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Strategic Response of European Airlines to Market Dynamics: A Comparative Analysis

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Abstract: The airline market is constantly evolving and requires managers to adopt strategies to meet the changing demands and organizational requirements of the sector. As a result of its liberalization, the European market has transformed from a set of national protected sectors to a single sector. Although the market has grown over the last two decades, the industry has faced difficulties due to various economic, safety, environmental, and health issues, which have recently emerged. This study analyzes the airlines' strategic responses to increased competition from the turn of the century to 2019, excluding the pandemic period, to focus on market dynamics driven by European competition policy. A five-pillar strategic framework highlighting common strategies and divergences between major European network carriers is outlined through a multi-case analysis of major European markets. The sample includes France, Germany, Italy, and Spain. Results have managerial implications that highlight the importance of strategic adaptability in an industry landscape that continues to evolve. Managerial implications fall into the following three categories: strategic positioning, cost optimization, and business diversification.

Keywords: transport management; transport policy; strategy; liberalization; aviation; airline management

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1. Introduction

A key challenge faced by airline managers is understanding the external environment in which their organization operates in order to identify the key issues to which to react. The airline industry has undergone significant changes that have affected the demand for airline services and how the industry is organized. Management decision-making is improved and uncertainty is reduced by understanding the key trends affecting supply and demand. As conditions change, business strategies must adapt to new opportunities and threats (Dwyer and Edwards 2009).

Following the Single European Act of 1986, which aimed to create a single market, several sets of EU regulatory measures have gradually transformed the protected national aviation markets into a competitive single market for air transport. In particular, the first (1987) and second (1990) packages began to relax the rules on fares and capacity. In 1992, the third package removed all remaining restrictions on European airlines operating within the EU, i.e., Regulations 2407/92, 2408/92, and 2409/92 were replaced by Regulation 1008/2008. Consequently, over the years, the lack of effective competition has contrasted with growing demand in an industry traditionally developed with concentrated market structures.

Although the liberalization processes along with globalization trends have dramatically boosted the market over the past two decades, the industry has experienced several significant setbacks, as economic, safety, and environmental concerns have evolved at different paces in different countries (Mumbower 2022); this is no exception for European markets that have witnessed some significant changes in their traditional configuration due to both endogenous factors such as market dynamics that have favored the entrants and external shocks such as the COVID-19 pandemic. In this regard, scholars have begun to analyze airlines' strategic responses, including responses along the lines of cutting back, holding on, innovating, and exiting, as well as the role of governments in protecting the industry but hindering efficient decision-making (Albers and Rundshagen 2020). The purpose of this paper is to analyze the strategic responses of airlines to the upsurging competition over the twenty years spanning from the beginning of the century until 2019, thus excluding the pandemic, to focus the scope only on the dynamics of the markets attributable to European market rule and their competition policies.

This article adds to a series of studies that, with different approaches, have helped shed light on the effects of liberalization in Europe. To name a few, previous studies have examined how European airline incumbents have responded to liberalization (Chang and Williams 2002); the trade-off between the growth and profits of different carriers (Maung et al. 2022); whether airline business model hybridization has led to homogeneous economic performance features (Chiambaretto and Combe 2023); which parts of Europe airline and airport competition are most intense (Lieshout et al. 2016); and the changes in output, structure of supply, yields, business models, and performance of flag carriers (Burghouwt and de Wit 2015). We have investigated incumbent airlines' strategies that have been presented in the literature and have tried to understand them by considering political science theories, inadequate management practices or strategies, the spatial dimension, and other contingent causes (Daglous 2021; Ciliberto and Schenone 2012; Bock et al. 2020).

The industry is characterized by main trends that govern the dynamics of the market: the convergence of business models, a consolidation of the sector through strategic alliances, and financial difficulties due both to internal and external factors such as fuel price volatility. Similarly, strategic barriers to entry have recently attracted considerable attention: access to airport slots or structural barriers, airline loyalty programs, and drip pricing strategies. This study addresses three research questions to elucidate which levers and strategic behaviors flag carriers have employed to cope with increased competition, whether all flag carriers' strategic behaviors converge in response to the evolving market, and how internal and external factors correlate with these strategies.

The research method is based on a multiple case study analysis whose robustness is derived from its comparative nature, which provides insights into individual cases while highlighting overarching patterns and deviations. Based on an identified five-pillar strategic framework, we aim to understand how much this framework can help to identify common strategies and biases. We compared key EU markets: Italy, Spain, France, and Germany until 2019, i.e., the year before the upsurge of the pandemic that has dramatically impacted the industry.

The results have business implications that can help managers avoid strategic drifts in airline management decision-making along with topics for consideration by policymakers in defining transport policy, given the results that have emerged from the analysis. The added value of this article over the previous literature on the topic is that it can provide a focused framework of analysis on the strategic levers used by the major European network carriers, allowing the identification of both similarities and divergences from it, as evidenced in one of the four cases examined in this article.

The remainder of the paper is organized as follows: Section 2 provides a background, including a review of the related literature; Section 3 focuses on the research design and methods; and Section 4 summarizes the results. The Discussion and Conclusion sections follow.

