THE IMPACT OF LOW-COST CARRIERS IN THE MIDDLE EAST AVIATION MARKET – WITH AN APPLICATION ON AIR ARABIA

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ABSTRACT

The penetration of the Low-Cost Carriers (LCCs) is considered one of the most important consequences of the world airline deregulation. This advent has reshaped the world airline market – which was previously controlled by the national Full-Service Airlines. Accordingly, the research focuses on investigating the impact of the LCCs' emergence in the Middle East airline market and addressing the main challenges facing the Middle Eastern LCCs – with a focus on Air Arabia. The methodology of the research depends on adapting the qualitative method using semi-structured interviews. In this regard, nine face-to-face interviews have been conducted with the sales manager of Air Arabia Egypt and the sales managers of the other competitors that operate out of Alexandria airport to the other Middle Eastern destinations. The study concluded that LCCs could reshape the airline market and create their market share in the Middle East. Moreover, the airfares were generally decreased after launching Air Arabia. On the other hand, it was revealed that the governmental restrictions and the political and economic status in the Middle East region represent the main challenges for LCCs.

Key Words: Low-Cost Carriers, Full-Service Airlines, competition, Middle-Eastern airlines, Air Arabia.

INTRODUCTION

The deregulation of the world aviation industry has facilitated the advent of LCCs in the world airline market. Basically, the business model of traditional FSAs differs from the LCCs' business model; the latter is based on offering low airfares without any free ancillary services through cutting costs of the operation and marketing strategies (Martín & Román, 2008; Becker, 2013). Accordingly, LCCs have reshaped the competitive environment of the aviation industry within liberalized markets. Moreover, they have crucially impacted the world's domestic passenger market – which was previously controlled by the Full-Service Airlines (FSAs). Consequently, the competition between FSAs and LCCs has globally emerged (O'Connell & Williams, 2005; IATA, 2015).

Initially, the business model of LCC has been started with the launching of Air Southwest out of Texas to become Southwest Airlines in the United States (US), followed by the rapid growth of Ryanair and EasyJet in Europe (EU). This business model has led to lowering airfares, opening new markets and making air travel affordable for many people who have not flown before (Button, 2009). As a result, FSAs operating in EU and the US have lost a significant proportion of their passengers to the LCCs. By time and after the success of the European and American LCCs, the business model has emerged in many airline markets including the Middle East (ME) airline market (O'Connell & Williams, 2005; IATA, 2015).

Generally, the market share of the LCCs in the European, US airline markets and currently all over the world has significantly increased. The capacity of LCCs has been dramatically increased three times higher than the level of FSAs' in 2000 to reach nearly 30% in 2014 compared to 25% in 2013 and is still expanding (ICAO, 2013, p.12; ILO, 2013, p.8; Embraer, 2015, P.18). Moreover, LCCs contribute to more than half of air passenger traffic growth in many European and Asian markets (Sarker et al., 2012, p.163). In 2015, LCCs have carried more than 950 million passengers in the world (ICAO, 2015, P.2).

The growth opportunities for LCCs are much higher in EU, the US and beyond like Africa, Asia and ME (Bhatti et al., 2010). According to Amadeus (2013, p.4), LCCs are dramatically growing in the ME airline market after the significant total growth in the LCCs' carrying capacity from 11.5 million seats in the beginning of 2012 to 13.5 million seats after a year in the beginning of 2013. Furthermore, in 2013, LCCs have acquired 13.5% of the total market share in the ME (Aljazira Capital Report, 2013, P.3). However, Air Arabia has introduced the business model of LCC in the ME airline market as the first LCC to enter the market, followed by the launching of other LCCs (Airarabia, 2015). This advent of the new business model in the ME region has led to a competition between FSAs and LCCs, along with a competition among LCCs as well.

Hence, the impact of LCCs in the ME airline market will be investigated in this research through analyzing the competition emerged between FSAs and LCCs in the ME, along with the competition among LCCs as well – with a focus on Air Arabia as the first mover in the ME region.

The research has the following questions:

Q1. How did the emergence of the LCCs change the ME airline market?

Q2. What are the competitive responses adopted by FSAs in the context of the competition with LCCs in the ME airline market?

Q3. What are the critical challenges that face LCCs in the ME airline market, and how they could overcome them?

