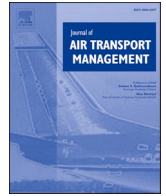




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# European airlines' strategic responses to the COVID-19 pandemic (January-May, 2020)

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## ABSTRACT

This paper analyzes airline reactions to the COVID-19 crisis in the spring months of 2020 along the typical crisis response strategies of retrenchment, persevering, innovating, and exit. Based on the content analysis of 148 news items filtered from a daily aviation industry newsletter published during the unfolding of the crisis in Europe (from January 6 to June 2), the paper specifies and differentiates European airlines' strategic responses, outlines key implications for the post-COVID-19 competitive landscape, and raises attention points for managers and policy makers.

## 1. Introduction

The COVID-19 pandemic has caused an unprecedented crisis for the world's airlines (Dunn, 2020a). Governments around the globe have imposed travel bans, lockdowns, and shutdowns to enforce social distancing measures in their efforts to prevent further rapid spread of the disease and to safeguard the effectiveness of national healthcare systems. The travel and hospitality industry in general, and airlines in particular, are in dire straits: more than 60 percent of the world's commercial aircraft have been grounded (Hollinger, 2020). The International Air Transport Association (IATA, 2020) expects that the COVID-19 crisis will see airline passenger revenues drop by US\$314 billion in 2020, which would represent a 55 percent decline compared to 2019. This estimate is based on a scenario with severe travel restrictions lasting three months (IATA, 2020). It could even be worse, with extended restrictions or, in the case of a new virus outbreak, even new restrictions.

"When a crisis occurs, it usually arrives as a barrage of urgent, unexpected and unpleasant events, allowing little time to organize or plan appropriate responses" (Nathan, 2000, p. 12). An extraordinary crisis such as the COVID-19 pandemic arguably means that there is not just

little time for response organization and planning, but also that traditional response strategies (Wenzel et al., 2020) are insufficient.

An indication of the latter is the fact that airlines are turning to their host governments again in many major economies: the US government committed to a \$25 billion bailout package (Rushe, 2020), and South Korean state-owned banks will provide \$971 million to support Korean Air (Lee and Yang, 2020). In Europe, the Dutch, French, German, and Italian governments are handing out billions of Euros to their national airlines, even under the auspices of the European Commission (e.g., Patel and Wilkes, 2020). In Europe, this represents a major policy turn: after more than two decades of retreating (e.g., Sinha, 2019), the gates for (financial) government intervention are open again, justified by the unprecedented magnitude of the SARS CoV-2-induced crisis. Yet, even extraordinary crises only last for a limited timespan; exceptional measures will not prevail forever. At some point, societies will resume, maybe in the frequently cited "new normal", whatever this might look like. Assuming that, in the post-COVID-19 era, airlines will not have returned to the status of state-owned companies, or even divisions of national transport administrations, we argue that the measures being taken currently will have repercussions for the industry that emerges from the crisis, and after the crisis. It is already becoming clear now – in

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**Table 1**  
Strategic crisis response categories.

Category	Explanation
<i>Retrenchment</i> summarizes measures that aim at substantial cost/overhead and/or asset reductions.	These measures tend to be effective as instruments of short-term survival of the organization through the crisis and “may even be the only perceived way forward in the short run” (Wenzel et al., 2020, p. V13). However, the long-term effects of this type of response strategy tend to be more ambiguous, ranging from opening up renewal opportunities to “irrevocable damages such as the loss of synergies that retrenchment measures entail” (Wenzel et al., 2020, p. V13).
<i>Persevering</i> refers to measures aiming to preserve the status quo of the organization and its activities.	Examples include debt financing or the consumption of slack resources. In general, it is considered effective as a response strategy, particularly in the medium run.
<i>Innovating</i> refers to strategic renewal of the organization during the crisis.	This response may turn out to be an important move in long-lasting crises that tend to provoke “irrevocable traces in the business landscape that render a return to the previous order impossible” (Wenzel et al., 2020, p. V13).
<i>Exit</i> refers to the discontinuation of an organization’s activities. It can be either a forced outcome of an unviable business setting or a strategic response to crisis.	This includes possibilities of freeing up committed resources for future business opportunities. Therefore, “an exit is not necessarily a manifestation of business failure <i>per se</i> ” (Wenzel et al., 2020, p. V14).

