

# **INFLUENCE OF LIBERALIZATION ON AIR TRANSPORT MARKET: RESEARCH INTO CONSUMERS' SATISFACTION WITH LOW-COST AIRLINES SERVICES IN THE REPUBLIC OF CROATIA**

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## ***Abstract***

The current state on the air transport market is characterized by the presence of extremely fierce competition and fast-changing market conditions. In this environment, only the companies that adapt quickly and efficiently can succeed. Effective changes enable development and success, and investment in the growth and making oneself different from the others is the only way to survive. With liberalization, the air transport in Croatia is becoming more demanding and dynamic. The arrival of low-cost airlines in Croatia brings more choice for the customers than ever before. The market has matured and become competitive and available. Although the tourists are not the only users of the air transport in Croatia, this type of transport is still related mainly to the summer months, which implies the seasonality of the number of the passengers. It is evident that low-cost business strategies have growing influence on the economy. It is therefore the aim of this paper to investigate the consumers' satisfaction with low-cost airlines services in the Republic of Croatia. In order to achieve the aim of the paper, a primary research on the sample of 83 respondents has been conducted. The results show that the consumers are very satisfied with the quality of the service they are provided with for the price of the ticket, along with the way and speed of the process of buying the ticket online. The consumers have expressed a mild dissatisfaction with the comfort during the flight, which, in the essence, outlines further guidelines for the development of the low-cost

airlines, although many of them have already facilitated a more comfortable flying experience.

**Key words:** air transport, liberalization, low-cost airline companies, consumers' satisfaction, the Republic of Croatia

## 1. INTRODUCTION

Air transport services market has expanded significantly and actually become one global market. The increase in the number of travels has made the passengers more critical of the quality of the services offered, as well as more experienced in comparing the quality of the service with its price, which has compelled airline companies to permanently adjust to the new, growing requirements of the passengers (Prebežac, 1998: 183). Air transport facilitates the flows of global trade by opening international markets and, in this way, helping countries participate in global economy. Likewise, air transport encourages the development of tourism. Tourism and air transport are interdependent – airlines transport tourists to the desired destination, and tourism generates demand for air transport services. Besides economic effects on tourism, air transport influences the quality of life of billions of people (Prebežac et al., 2012: 47). Over the last years, air transport has been rapidly progressing. Main reasons for that should be looked for in technological changes which have enabled drop of prices in air transport and lower costs of airlines' operations. These are all characteristics of low cost airline companies which, by focusing on satisfying individual wishes of the potential passengers, occupy the increasing share of the air transport market.

In 2015, 3.5 billion of transported passengers on 34 million flights were recorded on the global level. Current projections indicate that this number will double by the year 2030. Low cost airlines have played the leading role in this expansion of air transport in the last 25 years, connecting over 984 million passengers in 2015, which is 28% of the global passenger air transport. It is the increase of 10% in relation to 2014, which is 1.5 times more than the growth rate of the number of passengers globally (International Civil Aviation Organization, 2015).

In 2016, low cost airlines traffic influenced the total growth of global air transport, and passenger transport in general. In 2016, for the first time, low cost carriers transported over billion passengers within a year (Allianz Partners, 10 February 2017). It is important to point out that the largest share of the global air transport and activities related to airports is concentrated in the USA. The USA air industry dominates globally with its size, including airlines and airports (Burnać, 2010: 56).

This paper explains the role of low cost carriers and compares their business operations with those of the conventional (full service) airlines. The aim of this paper is to analyse consumer satisfaction with the low cost airlines services in the Republic of Croatia. For this purpose, a primary research has been conducted, analysing the frequency, satisfaction and experience of the passengers that have used specific low cost airlines in the Republic of Croatia.

## 2. CHARACTERISTICS AND MODELS OF LOW COST CARRIERS

### 2.1. Low Cost Airlines in General

There is no unified definition of a low cost airline (low cost carrier – LCC); moreover, there is no unique term that applies to these companies, because often, expressions like „low fare airlines“, „low cost airlines“ and „no frills airlines“ are used. However, there is a unique understanding and general perception of what a LCC is, for it comes mostly from the characteristics of a business model in use. A low cost airline is an airline that provides transport services at lower prices in exchange for elimination of many services traditional airlines offer. The first successful low cost carrier was founded in the USA, in 1949, bearing the name Pacific Southwest Airlines, although many authors state the year 1971, i.e. 1977 as the beginning of the concept of low cost airlines (Vidović, 2010: 10). Pender & Baum (2000) say that low cost airlines are in fact airlines that offer services at significantly lower prices than the competition.

Arrival of low cost carriers has made air transport more accessible, and it has also generated new categories of passengers - those not so concerned with the service nor with the travel comfort (Štimac et al., 2009).

After being founded in the USA, the low cost airline model started to be applied in Europe, where Ryanair initiated low cost flights at the beginning of the 1990s. Similar business operations started in Canada, Australia, Japan and Brazil. Low cost airlines appeared, on one part, because passengers were greatly worried about high prices of regular flights on short- and medium-haul routes, and on the other hand, because young companies discovered new market niches. They recognized and have been satisfying the growing demand of an entire class of passengers that, up until then, had not had the opportunity or the will to use air transport (Vojvodić, 2010: 11-12). Low cost airlines represent a serious competition to commercial transporters, due to the transport price which represents the most important factor for most customers while choosing a company. The price structure with full service offered by commercial airlines makes effective competition with the prices offered by low cost airlines impossible (Vidović, 2010: 10-11).

