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Artucle

Triumph in the sky: how new entrants survive in the brazilian air market post-deregulation

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Abstract

Objective: This study aims to identify the critical factors influencing the survival of new entrants in Brazil's post-deregulation air transportation market, focusing on the strategies employed by Gol, Azul, and Itapemirim airlines.
Methodology: Using an exploratory qualitative approach, the research employs case studies to analyze the strategic decisions of these three companies in the post-deregulation market. Data was gathered from secondary sources, including financial reports, press releases, and industry analyses.
Originality / Relevance: While deregulation successfully reduced fares and increased demand, the low survival rate of new entrants in the Brazilian market highlights a critical gap in the literature on airline competition. This study contributes to the limited research on how new entrants navigate challenges in highly concentrated markets, particularly in developing countries.
Main Results: Findings suggest that the survival of new entrants is primarily driven by their ability to scale operations and maintain high load factors. Key factors include low operating costs, access to financial capital, a young fleet, and skilled human capital. Additionally, brand perception, pricing strategies, and technological innovation were found to be essential for sustaining competitive advantages.
Theoretical / Methodological Contributions: The study advances understanding of strategic survival mechanisms in deregulated markets, offering insights into how firms can overcome barriers to entry and scale.
Managerial Contributions: The findings provide practical guidance for airlines and policymakers to foster a more competitive and sustainable market environment.

Keywords: air transportation, deregulation, liberalization, new entrants

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Authors' notes

Conflict of interest: The authors have not declared any potential conflicts of interest

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Resumo

Superação no céu: como novos entrantes sobrevivem no mercado aéreo brasileiro pós-desregulamentação

Objetivo: Este estudo tem como objetivo identificar os fatores críticos que influenciam a sobrevivência de novos entrantes no mercado de transporte aéreo brasileiro pós-desregulamentação, com foco nas estratégias adotadas pelas companhias Gol, Azul e Itapemirim.
Metodologia: Utilizando uma abordagem qualitativa exploratória, a pesquisa emprega estudos de caso para analisar as decisões estratégicas dessas três empresas no mercado pós-desregulamentação. Os dados foram coletados de fontes secundárias, como relatórios financeiros, comunicados à imprensa e análises do setor.
Originalidade / Relevância: Embora a desregulamentação tenha reduzido tarifas e aumentado a demanda, a baixa taxa de sobrevivência de novos entrantes no mercado brasileiro destaca uma lacuna crítica na literatura sobre competição no setor aéreo. Este estudo contribui para a pesquisa limitada sobre como novos entrantes navegam por desafios em mercados altamente concentrados, especialmente em países em desenvolvimento.
Principais Resultados: Os resultados indicam que a sobrevivência de novos entrantes é impulsionada principalmente por sua capacidade de escalar operações e manter altos fatores de ocupação. Os fatores-chave incluem baixos custos operacionais, acesso a capital financeiro, frota jovem e capital humano qualificado. Além disso, percepção de marca, estratégias de preços e inovação tecnológica são essenciais para sustentar vantagens competitivas.
Contribuições Teóricas / Metodológicas: O estudo avança a compreensão dos mecanismos de sobrevivência estratégica em mercados desregulamentados, oferecendo insights sobre como as empresas podem superar barreiras de entrada e escalar.
Contribuições Gerenciais: Os achados fornecem orientações práticas para companhias aéreas e formuladores de políticas visando promover um ambiente de mercado mais competitivo e sustentável.

Palavras-chave: transporte aéreo, liberação, desregulamentação, novo entrante

Resumen

Supervivencia en el cielo: cómo los nuevos entrantes sobreviven en el mercado aéreo brasileño post-desregulación

Objetivo: Este estudio tiene como objetivo identificar los factores críticos que influyen en la supervivencia de nuevos entrantes en el mercado de transporte aéreo brasileño post-desregulación, con un enfoque en las estrategias adoptadas por las compañías Gol, Azul e Itapemirim.
Metodología: Utilizando un enfoque cualitativo exploratorio, la investigación emplea estudios de caso para analizar las decisiones estratégicas de estas tres empresas en el mercado post-desregulación. Los datos fueron recopilados de fuentes secundarias, como informes financieros, comunicados de prensa y análisis del sector.

Originalidad / Relevancia: Aunque la desregulación ha reducido las tarifas y aumentado la demanda, la baja tasa de supervivencia de nuevos entrantes en el mercado brasileño destaca una brecha crítica en la literatura sobre competencia en el sector aéreo. Este estudio contribuye a la investigación limitada sobre cómo los nuevos entrantes enfrentan desafíos en mercados altamente concentrados, especialmente en países en desarrollo.
Principales Resultados: Los resultados indican que la supervivencia de los nuevos entrantes está impulsada principalmente por su capacidad de escalar operaciones y mantener altos factores de ocupación. Los factores clave incluyen bajos costos operativos, acceso a capital financiero, una flota joven y capital humano calificado. Además, la percepción de marca, las estrategias de precios y la innovación tecnológica son esenciales para sostener ventajas competitivas.
Contribuciones Teóricas / Metodológicas: El estudio amplía la comprensión de los mecanismos de supervivencia estratégica en mercados desregulados, ofreciendo perspectivas sobre cómo las empresas pueden superar barreras de entrada y escalar.
Contribuciones Gerenciales: Los hallazgos proporcionan orientaciones prácticas para las compañías aéreas y los formuladores de políticas que buscan promover un entorno de mercado más competitivo y sostenible.

Palabras clave: transporte aéreo, liberalización, desregulación, nuevo entrante

Introduction

With its vast territorial expanse, deficient road infrastructure, and rail and waterway systems that play an almost negligible role in passenger transport, Brazil's airline market is crucial to national integration. A three-phase process led to the full deregulation of the sector in 2002, aiming to increase competition by allowing new airlines to enter, reducing barriers, and delivering direct benefits. However, despite numerous attempts by new companies to establish themselves in the post-deregulation period, the market has been marked by a low survival rate and increased concentration among incumbents. Of the 26 companies that entered the market after deregulation, 23 have either ceased operations or were acquired by established airlines.

The contestable markets theory (Bailey & Panzar, 1981; Baker & Pratt, 1989; Fawcett & Farris, 1989; Gudmundsson, 1998) underpinned the deregulation process, suggesting that minimal entry barriers would enable firms to enter and exit freely, keeping the market in equilibrium. However, its applicability to the airline industry has been challenged (Levine, 1987), as the survival rate of new entrants remains low, and achieving a scale comparable to incumbents can take years. While market entry may be relatively easy, long-term survival is not (e.g., Geroski, 1995; Budd *et al*., 2014, 2024).

Several studies have examined the impact of deregulation on airfare pricing (e.g., Windle & Dresner, 1995; Oliveira, 2007), but fewer have explored the key factors that determine the survival of new entrants (Fan, 2008; Kaya *et al*., 2023). Many strategic decisions are made during the planning phase, as companies seek to overcome entry barriers (Porter, 1980; Harrigan, 1981; Gillen *et al*., 1983) and build the financial resilience needed to withstand early-stage challenges (Fan *et al*., 2014). However, recent studies continue to investigate the factors that drive business success and longevity (Kaya *et al*., 2023), particularly in times of uncertainty, as evidenced by the COVID-19 pandemic (Mumbower, 2022).

