

Introduction

The global airline industry is going through a difficult period which is bound to continue throughout this year 2008. The major factors contributing to this are:

- a) Slowdown in the US economy;
- b) Reduction in consumer spending in H2 of 2007;
- c) Increase in the fuel prices;

But the impact of the above factors on European airline industry is predicted to be less intense as the Euro has remained strong against the relatively weaker Dollar. The coming few years will be a scene of not only intra-European airline industry consolidation, but it will also witness many international mergers and acquisitions due to the 'US Open Skies Agreement' coming into effect this year. This will be aided by the slowdown in US economy and the weakening of the Dollar.

Eurocontrol had recently revealed that the number of flights in Europe surged to approximately 10 million in 2007, an all-time high and an increase of 5.3% on 2006. Average daily traffic was 27,676 flights last year compared to 26,286 in 2006. Traffic growth was strongest in Eastern Europe, with several states seeing growth near 20%. Growth was driven mainly by low-cost carriers (up 25%) and business aviation (10%), which together accounted for nearly all the net new flights. The number of flights in 2008 is expected to rise 4.2%. For the first time, 20% of all flights are expected to be operated by LCCs. Traffic growth is expected to be strongest in countries along the Adriatic coast and in Poland and the Baltics.

May 1, 2004, saw the simultaneous accession of 10 new members into the EU of which eight are CEE states: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic and Slovenia. Two more CEE countries, Bulgaria and Romania, joined in 2007. No-frills air travel in CEE is blossoming, primarily from the new EU members, as their entry allowed carriers to operate freely among all 25 member states without the restriction of bilateral agreements limiting the number of flights and favouring national airlines. In the New EU member countries, current market share stands at 80% traditional carriers, 20% LCCs, and by 2010 it is predicted that LCC market share will grow by 8% to 28%.

Forecasts by IATA for airline traffic among the nations of Central and Eastern Europe are very good with Poland, the Czech Republic and Romania featuring in IATA's worldwide list of the top 10 countries with the highest average annual growth rates in passenger traffic for 2005-09. Po-

land leads the group with an AAGR of 11.2% while the Czech Republic is third at 9.5%. This compares with an overall industry AAGR of 5.6% for international passenger traffic between 2005 and 2009, and 5.1% within Europe.

«We believe that the boom in passenger traffic in the CEE region is the result of EU enlargement, strong economic growth and the ongoing liberalization of civil aviation in the region. While the EU enlargement and the strong economic growth have vigorously increased demand, the liberalization and privatization of civil aviation has resulted in improved supply coupled with a reduction of costs and prices,» says IATA Aviation Intelligence Assistant Director Charles De Gheldere.

But the European low cost industry could still experience an overhaul due to the increasing fuel costs, excessive capacity, green taxes, tough competition and lower consumer spending which negatively impacts leisure and business travel. The effect has already been felt by lower load factor and fall in share prices of leading players. This is bound to lead to a price war and consolidation of markets sooner than later, as the players scuffle for survival. Analysts have also predicted that Eastern European LCCs would need strong balance sheets to compete with deeper-pocketed rivals such as Ryanair and EasyJet.

The Hungarian LCC Market: Hungarians are the second most frequent users of low-cost services after the Poles in Central and Eastern Europe, a survey released recently by easyJet said. According to the survey, 63 percent of Hungarians prefer to fly with low-cost airlines, the poll of 500 passengers showed. (The corresponding Polish figure is 77 percent). Cheap fares are the main motivating factor for Hungarians but e-ticket and 24-hour on-line ticket booking options are incentives too, the survey said.

Ryanair, easyJet, Wizz Air, Germanwings are some of the major players in the Hungarian market. However, Hungary is one of those few European countries where the rate of growth of the LCC market has fallen behind the normal growth rate of European markets. The number of flights to the UK is surprisingly very low compared to those from Poland and other European countries. The reasons for this slow growth has been attributed to lesser number of airports in the catchment areas and expensive airport charges which discourages low cost carriers like Wizz Air from increasing the number of routes and capacity which is not the case with the Polish market.