Despite the fact that there are many variations of low cost carriers, the “standard” model can be characterized with the following features (Vojvodić, 2010: 12-13):

1. Distribution (reservations via telephone or the Internet),
2. Service during the flight (no class differentiation, food and drinks are not served, which lowers the costs of staff and cleaning),
3. Frequent flights and one airplane type (a couple of flights per airplane a day),
4. Minimal delays,
5. Low prices and simple operations, without associating with other operators,
6. High utilization (over 11 hours daily),
7. Direct, shorter routes,
8. Smaller, secondary airports (shorter time for reception and dispatch: 15 – 20 minutes),

9. Aiming at the growth (10% annually),
10. Employees (share in the profit, high productivity, competitive wages) and
11. Hiring already trained and qualified flight and cabin crew.

Deregulation of the American air transport market already began in 1978, considerably earlier than anywhere else in the world (Kim & Lee, 2011: 206). Then, The Airline Deregulation Act was passed, which resulted in the transfer of the ownership from government to private for many companies. One of the products of the air transport market deregulation was the emergence of low cost carriers. The most famous carrier operating by these principles is Southwest Airlines. After its appearance, many other emerged on the market, most of which did not survive the competition (Vidović, 2010: 44). The emergence of low cost carriers on the market has not only resulted in lowering the prices of the commercial operators, but has made them lose a large number of their passengers who have realized their needs through low cost carriers like Southwest and JetBlue, contributing to the increased share of those carriers on the market. Low cost operators have partly attracted the passengers with lower prices of the tickets, and partly with the perception that passengers who travel for business benefit from their service (Vidović, 2010: 46). Low cost airlines have introduced many innovations on the air transport market, most importantly, simplification of the product offered to the customers at lower prices. The other characteristic differentiating low cost and traditional airline companies is that low cost carriers are oriented towards secondary airports. The low cost carrier model is made of three key elements that intertwine, those being a simple product, low operating costs and positioning. The entrance of low cost carriers on the market has facilitated passengers segmentation and focus on those who travel for pleasure and holiday, and on the importance of price elasticity for the passengers. Passengers perceive secondary airports as an advantage, due to their low congestion (Vojvodić, 2010: 99-100). The crisis at the beginning of the 21<sup>st</sup> century showed the successfulness of the low cost model. Low cost carriers like Southwest and JetBlue continued to operate with profit, while most traditional airlines counted losses (Vidović, 2010: 46-47).

**Table 1.** Key characteristics of the Southwest low cost model

|                                |   |
|--------------------------------|---|
| <b>PRODUCT CHARACTERISTICS</b> |   |
| Price                          | Low<br>Simple<br>Point to point<br>No interlining   |
| Distribution                   | Travel agents and direct sales  |
| During the flight              | Single class, high density<br>No seat assignment<br>No meals<br>Snacks and light beverages only |
| Frequency                      | High  |
| Punctuality                    | Very good   |
| <b>OPERATING FEATURES</b>      |   |

|          |  |
|----------|--|
| Aircraft | Single type (Boeing 737), 4 variations<br>High utilisation (over 11 hours per day) |
| Sectors  | Short to average below 800 km (500 miles)  |
| Airports | Secondary or uncongested<br>15-20 minutes turnarounds                              |
| Growth   | Target 10 per cent per annum<br>Maximum 15 per cent                                |
| Staff    | Competitive salaries<br>Profit-sharing since 1973<br>High productivity             |

Source: Doganis, R. (2001) *The airline business in the 21st century*. London: Routledge, p. 134

European low cost air transporters see Southwest Airlines as their role model, whose successfulness is evident in the model followed by many low cost carriers (Table 1). Business strategy of the Southwest Airlines low cost carrier is characterized by low prices of the tickets and direct flights between large cities. Southwest increases business efficiency by simplifying the process. They land at the airports of smaller cities and towns, or at less congested airports in bigger cities. In this way, the duration of the flight is shortened, for there is no longer waiting for the landing at the airport (Gillen & Lall, 2004).

Low cost carriers in Europe emerged much later than in the USA. In 1993, airline market in Europe was largely deregulated, and soon it became obvious that the time of traditional national airline companies' monopoly was coming to an end. The first low cost airline company that had significant influence was the Irish Ryanair whose entrance clearly showed that the low cost business model in Europe had a bright future (Vidović, 2010: 57). Ryanair has, by expanding their operations towards the continental Europe, left the strategy of focusing and started applying the strategy of cutting down the costs. It is based on six main aspects, those being: the use of airplanes, removal of some services traditional companies offer for free, outsourcing some costly business elements, airport fees and flight policy, crew consumption and productivity, and advertising costs. Although Ryanair tickets are cheap, pillows and blankets, or bottled water, for example, during the flight are charged extra. It is estimated that over 20% of this company's profit is realized through additional services which are a little unusual for an airline companies (Krajnović et al., 2014: 20-21). The Ryanair business model implies the use of secondary airports, where there is no strong competition, and the focus is on the tourist market. On the other hand, the easyJet model uses primary airports and already existing markets like tourists and business passengers, and they see the best ratio of the value for money in low cost transport (Gašparović et al., 2012: 95).

