

Airline consolidation reducing airports' negotiating power: Accepting low-cost airlines and expanding into Asia will restore power balance dynamics

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Abstracts

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SUMMARY

Consolidation in the airline industry is reducing their reliance on airports. Airports will have to diversify their operations abroad and welcome low-cost airlines to negate this power imbalance.

In the year 2000 for example, the top four players in the US airline industry had a combined market share of 61%. By 2015 the top four players namely American Airlines, Delta Air Lines, Southwest Airlines and United Continental had a combined share of 84%.

Airports Council International (ACI) Europe head Olivier Jankovec speaking on this issue stated that 'Consolidation means less airlines in the market to chase, to serve your airport and open destinations. It also gives airlines more purchasing power, more power to dictate the conditions under which they serve an airport. An airport cannot move, [but] an airline can move to another location”.

The balance of power between airports and airlines has increasingly been tilting towards airlines in recent years, as their consolidated nature has allowed them to dictate terms more so than airports. However airports can negate this tilt by themselves expanding their operations to other parts of the world, thereby reducing their reliance on a select few airlines.

SCOPE

Examines the state of the airline and airport industries

Explains why the airline industry is witnessing consolidation

Analyzis the impact airline consolidation is having on the airport industry

Explores ways in which airports can reduce their reliance on a few airlines

REASONS TO BUY

Why is consolidation occuring in the airlines industry?

How is this impacting the airport industry?

How can the airport industry respond and restore power balance with the airlines industry?

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Catalyst

Summary

Airlines under increasing financial pressure due to competition, regulatory costs and oil price fluctuations

Increased competition and rising regulatory costs affecting European and North American airline companies

Oil price fluctuations continue to hamper industry

Consolidation in the airline industry increasing airport reliance on fewer buyers

Strong decline in the number of airlines in Europe and North America

Bankruptcies also reducing the number of players

Consolidation in the airlines industry is reducing negotiating power of airports

Decline in retail revenue also affecting airports negatively

Expansion into less mature regions and consolidation between airports required

Asia is witnessing an airport boom presenting growth opportunities for European/North American airport groups

Major airports will have to continue welcoming low budget airlines

Consolidation in the airline industry negatively impacting airports

Airports would do well to expand operations to less mature regions and welcome low-cost airlines

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About

A series of airlines have announced large financial losses or outright bankruptcy in recent years. In the latter category were included companies such as Alitalia, Monarch Airlines and Air Berlin which all defaulted in 2017. Mergers and acquisitions have also intensified with Lufthansa acquiring majority shares in Brussels Airlines in 2016. The falling number of airlines especially in the European and North American industries is tilting the power balance between airports and airlines in the favor of airlines.

Key Questions Answered:

Why is consolidation occurring in the airlines industry?

How is this impacting the airport industry?

How can the airport industry respond and restore power balance with the airlines industry?

Airports in the US are even more reliant on airlines with the top four players possessing an 84% market share in the US airlines industry. However all is not doom and gloom for airports.

According to MarketLine analyst Mohammad Hamza Iqbal:

“Airports can restore the balance between themselves and airlines by intensifying the movement towards welcoming low-cost airlines and diversifying their operations.

“Hundreds of new airports are or will be built in countries across Asia in the coming decade meaning European airport groups can utilize this opportunity by providing their expertise in return for increased revenue diversification.”

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