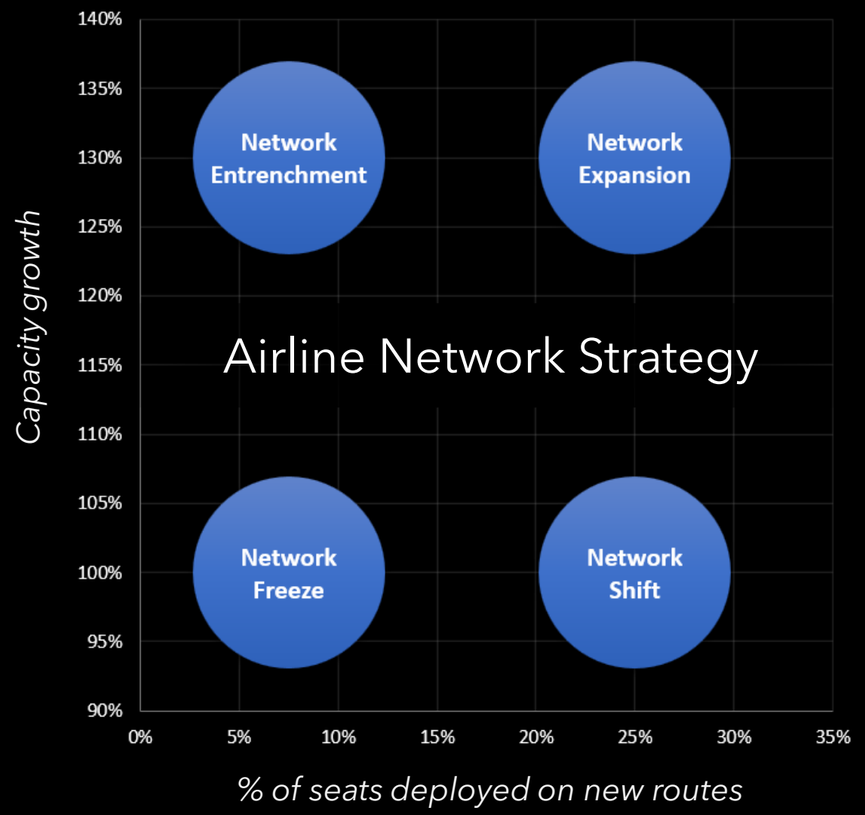
Airline Network Strategy

Airline Network Strategy. How do you compare?

While an airline has several elements to consider when shaping its strategy, the network strategy remains a fundamental component in enabling growth and for maintaining its competitive stance.

While factors like ticket prices, cost structure, and schedule optimization offer opportunities to enhance profitability, the network strategy often reflects the airlines operating dynamics and its capacity to adapt to evolving market conditions.



Our Network Strategy Matrix offers four primary categories to segment how airlines can be rated among their comparative peers:

- Network Freeze: These carriers maintain relatively stable capacity levels or are returning to pre-crisis levels. Their route renewal rate is below 10%, indicating a cautious approach to new opportunities. They might focus on other aspects beyond the network to improve profitability.

- Network Shift: These airlines may not have the ability to increase seat offerings but have the ability to adapt their network and explore new routes due to changing market conditions.

- Network Entrenchment: Carriers in this category maintain their existing network but increase seat offerings, aiming to protect and expand their passenger and revenue market shares. Their goal is to establish a stronger presence by entrenching on the routes they serve.

- Network Expansion: These airlines believe they already have a strong enough position on their current network and possess the capacity to increase seat offerings on new routes. They are strategically well-placed to influence the game they are playing.

This analysis is dynamic, and the current situation may differ from that of tomorrow. Benchmarking various airlines strategies can provide highly valuable information markers.

This analysis provides insights into various markets through our Network Strategy Matrix and the dynamic changes seen since the onset of the COVID crisis. This matrix will simplify how airlines are positioned to manage returning traffic.

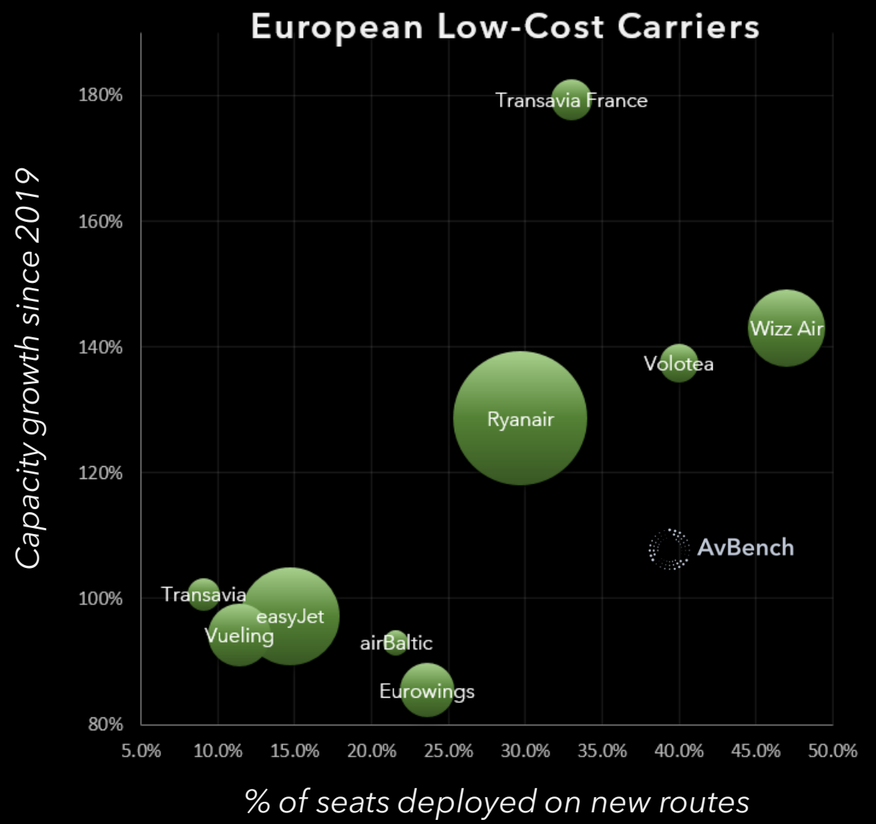
Is easyJet approaching the limits of its network potential?

When examining the evolution of capacity deployed by low-cost carriers in Europe since 2019 and their utilization of this additional capacity, several key observations emerge:

- easyJet, Vueling, and Transavia fall under the 'Network Freeze' category. This is expected for Vueling, which follows a 'follower' profile, aligning closely with the networks of its parent companies, British Airways and Iberia. Its role is to repel external threats from other low-cost carriers within the IAG network. Given its stable networks, Vueling maintains a similar dynamic. We could have thought the same thing for the two Transavias, but the facts show a radically different strategy led by the Air France group. For easyJet, questions may arise considering its size and comparison with Ryanair. Although it couldn't increase its seat offering as much, it will be interesting to observe how this 'bubble' evolves over time as easyJet grows its capacity. Will it shift vertically or move closer to Ryanair? Can it significantly expand its network?

