

### Introduction

Spain is second (after France) in terms of both arrivals and revenues, among the world's international destinations. The Spanish economy has been regarded lately as one of the most dynamic within the EU (the ninth economy of the world and the fifth of EU). Spain's economy is 69.7 percent free, according to a 2008 assessment, making it the world's 31st freest economy. In 2007, the GDP was 3.8% and the inflation rate rose to 4.3% by the end of 2007 from 3.4% at the end of 2006. Travel and tourism represented 12% of Spain's GDP in 2006.

Tourism has played a major role since the 1960's and in the last 40 years, tourism has been the fastest growing economic sector of the country's GDP, helping to accelerate growth overall. Spain is proving to be a highly popular holiday destination among European holidaymakers, new research has found. The nation attracted more than one in ten European holidaymakers, placing it ahead of other nations such as France, Italy and Germany. Millions of visitors flock to Spain and contribute almost \$50 billion USD to Spain's economy each year. Spain's popularity as a place for second home owners and investors has also been growing tremendously especially among the British. The major features that attract visitors and investors alike are Spain's temperate oceanic climate with mild winters and its enchanting coastline, beautiful islands and high mountains. The Mediterranean coast and the Canary Isles are its principal magnets of tourism. Most visited regions are Catalonia, the Balearic Islands, Andalusia, Valencia, the Canaries and Madrid. In the recent years the tourism and travel industry of Spain has benefited immensely by the advent and proliferation of low cost airlines.

Spanish Airline Industry: Aena is the name of the Spanish state owned company that owns and manage all Spanish airports. Aena is also responsible for Air Traffic Control in Spain. AENA expands as «Aeropuertos Españoles y Navegación Aérea», which literally means «Spanish Airports and Air Navigation». Aena is the biggest airport operator in the world as it manages air navigation and operations of 47 airports in Spain and participates in the management of 12 airports in Mexico, 3 in Colombia, 1 in Cuba, 3 in United Kingdom and 1 in Sweden. The most important airports in Spain are Madrid (Barajas), Barcelona, Palma de Mallorca, Malaga, Las Palmas and Tenerife-South.

Iberia Airlines or Iberia, (Spanish: Iberia, Líneas Aéreas de España, S.A.), is the largest scheduled airline of Spain, based in Madrid and is the Spanish flag carrier. It operates an extensive international network of services. Its main bases are Madrid Barajas International Airport and Barcelona

International Airport. Iberia Airlines, along with Iberia Regional (operated by an independent carrier Air Nostrum), is a part of Iberia Group. Iberia has a 20% stake in low-cost carrier Clickair, which is based in Barcelona. It has also recently made a bid to buy Spain's second-biggest carrier, unlisted Spanair, a subsidiary of SAS. Spain has produced many home-grown scheduled and low cost airlines. The names of some are: Air Europa Lineas Aereas, Air Comet, Spanair, Vueling Airlines and Clickair.

Low Cost Airlines in Spain: The growth in services provided by low-cost carriers over the past two years have opened up new tourist potential, and made major European cities more accessible amongst a wider cross-section of consumers. They have also helped change regional travel patterns. In addition, these pioneers have ensured that most short-haul transport now offers competitive rates and flexible ticketing from the region to other European nations. The acceptance in the markets of a "low cost philosophy" is growing with better knowledge of the low cost ethos coming from the introduction of low cost car hire, hotels and cruises.

After years in which Iberia, had the Spanish internal market nearly to itself, half a dozen low-cost carriers started operating in Spain (between 2003 and 2006), which included easyJet, Ryanair, Air Berlin, Vueling and Air Europa. In 2006, the LCCs had almost conquered one-third of the airline market. So in order to combat this onslaught, Iberia decided to launch a low cost airline company named Clickair in October 2006.

According to the European Organization for Air Navigation Safety (Eurocontrol), Spain is the second country in Europe after the UK with the highest number of low cost airlines operating from its airports. Low Cost airlines in H1-2007, made up 25% of the market in Spain compared to the 16% average for the rest of Europe. Eurocontrol predicted that air traffic would increase by 9.3% in Spain by end of 2007 and by 7% in 2008 which is above the European average of 5%. It was also stated that Madrid and Barcelona are the best connected cities in Europe with 46,000 flights per year and is double the air traffic between the second most connected European cities of Milan and Rome.

