

# what benefits do low-cost carriers really bring to business travel in Europe?

## a CWT white paper

### Synopsis

- LCCs have 8% maximum coverage of the European Business Travel Market in sales.
- LCCs bring 56% savings in average on the city pairs they service versus corporate fares.
- LCCs can therefore bring maximum of 3-5% savings to total air spend of corporations.
- Access to secondary airports is one of the constraints that reduces this potential for the majority of corporations.
- LCCs are often believed to bring 10% or more to total air spend of corporations.

### Introduction

**40%,50%,70%? How much do you think the Low-Cost Carriers (LCCs) can save your company ?**

This is the kind of question that corporate Travel Managers are increasingly faced with today. Why? Because **LCCs' mass marketing is so powerful that it is spilling out of the sphere of personal travel and into the world of business travel.**

#### Best-in-class per region

Based on the expertise of its leading edge consulting department, **CWT Solutions Group**, and interviews of **38 Travel Managers** of major multinational firms in Europe, Carlson Wagonlit Travel measured the gap between the perceived vs real savings that Low-Cost Carriers (LCCs) could provide on **24,500 routes** used by business travellers in Europe.

**Research showed that potential cost savings for large multinationals are 2 to 3 times lower than they might think:** even if they have a good feel for how much a LCC could save them on a given route, effective marketing of low price offers by LCCs, often leads them to overestimate the potential impact of LCCs on the total air travel budget.

This does not mean that multinational firms should ignore LCCs offers. It just highlights the gap between reality and perception and stresses the need to evaluate potential savings on a route by route basis.

### A strong pressure to include LCCs in travel policies

How do you explain to a sales representative that he should pay 150 € for a one way Paris-Nice flight with a traditional Airline when EasyJet advertises the same trip for 27 € ? Another of the many questions faced by Travel Managers today.

**More than half of the interviewees referred to growing pressure from both senior management and travellers themselves to include LCCs in their travel policy.** And for 25% of them, the pressure from travellers is even stronger, reflecting a new sense of responsibility that employees feel about the cost of their business travel.

Growing pressure  
to include LCCs in  
travel policy

## An accurate perception of how much LCCs can save on a given route...

According to the findings of the Carlson Wagonlit Travel research, two thirds of Travel Managers consider that savings from LCCs fares as opposed to their negotiated corporate fares vary from 30% to 70% (i.e 50% in average), in line with Carlson Wagonlit Travel's own estimates.

*"On the sample we analysed, these estimates show that, in average, LCCs ticket price of tickets bought by business travellers on main LCCs routes are 56% lower than the average fares negotiated with traditional Airlines"* comments Hervé Joseph-Antoine, Air Solutions Director of Carlson Wagonlit Travel Solutions Group.

## ...but the savings potential for the TOTAL air travel budget is often overestimated

Nonetheless, nearly half (40%) of companies interviewed consider savings could amount to more than 10% while Carlson Wagonlit Travel assesses the maximum to be 3 to 5%.

This is linked to the fact that LCCs are only servicing 102 of the 24,500 routes studied, 15 of which from major airports.

*"On the business travel sample we analysed, LCCs routes only account for 8% of travel volume"* states Hervé Joseph-Antoine. *"If we look at routes operated by LCCs with more than 2 flight frequencies per day, we estimate that an achievable market share for LCCs is just 5,5%".* Even if the average LCCs ticket price is lower on a given route, potential savings are far from the current perception of the situation.

*"We believe that a saving of 3-5% of total travel spend may well be a maximum in today's environment"* adds Richard Lovell, Carlson Wagonlit Travel's Executive Vice President Europe. *"This is because there are a number of significant constraints to be overcome before the low cost carriers' services truly meet the business travellers essential requirements to lead to a wider adoption of low cost carriers within the business travel sector".*

For example, many LCCs use airports such as Beauvais (France), Charleroi (Belgium), Stansted (UK) or Hahn (Germany), that are up to 2 hours far from major city centres.

Not only that, but the lowest fares need to be booked a long time before departure, ticket exchanges and refunds are less flexible than with major airlines, flight schedule options are fewer as are the alternatives offered in the event of any operational difficulties.

