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Today's Cash-Strapped Consumers Demand More - Low Cost Long Haul Flights and Cheap Hotels in Major Cities

IdeaWorks describes why AirAsia X and easyHotel have the right product at the right time, and how airlines and hotels can thrive by deploying an a la carte pricing strategy.

The American humorist Mark Twain once commented after reading a false news story about his demise, "The report of my death was an exaggeration."¹ The same should be said of fears that consumers will stay home during 2009. Tough economic times suggest the style of travel will undergo change, but rumors of its death are certainly an exaggeration. This report is written about brands that are meeting new economic realities and how these companies will benefit from the market share surrendered by companies that fail to adapt.

Travel is a basic human activity that is surprisingly resilient . . . even during tough economic conditions. 63% of respondents to a November 2008 Ipsos poll of 1,055 US adults indicated they would not decrease leisure travel during 2009.² Surprisingly, 20% of the respondents expected to travel more often for leisure in the coming year. Headlines have been grabbed by reports of fewer travelers for 2009, and this component did represent a significant 37% of the respondents in the Ipsos poll. But this news doesn't discourage savvy marketers - - such as AirAsia X and easyHotel, companies that already know low prices offer universal appeal.

Wal-Mart Stores is one of the few bright spots in the global economy and companies in the travel industry might take lessons from it. Same store sales in the United States for February 2009 were actually up 5% above 2008.³ Sales are up 9.9% for international operations, which includes Wal-Mart brands in Mexico, Canada, China, Brazil, Japan, and the United Kingdom. The company's pricing strategy is impossible to miss, as it's plastered in huge letters on Wal-Marts in the USA: "Always Low Prices. Always." Sales growth in today's economy is ample evidence that consumers embrace Wal-Mart's low price philosophy.

It is a manifesto that is aligned with the "lowest cost wins" mantra proclaimed by Michael O'Leary, the CEO of Ryanair. Consumers understand the link between low fares and a la carte pricing. This report describes how AirAsia X and easyHotel allow consumers to enjoy this combination in new areas - - ultra long distance flights and big city lodging.

¹ "The Quotable Mark Twain" by Ken Rasmussen, McGraw-Hill Companies (1998).

² "Travel Market in the United States Heading South in 2009?" December 4, 2008 press release at Ipsos-na.com.

³ "Wal-Mart Reports February Sales Results" Wal-Mart press release dated March 5, 2009.

Low Priced Long Haul Enjoys Resurgence

Carriers such as Ryanair in Europe and AirTran Airways in the USA have long provided low fares on short- and medium-haul routes. Network carriers, such as United Airlines, Air France-KLM, and Qantas Airlines, dominate the long haul market; with a few routes flown by charter airlines. Prevailing wisdom in the industry suggests the low cost model can't be adapted to longer haul markets. This is based upon the belief that travelers on 6+ hour flights - - especially those on business trips - - won't embrace the no-frills flying experience associated with a low cost carrier.

The April 2008 failure of Oasis Air Hong Kong and the August 2008 shutdown of Zoom Airlines of Canada seemed to support prevailing wisdom that long haul and low cost can't coexist. These carriers attempted to bring low fares to long haul markets such as Hong Kong - London and Canada - Europe. But the evolution of the airline species is continuous, and new carriers continue to move into the long haul arena. The most significant activity has occurred in Asia and the South Pacific due to the existence of three carriers: JetStar International, V Australia, and AirAsia X.

JetStar International, a wholly owned subsidiary of Qantas, is a low fare airline based in Australia that operates long haul flights to Hawaii, Japan, and Southeast Asia. V Australia is the international airline of Virgin Blue, which launched transpacific flights on February 27, 2009, between Australia and the USA.⁴ AirAsia X became the latest long distance champ on March 11, 2009 when it launched 12-hour London Stansted flights from its Kuala Lumpur hub.⁵ It has a unique airline pedigree; it's an affiliate of Malaysia-based AirAsia with shareholders including the Virgin Group.

