



**CATÓLICA  
LISBON**  
BUSINESS & ECONOMICS

## **DISSERTATION**

### **Lufthansa Group** **Dealing with Strategy in times of COVID-19**

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**Dissertation written under the supervision of Professor Nuno Cardeal**

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## **Abstract**

**Title:** Lufthansa Group - Dealing with Strategy in times of COVID-19

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**Keywords:** strategy; crisis; competitive advantage; changed environment; management; positioning; dynamic capabilities; consumer behavior.

The following thesis, presented in form of a case study, is about the Lufthansa Group, a successful German airline group, and its strategic decisions to face one of the biggest crisis in history, the COVID-19 crisis. This case study is a suitable analysis tool for strategic development on the topics of strategic alignment, competitive advantage and positioning.

Following the COVID-19 crisis, the Lufthansa Group had to implement important adjustments and make quick decisions. Rapid changes in the environment, specifically in competition, demand and consumer behavior, led to the need of fast repositioning to sustain competitive. Several influencing factors had to be considered in each business unit.

After the case, further theoretical concepts are presented. These concepts allow a better understanding of how to address the case from a pedagogical perspective and illustrate the typology of the analysis that can be performed. The work also contains a chapter reserved for resolution notes, which constitute the author's analysis, being also an additional support to instructors.

The personal opinion and the limits of the case study are given at the end of the paper.

## **Abstrato**

**Título:** Grupo Lufthansa - Lidando com a Estratégia em tempos de COVID-19

**Autor:** Maximilian Lorenz Rinser

**Palavras-chave:** estratégia; crise; vantagem competitiva; ambiente alterado; gestão; posicionamento; capacidades dinâmicas; comportamento do consumidor.

Esta tese foi desenvolvida na forma de estudo de caso. A unidade de análise é o Grupo Lufthansa, até ao início de 2020 considerado como um Grupo de sucesso. O caso estuda as decisões estratégicas do Grupo empresarial para fazer face a uma das maiores crises (COVID-19) da história da aviação civil. O estudo de caso foi desenvolvido para permitir a aplicação de conceitos como alinhamento estratégico, vantagem competitiva e posicionamento.

Na sequência da pandemia COVID-19 o Grupo Lufthansa teve de implementar ajustamentos importantes e tomar decisões rápidas. As rápidas mudanças na envolvente, designadamente na concorrência, na procura, nos comportamentos dos consumidores, levou à necessidade de reposicionamentos rápidos para sustentar a vantagem competitiva. Diversos fatores de relevo tiveram de ser considerados em cada unidade de negócio.

Após o caso, são apresentados diversos conceitos teóricos de suporte à sua análise. Estes conceitos permitem um melhor enquadramento de como o caso pode ser abordado numa perspetiva pedagógica e ilustram a tipologia de análise que podem ser efetuadas. O trabalho contém ainda um capítulo reservado a notas de resolução, as quais constituem a análise do autor, sendo também um apoio adicional a instrutores.

A opinião pessoal e as limitações do trabalho são apresentados no final do documento.

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## List of Abbreviations

CEO	Chief Executive Officer
DC	Dynamic Capabilities
e.g.	For example
etc.	etcetera
EW	Eurowings/Brussel Airlines/Germanwings
IAG	International Airlines Group
IT	Information Technology
KfW	Kreditanstalt für Wiederaufbau (Credit Institute for Reconstruction)
LHA	Lufthans German Airlines
LHC	Lufthansa Cargo
LHG	Lufthansa Group
LHT	Lufthansa Technik AG (Lufthansa Engineering)
MRO	Maintenance, Repair and Overhaul
R&D	Research and development
RBV	Resource Based View
RPK	Revenue Passenger Kilometers
SWOT	Strengths, Weaknesses, Opportunities, Threats
UFO	Unabhängige Flugbegleiter Organisation (Independent flight attendant organization)
Ver.di	Vereinte Dienstleistungsgewerkschaft (United Services Trade Union)

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## **I. Case Study**

The COVID-19 pandemic has caused colossal damage in all areas of aviation since the beginning of 2020. Measures such as quarantine, social distance and border closures triggered one of the worst economic crises ever. The demand for air travel has dropped significantly after travel bans and countries closures were imposed on several continents. The airlines' business operations were almost completely shut down. The Lufthansa Group was strongly affected by these global restrictions. This led to changes in strategy which had to be implemented quickly. New challenges, but also opportunities arose. This case study highlights the impact of the COVID-19 pandemic on the aviation industry and how the Lufthansa Group managed to guarantee long term success with its strategic decisions during the crisis.

### **1 Lufthansa Group**

In terms of revenue in year 2019, the LHG was the largest airline group in Europe. Founded in 1953, LHG is in business for 67 years. The Cologne-based Group has been managed by Carsten Spohr since May 2014. At the end of 2019, the Group generated sales of 36.4 billion euros with 138,353 employees and 763 aircrafts. 145 million passengers were carried in 2019. Swiss, Austrian and Brussels Airlines as well as Eurowings are carriers belonging to the LHG. Lufthansa Cargo for air freight, Lufthansa Engineering for MRO and LSG Sky Chefs for catering are also parts. (*Lufthansa Group Website; Company*)

#### **1.1 History**

Since 1954, the trademark "The Crane" and the colors "blue/yellow" have been the showpiece of the company's identity. In 1955, the first two aircraft flew from Hamburg to Munich, giving the starting signal for Lufthansa scheduled flights. The route portfolio in Europe and, after a short time, also in America, Africa and the Far East was immediately expanded. In 1960 Lufthansa moved its long-haul operations to Frankfurt am Main, which is still the city for its home base today. (*Lufthansa Group Website; Company*) During the oil crises in 1973 and 1979, the LHG was forced to invest in fuel-efficient and quieter engines. Lufthansa reacted to different crises such as the Gulf crisis or 9/11 with different strategic approaches. The Group learned the importance of flexibility and made it one of the main values today. In the 9/11 crisis, new security procedures were in the spotlight. These had to be communicated internally and externally in order to bring the willingness to travel back to pre-crisis level. (*cf. Häty, Hollmeier 2003, pp. 51-55*) Lufthansa was fully privatized in 1997. In 2001, Lufthansa acquired

a 24% stake in the airline Eurowings, which was taken over completely in 2011. (*Lufthansa Group Website; Company*)

## 1.2 Mission, Vision and Values

The **mission** of the Lufthansa Group is to be the leading corporate player in air transport and the first choice for customers as well as stakeholders. The LHG aims to play a major role in shaping the future aviation market. Lufthansa's **vision** is to expand in the market and secure market share. To achieve this, the Group relies on excellent products and services that the customer needs. It also ensures that all companies in the Group perform. The focus is on safety, quality, reliability and continuous innovation to increase social sustainability and reduce environmental impacts. The core elements of the Group strategy consist of consolidation, flexibility and digitization. Through investments in its employees and the best product, customer loyalty is constantly improved. As a result, strong revenues lead to strong financial performance and shareholder returns. (Exhibit 1) (*Lufthansa Group Website; Investor Relations*) Due to the COVID-19 crisis, the Lufthansa Group had to adjust its intangible resources such as strong values, reputation and vision. Since they have been present in the minds of customers for decades, rapid change would cause confusion among the target group. (*Lufthansa Group; Newsroom Releases 2020*)

## 1.3 Group Business Segments

The **network airlines** consisted of Lufthansa German Airline, SWISS and Austrian Airline. The multi-hub strategy provided a high quality product, flexible service and a comprehensive route network with 273 destinations in 86 countries in 2019. The business segments share of the Groups external revenue was 62% in networking airlines. (Exhibit 2) The **Eurowings** airline offered a competitive product for more price-sensitive but service-oriented customers with a point-to-point model. The segment included the flight operations of Brussel Airlines and SunExpress with an offer of more than 210 destinations in 60 countries. Customers can find packages by choosing basic, smart, best and BIZclass fares. **LHC** is the Group's cargo airline and consists of 14 cargo aircraft serving 5 continents. As one of the worlds leading transport companies for air freight, Lufthansa Cargo covers 300 destinations in 100 countries. **Lufthansa Engineering** is the world's leading independent provider for maintenance, repair and overhaul services for commercial aircraft. Tailored maintenance programs, modification, completion and conversion as well as innovative cabin products and engine service are provided. The **LSG**

**Group**, which is responsible for catering, offers a comprehensive range of products, concepts and in-flight service. (*Lufthansa Group; Annual Report 2019, Business segments*)

## **2 Strategic Goals Pre-COVID-19**

Before the coronavirus was even known, the Lufthansa Group was on a goal-oriented path that aimed to be enforced across the entire Group. The positioning of the companies was clearly stated. The industry was growing year by year and future-oriented measures such as the order of new aircraft had already been initiated. The objectives of the Lufthansa Group before the crisis are explained in more detail below, in order to give a strategic status quo ante on the state of the Lufthansa Group.

The main goal was to become the leading European airline group. Profitability was to be achieved by differentiating the portfolio of all networking airlines and EW. Point to point connections for premium customers as well as price sensitive travelers with geographical possibilities have been ensured. Long-term success was to be guaranteed by optimizing the cost structure, maintaining operating quality and developing corporate responsibility. The expansion of the market leadership in home markets was another goal. With hubs in Frankfurt, Munich, Vienna, Zurich and the leading carrier in Belgium, the LHG will continue to operate and expand its position in Europe's most attractive markets. The networking airlines aimed for a growth of 2% per year. Strengthening the core business was also an important factor in implementing the strategy to secure market share. Due to the high degree of fragmentation in the European aviation industry, LHG has led to further consolidation, resulting in an improvement in industry earnings. A M&A strategy was pursued. Flexibility in response to dynamic market changes was another goal at Lufthansa. This flexibility is one of the Lufthansa Group's values and is an integral part of both corporate policy and customer service. Customers are offered the possibility of flexible rebooking, baggage check-in, etc. The Lufthansa Group attaches great importance to aligning its strategy to react flexibly and quickly to dynamic processes. New data driven decision making tools are designed to compensate for this dynamic. More flexible cost structures in terms of organizational structure, supplier structure and aircraft technologies were also important factors for success. The reduction of complex administrative areas was advanced by lean methods in daily work through intra group project management. Another aim of the LHG's strategy is digitization. Boosting efficiency on innovative business models and optimizing digital customer service along the travel chain was one of the measures taken by the LHG. Biometric boarding has already been tested in Miami and LA, which ensures that the customers travel experience was more convenient and process efficient. A new executive board

function has also been introduced since January 2020 to give great importance to IT, digitization and innovation. Networking airlines were in focus of quality strategy and cost effectiveness improvements. A differentiation is to be created by premium products with quality. The customer experience, rout network/fleet optimization, digital travel chain and individual product portfolio were in the spotlight to become more customer centric. The offer for long distance flights was also to be expanded, so that the customer benefits even more from the network of EW and LHA. Old fleets will be replaced to ensure higher seating capacity and greater fuel efficiency without increasing the number of aircrafts. Dynamic pricing for luggage and searing, individual service and direct sales up to 3% by 2022 on unit revenues were the objectives. Cost cutting in areas where the customer was not mediated a loss of quality. Focus was on simplifying and standardizing operation structures and process. Eurowings turnaround by 2021 was one of the main focus. Concentration on exclusive point-to-point short haul routes for price sensitive customers with low cost fares, as well as the transformation of commercial management of long haul routes to LHA from 2020 onwards was essential. Cost reductions were planned in administration, crew misallocation, and by increasing aircraft productivity. Another aim was to sell additional service along the travel chain with a multi channel distribution platform. The focus on Miles and More increased synergies and allow greater customers benefit. AirPlus was also growing in lucrative markets for payment and settlement solutions. Investments in new fleets with simultaneous reduction of fuel consumption led to a reduction of CO2 emissions per passenger kilometer. The LHG aims to be carbon neutral in ground operations in Germany, Switzerland and Austria by 2030. Help Alliance was committed to disadvantaged people and supports them through educational projects, which are mainly initiated by employees of the Group. This ensures a continuous global social commitment. In terms of financial strategy, Lufthansa wanted to increase the value of the company in general. This was to be achieved by improving profitability, capital allocation and financial stability. In doing so, a value based system was introduced which includes economic performance and non-financial factors such as CO2 emissions. The capital allocation will also focus on working capital management. Adjustments of free cash flow and dividends were targets, which were created by new aircrafts and the financing of the company's own cash flow. To be financially stable, the focus was on maintain investment grade rating, hedging of financial risk such as fuel, exchange, interest rate and access to different forms of funding's. Optimizing the financing mix also reduced financial costs and aimed to have liquidity of at least €2.3 billion. (*Lufthansa Group; Annual Report 2019, Goals and strategies*)

