

How come king of the skies appears to be on life support?

The Airbus A380 relied too much on a single customer, which was likely paying below average price for the aircraft, according to **Adam Pilarski**, senior vice-president at Avitas.

The Boeing flagship 747 was often called the “queen of the skies” and the A380, the largest Airbus product, was sometimes referred to as the “king of the skies”. Recently, it looked like the curtains were being drawn on this programme, which, when launched, was seen as having the potential of becoming one of the premier and most influential programmes in aviation history. Only a last minute re-order of some additional units by the “old reliable” customer, Emirates, saved the Airbus A380 for the time being but virtually nobody believes the programme will survive in the fairly near future.

So, what has happened to the great aspiration of the king of the skies, and why did it not claim the role it was destined to have?

First, it might be beneficial to revisit the rationale for the A380. It was not, as some claim even today, Airbus’s belief that traffic patterns will evolve into people relying more and more on flying between the biggest cities on the biggest available aircraft. That mistaken view purports that Boeing followed a different strategy of building smaller point-to-point aircraft, such as the 787, as against Airbus betting on huge hub centric platforms exemplified by the A380. In fact, these two aircraft are not competitors.

Airbus also was pursuing a policy of designing smaller point-to-point units documented by the expansion of the A330 and the development of the A350 programmes.

The real reason behind Airbus’s launch of the A380 was its desire to achieve its long-term goals of a 50% market share. With the demise of McDonnell-Douglas in 1997, the creation of a true duopoly in the jet aircraft market became feasible. The A380 was seen as pivotal in achieving that market share goal. This was because it is easier to gain market share by selling high-cost items. And Airbus truly believed that the 747 being in a monopoly segment earned Boeing extra profits which were being utilised to cross-subsidise its other product lines. The launch of the A380 programme was promoted as a strategic



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move for Airbus, not as the best solution for airlines to optimise traffic developments.

Airbus has only 337 firm orders for the A380, including the recent strong-arm

sale to Emirates. In list prices, this amounts probably to more money than the GDP of some countries but, as a current aircraft programme, it is not very impressive. About half of the total was ordered by one customer and, as of year-end 2017, 222 were already produced. These are not very impressive statistics.

So, what went wrong? First, what went right? It is important to remember that Airbus managed to achieve a de facto equal market share to Boeing, which was its stated goal for a long time. How much the A380 contributed to that may be open for debate but I cannot see how it was not a big contributor to the Airbus strategic success. So how come the programme appears to end up on life support?

It is way too heavily dependent on one customer. It also sold only to the largest and most influential airlines in the world. This causes problems in sales prices. The top and launch customers historically pay below-average prices. In the same way as not all children can be above average, not all airlines can pay below-average prices for a programme to become successful. You need many second-tier airlines to join which will pay above-average prices. This has not happened.

Additionally, the secondary market failed to develop. It could be because the initial aircraft were financed at rates much higher than true sales prices, making it difficult to re-lease them at reasonable rates making sense to owners and new purchasers.

It appears to me that Airbus’s heart was not really in the programme beyond achieving its initial strategic objective: to reach parity in market share with Boeing. That probably was enough for Airbus management. To be successful, the programme would need substantial investments and managerial attention. The platform would have to be stretched, new engines would have to be installed and serious efforts would have to be made to develop a solid secondary market. Airbus did not follow that path. Hence, the A380, the so-called king of the skies, will probably be a magnificent but sad footnote in the history of aviation. ▲