



Aviation facing strong headwinds, reshapes industry

Falling demand, collapsing yields, low consumer confidence and fears of a pandemic have thrust the aviation industry into survival mode. Airlines are expected to post losses of US\$9 billion this year, with an unprecedented drop in revenue of 15 per cent, that will see industry revenues shrink by US\$80 billion to US\$448 billion.



“Governments, partners and airlines must use this crisis as an opportunity to build a stronger industry,” said **Giovanni Bisignani**, the director general and CEO of the International Air Transport Association (IATA) at its 65th Annual General Meeting and World Air Transport Summit held here recently. “That means resizing and reshaping, and the burden of change must be shared across the industry value chain.”

Adapting businesses

The IATA chief called on industry leaders to adapt their businesses and exercise flexibility. “We must modernise work practices and do more with less in order to protect jobs.”

To survive the global online market, he says travel agents need to reshape services and business

Visit **INSEAD Knowledge**
<http://knowledge.insead.edu>

models to provide greater value that travellers are willing to pay for.

While the western Global Distribution System charges four US dollars per transaction, China TravelSky does the same job for fifty cents. This, Bisignani says, must change.

The relationship between airlines and governments also needs to change, he says, to switch “from punitive micro-regulation to joint problem-solving.”

On the ground



Bernard Gustin, the Managing Director of Brussels Airlines, told INSEAD Knowledge on the sidelines of the IATA conference

that his airline had 20 per cent fewer passengers the first quarter of this year. This was mainly in the corporate sector due to companies imposing a travel freeze, “although it is slightly offset by leisure sales and promotions that we had undertaken to stimulate the market.”

Since April, the number of passengers has increased but yields have decreased. This is largely due to business travellers switching to the back cabins and a bigger mix of leisure travellers who look for bargains and book in advance.

According to Gustin, Brussels Airlines has reduced its capacity by 15 per cent, cut overheads by 20 per cent, and is negotiating a salary freeze. “We are holding our yields as dropping prices would mean that the current clientele pays less. At the same time, we are creating attractive, innovative promotions such as festive and summer bargains to stimulate new demand.”

The airline had been looking for a partner since 2005 when its shareholders (mainly Belgian institutions) said they were no longer interested in keeping their stakes. Negotiations started in 2007 with Lufthansa and are approaching completion at the end of June, under a deal in which the German carrier would take a 45 per cent stake in Brussels Airlines with an option on the remaining 55 per cent.

“The partnership is going to have a positive impact on Brussels Airlines given Lufthansa’s multi-hub multi-brand strategy. It will give us the potential to invest in new routes and our future fleet while keeping our identity,” says Gustin.

The impact on airports



Along with airlines, airports are also affected by the downturn; sharing the same customers and having common interests such as customer service, security and facilitation, efficiency and cost-controls, and environmental responsibilities.

The slump came just as the industry had shifted into high gear in terms of airport capital expenditure in response to tremendous passenger growth.

However, airports do not have the same ability as airlines to contract and expand quickly, President and CEO Aéroports de Montréal and chairman of ACI (Airports Council International) **James Cherry** told INSEAD Knowledge on the sidelines of the summit. “The very nature of airports (capital intensive, long-life infrastructure) makes it very difficult to make dramatic cuts in their costs when a crisis hits – especially one that came on as quickly as the one we’re in now.”

While this crisis is significant and cannot be ignored, the aviation industry – and airports in particular – has to maintain a long-term focus, Cherry says. “We have to constantly be looking 10, 20 and even 30 years out to make certain that we keep up with the long-term trend. As bad as this crisis is, in a few years the current crisis will just be a blip dampening the industry’s growth trajectory by a few years.”

Struggling to survive

Bisignani says some strategies for airlines to survive the crisis are already clear. Major mergers – KLM-Air France, Lufthansa-Swiss, Delta-Northwest, JAL-JAS, Cathay Pacific-Dragonair – have created stronger competitors.

US airlines had cut capacity quickly. As a result they are stronger now, he noted. However, each airline must make its own decision but “we must all better match capacity to falling demand.”

Some 4,000 aircraft, or 17 per cent of the current fleet, are scheduled for delivery over the next three years. Aircraft ordered in good times are now being delivered in recession and finding customers to fill them profitably will be a challenge.

Whether this downturn is long or short, the way of doing business is changing and it will not be business as usual post-crisis, says Bisignani. “Today’s situation is unprecedented, the most difficult ever. We are struggling to survive with a new and harsh reality. We are, however, resilient and capable of great change.”

Find article at

<https://knowledge.insead.edu/economics/aviation-facing-strong-headwinds-reshapes-industry-1605>

Download the Knowledge app for free

