

STRATEGIC MANAGEMENT AND AIRLINE MANAGEMENT

MBA AVIATION AND TOURISM MANAGEMENT
FRANKFURT UNIVERSITY OF APPLIED SCIENCES

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March 2022

COURSE OVERVIEW: MARCH 2022

Monday, 14 MAR	Tuesday, 15 MAR
Geopolitical Disruptions from a Strategic Perspective & First Day of Presentations	Second Day of Presentations
Shortterm Impacts of Geopolitical Events	Pitch “BerlinAir“ (0900-1030)
Dealing with Uncertainties from a Strategic Perspective	Pitch “Air Europa“ (1100-1230)
<i>Lunch</i>	<i>Lunch</i>
Pitch “Wanderlust Air“ (1330-1500)	Project “FlyU Airlines“ (1330-1500)
Pitch “ElizaJet Airline“ (1530-1700)	Learnings

1. SHORTTERM IMPACT OF GEOPOLITICAL EVENTS

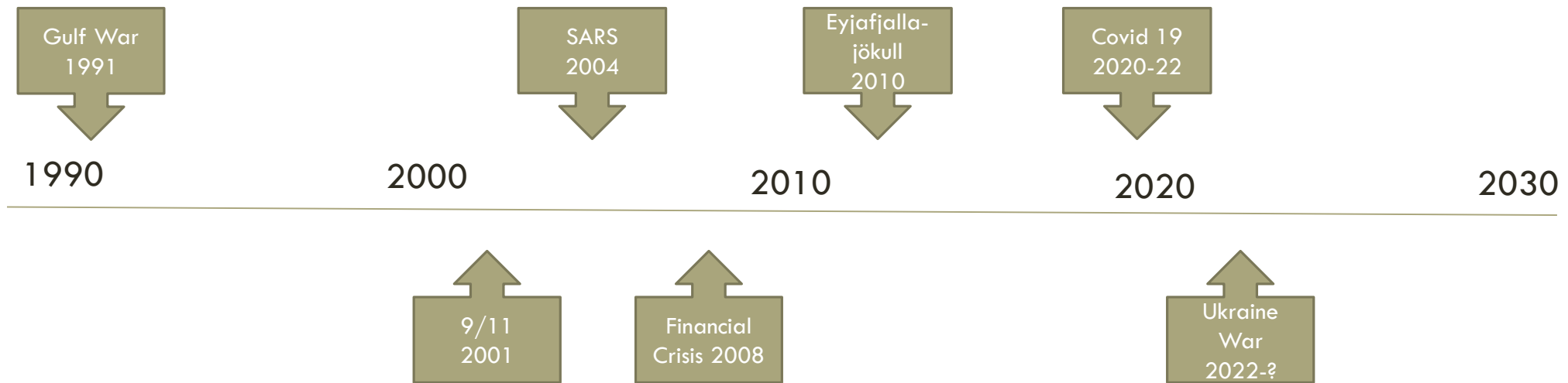
1.1. Introduction

1.2. Immediate Impact on the
Airline Industry

1.1. INTRODUCTION

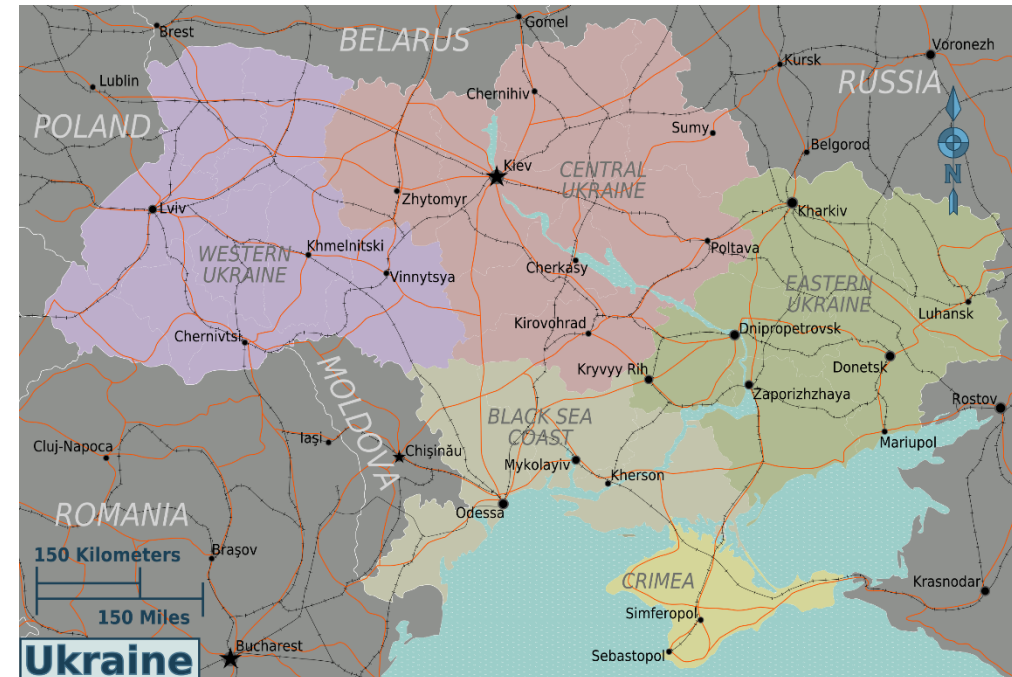
- ❑ 1.1.1. Overview
- ❑ 1.1.2. The Ukraine War
- ❑ 1.2.3. Group Work

1.1.1. GEOPOLITICAL EVENTS HAVE IMPACTED THE EUROPEAN AVIATION INDUSTRY AGAIN AND AGAIN



1.1.2. THE TRAGEDY OF THE UKRAINE WAR

- Human suffering as in any war
- Global shortterm impact
- Longterm economic and sector specific impact uncertain



Source: https://wikitravel.org/en/File:Ukraine_regions_map.png -

1.1.3. GROUP WORK

- in Group's of 3, discuss the following topics:
 - How has the Ukraine War affected you personally?
 - How has it affected your field of work and your company? How has your organization coped with the situation?
 - What strategic implications for your field of work do you see due to this conflict?