- Eurowings and airBaltic fall into the 'Network Shift' category. Their reasons vary. Eurowings now operates from the brand-new Berlin airport, and airBaltic, affected by the conflict in Ukraine, altered its routes, with Riga-Moscow being its most important route in 2019.

- Ryanair remains the primary disruptor in the European market, flanked by three 'satellites' challenging this giant: Wizz Air, Transavia France and Volotea. All have clear ambitions to make waves. Wizz Air represents the main threat. Initially launched to serve the Eastern European markets, Wizz Air opened three subsidiaries to directly challenge Ryanair in Europe but also grow in the Middle East. Transavia France not only reclaimed several Air France routes but also substantially increased capacity on them to counter Ryanair, and so far, it seems effective. Volotea, operating more independently, leverages its flexibility to experiment with new strategies—successfully?



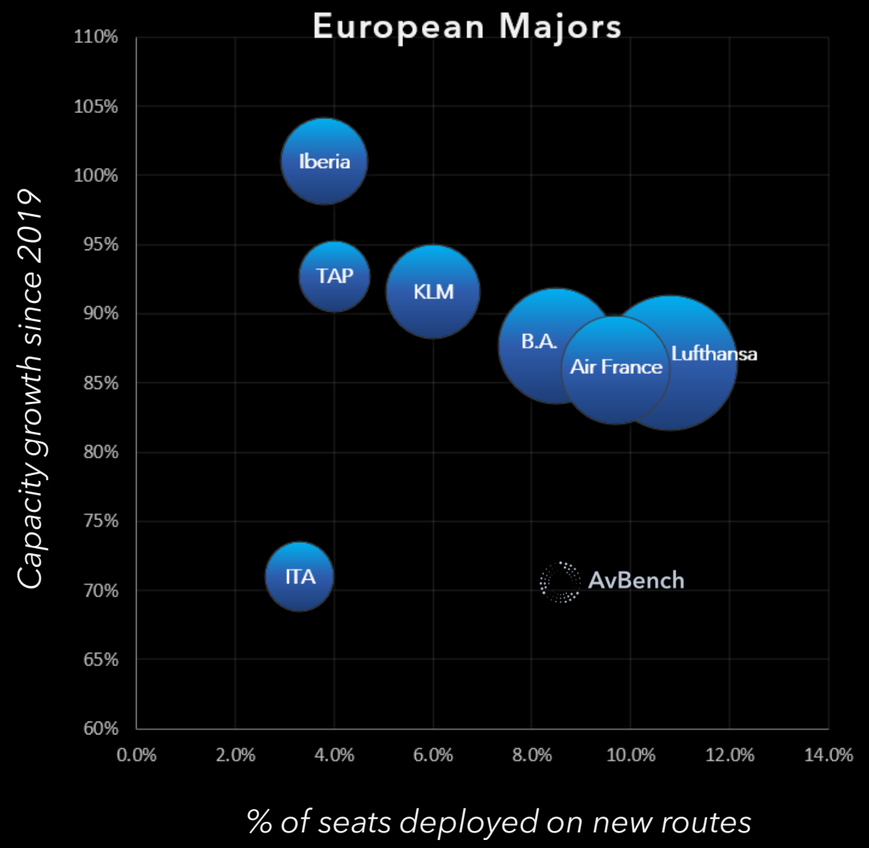
Airline Network Strategy since 2019

New routes : routes that were not operated by the airline in 2019.
Size of the bubbles proportional to the capacity deployed by each airline.

Q3 2023 vs Q3 2019

Wizz Air = Wizz Air (W6) + Wizz Air UK (W9) + Wizz Air Malta (W4) + Wizz Air Abu Dhabi (5W)

AvBench



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Is Iberia stronger than the European Big 3 ?

The European aviation market is in full swing, and the latest results from the European Majors underscore Iberia's exceptional performance. Not only does Iberia boast the largest operating margins among the network carriers in the three major groups (AirFrance-KLM, Lufthansa Group, IAG), but it also leads in punctuality with the best 'On-Time Performance' on the continent. Additionally, Iberia has managed to implement the most significant price increases since the onset of COVID, as detailed in my previous posts (refer to the link in the comments).

Currently, Iberia is actively consolidating its presence on its existing network. Not only has it already surpassed its pre-COVID level of seat supply, but its strategic positioning suggests a focus on 'Network Entrenchment,' where capacity is directed toward strengthening its presence on the current network rather than exploring new routes – explaining its pricing policy as well.

In contrast, Air France and Lufthansa are utilizing their subsidiaries, Transavia and Eurowings, respectively, to reimagine parts of their networks. However, the strategies of the European 'Big 3' ultimately share significant similarities.

ITA, amidst ongoing restructuring, has a considerable journey ahead, and the question remains whether its 'bubble' will move vertically or diagonally as its capacity expands.

As for KLM, with accumulating constraints at Schiphol Airport, there may be limited room to explore new routes, suggesting a more vertical movement for its 'bubble'.

Are airlines becoming wiser with time?

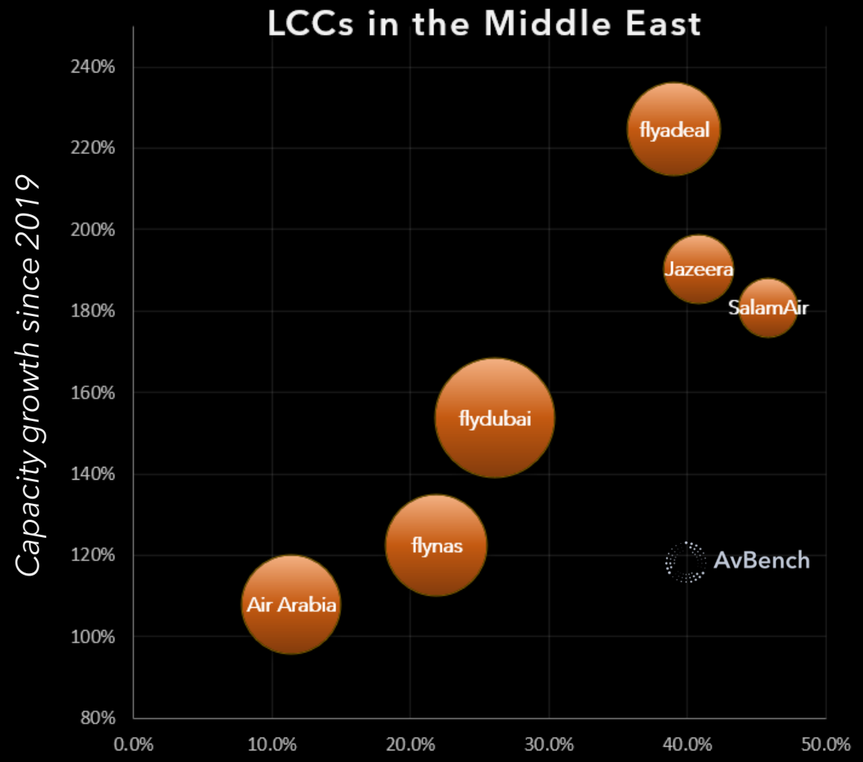
With the announcements consistently reaching record levels during the Dubai Airshow in November, the recurring question emerges: Is there room for everyone?