2. Background

As foreseen by economy theory, a more competitive market space can be associated with a lower deadweight loss, increased social welfare caused by generating a surplus from the average price reduction, and a supplier stimulus (Lykotrafiti 2015). The effects of air transport liberalization, particularly in terms of economic and traffic consequences, have been extensively analyzed in the United States and Europe. Scholars generally agree that the outcomes are positive, with the increased competition providing positive externalities to the overall economy (Fu and Oum 2014) and social well-being. In addition, liberalization has benefited new route development and traffic growth (Jankiewicz and Huderek-Glapska 2016). Nevertheless, the pace of change (and the impact on previously protected national carriers) depends on the socioeconomic conditions in individual countries (Dobruszkes and Graham 2016) and government decisions.

For example, in addition to traffic growth and its positive implications for society, scholars have pointed out a less-investigated effect of liberalization. Although airline competition has increased on many routes, larger airlines have become more dominant. In contrast, smaller ones converge toward more peripheral routes (Wang et al. 2016; Kao et al. 2020).

Consequently, it is important to properly evaluate the impact of concentrations that could otherwise deprive consumers of these benefits, considering that such a change may encourage market players to increase prices, reduce production, or fail to invest in quality and innovation while still allowing them to gain an advantage over their competitors (Arrigo and Di Foggia 2015).

The different trends in yields can be explained by the growing competitive pressure from low-cost carriers on short-haul routes. Over the period under consideration, real profits on short-haul routes were halved, whereas those on long-haul routes fell by only 20%. Figure 1 shows interesting information regarding yields per seat in real terms.

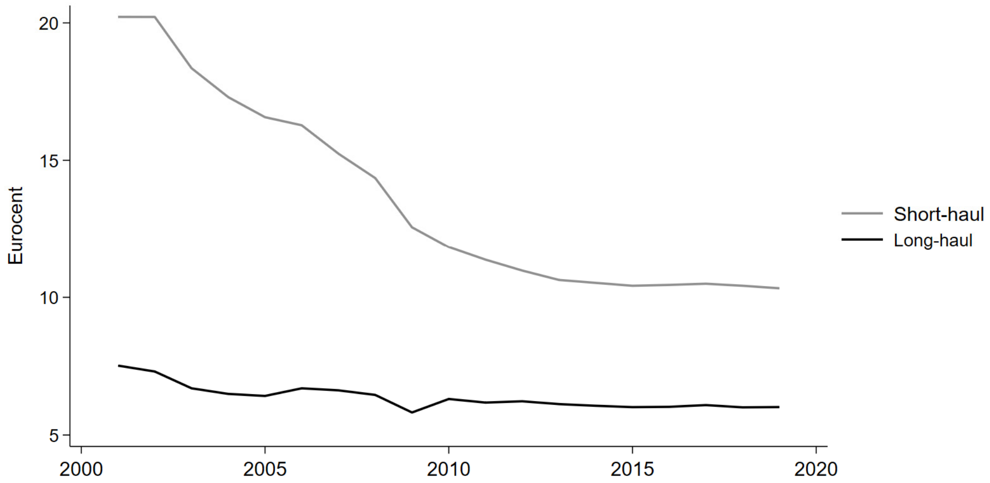

Figure 1. Evolution of the yields per market scope. Source: own elaboration based on (IATA 2021).

Many incumbents have formed intragroup strategic alliances with low-cost carriers. The dynamics of this industry have also posed challenges to policymakers and regulators who must balance the benefits of competition with the impact on the sustainability of incumbents. To this extent, a recent study has highlighted the role of economic analysis in understanding market dynamics in order to better recognize situations in which serious market failures can occur (Button 2019); scholars have also emphasized that competition issues should focus on limiting noncompetitive strategies (Lumbroso 2019) along with meeting environmental requirements (Beccarello and Di Foggia 2023).

Concerns regarding the effects of liberalization have recently increased, and debates have emerged on how the air transport industry has collectively reached the end of liberalization. Indeed, while some regions and countries are still liberalizing, the liberalization process has stalled or even regressed in others (Budd 2019). In a detailed analysis of the concern that momentum has been lost in liberalizing international air transport, the authors suggest that this assessment should refer to expected outcomes (Hooper 2014). In addition, it should be noted that the literature also provides negative externalities from an environmental perspective, for instance, the increased impact of aviation on climate (Saini et al. 2023; Calderon-Tellez and Herrera 2021).

As considered in another significant research area, the consequences of liberalization are also influenced by the political determinants of liberalization and privatization policies, given the undeniable political-economic rationales underpinning market choices (Belloc et al. 2014). One prior study analyzed traffic flows between EU countries and many external partners and found that external policy has led to a reduction in fares that, in turn, spurred an increase in demand (Abate and Christidis 2020).