[30 - 45 min]

- Share what you feel comfortable with in the plenary session

[30 - 45 min]

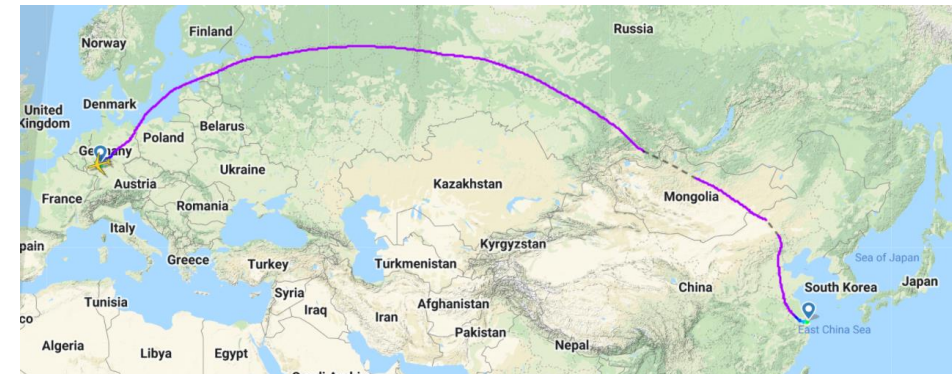
1.2. IMMEDIATE IMPACT OF THE UKRAINE WAR ON THE AIRLINE INDUSTRY

- ❑ 1.2.1. Operational Impacts
- ❑ 1.2.2. Fuel
- ❑ 1.2.3. Demand
- ❑ 1.2.4. Supply
- ❑ 1.2.5. Yield
- ❑ 1.2.6 Macro Figures

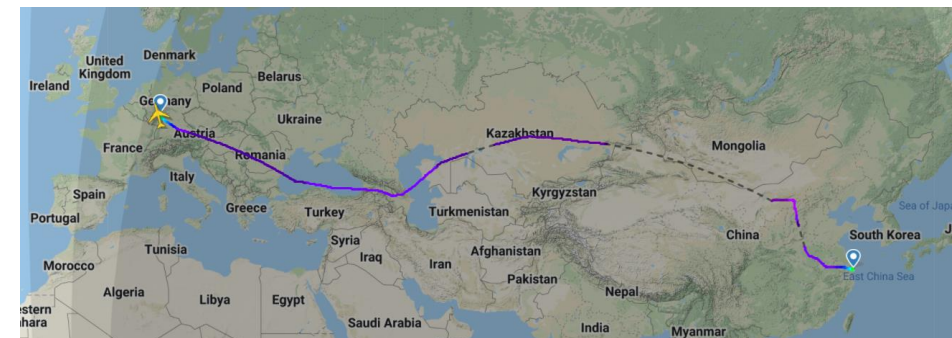
1.2.1. IMMEDIATE OPERATIONAL IMPACTS

- Russian Carriers are no longer allowed to fly internationally
- EU and Japanese Carriers no longer fly over Russian airspace, leading to
 - longer flights, requiring additional aircraft capacity, leading to reduced frequencies
 - higher fuel costs
 - lower payload (a flight of 15 hours can carry less payload than one of 12 hours)
- Nonstop flights of Chinese Airlines, Ethiopian, Cathay Pacific continue to fly over Russian Airspace
- Traffic via hubs in Turkey (Istanbul) and the Middle East (Doha, Dubai, Abu Dhabi, Ryad) and Africa (Ethiopian) is minimally impacted.

