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# UNIT 28 AIRLINES

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## Structure

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## 28.0 OBJECTIVES

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After reading this Unit, you should be able to:

- 'understand the importance of planning and **organisation** in airlines management,
- know about financial structuring, scheduling and operations,
- appreciate the role of marketing, and
- identify the current challenges before the airlines.

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## 28.1 INTRODUCTION

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Predictable growth in tourism market to a large extent depends on the services of air transport system. With increasing **passenger** and freight traffic, air transport is expected to remain one of the growing sectors in world economy. For **Asia/Pacific** region, it is predicted that the **traffic** growth would exceed the **expected** worldwide growth of an average 5 per cent per **annum**. Airlines have to face unprecedented challenges resulting from such traffic growth. New technologies, changing commercial and regulatory framework, growing financial requirement, competitive market, etc. demand for the development of systemic managerial approach in running the airlines. This Unit introduces you to the **organisational** and functional structure of airlines, **financial challenges** and the need for strategic planning and marketing. Contemporary challenges before the airlines management have also been dealt with. **Not** everyone gets a job in **airlines**. But it **is** essential for tourism professionals to have an understanding about airlines operations as they have a bearing on their own business (tour operator, travel agency etc.).

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## 28.2 PLANNING

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To **cope** with the new demands and requirements, the development of new technologies and the changes in government policies, it is imperative for the airlines to adopt appropriate planning. Planning should be flexible and indicated directions for development and **expansion**. Essentially planning involves making advance decisions relating to the course of actions which an airlines management will take in future. Planning was previously concentrated on determining the facilities and financing which was necessary to meet anticipated growth in the airlines existing product line. Now, planners **consider the** primary **question** to be that concerning the markets which the airlines should serve. This shift is because of the vulnerability of existing products.

Consequently, the main aim of **planning** now seems to be the identification of **attractive** areas, of **new** opportunities and the formulation of **programmes** for developing these areas **and** opportunities. The facilities, **finances** and **resources** required to carry out this development are now considered secondary to the basic identification of the opportunities. **Planning** should

include the following elements:

- a definition of goals and objectives,
- a determination of where the airline stands (that is, a position audit, including strengths and weaknesses, opportunities and threats),
- an assessment of the resources (physical, **financial** and human) available to put the plan into action,
- an assessment of operations **i.e.** fleet size, maintenance, **grounding** facilities, etc.
- an assessment of alternative courses of action and **options** available,
- decisions regarding avenues likely to be subsequently pursued,
- provision for contingency plans.

There is a tendency in the airline industry to shorten planning horizons, because of increase in competition and the process of deregulation. These factors also require flexibility so that plans can be rapidly adjusted to meet changes in the environment.

Many companies argue against formal planning preferring to adopt a more casual approach. However, there are certain benefits to be gained from formal planning in airlines business. They are as follows:

- Planning encourages the management to think ahead systematically,
- It leads to better coordination of airlines efforts in the areas of operations, marketing etc.,
- It helps in setting performance standards for monitoring **and** control – something very essential in airlines operations,
- It helps the airlines in assessing its resource requirements,
- It prepares the airlines management to meet sudden developments or **crisis**, and
- It helps in planning the routes network, **scheduling** of flights and increasing productivity.

Alongwith planning control and evaluation mechanism also should be **properly** devised in order to review the execution of the plan. Control monitors the effectiveness of the plan. The information provided by control procedures forms the basis for the next plan. If the airline does not conduct an evaluation of its plan, the plan would be little more than an expensive waste of time and paper. If the airlines feels that the plan is **failing** to help in achieving its overall objectives, corrective action must be taken.

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## 283 ORGANISATION

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Execution of the plan becomes the responsibility of the organisation. Flexibility in shaping the organisation is very important because external and internal environments of an organisation do not remain static. Organisation of a service industry like an airline should consider the following points at the time of preparing its plan:

- identification of customers and their needs,
- market environment,
- **availability** of technical and **financial** resources,
- internal strengths and weaknesses of the organisation.