The Polish LCC Market: Among the Eastern European countries, Poland maintains strong growth and now has the 4th highest low-cost market share with 21%. The International Air Transport Association had forecast that, during

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2005-2009, Poland would become the fastest-growing air transport market in the world. Its average annual growth in passenger numbers was expected to be 11.2 percent over that period. The top-10 air carriers now include five budget airlines: Hungary's Wizz Air, Britain's easyJet, Ireland's Ryanair, Germany's Germanwings and the beleaguered LOT Polish Airlines' own Centralwings.

The boom in Poland's low-cost carrier business is reflected by the development of air transportation between Poland and the UK, a result of the British and Irish labour markets opening up to Poles following EU accession. Many carriers have chosen Poland, as it is the only country with a sizeable population and one with extremely poor road infrastructure. Before EU enlargement, passengers could fly directly to the UK only from Warsaw and Krakow to London or Manchester. But now short-term migrants such as plumbers or builders are routinely flying to Britain and Ireland from almost every Polish airport. A research study has indicated that, in 15 years, the number of passengers served in Poland could reach 39 million, rising to 63 million by 2030.

Romania and Bulgaria: Romania has seventeen commercial airports. The busiest is Bucharest Henri Coanda (formerly Otopeni), which handled 3.5 million passengers in 2006. The second busiest airport is Timisoara which handled 608,000 passengers during the same period. The third busiest is Bucharest's second airport, Aurel Vlaicu (formerly Baneasa) which processed 386,000 in 2006. 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. The growth of low-cost service from Romania's second Bucharest airport at Baneasa has been impressive, increasing from just five routes in April 2006 to 22 in April 2007. Passengers wanting to travel from Bucharest to London and Paris have a good choice of LCCs from this airport namely Blue Air, MyAir and Wizz Air. In the first two months of 2007 traffic between the UK and Romania was up 87% on the previous year.

In Bulgaria the principal airports are Sofia, the main international gateway, Bourgas and

Varna. These airports account for the vast majority of passenger traffic in Bulgaria. Sofia is the busiest airport, handling 2.2 million passengers in 2006. (till Jan. 2007). Although Bulgaria does not yet have its own low-cost airline, LCCs such as Germanwings, MyAir and Wizz Air operate to and from Sofia and Scandinavian carriers Sterling and Norwegian fly to the summer resort areas around the Black Sea. In the first two months of 2007, traffic between the UK and Bulgaria was up 83% on the previous year.

Wizz Air: Wizz Air is a Polish/Hungarian low-cost airline focusing on the markets of Central and Eastern Europe. Its main bases are Budapest Ferihegy International Airport

(Hungary), Katowice International Airport (Poland), Warsaw Frederic Chopin Airport (Poland) and Gdansk Lech Walesa Airport (Poland) with hub at Sofia Airport (Bulgaria).

Wizz Air Ltd. is a London-registered company, with subsidiaries in Hungary, Poland and Bulgaria. London, according to its CEO Jozsef Varadi, provides easy access to capital markets. The holding company controls Wizz Air Polska and Wizz Air Hungary, a legal entity licensed by the Hungarian CAA. Jozsef Varadi, along with five friends, launched Wizz Air in September 2003. The airline was launched to coincide with the EU accession of 10 new countries in May 2004.

On May 19, 2004 the first Wizz Air flight took off from Katowice International Airport in Poland and since then the carrier has transported 6.6 million passengers and become the leading low fare airline in Central and Eastern Europe. Wizz Air flies a young fleet of 13 Airbus A320 aircrafts with 180 leather seats on board. These are maintained by Lufthansa Technik and SAS Technical Services. Wizz's fleet will reach 19 A320s by next summer, and this will grow to over 50 aircraft by 2012.

In summer 2007, Wizz Air offered flights to 48 European airports on 90 routes covering 17 countries, and carried around 4.5 million passengers through the year. It is currently the largest low cost - low fare airline in Central and Eastern Europe. «We look forward to becoming the single largest airline of all carriers in Central and Eastern Europe in 2008», said Jozsef Varadi

Awards: During 2007, the readers of pasazer.com - the largest polish travel-news portal, voted Wizz's Airbus A320-200, boarding at Aurel Vlaicu International Airport for London Luton Airport, as the best low-fare airline in Poland.