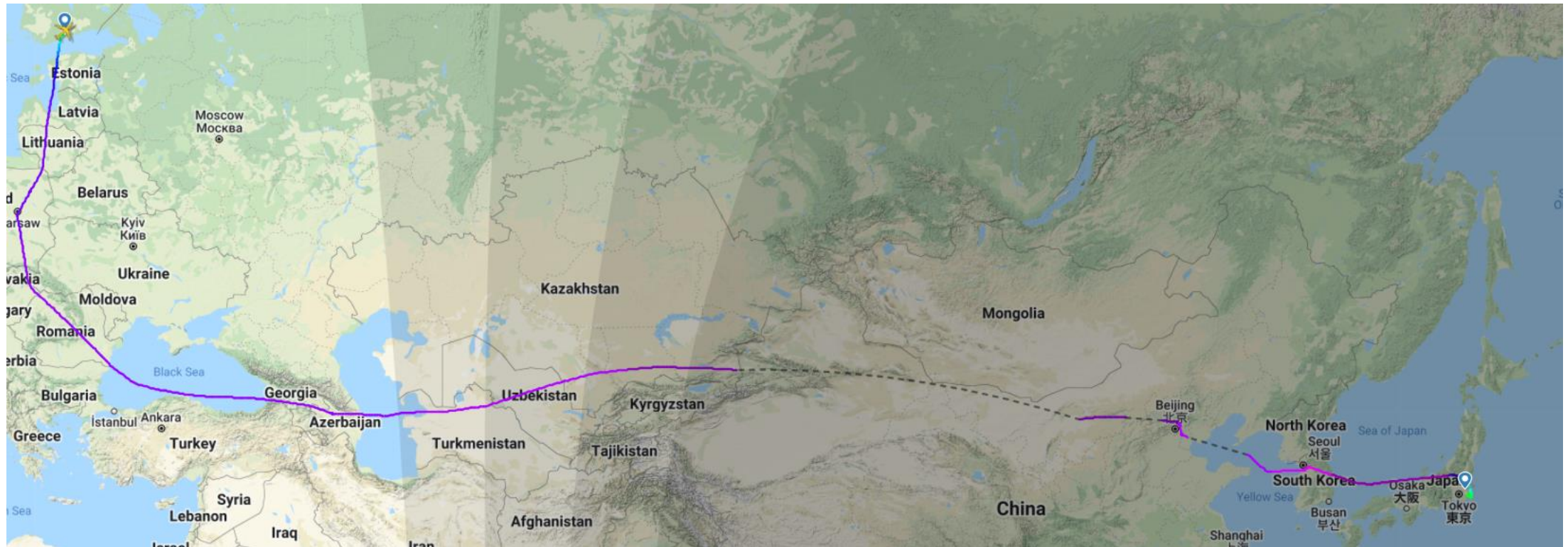
Source: Flightradar24



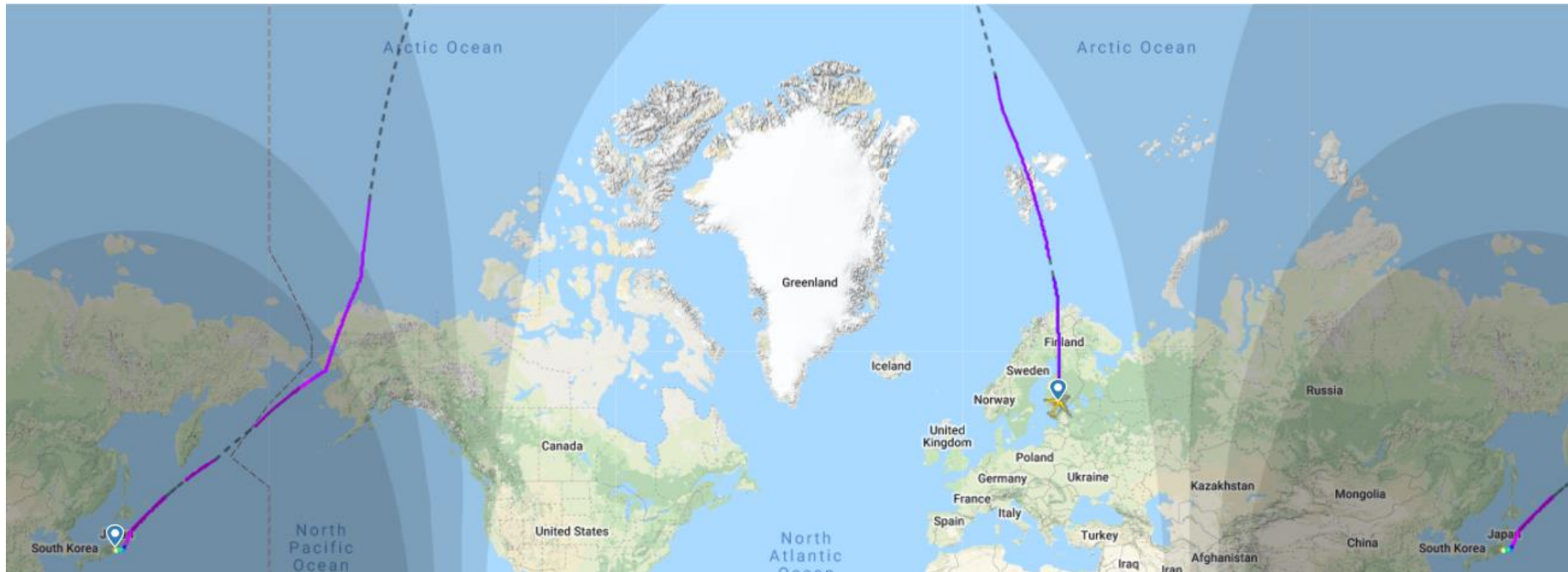
CA
628/10MAR FT
10:22 (A359)



LH 728/09MAR
FT 11:07
(B748)



AY73/11 MAR, FT 12:22 (A359)
Scheduled Block Time 3:30hr longer than via Russia



AY73/09MAR, FT
12:56 (A359)

1.2.2. FUEL

- Fuel has reached the highest level since 2015
- Fuel prices were at 20 USD in April 2020, now at 120 USD
- Fuel prices historically, however, have been higher, with almost 140 USD in 2008
- 2011 to 2015 was a period of sustained high fuel prices
- Replanning of energy supply chains may dampen shortterm effect



<https://markets.businessinsider.com/commodities/oil-price>

1.2.3. DEMAND

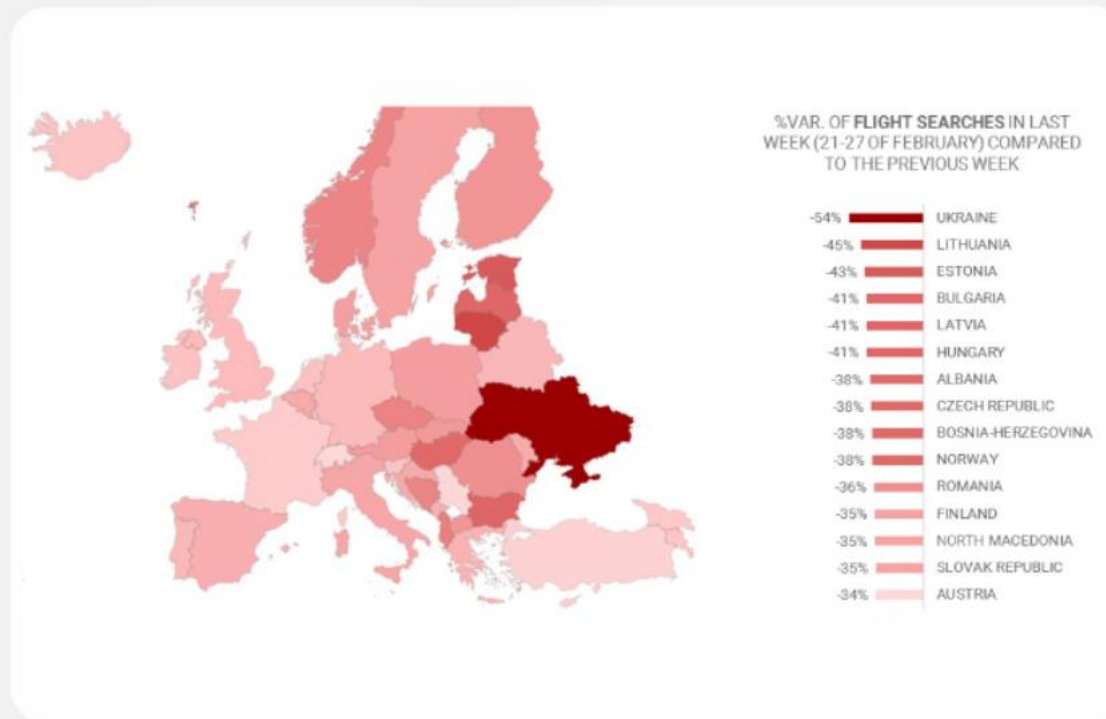
- Demand is immediately impacted by missing Russian demand
- Demand is further impacted by reluctance to travel in various areas of the world (e.g. US to Europe)
- Shorthaul travel within Western Europe, in domestic U.S., etc. may be marginally impacted
- Fuel prices will increase fares and will thus curb demand from a pricing perspective