Within the EU, liberalization packages have enabled former flag carriers to develop into full-service hub-and-spoke carriers. In contrast, European legislation has allowed low-cost carriers to create European point-to-point networks. As a result, direct competition between incumbents and new entrants is increasing, with more low-cost carriers beginning to focus on hubs previously monopolized by incumbent FSCs (Burghouwt and de Wit 2015). Other scholars have estimated that changes in airline competition are most pronounced in areas that were once not well-served, such as some regions in Italy and Spain. In contrast, competition is lower in Germany because of the strong dominance of the STAR Alliance (Lieshout et al. 2016); that said, clear progress has been made toward achieving the Single European Sky (Baumgartner and Finger 2014). We focus on France, Germany, Italy, and Spain as demonstrated in Figure 2.

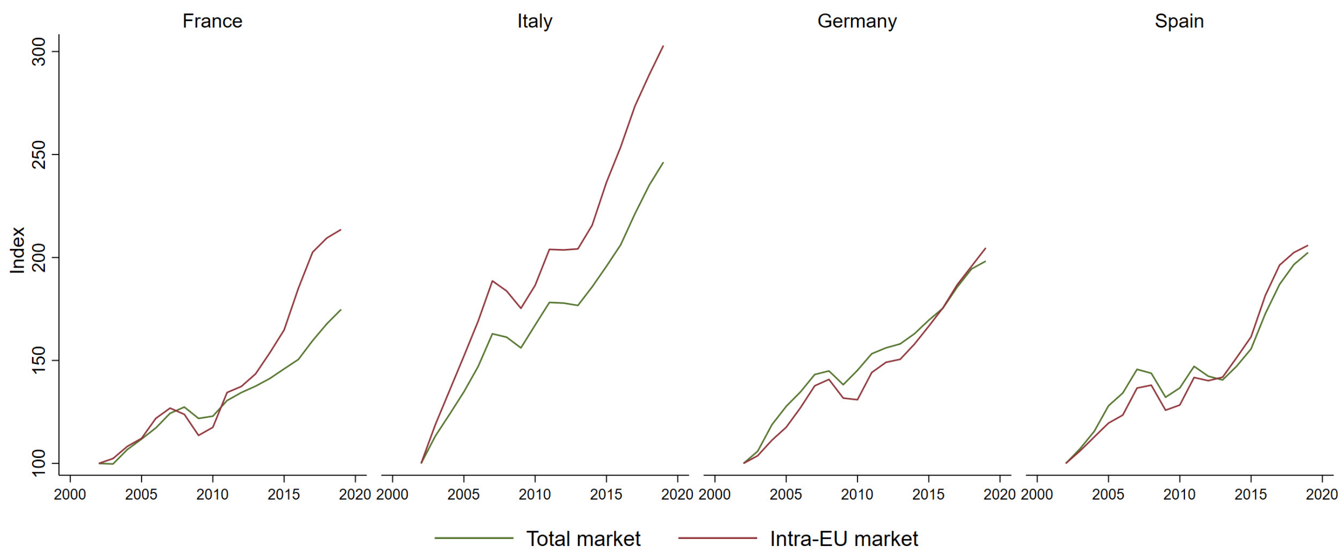

Figure 2. Passenger trends. Source: Own elaboration based on (CESISP 2021), index: 2001 = 100.

The liberalization of air transport has allowed the entry of low-cost carriers, leading to substantial market expansion through an increase in supply and a more-than-proportional rise in demand (Gudmundsson 2019). It has affected two of the three segments of the air transport market: the international intra-EU sector and the domestic sector, especially in larger EU Member States. Liberalization has not affected the extra-EU segment; however, open-skies agreements, for example, resemble some liberalization features that are aimed at the extra-EU segment. The most critical parts are intercontinental routes regulated by bilateral or multilateral agreements between countries, such as the Open Sky agreement (Abate and Christidis 2020).

Therefore, it is interesting to analyze the effects of liberalization on the international intra-EU segment. Furthermore, other than competition between airlines in the domestic segment, intermodal competition from high-speed rail transport has also developed. Figure 2 illustrates the passenger trends in four EU countries.

Figure 2 shows data for the total market and the intra-EU segment since 2002, the earliest year for which continuous data are available from Eurostat.

Because of some peculiarities in the strategic behavior of the Italian incumbent, this paper pays special attention to this behavior. Long before the period considered in this paper, the first problems arose in the 1970s amid the international oil crisis. Over the following decades, Alitalia's recovery was limited by industrial problems compounded by financial imbalances (Valentini and Romenti 2011).

A study of Alitalia's business model of that period showed that the company's failure to support an increase in demand with a supply-oriented strategy caused a productivity slowdown (Bergamini et al. 2010), consistent with findings by scholars who have reported significant changes in the structure of European air transport, during which some of the largest carriers were consolidated and several carriers were restructured (Barros and Couto 2013). Previous literature identified the origin of this decline as the political use of the airline (Beria et al. 2011); specifically, the authors argued that the underlying causes of the decline were continuous political protection, a lack of a strategic outlook in favor of short-term objectives, and the failure to adopt a consistent strategy regarding hub priorities combined with a lack of a long-term industrial view.

More recently, another study expanded on the role of public policy, referring to critical strategic decisions, their coherence over time, and the choices made in other countries for similar cases (Di Giulio 2018). Based on the above, a knowledge gap can be filled by analyzing the strategic peculiarities of comparable air carriers.