### 3 Market Overview

The demand for air travel will increase globally in the next 10 years. Asia offers the greatest potential through rapidly growing demand with a share of global traffic that increase by 4.7%. The share in North America will remain the same and thus still the largest contributor to industry profits. In Europe, the share will change significantly as the focus is on the leading groups and carriers. (cf. Wade, Topalova, Boutin, et al. 2020) The 5 largest airline groups in Europe (LHG, Air France/KLM, IAG, Ryanair and easyJet) have a cumulated market share of 51%, while the market share in the USA of the largest 5 airlines is 86%. This consolidation in the European market will continue and will improve LHG's results. The European airline industry is highly fragmented. "There are way too many players in Europe"<sup>1</sup> According to Carsten Spohr, the LHG is active in the most attractive markets in Europe and its market position is defended by hubs such as Frankfurt, Munich, Vienna and Zurich. Measured by the number of seats offered in 2018, the Lufthansa Group had a market share of 17% in European passenger air transport. (cf. Keller 2020) Due to the Corona crisis the aviation industry was on drastic change on supply and demand side. In some countries, the year-on-year decline in the number of passenger flights had reached more than 90 percent. It was estimated that the decline in passenger volume will hit Europe the hardest. In May 2020, the year on year percentage loss in Europe was -97.7% RPK (revenue passenger kilometers). In July 2020, -81.3% RPK and August 2020, -73% RPK. With regard to these data, a slow improvement of the industry in Europe can be seen.<sup>2</sup> Over the last decades, passenger traffic has been rising steadily, but the increase has been little diminished by recurring crises. Due to the pandemic, the increase has collapsed the most since air transport was recorded. The Industry Life Cycle, which has always been on an upward trend, begins at a new traffic level. (Exhibit 3) IATA also warned of airline bankruptcies. (cf. IATA, Pressroom 2020) Nevertheless, the industry must be prepared for a return to growth. (cf. Robert, interview 2020)

#### 3.1 Competition

The Lufthansa Group has four main competitors. IAG, AirFrance/KLM, Ryanair and easyJet. These competitors compete with the Lufthansa Group both in the premium sector of the networking airlines and in the low cost carrier sector of Eurowings. In order to make a comparison of the competition, the two largest players, IAG and Ryanair, are discussed further. **IAG**, based in Madrid and headquartered in London, was formed in 2011 through the fusion of

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<sup>1</sup> Carsten Spohr, CEO Lufthansa; Centre for Aviation; 2018.

<sup>2</sup> IATA Pressroom, Press Release No: 57, 68, 77, Market Analysis RPK.

British Airways and Iberia. Other airlines such as Vueling, Level and Aer Lingus are also members of IAG. With a turnover of 25.51 billion euros and 118.2 million passengers carried in 2019, IAG is pursuing of becoming the worlds leading airline group and maximizing sustainable value. The strengthening of a full product portfolio of world class brands and operations as well as the expansion of IAG's common integrated platform are strategic goals. Maximum customer choice and a portfolio of dedicated network from full-service long haul to low-cost short haul serve customer needs. Customer centric related actions to gain shares in each segment as well as a differentiation through underserved customer demands and segments, is an important factor for IAG. The target group differs among the holding airlines with its demographics and occasion. Attracting and developing the best people in industry and setting a high standard for environmental stewardship, safety and security are sustainable goals of IAG. Improve Synergy opportunities, engage innovations and digital mindset as well as external B2B services are strengths to create values. IAG reinforced its leadership position in its home markets London, Madrid, Barcelona, Dublin and Rome. In return, the costs for the airports and the cost per available seat kilometer are high. The brand reputation and the network to Asia Pacific are low, unlike the competition. A concentration on cargo flights was placed. Only 30% of capacity was expected to be available in the last quarter. Cost reductions were also implemented in every area of the Group. *(IAG; Annual Report and Accounts 2019)*

Another major competitor of the LHG, especially Eurowings, is the Irish low-cost airline **Ryanair**. Including the smaller airlines such as Lauda or Buzz, Ryanair carried 152.4 million passengers in 2019, making it number one in Europe by this parameter. The turnover was 7.7 billion euros in 2019. Ryanair's no-frill concept leads to cost reductions in every area of the company. Keeping fixed costs low and keep an eye on additional costs are characteristics of cost leadership. Selling prices are therefore significantly lower and any kind of service such as meals, drinks, luggage etc. has to be paid extra. Destination airports are selected by Ryanair according to costs. Airports are located far away from major cities like Frankfurt-Hahn, Barcelona-Girona or Stockholm-Västerås. With no hub and spoke, quick ground turnaround on these airports are secured. *(Ryanair; Annual Report 2019)* Due to the low prices a high market share is gained but customer loyalty, bad reputation and weak employee relations arose. Ryanair undermined Europe's lowest cost base in terms of staff, airports, aircraft etc. Liquidity was also secured during the crisis and helped to keep the costs low. The target group is accordingly younger, keen to discover and in the lower salary class. Customers do not expect service but only an arrival at the destination where the vacation is just beginning. Ryanair hopes to gain some EU market shares by taking advantage of the lower liquidity as a result of the crisis. The

goal is to transport 200 million passengers in 5/6 years. (*Ryanair; H1 Results FY21*) Ryanair and other low-cost carriers that differentiate themselves through price must prepare for offers and segments of premium carriers that implement low cost elements. These low cost elements also open up new target groups and segments for premium carriers. In general, the speed of expansion will slow down and the main segments will shrink. (*cf. Robert, interview 2020*)

### 3.2 Customer

Deutsche Lufthansa AG is both the holding company and the largest single operating company in the Group. In order to present the target group and positioning of the networking airlines, the Lufthansa airline will be addressed further. Lufthansa's **target group** attaches great importance to quality and thus an above-average willingness to pay in the premium and luxury segment. The passengers are educated, well-off and have great freedom of choice in the professional and private spheres. Above-average willingness to invest and an affinity for technology are in demand among passengers. Analyses in the passenger classes have shown that Lufthansa passengers are more interested in consumer electronics, finance and mobility than the German average. 31% of the customers are between 50 and 59 years old while 59% have a net household income of more than 3000€ (German average 37%). The target group is above average in areas of leadership responsibility at work with 38% (German average 21%). In addition, 47% have a university or college degree. (German average 25%). (*Lufthansa Media Data 2020*) Customers expect a fast handling of the flight process, attach importance to very good service and little stress. A simple cancellation and rebooking is a must-have for business travelers. On board, Lufthansa customers look forward to technological comfort and value additional services such as a better seat class. Lufthansa's long-term customers benefit from the Miles and More frequent traveler program through flight and non-cash benefits. The customer also values brand loyalty and a positive experience. Also the brand identity and reputation of Lufthansa is important for business travelers. To make the customer feel safe during the crisis, various hygiene measures were introduced. Social distancing is important on board, as well as reduced service to avoid contact. Air circulation on board was also considered important. (*Lufthansa Media Data 2020*) In addition to Lufthansa as the main driver and the other networking airlines, the LH Group had to focus on a further target group with Eurowings. Eurowings offers cheaper flights and thus also addresses a younger target group that expects less service. Also vacation trips as well as visiting trips are in the priority. The monthly household income of the target group is lower than at Lufthansa. Nevertheless, 42% of EW customers travel on business. (*Eurowings Advertising Media 2018*) As a result of the crisis, airline groups were striving for the highest

possible productivity and customer opinions took a back seat. In this respect, transparent communication with customers is important. Differentiation points such as price and security are most important to customers. (cf. Robert, interview 2020)

### **3.3 Positioning**

In order to strengthen its market and to be the first choice for shareholders, customers and employees, the LHG is positioning itself in the high-price segment with its networking airlines and full-service carriers. Quality, reputation and service are the key differentiators to competitors. The resulting additional costs are reflected in the ticket price. With the help of the major hubs, an efficient network of routes is operated with the help of partner airlines. Through the founded Star Alliance, a worldwide network was created in which efficiency increase is the main priority. LHC, logistics, MRO and catering are also in the focus of the positioning to create synergy along the value chain. In order to generate revenue even during the crisis, the Lufthansa Group had to implement short-term positioning optimizations. On the one hand, emphasis was placed on the tourism sector, as it recovered faster than the business sector. (Lufthansa Group Website; Investor Relations) New routes have been included in the plan. More importance was also attached to cargo flights. Lufthansa wanted to make a special contribution to the fight against the virus, which is why more cargo flights for medical products were operated. Safe flying and hygiene were the main focus. Easing the fear of contracting the virus was a big challenge. (cf. Curley, Dichter, Krishnan, et al. 2020)

### **3.4 Trends**

In times of corona, rising nationalism and trade wars, which lead to low demand, lower yields and oil price fluctuations, there was a mood of uncertainty. Therefore, it was important to focus on some trends in the aviation industry. Customer centricity imperative, data science and sustainability were some of them. A network of partners that offer personalized customer service and tailored offers are important for high quality. Loyalty programs to retain regular customers were also crucial. The reduction of carbon emissions was another trend that is becoming increasingly important to stakeholders. New aircrafts that were more efficient and recycling/waste management initiatives were necessary. Increasing complex distribution landscapes, shifts in airline fleets, networks, organizational skills as well as capabilities and growth in partnerships were also required trends. The distribution strategy must go beyond traditional channels. Social media and digital channels are becoming more and more relevant. Brand and employee value proposition must be updated and proactive steps taken by the

competition must be analyzed to shape the future. (cf. Wade, Topalova, Boutin, et al. 2020) Customers want to travel healthy and safe during COVID-19. Contactless options such as self-service at counters and contactless service on board contribute to this. A trend that arrived and kept demand in the aviation market low, included long term travel restrictions, weak economic interventions and travel bans for longer time. The demand dropped very sharply in 2020 and does not regenerate until 2023 or later. (cf. Curley, Dichter, Krishnan, et al. 2020) Most people continue to pay attention to their personal safety until governments have the pandemic under control. But if the travel restrictions are relaxed, some will be ready to travel again. “Air travel will restart slowly, domestically, and with social distancing”<sup>3</sup>