Against this backdrop, and with the aim of advancing research in the field, this study seeks to answer the following question: What factors determine the survival of new entrants in Brazil's post-deregulation airline market? More specifically, within our empirical context, we analyze the strategic decisions made by Gol, Azul, and Itapemirim, how these strategies were implemented, and their outcomes. Gol and Azul were selected for their track record of resilience and significant role in Brazilian aviation, while Itapemirim was included as a recent case marked by distinct operational challenges.

To address this question, we adopt a qualitative approach based on multiple exploratory case studies, drawing on interviews with executives, industry experts, and airline managers, as well as institutional reports, news articles, and data from the National Civil Aviation Agency (ANAC).

This study offers valuable managerial insights for companies planning to enter the airline industry. By identifying how strategic decisions shape the survival of new entrants, it provides managers with practical guidance on overcoming entry barriers and increasing their chances of success in Brazil's competitive airline market.

Literature review: contestable market theory, entry barriers, and the life cycle of new entrants

The primary objective of airline market deregulation was to replace state control with the "invisible hand" of free market competition (Fawcett & Farris, 1989). Through competition, market forces would dictate routes, products, service quality, and pricing, fostering a perfectly competitive market with numerous buyers and suppliers and minimal barriers to entry and exit (Fawcett & Farris, 1989).

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According to Baumol (1982), a market is contestable when entry is entirely unrestricted, and exit incurs no costs. This does not mean that entry is cost-free but rather that new entrants can compete on equal footing with incumbents (Baumol, 1982). However, the applicability of this theory to the airline industry has been questioned, as deregulation has led to increased market concentration and significant challenges to the survival of new entrants (Peteraf, 1995; Cohen, 1983).

While deregulation was expected to facilitate market entry, new airlines have continued to face substantial barriers even after the process was completed (e.g., Finger & Button, 2017; Gudmundsson, 1998, 2015). The entry of new competitors—whether through the establishment of new companies or the expansion of existing capacity—alters market dynamics and can trigger strong reactions from incumbents (e.g., Harrigan, 1981).

The way firms compete—particularly new entrants against incumbents—is critical to understanding the strategic choices made to secure a sustainable market position. Porter (1980) identified three fundamental strategic approaches: cost leadership, differentiation, and focus. Low-cost carriers, in their pursuit of new revenue streams or by offering services traditionally provided by full-service airlines, disrupt these competitive principles (e.g., Urban & Hornung, 2021). This blend of competitive strategies challenges the traditional model, suggesting a hybridization with blue ocean strategies (Kim & Mauborgne, 2005) to create uncontested market spaces.

Incumbents can deter new market entry by erecting barriers, allowing them to sustain prices above the minimum average cost of production and distribution without inviting competition (Bain, 1968). Well-documented barriers include scaling up operations, differentiation, capital requirements, costs unrelated to scale efficiencies, access to distribution channels, and government policies (Porter, 1979).

In the airline industry, economies of scale and capital requirements pose less significant barriers than in other sectors. Studies indicate that cost per available seat mile (CASM) is similar for both small and large airlines, suggesting that economies of scale are a weak barrier (Levine, 1987; Gudmundsson, 1998). Additionally, the initial capital investment in aircraft can often be recovered, making both market entry and exit more feasible (e.g., Bailey & Panzar, 1981).

However, government regulations, slot allocation at congested airports, and operational requirements create significant entry barriers, limiting opportunities for new airlines (Gudmundsson, 1998, 2015). Product differentiation also favors incumbents with well-established brands and loyalty programs, further reinforcing barriers to entry (Fawcett & Farris,

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1989; Bain, 1956; Farooq *et al*., 2018). As a result, not only is market entry challenging, but long-term survival remains uncertain for new entrants (e.g., Budd *et al*., 2014, 2024).

Harrigan (1981) highlighted that the success and performance rate of new entrants are negatively impacted in industries with high product differentiation. To overcome these barriers, new entrants must invest in marketing and advertising to build brand recognition (Porter, 1980). Likewise, studies suggest that service reliability also plays a key role in consumer choice (Kim & Park, 2016; Abdelhady *et al*., 2019).

Following deregulation, incumbents sought to establish additional barriers to offset those removed by regulation, including the hub-and-spoke model, dominance on specific routes, and loyalty programs (e.g., Pitelis & Schnell, 2002). These strategies enable them to charge fare premiums in controlled markets (Connan & Williams, 2011) and deter new competitors from entering.

Beyond structural barriers, new entrants must navigate various market dynamics to ensure survival. In the airline industry, anchor mass—the capacity to sustain temporary losses—is more critical than merely achieving critical mass (Gudmundsson, 1998). Companies must grow large enough to absorb short-term financial setbacks. Cost leadership, differentiation, and focus strategies are essential to competing with incumbents (Porter, 1980). Some new entrants achieve success by sidestepping direct competition with incumbents, instead adopting blue ocean strategies, such as operating at alternative airports or targeting underserved markets—an approach that has proven effective (Meyer & Oster, 1987; Gudmundsson, 2015).

These strategic moves often provoke responses from incumbents, including capacity expansion, price wars, or the launch of low-cost subsidiaries (Gudmundsson, 2015). As a result, explaining the dynamics of the airline market and the factors behind the success or failure of new entrants solely through contestable market theory may be insufficient. The study of the corporate life cycle is a valuable tool for gaining deeper insight into the processes of airline success and failure (Rakowski & Bejou, 1992). Indeed, multiple studies indicate that a company's age is inversely related to its likelihood of failure, as older firms tend to establish more stable relationships (Brüderl & Schüssler, 1990).

Traditionally, studies on the organizational life cycle have used biological metaphors to describe its distinct stages. However, to accurately assess a company's life cycle and its risk

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of collapse, economic variables such as revenue growth must also be considered (Gudmundsson, 1998).

Gudmundsson (1998) outlines seven stages in the airline life cycle: 1. Start-up; 2. New Entrant; 3. Transitional; 4. Provisionally Large; 5. Scaling Up; 6. Mega Airline; and 7. Global Airline. While financial decline can occur at any stage, it tends to be more rapid from the New Entrant phase through the end of Provisionally Large (Stage 4). Once an airline reaches the Scaling Up phase, the pace of financial decline typically slows. This variation in decline speed is also supported by Kelly and Amburgey (1991), who found that larger firms are generally less prone to failure. In summary, financial downturns tend to accelerate in the early phases and decelerate after reaching a critical growth threshold. As previously noted, unlike other industries where achieving critical mass (the minimum investment required for profitability) is crucial, survival in the airline sector is more closely linked to anchor mass—the ability to withstand temporary losses without financial collapse (Gudmundsson, 1998).

Meyer and Oster (1987) argue that new entrants should prioritize differentiation over market capacity. In markets dominated by established airlines, gaining visibility and attracting customers is a significant challenge for newcomers (Gudmundsson, 1998, 2015). Differentiation strategies may involve operating from alternative airports or serving underserved markets where major airlines are absent (Meyer & Oster, 1987; Gudmundsson, 2015).

Airlines that initially avoided direct competition with incumbents after deregulation tend to have higher success rates (Gudmundsson, 1998, 2015). However, as these new entrants expand, they eventually enter major airports and compete on key routes controlled by incumbents. The success of new entrants often provokes defensive responses from incumbents, such as expanding competing operations, initiating price wars, launching low-cost subsidiaries, or even adopting a strategy of competitive inertia (Gudmundsson, 2015).