In January 2007, the CEO and Chairman of the airlines József Váradi, was awarded the Ernst & Young Award of the 'Brave Innovator' for Wizz Air's business model, business conduct and its breakthrough performance in the airline business in Hungary and the region.

Wizz Air was chosen as the favourite discount airline in Hungary in April 2005, by the readers of Budapest Business Journal (BBJ).

Overview of Wizz Air

History: The plan to launch a new Central-European low fare - low cost airline, was conceived in June 2003 by Jozsef Varadi, Chief Executive Officer. Together with 5 friends and airline experts, he founded Wizz Air in September 2003. After researching the business models of established low-fare leaders such as Ryanair in Europe and JetBlue in the United States, Varadi chose to go with a low cost business model similar to that of Ryanair. Since

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Western Europe was already too crowded with low-fare airlines, Varadi selected Central and Eastern Europe as the home ground for Wizz Air's operations. Katowice and Budapest became the airline's first bases.

According to the CEO, the reasons behind choosing Poland and Hungary in 2004 were their impending accession into the EU and that they were the biggest countries in terms of population. In its first four months of operations, it introduced six 180-seat A320s. All were leased. In July, Wizz Air signed an LOI with Airbus for up to 24 V2500-A5 powered A320 family aircraft.

Wizz Air secured up to z1.231 million (\$60m) of venture capital funding from American and European institutional investors. The board of directors included Lynn Wotherspoon, former COO of Buzz (the former low cost arm of KLM), and high-ranking employees of regional branches of Procter & Gamble and The World Bank. The company funding in the first year amounted to E34 million, with some 20 high net worth individual investors from 10 European countries providing the start-up cash. The leading investor in the company is an American private equity firm - Indigo Partners that specializes in transportation investments. Indigo Partners is also an investor in Singapore-based LCC - Tiger Airways.

The biggest challenge for LCCs based in Central or Eastern Europe was to be able to convert passengers from their basic travel methods into using air travel. Apparently, only 3%-5% of the population in Poland and Hungary used air travel. Residents in Central and Eastern Europe are constrained by budgets, as the average income per person in the region is much below the EU average. The competition in these markets is not with incumbent carriers but with coach services, train services and personal travel modes, limiting the yield for the LCCs. Wizz Air had been quite successful in stimulating the market; 40% to 50% were first-time fliers.

Growth; Wizz Air's start was strong, with 1.2 million passengers carried at an average load factor of 60% in its first full year of operations to May 19, 2005. Revenue in its first financial year, which covered the 11 months to March 31, amounted to E60 million. For the financial year of 2006, it had set the goals of carrying 2.2 million passengers and generating 150 million Euros in revenue, while for the year beginning April 1, 2006 it intended to nearly double those figures to 3.5-4 million passengers and earn revenue of about E250-E300 million. It also expected to post its first significant profit in FY07.

In January 2005, Wizz Air launched a new scheme to attract corporate travellers and Government officials called 'Wizz Biz'. The airline had also launched some new routes in March to fill gaps in the market left when Air Polonia

collapsed. These routes included flights from Warsaw to Paris, Frankfurt, Stockholm and Barcelona. The Polish national airline LOT launched a no-frills airline called Centralwings in February 2005, while Irish low-cost giant Ryanair entered the Polish market in March 2005 with flights from Wroclaw to its London and Ireland bases. Wizz Air had started operations in Lithuania in December 2005, offering flights from Kaunas to the Polish capital, Warsaw, with connections to major European cities.

In April 2006, Wizz Air CEO, Jozsef Varadi, had predicted that only one airline from Central Europe will survive to wage the looming competition with Ryanair. Both Wizz and chief rival, SkyEurope, had yet to attain profitability, but both had predicted an operating profit in 2006 and a net profit in 2007.

According to figures published by the Polish Civil Aviation Authority, Wizz Air has strengthened its position as the largest LCC and the second largest airline in Poland. Wizz Air carried 15.5% of the total passenger traffic to/from Poland in 1Q06, compared with 11.7% for the same period last year. In the first half of 2006, Ryanair had quickly achieved 12 per cent share of the Polish airline market, flying to nine airports there, up from almost nothing in 2005. It now flies to most of the countries that most recently joined the EU.