#### **4 Redesigned Strategy under COVID-19**

Most airlines had short-term liquidity to survive three to six months on zero-capacity operations. In addition, to ensure that some airlines remained solvent, governments had issued financial support. It is clear that airlines like Lufthansa will not return to pre-crisis levels before 2022 if the spread of the virus cannot be controlled. A stabilization of the business in order to be able to continue to operate, as well as the preparation for future changes are crucial. This future could lead to competitive advantages through the state's rescue packages and the airlines emerge stronger from the crisis. (cf. Smart, Vertinsky 1984) Despite all this, uncertain scenario where traveler behavior may no longer apply, effective strategic adjustments in the crisis are essential for the continued success of the Lufthansa Group. Carsten Spohr, Chairman of the Executive Board of Deutsche Lufthansa AG, said that the stabilization of Lufthansa was not an objective in itself. LHG and the Federal Government must set themselves the goal of defending their leading position in global air traffic. To implement this, Lufthansa decided on a three-stage restructuring program called ReNew. On the pillars of ReFocus, ReOrg and RePay, Lufthansa's reconstruction is to be strategically managed and sustainable cost reductions were initiated until 2023. (Lufthansa Group; Q2 2020 Results, Presentation)

##### **4.1 ReFocus**

In the first step of the restructuring, LHG focused on portfolio optimization and on various options to react flexibly and safely to situation-related changes. Strong improvements in the payment structure and the operating model resulted from various government regulations. The reduction of the operating cash flow was the starting point for short-term focus. Marketing

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<sup>3</sup> Founder Institute; The Future of Travel #BeyondCOVID; 2020.

freeze, deferral of tax payments, cancellation of wet leases as well as renegotiation of supplier contracts were measures for immediate savings. Security actions for customers as well as employees were the top priority in order to maintain the relationships. The desire for a quick recovery and a success against the virus was high, so immediate security steps such as wearing masks, taking temperature measurements in front of the gate and recording of the travel history were introduced to every person. Another important focus point was the retention of regular guests. Canceled flights could be rebooked flexibly or customers did get the money back. The Group refunded tickets worth over 3.2 billion euros to customers. In order to guarantee its solvency, LHG agreed with the ESF (German Economic Stabilization Fund) on a reconstruction package of 9 billion euros. Agreements with Vereinigung Cockpit and UFO also led to cost reductions in the pilot and cabin personnel sector. In general, the Lufthansa group focused on reducing costs in every area. A simplification of structures and processes using digital tools ensures that the company can concentrate on essential products and services. Even through unpredictable times, clear targets are needed to control costs and increase efficiency during the pandemic. (cf. Kunstmann-Seik, Pelster 2020), (cf. Curley, Dichter, Krishnan, et al. 2020)

## 4.2 ReOrg

Airline groups that were heavily affected by the crisis must create advantages and plan large scale operations. Changes in different segments, as well as geographical shifts, need to be monitored in order to identify actual demand early on and find new opportunities. Proactive collaboration between regulators and others in the business are necessary to provide a consistent customer experience and the required security.

On September 2020, Lufthansa Group decided to continue the restructuring package. The **fleet** was permanently reduced by 150 aircrafts. Eight A380s and ten A340-600s were also placed in long-term storage. Seven remaining A340-600s were permanently withdrawn from service. Capacity utilization has been revised downwards and is expected to be only 20%-30% of last year's level instead of 50% in quarter four 2020. More than 200 aircraft orders have been placed with Boeing and Airbus. These are also expected to be accepted, but slower than planned. Only 80 new aircraft are planned by 2023. In order to pursue environmentally friendly goals, a concept has also been developed that supports continuous descent. This has resulted in lower noise pollution, lower fuel consumption and reduced pollutant emissions. The fleet and fuel also had to be adjusted. The fleet was thus quickly reduced to the given capacities. New orders were postponed and MRO was also used at a reduced level. Ground, catering and office equipment was adapted to the reduced number of employees and to capacity utilization. Since

there were few restrictions, the equipment could be adapted quickly and to a high degree. It was important not to reduce too much, as one had to be prepared for recurring high operational and capacity utilization. (*Lufthansa Group; Newsroom Releases 2020*) The **route** planning was also corrected. The expansion of the tourist offer was in the foreground. Demand for routes to Italy, Spain, Greece and Croatia increased. From summer 2021, the program will include 15 new tourist destinations from Frankfurt. Likewise, six new touristic long distances to e.g. Zanzibar, Mauritius or the Maldives are scheduled. Harry Hohmeister, member of the executive committee of the German Lufthansa AG, stated that never before so many vacation routes were taken up in the program. It is to be reacted to the desires of the customers, since the demand for vacation trips recovers also clearly faster than those for business trips. The Lufthansa Group hub strategy was the focus of the traffic flow. The idea was to bundle flights to ensure profitable routes. For example, the Stockholm-Venice route was not handled directly, but via Frankfurt. Intangible resources such as the route network, the product portfolio and the price structure, could be adapted quickly with a high range to the conditions. Tourist routes and personalized offers for customers with lower prices for underutilized routes were introduced relatively quickly and included in the product offering. (*Lufthansa Group; Newsroom Releases 2020*) Considerable cost reductions were also achieved in the area of **employees**. Employees were offered short-time work, unpaid vacation opportunities and severance payments. Layoffs are to be avoided and jobs secured. In order to achieve even greater cost savings, the Supervisory Board (25%), Management (15%) and the Board of Directors (20%) are waiving their salary. The estimated personnel surplus of 22,000 full time positions can be increased even further due to the market deterioration. With the reduction of 14,000 jobs, 900 million euros in personnel cost reductions were achieved. To protect the safety of employees and customers, Lufthansa signed up to the EASA European Union Aviation Safety Agency, charter for COVID-19. *“We have introduced extensive hygiene measures along the entire travel chain to optimally protect our customers and our employees. By signing the EASA charter, we are sending a signal that we as the Lufthansa Group support highest standards and uniform, cross-border rules in air transport. Only with more uniformity and stability in terms of regulation will more customers book flights again”*<sup>4</sup> The Executive Board's goal remains to agree crisis packages with tariff partners, which will limit the number of redundancies for operational reasons. No new recruits from external sources as long as there is a surplus. (*cf. Sneader, Singhal 2020*) Employees on-top-goodies are reduced to a minimum, which is a threat to employee motivation. There is also

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<sup>4</sup> Carsten Spohr, CEO Lufthansa; Media Relations North America; 2020.

little transparency towards the employees, which makes them anxious about the given situation. (cf. Robert, interview 2020) In the area of human capital, cabin employees, pilots and management functions also had to be adjusted to save costs. Through partners such as UFO, Ver.di and Vereinigung Cockpit, these adjustments could only progress slowly, as targeted negotiations caused a delay. Also due to the government's right to have a say through the stabilization package, decisions had to be made slowly. (Lufthansa Group; Newsroom Releases 2020) There were also changes at the **shareholder stage, financial structure and organization**. Through the Economic Stabilization Fund, the German State received a share of 20.05% and Mr. Heinz Hermann Thiele held 12.42% of the shares in LHG. There is currently issued capital of 1,530,221,624.32 and 597,742,822 shares (as of 14 July 2020). (Lufthansa Group Website; Investor Relations) By not paying a dividend for fiscal year 2019, the shareholders also contribute to securing liquidity during the crisis. For financial planning purposes, cash outflows are to be reduced from 500 million Euro per month to 400 million Euro per month in winter 20/21 through strict cost management. The target is to generate positive operating cash flows again in 2021. In order to cut costs, 20% of management positions are also to be reduced from 2021 onwards and administrative areas are to be streamlined by as much as 30%. (Lufthansa Group; Newsroom Releases 2020)

### 4.3 RePay

The final module of the restructuring program involves reducing government loans and deposits as quickly as possible in order to avoid an increase in the interest burden. The 9 billion euros of the stabilization package includes 5.7 billion euros of silent partnership, 3 billion euros of the KfW credit facility and 0.3 billion euros for 20% stake at a purchase price of 2.56 euro per share. The sub-total of financial and pension debts including the 3 billion euros of the KfW loan rose to almost 22 billion euros. The operating cash flow in good years such as 2018, amounts to around 4 billion euros, of which 3.6 billion euros were newly invested. (Lufthansa Group; Q2 2020 Results, Presentation p.11) All these factors, plus a substantial profit in the cargo area of 169 Million euro in Q3 and the bundled hub strategy, enabled Lufthansa to keep cash outflow low and pay off its debts as quickly as possible. A drawdown of 2.7 billion was achieved at Q3 2020. The available liquidity of the group was 10.1 billion with cash at hand 3.8 billion and 6.3 billion of undrawn funds at Q3 2020. (Exhibit 4) The cargo sector will continue to have little negative impact through the transport of future medical goods. (cf. Julia, interview 2020) More flexible solutions are already being investigated to link passenger and cargo areas more productively. (cf. Robert, interview 2020) Unfortunately, the short term financial expectations

for Q4 2020 has been a negative impact. Due to the unpredictable nature of the situation, it is not possible to give precise indications as to when the debts can be repaid. Scheduled to begin in 2024, but new regulations, as well as restrictions, may cause further events that will negatively affect the market. (*Lufthansa Group; Q3 2020 Results, Live Call*) Lufthansa also strengthened its liquidity with a subordinated convertible bond of 600 million euros. Access to attractive financing options supports confidence in Lufthansa as a borrower. The bond with a denomination of 100,000 euros bears interest at 2.0% per annum. (*Lufthansa Group; Newsroom Releases 2020*)

## **5 Strategic Goals Post-COVID-19**

The Lufthansa Group has set itself ambitious goals for a “New Normal” in 2023. Carsten Spohr and his team are striving to advance the business unit restructuring plans and maximize the payback of the stabilization package. This is to ensure that the reconstruction is successful in a controlled and cost-efficient manner. An optimized Corporate Headquarter and LHG portfolio will create additional performance for the airline companies. A focus in the achievement of objectives is the adaptation of employees to capacity, more tourist destinations and the implementation of sustainable and resource-saving concepts. Flexible strategies that can react quickly to changes in demand and supply, as well as changes in consumer behavior, are crucial for strategic strength. Analyzing the competition's decisions to identify stronger differentiations is as important as analyzing the upcoming industry. (*Lufthansa Group; Q2 2020 Results, Presentation*)

