

2013



# Are European Regionals' Successful Days Numbered?

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## Are European Regionals' Successful Days Numbered?

**33.33% of all regional carriers in Europe went out of business between 2008 and today, nearly one fourth of the employees lost their jobs. PROLOGIS and ch-aviation have scrutinized Europe's regional airline market.**

Doesn't it sometimes feel like Europe's regional airlines' market exits are as common as their entries? Don't you occasionally wonder if this industry still bears any potential? In order to gain clarity in this matter, PROLOGIS and ch-aviation conducted a study of the European regional market, comparing data from 2008 with data from 2013.

The results are quite frightening: 44 new airlines were founded from 2008 on, 22 of them have already vanished. The overall mortality rate was 33.33% (see Figure 1). But the most concerning number is probably a job loss rate of 23 % between 2008 and today, which means that almost every fourth employee lost his job (see Figure 2). It seems like regional carriers' successful days are history.

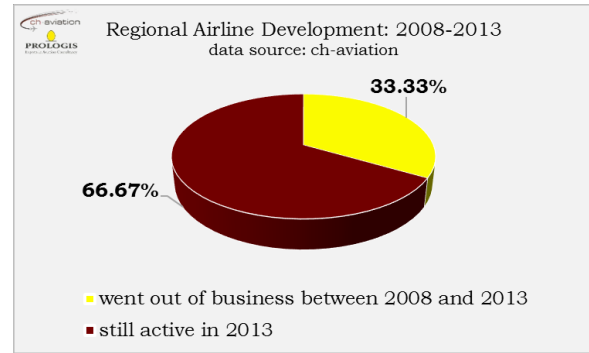


Figure 1

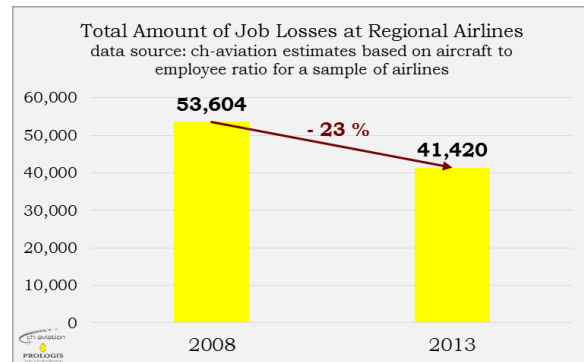


Figure 2

## The Affiliates – Dwindling Partnerships

It all started in the early days with the traditional regional carrier model, which is still very popular today. Affiliated airlines supply or 'feed' large network carriers' hubs with passengers from small, nearby regional airports. In many cases, the relationship between network airlines and the subcontractors is based on a parent-subsidary model, with the affiliates operating either under their own brands or a regional brand. Lufthansa, for example, currently has four regional partners (Air Dolomiti, CityLine, Eurowings and Augsburg

Airways), all 100% subsidiaries with the exception of Augsburg Airways that together form Lufthansa Regional. Nevertheless, the Augsburg Airways regional partnership will be terminated at the end of Lufthansa's summer schedule 2013 after 16 years due to the German legacy carrier's restructuring program 'Score'.<sup>1</sup> Along with the previous termination of the equally longstanding partnership with Contact Air in October 2012, the German airline will have parted from two regional partners within only a year.

A similar decrease in regional affiliated partnerships can be observed at Air France-KLM and IAG (International Airlines Group, holding company of British Airways & Iberia). To cut costs, Air France will be merging the three regionals Airlinair, Brit Air and Régional under a single new brand called 'Hop!' as of March 31, 2013, that will operate most non-hub routes with a low-cost carrier like product offering.<sup>2</sup> British Airways already sold its regional BA Connect to British regional Flybe. in March 2007, as the management did "*not see any prospect of profitability in its current form*"<sup>3</sup> anymore.

All three major European carrier groups not only face increasing pressure from still fast growing low-cost carriers for traffic within Europe. They also feel competition from expanding international carriers, increasingly serving smaller European markets, from hubs in the Middle East for example. These factors have led to lower yields for point-to-point regional traffic and lower demand for hub and spoke traffic within Europe as well as for intercontinental flights. This makes it difficult to continue profitable regional operations with small aircraft.

