

### Introduction

According to a report presented by Deloitte, air transport will continue to be an essential influence on the tourism industry. Airlines and airports will become part of everyday life for the millions who until a few years ago had never flown before. The insatiable growth of low cost carriers will continue to open new markets and the long-haul aircraft will provide new supply to far flung destinations. Research projections show an expected transition from the extremely volatile swings in demand of the last four years to a period of stable growth globally. Research indicates that by 2010, more than 2.3 billion passengers worldwide would use the world's airlines for business and leisure travel. Routes in Central and Eastern Europe are expected to grow at a faster pace than in Western Europe.

However, whilst the above indicators paint a picture of stable growth, the airline industry in 2008 continues to be haunted by economy slowdown, rising fuel prices, lower consumer demand, increasing infrastructural costs and consolidation (mergers or bankruptcies). There are approximately 50 low-cost carriers in Europe, with new ones emerging and old ones dying regularly. The European LCC industry seems to be slowing down. We can expect some major overhaul in the LCC segment amongst its players, especially in Europe where LCCs are experiencing unprecedented challenges. With new market creation that is reaching saturation and strong reaction from network carriers and charter airlines alike, what can be expected is a wave of consolidation among the LCCs, either through acquisition or the market exit of many start-ups. According to a Cranfield University forecast, the low-cost airlines sector in 2015 will be dominated by 2 or 3 large carriers carrying up to 80 million passengers approximately, flying 250 aircrafts, along with a few niche players.

**The Romanian Airline Market:** Romania became the member of the European Union (7th largest country) in 2007. Its capital, Bucharest (with 2.6 million people in the metropolitan area), is one of the largest financial centres in the region. Romania is located in between Central and Eastern Europe. Regarded as a relatively backward tourist destination until the 1990s, Romania recently began to reinvent itself as a diverse and unique European destination, boasting of stunning mountain scenery, historical cultural sites, beach resorts, and medieval towns.

The country is currently enjoying its highest living standards since Communist times, with foreign investment on the rise, making it one of the fastest growing economies in Europe. Romania's economic growth could exceed 7 percent this year underpinned by healthy cash inflows from taxes on products and services, by constructions' advance,

plus a slight increase of industry and agriculture, as gauged by Banca Comerciala Romana (BCR), the country's top lender by assets. The National Forecast Commission (CNP) estimates GDP to be 6.1 percent in 2009, 5.8 percent for 2010 and 2011 and 5.7 percent for 2012 and 2013.

Tourism is a significant contributor to the Romania Economy. Domestic and international tourism generates about 6% of gross domestic product (GDP) and 0.8 million jobs. Tourists' number in Romania went up 8.2 percent in the first two months of the year against the same period in the previous one, according to a press release issued by the National Statistics Institute (INS). About 824,000 people visited Romania from January 1 to February 28, out of which 79.1 percent Romanian tourists and 20.9 percent foreign tourists. As many as 1,119,100 foreign tourists arrived to Romania in the first two months of the year, 59.8 percent more than in the same period in the previous year. Most of them came from Europe (95.9 percent).

Romania has 17 civilian airports, out of which currently 10 are served by scheduled international flights. Bucharest's Henri Coanda (Otopeni) Airport is the largest and busiest, but its Aurel Vlaicu Airport also fields some flights, and there is also direct service to Timisoara, Cluj-Napoca, Oradea, Satu Mare, Sibiu (Transylvania), Constanta, Bacau, Iasi, Suceava, Targu-Mures and Baia Mare.

Other smaller international airports are located in Bacau (with low cost flights to major cities in Italy, plus Barcelona and Paris), Arad (flights to Valencia, Verona, Barcelona, Stuttgart, Milan), Sibiu (flights to Vienna, Munich and Stuttgart), Iasi (flights to Vienna), Constanta (various seasonal flights) and Targu-Mures (one daily flight from Budapest).