Low-cost airlines are becoming increasingly competitive about getting a slice of the Spanish tourism market, it has been reported. While holidaymakers make up a large part of the market, the carriers are believed to want to tap into the expat sector. In December 2007, low-cost airlines captured 41.7% of Spanish market share, up 35.4% from a year earlier, the Ministry of Industry, Trade and Tourism sta-

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ted. The ministry also said that the no-frills airlines' load factor for the month was 80.2% compared with the 77.3% registered by traditional airlines. Ryanair Holdings, Easyjet PLC and Air Berlin had 58.4% of passengers, while Vueling Airlines SA had 9.4%. Iberia, Lineas Aereas de Espana SA's low cost arm, Clickair, occupied sixth place with 6.7%.

In 2007, low cost airlines transported almost 24 million passengers, or 40% of the total market share, up 34% from a year earlier, the ministry said. Load factor was at 80.2% for budget/low cost airlines and slightly less at 77.3% for the traditional airlines. The major budget airlines of Ryanair, easyJet and Air Berlin carried 58.4% of passengers with Iberia, Vueling and Clickair taking up the majority of the remainder. Over 24 million passengers flew on budget airlines in 2007.

**Clickair:** The airline was founded through initial capital investments of €120 million by five investors namely Iberia; Nefinsa - Spanish company that owns Air Nostrum the regional feeder to Iberia based in Valencia; Iberostar - the Palma-based tour operator; ACS - a very large Spanish construction company; and the Carulla family of Barcelona, through its investment fund Quercus Equity each with a 20% share. The company's Board of Directors consists of ten directors, two representing each partner. Although Iberia holds only a 20% stake in the airline, it controls 80% of its economic rights. In September 2006, the company known as Clickair SA was launched, with its head office in El Prat de Llobregat (home of the E Prat Barcelona airport).

Clickair was formed to be a standalone airline with its own management team, although it does code share with Iberia and also took over some of Iberia's marginal leisure routes. The airline started operations on 1st October 2006 with headquarters staff of 20 and 3 Airbus A320 aircraft operating 5 routes from its Barcelona airport of El Prat. Its CEO is Alex Cruz. The carrier initially flew to Spanish destinations (but not Madrid), Lisbon, Paris and Switzerland. Now it operates services from Spanish cities to nearly 40 destinations in Europe. The airline's main base is Barcelona with hubs at Málaga, Seville and Valencia. Maintenance is provided by Iberia Maintenance.

## Awards & Recognitions

☐ Clickair won the Budgie Award for the 'Best Newcomer' for 2007 after its first year of operations.

☐ According to Eurocontrol, Clickair was recognised as the most punctual airline serving Spanish airports on both international and domestic services during 2007.

## Overview of Clickair

**History:** Clickair is a low-cost airline based in Barcelona, Spain, operating services from Spanish cities to nearly 40 destinations in Europe. The airline's main base is Barcelona with hubs at Málaga, Seville and Valencia.

The company was initially to be called Catair, derived from CAT (CATalonia) and AIR. Today Catair Lineas Aereas is the name of the holding company. The airline started operations on 1 October 2006 with 3 Airbus A320 aircraft operating 5 routes from its Barcelona hub. It aims to have 30 A320s operating on 70 routes to 55 cities by the end of 2008

Domestically Clickair plans to focus on coastal areas and stay away from congested Madrid. Clickair will focus internationally on point-to-point routes of up to four hours, particularly routes which are now under-served or not served at all such as Barcelona-Moscow. Iberia provides the maintenance services.

Alex Cruz, the CEO of Clickair, was previously working at Accenture. Spanish by birth, Cruz earned his industrial engineering Bachelors degree from Central Michigan and a Masters in industrial engineering from Ohio State. He then began his career in Dallas, where he joined the field services group of American Airlines in 1990. In 1995 Cruz moved to London, still working for American Airlines and its Sabre unit. In 2004 he joined Accenture, where he oversaw its 200-man airline division. At Accenture, Cruz looked after its Navitaire reservations product and did several consulting projects for European low-cost carriers. This included a three-month project in 2006 for Clickair which led to him getting the Chief Executive post.

In his own words, "This project started as an Accenture project," he explained. "I speak Spanish better than English and know the market very well. And I know aviation. From that perspective the transition (to CEO) was exactly as I expected. "The only thing I slightly underestimated is the amount of attention you need to give institutions and governments."