LITERATURE REVIEW

2.1 The Emergence of LCCs in the ME Aviation market

Over the past decade, liberalization efforts that were undertaken in the region have resulted in the advent of LCCs in the ME airline market (ICAO, 2010; Mikhael, 2012; Al-Sayeh, 2014). Additionally, the lack of infrastructure and railway systems linking ME region, coupled with the increased regional passenger demand for shopping and Pilgrimage have also led to the emergence of LCCs in the region to serve the demand for the intra-regional air travel (Riaz & Kapadia, 2007; Middle East Amadeus Report, 2010; WTO Report, 2012). Generally, the penetration of LCCs in the ME is relatively new and was encouraged by the fast growth of LCCs in the European and US airline markets. It was started in 2003 with launching the first LCC in the region, Air Arabia, based in

Sharjah. Following the advent of Air Arabia, establishment of other LCCs in the region, e.g., Kuwait-based Jazeera airways in 2005; Turkey-based Pegasus airlines in 2005; Saudi Arabia-based Nas air in 2007; Dubai-based Fly Dubai in 2009 and recently, Egypt-based Air Cairo in 2012 (Khan, 2012; Aljazira Capital Report, 2013; ICAO, 2014, Pegasus airlines, 2015).

2.2 Market Share and Growth Rates of LCCs in the ME Aviation market

In general, the market share of LCCs in the region has gradually grown; it has reached an approximate percentage nearly 11.5% in both years 2010 and 2011, then, increased to reach 13.3% in 2012 (The European commission Report, 2011, P.97). Moreover, since 2007, the ASK market share of LCCs on the Middle Eastern short-haul routes has significantly increased, reaching nearly 23% in 2013 (Airbus, 2014, P.124). Nevertheless, even with the rapid growth; LCCs are still less penetrated in the ME compared to those in EU, the US and Asia (OAG Report, 2012; CAPA Center of Airline, 2013). In this respect, a report of air traffic analysis of Amadeus over five-year average (2014, P.29) has declared that the Middle Eastern LCCs had only a relatively small share (6%) of domestic air traffic, compared to 32% operated by LCCs in European market – for example. Additionally, LCCs' market share of intra-regional traffic between neighboring countries (short-haul routes) in the ME region was only 20 % compared to 49% in EU (Figure 2.1).

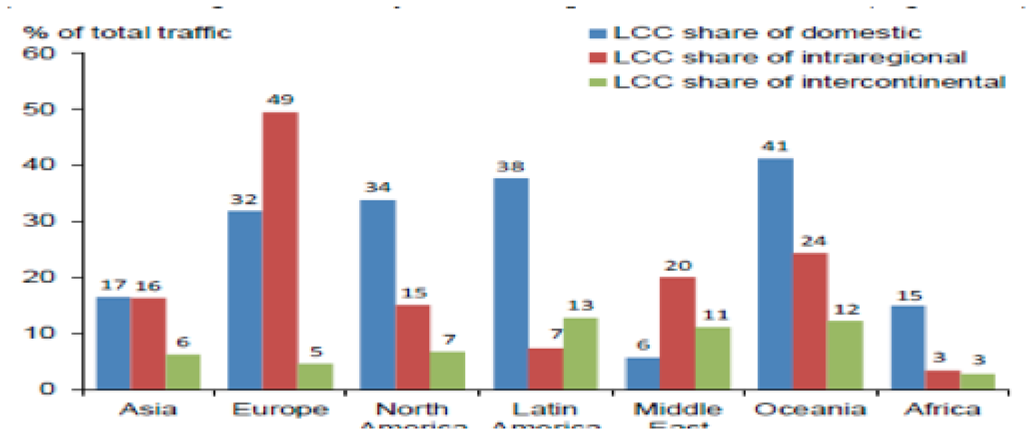

Figure 2.1: LCC Market share around the world (five-year average 2010-2014)

Source: Amadeus, 2014, P.29

On the other hand, LCCs in the ME have operated 11% of intercontinental traffic over five-year average (Figure 2.1) (Amadeus Report, 2014, P29). At the same time, the report of CAPA Center (2013) has also highlighted the LCCs' focus on operating medium-haul routes; as 65% of LCCs' capacity is flying from ME to another region (mainly to EU and India) (Airbus report, 2014, P.124).

