COMMERCIAL AVIATION

Moving On?

More than 30 years after he founded Virgin Atlantic, Richard Branson is slowly retreating from airlines

PAUL KANE/GETTY

Jens Flottau Frankfurt

The Farnborough Airshow, 2016: The entire front section of the press center, including the lounge and bar area, is reserved for the announcement of a commercial airliner order—for just 12 aircraft. *What?* The presenter is noticeably nervous. *Why?* Because Richard Branson owns the small airline placing the order, and it is rumored that he will attend the announcement.

Even after his 33 years in the airline business, fascination has barely waned about the man who bucked convention and brought glamor and flamboyance back to commercial aviation. The Branson brand stands for innovation, entrepreneurship, risk and departure from tradition. It benefited from his association with rock stars (through the Virgin Music label he once owned) and actors (Kate Winslet once saved his mother from his burning family house in the Caribbean). The brand values were also transferred to Virgin Atlantic, his first airline, which pitched itself as David fighting against the Goliath of British Airways.

And now this: Branson is selling 31% of his stake in Virgin Atlantic to Air France-KLM. Singapore Airlines bought a 49% share from him in 1999—a stake picked up by Delta Air Lines in late 2012. While Air France-KLM may be just a Delta straw man, helping to comply with ownership and control limitations, it is ironic that the 31% share in Virgin Atlantic—which Branson says "has changed the airline industry for the better"—went to a carrier he not too long ago considered one of the dinosaurs of the European industry.

The sale signals how commercial aviation has changed over the last 30 years. In 1984, it was still conceivable that a start-up, long-haul airline like Virgin Atlantic could become a successful business. Now, in the world of alliances, consolidation, joint ventures and an increasing number of equity tie-ups, the incumbents have become so powerful that an airline designed like Virgin Atlantic has no chance.

HULTON ARCHIVE/GETTY IMAGES

In 1987, Branson crossed the Atlantic in his Virgin Atlantic Flyer balloon.

While Virgin Atlantic's survival is not in question, Branson did not launch it merely to survive; he wanted to change air transport. But others arguably have made a bigger impact: Freddy Laker's Skytrain was an early example of long-haul, low-cost travel—Branson believed he was the man to continue the Laker legacy. Since the early 1990s, European short-haul travel has undergone fundamental transformation as Stelios Haji-Ioannou, Michael O'Leary and the like started the low-cost revolution. Bjorn Kjos later attempted to reintroduce long-haul, low-cost travel from Europe with the most modern aircraft he could get.

"I just don't see that the guy has anything that stands out in terms of what he has achieved in the airline industry," International Airlines Group (IAG) Chief Executive Willie Walsh famously said of Branson.

Others have a more nuanced view. "He could have achieved more, but it would have meant a lot more risk and investment," Daniel Roeska, airline analyst at Bernstein Research says. "Virgin Atlantic for some time was a frontrunner of product development in long-haul flying—see the lounges, the bar, the brand. But the uncomfortable reality is that people did not want to pay for it." Roeska notes that Virgin America might have been more successful had it launched earlier.

"Branson started as a maverick on the scene in the 1980s, but the industry has changed a lot," airline consultant John Strickland says. "There was not as much competition." Structurally, Virgin Atlantic suffered from the lack of feed, a problem the joint venture with Delta (and now Air France-KLM) solves to an extent, but in many markets Virgin Atlantic was just "one of many," a carrier that lacked the network depth and density required.

Both Strickland and Roeska say it is remarkable that Virgin Atlantic lasted as long as it did and is able to continue under the new majority ownership.

In spite of his public comments to the contrary, the 67-year-old Branson has been withdrawing from the airline industry, and others have become innovators and disruptors. Branson remains extremely active—and will possibly be disruptive—in many other fields, some related to aviation. His Virgin Galactic aims to fly tourists into space and is involved in supersonic jet project Boom. Virgin Group did not respond to requests for comment for this story.

VIRGIN

Branson celebrated the announcement of an order for 12 Airbus A350s at the 2016 Farnborough Airshow.

