

# Why Long-Haul Low-Cost Airlines Always Go Bankrupt

Kris Nagdev

**Abstract:** *Since the emergence of the low-cost airline sector, competition and demand have contributed much to this sector. A key question is whether it is enough to say that in terms of profitability, some airlines work better than others in the long-haul low-cost business model and whether this can be the reason for some going bankrupt. This paper uses 10 currently operating long-haul, low-cost airlines to compare their 14 measurable characteristics that might impact their profitability. It also evaluates the farthest these characteristics apply to long-haul sectors. Other factors like route networks adoption, limited potential for demand stimulation, likely competitive response, and the demand for the dense market all combine to cause doubt on long-haul low-cost airlines' success. The key findings include what drives this industry, the industry's state before and after the Covid-19 pandemic, and what might be the reasons for long-haul low-cost carrier bankruptcy.*

**Keywords:** Aviation Industry, Airlines, Long-haul, Low-cost, COVID-19, Segmentation, Targeting, Business, Strategy, Operations, Bankrupt

## 1. Introduction

The success of short-haul, low-cost airlines have driven their desire to venture into the low-cost long-haul market by making it cheap, though not a more straightforward concept. However, most of these attempts have failed in the past decades. The global low-cost long-haul airline market has failed, especially in 2019. The failure contributed by the inability to attract sufficient demand by long-haul point-to-point services, lack of connecting passengers, or the lack of right business-class products. While some of the low-cost long-haul airlines were declining, Ryanair performed in the low-cost short-haul market, being among the most profitable airlines in the world.

Globally, only a few survivors operate through this business model, while others such as Air June, Thomas Cook, and XL Airlines all failed to cope with this model.

There are some driving forces in the aviation industry like competition and demand, among other factors that affect airlines' performance. This research explores 14 measurable characteristics that impact the profitability of a given long-haul, low-cost airline while accessing 10 of the recent operating airlines. A five-year average revenue before the downturn brought by the COVID-19 pandemic will show gains and losses of these major carriers operating on low-cost long-haul airlines. Considering this summary, it is evident that some can thrive while others cannot withstand these models. Is there a secret sauce? This research paper aims at investigating why low-cost long-haul airlines always go bankrupt.

## 2. Background

OAG: Flight Database and Statistics has named Low-cost long-haul as the most discussed subject in the aviation industry. Despite Norwegian making losses over the past five years on average since 2015, according to SkyTrax, Norwegian has been the best long-haul low-cost airline for five consecutive years since 2015. This is due to the smaller number of competitors on their route networks. This was adversely affected by the outbreak of the Covid-19 that

initiated a downturn in the aviation industry. Although there are many studies conducted on the low-cost airline concept, there is limited research on low-cost long-haul models due to their minimal impact.

### Measurable Characteristics that Impact the Profitability of Airlines

There are currently 10 recently or currently operating long-haul, low-cost airlines that report independent financial results. They include Eurowings, Condor, Norwegian, Cebu Pacific, Azul, Jetstar, TUI, Scoot, Air Asia X, Westjet, and Wow Air. There is a lot of variability from airline to airline considering the 14 characteristics (See appendix 1) quantified for each airline. Each company clearly has its own hypothesis for the correct formula that might make low-cost, long-haul travel possible. For example, in terms of the number of hubs defined as the number of distinct origins, TUI has 18 spread out across Europe, while air Asia X has just one in Kuala Lumpur.

Though it has an average aircraft age of just 2.3 years, it's deeply unprofitable. On the other hand, Condor has an average aircraft age of 24 years, and yet it's the most profitable airline of the ten long haul low-cost airlines mentioned above.

According to the characteristics and the data on the ten airlines, there is little correlation on profitability (see Appendix 2). The second strongest correlated characteristic is the average total weekly frequency (See Appendix 3). This is how many total weekly flights flown by each of the airlines on their long-haul route. The less frequent the average route, the better they seem too financially. The more hubs an airline has, the more they do financially (see Appendix 4).

Essentially, long haul low-cost flying only works for a particular type of route. The less frequent the average number of route competitors (See Appendix 5), the better they seem financially stable.

Competition from other airlines is one of the major challenges that make long-haul low-cost airlines go bankrupt. For instance, Asia X airlines flying routes like

Kuala Lumpur to Tokyo competing against 44 flights per week by Malaysia airlines, Japan airlines. In fact, only five of their 19 long haul routes are competition free.