## **6 Challenges and Outlook**

The biggest challenge is to grow stronger out of the crisis. In order to achieve this, new market conditions must be accepted. On the one hand, consumer preferences, demographics and behavior are changing, so different segments could emerge. Not only productivity, but also the customer must be put more in the center of attention. Flexibility in ticket rebooking, as well as hygiene concepts and no personal contact through digital processes are crucial. (*cf. Julia, interview 2020*) The Lufthansa positioning, which emphasizes quality and service, could be less important as a differentiation point in the “New Normal”. The price structure also needs to be redesigned in this way. New product offers, networks or operations may arise because companies no longer want their employees to travel. Consolidation is another challenge. New landscapes could be created and earlier strategic assumptions by competitors are no longer important for decision-making. Goals that were important in the pre-COVID-period should also

not be pushed into the background. Sustainability, synergy development, digital customer service, dynamic pricing or flexibility are still important issues that need to be addressed at the same time as the crisis, so that the competition is not one step ahead in the “New Normal”. Carsten Spohr also said that sustainability remains important in and after the crisis and that the challenges facing the aviation industry offer just as many opportunities. The traditional can be radically challenged. (*Lufthansa Group; Balance Sustainability report 2019*)

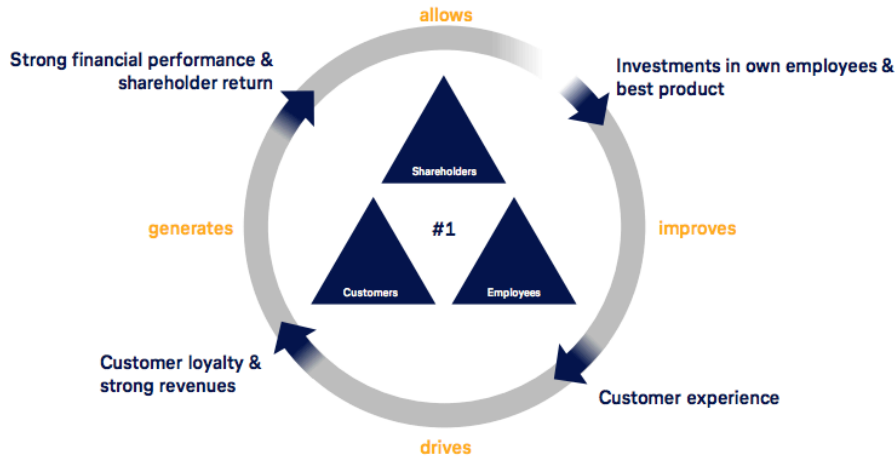
**Assignment Questions:**

- How does the industry environment during COVID-19 pandemic change and to what extent does this affect the Lufthansa Group?
  
- How do you assess the dynamic capabilities of the LHG to react rapidly to the crisis?
  
- How do modifications in the industry affect LHG’s strategic decisions during the crisis?
  
- Comment on the Lufthansa Group's objectives for Post-COVID-19 and give recommendations for further strategic alignments.

## 7 Exhibits

### Exhibit 1 Stakeholder Value Creation

Balanced approach creates value for all stakeholders



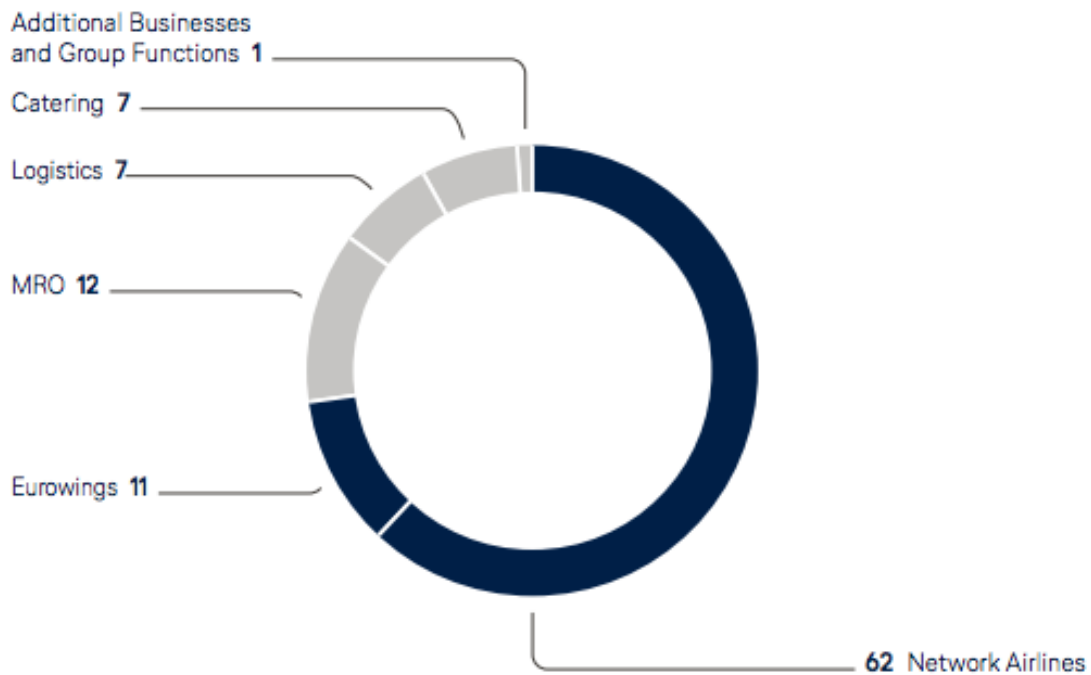
Conference & Roadshow Presentation  
June / July 2019  
Page 6

LUFTHANSA GROUP

Source: Conference and Roadshow Presentation 2019

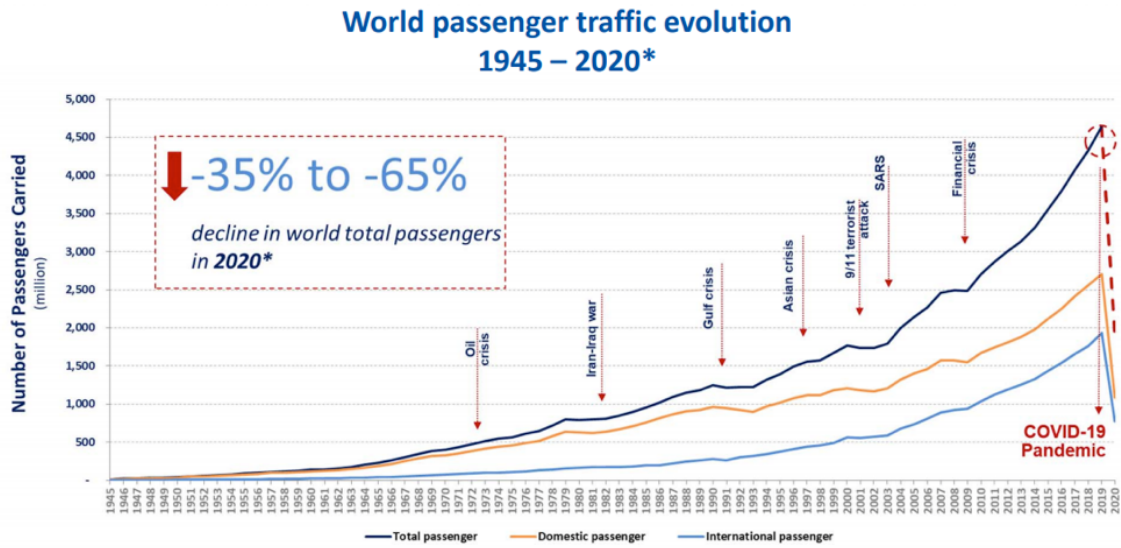
### Exhibit 2 Lufthansa Group external revenue share

**CO1 Business segments' share of Group external revenue** in %



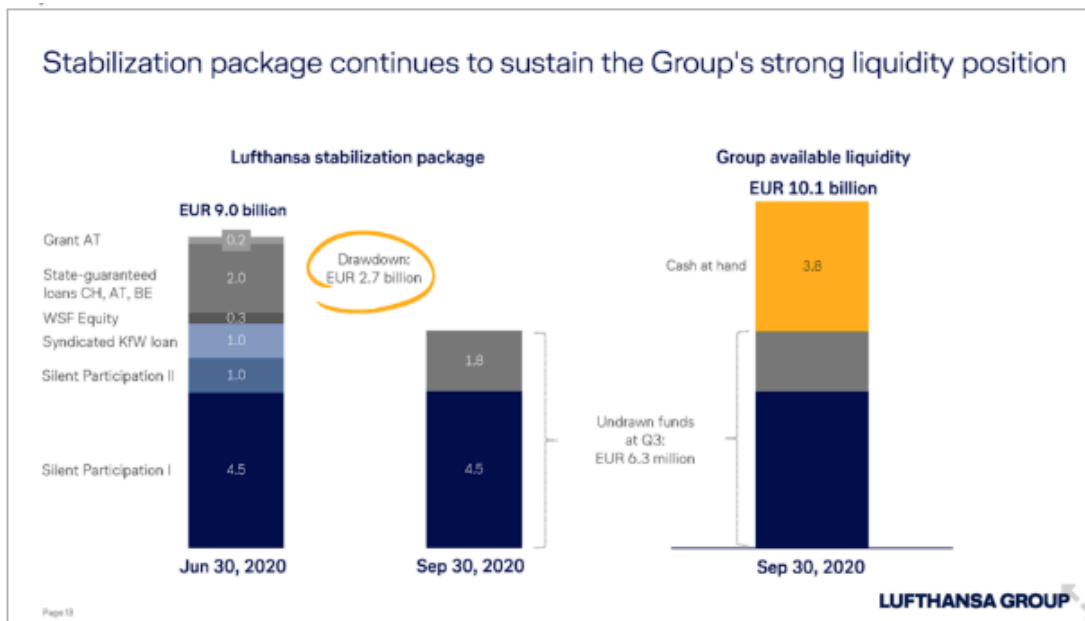
Source: Lufthansa Group Annual Report 2019

Exhibit 3  
Industry Life Cycle



Source: Industry Life Cycle; ICAO Air Transport Reporting Form A.

Exhibit 4  
Stabilization package update 2020



Source: Lufthansa Group; Q3 2020 Results, Conference Presentation.

## II. Theoretical background

The following chapter deals with the theoretical background of the case study, which is important for making connections and predictions. These are crucial for achieving a competitive advantage and implementing ideas. Relevant theories about the industry, as well as about strategy, are combined to successfully explain results.

### 1 Porters 5 Forces

Michael E. Porter transformed strategic thinking and created the Porter's 5 forces. In 1979 he first published an article in the Harvard Business Review entitled "How Competitive Forces Shape Strategy", in which he described how various factors can change a company's strategy. Weaknesses and strengths of the industry are determined. Factors such as the threat of new entrants, the threat of substitutes, the bargaining power of customers, the bargaining power of suppliers and the rivalry among existing players in the market, shape the environment of a company, their position and impact. The resulting evaluation of the environment provides an assessment of the attractiveness of the industry and the long-term profitability of a company. (cf. Porter 1979)

### 2 Competitor Analysis

The Competitor Analysis identifies the main competitors of a company and evaluates the strengths and weaknesses, as well as the points of differentiation and their target group. These are reflected on the own product and service to create a strategy and positioning amongst the competition. In 1980, Michael E. Porter published a Competitive Strategy which analyzes the industry and the competition. According to Porter, a competitive advantage can be achieved through overall cost leadership and differentiation. *"In a differentiation strategy, a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers"*<sup>5</sup> This can be achieved through better features, quality, service, reputation, greater awareness or greater availability. (cf. Sharp 1991)

#### 2.1 Differentiation

Differentiation as a competitive advantage is a strategy in which the company differentiates itself from the competition in decisive features and thus addresses a specific target group. The company does not compete on the price level but on the uniqueness of the product or service.