2.3 Air Arabia - the First LCC in the ME Aviation Market

2.3.1 The profile of Air Arabia

Air Arabia is the first LCC in the ME and North Africa airline markets, founded in 2003 by the Sharjah Government to promote travel and tourism sector. Initially, the airline was operating only six destinations within the GCC region. Then, the airline has rapidly grown to be the largest LCC in the ME and North Africa (OAG Report, 2012; Sorensen, 2012; Air Arabia, 2015). In general, the airline has transformed the ME aviation market that was fully controlled by the national FSAs. Since the air travel was only for the relatively higher class in many countries in the region; Air Arabia attempted to make air travel affordable for the middle classes and people who have not flown before by offering low fares (Riaz & Kapadia, 2007).

At the beginning of the operation, the main challenge for Air Arabia was to change the perceived image of luxurious air travel in this region. However, after two years of operation, the airline has successfully achieved a continued annual growth and become profitable. It could dominate the LCC sector in the region even during the challenging times of the global air travel. Moreover, Air Arabia has successfully positioned its brand in the region and was rated among the top 40 most admired brands in the Arab world (Riaz & Kapadia, 2007; The National Investor Report, 2008). Recently, Air Arabia has been named as the "Best Low-Cost Airline in the Middle East" for the second time at the 2015 Skytrax world airline awards in Paris.

2.3.2 Growth Rates of Air Arabia

Air Arabia has followed an aggressive growth strategy of network expansion. The airline follows the "multi-hub strategy" by launching subsidiaries in different markets through making local joint ventures in order to expand into new markets and serve the key destinations in the ME. To date, Air Arabia has five hubs in the UAE, Morocco, Egypt, and Jordan (Air Arabia annual Report, 2015, P.12, 17). On the other hand, Air Arabia has served around 55 million passengers over 12 years of operation, reporting a 12% increase in a number of passengers carried– compared to 2014 – to reach over 7.6 million passengers in 2015 as shown in figure 2.2 below (Air Arabia Report, 2014, p.9,15).

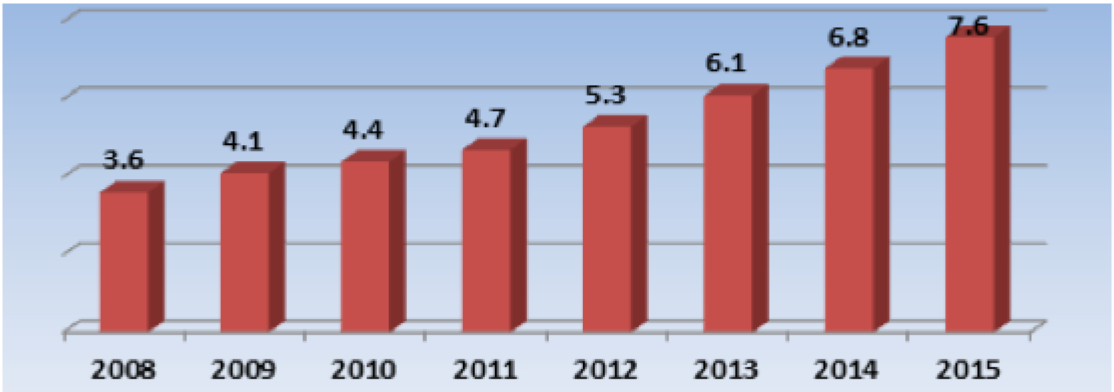

Figure 2.2: passengers' growth of Air Arabia (2008-2015)

Source: Adopted from Air Arabia annual reports in the period of (2008- 2015).

Anyway, after discussing the growth rates of Air Arabia and the key statistics that confirm the rapid progress that the carrier has made; it is found that Air Arabia posts increased growth rates and achieved success despite the challenges in the ME market.

2.4 LCCs' Business Model

Many studies have agreed that there is no standard business model or specific definition for LCCs, instead; there is a general understanding of the operations and services they operate (Damuri & Anas, 2005; IATA, 2006; Niinimaa, 2011). On the other hand, it should be mentioned that the term "low-cost" originated within the airline industry refers to airlines with a lower operating cost structure than their competitors. Meanwhile, through popular media, the term defines any carrier with low ticket prices and limited services (Toramanyan, 2007, p.11). However, in the original term, it refers to a provider of only basic transportation products and services (Han, 2013). The operation and marketing strategies of LCCs will be briefly discussed in order to better understand the business model of LCC.