### **The Independents – Decreasing Profits?**

Flybe. – the keyword that reminds us that when we talk about regional carriers, we are not only referring to affiliates. Since the mid-1990s, there have been a growing number of totally independent carriers that offer point-to-point service to both small regional and large international airports, operating under their own brands and with no ties to large network carriers. Since the acquisition of BA Connect in 2007 we just mentioned, Flybe. is Europe's

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<sup>1</sup> ch-aviation (2012)

<sup>2</sup> ch-aviation (2013a)

<sup>3</sup> U.S. Securities and Exchange Commission (2006)

largest regional carrier in general. For the six months until 30 September 2012, however, the group that includes Flybe. Nordic (a joint venture with Finnair) reported a pre-tax loss of £1.3m (€1.5m). Flybe. blamed the results on fuel prices at record highs and a decrease in passenger numbers in the UK domestic aviation market.<sup>4</sup> The Norwegian regional Widerøe, that is still fully owned by SAS (with a sale expected this year<sup>5</sup>), but operating fairly independently, was selected European Airline of the Year 2012 by the ERA (European Regional Airline Association). Yet, the award cannot hide the fact that the carrier's operating profit decreased by 59.8% between December 2011 and October 2012. Other European independents must deal with financial results similar to Flybe.'s and Widerøe's.

## Regionals in Europe: Overall Analysis Results

How did we obtain our results and what do they look like in greater detail? In

order to analyze Europe's regional carrier market and its development within the last five years, we compared airline and fleet data from January 1, 2008, with current data (date of data analysis: February 17, 2013). Regionally, the scope of the study includes all EU member states plus Albania, Bosnia-Herzegovina, Croatia, the Faroe Islands, Iceland, Kosovo, Macedonia, Montenegro, Norway, Serbia and Switzerland. The underlying data for the study is based on a combination of the ch-aviation airline knowledge base, jp airline-fleets and manual research by ch-aviation.

During the time period we observed a total of 195 regional airlines have operated in the countries under consideration, of which only 130 carriers are still active today. This means a loss of 65 regional airlines over the last five years, reflecting a significant mortality rate of 33.33% (see Table 1). This rate is even more alarming when we only look at the carriers entering the market between

	Active before 2008		Founded from 2008 on		TOTAL	Percent
	active in 2013	went out of business betw. 2008 and 2013	active in 2013	went out of business betw. 2008 and 2013		
<b>Airlines</b>	108	43	22	22	<b>195</b>	<b>100.00%</b>
<b>Mortality</b>	0	43	0	22	<b>65</b>	<b>33.33%</b>
<b>Active in 2013</b>	108	-	22	-	<b>130</b>	<b>66.67%</b>

Table 1, Regional Airline Development in Europe (2008-2013)

<sup>4</sup> Flybe.com (2012)

<sup>5</sup> ch-aviation (2013b)

2008 and today: Every second newly founded carrier was unable to survive. The numbers look a bit better for the airlines that already existed before 2008. Of all 151 regionals that existed before 2008, 108 (71.52%) are still operating. They represent more than three quarters (83.08%) of today's active carriers.

To sum things up, there has been a major airline decline over the last few years. The regional market in Europe in particular does not seem promising to start-ups. Moreover, it should be mentioned that the decline of regional airlines has a negative effect on secondary airports, frequently the bases of regionals. The cessation of a carrier can result in a drastic reduction in airport business volume, making its future uncertain.

**Affiliates versus Independents:  
 Converging Ratio**

The distinct analysis of affiliated/network airlines and independent carriers revealed a current 1:2 ratio (42 affiliates/network carriers with regional operations = 32.31%, 88 independents = 67.69%; see Figure 3). This ratio has converged. In total, between 2008 and 2013, there were 49 affiliates/network carriers with regional operations (= 25.13%) and 146

independents (= 74.87%) amounting to a ratio of 1:3 (see Figure 4).

