

STRATEGIC MANAGEMENT AND AIRLINE MANAGEMENT

MBA AVIATION AND TOURISM MANAGEMENT
FRANKFURT UNIVERSITY OF APPLIED SCIENCES

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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)	Pitch “FlyU Airlines“ (1330-1500)
Pitch “ElizaJet Airline“ (1530-1700)	Learnings

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

LEARNINGS

1. Principles
2. Jetblue
3. Maxjet
4. Norwegian
5. Breeze

1.1. PRINCIPLES

- The plural of aircraft is aircraft 😊
- The Airline Industry is a mostly saturated business, niches are hard to find
- The Airline Industry is asset heavy and thankfully highly safety regulated, which also presents a barrier for new entrants
- With Network Planning, you can get a lot of things right, but also a lot of things wrong. Each long haul flight leg has 150-250 K in Revenues and Cost.
- Incumbents tend to fight back
- Technological Disruptions, Traffic Rights Changes, really bad incumbents, substantially lower labor costs, etc. could nonetheless pose new opportunities

1.2. PRINCIPLES: REVENUES AND MARKET

- Purchasing Factors are Price, Price, Price, Schedule, Frequent Flyer Program
- Think in Origin & Destination Markets, not single flights
- You probably will need differentiated cabin classes (C, PY, Y) to maximize revenues
- For Business Travellers, frequency is key
- Don't forget the challenges of distribution. Being relevant and known with 5-10 aircraft takes a lot of marketing effort, especially at the out-stations
- Beware of seasons, cyclical downturns, Chicago in February. Load factors and yields will be lower. Don't plan full year with your ideal standard week
- Seats are perishable goods. If you don't fill them on a specific flight, they are gone and you cannot recoup the lost revenue
- Food is overrated in Economy Class. Friendly Staff is much more important!
- In the end, airlines are exchangeable for the customer. Yield premiums will not save you if your costs are out of line

1.3. PRINCIPLES: COSTS AND OPERATIONS

- Scale is key in this business. New entrants have the challenge of reaching a sensible size quickly (while avoiding to grow too fast)
- Buying the wrong aircraft type can be fatal. You will be stuck with those costs for a long time, even with leases (usual duration 10 yrs).
- The shorter derivative of a type (A319, A330-800, 787-800) is less economical on a per seat base. There needs to be a very good reason in terms of demand and trip cost rationale to choose these aircraft
- Managing costs is prerequisite for success. It is a daily chore
- Building a stable operations with very few aircraft is highly challenging
- Commonality is important: many airlines are successful with just one fleet type
- You need a very experienced operations team to start an airline

1.4. SHORTHHAUL VS LONGHAUL

- Shorthaul and Longhaul are completely different animals
- Shorthaul can work point to point, Longhaul generally requires substantial feed
- US Domestic is not comparable to Intra-European
- Longhaul has a multitude of regulatory components. It took Southwest numerous years to fly internationally, merely to Mexico (with short haul aircraft).

2. JETBLUE



- Founded in 1999 by Dave Neeleman (Southwest, Westjet, Azul, TAP, Breeze...)
- Jetblue calls New York its home. They started out with one aircraft type (A320)
- They started in a time when legacy carriers were saturated, costly and not service oriented
- Their planes introduced „Live TV“
- They later added an additional aircraft type and connections, causing growing pains
- In the mid 2010's, they introduced „MINT class“ on transcont, a full flat business class seat
- They have now commenced transatlantic travel with A321LR.

