

# Introduction of Low Cost Carriers (LCC)

- As the airlines began to Recover from 9/11 and Rethink their business plans, they began to consider ways to reduce overhead.
- Those efforts resulted in “no frills” operations that had significantly reduced initial prices, but many hidden add-on options.
- Airlines also began to branch out their income streams into related travel and leisure activities.



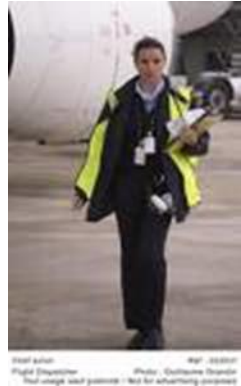
# Past, present and future trends

- In the past, negative scenarios resulted in operational barriers:
  - Outbreak of SARS in 2003
  - Wars, for example the Iraq, Afghan, Ukraine Wars
- At present, airlines need to be prepared for additional scenarios whether they occur or not
- In the future, airlines need to be ready for new challenges such as fuel and pilot shortages and limitations due to noise and pollution



# Current airline challenges

- What are some topics recently in the media that caused concerns for the airlines, airports or air traffic services?



# Sources of airline frustrations

- Limitations on airline investors due to citizenship
- Changes in fuel and labor costs
- Environmental limitations of hours of operation
- Staffing levels and outsourcing of services
- Safety oversight and regulatory compliance
- User fees for air navigation services
- Media scrutiny of officials and business dealings



# Question

**What might give a competitive edge for one region's airline over another?**

**What are the major costs for an airline?**



# Top three Costs for airlines

- Fuel, labor and maintenance costs are the top three costs for most airlines.
- Why might actual costs vary from one company to another?



# Regional analysis

- Airlines often consider regional economies and opportunities in the management of their global understanding and investment in industry
- At the end of 2009, the global financial crisis negatively impacted the aviation industry
- By the end of 2012, the global economy started to recover, but airlines continued to struggle due to extremely high oil prices



# Financial challenges

- At the height of fuel shortages the airlines lost about \$11 billion annually.
- At that time fuel oil cost about \$140/barrel, now it is about \$35/barrel and forecasts are uncertain.
- Airlines have a history of over-expansion during good times (without banking a reserve) and then under-investment during the recessions and even selling off assets to make payroll.
- This has results in an overall average return on investment of about 2 percent with large variations in profit and loss.





# Regional regulatory trends

Region	Regulation	Liberalization	Deregulation	Privatization
North America	No	No	Yes	Privatization
Latin America	No	No	Yes	Privatization
Europe	No	Yes	No	Privatization
Asia-Pacific	No	Yes	Yes	Privatization
Middle East	No	Yes	No	Limited
Africa	No	Some	No	Cautious

Are these trends still accurate?

(Wensveen, 2015, p8)



# North America

- Canada has experienced the privatization of airlines, airports, Air Traffic Control (ATC), and the rise of the low-cost carriers (LLC)
- The United States has experienced the rise of LLCs, privatization of primary and secondary airports, major airline debt, bankruptcies, mergers, stagnant domestic passenger growth, and increased international growth



# North America continued

- LCC de-hubbing and de-peaking are opportunities to reduce pricing. Also reducing the number of flights and reducing the number of empty seats is good for the balance sheet, bad if you miss a flight
- Mexico has experienced government control of the industry and bankruptcies in addition to the emergence of LLCs



# Europe

- Within Europe, airlines operate in a fully liberalized environment
- The European Aviation Safety Agency is harmonizing regulations and simplifying industry practices to facilitate the exchange of safety information, acceptance of training and licensing practices
- European airlines are mostly privatized and the region has experienced the growth of LCC and airline and airport alliances



# Europe continued

- Competition between different modes of transportation has impacted the airline industry, especially the use of high-speed rail
- National pride continues to be an issue for the industry and many challenges will continue to be faced as the EU geographic boundaries expand
- Recent terrorist and mass immigration put boundaries in question



# Asia-Pacific

- The Asia-Pacific region has experienced managed liberalization and change are accelerating as compared to North America and Europe
- The region has felt the positive rewards of strong growth since late 2001 especially in China and India
- Megacarriers and small international carriers co-exist with interline agreements making this the largest share of the world economy



# Asia-Pacific continued

- There has been increased growth in the development of airline alliances resulting in increased airport and airspace congestion
- Legacy airlines such as Qantas are challenged by LLCs for both market share and access to international investment options
- There is a dire need for advanced navigational equipment to improve efficiency and enhance safety measures



# Middle East

- The Middle East is strategically positioned and the use of efficient hub airports has resulted in a stronger presence in the long-haul markets
- Safety and security continue to be issues
- The Middle East is home to a small number of global megacarriers (Etihad, Qatar & Emirates for example) dominating passenger flows between Europe and Asia
- There are also the development of some tourism destinations





# Africa

- Although growing at a higher rate than most other regions, Africa is only about 5 percent of global air traffic
- Increased stability in the region may increase the importance of aviation on the African continent
- African airlines often purchase older aircraft from other parts of the world as those airlines modernize
- Predatory hiring practices and lack of funding have reduced the pool of skilled personnel for African airlines
- With a few exceptions, civil aviation authorities lack institutional strength or “political will” for major changes



# Latin America and Caribbean

- Latin America and the Caribbean are shifting from regulation toward liberalization
- There is a strong need for training at the management levels as well as a need for research and development
- Safety performance continues to be an issue in Latin America and the Caribbean
- To overcome historic challenges, there are some centers of infrastructure growth such as Brazil, Argentina and elsewhere in order to meet regional and international demands.