From the outset, Iberia had insisted that Clickair operates as a stand-alone company with independent management, "so as not to contaminate [it] with Iberia's higher cost structure". The two airlines have cooperated though - Clickair having taken over a number of the Spanish flag carrier's former routes. Iberia has also transferred six Airbus A320 delivery positions to its low-cost subsidiary, and it would be taking over more of Iberia's A320 slots in the future. Clickair's passengers would benefit from the Iberia Plus loyalty program. Clickair would also share flight codes with Iberia, meaning that Clickair fares would not only be sold on internet but also through travel agents, following a different approach from the traditional low-cost strategy. The launch of the budget airline with an inaugural flight between Barcelona and Sevilla on October 1 marked the launch of Clickair as a unique low cost airline. Initially, Clickair started operations with seven daily flights from

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its Barcelona hub to Seville, two to Geneva and one to Zurich in Switzerland, and one to Lisbon. It also operated two flights a day from Seville to Paris and from November added extra routes linking Valencia and Paris and Valencia and Rome.

Clickair aimed to quickly become a major player in Spain, aiming to fly 70 routes with a fleet of 30 A320s to 55 destinations in Spain, the British Isles, Europe and North Africa, by 2008. Clickair was expected to break-even by 2008 and seek a listing for the new company by 2009. It would add 12 new routes to its network in the first quarter of 2007. With the addition of new aircraft in 2007 and 2008, Clickair believed its passenger forecast to grow from 300,000 in 2006 to 4.5 million in 2007 and 10 million in 2008.

**Growth:** Clickair is Europe's youngest and fastest growing airline. In its first month, clickair operated 740 flights with three A320s and carried 92,000 passengers on eight routes. Six months later it had almost tripled in size as it operated 2,100 flights on 22 routes carrying 245,763 passengers.

By mid April it had flown its millionth passenger. It also had become the largest operator at Seville and the fifth-largest at Barcelona, Spain's second-largest airport. In the first week of July it operated 770 flights. The airline would end 2007 with a fleet of 23 A320s and a network of more than 50 routes. The fleet consists mostly of ex-Iberia aircraft but clickair has 10 A320s on order, four of which arrived this year. The remaining four would be obtained in 2008. Average daily utilization was 12-13 hrs.

Clickair commenced regular daily services from Prague to Barcelona, in the beginning of February. In late February 2007, Clickair became the first low cost airline to operate flights from London Heathrow Airport. The Spanish airline replaced Iberia on daily flights into Heathrow from both Seville and Valencia with tickets costing less on account of Clickair's lower operating costs.

On 28th February, Clickair also announced plans to expand to more international destinations from its hub at Barcelona El Prat International Airport. The carrier planned to operate to 24 destinations from the airport before the end of 2007 that would include services to Casablanca and Marrakesh in Apr-07, Moscow and Helsinki in May-07 and Tunis in Aug-07.

In June, Clickair launched regular services from Barcelona to Domodedovo International Airport (Moscow), using A320 aircraft. It thus became the third LCC after Italy's Wind Jet and Austria's NIKI and the 74th airline overall to operate regular services to Domodedovo International Airport.

Click Air started operating from Barcelona to Malta International Airport twice weekly between June and October 2007, with a capacity of 15,000 passengers both ways.

Clickair, despite being just a little over one year old, is Barcelona's biggest operator in terms of routes offered and is the biggest operator out of Seville in terms of both routes and passengers. As Clickair chief executive officer Alex Cruz stated, "Continuity is our goal and by design we wish to remain in all the markets we have entered."

On June 25th 2007, Spanish budget airline Clickair became the first airline in the world to scrap check-in procedures. According to Clickair's chief executive, Alex Cruz, the new Click & Fly system would allow passengers to avoid the hassle of checking-in. Initially the check-in free service will be for passengers travelling with hand luggage only.

Earlier in this month, Clickair was condemned by the Spanish airline pilots union as unsafe. Pilots criticised Clickair, along with Air Pullmantur, Vueling and Air Comet, for infringements such as low-fuel landings, takeoffs with unresolved technical glitches, improper documentation and poor regulation of the amount of time aircraft spent in the air.

In July, the airline launched a new inflight magazine, produced by Ink Publishing With content produced in English and Spanish. The bi-monthly publication is titled Clickmagazine. From 01-Aug-07 it launched daily service from Barcelona, to Edinburgh in Scotland. This new Clickair route joins its existing UK flights connecting Seville, Valencia and La Coruna with London and Barcelona with Dublin. In August, Clickair carried 438,650 passengers, surpassing Spanair (SAS Group) and Vueling, also Barcelona-based, to make it the second largest operator at Barcelona airport.

