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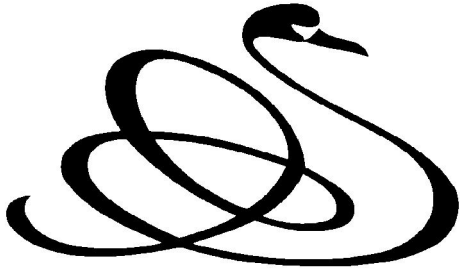
**EUROPEAN LOW FARES AIRLINE ASSOCIATION**

**MARKET SHARE OF LOW FARES AIRLINES  
IN EUROPE**

**Final Report**

**February 2011**

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**York Aviation**

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# European Low Fares Airline Association

## Forecasting the Market Share of Low Fares Airlines in Europe

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## 1 SUMMARY OF FINDINGS

### 2010 Scheduled Intra-European Passenger Market Share

Low Fares Airlines	Other Airlines
38%	62%

### 2010 Scheduled Intra-European Passenger Market Share – Point to Point Traffic

Low Fares Airlines	Other Airlines
43%	57%

### 2020 Scheduled Intra-European Passenger Market Share – Forecast

	Low Fares Airlines	Other Airlines
Base Growth	45%	55%
High Growth	53%	47%

### 2020 Scheduled Intra-European Passenger Market Share Point to Point Traffic – Forecast

	Low Fares Airlines	Other Airlines
Base Growth	50%	50%
High Growth	60%	40%

## 2 INTRODUCTION AND APPROACH

- 2.1 In recent years Low Fares Airlines (LFAs) have dominated growth in the intra-European air transport market, opening up new markets, connecting emerging economies and increasing competition and choice in the market. In November 2010 the European Low Fares Airline Association (ELFAA) commissioned York Aviation to undertake an outline exercise to establish both the current market share of low fares airlines in Europe and to forecast this market share in 2020.
- 2.2 This report focuses on identifying LFAs market share on scheduled, intra-European routes and is based initially on seat capacity as reported in OAG. This is then converted to passengers based on standard assumptions regarding load factors. In addition, we have included some estimates of the passenger market share on point to point, scheduled intra-European routes. In other words, excluding indirect flows via hub airports. There is, however, limited data on the proportion of interline traffic at these hub airports and, as a consequence, these estimates should be viewed with some caution.
- 2.3 For the purposes of this assessment, we have defined the following airlines as LFAs:
- ELFAA members:
    - easyJet;
    - Flybe;
    - Jet2.com;
    - Norwegian Air Shuttle;
    - Ryanair;
    - Sverige Flyg;
    - transavia.com;
    - vueling;
    - Wizz Air.
  - Other airlines<sup>1</sup>:
    - Sterling;
    - Bmibaby;
    - Air Berlin;

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<sup>1</sup> Five of these airlines are no longer operating, but were operating at some point during the analysis period.

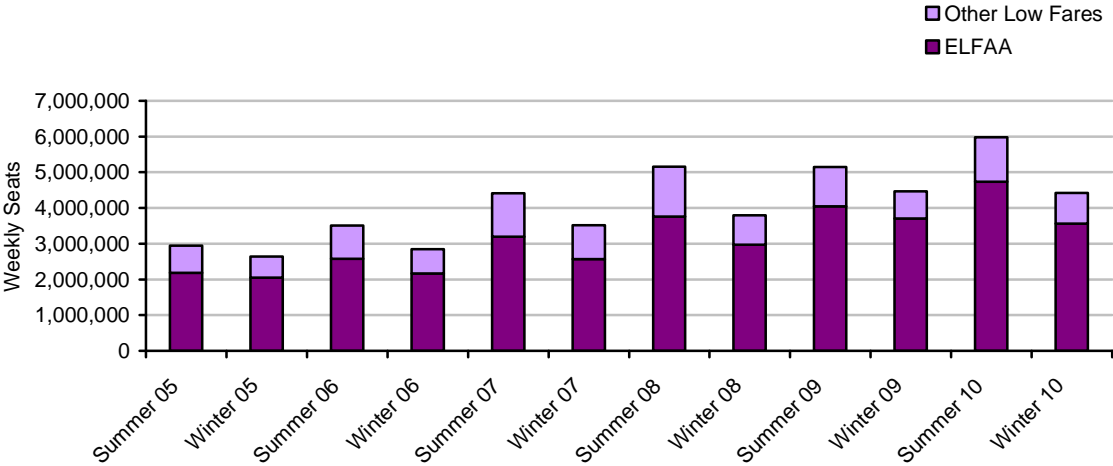
- Monarch Airlines;
- Volare S.p.a.;
- SkyEurope;
- Centralwings;
- Germanwings;
- flyglobespan.

