Low-Cost Carriers in Australia:

A Major Power in the Future?

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Abstract

This essay assesses the potential ability of low-cost carriers (LCCs) to influence the aviation industry in Australia. It focuses specifically on Australian domestic aviation, and how LCCs have affected it, together with the possible effects in the future. First of all, it examines the history of how low-cost airlines have developed, as well as the current situation of the Australian industry. Secondly, the paper focuses on the strengths versus the weaknesses of LCCs, assessing whether or not they are suitable for the market. Lastly, it compares the successful airlines to the unsuccessful companies to figure out what is necessary for LCCs to operate profitably in Australia. This essay concludes that LCCs have had numerous influences on Australian aviation, significantly changing the power balance in the last fifteen to twenty-five years. In addition, there should still be room for low-cost carriers to enter into the Australian market. However, as the market becomes even more difficult to enter, factors such as financial backing and diverse fare structures should allow easier entry for those who attempt to move in.

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Low-cost carriers (LCCs) have been a major threat to the airline industry in recent years, and their popularity has grown throughout the world. Their presence has been a revolution in the industry. LCCs are said to have started in the United States in 1978, and since then, the low-cost marketing method has proved to be a force all around the world (Francis, Humphreys, Ison, & Aicken, 2009). In some regions, they have become a major threat to the incumbent airlines. The Australian airline industry is no exception. LCCs such as Virgin Blue (currently Virgin Australia) and Jetstar have managed to become dominant powers in the country. Virgin Blue even expanded their company in 2011, combining Virgin Blue, V Australia, and Pacific Blue under the new name Virgin Australia (Taylor, 2011). In addition, fourth party LCCs, including Tiger Airways, a subsidiary of Singapore Airlines that "entered Australia in November 2007" (Creedy, 2011), have attempted to enter. An assessment of history and the current situation, an examination of the strengths and weaknesses of LCCs, and a comparison of successful and unsuccessful airlines shows that LCCs have made a big impact on the Australian airline market. Moreover, there is still space for newcomers, but certain requirements are necessary for them to survive.

History of Australian Aviation

First of all, an examination of the history and the current situation of Australian aviation shows LCCs' impacts on it. In the initial stage of the industry after 1945, "the Australian government had a 'two-airline' policy, which was, in effect, a cozy duopoly whereby the domestic market was shared between Qantas and Ansett" (Bamber, Lansbury, Rainthorpe, & Yazbeck, n.d.). Qantas started operations in 1920, and Ansett started in 1936. In Australia, the trigger of the low-cost competition was the deregulation of domestic flights, which took place in 1990. The Australian government deregulated domestic flights, allowing newcomers into the market. Forsyth (2003) says that "deregulation opened up the market, and new airlines were permitted to enter all domestic routes…Very soon after deregulation occurred, the first low cost carrier, Compass, entered." Compass only lasted for a year, as it ran out of funds. Soon after in 1992, Compass Mark II, the second LCC, entered the industry, again failing in just six months.

After this, there was a period where Qantas and Ansett, the two incumbent airlines, maintained their strength, unaffected by newcomers (Forsyth, 2003). As this period faded, the second entry phase started in 2000. Impulse was the first to enter, soon followed by Virgin Blue, a subsidiary of the Virgin Group. Virgin Blue started operations in August, 2000, with a target to put a threat to key domestic routes against Qantas and Ansett: “The results were a vicious fare war that cost the industry A$500m…Most of the loss fell on Ansett, forcing it into administration in September 2001 before finally collapsing in March 2002 (Virgin Blue, 2002).

One of the biggest events in Australian aviation history was the collapse of Ansett, as it forced the second strongest airline in the industry to exit. This had a huge effect for the power balance, creating a huge gap for LCCs to gain strength. According to Bamber, Lansbury, Rainthorpe, & Yazbeck (n.d.), Qantas and Virgin Blue tried to acquire this gap, resulting in an 80% share by Qantas. However, Virgin Blue had prices that were 30-40% lower than Qantas. Together with the large gap left by Ansett, this “helped Virgin Blue to win about one third of the domestic market within three years” (Creedy, 2009). Furthermore, in November 2001, Qantas “struck a deal to take over the struggling Impulse and used it as the basis for the most important strategic move…the launch of Jetstar,” and had almost 18% share of the domestic market (Creedy, 2009). Thus, LCCs have had a major influence on domestic aviation, causing Ansett’s bankruptcy, and setting extremely low fares within the market.