3. MAXJET



- Maxjet, similar to EOS, launched an all business LCY-JFK service
- Maxjet thought that this was exclusive enough to lure customers
- For range reasons, the aircraft required a stopover in SNN (with U.S. immigrations)
- Maxjet just had one departure per day. If the aircraft had a technical issue, customers would need to travel from London City to London Heathrow to catch an alternative flight on another airline
- The model was not sustainable

4. NORWEGIAN



- Norwegian started as a successful shorthaul airline
- In comparison to SAS, they had modern planes, an efficient cost structure and a fresh brand
- Norwegian later added longhaul aircraft. They were unlucky to run into Dreamliner's teething pains, requiring expensive substitute charter aircraft that didn't serve their customer promise
- They served markets such as OSL-OAK which required heavy feeding. This reduced their shorthaul aircraft's productivity.
- To find more dense longhaul markets, they introduced additional hubs, requiring additional AOCs and crew bases.
- Too fast, too much.

5. BREEZE

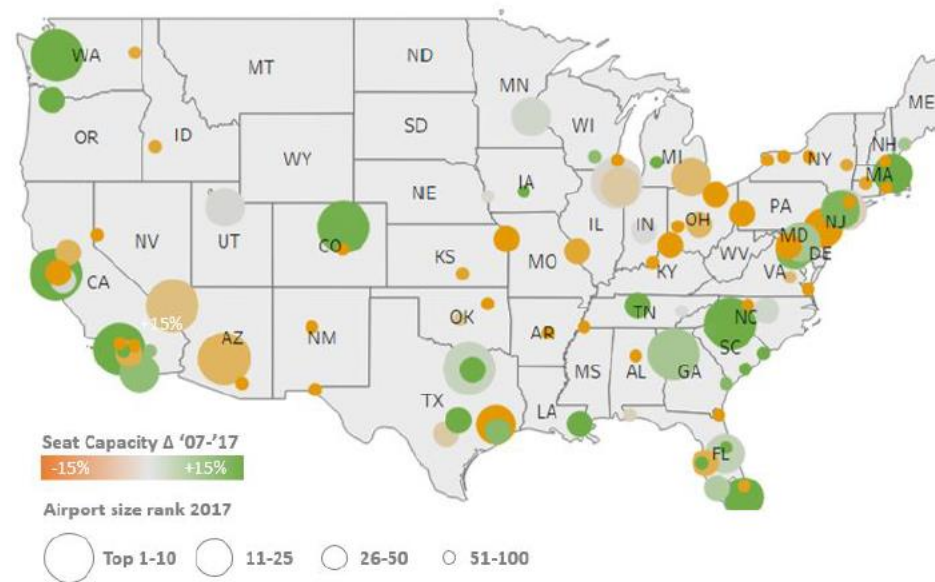


Breeze is a new entrant air carrier that plans to bring low-cost, nonstop services to midsize markets **abandoned** by our current air transportation network. As major airlines have consolidated and concentrated their efforts at **fortress hubs**, entire segments of the country have seen their air travel options diminish -- reachable only through connections and the corresponding increased travel times. As a result, smaller cities have suffered through a sustained reduction in service as depicted below:

Breeze will introduce nonstop service to these neglected, forgotten markets. By flying a smaller plane with a lower trip cost, Breeze believes there are hundreds and hundreds of city pairs **crying out** for nonstop flights. Each market Breeze serves will realize significant public interest benefits from the introduction of its low-fare, high-quality service.