In an environment of increasing uncertainty and external shocks, understanding the airline life cycle is crucial for analyzing the air transport market, as well as for assessing the survival strategies of new entrants and the responses of incumbents. Recent research has focused on identifying the key factors that drive success in the airline industry (Kaya *et al*., 2023). The COVID-19 pandemic heightened awareness across multiple sectors, including aviation, of the impact of unpredictable disruptions (Mumbower, 2022). Alderighi and Gaggero (2022) highlight that the airline industry has been significantly affected by past shocks, such as terrorist attacks. Following the September 11 attacks, airlines adjusted their strategic focus depending on whether they operated under a low-cost or full-service model. The authors also

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note that ongoing uncertainties, such as the war between Russia and Ukraine, may continue to shape corporate strategies in diverse ways. These factors affect new entrants and incumbents differently, emphasizing the importance of adaptability in a volatile market.

Empirical strategy

This study employs an exploratory qualitative approach, using a multiple case study method (Eisenhardt, 1989). This approach is well suited to the research objective, given the small number of new entrants and the focus on understanding how strategic decisions were made, implemented, and their outcomes. The case study methodology is justified by its ability to examine a contemporary phenomenon within its real-world context while leveraging pre-established theoretical propositions to guide data collection and analysis (Yin, 2001).

The research aims to analyze how strategic decisions were made by Gol, Azul, and Itapemirim, how they were implemented, and what outcomes they produced as new entrants. Gol and Azul were selected for their status as two of the few surviving airlines and their significant role in Brazilian aviation. Itapemirim, in contrast, was chosen not only as a recent case of failure but also due to the specific challenges it faced, including precautionary measures imposed by ANAC, financial difficulties, and unsuccessful strategic negotiations. Together, these cases illustrate the challenges new entrants encounter in the Brazilian airline market and the barriers to establishing and sustaining operations in this highly competitive industry.

Since the deregulation of Brazil's airline market occurred in phases, culminating in full liberalization in 2002, a longitudinal analysis will be conducted, examining the evolution of key variables from the period immediately following the final phase of deregulation (2000) through 2022.

Data collection

To analyze the strategic decisions adopted by new entrants, this study draws on both primary and secondary data sources. Primary data include nine interviews with executives (Directors and Vice Presidents) involved in company planning from the pre-operational phase to market consolidation, as well as executives from incumbent airlines, industry experts, and researchers specializing in air transport.

Interviews were conducted with two executives from each airline (Gol and Azul) who held decision-making positions, providing key insights into the business context in which strategic decisions were made. Additionally, two executives from incumbent airlines were

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interviewed to gather information on the actions taken by Gol and Azul upon entering the market. Since it was not possible to interview managers from Itapemirim, three interviews with industry researchers and experts were conducted to compensate for this limitation.

The selection of interviewees aimed to capture different perspectives on the challenges and key factors influencing the survival of new entrants in the Brazilian airline market. Three profiles were chosen: first, executives from the analyzed companies, who provided insight into the motivations and strategic decisions involved in entering and consolidating in the market. Second, representatives from incumbent airlines, who offered perspectives on competitive dynamics and strategic responses from established operators. Finally, the third group comprised industry experts and researchers, who contributed an independent and contextualized analysis based on prior studies and academic expertise. This diverse range of perspectives enabled data triangulation, strengthening the robustness of the analysis and enhancing the reliability of the study's conclusions.

The interviews followed a semi-structured format, with questions organized around a pre-established guide while allowing flexibility to explore topics in greater depth and adjust the approach based on interviewees' responses (DiCicco-Bloom & Crabtree, 2006). The discussions focused on understanding the airline sector during the analyzed period, identifying key entry barriers, examining the strategies adopted by new entrants to overcome these challenges, and assessing the factors that provided them with a competitive advantage over incumbents, as outlined in Table 1 below.

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Table 1

Interview structure and key aspects of investigation

Category	Subcategory	Aspects of Investigation
Deregulation	Impact of lifting restrictions on fares, routes, and aircraft	Effect of deregulation on new entrants' market entry decisions.
		Impact of fare flexibility on entry decisions.
		Effect of increased access to aircraft.
	Impact of changes in market structure	Understanding the transition from an oligopoly to a liberalized market and its impact on new entrants' strategies.
		Assessing how the removal of the distinction between regional and national carriers influenced new entrants' strategies.
	Market competitiveness	Impact of fare reductions on entry decisions and strategies
		Effect of deregulation on competition between incumbents and new entrants.
Entry Barriers	Concept	Understanding the nature of entry barriers.
		Identifying key entry barriers in the airline industry.
	Barriers imposed by incumbents or government policies	Identifying major entry barriers created by incumbents.
		Assessing the significance of economies of scale as an entry barrier.
		Assessing the significance of differentiation as an entry barrier.
		Assessing the significance of capital requirements as an entry barrier.
		Assessing the significance of costs as an entry barrier.
		Assessing the significance of distribution channels as an entry barrier.
		Assessing the significance of government policies as an entry barrier.

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Category	Subcategory	Aspects of Investigation
		Assessing the impact of entry barriers in underserved markets.
	Strategies adopted by new entrants to overcome or bypass entry barriers	Determining whether new entrants sought to bypass or overcome entry barriers.
		Identifying strategies used to overcome or bypass differentiation as an entry barrier.
		Identifying strategies used to overcome distribution channel barriers.
		Identifying strategies used to overcome or bypass capital requirements.
		Identifying strategies used to overcome or bypass cost-related barriers.
		Identifying strategies used to overcome or bypass entry barriers through market selection.
		Determining which competitive advantages improved (or have the potential to improve) a new entrant's survival prospects.
Life Cycle	Concept of the airline life cycle applied to the industry	Understanding how market concentration affects a new entrant's life cycle.
		Assessing whether market share influences a new entrant's life cycle.
	Expansion strategy	Understanding how a new entrant's expansion and growth strategy impacts survival rates.

When authorized by the interviewees, the recordings were transcribed and integrated into the analysis. Conducted between October and November 2022, the interviews resulted in 183 pages of transcriptions from a total of 8 hours and 14 minutes of recordings (summarized in Table 2).

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Table 2

Interviewee Data

ID	Role	Interview Duration
E01	Vice President of Operations and Maintenance; Technical Director	01:17:47
E02	Specialist Pilot and DAC Evaluator	12:40:41 AM
E03	Professor and Researcher in Air Transport Industry	12:34:13 AM
E04	Consultant	12:51:23 AM
E05	Director of Institutional Relations	1:02:55 AM
E06	President	12:49:00 AM
E07	Vice President of Marketing and Planning	1:20:47 AM
E08	Director of Operations	12:42:00 AM
E09	President	12:55:55 AM
	Total	**8:14:41 AM**

The findings from the interviews were corroborated or challenged through secondary data sources. These sources included documents and presentations available on company investor relations websites (when applicable), financial statements, and data from national and regional newspapers and magazines. Additionally, company records from ANAC's online database were reviewed. A total of 230 newspaper and magazine articles were analyzed and coded, along with 21 ANAC statistical yearbooks, which provided insights into industry trends and company performance in the air transport sector. Collectively, these 230 publications amounted to 4,525 pages of analyzed documents.

Data analysis

Data analysis is an ongoing process of reflection on the collected information (Creswell, 2014). This study organized the data using coding, quotations, and a network of connections to identify relationships between codes (Miles *et al.*, 2014). To facilitate analysis, the software Atlas.ti was used, generating 50 codes. The analysis followed a case comparison method,

aiming to identify similarities and differences across cases and draw conclusions based on the data. After briefly outlining the context of deregulation, we present our detailed analysis.

