

# [Trends and developments in the airline industry](https://assignbuster.com/trends-and-developments-in-the-airline-industry/)

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Which trends and developments can be identified in the current airline industry that 5 APPENDIX Appendix I Appendix II Appendix Ill Appendix IV 1 Introduction 19 I en Lorene Ministry Is a large Ana growing Industry wanly Is, Decease AT ten great overchargingenvironmentit operates in, forced to constantly adapt and enhance equines models in order to survive, compete and to generate profits. In this context this report will investigate the developments and trends and their importance in the airline industry that influence its future the most.

In accordance with this aim the Problem Statement reads as followed: Which trends and developments in the airline industry will have the most impact on its future? To clarify the context of the widespread and complex airline industry and to provide an overview, firstly the most relevant characteristics of the airline industry will be discussed, so it will be clarified in what environment it operates in and what factors it s influenced by. Moreover, due to the fact that the whole airline industry is in constant and often protracted development, also the past of the industry has to be considered.

Therefore past trends and developments and how they influence the industry will be examined. Under consideration of past developments and trends that shaped the current situation of the airline industry, present trends and developments will be discussed. This facilitates an outlook on the future, which will be given on the basis and resulting from the current trends and developments discussed. To clarify these matters of concern the research questions have been formulated as follows: 1. What are the characteristics of the global airline industry? 2.

Which were the most important trends and developments in the airline industries' past shaping the current situation? 3. Which trends and developments can be identified in the current airline industry that will shape its future? Finally the problem statement will be answered on the basis of each research questions' outcome. This report solely comprises secondary research. The most relevant information will selectively be drawn from Arias Dogging' " The Airline Business", the airline news source as well as from topic related articles. 2 What are the characteristics of the airline industry? What are the characteristics of the airline industry?

In order to understand the complexity and the contradictory as well as widespread nature of the airline industry and therefore its trends and developments, this section wall glee an Instant Into ten most relevant Theatres Tanat contractible tens Industry, with a short outline of influencing and most significant factors will be given. Dynamic growth industry - Due to the constant development towards a globalizes oral, the innovation and the fast progress with new technologies as well as the increased income and greater leisure time of people, the travel demand increased especially vast in the post 1945 (DATA, AAA).

Still the further development of the industry environment facilitates growth in demand. Even though the demand for air traffic seems to follow the development of the gross domestic product (GAP), fluctuations which can be associated with factors such as an economic crisis are the exception on the overall rising demand and therefore growth of the airline industry (Diagnosis, 2006). Closely linked to economy - The airline industry can be described as highly cyclical since it has a high sensitivity to the economic cycle (Diagnosis, 2006).

The profit margins of the airline industry are rising and falling in accordance with the World's economic growth which again is impacted by unforeseen factors like a crisis (see appendix l). So demand for air traffic decreases during times of economic distress or simply when the growth slows down. This causes overcapacity and therefore lower fares and yields. The effects of the change in the industry, however, might show lagged in time. Also the factor causing the industry downturn can intensify or lengthen it (Diagnosis, 2006).

High fixed costs and marginal profitability - Also characterizing features of the airline industry are the generally low profit margins and high fixed costs. The fixed costs manly results from personnel and fuel. The low profit margins arise from the circumstance that there is no significant variation between the expenses of an aircraft flight and the number of carried passengers. Therefore already a small change in passenger numbers can negatively impact the financial result (Diagnosis, 006).

Dependence on oil prices - As already mentioned the fuel prices are one of the two greatest fixed costs in the airline industry. As the aviation fuel price is closely linked to the oil price, the airline industry is highly dependent on it. An increase of oil prices would mean almost immediate price increase on fuel, what again could negatively impact the financial results of the industry. As fuel is crucial to the aviation business and the oil price is outside of direct control, this dependence on an uncertain factor creates a major challenge for the industry (Diagnosis, 2006).