There are three important Romanian airlines:

1. TAROM, the Romanian flag carrier, based in Bucharest Otopeni
2. Carpatair, based in Timisoara, connects this city with eight Italian and three German destinations, and also has collector/distributor flights to the following Romanian airports: Cluj-Napoca, Bucharest, Constanta, Oradea, Sibiu, Iasi, Suceava, Satu Mare and Bacau
3. Blue Air, the only Romanian low-cost airline, based in Bucharest Baneasa

**Romanian LCC Market:** In recent times Romania has become increasingly attractive for low cost carriers. Blue Air is Romania's first home grown low-cost carrier which was created in 2004 and is based in Bucharest and is a strong competitor to Wizz Air. Blue Air is serving various destinations in Europe from Bucharest (Aurel Vlaicu Airport),

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Arad, Targu Mures and Bacau airports. Hungarian budget airline, Wizz Air, introduced direct flights from London Luton to Bucharest in January 2007. After Romania joined the EU, the main low-cost air operators present on the local market - WizzAir, Blue Air, SkyEurope and MyAir - registered a significant growth of more than 50 percent in the passenger traffic, whereas regular airliners saw an increase of just 10-20 percent.

According to the summer schedule of 2007, currently 12 countries and 57 routes are served by low-cost carriers from Romania. The geographical distribution of the final destinations shows a very one-sided nature: 72 % of the routes lead to Italy or Spain and only 16 of them lead to other countries. There is also a strong presence of Italian LCCs in Romania. However, their presence in the country is not a coincidence, but may be explained by another substantial factor.

Since its accession into the EU, there has been a huge flow of outward (labour) migration from Romania. The main destinations of these migrants were Spain and Italy, because of already established cultural ties and perhaps because Spanish and Italian languages are easy to learn for Romanian native speakers. According to unofficial estimates, more than 1.2 million people left the country and this strong outward migration is likely to continue in the future, too. In essence, the migrants pose a constant, strong demand for air travel, and this may be the reason why one can observe the absolute dominance of Mediterranean routes offered by LCCs in Romania.

In this sense, it is not surprising at all that Wizz Air considers the country as its most important business opportunity after Poland. A substantial part of the company's business strategy is to build on the market niche of migrant workers and their demand for flights between the home and host countries. This is the reason why Wizz Air's network is concentrated between Polish cities and the UK and Nordic countries, as most Polish migrants are working in this region. Following the same strategy, Wizz Air has already established a strong presence in Romania as well posing a great challenge to the local player, Blue Air. Several others like Ryanair, easyJet, Wind Jet, AlpiEagles are also operating flights in Romania.

## Overview of Blue Air

History: Blue Air Transport Aerial is the first low-cost and charter-flight company in Romania. The objective of the company is to provide affordable and quality services as an alternative to the existing land transportation means. Blue Air as its airline is called is Romania's first home-grown low cost airline based in Bucharest. The airline was founded in 2004 and it commenced operations with a fleet of

three B737s (with a seat configuration of 144, 136 and 123) from capital city Bucharest's second airport, Aurel Vlaicu (formerly Baneasa). The carrier served 14 destinations, including one non-stop flight from Transylvanian city Arad to Spain's Valencia. The carrier supplements its income by offering charter services to holiday groups. The main hubs of Blue Air are airports in Bucharest, Arad and Bacau. Its main competitors were Wizz Air, My Air and Sky Europe.

Their first destinations from Bucharest were Timisoara, Milan, Barcelona and Lyon. In 2006, the number increased to 18 destinations in Italy, Spain, Germany, Belgium, France, Turkey and Portugal. Some of the flights also, start from the Romanian cities of Bacau, Arad and Cluj-Napoca. The main shareholder of Blue Air is businessman Nelu Iordache. In August 2005, Blue Air obtained the certification from the Romanian Civil Aeronautic Authority to transport cargo on its flights. In September, the airlines started a scheme by which a passenger could purchase plane tickets and pay for it in 3 instalments using "CardFinans AVANTAJ" at the Aurel Vlaicu (formerly Baneasa) airport. It also introduces sale of its air tickets at some Romanian Post offices.