- 2.4 Our approach has been built around extrapolating existing trends in market share growth, identified through analysis of OAG seat capacity for representative Summer and Winter weeks going back to 2005, using logarithmic regression relationships as a base. This form of extrapolation enables a declining growth in market share over time, reflecting the fact that LFAs have moderated their forward growth strategies and, while still growing significantly, are now increasingly focussing on consolidation of their positions. This is a relatively conservative basis for projection. Therefore, we have also provided a high growth scenario, which assumes that growth in some markets takes a linear form.
- 2.5 These changes in market share have been overlaid on to a growing underlying market, which is based on growth rates taken from the Airbus Global Market Forecast 2009-2028.
- 2.6 To enable allowances to be made for different rates of change in both the market share of LFAs and in underlying rates of growth in different geographic markets, we have allocated European countries in to four geographic areas:
- Northern Europe;
  - Western Europe;
  - Eastern Europe;
  - Southern Europe.
- 2.7 Flows between these different areas have been forecast individually and then combined to provide an overall picture of the intra-European market.
- 2.8 The results of this analysis in terms of the existing LFA market share and our forecasted market share through to 2020 are set out in the following sections.

### 3 HISTORIC LFA GROWTH AND CURRENT MARKET SHARE

3.1 In **Figure 3.1** we set out the growth in typical weekly seat capacity for low fares airlines since 2005.

**Figure 3.1: Low Fares Airlines Weekly Seat Capacity by Season - 2005 to 2010**



Source: York Aviation analysis of OAG data.

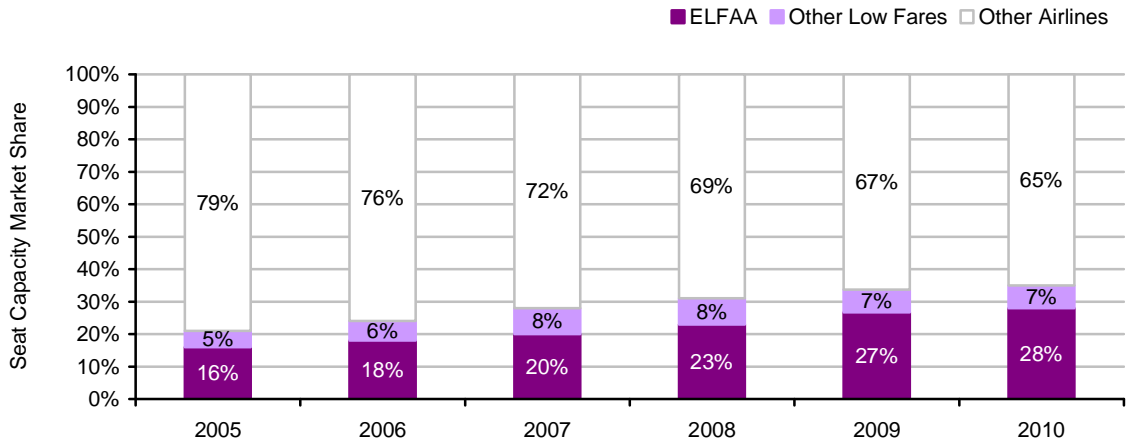
3.2 This clearly demonstrates the rapid expansion of LFAs over the period since 2005. Based on this data, we estimate that the seat capacity offered by LFAs has grown at around 14% per annum. In contrast, other airlines in Europe have trimmed their seat capacity over the period, reducing the number of seats on offer by around 0.6% per annum.

3.3 This has resulted in a substantial increase in LFAs' market share in terms of seat capacity on intra-European scheduled services. **Figure 3.2** outlines this change in market over the period 2005 to 2010.

