Consolidation in the European Airline Industry

Implications and Challenges

Jan Veldhuis
Program Manager of Airneth
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Consolidation: why and what……?

- **Partly reaction to more freedom and competition in aviation markets**
  - **Intra European liberalisation (end 80’s and 90’s)**
  - **Influx of Point-to-point carriers (2000’s)**
    - Share in intra-European seat capacity from 26% to 36% (‘05-’10)
  - **EU-US Open Skies (2008)**
  - **More to come…?**
- **Consolidation Trends**
  - **Route specific code shares (such as KL/MH on AMS-KUL)**
  - **More airlines have joined alliances**
  - **Transnational mergers**
- **Implications and challenges….?**

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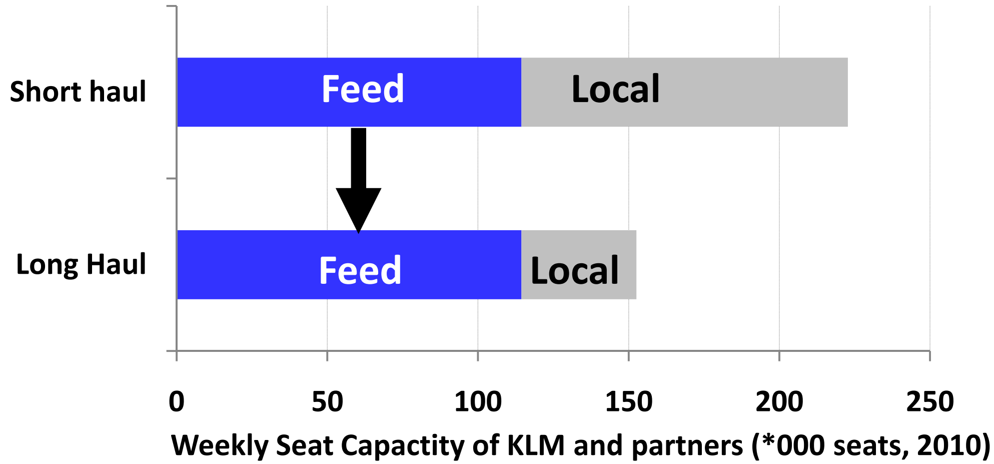
Implications and challenges: for whom….?

- Network Carriers
  - Declining share in short haul markets
  - Short haul feed necessary for long haul flights
- Airports: which focus…?
  - Hub carrier's network
  - Competing networks, including PtP's, but…..
  - …..with potential undermining hub carrier's networks
- Consumers
  - Competition level
  - Airfares

Network Carriers

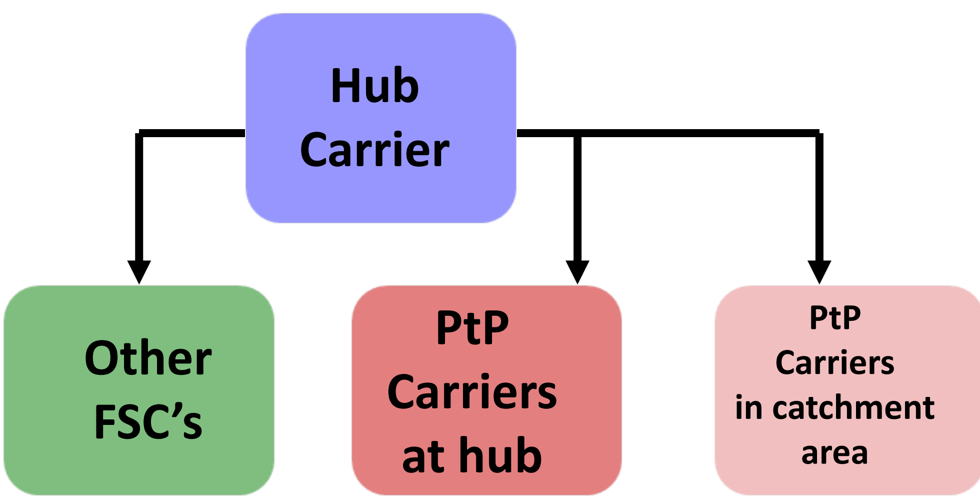
- Hub carriers need short haul feed to their long haul flights
- Typical KLM long haul flight has….
  - 25% passengers from AMS catchment area
  - 75% passengers fed from short haul European flights