This airline category is enjoying success. According to the Qantas Annual Report for 2008, "Jetstar is the world's largest value-based long-haul carrier and the fastest-growing airline flying to and from Australia, having doubled its international operating capacity over the last financial year."⁶ Overall passenger revenue for JetStar increased by more than 35% for 2008, and this was largely driven by a greater than 44% increase of its network.⁷

AirAsia does not provide details for its affiliates, but the company did report AirAsia X is expected to contribute positively to group results for 2009.⁸ V Australia represents the first long haul endeavor for Virgin Blue, but already, Richard Branson (who is an investor in the airline) is planning expansion from Melbourne and Brisbane to Los Angeles and Johannesburg.⁹

⁴ V Australia press release dated February 27, 2009.

⁵ AirAsia press release dated November 25, 2008.

⁶ Qantas Annual Report for 2008, page 20.

⁷ Qantas Annual Report for 2008, page 52.

⁸ AirAsia Berhad ("the Group") Fourth Quarter Report ended December 31, 2008

⁹ "V Australia kicks off inaugural flight with global parties" article at The Australian, March 1, 2009.

AirAsia X Takes A la Carte to Extreme Lengths

JetStar International and AirAsia X take a similar approach to a la carte pricing, while V Australia tends to bundle more features into the price of its base fares. But AirAsia X is unique because it has applied an aggressive a la carte style to ultra long haul routes. Its Kuala Lumpur - London service is the world's longest flight (13 hours) without complimentary meal service. In addition to this pioneering meal option, AirAsia X also provides a complete array of a la carte services. The following fees apply to its new London flights:

A la Carte Fees for Air Asia X (London - Kuala Lumpur)		
Checked baggage, 15 kilogram piece	Ordered and paid online	£4 (US\$5.68)
	Paid at airport during check-in	£6 (US\$8.52)
Checked baggage, 20 kg. piece - Ordered and paid online (see note*)		£12 (US\$17.04)
Checked baggage, 25 kg. piece - Ordered and paid online (see note*)		£22 (US\$31.24)
Pick a seat (otherwise airline randomly assigns)	Standard seat	£5 (US\$7.10)
	Hot seat - more leg room	£20 (US\$28.40)
In-flight comfort kit	Ordered and paid online	£5 (US\$7.10)
	Purchased onboard	£7 (US\$9.94)
Pre-purchased hot meal service: On flights to/from UK includes 2 hot meal services with complimentary bottle of mineral water per meal.		£7 (US\$9.94)
Single hot meal purchased onboard		£5 (US\$7.10)
Beverages and alcohol available for purchase onboard		Prices vary
Source: Fees listed at AirAsia.com website reviewed March 2009 (Bookings/Fee Schedule) Currency conversion rate of 1.00 UK pound = US\$1.42 * Higher per kilogram excess baggage charges apply if paid at the airport.		

The thought of discontinuing complimentary meal services on long haul flights has given some airline executives more heartburn than the food they serve in economy class. United Airlines probably regrets the August, 2008, news that it was planning to test a buy-on-board concept on transatlantic flights operating at its Washington Dulles hub during the 4th quarter of 2008.¹⁰ Within 13 very unlucky days, the airline said it was compelled by overwhelming public feedback to drop its test plans.¹¹ US Airways merely ventured into the implementation of selling soft drinks and bottled water on domestic flights; the carrier reversed this policy for travel starting March 1, 2009 after it was in effect for only seven months.¹²




¹⁰ "United Airlines ends free meals on flights" article at the Arizona Republic website on August 20, 2008.

¹¹ "United Backs Off Plan to Cut Free Meals From Transatlantic Flights" article in the Wall Street Journal on September 2, 2008.

¹² US Airways press releases dated June 12, 2008 and February 23, 2009.