Context of airline market deregulation in Brazil

The regulatory history of Brazil's airline market can be divided into two main phases. The first phase, which began between the 1960s and 1970s, was a response to a crisis in the airline industry caused by an oversupply of companies in the post-World War II period (Gauranys, 2010). This era was characterized by what became known as "controlled competition" (Oliveira, 2007). Through regulatory policies, the Brazilian government intervened in pricing and restricted free competition, aiming to increase market concentration and, through legal mechanisms, limit the entry of new competitors. During this period of controlled competition, market liberalization was minimal, and among various restrictions, new companies were prohibited from entering both the national and regional markets (Gauranys, 2010).

Decree 72,898, issued on October 9, 1973, explicitly listed the companies authorized to operate in the regular passenger, cargo, and postal transport sectors (Oliveira, 2007):

> *"From the publication of this Decree, the right to operate regular air transport services for passengers, cargo, and postal mail is granted, for a period of fifteen (15) years, to the following airlines: Viação Aérea Riograndense S.A. (VARIG), Viação Aérea São Paulo S.A. (VASP), Serviços Aéreos Cruzeiro do Sul S.A., and Transbrasil S.A. Linhas Aéreas, regardless of request" (Decree 72,898, October 9, 1973).*

The second phase began in the 1990s and became known as the "Commercial Aviation Liberalization Policy." It was implemented in stages, culminating in the full deregulation of the market in 2002 (Oliveira *et al*., 2011). During this period, various measures were introduced to gradually lift restrictions on domestic, regional, and special airline operations (Gauranys, 2010), which had previously served as entry barriers due to government-imposed limitations (Porter, 1979). As a result, the legal monopoly of established airlines in national and regional

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markets was dismantled, and regulatory entry barriers were replaced with policies designed to encourage new airlines to enter the domestic market (Ferman, 2012).

Following the implementation of deregulation measures—such as fare liberalization and the relaxation of requirements for new airline concessions, route frequencies, and aircraft acquisition (Gauranys, 2010)—several positive effects emerged. In the years immediately after deregulation, the sector saw a notable increase in demand, as evidenced by data compiled from ANAC statistical yearbooks and the Brazilian Institute of Geography and Statistics (IBGE).

Another key metric for assessing the initial impact of liberalization was the aircraft load factor, a critical indicator of an airline's financial health. According to the Institute for Applied Economic Research (IPEA), load factors were relatively low in 1992 (Instituto de Pesquisa Econômica Aplicada, 2003) but followed a steady upward trajectory in the subsequent years (ANAC, 2021).

This combination of measures—fare liberalization and the facilitation of new airline and aircraft entries—allowed established airlines greater freedom to compete while enabling new players to enter the market (Gauranys, 2010), ultimately achieving the intended goals of deregulation (Gurgel & Costa, 2007).

Evidence indicates that deregulation in Brazil's airline market has brought significant benefits to the sector, including lower fares, improved operational efficiency, and increased airline competitiveness. Additionally, as seen in the United States and other regions that liberalized their aviation markets, deregulation led to a noticeable rise in consumer travel and greater accessibility for new passenger segments—particularly first-time air travelers (Zimmermann & Oliveira, 2012).

Despite these advantages, the post-deregulation period posed challenges for new entrants. In the global debate on airline deregulation, it was widely assumed that the threat of new entrants, with innovative approaches and lower cost structures, would drive incumbents to better meet consumer needs at competitive prices, ultimately maximizing value for system users. However, the years that followed revealed that new entrants struggled to survive. Market liberalization and deregulation intensified competition (Katarelos & Koufodontis, 2012), affecting all industry players.

This increasingly competitive environment, coupled with tighter profit margins, favored the entry of low-cost carriers (Lawton, 2002; Finger & Button, 2017). Low-cost

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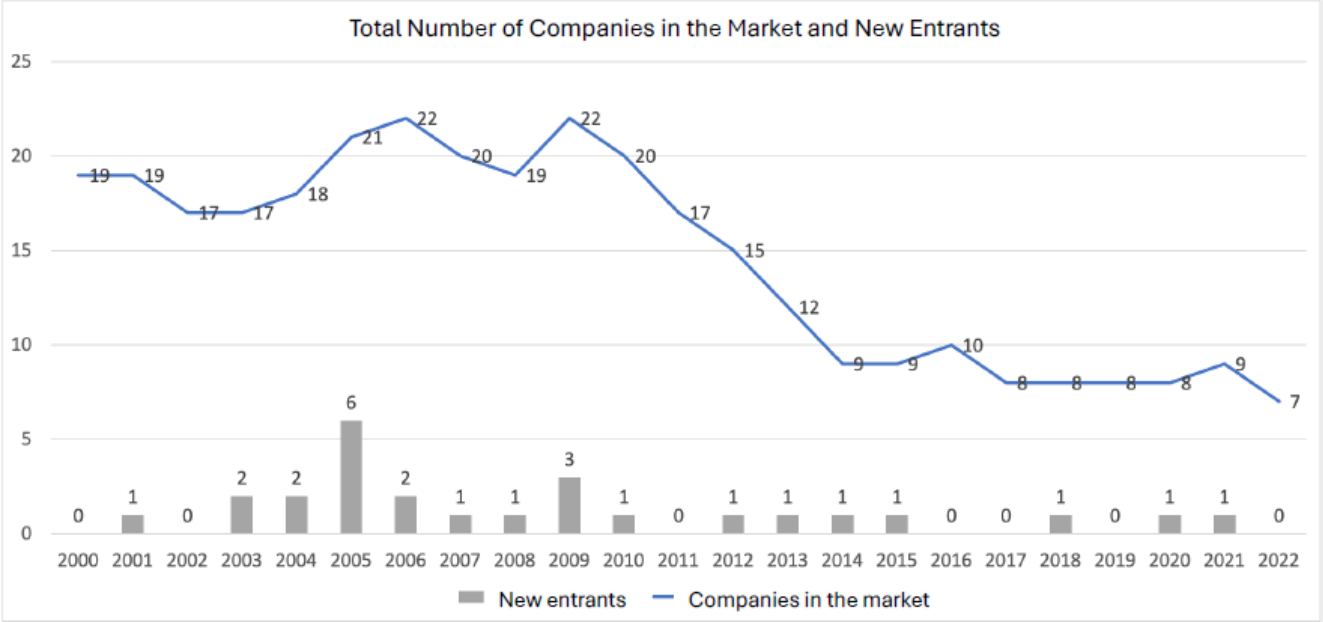
airlines operate with a simplified service model, excluding many ancillary products from the ticket price, whereas full-service carriers face higher costs due to added services, flexible seating options, and baggage handling (Katarelos & Koufodontis, 2012). Understanding whether a specific business model improves the survival prospects of new entrants in the post-deregulation landscape is essential for strategic planning.

The deregulation process in Brazil's airline market successfully lowered barriers to entry, fostering greater market contestability for new competitors. In the period immediately following deregulation, the number of new entrants increased significantly, as illustrated in Figure 1.

Figure 1

Companies in the Market and New Entrants (2000–2021)



Source: Compiled by the authors based on ANAC data.