early June 2020, not even three months since the introduction of lockdown measures – that the competitive landscape of the European airline industry will change. Despite airlines’ comprehensible immediate and almost unanimous attempts to minimize cash burn in the revenue-stifling crisis, their behavior has varied significantly as the crisis extends (e.g., Air France–KLM retiring their A380 fleet prematurely (Dunn, 2020b) vs. Wizz Air planning to expand into new European markets after the crisis (Reuters, 2020)), which will influence their competitive positioning in the “new normal” industry landscape. Decisions made now, in periods of crisis, will have a major impact on airlines’ maneuvering space and performance in a post-COVID-19-crisis world.

This paper analyzes airline reactions to the COVID-19 crisis in the spring months of 2020 based on Wenzel et al.’s (2020) typology of crisis response strategies (Table 1). We specify and differentiate European airlines’ strategic responses, outline key implications for the industry’s competitive landscape, and raise attention points for managers and policy makers.

## 2. Airline reactions in europe

### 2.1. Data collection and analysis

We screened the daily Air Transport Digest newsletter of the *Aviation Week Network* from the period between January 6 and June 2, 2020 with regard to airline announcements or actions taken related to the crisis unfolding due to the spreading of COVID-19. Each daily newsletter contains between five and 30 news items (apart from regular columns such as event announcements, quizzes, or surveys). These items comprise leads/teasers and compact headlines, most of which link to associated full reports on the website of *Aviation Week*. Overall, we analyzed 102 newsletters and filtered European airline (announced) actions that qualified as (strategic) response to the crisis at hand, because they explicitly mentioned keywords like “Corona”, “COVID-19”, “CoV-2”, “pandemic,” and/or because they were listed in the newsletter’s special section “COVID-19 news updates,” which was introduced with the April 2 newsletter.

We read all 148 so-selected news items and the full articles they linked to. The reported actions were coded along the four general crisis response strategies suggested by Wenzel et al. (2020) as retrenchment, persevering, innovating, and exit-oriented. We added the category of resuming as, from the end of April – also following lifts of travel restrictions – airlines started to (cautiously) resume their offers.

### 2.2. Findings

Table 2 maps and specifies these strategies for the case of European airlines’ responses to COVID-19, while Fig. 1 illustrates the

corresponding time pattern of the respective response strategies unfolding. The majority of findings (75 out of 148, ca. half of all relevant news items) indicate that airlines initially (beginning at the end of January) went into a *retrenchment* mode. Peaks were noted for mid-March and mid-April, but occurrences went all the way through the observed period. This is not surprising given that this strategy reflects measures that aim to substantially reducing cost and minimize cash burn (Wenzel et al., 2020). All European airlines grounded almost their entire fleets and largely halted operations during the March and April 2020 crisis peak, as far-reaching travel restrictions were imposed, leading to the collapse of passenger travel.<sup>1</sup> Beyond this short-term, industry-wide reaction, however, several airlines also announced longer-term retrenchment actions (such as fleet cuts; see Table 2), indicating heterogeneous perceptions of the late- or post-crisis state of the industry.

While retrenchment is the most obvious (immediate) response strategy, *persevering* is an alternative, albeit one usually only for financially strong players in crises of limited duration because “sources of internal and external slack may dry up at some point” (Wenzel et al., 2020, p. V13). *Persevering* aims to preserve the organization’s status quo – that is, get through the crises with no or minor changes in the organizations’ strategy, structures, and assets – and reflects an expectation that, in a post-crisis world, this provides a competitive advantage for persevering firms. This is reflected by Ryanair, which announced it would even intensify price competition when it scaled up its operations again.<sup>2</sup> Most other European airlines have engaged in persevering actions as well, albeit by assessing external resources to get through the crisis: many airlines have addressed the governments of their respective home nations to solicit subsidies (Table 2). *Persevering* moves (with one exception) began at the end of February/early March and gained importance as the crisis unfolded, with peaks in mid-April and late in May. That is not surprising considering that revenues of most airlines have almost completely evaporated and will only come back gradually after a period of unknown duration (with some resuming flight operations at the time of writing).

