

## 'Low-Cost' to Stay - If Costs Stay Low

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The 'low-cost revolution' is here to stay, as long as costs outside the industry's control can stay at reasonable levels. Delegates attending the 55th PATA Annual Conference session on 'Lowering the Cost, Keeping the Value - Defining the Low-Cost Revolution' learned this today in Pattaya, Thailand.

CEO of India-based low-cost carrier (LCC) IndiGo, Mr Bruce Ashby, said the industry's common goal was to manage taxes and other costs within its control or influence. 'Most people are willing to spend about 5-6% of their incomes on air travel,' he said. 'If fuel prices - which are determined by factors outside of our control - force air fares beyond a certain level, then this new lower-cost segment will be priced out of the market.'

Malaysia Airports (Sepang) has recently opened a dedicated low-cost terminal in Kuala Lumpur in anticipation of continued fast growth in the segment. Malaysia Airports General Manager Mr Azmi Murad said the terminal was designed in consultation with carriers to 'expedite fast turnaround times, reducing fuel consumption on the ground' as well as to enable other cost efficiencies.

The hospitality industry has also recognised 'the definite and urgent need to expedite the proliferation of low-cost travel', according to Dusit Hotels & Resorts Vice President-Development Mr Duncan Jamieson. 'There are currently not enough three-star accommodation options at destinations served by low-cost carriers,' he said.

Mr Jamieson was referring to 'quality' three-star properties, not the 'dusty room in which you would pull back the bed covers to check what's under them before getting into bed'. He said budget hotel brands are now very clean, value-oriented and very efficient, employing only about one person for every five rooms.

Mr Jamieson said that while budget hotels were not a real threat to four- and five-star properties, developers and investors would 'miss out in a big way' if they were to ignore the potential of the segment.

From the audience, Accor Greater China CEO Mr Brian Deeson said that LCCs and budget accommodation did not necessarily share the same market. He said that many of the guests who stay at Accor's three-star Ibis properties travel from within 200 kilometres, and not from places served by LCCs.

However, Mr Deeson said that the factors essential for the success of both low-cost sectors remained the same: efficiencies resulting from standardisation of product, predictable work-flows and paring down controllable costs. He said room rates at Ibis properties can be as little as US\$15 per night and they can still make money.

Fare.net Co-founder and CEO Mr Pascal Bordat said that low-cost operators understand the power of the Internet to distribute tourism services and products, claiming that in countries such as Malaysia the value presented by low-cost carriers actually inspired many people to use the Internet for the first time.

'For travellers, the Internet is the best way to find the right product for them,' he said, citing the proliferation of 'vertical search engines' that help Web surfers plan more complicated trips.

'For travel businesses, the Internet is the most efficient distribution system currently available,' he said. However, he refused to read the epitaph of traditional agents, who he says will become 'more efficient, more specialised and more focused on adding value'.

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