Companies that apply the low cost model have lower cost structure than traditional companies. Traditional companies have a lot of space for lowering single costs, but not enough to significantly endanger or to get closer to the costs of low cost companies on short routes. In Europe, North America and most large regions, low cost companies will become dominant in domestic traffic and short-haul flights. They are not a momentary phase. They are here to stay and dominate on most markets they service (Vidović, 2010: 43). In the low cost business strategies there are large

variations. New low cost companies' models have a tendency to follow differentiation strategy, and the original low cost model was based on the cost management. The data show that European transporters have a tendency to adhere to the original model more than their colleagues in the USA. However, with more low cost companies entering the European market, this could change in the future. Obviously, as the low cost companies market is being increasingly filled with newly-founded companies, it is probable that the companies will differentiate their business activities by offering different products or distancing themselves from the original operating possibilities. Many of the low cost companies will be successful, on the condition that their single costs always stay considerably lower than those of the competition. Therefore, every time a low cost company plans to offer additional services, it has to take into consideration not just competitive advantage, but the cost of application of this strategy, and the speed with which competitors might copy it. No doubt, every low cost company is unique in its way of operating. Market opportunities and conditions urge low cost companies to adjust their services in a way to satisfy domestic demand and market challenges (Krajnović, Nekić, Bolfek, 2014: 8).

## 2.2. Low Cost Airline Companies Organizational Models

It is not the transporter in itself that makes a low cost airline company, but rather the model the company follows. The aim is to use the model based on lowering any complex costs, and they, on the other hand, comprise of a series of different characteristics which, if cut down, enable the company to offer the same ticket at considerably lower price.

Efficient airplane is the key element of a low cost airline company (LFA - *low fare airline*). The LFA business model has the following characteristics (Štimac et al., 2009):

- Uses medium-haul airplanes, and two types have proved themselves most suitable - A319/320 and B737.
- The airplane interior is designed simply, with one class and simplified service, and there is less space between the seats than usual in order for as much seats as possible to be put inside.
- Destinations are chosen primarily according to the demand, but it also depends on the optimal distance between the destinations and their home airport. Namely, in this way, airlines ensure an optimal number of airplane rotations per day and increase their utilization. Likewise, they aim at "point to point" transport to avoid the costs of transfer passengers, and the route structure seems much more flexible and simple.
- By using secondary airports, the LFAs realize great discounts for airport services, because they are mostly the main generators of traffic at those airports. With simple reception and dispatch, the time spent on the ground has been shortened to minimum, which also increases the time utilization of the airplane, that time usually being between 20 and 30 minutes.
- On-flight, the food, beverages and other products are mostly extra charged. Likewise, on their websites, the LFAs offer services like hotel booking, car rental etc., which generates extra income.

- Employees are often trained for different jobs, like the cabin crew, that usually cleans the airplanes, but also organizes the boarding of the passengers at the exits in the airport building. In this way, airlines save a lot, although the crew is often paid extra for additional jobs.
- Ever since the very beginnings, the LFAs have been oriented towards the modern methods of distribution of their capacities, which brings them considerable savings. Doing business online has, for example, boosted the income management efficiency.
- Some LFAs go so far in being punctual, that they often have an airplane on the ground in the home airport in case a malfunction occurs and an airplane on one of the frequent routes has to be replaced.

With the purpose of characterizing and monitoring the expansion of low cost air transport companies, types of low cost carriers are listed, out of which it is possible to categorize five categories of low cost carriers (Francis et al., 2006):

- 1) **The Southwest copies** are airline companies set up from scratch, or reorganized by independent foreign entrepreneurs. These are, in fact, classic air transport companies whose business model comes closest to the Southwest model, and they minimize the costs mostly managing the service from point to point, by using one airplane type and high level of utilization. Airline companies like Southwest Airlines, WestJet, Ryanair, SkyEurope or easyJet fit this category. It is important to note that there are differences within this category as well. Some companies have failed to apply all the characteristics of the Southwest model, while others have expanded it.
- 2) **Cost cutters** are airline transport companies that, with the aim of lowering the costs, provide simpler and cheaper service instead of the full service. Those are usually inherited companies that are now trying to cut down their operational costs. In many cases, they succeed in cutting down the costs, and do not offer all the additional services as before, like free food during the flight. These airline companies continue to operate by the *hub-and-spoke* paradigm. Airline companies like BA and Aer Lingus have let down many members of the staff and started rationalizing their air fleet in order to compete on the low prices market. Airlines like Air France, Air New Zealand and Iberia have started to offer cheaper one-way tickets and charge for the food, or they have reduced the amount of the food to minimum on specific routes.
- 3) **Daughter companies** (companies' subsidiaries) are generally low cost carriers formed as *daughter companies* of parent airlines founded a long time ago in order to compete and gain their share in the low cost sector. These airline transporters often try to operate in a similar way as the airline companies in the first category ("*Southwest copies*"). The level of cost minimization at these companies varies depending on the cost type and the asset inherited from the transport company. Union agreements that prevent flexible work conditions and wages cut are possible if the airline carrier is not a part of the subsidiary. Those agreements can limit the cost cutting, although, allegedly autonomous, there are often elements of mutual subsidization. Airline subsidiary companies (*daughter companies*) are: Ted (United), Song (Delta), Snowflake (SAS), MetroJet (US

Airways), Tiger Air (Singapore airlines), Freedom Air (Air New Zealand), bmi (bmi) and Go (British Airways) (Krajnović et al., 2014).