The third response category of *innovating* refers to strategic renewal of the organization during the crisis (Wenzel et al., 2020). Some airlines have engaged in tactical moves with immediate effect: they have converted passenger aircraft into cargo transporters to benefit from the more stable cargo demand in the crisis, which has even seen a short-term “boom” due to the urgent delivery of medical protection gear (e.g., Horton, 2020). These crisis-specific innovating cases all occurred in or after mid-April. Airlines have also engaged in, or continued with, strategic moves that promise to improve their strategic position in the

<sup>1</sup> According to Air Transport Digest newsletter of 15 May, European passenger numbers were down 96.8 percent in April.

<sup>2</sup> Air Transport Digest newsletter of 19 May.

**Table 2**  
European airline responses to COVID-19.

Response category	Corresponding findings/airline prevalence
<b>1) Retrenchment</b> <i>Substantial cost/asset reduction</i>	75 news items in total
Short-term orientation	All European airlines grounded their fleets more or less completely due to the imposed travel restrictions. Almost all airlines announced job cuts and/or reduced work patterns in accordance with the respective national policy schemes to maintain employment. → More or less all European airlines
Long-term orientation	<ul style="list-style-type: none"> <li>• Air France (brings forward A-380 retirement; restructure domestic network with less flights and more LCC Transavia)</li> <li>• Austrian Airlines (reduce fleet by 25%, management by 30%)</li> <li>• Brussels Airlines (reduce fleet by 30%)</li> <li>• EasyJet (cancel aircraft orders, slim fleet)</li> <li>• Helvetic Airways (stopped growth strategy)</li> <li>• Lufthansa (deep cuts into future fleet, grounding A-380s probably permanently, reposition 20% smaller)</li> </ul>
<b>2) Persevering</b> <i>Safeguarding status quo</i>	37 news items in total
Financial	Most European airlines have sought government aid through grants, loans at preferred conditions/state guarantees, or subsidies. → Most European airlines
Position	<ul style="list-style-type: none"> <li>• Alitalia (Italy's plan to safeguard nationalized airline as springboard for relaunch of Italian economy; continue codeshare with Delta Air Lines)</li> <li>• Ryanair (committed to drive price competition after crisis)</li> </ul>
<b>3) Innovating</b> <i>Strategic renewal</i>	16 news items in total
Crisis-specific	<ul style="list-style-type: none"> <li>• Austrian (reconfiguring aircraft for cargo)</li> <li>• Icelandair (reconfiguring aircraft for cargo)</li> <li>• Lufthansa (LH Technik offers cargo conversion)</li> <li>• Sun Express (switch aircraft to freight operations)</li> <li>• Swiss (reconfiguring aircraft for cargo)</li> </ul>
Longer term	<ul style="list-style-type: none"> <li>• Aeroflot (plans to open Europe-Asia transfers)</li> <li>• Air France-KLM (transatlantic joint-venture with Delta Air Lines and Virgin Atlantic)</li> <li>• British Airways (UK-Australia joint venture with Qatar Airways)</li> <li>• IAG (remains committed to takeover of Air Europa)</li> <li>• Volotea (plans 40 new routes for summer)</li> <li>• Wizz Air (plans to enter new markets in Europe, increase scale of Abu Dhabi venture, intends to grow ancillary business)</li> </ul>
<b>4) Exit</b> <i>Discontinuation of activities</i>	11 news items in total
Failure	<ul style="list-style-type: none"> <li>• Air Italy (ceased operations)</li> <li>• AtlasGlobal Airlines (filed for bankruptcy)</li> <li>• Braathens (filed for court administration)</li> <li>• CityJet (entered local equivalent of Chapter 11)</li> <li>• Flybe (gone into administration)</li> <li>• Norwegian Air Shuttle (pilot and cabin crew subsidiaries filed for bankruptcy in Denmark and Sweden)</li> </ul>
Withdrawals	<ul style="list-style-type: none"> <li>• British Airways (could pull out of LGW permanently)</li> <li>• LOT (giving up bid for Condor)</li> <li>• Lufthansa (close Germanwings subsidiary)</li> <li>• Virgin Atlantic (exit base at LGW)</li> </ul>
<b>5) Resume</b>	9 news items in total
	Airlines re-introduce flights and/or increase schedules for summer 2020 onwards, returning to (still considerably modified) flight operations at least on the continent.