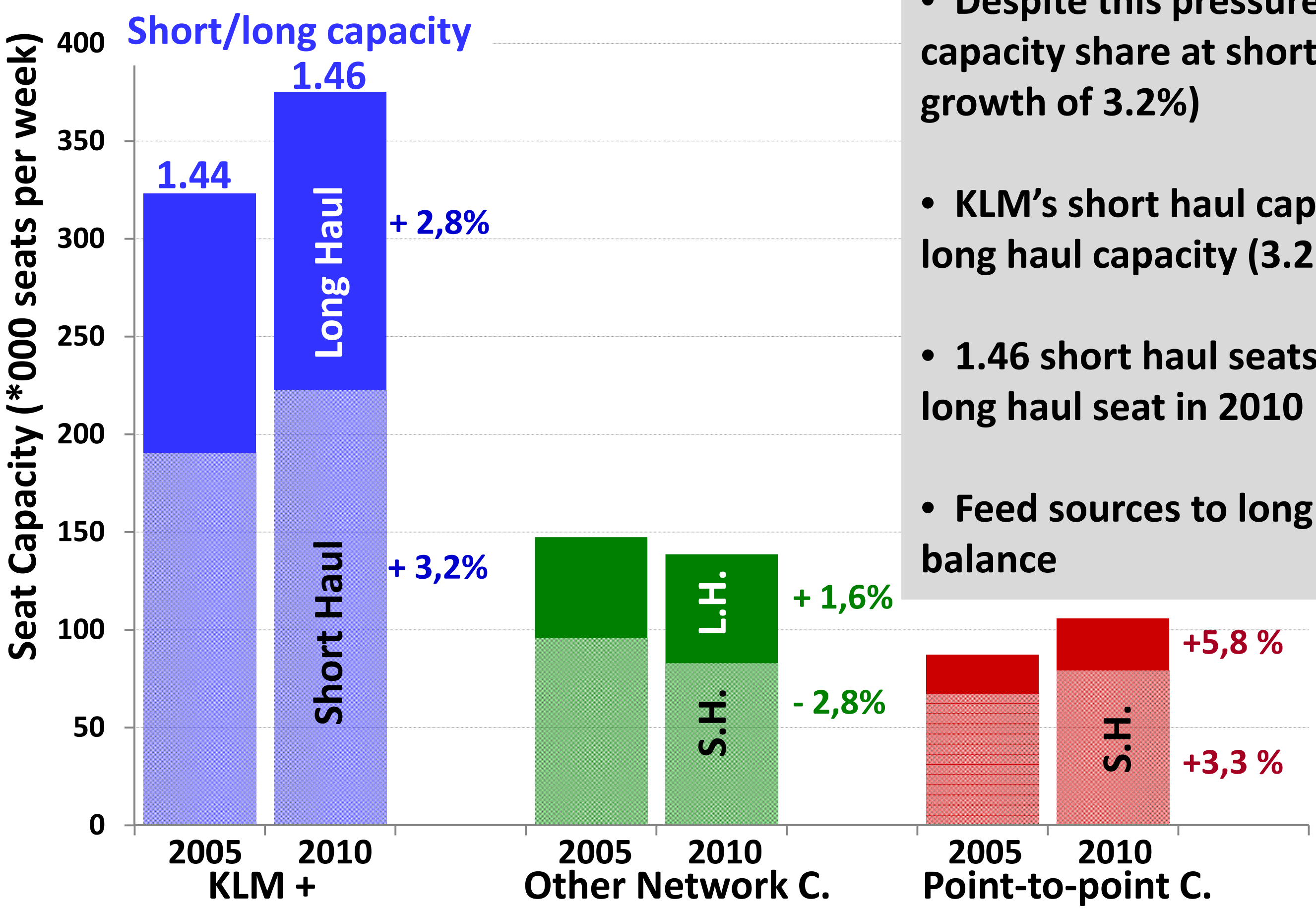
- Short haul capacity indispensable for hub-system

Network Carriers

- **Short haul capacity of hub carriers under pressure**
- **Potential loss of market share to competitors, even to other airports in catchment area**
- **In case of AMS:**
  - **Other FSC's:** **BA, LH, etc.**
  - **PtP Carriers at hub:** **EasyJet etc.**
  - **PtP Carriers in cathment area:** **Ryanair at EIN or NRN**



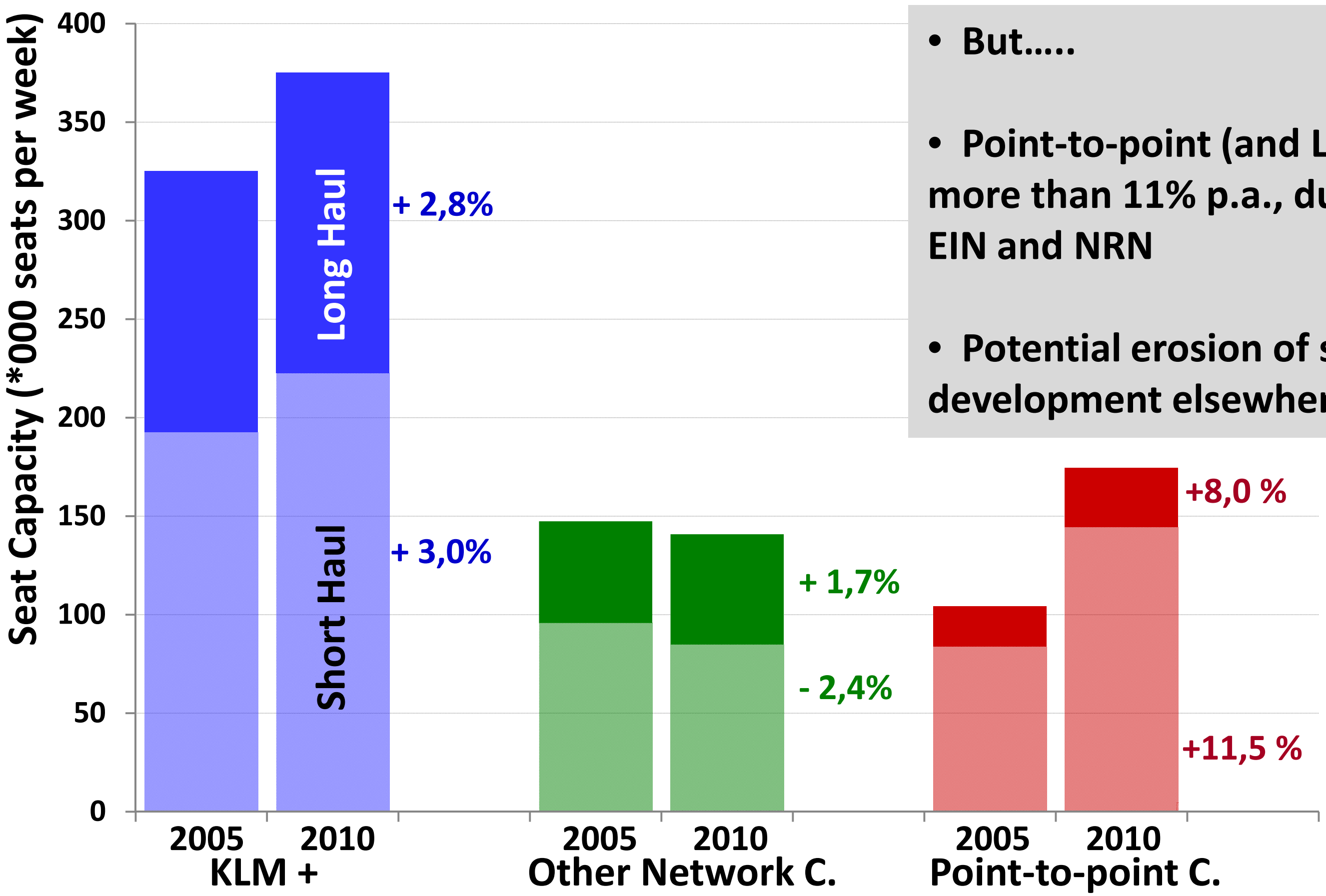
Composition of Seat Capacity
Amsterdam (AMS), 2005-2010



