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“The king is dead, long live the king”: when a low-cost carrier becomes the national airline

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Affidavit

I hereby affirm that this Bachelor's Thesis represents my own written work and that I have used no sources and aids other than those indicated. All passages quoted from publications or paraphrased from these sources are properly cited and attributed.

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Abstract

The thesis studies the effects of the bankruptcy of the Hungarian national airline, *MALÉV*, on the country's tourism and aviation industry and particularly the development of *Wizz Air,* a low-cost carrier that has become the country's biggest air carrier. The study has shown that the market exit of the national carrier did not result in major disruptions in air transport in Hungary; moreover it invigorated the Hungarian aviation market resulting in increased arrivals and bigger variety of destination choices for the customers. Apart from losing a company, which was considered a historical piece and stood close to the hearts of many Hungarians, the country only benefited from such loss. Most importantly it gave space to low-cost carriers, first and foremost to *Wizz Air*. The Hungarian low-cost airline became the sole air travel operator originated in Hungary and took over many of the routes and destinations of the former national carrier. In a couple of years *Wizz Air* managed to get close to the size of *MALÉV* and today it is considered the most significant role-player of the Hungarian aviation industry, proving to be able to reach the level of the former national airline and on the verge for the title of being the new 'unofficial national carrier' of Hungary. Even though *Wizz Air* technically doesn't suffice as a national airline, it serves the country with dedication and commitment just as how a national carrier should do so and therefore proving to be able to fill the space that *MALÉV* left behind.

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List of Abbreviations

LCC	Low-cost carrier
FSC	Full-service carrier
MALÉV	Magyar Légiközlekedési Vállalt – MALÉV Hungarian Airline
EC	European Commission
ATC	Air Traffic Control
ATM	Air Traffic Management
SES	Single European Sky
ATCO	Air Traffic Controller
FAB	Functional Airspace Block
SESAR	Single European Sky ATM Research
EASA	European Aviation Safety Agency
LCAT	Low-cost air travel
BUD	Liszt Ferenc Nemzetköti Repülőtér – Liszt Ferenc International Airport
ULCC	Ultra low-cost carrier
EU	European Union
CEO	Chief Executive Officer
HUF	Hungarian Forint
CASK	Cost Per Available Seat Kilometer
H1	First period of a financial year

EBITDAR	Earnings Before Interest, Taxes, Depreciation, Amortization, and Restructuring or Rent Costs

1 Introduction

The main step towards the current state of the aviation market was the deregulation of the European airspace in the 1980 - 1990s. It has created the foundation for the future possibility of establishing low–cost carriers (LCC) and consequently resulted in numerous transformations and essentially a renewal of the whole aviation industry. Over the past few decades the aviation business has drastically changed, affecting every part of the world and forcing airline companies to reconsider their strategies. As the old-fashioned national airlines battle to retain their position on the market, the new, redesigned and innovative low–cost carriers are taking over numerous destinations and forcing the national airlines to face the threat of reaching the edge of bankruptcy.

The development of LCCs revolutionized the strategies of national carriers and presented renewed product to the passengers. LCCs have a different company-, market- and operation structure, and the approach towards generating profit is notably distinctive from full-service (FSC) national airlines. Besides the different operating strategies the significant difference lies in the services offered. The past years proved that this new thinking is highly effective considering the increasing influence of LCCs. Several airlines had and still have difficulties given the high-level impact of LCCs, revealing the potential possibility of a low-cost carrier becoming a country's unofficial national carrier.

The case of *Wizz Air Hungary* presents the impacts and importance of a predominantly country–based LCC after the de–hubbing of the national airline. It offers an interesting insight to the unusual situation of an LCC becoming the de-facto national carrier. With the bankruptcy of *MALÉV* (*Magyar Légiközlekedési Vállalat – MALÉV Hungarian Airlines*) in early 2012 the Hungarian aviation and tourism market took an unexpected hit, however LCCs, including *Wizz Air*, took over the collapsed national airline's route network immediately. As it is the only major Hungarian airline, it is extremely essential for the country and for its tourism.

This paper conducts a qualitative research on the market impact of LCCs on national airlines and on the route networks and their importance on a country's tourism. It also provides an insight to the reaction of the tourism and the aviation market to the de-hubbing of the national carrier. Particularly it intends to present the case of *Wizz Air* after the market exit of *MALÉV* and to explore the significance of LCCs in the current aviation industry.

2 Literature Review

2.1 Aviation liberalization and the Single European Sky

2.1.1 The deregulation and liberalization of the (European) aviation market

The motion to deregulate and liberalize the air transportation started out in the United States around the 1970s after the realization that regulations cause more disadvantage than advantage. In the US the Airline Deregulation Act was signed in 1978, which resulted in the liberalization of the national aviation market of the US (Pels, 2009). Borenstein (1992) stated that the Deregulation Act was "a rejection of the incredibly inefficient regulation of the past 50 years". The deregulation process of the European aviation market took place in the 1980s and 1990s. The main role-player in the lengthy process of creating the European aviation liberalization was the European Commission (EC), which has been in control of the procedure for more than 25 years (Baumgartner and Finger, 2014).

Unlike in the US, the deregulation process in Europe was more complex and gradual due to the different interests of the participating nations. Over the past years the EC gained possibilities to regulate the air traffic control (ATC) and the air traffic management (ATM) after the realization of the need for control because of the multiple nations and languages involved. Around the 1990s the EC introduced three measures with the goal of supporting the competition in the European air transport market by providing better access to important infrastructures and services. A few years later in 1993 the EU Council presented a regulation on airport slot allocation. Its goal was to provide "certain priorities to new entrants when it comes to allocating recently available slots" (Baumgartner and Finger, 2014, p. 290). However since the capacity of airports is scarce, the newly entering competitors are still facing an obstacle, which resulted in that "incumbent carriers are protected from effective competition, and that the benefits of the internal market cannot be fully exploited" (Kosenins, 2013, p. 6). To solve this problem the EC proposed a new act focusing on a slot-trading approach. This is not the only regulation that needed modifications. The EU Directive 67 on opening the market for ground-handling services also required revision for changes. The goal of this directive was to increase the quality of the ground-handling services and to reduce its costs (De Bournonville, 2013). One of the most recent acts introduced by the EC was the Regulation 89 in 1999, which was the implementation of a code of conduct for computer reservation systems. The aim of this regulation was to create a neutral distribution of airline products with non-discrimination between the air carriers.

After the European deregulation acts another agreement was made which is just as significant as any other. In 2008 the Open Aviation Area agreement (Open Skies Agreement) was signed between the EU and the USA, resulting in a deregulated aviation market between the two entities. However this act is not as comprehensive as the deregulation within the European or the US aviation markets. The main point of the agreement is the permission for EU airlines to fly to any US city and vice versa. The United States gained more benefit from the deregulation, as US airlines are also allowed to fly intra-EU routes while EU carriers do not have the right to do so. Yet the agreement still provides profits for both sides since it created the possibility for airlines to enter markets that were unreachable before (Pels, 2009).

2.1.2 The Single European Sky

The Single European Sky (SES) – which is the liberalization of the European airspace – is "the most recent element of the EC's aviation liberalization agenda, and yet the most decisive" (Baumgartner and Finger, 2014, p. 290). Unfortunately, the objective of completing the last phase of creating the integrated European aviation market, the Single European Sky, appears to be a much greater challenge than expected. The final barrier towards reaching the SES should be removed and consequently the "national air spaces, as well as their management by State-owned, monopolistic organizations (such as air traffic controllers (ATCOs)), should be restructured, and should operate more competitively" (Baumgartner and Finger, 2014, p. 289-290).

With the SES the goal of the European Commission is to create a common, shared European airspace with no discrimination and to make a more efficient use of it. As part of the most recent steps towards completing the liberalization of the aviation market the EC introduced the SES I (first SES package) in 2004. The SES I was designed to support the fields of technology, safety, capacity and performance (Mölders, 2012). It consists of four regulations. The first one is the Framework Regulation, which was designed to create the basis for the SES. The second regulation is on the provision of the air navigation services. The third one includes the creation of the Functional Airspace Blocks (FABs), which intended to organize the use of the airspace in the SES. And last but not least the fourth regulation is on the interoperability of the European Air Traffic Management network (Baumgartner and Finger, 2014).