They also have only had one hub in Kuala Lumpur. With the sole exception of a route that continues from Osaka to Honolulu, every one of their flights originates. Therefore, the Asia X long haul, the low-cost airline, is losing a large amount of money due to high competition and high-frequency route from a single hub. On the other hand, TUI airlines are also losing by operating in low competition and low-frequency routes.

Out of more than sixty long haul routes, only eight TUI airlines have direct competition.

TUI routes are also shallow frequency, with an average of only three nonstop flights per week. Mostly they fly these flights from 18 different hubs across Europe. These statistical differences manifest the truth more fundamental difference between air Asia, X, TUI, or Norwegian airlines and Condor or wow air and Azul airlines. The actual difference between these airlines is how they deal with demands. AirAsia X, Norwegian airlines, and wow air try to capture demands while entering some of the world's busiest airline markets. On the other hand, TUI, Condor, and Azul airlines don't try to capture a market but rather try to create it.

Azul's business model stimulates demand by providing frequent and affordable air service to underserved markets throughout Brazil. The reason why LATAM Brazil's largest airline doesn't have a flight from Recife to Orlando is that they know that the number of people who connect from Recife to Sao Paulo to Orlando on their own flights is not enough to fill a plane Nonstop from Recife to Orlando, at least at their full-service prices. When Azul comes in and drops fares to a couple of hundred dollars, some people might choose to fly on Azul because the price is low, and they were going there already.

But crucially, others will choose to fly this route because the price is so low there creating demand. The routes that work for short-haul, low-cost carriers are different than those that work for full-service airlines. When long haul, low-cost airlines emerged on mass. Many, including air Asia, X, Norwegian airlines, and wow air, seemingly sought to emulate their full- service competitors' route maps.

For the long haul, low-cost airlines, the longer a flight is, the greater the overall cost of fuel taken up. This is because no matter the flight's length, airlines always have to pay for one set of checking agents, one gate, one cleaning crew, and one of everything else of flight needs at the airport. However, for every minute of flight is airborne, they have to pay more for fuel.

Other low-cost carriers such as Condor, Azul Airlines, and Wow Air choose their routes not because of cost or time but according to the passengers' volume. As a safeguard for their business, they would choose travels constituting people on vacation, visiting friends and families due to their profitability rather than business travels. For instance, a Condor flight from Brussels to Banjul in the Gambia is

much profitable than a Norwegian flight from London to New York.

### 3. Results

Competition is the primary driver of the aviation industry, combined with demand, among other factors they contribute toward the profitability of a given long haul low-cost airline. It is not necessarily that the higher the demand, the profitable the airline. Some airlines like Norwegian, Air Asia X, and Eurowings have been unprofitable long-haul low-cost carriers for the last five years that was later accelerated by the Covid-19 pandemic.

COVID-19 pandemic contributed to a downturn in the air travel sector. For instance, in 2020, the first half, Norwegian lost 610 million U.S dollars due to the cancellation of 88% of its flights. But after the pandemic, the airlines have the opportunity to reconstruct their long-haul business networks, especially those that have worked best in the past, like Norwegian's Oslo to Bangkok or Fort Lauderdale routes with low frequency and little competition.

Airlines' main focus was to dominate the market as fast as possible, leading to un- viable routes launching before the pandemic. The table below shows a five- year average revenue generated by 11 of the current operational long haul low-cost airlines. On average, Eurowings, Norwegian, Air Asia X, and Wow Air made losses while Condor, Cebu Pacific, Azul, Jetstar, TUI, Scoot, and Westjet a profit.

**Table 1:** A table showing 5-years average revenue for 11 long-haul low-cost airlines from 2015 to 2019

Long-Haul Low- Cost Airlines	5-Year Average EBIT (USD)
EUROWINGS	-\$107,750,000
CONDOR	\$47,000,000
NORWEGIAN	-\$108,000,000
CEBU PACIFIC	\$108,000,000
AZUL	\$111,000,000
JETSTAR	\$187,000,000
TUI	\$406,000,000
SCOOT	\$43,000,000
AIR ASIA X	-\$21,000,000
WESTJET	\$271,000,000
WOW AIR	-\$60,000,000

Over this period between 2015 to 2019, TUI was the most profitable airline with 406 million U.S dollars profit while Norwegian the worst in terms of revenue with 108 million U.S dollars loss. This comes shortly after Skytrax named Norwegian the world's best low-cost long- haul carrier for five consecutive years since 2015.

This may be the turning point of international long-haul travel regarding the business model's viability after the pandemic. If both profitable and unprofitable airlines succeed in stimulating demand safely once long-haul travel resumes, this concept will prove to be their secret sauce.