Finally, savings are not automatic and part of the complexity comes from the LCCs dynamic pricing model : prices for a given seat/route may change rapidly and continuously according to demand. The cost of one leg may even alter by a factor of 4-5 times on the return leg.

## Looking at Savings potential on a company and route by route basis

Does this mean that LCCs offers are of no interest to companies? Certainly not. *"It simply indicates that the situation varies on a case by case basis requiring a customised approach to ensuring optimal cost savings ; especially as LCCs progressively adapt their offering to business traveller needs"* states Hervé Joseph-Antoine.

In a context where Travel Managers are under pressure to optimise their airline deals and to find a few percent of additional savings, LCCs can offer cost cutting opportunities. *"Particularly for companies that have sites or offices near an airport with LCCs flights. We believe that LCCs adoption rates can then increase markedly"*, continues Hervé Joseph-Antoine.

*"We are closely following all of the trends in the development of low-cost carriers"* adds Richard Lovell. *"We are currently equipping our reservation centres with search and booking technologies to ensure that we are able to include low-cost carriers in the total range of services offered to our customers in a cost effective way and to therefore guarantee that if the low-cost carrier service is the most appropriate for a business trip, it will be booked on behalf of our clients."*

## The future impact of "Low Cost Carriers" : low fares

Today, major airline carriers are judged according to their "low-cost" label. As a result, **the biggest impact of LCCs on business travel might soon lie in the reactions of traditional airlines.** To fight back against the cheap fares advertised by LCCs, major carriers have adopted two parallel strategies:

- First, they have focused on the quality of their service (their line is, in short: we do not skimp on service).
- Second, they have launched low fares of their own to meet the LCCs in the price war.

This has been understood more quickly in the UK than anywhere else in Europe. For companies, the issue of "low-cost carriers" is "out of date". The focus is now about leveraging traditional airlines low fares. Large German and Dutch companies are also heading in this direction. Potential cost cutting is likely to grow in the months ahead. Major savings opportunities await companies, providing they are able to take full advantage of them.



## Appendix 1 : What do travel managers think?\*

**Question A : Compared with the airfares that your company has negotiated on a given route, how much do you think could be saved by using a low-cost carrier on the same route?**

- Savings from 0% to 10%: 8.10% of the travel managers questioned
- Savings from 10% to 30%: 21.60% of the travel managers questioned
- Savings from 30% to 50%: 36.10% of the travel managers questioned
- Savings from 50% to 70%: 32.40% of the travel managers questioned
- Savings > 70% : 2,7% of the travel managers questioned

**Question B : How much do you think you could potentially save on your company's total air travel budget by using low-cost carriers?**

- Savings from 0% to 5%: 29.70% of travel managers questioned
- Savings from 5% to 10%: 21.60% of the travel managers questioned
- Savings from 10% to 20%: 21.60% of the travel managers questioned
- Savings of more than 20%: 18.90% of the travel managers questioned
- Don't know: 8.10% of the travel managers questioned

\* A Carlson Wagonlit Travel survey conducted in April 2003 with 38 Travel Managers of large multinational companies based in Europe.

## Appendix 2: Main city pairs used by Business travellers and served by Low-Cost Carriers in 2002



### About CWT Solutions Group

Solutions Group is the leading edge Business Travel Management consulting department of Carlson Wagonlit Travel. Its experts identify on a case-by-case basis all potential sources for optimizing company travel spend. These include optimisation of Air and Hotel deals., Self Booking tool implementation and internal processes re-engineering such as expenses and meetings management. In 2002, CWT Solutions Group undertook 45 missions for Fortune 500 customers.

### About Carlson Wagonlit Travel

Carlson Wagonlit Travel is a world leader in business travel management. Today, the Carlson Wagonlit Travel group, resulting from the merger of the Carlson and Wagonlit business travel activities, has locations in more than 140 countries and generates over \$10.5 billion in annual sales. Carlson Wagonlit Travel is coowned by Paris-based Accor group and Minneapolis based Carlson Companies, Inc.