Airlines featured in alphabetical order in each category.

long-term, such as preparations for joint ventures, entering new markets, or setting up joint ventures (Table 2).

The final response strategy, *exit*, refers to the discontinuation of business activities (Wenzel et al., 2020). It is not limited to closing the entire business, but also refers to downscaling operations or to pulling out of certain markets or industries as strategic moves to free up committed resources. This category includes airline failures (bankruptcy/going into court administration cases, of which there have been three) as well as withdrawals of varying intensity (from specific markets or segments) (Table 1). Exit responses distribute almost evenly over the observation period. Finally, *resuming* commenced at the end of April when it became apparent that at least some of the air travel demand within Europe would recover.

Overall, our findings show that airlines are no exception in their reactions to crises: We observe them engaging in moves along all four typical response strategies. Airlines pursue typical strategies in a sequence (opening up a response path) and/or in parallel (engaging in hybrid strategies). We also see the prominent role of national governments in the second-cycle reactions; that is, after immediate retrenchment:

1. *Paths*: As mentioned, (almost) all airlines reacted immediately with retrenchment to cut costs drastically, and then embarked into different directions. One response path is to move from retrenchment to exit (six cases; for example Virgin Atlantic moving from fleet groundings and job cuts to the decision of leaving its London-Gatwick base permanently). Another path that we could consider a “mainstream avenue” due to the 32 cases we found is the sequence of proceeding from short and long-term retrenchment to persevering. Upon realizing that, due to the severe lack of revenues, the airline cannot be sustained on its own even after substantial retrenchment measures, many started soliciting financial support from governments and/or investors.
2. *Hybrids*: There are also varieties of combining responses of different categories simultaneously. Leaning on the notion of hybrid strategy, a concept delineating the parallel pursuit of seemingly contradictory generic strategies (Baroto et al., 2012), we refer to these as the hybrid response approach. For example, there are occurrences of grouping financial persevering and crisis-specific innovating (five airlines solicited government support and transformed aircraft from passenger into cargo transporters). British Airways even represents a