2.4.1 The Operation Strategy of LCCs

In general, the operation strategy of LCCs is based on cutting costs. Firstly, using secondary airports allows lowering airport charges; opening new routes; simplifying ground services and achieving fast turnarounds that lead to a high utilization of aircraft. Similarly, operating point-to-point network leads to a simple ground service and high aircraft utilization. Thirdly, the use of a single aircraft type reduces the maintenance, training costs and fuel costs; which allows achieving a higher seating capacity and gaining a greater contractual purchasing power. Fourthly, offering no-frill services on-board increases the turnaround times through reducing the required time needed to upload and unload meals. Fifthly, the consequence of the previous four factors is the reduction in labor cost – the most important element in the operational costs, through hiring a lower number of multi-tasks ambitious employees and reducing wages along with increasing commissions and labors' loyalty (O'Connell & Williams, 2005; Niinimaa, 2011; Harvey & Turnbull, 2012). Briefly, the following figure summarizes the operation strategy of LCCs:

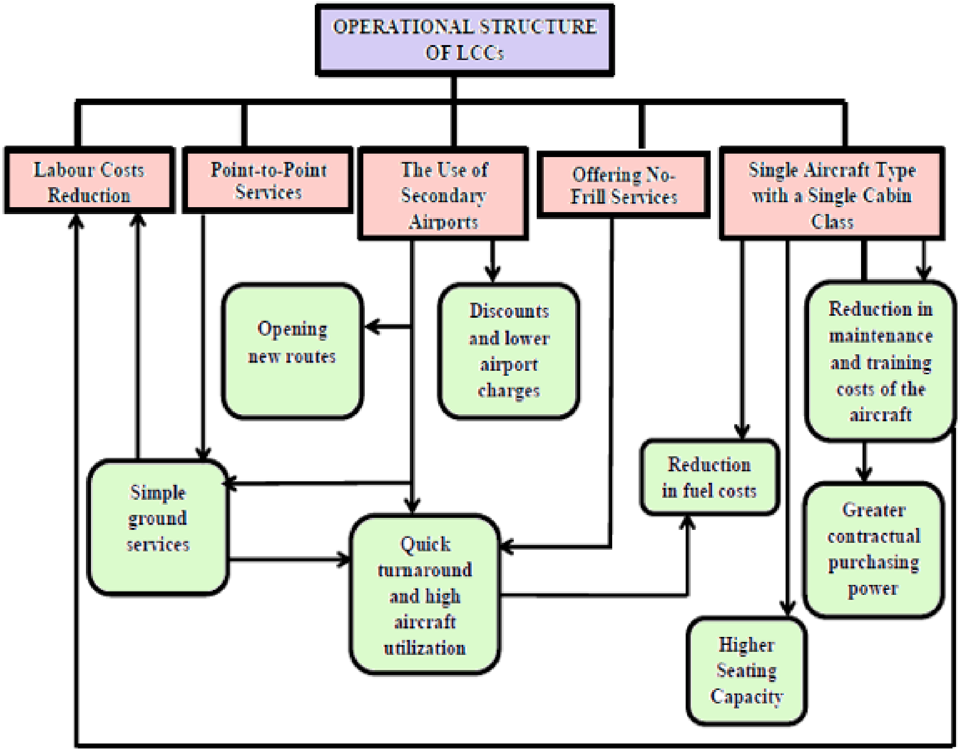

Figure 2.3: The operational structure of LCCs
Source: El-Mawardy, 2016, p. 43

2.4.2 The Marketing Strategy of LCCs

The marketing strategy of LCCs helps in reducing costs as well by (a) offering a simple service with no-frills; (b) following a pricing policy based on offering one single class with low airfares – that are rising as the departure date is getting closer – and simplified yield management based on maximizing ancillary revenues and introducing non-refundable one-way tickets without restrictions; (c) depending on direct sales through Internet, call centers, etc.., avoiding the use of travel agents and GDSs; (d) building a strong brand image through simple promotional designs, arranging special promotions, introducing documentary series and providing sponsorships in the important events for better communication with public, besides generating revenues from using the airplane surface for advertising products (Servadei, 2011; Menon, 2013).