After the Covid-19 pandemic outbreak, lockdown followed in the US, Asia, and Europe, leading to the rise of short-haul, low-cost carriers compared to their full- service airlines (FSAs) competitors. Short-haul low-cost carriers

simulate demand with non-stop point-to-point routes and cheap fares on leisure routes during this period. Currently, the long-haul recovery has not yet started. Suppose it commences with niche, low-frequency leisure routes while outpacing full-service airlines. In that case, there will be enough evidence to prove that the low-cost carriers' success does not entirely depend on their low operating cost but their route networks. If this happens to be accurate, then the difference between long haul and short-haul low-cost carriers is that one creates demand earlier to be captured later by the other airlines.

**4. Conclusion**

The global aviation industry's low-cost long-haul airlines have failed and failed again in 2019 alone. Globally, only about a dozen airlines are currently operating using this business model after scores more have tried over the decades. These few survivors are not all failures hanging on

to their last fragments of life. Over the past five years before the COVID-induced travel downturn, Condor, Cebu Pacific Azul airlines, Jetstar, TUI, Scoot, and WestJet have operated long haul, low-cost flights at varying levels but earned a profit. Meanwhile, Asia X region airlines, Eurowings, and other countless now low-cost, long-haul airlines operated at a loss.

**Author Profile**

**Kris Nagdev** is an undergraduate student at University of California, Los Angeles (UCLA) majoring in business economics. He has a keen interest in automobile and aviation industries. His popular previous works include a study evaluating Singapore Airlines' use of Niche Marketing to grow in the American Market. Apart from being a researcher, he is also a racing driver.

**Appendices**

Appendix 1

	5-Year Average EBIT (USD)	Average Long Haul Stage Length (miles)	Cabin density (ft <sup>3</sup> per seat)	Premium to Economy ratio	LH to SH Aircraft Ratio	Number of Long-Haul Routes	Number of Hubs
<i>Eurowings</i>	-\$107,750,000	4927	9.145	0.1652	0.084615	16	3
<i>Condor</i>	\$47,000,000	4802	8.047	0.0759	0.421053	50	2
<i>Norwegian</i>	-\$108,000,000	4712	8.056	0.1392	0.289063	51	9
<i>Cebu Pacific</i>	\$108,000,000	4028	6.539	0.0000	0.117647	3	1
<i>Azul</i>	\$111,000,000	4169	9.482	0.1042	0.085714	10	4
<i>Jetstar</i>	\$187,000,000	3976	7.770	0.0669	0.093220	15	6
<i>TUI</i>	\$406,000,000	3865	7.182	0.1800	0.206612	66	18
<i>Scoot</i>	\$43,000,000	3614	7.562	0.0850	0.689655	15	2
<i>Air Asia X</i>	-\$21,000,000	3201	8.135	0.0329	0.097561	6	1
<i>WestJet</i>	\$271,000,000	3114	3.114	0.1301	0.048485	34	5
<i>Wow Air</i>	-\$60,000,000	2683	6.793	0.0412	1.000000	8	1

	Average Origin Traffic Coefficient of Variation	Average Origin GDP Per Capita	Average Aircraft Fuel Efficiency	Aircraft Utilization	Average Total Route Frequency (Flights per week)	Average Number of Route Competitors	Average LH Aircraft Age
<i>Eurowings</i>	0.176930	53074.5000	77.090909	0.599597	6	0.500000	15.083333
<i>Condor</i>	0.155502	53074.5000	76.000000	0.625681	4	0.340000	24.000000
<i>Norwegian</i>	0.158911	48612.5745	98.351351	0.674158	21	1.630000	2.325000
<i>Cebu Pacific</i>	0.066578	8951.1000	79.000000	0.502052	21	1.660000	4.750000
<i>Azul</i>	0.091657	16096.4000	83.000000	0.648486	7	0.450000	12.700000
<i>Jetstar</i>	0.069247	51663.4000	96.000000	0.675699	13	1.150000	5.000000
<i>TUI</i>	0.187288	52514.4439	92.720000	0.622061	3	0.230000	7.960000
<i>Scoot</i>	0.054917	96032.9133	97.500000	0.614427	24	1.250000	2.900000
<i>Air Asia X</i>	0.063495	31782.2000	79.000000	0.692841	19	1.400000	8.475000
<i>WestJet</i>	0.118285	48130.3000	87.500000	0.403065	10	0.860000	14.000000
<i>Wow Air</i>	0.294314	57303.1000	94.600000	0.622361	n/a	n/a	4.086957

Figure 1: 14 measurable characteristics that might impact the profitability of a given long haul, low-cost airline (Wendover, 2020)