3. Research Design

Our research employs a multiple-case-study analysis whose robustness stems from its comparative nature, affording insights into individual cases while elucidating overarching patterns and distinct deviations. Multiple-case research moves the focus from understanding a single case to understanding the differences and commonalities among cases (Hunziker and Blankenagel 2021) that reflect our purpose, given that we tie firms' strategic responses to the broader evolution of market structures. Given the industry's significant development over the past two decades, our chosen twenty-year time frame provides a comprehensive insight into airlines' strategic evolutions and adaptations over time from the literature and the different companies' documents, including balance sheets and industrial plans, thus enhancing triangulation (Hastings 2010). We aim to pinpoint the common and divergent strategies from these airlines that were adopted amidst heightened competition, given that previous studies also indicated that the strategic behavior of airlines has successfully been analyzed using this approach. Scholars have examined how European majors have responded to liberalized policy, to name a few (Chang and Williams 2002). Another study has examined whether an airline's business model affects the trade-off between growth and profits. It found that while low-cost carriers can pursue growth-oriented strategies while improving profitability, full-service network carriers face a tradeoff between growth and operating profits (Maung et al. 2022). Another study evaluated whether airline business model hybridization has led to a homogeneous economic performance in Europe by comparing business models. They found that, regardless of the level of analysis, low-cost and traditional carriers are distinct groups with specific economic performance features (Chiambaretto and Combe 2023). Based on the mix of insights from the previous literature based on multiple-case analyses, the analysis of the industrial plans of the significant carriers analyzed in this paper and the existing gap in the literature on the simultaneous analysis of the European market structure dynamics and the strategic response of incumbents, we developed a research framework aimed at resuming strategic pillars, as shown in Figure 3.

Figure 3 recalls the stages and approaches used to conduct the multiple case study analysis and define the strategy framework. We employed a comprehensive five-pillar framework to analyze the strategic behavior of incumbent airlines in the face of evolving market dynamics, as illustrated in Figure 4. The first pillar refers to the scope of business in order to examine airlines' different strategies for short-haul and long-haul operations. The second pillar, cost optimization, focuses on the balance that airlines seek between cost minimization and synergies and the balance between the two. Business diversification, the third pillar of our framework, highlights how airlines are hybridizing their offerings, giving their operations greater flexibility for navigating the competitive landscape. The fourth pillar, geostrategy, highlights the critical role of strategic positioning at national hubs. Finally, the last pillar of aggregation processes provides insight into the mergers and acquisitions that have been undertaken to achieve the economies of scale and scope critical to operational efficiency and expansive growth.

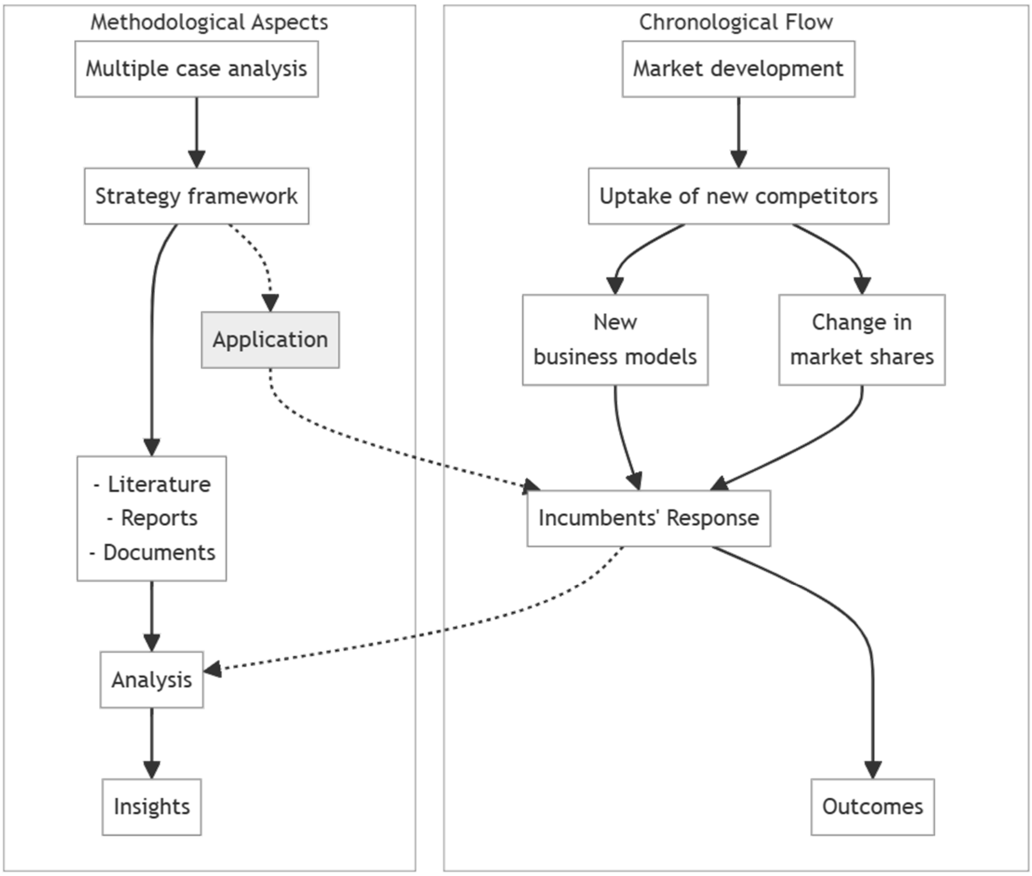

Figure 3. Research design. Source: the authors.