Eventually, a comprehensive definition or understanding of LCC can be concluded:

Low-Cost Carrier is a type of airlines that depends on simplicity in its operations. The business model of this type is based on cutting operation and marketing costs throughout offering point-to-point scheduled air travel with low airfares and no free ancillary services, single class, single aircraft type, direct distribution and comparatively lower wages; which gives the airline a competitive advantage to compete with rivals and create a new customer base requiring this model.

RESEARCH METHODOLOGY

The Research relies on both desk research and field research. Desk research includes scientific books, articles, periodicals, reports and websites in order to collect secondary data. Meanwhile, the field research is used for collecting the primary data. The study follows the descriptive analytical methodology which aims to explain and investigate the impact of LCCs in the ME aviation market in terms of both the competition with Middle Eastern FSAs and the competition among LCCs.

The qualitative method will be adopted as a data collection tool approach. Questions and of this research will be answered through conducting a semi-structured personal interviews with the sales manager of Air Arabia Egypt and the sales managers of some competitors from Middle Eastern FSAs and other LCCs operating out of Alexandria airport to other destinations inside the ME region in order to reveal knowledge more in depth about the impact of LCCs in the ME airline market and to shed the light on the current situation of the competitive environment and the challenges facing LCCs in the ME airline market particularly.

3.1 Population

Generally, according to Magellan Geographix (1992), the ME region includes: the Gulf Cooperation Council (GCC) countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, the United Arab Emirates and Yemen); Lebanon; Syria; Iran; Iraq; Jordan; Sudan; Palestine, Egypt and Turkey. However, there are around 6 Middle Eastern LCCs, including Air Arabia, based in Sharjah; Kuwait- based Jazeera airways; Turkey-based Pegasus airlines; Saudi Arabia-based Nas air; Dubai-based Fly Dubai and recently, Egypt-based Air Cairo (Khan, 2012; Aljazira Capital Report, 2013; ICAO, 2014, Pegasus airlines, 2015).

On the other hand, there are around 17 national Middle Eastern FSAs operating in the ME airline market, including Saudi Arabian Airlines; Gulf Air; Kuwait Airways; Emirates airlines; Etihad Airways; Qatar Airways; Iraqi Airways; Yemen Airways; Egypt Air; Sudan Airways; Middle East Airlines; Syrian Arab Airlines; Royal Jordanian; Oman Air; Palestinian Airways; Iran Air and Turkish Airlines. Additionally, there is a number of privately-owned Middle Eastern FSAs operating in the region, for example: FSAs based in Egypt (Nile Air, Nesma Airlines and Airgo Airlines Egypt); FSAs based in Sudan (Mid Airlines and Sun Air); FSAs based in Syria (Cham Wings Airlines & Syrian Pearl) and Seven FSAs based in Iran operating between Iran and UAE (AACO, 2013; ICAO, 2015).

3.2 Sample Selection

In this research, the interviews have been conducted in the Egyptian airline market; since it is one of the most important airline markets in the ME region – specifically in Alexandria where the secondary airport is located and operated by all LCCs. In this regard, nine face-to-face semi-structured interviews have been conducted in October 2015 with the sales manager of Air Arabia Egypt and the sales managers of some competitors from FSAs and LCCs operating out of Alexandria airport to the other Middle Eastern destinations, the sample includes:

- The sales managers of all Middle Eastern LCCs operating out of Alexandria: (Nas air; Jazeera airways; Fly Dubai and Air Cairo).

- The sales managers of all national Middle Eastern FSAs operating out of Alexandria– except the sales manager of Saudi Arabian airlines who has refused to be interviewed: (Egypt air; Qatar airways and Kuwait airways).

- The sales manager of the Egyptian privately-owned FSA: (Nile air).

Findings Analysis and Discussion

According to the data gathered from literature review and the findings of the field study, the questions of the research can be answered as the following:

Q1. How did the emergence of the LCCs change the ME airline market

In 2003, after the entry and success of Air Arabia, following that, launching a number of LCCs in the ME region; the airfares were generally decreased. Moreover, some FSAs could not compete on certain routes and stopped their operations in certain markets, e.g., Etihad airways and Emirates airlines that ceased their operations in Alexandria airport. On the other hand, despite that the general opinions revealed from the field study have confirmed the positive impacts of LCCs in terms of making travel affordable, opening new markets and creating job opportunities; some opinions have confirmed that LCCs' advent negatively affected the air travel quality of the aviation industry.

