
BOOK REVIEW

GUDMUNDSSON, S. V. (1998). *Flying Too Close To The Sun: The Success and Failure of the New-Entrant Airlines*. Aldershot, Hants/Brookfield, Vermont: Ashgate. Pp. xvi + 259. ISBN 1-84014-366-5. Price \$79.95, hard cover.

REVIEWED BY THOMAS C. LAWTON, Royal Holloway University of London

Set in the wake of the 1979 deregulation of U.S. air transport, *Flying Too Close To The Sun* endeavours to explain the complex issues that led to the almost total failure rate of the first-wave new entrant airlines. This is an interesting and highly relevant topic and the book succeeds in providing an objective and impartial analysis of a period in U.S. aviation history that evokes considerable passion among those directly involved. It is strong on empirical data that charts the emergence and subsequent decline of new entrant U.S. airlines during the 1980s. This is one of the few books to address this important subject. Also, in considering corporate strategy and market competition, Gudmundsson moves beyond the narrow cost or operational focus of many such works.

Sveinn Gudmundsson has significant knowledge of the industry as an academic researcher based both in the U.S. and Europe. He is Assistant Professor in the Faculty of Economics and Business Administration at the University of Maastricht, the Netherlands. He was previously Principal Lecturer in Transport at London Guildhall University. Dr Gudmundsson gained his Ph.D. in Air Transport Management from Cranfield University in the UK and has also studied at the School of Aeronautics and the School of Management at Florida Institute of Technology in the U.S.

The book is structured in two parts. Part one examines the theory, strategy and policy behind the success and failure of U.S. new entrant airlines. The four chapters in this section look at the nature and development of U.S. new entrant airlines and consider the market and industry environment in which they operate. Part Two assesses the success and failure of new entrant airlines. The five chapters advance evidence that explains how and why most new entrants fail(ed) to attain and sustain competitive advantage.

Thomas Lawton is a Lecturer in European Business and Corporate Strategy at the School of Management, Royal Holloway University of London. He holds degrees from University College Cork and the London School of Economics and has a doctorate in international political economy from the European University Institute, Florence.

Turning to a chapter-by-chapter critique, Chapter 2 considers the operating environment and tackles an important misconception among airline analysts and practitioners: that economies of scale do not exist in the industry, making it easier for new entrants to emerge. This may be the case but as Gudmundsson argues, incumbents have erected other, equally effective entry barriers. Moreover, the industry's structure and market/political environment contrive to create infrastructure barriers that have adversely affected the survival prospects of many new entrants.

The chapter proceeds to develop a list of these barriers that can disproportionately hurt new entrants relative to incumbents. These include code-sharing, computer reservation systems (biased in favour of the owners), volume incentives to travel agents, access to landing slots at congested airports and restricted access to airport facilities. Significant empirical evidence is provided to sustain these arguments. However, some confusion seems to exist as to what constitutes a genuine entry barrier to new entrant airlines and what factors are simply competitive challenges to all airlines. For instance, quality of service, restriction of airport expansion and environmental impact restrictions are all cited as entry barriers to new entrant airlines. It is not clear why such factors would disproportionately affect new entrants. It may be argued that they are simply challenges that affect all competitors in the industry. Overall, this is a very readable and informative chapter.

Chapter 3, *The Anatomy of a New Entrant*, provides an interesting and insightful look behind the scenes of the new entrant airlines. In considering the people and personalities behind the companies, Gudmundsson argues that charismatic and autocratic leaders can be important in launching an airline (but may become a liability as the airline increases in size). Evidence is also provided to illustrate that most airline start-ups are led by people with considerable prior experience of the airline industry. A further important element of new entrants *human dimension* is the employee-company relationship. In order to deter unionisation, maintain low salary levels and encourage higher efficiency levels, most new entrant airlines operate profit-sharing and stock ownership programmes. As the author points out, this system can prove very effective when times are good but can be extremely disruptive during lean/low profit periods.

Chapter 3 also considers the finance and profitability of new entrants. It concludes that one of the problems besetting many such airlines is their inability to turn a profit in their early years. This makes them vulnerable to adverse conditions in the economy and low periods in market demand. Gudmundsson further argues that the advantage accrued to new entrants through lower cost structures is offset by incumbent yield management systems, which facilitate price cuts. This is a tenuous assumption, as

sophisticated yield management systems operated by established airlines can be negated or even trumped by efficient load factor management on the part of new entrant airlines. Granted, managing load factors is not enough to ensure profitability. The issue is rather one of relating the average load factor to the break-even load factor. Improving this equation is the objective of every airline and could prove a better system than yield management for new entrant airlines. Sveinn Gudmundsson appears preoccupied with yield management systems (see also Chapter 2 and entry barriers). However, lessons from European new entrants such as Ryanair and easyJet illustrate that the yield management approach need not be of relevance to U.S. new entrant airlines.

Chapter 4 on *Competition Strategy* is largely derived from economics, hence offering a framework in line with authors such as Michael Porter. Some relevant non-economics-based literature such as Henry Mintzberg's conceptualisation of strategic positioning is noticeable by its absence. Despite this omission, this chapter provides a lively and accurate analysis of the competitive dynamics and strategic options that surround an airline attempting to establish market presence.

In the fifth chapter, Gudmundsson considers the question of success or failure. This is an interesting and reflective chapter that traces the various factors contributing to the market success or failure of a company. As you might imagine, the list of variables includes financial, marketing, management, organisational, operations, strategy and environment determinants. These are then individually broken down to examine the sub-categories of causes. An interesting point raised here is that success can lead to failure. By this the author means the cause of a specific predicament is the inertia caused by the positive strokes of success, leading to resistance to change.

In brief, the main arguments advanced in this chapter are first, there is a correlation between a firm's novelty and likelihood of bankruptcy; second, there also appears to be a relationship between macroeconomic variables such as interest rate, deregulation of industries, recession and increased competition intensity, with failure; and third, management appears to be the main contributor to the failure of firms. I think that this just about covers all relevant factors.

Chapter 6 lays out the empirical findings of Gudmundsson's research and Chapter 7 develops the notion of failure or distress prediction models. These are weaker chapters, relative to what came before and add little value to the overall analysis and argument. Chapters 6 to 8 (inclusive) are shaped exclusively by economic theory and characterised by the crunching of considerable data. This is done in a methodical and efficient manner. However, it is not always accessible to the reader lacking in econometrics

training. Much of this section is densely written and difficult for the non-economist to read and digest.

In the conclusions controlled growth is identified as an important ingredient for the non-failure of new entrants. As the author correctly points out, very fast growth places great demand on an airline's resources that eventually leads to inefficiencies plus strategic alterations that cause serious adjustment problems for the airline.

It is further argued that whilst comparatively low fares are important (especially during entry), these must be backed by a comparatively high service quality if advantage is to be sustained. This is an accurate and very important point. As Gudmundsson indicates, service quality does not mean service features such as frequent flyer programmes or free inflight meals. It simply means ensuring that the customer is satisfied with the basic product provided.

The book's final conclusion is that no prescription exists for success or the avoidance of failure due to the dynamism of the airlines' interaction with its environment. Nonetheless, Gudmundsson does advance six critical factors that new entrant airlines should be aware of. These include high relevant quality, high relative aircraft utilisation, controlled growth and resourceful innovation. This is sound advice.

Flying Too Close To The Sun should prove of interest to many JATWW readers and contains much that is both stimulating and original.