While we believe our partner Milanamos is best positioned to answer the question of market demand, we can try to analyze how Gulf carriers evolve as they accumulate experience. Observing the positions of various low-cost airlines in the region within our Network Strategy matrix, two noteworthy patterns emerge: the sizes of their 'bubbles' are relatively similar–these airlines possess fleets of comparable sizes. However, the older they get, the more they tend to shift towards the 'Network Freeze' category. It's as if over time, Gulf airlines find their niche and cease actively seeking new horizons.

There is an exception to this trend: Jazeera Airways. Launched in 2004, it seems to be undergoing a mid-life crisis and is actively seeking a new direction!

For others, the chronological order of their launch is directly linked to their position on this matrix. Air Arabia was the first to launch in 2003, followed by flynas in 2007, flydubai in 2009, and then flyadeal and SalamAir in 2016.

Of course, the introduction of new players can always alter the landscape, and the example of flyadeal entering the territory of flynas will be interesting to follow. As discussed in a previous post (link in comments), flyadeal and flynas are the only two low-cost airlines in the world that have reduced ticket prices since COVID. However, despite comparable sizes, flyadeal continues to explore opportunities in various directions, while Flynas understands the market it aims to serve.



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Air Arabia (only G9 shown here) launched in 2003, flynas launched in 2007, flydubai launched in 2009, flyadeal and SalamAir launched in 2016. Jazeera launched in 2004.

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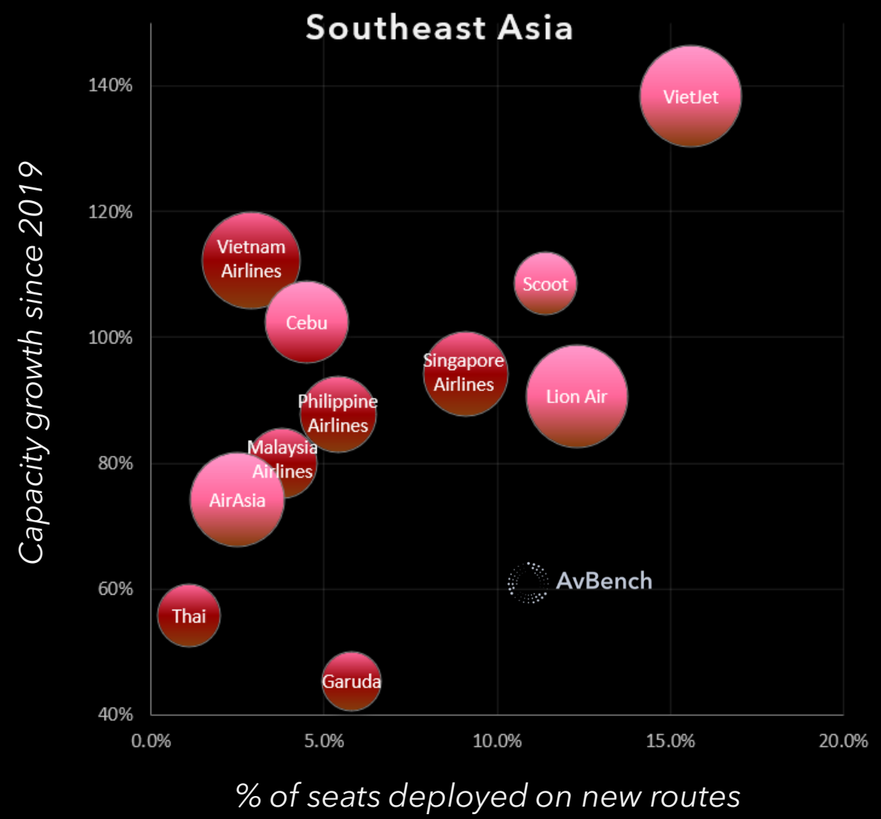

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If there's a geographical region profoundly affected by the COVID crisis, it's the South-East Asian area. The lingering impacts are evident when examining our Network Strategy matrix. Thai and Garuda, both on the brink of closure, are far from returning to their pre-crisis capacity and network. However, Network Carriers weren't the sole victims; the situation of AirAsia is indicative. In a forthcoming post, we'll delve into how AirAsia, today, is the low-cost carrier furthest behind in recovering its network and pre-COVID capacity. Adding Malaysia Airlines and Philippine Airlines, we have a group of airlines falling into the 'Network Freeze' category (see the link to my previous post in the comments).

While it might be too early to definitively confirm this trend, Vietnam Airlines and Cebu appear more inclined to consolidate their presence on existing routes with the gradually increasing capacity, rather than aggressively seeking new routes. Notably, Vietnam Airlines demonstrates that the Vietnamese market is the most dynamic, being the only Network Carrier to have already regained its pre-COVID capacity.

Singapore Airlines and Lion Air seem to have finally regained a level of maturity comparable to their pre-crisis state. This is rather disappointing for Lion Air, likely affected by delays in MAX deliveries. For an airline of this caliber, the time lost in resuming its previous growth trajectory is significant.