3.4 We estimate that in 2005 LFAs made up around 21% of total weekly seat capacity on intra-European scheduled services. This has grown steadily to around 35% in 2010.

3.5 The great majority of this growth has come from ELFAA members, whose seat capacity market share has grown from around 16% in 2005 to around 28% in 2010. Other Low Fares Airlines have improved their position but their growth has been more limited.

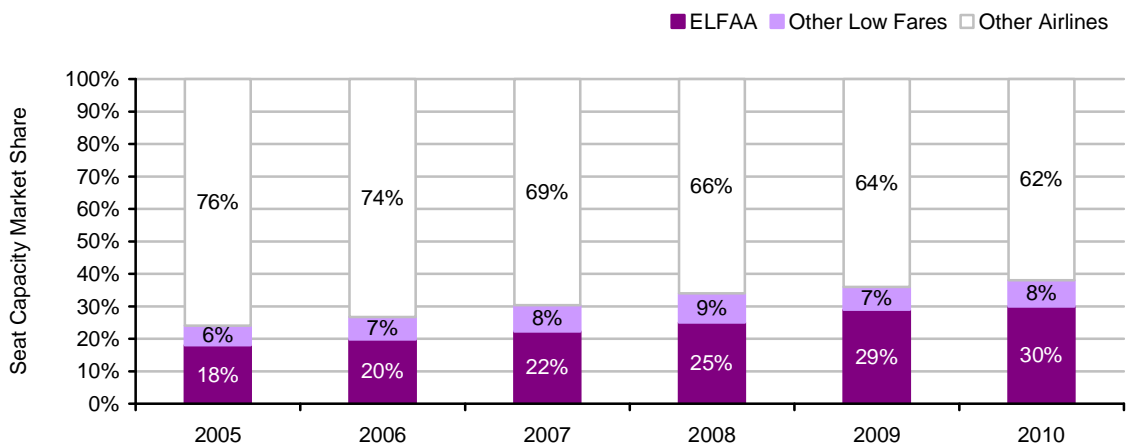
Figure 3.2: Low Fares Airline Annualised Seat Capacity Market Share – 2005 to 2010



Source: York Aviation analysis of OAG data.

3.6 Using an assumed load factor of 80% for LFAs, based on statistics from the ELFAA website, and 70% for other airlines, in line with data on load factors from the Association of European Airlines, we have estimated LFAs’ market share in terms of passengers. These results are set out in **Figure 3.3**.

Figure 3.3: Low Fares Airline Annualised Passenger Market Share – 2005 to 2010



Source: York Aviation analysis of OAG data.

3.7 Given the higher load factors achieved by LFAs, their passenger market share is slightly higher than their seat capacity market share. In 2005, we estimate that LFAs’ share of the intra-European passenger market was around 24%. This has grown to around 38% in 2010.

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- 3.8 If we assume that around 30% of passengers travelling to or from European destinations on alliance member airlines are interline passengers, we estimate that LFAs share of the intra-European, scheduled point to point passenger market would be around 43%.