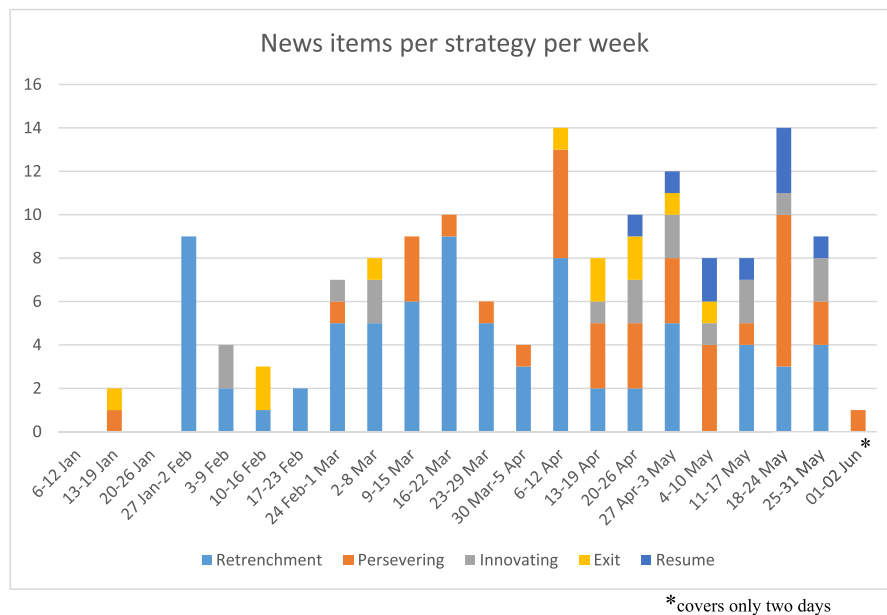


Fig. 1. Timeline of European airline strategic responses to COVID-19.

case of combining three components, as it simultaneously practiced/pursued workforce reduction, a joint venture for routes to Australia, and a permanent exit from its base in London-Gatwick.

3. *National governments*: Our findings also highlight that governments are back – as grantees, lenders, or investors of last resort they support airlines in their persevering and innovating strategies (27 related news items, including airlines and their respective home states of all sizes ranging from the Lufthansa Group to Finnair to AirBaltic or TAROM). Thus, they also open the door to instrumentalize airlines for political means, reshuffling the airlines’ strategies and the competitive playing field of European aviation for the years to come.

### 3. Implications for the European airline industry

In the following, we consider implications of the European airlines’ strategic crisis responses for the post-COVID-19 competitive landscape of aviation in Europe. Some of the longer-term-oriented retrenchment measures (such as Air France-KLM’s A-380 fleet retirement (Dunn, 2020b) or Lufthansa’s closure of Germanwings (Deutsche Welle, 2020)) arguably represent efficiency-promoting decisions that were just accelerated or antedated due to the crisis, and some of the longer-term-oriented innovating measures (such as the pursuit of joint-venture initiatives of Air France-KLM/Delta Air Lines/Virgin Atlantic<sup>3</sup> and of British Airways/Qatar Airways<sup>4</sup>) arguably represent decisions of continuity into the future. However, there are major responses that catalyze a substantial counter-movement with backward-oriented momentum, namely through state intervention via government bailout. In this vein, we distil three broad implications with an inevitable focus on this latter notion: governments acting as change agents, a resetting of business model convergence, and a cementation of industry structures.

#### 3.1. National governments as change agents?

The observable government interventions (Table 3) change

competition parameters and modify future success prospects of market participants. They strengthen resource bases on the one hand, but limit the room for maneuvering for strategic and/or operational airline management decisions on the other hand. Government subsidies can provide the much-needed liquidity that enables strategic change in hostile contexts (see also Deb et al., 2017) and can therefore be a driver of industry change – albeit along the interests and priorities of politically strong national interest groups and stakeholders. The conditions, or “requests”, attached to the French (greening through domestic flight reductions, purchasing of Airbus aircraft (Ash, 2020)) and German (rejuvenating fleet, government-approved board members (Sweeney, 2020)) bailout packages, for example – which may also be understood as archetypal for historical paths of French dirigisme and German ordo liberalism, respectively (Warlouzet, 2019) – clearly illustrate the influx of political objectives. The political goals of strengthening Airbus partly counters efficient, commercially-driven fleet planning (Air France had just resorted to Boeing for wide-body jet renewals, see Table 3). Referring to “greening” goals, the state aid conditions can be interpreted as positioning the crisis as a catalyst for changes the industry would face anyway; considering the rising debates on the sustainability of air travel (e.g., Gössling et al., 2017; Higham et al., 2016). However, such conditions may result in counterproductive developments from the airlines’ perspective: network carriers have to downsize due to domestic flight cuts, which arguably reduces economies of scale and scope. Furthermore, the already complex task of managing airline networks profitably (e.g., Talluri, 2001) becomes even more complex while airline revenues are effectively reduced when pricing and revenue calculations for international itineraries face the additional parameter of external feeder service providers (probably railways in the case of France) that earn a share of the ticket price. There are likely to be additional side-effects: the large network carriers as main beneficiaries of this state aid are clearly politicized organizations already (Habersang et al., 2019). They have come to realize this burden, which is a heritage of their national flag carrier times throughout the last 10–15 years (see the long and heavy industrial disputes that recently disrupted operations of Air France, British Airways, and Lufthansa), and especially vis-à-vis their regional low-cost carrier (LCC) competitors. All large network carriers have made major inroads in improving their efficiency with innovative business models and organizational solutions (Daft and Albers, 2015). The

<sup>3</sup> Air Transport Digest newsletter of 3 February.

