INTRODUCTION TO AIRLINE MANAGEMENT

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Meaning and Concept

Aviation is the only global transportation network and it's crucial for global business development, tourism, and connectivity. Air transportation is one of the most important services to offer significant social and economic growth.

Essential for fast people move and cargo services across the world.

Characteristics of Air Transport Industry

Capital Intensive:

They need an enormous range of expensive equipment and facilities, from airplanes to flight simulators to maintenance hangars. As a result, the airline industry is a capital-intensive business, requiring large sums of money to operate effectively. Most equipment is financed through loans or the issuance of stock. Increasingly, airlines are also leasing equipment, including equipment they owned previously but sold to someone else and leased back. Whatever arrangements an airline chooses to pursue, its capital needs require consistent profitability

High Cash Flow

Because airlines own large fleets of expensive aircraft which depreciate in value over time, they typically generate a substantial positive cash flow (profits plus depreciation). Most airlines use their cash flow to repay debt or acquire new aircraft.

When profits and cash flow decline, an airline's ability to repay debt and acquire new aircraft is jeopardized

Labor Intensive

Airlines also are labor intensive. Each major airline employs a virtual army of pilots, flight attendants, mechanics, baggage handlers, reservation agents, gate agents, security personnel, cooks, cleaners, managers, accountants, lawyers, etc. Computers have enabled airlines to automate many tasks, but there is no changing the fact that they are a service business, where customers require personal attention. More than one-third of the revenue generated each day by the airlines goes to pay its workforce. Labor costs per employee are among the highest of any industry.

Highly Unionized

In part because of its long history as a regulated industry, the airline industry is highly unionized.

Thin Profit Margins

The bottom line result of all of this is thin profit margins, even in the best of times. Airlines, through the years, have earned a net profit between one and two percent, compared to an average of above five percent for U.S. industry as a whole.

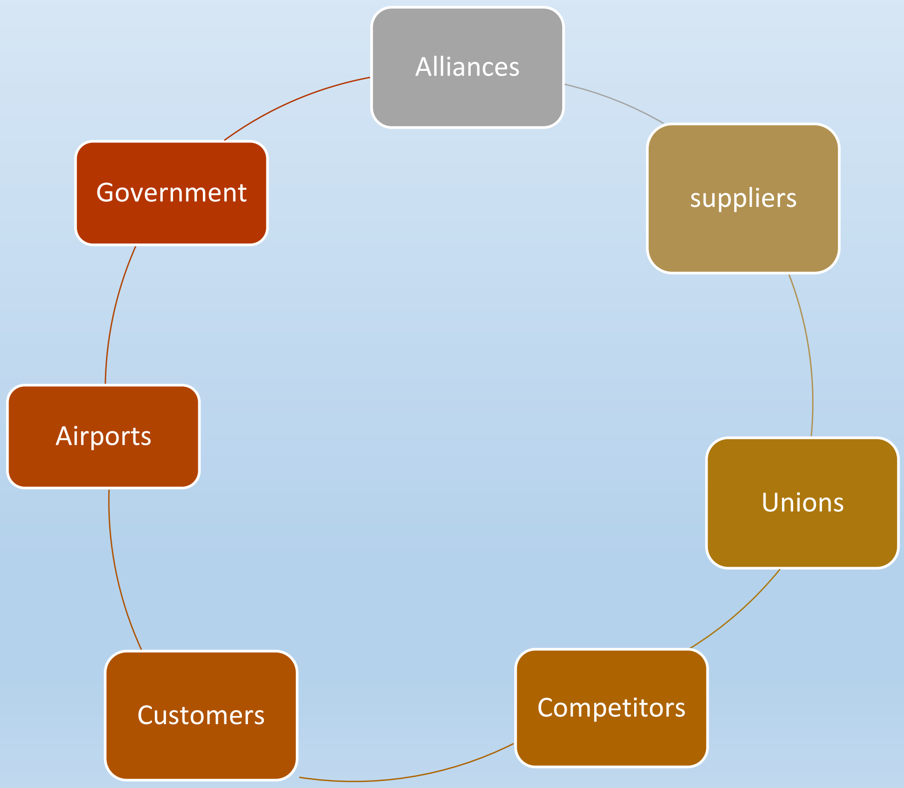
Combined Losses for Indian Airlines $1.77 b last fiscal year
Accumulated losses for the last 7 yrs $10.6 b

Seasonal

The airline business historically has been very seasonal. The summer months were extremely busy, as many people took vacations at that time of the year. Winter, on the other hand, was slower, with the exception of the holidays. The result of such peaks and valleys in travel patterns was that airline revenues also rose and fell significantly through the course of the year. This pattern continues today, although it is less pronounced than in the past.