In 2006 April, Wizzair had 38% share of the low cost airline market in Poland and 26% share in Hungary. Mr Varadi has stated that, like Ryanair, Wizz Air is more focused on keeping costs low, an approach that has already generated an operating profit — although the closely-held company has not given out any details.

The airline's first flight from Cork took off on July 14th, 2006, to Katowice in Poland. The airline has carried over 70,000 passengers between Cork airport in Ireland and Poland (Gdansk and Katowice) since it commenced operations in July 2006.

Current Status: (2007-2008) In January Wizz Air, offered free tickets (only taxes and charges to be paid) to stranded passengers of SkyEurope following SkyEurope's cancellation of its flight between Bucharest and Budapest until 25 March 2007, starting on 16 January 2007 along with 7 other new Romanian routes. It also announced plans to open a base in Romania in May.

According to a news report published in April, Wizz Air, the Hungarian budget airline was planning to float on the London Stock Exchange in a listing that could value it at £400m-£500m, reports The Daily Telegraph(April 2007). Chief executive Jozsef Varadi, was to select one from among six investment banks interested to assist it in its IPO. The company hoped this issue would include as much as £200m in fund-raising to finance expansion. The

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banks include the trio behind the successful flotation of Spanish low-fare airline Vueling: Goldman Sachs, JPMorgan and Morgan Stanley besides UBS, Credit Suisse and Citigroup.

The float was planned before the year end of 2007 and Wizz Air was expected to have a higher market worth than Vueling, currently valued at €640m (£435m), also including the new money raised. But the listing seems to have been postponed. According to last year news reports, Wizz Air's Chief Executive, Jozsef Varadi, had said that the airline was «years away» from a listing.

In April 2007, Wizz Air, reached the six million passenger figure since its May 2004 launch. Within one year the carrier had doubled its passenger numbers and had now outperformed its competitors. As a part of its Eastern European expansion, this summer the airline started flights from Croatia (Zagreb, Split) and Slovenia (Ljubljana).

In May, Wizz Air took delivery of the first of 32 directly purchased A320s, featuring the all new A320 Family new cabin, giving passengers more space and a quieter travel experience. The latest A320 models also feature additional advanced aerodynamics helping reduce fuel burn even further. It also extended its catering agreement with gate Gourmet for another two years after a successful, initial three-year term.

In June the airline inaugurated its sixth operational base, at Bucharest Baneasa Aurel Vlaicu International Airport. The decision was determined by the company's ambitious growth plans for the country. Wizz Air had begun to operate flights from Tirgu Mures in July 2006 and from Bucharest in January 2007. The operational base would function inside the Henri Coanda airport until the reopening of the Bucharest Baneasa Aurel Vlaicu International Airport and would host a new Airbus A 320 aircraft with 180 leather seats. The aircraft would be flown by a Romanian team of pilots and cabin crew already hired. "By summer 2008, Wizz Air will become the largest low cost airline in Romania." stated József Váradi, Chief Executive Officer of Wizz Air.

Wizz Air had also announced that it would establish its 7th operating base in Poznan airport starting in January 2008. The airline had also revealed the launch of four new routes from Poznan; Doncaster-Sheffield, Prestwick-Glasgow, Malmo-Copenhagen and Oslo-Torp (from 31 January 2008), complementing its existing services to London-Luton, Stockholm-Skavsta and Dortmund.

In July, Hotelopia, the online hotel booking specialists, today 30, launched its partnership with Wizz Air, to supply accommodation services on wizzhotel.com to the airline's 47 destinations which included: Budapest, Warsaw, Gdansk, Bucharest, Sofia and Katowice UK, Ireland,

France, Spain, Italy, Scandinavia, Germany and Greece.

