Surviving Financial Downfall: A Case of Hong Kong Airlines

Source: Pexels (2023)

Background

Established in 2006, Hong Kong Airlines is a Hong Kong-based full-service airline which operates flights to more than 100 destinations worldwide (Hong Kong Airlines, n.d.). Having operated in the market for more than 17 years, the airline has firmly established itself as one of the leading local carriers. However, the airline was severely hurt as revenue tumbled by 85% due to the collapse in travel demand amidst political unrest in Hong Kong and the global pandemic (FlightGlobal, 2022).

Facing insurmountable financial pressure, the airline filed for restructuring in September 2022 in both the High Court of Hong Kong and the High Court of Justice of England and Wales. It sought approval to convene creditors' meetings to discuss a restructuring plan that would settle the company's outstanding debts of over HK$49 billion (FlightGlobal, 2022). The plan involves retiring 33 aircraft from its 53-strong fleet and issuing HK$3 billion worth of new shares to secure investment (The Standard, 2022). The restructuring plan successfully saved the company from liquidation and allowed the airline to take off again with a smaller fleet after securing its license renewal (Chan, 2023).

In parallel with its legal restructuring, Hong Kong Airlines also implemented various cost-cutting measures to cope with the declined revenue during the pandemic. Due to travel bans and low demand of flights, nearly two-third of Hong Kong Airlines staff were laid off or asked to take pay cuts during pandemic times (South China Morning Post, 2021). Moreover, Hong Kong Airlines suspended most inflight services and amenities, such as meals, blankets, movies, and magazines (Simple Flying, 2020), aiming to preserve cash and extend operational viability.

Challenges

While selling half of its fleet seems to be an inevitable decision, Hong Kong Airlines still suffers from a substantial loss of market share since they have to shut down multiple routes. On the other hand, while cutting staff and inflight services can improve the airline's financial performance within short time period, such measures compromises service quality and the airline might not be able to restore confidence and loyalty in customers ever since. As a result, Hong Kong Airlines would face a huge challenge in maintaining competitiveness and service standards moving forward.

Discussion Questions

1. What are the potential long-term impacts of Hong Kong Airlines' debt restructuring plan on its financial health?
2. How can Hong Kong Airlines optimize use of the reduced fleet? What criteria should guide decisions on which routes to continue or discontinue?
3. How can the airline differentiate itself from its competitors to attract and retain customers given the circumstances?
4. What strategies can the airline employ to minimize dissatisfaction and retain customer loyalty after scaling back inflight services and staffing?

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Keywords

- Airline
- Restructuring
- Fleet optimization
- Competitiveness
- Differentiation
- Inflight service

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