## 4 MARKET SHARE PROJECTIONS TO 2020

4.1 The projections of LFAs' market share described in this Section have been based upon:

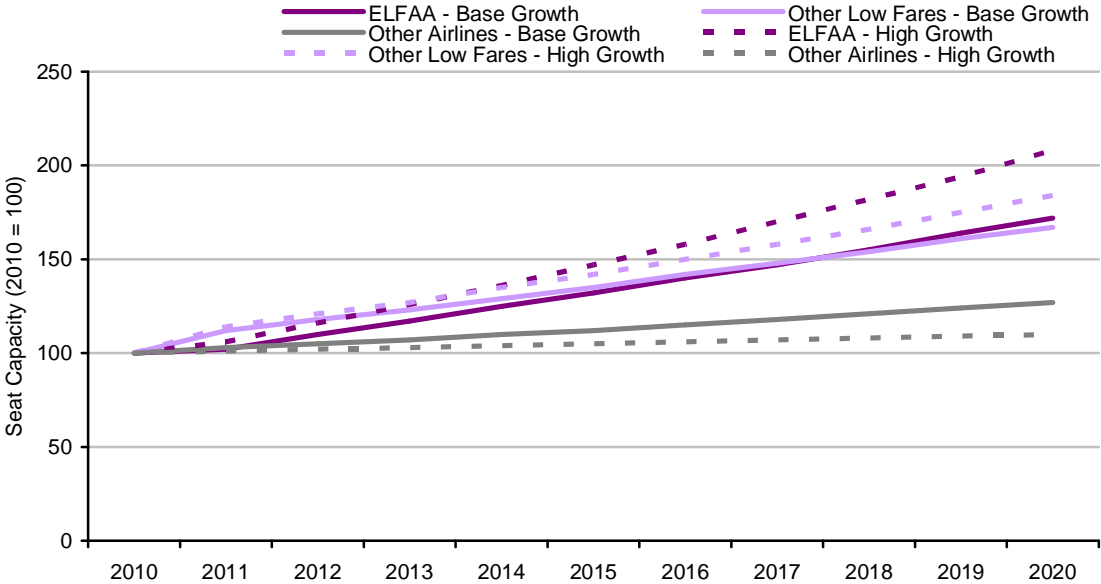
- the baseline market share position identified in Section 2;
- underlying market growth for the passenger flows between the different geographic areas described in Section 1 taken from the latest Airbus Global Market Outlook. Average annual growth rates range between 3.3% for mature markets up to 6.7% for relatively immature, high growth markets;
- logarithmic regression relationships between time and market share for each geographic flow within Europe based on LFAs' performance over the last five years. We have found that logarithmic relationships have been generally better at describing the relationship between market share and time than straight line relationships. The fact that these relationships envisage a slowing in the growth of market penetration over time fits well with the observed data. Such a relationship also appears sound logically, as it will help to reflect the fact that LFAs, while still growing significantly, have moderated their growth strategies in recent times and are focussing more on consolidation of their markets. These forecasts are labelled Base Growth. However, this approach does provide a relatively conservative estimate of future growth. To provide an upper range for our market share estimates, we have produced an alternate scenario that assumes linear growth in some markets. These forecasts are marked High Growth;
- we have assumed that other airlines are unlikely to divert significantly from their current strategies. There is likely to be continued consolidation in the market and this is likely to limit real short haul capacity growth.

4.2 **Figure 4.1** shows the growth in indexed annual seat capacity for the three airline groups. This demonstrates clearly that LFAs are expected to continue growing substantially faster than Other Airlines.

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4.3 In our Base Growth scenario, ELFAA members are forecast to increase their seat capacity by around 72% over the next 10 years, while Other Low Fares Airlines will increase their seat capacity by around 68%. Other scheduled airlines are only expected to increase seat capacity by around 27% over the next ten years. In other words LFAs are forecast to grow at more than double the speed of other airlines.

**Figure 4.1: Indexed Annual Seat Capacity by Airline Type (2010 = 100)**

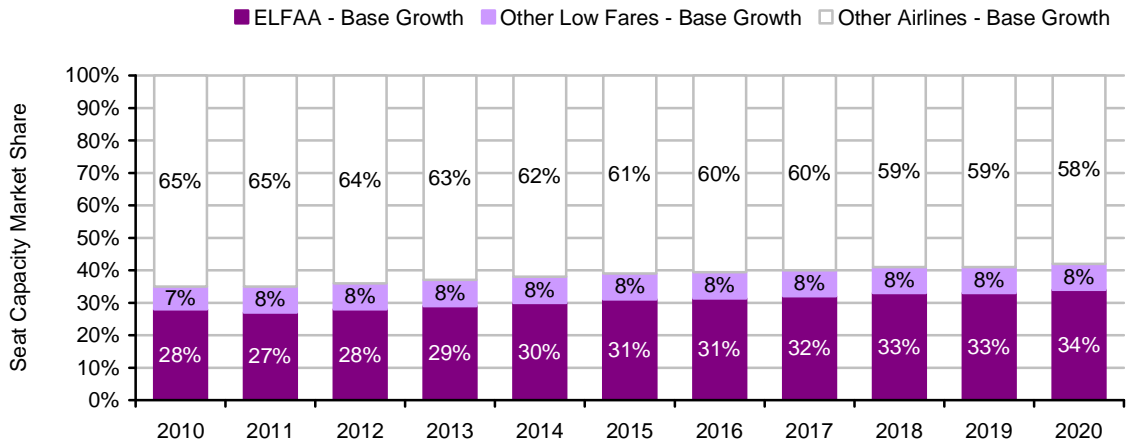


Source: York Aviation.