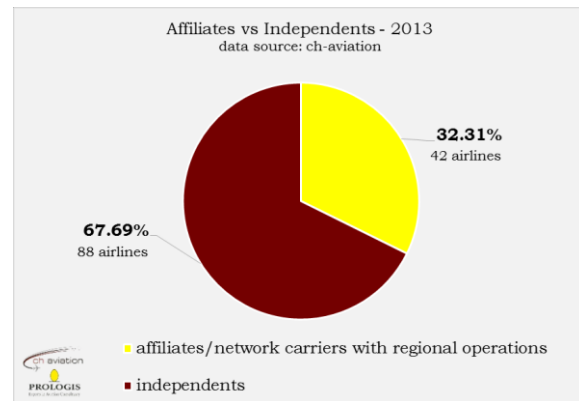


Figure 3

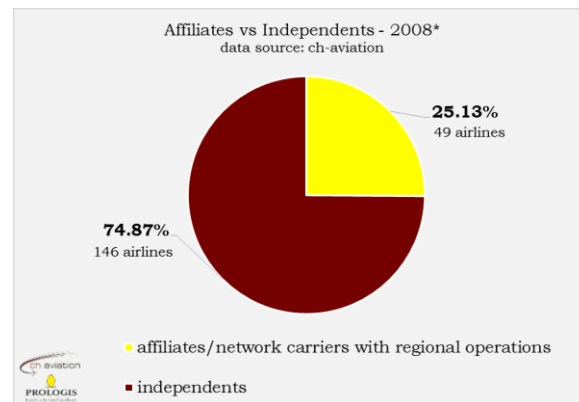


Figure 4, \* Total of all airlines that have been operating in 2008 & were founded from 2008 on (including airlines that have gone out of business).

With regard to affiliates and network carriers with their own regional operations, alterations have been comparably low over the last five years. Only two new airlines were founded between then and now that fall in this category, Cimber which launched in 2012 and Olympic Air in 2008. Both weren't new market participants in the proper sense, but rather successors: Cimber evolved from the insolvent

Cimber Sterling (and works closely with SAS) and Olympic Air from Olympic Airlines.

14.29% of the affiliates withdrew from the market. In contrast, 39.73% of the independents have gone out of business. Considering only independents, the highest mortality rate could be observed between the years: A total of 42 carriers were founded from 2008 on, yet 55% of them have failed.

### **Fleet Development**

How have fleets changed over the past five years? In 2008, 706 aircraft with 20-50 seats were operated by European regionals. Within five years, this number decreased by 53.26% to 330. There was also a decrease in the number of aircraft with less than 19 seats (by 13.79%). Only the amount of 50-100 seaters increased by 3.37% from 682 to 705 (see Figure 5). In summary, we can observe a trend away from aircraft with fewer than 50 seats towards aircraft with 50-100 seats.

It is expected that the demise of 37-50 seat regional jets in Europe will come sooner rather than later. This corresponds with a similar development in the United States where major carriers are currently slashing regional jets in

this category from their contracts with regional partners very proactively, moving to higher capacity regional aircraft. Lufthansa's regional affiliates have retired 60 50-seat aircraft in five years, as Lufthansa has decided to drop all of these aircraft and now to also drop all 70 seat turboprops by the end of 2013.

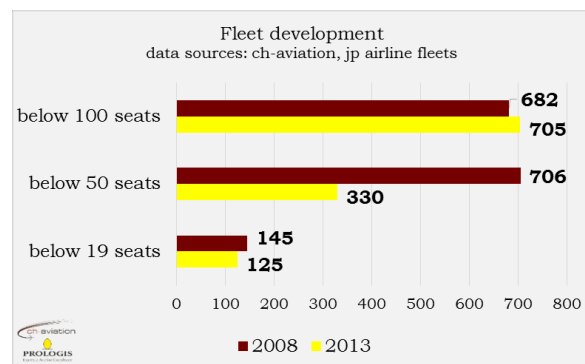


Figure 5

And yet, it was small regional jets like Bombardier's CRJ-200 or Embraer's ERJ-145 that replaced turboprops in the mid-nineties. They made flying both short and long routes with just a few passengers more economical and were considered more attractive for passengers, thereby constituting stepping stones into profitability for many regional airlines. However, triggered by the post-9/11 recession, the below 50 seat jets' success started going south. Regional airlines that also often face competition from low-cost carriers launching the same or similar routes with a completely different business

model began moving towards larger regional jets and back to turboprops (as new aircraft types with lower per seat costs have become available).

At some point, the costs of operating 50 seat jets could not be justified any longer after the fuel prices exploded coupled with the global financial crisis.<sup>6</sup> In order to distribute fix costs over a higher amount of seats, the majority of the carriers now focus on operating large 90-plus seat jets like the ERJ195 or CRJ-900 or slightly smaller turboprops like the ATR72-600 or Bombardier Dash 8-Q400 where routes justify the use of these aircraft. Other routes are either dropped altogether or picked up by other carriers operating smaller turboprop aircraft (that will face a problem of their own due to the lack of fleet replacement options) as no new turboprops with 20-

50 seats are being offered anymore with the ATR42-600 being the only 50 seat turboprop still for sale. (See Figure 6 and Appendix for regional aircraft development.)

