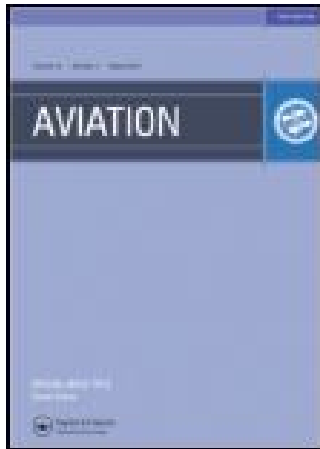


This article was downloaded by: [RMIT University]

On: 21 August 2015, At: 00:12

Publisher: Taylor & Francis

Informa Ltd Registered in England and Wales Registered Number: 1072954 Registered office: 5 Howick Place, London, SW1P 1WG



Aviation

Publication details, including instructions for authors and subscription information:
<http://www.tandfonline.com/loi/tavi20>

The evolution of low cost carriers in Australia

Panarat Srisaeng^a, Glenn S. Baxter^a & Graham Wild^a

^a School of Aerospace, Mechanical and Manufacturing Engineering, RMIT University, Melbourne, Australia 3001. E-mails: ,

Published online: 22 Dec 2014.



CrossMark

[Click for updates](#)

To cite this article: Panarat Srisaeng, Glenn S. Baxter & Graham Wild (2014) The evolution of low cost carriers in Australia, *Aviation*, 18:4, 203-216, DOI: [10.3846/16487788.2014.987485](https://doi.org/10.3846/16487788.2014.987485)

To link to this article: <http://dx.doi.org/10.3846/16487788.2014.987485>

PLEASE SCROLL DOWN FOR ARTICLE

Taylor & Francis makes every effort to ensure the accuracy of all the information (the "Content") contained in the publications on our platform. However, Taylor & Francis, our agents, and our licensors make no representations or warranties whatsoever as to the accuracy, completeness, or suitability for any purpose of the Content. Any opinions and views expressed in this publication are the opinions and views of the authors, and are not the views of or endorsed by Taylor & Francis. The accuracy of the Content should not be relied upon and should be independently verified with primary sources of information. Taylor and Francis shall not be liable for any losses, actions, claims, proceedings, demands, costs, expenses, damages, and other liabilities whatsoever or howsoever caused arising directly or indirectly in connection with, in relation to or arising out of the use of the Content.

This article may be used for research, teaching, and private study purposes. Any substantial or systematic reproduction, redistribution, reselling, loan, sub-licensing, systematic supply, or distribution in any form to anyone is expressly forbidden. Terms & Conditions of access and use can be found at <http://www.tandfonline.com/page/terms-and-conditions>



THE EVOLUTION OF LOW COST CARRIERS IN AUSTRALIA

Panarat SRISAENG¹, Glenn S. BAXTER², Graham WILD³

*School of Aerospace, Mechanical and Manufacturing Engineering, RMIT University,
Melbourne, Australia 3001*

*E-mails: ¹s3125221@student.rmit.edu.au (corresponding author); ²glenn.baxter@rmit.edu.au;
³graham.wild@rmit.edu.au*

Received 30 June 2014; accepted 10 October 2014



Panarat SRISAENG

*Education: bachelor of economics, Chulalongkorn University, Bangkok, Thailand, 1993.
Master of business economics, Kasetsart University, Bangkok, Thailand, 1998.
Affiliations and functions: PhD (candidate) in aviation, RMIT University, School of
Aerospace, Mechanical and Manufacturing Engineering.
Research interests: low cost airline management; demand model for air transportation;
demand forecasting for air transportation.*



Glenn S. BAXTER, PhD

*Education: bachelor of aviation studies, the University of Western Sydney, Australia, 2000.
Master of aviation studies, the University of Western Sydney, Australia, 2002. PhD, School
of Aviation, Griffith University, Brisbane, Australia, 2011.
Affiliations and functions: Lecturer in Aviation Management and Deputy Manager of
Undergraduate Aviation Programs, at RMIT University, School of Aerospace, Mechanical
and Manufacturing Engineering.
Research interests: air cargo handling and operations; airport operations and sustainability;
supply chain management.*



Graham WILD, PhD

*Education: 2001–2004 – bachelor of science (Physics and Mathematics), Edith
Cowan University. 2004–2005 – bachelor of science honours (Physics), Edith Cowan
University. 2008 – Graduate Certificate (Research Commercialisation), Queensland
University of Technology. 2006–2008 – master of science and technology (Photonics and
Optoelectronics), the University of New South Wales. 2006–2010, PhD (Engineering), Edith
Cowan University.
Affiliations and functions: 2010, Postdoctoral research associate, Photonics Research
Laboratory, Edith Cowan University. 2011–2012, lecturer of aviation systems, Edith Cowan
University. 2012 – present, senior lecturer in Aerospace and Aviation, RMIT University,
School of Aerospace Mechanical and Manufacturing Engineering.
Research interests: aircraft systems; aerospace vehicle structural health monitoring; optical
fibres; sensing and instrumentation; sustainable aviation; aviation technology.
Publications: author of 8 articles, 4 conference presentations.
Present position: 2014 – present, aviation program manager, RMIT University, School of
Aerospace Mechanical and Manufacturing Engineering.*