In 2009 the European Commission presented the SES II as a response to the performance of SES I to refine and improve the overall SES agenda. The purpose of the SES II package is better performance and sustainability. The renewed structure consist of five pillars: "…(a) technology with SESAR1[1] as its key element, (b) a legislative pillar, which sets a target date for the implementation of the FABs and creates the role of the network manager attribute to Eurocontrol, (c) safety attribute to EASA[2], (d) the airport pillar, and (e) a cross-cutting human factor pillar" (Baumgartner and Finger, 2014, p. 292). Since the introduction of the SES II the EC has been conducting assessments of the ongoing performance of the implementation of the regulations. According to Button and Neiva (2013) the process is not as successful as it should be.

As a solution to achieve the previously determined goals, the EC proposed the idea of SES II+. The aim of the EC with the newest addition to the SES is to reassert the main purpose of the agenda and to improve the performance of ANSs with strengthening the existing directions. If the SES II+ can be successful the European aviation market could become more balanced with an increased overall efficiency (Crespo, 2011). The issue of the airspace deregulation is still an ongoing process and the final result of the acts and legislations cannot be stated yet, in fact one of the

[1] Single European Sky ATM Research
[2] European Aviation Safety Agency

most significant barriers of completely achieving the SES is the matter of the various interests of the nations of Europe.

Even though the deregulation of the European airspace is not complete yet and not every criteria and aspect have been met, it still created a much more common and shared aviation market. More importantly the result of the new acts and regulations shaped the industry in the way to provide the possibility for low-cost carriers to emerge.

2.2 The history and transformations of full-service and low-cost airlines

2.2.1 The first LCC initiative

In the past few decades the aviation industry went through possibly the most significant change in its history. According to Casey (2010, p. 176) "the advent of LCAT (Low Cost Air Travel) has ushered in (…) one of the biggest revolutions in tourism and travel since the package holiday's arrival half a century earlier". Until the establishment of the American low–cost carrier *Southwest Airlines* in the 1960s, the market only consisted of full-service carriers. *Southwest* introduced a new operating approach, implementing a revolutionary service delivery to their strategy and thus setting the foundation for the future low-cost carriers which changed the way of how people travel (Dobruszkes, 2012). Currently *Southwest Airlines* maintains the title of the world's biggest low-cost air carrier with a fleet size of 665 aircrafts and a network of 93 destinations. Its more than 46,000 employees provide services to 100 million customers annually. The airline is also the largest operator of Boeing aircrafts in the world. Initially the company started off with routes only inside the US state of Texas but after the deregulation of the US aviation market the company was able to introduce new out-of-state routes and expand its route network. *Southwest* found such an enormous success in the low-cost market that currently it operates approximately 3,400 flights per day and it is number one in US domestic passenger transfer (Southwest Airlines, 2015).

However, in Europe the LCC concept emerged only in the 1990s. The founder of today's biggest European LCC, *Ryanair,* Michael O'Leary visited *Southwest* in 1991 to study its strategy and a couple years later adopted the new structure at his own company. A few years after in 1995, *easyJet* was launched specifically as a low-cost carrier (Dobruszkes, 2012). Both companies based their business plans on the model of *Southwest*, bringing a new never-before-seen competition in the European aviation market. In the following few years, thanks to the air transport liberalization in Europe, receiving state aid and the flexible utilization of labor and aircrafts, the LCCs made it possible to provide low–fare air transportation within and outside of the European continent (Barbot, 2006; Graham and Shaw, 2008).

2.2.2 The structural differences between FSCs and LCCs

After the airline deregulation in Europe in 1980-90, the FSCs were able to renew their operating structure, which created a dominant strategy in the market and therefore full-service carriers became more appealing to the customers. Most airlines that used and are still using the FSC structure are the so-called flagship carriers or national airlines. The concept of national airline dates back to the 1920s-30s. The main characteristics that make an airline national is that it is state owned or the local government has majority of its ownership and that it holds certain privileges, such as competition protection and sole operator of international routes. For example until the deregulation only national airlines were allowed to fly international routes if the government of the two countries entered a mutual agreement (Barett, 2006). The three main benefits that FSCs has been offering to their customers are serving a large number of destinations. This has been made possible by reorganizing route networks, enhancing service quality by minimizing waiting time with higher number of flights and decreased chance of baggage loss, and increasing the value of frequent flyer points thanks to the increased number of destinations that made it easier for travellers to collect and use the points (Gillen and Morrison, 2002). In spite of the endeavors of FSCs to improve their services and maintain their position in the industry, the liberalization has opened up the market in front of LCCs and thus their operating strategy and consequent success proved to be an unexpected barrier for doing so.

A key difference between the strategy of an FSC and a LCC lies in the profit-focused approach of LCCs. Low-cost carriers set their capacity first and adjust their prices afterwards to maximize profit, which is essential because most of the costs incurred are fixed. FSCs are doing the opposite and they tend to focus more on a market share strategy, which does not necessarily support profit maximization (Gillen and Morrison, 2002). The most important aim for LCCs is cost minimization, which they aim to achieve with simplicity of the product and the design of the delivery process. This method also brought along a new branding strategy towards the customers, "loyalty to the lowest price" (Gillen and Morrison, 2002). Naturally there are differences between the strategies of each LCC but in general most of them use the same approach. For example LCCs tend to cut out some complimentary services, such as free snacks and drinks and instead sell them onboard. These airlines often also charge extra fees for checked-in luggage and for seat allocation at check-in. Such flights are commonly known as "no frills" flights. Furthermore low-cost airlines pay outstanding attention to the ground service and airport costs. Nevertheless the strictly controlled costs are not the only factors in the success of LCCs but the "latent demand, characterized by the passenger's willingness to pay elastic prices, which is not the attitude of the so-called "traditional" passenger, is among the key factors" (Malighetti, Paleari and Redondi, 2008, p. 195).

A very important element and difference between FSCs and LCCs is the revenue analysis and pricing policy. The low-cost model is based on a delicate balance between "fare levels, load factors and operating costs" (Malighetti et al., 2008). As part of this structure the proper pricing of tickets and revenue management are considered major role-players in the generation of highest profits, nevertheless the fact that the product of airlines is perishable makes the strategy more complex (Zhao and Zheng, 2000). Just like many other markets, the aviation industry also depends on the demand of the customers: according to Malighetti, Paleri and Redondi (2008), "the structure of demand, which guides the optimization choices of the carrier, is influenced by the presence of competitors, and the passengers' opportunities to opt for a substitute service" (p.196), meaning that the demand has increased with the entrance of LCCs. Many factors influence the fares of flights but the most significant one is the length of the route. A noteworthy phenomenon has begun in the past years in relation to pricing, some FSCs started to decrease their ticket prices on routes where low-cost carriers are also present, thus providing a proof of the increased competition (Alderighi et al., 2004).

Unsurprisingly FSC are trying to keep up with the current market needs and customer demands. However, because of the differences in the core of the business approach of FSCs and LCCs, these airlines are facing threats and a new type of competition (Gillen and Morrison, 2002).

2.2.3 The changes in route- and network design of airlines

The process of reaching the current industry regulations and conditions that allowed the rise of LCCs happened through a series of steps, which consequently also brought along the changes in network designs and routes. The results of the deregulation and the SES gave the opportunity and ultimately provided the foundation for the rise of LCCs in the European market (Pels, 2009). According to the 2012 data from Eurocontrol, LCCs add up to around 25% of the air traffic and in the near future this figure can reach 55% of the intra–European air traffic (Wulf et al., 2010).

Over the past few years, LCCs have not only changed how people travel but also have created a never before seen competition between airlines, destination cities and regions. A very important point in the strategy of LCCs is their airport choice used when designing their network. Unlike most of the FSCs, LCCs tend to use secondary airports instead of creating a hub–and-spoke network. The importance of LCCs in the network changes was explored by Derudder and Witlox (2009), who stated, "LCCs are main drivers for route development and network deconcentration". This is supported by Dobruszkes (2013) who also argues that low–cost services drive the expansion of the airline network in Europe.