US airlines focused on hubs abandoning secondary cities

Change in Domestic Service by Airport 2007-2017



Source: Bureau of Transportation Statistics

DOT OST 2020-0019-0001 Att 1: Breeze Business Plan

Breeze Aviation Group, Inc
Exhibit T-2: Forecast Pre-Operating Cash Requirements

Months Pre-Launch	Inception Through Launch -7	Launch -6	Launch -5	Launch -4	Launch -3	Launch -2	Launch -1	Total
<u>Pre-Operating Expenses (Accrual)</u>								
Proving Runs	-	-	-	-	-	89,521	89,521	179,042
Salaries, Wages & Benefits	1,972,144	725,460	1,249,053	987,623	1,177,254	1,207,193	1,330,906	8,649,635
Facilities Rent	129,068	45,400	45,400	45,400	45,400	45,400	45,400	401,468
Aircraft Maintenance	-	-	-	-	-	35,500	35,500	71,000
Aircraft Rent	-	-	-	-	-	208,000	208,000	416,000
Depreciation & Amortization	-	-	5,892	10,982	18,389	26,909	36,020	98,192
Sales & Marketing	778	15,000	15,000	15,000	15,000	15,000	15,000	90,778
Consulting	1,578,983	100,000	100,000	100,000	100,000	100,000	100,000	2,178,983
Travel	202,648	30,000	30,000	30,000	30,000	30,000	30,000	382,648
Insurance	1,100	-	-	15,400	15,400	30,800	30,800	93,500
Recruiting	1,299	15,000	15,000	15,000	15,000	15,000	15,000	91,299
IT (non-capex)	96,546	250,000	250,000	250,000	250,000	250,000	250,000	1,596,546
<u>Other Operating Expenses</u>	<u>191,130</u>	<u>59,043</u>	<u>85,517</u>	<u>73,470</u>	<u>83,322</u>	<u>102,666</u>	<u>109,307</u>	<u>704,456</u>
Total Pre-Operating Expenses	4,173,696	1,239,903	1,795,862	1,542,875	1,749,765	2,155,990	2,295,455	14,953,546
<u>Other (Income) / Expense</u>								
Interest Expense	-	-	-	-	-	-	-	-
<u>Other Income</u>	<u>(31)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(31)</u>
Total Other Expense	(31)	-	-	-	-	-	-	(31)
Total Expenses	4,173,664	1,239,903	1,795,862	1,542,875	1,749,765	2,155,990	2,295,455	14,953,514
<u>Cash Adjustments</u>								
Depreciation & Other Non-Cash Expenses	(36,328)	(36,328)	(42,220)	(131,310)	(138,717)	(231,237)	(240,348)	(856,488)
<u>Other Working Capital Adjustment</u>	<u>4,050</u>	<u>(13,503)</u>	<u>(31,431)</u>	<u>(10,659)</u>	<u>(11,699)</u>	<u>(12,314)</u>	<u>(15,115)</u>	<u>(90,671)</u>
Pre-Operating Expenses - Cash Basis	4,141,386	1,190,072	1,722,211	1,400,906	1,599,350	1,912,438	2,039,991	14,006,355
<u>Capital Expenditures</u>								
Aircraft Pre-Delivery Deposits	10,345,167	967,686	969,288	970,890	1,062,780	1,182,195	2,249,781	17,747,787
Aircraft Induction	-	441,875	441,875	618,625	618,625	618,625	1,629,881	4,369,506
Leasehold Improvements	50,000	-	-	-	-	-	40,000	90,000
IT	-	61,553	84,455	122,623	189,418	212,319	212,319	882,687
Initial Provisioning	-	-	-	-	-	1,000,000	1,000,000	2,000,000
Ground Support Equipment & Station Open	-	-	-	-	-	500,000	500,000	1,000,000
<u>Other</u>	<u>-</u>	<u>2,000,000</u>	<u>100,000</u>	<u>100,000</u>	<u>1,100,000</u>	<u>100,000</u>	<u>1,500,000</u>	<u>4,900,000</u>
Total Capital Expenditures	10,395,167	3,471,115	1,595,618	1,812,138	2,970,823	3,613,139	7,131,981	30,989,981
Total Pre-Operating Cash Requirements	14,536,553	4,661,187	3,317,829	3,213,045	4,570,173	5,525,577	9,171,972	44,996,335
Cumulative Cash Requirements	14,536,553	19,197,739	22,515,569	25,728,613	30,298,786	35,824,363	44,996,335	