By the end of 2006, Blue Air was operating flights from Bucharest to Italy (Bologna, Milan Bergamo, Rome - departures also from Bacau, Turin - departures also from Bacau), and, to Verona - departures also from Arad, Spain (Barcelona, Madrid, Malaga, Valencia - departures also from Arad and Cluj Napoca), Germany (Cologne Bonn), Belgium (Brussels South Charleroi), France (Lyon, Paris Beauvais), Turkey (Istanbul) and within Romania (Cluj Napoca). Commencing from the summer of 2006, Blue Air provided, its own ground and ramp handling services for passengers on Aurel Vlaicu International Airport (Baneasa).

The airline had 55 employees in the beginning, and in 2006, it had over 240. In 2005, it carried more than 240,000 passengers and a little more than 443,000 in 2006. The turnover exceeded 24,000,000 Euros in 2005 and 47,000,000 Euros in 2006. The Blue Air fleet which consisted initially of only 3 aircrafts, acquired one more B737 (with seat configuration of 167), making it 4 by the end of 2006.

In 2007, they expected the turnover to become 80,000,000 Euros, and to carry over 800,000 passengers. In 2006, their total load factor was 77% and fleet number to increase by one. Till 2006, Blue Air was operating in a less intensive competitive market as Romania was not a member of the EU (the open skies policy did not apply). But that was about to change. The company's net income amounted to around 105,000 euros in 2006, according to Finance Ministry data.

The Romanian market for low cost air services was becoming potentially vibrant, with a large population (2.4

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million in Bucharest and the surrounding suburbs), an inefficient and expensive flag carrier (TAROM) and forthcoming accession to the European Union in January 2007. The Romanian appetite for travel was increasing with the economy showing signs of dynamic growth after years of underperformance.

**The Year 2007:** On January 1st 2007, Romania and Bulgaria became members of the European Union thus opening up their skies to airline companies from other EU member countries. This meant increased demand and competition for air travel.

During the first couple of months of 2007, Blue Air opened an agency in Rome, and introduced a direct flight to Lisbon, the only such flight from Lisbon to Romania.

As of March 1st, 2007, the Blue Air Company would start operating flights to Greece, to Thessaloniki and Athens. The airline also introduced a new service - ticket reservations with payment in 72 hours and started operating flights to Fiumicino, Rome's main airport. It moved its Bacau-Rome Ciampino and Bucharest Baneasa- Rome Ciampino routes to Rome's Fiumicino airport on March 25. It had also leased an ex-Blue Panorama Airlines (BV/Rome Fiumicino) B737-400 for meeting the requirements of the new routes. Starting with the summer schedule passengers would also be able to travel from Cluj Napoca to Barcelona. Starting from May 1st 2007 a shuttle bus service between Brussels South Charleroi Airport - Lille and return was started.

The number of low-cost airline operators was rising domestically. Besides the already present companies, Germanwings entered the market on March 25, by introducing a Bucharest-Kohl route, whilst Spanish airline company Click Air launched a Bucharest (Otopeni) – Barcelona (El Prat) direct flight in May.

On account of the maintenance works that took place at the International Airport Aurel Vlaicu (Baneasa) between May and August 2007, Blue Air operated flights from the International Airport Henri Coanda (Otopeni) during that period.

Starting from June 1, 2007, Blue Air introduced new facilities for its passengers. The passengers could change the route (for destinations within the same country) and the name written on the ticket at least 3 hours before take-off. They would be able to make these changes through one of the 6 Blue Air Call Centers, at the Blue Air ticketing points and in the airports where the company operated. Name changes could be made against a fee of 35 EUR/flight segment. Route changes (for destinations within the same country) could be made against a fee of 35 EUR/flight segment, plus a possible difference between the tariff paid for the initial ticket and the tariff available at the time of the change. These changes are allowed for all the tariff classes except for Promo and OnlyTaxes categories.