- 4) **Various charter carriers** are low cost daughter companies that have developed charter airlines to operate with the low cost services. Some charter airlines have started their business activities based on the low cost services by using *daughter companies* that mimic the characteristics of airlines that are “*Southwest copies*”. The mimicking implies: only one airplane type in the fleet, high level of utilization of a single airplane, additional charges for food service on the plane, one type of pricing and online reservations. These companies' particularity lies in the perception of the low cost tariffs, i.e. in the connection of the costs with their status as a *daughter company*, because their parent companies have long had lowest costs within the airline industry. Airline companies that fall into this category are: Thomson (Britannia), Hapag-Lloyd Express (Hapag-Lloyd) and MyTravel Lite (MyTravel) (Krajnović et al., 2014).
- 5) **Companies subsidized by the government** are those airline companies owned by the state or receiving subsidies from the government, which enables them to offer low prices. The government subsidizes them so they could offer low prices of their planned services within the national strategy framework for tourism development, and, specifically, for promoting airline companies as centres for the region. Emirates is the current example of this type, but, historically, many companies have survived only with the help of the government support.

Finally, the main differences between characteristics of business model of conventional and low cost carriers are presented in Table 2.

**Table 2.** Key differences between low cost and conventional (full service) airline companies

| CHARACTERISTICS      | LOW COST AIRLINE COMPANIES | FULL SERVICE AIRLINE COMPANIES                         |
|----------------------|----------------------------|--|
| Feature              | Low prices                 | Price and service                                      |
| Price                | Simple price structure     | Complex price structure                                |
| Distribution         | Internet, direct booking   | Internet, direct booking and sales via travel agencies |
| Check – in           | No tickets                 | No tickets, IATA ticket agreement                      |
| Airport              | Mostly secondary           | Primary  |
| Network              | Point-to-point             | Hub-and-spoke  |
| Classes              | One class                  | More classes   |
| During the flight    | Pay for more               | Additions are free                                     |
| Airplane utilization | Extensive                  | Medium   |
| Airplane type        | One type                   | More types   |
| Airplane turn time   | 25 minutes                 | Slow, 1 hour on average                                |
| Products             | One product                | More integrated products                               |
| Secondary income     | Advertising, onboard sales | Focus on the primary product                           |
| Seating              | Tight                      | Flexible, reservations                                 |

|                        |                       |                               |
|------------------------|-----------------------|-------------------------------|
| User support           | Bad                   | Reliable                      |
| Operational activities | Focused on the flight | Extended (maintenance, cargo) |
| Target group           | Tourists              | Tourists and business people  |
| Crew                   | Minimal               | Full                          |

Source: Dobruszkes, F. (2006). An analysis of European low-cost airlines and their networks. *Journal of Transport Geography*, 14, p. 249-264

New movements on the market and the evolution of the low cost airline companies worldwide have led to new offer of different levels of services. Some airline companies adjust to their current business model, so that they combine the best characteristics of the conventional and the low cost business model into a unique model, and many of them are starting to abandon the conventional model and are adopting the *low-cost* model (Krajnović et al., 2014: 12). The biggest advantage of the low cost airlines is hiding in their *point-to-point* system. Direct short flights increase the utilization of the airplanes, and eliminate the use of additional services that are expected on longer routes. The risk of losing luggage has been reduced to minimum, because, in case passengers want to travel further, they have to pick up their luggage and check in again.

In order to be profitable in the future, low cost carriers have been turning towards income that have nothing to do with selling tickets, like: hotel commissions, travel insurance, rent-a-car, credit card costs, overweight luggage, food and beverages on the flight, advertising space etc. Low cost carriers management thinks that they ensure good promotion with aggressive marketing campaigns, increase profit and decrease single costs. Compared to the traditional airline companies, the costs of the staff are being cut down as well, which includes *outsourcing* of all the non-flying and maintenance personnel and agents at call centres. Other interesting profit source of the low cost airlines is being financed by the airport and, often, by the local government, through lower airport charges or other financial incentives. By choosing a secondary airport, the turn time is shortened (only 25 minutes), which is the result of excellent slots, being the consequence of less jam at the airport. This ensures maximum airplane utilization, and the flights are mainly scheduled for early in the morning or later in the evening to avoid congestion and take advantage of lower costs of landing. Low cost airlines do not offer free food and beverages, but they do sell them on the flight, and the luggage is very well controlled, where maximum luggage weight is lower than at the conventional airlines. Namely, in this way, airlines generate additional income, shorten the time of working with the caterers on the ground, and lower the total weight of the airplane. Low cost carriers operate with new airplane types, which are more economic and their maintenance costs are lower. By lowering the costs, low cost carriers generate up to 50% difference in costs compared to conventional full service airlines (Dobruszkes, 2006: 249-264).

To ensure their long-term survival, low cost airlines need to do two things. First, they have to preserve competitive advantages in relation to their conventional competitors. It means that they have to focus on the most important characteristics of their low cost product. Key features they have to keep are shorter routes, one airplane

type, tight seating on the airplane and, where possible, the use of secondary airports. The second condition for long-term survival is to become number one or number two in the sense of the market share. This domination, combined with the low prices, ensures them a powerful, protected position in case of new competitors, but it also secures a firm basis of the cash inflow for future development (Vojvodić, 2006: 365).