4.4 In our High Growth scenario, ELFAA members are forecast to increase their seat capacity by around 108% over the next 10 years, while Other Low Fares Airlines will increase their seat capacity by around 84%. Other scheduled airlines are only expected to increase seat capacity by around 10% over the next ten years. In other words the pattern in terms of seat capacity growth is expected to be similar to that seen in the last five years, with the great majority of capacity growth coming from LFAs.

4.5 The implications for market share are obvious. We anticipate LFAs continuing to substantially increase their share of the intra-European market, albeit at a slower rate than has been seen over the last five years. **Figure 4.2** outlines the changing market share of the different airline groups over the period to 2020 for the Base Growth scenario.

**Figure 4.2: Low Fares Airline Forecast Annualised Seat Capacity Market Share Base Growth**

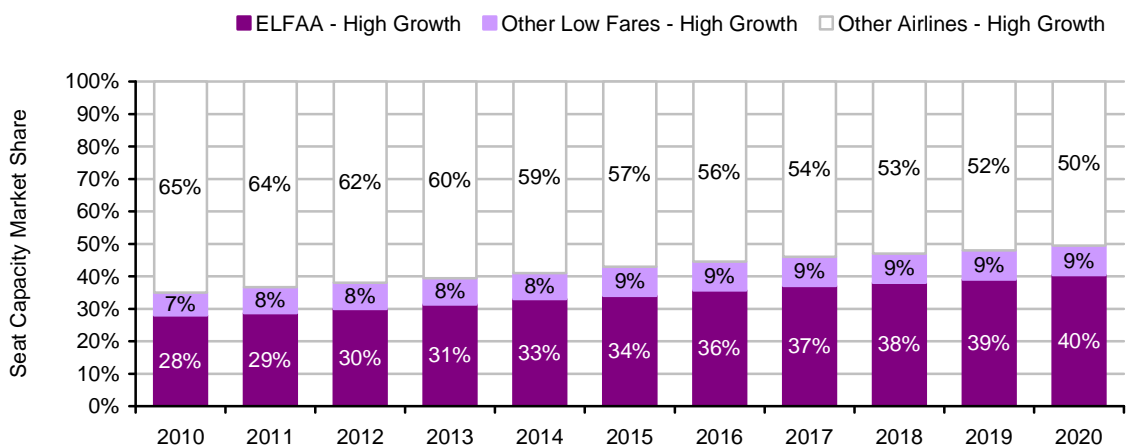


Source: York Aviation analysis of OAG data.

4.6 In the Base Growth scenario, ELFAA members are expected to drive LFAs' growth in market share, improving their position by around 0.5% and 1% per annum. Other Low Fares airlines are expected to increase their market share by around 0.1% per annum. Ultimately, by 2020, we forecast that LFAs will account for around 42% of seat capacity on intra-European services.

4.7 **Figure 4.3** presents the forecast seat capacity market share for the High Growth scenario.

**Figure 4.3: Low Fares Airline Forecast Annualised Seat Capacity Market Share High Growth**



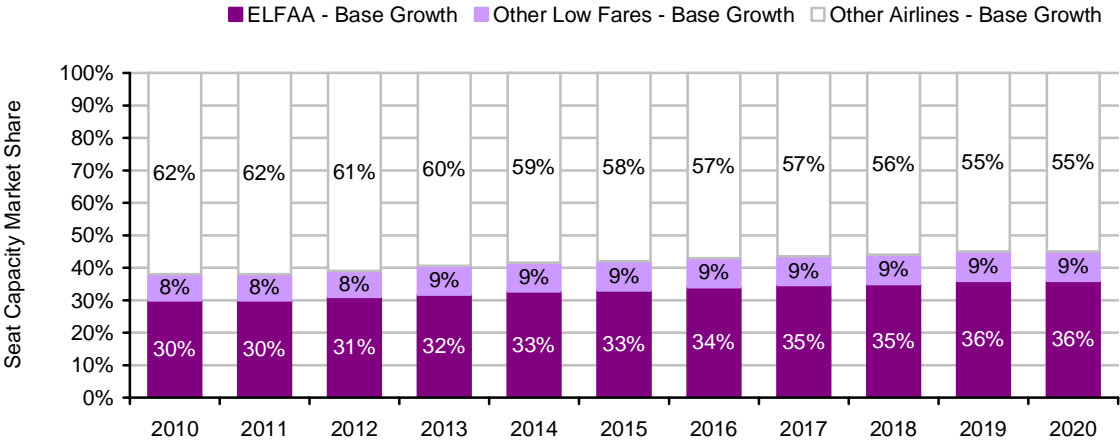
Source: York Aviation analysis of OAG data.