Economy | Aviation
Ukraine crisis clouds Southeast Asia's fragile tourism recovery
A decline in Russian visitors is expected to hit Southeast Asian destinations like Phuket and Bali hard.

<https://www.aljazeera.com/economy/2022/3/4/ukraine-crisis-clouds-southeast-asias-fragile-tourism-recovery> -

FLIGHT SEARCHES TO EUROPE

LYBRA
ANALYTICS



<https://lybra.tech/the-impact-of-the-russian-ukrainian-crisis-on-travel-demand-across-europe/> -

1.2.4. SUPPLY

- Capacity severely impacted by disruption:
 - EU and JP carriers circumventing Russia requires additional aircraft capacity and reduced payload
 - RU Carriers not allowed to fly internationally
 - Lessors are asking for their aircraft to be returned by Russian airlines
- Supply development will depend on sanctions, capability to repatriate Lessors' aircraft and on production pipelines of Airbus and Boeing

Dublin aircraft lessor terminates leases with Russian airlines
SMBC Aviation Capital is the second-worst affected Irish lessor to Ukraine crisis

**DHL AND SINGAPORE AIRLINES
INK NEW AGREEMENT TO
EXPAND PARTNERSHIP**

<https://www.irishtimes.com/business/dublin-aircraft-lessor-terminates-leases-with-russian-airlines-1.4824701> -

1.2.5. YIELD

- Yield Developments are a result of demand/supply match
- Increasing costs of fuel and detour are relevant as well
- In the air cargo industry, due to the immediate capacity loss of 20% or more, yields are increasing by 10-15%.
- In the passenger airline industry, yield developments are heavily dependent on demand patterns while supply is diminished

“**Air freight** capacity has indeed shrunk, according to the first data following Russia’s invasion of Ukraine, and the consequent restrictions on Russian and other airlines. North East Asia – Europe capacity has shrunk by up to 22% in the last week, compared with the week before.

Load factors have risen 1.5% and are now at 84%, according to Clive Data Services, while – as expected – rates have risen.

Rates to Europe from Japan, where carriers are pulling capacity from Europe, **have risen nearly 15%**, to \$9.40, while ex-Korea has seen **rates rise 13%** to \$8.60. Even Europe-Asia Pacific, the unfilled backhaul, has seen a 5% hike in rates, with rates from Europe to Japan up 11% and to east China up 6%.”

<https://theloadstar.com/air-freight-turned-upside-down-as-capacity-slumps-and-rates-climb/>

1.2.6.

OUTLOOK: HOW WILL MACRO FIGURES DEVELOP?

- Inflation
- Interest Rates
- World Trade
- World GDP

2. DEALING WITH UNCERTAINTIES FROM A STRATEGIC PERSPECTIVE

- 2.1. Intro to Scenario Planning
- 2.2. Developing Scenarios
- 2.3. Assessing Relevant Impacts

2.1 INTRODUCTION TO SCENARIO PLANNING

- ❑ 2.1.1. When to use scenario planning
- ❑ 2.1.2. The scenario development process
- ❑ 2.1.3. Common Pitfalls

2.1.1. WHEN TO USE SCENARIO PLANNING

- Scenario Planning is a non-quantitative technique to think of possible (drastic) industry pictures in the future
- Scenario Planning can be used as part of the regular (incremental) planning process
- It is even more useful to discuss potential disruptions, be it in times of crisis or when planning ahead for the unknown when faced with high uncertainties
- Scenario Planning widens the view to those „Industry Pictures“ that may be pushed aside in regular meetings as „crazy“, „way to pessimistic“ or „way to optimistic“
- Scenario Planning does not attach probabilities to the scenarios actually taking place in the future. The assessment on which scenario to take into account for further planning remains a management decision.
- “Scenarios make our implicit belief sets, assumptions and pre-conditions explicit.”
(Michael Minzlaff) <https://medium.com/@MTMgmt/revenue-management-and-scenario-planning-for-airlines-c321149d5d28>

2.1.2. THE SCENARIO DEVELOPMENT PROCESS

- ❑ 2.1.2.1. Define Focal Issue and Relevant Timeframe
- ❑ 2.1.2.2 Identify Driving Forces
- ❑ 2.1.2.3 Identify Critical Uncertainties
- ❑ 2.1.2.4 Develop Plausible Scenarios
- ❑ 2.1.2.5 Discuss Implications and Paths
- ❑ 2.1.2.6 Define Company Actions

THE SCENARIO DEVELOPMENT PROCESS

Define Focal Issue, Question, or Decision and Relevant Timeframe
Review Past Events & Alternative Interpretations

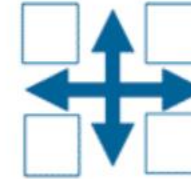
Identify
Driving
Forces



Identify
Critical
Uncertainties



Develop
Plausible
Scenarios



Discuss
Implications
& Paths



<https://www.smestrategy.net/blog/what-is-scenario-planning-and-how-to-use-it ->

2.1.2.1.