Low cost carriers have revolutionized the travel habits in Europe, where big airlines once were the only possible choice. With the airline market liberalization, the airline environment in Croatia is becoming more demanding and dynamic. Geographical position, i.e. the position of Croatia as the popular tourist destination, stimulates the competition to become multi-layered (Bajić, Tatalović, Kučko, 2014: 185). The first low cost carrier in regular traffic in Croatia was Germanwings, which, in 2004, established a year-around connection between Cologne (Bonn) and Zagreb, and a seasonal route between Cologne (Bonn) and Split, and soon after the flights from Cologne to Zagreb and Split, they introduced the flights from Berlin, Stuttgart, Hamburg and Bonn to Croatia (Vidović, 2010: 142). Low cost air transport has since been getting off to a flying start. The market has opened up and become competitive and available. Before, the arrival of low cost airlines in Croatia was specifically related to the tourist transport, i.e., they offered their services only in the summer months. Later on, they saw the potential of introducing the year-around flights to destinations (Zagreb and Rijeka) that they recognized as being able to maintain an acceptable airplane occupancy rate (Štimac et al., 2009).

The European airline sector has to continually introduce innovations in order to remain globally competitive in relation to strong competition from North America and the developing economies. The shift of economic power to the East implies new markets for the European airline companies and manufacturers in the airline industry, but, at the same time, it also implies facing local competition (Peović, Vince, Štimac, 2012: 8). All Croatian airports very much depend on the income from related activities, but they mostly rely on the income from airlines, all the three models (traditional, low cost and charter). One of the main characteristics of the low cost airline business model is cutting down all types of airline transport costs. For the managers in the airport, this means that low cost airlines business operations can create lower airline income possibilities. In this context, the focus of the low cost airline business activities should be primarily connected with the possibilities of the airports. Although the influence of the low cost carrier passengers on the commercial income of the airports is insignificant, low cost airlines are progressively increasing their share on the Croatian market. In line with this increase, there are many opportunities for boosting commercial income, which require commercial performance enhancement. This implies more space at the terminals for commercial activities, like more specialized shops, world trade marks, regional products, souvenirs and other services. Therefore, retail diversification is one of the key strategies for maximizing commercial income. For it to be fully utilized, airports have to direct their activities towards proper planning of their facilities, and towards extending the terminals or building new ones (Krajnović, Nekić, Bosna, 2016: 105-106).

Eurocontrol prognosis suggests that the demand for air transport will exceed airport capacities, because they do not have the space needed for further long-term

expansion. This will condition that a share of traffic will have to be directed towards secondary or regional airports. In the future, there is a possibility of the issue of insufficient landing and takeoff runways. It is possible to increase the capacities of the landing and takeoff runways with the fast takeoff runways and riding runway system. The airport capacities can be increased by better utilization of working hours, and various commercial activities can stimulate airlines to use landing and taking off periods that are not so busy. In this way, big daily oscillations of traffic activities could be avoided. The challenge in the future is to considerably increase the efficiency of the entire air traffic system. Air traffic has to adjust to the needs of the economy and the citizens, increase international competitiveness in relation to other transport branches, commit to quality and be affordable. The next important segment that further development of the air transport will be based upon is safety. Safety threats in the last years have increased, and the consequence is implementation of more safety measures in the airports. This has resulted in more delays for the passengers, and has generated more traffic congestion at control points and less comfort; it has also slowed down the process of conducting safety checks. More financial means have to be used for safety equipment for checking the passengers and their luggage and more staff has to be hired for performing security checks, adding the expenditure for their training (Peović, Vince, Štimac, 2012: 9-11).

### **3. RESEARCH ON THE SATISFACTION OF LOW COST AIRLINES USERS**

#### **3.1. Existing Research Overview**

There are many papers published in professional and scientific literature on the development, i.e. deregulation and liberalization of the air transport in Europe, but there is a lack of research on the satisfaction of the low cost airlines users in the Republic of Croatia. Dobruszkes (2006) analyses European low cost airlines and their networks. The growth of low cost airline companies is directed towards the Western European market, where it represents the most important factor in the development of airline networks. In that area, low cost airline companies are limited to short and medium-haul flights and give incentive to the point-to-point network, complementing the conventional airlines network. In fact, the liberalization of air traffic in the European Union is highly reflected in the low cost airline companies network (Dobruszkes, 2006). Bamber et al. (2006) analysed the product and labour market strategies of the main Australian low-cost carriers. They remarked that Australian low cost airlines are moving to adopt some product market characteristics similar to those of legacy carriers.

Chowdhury (2007) suggests that the entrance of the low cost carriers on the USA airline market has influenced the existing players on the market. In his results, he shows that low cost carriers on the American market have become so strong and have a sufficient market share to influence the ability of conventional airline companies to provide the services. Lower ticket price in relation to the conventional airlines plays the most important role in achieving competitive advantage (Chowdhury, 2007). Duval (2007) investigates the complex relation between the air traffic and tourism in

the period after September 11, 2001 and accentuates the growing importance of low cost carriers and their influence on the global tourism. It is the emergence of the low cost airlines that has started some new forms of tourism, which has led to charter companies becoming less attractive in some countries, and traditional airline companies have started to partly transform into low cost carriers. Besides the influence on the international tourist flows, the growing influence of the air traffic is evident in the development of the domestic tourism in some countries (Duval, 2007).

Air traffic development through economic relations of the Republic of Croatia with foreign countries is the subject of the research conducted by Vince (2009). Croatia has to make certain inside adjustments with the aim of achieving better competitiveness. It is also very important to conduct detailed analyses that could be realized by applying some other model for the future air traffic development, and which would be based on full liberalization of the Croatia market (Vince, 2009).

