Application 5.6

THE STRATEGIC CLOCK IN AIR TRANSPORT

Sonia Medina Salgado
Rocío González Sánchez
Universidad Rey Juan Carlos

The airline industry has a diverse range of carriers employing various competitive strategies, making it an ideal case for applying the "strategic clock" model.

Thus, positions 1 and 2 have traditionally been held by the so-called low-cost or budget airlines, such as Vueling, easyJet, and Ryanair. However, their no-frills business models have peaked in the short- and medium-haul markets, especially in Europe, where they are dominant and continue to compete with low prices while providing customers with more value. For instance, the flex fare offered by Vueling, recognised as Europe's best low-cost airline in 2021, includes a checked-in item of luggage and seat selection, the same as the inclusive easyJet fare. In turn, Ryanair intends to improve its services through new aircraft interiors and increased leg-room, alongside a new, simplified baggage policy. Additionally, it is to introduce the Ryanair Business Plus services, featuring special fares and other improvements explicitly tailored for business travellers. We might say they are seeking to adopt value-for-money strategies in the intermediate value-added ranges.

Another important phenomenon involves airlines such as Norwegian, Transavia, and Volotea. Initially considered low-cost, these carriers have had an impact on the traditional European sector, displacing the previous ones' competitive advantages based on cheap fares. These companies, such as Norwegian, pursue business strategies that provide their customers with significant value added. This is partly because they have state-of-the-art aircraft and very tight cost structures, all at reasonable prices. Hence, the reason they can be considered representatives of position 3. However, the new airline scenario may threaten the survival of companies in this position that are not part of a group. Thus, Norwegian has been forced to file for bankruptcy and reduce its operations in the face of competition from other operators such as Transavia, which is more protected as it belongs to the Air France-KLM group.

Another example of a company that for years has pursued a quality-price strategy is Air Europa. This airline has traditionally been considered an assurance of good-quality services, regularity, and schedules at reduced prices, especially in Spain. However, its situation has become critical in recent years, marked by soaring debt and the loss of a significant part of its fleet in the wake of COVID-19. This situation was exacerbated by the high uncertainty surrounding the company's sale process in 2022, which undermined its cost structure and perceived value, threatening its very existence as it sank to the threatened position of 8.

Clearly, position 4 corresponds to traditional flag carriers, such as British Airways, Lufthansa, Finnair, and Air France, among others. These companies focus on both broad and segmented differentiation. They are characterised by having business models based on a better quality of service in terms of comfort, safety, schedules, and routes, exploiting their reputation, size, and positioning in large airports and hubs. The Finnish company Finnair, for example, has based its differentiation on innovation and commitment to the environment, offering eco-efficient flights. However, the cost structures of these airlines still involve large fleets, myriad routes, and acquired staff rights, which do not allow them to adjust their prices. For instance, British Airways made a significant investment in 2020 by withdrawing its 31 Boeing 747s four years early in response to the sharp decline in passengers and long-haul flights resulting from COVID-19.

Asian companies, on the other hand, such as Etihad, Qatar Airways, Emirates, Singapore, and Cathay have surged into positions 4 and 5 in broad and segmented differentiation, offering a high level of luxury. In addition, these carriers benefit from cheap fuel and public funding for the purchase of new aircraft. This is seriously damaging traditional flag carriers, especially on major routes to Asia and even to America.

It is now something of a challenge to address positions 6 and 7 in the airline industry, as they are typical of monopolistic markets that are no longer common in this sector, at least not in Europe's short- and medium-haul environment. However, it is not easy to reposition airlines that once enjoyed a monopoly in their domestic markets. Such is the case of Iberia, which plans to make Madrid-Barajas airport a major hub and operations centre, thereby consolidating an image of differentiation, distancing it from the aggressive price wars in specific services in which it has been involved on more than one occasion.

Finally, to maximise competition in the "strategic clock", large European groups such as IAG aim to have companies capable of competing in various positions. In the case of the IAG group, it competes with Level, the only low-cost carrier on long-haul routes from Barcelona to Buenos Aires, Santiago de Chile, New York, Boston, and San Francisco.

Source: Case 10: The strategic clock in air transport: the evolution of competitive strategies, by Rocío González Sánchez, in Guerras and Navas (2020)

Date of application: June 2023

More teaching resources at: www.guerrasynavas.com/index_english.htm