Deconstructing Legacy - Is Low-Cost the Business Model of the Future?

The European Airline industry has been in turmoil for years. More than 20 years ago the national carriers were privatized and subsequently realigned their business strategy to a globally competitive environment. This led to cultural change within the corporations, market corrections and reconciliation among these former national carriers - effectively eliminating the weakest players. Among the once vast number of national carriers representing all European countries only a few remain - most notably British Airways, Air France / KLM and Lufthansa.

These carriers in particular Air France / KLM and Lufthansa have recently been in the headlines as fierce and even violent employee protests came to a head. The Air France / KLM head of human resources was physically assaulted in October in Paris. He fled the employee assembly and was forced to climb over a fence to save himself. This violent outbreak was preceded by the announcement that around 3.000 jobs needed to be cut and 10% of long-haul flights eliminated so that the beleaguered company can stay in business.

Similarly last week at Germany's Lufthansa 19.000 cabin staff went on an unprecedented week-long strike, which affected around half a million passengers and saw more than 5.500 flights cancelled. This strike had been preceded by industrial action by the around 5.400 Lufthansa Pilots - they had been on strike for the 13th time in 2 years - according to a company spokesman at the cost of 330M€. What has not been making prime time news headlines were the strikes by other business segments, the call centers, stations, operations.

What is going on behind the scenes in Europe? Currently the legacy carriers are faced with stiff competition from government-subsidized gulf carriers while at the same time seeing low-cost airlines eating away at the customer base. The competitors have a divergent cost-structure, while the former national carriers are still burdened with remnants of legacy pay and benefit structures. A new business model is found in the deconstruction of the old company structure and replacing it with a low-cost approach. Over the years this has led to the creation of countless subsidiaries, subcontractors and other business constructs which were then able to hire lower paid workers. Other such constructs included sale and lease-back, wet-leases, and "atypical employment" and now the creation of its own low-cost carrier - "Eurowings". Its intent is to take over traditional legacy routes at low-cost carrier pay structures. This effectively circumvents legacy employment contracts.

This paper will provide insight into the protracted situation at Europe's largest carrier, the European airline industry and considers the consequences for employees, companies, investors and shareholders. With it this paper will analyze the fallout of the gulf airlines and low-cost carriers in the global airline industry, depict an outlook on future developments and the consequences of these approaches.(476)

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