### The victims: Employees

The preceding analysis results clearly illustrate the regional markets' downturn in Europe. And, as usual, the recession's pain is felt most by the employees.

When analyzing the development of jobs in Europe's regional airline industry, we made a distinction between direct and indirect airline jobs. Direct jobs refer only to the aircrew needed to operate the aircraft, that is pilots and flight attendants. Indirect jobs include all other jobs in operations, administration and engineering. Based on PROLOGIS and ch-aviation estimates, there were 15,118 direct regional airline jobs within the EU and the other European countries we analyzed in 2008. By the beginning of 2013, this number had dropped to 11,930 (a decrease of 21%). During the same five year period, indirect jobs were reduced by 8,996 from

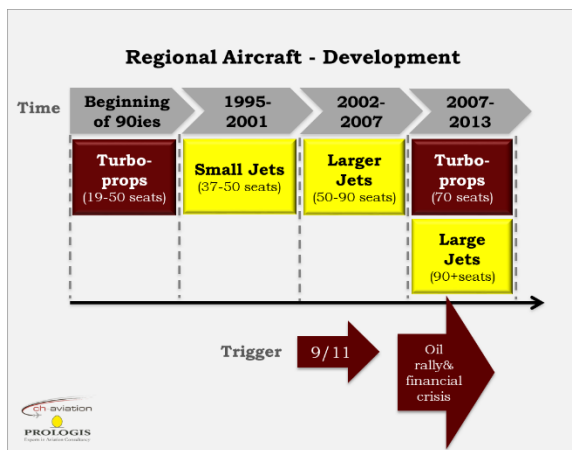


Figure 6

<sup>6</sup> Oliver Wyman (2010)



38,486 to 29,490, accounting for a decrease of 23%.

Based on a sample of 20 affiliated regional carriers and 20 independents, regionals in Europe currently employ a total of 36 direct and indirect employees per aircraft on average. In total, 12,184 regional airline jobs were lost in the European regions we evaluated. From a rational perspective, this means that over the last five years seven jobs were lost every day. This number probably reflects the dramatic drop in Europe's regional aviation industry better than any previous figures referred to in this article.

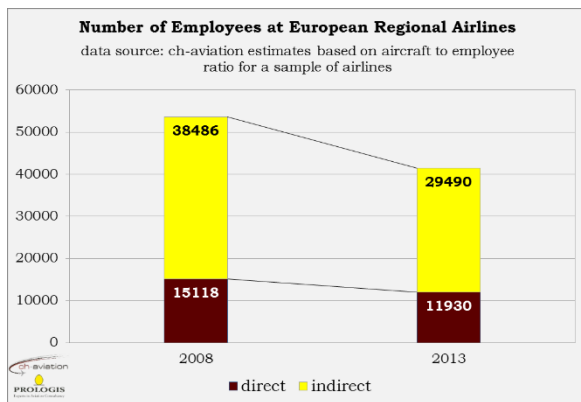


Figure 7

## Conclusion and Outlook

Establishing a new airline, no matter whether it is a regional, low cost or network carrier, is a huge challenge and anything but a guarantee of financial success. However, we are still observing

all of these new airline start-ups every year. This raises the question: Are the founders and investors in all of these new regional market participants aware of the high risks and low chances of success? Have they recognized the consequences that come along with a failing attempt? And, if so, what is their motivation to still keep trying to enter regional markets with new ventures? After scrutinizing Europe's regional carriers' development over the past five years, we believe that this industry is indeed quite challenging at its current stage. Nevertheless, there still seems to be room for growth in some regional niche markets.

When carriers are located at or fly to regions where alternatives are limited or nonexistent, there still is potential. Carriers like Direktflyg, Malmö Aviation, Nextjet and virtual operator Sverigeflyg mainly focus on the Swedish and Scandinavian regional market respectively. Widerøe primarily flies within Norway. Air Iceland offers domestic flights and routes to Greenland and the Faroe Islands. These are a few independent carrier examples with low competition from other carriers or modes of transportation which seem to work on their own or thanks to public service obligation schemes with government



support in place to serve remote regions effectively. But most regions in Europe do not offer such niche conditions. And if not sheltered from competition for whatever reason (geographically, airport constraints etc.), regionals quite often have trouble keeping up with low-cost carriers from a competitive perspective, and, from a technological and organizational perspective to effectively work closely, with large international network airlines (i.e. interlining, codesharing, through check-in). So, as network carriers drop regional routes, the point to point demand on these routes is often insufficient for an existing or new regional carrier without network connectivity to take them over. Thus, it is often unlikely that these routes will be served again.

