The Business Positioning of Airlines in the Current Market Environment

Interactive Workshop - Air Transport Colloquium 2014

TPR
Departement of Transport and Regional Economics
University of Antwerp

04/12/2014

The Business Positioning of Airlines in the Current Market Environment

Moderator: **Prof. dr. Eddy Van de Voorde** (University of Antwerp, TPR)

Workshop panel:

- **Prof. dr. Sascha Albers** (University of Southern Denmark)
- **Pieter Cornelisse** (Vice President Mainport Strategy, KLM)
- **Kris Van den Bergh** (CEO, AvioVision)
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Within Europe we will evolve towards 3 large airlines and about two LCCs. These 3 large airlines will be large 'holdings', with a number of complementary carriers belonging to each holding.

Prepare to vote

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The European airline business will evolve towards 3 large airline holdings and 2 LCCs. These holdings will consist of a number of complementary carriers.

A. yes

B. no

The question will open when you start your session and slideshow.

votes: 0

Closed

The European airline business will evolve towards 3 large airline holdings and 2 LCCs. These holdings will consist of a number of complementary carriers.

A. yes 0.0%

B. no 0.0%

Closed

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After a time of turmoil, airlines are heading towards a dominant business model again – and this is not the low cost model.

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A. yes

B. no

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After a time of turmoil, airlines are heading towards a dominant business model again - and this is not the low cost model.

A. yes	0.0%
B. no	0.0%

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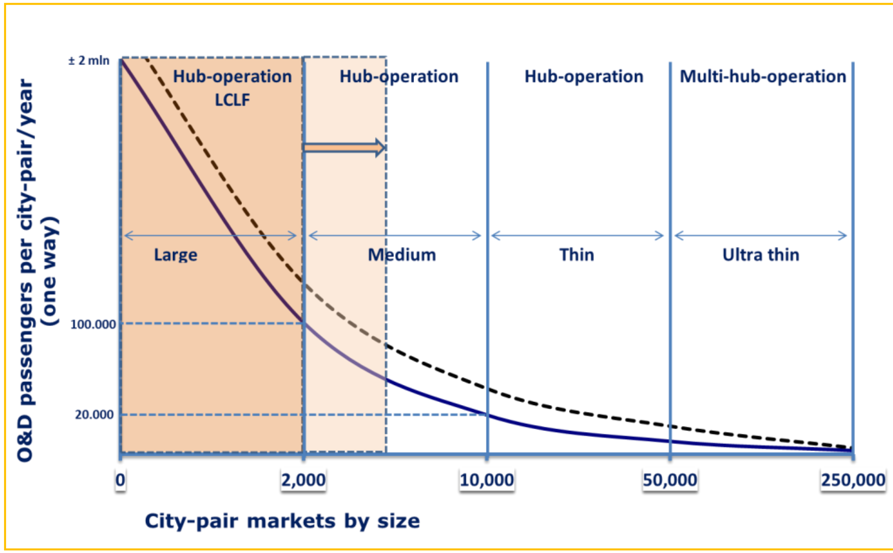
Air Transport Colloquium

Pieter Cornelisse
Vice President
Mainport
Strategy KLM

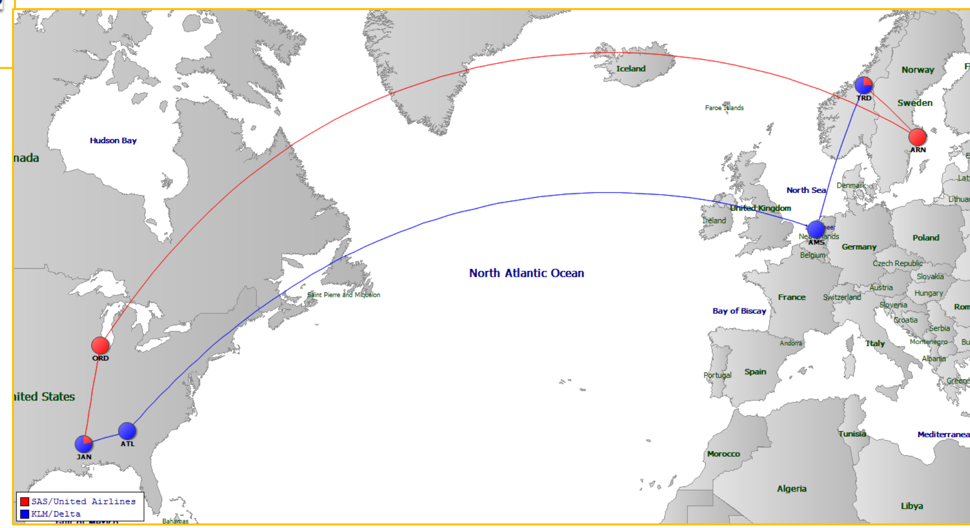
University of Antwerp
December 4th, 2014

Connecting directly or by multiple steps

North American and European market vs. city-pairs



- Hub operation present in all markets
- Competition with Low Cost in Large and Medium size markets
- Growing markets create more routes for air travel and vice versa



Trondheim – Jackson in 16 to 17 hours, twice a day, year round

Theorem:

Hub & spoke carriers are better geared to connect thin and ultra-thin markets.