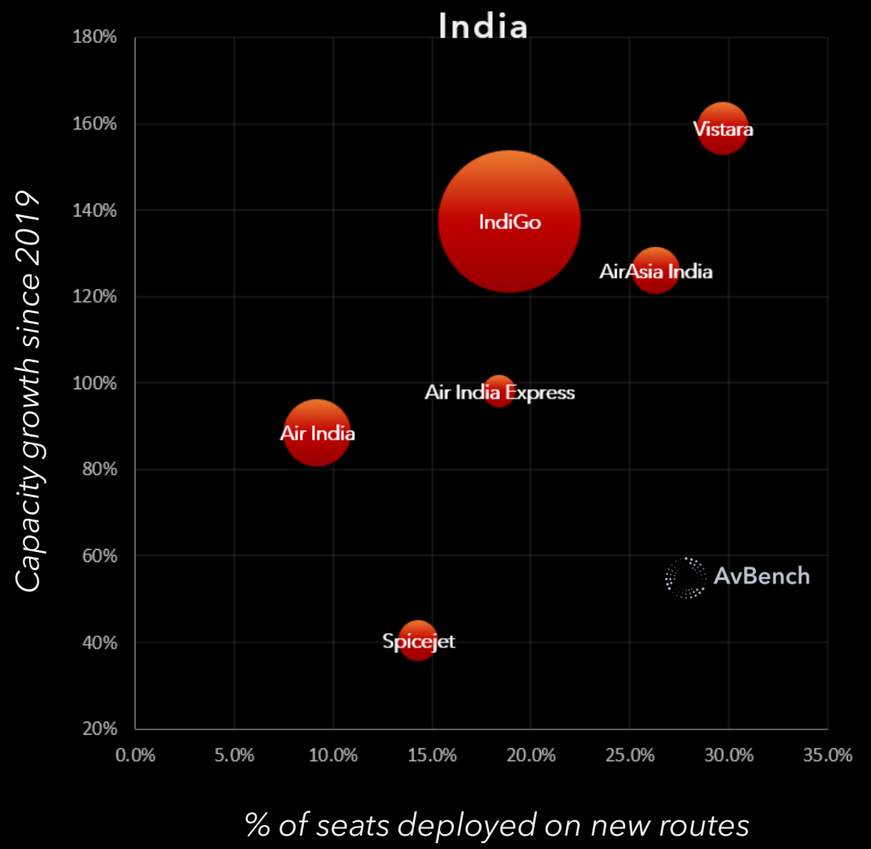
Finally, in the 'Network Expansion' category, we find Scoot, but especially VietJet. VietJet benefits not only from robust market growth in Vietnam but also from subsequent deliveries, positioning it as the primary disruptor in the region. As for Scoot, it has thus far functioned as the bodyguard for Singapore Airlines, similar to Vueling for the IAG group, protecting against external threats where Singapore Airlines operates. With a stated ambition to accelerate Scoot's development, questions may arise regarding its ability to 'break away' from its parent bubble!

All against IndiGo?

We are not experts on India, but one must admit that it is not easy to follow. GoAir changed its name to Go First in 2021 before disappearing in 2024. Jet Airways vanished in 2019 but is expected to restart operations in 2024. In early 2022, the TATA group officially acquired Air India and announced a merger a year ago between Air India Express and AirAsia India to create AIX Connect. In the process, the TATA group announced that Air India and Vistara would merge in March 2024. We alter names, transform identities, and shift dimensions. Will SpiceJet be able to keep up?

However, one thing remains constant: IndiGo. Launched in 2006, it has become the sun among these airlines–the largest one, with all the others revolving around it.

To better understand future dynamics, we use our Airline Network Strategy matrix before the merger of the four 'satellite' airlines of the TATA group and before the resurgence of Jet Airways.
There are clearly very different cultures among these airlines, with four distinct strategies for developing their capacity and networks. We won't speculate on the future of all these bubbles, but this picture will surely be very different by the end of next year, and the Indian market will continue to be difficult to read!



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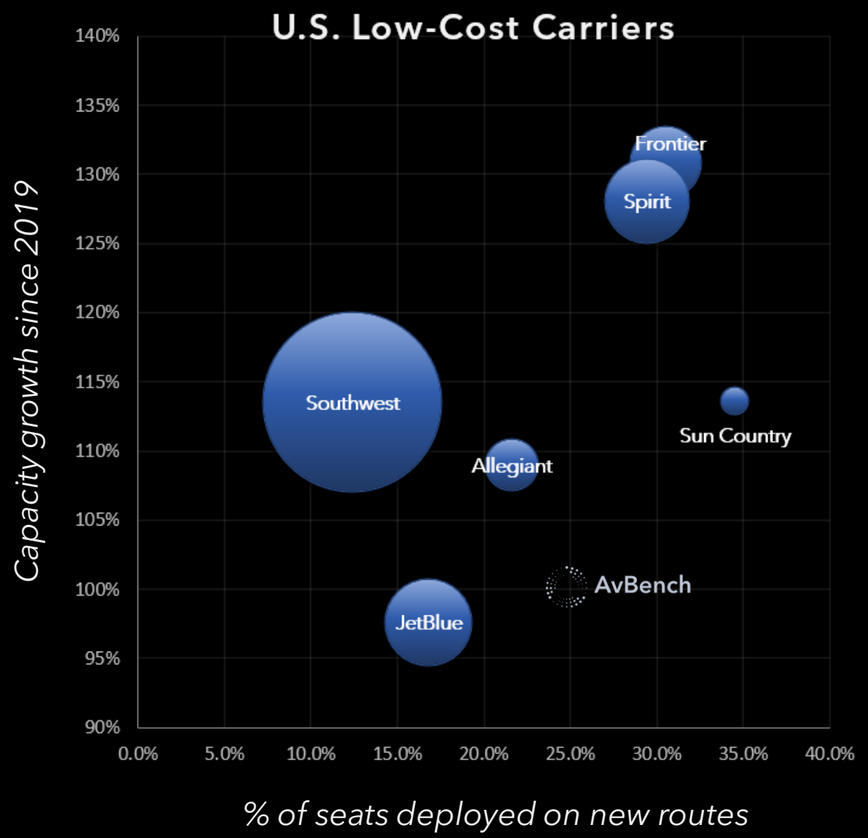
Picture before the merger of the four 'satellite' airlines of the TATA group (Air India, Air India Express, AirAsia India and Vistara), and before the resurgence of Jet Airways.



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Although Southwest is more than four times the size of its closest competitors, its network development appears to be in defensive mode, falling into the category we termed 'Network Entrenchment' in my previous post. While it has continued to open new routes, particularly from Chicago (ORD more than MDW), Las Vegas, Baltimore, Denver, and Hawaii, the rate of these openings is relatively low by industry standards, especially for low-cost carriers. Its 'bubble' seems to be expanding more vertically than horizontally.

JetBlue, on its end, has noticeably fallen behind. Maybe too preoccupied with its future and potential merger with Spirit, coupled with a fleet undergoing capability changes that require time to mature, especially with the gradual ramp-up of the A220. While transatlantic routes have garnered media attention, the new routes often lean toward the south from New York, extending further into Latin and Central America, as well as development from Los Angeles, reaching in all directions.

The twin ULCCs, Spirit and Frontier, mirror each other, following precisely the same approach. Similar in size, the expansion of their networks shares the same trajectory - quite distinct from that of JetBlue... As Spirit is withdrawing from Denver, there may not be room for both everywhere. The question arises: can these two bubbles sustain this momentum for an extended period, with the hope that Pratt & Whitney doesn't act as an arbitrator between the two due to a shortage of available engines!