- Despite this pressure, SkyTeam has kept its capacity share at short haul routes (annual growth of 3.2%)
- KLM's short haul capacity has grown faster than long haul capacity (3.2 vs. 2.8 % per annum)
- 1.46 short haul seats available for one single long haul seat in 2010 (from 1.44 in 2005)
- Feed sources to long haul flights have kept in balance

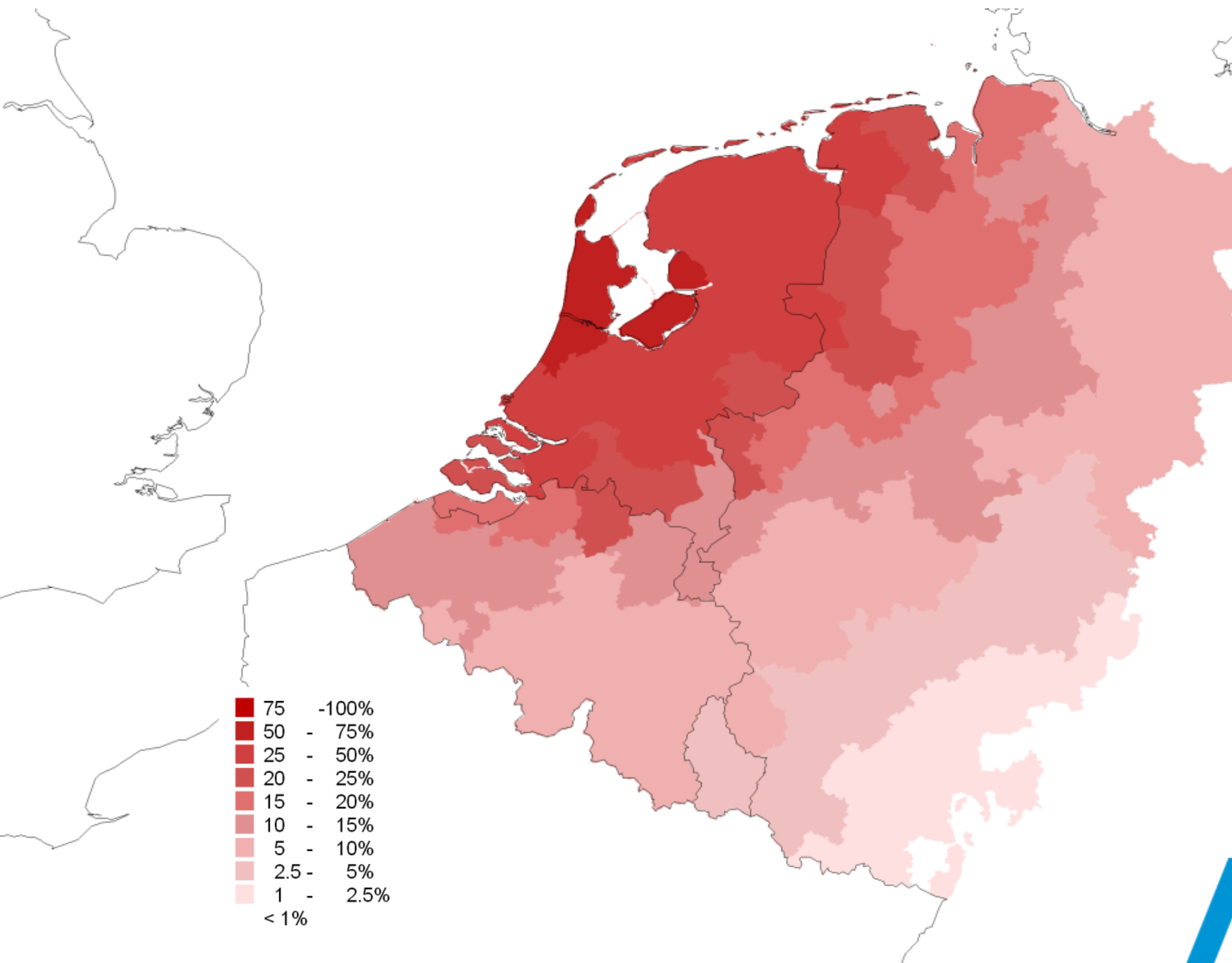
Composition of Seat Capacity in hinterland