Breeze Aviation Group, Inc
Exhibit T-3: Forecast Income Statement

Month of Launch	1	2	3	4	5	6	7	8	9	10	11	12	Total
<u>Operating Revenue</u>													
Passenger Revenue	-	-	-	706,595	1,536,433	2,196,321	2,545,436	4,292,974	5,193,471	6,383,441	7,861,380	10,609,280	41,325,331
Charter Revenue	336,000	774,900	1,377,600	2,116,800	2,142,000	2,192,400	2,268,000	2,343,600	2,419,200	2,494,800	2,520,000	2,520,000	23,505,300
Other Revenue	-	-	-	7,066	15,364	21,963	25,454	42,930	51,935	63,834	78,614	106,093	413,253
Total Operating Revenues	336,000	774,900	1,377,600	2,830,461	3,693,797	4,410,684	4,838,890	6,679,504	7,664,606	8,942,076	10,459,994	13,235,372	65,243,884
<u>Operating Expenses</u>													
Aircraft Fuel	72,390	162,878	289,560	659,255	892,702	1,111,716	1,219,219	1,628,438	1,787,932	2,094,293	2,372,106	2,983,596	15,274,084
Salaries, Wages & Benefits	1,332,198	1,462,096	1,582,611	1,852,178	2,039,561	2,234,047	2,348,470	2,598,242	2,725,235	2,979,812	3,351,004	3,917,917	28,423,370
Aircraft Rent	312,000	416,000	520,000	624,000	728,000	832,000	936,000	1,040,000	1,144,000	1,352,000	1,560,000	1,664,000	11,128,000
Aircraft Maintenance	42,600	95,850	170,400	381,534	512,227	634,861	695,023	924,115	1,013,468	1,184,965	1,340,531	1,682,815	8,678,389
Landing Fees, Ground Handling & Other AC	39,162	81,927	140,149	283,616	373,361	453,537	541,662	721,177	851,935	952,699	1,104,996	1,395,741	6,939,963
Depreciation & Amortization	116,917	130,034	144,376	169,369	205,202	250,891	289,017	319,393	367,099	405,177	452,834	504,996	3,355,303
Sales & Marketing	100,000	400,000	600,000	275,473	155,781	180,356	97,900	163,286	200,426	239,063	294,366	394,735	3,101,385
Other Operating Expenses	266,144	302,144	335,038	363,021	390,042	423,700	434,862	475,890	506,881	549,668	612,362	687,643	5,347,393
Total Operating Expenses	2,281,411	3,050,928	3,782,133	4,608,446	5,296,874	6,121,108	6,562,153	7,870,540	8,596,976	9,757,676	11,088,199	13,231,443	82,247,887
Operating Income (Loss)	(1,945,411)	(2,276,028)	(2,404,533)	(1,777,986)	(1,603,077)	(1,710,424)	(1,723,262)	(1,191,036)	(932,370)	(815,601)	(628,205)	3,929	(17,004,004)
<u>Other (Income) / Expense</u>													
Interest Expense	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Income	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Other Expense	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (Loss)	(1,945,411)	(2,276,028)	(2,404,533)	(1,777,986)	(1,603,077)	(1,710,424)	(1,723,262)	(1,191,036)	(932,370)	(815,601)	(628,205)	3,929	(17,004,004)

BREEZE FLEET

„A220-300 aircraft:

Breeze entered into a definitive agreement with Airbus on December 27, 2018 for the purchase of **sixty (60) firm order Airbus A220-300 aircraft** (the “A220s”).

Breeze secured this order with a substantial deposit payment and has since commenced making pre-delivery deposit payments (PDPs) on these aircraft. The first of the A220s is scheduled for delivery in April-2021, the second in June-2021 and approximately one per month thereafter.”

They agreed to Sale&Lease Back Arrangements with GE Capital for the first 18 aircraft

THANK YOU

- This concludes this course. Thank you for your
 - Enthusiasm & Energy
 - Inspirational and Creative Strategic Proposals
 - Dedication and Focus
 - Sharing your Experiences
 - Your Feedback
 - Joint Laughs
- If you have any questions, concerns, etc, please get in touch: georg.theis@gmail.com
- All the Best to you personally and for your continued academic success!