



Could Starting an Ultra Low-Cost Carrier Help WestJet Airlines Ltd.?

Description

WestJet Airlines Ltd. (TSX:WJA) is renowned for its sprawling network of domestic routes across Canada, the U.S. and into the Caribbean. The airline is more recently known for commencing several trans-Atlantic routes over the past year, and the much-publicized growing pains those new routes had for the airline.

The new trans-Atlantic routes pitted WestJet in direct competition for the first time with larger airlines such as **Air Canada** that typically fly those lucrative international routes. Throughout that latest round of expansion, WestJet has attempted to shake off the long-held perception of being a low-cost or budget airline.

Thanks to an announcement made this month, WestJet may finally be making strides on that front.

WestJet contemplates entry into the ULCC market

Ultra-Low Cost Carriers, or ULCC which is the acronym that they are known by, exist at the absolute lower end of the airline industry. Think minimal seat space, a fee for everything from issuing boarding passes to using the overhead bin space, and in some cases, not even a pre-assigned seat will come included in that super-low airfare.

And WestJet is now considering starting a ULCC.

While ULCCs are more widespread in the U.S. and European markets, they are starting to spill over into Canadian skies, and as they do penetrate the market here they stand to eat into WestJet's domestic route network, which could ultimately be why WestJet is considering the ULCC market altogether.

Whether it will work is another question altogether.

One of the main reasons that ULCCs work so well in Europe is because there are plenty of densely populated cities scattered across over two dozen countries that are all within a few hours of flying time. Flying time is an increasingly important factor to consider when opting for a cheaper, no frills airline.

In short, ULCCs serve as feeders for legacy airlines, and as commuter or weekend airlines for everyone else, offering an alternative to full-service carriers.

Canada by comparison doesn't have anywhere near the same population density across what is a much larger landmass. Our densely-populated cities are for the most part several hours away from each other, which would be of little benefit to budget-minded passengers. Furthermore, there are relatively few Canadian cities that could support a ULCC network, if at all.

There's also the matter of which routes a ULCC would operate on, and what crews will fly them. Low-cost carriers are typically staffed with lower costing employees. WestJet would likely need to renegotiate contracts with unions or hire an entirely new set of pilots and crews to fly the new airline.

WestJet sees the potential market for the new airline at around 10 million passengers, with the hub establishing lower-priced hubs in cities across the U.S. border that could benefit from Canadian travelers looking for a discount. An example of this could be Buffalo New York, which could draw in traffic from across the GTA and Niagara regions.

That cross-border service into and from the U.S. market seems like a good place to start, but many of those popular routes are already served by WestJet from Canada, which is already considered a low-cost carrier.

If anything, a new WestJet-owned ULCC would be competing with WestJet on most domestic and cross-border routes.

WestJet's new low-cost airline is set to begin over the next year.

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