Restricted by regulations - Besides technical and safety regulations with are enforced by different instances, like for example the Federal Aviation Administration (FAA) that restricts the industry operations, also the economic benefit is reduced by poorly designed regulations and high taxation's that hinder the airlines to connect. Also governmental policies discourage crossbred consolidation (DATA, AAA). Due to the fact that the airline industry is the most international industry in terms of operations, but quite national in terms of control and ownership, makes it a paradox (Diagnosis,

Highly competitive - As stated by Diagnosis (2006) the airline industry is highly competitive and influenced by several factors. Besides the necessity to adapt pricing and keeping track of competitions actions, airlines also must consider the customers demand, the routes that are flown and the brand awareness and brand identity to remain competitive. Moreover airlines might become part of alliances to gain advantages, also in terms of bypassing regulation (mentioned above) that inhibit competitiveness (Diagnosis, 2006).

Summing up it becomes clear that the airline industry is a growing industry that is hardhearted by high fixed costs and marginal profitability as well as a financial outcome closely linked to the economic cycle. Those features combined with the dependence on oil prices, make the airline industry instable and constantly threatened by uncertainty. High competitiveness demands constant adoption and development in accordance with competitions operations and the changing environment within the highly regulated mostly nationally controlled industry framework. Which were the most important trends and developments in the airline industry Which were the most important trends and developments in the airline industry In order to be able to understand the current situation of the airline industry and to further gain insight into future trends and developments it needs to be understood, that the whole airline industry is in constant and often protracted development. Therefore this section will deal with those developments and trends, which were the most important in the past years.

Deregulation ; Liberation's - As already mentioned the airline industry is a paradox since even though it is the most international industry in operational terms, it is quite national in terms of ownership and control. However, it can be stated that the growing realization that politically controlled economy did not longer served public interest was triggering deregulation. It describes the process of removing the governmental restrictions on market entry, exit as well as pricing of airline services, mergers and customer issues (Smith Jar. Cox, n. D. ). The deregulation being a part of the bigger global liberalizing trend started 1978 in the US with the Airline Deregulation Act granting foreign states airline traffic rights. The aim was to provide highest customer benefits by preserving and extending competition amongst airlines in a fair market (Diagnosis, 2006). The global liberation's trend was shaped by the call for more liberal rules and regulations of international air transport (Diagnosis, 2006).

In order to facilitate an effective liberalized airline industry Air Transport Agreements had to be made Detente two or more matrons (Deliberate or multilateral agreements) breakthrough in this matter was the open sky agreement between the Netherlands and the US, granting greater freedom in air traffic. For example now the Netherlands were allowed to carry revenue traffic between the US and third countries if the revive was starting and ending in their home country. Also Europe took liberation's measured with the Third package approaching differently than the US.

Instead of focusing on bilateral agreements the EX. allowed open route access to foreign counties without price controls or restrictions when determining fares and cargo tariffs for a whole region. Also cross-border ownership was allowed, which for example enabled KILL to take over and operate a British airline (Diagnosis, 2006). Over the years the open sky agreements evolved further in terms of freedom from many rotational forms of economic regulations and quantity (Smith Jar. & Cox, n. D. ).

According to the U. S. Department of State (2013) the US achieved Open Skies with over 100 partners, amongst which since 2007 also the EX. numbers (DATA, Bibb). Up to this day deregulation and liberation's in combination with intense competition caused a change in management strategies and therefore a change in the airline industry. Market exit, diversification into new products, expanding into new markets or specializing in niche markets were the reactions to this new development (DATA, 2007).

Due to the fact that the industry be- amen safer, more accessible and more efficient than before and the circumstance that other industries also already demonstrate the benefits of liberation's (such as lower prices, increased output and choice, improved quality of customer service, greater commercial freedom, that allows to increase productivity and efficiency for providers etc. ), the DATA (2007) argues that further and full liberation's is required in order to maximize the potential benefits.

Prevarication of state owned airlines and airports - Because the liberation's and deregulation forced the airlines to adapt ewe market practices in order to become more competitive and customer-oriented the trend towards prevarication of state-owned airlines emerged. Stationed airlines were suffering from the so called Distress State Airline Syndrome, which is characterized byfinancial difficultiesand therefore substantial losses, bureaucratic, indecisive management and over-plasticization slowing down the reaction for example to the crisis in 2000 - 2004.