Later Blue Air opened 2 new ticketing agencies, one in the International Airport Valencia (Manises), at the Arrivals Terminal, and one in Bucharest at the Phoenicia Hotel.

In June 2007, the contract for the fifth aircraft was also signed. Blue Air would purchase a new airplane, type Boeing 737 series 400, with a capacity of 162 passengers, which would be delivered in November 2007. Whether this order was 'too late too little' only time would tell! On 19th June, Blue Air celebrated its achievement of carrying 1 million passengers. Blue Air had by then issued 1,245,000 bookings.

In July the airline announced two new routes to Stuttgart from Arad and Bucharest and to London Stansted from Bucharest starting in the months of September and October respectively.

In August, Blue Air introduced the Corporate Package for corporate travellers. With the Corporate Package a company save up to 50% if it chose to buy the tickets in advance to any Blue Air destination or could benefit from special prices for instalment payments.

In September 2007, British budget carrier easyJet launched flights to Romania, flying from Baneasa Airport to Milan's Malpensa; flights to London Gatwick and Madrid Barajas followed in October. The airline said it hoped to carry 255,000 people in its first year of operations.

In September Blue Air had negotiations with Greek air carrier Aegean Airlines so that the latter could acquire a stake in the former. According to Nelu Iordache, founder and owner of the company, the price asked for Blue Air topped 30 million euros. However, talks with the Greek company were halted and the company's representatives stated they were still considering floatation on the stock market. Similar talks had been held with Wizz Air of Hungary and failed. Maybe it might become 'third time lucky' in 2008. All it needed is a new business partner.

In December, the airline had moved its Bucharest Baneasa-Brussels route from Charleroi to National airport in Brussels last month.

In 2007, the company went beyond initial forecast of the 80 million Euros turnover, by registering a first-time profit of above one million Euros and succeeded again in doubling sales. «We believe last year's profit ranges between one and two million euros,» said Gheorghe Racaru, the company's manager. He also specified that during the winter period the firm had registered additional costs of between 70,000 and 90,000 euros because of the bad weather conditions that caused flight delays.

Throughout its 3 years of its operations, Blue Air has fol-

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lowed a strategy of operating most of its flights on specific lucrative routes, only increasing and decreasing the frequency depending on the seasons. Blue Air became the low-cost leader in Romania, offering flights to 29 European destinations of 7 capitals and 22 cities operating with a fleet of 5 aircrafts. The Romanian market was certainly growing quickly, with approximately 1.73m passengers served in 2007 and Blue Air enjoyed a 33% market share of the budget flight market.

**Current status:** The operator has budgeted 120 million-euro turnover for 2008, with figures for 2007 being around 95 million Euros. It has anticipated that its growth pace will slow down to 30% from the 100% level that it had registered in the past three years. The reason for this low growth target has been due to the entry of strong low cost players in 2007 like Wizz Air, Germanwings and easyJet. Adding to this was the entry of Europe's biggest low-cost carrier, Ryanair this year. However, Blue Air representatives stated that the new operators could only have a positive impact over the market.

«Competition is not harming us as there's room for everybody on the Romanian market. Competition is just bringing passengers better and more diversified products,» said the company's representatives. «For 2008, we project an average occupancy rate of 83%, similar to last year's level,» the company's representatives also said. By yearend, Blue Air will reach 100 weekly flights, from 80 at the moment, with the new destinations including Berlin and Larnaka. Blue Air announced on January 17 that it would commence flights from Bucharest to Berlin Schönefeld Airport.

In February, the Boeing Company announced an order from Blue Air Transport Aerian, for two B737-800s and purchase rights for two more. The aircraft will join the Blue Air's all-Boeing fleet to provide extra capacity in a fast-growing market. The order is valued at approximately USD150 million at list prices.