In conclusion, the current situation within Europe's regional airline markets is no bed of roses unless independent carriers can make use of one of the few prosperous niches to settle, thrive and prosper in.

**Appendix**

Worldwide deliveries of regional aircraft 1990-2012 (sorted smallest to largest seat capacity)

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= More than 20 deliveries/year of a series (e.g. Fokker 70/Fokker 100, EMB-190/EMB-195)

Aircraft	Type	Seats	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Grand Total	
EMB120	Prop	30	51	31	23	14	7	15	17	11	14	7		2					1	2						195	
Jetstream 41	Prop	30				17	14	41	20	5	2	1														100	
Do328-300	Jet	34									1	16	37	31	19	2		2	1		1					110	
Do328-100	Prop	34				3	18	29	23	11	13	6	2	2												107	
ERJ135	Jet	37										16	48	36	11	27	14	22	27	36	35	22	12	14	17	337	
S340 A	Prop	37	1																							1	
S340 B	Prop	37	48	59	49	27	10	14	28	26	25	3														289	
DHC-8-100	Prop	39	40	26	26	13	17	6		2		1	1			1										133	
DHC-8-200	Prop	39						2	29	23	16	13	4	5			1	1	1	3	4	1			1	104	
ERJ140	Jet	44												22	36	16	1									75	
ERJ145	Jet	50						1	4	33	63	81	113	106	85	61	90	47	14	7	10	7	5	2	4	733	
ATR42-300	Prop	50	31	31	21	19	16	8	2	2																130	
ATR42-400	Prop	50							3	1	1											2				7	
ATR42-500	Prop	50						5	22	14	10	13	6	5	5	2	6	5	8	7	5	5	3	6	1	128	
ATR42-600	Prop	50																					1		2	3	
CRJ100	Jet	52				12	20	33	33	19	21	21	5													164	
CRJ200	Jet	52			3	10	6	8	23	38	53	60	97	125	137	156	109	54	12	8	22	7	3	3	2	936	
DHC-8-300	Prop	56	19	31	16	6	12	12	9	9	13	11	13	17	12	6	8	8	15	13	8	10	1	1		250	
F27 MK050	Prop	58	37	22	26	19	18	11	8	3																144	
F27 MK060	Prop	58							4																	4	
MA-60	Prop	58											1				2	1	5	5	12	6	14	12	9	67	
S2000	Prop	58					5	21	12	8	10	4														60	
BAe ATP	Prop	72	12	12	9	3	1	2		2	2															43	
ATR72-200	Prop	74	15	29	31	30	29	28	11	6	5															184	
ATR72-500	Prop	74									13	15	24	15	14	15	6	8	10	16	34	48	48	49	38	11	364
ATR72-600	Prop	74																		1				10	45	56	
CRJ700	Jet	78										1		25	46	53	54	52	27	5	4	28	20	14	3	332	
EMB-170	Jet	78													3		46	47	34	11	9	22	11	1	1	185	
DHC-8-400	Prop	78											18	30	21	10	15	14	30	41	45	56	52	57	36	425	
An-148	Jet	80																				3	5	3	3	14	
Fokker 70	Jet	85					1	25	14	6	1															47	
EMB-175	Jet	86														1		14	9	36	56	11	11	10	20	168	
B.146-100	Jet	90	1	2	2																					5	
CRJ900	Jet	90											1	1	9	15	31	44	51	58	35	13	16	7		281	
ARJ70	Jet	94				3	3	2	4																	12	
SSJ 100	Jet	98																						5	7	12	
CRJ1000	Jet	104																								30	
EMB-190	Jet	106															3	12	41	70	75	68	64	73	61	467	
ARJ85	Jet	112				5	3	11	15	17	10	11	7	6	1	1										87	
B.146-200	Jet	112	6	9			5																			20	
EMB-195	Jet	118															1		3	10	14	20	17	24	23	112	
Fokker 100	Jet	122	25	45	53	68	33	15	4								1									243	
B.146-300	Jet	123	16	16	13	3	4	1																			53
ARJ100	Jet	128				5	11	7	8	4	11	12	7	5	1											71	
Grand Total			302	313	272	257	233	297	293	253	286	301	374	432	393	351	373	320	288	340	409	250	284	306	261	7288	

Data source:  
ch-aviation

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