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## **Sabre Airline Solutions consultant points to birth of new business model for airlines**

*Flexibility, adaptability and differentiation are key in the battle against no-frills carriers*

A new model of airline is emerging as no-frills airlines and traditional carriers around the world increasingly seek to copy the best of each business model. Speaking at the GCC Low Cost Airlines conference in Dubai yesterday (Sunday 10 September), Nejjib Ben-Kheder, president of Sabre Airline Solutions' consulting business, said the new breed of airline was best described as a value-focused carrier (VFC), and was set to gain a significant share of the leisure and cost-conscious business travel market.

Ben-Kheder says VFCs are identified by their focused route networks, simple fare structures, relatively cheap sales and distribution arrangements, limited array of partnerships and streamlined ground operations.

Sabre Airline Solutions defines a VFC as an airline that applies its resources in very specific markets, competing on a combination of price and a product that differentiates it from traditional carriers, while managing costs tightly.

The new business model is gaining ground as no-frills carriers and traditional airlines around the world converge to become VFCs, Ben-Kheder says. He pointed to dozens of examples of airlines in the Middle East, Europe, the Americas and the Asia-Pacific regions as examples of this transformation.

"It's important to note that 'value-focused' does not mean 'no-frills'," Ben-Kheder said. "VFCs such as Flybe in the UK, JetBlue in the US and Kingfisher in India do offer complete services and could never be described accurately as 'no-frills', but neither would they fit the profile of your typical traditional carrier such as British Airways, Qantas or Singapore Airlines."

Sabre Airline Solutions says VFCs ultimately will gain a significant share of the market for leisure and cost-conscious business travel. It estimates that these carriers currently handle 12 percent of this traffic around the world, compared to 6 percent in 2001.

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Factors influencing the growth of VFCs include: a discernable move away from a supplier-driven business model to one in which travel-wise consumers are increasingly able to exercise choice; price transparency and the ability of the Internet to present travellers with different travel options; increasingly simple pricing models; and the increasing demand for premium fares to represent some tangible value to the business traveller.

Ben-Kheder says Sabre Airline Solutions has developed a full range of operational and decision-support products to service the emerging VFC sector.

“These airlines need tools that enable them to be highly flexible to adapt rapidly to changing market conditions”, he said. “The ability to deploy aircraft and crews on more profitable or emerging routes quickly and easily is crucial to this business model, as is the ability to adjust fares quickly to market or competitor activity, or alter flight plans and fuelling arrangements to take advantage of prevailing flight conditions.

“They are looking for modular technology that doesn’t lock them into an entire, inflexible IT platform. Sales and marketing tools, in particular, should be able to link with each other and should embrace the entire spectrum of the operation, from booking, ticketing and fulfilment right the way through to settlement, accounting and customer relationship management.”

Ben-Kheder says the Middle East is ripe for expansion by VFCs.

“Globally, the airline industry is recovering well,” he said. “Scheduled airlines’ operating revenues crossed the \$400 billion mark in 2005. Yields are also improving, and reached 11.1 US cents per revenue passenger kilometre (RPK) last year, compared with just over 10.3 cents per RPK in 2002. Within this healthy picture, the Middle East’s own share of worldwide airline revenues is growing, too. This stood at 4.5 percent last year, compared to 3.7 percent in 2002 and 2003.”

Total revenues of airlines based in the Middle East have been growing at double-digit rates for the past few years, Ben-Kheder said. This has been fuelled particularly by Dubai, with its importance as a financial sector, burgeoning tourism industry and demand for labour from around the world to assist with infrastructural growth.

Traditional network carriers in the Middle East are investing hugely in growth opportunities, he said. Some carriers in the region have projected compound annual growth rates of 16 percent between now and 2015.

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But, presented with such rich potential for growth in the Middle East aviation sector, new carriers would continue to challenge the status quo. These would predominantly be VFCs, Ben-Kheder said.

“The traditional carriers in the region are responding well to the changing market forces,” Ben-Kheder said. “They are maintaining differentiation and value over the basic no-frills business model, but increasingly looking forward to multi-lateral alliances such as Arabesk to increase the breadth and depth of their networks – thereby reinforcing their network strengths and delivering a broader service to the community than no-frills carriers can afford.

“They know that just hoping no-frills carriers will go away never works. You lose market share and revenue and allow the no-frills carrier to become stronger. Matching fares and creating a war of attrition is expensive and ineffective, mostly because the no-frills carrier has lower cost base. In many cases the best way to deal with the emergence of a no-frills carrier in your market is to evolve and adapt – and that’s what the VFC business model is all about.”

### **About Sabre Airline Solutions**

Sabre Airline Solutions, a Sabre Holdings company, is the world's largest provider of products to help airlines market, sell, serve and operate from planning to execution.

More than 200 airlines use its broad portfolio of decision-support tools to increase revenues and improve operations, while more than 500 use its leading operational technology. More than 100 airlines rely on Sabre Airline Solutions for passenger management solutions, while a similar number have turned to the company’s consulting group for strategic, commercial and operational advice.

Sabre Holdings (NYSE: TSG) connects people with the world’s greatest travel possibilities by retailing travel products and providing distribution and technology solutions for the travel industry. More information about Sabre Holdings is available at <http://www.sabre-holdings.com>.

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