Moreover decision influencing strong unions, over-staffing and low labor costs resulting from unrealistic or uncompetitive terms and conditions or inefficient HER management are negative influences. Also poor service quality and organizationalculture, poor marketing and distribution, outdated processes, made the state-owned airlines an obstacle regarding economic growth, through increased productivity and efficiency. The solution prevarication however, has financialreconstruction, cost reduction and network and fleet rationalization as precondition (Diagnosis, 2006).

Since a whole recovery strategy and its implementation needs time, the process of prevarication is a protracted development, there are still many state-owned alertness today (Dossals, 2 ) Because even thong tense also as a program to privatized airports since 1997, in which no one participated, the airport sector has not structurally transformed as the airline sector (DATA, Bibb). Therefore only few airports are privatized today. In the EX. for example the number of privatized airports amounts only 9%.

However the DATA (Bibb) argues that airports can benefit from prevarication the same way the airline industry does, since more competition and customer orientation can be facilitated. Approach of alliances - In times of the crisis alliances were forged most actively, since they were driven by worsening financial performances (Dogging, 2006). Alliances are a logical response to uncertainty focusing on the key driver being to generate more revenue.

Also they proved their worth, as simply buying in second-tier carriers have shown to be difficult due to incompatibility of cultures or management style or Just the dominance of one carrier. There are two types of alliances - the commercial alliance, in which airlines operate with independent assets and the strategic alliance, which is characterized by greater integration and co-mingling of assets (see appendix II). In the beginning most alliances were of bilateral nature that made agreements to serve specific needs mainly for marketing, so commercially motivated benefits. However, since British Airlines and American Airlines Joined in the narrowed alliance in 1998 this kind of alliances approached until they became global. By 2004 it was normal to abandon bilateral alliances for global ones, which became most important, because of the interlinked networks of more airlines operation in different countries or even continents (Dogging, 2006). Today the tree biggest global alliances are Star Alliance, narrowed and Steam (Travel Industry Wire, AAA) and they generated about 56% of the world's passenger-SMS in 2003 (Diagnosis, 2006).

Besides the boost of revenue, benefits for the members include expanded networks and frequencies, which customers appreciate and greater value and service for the same or lower prices. With this approach of alliances also competition amongst airlines turned into competition amongst alliances. Also the strategic importance of alliances emerged since growing airlines like those from the East can become a valuable asset for them (narrowed, 2013). Approach of Low-cost airlines - While in 1994 less than 3 million passengers traveled with low-cost airlines, the passenger numbers in 1999 already amounted about 17. Lion and even 100 million in 2004. This example illustrates the success of the low-cost carriers and therefore their importance for changes and developments in the industry. The most remarkable fact was that even during the crisis the low-cost carries not only grew but also were they profitable. No frills low- cost airlines like for ex. Ryan have changed the nature of competition to a great extent in the short haul flight. High frequencies and punctuality as well as low fares, facilitated by cost cuttings and savings where it is possible, make low-cost carriers attractive to customers.

Costs are saved for example by flying to secondary airports with lower fares, operation of only one type of fleet to lower maintenance costs, canapé lealer Docking Day sloping travel agents, snorted average sector length, easier cost management because of point-to point flights only, or less seating space facilitating more seats per flight. Due to this intense competition of low-cost carriers legacy carriers flying the same short-haul routes were forced to respond or fail.

Overcapacity in 2004 resulting from legacy carriers switching to low-cost or new entries in the low-cost market posed a new challenge as well as the maturing of the owe-cost industry (Diagnosis, 2006). The gap between low-cost and legacy carriers is due to the premium service. However, the legacy carriers were working towards more cost efficiency as well to remain competitive with the low-cost carriers on short haul routes (DATA, 2006). Rise of Middle East / Asian Pacific airlines - While most of the airline industry was busy with responding to changed environments with consolidations, alliances, reductions of capacity etc. The three big airlines of gulf aviation (Emirates, Edited Airways and Qatar Airways) started a new course. In a memorably short period passengers, aircrafts and destinations were added pursuing a new vision for air transportation. This was supported by the friendlier regulatory environment, the states' spending in increasing infrastructure (f. Ex. Expansion or building of new airports) as well as bigger reliable long-haul aircrafts and integrated strategies between 7 airports, airlines, the financial community and some government agencies.