Strengths and Weaknesses of LCCs

Secondly, an examination of the strengths versus the weaknesses of LCCs clarifies whether or not Australia is a suitable market for them to enter. One of the clear strengths for LCCs in Australia is the chance on dense routes. Bamber, Lansbury, Rainthorpe, & Yazbeck (n.d.) says “from an airline industry perspective, Australia comprises about dozen key cities, most of which are separated by long distances and near the coast of a large island continent,” inevitably creating dense routes such as Sydney-Melbourne. Dense routes are an advantage for low-cost carriers, as there is room for them to compete against the incumbent airlines (Francis, Humphreys, Ison, & Aicken, 2006). On the other hand, LCCs are vulnerable to the availability of secondary airports and their facilities. However, as stated above, Australia’s main cities are concentrated in one region, unlike countries in Europe, where there are numerous cities scattered around. One of the methods for LCCs is to use secondary airports to keep their expenses low. Thus, it may seem hard for them to use the same method within Australia. However, as Ansett collapsed, it left airport facilities available for the newcomers. Virgin Blue has proved this as “Virgin Blue has been moved into a number of airport terminal previously used by Ansett” (Virgin Blue, 2002). Consequently, this weakness for LCCs is unlikely to be a problem in Australia. Therefore, it is possible to say that Australia is a market and a country that is suitable for LCCs, with the opportunity to use their strengths.

Successful and Unsuccessful Airlines

Lastly, a comparison between successful and unsuccessful airlines indicates the qualities that are required for newcomers in Australian aviation. As mentioned before, the deregulation in 1990 opened up the opportunities for LCCs to enter the domestic industry. However, as Francis, Humphreys, Ison, & Aicken (2006) says, “the uneven spread and speed of the low cost model around the world…cannot be attributed to deregulation alone,” deregulation is not the only key for LCCs to gain opportunities and capitalize upon them. Therefore, comparing the successful and unsuccessful airlines will clarify what is needed for low-cost carriers.

One of the things that is necessary is a steady financial structure. According to Forsyth (2003), LCCs that were not a subsidiary of a major airline collapsed within two years. This includes Compass and Compass Mark II, which both failed due to limited funds. On the contrary, Virgin Blue and Jetstar were the exceptions. Both airlines were a subsidiary of a bigger airline group, meaning they had significant financial backing. As a result, they were able to maintain their position in the market, and became the two airlines after the dominant Qantas, whereas the airlines that were not subsidiaries of major airlines found it difficult to continue operating. Another element for success is the fare structures. Many LCCs tend to have simple fare structures, such as single class seating, no codeshare flights, or frequent flyer programs, whereas Virgin Blue was different. According to Creedy (2009), “while still offering lower fares, it began adding extras such as frequent flyer scheme, lounges, in-flight entertainment and premium seating in a bid to attract higher-end customers.” After becoming Virgin Australia, they now have a “strong partnership between Delta, Singapore Airlines, Etihad, and Air New Zealand. Using codeshares and frequent flyer service, joining Star Alliance” (Qantas and Virgin Australia, 2014). So, by using complex and numerous fares with frequent flyer programs, Virgin Blue was able to gain higher-end customers and not just the ones looking for low prices. Thus, the comparison indicates that financial backing from a parent company and flexible structures are required for LCCs to be able to continue as a viable operation, just like Virgin Blue or Jetstar did.

Conclusion

In conclusion, LCCs have had a big influence on the Australian airline industry since domestic deregulation in 1990, which importantly forced Ansett to collapse, and introduced low prices to the market. In addition, it can be said that Australia’s domestic market can still handle newcomers. However, there are certain requirements in order for them to survive as the industry is becoming highly competitive, with new airlines entering. The factors required are stable financial backing and diverse fare structures. By adapting to this, LCCs could have the chance to become the fourth or fifth airline in Australia, threatening Qantas, the most dominant carrier in the country.

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