<sup>4</sup> Air Transport Digest newsletter of 14 May.

**Table 3**  
Government support conditions for the largest European airlines.

Airline (Group)	Key points/explanations
<i>Air France-KLM</i>	<p>Air France</p> <ul style="list-style-type: none"> <li>• French government package of €7bn (€3 bn in loans, €4 bn in state-guaranteed funds)</li> <li>• Carbon emission reductions; discontinuation of domestic routes where railway connections of under 2.5 h are available as alternatives</li> <li>• Profitability targets (unspecified as yet)</li> <li>• Air France has to remain a loyal customer of Airbus (the airline's short-haul fleet is all-Airbus, the widebody fleet has been tilted towards Boeing during recent fleet updates)</li> </ul> <p>KLM</p> <ul style="list-style-type: none"> <li>• Dutch government is preparing €2bn to €4bn.</li> </ul> <p>The respective state support packages can only be used for each airline separately. Both governments own ca. 14% in the airline construct, respectively.</p>
<i>IAG</i>	<ul style="list-style-type: none"> <li>• Tapped ca. €1.2bn from coronavirus emergency funds in UK and Spain; no bailout package yet</li> </ul>
<i>Lufthansa Group</i>	<p>Lufthansa</p> <ul style="list-style-type: none"> <li>• German government package of €9bn: €5.7bn as loan at 4%, €3bn credit facility by state-owned bank, €300m in return for 20% government stake in the company</li> <li>• Two seats on Lufthansa's supervisory board to be filled in agreement with the German state</li> <li>• Government option to increase stakes to 25% plus one share to block potential takeover</li> <li>• Waiver of future dividend payments and senior management salary restrictions likely</li> <li>• Carbon emission reduction measures demanded (but unspecified as yet)</li> <li>• EU commission approval requirement: ceding take-off and landing rights to competitors at major hubs in Frankfurt and Munich, as well as giving up aircraft to competitors</li> </ul> <p>Austrian Airlines</p> <ul style="list-style-type: none"> <li>• Negotiations with Austrian government under way</li> <li>• Likely conditions: environmental goals, stakes for government, guarantees for hub at Vienna</li> </ul> <p>Brussels Airlines</p> <ul style="list-style-type: none"> <li>• Negotiations under way, airline asked for €290m from Belgian government</li> <li>• Likely conditions: outline of future airline plan, continuation of hub at Brussels</li> </ul> <p>Swiss International Air Lines</p> <ul style="list-style-type: none"> <li>• Swiss government provides €1.2bn</li> <li>• No outflows to parent company abroad allowed</li> <li>• Future earnings priority use: repay state aid; dividends forbidden until that is completed</li> </ul>
<i>easyJet</i>	<ul style="list-style-type: none"> <li>• Tapped ca. €660m from coronavirus emergency funds in UK; no bailout package yet</li> </ul>
<i>Ryanair</i>	<ul style="list-style-type: none"> <li>• Tapped ca. €660m from coronavirus emergency funds in UK; officially opposes bailout packages</li> </ul>

Data sources: BBC, CNN, Forbes, Handelsblatt, Simpleflying, The Guardian.

government interventions that we are seeing now reinforce political influences and politicking in the organization, potentially endangering their long-term survival (Habersang et al., 2019).

