

## **Developing a Negotiation Framework between Low Cost Carriers and Tourism Destinations**

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### **Abstract**

The opening up of the air transport market in Europe has resulted in a major boost of air traffic at an intra-continental level but also increasingly beyond that. This has coincided with the emergence and continuous strengthening of Low Cost Carriers (LCC) as a global phenomenon. On these grounds, tourism destinations (especially in Europe) are keen on realising the ‘Ryanair effect’, i.e. to attract LCC (and preferably Ryanair) to their local airports aiming at generating money from increased tourism flows and rising occupancy rates at hotels and related tourism and other hospitality establishments in the vicinity; this is because tourism consumption is subject to indirect taxation while related income generation by tourism providers is subject to direct taxation by the local and national government.

Nonetheless, to realize the Ryanair effect tourism destinations are often willing to offer very preferential terms to LCC. This may result in a beggar-thy-neighbour policy and a zero-sum game to the detriment of tourism destinations; LCC appear as the clear winner in this case being able to play destinations against each other. This race-to-the-bottom is clearly an unsustainable strategy for tourism destinations hence the need for them to follow a solid strategy of negotiations to genuinely benefit from the presence of LCC. This paper aims at analysing the issue at two spatial levels. First, a model involving three stakeholders at the

local level, i.e. LCC, airport and local authority is developed. Using transaction costs theory (in terms of asset specificity and ease of measurement) and a strategic management framework (using Porter's Five Forces) this model aims at highlighting the essence of the triangular relationship focusing on how it is possible to increase the bargaining position of tourism destinations vis-à-vis LCC. Second, competition for LCC traffic among different tourism destinations is studied; using a game theory framework, the concepts of co-ordination success and failure are studied aiming at proposing measures of sustainable co-opetition (i.e. combination of competition and cooperation) among destinations.

**Keywords:** Low Cost Carriers, tourism destinations, airports, negotiations, transaction cost theory, strategic management, game theory