

What causes an airline to fail?

Questions/Key Points	Notes
<p>Deregulation made the airline very competitive, which caused many airlines to fail, but is it so competitive that nobody will be profitable?</p> <p>Do passengers benefit from airline mergers?</p> <p>Airlines can still operate under bankruptcy.</p> <p>Competition with LCCs, especially in Europe, caused many airlines to struggle and/or go bankrupt.</p>	<ul style="list-style-type: none"> ● Economics <ul style="list-style-type: none"> ○ The Airlines: Destined to Fail ○ Deregulation makes it harder for airlines to turn a profit ○ Competition is very fierce ○ Business travelers allowed legacy airlines to compete with LCCs, but post 9/11 and esp. Post COVID business demand drops by a lot ○ Immediately after deregulation, many smaller/weaker airlines went out of business ○ Are airlines really destined to fail? For now, they seem like a necessity, but what would things look like in a post-airline world? ● Mergers <ul style="list-style-type: none"> ○ Overall, the airline industry has been converging into just a few major airlines ○ A merger effect on different airline groups: empirical study on the Delta-Northwest merger in 2008 ○ Mergers can help airlines compete more effectively against other airlines <ul style="list-style-type: none"> ■ Expand route networks ■ Pool resources ○ A struggling airline might merge with another airline as a way of saving their employees, while the other airline benefits from the assets the struggling airline might have lost by failing ○ Mergers need approval by DOJ to avoid antitrust ○ Pure speculation: American + JetBlue merger? American + Alaska merger?? ● Bankruptcy <ul style="list-style-type: none"> ○ Being bankrupt doesn't necessarily mean that an airline is dead. Airlines can still operate under bankruptcy ○ https://www.uscourts.gov/services-forms/bankruptcy/bankruptcy-basics/chapter-11-bankruptcy-basics ○ Obviously, being bankrupt is bad, but there are still ways to recover from it. If the airline can start making money after filing for bankruptcy, they can recover ○ Bankrupt airlines can also merge with other airlines ● Examples <ul style="list-style-type: none"> ○ Thomas Cook <ul style="list-style-type: none"> ■ https://time.com/5683934/thomas-cook-travel-collapse ■ Thomas Cook was not only an airline but also a travel agency ■ When they ceased operations many passengers were stranded overseas and a few countries chartered repatriation flights ■ Collapse was due to brexit, bad mergers, and increased competition ■ Also, people aren't really using travel agencies anymore since it's cheaper and easier to book your own flights and such. ○ Flybe <ul style="list-style-type: none"> ■ https://www.bbc.com/news/business-51746564 ■ Flybe was already struggling before COVID, and the pandemic ultimately caused its failure

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- They asked for a bailout from the UK government in January but were denied
- Flybe was an important airline, as they operated smaller aircraft into smaller/underserved communities, much like EAS flights in the US
- Will have negative effects on the economies of those communities
- Air Berlin
 - <https://www.news.com.au/travel/travel-advice/flights/everything-must-go-as-air-berlin-leaves-behind-mountain-of-debt/news-story/6b2a84ba1c5709369fdb589e053037b6>
 - Started in 1978 as an American airline that could serve Berlin during the Cold War
 - "Semi LCC" operations
 - Had trouble competing against LCCs which are dominant in Europe
 - Didn't have a clear strategy or business model

Summary

Deregulation made the airline industry fiercely competitive, which ultimately caused the stronger airlines to be dominant in the industry and the weaker ones to merge with a stronger airline or cease operations. Competition with LCCs made the industry even more difficult, as airlines had to find ways to decrease their prices, which can mean operating at a loss. Other economic factors can cause bankruptcies, like recessions, and especially COVID.