



Will the Alaska Air Group, Inc. and Virgin America Inc. Merger Hurt Bombardier, Inc.?

Description

On April 4, **Alaska Air Group, Inc.** ([NYSE:ALK](#)) purchased **Virgin America Inc.** (NASDAQ:VA) for \$2.6 billion, creating the largest airline carrier on the West Coast. One of the biggest reasons for the buyout is to combine terminal spaces and landing rights, consolidating the western market while expanding access to eastern hubs. The combined company will also share aircraft, posing a potential hurdle for **Bombardier, Inc.** ([TSX:BBD.B](#)).

The issue

Alaska Air flies primarily **Boeing Co** ([NYSE:BA](#)) aircraft, while Virgin mainly flies Airbus Group SE. Alaska Air also operates smaller Bombardier planes that service a minority of its routes. It owns 51 Bombardier Q400s and several Bombardier CRJ-700s. After the buyout is completed, the combined company will operate an onerous variety of planes, including aircraft from Boeing, Airbus, Embraer, and Bombardier.

It's highly likely it will begin shedding non-Boeing jets and consolidate about one or two manufacturers. The cost savings of operating a streamlined fleet are too big to ignore.

A perfect case study is **Southwest Airlines Co** ([NYSE:LUV](#)). Most airline fleets fly 10 or more types of aircraft, but Southwest uses just one, the Boeing 737. Southwest's vice president of Ground Operations explained the cost savings that comes with this strategy:

We only need to train our mechanics on one type of airplane. We only need extra parts inventory for that one type of airplane. If we have to swap a plane out at the last minute for maintenance, the fleet is totally interchangeable—all our on-board crews and ground crews are already familiar with it. And there are no challenges in how and where we can park our planes on the ground, since they're all the same shape and size.

The impact

Now entering its 40th consecutive year of profitability, Southwest has created a strategy worth

emulating. That could be bad news for smaller, niche manufacturers like Bombardier. According to Howard Rubel, an analyst at Jefferies, airlines prefer fewer models in their fleets, making cockpits more familiar to pilots. "Commonality works," he said.

Bombardier may already be feeling to effects. For example, Horizon Airlines, the regional arm of Alaska Airlines, recently ordered 30 Embraer E175 aircraft, a direct competitor to Bombardier's CSeries jet. Earlier this year, **United Airlines** agreed to buy 40 small planes from Boeing, a \$3.2 billion deal that Bombardier had been vying for.

Further industry consolidation, like the Alaska/Virgin deal, will only exacerbate endings like this. While most of the biggest carriers have already combined, there could be another wave of consolidation within regional airlines, which operate roughly half of all departures by major airlines.

Long-term trends like industry consolidation will only provide more headwinds to Bombardier's struggling CSeries line.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:ALK (Alaska Air Group, Inc.)
2. NYSE:BA (The Boeing Company)
3. NYSE:LUV (Southwest Airlines Co.)
4. TSX:BBD.B (Bombardier)

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Date

2025/08/19

Date Created

2016/04/07

Author

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