Acceptance of food-for-purchase on AirAsia X has been good with approximately 55% of passengers opting to pre-order a hot meal.¹³ While this statistic might seem a little low, it does not fully reflect the factor of overnight flights, such as an 0045 departure from Melbourne to Kuala Lumpur. According to management, 1/3 of AirAsia X flights operate during non-opportune meal times during which most passengers choose to sleep. Approximately 80% of customers pre-order meals on the remaining daytime oriented flights. The statistics support comments made by Tony Fernandes, the CEO of AirAsia, “Everyone said you can’t charge for food on a long haul flight, but in one year not a single person has complained about it.”¹⁴

AirAsia X prompts online customers to pre-order meals during the booking process. The carrier offers Malaysian, international, vegetarian, and kid’s meal options. The company’s Malaysian heritage also compels it to provide a chile pepper spiciness rating with its meal descriptions. The following are examples of the pre-order meal choices offered by AirAsia X:

	<p>Pak Nasser’s Malaysian Nasi Lemak (1st meal service choice) A traditional Malaysian favorite. Fragrant coconut rice served with Pak Nasser’s special chili sambal sauce and tender chicken rendang. Served warm with traditional anchovies and nuts for an authentic spicy and crunchy taste. 🌶️🌶️ Spicy, containing chilies and spices</p>
	<p>Big Bruce’s Smokey BBQ Chicken (1st meal service choice) Tender boneless chicken, marinated, barbequed to perfection with Big Bruce’s secret spicy BBQ sauce. Served with seasoned roasted potatoes and mixed vegetables. 🌶️ Mildly spicy or peppery hot</p>
	<p>Roti Jala (2nd meal service choice) A Malaysian specialty served with a twist. The lace-like Roti Jala crepe is wrapped with minced curry chicken. The entrée is served warm with four pieces per service. 🌶️🌶️ Spicy, containing chilies and spices</p>

¹³ Information provided by AirAsia X on March 4, 2009.

¹⁴ “AirAsia promises to rewrite the rule on low-cost longhaul” Low Cost & Regional Airline Business December 2008 article.

AirAsia X acknowledges the presence of higher-spending travelers by offering premium "XL" seats, an acronym for extra long and extra plush comfort. But keeping true to the carrier's a la carte style, it's just a better seat.

XL seating does not include the fare-boosting perks associated with legacy carriers such as special check-in desks and airport lounges. The carrier will use an A340-300 aircraft for London flights with 30 XL seats offering a 60-inch seat pitch, which is almost double the 32-inch pitch found in its 256-seat economy class.¹⁵



Premium XL seats on AirAsia X



The online booking process also allows customers to pre-order a comfort kit. Each includes a blanket, inflatable pillow, sleep mask, and a reusable carrying pouch. This feature is slowly gaining traction in the industry, as it offers a sanitary alternative to the free provision of blankets and pillows, which are rarely laundered between flights. Online bookers are encouraged to pre-order meals and comfort kits as onboard supplies are extremely limited.

While network airlines can't easily match its aggressive a la carte approach, legacy competitors can always match low fares and create havoc for new entrants. But AirAsia X has shielded itself from this risk by avoiding head-to-head competition with British Airways and Virgin Atlantic. These carriers do not serve Kuala Lumpur but do fly to nearby Singapore, which can be reached via a 50-minute flight.

The lack of direct competition for AirAsia X and its devotion to an unbundled product, effectively gives major airlines permission to ignore this upstart airline and its low fares.

¹⁵ "AirAsia X launches Stansted-KL flights: article in Business Traveller dated November 25, 2008.

Hotels Drop Rates as Consumers Seek Deals

Consumers are focusing on better airfare and hotel deals in today's tight economy. Demand for rooms has dropped, and hoteliers have dropped rates to attract guests. According to a recent report issued by Deloitte consulting:

“Hotel operators will be focusing on value for money more than ever before. There will be cannibalization across the segments as consumers become much more budget conscious.”¹⁶

Trends point to a triple penalty of falling occupancy, revenue, and profit. For example, the number of overseas visitors to the UK fell by 12% during the last quarter of 2008.¹⁷ Hotel giant, Intercontinental Hotels Group announced “sharp deterioration” during the 4th quarter of 2008 with a 6.5% drop in the average rate per available room compared to 2007.¹⁸ The decrease for January 2009 compared to 2008 was even greater at 12.2% worldwide. The hotel chain, which operates a range of hotel categories throughout the world, revealed forward bookings show no sign of improvement. In addition, the United Nations World Tourism Organization predicts a decline in length of stay and expenditure will be more pronounced than the decline in overall volume for 2009.¹⁹

Hotels are facing the same economic issues as airlines; there are fewer travelers and consumers want to pay less. Airlines have learned to rely upon new ancillary revenue opportunities and a la carte pricing methods to weather the economic storm. The migration of these methods to the hotel business has occurred at a slower pace with the exception of industry traditions such as in-room minibars and internet access fees.