NL-catchment area (AMS, EIN and NRN), 2005-2010



- But.....
- Point-to-point (and LCC-) share has increased by more than 11% p.a., due to capacity expansion at EIN and NRN
- Potential erosion of short haul network by LCC-development elsewhere in NL-catchment area

Market share of AMS for flights to Rome



- **less than 50% of travelers from the South Eastern part of the Netherlands to Rome use AMS** (model estimations)
- **Other airports in this area offer competing services to Rome (FCO+CIA)**
- **These may cause significant losses in market share in this area for the hub carrier at AMS**

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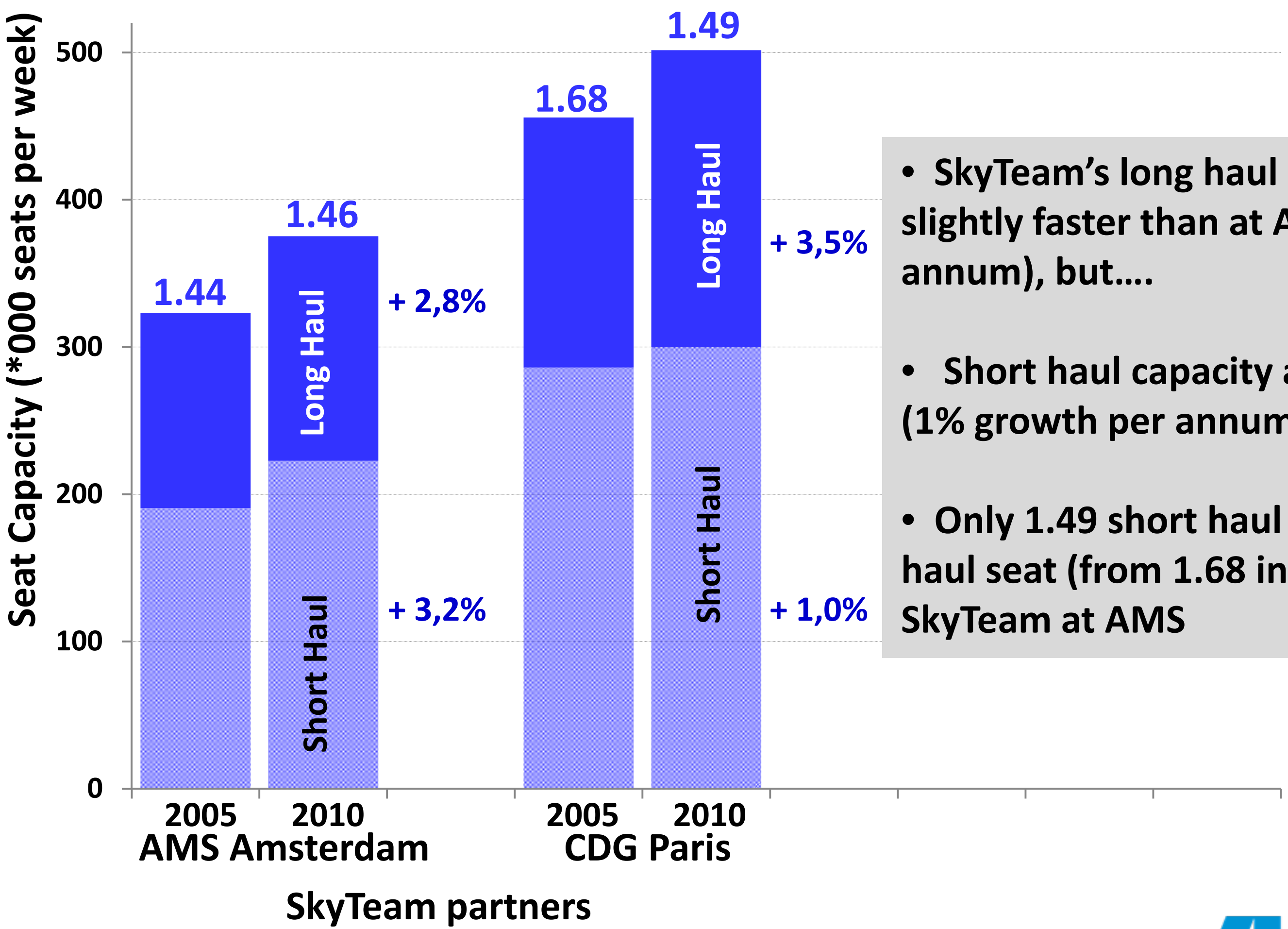
Composition of Seat Capacity
Amsterdam (AMS) and Paris (CDG), 2005-2010