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<sup>5</sup> Michael E. Porter; Free Press, New York, 1985.

This characteristic is communicated through effective marketing and advertising. The value of the brand and the loyalty of the customer is increased through effective differentiation. (*cf. Porter 1985*)

### **3 SWOT Analysis**

The SWOT analysis is an environmental analysis that compares the organization internally and externally with the competitors. The strategic concept describes the competitive advantages and how internal and external factors fit together. It should be noted that the SWOT analysis can change constantly due to rapidly changing environments. (*cf. Teoli, Sanvictores, An 2019*) The strengths of this analysis are usually those that are in contrast to the competition. This way it can be analyzed which position the competition has and how far their products have advanced. Weaknesses on the other hand show the bad influences in the business environment and point out, where a need for improvement is. The possibilities point to a prospect for new ideas, which are responsible for further market development. The threats highlight the external challenges that exist in the market. Often weaknesses can also become threats if they are not addressed. (*cf. Jain 2015*) In the strategy it is often the case to use the strengths and maximize opportunities and reduce losses from the weaknesses to minimize threats. Several combinations can be derived in this manner. (*Homburg, Krohmer 2009*)

### **4 Dynamic Capabilities**

Dynamic capabilities correspond to a firm's ability to integrate, build and reconfigure internal and external competences to address rapidly changing environments (*cf. Teece, Pisano & Shuen, 1997*) Problems can be solved systematically, shaped by the ability to identify opportunities and threats. The speed and degree of adaptation of a company's resources to the changing environment determines the strength of dynamic capabilities. (*cf. D. Teece 2018*) It becomes clear that the definitions of dynamic capabilities differ in their nature, role, context, evolution mechanisms, outcomes, heterogeneity and purpose. According to Barreto's definition suggestion, dynamic capabilities are considered in four multidimensional facets to identify opportunities and threats, respond to market situations, make timely decisions and change the resource base of the company. (*cf. Barreto 2010*) Dynamic capabilities are often related to a resource based view. This RBV is a framework of how to achieve competitive advantage in the long run and how to achieve sustainable competitive advantage by pooling resources, which include tangible, intangible and human capital, that are valuable, rare and not substitutable for a company. Dynamic capabilities are the advanced form of the RBV and is approached in

rapidly changing environments. Resources are newly created, transformed and recombined to achieve a competitive advantage. The traditional view of dynamic capabilities speaks of the routine to learn procedures, while the reconceptualization speaks of organizational and strategic processes by altering their resource base. The focus is on product innovation, strategic decision making process and alliancing. (cf. Eisenhardt, Martin 2000)

## **5 Mintzberg Strategy Bridge**

The Mintzberg Strategy Bridge is a strategic thinking model for the long-term success of a company. Decisions in the strategic system influence the overall direction of the company. Mintzberg uses the model to describe different perspectives on strategy and thus standardizes work processes, performance, skills and norms in the concept. A focus on the big picture should be set, with the lessons learned from the past that have led to the current state. He looks at resources and skills from different perspectives, as well as a creative technique to incorporate future-oriented action.

With a focus on strategic planning and its organizational structures, Mintzberg and Waters developed a concept that compares and forms different types of strategies. The intended strategy with unrealized strategy, deliberate strategy and the realized strategy with influence of the emergent strategy explored the complexity and variety of strategy formation. A distinction can be made between the intended realized strategy, deliberate strategy and the realized strategy with influence of the emergent strategy. The emergent strategies can be seen as the answer to unexpected problems or opportunities. It is crucial to develop a strategy when the environment has a direct impact on the organization. This usually arises within the business unit and not at the head office. (cf. Mintzberg, Waters 1985)

### **5.1 Design Thinking**

Design Thinking is a process commonly used by designers to solve complex problems, respond to uncertain environments and create new products. Core elements are empathy, reflection, creation, experimentation to create and build findings. Through critical thinking, feedback, creativity and visual representation, rare solutions and possibilities are found. In three phases, inspiration, ideation and implementation, the Design Thinking process analyzes the problem, works creatively on the collection of ideas and finally converts these ideas into actions to implement them. Further innovative developments in the environment and in the organization, which are not yet predictable, as well as conclusions in the own strategy can emerge from the Design Thinking process. (cf. Rylander 2009) In the ideation part, the ideas and brainstorming

are mostly presented and collected on post-its. This concept ensures that the ideas can be clustered and final ideas are decided upon. (*cf. Müller, Thoring 2012*)

### **III. Resolution notes**

#### **1 Introduction/Synopsis**

Many crises in the course of the company's history have caused the Lufthansa Group to suffer slumps. The Corona pandemic was the most serious crisis and brought the aviation industry to a standstill. This case study was generated in 2020 and gives an insight how the Lufthansa Group, a major German aviation company, had made strategic decisions during the COVID-19 pandemic. By analyzing the industry, strategy and dynamic capabilities, students can reflect on how an internationally stable company has to deal with such a sharp decline in demand to maintain a competitive advantage over the competition and ensure success. Students learn to understand how strategic crisis management operates. It is described how the company can reposition itself and take advantage of opportunities in the market.

There may have been several developments after writing this paper, which must be considered. The teaching note provides guidance to answer the questions. General recommendations are given, but it is possible that In-Class discussions may take different paths and unexpected adjustments to the approach may occur.

#### **2 Teaching Objectives/Target Audience**

The case includes different perspectives on the strategic decisions of the LHG, aiming to provide students with relevant input and discuss environmental, strategic and resource based concepts as well as give the opportunity to apply the frameworks in different real life scenarios. The case is suitable for undergraduates or postgraduate students in areas of business and economics. Class discussions as well as the simultaneous study of the respective strategic analyses are essential and ensure a deep knowledge in strategy, market, competitor, consumer, dynamic capabilities and major company structures itself.

Students should be familiar with theoretical concepts of environment analysis and strategic approaches as well as with creative brainstorming methods. Previous work experience is not mandatory but recommended. Students are encouraged to read the case, analyze it, and write the answers in essay form, as well as show illustrations of the analyses. During class, the professor should review the questions with his students and, depending on the class level,

provide guidance. The questions should be reviewed from the beginning, leaving time for class discussions. The individual objectives to be taught to students for each question are presented below.

**Question 1: How does the industry environment during COVID-19 pandemic change and to what extent does this affect the Lufthansa Group?**

*Teaching objective:*

- *Understanding the transformations in the industry environment.*
- *Understanding the competitive environment of a company.*
- *Understanding the consumer behavior and its rapid transformation.*

**Question 2: How do you assess the dynamic capabilities of the LHG to react rapidly to the crisis?**

*Teaching objective:*

- *Understanding the use of resources to adapt quickly to industry changes.*
- *Understanding what barriers can arise with rapid capacity adjustments.*

**Question 3: How do modifications in the industry affect LHG's strategic decisions during the crisis?**

*Teaching objective:*

- *The importance of strategic adjustments during crisis.*
- *Creating strategic success.*
- *Understanding how major corporations handle business.*

**Question 4: Comment on the Lufthansa Group's objectives for Post-COVID-19 and give recommendations for further strategic alignments.**

*Teaching objective:*

- *Reflection of future goals of a company.*
- *Finding recommendations for further strategic alignments.*

### **3 Assignment Questions**

The following assignment questions are recommended. The tasks can be simplified or modified by the professor. The students should be provided with the relevant theoretical background before the case discussion, so that structures and analyses can be developed. Critical thinking should also help the students to explore the problem in more detail and find different approaches.

**Question 1:** How does the industry environment during COVID-19 pandemic change and to what extent does this affect the Lufthansa Group?

**Question 2:** How do you assess the dynamic capabilities of the LHG to react rapidly to the crisis?

**Question 3:** How do modifications in the industry affect the LHG's strategic decisions during the crisis?

**Question 4:** Comment on the Lufthansa Group's objectives for Post-COVID-19 and give recommendations for further strategic alignments.

### **4 Analysis and Discussion**

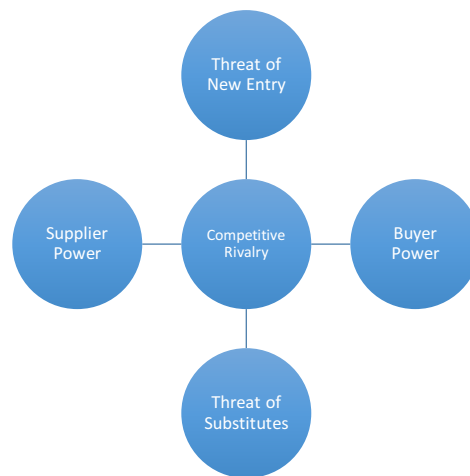
**Question 1: How does the industry environment during a COVID-19 pandemic change and to what extent does this affect the Lufthansa Group?**

The goal of question one is to analyze the industry in which Lufthansa operates and to identify influences on the company during the crisis. To answer this question, it is important that students examine Porters Five Forces for external impacts. Students should be able to identify which external conditions affect the Lufthansa Group. A Competitor Analysis is also necessary to compare the strengths and weaknesses, as well as the positioning and the target group in contrast to the competition. General changes in customer behavior should also be analyzed. The results of these two analyses will finally be combined in an environmental analysis (SWOT analysis).

## Market overview

Over the last few decades, the demand for air travel has been increasing steadily. Europe's market is highly fragmented, with the 5 largest airlines holding only 51% market share, while in the USA the 5 largest airlines hold 86% market share. However, consolidation has continued, which means that Lufthansa's results are improving. IATA warnings of airline bankruptcies can also support the consolidation. In order to generate further market share, Lufthansa could consider buying up airlines such as TAP Air Portugal. It is also important to focus on the Asian market, as the demand to fly there is increasing and market shares can be secured. With strong hubs in Frankfurt, Munich, Vienna and Zurich, Lufthansa is defending its global leadership and ensuring a European market share of 17% in 2018. The COVID-19 crisis caused the European market to collapse in May 2020 by 97.7% in revenue passenger kilometers compared to 2019. The biggest slump in the history of the aviation industry. The Industry Life Cycle shows the extent to which the respective crises were responsible for the collapse of the industry. The COVID-19 pandemic provides a new starting point and re-shuffles the sector.

## Porters 5 Forces



Source: Own figure

### Threat of New Entry: Low

- High investments required, mainly for resources.
- Industrial and legal barriers.
- Consumer loyalty base from existing airlines is medium.
- Difficult to build a distribution network.
- Difficult to have strong differentiation.
- Government standards for pollution and safety.

Airline Industry is saturated that there is hardly space for newcomers. Also high investments for the fleet, safety and security measures, overhead costs, etc. are necessary. Infrastructure and slots at certain buy airports are difficult to negotiate. Differentiating and offering a service/product that increases consumer loyalty is challenging as a new entry. The Lufthansa Group should continue to strengthen brand loyalty and differentiation from the competition, and maintain long-term relationships to keep the threat of new entries weak. Also the German government has regulations for air pollution and safety which are entry barriers.