With liberalized air space in Europe the number of routes increased from 2,070 to 3,254 between January 1995 and January 2012 (Dobruszkes, 2012). During this period, LCCs were accountable for introducing 51% of the new routes while the FSCs started 41% (the remaining 8% were launched by both). However most of these routes did not manage to generate sufficient profit, meaning that by 2012, 42% of them got shut down. Along with the new routes, LCCs managed to improve the level of connection between East Central and Western Europe and launched a number of flights to more remote destinations, such as Cyprus, Canaries, Northern Norway and a few more (Dobruszkes, 2012). The fact that certain routes operated by LCCs are not beneficial for FSCs to fly, results in another new factor that the FSCs should look out for.

In the early stages of the rise of LCCs, the airlines were not able to fulfill the needs of customer demand. Yet nowadays, according to Shaw and Thomas (2006) almost every customer demand is met. Taking this and the approximately 0.10 € / seat-km pricing of LCC flight tickets into account, the FSCs are reaching a more disadvantageous situation (Dogonis, 2006). According to the number of seat–km, *Ryanair* has become the number one supplier of the European air market and both of the major LCC companies of Europe, *Ryanair* and *easyJet*, are among the top airlines, including FSCs and LCCs, when taking inter–regional flights into consideration (Dobruszkes, 2012). As it can be seen in Table 1 from a research paper by Dobruszkes (2012), these two airlines, even though they only operate short and medium haul flights and have no jumbo jet aircrafts, reached the size of global FSCs, such as *British Airways*, *Lufthansa* or *Air France,* in terms of number of flights and seat–km (Dobruszkes, 2012).

Table 1. The main airlines operating air services from and within Europe (January 2012)

	Seats		Flights		Seat-km	
	Millions	Rank	Thousands	Rank	Billions	Rank
Lufthansa	5.97	1	45.95	1	8.74	1
Ryanair	5.95	2	31.46	3	6.60	4
easyJet	4.45	3	27.92	4	4.42	5
Air France	4.28	4	37.99	2	7.44	3
British Airways	3.16	5	19.45	5	7.65	2
SAS	2.54	6	18.70	7	2.04	13
Ali Italia	2.11	7	14.30	9	2.28	10
Iberia	2.07	8	18.80	6	3.44	7
Air Berlin	2.01	9	12.57	11	2.47	8
Norwegian	1.71	10	9.51	14	1.61	16

(Source: Dubroszkes, 2012)

2.3 Changes in the role of airports and the airport choice factors for LCCs

The increased number of LCCs in the aviation market forced the airports to renew their strategy and ground-service pricing system. Since the main focus of LCCs is to keep their costs as low as possible, they started using secondary airports to be able to provide low fares to the customers. In some cases these airports are smaller and located in less frequented places of the given destination. Yet studies have shown that passengers are willing to travel a longer distance to the airport to fly for low priced tickets (Francis and Humphreys, 2002). Nowadays many European airports are changing their infrastructure, with LCC specified terminals and gates, introducing a revolutionary management approach with different types of fees and services which depend on the airline's requirements. These reforms are inevitable because more and more European airports are becoming dependent on LCCs (Warnock-Smith and Potter, 2005).

In general there are certain factors affecting the cluster choice of an LCC: the origin of the airline, the size of the airline and the date of entry to the low–cost market (Francis et al., 2003). As part of the origin of the airline there are two approaches differentiated in the establishment of an LCC. The first one is creating a totally new airline in the aviation market with no operations before (e.g. *easyJet*), for such carriers airport choice and competition is somewhat unimportant. The second is the transformation of an FSC or a charter airline into a LCC as a reaction to the growth of the low–cost market (e.g. *Air Berlin*), these airlines hold an advantage over newly founded LCCs in airport usage since they usually retain their previously acquired slot times (Warnock–Smith and Potter, 2005). Due to the different pricing and fee systems of the airports, the size of an airline affects their airport choice. Smaller LCCs tend to be less risk focused and therefore they usually choose airports with good LCC experience where they might have a reduced chance of organizing their take-off and landing times to their own needs which creates a disadvantage for such carriers. Last but not least the date of entry to the low–cost market seems to present a very, maybe even the most significant factor among all. LCCs, that entered the market before the 2000s, are considered as the "market makers", such as *Ryanair,* therefore these airlines have an advantage at the airports over the younger

LCCs. For the carriers founded after 2000s, it is a greater challenge to secure the suitable slot times since some airports are dominated by bigger and older LCCs, which created a capacity constraint (Warnock–Smith and Potter, 2005).

Naturally the airport choice of an LCC depends on its operating strategy and market approach hence the factors of airport selection cannot be standardized. In a previous research paper, Barett (2004) explored the choice factors of Europe's biggest LCC, *Ryanair*. According to the company's strategy, low airport charges, quick turnarounds, simple terminals, rapid check–in facilities and good passenger facilities and accessibility are the most important. The goal of these aspects is not only to decrease costs but also to increase revenue with the highest utilization of all aircrafts, planned in the most convenient slot times with the quickest turnaround time (Calder, 2003). As mentioned before, LCCs tend to choose secondary airports in certain cities and *Ryanair* is not an exception from this. The main reasons for doing so are the increased punctuality and the lower turnaround time (Lawton, 2002).

2.4 The emerging competition

The emergence of the low-cost carriers happened in a series of steps over the past few decades. It started with the deregulation of the European and American airspace and continued with the influence by the success of the American LCC, *Southwest Airlines* on the renewed, much more open European aviation market. In the 1990s a number of European airlines, such as *Ryanair* and *easyJet* introduced the LCC strategy and started their operations (Dobruszkes, 2012). The core difference between the full-service carriers and the new low-cost carriers is the cost controlling approach. Since the main goal of LCCs is to maximize revenues and the utilization of the fleet, different flying and ground service factors are considered important (Gillen and Morrison, 2002) (Calder, 2003). The rise of this revolutionary operating structure not only increased the competition on the market but also changed the role of airports. Many aerodromes adapted new fee policies to fit the LCC needs and broadened their infrastructure (Warnock-Smith and Potter, 2005). With such changes the route networks of airlines also went over some modifications. On certain routes only LCCs operate flights, in some routes both LCCs and FSCs are present and in some cases LCCs took over the route that was serviced by FSCs before

(Wulf et al., 2010). The increased competition can be clearly seen due to the entrance of low-cost airlines but their overall effect on the European market and on the entire industry is not yet stated (Dogonis, 2006) (Gillen and Morrison, 2002).

3 Methodology

For the research and analysis of the topic of this paper a case study method is applied. This method is categorized as a form of social science research and mostly used when the research question is either „how“ or „why“, the aim of the research is on a contemporary phenomenon and the writer of the study has no control over behavioral events (Gomm, et al., 2000). Depending on the selected approach a case study can include one or more cases, as a contrasting case, it has more variables of interest than data points and it is widely used as a method for conducting evaluation. It is used to understand a phenomenon by studying examples meaning that the method examines a contemporary phenomenon in its real-life context (Yin, 2014). A unique characteristic of the case study method is that it provides a certain level of flexibility for the writer and can be based on a mixture of qualitative, quantitative facts, and data at the same time. A key feature of this method is the variety of data types and data analysis. The case study approach is most commonly used in the field of law, medicine and it is also used for teaching purposes (Vea, 2006).

Naturally this method also has certain limitations. When using the case study research there is a risk of information overload that leads to the problem of too much data for easy analysis. Furthermore when the study is completed it is often difficult to represent the complexity of the research in a simple clarified way in written form (P. Hodkinson, H. Hodkinson, 2001). One of the main issues regarding the case study method is that such research is considered to be solid when the researcher has a high level of knowledge and intuition however this raises the question of the level of objectivity. Each case study requires the writer to select data and observations for the construction of the topic in which case objectivity is compromised. The case study approach also faces the difficulty of acceptance since it is easy for the reader to dismiss the message of the study if they don't agree with the content (P. Hodkinson, H. Hodkinson, 2001).