In September 2012 Qatar Airways announced to Join narrowed while Saudi and Middle East Airlines were Joining Steam and Emirates and Quanta's announced global partnership. Other agreements for code sharing were made as well, for example between Edited and the Maldives, Bangladesh, Australia the Seychelles and Pakistan (Airline leader, n. D. A). Besides the factors mentioned above excellent services and highly competitive pricing for non-stop long-haul flights provide a positive branding and increase demand (Ashtray, AAA).

According to DATA the Middle East are currently still " growing market share with particularly strong traffic growth on routes to Europe and Asia" (DATA, 2009). Also the Asian Pacific airlines have shown market growth despite of political, economic, natural or other uncertainties. With airlines offering low fares and additional services (hybrid model) leading the way, the airline market of this region was the fastest growing in the world in 2012 (Travel Industry Wire, AAA). The greatest contribution to this comes from China and India.

The increase in traveler numbers mostly derives from the countries' growing middle class that travels domestically as well as internationally. Since the region has become a large market it has become crucial for airlines to be part of this growth (abacus, 2012). Importance of controlling costs - During the crisis of 1990 - 1993 when the airline industry was impacted by the negative changes, the airlines realized that controlling labor costs, being a large single cost category, is the key to cost control.

Moreover it is a critical factor since it is also the main differentiator between airlines. A direct way of controlling labor costs is simply to reduce staff numbers. New terms Ana controls can Nell to adopt new practices to Increase Delightedly Ana proactively to compensate stuff cut backs. Another option is to launch low-cost subsidiaries like for ex. Delta Airlines did in response to the greater competition of low-cost carriers. Also outsourcing is commonly used practice.

Besides cost cuttings mentioned above a second strategy, namely reconstructing the whole labor costs to a lower base could ensure long term cost reduction by operating with performance-related bonuses like a lot of low-cost airlines do (Diagnosis, 2006). Apart from the labor costs, savings or reductions can also be facilitated in other categories like for instance maintenance. Here costs can be saved by operating one aircraft type only, like Southwest Airlines who operate Boeing 747 (Diagnosis, 2006).

Also hedging fuel is a common practice to avoid having higher costs when oil prices sis (Airline Leader, n. D. B). Moreover higher efficiency can facilitate cost savings. For ex. Ryan increased the seating density in their aircrafts by reducing space between seats (Diagnosis, 2006). Technologyalso plays an important role as it could facilitate cost savings in the industry. An example for cost saving possibilities with technology is booking without printed tickets. Since 2008 the industry completely moved to electronic ticketing (DATA, 2008). The trend of cost control that is caused by intensive competition still is and will be a major influence the airline industry and needed to achieve high yields, the airlines reparability and competitiveness in the ever-changing environment (Diagnosis, 2006). Integration of technology - Since IT is underpinning every operation in the airline industry it can serve as powerful management tool that helps to efficiently integrate functions, reduce costs and increases revenue generation (Diagnosis, 2006). The introduction of IP to the industry enabled many new applications like online reservation systems (TIPTOP, 2006).

Therefore and because of the need to cut distribution costs, e-commerce also gained importance with the progressing of technology. E-commerce is not only about ticketing but it also fundamentally changes he whole airlines operations, the relationship amongst airlines as well as to their suppliers and customers (Diagnosis, 2006). 2005 for example the Star alliances asked Amadeus, an airline IT system provider to build a common IT platform for the members of the alliance, which provides customer management solutions, so offers full reservations, departure and inventory control capabilities.

Moreover it facilitates faster and enhanced integration with alliance partners (Amadeus, 2014). Besides the benefits of interactivecommunicationand distribution e-commerce also allowed more dynamic pricing (making it easier to respond to changing market notations) as well as to bypass travel agents, who are decreasingly able to influence the customers' choice, due the shift in culture approaching with technology and the cheaper availability of computers and internet.