### **Threat of Substitutes: Medium**

- Cheaper short distance service available.
- Consumer can easy switch to short distance ways.
- Sustainable values.
- Price/Value pressure.

In the air transport industry, services/products are often offered at a better price, performance, value level. For short trips from Frankfurt to Munich, people often change to the train, car or bus. This is also because these are considered more sustainable by customers. Car sharing or the widespread, cheap Flixbus network are substitutes. For customers it is easy to switch to another way of transport. For short and sometimes medium distances, customers are not depending on air transport and can simply choose. For the Lufthansa Group it is therefore important to develop lucrative programs and to offer a customer experience that makes it unique. Maximum value for money must be available to the customer in order for them to choose a flight. The priority varies among consumers and are influenced by time, price, sustainability, effort or safety. For long distances there is no faster and more convenient way to travel. Therefore, the Threat of Substitutes is medium.

### **Supplier Power: High**

- Suppliers are few and demand is high.
- Product differentiations of supplier is low.
- Market knowledge is high.
- Little control of fuel prices.

Global duopoly of Boeing and Airbus provide strong supplier power. Demand continues to be high as new aircraft consistently replace old ones and are also more efficient. There is little differentiation among suppliers. The main difference between the two suppliers lies in the engine sector. There is also little influence on the fuel price, which is decisive for high supplier power. More independence, especially from Airbus, could help the Lufthansa Group to reduce supplier power. Long-term contracts are also necessary to maintain relationships and ensure that stability is guaranteed. As a result of the crisis, Airbus and Boeing are also dependent on the airlines. Many aircraft are on the ground, some are no longer produced (A380) and orders are cancelled.

### **Buyers Power: Medium**

- Low switching costs.
- Highly price sensitive.
- Medium market knowledge.

Buyers in airlines industry are leisure and business travelers. The industry is highly price sensitive as many customers are eager to find the lowest price for the ticket. Online booking sites and a lots of different channels allow to compare tickets according to price, time, route for the best deal. Nevertheless, the pressure is on the airlines' offer, buyers do not have the possibility to exert pressure to lower the price or get a more qualitative package. The Lufthansa group can reduce buyer power by diversifying its customer base. New market segments and product differentiations reduce the power. Marketing and promotional strategies can help.

### **Competitive Rivalry: High**

- Lots of players on the market.
- No clear market leader.
- Aggressive targeting and pricing strategies.

The competitive rivalry in the industry is high. Many players in the market target the same segments. Both Air France/KLM and IAG have offers for leisure and business travelers. Competing in price, technology, service, catering, entertainment etc. ensures that there is a strong battle to offer the best package for the customer and to be the market leader. Aggressive targeting and pricing strategies are often points of differentiation. It is important to take capacity utilization into account and fill the aircraft by using dynamic pricing strategies. The Lufthansa

group should focus on consumer needs and expectations and analyze new segments to create an advantage. Often, collaboration with the competition can also help, such as a focus on the Star Alliance. As a result of the crisis, a few smaller airlines will no longer be able to continue operating, as considerable losses have been incurred. Players on the market may become fewer.

Internal possibilities can be derived from the external factors. Also, the turnaround in the industry due to the COVID-19 pandemic created various possibilities. The fact that fewer airplanes are purchased means that the company is less dependent on suppliers. In the crisis, substitutes must also be taken into account on short routes. It is easy for the target group to switch to these. Customer demands are also increasing, but there is no power to negotiate prices. All major airlines tried to take an advantage from the crisis. For example, Ryanair has an outflow advantage due to its cost leadership and low fixed costs. Competitors like Air France/KLM and IAG are trying to differentiate themselves in a better way. In part, this is achieved by making customers more sensitive to safety and well-being rather than personal service. There is also emphasis on different segments. The tourism segment was favored over the business segment. Aggressive targeting and pricing concepts are continuing to attract customers and generate loyalty and sympathy. Loyalty programs and a customer centric orientation are decisive instruments in this respect.

### **Competition overview**

The four main competitors of the Lufthansa Group are Ryanair, IAG, Air France/KLM and easyJet. For comparison in the premium and low cost sector, an analysis should only be conducted between Lufthansa, Ryanair and IAG.

Ryanair and IAG operate very differently. As a low cost carrier, Ryanair defends its market position only through cost leadership, which is achieved through the no frill concept. Low ticket prices to secure market shares are the main focus. Ryanair's target group includes younger passengers, who are price-sensitive and do not expect service during the flight. The main point is that the ticket price is the lowest. IAG's biggest profit is a broad product portfolio through many holding companies. The company also attaches great importance to environmental stewardship. Since IAG is the group holding company and no airlines are represented under the name, the brand reputation is low and synergy within the group is difficult to convey. Through British Airways - London (Heathrow) and Iberia - Madrid (Barajas) the hubs are very strongly represented in Europe and are key hubs for global flights. However, these hubs are also costly, which leads to high airport commissions and high costs per available kilometer.

Competitor Analysis	Strength	Weaknesses	Differentiation	Target group
Lufthansa	<ul style="list-style-type: none"> <li>- Worldwide network</li> <li>- Brand image</li> <li>- Strong hubs</li> <li>- Good service</li> <li>- High quality, safety and flexibility</li> </ul>	<ul style="list-style-type: none"> <li>- High fix costs</li> <li>- High prices</li> <li>- Frequent strikes</li> </ul>	<ul style="list-style-type: none"> <li>- Quality</li> <li>- Service</li> <li>- Brand</li> </ul>	<ul style="list-style-type: none"> <li>- Higher salary class</li> <li>- Older passengers</li> <li>- Educated passengers</li> <li>- Quality and service oriented with little stress</li> <li>- Flexibility mainly for business customers</li> </ul>
Ryanair	<ul style="list-style-type: none"> <li>- Cheap tickets</li> <li>- Quick ground turnaround</li> <li>- No Hub and Spoke</li> <li>- Cost Leadership</li> <li>- Low airport charges</li> <li>- Low fix costs</li> </ul>	<ul style="list-style-type: none"> <li>- Hidden costs</li> <li>- Expensive rebooking</li> <li>- Poor service</li> <li>- No loyalty</li> <li>- Bad brand reputation</li> <li>- Distant airports</li> <li>- Weak employee relations</li> </ul>	<ul style="list-style-type: none"> <li>- Low ticket prices</li> <li>- Cost Leadership</li> </ul>	<ul style="list-style-type: none"> <li>- Low salary class</li> <li>- Younger passengers</li> <li>- Open, economical and keen to discover</li> <li>- Price sensitive</li> <li>- Flight is means to an end</li> </ul>
IAG	<ul style="list-style-type: none"> <li>- Full product portfolio</li> <li>- Integrated platform</li> <li>- Digital mindset</li> <li>- Strong home markets</li> <li>- Strong brands</li> <li>- Environmental stewardship</li> <li>- Safety / Security</li> </ul>	<ul style="list-style-type: none"> <li>- Brand reputation</li> <li>- Small in Asia Pacific</li> <li>- High airport commission</li> <li>- High costs per available kilometer</li> </ul>	<ul style="list-style-type: none"> <li>- Niche segments</li> <li>- Environmental stewardship</li> <li>- Holding company structure</li> </ul>	<ul style="list-style-type: none"> <li>- Due to different holding airlines like Aer Lingus, British Airways, Vueling or Iberia, the target group differs between geographics, demographics and travel occasion</li> </ul>

Source: Own figure

Lufthansa characterizes itself strongly through its strong brand, quality and service. Accordingly, the target group is familiar with these values. Due to the crisis, adjustments have to be made, safety, flexibility and digital service in the strength of the LHG instead of personal service could become stronger points of differentiation.

### Customer overview

Lufthansa Groups customers value quality that they are willing to pay more for. The passengers are educated with 47% having a university degree. An affinity for technology, finance and mobility is in the interest of the customers. A fast handling of the flight process as well as very good service and little stress is expected. Flexibility is especially important for business travelers, as often spontaneous rebooking or required additional options arise. Brand loyalty and brand appearance is important for the customer. At Eurowings, the younger target group, which requires less service, is addressed. These customers want to fly cheaper, but still feel safe and have a comfortable flight. It is striking that Eurowings also carries a large number of business travelers, although the target group is defined differently.

During the crisis, new patterns of behavior had formed. The COVID-19 pandemic has brought an additional focus on safety and health, which is why Lufthansa implemented immediate measures such as masks on board, pre-board disinfection and recording the travel history of every passenger. The air circulation in the aircraft was also optimized to guarantee constant

fresh air. Customers have placed less emphasis on personal contact to avoid infection. Lufthansa reduced its service on board on all routes. Lufthansa's business customers, who were mainly the target group, were forced to stop traveling in most cases. This led to a considerable loss of business. A safe travel was Lufthansa's top priority. Comfort and social distancing were important, but the target group attaches importance to service, little stress, fast handling and punctual flights, which could not be guaranteed due to the crisis. Therefore, controversial positioning in relation to customer expectations arose.

Due to this controversial **positioning**, Lufthansa attached importance to other areas. On the one hand, increasing sympathy was found for the tourism sector. Touristic routes were added to the product portfolio, as the tourism sector is recovering faster than the business sector. In addition, cargo flights were increasingly conducted. These had a significant impact on the profit of the LH Group. As Lufthansa's customer centric orientation is a priority, a way must be found to reconcile the Group's values with consumer needs. Certain **trends** are emerging that unite the values and goals of the Lufthansa Group. It is certain that air travel is slowly taking off again, domestically and with social distancing. Biometric boarding simplifies the process and should be introduced across the hubs. An update in brand and the employee value proposition is inevitable. In the short to medium term, new values must be created that are in line with the customer's orientation. Data science and the associated personalized product offers and personalized digital service is important, especially with the possibility to book everything via digital channels. The customer should decide for himself to what extent he needs a service in times of pandemic. Expansion of the network also plays an important role. Partners must be found who convey the same values and act accordingly. Loyalty programs are important in order to keep customers loyal to the brand. Initiatives in recycling and waste management must not be neglected. These should go hand in hand with the crisis in order to be one step ahead in the "New Normal". A rebuild that goes along with sustainable methods is a way to easily differentiate from the competition and create a long term commitment to environmental protection in every process and better educated customers are more likely to ask for sustainable products.

## SWOT Analysis

As a result, the external and internal industry conditions can fit together in a SWOT analysis.