Concerning the market share of LCCs, they could create their market share in the ME airline market through targeting the migrant workers and price-sensitive segments. At the same time, the data revealed from the field study has confirmed that the LCCs attract price-sensitive business segment as well. Hence, LCCs could take a significant market share from FSAs. Generally, the proportion of the lost FSAs' market share differs according to the main segments targeted by the FSA; Qatar airways – for example – did not lose a significant market share after the entry of LCCs because the airline mainly targets the quality-interested passengers.

Q2. What are the competitive responses adopted by FSAs in the context of the competition with LCCs in the ME airline market?

Based on the field study, it was revealed that the Middle-Eastern FSAs face the LCCs' competition through launching LCC subsidiaries or acquiring high shares of LCCs – as the case of Egypt air and its subsidiary Air Cairo with a 60% share, or cease operations on unprofitable short-haul routes and focusing on operating long-haul routes – as the case of Emirates airlines and Etihad airways.

However, some FSAs maintain their high-quality service and their high airfares; since they do not consider LCCs as competitors – as the case of Qatar airways. Meanwhile, some FSAs try to offer lower airfares and compete directly with LCCs according to the destination and the season – as the case of Egypt air, Kuwait airways, and Nile air. In general, the majority of the Middle-Eastern FSAs are members in global airline alliances in order to achieve high load factors on the long-haul routes. Furthermore, the privately-owned FSAs compete with LCCs only by offering low airfares and more frills.

Q3. What are the critical challenges that face LCCs in the ME airline market, and how they could overcome them?

It was concluded that LCCs in the ME face several critical challenges. The political and economic status in the ME region represents the main challenge for LCCs. For example, the national airlines of Yemen and Syria ceased their operations and many airlines went out of business – even in Egypt. On the other hand, the majority of the secondary airports in the ME are away from capitals; which threatens the LCCs' competitive advantage. In addition to that, the LCCs face governmental restrictions in the ME airline market, while the LCC subsidiaries do not face any restrictions – as the case of Air Cairo. These restrictions can be in the form of:

(a) higher airport taxes for the foreign airlines; (b) restricted licenses; (c) controlling airfares and the services offered on-board of the other airlines on routes operated out of primary airports (e.g., any airline willing to operate out of Cairo airport must introduce business class and offer free baggage allowance; free meals on-board with determining the minimum level of airfares that the airline can offer, further, if the airline is a foreign one, the use of the GDS system is a must); (d) closing the operations on certain routes, high protection of the primary airports; (e) giving financial subsidies or supporting fuel costs for the national FSAs; (f) making hidden bilateral agreements between some governments and ceasing specific routes to protect the national FSAs from incurring losses – especially in the high season (e.g. ceasing the route Alexandria-Dubai in the high season last year), and (g) launching an LCC subsidiary with privileges of the parent national FSA to compete with the other LCCs (e.g., Air Cairo that is owned by Egypt air with a 60 % share and the rest of share is owned by two of the national banks of Egypt).

However, the restrictions in the ME airline market differ from a market to another, the airline markets of Egypt, Saudi Arabia and Kuwait are the most restricted market, while the UAE is considered the less restricted airline market.

The LCCs in the ME airline market are trying to face these challenges through expansion the LCCs' operation. Some LCCs try to acquire shares in old airlines – as the case of Petra airlines that was acquired by Air Arabia in Jordan. While other LCCs try to launch subsidiaries – as the case of Air Arabia, or making the code-share agreements as the case between Nas air and Etihad airways to operate flights to the Far East.

Additionally, some LCCs introduce some frills and features of FSAs (e.g., Jazeera airways and Fly Dubai offer business class; Air Cairo offers free meals onboard; Jazeera airways offers free snakes onboard; Nas air, Air Cairo and Fly Dubai introduce GDS systems in their distribution strategies. Moreover, all the Middle-Eastern LCCs operate out of primary airports besides secondary airports. Generally, LCCs offer critical services for free according to the market they serve (e.g., all LCCs offer free baggage allowance in the Egyptian airline market). However, they depend all on travel agents along with online sales in their distribution strategies because of the lack of using a credit card).