During October 2007, SkyEurope withdrew its operations from Poland and Hungary, having decided to focus on Slovakia, Austria and Czech Republic. This partially fulfilled Jozsef Varadi's prediction the previous year that 'only one major player from Central Europe would survive to compete with Ryanair'. During October 2007, Wizz Air placed a new order for 50 A320 family aircraft. It had been aggressively gaining markets, by focusing on Poland, Hungary, Romania, and Bulgaria, while keeping out of Austria and the Czech Republic.

In October Wizz Air announced that it would operate all of its flights serving Transylvania in Romania from Cluj-Napoca International Airport and would cease flying from Tirgu Mures Airport. Wizz Air started flying from Tirgu Mures in July 2006 and since then severe weather conditions combined with the airport's inability to improve low visibility operations had been continuously jeopardizing the airline's on-time performance causing delays and forced cancellations. On the contrary Cluj Airport had already got more advanced operational capabilities as well as adequate development plans in place to accommodate Wizz Air's growth by ensuring a smooth operating environment. Wizz Air later declared plans to open its 8th operating base in Cluj, Romania with one new A320 aircraft and local crew in May 2008.

In December Wizz Air further enhanced its operations by scheduling 35% more flights for summer 2008 from its bases in Hungary and Poland. It planned to add 15 new weekly flights compared to summer 2007 or 27% more capacity. The airline will increase frequencies on most of its current routes, add Goteborg, Oslo-Torp and Venice-Treviso to its Budapest network and reintroduce the popular summer seasonal flights to Bulgaria (Bourgas and Varna), Spain (Barcelona-Girona and Palma de Mallorca) and Greece (Corfu, Rhodes and Heraklion).

Finavia, the governing body of Finnish airports, has introduced a "low cost" concept at Turku Airport in Finland. The previous, maintenance building would become a passenger terminal at the beginning of April 2008. The terminal would have capacity for 10 to 12 flights per day. The first airline to take advantage of the concept would be Hungarian Wizz Air, which will start operating international flights between Turku and Gdansk, Poland.

Overall, in 2008 both Hungarian and Polish markets would see a significant network enhancement from Wizz Air resulting in the largest choice of low fare routes from its bases and further strengthening its leadership on the market.

Wizz Air remains the largest low cost airline in Poland. In 2007 the airline carried 2.8 million passengers on its

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Polish routes, 33% more than in 2006. Wizz Air is the low-cost leader in Poland with a 35 percent share in the Polish low-fare market. Ryanair controls 26 percent and Centralwings 24 percent. The airline offers flights from Poland, Hungary, Bulgaria, Croatia, Slovenia and Romania. Wizz Air accounts for 15% of the total airline market in Poland, 3 percentage points up from last year's 12%, while Ryanair accounts for 11%.

In Hungary Wizz Air had carried 700,000 passengers on its Budapest flights, 14 percent more than in 2006, Varadi said, adding that the limited increase was due to the high fees Ferihegy international airport operator Budapest Airport charged. The low-cost airline, the largest in Hungary with a 34 percent market share, expects to carry 6.3 million passengers on all of its flights next year, about 45 percent more than in 2007. The airline's market share in Bulgaria, the airline's new market, reached 52% just six months after its launch in the country. Wizz Air, which entered the Romania in 2006, has stated its intention to provide transport services for one million passengers, to and from Romania in 2008, by increasing the number of weekly flights. Representatives of the Hungarian company say the company intended to become leader of the local low-cost market in 2008 ahead of Blue Air.

In January 2008, Wizz Air and GECAS announced a sale and leaseback transaction covering six A320s scheduled for delivery in 2009 and set to be leased for 11 years each. The companies have similar deals covering eight additional A320s to be delivered over the next two years.

Wizz's fleet is expected to reach 19 A320s by next summer, and this would grow to over 50 aircraft by 2012. "We fly to almost all European countries and we follow the low-cost model, so we prefer secondary airports," says Varadi during Q4 of 2007. Wizz is a privately-held company and Varadi declined to provide details of its financial performance, except to say that "given our growth rate and the size of our operation, financially we are doing fine". He added that the carrier "continues to look at [its] options" regarding the possibility of launching an initial public offering some time in the future, but stresses that no decision has yet been reached.