DEFINE FOCAL ISSUE AND RELEVANT TIMEFRAME

- Scenario Planning could be used for anything and everything
- To avoid confusion, a **focal issue** and a **relevant timeframe** should be defined
 - Focal issue could be the longterm prosperity of the company, or specifics, e.g. Product development, Developments in Operations, etc.
 - A timeframe can be 1-5 years when dealing with immediate disruptions or shortterm volatility in driving forces of the industry, or could be 10 years and more (often dubbed „Future Foresight“).
- For our topic today, we will focus on Strategic Impacts of the geopolitical events in a 1-3 year timeframe

2.1.2.2. IDENTIFY DRIVING FORCES

- Driving Forces regarding the Airline Industry could e.g. be derived from a PESTL analysis
- Depending on the focus issue, these can be augmented by focus specific driving forces
- They should be fundamental factors influencing the fate of the company

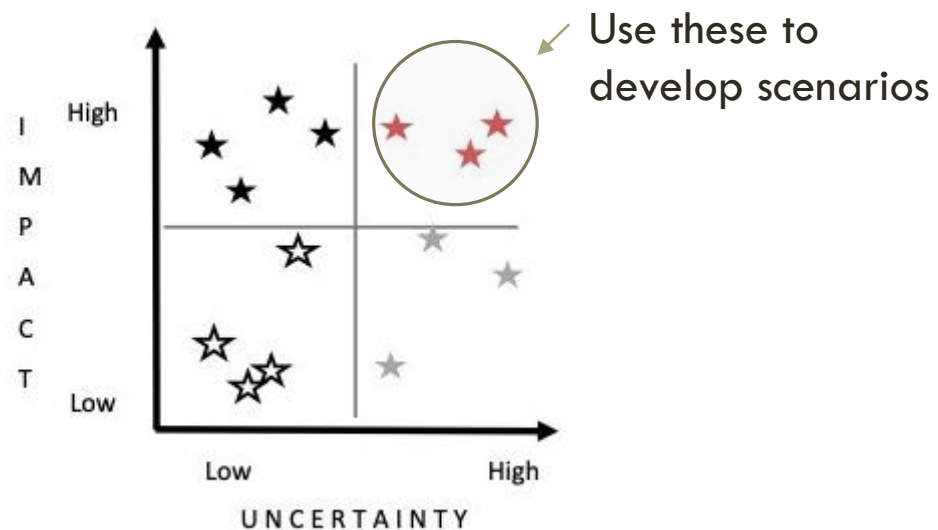
For a study on the „operational perspectives of aviation“, the following factors were identified:

STEEP+V+A	No.	Factor Name
Society	1	Environmental awareness of society
	2	Demand for mobility
	3	Urbanization
Technology	4	Revolutionary technologies
	5	Capacity of air traffic control systems
	6	Operational procedures
	7	Aircraft fleet mix
	8	Regional availability of alternative fuels
Economy	9	Economic development
	10	Stability of the financial sector
	11	Energy price
Environment	12	Environmental regulations and fees
	13	Climate change
Politics	14	Armed conflicts
	15	Political influence on mobility
Values	16	Globalization vs. regionalization
	17	Intermodal transportation
Aviation	18	Expansion of airport infrastructure
	19	Air transport network structures
	20	Airline business models
	21	Major air routes

<https://www.dgflr.de/publikationen/2014/301244.pdf> -

2.1.2.3. IDENTIFY CRITICAL UNCERTAINTIES

Sort the identified driving forces into an Impact/Uncertainty Matrix:

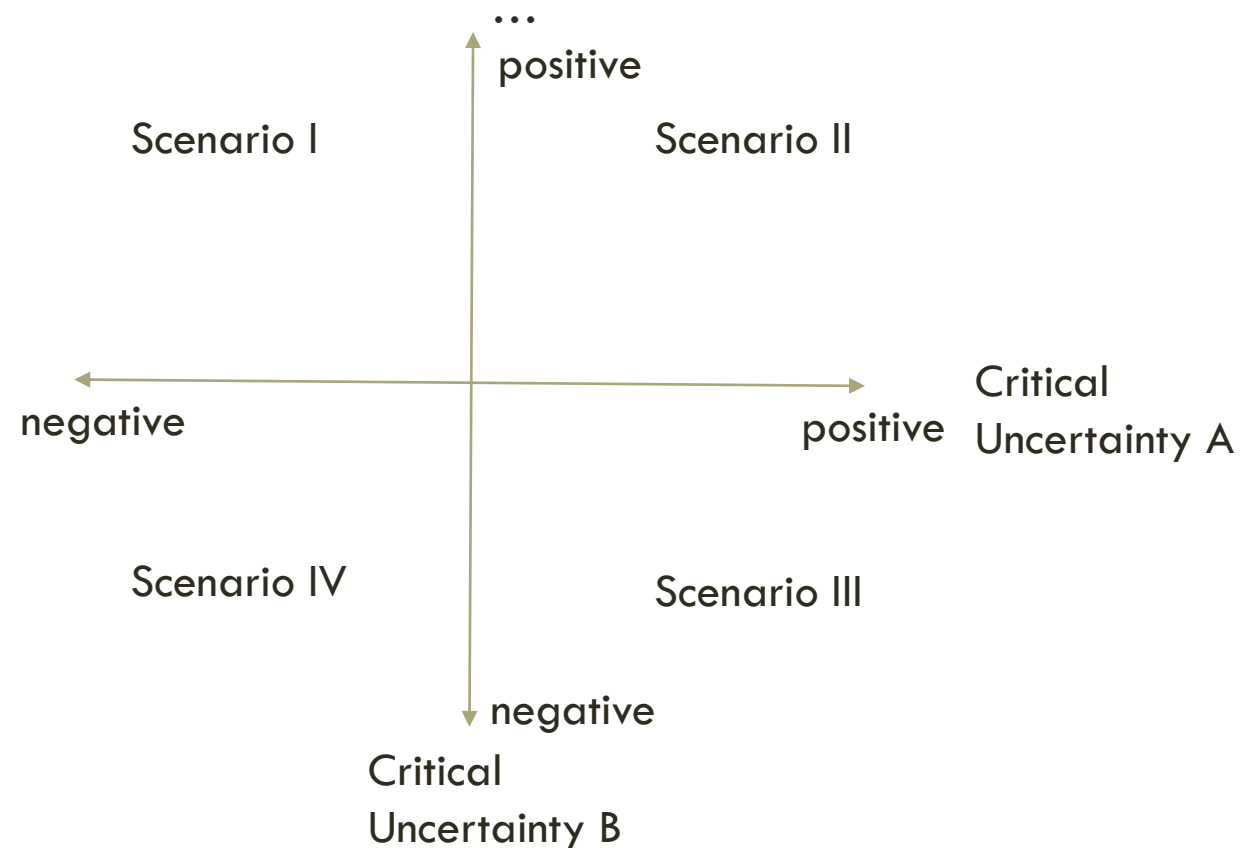


➤ <https://medium.com/@MTMgmt/revenue-management-and-scenario-planning-for-airlines-c321149d5d28> -