The current thesis aims to research the case of *Wizz Air* substituting the national airline in Hungary after the bankruptcy of *MALÉV Hungarian Airlines.* The most appropriate method, to be able to investigate this phenomenon from an explorative, qualitative perspective and to conduct a justifiable evaluation, is the case study approach. It provides the possibility to research and use a variety of quantitative and qualitative sources and data, which is essential because the topic needs to be analyzed in its current, contemporary environment. Through researching the development of the aviation industry and the differences between national and low-cost carriers, the author intends to provide a straightforward understanding of the matter, thereby exploring the relation of *Wizz Air* and Hungary. To do so a qualitative approach will be used to analyze the publications, such as academic papers, newspapers, articles, statistical data, aviation industry journals and online publications on the topic. The result will generate a reliable, explorative and well-founded outcome.

4 *Wizz Air:* rise to the skies

4.1 History of *Wizz Air*

The Hungarian LCC*, Wizz Air Ltd*, was registered as an airline in September 2003 in London UK and eight months later it already began its operations from their first two bases with their first official flight on May 19th, 2004 from Katowice to London and on June 24th the first plane took off from Budapest with the destination of Athens. The company was established by József Váradi, former Chief Executive Officer of the Hungarian national airline, and six professionals from the aviation and various industries. The financial support came from private investors and the American venture capital firm, Indigo Partners. The airline's headquarters is located in Budapest, Hungary at the Liszt Ferenc International Airport (BUD) (Wizz Air, 2015) ("The Wizz-Air story", 2008).

The main purpose of starting *Wizz Air,* according to it its business plan was to create an LCC in Central and East Europe before *Ryanair* and *easyJet* takes over this region. The company's strategy and operating structure is of a ULCC – ultra low-cost carrier. This strategy is based on cost efficiency - the airline only operates short and medium-haul flights with a "simple service model", which means that it uses cost and time efficient secondary airports, ticketless travel, single class seating and on-board catering on demand for extra free (Wizz Air, 2015). *Wizz Air's* goal is to provide a convenient and reliable travel experience to all of its customers at a low price with quality services that can be reached at each step of the journey. What differentiates *Wizz Air* from its competitors is what the company calls "Home Town" airline status which means that the airline hires local cabin crew who know the local habits, cultures and language to create a better atmosphere for the passengers (Wizz Air, 2015). The airline operates with two subsidiaries; *Wizz Air Hungary*, which flies with Hungarian operating license and has 52 aircrafts registered, and *Wizz Air Ukraine*, which has 2 aircrafts however it halted its operations as of April 2015. The two subsidiaries of the airline together form the *Wizz Air Group*.

In the first year of *Wizz Air's* operation, the company began to show its potential and high-level promise. By the end of its primary year in the business the airline carried 900,000 passengers with six aircrafts. It also established a new base in Poland and extended its routes with destinations in countries such as France, Germany, Bulgaria, Italy, Spain, etc. and in overall it operated 36 routes in March 2005 (Wizz Air, 2015). The airline also introduced on-board catering and new intermediary services, such as car rental and hotel booking. In 2006 the airline placed its purchase order for 12 new Airbus aircrafts. From 2005 to 2006 *Wizz Air* increased its passenger traffic by 1.2 million, carrying a total of 2.1 million passengers. One year later, in 2007 the company placed a second order for 20 more Airbus planes. The network expansion continued with a base in Bulgaria and new destinations like Romania, Croatia and the Netherlands and thus increasing the number of routes to 64. Just three years after the start it already had a 3.1 million passenger volume in 2007. By Christmas of 2008 the airline received its 20th aircraft and within a few months three more planes were added to the fleet ("The Wizz-Air story", 2008). At this time there were three planes based in Budapest and the average number of routes per base was 10. The growth of *Wizz Air* in terms of routes, passengers, aircrafts and bases continued over the next years. In the upcoming years, from 2008 to 2012 the airline introduced five more bases in Serbia, Romania, Ukraine, Czech Republic and Lithuania. An important new service was introduced in 2008, which was the multi-currency pricing and payment of tickets that made it possible for the customers to choose their preference. By the end of 2009 *Wizz Air* reached a milestone, which was their network size reaching over 100 routes, precisely 124 routes. According to a scheme of agreement by the High Court of England and Wales, in October 2009 *Wizz Air* Hungary became the parent firm of the *Wizz Air Group*. Later in the same year the group's headquarters were moved to Geneva, Switzerland. (Wizz Air, 2015). During the rise of *Wizz Air* its biggest competitor on the Hungarian market was *MALÉV*. However after many years of controversial government funding, loan deals and financial difficulties of *MALÉV*, *Wizz Air* handed in a motion against *MALÉV* in 2010 at the European Commission ("Wizz Air turnes to Brussels regarding the state aid of MALÉV", 2010).

4.2 *Wizz Air's* motion against *MALÉV*

After many changes in *MALÉV's* ownership among private investors and the Hungarian government, *Wizz Air*, one of the most significant competitors of the national carrier, filed a motion to the European Commission in which they stated that the government funding of renationalization and privatization of *MALÉV* happened illegally and against the competition law of the EU ("Wizz Air turns to the EU because of the nationalization of MALÉV", 2010). In certain situations the EC gives permission for such funding but *Wizz Air* claimed that the government's acquisition of the majority of ownership was not supported by the EC. In spite of the fact that *MALÉV* had a 3-year restructuring plan, which is a significant criteria to receive the permission of the EC, the company was in deep financial difficulties that could not be solved in 3 years ("Wizz Air turnes to Brussels regarding the state aid of MALÉV", 2010). According to the publication of *Wizz Air*, the renationalization of the struggling national airline was not only against European law but it was distortive, discriminative and it did not serve any benefit for the passengers. They also stated that *MALÉV* has been an irresponsibly directed, unviable company with huge operating loss. A great factor that the motion of *Wizz Air* pointed out was that there had been no private companies and investors who would had been willing to invest in the airline ("Wizz Air frustrated over state aid for MALÉV", 2010), which according to EU regulations led to the state aid to be considered illegal (European Commission, 2010). According to *Wizz Air*, with the process of renationalization and effort to keep the Hungarian airline alive, the government was not only wasting time but also the money of the taxpayers, instead of using this money to reduce the negative effects of the bankruptcy.

In December 2010 the European Commission started an official investigation against *MALÉV* in the case of illegal renationalization and violation of the European Union's competition law. The EC identified certain issues that could have been part of illegal actions. These issues included funding, loan overtaking, capital increase, shareholder loan, and tax deferral (European Commission, 2010). The initial incentive for the EC to start a comprehensive investigation was based on the financial condition of *MALÉV*, which at that time was greatly in debt, and the uncertainty whether the restructuring plan of the national carrier was appropriate under EU law and whether it met the necessary criteria (European Commission, 2010). After more than a yearlong investigation, in January 2012, the European Commission released a statement in which they published the result of the investigation, according to which the state aid financing happened illegally. The official decision by the EC according to their press release was:

"The European Commission found that financing granted to Hungarian flag carrier Malév between 2007 and 2010 in the context of its privatization and renationalization constitutes illegal state aid, as Malév would not have been able to obtain similar financing from the market on the terms conceded by the Hungarian authorities. Hungary now needs to recover the unlawful aid from the beneficiary." (European Commission, 2012)

After the release of the decision the Hungarian government put the issue on their agenda and in a week there were meetings discussing the future of *MALÉV*. The spokesperson of the EC said that the form and time of repayment process will be determined by the Hungarian authorities. ("The decision: MALÉV received illegal state aid", 2012). Later on in an additional statement the EC expressed that the government has to collect the money in four months and it has to make sure that the whole amount of illegal state support is retrieved ("Brussels cuts the state support of MALÉV", 2012). The Hungarian carrier had the opportunity to stay in operation by developing a company-restructuring plan however it proved to be inadequate. These issues included the fact that it did not include information on private investments into the airline to partially finance the restructuring and it contained no plan to reduce the competition distortion caused by the state aid which are required factors to meet the conditions of Rescue and Restructuring Guideline (European Commission, 2012). As part of the decision and reason why the state aid needed to be retrieved was to solve the unfair competition situation, distortion that it created and therefore to recover the market into its original balance so no company has advantage over the other by financial government support (European Commission, 2012). Due to lack of common information from different sources, the exact amount of money that *MALÉV* was obligated to repay cannot be determined. According to the report of a Hungarian news site (portfolio.hu) the amount of state aid money that the EC investigated was about 88 billion HUF, approximately 293 million Euros.

