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Europe's Grim Reaper Creates Opportunity

It has been a busy twelve months for the Grim Reaper as he ran through a number of Europe's airlines. As with any legend, there may be more noise and reaction than deserved but nevertheless should we be worried or see this as an opportunity?

Twenty-six airlines that filed schedules in Summer 2018 failed to make it through the Winter, whilst Wow Air just made the summer programme but succumbed soon after. So, 27 airlines are no longer with us out of 201 from Summer 2018, a quite significant reduction of 13%. At this rate there would be no airlines left in Europe in eight years' time!

The airlines that failed collectively provided just 1.3% of all the flying from Europe. Does anyone actually recall what Yourways, Lydd Air and Mistral Air actually added to the scheduled market in Europe? Wow Air may have seen a spectacular rise in capacity but was there ever really a long-term market for two airlines operating almost exclusively on sixth freedom flows via Keflavik? Probably not.

So, against this backdrop it might seem difficult to be optimistic about the future for regional airlines in Europe. In fact, there is so much opportunity, we just need to think differently about what regional means. The classic definition of a regional airline nicely slots (no pun intended) them as operating from a small airport in Europe to a range of similarly sized markets with the odd service to a major hub airport. Simple to understand and perfectly reasonable 30 years ago, but since we've found the internet the world has changed.

One of the key changes in the market over the last twenty years has been the emergence of truly European airlines operating from multiple bases and creating markets from almost nothing in many cases. It's no coincidence that Ryanair, easyJet, Wizzair and more recently Vueling have built their businesses across multiple hubs. At the very least it de-risks over-reliance in one country market but also creates sufficient enough mass for operational gains and commercial scale in what is a single aviation market. It should be no surprise that those truly European airlines are amongst the most profitable operators.

It may be a harsh fact, but Europe's airline industry is in a period of consolidation across both legacy and low-cost airline segments, if indeed there is any difference between the two today. Predictions vary, but if both Michael O'Leary (Ryanair) and Carsten Spohr (Lufthansa) both believe that there will be between 5-6 major airlines across Europe in the next five years then it's worth paying attention. Consolidation will bring opportunities for

both regional airlines and airports, but regional airlines need to start thinking differently now about how they position themselves and what their core markets really are.

One of the greatest strengths of regional airlines has always been their customer focus. Bases of corporate demand, regular travellers, smaller airports, friendly, local cabin staff and a sense of a closer relationship between airline and customer have always been at the heart of Europe's regional airlines. In today's market those types of relationships can be priceless, delivering higher yields and providing a solid foundation to a business operation. Perhaps now is the time for regional airlines to stretch their ambition.

Consolidation across the major European airlines will happen but will not address the lack of capacity at many of Europe's major airports. Across Europe this summer scheduled airline capacity is broadly flat against Summer 2018 levels. It seems that unless you are a Chinese Airline or alliance member access to Heathrow this summer is virtually impossible.

Against that backdrop, the evidence suggests that for airports in the regional sector, i.e. those with between one and six million seats, things are looking good this summer.

Analysis of the Summer 2018 schedules versus this Summer's complete programme for all services within Western Europe. Setting the threshold for defining a regional airport at six million seats means Alicante falls into this category, along with Valencia. The collective strength of regional growth in Europe is clear. In total there are some 3,101 new flights scheduled across 312 airports with the top ten fastest growing airports highlighted below.

Chart 1 – Fastest Growing Regional Airports in Europe, Summer 2019



Source: OAG Schedules Analyser

It may of course be no coincidence that Valencia leads the way. While we'd like to think it was related to their hosting of the first AviaDev Europe event last year, it may be a more

likely result of the investment and focus the city and their stakeholders have been putting in over a concentrated period of time.

Collectively all of scheduled seats this summer from all of the new routes added at airports in the regional category adds up to nearly 17 million. If you assumed 80% of these are sold then somewhere around 13.6 million seats will sell; even assuming each seat sold has a twenty euro economic impact then suddenly there is a 272 million euro benefit from those new services this summer! All power to regional access and capacity growth.

With increasing concern around over-tourism in many cities and increasing pressure to find solutions, the development of regional tourism in an environmentally sympathetic context provides opportunity for many destinations in Europe, especially in the low season periods of the year. There is no shortage of creativity across the many regional airports in Europe and that stakeholder collaboration will increasingly be the way forward in promoting destinations.

It is also no coincidence that with airline consolidation becoming an increasingly hot topic those successful airlines are no longer country specific with just one base but Europe-wide with multiple bases. Ryanair, easyJet, IAG and Wizzair have all recognised a way forward, becoming accepted across all markets serving multiple destinations. Ultimately there may be a few more regional airlines that are lost; it happens in many industries. If the result is a leaner fitter set of carriers serving regional markets with more city pairs then that has to be a positive result for everyone.