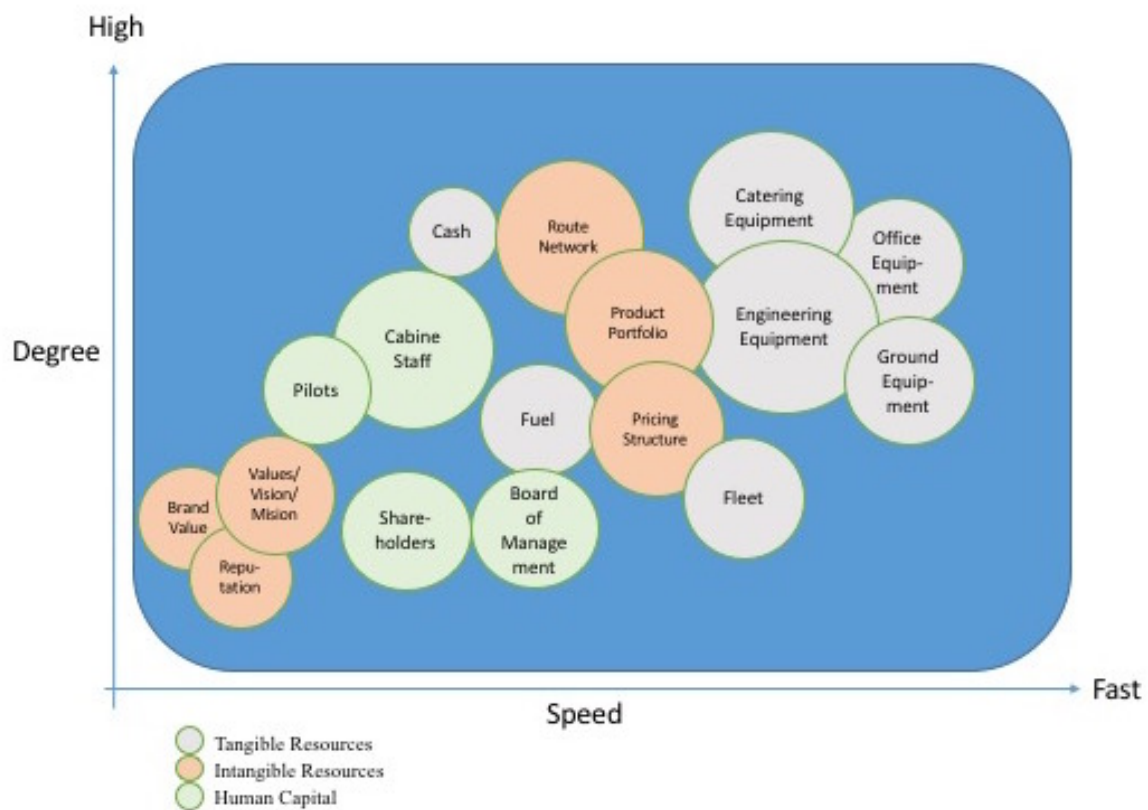


Source: Own figure

### Question 2: How do you assess the dynamic capabilities of the LHG to react rapidly to the crisis?

To answer this question, it is important that students have some prior knowledge about dynamic capabilities. In order to answer this question, students should be able to order resources according to their speed (adapting resources quickly to market conditions) and degree (to what extent is it possible to adapt resources to market conditions).

The goal is to identify where the Lufthansa Group can respond well or poorly to new market conditions with its dynamic capabilities. Students understand how resources are aligned with industry changes and what problems arise while adapting. Due to the COVID-19 pandemic, very rapid adjustments to the new conditions had to be made. The resources, which were available, had to be modified quickly and to a high degree. The dynamic capabilities of the LHG, divided into the relevant resources and the degree/speed of adaptability, are shown in the following table.

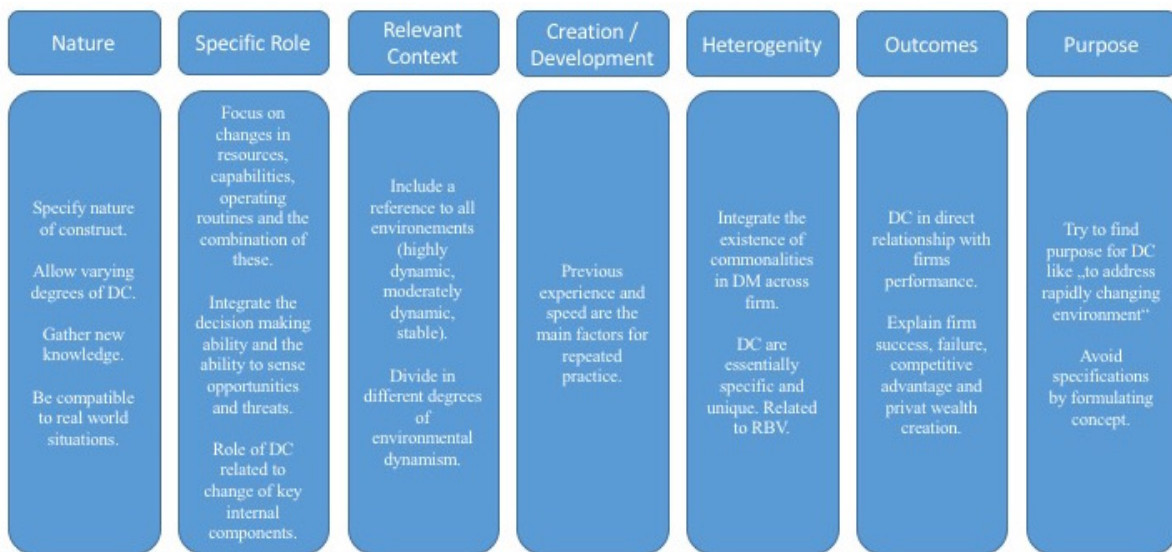


Source: Own figure

Collective bargaining with Ver.di as well as with UFO and the “Vereinigung Cockpit” (Association for commercial pilots and flight engineers) shows that the Lufthansa Group cannot react quickly to crises and market changes in the human capital sector. Many and intensive negotiations are necessary to reach a common basis. However, it must be taken into account that the personnel are perfectly trained by Lufthansa itself and therefore have the highest level of knowledge and skills. Thus the use of personnel is constantly controlled – crisis exception. The government has also become a shareholder in Lufthansa AG since the stabilization package. This gives the government a vote, which can lead to delays to rapid changes. Due to the strong brand identity, culture and reputation, it is difficult for Lufthansa to change these quickly and to a large extent, as the company's values have always been in the minds of its customers. Other intangible resources, such as the route network, product portfolio and pricing structure, can be changed internally relatively quickly and to a high degree. Thus, new tourist routes were directly introduced, prices were adjusted and the network was optimized. The Star Alliance can also create better flight constellations and more effective use of the flights. Considering the tangible resources, it is clear that changes can be made quickly and to a high

degree and that it's possible to react to staff reductions. Fleets and all equipment's were quickly adapted to the given demand. Fuel a bit slower, because it depends on the type of aircraft, the routes and on contracts with suppliers.

Because many alternative concepts were provided via DC, a look should be taken at the different proposals, which according to Baretto differ in seven concepts. Dynamic Capabilities should be integrated in their Nature, Role, Context, Creation, Heterogeneity, Outcomes and Purpose in order to analyze the competencies of a company more precisely.

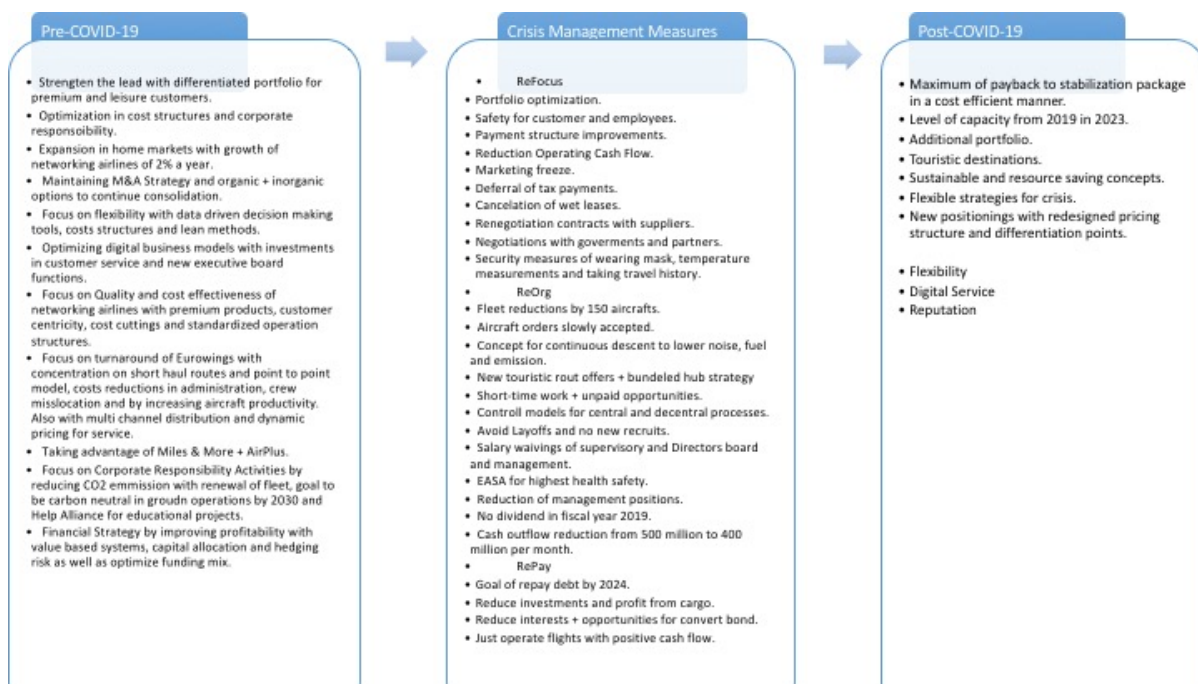


Source: Own figure

**Question 3: How do modifications in the industry affect the LHG's strategic decisions during the crisis?**

This question is about the analysis of the strategic changes the LHG implemented to guarantee long term success in the “New Normal”. To answer this question, it is important that students give an overview about the Pre-COVID-19 and Post-COVID-19 strategy as well as the crisis management measures. Students should be able to analyze how the main strategic goals have changed and which strategic features are considered more important. It is also the goal that the students recognize how long-term success results from strategic modifications.

Students should consider the perspectives of the Mintzberg Strategy Bridge as well as conduct creative future brainstorming like Design Thinking.