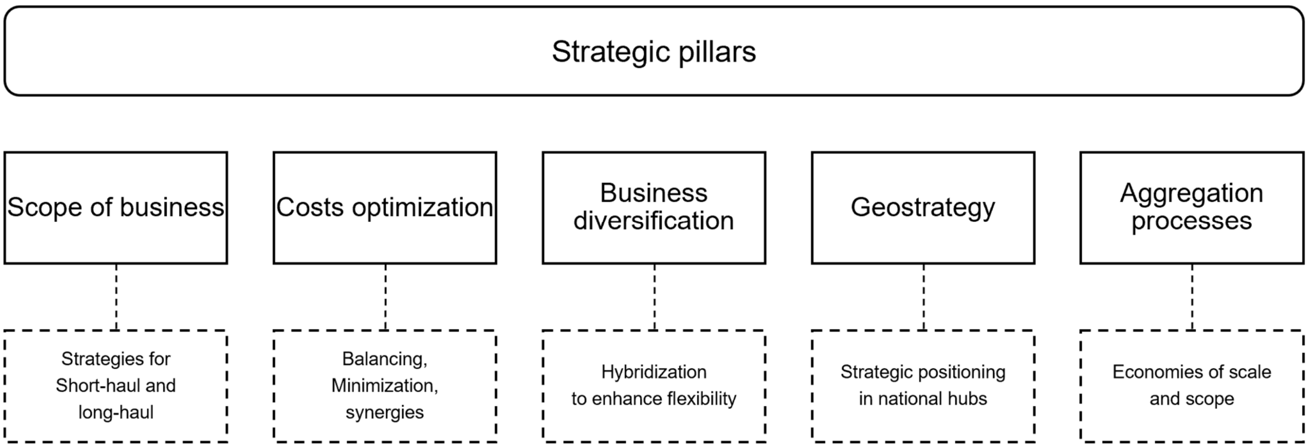

Figure 4. Strategic framework. Source: the authors.

Europe's changing aviation landscape, driven by changes in regulation, market dynamics, and internal and external challenges, poses relevant questions about flag carriers' strategic behavior. Once inextricably linked to national transport policies, these airlines have had to navigate a rapidly liberalizing and competitive market characterized by hybridizing business models, sectoral consolidation, and financial upheaval. While several studies have highlighted various aspects of airline industry adjustment, there remain gaps in understanding the nuanced strategies of flag carriers in this changing landscape. Against this backdrop, our study unravels the strategic intricacies underlying carriers' responses to increased competition and other market dynamics. Specifically, we address the following research questions (RQs): RQ1: Which levers and strategic behavior have flag carriers used to cope with increased competition? RQ2: Do all flag carriers' strategic behaviors converge in response to the evolving market? RQ3: How do internal and external factors correlate with the identified strategies?

4. Evidence

This section presents the main findings from the multiple case analysis. Low-cost carriers have achieved remarkable market shares in Italy and Spain, significantly outpacing their presence in Germany and France. In Italy, these carriers commanded over 54% of the market in 2019. Specifically, for international intra-EU flights, their share is approximately 65%. Although Italy and Spain have comparable market figures, there is a distinction: in Italy, all such carriers compete against the incumbent, whereas Spain's leading low-cost carrier is strategically aligned with the incumbent, marking it as a partner rather than a rival. For more insights into how these carriers have propelled growth at primary and secondary airports, see (Jimenez and Suau-Sanchez 2020).

These carriers' rapid proliferation in Italy stems from sector liberalization, incumbent's weakened market influence, and Italian industrial strategies that did not effectively counter rising competition. However, competition in a market does not necessarily eliminate or reduce the incumbent's position. If the incumbent has effectively held a significant market share, it may still be able to leave little room for new entrants. This explains the varying market shares in different European markets, as depicted in Figure 5.

