



Low-Cost Airlines, Growth Potential, and International Opportunities: The Case of Volaris^{*1}

1. Introduction

In early 2003 Pedro Azpe was on a business trip to Tijuana when he noticed some weary-looking people standing next to a bus. Curious, he walked up to them and asked why they were so tired. As it turns out, they had just spent nearly three days on a bus, which had brought them from Mexico City. The travelers told him that the ride by bus was a lot cheaper than an airplane trip. Tijuana is Mexico's northernmost city, located some 3,200 kilometers from Mexico City. A bus ride from Mexico City to Tijuana can take up to 72 hours and is somewhat dangerous (as well as exhausting); going by airplane takes only three and half hours. Pedro Azpe realized there was a great business opportunity for an airline that could sell cheap tickets. The idea of Volaris, a low-cost airline, was born.

In 2000 the Mexican government began implementing reforms that permitted the creation of new airlines. Newly created low-cost carriers (LCC) began entering the market, shaking up the market with a new airline model previously unknown to the Mexican aviation world. Initially, nobody thought the model would work, and bigger competitors responded to the new players with a reaction comparable to a yawn. But shortly after, that reaction turned into a panic. Customers started to shift from traditional airlines to the newly formed ones, and traditional companies were struggling to keep up with the changes in the Mexican airline game. This shift was exacerbated by the fact that because the Mexican market was extremely protected from competition and already had a chronic overcapacity of available seats.

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¹ This case study is based on a thesis submitted and defended by Emmanuel in 2010. After graduation, Emmanuel worked in Shenzhen, China, for the Chamber of Commerce. Since February 2011, Emmanuel has been working in Saudi Arabia for Nasair, a local low cost carrier. Konrad has been a professor of business strategy at ITAM's business school since August 2008 and supervised Emmanuel's thesis. We thank Juan Diego Beltranena Larrave for helping to prepare this case study.