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4.8 The growth in LFAs’ market share is substantially more marked in the High Growth scenario, with ELFAA members increasing their share of intra-European seat capacity to around 40% and Other Low Fares Airlines to around 9%. Overall, the High Growth scenario envisages LFAs making up around 49% of intra-European seat capacity by 2020.

4.9 The impact on passenger market share from the continued growth of LFAs is shown below. **Figure 4.4** shows the evolution of passenger market share in the Base Growth scenario. This again assumes an 80% load factor for LFAs and a 70% load factor for Other Airlines.

**Figure 4.4: Low Fares Airline Forecast Annualised Passenger Market Share Base Growth**

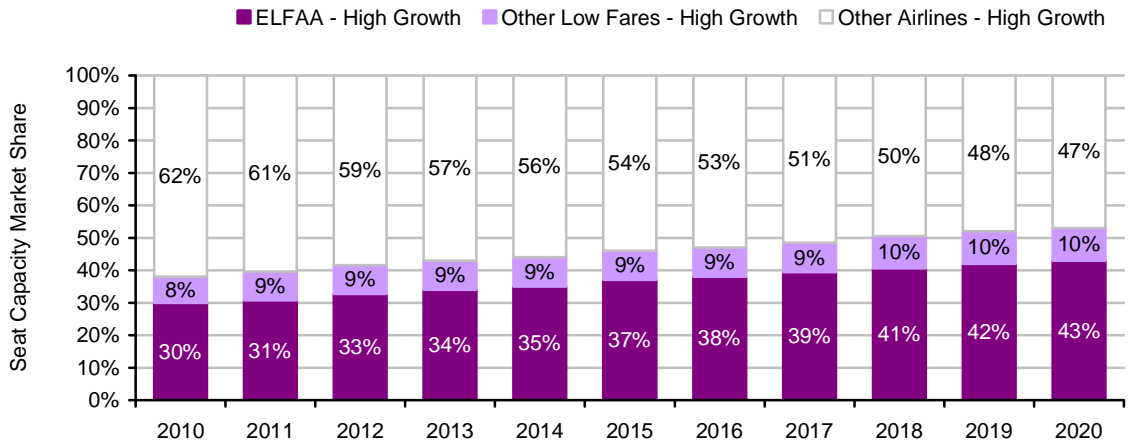


Source: York Aviation analysis of OAG data.

4.10 The Base Growth scenario forecasts that LFAs’ share of the intra-European passenger market will grow from around 38% in 2010 to around 45% in 2020. Again, ELFAA members are the primary drivers of this growth, increasing their market share from around 30% to 36%.

4.11 **Figure 4.5** shows the change in LFAs’ passenger market share in the High Growth scenario. This scenario results in a more aggressive growth in LFAs’ passenger market share, reaching 53% in 2020. Again, this is driven by ELFAA members, which increase their share of the passenger market by around 13% over the period.

Figure 4.5: Low Fares Airline Forecast Annualised Passenger Market Share High Growth



Source: York Aviation analysis of OAG data.

4.12 Again, we have also made an estimate of LFAs' market share of intra European scheduled, point to point assuming that around 30% of passengers carried on alliance member airlines are interlining via a hub airport. This analysis suggests that in the Base Growth scenario LFAs' passenger market share of point to point traffic will around 50% by 2020. In the High Growth scenario LFAs' passenger market share reaches 60% of the point to point market.