Multi-national airline groups such as Air France-KLM, Lufthansa and IAG, which have collected subsidies from a variety of governments that have all set their own strings to the respective package, run the risk of facing competing demands that, in contrast to the pre-COVID-19 situation, can now be legally and politically reinforced. In Belgium, for example, the national government has learnt from the “weak” safeguards it had asked from Lufthansa in its initial acquisition of Brussels Airlines, leading to a strategic downgrading of Brussels Airlines and the Zaventem hub (Vanacker et al., 2020). There are even national, intra-political struggles; consider the current Austrian government coalition partners (a conservative/business-friendly and a progressive/eco-friendly party), who envision irreconcilable political goals they would like to pursue with a potential Austrian Airlines aid package, respectively (Flightglobal, 2020). Conflicting national interests, paired with renewed legal leverage and infused into the boardrooms via government (approved) directors, tend to dilute effective and efficient decision making as well as effective and efficient measures in a fast-paced and competitive environment (Davies, 1971; Wing Chow, 2010). This is certainly one reason why Lufthansa resisted and is not welcoming the government aid with open arms; their advisory board rejected the terms of the initial governmental aid package (FAZ, 2020) and Lufthansa's CEO is insisting on turning Lufthansa into a fully private company again by 2023 (FAS, 2020).

### 3.2. Resetting business model convergence

In the aftermath of industry deregulation in the late 1990s and the rise of LCCs in Europe in the first decade of the 21st century, the continental European aviation market entered into a consolidation process. LCCs and network carriers' business models were converging towards a

common design of continental passenger flight services (Daft and Albers, 2013, 2015). The COVID-19-induced government interventions have the potential to reset this development: While network carriers are receiving state aid packages (see above), LCCs do not receive (or even aspire to receive) tailored packages. Ryanair and easyJet, as the largest LCCs, receive funds from the general business aid fund of the UK government (see Table 3), while Wizz Air does not receive any additional support from national governments. The large network carrier groups will suffer from increased politicization that restricts their decision autonomy with regard to routes and hub development (Lufthansa/Brussels), aircraft orders (Air France), fleet size and technology (all), and possibly corporate restructurings, which further complicates their decision making due to inter- and even intra-governmental alignment. However, the LCCs are not confronted with such challenges and might even thrive on the new priorities and exigencies of their network carrier rivals. Wizz Air intends to expand into new European markets and Ryanair announced it will drive price competition once the markets open up again (see Table 2), thereby committing to keep the strategic position of the main developer and leader of price-driven airline competition in Europe (Malighetti et al., 2009).

This is unwelcome news for network carriers, which now have governments aboard that had already been claiming that “flying is too cheap” before COVID-19 hit (e.g., The Local, 2019). On one hand, airlines under state support schemes could hardly engage in price wars without being accused of inappropriate business conduct. On the other hand, with offers that are more expensive (maybe much more) than their low-cost counterparts, who seem determined to continue/bounce back after the crisis with (even more) aggressive price-driven market conduct, network carriers face competitive disadvantages. Those could be moderated if the network carriers differentiated their proposition and/or if additional state action, unrelated to the bailouts but aiming at wider sustainability goals, eventually curtailed the leeway for ultra-cheap flight offers. Initial projections have been followed by

announcements that flying will become more expensive post-COVID-19, not only due to social distancing measures on aircraft, such as empty middle seats (FAS, 2020; Thiessen, 2020). In conjunction with the announced fleet/route downsizings of Lufthansa, British Airways and others, market shares on the continent could shift (even further) towards the still growth-hungry LCCs. Less clear is the future position of easyJet, which had grown substantially as an LCC in Europe pre-COVID-19 and arguably embodied the business model convergence trend quite clearly (e.g., Fageda et al., 2015). This carrier has now downsized its fleet, but has at least remained without a bailout package, and has hence avoided additional restrictions.