«We have doubled our passenger traffic every year since starting our operations. Looking toward the future, the Next-Generation 737-800 is the most capable airplane on the market with a proven and impressive track record. It is the right airplane for our forecasted growth in this region,» said Gheorghe Racaru, General Manager of Blue Air. Blue Air will commence operating a B737-800, acquired through a lease agreement, later in 2008.

During the last week of March, BlueAir, the largest low-cost operator on the Romanian market, introduced flights from Arad to Barcelona which made it four foreign destinations from Arad including the flights to Valencia, Verona and Stuttgart. BlueAir had also been operating its only domestic route, Bucharest-Arad, since the beginning of this month. «We've had 400-450 passengers a week since

the introduction of the domestic flight on March 12, and expect to have 24,000 passengers on this route by the end of 2008,» said Catalin Ilie, deputy general manager of Blue Air. Arad is also the airport where the biggest low-cost airline in Europe, Ryanair, began operating flights in April. The company entered the Romanian market with flights from two less costing airports in Arad and Constanta. In April, Ryanair launched flights from Arad in Transylvania to Milan and from the coastal city of Constanta to Pisa. In April, Blue Air the low-cost airline reached 50% of TAROM's revenues on the Romanian market within three years, which it achieved through its many Spain and Italy routes, placing it on the top in the market since its establishment. «Flights to Italy have generated around 36% of revenues so far, while those in Spain around 20%,» said Gheorghe Racaru, the manager of Blue Air, whose business reached 95.7 million euros last year.

Blue Air, a company held by businessman Nelu Iordache, has therefore become the largest private airline held by Romanians, leaving behind Carpatair, whose main shareholder is Nicolae Petrov. Carpatair ended last year with turnover worth around 82 million euros. TAROM carried 1.9 million passengers last year, while Blue Air carried 900,000 people. A large number of Italian companies operate in Romania, including many in Timisoara, a city in the west of the country 60 km from Arad.

Blue Air intends to maintain its leading position, although other players such as Wizz Air and Italy's MyAir are vying for precisely the same spot. Wizz Air concluded last year with business worth around 30 million Euros and an estimated traffic of 415,000 passengers, close to MyAir's 420,000.

The number of airports in Italy amounts to seven and the number of weekly flights to destinations in this country has reached about 40% of the total. «We are still looking to boost the flight frequency to Spain and Italy, where we are tempted by 1 or 2 more destinations. The minimal occupancy rate that makes a flight to Italy profitable is 72-75%, while in Spain's case, to which flights take about three hours, we need a minimum occupancy rate of about 80%,» Racaru explained, adding that no other country had such a high potential at present.

Besides the existing routes to France and Germany, they are also looking at countries like Switzerland or Scandinavia for future destinations, as well as to the SE European region, to countries such as Ukraine, Croatia, Slovenia and Macedonia as stated by Blue Air's manager. In April Blue Air announced a new destination departing from Cologne Bonn to Sibiu (Hermannstadt) starting from June 18th. It also was starting from the 1st of June 2008, a second domestic route, Bucharest - Sibiu - Bucharest. Blue Air was going to offer the only direct connection 'Brussels - Constanta' from 29th of July 2008.

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During April and May, Blue Air cancelled many flights on almost all the important routes commencing at Bucharest to major cities like Berlin, Stuttgart, Bologna, Paris, Madrid, Milan, Cologne, Verona and Valencia between April 1st & 25th and again between May 7th & 12th. Earlier in February it had cancelled but rescheduled some flights, but this time there was no rescheduling of flights. There was no concrete reason stated. But it seemed that the high fuel costs and increasing competition was catching up!

Blue Air operates on three other airports outside Bucharest in Romania, Bacau, Arad and Sibiu, and is also seeking entrance on the Northwestern airports (Satu Mare, Baia Mare, and Oradea). Despite rapidly rising passenger numbers, 2008 may not be an unqualified success for all airlines. Wizz Air CEO Jozsef Varadi has warned that the increase in fuel costs caused by rising oil prices would put the squeeze on less competitive firms.