On October 1st 2007, Clickair completed one year of operations. The Barcelona based carrier already served 39 destinations and had plans to serve 50 by year-end and was looking to add several more in 2008. It would have a fleet of 25 A320s by March 2008.

Clickair was keen to launch medium-haul routes from Spain to east Europe and northeast Africa that can be operated during overnight hours in order to improve its aircraft utilisation and thereby further reduce its already low cost base. "We are looking at places like Cairo and Athens," said Cruz. Clickair already uses two of its A320s during overnight hours to operate services to Helsinki and Moscow. These seasonal services would be suspended at the end of the summer schedule but resumed next summer at a higher frequency than that of 2007. Overnight services are expected to be "unleashed" in both its summer and winter schedules with six of its A320s operating overnight. "The utilisation works out really well but only for very select destinations," Cruz stated.

Clickair is also looking to continue its network strategy

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of serving Europe's main business airports. It already flies to Frankfurt International, Milan Malpensa and Rome Fiumicino besides being only low-cost carrier at London Heathrow. Clickair launched new domestic routes last winter from Barcelona to Palma, Bilbao, Orvieto and the Canary Islands. Alex Cruz had said that Clickair had plans to "probably develop Valencia and Seville" a little bit more but would stay away from expanding at Madrid because there was already too much low-cost carrier competition there. "We need to be humble because the challenges ahead are tough," Cruz says. He adds the launch of high-speed train services later this year on Europe's busiest air route, Barcelona-Madrid, will make the Spanish market even tougher.

Before October 2007, it had operated more than 120 daily services to 50 destinations in Spain, the British Isles, Continental Europe and Northern Africa. With a fleet of 22 dedicated Airbus A320 aircraft Clickair had progressively bolstered its market share to now command the largest, individual share of traffic at Barcelona El Prat Airport, its home base, accounting for 14% of traffic movements with the highest number of foreign destinations from Spain's second largest city. In the first eight months of the year, clickair flew a total 2.65 million passengers from the Spanish cities of Barcelona, Valencia, Malaga, Seville, La Coruna, Vigo, Santiago and Bilbao, including some 1.9 million originating from Barcelona.

Speaking at a conference to celebrate Clickair's first anniversary, Cruz said that the airline aims to increase its market share in El Prat from 13 pct at the end of August to around 15 pct at the end of November. "This performance in our first year is more than satisfactory," stated CEO Alex Cruz, noting that clickair was set to take the ranking of No 1 in Barcelona in the near future. Cruz also warned that market conditions for the sector are expected to become more difficult due to rising fuel prices and concerns surrounding a slowing economy. A combination of increasingly difficult market conditions and oversupply 'will be unsustainable for many,' and Cruz called for a 'return to pricing rationality, because if we don't, everyone loses, including the passenger.'

Clickair launched its inaugural Barcelona-Athens service on 29-Oct-07. Until Mar-08, the service will be offered three times weekly. Clickair also planned to launch two new routes from their Barcelona base next year - flying to Oviedo, and also the Bulgarian capital Sofia from 01 February 2008.

According to Eurocontrol, Clickair was the most punctual airline serving Spanish airports during 2007. Some 86.6% of its international departures, all to hub airports, took

off within 15 minutes of the departure time (December 2007 was 94%). Clickair also topped the table for domestic services too with 87% of all flights taking off on time (93.2% in December). According to Eurocontrol statistics, it achieved top ranking as the most punctual operator at Spanish airports - on both international and domestic services. It also obtained the Budgie Award for the 'Best Newcomer' for 2007 after its first year of operations.

Current Status: In January 2008, Clickair, carried 4.6 million passengers in 2007 and according to Eurocontrol statistics, achieved top ranking as the most punctual operator at Spanish airports - on both international and domestic services. Clickair's shareholders have committed €120 million till the end of 2008. Cruz had claimed that the airline's future is «quite certain and well defined» through the summer of 2008, when it planned to operate 30 aircraft serving a network spanning some 70 routes and 55 destinations.

But that perception changed during the first week of the New Year. Clickair had carried 4.5 million passengers in 2007, in line with its business plan, but full-year revenue came in lower than forecast, CEO Alex Cruz told ATWOnline while also confirming that the LCC will scale down its planned fleet expansion this year. Clickair was scaling back its expansion plans because of price wars, high oil prices and difficult market conditions, a company spokesman stated. There was also a report in a newspaper that Clickair might not reach profitability until 2009, one year later than it forecast after starting operations in late 2006. Two new A320s are scheduled to be delivered in February and March, but deliveries beyond that are being put on hold.