As the result of the European Commission's decision the Hungarian national carrier has fallen into its most difficult situation financially. Predictably this created a significant challenge for the management of the airline and the government, thus making it impossible to keep the company in operation.

5 The bankruptcy of *MALÉV* and its effects on the Hungarian aviation and tourism market

5.1 History of *MALÉV*

The Hungarian national airline was one of the oldest European FSC until February 3rd, 2012, when the company grounded all of its aircrafts and suspended its operation after the European Commission stated that the founding of the airline by the government was illegal (Bilotkach, Mueller and Németh, 2014). Over the past few decades of the company's operations, the bad decisions by the management and the influence of the government led the airline to total financial and strategic instability. By 2011, due to the short-term strategic planning, inconsiderate and wasteful decisions, the airline had several unresolved problems and unpaid debts (Nemzeti Fejlesztési Minisztérium, 2011). The carrier's last flight ever, flew from Helsinki to Budapest. It served as Hungary's national carrier for 66 years, from 1946 to 2012 during which it grew into a major airline, mostly in Central and Eastern Europe. Until being grounded, it flew to 50 destinations with a fleet of 22 planes, mostly using Boeing 737 aircrafts, and was present in 33 countries. Its hub airport was Budapest Liszt Ferenc International Airport where the carrier's fleet was located. Despite the small size of Liszt Ferenc International Airport with annual traffic volume of approximately 9 million passengers, it served as a hub airport to the national airline of Hungary. The airline served its operations with about 2,600 employees and it operated almost half of all flights from BUD ("Hungarian airline Malev collapses", 2012). It served approximately 3 million passengers a year with 23 thousand flights ("The History of MALÉV", 2013). *MALÉV* was part of the One World alliance and had the world's biggest airlines as its code–share partners, such as *Air France, British Airways, American Airlines, Etihad*, etc.

5.2 Reasons behind the bankruptcy

The main issues for *MALÉV* that made the company unstable over the past 20 years were the constant changes in the management and ownership of the airline. Since 1990 the company had 16 Chief Executive Officers (CEO), which meant that *MALÉV* wasn't able to develop and build a proper strategic plan that would fit the size and abilities of the airline. One of the most important problems caused by the unstructured operations was the enormous amount of operating costs. In the last few years of the airline's existence on the market, its operating costs reached an unsustainable level. In 2010 the material type expenditures which add up to 80% of the total operating expenses, including costs such as fuel and the lease of aircrafts, were more than 93 billion Hungarian forints (HUF) – about 310 million Euros – while the annual income accounted only 88 billion HUF – about 293 million Euros ("How did MALÉV collapse?" 2012). Nevertheless the company has been operating with a loss for more than 10 years, as it can be seen in Table 2. Over the last 5 years of *MALÉV'*s operations the airline's operating result was consistently over -10 billion HUF showing that the company was not well managed and on the verge of collapsing (see Table 2).

Table 2. Financial results of *MALÉV* between 2001-2010

Year	Net income (Bil. HUF)	Operating result (Bil. HUF)
2001	103	-11,2
2002	101	-4,5
2003	110,7	-9,3
2004	120,3	-6,1
2005	110,6	-7
2006	122,3	-10,7
2007	122	-14,6
2008	121,3	-10,7
2009	95,4	-17,9
2010	88,2	-20,6

(Soure: www.index.hu - "How did MALÉV collapse?" 2012)

Another significant issue for *MALÉV* was the low utilization of its aircrafts. The airline operated with high costs and with low passenger volume. The combination of these two factors caused major problems for *MALÉV*. Around 2006-2007 the passenger traffic was on a peak level, however after another change in the ownership of the airline, this number started to decrease again. In 2010-2011 there were signs of positive change and improvement in terms of revenue and passenger traffic. The utilization of the aircrafts increased from 66% to over 75%, which was over the European average, and in the last quarter of the year the airline increased their income by 7 billion HUF – about 23 million Euros ("Spectacular improvement in MALÉV's results, 2011). This shows that the company had the potential of being a well-ran, profitable airline, in fact in 2010 *MALÉV* won the award for Best Eastern European Airline from the World Airline Award ("The History of MALÉV", 2013). Unfortunately this was not enough to keep the company alive and most importantly the result of the European Commission's decision about the state aid made it impossible for *MALÉV* to continue its operations.

5.3 Response of the tourism and aviation market to the bankruptcy

After *MALÉV* stopped its operations in February 2012, the number of flights at Liszt Ferenc International airport dropped by more than a quarter of the total. In 2011 the number of scheduled flights, including departure and arrival, were around 97,922. After the bankruptcy, in 2012, it summed up to 75,247 at BUD (Központi Statisztikai Hivatal [KSH], 2015). With the market exit of *MALÉV,* BUD lost its position as a hub airport. According to the findings of a study by Redondi et al. (2012) de–hubbing has such a high influence on a previously hub airport that it will never completely recover to its former traffic volume. Interestingly the passenger traffic at BUD broke its previous record in 2014 and set a new all time high 9,155,961 (AIRportal.hu, 2015). The number of passengers traveling to the top 12 destinations from Budapest only decreased by 3% and in overall the total number of passengers declined by 13% (KSH, 2012). A greater issue, which came along with the decrease in performance, was the doubled number of customers traveling to the airport of Vienna due to its better connections and the replacement of flights that were not offered from Budapest anymore. FSCs such as *British Airways, Air France, Lufthansa, Austrian Airlines* and *Swiss* increased their number of seats but only to destinations where they are the national carriers and therefore mostly filled parts of the gap left by *MALÉV*. To more remote and less profitable destinations, mainly Southeast European and Middle–Eastern countries, all flights were cancelled, although after a while some airlines expanded their network to some of these locations (e.g. Athens, Sofia).

The bankruptcy of the Hungarian national airline opened up the Hungarian aviation market for the LCCs. Within 24 hours *Ryanair* and *Wizz Air* introduced their plans of replacing *MALÉV* and almost immediately launched new flights to the most important destinations (Bilotkach, et al., 2014). On one hand the total number of seats available in the month February decreased by one fifth, on the other hand however the share from this number by LCCs increased by 31% (KSH, 2012).

In a research paper about the effects of *MALÉV's* bankruptcy Bilotkach, Mueller and Németh (2014) defined 6 different categories in which the post–bankruptcy responses of airlines and route changes may happen. As it can be seen in Table 3, there are 3 different types of conditions for the routes of *MALÉV* in terms of substitute options: first, *MALÉV* is the only operator of the route, no other airline offers the same route, second, there is another FSC carrier offering the same route as and third, there is an LCC present in the same route as *MALÉV*.

Table 3. Post bankruptcy responses

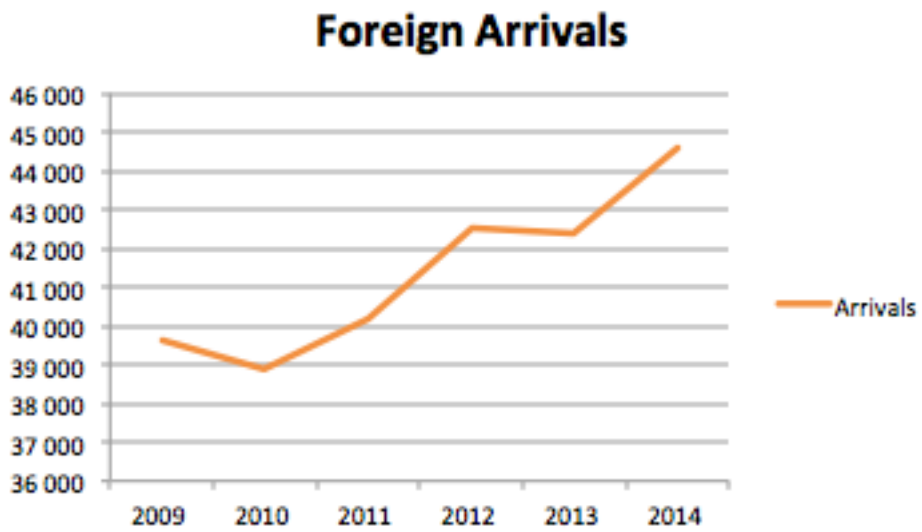
Status of *MALÉV* on a route	Substitutes on the route	Response	Example
1. *MALÉV* leaves the route	None, only carrier present	No replacement	14 destinations as of summer 2012
2. *MALÉV* leaves the route	None, only carrier present	LCC enters	*Wizz Air* took over 8, *Ryanair* took over 3 and *Air Berlin* took over 1 route
3. *MALÉV* leaves the route	None, only carrier present	FSC enters	*Lufthansa* flying from Hamburg to BUD and Berlin (As of April 2013 *Lufthansa* transferred the route to its subsidiary *Germanwings*)
4. *MALÉV* leaves the route	Other FSC present	FSC expands its services	*Austrian Airlines, Finnair, Air France* expanded their services to BUD
5. *MALÉV* leaves the route	Other FSC present	LCC enters	Destinations such as Dublin and Warsaw served by LCC
6. *MALÉV* leaves the route	LCC present	LCC expands its services	*Wizz Air* expanded on seven markets