The peak of new entrants during the analyzed period occurred in 2005, driven by the fare liberalization process that began in 1990 and was fully implemented in 2002 (Oliveira *et al*., 2011), along with the establishment of ANAC in 2005. Although the creation of ANAC did not introduce a new regulatory framework, the legislation behind its establishment facilitated market entry for new competitors by reinforcing key aspects such as fare

liberalization, supply flexibility, and the regulator's role in addressing anti-competitive practices (Gauranys, 2010).

Despite supply flexibility and a legal framework aimed at promoting free competition, what followed after 2005 was an increase in market concentration and a high failure rate among new entrants. Over the full period analyzed, 26 new airlines entered the scheduled air transport market, yet only three survived, two were acquired by other companies, and 21 went out of business.

Another key aspect in evaluating the post-deregulation period is the degree of market concentration. The Herfindahl-Hirschman Index (HHI) is widely recognized as a standard measure of market concentration (Johnston & Ozment, 2011). More specifically, the HHI increases in two ways: (1) through a reduction in the number of competitors in the market or (2) through a widening disparity in market share distribution. In the period immediately following deregulation, market concentration in Brazil increased. This trend challenges the applicability of contestable market theory, which underpinned deregulation policies, as one of its core objectives was to reduce concentration by enabling new market entrants and fostering free competition. A similar rise in concentration following deregulation has been observed in other markets that underwent the same process (Johnston & Ozment, 2011; Wang *et al*., 2016).

A high degree of market concentration serves as a major entry barrier, as a few companies control a significant share of the market. In the airline industry, dominance also grants access to one of the most critical barriers to entry: slots. A slot is a designated time for an aircraft to arrive or depart at an airport (ANAC, 2006) when flight demand exceeds the airport's maximum capacity. When asked about the main obstacles new entrants face, interviewees overwhelmingly identified slot allocation as the most significant barrier.

This issue is also highlighted in studies by the Administrative Council for Economic Defense (CADE), which found that ANAC's resolution governing slot distribution between 2006 and 2014 created a substantial barrier to entry for new airlines. Even after the revision of slot redistribution regulations, further opportunities remain to mitigate this barrier, such as establishing a secondary market for slot allocation at congested airports (Fonseca *et al*., 2015).

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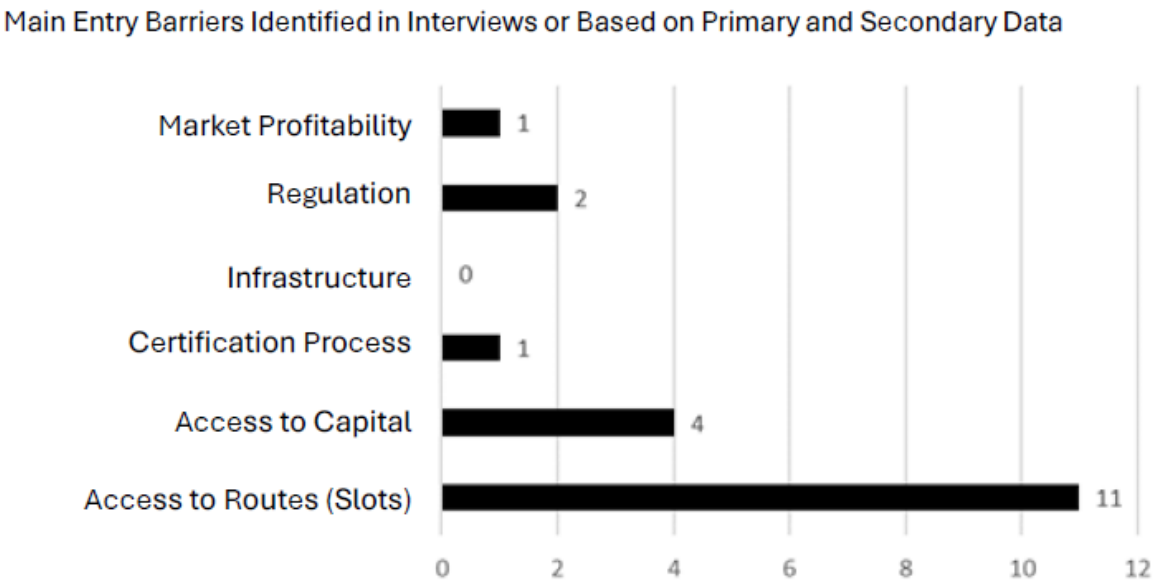
Figure 2

Summary of key entry barriers



Source: Compiled by the authors from interviews, primary, and secondary data.

Another crucial factor linked to market concentration and its impact on new entrants is information economies. This concept refers to the advantages established airlines gain through brand recognition and customer loyalty (Gudmundsson, 1998; Fan *et al*., 2014). Since 2003, Gol and TAM have controlled over 50% of the market, exceeding 80% in some years. This duopoly was only disrupted in 2014 when Azul's market share surpassed 15%. Today, the three airlines collectively hold more than 90% of the market, creating a significant entry barrier for new competitors. Passengers often find it easier and more reassuring to choose a well-known airline over an unfamiliar one (Fawcett & Farris, 1989). Beyond the brand recognition advantage associated with information economies, incumbent airlines reinforce customer loyalty through frequent flyer programs, making it even harder for passengers to switch to a new entrant—especially since many newcomers lack such programs entirely.

As observed, deregulation removed one of the barriers to entry; however, others persist, such as access to slots and information economies. The following sections explore the strategies Gol and Azul adopted to overcome these and other barriers, as well as the decisions that led to Itapemirim's failure.

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Main analysis: success factors

The identification of success factors among new entrants was based on an in-depth analysis of the three companies, highlighting similarities and differences, and categorizing them according to key variables such as access to capital, cost efficiency, and fleet growth. After compiling a list of success factors, each case was revisited to verify whether the data supported these findings. When confirmed, the cases were used to refine the understanding of the underlying market dynamics. Appendix 1 provides a summary of the evidence. Following multiple iterations between the data and the list of factors, existing literature was incorporated to deepen the insights produced by this inductive process. Based on the identified codes, case evidence, and an analysis of the competitive dynamics faced by new entrants, a network of success factors was developed, as illustrated in Figure 3.