Vidović (2010) analyzes the low cost airline operational model in Croatia and states that the low cost model is, in spite of many challenges put in front of it, sustainable in Europe, as has been for many years in the USA. In his paper, Vojvodić (2010) analyzes the influence of low cost airlines on the international business activities of the Croatian airports. The research findings have shown that low cost airlines are the key determinant for the success of the Croatian airports international business activities. The answer to the challenges depends on the individual business activities of a specific airport, and special features of its environment (Vojvodić, 2010).

In his paper, Gašparović (2011) depicts the influence of air traffic on tourism in coastal Croatia and indicates high seasonality in the number of passengers in the airports and maritime ports. During the off-season, there are mostly passengers from the conventional flights. Gašparović et al. (2012) conducted research on the Croatian airports in the European low cost airlines network. Low cost airline transport in Europe is still characterized by strong dynamics of development and change. Every year, a significant number of companies disappear from the market, while others appear. The analysis of the available flight schedules indicates that the number of lines and the flight frequency is much higher during the summer, which has confirmed that, in the Republic of Croatia, most low cost air travels are made by the tourists. The only airport where business travellers prevail is Zagreb airport, where the number of lines and their frequency changes throughout the year (Gašparović et al., 2012). Bajić et al. (2014) analyzed the airline competition in Croatia, and they point out that Croatian airline market liberalization has considerably influenced the increase in demand in international regular passenger traffic, what is making the Croatian airline environment become more demanding and dynamic. Domestic transporters have to continue the structuring processes they have begun and upgrade the business model efficiency (Bajić et al., 2014). Krajnović et al. (2014) analyze the strategies of the low cost airlines, and by comparing the low cost with the traditional airline companies, show that the very strategy of the cost management has enabled the low cost carriers to cut down their costs per seat by even 50% in relation to the traditional airline companies. Likewise, they point out the relevant influence of the low cost airline companies on the development of tourism, and with it, social and economic growth of the tourist regions and the receptive country in general.

Widmann (2015) compares the low cost and conventional airlines and explains the trends and perspectives on the European market. The market share of the low cost carriers in Europe in 2000 was 5%, and till 2015, it grew to 30%, which implies that the differences between low cost and conventional airlines are becoming more subtle. Low cost airline companies are difficult to compare with each other because they offer the same basis, but different additional services. The research results show that the passengers still can differentiate between the low cost and traditional airlines and the advantage is usually given to the traditional ones by the senior passengers (Widmann, 2015).

Krajnović et al. (2016) investigate the impact of the low cost airlines on the economy, with specific focus on tourism. The results have confirmed that low cost carriers are gaining more and more influence on the economy, especially if observed from the aspect of tourism (Krajnović et al., 2016).

Kos Koklic et al. (2017) conducted a research on the satisfaction of the consumers with the low cost and traditional (full service) airline companies. The research suggests that airlines should focus on maintaining a high level of quality of tangible resources, such as comfort of the plane seats, as well as invest in their employees, as they provide customers with the most memorable aspects of the experience. The research also confirms that both factors (airline tangibles and quality of personnel) significantly impact customer satisfaction with the airline carrier. Only satisfied passengers will recommend the airline company to their acquaintances and are more likely to travel with the same airline in the future; therefore, it is very important to ensure an enjoyable experience. The respondents who reported to have travelled with a full service carrier showed lower level of satisfaction than the consumers travelling with low cost airlines (Kos Koklic et al., 2017: 94). Han & Hwang (2017) investigate the relationships among overall service quality, customer satisfaction, and behavioural intentions by considering the moderating impact of in-flight ambient conditions (air quality, temperature, odour, and noise) in the low cost airline industry. Judging by the research results, quality and satisfaction are significant drivers of intentions, and satisfaction acts as a relevant mediator. Furthermore, findings from the tests for metric invariance revealed that the effect of satisfaction on intentions was stronger for the high air quality, temperature, odour, and noise groups than for the low groups, which supports the argument of the moderating impact of ambience. In the high noise group, the strength of the relationship between quality and intentions was greater than in the low noise group. Customer behavioural intentions can be more adequately predicted if overall service quality is set as a direct prerequisite of satisfaction. With the aim to gain a clearer understanding of passengers' purchasing behaviour, it is necessary to integrate the in-flight ambience beyond service quality and customer satisfaction into the model for decision-making and loyalty. Improving ambient conditions in the cabin is imperative for effective stimulation of passengers' loyalty intentions (Han & Hwang, 2017: 1351).

Spasojević et al. (2018) have given an overview of the papers on airline transport and tourism published between 2000 and 2014. It is evident that there are few papers dealing with customer satisfaction. The authors point out that areas that have over the last years been in the focus of the research interest relate to the influence of low cost airlines on tourism, implications of new direct flights on more remote destinations and

new airplane generations (Spasojević et al., 2018: 990). In their study, Bigne et al. (2018) have analysed the impact of social media and offline environments on tourist online purchase and recommendation behaviour of low cost airline services. The findings show that interpersonal influences do not have any effect on e- word-of-mouth communication (WOM), but they do affect repurchase intentions and word-of-mouth communication. The results also confirm that consumer attitude influences repurchase intentions, WOM, and e-WOM, and that this attitude is determined by online C2C information exchanges (Bigne et al., 2018: 1026-1027).

### **3.2. Research Instrument and Sample Characteristics**

The research was conducted on the sample of 83 respondents in September 2017 and there were no limitation criteria for filling out the questionnaire, because the respondents could have been of both gender and of any age. The primary research was based on the research on the satisfaction of the consumers with the low cost carriers' services in the Republic of Croatia. In the research, a simple questionnaire was used as the research instrument, which was filled out by the respondents, with the personal survey, mostly online, via social networks. The questionnaire was adopted from the previous research and consisted of 19 questions.