«We favour a cautious approach in this difficult environment. Our contracts allow us flexibility, which also means we can add more capacity later in the year if the market conditions improve», stated the Clickair CEO. However, he revealed he was «extremely pleased» with the operational side of the airline's first full calendar year. «We ended the year with the lowest CASK not yet achieved by any European LCC operating to main airports», he said. Unit cost averaged €0.046 (\$0.068) including fuel and €0.033 excluding fuel, he said. He declined to disclose load factors or revenue though conceding that average income per passenger was lower than expected in the second half owing to a fare war in Spain.

«Our financial performance was less than what we forecast a year ago [breakeven],» Cruz said. «There is a lot of competition in the Spanish market and I must say we fought hard. We achieved an amazing growth despite this difficult environment, and despite the high fuel prices.» He predicted fares likely will go up, «otherwise some airlines here will go down.»

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Clickair was to add some 10 routes this year, including Barcelona-Asturias on Feb. 1, BCN to Alicante and Dubrovnik on Feb. 24 and BCN-Brussels on March 1. It also wished to add a new product to increase ancillary revenue, a «premium plus» seat that can be bought for €30 at time of booking and secures an empty middle seat in the first three rows. The premium plus seat will not be for sale during the summer season when load factors are high.

In the beginning of February Clickair announced the launch of flights from London Gatwick to Spanish city of Bilbao (home town of the CEO) to be operated from March 30th 2008, replacing Iberia service on that route. Later in February, the airline launched 'click&fly' check-in at London Heathrow and also planned to roll the service out at Gatwick too. The service allows UK and European-originating passengers to select their seat and print their boarding pass as soon as the booking is confirmed, even if the date of travel is six months away.

Spanish low-cost airline Clickair had scrapped plans to introduce a regular Sofia-Barcelona flight as part of its cost-cutting push, daily El Pais reported on February 4. Clickair had dropped a total of eight routes to trim down its flight schedule, choosing to concentrate on its more profitable flights. Iberia presented a takeover bid for Spanair on February 14th, 2008. If it wins it, then Iberia will have to sell its 20% stake in Clickair which could have far-reaching consequences.

In March Clickair announced its participation in the United Nation's 'Plant the Planet' programme by signing an agreement with the local council and the 'Mas Arboles Foundation', to introduce a new carbon offset programme allowing passengers to directly contribute to the development of a forest close to Clickair's El Prat de Llobregat, Barcelona headquarters. The airline would be donating the first 250 trees to what will be known as the 'clickair Forest', which will be planted by the Llobregat river delta near El Prat Airport.

Spanish LCCs reported a 57.4% increase in passengers last year, four times better than the market average, a research note (based on AENA data) released in February 2008 by Clickair revealed. But capacity is outpacing demand. Unused LCC capacity reached nearly 10 million seats last year, the report shows, noting that the capacity/demand imbalance resulted in falling load factors, particularly at the top four LCCs operating in Spain (Ryanair, easyJet, Vueling and Clickair). Average load factor of those carriers dropped 2.9 points last year to 74.7% compared to an average market decline of 1.8 points.

Recent media reports state that Spanish low-cost airlines Vueling and Clickair are in merger talks to create Spain's third-biggest carrier. A merger would create a 47 plane carrier, flying 10.7 million passengers a year and employing around 2,000 staff -- Spain's next largest after Iberia and

Spanair. It would be better placed to take on Ryanair and easyJet, which have made major inroads into the European market to and from Spain and on domestic routes over the past two years. But these talks are in very nascent stages.

## Issues

1. Would Clickair also go down the same path as Vueling or would a merger of both save these airlines?
2. What will happen to the code share agreement between Iberia and Clickair if Iberia wins the Spanair bid?
3. How will Clickair be impacted when Iberia sells its 20% stake in it as a consequence of winning the Spanair takeover bid?

## Business Model of Clickair

Clickair flies from Barcelona, Seville and Valencia. Its main base is Barcelona and from here it flies only to main airports in numerous cities of mainland Europe including Amsterdam, Berlin Tegel, Dublin, Frankfurt, Geneva, Lisbon, Munich, Prague, Seville and Zurich. The carrier has a one-type fleet of A320 with a capacity of 180 passengers in a one-class configuration. The aircrafts are used on an average for 12.3 hours per day with a 25 minutes turn-over on the ground on main airports. Clickair aims to carry 10 million passengers by the end of 2008, and around 17 million by the end of 2012.