(Source: Bilotkach, Mueller and Németh, 2014, in own interpretation of data)

When taking a look at the response of the airlines to the market exit of the Hungarian national carrier (Table 3), it can be observed that out of the five cases when another airline took over the route of *MALÉV*, three times the substituting company is an LCC. This shows that the bankruptcy of *MALÉV* led to an increased presence of LCCs in Budapest (Bilotkach, Mueller and Németh, 2014). Not only LCCs emerged on the market but also other carriers, such as *Emirates* entered the Hungarian market, moreover *Lufthansa* became the biggest provider among traditional FSC airlines. The bankruptcy of *MALÉV* and the changes in the carriers present in Budapest most importantly resulted in changes in routes, fares, prices and the frequency of services.

However the increased presence of LCCs on the Hungarian aviation market also influenced the tourism and most importantly the customer welfare. According to some professionals and reporters, *Ryanair* and *Wizz Air* can fill the gap that *MALÉV*'s exit created, nevertheless the structure, services and routes that the Hungarian national airline offered and what the LCCs offer are different from each other (Bilotkach, Mueller and Németh, 2014). As an initial reaction to the news of *MALÉV*'s bankruptcy, many predicted that the tourism of Hungary, mostly Budapest and its surrounding cities, will experience a significant decrease. Three years after the market exit of the national carrier a number of reports and reevaluations of its effects on tourism and market conditions have been published, which are providing mixed results. From one perspective news, blogs and reports state that since the bankruptcy the tourism increased and created new job possibilities as well, proposing that the exit of the national carrier had a positive effect (Gusztáv B. Fillér, 2015).

Figure 1. Total foreign arrivals to Hungary between 2009-2014



(Source of data: KSH, 2015)

As it can be seen in Figure 1, the foreign tourist arrivals had a constant growth from 2010 to 2012 before the bankruptcy of *MALÉV* happened. In the next year the increase stopped but it didn't decrease significantly, only stagnated. From the end of 2013 the number of tourists started to increase again, reaching an all time high of the past 5 years. These results support the notion, which suggest that the tourism experienced no major setback in the number of arrivals to the country in spite the bankruptcy of the national carrier. The implications of the market exit of *MALÉV* turned out to be not as drastic as experts predicted it, in fact in only caused temporary interference. In addition to the increased number of tourists and record level of passengers at Liszt Ferenc International Airport, from the summer of 2015 Air Transat will operate new transatlantic flights to Montreal and Toronto after many years of absence of such routes ("What happened after MALÉV", 2015). These transatlantic routes will be the first to be operated from Budapest since the cancellation of flights between New York-Budapest and Beijing-Budapest ("Life after MALÉV", 2013). Since 2012 many changes happened in terms of routes, services, fares and airlines but over the past years the number of destinations increased providing a bigger variety of choices for the customers. Airlines such as *Air Serbia*, *Pegasus Airlines, Transavia France, Aegean*, and *Belavia* entered the Hungarian market and *Vueling* and *SAS* returned to Hungary ("What happened after MALÉV", 2015). Currently there are 40 airlines operating to and from BUD (bud.hu, 2015). Therefore the Hungarian travellers can be considered as beneficiaries of the situation, however the business travelers who are more likely to use FSCs, and in this case those who used to fly with *MALÉV*, may have experienced certain negative effects (Gusztáv B. Fillér, 2015).

At the same time there are certain statements, which suggest that the bankruptcy of *MALÉV* can't be defined as a positive factor for the tourism and aviation of Hungary. According to a news report in 2015 February, an anonymous expert in the operations of FSCs, argued that the one of the issues with the loss of the national airline is that currently there is no carrier that would be able to attract and provide the adequate level of service to bring a few-thousand-person conference to Budapest, and that many multinational companies relocated their headquarters because they are not able to fly their employees with *MALÉV* to Budapest ("The winners and losers of MALÉV bankruptcy", 2015). Another consequence, which is considered as a negative result, is the decreased number of connecting flights between destinations. Since LCCs only fly point-to-point routes and don't offer long haul or connecting flights, the airport of Budapest is unable to provide the same level of such service to its customers. Also it should be taken into consideration when evaluating the customer benefits after the bankruptcy that certain cities are not served by any other airline and that in some cases the frequency of flights decreased (Bilotkach, Mueller and Németh, 2014).

In an interview in 2012 March László Zakó, Member of the Hungarian Parliament from the opposition Jobbik party, suggested that the value of the national carrier not only lies in the amount of money it makes and in its profitability but also the added value it creates in terms of the national tourism, including all the secondary services and related businesses (Ádám Horváth, 2012). Over the past few years there have been speculations about the start up of a new national carrier. After the bankruptcy of *MALÉV* a new Hungarian airline called *Solyóm Hungarian Airways* was set up, which appeared to be on the verge of taking over the role of a national airline. However the airline never officially operated as an airline ("What happened after MALÉV", 2015). Albeit in January 2015 an article was released by a Hungarian aviation website in which the CEO of the company stated that the commissioning of the airline is in progress and that the company is taking the steps towards acquiring all the legal documents and licenses. However, according to the most recent information, *Solyóm Airways* would not be the new national airline of Hungary, instead it would operate as a charter airline due to the reason that it would not be beneficial to operate an FSC and it would have enormous amount of costs. The initial plan was to create an FSC with a fleet of 20-50 aircrafts including wide-body planes, operating on an extensive route network (Ádám Samu, 2015).

The time period between 2012 and 2013 was a critical time in the life of the Hungarian aviation market. After the grounding of *MALÉV* the market experienced a short-term crisis but only a small decrease in tourist arrivals and the passenger volume of Liszt Ferenc International Airport. LCCs and certain FSCs took over the network of *MALÉV* to fill the gap it left behind. Apart from certain destinations the substituting airlines replaced the bankrupt carrier and in short while the tourism started to increase again. The understanding about effects of *MALÉV*'s market exit on the Hungarian aviation market and tourism industry is not commonly shared, on one hand some believe that it caused negative consequences, on the other hand though some state that it in fact created better circumstances.

6 *Wizz Air* after the market exit of *MALÉV*

6.1 Continuous expansion and the future

The most significant change that occurred after the bankruptcy of *MALÉV* was the fast and substantial growth of *Wizz Air*. Since the beginning of its operations the LCC was consistently growing and after the European Commission's decision on the illegal funding of *MALÉV,* which acted as the last step for the national carrier towards bankruptcy, *Wizz Air* became the sole Hungarian airline offering scheduled flights. Prior to its market exit*, MALÉV* served approximately 3 million passengers per year and operated as the biggest airline in Hungary ("The History of MALÉV", 2013). However, after February 2012, *Wizz Air* took over this title and continued its expansion. By the end of 2012 the airline had a total of 271 routes serviced by 36 aircrafts. The company also introduced its new loyalty program called, "Wizz Exclusive Club" (Wizz Air, 2015). Compared to the 2011 passenger volume, an increase of more than 12% was achieved, which resulted in a total of 11.3 million passengers. The growth also continued in the number of countries served by the airline. On average the occupancy rate of the 80 thousand flights operated by the airline was approximately 85% ("What did Wizz Air win from the collapse of MALÉV?", 2013). In an interview in January 2013 József Váradi, CEO of Wizz Air, stated that this increase percentage was one of the highest in the European aviation sector and he also mentioned that the airline will proceed with its expansion plans and continue to add more destinations and markets ("What did Wizz Air win from the collapse of MALÉV?", 2013).