Simple questionnaires were filled out by 83 respondents in Croatia. Most respondents were female, 59.26%, and 40.74% were male respondents, with the note that this question was answered by 81 respondents. Regarding the age of the respondents, out of 81 respondents that answered this question, there were no younger than 18, and most respondents, 49.38%, were in the age group from 26 to 35. Most respondents (48.75%) have high or higher education (39 respondents), then follow those with Master's or Doctoral degrees 23.75% (19 respondents). 79 respondents gave their work status; 43.04% (34 respondents) are employed, i.e. permanent employees, and 29.11% (23 respondents) are unemployed. Out of 73 respondents who answered the question about their monthly income, most of them (28.77%) receive the income of over 9.000 Kuna, and even 19.18% do not have any monthly income.

### **3.3. Research Results**

High percentage of the respondents (63.86%) has used low cost carriers' services (36.14% of them have not). If the distribution of the choice of a low cost airline among the respondents is analyzed (59 respondents answered this question), it is evident that most of them have used Ryanair services (37.29%). Interestingly, then follows the category „Some other airline“, with 23.34%, and only after easyJet with 18.64%, Germanwings with 13.56%, and others with the total of less than 10%.

Most respondents (65.52%) use only the basic transport service when travelling with a low cost carrier (out of 58 of them who answered this question). The only additional service that is used by over 10% of them is extra luggage (10.35%).

The respondents use low cost airline services almost exclusively for private reasons (53 respondents), while only three respondents stated they had used these services for business reasons. Even 53 out of 59 respondents answered that they had

used a low cost carrier services less than five times a year, and only two respondents said they had used the services 11 or more times within a year.

When the answers to the question about the airport from which the respondents took their flight are analyzed, Zagreb airport is in the first place with 31.58%, followed by Zadar airport (14.04%), then Split airport with 10.53% and other airports with less than 10%. It is also important to note that 38.6% of the respondents have used other airports, including those in foreign countries: Venice, Budapest, Sarajevo and Vienna.

**Table 3.** Average evaluation of the low cost airlines characteristics

|                        | 1  | 2 | 3 | 4  | 5  | 6  | 7  | 8  | 9  | Total | Average |
|------------------------|----|---|---|----|----|----|----|----|----|-------|---------|
| Safety                 | 15 | 4 | 6 | 5  | 6  | 3  | 7  | 3  | 2  | 51    | 6.08    |
| Staff courtesy         | 2  | 6 | 3 | 4  | 12 | 6  | 10 | 4  | 2  | 49    | 4.8     |
| Comfortable seating    | 2  | 7 | 7 | 4  | 8  | 4  | 2  | 10 | 8  | 52    | 4.56    |
| Payment methods        | 1  | 7 | 8 | 6  | 7  | 6  | 6  | 6  | 1  | 48    | 5.15    |
| Online booking systems | 3  | 8 | 7 | 8  | 6  | 3  | 4  | 5  | 6  | 50    | 5.16    |
| Flight delays          | 5  | 7 | 7 | 4  | 4  | 13 | 6  | 1  | 2  | 49    | 5.47    |
| Food and beverage      | 7  | 4 | 4 | 3  | 6  | 5  | 4  | 7  | 20 | 60    | 3.95    |
| Price                  | 14 | 5 | 3 | 9  | 5  | 3  | 4  | 6  | 9  | 58    | 5.36    |
| Service speed          | 8  | 6 | 7 | 11 | 3  | 4  | 6  | 9  | 5  | 59    | 5.2     |

Source: compiled by the author based on the data collected

Even 58 respondents wrote down some displeasing experiences related to the use of low cost airlines: too many hidden, additional costs, inconvenience, loss of luggage, tight in-cabin space, flight delays, long waits at the exit door and turbulences. The respondents have also listed the factors that influence the choice of the specific airline: 21 respondents (34.43%) said it was their friends, 18 respondents (29.51%) said it was the Internet and social networks, and interestingly enough, none of them mentioned television, radio nor the papers as the influential factors. Most respondents think that low cost airlines take good care of the passenger safety, flight delays and the price, the latter being evidently very important when choosing an airline. Likewise, they also think these airlines should improve on their offer of food and beverages during the flight (Table 3).

The respondents think (Table 4) that the price plays the biggest role in deciding which low cost airline to choose, then follow the safety conditions, available destinations and additional services charges. This leads to the conclusion that low cost carriers are in fact employing their business strategy very well, because it rests on lower prices of the services, i.e. the price of the ticket, in relation to conventional, full

service airlines. Bearing in mind that low cost airlines mostly fly shorter routes (inside 4 hours) and mostly directly, additional offer is not so important to the passengers.