Innovative examples do exist. “Hilton Requests Upon Arrival,” is a pre-order service that allows travelers to pay for personal touches that are delivered upon arrival. But a la carte pricing has not caught on as quickly among hoteliers - - that is until easyHotel made it a core component of its product design.

easyHotel is an A la Carte Lodging Leader

easyHotel is an affiliate of the easyGroup, the private investment vehicle of Sir Stelios Haji-loannou. easyGroup is the owner of the easy brand and licenses it to all of the easy branded businesses, including easyHotel, easyJet, and other activities involving car rental, mobile phones, cinemas, music, and pizza.

¹⁶ “European hotel performance affected by financial crisis” issued by Deloitte Czech Republic on December 1, 2008.

¹⁷ “UK Chain Hotels Market Review – January 2009” issued by TRI Hospitality Consulting.

¹⁸ InterContinental Hotels Group PLC, Preliminary Full Year Results to 31 December 2008.

¹⁹ United Nations World Tourism Barometer for January 2009.

The chain focuses on clean, safe, central, and best-price accommodations in the United Kingdom and across Europe. easyHotel has four London locations (South Kensington, Victoria, Earl's Court, Paddington), plus London Heathrow and Luton Airports, and three continental locations: Basel, Zurich and Budapest. Future openings are planned for Larnaka (Cyprus), Berlin, Dubai, Sofia (Bulgaria), and Porto (Portugal).²⁰

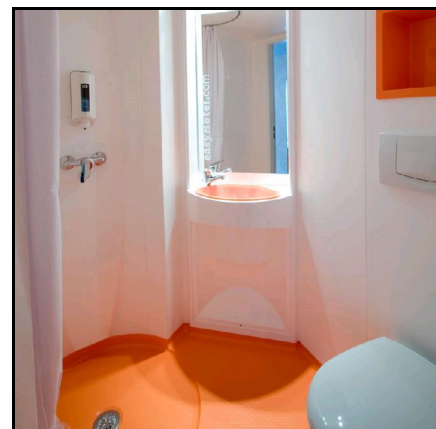
Shopping the easyHotel.com website during March 2009 revealed an amazing £24.50 rate (US\$35) for a double room on July 2009 (including tax) at the easyHotel near Earl's Court tube Station in central London. Locations at Paddington Station, Victoria, and South Kensington are all comparably priced. That rate buys a double bed with a private shower, toilet and sink, cotton sheets, pillows, fluffy duvet, 24-hour reception, and controlled access limited to hotel guests. Granted, the room will be small - - a very tidy 6 to 7 square meters (about 64 to 75 square feet) and a la carte fees will apply if you want anything more.



Larger standard easyHotel room with optional window

easyHotel embraces the ancillary revenue movement in almost every way. The a la carte pricing approach may frustrate some travelers, but there is no debate that £24.50 is a jaw dropping rate for a spotlessly clean and modern central London hotel. Hotels utilize existing buildings that have been completely gutted to accommodate the company's modular approach to room design. Building and construction materials combine minimalist aesthetics, durability and low maintenance.

Lobby areas are utilitarian and include a la carte services such as luggage storage, internet terminal, and vending machines. Reservations and pre-payment are made online at the easyHotel.com website. Customers are offered a variety of rooms in terms of size, twin or double beds, window or no window, and accommodations for guests with special needs. A la carte fees apply for housekeeping during a stay, extra towels, in-room flat screen cable television, and wireless internet access. easyHotel is ideal for travelers who will spend very little time at the hotel. Guest rooms are designed for watching television (in bed) or sleeping; the usual table and chair are not provided.