After **analysing** these factors the organisation should formulate the specific goals and the broad strategy for achieving its goals. **Organisation's** strategy may demand changes in structure of the organisation. So it is the strategy which should shape the structure of an organisation and not the vice-versa. The success of an organisation depends largely on how much it changes according to the demands of the market forces. If the **organisation does** not take **care** of its internal and external environments it is bound to **face** problems. Why is it necessary for an organisation to keep track of **the** changing environment? We **can** explain **this** by giving an example from Indian Airlines. It is known **to-all** of us that according to the provision of the Air Corporations **Act**, 1953, private **airlines were** not allowed to operate. But

following economic liberalisation and the Government of India's decision to open the sky for private airlines, things have definitely changed. Now if the Indian Airlines' management does not respond to this change and accordingly adopts appropriate strategy, it may run into adverse condition. So an organisation's strategy, structure and system depends on contemporary forces like inflation, changing demographics, increased competition, government regulation, changing social behaviour and values, new technologies, etc. Generally airline's management structures have reflected a functional approach in dividing up responsibilities and lines of authority. Usually these include operations, administration, engineering, finance, personnel, stores and purchase, marketing etc. (See Unit-29, **TS-2** for **organisational** structure of Air-India).

The management should be responsive to the customers **needs**. It should be adoptive to the environmental changes and should be market-oriented.

It is essential that each operating division has a clear view of customer needs and knows that the customer is supreme. This view must be internalised by the staff in these divisions and must be reflected in the service which they provide. It is necessary to have flexibility in information sharing within the airline. The spans of control must be clearly defined and information must flow freely between the different operating divisions. Information communicated by one division may be critical to the operation of another and may affect the action which **will** be taken by that division. Communication must exist **all** the way up from the bottom level to top management. This sort of flexibility will allow the airline to serve individual **customer** needs who in turn **will** perceive the airlines to be a caring organisation.

**Check Your Progress-1**

1) What are the benefits of planning in airline business?

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2) How does organisation help in **realising** the airlines' objective?

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## 28.4 FINANCIAL STRUCTURING

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The commercial viability of the airline's operations, its financial soundness and **infact** its **survival** depend on its ability to operate profitably. Profitability in turn depends on pricing on the one hand and cost control on the other. Success of an airline depends entirely on the management's ability to generate profits by maximum exploitation of revenue generating opportunities. It is essential for a successful manager to understand the airlines cost structure and ensure that total airlines' costs are covered by the generated revenues.

Airline cost structure is divided into three parts:

- Direct Operating Costs,
- Indirect Operating Costs, and
- Overheads.

Direct Operating Costs occur only when a **flight** is actually operated. There are two types of **Direct Operating Costs**:

- a) Aircraft Related, and
- b) **Traffic** Related

Aircraft Related Direct **Operating** Costs:

- Fuel and Oil,
- Maintenance,
- Landing Fees,
- **Enroute/Navigation** Fees,
- Handling Fees, and
- Crew Expenses.

Traffic **Related** Direct Operating Costs:

- Passenger and Cargo Commission,
- Airport Load Fees,
- **Inflight** Catering, and
- General Passenger Related Costs.

Indirect **Operating** Costs include:

- Aircraft standing charges,
- Flight crew pay,
- **Cabin** crew pay,
- Maintenance Labour, and
- Handling Costs at Base Stations (hub).

Overheads include the following:

- Sales costs,
- Administration,
- Accounts,
- General Management, and
- **Employment/personnel** department.

Like any transport undertaking in airlines too the fixed costs are relatively high. These include depreciation, engineering overheads, ground costs, insurance and flying crew administration. This is the prime reason to look for a high utilization rate of the fleet. The fuel, landing fees, passenger meals, overheads etc. are variable costs. An understanding of aircraft **cost** structure and of cost comparison parameters is essential for profitability analysis. Profitability can be examined on different levels depending on the timescale involved and the level of costs actually incurred. An airline's profitability target must include provision for full overhead recovery.

In view of the situation that availability of investment funds from governmental sources is gradually squeezing airlines have to look for own resources. Airline's major source of revenue

is the earnings from passenger and freight charges. So the management has to take extra care in deciding the pricing which should be very competitive to attract passengers.

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## 28.5 SCHEDULING AND OPERATIONS

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The airline's schedule is constructed by the **schedules** planner. His or her function is to plan the flights and operating patterns of the company's aircraft so that:

- demands of the customer are satisfied,
- airline makes a profit,
- airline gains competitive advantages (**slots/preventing** competitors, etc.), and
- aircraft and crew are used to optimum efficiency.