## Issue

The main challenge facing Blue Air is to overcome the combined onslaught of many factors this year like rising fuel costs, increasing competition and reduced consumer spending.

## Business Model

The low-cost concept perfectly fits the conditions existing in Romania, where prices of tickets are still high and no complete network of connections with the big European cities is offered. The aim of the Blue Air Company is to transform air transport into a service accessible for all categories of passengers. The objective of our company is to provide affordable and quality services as an alternative to the existing land transportation means.

At present, the Blue Air Fleet consists of five modern aircrafts, two Boeing 737 series 300, with a capacity of 144 seats (registered under YR-BAA) and 136 seats respectively (registered under YR-BAC), a Boeing 737-500 aircraft with a capacity of 123 seats (registered under YR-BAB) and two Boeing 737-400 with a capacity of 167 seats (registered under YR-BAD) and 162 seats respectively (registered under YR-BAE). It has also placed an order for two B737-800s with Boeing this year. The shortest flight on Blue Air is 00:10 hours from Bucharest to Bacau.

During 2007, Blue Air also got involved in social responsibility programs with the Cristian Chivu Football for Children Association, Baneasa Airport, and the Federation of Airport Unions in Romania, with a project for giving awards to talented young Romanians. The project sent to Disneyland 54 Romanian children with top results in school, athletics, or sports.

Some of the few important features of its business model are explained below:

Booking Tickets: Blue Air offers three modes for booking

tickets namely: online, call centres and agents. It offers 12 categories of tariff or ticket fares for which changes in name and destination is permitted (Promo category is an exception) at certain rates and with some constraints. It does not issue any ticket but only a confirmation number at all its booking centres. Pre-assigned seating is not provided.

Baggage: Each passenger has the right to maximum two checked-in baggage having a total weight of maximum 25 kilos and the sizes of maximum 100x 80x30cm, the carriage thereof being included into the price of the ticket. The checked-in baggage in excess of 25 kilos shall be charged with EUROS 6 per kilo. A passenger is also entitled to have only one carry-on baggage which should not exceed 7 kilos and size of 55 cm x 40 cm x 20 cm. In addition, one can also carry take a laptop, the size of which should not exceed 55 cm x 40 cm x 20 cm. The total weight of (checked-in and carry-on) baggage should not exceed 32 kilos.

Blue Air Corporate: Under Corporate Package a company could save up to 50% if it chose to buy advance tickets or it could have negotiated prices on plane tickets under instalment payment. This package of flexible tickets entails allows the customer to have an account opened at Blue Air, a personal sales consultant and a lot of freedom of movement. Besides having the freedom of time and movement, plane tickets could be disposed of in any other manner deemed suitable by the customer. For example, it could keep them for business meetings, or use them when in search of new clients, or offer them to employees for training travels or as a reward trip.

Customer Loyalty Program: BLUE AIR has launched the loyalty programme «MY BLUE AIR» in which a customer could open an account and BLUE AIR would repay him/her with points for every flight with them. The points will offer discounts to the tickets and, if gathered could win them even free tickets.

Also, the competition «Get off from the Blue Air plane straight into a Brand New Logan» is another monthly scheme used by the airline to repay its customers' loyalty with a brand new car, a Dacia Logan which can be won in a lucky draw. Any person buying a plane ticket from one of the sales agencies in the country or abroad, from any agency working with Blue Air, by means of the Blue Air Call Centre or website, is automatically registered in the database destined for drawing the prize.

Other notable services are: Cargo service, ticket reservations with payment deadline of 72 hours, online car rental service and hotel reservations.