Clickair's strategy: Clickair was born of the desire of its partners to create a leading European actor in the category of the so called "low cost" airline operators, currently the fastest growing commercial aviation sector in the world. The main reasons behind the success of Clickair's strategy are: optimisation of point-to-point daily flights of Airbus A-320 aircraft; the general cost structure, which is far below the average offered by conventional airlines (except in security and technical maintenance quality); and the operation of high-demand routes, with the objective of obtaining a greater occupancy of planes on each flight; absolute punctuality and no overbooking and flexibility in booking of tickets.

They are currently operating three types of routes:

- Domestic routes, principally connecting North-South and/or East/West coastal cities
- European and North African connections from Barcelona and some of the other coastal cities
- Mid-haul routes from Barcelona: 3-4 hour flights, likely to be operated at night, which would maximise aircraft utilisation and open up new routes from its bases

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It has adopted what CEO Alex Cruz calls a "third-generation" LCC model, providing low fares and no frills to budget travellers, but at the same time offering optional frills to passengers willing to pay a premium. "We want to mix traditional low-fare carriers with what standard traditional carriers have at incremental prices. We want to give whatever the customer is willing to pay for" Cruz says.

Passengers say that, this no-frills carrier with no in-flight entertainment offers nothing special when it comes to leg room, seat comfort, or in the standard for purchased airline food. But what it does offer is, on time flights and straight forward ticket booking process with no surprises.

The main features of the business model are:

Clickair services: Clickair's ancillary services, known collectively as «clickservices», are designed to make life easier for passengers booking via the internet and make the most of online integration. Travellers can take advantage of these services, which will provide offers linked to the specific flight reservation made by the customer. These are as follows:

- Clickhotel: If the passenger is booking a flight to a particular destination, 'clickhotel' will show the availability of hotel rooms in that area which one can book along with the ticket.
- Clickcar: It also provides online car rental service.
- Clickinsurance: 'Clickinsurance' covers travel-associated risks and expenses should the flight be cancelled.
- Clickbreaks: 'Clickbreak' will offer a selection of relevant tourist packages at «highly attractive prices».
- Clicktransfer: 'Clicktransfer' provides a private driver (and optional guide) service.
- Clicklounge: The 'clicklounge' service is specifically aimed at business travellers and provides access to fully-equipped lounges in most airports. A "clicklounge", in most airports will provide free newspapers, drinks, snacks, wi-fi connection, television, massages and other amenities.

'Click&fly': The new Click&Fly system allows passengers to circumvent the check-in process. The service allows UK and European-originating passengers to select their seat and print their boarding pass as soon as the booking is confirmed, even if the date of travel is 6 months away.

Booking of tickets: Tickets can be booked online, through its call centres and through travel agents. Clickair charges EUR 16.00 for credit card payments made on its website. Phone reservations carry a surcharge of 12 Euros per route and passenger. The date, time and destination of booking may be changed up to 2 hours before the programmed flight departure. Booking modifications carry a surcharge of 30 Euros per route and person (+ 12 additional Euros for changes made by phone).

Clickair is also breaking the mould of traditional low-cost carrier and making its tickets available with travel agents

through its code-share with Iberia. These tickets will be more expensive because of the distribution costs involved but by using this channel Clickair would be able to reach a market other low-cost carriers including Vueling, Ryanair and easyJet now can't access.

Baggage: The passenger has to pay 5 Euros each suitcase per flight that he declares as check-in when he reserves his ticket on the Website or via the Call centre, and 10 Euros per suitcase, per journey in the case of tickets reserved via the Clickair office at Barcelona Airport. If the Passenger declares his intention to transport these suitcases after making the reservation, he has to pay 5 Euros per suitcase checked in per journey if the change is made via the Internet and 10 Euros if it is done by any other means. The rates mentioned above allow a maximum weight of up to 20 kg of luggage. Over this weight the passenger must pay 8 additional Euros for each kg of luggage. In any event, each Passenger may transport a maximum of 32 kg per suitcase (to a maximum of 50 kg in total).

The hand luggage allowed on board is one piece of luggage the dimensions of which (height x width x length) may not exceed the following measurements: 55 x 40 x 20 and the total weight of which does not exceed 10 Kg, except by government regulation or additional policy specific restrictions, which in all cases must be obligatorily complied with.