Source: Own figure

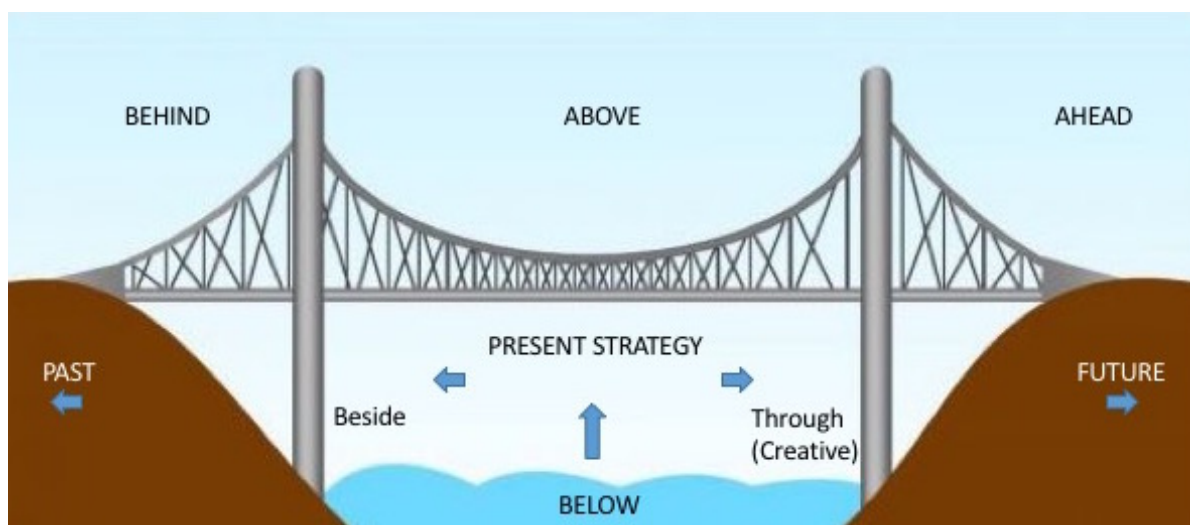
## Change in Strategy

From the list of Pre-COVID objectives, the measures taken during the crisis and the objectives afterwards, it can be seen that the strategic tendencies have changed significantly. One conclusion before the crisis was the importance to strengthen the current market position through optimal conditions for the customer. This strengthening was dampened by the crisis, and cost-cutting measures as well as the adjustment of capacity to demand and the continued liquid management were the top priorities. Before the crisis, a lot of emphasis was placed on digital methods to improve cost structures, but also to offer the customer and special experience and personalized choices. During the crisis, other values came to the fore, as well as safety measures for customers and employees. It can also be seen that digital support was also important, as customers no longer wanted personal contact. There was also a strong focus on the turnaround of EW to offer customers short haul routes with point-to-point services. However, due to the bundling strategy preferred during the crisis, point-to-point flights are no longer available at all times. The goal of the turnaround is therefore delayed and EW reversion is no longer a top priority, although customers would seek cheaper flights, less service and point-to-point destinations for tourist purposes. The portfolio has been strengthened by new tourist destinations, so there is a contradiction to be seen here. Eurowings point-to-point strategy as well as Lufthansa's hub strategy should be retained in order to secure the portfolio and market shares in domestic markets. Partners such as Miles & More or AirPlus were also

important in strengthening loyalty. By concentrating on cost reductions, the maintenance of relationships with business partners also came under great pressure. Nevertheless, Miles & More would be important precisely in times like this to retain and attract customers. Focusing on the core airline business and to become leaner, more efficient and with less complexity is essential. A marketing freeze also means that customers would no longer be made aware of Miles & More offers and opportunities. The focus on sustainable concepts and corporate responsibility had not receded before and during the crisis. New opportunities came to the surface like reducing noise, saving fuel and preventing emissions, e.g. absence of air traffic and the continuous descent concept. In the financial sector, before the crisis, Lufthansa was able to make many investments in new technologies and new aircrafts. This couldn't be done any longer because the cash outflow had to be kept as low as possible. This was reduced to 400 million euros per month. Thanks to the stabilization package, the LHG is still liquid. However, cost-cutting measures will continue to be taken, including the possibility of short-time working, the dismissal of employees, the reduction of wages for members of the Management Board and other managers, and the cancellation of the 2019 dividend for shareholders. The main objectives for a "New Normal" are the maximum payback of the stabilization package, portfolio improvement with tourism destinations, flexibility due to new structures and resource-saving concepts.

### Mintzberg Strategy Bridge

In order to reflect the strategic decisions made during the crisis and to develop a future-oriented concept, we take different perspectives to shape the future.



Source: Own figure

## **Behind**

The Lufthansa Group had already been through several crises. Strategies aimed at being flexible and reacting quickly to the new situation were evaluated. Dynamic capabilities are crucial in this context. Flexible adaptation to capacity reduces costs and promotes sustainable recovery to pre-crisis level. Due to the 9/11 crisis, the fear to board a plane was very high. Lufthansa reacted to this situation with strong security measures and internal/external communication so that customers and employees felt comfortable again when traveling. Feeling insecure inhibits the industry, earlier and during the COVID-19 crisis. Communicating security is therefore very important.

## **Beside**

A look to the side describes the competition-related comparison. The competitor analysis shows which strategies the other players are pursuing. In general, the Lufthansa Group is very well positioned versus to its competitors in the European market. The points of differentiation are still visible and the broad product portfolio of the networking airlines and Eurowings enables the position to be maintained. However, the crisis may cause an enormous turnaround and the competition may catch up in terms of differentiation points and market share.

## **Above**

A look at the market as a whole shows that the crisis caused an enormous loss in the industry. The Porter's 5 Forces analysis highlights the various factors influencing the Lufthansa Group. Loyalty programs and maximum value for money are therefore essential. A closer look on consumer needs or new consumer segments could also create an advantage. Long-term contracts to maintain relationships also became an increasingly important point.

## **Below**

The strengths and weaknesses of the Lufthansa Group are presented in the SWOT analysis. It is clear that the brand reputation, global network and product portfolio are strengths which can be used throughout the Group to attract and retain customers. Weaknesses, on the other hand, can be identified in the area of high fix costs and higher prices as well as the dependence on partners.

## **Ahead**

In terms of market and organization, trends must be observed. A slow recovery of the market as well as values on safety and health are set. Social distancing will accompany consumers even longer. To convey customer's security is top priority to ensure relaxed flying experiences. Flexibility in rebooking and cancellation should be possible without problems, as new

restrictions can always occur. Digital service and personalized offers are valued more than personal service and standardized offers.

### **Through**

In order to identify further long-term developments, creative instruments are used. For this analysis, the results of the Design Thinking process are described in more detail below.

In the Design Thinking process, the issue of Lufthansa and its customer was first identified more precisely. It became clear that customers are very concerned about their own well-being, because the regulations such as safety distance, continuous mask obligation and air cleaning in the aircraft itself are often not observed. Customers also experienced the problem of having to deal with other worries before and after the flight, not knowing whether a country is a risk area or whether one has to go into quarantine on arrival. On Lufthansa's side, it became clear that quick adjustments to the changed demand had to be made. The company values had to be changed and the cash outflow had to be reduced in the short term. "Counteract the restrictions in personal well-being, as well as the associated additional effort for customers, through short-term changes in value and adaptation to changing market conditions." Also a look into the future was taken, which describes the idea of the upcoming customer and the future Lufthansa. Being up to date, digital service, as well as price consciousness is more important than ever on both sides. It is clear that the customer wants transparency, quality and security and will be more sophisticated in general. Lufthansa seems to react with new segments and introduce new ways of transport, as well as put more emphasis on resources instead of customers. Sustainability, independence and fewer hierarchies will become more important in the company. During the development of the idea it became clear that many solutions can be introduced shortly before the flight, such as distributing the best masks to all passengers, quick testing's before the flight or even that future passengers will only be allowed to fly with a vaccination card and a corona vaccination. Flying would also be more comfortable if seats were spaced further apart and better spacing concepts were developed.



Source: Own figure

As the crisis has a direct impact on the organization, the emergent strategy from Mintzberg and Waters can be a response to the problem. And above all, the strategy that appeared during the crisis will have a significant influence on the new strategy in the future and will lead the company in a revamped direction. The Lufthansa Group has to focus on smaller business units to respond to the crisis. Strategies in each area are needed to create opportunities. Therefore, the Lufthansa Group should keep an eye on distinguished strategies in each business unit. For example, the Lufthansa airline should be viewed differently from EW or LHT in its strategic orientation.

**Question 4: Comment on the Lufthansa Group's objectives for Post-COVID-19 and give recommendations for further strategic alignments.**

It is important to set goals when working strategically, but the Lufthansa Group had to adjust them again and again due to the uniqueness of the situation, causing uncertainty by not having the virus under control. Therefore, it's difficult to set precise goals. Going into the right direction by setting general goals like the improvement of the product portfolio, sustainable

concepts as well as flexibility in the corporate structure and a focus on differentiation. These general goals should not be disregarded in order to continue to be successful. Key is strategic thinking and the Mintzberg strategy bridge for the future outlook as well as to act customer centric.

In order to provide the Lufthansa Group with more precise recommendations nevertheless, the following section addresses important focus points that are essential for the strategic success.

In order to remain liquid, the Lufthansa group should try to reduce cash out flow by keeping costs low. Low cost elements such as customers paying for food in economy class on short haul flights could help to generate cash. Also entire seat rows can be sold to help keeping the distance and make long distance flights more comfortable. Customers also expect personalized offers, a better product portfolio as well as an improved network. To achieve this, the hubs must be maintained in order not to lose market share at the crucial European interfaces to the competition. Customer centric oriented actions are necessary. Customers attach much more importance to digital service, security and a healthy, and flexible way to travel. Therefore, Lufthansa values must be abandoned and personal service must be reduced. Other values come to the fore. Developing new points of differentiation from the competition is therefore important. New innovative testing's, as well as new routes and segments must be developed, as the number of business travelers is decreasing steadily and the number of tourists is increasing. A continued focus on Eurowings and low cost elements is key. Transparency across the entire group is also vital. Stakeholders and especially employees should feel secure and stay informed about management decisions. Open communication must take place to keep the best trained employees. To be able to react quickly and flexibly to market changes, it is important to become more independent of the government, associations and suppliers. Negotiations can help and a faster adjustment of resources can take place. In order to remain future-oriented, new aircrafts must be ordered, the digital sector has to be expanded and sustainable concepts are required. Growth is coming back in the "New Normal" and the Lufthansa Group must be prepared for a rapid upswing. A current focus on cargo until the tourism and business sector recovers, helps to generate revenues. Fixed costs must be reduced and profit per flight must be generated through bundling and full utilization of the aircraft.

#### **IV. Conclusion/Limitations**

This dissertation was written with the intention of preparing a case study for students, which includes crisis management of an internationally active corporation. Students learn how to act strategically in a crisis and how to align the company to remain consistent. This case study gives the opportunity to analyze a real situation and strategic analyses that have to be made in real conditions. The most important cognition in this case is that enormous effects on an industry can arise quickly and unplanned decisions have to be made. Radical restructuring is needed to address all stakeholders. Especially customer needs and values are reinterpreted and new differentiation points and positioning have to be created. As this topic is currently very up-to-date, it is difficult to foresee the further course and demand of the industry, but creative techniques can help to discover unpredictable paths and to have them included in the decisions. Various theories used in the thesis will be treated and used differently in real business situations. In general, however, different factors of the business environment have to be considered.

The case gave me the opportunity to apply to a real example what I have learned in my studies. The strategic thinking, as well as the preparation of the analyses based on different theories, was strengthened and prepares me for my future perfectly. In my upcoming professional career, it is necessary to apply strategic concepts to real cases in the free economy.

For the Lufthansa Group I have personally developed a sympathy and hope that the current strategic decisions will ensure long-term success.

The limitations of this work are mainly due to the fact that there was no internal reference to the company. The Lufthansa Group preferred not to disclose data and were not willing to cooperate. Online data of the Lufthansa Group as well as interview data of industry experts have a high share in this work, but there was no personal contact to higher hierarchical levels of the company. A further limitation was that the COVID-19 crisis is very recent and therefore it was not possible to obtain scientific articles about this crisis. It had to be reflected on analyses of consultations and derivations from previous crises.

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