



FINNAIR'S ASIA STRATEGY SETS IT APART FROM RIVALS, MAKES IT ATTRACTIVE ACQUISITION

News / Airlines



Twice a day, at 10 a.m. and 4 p.m., the cafes and shops of Helsinki Airport echo to the languages of Tokyo, Shanghai and Seoul.

For a few hours, the Finnair Oyj base bustles with Chinese businessmen, Japanese students and vacationing Koreans, all changing planes at a terminal fortuitously positioned on the shortest flyway between Europe and Asia.

“We’re a Gulf carrier — but from the Gulf of Finland,” Finnair Chief Executive Officer Pekka Vauramo says in an interview among the diverse clientele of the carrier’s premium lounge, inviting comparisons with Mideast airlines such as Emirates that have built their strategies around a similar model.

Across the Baltic, his SAS AB counterpart Rickard Gustafson is focused on serving corporate Scandinavia with a network of high-frequency European routes and just a handful of long-haul services. The models aren't only deeply contrasting; they may prove pivotal in determining whether the companies have a role to play in the endgame of European airline consolidation.

Government Support

Following the recent purchase of Ireland's Aer Lingus Group Plc by British Airways-owner IAG SA the pair are Western Europe's only independent flag-carriers, with their former peers having all been acquired by BA, Air France or Lufthansa, or, like Portugal's TAP and Alitalia SpA of Italy, sold a major stake to an outside strategic investor.

Finnair and SAS have slashed jobs and leaned on their governments while developing new strategies to fend off the challenge both of their larger network rivals and discount operators Ryanair Holdings Plc and EasyJet Plc, joined in recent years by fast-expanding Norwegian Air Shuttle.

Recent results have been encouraging, albeit aided by low fuel prices. Finnair posted its best-ever quarterly profit in the three months through September as ticket sales increased, and the carrier forecast break-even or a "slightly positive" result for 2015 as a whole after losing money the previous year.

SAS returned a profit in its fiscal year through Oct. 31 with earnings before tax and nonrecurring items of 1.17 billion kronor (\$140 million), compared with a loss of 697 million kronor a year earlier.

Natural Interchange

Finnair's business model makes the most of the fact that for travel between the major cities of Europe and East Asia the bulk of so-called great circle routes — the shortest between two points — pass unerringly close to Helsinki. That means changing there can cut hours off travel times via other hubs, making the location a natural interchange despite Finland's population of 5.5 million.

The carrier will take its China network to six cities with the addition of flights to Guangzhou next May, while making Fukuoka its fourth Japanese destination. Together with services to South Korea, Thailand, Vietnam and Singapore, the East Asian portfolio will stand at 16 cities, with more to come, according to Vauramo, who says traffic to the region will have doubled in a decade by 2020.

SAS's Scandinavian Airlines serves only Beijing, Shanghai, Hong Kong and Tokyo in Asia among just nine long-haul destinations worldwide.

Polar Pioneer

The carrier hasn't always been averse to capitalizing on geography, being among the first to develop flights over the North Pole from 1957 in a move that prefaced Finnair's current strategy. Gustafson, though, says serving local business needs will do most to bolster earnings and provide a basis for involvement in merger activity, with almost 50 percent of passenger revenue coming from Eurobonus loyalty program members in fiscal 2015.

Both Vauramo and Gustafson agree that further European consolidation is on the cards, and that they're likely to play a role at some point, depending on the attitudes of their state shareholders.

For Finnair, the shelter of a bigger group might be attractive given the occasional perils of its Asian exposure, as illustrated by a profit drop after the 2011 Japanese earthquake. A continued slide in the Chinese economy could become a concern if it persists, Vauramo said, though “not at this moment.”

Oneworld alliance partner IAG has been touted as a likely buyer, and a deal is “not far-fetched,” HSBC analyst Andrew Lobbenberg said in a Dec. 9 investor note, with Helsinki potentially providing a counterbalance to Atlantic-facing bases in London, Madrid and Dublin. Both companies say they’re not in talks.

“The best we can do is create a sustainable model that works for us,” Gustafson says. “Then we can participate in future consolidation from a position of strength.”

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