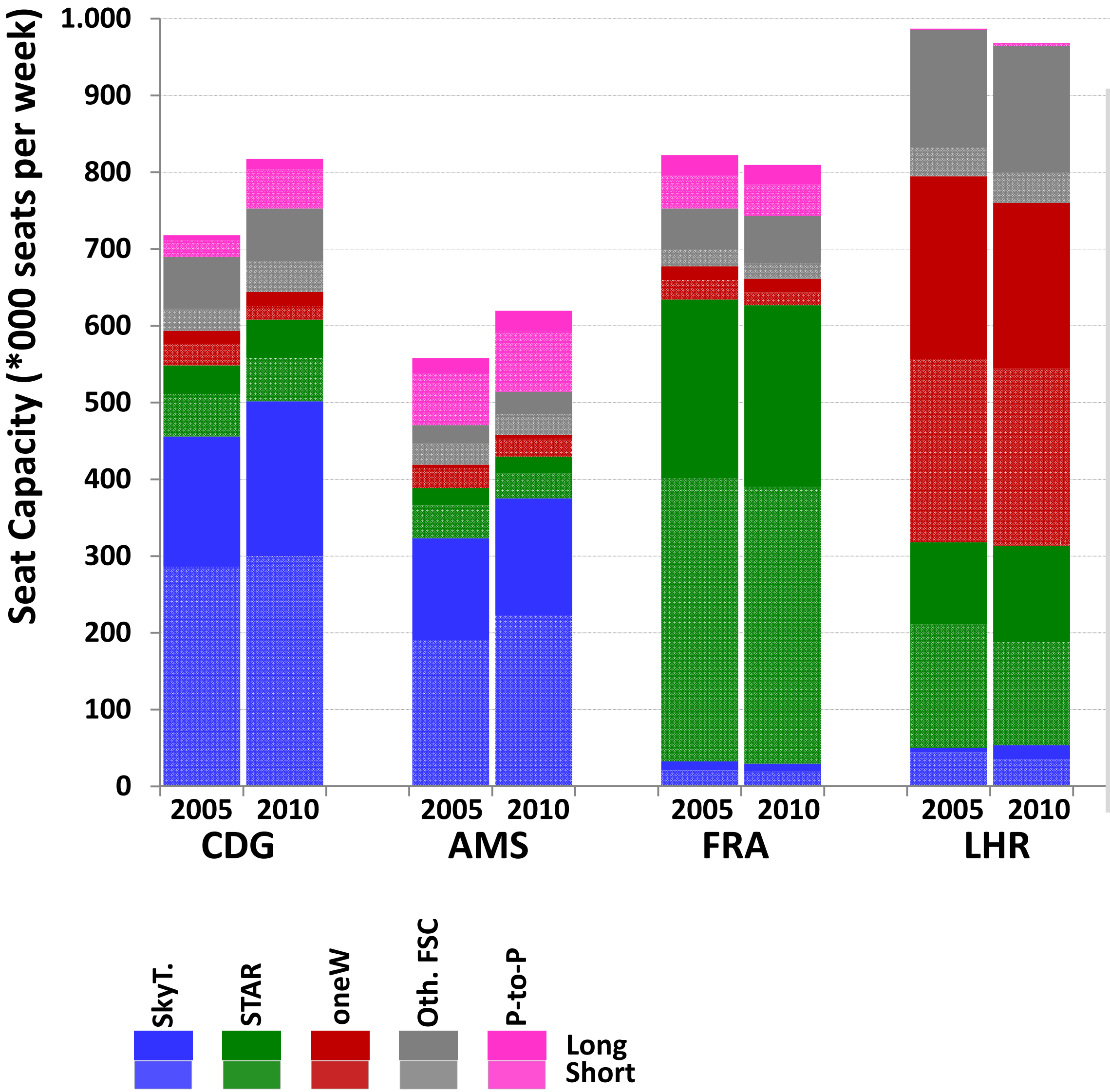
- SkyTeam's long haul capacity at CDG has grown slightly faster than at AMS (3,5 vs. 2,8 % per annum), but….
- Short haul capacity at CDG has not kept pace (1% growth per annum only)
- Only 1.49 short haul seats available per long haul seat (from 1.68 in 2005), but still more than SkyTeam at AMS

Airport: where to focus on…?

- Primary (European) hub of one of three alliances
  - Usual requirements: peak capacity, home market size etc.
  - Sufficient short haul feed to long haul flights
- Secondary hub status
  - Focus on European flights of alliance and limited hub function
  - Risk of decreasing role compared to primary hub
  - Possibly focusing on point-to-point (and LCC-) services, but…..
  - …potentially conflicting with secondary hub status
- Point-to-point services
  - Limited or decreasing role in alliance networks
  - Potentially large catchment areas