# The Industry: challenges and strategies

- Physical, economic, political and/or legal, socio/cultural, demographic, labor and technological forces impact the aviation industry
- Airline management must be aware of these factors



# Challenges continued

- Increases in capacity must consider airports and airways along with linkage to population and production areas
- Investment in next generation “NextGen” Air Traffic Control (ATC) and communication infrastructure is needed to overcome surface navigation and capacity issues



**TABLE 1-2 Financial Issues and Challenges Impacting Air Transportation**

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Cost controls	World economy
Access to capital markets	Irrational pricing and predatory action by major carriers
Insurance	Over-capacity
Foreign currency exposure	Cash flow and ability to self-finance
Fleet replacement and price of new aircraft	Debt/equity ratios
Industry losses and inconsistent profitability	Taxation
Cost of funds and low yield on surplus funds	Ownership issues
Productivity and labor reform	

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(Wensveen, 2015, p12)

What are the most pressing issues for Australia and the region?

**TABLE 1-3 Challenges Impacting Global Air Transportation**

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Bankruptcy and shut downs	"Generic" vs. "Airline" business plan
Flexible strategic plan	Treat as a "business"
Regulation, liberalization, deregulation	Rising costs (fuel, oil, labor, maintenance, security)
New generation airlines vs. legacies	Restructuring and alliances
Excessive capacity	Competition from other modes of transportation and technology
Customer (target, loyalty)	Organizational design
Internal challenges	Overall strategy
Duplication of work structures	Functional and departmental barriers
Staff relations and new types of employees	Legacy system dependencies
Lack of compromise	Air carrier ownership and control
Sustainability of air carriers and safeguards	Physical and environmental constraints
Air transport and the global trade mechanism	Consumer protection and passenger rights
Impact of technology (aircraft, e-commerce, Internet, Computer Reservation Systems, Global Distribution Systems) on liberalization process	Future approaches to regulatory reform
	Pilot training requirements

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(Wensveen, 2015, p12)

Have you seen any of these topics in the news lately?



**TABLE 1-4 Strategies for Global Aviation**

(Wensveen, 2015, p12)

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Understand the reality of change and become flexible	Revitalize strategy
Development of new types of air carrier business models	Focus on the customer and ask what they want
Eliminate duplication of work structures	Organizational accountability
Turn staff relations into strengths	Update airline systems
Build partnerships (alliances, interactive marketing)	Act decisively
Diversify the business (core and non-core)	Create new ways to reduce future costs and spending of capital
Increase efficiency	Reduce dependence on local, national, and international economies
Airlines must take control of business issues	Work in partnership with other organizations

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If you were CEO of an airline, where would you focus your efforts?



# The New Breed of Airlines

- The global aviation industry is constantly experiencing a change of business strategies
- Examples of types of carriers:
  - Legacy carriers
  - Regional carriers
  - Low-cost carriers

What are some emerging non-conventional ideas?





# Out of this world?

- Aside from conventional carriers, a new generation of carriers, such as Virgin Galactic (sub-orbital tourism), various supersonic commercial aircraft and pilotless commercial cargo and passenger airlines, have the potential to disrupt the current business environment.



# Flourish or Fail

- What might cause an airline or airport to be a success or go out of business?



# Achieving Success indicators

Success may be accomplished by:

- Development of solid business plan
- Flexible and diversified business structures
- Effective leadership
- Steady and moderate growth and cost-cutting strategies
- Fleet commonality
- Route network optimization / alignment
- Partnerships and alliances
- Listening to customer demands, being a good neighbor
- Good media and labor union relationships
- Effective lobbying efforts to influence policies and laws



# Failing indicators

Failure occurs when:

- Undercapitalization (as airline business is characterized by extremely high capital cost)
- Overexpansion or overcapacity, leading to high revenues but low profitability
- Lack of flexibility in regard to a changing business environment
- Lack of leadership skills
- Lack of competitive advantage
- Failure to demonstrate revenue growth and profitability
- Excessive top heavy legacy management structure
- Inability to maintain positive media relationship



# Conclusions

- The aviation industry is a vital global economic engine
- Aviation regulators attempt to balance the aspects of protection of the public and promotion of the industry
- There is a cyclical financial history that challenges the aviation industry sustainability, driving up cost to the airline while benefiting the public with lower price tickets
- Innovation, extending the income stream across many linked industries, and having a favorable reputation with the public and media are essential.



# Summary

- Stages of development of modern industry
- Past, present and future trends
- Regional analysis
- Challenges and Strategies
- New and emerging aviation opportunities
- Achieving and Failing to succeed