**Table 4.** Importance of the factors influencing the process of decision-making when buying the ticket for the specific flight

|  | 1  | 2  | 3  | 4  | 5  | Total | Average |
|--|----|----|----|----|----|-------|---------|
| Safety   | 7  | 5  | 5  | 8  | 50 | 75    | 4.19    |
| Price  | 1  | 3  | 7  | 15 | 47 | 73    | 4.42    |
| Comfortable seating                                  | 2  | 13 | 24 | 16 | 17 | 72    | 3.46    |
| Service speed  | 3  | 6  | 21 | 25 | 13 | 68    | 3.57    |
| Flight schedule                                      | 5  | 7  | 14 | 15 | 29 | 70    | 3.8     |
| Available destinations                               | 3  | 3  | 13 | 23 | 27 | 69    | 3.99    |
| Payment methods                                      | 6  | 12 | 9  | 16 | 21 | 64    | 3.53    |
| Attractiveness of the offer (promotional activities) | 2  | 10 | 20 | 16 | 16 | 64    | 3.53    |
| Staff courtesy                                       | 6  | 9  | 22 | 16 | 12 | 65    | 3.29    |
| Low cost carrier reputation                          | 6  | 9  | 12 | 14 | 23 | 64    | 3.61    |
| Website simplicity                                   | 2  | 8  | 18 | 19 | 16 | 63    | 3.62    |
| Additional services                                  | 11 | 13 | 13 | 15 | 11 | 63    | 3.03    |
| Additional services charges                          | 3  | 12 | 12 | 19 | 24 | 63    | 3.89    |

Source: compiled by the author based on the data collected

**Table 5.** Satisfaction with the low cost airline services

|   | 1 | 2  | 3  | 4  | 5  | Total | Average |
|---|---|----|----|----|----|-------|---------|
| I am satisfied with the service I received for the given price. | 2 | 2  | 15 | 24 | 27 | 70    | 4.03    |
| I am satisfied with the additional services on offer.           | 2 | 7  | 25 | 16 | 14 | 64    | 3.52    |
| Additional services charges are acceptable.                     | 4 | 11 | 24 | 13 | 12 | 64    | 3,28    |
| I am satisfied with the speed of buying tickets online.         | 0 | 3  | 18 | 23 | 22 | 64    | 3.97    |
| Website design is simple.                                       | 1 | 1  | 15 | 33 | 14 | 64    | 3.91    |
| I am satisfied with payment options.                            | 2 | 3  | 13 | 23 | 23 | 64    | 3.97    |
| Low cost carrier personnel have necessary knowledge.            | 4 | 3  | 20 | 18 | 19 | 64    | 3.7     |
| Low cost carrier personnel have answered Your inquiry quickly.  | 1 | 3  | 23 | 23 | 14 | 64    | 3.72    |
| Staff behaves very politely.                                    | 0 | 6  | 22 | 15 | 22 | 65    | 3.82    |
| There were no hidden costs.                                     | 8 | 7  | 11 | 17 | 24 | 67    | 3.63    |
| Landing and takeoff time were right on schedule.                | 3 | 4  | 14 | 22 | 21 | 64    | 3.84    |
| Flying schedule for single destination is optimal.              | 3 | 5  | 19 | 19 | 17 | 63    | 3.67    |
| There is a high level of security during the flight.            | 2 | 4  | 14 | 23 | 21 | 64    | 3.89    |

|  |   |    |    |    |    |    |      |
|--|---|----|----|----|----|----|------|
| I am satisfied with the comfort during the flight. | 7 | 10 | 19 | 16 | 15 | 67 | 3.33 |
|--|---|----|----|----|----|----|------|

Source: compiled by the author

Table 5 shows the respondents satisfaction with the provided service. Most of them are happy with the service they received for the given price, then there are those satisfied with the speed of buying the tickets online, and those who are pleased with the payment methods. Least respondents are satisfied with the travel comfort.

The respondents say that low prices are the key factor for deciding whether to travel again with the same low cost airline. It is the reason why most of them would choose to fly again, first with Ryanair, then with EasyJet and Norwegian.

### 3.4. Limitations and Recommendations for Future Research

The findings from the research examined in this paper cannot be generalized and applied on the European or global scale due to small number of the respondents (83). The sample of the respondents that have filled out the questionnaire is not big enough for the conclusions made based on their responses to be used in broader context. Bearing in mind that the research was conducted mostly online via social networks, there is a limitation due to the fact that many users of low cost airlines do not have a social network profile.

Recommendations for further research aim at larger geographic area, by counties for example, to acquire a bigger sample and more accurate results. It would be of great benefit to conduct a research separately, in the summer months and during the off-season, because the activities of many low cost carriers are limited during the winter months.

## 4. CONCLUSION

Airline services market has expanded and, in fact, become one large global market. Fierce market competition is marked by an aggressive price war with the aim of pushing the competitors out. Low cost carriers play the most important role in this game and present a serious competition to full service airlines due to the prices which are the key factor for most users when choosing an airline. Greatest advantage low cost carriers have lies in their *point-to-point* way of operating. Direct flights on short routes increase utilization of airplanes, and eliminate the use of additional services that are usually expected on longer flights. These characteristics of the low cost airlines are exactly the reason why many airlines are starting to abandon the conventional model and are adopting the low cost model, what makes the airline environment in Croatia become more demanding and dynamic. Since 2004, low cost airline transport has been rapidly growing. The market for their services has opened up and become competitive and available, and every new company brings forth new flight possibilities, which generates more passengers and creates a strong image and position of Croatia on the international market. Although tourists are not the only users of low cost airline service, it is by far mostly related to the summer months,

which characterizes this type of air transport with the seasonality in the number of passengers.

The research on the user satisfaction with the low cost airline services conducted in the Republic of Croatia has shown that the users are very satisfied with the quality of the service they received for the price paid, and also with the process and the speed of buying the tickets online. There have been indications of slight dissatisfaction with the on-flight comfort, which actually outlines the guidelines for the future development of low cost airline traffic, although many of the airlines have already afforded their users a more comfortable flying experience.

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