Composition of Seat Capacity

Four Primary European Hubs, 2005-2010

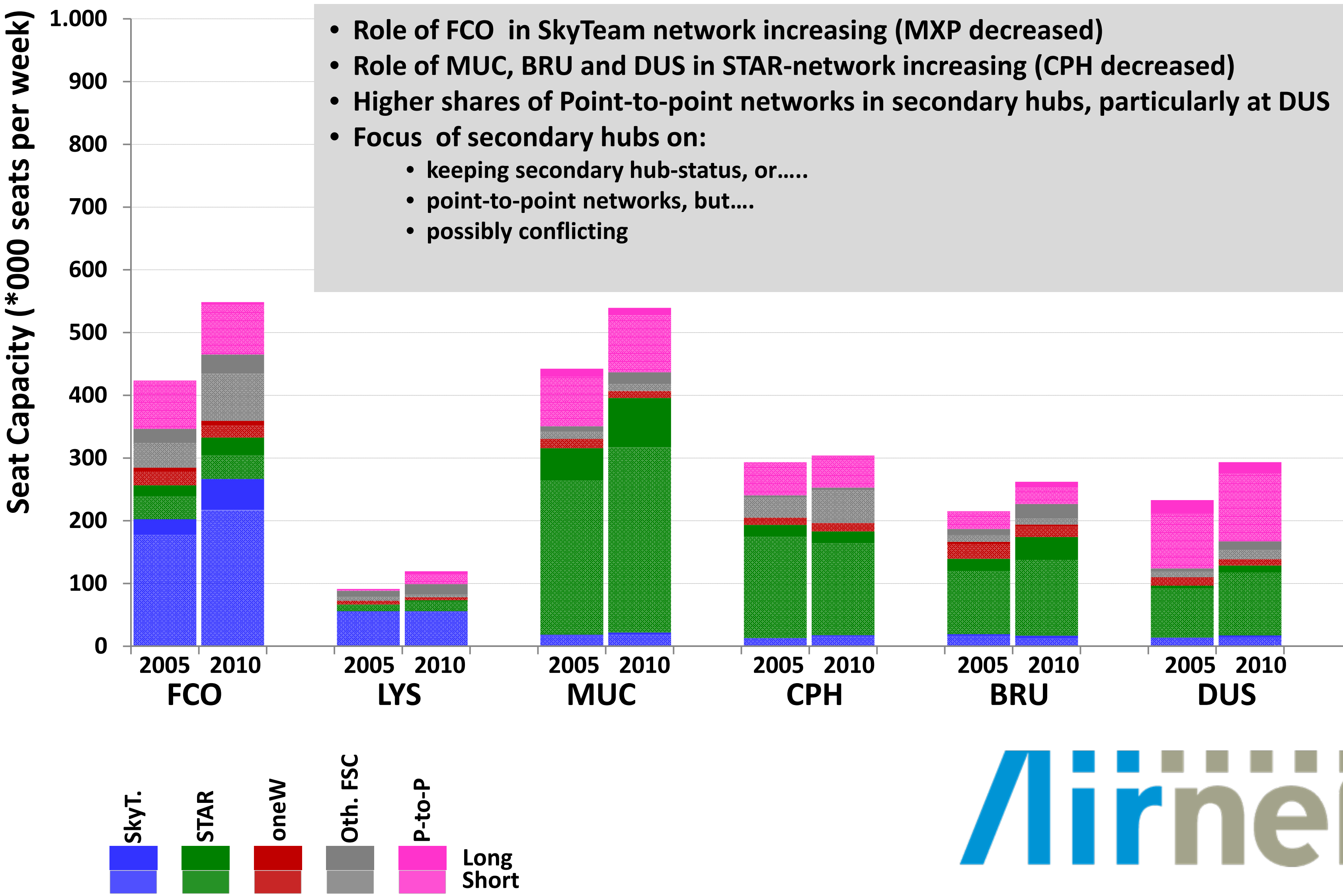


- Four hubs dominated by their home (hub) carrier…
- … increasing at CDG and AMS, stable at FRA and decreasing at LHR
- STAR-alliance share considerable at LHR
- Balance between short haul feed to long haul capacity has remained in place
- Point-to-point share is low (except for AMS)
- Primary hubs have kept focus on H&S-network of home (hub) carrier

Composition of Seat Capacity

Secondary European Hubs, 2005-2010

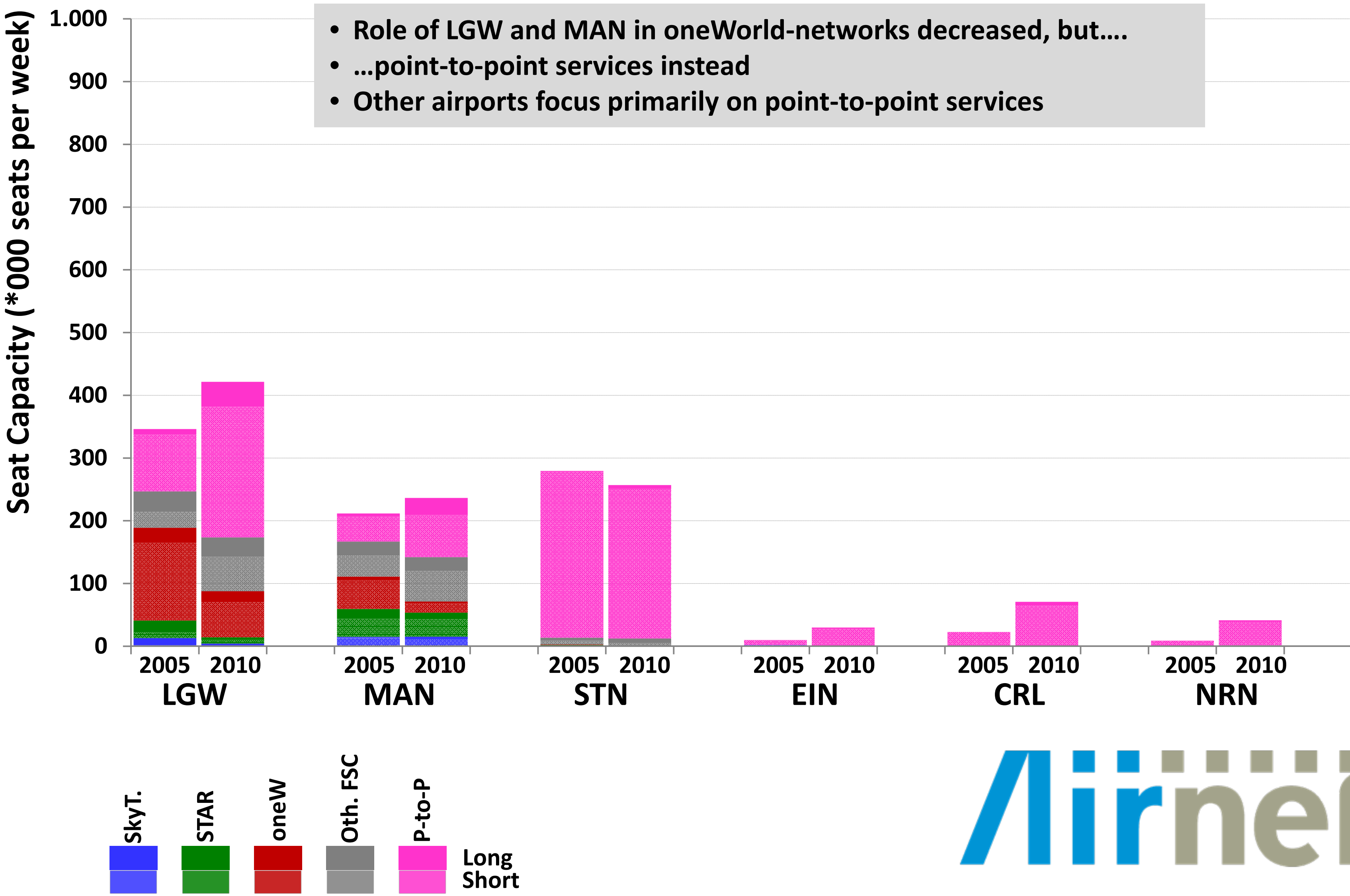
- Role of FCO in SkyTeam network increasing (MXP decreased)
- Role of MUC, BRU and DUS in STAR-network increasing (CPH decreased)
- Higher shares of Point-to-point networks in secondary hubs, particularly at DUS
- Focus of secondary hubs on:
  - keeping secondary hub-status, or…..
  - point-to-point networks, but….
  - possibly conflicting