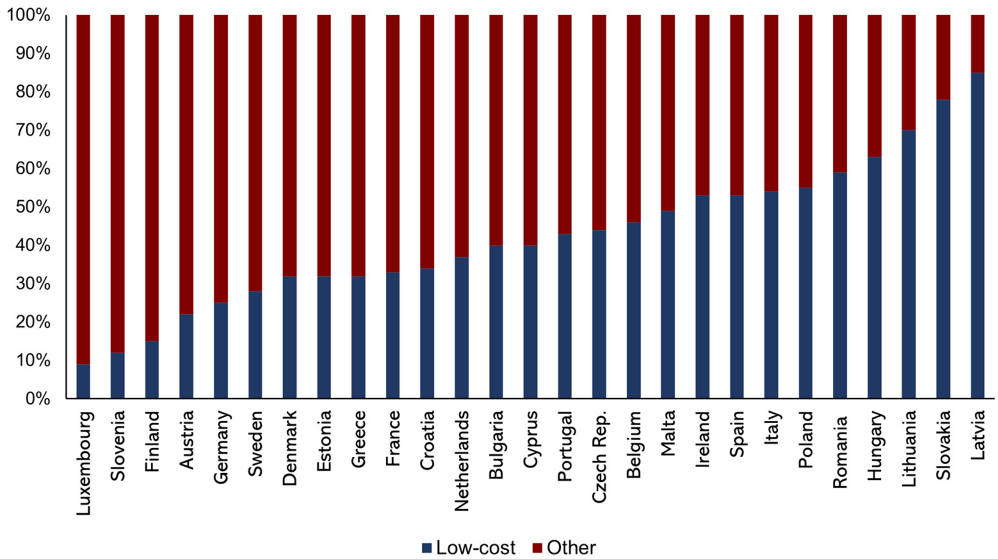

Figure 5. Market shares by type. Source: based on (IATA 2021), reference year: 2019.

We should also bear in mind that there was no preexisting unified and homogeneous European market to be liberalized but rather a set of differentiated national markets. New carriers have entered and grown in those segments thanks to increased business development opportunities (Giones et al. 2019; Vila et al. 2012). In many European markets, the incumbents have historically concentrated in a few hubs, limiting space for new entrants, often to less-convenient time slots.

The incumbents that have left no free space in their hubs for new entrants have become unassailable, thus maintaining their strength over time and, in some cases, even growing. In the case of a weak incumbent unable to grow and continue occupying key spaces in its hub, new entrants have established themselves by competing in the same market segment. The capability of the incumbents to defend their domestic market positions is further assessed in Table 1, where market share is measured as the percentage of overall traffic.

Table 1. Market shares of incumbent carriers in respective countries (2019).

Country	Passengers (m)	Flag Carrier (%)
Italy	160.7	13.6
Spain	220.6	25.8
France	168.7	31.1
Germany	226.8	43.9

Source: based on (CESISP 2021).

As the literature suggests, the dominant position in the reference market can be a lever to outperform (Benkovskis and Wörz 2018) using price or nonprice strategies.

The Italian market, both intra-EU and overall, has grown more slowly than the others because of two concomitant factors. First, the weak incumbent carrier could not grow through recapitalization according to competition law and the state aid rule, which aims to limit measures that may distort competition or the free market across the EU, as well as the low investment propensity of shareholders. Second, the fragmentation of airport operators following the 1990s reforms encouraged various airport operators to boost traffic growth by incentivizing new entrants. These two factors have favored low-cost carriers' constant and remarkable market share. In twenty years, the Italian market tripled in size despite little growth in the real GDP, while the incumbent's market share dropped—It should have quadrupled its capacity and tripled its fleet to keep up with demand. Instead, having failed to grow, Alitalia has progressively lost its market power. In 2007, the company held 32% of the market and, following the bailout in 2008, a new company was launched in 2009; the new carrier started with a 23% market share, which in the following years stood at 22% until 2013, the year in which the market began to grow again following a recession. To this end, Table 2 provides a comparison between Alitalia's fleet matrix and other European carriers that is helpful to better understand fleet capacity constraints.

Table 2. Supply mix (percentage of annual seat kilometers offered).

	Alitalia	European Carriers
Short-haul	25.3	6.4
Medium-haul	37.7	25.2
Long-haul	37	68.4

Source: based on (CESISP 2021).

Although other traditional carriers have downsized over the years, they have, on average, retained around one-third of the market, and their market shares seem to have stabilized over the last four years. Alitalia's market share in 2019 was less than 14% of the Italian market, whereas the other carriers average market share was approximately 33.6%. This 19.6% delta was entirely accounted for by the more significant presence of low-cost carriers in Italy, which held a 55% market share. Table 3 presents the five-pillar strategy adopted by incumbents over the analyzed period.

Evidence shows that there have been common strategic trends among most flag carriers in response to market dynamics, with the Italian case emerging as slightly different due to both internal and external factors that have carved a different path. Concerning RQ 1, in three of the four carriers we studied, the flag carriers have adopted similar strategies within our framework, namely, (1) focus on business scope, with particular emphasis on leveraging long-haul premiums; (2) cost optimization for coping with new competitors; (3) business diversification through hybridization; (4) geostrategic focus on protecting domestic hubs; and (5) aggregation through mergers and acquisitions. Regarding RQ2, the strategies did not fully converge; in particular, the Italian case is unique, especially in light of our framework's business scope and diversification pillars. Regarding RQ3, which focuses on the role of internal and external factors, new entrants' market share is higher in Italy, which has struggled to protect its national hubs from new entrants' competition. Its downsizing over the years has hindered its ability to take advantage of markups in the long-haul segment. In addition, high-speed trains also shifted the demand from airlines to rail in the domestic market. Conversely, the share of new entrants at national hubs remained relatively low in Germany and France. Thanks to long-haul markups, mergers, acquisitions, and consolidation processes in Spain, the flag carrier has performed well despite a remarkable share of new entrants.