As part of the airline's development plan, the company announced their new mobile sales channel to enable reservations through Android and iOS mobile devices. In 2013 *Wizz Air* introduced their new cabin baggage policy, according to which the passengers have to pay a fee for large sized carry-on baggage. The Hungarian LCC was the first EU carrier to implement this policy (Wizz Air, 2015). In the same year a new base was established in Macedonia along with new destinations in countries such as, Switzerland, Israel, Slovenia and Georgia. The loyalty program, "Wizz Exclusive Club", went through a re-branding and re-launching process and a year after its original launch, it was re-introduced as "Wizz Discount Club" (Wizz Air, 2015).

As of 31st of March 2014 the airline carried 13.9 million passengers, over a million-passenger increase compared to the previous year. Over the past years *Wizz Air* developed an initiative called "Go East", which promotes traveling to the east, outside of the EU. As part of this program the airline increased the number of flights to its eastern destinations and also introduced new ones in the areas of Caucasus, Middle East and North Africa. Routes to Georgia, Macedonia, Azerbaijan, Bosnia and the United Arab Emirates are all part of this initiative (Wizz Air, 2015). The development of the company continued not only in its operations and customer services but also in the improvement of its crew. A new training center and flight simulator was opened in Budapest in 2014 to provide local coaching and preparation for their employees. To provide a wider range of services to its customers, they introduced the Wizz Tours package holiday booking platform (Wizz Air, 2015).

3 years after the bankruptcy of *MALÉV*, the Hungarian LCC went through several changes and kept its strategy to compete with the major LCCs of Europe. As of May 2015, *Wizz Air* is one of the most efficiently operated LCC among European LCCs. The airline's cost per available seat kilometer (CASK) and ex-fuel fuel CASK is one of the lowest in the current market of publicly reporting European low-cost carriers (Wizz Air, 2015). Currently *Wizz Air* operates 54 aircrafts with an average age of 4 years, which is one of the youngest among European airlines, and has two different types of aircrafts on order in the amount of 60 new planes ("Wizz Air: growing at 15% annually, one of Europe's most profitable airlines "not desperate" for IPO", 2014). The constant growth of the destinations, fleet, passengers and the services provided resulted in an increase in the company's profit. Apart from a 40.1% decrease from 2012 to 2013 the profit of the airline shows significant increase in the past financial periods. From 2013 to 2014 it had an outstanding 199,8% increase in its profit for the year. According to the most recent financial results, for the first period of the financial year (H1) from H1 2014 to H1 2015 there has been an increase of 44,5% from 109,457,000€ to 158,138,000€ (Wizz Air, 2015). The services provided are just as in great importance as the tickets sold for *Wizz Air* since it has one of the highest ancillary revenue per passenger among the publicly

reporting European LCCs. Even though *Wizz Air* has been consistently increasing its capacity and improving its services and network since the bankruptcy of *MALÉV*, the LCC's overall growth didn't show exceptionally outstanding development compared to the time period before *MALÉV's* exit. The performance improvement has been a continuous ongoing process since 2009. Nonetheless *Wizz Air* is one of today's best performing LCCs in Europe.

The future goals of *Wizz Air* are to "maintain sustainable strong growth and profitability with EBITDAR[3] margins among the highest in the European low-cost carrier industry." (Wizz Air, 2015). Their plans include the minimization of costs, most importantly the CASK and therefore to provide the lowest ticket prices possible. With the increased number of aircrafts in the fleet the strategy is to serve current routes on a higher frequency and to launch new routes, hence expand their network. Unsurprisingly it is also among the aims of *Wizz Air* to increase its revenues with the focus on ancillary services. Last but not least the LCC intends to provide its services on an exceptional level and to keep improving as a "pioneering" airline in order to be able to offer the most convenient journey to each of its customers (Wizz Air, 2015).

6.2 *Wizz Air* and Hungary

The Hungarian LCC has always been important for the country however since the bankruptcy of the Hungarian national airline, *Wizz Air* became even more essential to its homeland. However the main question regarding the new circumstances of the Hungarian aviation market is, can Wizz Air, a low-cost airline fill the shoes of the ex-national carrier, *MALÉV* and serve as the 'unofficial national airline'?

After the Hungarian national airline ceased its operations, *Wizz Air* saw the chance of a more open market and went on to exploit the opportunities. Out of the 48 routes that *MALÉV* operated at the time when it discontinued its operations; *Wizz Air* took over routes to 11 destinations (Wizz Air, 2015). After introducing the new routes the CEO of *Wizz Air* stated in a press release that "Wizz Air has a long history of successful operations in Hungary and this further expansion demonstrates our

[3] Earnings Before Interest, Taxes, Depreciation, Amortization, and Restructuring or Rent Costs

continuing commitment" ("Wizz Air adds 10 new routes from Budapest base", 2012). The Hungarian LCC also received the rights from *MALÉV* to fly routes into non-EU destinations ("What did Wizz Air win from the collapse of MALÉV?", 2013). A few months after the market exit of the national carrier of Hungary, the Civil Aviation Authority of Hungary choose *Wizz Air* to operate flights to Antalya, Istanbul and Moscow, which were considered the most prestigious ex-destinations from *MALÉV's* legacy. This action was considered a factor towards the reduced need for a new national carrier ("Wizz Air receives the heritage of MALÉV – no national airline?", 2012).

Initially the LCC had 3 aircrafts based in Budapest at Liszt Ferenc International Airport, but in the next months after February 2012, the airline increased this number to 6 to be able to serve the demand ("The winner of MALÉV's bankruptcy is Wizz Air", 2012). *Wizz Air* was also able to increase its number of passengers carried from Hungary in 2012 by 30%, which in total was around 1.7 million customers ("What did Wizz Air win from the collapse of MALÉV?", 2013). In the subsequent year after the loss of the national carrier, *Wizz Air* reached 2,2 million passengers from Hungary which is only 800 thousand less than the number of customers *MALÉV* served from Hungary when it ceased its operations. In the summer of 2013 the Hungarian low-cost carrier operated 30 routes and 155 flights on a weekly basis from Budapest ("Wizz Air broadens its Budapest fleet", 2012). Compared to the number of flights served by *MALÉV*, which was 45, *Wizz Air* fairly quickly started to close the gap in terms of the size difference. To be able to handle the increased number of destinations, in 2013 *Wizz Air* based another aircraft in BUD adding the total up to 7. After the demise of *MALÉV,* the Hungarian low-cost carrier started to focus more in the Hungarian market, however by 2013 only 7% of *Wizz Air's* capacity was operated from the airport of Budapest ("Life After MALÉV", 2013). Despite the fact that the airline operated a low percentage of its total flights form Hungary, the LCC still reached its all time high in passengers carried and from 2014, *Wizz Air* introduced 7 new destinations from Budapest and Debrecen, the second base of *Wizz Air* in Hungary, reaching a total of 37 routes ("13,5 million passengers chose Wizz Air in 2013", 2014).

In only 2 years time, *Wizz Air* doubled its number of aircrafts based in Budapest: in 2014 the airline had 8 planes located in the capital of Hungary, which subsequently resulted in increased frequency of routes served and extended yearly passenger capacity by 60% to 2,9 million (Wizz Air, 2015). According to a press release by a Hungarian transportation website, *magyarkozlekedes.hu*, the management of Liszt Ferenc International Airport was more than happy to welcome the new aircraft of the low-cost carrier. Kam Jandu, the Chief Commercial Officer of BUD, stated that the decision of *Wizz Air* clearly represents the commitment that the airline has towards the Hungarian market since it will not only result in extended capacity but it will also bring more tourists to the country and thus help the tourism and the economy ("Budapest Airport welcomes the arrival of new Wizz Air aircraft", 2013). The "point-to-point traffic to and from Budapest rose by 13% in 2012 compared to 2011 and total traffic to and from Budapest in 2014 was expected to be above 2011 levels" (Wizz Air – Final Prospectus, 2015, p. 115-116) meaning that the airline was able to keep its strategy and take advantage of the market. In July 2014 *Wizz Air* reached a major milestone when the airline served its 11 millionth passenger at Budapest Airport ("Wizz Air celebrates 11 million passengers at Budapest", 2014).