Challenges

I. Impact of Other Players in the Industry



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- Government:

a. Complying with regulations different countries
b. M & A Regulations
c. Security Regulations
d. Maintenance Regulations

- Airports:

a. Terms and Conditions with airports
b. Infrastructure agreements
c. ATC regulations

Contd…

- Customers and Competitors

a. Needs and Preferences of potential customers
b. Pricing, Scheduling and connectivity
c. Efficiency
d. Punctuality
e. Incentives

Contd…

- Alliances

a. Network Coverage
b. Sharing Resources
c. Level of Cooperation
d. Promote Profitability

Contd…

- **Suppliers**

a. Inside and outside supplies and services
b. Maintenance
c. Standards

- **Unions**

a. Diverse worker unions
b. Stronger negotiation skills
c. HR Management

Airlines Planning and Overview

Like any other businesses, airlines management has three levels of Strategic, Planning and Operations.

Strategic decisions

- Typically require a long lead time before implementation.
- Require considerable monetary investment
- Growth and expansion
- Fleet Sizing
- Geographical assessments
- Alliance Participation
- Maintenance Facilities

Contd…

Planning Decisions:

a) Short term and Medium term

b) Efficiently using the resources to maximize revenue

c) Facility and Personnel Operations

d) Forecasting the demand between every OD

e) Seat inventory control

Planning decisions are very dependent on each other which makes the planning process complex.

Contd…

Operations decisions:

The Operations decisions are needed to be verified and or updated on an hourly or maximum daily basis because of unanticipated incidents.

- Adverse Weather Conditions
- Flight Delays
- Cancellations
- Breakdowns
- Crew issues
- Watching Revenues
- Bookings and Demand Levels
- Price Matching

Organizational Structure

1) Network
2) Demand Forecasting and Modeling
3) Current Resources, Aircraft, Pilots, Cabin Crew, Airport Operations

Planning Phase

- Schedule Enhancements
- Aircraft Routing
- Airport Facility and Planning
- Revenue Management
- Fleet Assignment
- Crew Planning
- Airport Staff Planning
- Sales and Distribution

Operations Phase

- <u>Irregular Operations Mngmnt</u>

I. Flight Delays
II. Flight Cancellation
III. Resource Recovery
IV. Passenger Re-accommodations

- <u>Revenue Mngment:</u>

I. Anticipated Demand
II. Pricing
III. Seat Inventory Control

Airline Business and Mrktg Strategies

Porter’s Five Forces

- **DEFINITION OF 'PORTER'S 5 FORCES'**

Named after Michael E. Porter, this model identifies and analyzes 5 competitive forces that shape every industry, and helps determine an industry's weaknesses and strengths.

How to apply Porter's Five Forces Analysis to airline.

The five forces model is one way to answer the first basic question in strategic management; “Why are some industries more attractive than others?” This model shows the five forces that shape industry competition; threat of new entrants, bargaining power of buyers, threat of substitutes, bargaining power of suppliers, and competitors. In order to analyze the airline industry we have look at each of these forces.

Bargaining Power of Customers
Threat of New Entrants
Bargaining Power of Suppliers
Threat of Substitute Products
Competitive Rivalry within an Industry

Bargaining power of Buyers

The airline industry is made up of two groups of buyers

1) Individual flyers 2) Travel agencies and online portals

Each customer needs a lot of important information. They need to know the details of what is provided during the flight. Buyers need to understand the timing of the flight and the safety aspects of flying in general. The service provided is unique. Each airline has a niche. Some airlines focus on cost, while others focus on having the best amenities, etc. Overall the bargaining power of buyers has an extremely low threat in this industry

Bargaining Power of Suppliers

- In this case the major suppliers are the airplane manufacturers. The top two manufacturers in the world currently are Boeing and Airbus(Odell,Mark). In this industry the inputs are extremely standardized.
- Airline companies cannot easily switch suppliers. Most firms have long term contracts with their suppliers
- The amount of money and expertise needed to make even one plane is around 200 million dollars. For this reason there are very few suppliers in the airline industry. Airline firms are the only source of income for these manufacturers so their business is extremely important. Based on these things the bargaining power of suppliers has a low threat as well.