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Figure 3

Network of success factors for new entrants

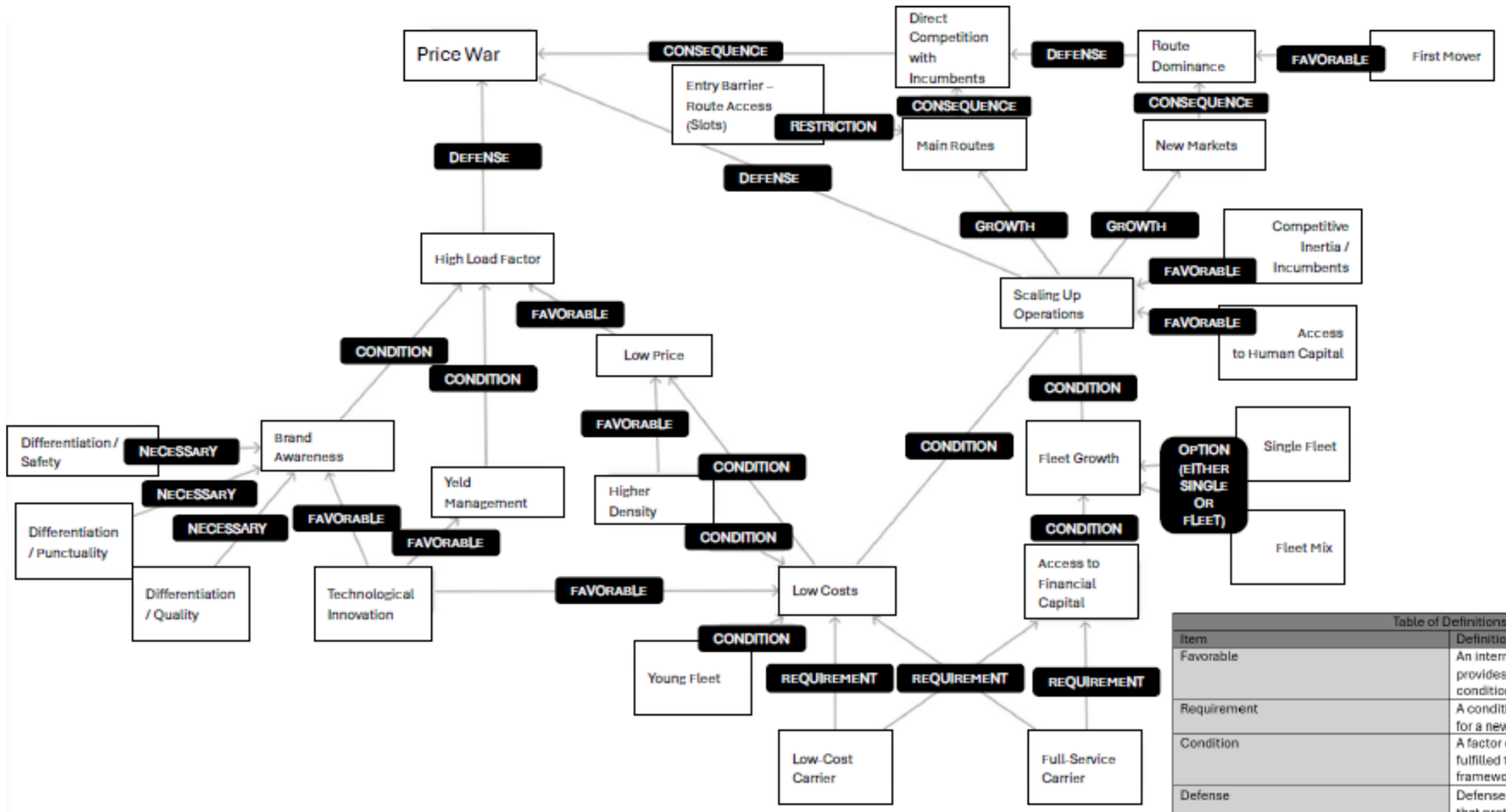

Table of Definitions	
Item	Definition within Framework
Favorable	An internal or external element that provides benefits, advantages, or favorable conditions.
Requirement	A condition or necessity that must be met for a new entrant to succeed.
Condition	A factor or circumstance that must be fulfilled to enable the next element in the framework to develop in a satisfactory way.
Defense	Defense – An action taken or an outcome that protects market share and strengthens the company's competitive position.
Necessary	A fundamental component required to ensure that a factor meets its intended attributes.
Regulation	Rules and policies established by government authorities and regulatory bodies that companies must comply with.

Source: Prepared by the authors.

Regardless of the business model adopted (Low-Cost Carrier or Full-Service Carrier), a new entrant must maintain lower or at least competitive costs compared to incumbents. Entering the market with higher costs significantly undermines survival, leading many airlines to adopt hybrid models, combining low-cost and full-service strategies with varying degrees of success (Alderighi & Gaggero, 2022; Chiambaretto & Combe, 2023).

Existing literature already highlights the importance of scaling up operations and maintaining high load factors. Contrary to Gillen, Oum, and Tretheway (1983), Levine (1987), and Cook and Billig (2023), who minimize the role of economies of scale, this study underscores their critical importance for new entrants. In line with this, Evans and Ioannis (1993) demonstrate that growth can provide a protective advantage by securing dominance at key airports or on strategic routes.

To achieve scale, new entrants must keep costs low and secure financial capital for sustainable expansion. The financing, leasing, or purchase of aircraft represents one of the highest expenses for new airlines. Access to capital enables faster fleet growth and increased seat availability, as noted by Bailey and Panzar (1981). This expansion can be achieved through a single-fleet model, which streamlines operations and reduces costs (e.g., Gol), or a mixed-fleet approach, which adjusts seat capacity based on demand (e.g., Azul). Additionally, a younger fleet contributes to more cost-efficient operations.

Moreover, access to human capital is crucial. Pilots, flight attendants, and mechanics are essential personnel, and their availability can limit an airline's growth. Training these professionals takes time, and having experienced crews facilitates expansion, as seen with Gol and Azul. Itapemirim, despite benefiting from a surplus of crew members during the pandemic, failed due to a lack of capital. Similarly, experienced administrative personnel accelerate certification processes and enhance operational efficiency.

The competitive inertia of incumbents can create opportunities for new entrants. For instance, initial skepticism toward Gol's low-cost model and Azul's regional focus left room for their growth. Before the pandemic, Azul operated exclusively on nearly 70% of its routes, allowing it to establish a strong market presence.

New entrants can expand by targeting main routes (major capitals and cities) or new markets. To compete on major routes, a low-cost structure is essential, as incumbents typically respond with fare wars. Access to slots remains a significant barrier, as highlighted by Gudmundsson (1998) and Pitelis & Schnell (2002). Both Gol and Azul faced slot constraints at major airports.

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In new markets, where slot restrictions are typically absent, new entrants can scale more quickly by adjusting schedules and frequencies to meet demand. First-mover advantage offers a competitive edge, allowing airlines to dominate routes and strengthen brand recognition, making it more difficult for incumbents to retaliate (Pitelis & Schnell, 2002; Gudmundsson, 2015).

Another critical factor for success is high load factors. Flights with higher occupancy rates generate greater revenue and lower costs per passenger. However, maintaining high load factors requires reliable, high-quality service, including safety, punctuality, and effective contingency management (Kim & Park, 2016; Abdelhady *et al*., 2019). As a result, brand awareness becomes a key driver of long-term market success.

Technological innovation plays a critical role, shaping brand perception and customer experience while also driving cost reductions. Notable examples include Gol's ticket sales and issuance system and Azul's live TV service. Technology also underpins "Yield Management," optimizing the allocation of limited resources to maximize revenue. Active price management helps sustain high occupancy and maximize revenue by selling the right seat to the right customer, at the right time, and at the right price (Voneche, 2005).

Given capacity constraints, dynamic pricing management through Yield Management is essential. Price adjustments directly impact demand—lower fares increase occupancy, while higher fares can decrease it (Donovan, 2005). A low-cost structure provides greater pricing flexibility, enhancing the likelihood of high occupancy and maximizing revenue potential.

Finally, operating aircraft with high-density seating configurations (more seats) reduces costs per available seat kilometer (CASK), improving pricing strategies and enabling more competitive fares.

Conclusions and implications for theory and practice

This study examines critical strategic factors for new entrants in the Brazilian airline market, integrating an analysis of successful cases (Gol and Azul) and a failed case (Itapemirim). The findings indicate that new entrants' survival depends on a network of interrelated factors, offering deeper insights into the industry's competitive dynamics.

