

# Airline industry

[Transportation](#), [Airlines](#)



The history of flight industry has come a long way since Orville and Wilbur Wright invented the first engine airplane. From then on, travelling has never been the same.

Further improvements in airplanes have offered great travel experience for passengers who need to reach destinations in the shortest possible time. In order to gain more passengers, airline companies continued to undergo changes in order to meet their objectives. Despite concerns regarding open skies and safety, airline companies offer low-cost fares, while some joined alliances.

#### Brief Summary of the Airline Industry

The airline industry is fast growing, thus contributing to economic growth, international investment, world trade, and tourism (Ferugia et. Al.). With the Wright brothers' invention of the first engine powered plane, the need to provide service to passengers in every place in the world has led to the airline industry being a major driver in the global economy.

Further, the airline industry in itself is an economic force through its operations both nationally and internationally, and its influence on other industries such as tourism. The industry proved to be more powerful than others, as evidenced by the amount of attention rendered on airlines (Massachusetts Institute of Technology, n. d.).

Much development has been observed on the airline industry such as technological innovations. In the 1950s, jet airplanes were used for commercial flights. Two decades later, a new development in the form of wide-body airplanes was introduced.

During this time, the global airline industry was heavily regulated, thus government policy and technological advances were prioritized than competition and profit.

However, when American airlines had been economically deregulated, individual airline companies focused more on cost efficiency, competitive behaviour and other related to airline management. This deregulation also spread to the industrialized world, affecting the overall international airline industry (Massachusetts Institute of Technology, n. d.).

Recent records showed how the global airline industry improved. In 2006 alone, more than two billion passengers were served by more than 20, 000 airplanes. In addition, global air travel improved by 5% each year, highly affected by the economic conditions and growth in various destinations. The industry also possessed an annual growth that is twice the gross domestic product's (GDP) annual growth (Massachusetts Institute of Technology, n. d.).

Despite the immense growth and the importance of the industry in the economy of countries, the airline's profit and its dependence on economic conditions pose as threats to the airline industry itself and other industries affected by it. In fact, the net profits of airlines worldwide showed volatility from 1989 until 2005.

This was further aggravated by the losses that the global airline industry experienced for four consecutive years (1990-1993) as a result of the Gulf War and an economic recession. It only stabilized by the end of 1990, when

the net total profits that airline companies reported between the years from 1995 to 1999 improved.

However, the industry suffered from operating losses and financial crisis by the start of 2000 until 2005 wherein the net losses was recorded to amount to \$40 billion (Massachusetts Institute of Technology, n. d.).

The European airline industry was not spared during this time, as it was threatened with slowdown especially in 2001. To be able to stay on business, several airlines cut back on its capacity by flying smaller aircrafts.

This led to their profits being halved because passengers cut back on air travel. Other threats were in the form of rising labour and fuel costs, leading to the necessity to “axe an unspecified number of jobs.” However, some of the European airlines cut fares in order to attract passengers, like in the case of American airlines. By cutting their fares and offering programs that would lessen the financial burden for their passengers, certain airlines stayed afloat in the industry (Ali 2001).

#### Low Cost Carriers v. Regular Carriers

As the global airline industry was threatened by challenges such as financial crisis, economic slowdown and the recent economic recession, companies were pressured to offer lower costs. At the same time, they had to face profit volatility.

However, as history would show, certain cases in the past showed the negative impacts of bankruptcies and mergers. This forced airline companies to devise ways in which to offer programs and services that passengers would still patronize (Massachusetts Institute of Technology, n. d.).

With the entry of low-fare airlines, the industry's pricing practices were affected, as well as the expectations of passengers on low-priced travel. Despite the promise that lower costs have for passengers, the growth in the low-fare air travels has negative effects. Traditional network airlines in the United States and overseas suffered from a poor financial performance.

Growth was slow albeit being steady in the United States. It became rapid by middle of 1990s and accounted for 25% of domestic traffic in the United States. Several airlines which led in offering lower costs were Southwest, JetBlue, AirTran, and Frontier (Massachusetts Institute of Technology, n. d.).