Hub & spoke carriers are geared better to connect thin markets

A. yes
B. no

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votes: 0

Closed

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Hub & spoke carriers are geared better to connect thin markets

A. yes 0.0%

B. no 0.0%

Closed

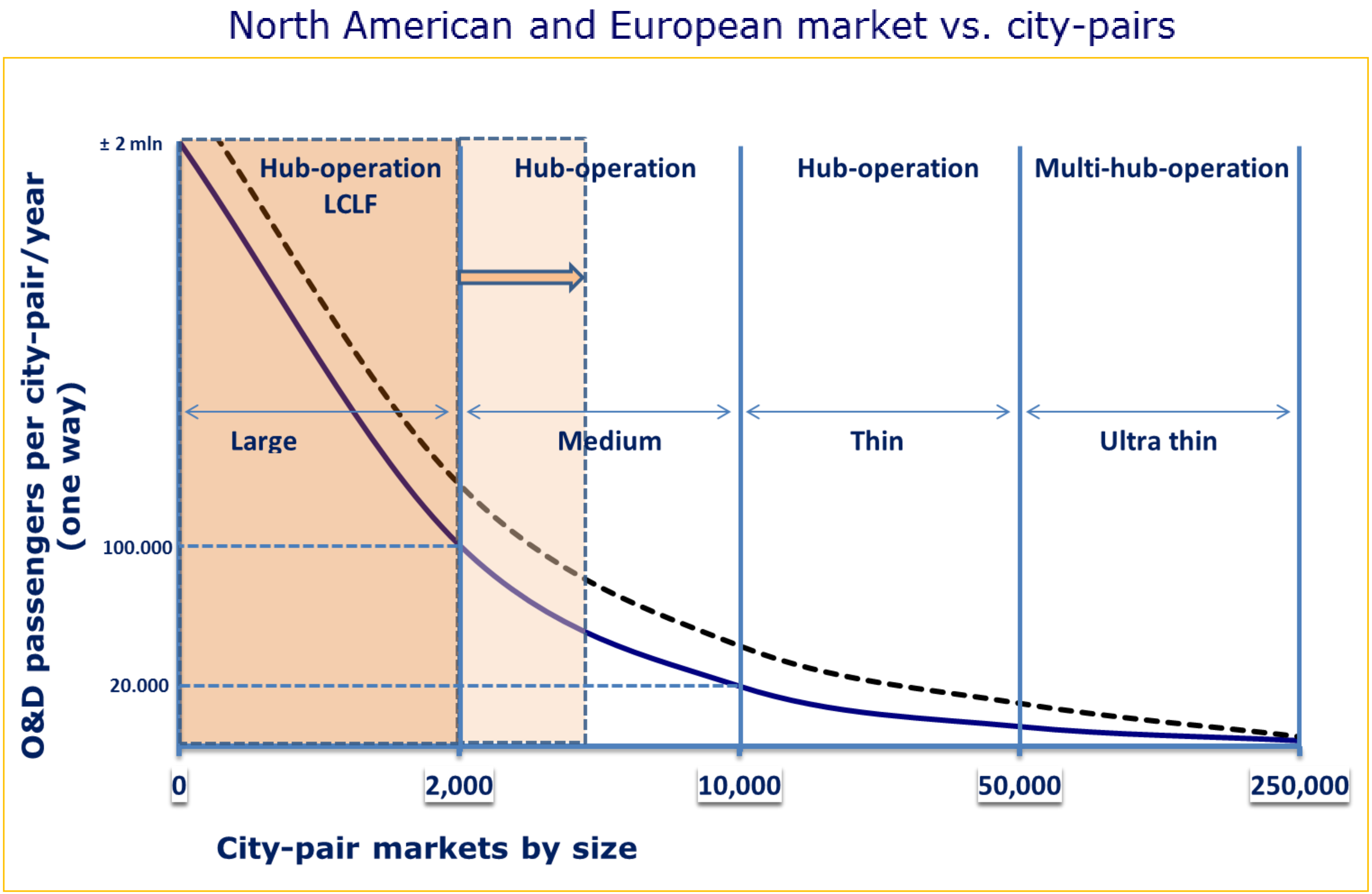
Air France KLM

Thank you for your attention

KLM 95 Years

KLM SkyTeam

Connecting the world directly or by multiple steps



Connecting the world directly or by multiple steps

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Suppliers & Customers

Airlines are struggling to position themselves as they are suffering from **supplier's (quasi) monopolies** and **customer's "bargaining" potential**