Abstract. Due to the vast distances across the country as well as between urban centres, Australia is heavily reliant upon its air transport industry. Following deregulation of Australia's domestic air travel market on the 30th October, 1990, low cost carriers have entered the market. Australia's LCC market has had three discrete phases. The first wave occurred between 1990 and 1993 and was subsequently followed by a duopoly period in 1994–1999. The second wave occurred between 2000 and 2006 and the final wave has been in the post-2006 period. This paper examines the evolution of Australia's domestic low cost carrier airline market and finds that by 2010, low cost carriers had captured around 64 per cent of the market. Following the evolution of the “Virgin Australia” business model from a low cost carrier to a full service network carrier, commencing in 2011, the low cost carrier's market share has declined significantly and is now around 31 per cent. “Jetstar” and “Tiger Airways” are the two major carriers presently operating in this market segment.

Keywords: Australia, airlines, business model, aviation policy, low-cost carriers.

1. Introduction

The vast size of the Australian continent, the country's varied and rugged topography, and scattered population present significant transport (and communication) challenges. Due to the vast distances across the country as well as between urban centres, Australia is heavily reliant upon its air transport industry (Nolan 1996). Australia's airline industry was born on connecting regional communities to the country's major cities (Baker, Donnet 2012). Also, the government historically tightly controlled Australia's air transport industry. In 1990, the Australian government commenced the deregulation of the country's domestic airline market process, permitting private competition, and privatising its interests in existing airlines (Nolan 1996). The government terminated the “Two Airline Policy”, which had maintained a highly regulated duopoly in domestic interstate air transport, and permitted other airlines to compete with the established carriers in Australia's domestic airline market (Forsyth 2003; Nolan 1996).

Since the industry was deregulated, a number of low cost carriers (hereafter LCCs) have entered the Australian domestic air travel market – Impulse Airlines, Compass Airlines, both of whom subsequently collapsed, Jetstar Airways, Tiger Airways and Virgin Australia, though since 2011 the latter has moved to a full service network carrier (FSNC) business model. US-based Southwest Airlines pioneered the original LCC business model in 1971 (Daraban 2012) and it is still widely used around the world today (Alamdari, Fagan 2005; de Wit, Zuidberg 2012). LCCs are often regarded as one of the most successful business concepts that have happened within contemporary travel. The astute business model of offering significantly lower prices by eliminating all the extras in a short-haul flight, together with innovative cost-cutting measures, was successful in the USA as early as 1973 when Southwest Airlines operated its first low-cost flight (Kua, Baum 2004).

This paper examines the evolution of LCCs in Australia's domestic air travel market. The paper is structured as follows: section 2 presents the low cost carrier business model, section 3 reviews the evolution of Aus-

tralia's domestic airline policy, section 4 examines the development of Australia's low cost carriers and section 5 provides concluding remarks on the research findings.

2. Low cost carrier business model

A low cost carrier is an airline that offers low air fares but eliminates all unnecessary services (Doganis 2006). The LCC business model is very simple: operate at the lowest possible cost and sell seats at low rates such that they stimulate demand and achieve high load factors (Ferne 2011).

LCCs focus on cost reduction in order to implement a price leadership strategy in the markets which they serve (Vidović *et al.* 2013). An airline's fleet size and fleet structure have a substantial impact on its operating costs (Klophaus *et al.* 2012). LCCs' costs are therefore minimized by operating a single-type aircraft fleet (Koch 2010). The use of a young and homogenous fleet of medium-sized aircraft (usually Boeing 737-700/800 or Airbus 320¹ aircraft) normally results in a reduction of fuel, maintenance, staff costs and – if large orders at discounted prices are placed – capital costs (Ehmer *et al.* 2008). According to F. Alamdari and S. Fagan (2005), fleet commonality provides greater flexibility for cockpit and cabin crews, standardises the requirement for ground equipment, leads to lower maintenance costs, and reduces training requirements and costs. Only variable in-flight seating costs (and some fuel costs) increase when more passengers are carried. LCCs' unit costs are also reduced by selling tickets online and by implementing a high density seating configuration (Doganis 2006). High-density seating leads to lower unit costs, as fixed costs can be attributed to more seats and passengers (Ferne 2011). LCCs also often eliminate all kinds of free in-flight services, such as in-flight entertainment (IFE) and free meals in order to minimise their costs (Doganis 2006; Homsombat *et al.* 2014).

¹ Airbus, for instance, offers the single-aisle A320 family comprising the A318, A319, A320 and A321 aircraft. These aircraft share the same pilot type rating, enabling flight crews to fly any of them with a single license endorsement (Klophaus *et al.* 2012).