or solutions from technology companies
• Low-complexity technological solutions for processes (particularly through-baggage handling) still to be developed