- Critical Uncertainties are those forces that have a high impact on your business and are highly uncertain
- Driving forces with low uncertainty can be planned for, as the path (seems to be) clear
- Driving forces that have a high uncertainty but low impact are peripheral to your business and can be managed accordingly

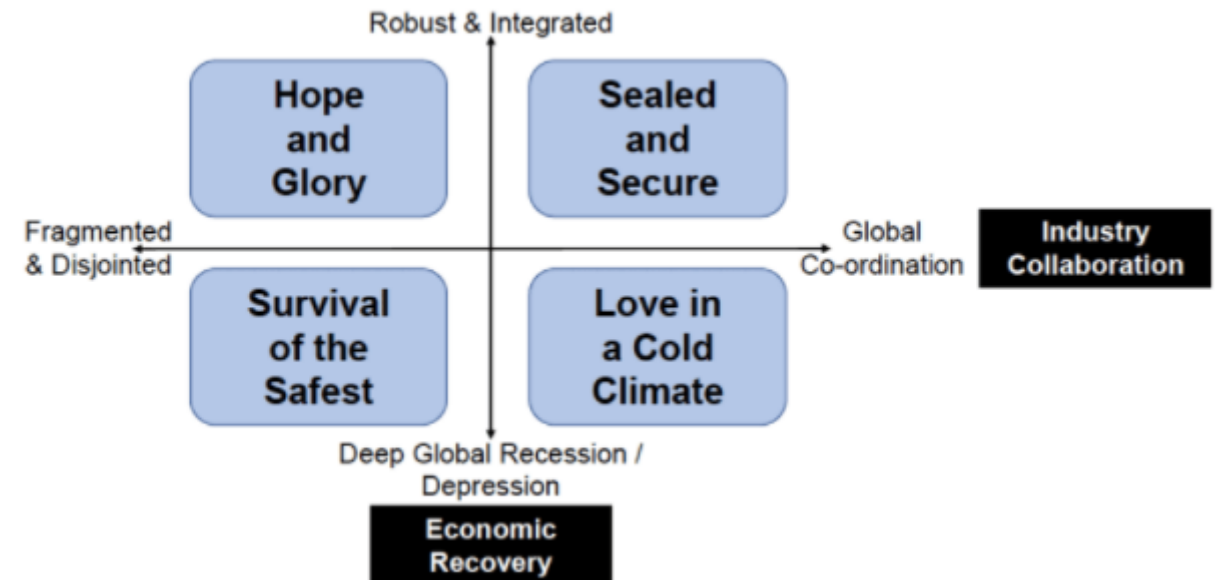
2.1.2.4. DEVELOP PLAUSIBLE SCENARIOS

- Choose two critical uncertainties
- Use one of them as x-axis, the other one as y-axis of your 2x2 Matrix
- Define polar opposites for these critical uncertainties (e.g. low/high; regional/global; slow/fast; disjointed/connected;...)
- Give those four scenarios names
- Use these four scenarios to discuss implications for the industry and actions for your company



POST-COVID INDUSTRY EXAMPLE

- As part of the Study „Air Transport 2035“ four possible Post-COVID-19 Scenarios for Aviation were developed in May 2020
- These were further used to assess necessary steps for the industry if a specific scenario would actually occur