Issues/Challenges

1. Can Wizz Air maintain its position as a niche player within the CEE region in the face of competitive assault from the leading low cost airlines like Ryanair?
2. Will organic growth be a sustainable strategy in the long term?
3. In the face of rising fuel costs, falling dollar value and economy slowdown, will Wizz Air continue to attract the budget-constrained consumers of CEE region?
4. What could be the right time to go for the IPO?

Business Model of Wizz Air

Wizz Air has built its business mainly by shuttling Polish and Hungarian workers between eastern and western Europe using 180-seater A320 aircrafts. The carrier follows the LCC model of single aircraft type and secondary airports (e.g., London Luton, Paris Beauvais, Frankfurt Hahn), but prices itself at higher fares than some budget carriers, and offers some comfort features for business travellers, Wizz Bizz. Around 85% of its sales come off the Internet. Home Internet penetration is low in Central/Eastern Europe (at about 20%). Wizz Air also sells through call centres and travel agents.

Wizz Air's business model is based on cutting out any 'frills' from its service and working with simple, standardised, automated back-office processes. It operates a 'lean and mean' organisation where streamlining business processes is critical. The organisation focuses on constant improvements in optimising process cycle times and seeking new operational efficiency as it grows by adding new routes, services, and markets. It has been designed to be ultra-low cost with the following elements: efficient, young Airbus A320; over 13 hours aircraft utilization; use of secondary/regional airports; point-to-point flights; high internet sales; highly efficient organization (7500 pax/employee/year) and best operating practices.

Main features of the business model are:

1. Wizz Air website: The website of Wizz Air is well presented and quite clutter-free. All the information has been clubbed under different headings on top of the web page. It also provides a clear route map giving the names of the destinations. Ticket booking section is on the left side and easy to follow.
2. Booking of tickets: Ticket booking can be done online or through call centres or through travel agents. There is a credit card handling charge and an accurate breakdown of all costs related to the total cost paid is provided. No paper tickets are provided by the Wizz Air. Passengers are provided with a confirmation code at the time of booking a ticket. Changes in bookings can be made 3 hours before take off at an additional cost and the payment of the difference in fares. No refunds on cancellation.
3. Check-in and Boarding: There is no assigned seating but priority boarding is provided at an extra fees. Check-in desks close 40 minutes before departure and open 2 hours prior to it. There is also a facility to book a seat with extra legroom at an additional price.
4. Baggage: One piece of hand baggage per person with a total dimension of 115 cm (55x40x20) weighing up to 10 kg can be carried on board. A small size handbag or coat is allowed with it. Excess weighing bag will be checked-in. Every checked-in baggage is charged and maximum weight allowed per person is 20kgs. There is also an excess checked-in baggage charge.

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5. Special need passengers: The number of disabled passengers allowed per flight is 10. The customer must notify his/her condition at the time of booking and also present a medical certificate or doctor's approval to travel.
6. Delays and cancellations: When the delays go beyond a time period (2 to 3 hrs.), compensation is provided either in the form of refreshment/meal voucher and two telephone calls and for even longer delays the passenger can claim refund.
7. WizzPlus: This scheme enables Wizz Air frequent flyers to purchase Wizz Air's services at a discounted price, the discount being dedicated to the individual passenger through the Passenger Registration process. WizzPlus is a passenger's personal refillable account with Wizz Air. By transferring a set amount of money to his/her account, he/she can automatically receive 15% or 25% bonus. One can use the accumulated credit to book any seat with Wizz Air - including promotional ones.
8. Wizzit: This is an in-flight magazine of Wizz Air that contains information about new route, travel places, food and other attractive features.
9. Health & Safety: The Wizz Air website provides a very interesting and informative page under the section 'Health & Safety'. This provides safety instructions, do's and do not's on the flight, how to cope with air pressure changes on flight so on, so forth. This seemed to be a real customer-friendly feature.
10. Other Services: Travel insurance package, coach transfer service from London Luton airport to Victoria station, free travel on Airport Arrow Bus (707), operating between Doncaster Interchange and Robin Hood Airport are some of new enhanced services being provided by Wizz Air.