On a smaller scale, Allegiant and Sun Country continue to expand their networks. Allegiant primarily focuses on Nashville and its presence in Florida, while Sun Country keeps opening routes from Minneapolis to various destinations across the United States, more inland than in sunny or coastal locations!

Ethiopian Airlines, a success story that nothing can stop.

Given the size of this continent, gauging the growth strategies of African airlines requires substantial scales, leading us to create two pictures to better understand the dynamics of the different operators.

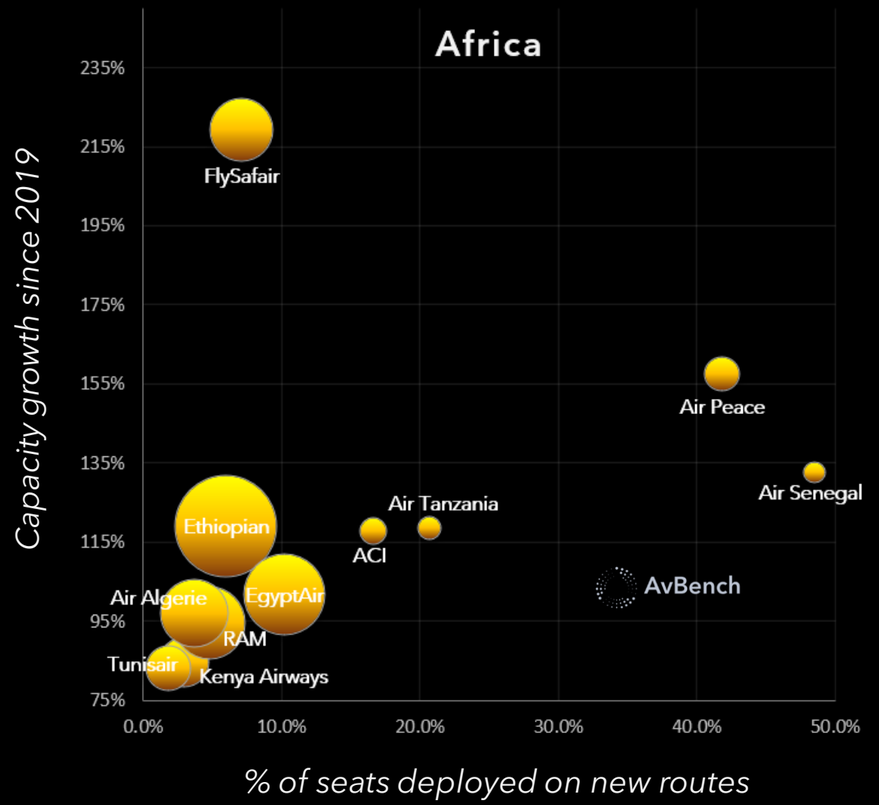
- In the "Network Freeze" category, we have North African airlines Tunisair, Air Algérie, and Royal Air Maroc, along with Kenya Airways. The COVID crisis is evidently a contributing factor, especially for the latter undergoing significant restructuring and aiming to cut ties with the Kenyan government by the end of 2023.

- In the "Network Entrenchment" category, Ethiopian and FlySafair stand out. Ethiopian is already reaching 120% of its 2019 capacity. Being the largest airline on the continent with a mature network, Ethiopian naturally consolidates its presence in its market without an immediate need for new expansion. A remarkable trajectory for this airline, which was the first affected by the MAX crisis. FlySafair's position in this category is almost accidental, seizing the opportunity created by the collapse of Comair and South African Airways, filling the capacity gap left by the two defunct carriers.

- EgyptAir is ready for a new chapter, operating at 100% capacity with a healthy 10% increase in new routes, a favorable situation for potential growth.

- In the "Network Expansion" category, we find smaller ambitious airlines like Air Côte d'Ivoire, Air Tanzania, and notably Air Peace, based in the most populous country in Africa, where the potential for growth is strongest.

- Finally, Air Senegal appears to be leaning towards the "network shift" category, rethinking its network through changing fleet choices.



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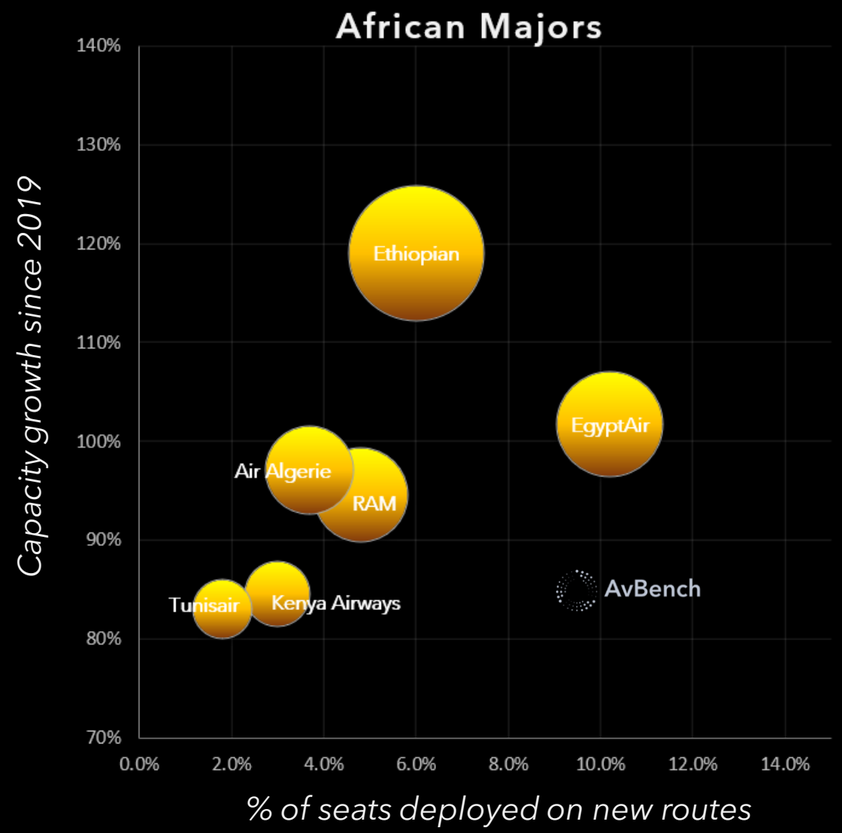

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Do Chinese airlines all follow the same growth strategy?