### 3.3. Cementing the industry structure – preventing industry consolidation

It is foreseeable, in the short term anyway, that the European airline industry structure will be cemented, at least in so far as further consolidation trends that were already underway will be deferred. A case in point is Alitalia, which seems to have secured another “legitimate” life (prolongation), as the Italian government intends to deploy it as a nationalized vehicle serving the recovery of the economy in general and tourism in particular (Fonte, 2020). Thereby, an airline that has been ailing and subjected to a series of eventually abandoned takeover attempts and negotiations (with Lufthansa and Air France, among others), and would therefore have hardly prevailed in a market setting without the massive COVID-19 disruption, remains in the game. Despite doubtful (long-term) success prospects – considering that Alitalia has been analyzed as a case of state-managed failure, as governments have used it as political tool in the past (Beria et al., 2011) – it will at least temporarily contribute to preserving an otherwise (partly) outmoded industry structure with possibly distorted competition.

Whereas crises usually tend to create numerous takeover opportunities, we do not expect takeovers to surge as the COVID-19 crisis evolves. So far, takeovers have been prevented or postponed. TAP Air Portugal was considered a takeover target; Lufthansa and United Airlines had reportedly considered a coordinated move to keep their Star Alliance partner on board<sup>5</sup> and Polish LOT's imminent acquisition of German Condor has been called off (Shotter and Chazan, 2020). Such ventures rarely go ahead due to the highly uncertain industry outlook with regard to duration and intensity of the crisis, as well as the development path towards, and the actual status of the “new normal” situation. Government restrictions in terms of use of resources while under tax money support will further paralyze mergers and acquisitions among European airlines. All big carriers announced fleet downsizing variations (and accompanying layoffs) so that acquisitions of other carriers (bringing fleet and personnel with them) would be more challenging anyway. Even the more extreme COVID-19-induced scenario that a major network carrier could become a takeover target is unlikely, partly thanks to government bail-out packages (see the German government option to upgrade Lufthansa stakes to 25 percent plus one share in case of an imminent takeover (FAS, 2020)). Hence, beyond a few exits of smaller carriers due to bankruptcy that have occurred (see Table 2) and may follow, it is unlikely that European industry consolidation will see a revival soon.

## 4. Conclusion

The COVID-19 pandemic is changing the landscape of European aviation. The government-induced halt of cross-border travel in the spring of 2020 has led all airlines to engage in massive retrenchment measures. With its unfolding prolongation and widespread realization that a return to pre-COVID operations will be months, if not years, away, European airlines have resorted to different responses along perseverance, but also innovating and exit strategies, prominently involving

governments as providers of much-needed liquidity. This paper has detailed airlines' varying responses and outlined longer-term implications for the industry: with the increase of government influence on many major European carriers, strategic priorities and decision making will be substantially modified. Long-term patterns of strategic alignment (convergence) among European airlines and their business models will be altered. The consolidation of the European airline industry will be put to a halt. However, it remains to be seen whether the underlying politicization of the industry is a temporary phenomenon. Relations between airlines and states in Europe have been complex (e.g., Doganis, 2010; Levy and Ziegler, 2016). After its initial generosity in approving COVID-19-related state aid packages, the European Commission (EC) has recently returned to a more restrictive stance (Economist, 2020). In a European Union committed to the common market, a key principle of which is fair (or level playing field) competition (e.g., Gerard, 2010), the European Commission's mandate is to ensure equal competitive conditions and enforce them for airlines. However, government bailout packages, as detailed so far, seem to have provoked heightened heterogeneity and it would have been detrimental for European businesses, passengers, and taxpayers if Europe had reverted to pre-liberalization-type flag carriers that provide international connectivity but compromised efficiency, innovation, and service quality – which would then be strongholds of independent low-cost carriers. The European Commission has a role to play in reinstating a desirable level playing field. The second half of 2020 will be decisive in shaping the post-COVID-19 era of the European aviation industry.

### CRedit authorship contribution statement

**Sascha Albers:** Conceptualization, Data curation, Investigation, Methodology, Writing - original draft, Writing - review & editing.  
**Volker Rundshagen:** Conceptualization, Data curation, Investigation, Formal analysis, Writing - original draft, Writing - review & editing.

### Appendix A. Supplementary data

Supplementary data to this article can be found online at <https://doi.org/10.1016/j.jairtraman.2020.101863>.

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<sup>5</sup> Air Transport Digest newsletter of 25 February.

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