Ancillary Sources of Income

1. Payment handling fee using credit cards
2. Flight change fee
3. Check-in baggage fee
4. Excess baggage fee
5. Special baggage fee
6. Excess fee for Sporting equipment weighing more than 15kg
7. Extra-legroom seat fee
8. Pre-boarding fee(bus & aircraft)
9. Infant fee
10. Call centre booking fee
11. Name change fee per flight per passenger
12. Invoice change fee
13. Missed flight fee per flight per passenger
14. Hotel booking
15. Car rental
16. Insurance
17. Airport transfer
18. Wizz cafe & Wizz boutique

SWOT Analysis

Aim and Objectives: Our aim is to make flying affordable to the citizens of CEE, as well as to provide a new travel experience to all travellers in the EU. The latest technology is deployed to ensure that the "Wizz Air experience" is outstanding in terms of service and value for money.

We are committed to our guests, to accessible prices, and to reliable, comfortable travel- said József Váradi the CEO of Wizz Air.

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Strength

1. The low cost low fare business model has secured Wizz Air a dominating position in the cost conscious CEE markets.
2. It also enjoys the leading position in its home market (Hungary and Poland) and will continue to do so in the coming years.
3. Total focussed organic growth using secondary airports has helped it to expand rapidly.
4. The airline also pays lower airport landing fees by using secondary airports.
5. It also benefits from its geographical location (CEE) which enables it to operate on a very low cost base.
6. The process of expansion by entering new EU member markets in the CEE regions aggressively has kept it ahead of intense competition.
7. The website of the airline is well presented and does provide all the information at every heading.
8. The brand name 'Wizz Air' aptly projects the image of a young, dynamic and universal airline company, and is easy to pronounce and remember. The colour scheme of pink and purple is striking and unique.
9. Wizz Air enjoys the advantages of being a front runner in the following ways:
 - High brand recall
 - Reduces barriers to entry into new markets and airports
 - Enjoys strong bargaining power in negotiations with airport authorities and suppliers of related services
10. Dynamic and aggressive leadership is being provided by CEO Jozsef Varadi.
11. Wizz Air has its main base in Poland which has been predicted to be the fastest-growing airline market in the coming years in Europe.
12. The airline employs local people as its crew and provides cheap transport for emigrant workers. thus contributing to the growth of the economy.
13. It flies the Airbus 320s for an average of 13 hours a day (higher than Ryanair) which ensures maximum utilization.
14. Single model, single-class seat configuration keeps its operating costs very low.
15. The maintenance costs are low, as the aircrafts are a single-model and relatively new with average age of less than 4 years.
16. The above cost control measures have helped it to offer low fares, while achieving reasonable operating margins.

Weaknesses

1. Competition from leading players like Ryanair on the home turf of Wizz Air can be tough to handle in the long term.
2. Continued sustenance of low costs in the face of increased fuel charges and economic slowdown may be difficult.
3. Secondary airports may soon become less attractive to passengers when the standard of living of the CEE consumer improves in a few years from now.
4. The charges for every service offered and further breakdown of charges for the same service (e.g. charge for baggage during booking is less than the charge for it after booking) could make ticket booking very cumbersome.
5. The website does provide all details but the customer would not be able to directly go for the booking without reading all the details which consumes lot of time.
6. In spite of Wizz Air charging for every extra service, it is not offering the passengers rock-bottom fares similar to Ryanair. This could prove to be costly in the long term.
7. Passenger opinions are not very good, the main grouse being the lack of communication about flight delays or about the ground shuttle service.
8. Wizz Air needs to be more innovative about its ticket booking services as it is catering to a not-so-tech savvy market.
9. Lack of basic comforts at a little price will not attract the ever growing business travellers and entrepreneurs. Pre-assigned seating can be provided.
10. The list of ancillary charges is getting longer by the day which can become irritating for the customer.
11. In the future airport landing slots in popular destinations may grow scarce in supply and expensive.
12. It has to continue the use of call centres and travel agents in these specific markets adding to its operational costs.
13. With the increase in costs of fuel and aircrafts (as demand is greater than supply) leasing them for a long term could prove to be more expensive.
14. With increasing number of routes and flights, the demand for pilots is bound to increase. Those airlines which have their own training facility will definitely be at an advantage.

