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## **Future European Operations**

Leisure Traffic and Tourism: How will Airline Business Models evolve?

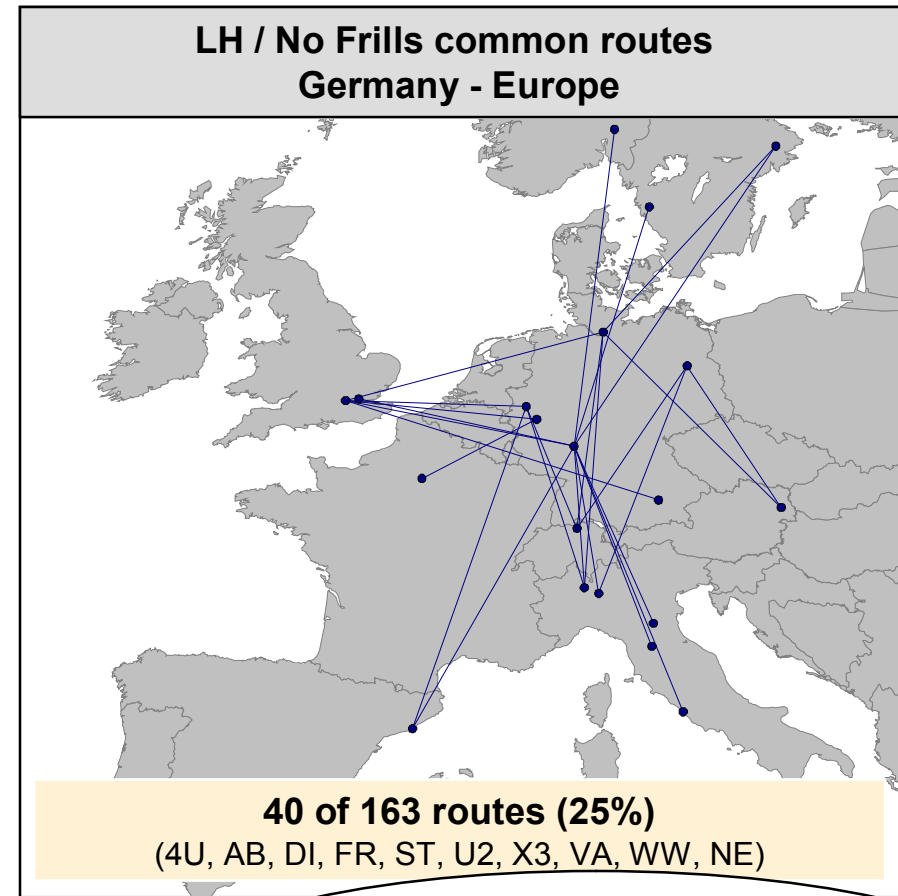
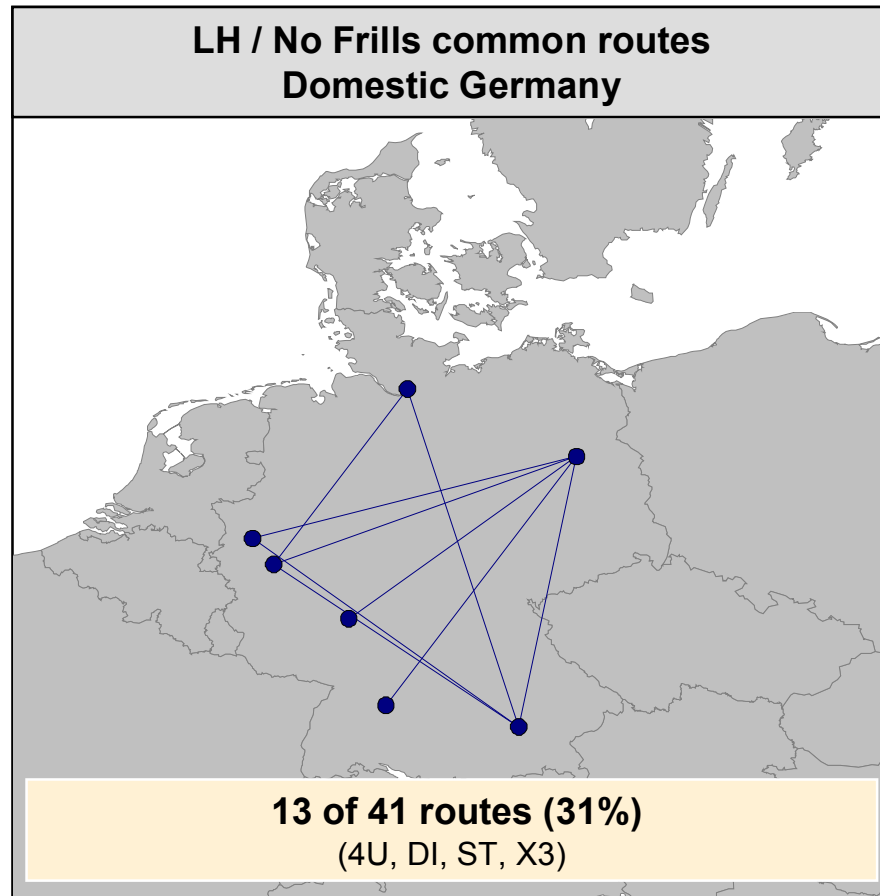
8th Hamburg Aviation Conference

