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Book Review: Low Cost Carriers: Emergence, Expansion and Evolution

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Book Review

Budd, Lucy, and Ison, Stephen, eds. Low Cost Carriers: Emergence, Expansion and Evolution. Burlington, VT: Ashgate/Lund Humphries Publishing Co., 2014. ISBN: 978-1-4094-6903-2

Low Cost Carriers: Emergence, Expansion and Evolution

by Curtis M. Grimm

The effects of airline deregulation across the globe are closely intertwined with the incidence of low cost carrier entry. Across most countries, freeing up legacy carriers to compete has had only modest effects without the catalyst of low-cost carrier entry. The entry of low cost carriers seems to “stir the competitive pot.”

A recent edited volume has done an excellent job of bringing together a collection of published papers on the topic of low-cost carriers. The volume is organized into six parts. Part I covers deregulation and liberalization and includes information on deregulation in the United States, Europe and Asia. Part II is on business models and operating characteristics and provides detail on entry and profits of low-cost carriers. Part III, The Airline-Airport Relationship, provides a perspective from airports regarding the advantages and implications of low-cost carriers. Part IV addresses network characteristics, discussing the geography of the United States as it relates to the role of low-cost carriers as well as low-cost carrier networks within the EU and their impacts on competition. Part V, Pricing and Competition, includes details on the price strategies of low-cost carriers along with the response and strategies of legacy and full service competitors. The final section, Part VI, is Impacts and Implications for the Future. This consists of four relatively recent articles that illustrate the topic is not only of historical importance but remains of interest into the future. The following questions are raised: Can the low-cost model be transferred to long-haul operations? What about the “carrier within carrier” approach, where legacy carriers develop low-cost affiliates within their corporate umbrella? Will legacy carriers respond effectively to low-cost competition? Have they? Are there limits to growth of such carriers?

Impressive in the collection is the range of disciplines and journals covered. Transportation is a multidisciplinary field, with most work developed within a disciplinary silo. This volume is a welcome exception, with coverage across economics, geography, operations, and management. There are fascinating and important questions involving both public policy and business policy or strategy, with strong coverage of both.

Not being overwhelmed with technical details, the papers are accessible to a wide audience.

I will end with my own experience regarding airline deregulation and the important role of low-cost carrier entry. In 1991 on sabbatical in Canberra, Australia, I led a team at the Bureau of Transport and Communications Economics to study the impacts of Australian airline deregulation in its first year. Key to the impacts was the entry of Compass, a low cost carrier providing vigorous price competition in major markets. Two legacy carriers met the competition, and our report issued in December 1991 found strong economic benefits with lower fares and greater flight frequencies. However, the bankruptcy of Compass late in December, at peak seasonal travel time, provided a short-term bump in the road and widespread displeasure from “stuck” travelers regarding airline deregulation. It was a good time to return from sabbatical!

Curtis M. Grimm is professor and Charles A. Taff chair of economics and strategy at the Robert H. Smith School of Business, University of Maryland. Grimm served as Logistics, Business and Public Policy department chair from 1995-2003. He received his Ph.D. in economics from the University of California-Berkeley, with primary focus on industrial organization. Grimm has conducted extensive research in both supply chain and strategic management. His research has focused on the interface of business and public policy with strategic management, with a particular emphasis on competition, competition policy, deregulation, and microeconomic reform both in the U.S. and overseas. This research has resulted in four books and more than 80 published articles.