

## **BUSINESS**

#### **Boeing and Airbus**



## A phoney war

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# Boeing may have shied away from a fight with Airbus's super-jumbo. But in marketing its "sonic cruiser", it is learning from the Europeans

LATE last year Alan Mulally, boss of Boeing Commercial Airplane Group, thought he was about to land some crucial orders for the stretched 747 that he wanted to launch to compete with Airbus's super-jumbo, the A380. As Airbus, based in Toulouse, raced towards the 50 orders it needed to launch its giant, Mr Mulally was pinning his hopes on a deal with Federal Express to buy freighter versions for its huge cargo airline. When he learned that Fedex was going to buy the all-new Airbus, it was time to face facts.

Nobody wanted the latest stretched 747, just as nobody had wanted an attempt to upgrade the ageing war-horse a few years earlier. A 32-year monopoly as the queen of the skies was coming to an end. For the Seattle company, which had already seen Airbus's share of the civil-jet market rise from a fifth to half, losing roughly 50 to nil on the orders score was too much to bear. Boeing wisely decided to withdraw from the contest, while it thought up a different one.

That is the real story behind the fanfare at the end of March, when Boeing announced that it was switching its attention from a super-jumbo to an entirely new aircraft: a long-range jetliner, dubbed the "sonic cruiser" because it would fly at just below the speed of sound, cutting an hour off transatlantic flights and saving three hours over the Pacific. This may well be what the market wants: even Airbus agrees it might have potential. "We also have design studies for aircraft like that," says Rainer Hertrich, co-chief executive of Airbus's parent company, EADS. "If the market likes it, we'll see how we react." That is probably bombast, as Airbus would struggle to launch a second all-new aircraft, if Boeing is in the lead, just as Boeing would struggle to make money against the Airbus super-jumbo, a huge punt made possible only by soft government loans.

Boeing is still far from committed to launching its faster aircraft, however: it is merely talking it up to attract interest among the travelling public and airlines. This is exactly what Airbus did for several years before winning enough orders to launch the A380. All the guff about the A380's on-board gyms, casinos and saunas bears little relation to airline reality. Most launch customers are determined to pack in as many seats as possible, to maximise revenues. All the same, Airbus has taught Boeing that hype is now a key part of launching aircraft.

In the early 1990s, Boeing and Airbus considered a joint venture to build super-jumbos. But their talks came to nothing, and Airbus executives suspected that it was all a ploy by Boeing to delay Airbus's own super-jumbo. The two sides emerged from their brief liaison with starkly different views of the potential demand. Boeing estimated that, over 20 years, there was a market for only about 700 aircraft of the size of the 747 or bigger. Airbus, on the other hand, reckoned there was demand for 1,550 aircraft, worth \$345 billion. After many false starts, Airbus eventually began marketing its aircraft a year ago. By last autumn, it had landed some big orders, notably from Singapore Airlines. In December, Airbus launched the programme, which now has 62 orders and 40 options from eight carriers. The first A380, destined for Singapore, should fly in late 2006. Until then, Airbus is likely to face a dearth of new

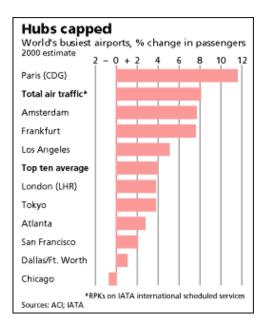
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orders, while airlines weigh up whether they have to follow the early customers, but without the steep discounts those first-movers enjoyed.

When it was trying to persuade airlines not to buy the Airbus super-jumbo, Boeing argued that the airline market is fragmenting, with more growth coming from direct flights between cities large and small, rather than from flights between big hub airports. There is evidence to support this: traffic growth at most hubs (with some exceptions, such as Paris Charles de Gaulle) is much slower than overall growth of 8% a year worldwide (see chart). Analysts such as John Lindquist of Boston Consulting Group, are convinced that Boeing is right about fragmentation, which is making it easier to open new routes as aviation markets liberalise.

Boeing's new view is that more and more business passengers (who contribute most to airline profits) will opt for a fast, long-range aircraft that flies direct to their final destination, saving them a change at a hub. Boeing expects the Pacific market to fragment, rather as the Atlantic routes have done over the past 20 years. Airbus accepts much of this argument, which is why it launched its A340 long-haul aircraft to compete against Boeing's 777. But Airbus still believes that the sheer growth of traffic between a dozen or so global hubs, at which landing slots are limited, will force airlines to choose the A380 over the 747.

Moreover, Boeing's sonic cruiser has a big hurdle to clear: fuel efficiency. Although many American airlines reacted enthusiastically to the planned Boeing jetliner, they will need to be convinced that it can fly at just under the speed of sound without consuming too much fuel. Today's jets fly more slowly than their predecessors did before the 1973 OPEC oil-price rise, to save fuel. Boeing is confident it can keep the fuel consumption within affordable limits, given the premium that passengers will pay for speed.



### **Separate niches**

If Boeing gets enough support to proceed with the sonic cruiser, it will have a niche product cornering the fast end of the market, while Airbus has another at the bulk end with the A380. And, as Oz Shy, an Israeli academic and author of a new book on network economics points out, both niches are appropriate markets to be occupied by only a single company. Both manufacturers have realised this. When Airbus moved to stake out the super-jumbo niche, the old Boeing would have plodded on with its rival stretched 747. But the new, profit-minded Boeing is happy to let Airbus take a chance, while it seeks another niche.

In any case, the real action may be elsewhere. Despite some glee in Seattle about having found an "Airbus killer" in the proposed sonic cruiser, this is a sideshow. The fiercest competition will continue to be between the two companies' single-aisle aircraft and the wide-bodied 250-380 seaters such as the Boeing 767 and 777 and the A330 and A340, where the two companies share the market roughly equally.

The duopoly's battle could extend beyond aircraft into aviation services. Boeing appeared to steal a march on Airbus last year when it launched "Connexion by Boeing" to provide broadband communications that would deliver fast Internet access and live TV pictures in aircraft. Continental Airlines is said to be interested in America, and Ireland's Ryanair wants live TV on every seat-back video screen, paid for by the passenger swiping a credit card.

Yet Boeing's "Connexion" has still to land a single customer, while a simpler narrower-band service from a small Seattle company called Tenzing is already being installed by Virgin Atlantic, Cathay Pacific and Singapore Airlines. The Tenzing approach has been to start modestly, then upgrade to real broadband once enough satellites are in place to make that work. According to industry sources, quoted

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by *Flight International*, an industry magazine, Airbus is negotiating to buy a big stake in Tenzing and plans to unveil its own Internet strategy at the Paris Air Show in mid-June. *Vive la concurrence,* even if it does not apply to super-jumbos and sonic cruisers.

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