Hamburg, February 17, 2005

# Agenda

- Traditional carriers in the crisis: the No Frills price war
- What can Network Carriers learn from their No Frills competitors?
- Future European Operations: From market to measures

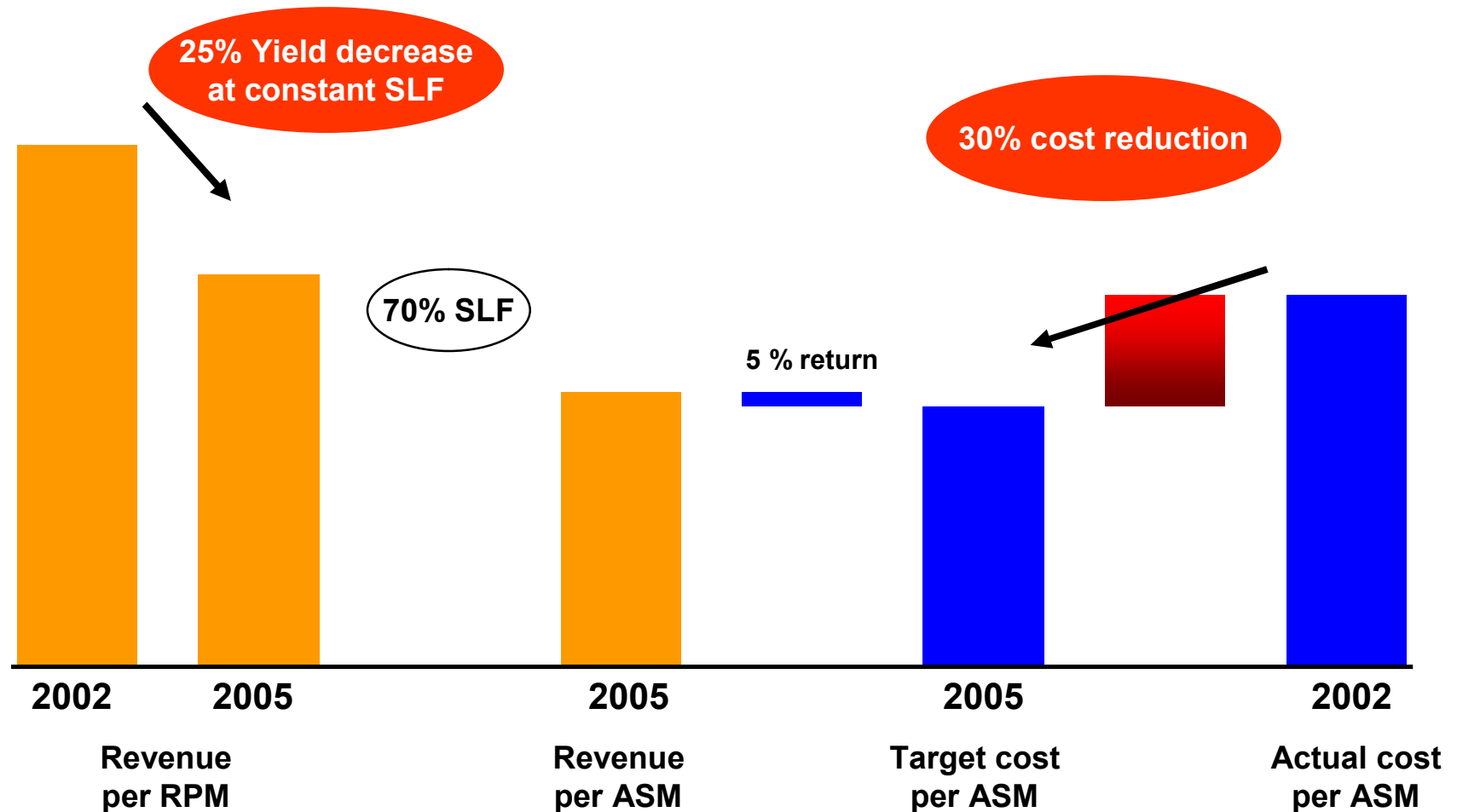
# The rise of the No Frills carriers puts the economic performance of the traditional carriers under pressure