Nevertheless, it is concluded that some LCCs gain governmental support due to being owned by the government (e.g., being owned by someone important in the royalty families in the ME (e.g., Fly Dubai, Nas air, Jazeera airways), or being a subsidiary to a national FSA (e.g., Air Cairo in the ME).

Conclusions and Recommendations

The research concluded that the success of LCCs in EU and the US has encouraged the penetration of this business model in the ME by launching Air Arabia in 2003; which has led to reshaping the ME airline market – mainly on short-haul routes – that was previously controlled by national FSAs, making air travel affordable for people who have not flown before and lowering the level of airfares in general. Moreover, LCCs have helped the economy of the countries by supporting tourism in the remote unknown regional tourist destinations close to secondary airports and opening new markets. However, the moderate level of living in the region, the high proportion of migrant workers – especially in the GCC market and high demand for Pilgrimage travel have helped LCCs to enter the market and achieve high profits.

Consequently, the competition between FSAs and LCCs has emerged in the ME airline market, some FSAs could not survive and went out of business. Meanwhile, the survival FSAs have followed different ways to compete with LCCs including, (a) restructuring the operation and marketing strategies; (b) acquiring shares of LCCs or making joint agreements with them to be used as a feeder traffic; (c) launching LCC subsidiaries to compete directly with LCCs, While keeping the high fares and quality of FSAs; (d) following the aggressive and anti-competitive strategies that lead to unfair competition and could get LCCs out of the market. However, despite the unstable political and economic status in the ME, besides the competition of LCCs; Qatar airways has been named the airline of the year – the third time in five years – at the 2015 Skytrax world airline awards in Paris; which confirms the airline’s successful strategy of competing in the world generally and specifically in the ME airline market.

On the other hand, in the context of network expansion; some LCCs are looking forward to operating longer-haul routes through: (a) adopting the multi-hub strategy by launching subsidiaries or purchasing the old airlines in different markets (e.g., Air Arabia); (b) making joint agreements between LCCs in sharing maintenance and ground handling services (e.g., Nas air and Etihad airways). However, the Middle Eastern LCCs basically introduce a number of FSAs' features in the ME airline market in order to expand their market share.

Generally, the competitive environment in the ME is relatively restricted by the governmental supports to the national FSAs at the aim of protecting them from the competition with new entries through many ways. In addition to that, the unstable political and economic status in the ME region is the main challenge for LCCs and making the possibility to open the competition in the ME airline markets difficult in order to protect the national airlines from incurring losses, unlike the circumstances in EU; where are the economic development and relatively stable political status.

Moreover, the lack of appropriate infrastructure in the ME is considered another challenge for LCCs; since most of the secondary airports in the ME are away from capitals, e.g., there are no secondary airports close to Cairo, the capital of Egypt. Furthermore, the mentality of people in the ME forms another challenge for LCCs; some passengers need the critical services for free (e.g., free baggage allowance in the Egyptian market); they do not accept the idea of paying for these services to be obtained. Furthermore, there is a lack of online purchase and using credit cards; which drives LCCs to depend on travel agents besides their websites in the ME.

Anyhow, the research concluded that some LCCs gain governmental support due to being owned by the government or being a subsidiary to a national FSA. All in all, unlike Egypt, Saudi Arabia and Kuwait which are the most restricted markets; UAE and Beirut are considered the less restricted airline markets. Yet, Air Arabia is considered a strong competitor for both Middle-Eastern FSAs and the other LCCs. At the same time, Air Cairo is competing strongly in the ME with the support of the Egyptian government.

Concerning the future of LCCs in the ME airline market, the market is expected to remain restricted under the unstable political and economic circumstances. At the same time, the secondary airports will be opened for the competition. Consequently, the number of new entries from LCCs or low fares airlines would be increased in some markets in the ME. Moreover, on the long run, Egypt air could suffer from the risk of replacement by its LCC subsidiary, Air Cairo – as the case of the LCC subsidiary, proving that, the emerged competition between Egypt air and Air Cairo, while they are supposed to complete each other – not compete. The other scenario is that Air Cairo could suffer from losses as the airline offers full-services with low airfares and high operation costs.

Additionally, it is expected that all airlines would be hybrid airlines on the long run; since many LCCs are in their way to adopt the mixed model, whether in the world generally or in the ME specifically. Hence, they would be called as “Low Fare Airlines” rather than LCCs because they offer many free services and introduce many features of FSAs with low fares. The same would happen with the FSAs that compete directly with LCCs.