AIRLINE LAUNCHES

Over the course of his career, Branson has been involved in five airlines—Virgin Atlantic, Virgin Express, Virgin Australia, Virgin Nigeria and Virgin America. Virgin Atlantic was the last in which Branson had a majority stake, even though Walsh long argued that it was effectively controlled by Delta. Following the launch of his intercontinental airline, Branson bought Euro Belgian Airlines in 1996 and rebranded it as Virgin Express to compete in the European short-haul market concurrent with the first wave of low-cost carriers. Two of them, EasyJet and Ryanair, became industry leaders, but Virgin Express struggled, merging in 2006 with SN Brussels Airlines, which is now part of the Lufthansa Group.

Virgin Australia, initially called Virgin Blue for legal reasons, was set up in 1999. Following the 2001 demise of Ansett, it has become the primary Qantas rival in the Australian market. Virgin Australia has undergone much change in the 18 years it has flown: Launched as a low-cost carrier, the airline has transformed into a carrier attractive to business travelers. As the business model changed, so did the shareholder structure. Branson's Virgin Group has an 8% stake, four investors have larger ones: HNA Group (13%), Nanshan Group (22.4%), Singapore Airlines (19.8%) and Etihad Airways (21%).

Virgin Nigeria was launched in 2004 with 51% of the airline owned by the Nigerian government and 49% by the Virgin Group. The relationship did not last long—Branson sold his stake in 2010. The airline was rebranded to Air Nigeria but folded two years later.

And then there was Virgin America. Branson had wanted a Virgin-branded airline in the U.S. domestic market for many years. In 2004, he set up the company and instantly ran against regulatory resistance as U.S. competitors argued the carrier did not comply with ownership and control rules. It took management three years to fight it and finally get the airline off the ground in August 2007. Ten years later, Virgin America is about to become history. The company was sold to Alaska Air Group in April 2016; following complete integration expected for early 2018, another Virgin brand will disappear, much to Branson's displeasure.

Another U.S. low-cost airline also was almost launched by Branson. David Neeleman sought investors to set up an airline and wanted to use the Virgin brand, but Neeleman and Branson could not agree on the level of control and brand fees, so both went separate ways. Neeleman went on to found JetBlue Airways, which last year put in a bid to buy Virgin America.

MARKET PRESSURES

Forced or unforced, patterns in Branson's airline investments are recognizable. In his autobiography, Branson writes that "my interest in life comes from setting myself huge, apparently unachievable challenges and trying to rise above them." He adds that "from the perspective of wanting to live life to the full, I felt that I had to attempt it."

But his relationships with the companies he created has been more ambiguous than visible at first sight: Branson founded a lot of airlines, but he did not really manage them. He delegated these tasks to management teams who, one former business associate says, were often busy trying to politely persuade him that a new idea would not withstand the reality check of the airline world.

And so Virgin Atlantic became a little more conventional every year. Under pressure from high fuel prices, it ordered twin-engine aircraft for long-haul, like any other airline, first the Airbus A330, then the Boeing 787 and A350-1000. In 2006, it became involved in a fuel surcharge price-fixing scandal. The other party, ironically, was British Airways.

One could argue that a small long-haul airline like Virgin Atlantic would have been impossible to sustain in any other market than London, with its huge daily demand for long-haul travel, a good chunk of it high-yield.

Bermuda II ended in 2007, when the U.S.-European Union open skies deal came into force. The transatlantic market changed dramatically almost overnight, in the London market more than anywhere else. Virgin Atlantic had been profitable in some years and unprofitable in others, but the long-term trend was negative and accelerated by the reinforced competition.

Open skies enabled arch rival British Airways (BA) and American Airlines (AA) to start their transatlantic joint venture, a project bitterly opposed by Branson, who had the slogan "No way AA/BA" painted on the side of his aircraft. The joint venture's approval triggered Virgin Atlantic to look for a partner, which it found in Delta in 2012.

But deeper measures were needed. Two years later, in 2014, Virgin Atlantic cut flights to Tokyo; Mumbai, India; Cape Town, South Africa; and Vancouver, Canada. In 2015, its "Little Red" short-haul feeder (operated as an Aer Lingus wet-lease) ended. The entire airline's focus shifted to North Atlantic routes and the strengthening of its partnership with Delta. And in 2016, Branson's Farnborough appearance turned out to be his swan song as majority-owner of an airline.