Table 3. Five-pillar strategy.

Pillars	Strategies
Scope of business	Progressive focus on expanding long-haul connections that remain primarily free from extensive competition by low-cost carriers, resulting in increased profitability.
Cost optimization	Flag carriers have strategically pivoted to emphasize long-haul routes due to their increased profitability by maximizing the role of short-haul flights in feeding long-haul routes from domestic hubs. To support this approach, carriers have prioritized cost minimization on short-haul flights in order to remain competitive while capitalizing on the markups available on long-haul segments.
Business diversification	Establishment or acquisition of new low-cost intragroup companies, opting for business model hybridization. This hybridization allows incumbents to combine full-service carriers' strengths with low-cost carriers' cost advantages, enhancing flexibility.
Geostrategy	Strategic focus on consolidating positions and market shares at national hubs, where a large percentage of traffic originates, limiting the ability of new players to compete in those hubs.
Aggregation processes	Mergers and acquisitions aimed at increasing the economies of scale and scope, enhancing market reach and dominance, optimizing the use of resources, diversifying risk across different markets, and promoting synergies in operations and services.

Source: the authors.

5. Discussion

Our findings share some similarities with the previous literature and provide new information. The results provide a context for understanding the varied strategic responses under similar competitive pressures since the liberalization that have contributed to the reduction of average prices and to the growth of the market (Fu and Oum 2014). Unlike the previous literature, our analysis highlights how European air transport liberalization has produced differentiated outcomes across countries. Our analysis identified the fact that that the Italian case differs from the other three cases, which followed a more uniform strategy as outlined in the five-pillar framework. For example, the disengagement from long haul has demonstrated a severe strategic drift. Although the company's management tried to contain costs in the short-haul market, with a fleet mainly consisting of short-haul aircraft, the business model could not rapidly be changed to focus on long hauls despite the profitability of this market segment. The considerable growth of low-cost competition in Italy has positively reduced prices, which are lower than other domestic flight prices in neighboring markets where flag operators are still dominant. From our analysis, one may infer common strategies put in place by flag carriers, such as business model adaptation in order to compete in the short-hauls and profit in the long-hauls; cost reduction, especially on short-hauls; business diversification to compete with low-cost carriers; the consolidation of presence in reference hubs; and aggregation processes between flag carriers. The results suggest that implementing competitive strategies to limit new entrants, especially in crucial hubs, plays a prominent role in carrier success. As we have noted, the approach adopted by some carriers may border on strategic anticompetitive behavior, which warrants regulatory scrutiny in order to improve the competitive environment and development of the European market.

The outbreak of the COVID-19 pandemic has had a significant impact on the global airline industry. The European aviation market reveals the positive resilience effects of market concentrations and corporate scales (Su et al. 2023). Some studies have investigated airlines' responses in the aviation sector during the pandemic (Zahraee et al. 2023). For example, a study has developed statistics on the strategic responses of European airlines, including retreat, perseverance, innovation, and exit (Albers and Rundshagen 2020). Furthermore, it was found that most airlines have made layoff decisions, and some companies have started reorganizing their fleets (Budd et al. 2020). Regarding strategy and planning, another study highlights the fact that, to cope with future shocks, airline managers should manage uncertainty as a standard factor for long-term planning, promote continuous dialog with strategic meetings, be aware of the strategic tools used, integrate uncertainty into business strategies, seize opportunities, and transform the organization accordingly (Linden 2021).

Although the evidence presented in this paper is straightforward, this paper is not without limitations; indeed, other factors have influenced the dynamics analyzed in this article. Rapid technological advances in the transportation sector and the consolidation of competing modes such as high-speed rail, especially in countries such as Italy, have played a key role in the dynamics of the aviation market. Geopolitical issues and the global economic slowdown further complicate the scenario, requiring airlines to be agile and adaptable in their strategic choices.

Furthermore, the period of this study extends to 2019 to avoid including the impact and consequences of the COVID-19 pandemic in its analysis. However, it is crucial to provide some insights into the pandemic's impact. The European aviation industry has been disrupted by the pandemic, which may have significant long-term impacts on the sector (Su et al. 2023). According to an analysis of data from 2019 to 2022, the recovery has been markedly heterogeneous across markets. Some airlines are still struggling, while several have surpassed their previous performances (Sun et al. 2023).

Regarding government support, many governments have prioritized maintaining air connectivity in order to safeguard economic activity as well as jobs in aviation and related sectors (Abate et al. 2020). Whether the industry will experience a smooth transition or face further challenges remains unknown (Scheiwiller and Zizka 2021). However, recent statistics suggest that the market has returned to pre-pandemic passenger levels, albeit with significant restructuring within the industry.

Future research should concentrate on market definition and market power (Di Foggia and Beccarello 2021; Kaplow 2015; Lenaerts et al. 2021) in the airline industry. A better understanding of this subject will allow players to cope with future crises and develop several capabilities for evaluating crisis signals and implementing actions to minimize damage (Kao et al. 2020). The managerial implications of this paper are straightforward, as shown in Figure 6, and are grouped into three main areas.