- Suppliers
  - Authorities
  - Airspace
  - Airports
  - Handlers / Fuelers
  - Manufacturers
  - Large suppliers
    - Fuel
    - Insurance
  - Personnel

Is this a "real" open market ?

- Customers
  - Other travel options (road, train)
  - No travel (e.g. webconference) ?
  - Internet search engines
  - Low sensitivity for airline positioning
    - Brand
    - Extra services
    - Loyalty programmes

Profitability
Positioning
Quality

Price $ ↑↑

Consolidation

Cost reduction reaches limits

With continuous attempts to cut cost – as the only current option – the **limits are reached** throughout the entire supply chain.

- Airlines have limited options (leverage) to reduce cost
  - Minor impact on most (large) cost elements and/or regulations
  - Cost reduction options on remaining elements are nearly depleted
- Further cost reductions require investment
  - Nearly impossible for financially fragile airlines
    - Become ideal consolidation targets
  - Financially strong airlines have consolidation option (synergies)
- Airline cost reduction focus affects entire supply chain
  - Leading to fragile and/or substandard suppliers or services
  - Leading to consolidation of suppliers (affecting competition)
  - Reduces, slows or kills innovation (no budget, no appetite)

Regulations

Regulations impede consolidation and fair competition

- More than half of the world's 50 largest economies have not yet either privatized or released **state ownership** of their flag carriers[1].
  - Importance of air travel for local social and economical development
  - Symbol of nation's reputation & strength
- Slow deregulation delays global consolidation.
  - Transcontinental consolidation is delayed – Strategic alliances as maximum reachable goal
- Complex regional aviation laws (FAA – EASA) are not aligned yielding operational obstacles in large consolidated operations.
  - E.g. Licensing & Operations
  - EU Airlines Emission Trading Scheme
- Local & regional regulations do not sufficiently provide a "level-playing field"
  - EU social environment, VAT regulation, environmental restrictions, etc

[1] Booz & Company - 2009

<u>Massive consolidation</u> will eventually allow the entire airline industry to become <u>profitable</u>, but the end-user will end up <u>paying more</u>…

Massive consolidation will eventually allow the entire airline industry to become profitable, but the end-user will end up paying more.

A. yes

B. no

The question will open when you start your session and slideshow.

votes: 0

Closed

Massive consolidation will eventually allow the entire airline industry to become profitable, but the end-user will end up paying more.

A. yes — 0.0%

B. no — 0.0%

Closed

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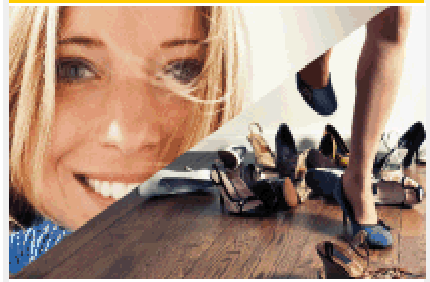

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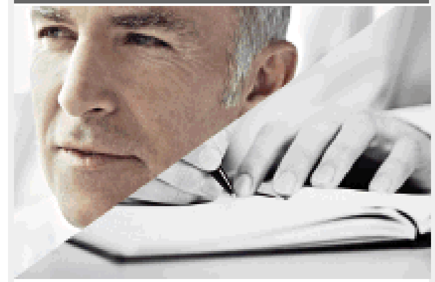

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Airline future in Europe

Hybrid models with low operational/unit costs will be the future

Hybrid models with low operational/unit costs will be the future

A. yes
B. no

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Closed

Hybrid models with low operational/unit costs will be the future

A. yes — 0.0%

B. no — 0.0%

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EXTRA PROPOSITION (if time allows)

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Europe succeeded in its mission: nowhere in the air transport sector, there are visible government subsidies

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A. yes

B. no

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\# votes: 0

Closed

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Europe succeeded in its mission: nowhere in the air transport sector, there are visible government subsidies

A. yes — 0.0%

B. no — 0.0%

Closed

Thank you for your attention

eddy.vandevoorde@uantwerpen.be

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