Composition of Seat Capacity

Point-to-point Airports, 2005-2010

- Role of LGW and MAN in oneWorld-networks decreased, but….
- …point-to-point services instead
- Other airports focus primarily on point-to-point services



Consumers: more competition and lower fares

- More competition at hubs
  - Hub carriers dominance stable or decreased
  - Number of monopoly routes has decreased
- More competition between airports
  - LCC's expanded capacity at regional airports
  - More choice for passengers in such areas
- Additional welfare effects by lower fares of LCC's ánd network carriers in short haul markets

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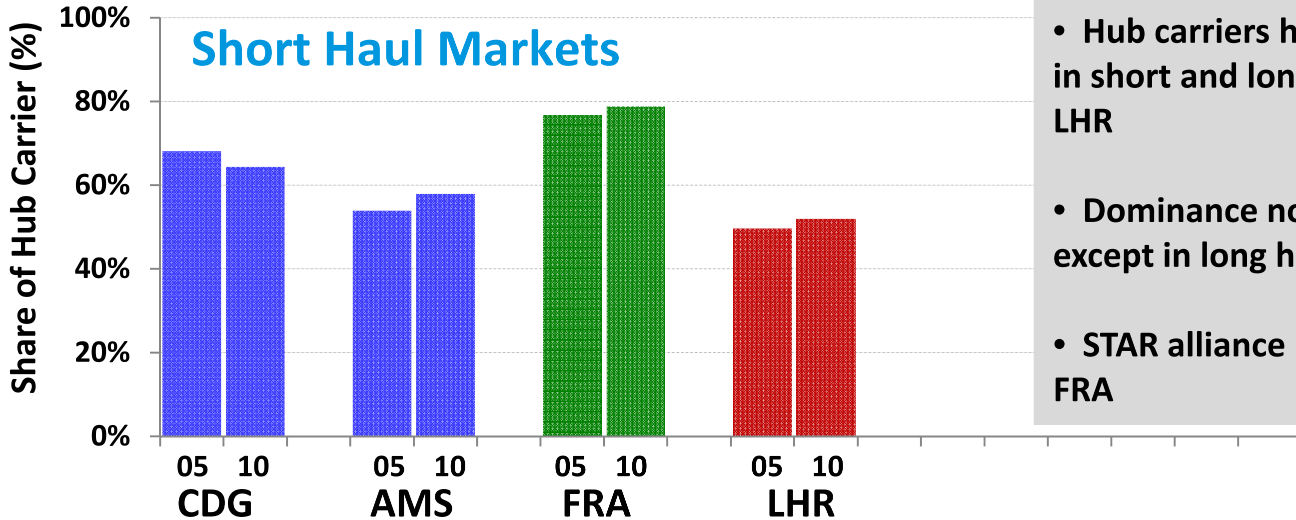
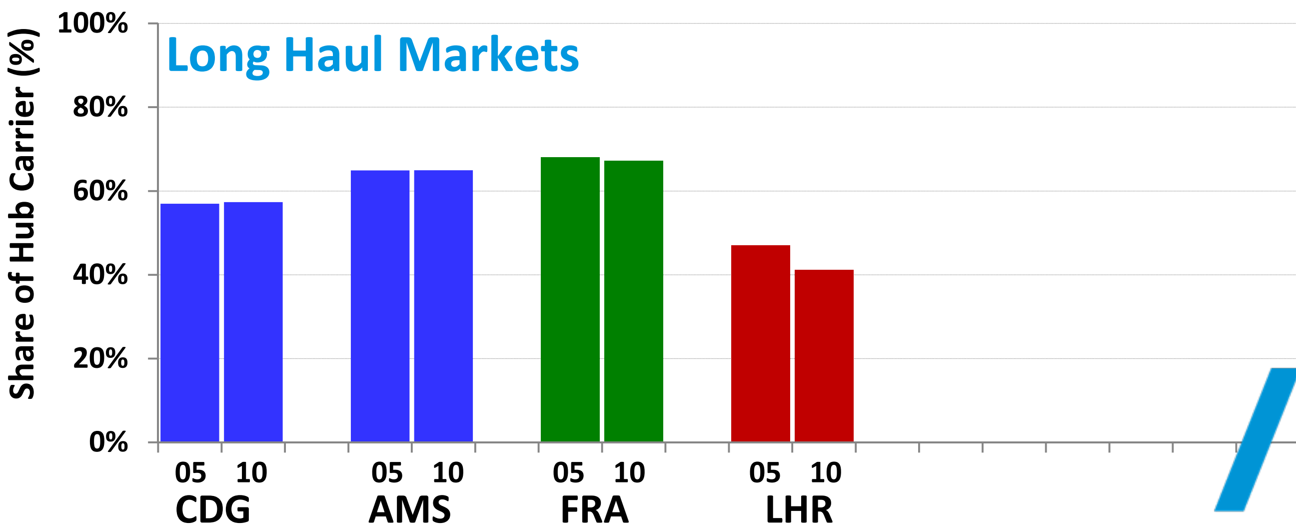
Implication for Consumers