Appendix 2

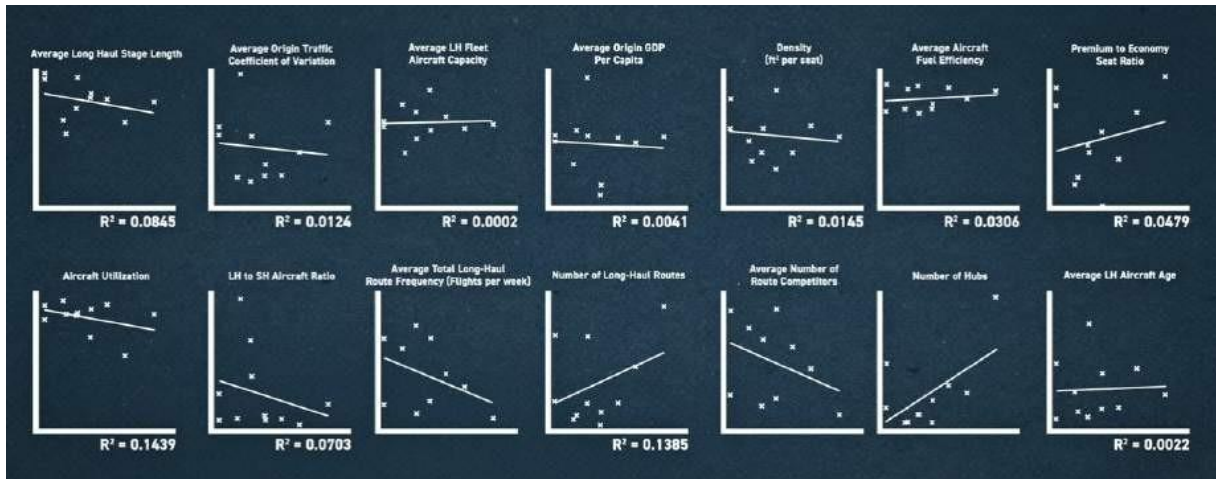


Figure 2: Correlation on profitability of long-haul low-cost airlines

Appendix 3

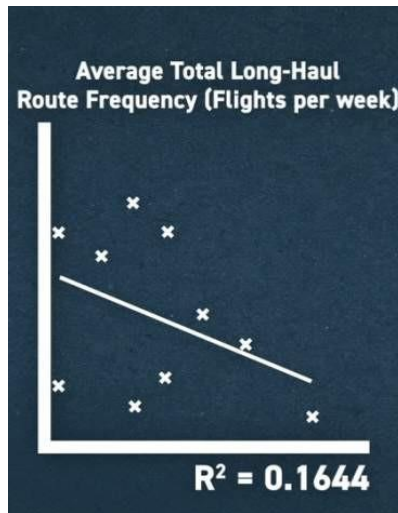


Figure 3: Average Total long-haul route frequency (Flights per week)

Appendix 4

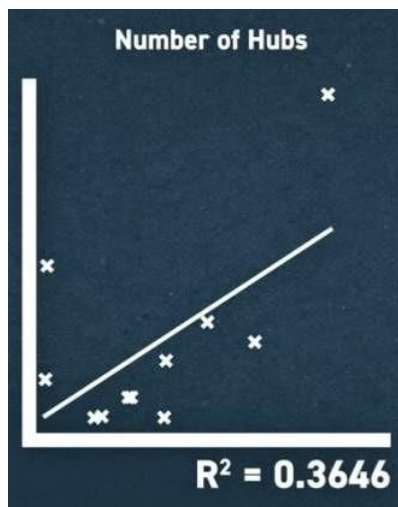


Figure 4: Number of hubs

Appendix 5

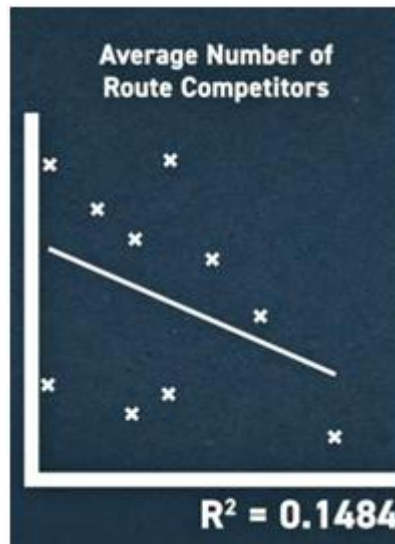


Figure 5: Average number of Route Competitors