Based on the conclusions above, the research recommendations are the following:

(a) The Civil Aviation Ministries in the ME are supposed to focus on their main task in the ME airline market, assuring the fair competition in a way not restricts the airline markets to protect the national airlines. They should achieve the balance of not to open the market to reach over capacity and not to restrict the market to reach under-capacity. The competition should be more opened – even under the unstable economic and political circumstances in the ME region. Anyway, it is better for the national airlines to compete without protection from their governments in order to work efficiently and get rid of over-employment and bureaucracy.

(b) It is crucial to enhance the infrastructure in the ME. There is a need to expand the existent airports or establish new ones in order to face the full capacity that most of the airports have almost reached and to avoid a further over capacity on the long run. Moreover, secondary airports are better to be established close to the capitals – like the case in France or London – in order to avoid the long distance that the passenger should be crossed by to reach their final destinations if they are travelling with LCCs. However, the existing secondary airports in many countries in the ME need to be improved and more activated. These steps would not only benefit the LCCs’ business; it would benefit the economy as well through activating tourism sector and business traffic.

(c) Any airline should strengthen its position in any airline market through maintaining its identity and maximizing the load factor without turning to be a hybrid airline; this is the key success for any type of airlines. Meanwhile, in the context of the competition between airlines – especially after the advent of LCCs; many airlines lost their identity and ended up to cease their operations and go out of business. Hence, although it is expected that the majority of airlines would turn to be hybrid in the future – whether the airline is an FSA or an LCC; this trend would make the airline lose its identity and competitive advantage:

- FSAs would make profits on the short run by turning to be hybrid; but on the long run, they would lose their reputation by lowering airfares and getting rid of the high service quality.

- Similarly, LCCs – on the long run – would lose their competitive advantage of offering low airfares based on cost cutting; since they could not offer the same low airfares when they are hybrid. As a result, they would lose their market share of migrant workers to the road travel again.

Furthermore, their market share of the price-sensitive passengers would turn to the original FSAs again. At the same time, they could not attract the high-yield segment; since this segment would prefer to travel on the high-quality FSA due to the close airfares.

(d) LCCs should always invest capital in improving their aircraft and maintenance in order to ensure the safety of the airlines and avoid any unexpected situations; sine many rivals claim that LCCs are unsafe airlines due to their low airfares, using this rumor to keep their market share in the context of the competition with LCCs. Hence, any accident that could happen to any airline would significantly affect the demand for the LCCs further more than FSAs.

(e) The Middle-Eastern LCCs could make a code-share agreement with other European or Asian LCCs in order to achieve high load factor, offer more destinations and indirectly compete with FSAs on the long-haul routes beyond the ME, while keeping their original business model.

(f) It is better for FSAs to focus on operating long-haul routes and ceasing operations on the unprofitable short-haul routes; maintaining their service quality and market share of loyal segments, along with attracting the high-yield passengers on the short-haul routes. However, if FSAs are interested in gaining profits from the price-sensitive segment, they could launch their LCC subsidiaries or set a code-share agreement with another LCC – which means achieving a high load factor for both airlines, taking into consideration the quality, safety and on-time performance of the LCC subsidiary or the LCC partner in order not to negatively affect the reputation of the FSA or the partner airline.

(g) Egypt air and Air Cairo should complete each other not compete; through letting Air Cairo operate more flights on short-haul routes, while Egypt air focuses on operating long-haul routes in order to avoid the risk of replacement by Air Cairo on the long run (as the case of Go and BA). At the same time, Air Cairo should clarify its business model to be called “Low Fare Airline” – not LCC; so that the airline could compete with appropriate airfares in order to avoid incurring losses.

(h) Finally, it is recommended for Air Arabia to continue its multi-hub strategy in the context of expanding the network and obtaining hubs in many countries in the ME region in order to serve more destinations directly. Moreover, it is better for Qatar airways to keep its differentiation strategy and adopt the displacement effect by offering relatively higher airfares and high-quality. On the other hand, it is better for the UAE government to keep handling the competition by letting Emirates airlines operate the long-haul routes, while Fly Dubai operate the short-haul routes, along with opening the airline market for competition.

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