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Strengths	Weaknesses
<ol style="list-style-type: none"> <li>1 First mover advantage in relation to brand image and brand recall.</li> <li>2 The low cost low fare business model has secured Blue Air a dominating position in the cost conscious Romanian market.</li> <li>3 It also enjoys the leading position in its home market and will hopefully continue to do so in the coming years.</li> <li>4 Lower fares leading to greater seat occupancy (above 80%)</li> <li>5 New fleets result in enhanced safety and higher fuel efficiency</li> <li>6 Single model of aircraft reducing training, maintenance and supervisory costs</li> <li>7 High turnover and first profitable year of 2007 makes it an attractive player for obtaining finance</li> <li>8 Lower seat capacity on airplanes suits the requirements of a smaller, but fast-growing economy of Romania</li> <li>9 The Blue Air website has lots of information which aids even a first time visitor to gain knowledge about its operations.</li> <li>10 The airline allows ticket bookings also through telephone and travel agents making it more 'business-customer' oriented.</li> <li>11 The additional services of providing travel agents &amp; retail outlets in all its destinations for obtaining tickets have proven to be successful 'pull' tactics for individual first-time air traveller of Romania.</li> <li>12 Providing for reservation of tickets with a 72-hour payment time period makes it very attractive for the migrant population of the country</li> <li>13 The airline has also shown that even a low-cost airline can provide innovative and attractive schemes for winning customer loyalty through its 'My Blue Air' and 'Brand New Logan' schemes.</li> <li>14 Offers an attractive option to passengers travelling between cities in Romania over an often highly priced and time consuming bus service</li> <li>15 Lower seat capacity on shorter routes helps it to obtain higher seat occupancy through all seasons</li> </ol>	<ol style="list-style-type: none"> <li>1 Continued sustenance of cost-based business operations in a dynamic market could be a major challenge for a small player like Blue Air</li> <li>2 Advertising and publicity campaigns seem to be less especially from its owners &amp; board members</li> <li>3 Dependence on one aircraft supplier could be a risky proposition in the current volatile market environment</li> <li>4 Blue Air needs to increase its innovative activities in order to achieve high customer retention in the face of entry of big players like Ryanair and Germanwings</li> <li>5 Pre-assigned seating needs to be adopted when catering to the business customer.</li> <li>6 Lower seat capacity during peak travel seasons can be a disadvantage especially on routes of more than an hour's duration.</li> <li>7 The Blue Air website needs to be cleaned up to make the available information more accessible and user-friendly</li> <li>8 In any LCC market the power of buyers dominates and therefore they would normally prefer the lowest bidder especially in an upcoming economy like Romania</li> <li>9 Continued sustenance of low costs in the face of increased fuel charges and economic slowdown may be difficult for Blue Air facing competition from giants like Ryanair and Wizz Air.</li> <li>10 With a small fleet required to serve its 22 scheduled routes, it is unable to offer more than two or three times weekly service to most destinations, which is inadequate to satisfy the requirements of passengers, especially business travellers.</li> <li>11 The tariff categories of Blue Air are too many with too little differences in their offerings</li> <li>12 Blue Air did not capitalize on its leading and an almost monopoly position in the Romanian market before 2007 because:             <ul style="list-style-type: none"> <li>- It did not increase its fleet drastically before 2007</li> <li>- It did not aggressively market its advantages of being a local player</li> <li>- It had not achieved dominance on the local routes</li> <li>- It did not have any game plan to</li> </ul> </li> </ol>