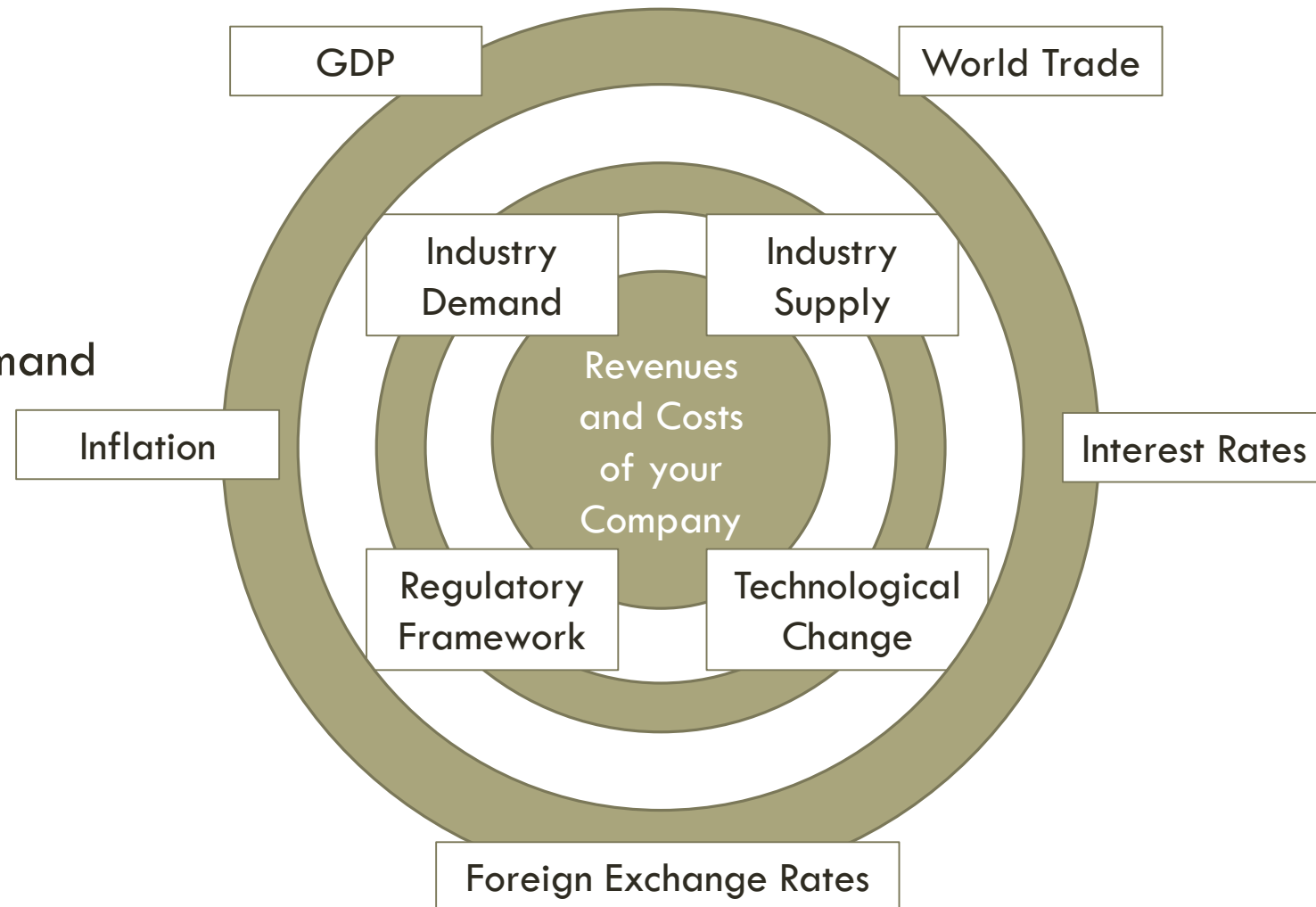


<https://apex.aero/articles/air-transport-2035-webinar-results/> -

2.1.2.5. DISCUSS IMPLICATIONS AND PATHS

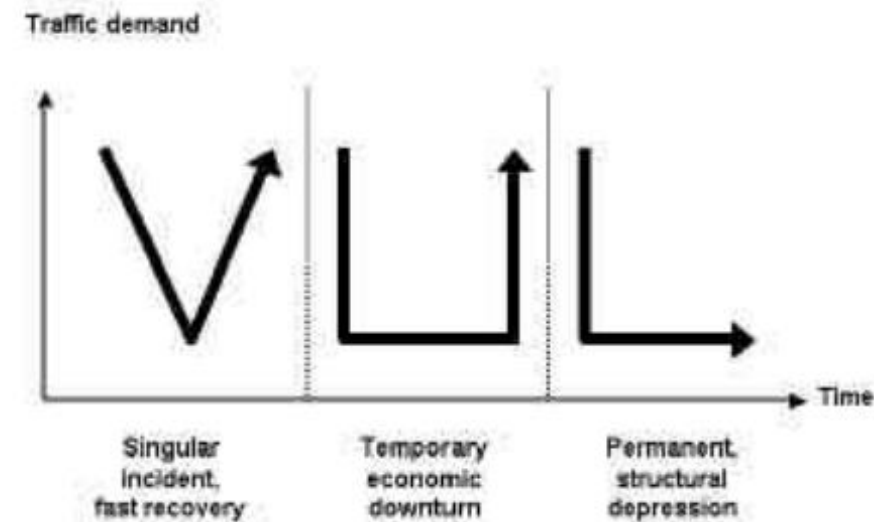
For each specific scenario, discuss implications on a

- Macro Level, e.g. on GDP Growth
- Industry Level, e.g. on Industry Demand
- Company Level, e.g. on Revenues and Costs of your Company



EXAMPLE: TRAFFIC DEMAND IMPLICATIONS POST 9/11

- After 9/11, Lufthansa discussed different scenarios of recovery
- It's main focus was traffic demand recovery
- Three generic crisis patterns were discussed:
 - V Shaped: Singular incident, fast recovery
 - U Shaped: temporary economic downturn
 - L Shaped: Permanent, structural depression
- These could be potential traffic demand developments in different scenarios



Source: , Holger Hättig , Sebastian Hollmeier, Airline Strategy In
The 2001/2002 Crisis – The Lufthansa Example

2.1.2.6.

DEFINE COMPANY ACTIONS PER SCENARIO

➤ For each scenario, based on discussed scenario implications, discuss actions for your company:

- Market approach
- Cost Management
- CAPEX
- Fuel Hedging
- Local Representations
-

2.1.3. COMMON PITFALLS

- Trying to do this in 90 minutes 😊
- Choosing two critical uncertainties that are dependent on each other
- Mixing the driving forces and implications
- Defining an uneven number of scenarios, making it easy for the Executive Board to choose the „middle one“
- Not adapting the methodology to your company's needs and the specific topic at hand