Modular easyHotel private facilities include built-in sink, toilet, and a free-standing shower with curtain.

²⁰ easyHotel press release dated February 2009

The following room rates and a la carte fees were offered on March 6, 2009 for an overnight stay occurring on July 15, 2009 (* items are not pre-order and are requested at the hotel).

A la Carte Fees Example for easyHotel - London Earl's Court		
Small room - bed for 2 6-7 sq. meters (64-75 sq. feet)	No window	£24.50 (US\$34.79)
	With window	£39.00 (US\$55.38)
Standard room - bed for 2 8-9 sq. meters (86-97 sq. feet)	No window	£49.00 (US\$68.16)
	With window	£54.00 (US\$76.68)
Twin room - 2 single beds 10-13 sq. meters (107-140 sq. feet)	No window	£49.00 (US\$68.16)
	With window	£59.00 (US\$83.78)
Special needs room 14 sq. meters (150 sq. feet)	No window	£24.50 (US\$34.79)
	With window	£24.50 (US\$34.79)
Flat screen television - 20 channels	24 hours	£5.00 (US\$7.10)
	96 hour	£14.00 (US\$19.88)
Wireless in-room internet *	Per hour	£5 (US\$7.10)
	24 hours	£10 (US\$14.20)
Housekeeping - room cleaning, fresh linens and towels *		£10 (US\$14.20)
Extra towels - per towel *		£1 (US\$1.42)
Luggage storage - per piece for 24 hours *		£2 (US\$2.84)
Online payment by Visa or MasterCard (no charge with Visa Electron)		£1.50 (US\$2.13)
<i>Source: Fees listed at easyHotel.com website reviewed March 2009. Rates are subject to availability and will vary. Currency conversion rate of 1.00 UK pound = US\$1.42</i>		

easyHotel recently announced improvements to its classic room design. Don't expect carpeting, desks, and comfy chairs as the company is dedicated to keeping capital and operating costs low. Instead the company is adding more built-in features such as luggage storage, better clothes rack, more shelves, and room lighting options. And yes, the company will soften the color palette with a little less orange . . . but no, it won't soften its dedication to low prices.

Cheap is the New Chic, and A la Carte is the Method

Herb Kelleher, the father of the low cost airline industry, said it best at the Low Cost Airlines Congress in London, "People are shopping for bargains. If they have decreasing income, it's right for LCCs."²¹ Wal-Mart, as one of the few bright spots in a deep recession, obviously shares Herb's passion for low prices. AirAsia X and easyHotel have adopted the same low price style, but with an a la carte twist.

²¹ "World Low Cost Conference Report," December 2008, Low Cost & Regional Airline Business

It all begins with a brand that delivers the lowest price. AirAsia X announced its Kuala Lumpur - London service with a £99 fare.²² easyHotel offers a peak season £24.50 room rate for a centrally located hotel in London. These are amazingly low prices, but the amazing alchemy of a la carte pricing helps these companies scoop up more revenue from today's consumers.

Of course you are going to check luggage on your London flight, want a seat assignment, pre-order a meal, maybe buy insurance, and possibly book a hotel. It all adds up to an attractive ancillary revenue boost for AirAsia X. And with easyHotel the booking process begins with the choice of window, or no window.

Perhaps the mantle of low cost leadership is passing to a younger and more aggressive generation. "We're the world's first true low-cost, long haul airline. We're en route to global domination," said Azran Osman-Rani, CEO of AirAsia X.²³ It's a statement that would make Herb Kelleher proud.

Disclosure: IdeaWorks makes every effort to ensure the quality of the information in this report. Before relying on the information, readers should obtain any appropriate professional advice relevant to their particular circumstances. IdeaWorks cannot guarantee, and assumes no legal liability or responsibility for, the accuracy, currency or completeness of the information.

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²² AirAsia press release dated November 25, 2008.

²³ "AirAsia promises to rewrite the rule on low-cost longhaul" December 2008, Low Cost & Regional Airline Business.