Seating: All aircraft have the typical A320 LCC single-class configuration with 180 seats, three lavatories and no galleys. Seat pitch is a cosy 28 in., although passengers might feel they have a bit more legroom as the seatback pocket has been placed higher, which the CEO says is the equivalent to an additional 1.3 in. The blue leather Recaro seats do recline.

Other service features: Meals are sold on board and frequent flyer miles on Iberia can be accrued at an additional cost, while passengers can also pay for priority boarding and assigned seating. Business travellers also enjoy preferential boarding, and earn Iberia frequent flier points. While at the other end of the market, Clickair allows web booking for groups of up to 25 passengers, a first in the Spanish low cost carrier market. Clickair planes usually don't park at the terminal building to receive or discharge passengers; instead, they are ferried via shuttle bus to or from their remotely parked aircraft.

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Sources of ancillary income:

1. All the special 'Clickair services'
2. Click&fly
3. Pre-assigned seating
4. Check-in baggage charges
5. On-board meals
6. Premium seats and Premium Plus seats
7. One-world frequent-flier program through the IB code affiliation
8. Charges for ticket modifications or cancellations

## Swot Analysis

The Spirit of Clickair: With new horizons for both airlines and customers, the spirit of Clickair is unique and represents a new business model based on current customer needs. The team of professionals at Clickair reflects the spirit, which is emotional and pro-active, emphasizing values such as innovation, effort and teamwork. The objective is to create a new, flexible and convenient product which combines the advantages of low cost airlines with the flexibility and value added services found at conventional companies, with the aim of becoming one of the top options for both leisure and business travellers.

## Conclusion

Clickair has a long and tedious journey ahead and it seems to be dependent on the backing of its stakeholders and its own ability to keep its operating costs at its lowest. Its present status-quo could probably continue till the end of 2008.

Although it is too premature to make any predictions about the consolidations in the Spanish airline market, it seems inevitable that any one of the following situations could occur before the end of this year:

- The merger of Clickair and Vueling with Iberia still being a stakeholder
- The takeover of Spanair by Iberia and consequent sale of its stake in Clickair followed by the merger of Clickair and Vueling
- The takeover of Spanair by Iberia but the merger of Clickair and Vueling does not happen
- The non-occurrence of both mergers and takeovers, resulting in the folding up of at least two Spanish airlines in a manner similar to that of Air Madrid before the end of this year

According to its CEO Alex Cruz, "the Spanish air market would not be the same in six months from now. Clickair would be in a fantastic position to support any changes, given that it was the most efficient operator in Spain with the least costs in terms of infrastructure and the most productive in terms of planes and air crew & had the best record of punctuality".

However, one can only wait & watch (if & when it happens) the take-off or grounding of flights in the Spanish skies!

# BIRD'S EYE VIEW

<b>Strengths</b>	<b>Weaknesses</b>
<ol style="list-style-type: none"><li>1. The strong financial backing it enjoys from its stakeholders till the end of 2008</li><li>2. The unique code sharing relationship with Iberia which enables to obtain landing slots in busy airports(Heathrow) and acquire aircrafts on lease</li><li>3. The brand name 'Clickair' earns instant recognition and reference to an online based low cost air travel, making it easy to remember</li><li>4. Clickair business model has something to offer to both the leisure traveller and the business traveller at very reasonable prices</li><li>5. It flies to main airports and offers frequent flier points of Iberia to its business passengers</li><li>6. It has a very clear and transparent online ticket booking process offering no hidden charges. Basically one pays what one sees on the computer screen</li><li>7. Aircraft utilisation is high (12.5 hrs per day) and operates medium haul routes (above 3 hrs.) in the nights</li><li>8. The airline ended the year with the lowest CASK not achieved previously by any European LCC operating to main airports.</li><li>9. It has earned the reputation of being the most punctual airline of 2007 at Spanish airports making it more attractive for frequent travellers</li><li>10. It allows for booking through agents besides online and telephone and allows group booking on its website - a first for a Spanish LCC</li><li>11. Alex Cruz seems to be a very experienced and proactive leader and is frequently in the public eye for all the right reasons</li><li>12. It has fulfilled the prime objective of curtailing the growth of the LCCs at the expense of Iberia for which it was launched</li></ol>	<ol style="list-style-type: none"><li>1. It seems to have a below average rating in customer service and aircraft safety measures adopted</li><li>2. Its seems to be over-dependent on Iberia for its routes and landing slots</li><li>3. Compromising basic customer comfort and safety measures could in the long run deter business travellers</li><li>4. Its 80% economic dependence on Iberia could be an obstacle in its decision making process</li><li>5. It does not have any original innovative scheme to attract and retain customers</li><li>6. Any image problems with Iberia could in turn affect the customer perception of Clickair and vice-versa</li><li>7. More promotional tools need to be applied in order to highlight its innovative schemes and lower fares in the face of intense price competition</li><li>8. Revenue earned per passenger in 2007 was much lower than forecast and achievement of its profitability has been postponed to 2009 from 2008 which is worrying</li><li>9. Sources of ancillary income is very low as compared to Ryanair and there is scope for improvement</li><li>10. Continuous leasing of new aircraft though easy and quick to obtain in the long term, could turn out to be expensive in the long term</li><li>11. Cost competitive value creation and cost effective operations will reach their natural saturation limits beyond which differentiation will be difficult</li></ol>