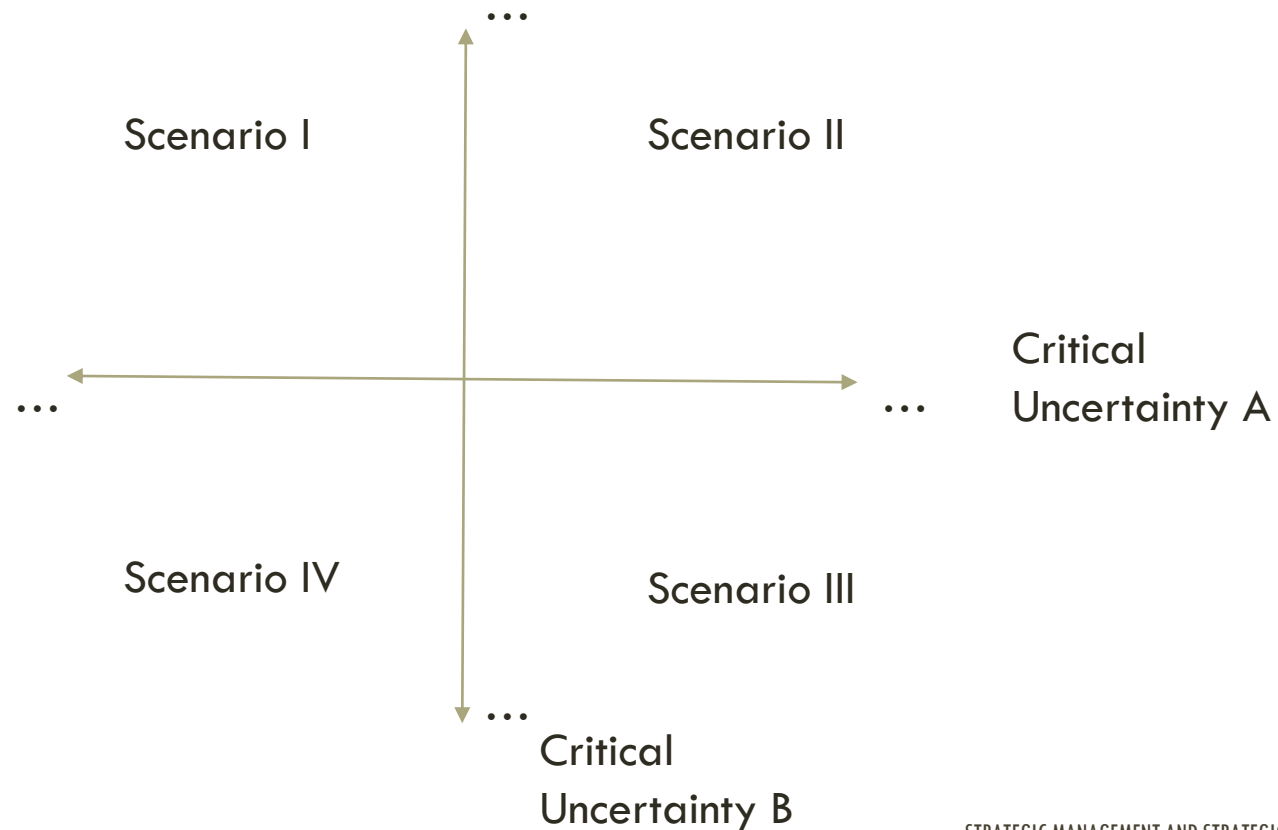
2.2. DEVELOPING SCENARIOS FOR THE AIRLINE INDUSTRY IN RELATION TO THE UKRAINE WAR

Plenary:

- What is certain/plannable, what is not?
- What is particularly uncertain in the Ukraine war related aspects?
- What is the core uncertainty, what are derived uncertainties?
- What could be the two axes for a 2x2?
- How could we name those four scenarios?
- What are relevant dimensions to look at after having defined the scenarios?
In particular with respect to the airline industry?

2.2.1. DEFINED AXES AND SCENARIOS

[To be developed in plenary session in class]



2.3.

ASSESSING IMPACTS OF SUCH SCENARIOS

Group Work:

How would you assess the implications of your scenario on the airline industry?

What would you do differently as an airline? What actions would you take?

[Scenarios to be named in plenary session]

I: Scenario „abc“

II: Scenario „cde“

III: Scenario „fgh“

IV: Scenario „ijk“

3. PROJECT PRESENTATIONS

- 3.1. Wanderlust Air
- 3.2. Elizajet Airline
- 3.3. Berlinair
- 3.4. Air Europa
- 3.5. FlyU Airlines

TERM PAPER

Chart from Sep 2021

Start of processing: 27th September 2021, Submission: 22th November 2021, Presentation: 14th of March 2022 (expected), (Registration until 01NOV, Deregistration until 18OCT). Papers should be 15 pages of text plus graphs.

PROJECT A: Launching a new airline

Describe the opportunity, perform an external assessment, develop a strategic positioning for your airline. Describe in a word document. Present in a startup pitchdeck.

Defining a Strategy for e.g.

- ☐ a new LCC (in Europe, in India, in US...)
- ☐ a new Hub Airline
- ☐ a new Cargo Airline

OR

PROJECT B: Developing a new strategy for an existing airline

Identify Competencies, perform External Assessment, describe the airline's current strategic positioning, develop recommendation for 3 strategic priorities that the airline should target. Describe in a Word document. Present with a strategy program slide deck, recommending strategic priorities, quantified targets and initiatives to reach those targets.

Defining a Strategy for e.g.

- ☐ Easyjet
- ☐ Southwest Airlines
- ☐ Air France/KLM
- ☐ American Airlines

SCHEDULE

Pitch	Presenters	Date	Time
Wanderlust Air	Theresa Johnson Dennis Pietrzik	Monday, March 14th	13:30-15:00
Elizajet Airline	Elizabeth Agboola Zureidis Castillo	Monday, March 14th	15:30-17:00
Berlinair	Luisa Dröse Jan Höra Toni Jahn	Tuesday, March 15th	09:00-10:30
Air Europa	Bruno Barrera Harjinder Kaur Shiro Yanagibayashi	Tuesday, March 15th	11:00-12:30
FlyU Airlines	Simona Fritsch Asma Sirine Mario Tramer	Tuesday, March 15th	13:30-15:00

SETTING

- You are pitching your business case to a group of potential investors.
- You have **up to 45 minutes** to make your case, uninterrupted by questions. You are free in deciding on your presentation style (some slides would probably be helpful).
- Each of your team members should have an active part in presenting your case.
- The presentation will be followed by an **up to 45 minute** Q&A session.
- Your class mates as well as Georg will serve as „potential investors“. Keep in mind that investors often see 4 or 5 of these presentations per day and have to make decisions on the spot.
- As a potential investor, try to get into this role as if you were being asked to invest your personal money.
- While always remaining polite, questions of potential investors may be critical.

EVALUATION

- Evaluation of your case will be done on a 60% written, 40% presentation component.
- Evaluation will follow the guidelines of UAS:
 - Content:
 - Task assignment
 - Thematic delimitation
 - Quality of source research and use
 - Solution approach, methodology
 - Approach, structure
 - Autonomy
 - Quality of results
 - Formal
 - Linguistic competence and style
 - Presentation of results in thesis paper