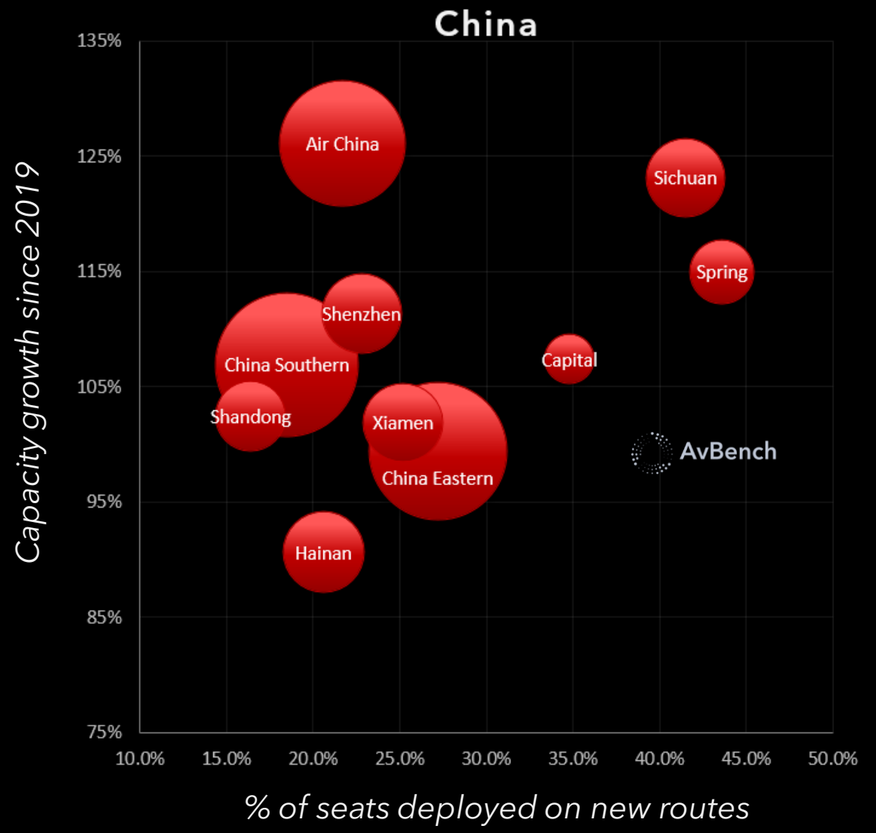
The intricacies of partnerships and legal structures among these airlines make understanding Chinese carriers' strategies a complex task. Analyzing these airlines through our Airline Network Strategy Matrix reveals several key insights:

- Not a single airline falls into the "Network Freeze" category. Not a surprise, it is practically impossible given the continuous opening of new airports nationwide, resulting in airlines constantly expanding to new destinations.

- Among the three major carriers, Air China has significantly increased its capacity post-crisis. Its focus is primarily on Chengdu, capitalizing on the newly inaugurated Tianfu airport in 2021. Meanwhile, China Eastern and China Southern, based respectively in Shanghai and Guangzhou, have concentrated on shifting operations partially to the new Daxing airport from Beijing.

- Among the 'mid-size' network carriers (Sichuan Airlines, Shandong Airlines, Shenzhen Airlines, Hainan Airlines, and Xiamen Airlines), Sichuan Airlines stands out. The only one that does not have the Boeing 737 in its fleet or on order… Coupled with the launch of the new Tianfu airport in Chengdu, this is a unique opportunity for Sichuan Airlines to grow rapidly.

- With strong operating margins, Spring Airlines, China's pioneering low-cost carrier, is almost following a 'network shift' strategy with nearly 45% of its capacity redeployed onto new routes. Something wrong happening there ?



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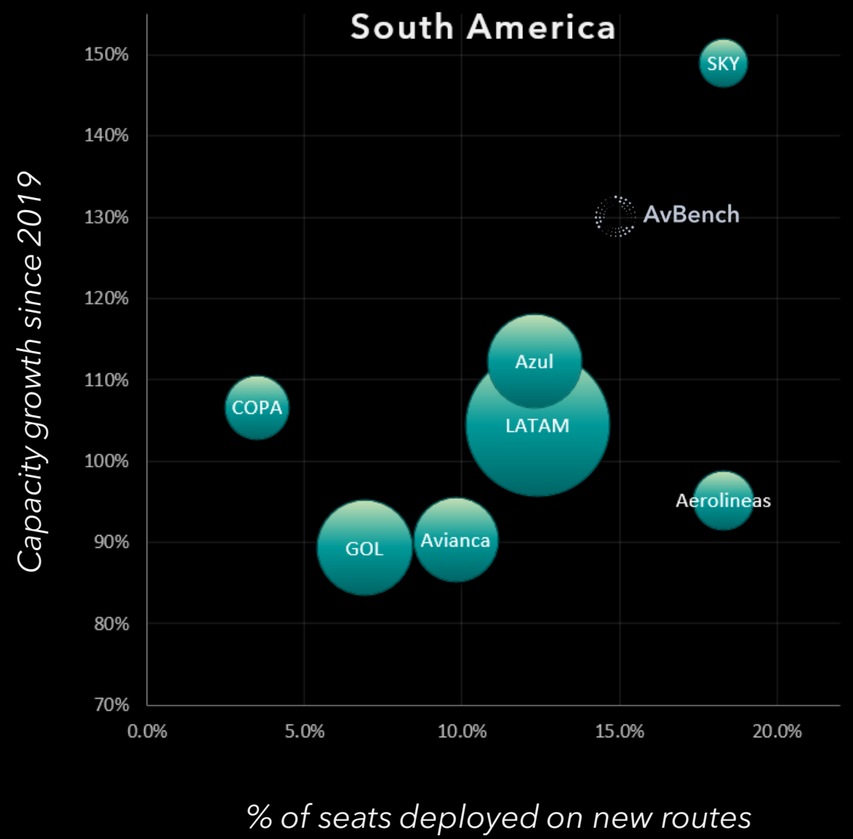

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Is it a good idea for SKY airline to join GOL and Avianca within the ABRA group?

If COPA continues to announce very good financial results, its network strategy fits the category of 'network entrenchment.' It keeps adding capacity on existing routes to divert traffic through its hub in Panama.
In the 'Network Shift' category, we find Aerolineas, primarily due to the reintroduction of Austral within its network.

With the exit of Viva Air Colombia and its subsidiary Viva Air Peru, the ABRA group now relies on GOL and Avianca, the only two airlines in the 'Network Freeze' category. For GOL, whether we call it a low-cost carrier or a low-fare, its position on this matrix is low. No wonder these two are seeking a new dynamic with an airline like SKY.

SKY falls into the 'Network Expansion' category. Also present is LATAM, regaining stability after bankruptcy, along with Azul, a dominant force in Brazil steadily capturing market share in both passengers and revenue compared to its Brazilian rivals.