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Opportunities	Threats
<ol style="list-style-type: none"> <li>1. The opportunities for Clickair in 2008 is to cautiously increase frequency on denser routes and reduce on the lower density ones</li> <li>2. With the current financial backing that it enjoys, it should be able to safely navigate through 2008 without too much of a problem</li> <li>3. There is immense scope for Clickair to add to its ancillary revenue by improving and increasing its on board activities or entertainment</li> <li>4. After Russia and Africa, Middle-East could form a new avenue for medium haul expansion</li> <li>5. The recent commencement of the US-European open skies agreement could result in opportunities for mutual code sharing and tie-ups in the long term</li> <li>6. It must gradually come out of the protective armour of Iberia for facilitating quick and independent decisions with regards to routes and other strategic operations</li> </ol> <p>But the current scenario can drastically change if Iberia takes over Spanair and/or if there is a merger of Clickair and Vueling. The probability of either or both happening in my opinion is 60%. If Clickair merges with Vueling, the following opportunities could emerge:</p> <ol style="list-style-type: none"> <li>1. Win the leadership position in the domestic market usurping both easyJet and Ryanair</li> <li>2. Help in the consolidation of the Spanish airline market reducing overcapacity and preventing any further incursions by new airline companies</li> <li>3. Through this merger the airline can expand rapidly on international routes</li> <li>4. The focus of warding competition will almost become non-existent in the domestic market. This would increase its resources which would be required for expanding into medium haul routes</li> <li>5. Vueling's service oriented image combined with Clickair's cost efficient operations can produce a formidable and attractive airline satisfying the needs of both the leisure and the business traveller</li> </ol>	<ol style="list-style-type: none"> <li>1. The protective armour could be stripped off, hampering its growth if the takeover of Spanair by Iberia takes place</li> <li>2. Economy slowdown, rising fuel costs and overcapacity are going to impede the growth and stability of LCCs in Spain</li> <li>3. The strong progress of easyJet in Spain will continue to be the main competitive threat to Clickair (as it also flies to main airports) in the face of rising operating costs.</li> <li>4. Increased environmental taxes and the need to offset CO<sub>2</sub> in the future could result to an increase in operating costs</li> <li>5. The launch of three Alta Velocidad Espanola or AVE high speed trains from this year (2008) from Madrid towards North and South of Spain, could hinder its future expansion plans</li> <li>6. Recession could lead to drastic fare cutting measures by the leading LCCs causing the smaller airlines that are unable to operate at very low fares to crumble</li> <li>7. Power of buyers being very high in LCC markets, the slowdown of economy would cause the consumer to spend less and shop for the best bargains</li> <li>8. Medium haul flights could bring in direct competition with scheduled airlines</li> <li>9. The impact of increasing fuel prices, economy slowdown and overcapacity has already had an impact on Clickair as it failed to achieve its financial targets in 2007. It has already scaled down its expansion plans both in terms of its routes and fleet numbers.</li> <li>10. Cuurrency fluctuations will affect major costs like aircraft purchase, aircraft financing costs, fuel purchase etc.</li> <li>11. The merger of Clickair with Vueling could also sink both ships due to the accumulated losses of Vueling and reduced economic support of Iberia</li> <li>12. If Iberia takes over Spanair, Clickair will become orphaned and surviving in a very difficult market will be a major challenge.</li> </ol>