**Not only the price counts, but also  
punctuality and reliability**

# Trimming cost by 30% is mandatory

Lufthansa cost and revenue in Euro cents



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# What can Network Carriers learn from their No Frills competitors?

- ✈ Expectation management

Do only promise what you can definitely keep

- ✈ Effectiveness of supply

Do not produce anything your customer does not want to pay for

- ✈ Efficiency of production and cost

Avoid to build slack or to pay for something you may not have to pay for

- ✈ Freedom to choose business partners

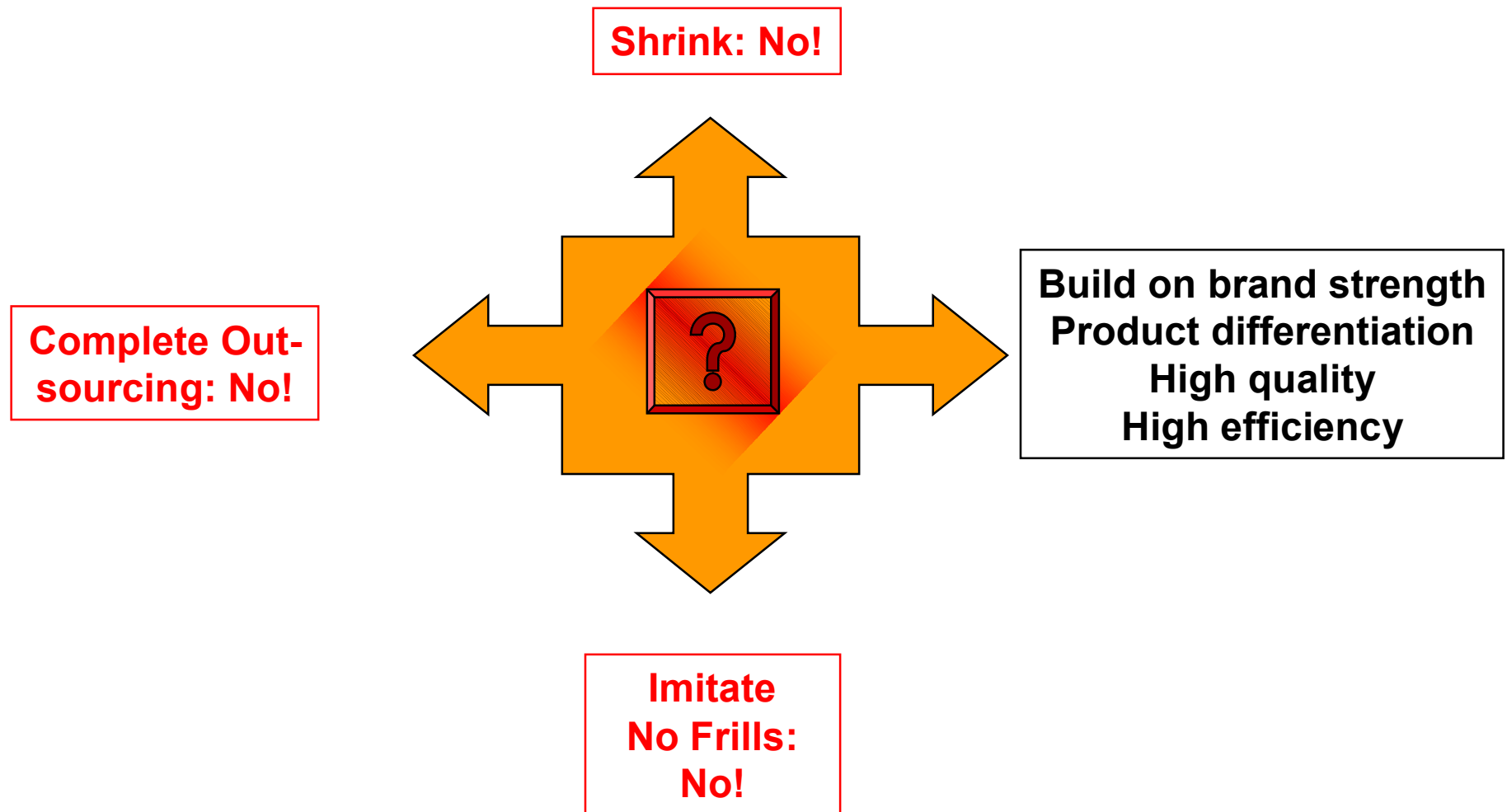
Avoid monopolistic structures

- ✈ Learning organisation

Exploring markets by being responsive, fast, consistent

- ✈ ...