Implications for the literature

One of the key findings of this study is the critical importance of scaling up operations. This factor is not merely advantageous but essential for ensuring operational resilience and protecting against abrupt financial downturns (Evans & Ioannis, 1993; Gudmundsson, 1998).

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Existing literature often underestimates the importance of scale in aviation markets, where cost efficiency is a key driver of competitiveness. The study suggests that achieving and maintaining critical operational mass can be a key differentiator in highly competitive environments.

Beyond adopting a cost-efficient business model, the research reinforces that keeping operating costs low is fundamental for new entrants to compete in a market dominated by large incumbents. The ability to offer competitive pricing translates into market advantages that are critical for survival (Bailey & Panzar, 1981). This insight adds a new dimension to the debate on entry barriers, highlighting that initial capital is not just a financial requirement but a strategic asset that can significantly impact a new entrant's chances of success.

Access to sufficient capital for fleet acquisition and expansion directly influences an airline's ability to scale quickly and sustain operations, as demonstrated by Gol and Azul (Bailey & Panzar, 1981). This finding aligns with prior research emphasizing that financial capital is essential not only for market entry but also for achieving long-term scalability and sustainability. It also challenges the traditional notion that capital constraints are not a major entry barrier, prompting a deeper reflection on how financial structures influence competitive dynamics (Gillen *et al*., 1983; Levine, 1987; Cook & Billig, 2023).

Additionally, the study underscores the importance of skilled human capital in facilitating rapid expansion and operational efficiency (Gudmundsson, 1998). The presence of experienced professionals enhances a company's adaptability to operational challenges while supporting continuous innovation, a key factor in sustaining competitive differentiation.

The research also highlights the impact of incumbents' competitive inertia, which has allowed new entrants to expand in market segments where resistance from established players was weaker. This suggests that new entrants can capitalize on underserved market opportunities by building strong brand perception and leveraging technological innovation—two essential factors for attracting and retaining customers while maintaining high aircraft occupancy (Kim & Park, 2016; Abdelhady *et al*., 2019). This aspect is often overlooked in traditional market dynamics analyses.

Another critical insight from this study is the importance of strategic positioning at market entry. The findings show that well-defined strategies, including low-cost models and service differentiation, are essential for long-term success in the airline industry (Finger &

Button, 2017). Gol, with its streamlined operational structure, and Azul, with its connectivity and flexibility strategy, illustrate how these approaches can be effective in a competitive market. Conversely, Itapemirim's failure underscores how the lack of a clear value proposition can be a major liability, reinforcing the importance of strategic clarity. Ultimately, this study expands the understanding of market entry and survival dynamics in the airline industry while also challenging and reevaluating established theories on entry barriers and competitive strategies in contestable markets (Porter, 1980; Finger & Button, 2017).

These findings open new pathways for future research, emphasizing the need for deeper exploration of the interconnections between strategic factors and market contexts, as well as the development of a more comprehensive theoretical framework that integrates the complex interplay of competition, human capital, and technological innovation.

Management implications

The findings of this study offer key managerial implications for airlines, new market entrants, and policymakers seeking to foster a sustainable competitive environment. The results suggest that new entrants' survival in the airline market depends on well-structured strategies that combine operational efficiency, differentiation, and market intelligence.

For new airlines entering the market, it is essential to adopt an operational model focused on cost reduction, access to capital, and rapid expansion to achieve sustainable scale. Optimizing cost structures is critical for ensuring competitiveness against established carriers and can be achieved through fleet standardization, higher load factors, and effective operational cost management. Additionally, new entrants should avoid immediate entry into highly competitive routes, which could jeopardize financial sustainability. Instead, exploring secondary markets and underserved routes may yield better initial results, allowing for operational consolidation and risk mitigation.

Building a strong brand and implementing loyalty strategies are also crucial for attracting and retaining customers. Loyalty programs, service differentiation, and effective communication can create significant competitive advantages, particularly in a market where brand trust heavily influences consumer decisions.

Incumbent airlines must recognize that new competitors can reshape market dynamics, requiring strategic adjustments. While market concentration and control over airport slots provide structural advantages, competitive inertia can allow new entrants to establish themselves without immediate resistance. To mitigate this risk, established airlines should

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adopt proactive strategies, such as enhancing revenue management, offering differentiated services, and strengthening their cost structures to maintain competitiveness.

These managerial implications also extend to policymakers and regulatory bodies. The study highlights that, while deregulation has facilitated market entry, structural barriers—such as limited access to slots at major airports and difficulties in securing capital—continue to challenge new entrants. In this regard, public policies that promote stronger competition can contribute to a more balanced and dynamic market environment. Measures such as more transparent and equitable slot allocation and targeted financing programs for new entrants could help stimulate competition and enhance the sustainability of the airline sector.

Limitations and suggestions for future research

This study presents certain limitations, which also open avenues for future research. One key limitation is the lack of access to detailed financial data for Azul prior to its IPO (2016). The financial records available in ANAC's repository do not include explanatory notes, restricting a deeper understanding of the financial and operational factors that influenced the company's strategic decisions. Likewise, the absence of comprehensive financial statements for the analyzed companies, including Itapemirim, represents a constraint. While secondary sources such as official statements and news reports helped contextualize these organizations' financial situations, the lack of detailed financial disclosures prevents a more in-depth assessment of this aspect. Consequently, conclusions regarding Itapemirim's failure and the determinants of Gol and Azul's survival are primarily based on structural and competitive factors, without a full financial perspective that could provide a more nuanced understanding of their performance.

Future research could explore several key areas. One important direction would be analyzing how incumbents establish entry barriers as a substitute for formal market regulation. Investigating whether these barriers impede new competitors as much as regulation once did could offer valuable insights into market structure and competitive dynamics. Additionally, examining the competitive inertia of incumbents in response to new market entrants could shed light on their ability to adapt to evolving market conditions. Further studies could also assess the effectiveness of different entry and growth strategies in deregulated aviation markets, comparing low-cost and full-service models across various regulatory and economic contexts. Another promising avenue would be exploring the intersection of technological innovation and

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cost management strategies. Understanding how innovative technologies influence operational efficiency, brand positioning, and customer satisfaction could provide deeper insights into how airlines leverage innovation for competitive advantage. These additional studies would build upon the findings of this research, contributing to a more comprehensive framework for understanding Brazil's airline market dynamics and offering valuable insights for industry executives, policymakers, and new market entrants.

Striking a balance between effective regulation and well-structured competitive strategies from both new entrants and incumbents is essential to fostering a more dynamic and innovative airline market. Maintaining this equilibrium will support the sustainable expansion of the sector, ensuring benefits for both companies and consumers alike.