In an official press release by *Wizz Air* the CEO of the company, József Váradi, announced that the LCC will add the 9th aircraft to the Budapest base on May 15 2015 and therefore expect a growth rate of 15% for the upcoming year. Mr. Váradi also revealed two new routes to be operated from March 30 and March 15 between Budapest-Lisbon and Budapest-Maastricht, respectively, thereby serving 21 countries and 35 destinations from BUD. The airline will also add further 17 extra flights to its current routes to meet the demand ("Wizz Air announces 15% growth and 9th aircraft in Budapest in 2015", 2014). He also added that the purpose of further extension of the network and fleet in Budapest also intends to stimulate the Hungarian tourism and to help create jobs ("Wizz Air: 15% growth in the next year", 2014). Further route extension was announced early April 2015 to two new destinations, Bologna and Glasgow from the summer of 2015. These two routes will operate for both leisure and business travel purposes (Maslen, 2015). When comparing the change in destinations served from Budapest it can be clearly seen from Figure 2 and Figure 3 that *Wizz Air*'s network became more diverse and that the airline increased its number of flights in- and outside of the EU respectively.

Figure 2. Wizz Air destinations from Budapest in 2012

(Source: wizzair.com)

Figure 3. Wizz Air destinations from Budapest in 2015

(Source: wizzair.com)

The route and base development are not the only improvements of *Wizz Air* in Hungary but also the maintenance of aircrafts. From September 2015 the Hungarian low-cost airline will bring its service and maintenance base to Budapest airport. Currently *Wizz Air* has its headquarters, crew center, traffic department, training and simulation center located at Liszt Ferenc International Airport and according to the Property Management Director of BUD they are committed to provide the adequate infrastructure for *Wizz Air* to ensure its seamless operation ("New hangar is built at Budapest Airport", 2015).

Overall it can be stated that the growth of Wizz Air in Hungary after the market exit of *MALÉV* is undeniable: the airline increased its departure capacity by 26% on an average annual basis (Richard Maslen, 2015). It also introduced a high variety of new destinations to EU and non-EU destinations, with a passenger capacity of 2,9 million to over 20 countries and 37 destinations. The progress of *Wizz Air* to reach its current position on the Hungarian market has been a long and, in fact, still is an ongoing process. The utmost problematic detail about the Hungarian LCC is defining its specific relation with Hungary, nonetheless in an interview in 2013 and a year later in 2014, the CEO of *Wizz Air* expressed his views on the matter, according to which, *Wizz Air* actually is “the” Hungarian airline, it doesn’t matter if the carrier is an FSC or an LCC the important factor is how well the airline is serving and supporting the country. *Wizz Air* is utterly committed to Hungary and to be the vanguard of the country’s aviation industry (“Váradi: Wizz Air is “the” Hungarian airline”, 2013) (Gábor Ács, 2014)

7 Discussion and Conclusion

This paper provides a research on the low-cost and full-service carriers, focusing on the differences between the two and particularly on the effects of the bankruptcy of the Hungarian national airline and on Wizz Air, an LCC, filling the gap. The last few decades in the aviation industry proved to be a life-changing period in the existence of airlines. After the realization that the airspace regulations create more barriers than an adequate operating structure the US aviation market was deregulated and a few years after Europe followed the example. Even though the deregulation of the market is still an ongoing process, it opened up new never-before-seen opportunities in front of private owned companies. Most importantly it created the conditions that allowed LCCs to emerge and become driving forces in the industry.

The effects of the increased presence of LCCs in the industry can be recognized in many areas; airports are changing their fee systems, improving their infrastructures to match the needs of low-cost airlines, and secondary airports are becoming more important and competitive because LCCs tend to operate from such aerodromes. The facts and data reveal that since *Southwest Airlines* introduced the low-cost business approach and operating strategy, this innovative scheme has been growing and in the past two decades it has become very popular. Most national airlines, legacy carriers and other FSCs are doing their best to keep their dominant position in the market although many routes previously operated by FSCs have been taken over by LCCs, more and more customers are choosing the low-fares with lower quality services over the more expensive full-service flights. The fact that despite flying only short- and medium-haul routes, LCCs are reaching the size of FSCs, especially in intra-EU flights, also serves as a proof for their increased significance. Today *Ryanair* and *easyJet* are among the top carriers of Europe, competing with legacy airlines such as *Lufthansa, Air France* and *British Airways.* The destinations of Europe are now more connected due to the broadened route network of LCCs. Although there are more options for customers to choose from, the FSC and LCC operating structures have major differences and therefore the customer perception of FSCs and LCCs cannot be completely and accurately defined until this day.

The research conducted about the Hungarian national airline *MALÉV*, its bankruptcy and the effects it had on the Hungarian aviation market highlighted some key facts. *MALÉV* has been around for 66 years during which it served as the national airline of Hungary with a full-service operating strategy. During its golden era the Hungarian national carrier was a well-known and respected airline. Yet unfortunately the management and the government were not able to run the carrier on a profitable level. After *Wizz Air* filed the motion of illegal funding against *MALÉV* the European Commission obligated the carrier to repay all the state support. As now we know this event turned out to be a major step towards the bankruptcy of the national carrier. The market exit of *MALÉV* turned out to be a much less significant event than what the experts of the industry expected in terms of the Hungarian tourism and aviation market. After an initial drop in arrivals the country regained its former position, which leads to the question, is it actually necessary for Hungary to have a national airline? The events of the past years, such as the all time record number of passengers at Budapest airport and the improvement of the Hungarian tourism both support the theory that from a performance perspective the country is not in need of a national carrier. Moreover due to the more open Hungarian aviation market more airlines are present and therefore the customers have a higher number of options to choose from than prior to the bankruptcy.

The initial idea behind a national carrier was that it was owned by the government of its home country, it served as the biggest and most important airline of the country, it had certain privileges compared to private carriers, other airlines were being regulated to protect the national carrier from direct competition and most importantly it was selected as the one and only airline that could fly international routes. Nowadays these characteristics are more or less non-existent, many national airlines were transformed into corporations and privatized. For example the national airline of Switzerland, *Swiss International Airlines* is owned by the German carrier *Lufthansa,* which is not fully owned by the German government either. The deregulation removed the competition protection of national carriers and it has become possible for multiple airlines to operate international routes, hence the national airlines lost their most significant competitive advantage.

In order to answer the question, whether an LCC, *Wizz Air,* is capable of taking over the role of the Hungarian ex-national airline and become the 'unofficial national carrier' of the country, all the findings need to be evaluated. The Hungarian low-cost carrier has always been a promising airline. Ever since its establishment *Wizz Air* showed a consistent growth, increasing its fleet size, number of destinations and passengers carried from year to year and today it is one of the most successful LCCs in Europe. In terms of number of cities and countries served from Budapest, *Wizz Air* is still not on the level of *MALÉV* but it reached its size in passenger capacity showing that in fact it is able to feel the gap of the former national carrier. It is unquestionable that *Wizz Air* is essential for Hungary but if we take into consideration the former general concept of a national carrier, the LCC doesn't qualify for all of its aspects. It is not owned by the Hungarian government, it is not protected from competition and it is not the only airline serving international routes even though it's the only Hungarian airline. If we base the answer solely on these aspects than *Wizz Air* cannot be considered as the new 'unofficial national airline' of Hungary. However since the airspace liberalization the general concept of a 'national airline' went through some transformations meaning that it would be a biased decision to stick with the aforementioned conclusion. It can be stated that under the current market conditions the concept of an airline being national is malformed, because many carriers, which are considered national, don't meet the aspects of the general description of a national airline. If we overlook the definition and focus on what an airline does for its home country then *Wizz Air* is certainly serving Hungary as the 'unofficial national airline'.

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