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## Opportunities

- 1 Strategic Alliance with a strong regional player like Carpatair could be its third opportunity to have a strong business partner (after its efforts with Aegean airlines & Wizz Air) especially as both operate local and charter flights
- 2 Recent membership to the EU proved to be an opportunity for Blue Air as its low fares and opening of borders of other economically advanced countries increased movement of job seekers across borders and also aided tourism industry, promoting economic growth within Romania
- 3 It can start operating charter flights to other Balkan countries and later introduce scheduled flights based on demand
- 4 Predicted increase in number of business travellers in the coming years all over Europe due to increasing entrepreneurial activities these new EU member countries.
- 5 The high fuel costs could give an opportunity to Blue Air to adopt more local or shorter duration routes which would not be profitable for long haul airlines like TAROM
- 6 The new fleet may be used for leasing out during times of financial downturns.
- 7 During the current turbulent times, it would be beneficial for the airline to scout for business investors or partners within Europe to expand its operations rapidly at least within its region of operations
- 8 Innovation in new sources of revenue like advertising and selling on flights, offering paid leisure entertainment on board could help it to offset to some extent the costs of fuel and other charges
- 9 The different tariff categories of Blue Air can be enhanced to a great extent to attract the business/value-oriented customer whose numbers are expected to increase in the next few years

## Threats

- 1 Decrease in availability of airports/landing slots in popular or frequently travelled destinations.
- 2 Direct competition with other LCC players this year is bound to become more intense and affect its turnover
- 3 Traditional airlines are also cutting fares and costs which could affect the market share of Blue Air
- 4 Spate of cancellations during the months of April & May could have hampered its fragile image among its loyal customers
- 5 Excess capacity and retaliation by competitors by cutting ticket fares can affect Blue Air's growth on some popular routes.
- 6 Technology advancement in the conduct of business meetings like video-conferencing can be detrimental to Blue Air on its short haul flights.
- 7 The maturing of markets and further consolidation in the airline market could increase operating costs which in turn could increase the passenger fares reducing its advantage on other modes of travel
- 8 Increases in fuel costs could force fares to go up, triggering the industry's latent price elasticity of demand.
- 9 Legislation for environment protection and customer compensation would increase aviation taxes.
- 10 Cost competitive value creation and efficiency in operations will reach their natural saturation limits beyond which differentiation will become difficult.
- 11 The business model can over time become blurred under competitive pressure, rising operating costs and airline industry consolidation
- 12 The demand for slots in regional airports may increase especially with dramatic increase in number of low cost players in the near future. This could increase the bargaining strength of airport managements and also the airport charges in a small country like Romania
- 13 During times of war tensions and strife, companies cut down on business trips due to apprehensions about security.
- 14 The competition from other modes of transport could soon become more intense in eastern European markets where the passengers are more price-driven and not value-driven like their West European counterparts.
- 15 Currency fluctuations which are the order of the day would continue to

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## Conclusion

Blue Air can definitely survive these difficult times if it is able to find a strategic regional partner to avoid being run over by the strong competitors surrounding it and the ever-rising fuel prices. Growth and rapid expansion need large funding for which any dynamic company would eventually go to the capital markets. But the current volatility in the stock markets does not bode well for such a move. There is immense scope for the airline to become a strong regional airline providing both charter and low cost flights.

The increasing competition coupled with rising operating costs could mean that small players may find it extremely difficult to keep their prices low and therefore need to adapt new strategies to survive in the long term. There is no doubt that the current volatile economic environment will definitely test the mettle of many airlines to survive and sustain. The end result could only be the '*survival of the strongest*'.

## EVENTS



23 - 24 September 2008  
Queen Elizabeth II Conference Centre  
London, United Kingdom



## World Low Cost Airlines 2008

September 23 to 24 in London

*Air Scoop* is proud to be media partner of the *World Low Cost Airlines 2008*.

Plans are starting to take shape for the *World Low Cost Airlines Congress 2008*.

Earlier this year over 650 of you joined us in London for an action packed two days. To remind yourself of the day (or to see what you missed!) we have put together a short video of the highlights. To see it simply visit our homepage. (You'll need to have flash installed on your computer.)

Don't miss out on next year's event.

To have more informations about last edition of the *World Low Cost Airlines*, read the full coverage in [Air Scoop October 2007](#).

For more information on the *World Low Cost Airlines 2008*, visit [www.terrapinn.com](http://www.terrapinn.com)