Threat of New Entrants

- Threat of new entrants is another major aspect of the five forces. This aspect has a low threat for the airline industry. There are two aspects that do however raise the threat level. First, there are extremely low switching costs. Second, there are no proprietary products or services involved.
- Existing firms have large cost advantage
- This industry requires a large amount of capital
- Strong Customer Base
- High capital firms can retaliate against newer firms
- Safety aspect

Contd…

- Industry requires plane and flying experience
- Licensing Requirements
- The time and money spend to solely open an airline company is enough to prevent most people from entering the industry

Threat of Substitutes

After looking at the threat of entry it is important to also consider the threat of substitutes. There are substitutes in the airline industry. Consumers can choose other form of transportation such as a car, bus, train, or boat to get to their destination. There is however a cost to switch. Some means of transportation can be more costly than a plane ticket. The main cost is time. Planes are by far the fastest form of transportation available. Airlines surpass all other forms of transportation when it comes to cost, convenience, and sometimes service. Consumers do sometimes choose other methods for various reasons such as cost if they are not traveling very far which raises the risk.

Rivalry among Existing Players

The rivalry in the airline industry is very intense for many reasons.

I. Very Stagnant
II. Mature Stage of Business Cycle
III. number of competitors stays the same
IV. fixed costs are extremely high
V. competition is lessened by the brand identities

Contd…

- The strongest forces in this industry are the competition of existing firms and the power of suppliers.
- The rivalry of existing players is high and will push out any firm that doesn't have enough capital.
- Suppliers are strong forces because planes are so costly to make. If the suppliers changed the credit terms by even a small amount it could mean a significant loss for the firm.
- On the other hand the other forces involved seem to have a weak threat. It is costly and time consuming to enter the market which lowers the risk of entry. Buyers have a weak force because of the low switching costs and substitutes are weak because they are usually too costly.

Strategic Groups

- Identifying strategic groups in the airline industry is highly required and desirable
- Qualitative and Quantitative Purpose
- Understanding the competitive dynamics
- Three or four similar groups

Focus Strategies

- Means a marketing strategy in which a company concentrates its resources on entering or expanding in a narrow market or industry segment.
- A focus strategy is usually employed where the company knows its segment and has products to competitively satisfy its needs. Focus strategy is one of three generic marketing strategies. Other two are differentiation strategy and low cost strategy
- companies can choose to follow a focus strategy by seeking to use their core competencies to serve the needs of a particular customer group in an industry. In other words, companies focus on specific, smaller segments (or niches) of customers rather than across the entire market.

Airline Business Strategies

Aviation performance and regulatory overview

- 5-Factors Analysis of the airline industry
- Airline industry financial outlook
- Business models: legacy versus low cost carriers
- Trends and opportunities

Market research

- Planning process
- PEST (political, economic, socio-cultural, technological factors)
- SWOT analysis (strengths, weaknesses, opportunities, threats)
- Market research methods and outcomes
- Analysis of findings
- Segmentation and targeting

Customer Focus Strategy

- Customer needs analysis
- Customer acquisition and retention

The 4Ps for Airlines Success

- Product, Price, Place, Promotion
- Integrating multiple marketing channels

Common Mistakes

- **Diversification**

1. Dilution of top management attention
2. Cyclical Problems
3. Insufficient Route Network

- **Pace of Expansion**

1. Appropriate Rate of Growth
2. Unused slots in the airports
3. Too quick growth leads to heavy borrowing than creating equity capital

- Competitive Response

1. Big money spending on minor threat
2. Aggressive pricing to cut down competition
3. Respond strongly even for a first and minor threat

Some minor but important issues to consider

- Maintaining the quality assurance
- HR Management
- Controlling the product quality
- Continuous Market Research
- Globalization Trends
- Developing ability to withstand external and internal forces
- Governmental Support.