Strategic positioning focuses on expanding long-haul routes, consolidating market share in domestic hubs, and exploiting strengths in markets. Cost optimization emphasizes reducing short-haul costs to support more profitable long-haul routes and develop synergies with other modes, such as high-speed rail and tourism. Diversification involves adopting hybrid business models, pursuing mergers and acquisitions to achieve economies of scale, optimizing resources, and adapting strategies to market dynamics. These strategies provide managers with a comprehensive framework for navigating the competitive and changing landscape of the airline industry.

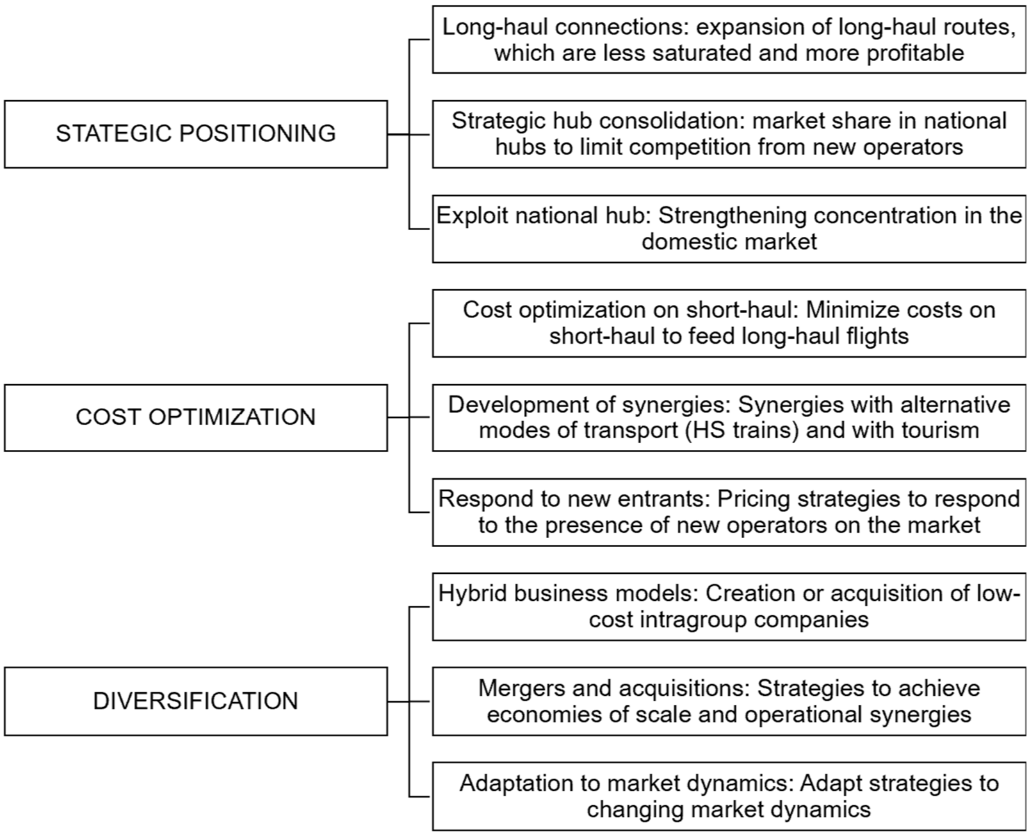

Figure 6. Managerial implications. Source: the authors.

6. Conclusions

In this paper, we explored the strategic responses of major European airline incumbents to increasing competition, especially from low-cost carriers. Our results reveal a complex interplay between market dynamics and strategy.

The growth of low-cost carriers at hub airports was observed but was particularly evident in countries where the incumbents' dominance was less entrenched. In contrast, countries with a dominant flag carrier, such as Germany and France, showed a more stable market structure. A distinguishing feature of strong flag carriers, compared to their weaker counterparts, has been their ability to safeguard market shares and move toward the most profitable long-haul routes, achieving higher returns.

While the airline industry has witnessed several converging strategic trends in response to market forces, airlines' trajectories have been deeply influenced by the nuances of their home markets as well as a patchwork of internal and external factors. Italy, facing intense competition from new airlines and alternative modes such as high-speed trains, has charted a peculiar course. On the other hand, despite the significant presence of new entrants, Spain's flag carrier has managed to thrive, thanks to its successful long-haul strategy and its policies of aggregation and alliances.

By analyzing the strategic actions taken in the face of evolving competition, we identified a five-pillar strategy that can be summarized as follows: strategic focus toward long-haul; emphasis on cost reduction, especially on short-haul routes; hybridization of business; geostrategic positioning by giving priority to keeping a dominant market share in domestic hubs to limit competition; and aggregation dynamics evidenced by mergers and acquisitions to improve operational efficiency and expand business.

The managerial implications are as follows: strategic positioning focuses on expanding long-haul routes and cost optimization that emphasizes reducing short-haul and developing synergies with other modes, while diversification involves adopting hybrid business models.

Although there is a strategic framework on which the incumbents have relied, each airline's path is shaped by its market environment, the pressures it faces, and its organizational strengths and weaknesses.

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