Another airline worth tracking, despite its current small scale, is JetSMART. Off the chart for now, JetSMART poses direct competition for SKY and could significantly disrupt several markets. SKY faces the challenge of sustaining its current momentum while collaborating with two airlines currently in a weaker position. Additionally, it needs to maintain competitiveness against a determined new entrant with explicit ambitions on other continents – just look at Frontier, Wizz Air, and Volaris.

For GOL and Avianca, it's likely a favorable move, but for SKY, it might raise more questions.

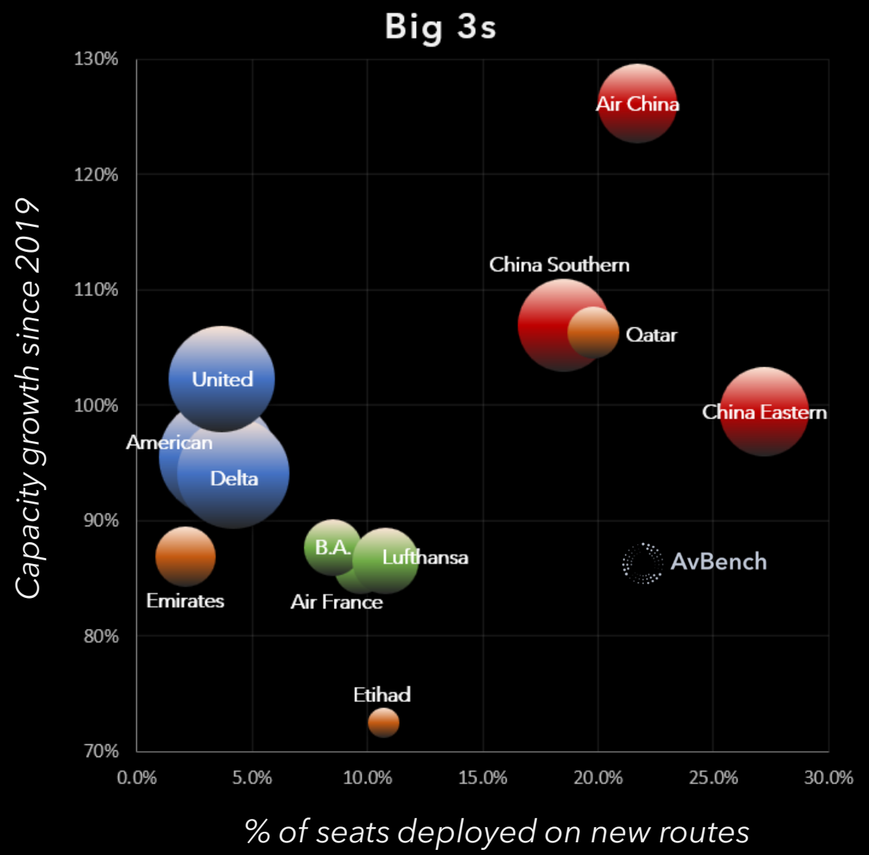
Qatar Airways, the best airline among all the Big 3s ?

Not surprisingly, there aren't many new routes that the American majors haven't opened yet. The U.S. Big 3 can only add capacity and continue fortifying each of their respective fortresses.

Similarly, the European Big 3 find themselves in the same category - operating with a capacity still lower than pre-COVID levels, but their network strategies are evolving. Adjustments are being made, especially with the utilization of their low-cost subsidiaries - Vueling, Transavia, and Eurowings. It's worth noting that their respective hubs, Paris, London, and Frankfurt/Munich, are much closer to each other than the hubs of the American counterparts. This proximity makes it easier for the three major European carriers to divert passengers from their competitors than for the three major Americans, whose distances leave passengers with fewer options.

As presented earlier, China is experiencing significant growth with new airports being built and new routes opening every month. Air China, the smallest of the three, is catching up, benefiting from the ramp-up of two new airports in Beijing and Chengdu, its main bases.

The real surprise comes from the Big 3 in the Middle East. While Emirates and Etihad made grand promises during the Dubai Air Show, they have lost some dynamism, particularly when compared to Qatar Airways. For an airline of this scale, we can only applaud the dynamism of its network and the work carried out by Qatar Airways' Network & Fleet Planning teams. Despite the challenges posed by traffic recovery, they are clearly ahead of Emirates and Etihad.



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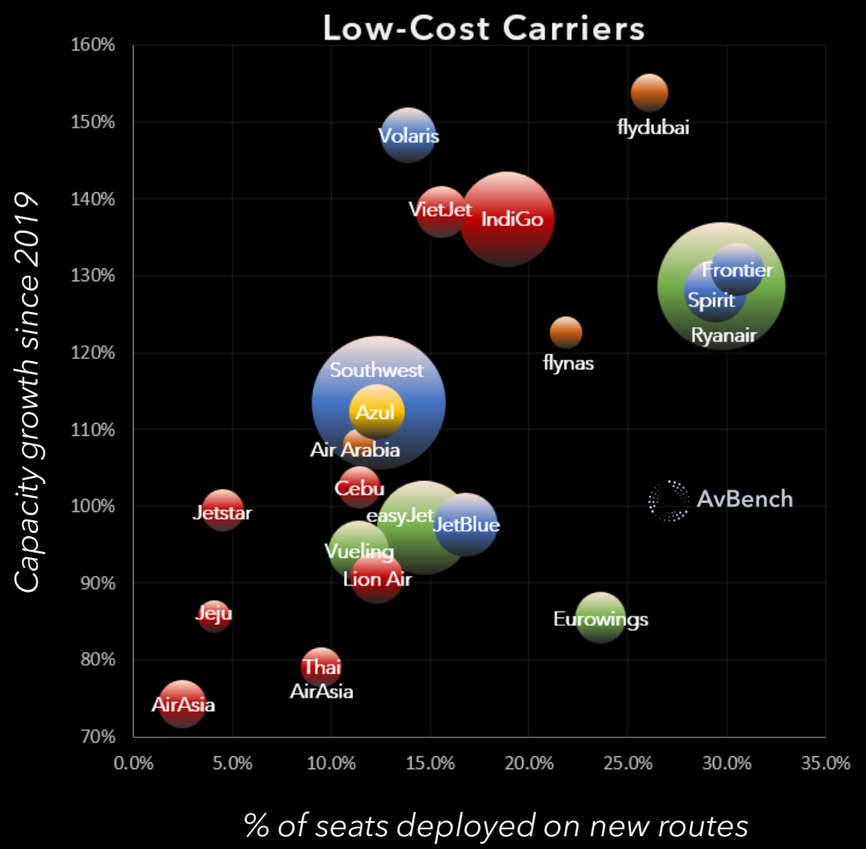