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Opportunities

1. Using Eastern Europe as its home base, Wizz Air could be more profitable operating to any Western Europe destination than its West European counterpart (as long as it returns to its base every night).
2. In the coming years, Wizz Air could expand its low fare operations into Turkey and Ukraine on the Eastern side and into the Baltic states of Estonia, Latvia and Lithuania in the North.
3. It would be favourable for Jozsef Varadi to plan for consolidating its position through mergers and acquisitions, rather than just waiting for the inevitable to happen.
4. Consolidation through mergers and acquisitions can be used as a ploy to reduce competition and offset pressure on the airlines cost and fares.
5. As the new EU states progress and prosper, the disposable incomes of the residents would increase. This could be spent on leisure travel.
6. This smart cost advantage enjoyed purely by its geographical location could be used for venturing into West European inlands. It could operate by day and return home by night which would keep its operating costs low.
7. Increased business and entrepreneurial activities in the CEE region could increase demand for quick and comfortable travel.
8. The US-European 'open skies' agreement could be one of the causes for internationalization of business in CEE regions leading to more Trans-Atlantic travel.
9. The airline can offer more innovative on-board leisure entertainment and advertising schemes.
10. Immigration into Europe is bound to increase due to heightened instability in the Middle-East.
11. Since the airline does fly few 3hr. duration flights, it can plan to operate low-cost medium-haul flights.
12. Russia and the Middle-East could become destinations for medium haul flights.

Threats

1. The slowing down of the Global economy could have an adverse effect on consumer spending.
2. The rising fuel charges could make it difficult for Wizz Air to keep its operating costs very low thereby reducing its low cost advantage.
3. The cost conscious passengers might in the long run find it more economical to fly with Ryanair whose fares are lower than that of Wizz Air.
4. The threat of consolidation is definitely looming high in the horizon but there seems no game plan to counteract it.
5. The policy of surviving only through keeping costs low could come to nought in the face of increasing environmental taxes, fuel prices and rising competition.
6. The competition threat for Wizz Air in the CEE regions is not only from within the LCC industry but also from other cheaper modes of transport which cater to the same cost conscious customer.
7. Power of the buyer is the highest in these new EU member countries as they have been living a more lean and cautious existence as compared to their Western counterparts.
8. Terrorism has affected the safe travel image of air transport. If this fear persists the number of frequent travellers may decline.
9. Dependence on third-party maintenance could create obstacles at the time of renewal due to high charges and limited supply.
10. In the new EU markets imitation of some 'no-frills' features by the network airlines can intensify competition in these markets.
11. Due to its low-cost tag, it may be difficult for it to move up the value chain to cater to the value-segment that has been predicted to grow in numbers.

BIRD'S EYE VIEW

Recommendations

1. Wizz Air can definitely continue growing as long as it keeps expanding rapidly, preventing the competition from catching-up. It has to reinforce its leading position in the CEE region by means of collaboration or acquisitions. It also needs to adapt to the changing dimensions of the dynamic aviation market.
2. Organic growth is suitable for expanding in smaller markets, but as the airline moves into larger markets, the rule is 'survival of the fittest'. As Jozsef Varadi has predicted, consolidation is imminent. Supply is greater than demand and therefore smaller/weaker players will be overpowered by the stronger and larger players.
3. Based on IATA and Eurocontrol predictions, the Polish aviation market is expected to have the highest growth rate followed by the Baltic state. Therefore any airline that is currently entrenched strongly in these markets would be difficult to uproot. Therefore Wizz Air's outlook looks strong as it aims to achieve 20-30% annual traffic growth over the next few years.
4. Growth and rapid expansion need large funding for which any dynamic company would eventually go to the capital markets. The timing for this may be decided by observing the market performance of leading players in this difficult period (2007-2009) of economic slowdown.

Conclusion

Many airline CEOs have predicted that in the next 5 to 10 years there will be only few low cost airlines in the open skies. So from where will these winners emerge? Only time will tell. But the players need to keep moving forward quickly in order to win the race. Those companies that are proactive and have a flexible approach will most probably be the winners. So watch the skies!

EVENTS



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



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