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APPENDIX

List of factors and supporting evidence in Gol, Azul, and Itapemirim

Factors	GOL	AZUL	ITAPEMIRIM
Access to Capital	"They had excess resources, more money than was needed just to start the company" (Interviewee 05).	"You couldn't predict how it would perform in the market, but it was already clear to that group that resources wouldn't be an issue for Azul" (Interviewee 05).	ANAC stated that its analysis is strictly technical and follows international standards. According to the agency, requiring a minimum share capital to establish an airline would "create an artificial barrier to entry for companies that could be technically viable with lower financial outlays, without ensuring that the capital would be used for the company's benefit" (Saconi, 2021).
	Even without official details, market sources reported a signed agreement for an injection of approximately R$120 million, resulting in a stake between 13% and 20%. These funds were expected to support expansion, including new aircraft and the construction of a maintenance center.	"It already started with reasonable capital and scaled up quickly, making it difficult to challenge" (Interviewee 09).	The company overseeing Itapemirim's parent company's judicial recovery repeatedly questioned the court about transparency, yet the court allowed the airline's creation as long as it adhered to the creditor-approved recovery plan (Saconi, 2021).
Low Costs	Lower CASK (cost per available seat kilometer) is a key competitive advantage, driven by various low-cost strategies, including a single aircraft type, limited onboard service, and high aircraft utilization (Carmana-Benitez, 2008).	One of an airline's primary objectives is to align capacity and demand with market conditions, which directly impacts profitability and cost reduction (Dožić & Kalic, 2015).	Itapemirim set out to defy the low-cost airline model. The company aimed to offer a premium service, featuring enhanced onboard amenities and business class on domestic flights. "Our goal is to bring back alcoholic beverages, with at least one shot of whiskey per passenger. We want to restore an extra level of comfort for those who value it. We'll revive a touch of the experience that Varig passengers can no longer find in the market," said Senna, CEO of ITA (Casagrande, 2020).
	Costs are to be further reduced by limiting ground staff, using technology to minimize paper ticketing, and other innovations. Gol had 600 employees—	Azul's success demonstrates its ability to carve out a niche by serving secondary markets in Brazil with Embraer E-Jets and ATR turboprops—aircraft that TAM and	With limited capital, Itapemirim leased outdated aircraft nearing the end of their operational life cycle. These models required more maintenance, had fewer viable routes

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Factors	GOL	AZUL	ITAPEMIRIM
	an average of 100 per aircraft, compared to the industry average of 170 per aircraft (Reuters, 2000).	Gol's narrow-body jets could not operate profitably (FlightGlobal, 2015).	due to limited range, and consumed more fuel. Can this company compete in the same niche as Azul and Gol? (Dias *et al*., 2021).
Fleet Growth	Company plans indicated that a minimum 10% domestic market share was needed for survival and consolidation against incumbent competition (Gargione, 2021).	"Its strategy was already set for rapid growth. It entered the market with an order for 20 aircraft and expanded immediately" (Interviewee 09).	Before its launch, Itapemirim announced plans to reach 35 destinations with 50 aircraft by June 2022, aiming for 20 aircraft by the end of 2021. That projection was later reduced to ten, but only seven aircraft were ultimately incorporated (Saconi, 2021).
	"We had to start fast. It wasn't about time or gradual growth—it was about rolling out and expanding routes immediately." (Interviewee 04)	"I think reaching a certain scale is necessary. I'm not sure if it's 20, 30, or more, but a fleet of at least 50 aircraft is needed to stabilize operations and survive crises that could otherwise be fatal." (Interviewee 06)	Over nearly six months of operation, with only four aircraft in its fleet, a series of operational issues and delayed salary payments compromised the airline's viability. On December 17, its operations were "temporarily" suspended, with promises of an internal restructuring that never materialized. (Cardoso, 2022)
Scaling Up	We started with 50 flights per day, sometimes 52, which allowed quick turnaround times. So we took off with a minimum fleet of six aircraft. And six aircraft is a lot. If I had started a route—any route, say São Paulo–Brasília—with just one flight a day, what would have happened? Vasp, Transbrasil, and Varig would have stepped in immediately, adding flights before and after mine, slashing prices. That would have killed us. But because we started with four daily flights to Brasília, they had to think twice before cutting fares, since their losses would be too high, whereas we	"It already started with reasonable capital and scaled up quickly, making it difficult to challenge." (Interviewee 09)	"I'd be crushed in the brutally competitive Brazilian aviation market. Look, if I want to enter big, I need a lot of money—and that's not easy to get." (Interviewee 06)

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Factors	GOL	AZUL	ITAPEMIRIM
	had a lower cost structure." (Interviewee 07)		
	"I don't want to build an entire operational structure just to land two or three flights a day. I'll operate in major airports, but with enough volume in those hubs. It's all about scale. Of course, scale has its limits—you reach a point where marginal gains are small—but it allows you to defend against incumbents." (Interviewee 04)	"We believe our current fle*et al*lows us to adjust capacity to demand, achieve high load factors, offer greater convenience and frequency, and serve low- and medium-density markets in Brazil that are not covered by our main competitors." (Chandrakanth, 2017).	"They announced more legroom. Fine, people like comfort, but more space between seats means fewer passengers per plane. How do you plan to compete while selling fewer tickets per flight?" (Dias *et al*., 2021).
High Load Factor	"That's what completed the low-cost, low-fare equation—not paying lower salaries, not flying to cheaper airports, none of that. The second key was keeping the load factor high. Because having low costs means nothing if your planes are flying half-empty." (Interviewee 07)	"We believe our current fle*et al*lows us to adjust capacity to demand, achieve high load factors, offer greater convenience and frequency, and serve low- and medium-density markets in Brazil that are not covered by our main competitors." (Chandrakanth, 2017).	Operational data shows that ITA has struggled to fill seats on its Airbus A320s. Its load factor started at just 31% in July, climbed to 69% in August, but dropped again to 67% in September. In simple terms, this means that, on average, ITA's A320s took off with 53 out of 162 seats empty or occupied by non-paying passengers. (Meier, 2021)
	"It's like they were flying blind. Their revenue management was terrible. They didn't know when to run promotions, nothing. Money was just leaking away because they didn't understand their customers. So their approach to promotions was basically this: charge less to people who were actually willing to pay more." (Interviewee 04)	"One of an airline's primary objectives is to align capacity and demand with market conditions, which directly impacts profitability and cost reduction." (Dožić & Kalic, 2015).	Even with its revised network, ITA's load factor remained at 45%—far below its competitors, which in May had an average of 82.2%, according to ANAC data. (Barbosa, 2021)
Competitive Inertia	José Wagner Ferreira, TAM's Commercial Director: "I'll have to spend all my time worrying once Gol starts	Neeleman, however, believes Azul still has the advantage of being the pioneer in regional markets. "If our competitors want	"ITA mainly competes with LATAM and Gol, since its operations are centered in

Factors	GOL	AZUL	ITAPEMIRIM
	making waves. And in this game, whoever has more power wins." (Cecato, 2001)	to challenge us, they'll have to invest a lot of money. It will take time for them to make a move. We are well-positioned to capture and enter these markets quickly—it's what we do every day. For them, it will take at least a year just to start. We have a huge head start." (Neeleman, 2014)	Guarulhos and Galeão, overlapping their routes." (Vieira, 2022)
	There's a quote from Rolim that sums it up. Someone once asked him —João Dória, I think, on a business show — what he thought about Gol. And Rolim's response was crystal clear: 'The chances of those guys succeeding are zero. Selling cheaper airfares in Brazil? We've seen this before—price wars, total chaos.' But it is what it is. No one believed they would pull it off. The market seemed locked; the brands were established. And yet, here we are." (Interviewee 04).	"The new entrant's advantage came from the fact that it still managed to generate substantial additional profits from the project, partly because the duopoly players simply refrained from innovating." (Valent *et al*., 2014)	"So I decided to bring back the glamour. We're going to create a space where, beyond comfort, passengers will enjoy a dining experience worthy of a luxury airline. There are other ways to generate revenue without taking away comfort from the customer. Competitors will either follow Itapemirim's innovations or be left behind." (Monteiro, 2021)

Source: prepared by the authors.

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