### Scheduling Objectives include:

- i) satisfy the customer,
- ii) productivity of human resources,
- iii) high aircraft utilisation,
- iv) **high** load factors,
- v) high frequency,
- vi) **maximisation** of connections, and
- vii) consistent timing.

It is of great importance that the schedules plan satisfies the requirement of the various market segments which the **airline** targets. In order to do this, the schedules planner requires information about **the** customers. This can be obtained from a number of sources. For example, historic data, information from sales and **reservation** agents and from the airline's market research department. The schedules planner must make use of such information in order to accommodate passenger preferences, needs and wants.

The schedules planner must work towards the levelling out of manpower numbers so that staff are not **under-utilised**. This applies to many areas within the airline like cabin crew, cockpit **crew**, maintenance and **engineering** and so on.

With regard to aircraft utilisation, one of the most important things to remember is that aircraft **can** only make a profit while they are flying. The nature of an airline's route network has a major **influence** on its aircraft utilisation. If an airline's route network is dominated by long-haul routes, it will have very high utilisation per aircraft unit. This is due to the fact that short sector lengths result in a high proportion of ground time **to** airtime.

Another very important objective which the schedules planner must try to achieve is to optimise passenger connections at both ends of a given route. The schedule planner also, should try to create and maintain a balance between high load factors and high frequency.

Final objective is that of consistent timing. The schedule planner must attempt to maintain a consistent 'shape' in the schedules from season to season, using the same departure time of day for a particular service. Consistency helps to create familiarity and loyalty to the airline.

The schedules planning process is an important and integral part of the successful operation of an airline. It does not stand alone – it affects and is itself affected by other considerations and departments within the company. The airline's schedules are of great significance as they form the **foundations** on which its short-term activities are based. Because of this **significance**, it is not wise for the schedules planning department to work in isolation. On the contrary, almost every department within the airline should be involved in the **schedules** planning process, by way of discussion and exchange of information.

Finally, one should be aware of constraints that may come up in **planning** the schedule. The constraints can be grouped in two categories? **i.e.** internal and external.

**External Constraints include:**

- slot problems,
- night curfews,
- industry regulation,
- pool agreements and joint-venture agreements,
- peak surcharges, and
- **infrastructural** facilities.

**Internal Constraints include:**

- maintenance requirements,
- standby arrangements, and
- general operational requirements.

(See **Unit 29, TS-2**, for a case study of **Air-India**)

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## 28.6 MARKETING AND SALES

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In this Section, we **will** introduce you to the need of marketing in airlines management. You are already familiar with the concept of marketing. So here our focus **will** be to understand its importance in the context of **airlines** management. You know that marketing matches the **organisation's** product and the consumer's need in such a way that both benefit, one in terms of profit and the other in terms of need satisfaction. Airlines product is a service consisting basically of an experience for the passenger. An airline's market consists of various market segments with different service expectations, different price sensitivities, different travel motivations, etc. It is vital for an airlines to optimise its yields and revenue from various market segments by positioning itself correctly in the marketplace.

Marketing activities start with the identification of the type of 'product' or **service** to be offered. The product or service is aimed at satisfying the needs of a group of customers, known as customer segment or segments. Next step is to develop appropriate marketing mix which includes product, price, promotion and distribution process.

Airline's overall strategic plan should study the total market and then segment it into those sections which it feels potentially the most profitable to enter. Once this is done, it must decide what positions it wants to occupy in these segments. This process is known as market positioning. Market positioning involves the effective communication of the airline's corporate image to the customers identified as key contributors to market development. Market positioning should contribute to the airline's achievement of its overall objectives by highlighting the most appropriate areas of investment and **identifying** those market segments which **will** yield the highest return on investment (For further details on Airlines Marketing see **Unit-29, TS-6**).

**Airlines** have to spend a heavy amount on advertising and promotions. An example of this you can see in the newspaper advertisements. Similarly, public relations form an important link in airlines marketing. The relations between an airlines and travel **agencies/tour** operators are crucial for marketing as the bulk of airlines business is handled through them. Commissions and incentives play a major role in these business relations along with discounts and free tickets for familiarisation tours.