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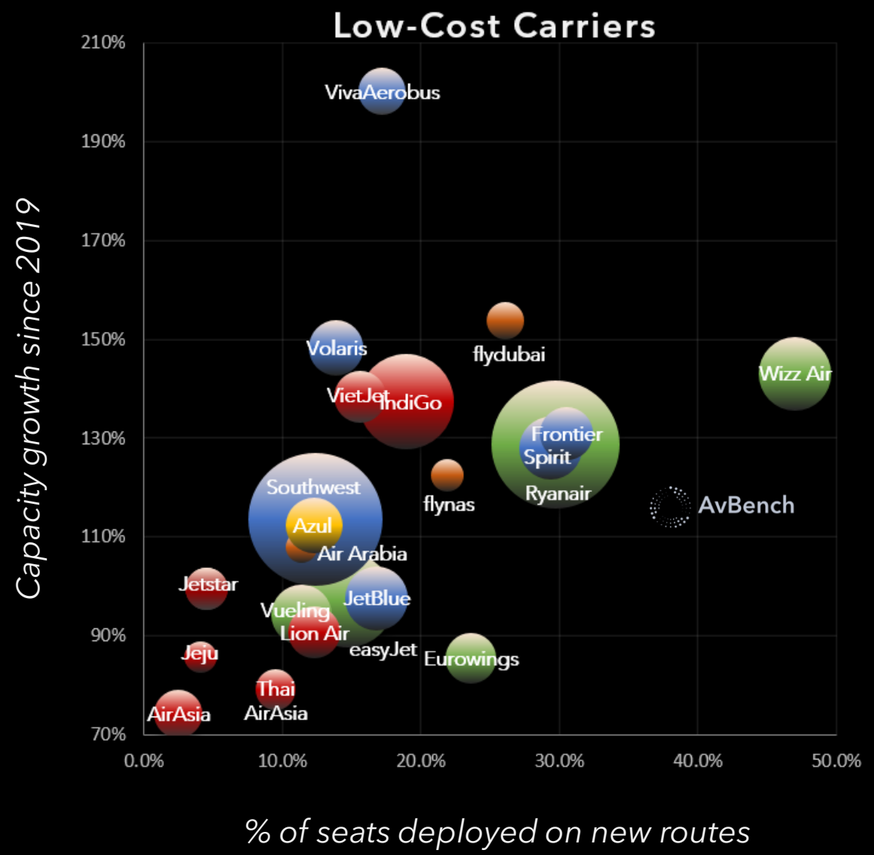
Can AirAsia come back?

Often described as the "pioneer" of low-cost travel in Asia, AirAsia changed its corporate name to Capital A last year to reflect the expansion of its business portfolio beyond the core budget airline : "a world-class brand, a leading Asean airline, and a digital travel and lifestyle platform that leverages data and technology"… Unfortunately, certain elements are vital to the success of a low-cost airline: volume and growth - areas where AirAsia currently faces challenges.

In an industry where space is limited and consolidation has already affected numerous network carriers, many "Low-Cost" carriers have already disappeared (Go First, Viva Air, Swoop, kulula.com, NokScoot, Interjet, just to name a few recent examples…). AirAsia's setback due to the COVID crisis becomes a real challenge, especially in the very dynamic Asian market.

Some low-cost carriers are not shown here as their exceptional performances would make the rest of the picture difficult to read! VivaAerobus is one of them, same "size" as AirAsia but with over 200% growth since 2019... Another example is the Wizz Air group. If we combine the four subsidiaries (W4, W6, W9, and 5W) – which would create a bubble larger than JetBlue's – the percentage of seats deployed on new routes is close to 50%.

Others are still too early in their development to make a definitive assessment : Breeze, Avelo, JetSMART, PLAY, Akasa Air, Flair, Lynx Air, Arajet, Bonza, among others. We monitor all these airlines worldwide on a monthly basis, thanks to ch-aviation and Milanamos, and provide a competitive assessment using more than 30 benchmarks, like this one.



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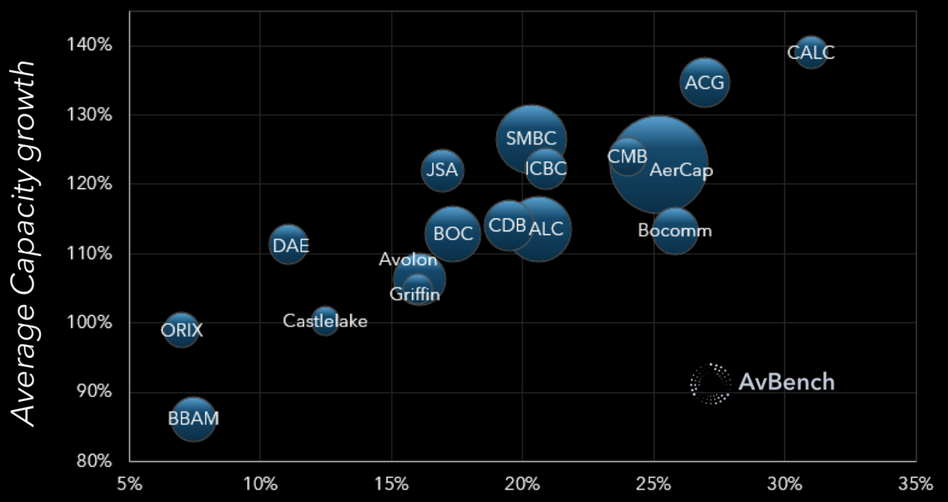
Are all lessors pursuing the same customer types ? No.

Since COVID, airlines globally have redistributed their capacity across each region. These adjustments don't follow uniform dynamics; some airlines are yet to regain their pre-crisis capacity levels, while others have not only fully recovered but have also significantly expanded their networks.

The role of aircraft lessors is crucial in this process of readjusting the newly deployed capacity. Taking the A320/A321neo and 737-8 MAX portfolios as examples, we can see that lessors don't target the same customer types. Some are more focused on high-growth customers. AerCap, ACG, and CALC for instance, are actively supporting the growth of airlines that have expanded significantly since the crisis. In contrast, lessors like BBAM, ORIX, or Castlelake have customers whose capacity has evolved more moderately.

A320neo/A321neo & 737-8 MAX Portfolios



Average % of seats deployed on new routes

Lessees' Average Profile

Average Capacity Growth: weighted average growth in capacity since 2019 for all current lessees.

Average % of seats deployed on new routes: weighted average percentage of seats deployed on routes that were not operated by each airline in 2019, considering all current lessees.

The size of the bubbles is proportional to the number of operating leases with A320neo/A321neo and 737-8 MAX.

Only lessors with more than 30 operating leases with NEO or MAX aircraft.

Capacity Growth & New routes : Q3 2023 vs Q3 2019

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