# Neither imitation of the No Frills nor complete outsourcing is a viable option for Network Carriers

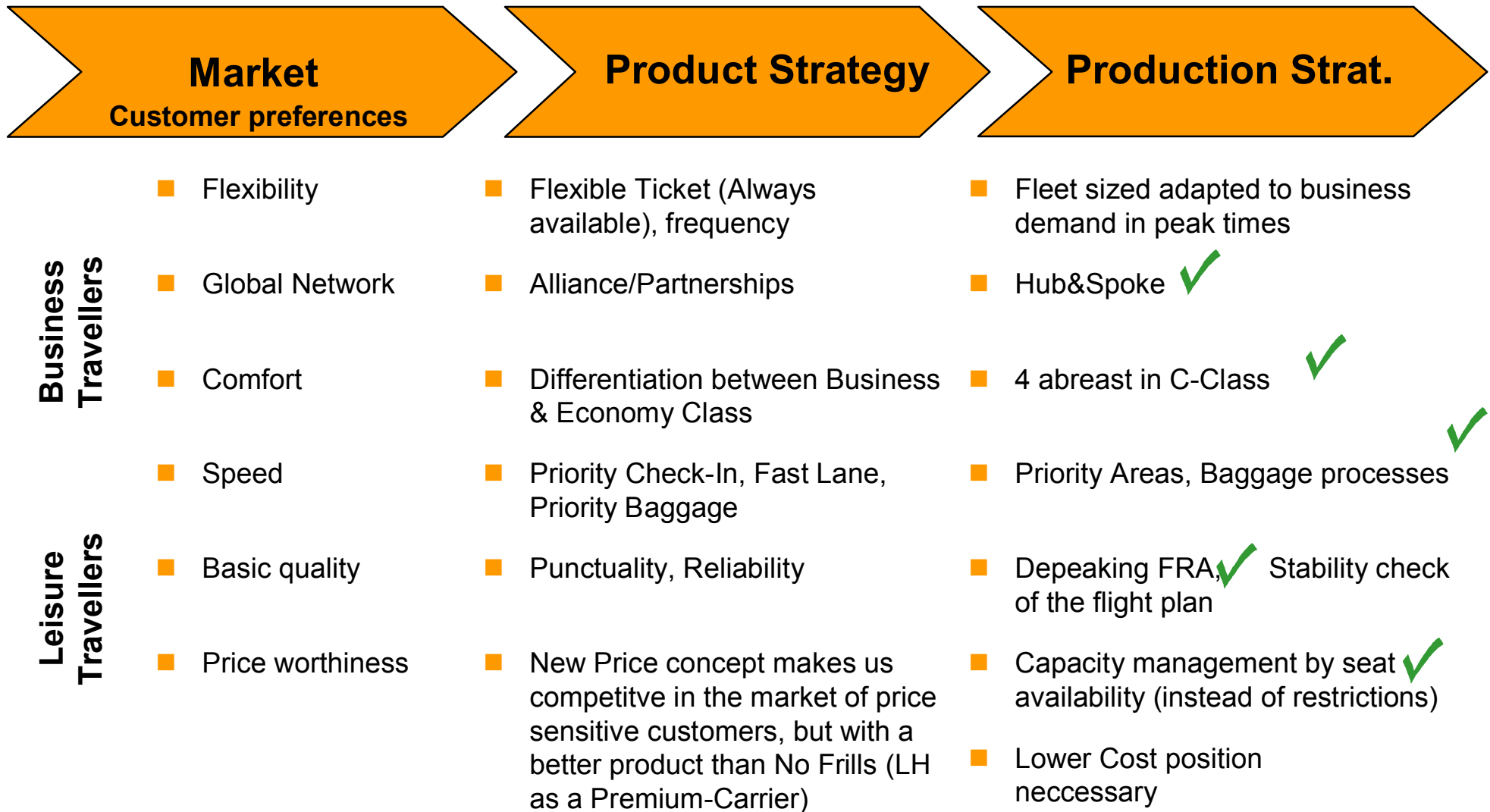


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# Customer preferences drives product and production strategy



## Production strategy drives specific measures

Production strategy	Measures
<ul style="list-style-type: none"> <li>■ Fleet sized adapted to business demand in peak times</li> <li>■ Hub&amp;Spoke ✓</li> <li>■ 4 abreast in C-Class ✓</li> <li>■ Priority Areas, ✓ Baggage processes</li> <li>■ Depeaking FRA, ✓ Stability check of the flight plan</li> <li>■ Capacity management by seat ✓ availability (instead of restrictions)</li> <li>■ Lower Cost position necessary</li> </ul>	<ul style="list-style-type: none"> <li>■ <b>Single Type Fleet</b> saves complexity costs (long term goal) P.*</li> <li>■ Increased A/C-Productivity by 10% (Shorter MinGT, shorter block times, Using Night idle times) ✓</li> <li>■ <b>4 abreast in Business Class</b>, giving the chance to switch to Comfort Seats (with more comfort and 10% more seats) ✓</li> <li>■ Expand <b>Priority Check-in</b> and <b>Fast Lanes</b> at security P.</li> <li>■ <b>Depeaking in FRA</b>, less Holding, shorter block times inbound FRA, improved punctuality, less costs and even improved connectivity! ✓</li> <li>■ Simpler <b>Pricing structures</b>, improved <b>Miles&amp;More concept</b> P.</li> <li>■ <b>Minimum Crew</b>, Simplified rotation plans ✓</li> <li>■ <b>Shorter Lead times</b> for planning P.</li> </ul>

\* planned

## Network Airlines: How to become competitive on leisure-oriented routes?

- ✈ Very low unit cost
  - Marginal cost approach valid for off-peak-operation?
  - Lean ground and onboard product?
- ✈ Revised Revenue Management
  - Today: extract revenues out of “given” market volume
  - Pricing and Yield Management oriented towards market stimulation and high seat load factors
- ✈ Specific Marketing and Distribution
  - Dedicated marketing for leisure traffic routes
  - Promote cost-efficient distribution channels (e.g. internet, call center)
- ✈ ...