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## 28.7 CONTEMPORARY CHALLENGES

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In this Section we mention some of the challenges faced by airlines management :

- 1) Immediate challenges before the airlines management today are the issues of liberalisation, privatisation and **globalisation**. The need for **liberalisation**, privatisation and globalisation is primarily felt because of **growing** competition in the market, lack of necessary financial support, from the government, dissatisfaction with the performance

of the public sector and the system of administrative controls. Both the domestic and the international carriers are under pressure as they confront competition from the private sector and foreign carriers. **Liberalisation** literally means removal of different regulatory measures **imposed** by government. In the **case** of India, as the state confronted a succession of economic crises, it responded with economic **liberalisation**. Dynamics of a **liberalised** market are quite different from the dynamics of a regulated market. In order to **survive** in the **liberalised** market greater economic efficiency as well as faster and more flexible decision making processes are required. Liberalisation also leads to cut-throat competition and needs a competitive market. The Government is not in a position to provide necessary financial support so airlines may have to opt for privatisation to meet financial requirements.

**Alongwith** liberalisation and privatisation, there is a move towards **globalisation**. In the case of airlines, move towards globalisation has resulted in the emergence of mega carriers, particularly in the developed countries. These mega carriers are endeavouring to dominate the world aviation market and in the process, threatening the viability of Third World Countries.

- 2) Airlines face a major issue in the form of non-availability of capital which is needed for replacing the existing fleet or to expand the fleet. **Aircrafts** are not going to be cheaper hence, the challenge faced by the airlines is to reduce costs and increase profitability. Any capital borrowing has to be ultimately met through profits **only**.
- 3) Alan Wheeler, with his experience of the British Airways, while commenting on the crucial area of distribution process in an airline's activity has observed that : "In **this arena battles for market dominance will occur as the system develops the ability to use the latest electronic technology, and to structure itself for efficiency and customer service.**" In this regard, the three driving forces are:
  - i) need to reduce the cost of making sales,
  - ii) to avoid a situation where they become dominated by the retailers, lose their identity and become mere providers of seating capacity, and
  - iii) to stop being subject to **the whims** of a **distribution** system they have to share.

This calls for establishing a strong brand **image** among the consumers.

- 4) Technology is **playing** a major role in airlines business. Advanced reservation **systems** have been developed with the help of computers and networking is on. The brochure is **being** replaced by video films and **information** is **available** on C D Roms. Hence, the management has to decide on appropriate technology to be adopted.
- 5) In the face of these challenges, another area of concern for management is the interests of the passengers as the consumer is becoming more demanding. For the sake of profit and commercialisation the interests of passengers should not be **overlooked** because competition in the business provides him or her a wider choice. In this direction, priority should be given to implementation and supervision of proper **safety norms**. These norms which are regulated by Chicago Convention are as follows.

IATA (International Air Transport Association) sets guidelines for air safety and coordination among different airlines and organisations.

- issues such as communications systems and air navigation aids, including ground marking, characteristics of **airports** and landing areas,
- air traffic control rules,
- air worthiness of aircraft,
- registration and identification of aircraft, etc.

Besides **providing** friendly service from the **cabin** crew, check in staff and reservation **staff, effective** and less time consuming baggage handling, and better standards of catering will take care of customers' demands.

- 6) Taking care of employees needs is the key to provide quality service to the consumer in service industry (see Unit 13 on **Human** Resource Management). Delta Airlines in the US is cited as an example in this regard with **emphasis** on **workers** participation in **decision making** and maintaining a family feeling.

1) What are the direct **and indirect** operating costs?

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2) What is the importance of **scheduling in** airlines operation?

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3) List some important challenges before the airlines.

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## 28.8 LET US SUM UP

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In the growth of tourism, air transport system has a pivotal role to play. Growing trend towards liberalisation, privatisation and **globalisation** has thrown new challenges to the airlines. In the light of the present situation, we have discussed in this Unit the important **areas** in airlines management. Needs of proper planning, what should be your **organisational** structure, how one should manage finance and operations and importance of marketing are some of the areas which demand serious attention of the airlines management. We end this Unit with Alan Wheeler's words:

"The message for airline management is quite clear : the **successful** airline in the future controls its costs and reacts more quickly and more sensitively to the **market than** its competitors, for if it fails it will quickly become unprofitable."

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## 28.9 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

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**Check Your Progress-1**

- 1) See Sec. 28.2
- 2) Organisation takes care of various challenges before the company through proper utilisation of various resources and helps the company to achieve its target. See Sec. 28.3.

**Check Your Progress-2**

- 1) See Sec. 28.4.
- 2) See Sec. 28.5.
- 3) See Sec. 28.7.