Dominance of Hub Carrier: Share in Seat Capacity, 2005-2010

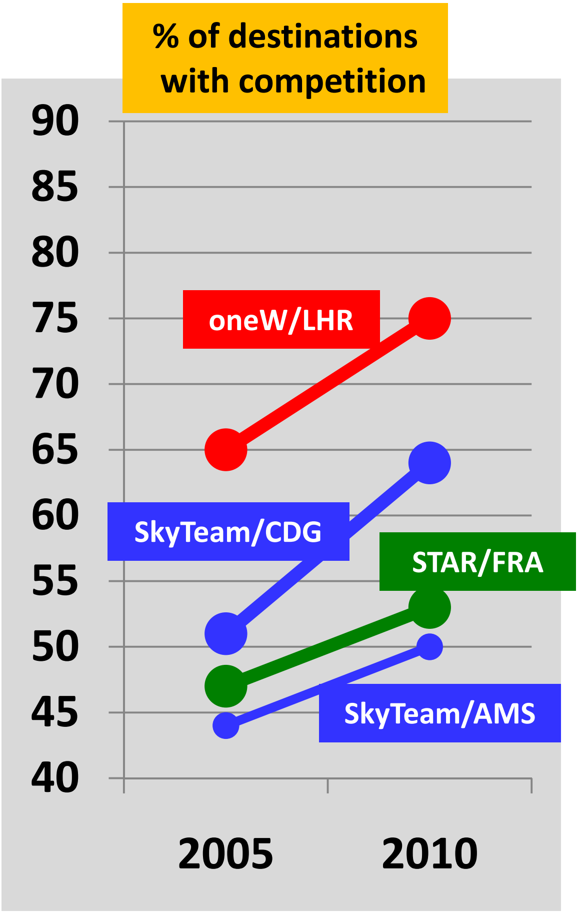


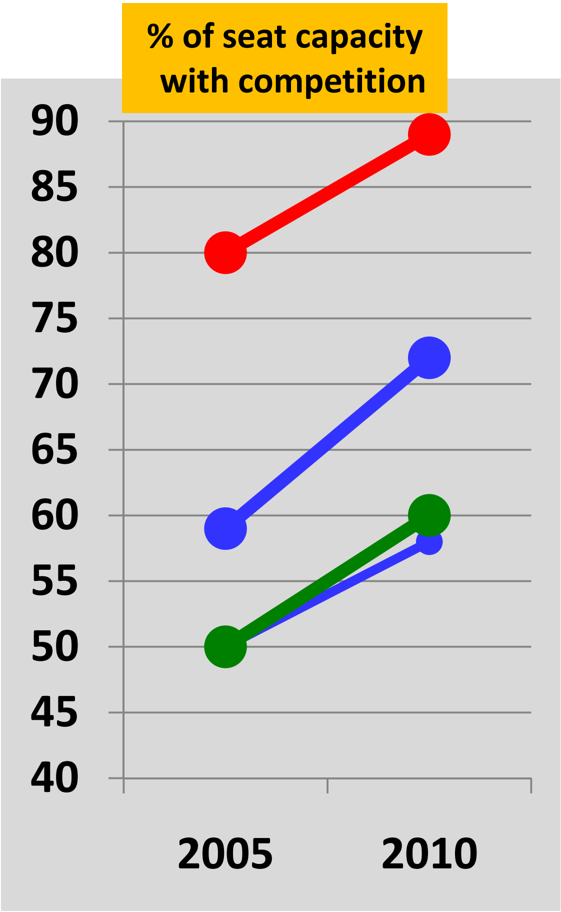
- Hub carriers have more than 50% share in short and long haul markets, except at LHR
- Dominance not significantly changed, except in long haul markets from LHR
- STAR alliance is particularly dominant at FRA



Implication for Consumers

More competition at hubs





- SkyTeam shares 50% of its destinations with competitors….
- …. and 58% if its seat capacity
- more competition at other hubs
- competition increased everywhere

Conclusions

- Hub carriers and their primary hubs have kept their H&S networks, despite PtP-(and LCC) expansion
- Possibly at the price of lower fares

- Smaller (and secondary) hubs at risk
- Choice between potentially conflicting segments

- Competition increased at hubs and between airports in overlapping catchment areas
- Lower fares, particularly in short haul markets