The market power of the customers is constantly growing because of all the information they can access. Therefore enhanced customer service is of great importance. This is why today most of the alertness' Docking pages also offer toner products Ana services Desires Talents hotel booking or car rental, so do cross selling for ancillary revenues and customerloyalty(Diagnosis, 2006). Also the practice of frequent flyer programs is used by many airlines, like for example United Airlines, to retain customer loyalty (United, 2014).

Considering all the above mentioned trends and developments it can be concluded that today's airline industry worldwide is shaped by increased competition and greater importance of customer orientation in a more liberal industry with greater freedom in air traffic, what challenges old business models. Considering the high uncertainty and vulnerability of the industry to global or local shocks, cost control, increasing efficiency and constant integration of commerce and technology in general have a major part in this.

To achieve profitability and efficient operation airlines worldwide need to constantly rethink and enhance their business model. Carriers are forced to adapt to the changed conditions coming up with innovative business plans or vanish from the industry. New types of carriers with more flexible business plans have advantage over the carriers with operations based on legacy. Enhanced infrastructure and increasing demand in a friendlier regulatory environment facilitate the continuous increase of 9 rake share of the Middle East and Asia Pacific airlines.

The offering of high value for relatively low fares with extending networks on domestic as well as international flights influences the industry as it starts to excel simple low-cost carriers operation that revolutionized the industry before and could essentially impact alliances stability. 4 Which trends and developments can be identified in the current airline industry will shape its future? Having an understanding of the past trends and developments shaping the current situation of the airline industry, this section will now deal with the current politeness and trends in the industry.

This will facilitate an outlook on the future of the airline industry, its operations and what it could look like. The outlook will be given on the basis and resulting from the current trends and developments Cost control / efficiency - Since the price of airlines' offers remains a key competitive Tactic wanly Is major eternal Day non-controllable Doctors Like ten Duel price, slow economic growth or labor costs - not only for low-cost carriers but for every airline controlling costs is a major driver that needs to be further integrated in the equines strategy.

The focus on cost reduction and savings in order to facilitate profitability is also still pushing more efficient operations. Especially for Europe with its stuttering economy and the US struggling for traction risk reductions in terms of higher efficiency and cost control has a high priority (CAP, AAA). Fuel hedging to avoiding uncertainty on short-term or reducing capacity on even marginal profitable routes and higher load factors commonly in combination with higher yields are able to make operations profitable.

However, these measures taken seem to have almost cached their peak, as it is not able to compensate another rise in fuel (CAP, AAA). To nevertheless control costs as far as possible now one focus lies on increasing fuel efficiency. An example here is Alaska Airlines that used new technologies to increase their fuel performance with the acquisition of the most fuel efficient aircrafts Boeing 737 and Bombardier QUA. Even though it is an investment, it will benefit the company on the long run (Travel Industry Wire, Bibb).

As the first airline United Airlines Just recently invested into fuel-efficient split-scimitar winglets (Travel Wire Industry, AAA). A private Indian airline called go air even plans to only hire female stews because they weigh less it will reduce the flight weight, and as a consequence lower fuel costs on the long haul (Hotel News Resource, 2013). How strange this action might appear, it derives from the condition that in proportion the fuel costs are so high for airlines that it is barely worth the effort to focus on not fuel related cost cutting measures (CAP, AAA).

Due to these developments and since single fuel efficiency measures are not enough to maintain or improve profitability, airlines eave to draw on additional sources to boost revenue such as raised fares and ancillary services (Travel Industry Wire, coca). Importance of Customer Relationship Management (CRM) / technology changing travel experience - As the ever- approaching technology changed the game of the airline industry by creating a customer who is socially as'. . Y, the focus on the customer is of growing importance. Search engines, travel websites or also online travel agents make it easy for the price- sensitive 11 customer to find the best flight, which endangers customer loyalty and therewith the airlines revenues (Travel Industry Wire, 20th). Moreover studies have shown that the travelers' choice is not only driven by prices but also by attributes of the product, schedule, individualistic and customer service.

Also are customers that made an unsatisfying experience less likely to choose again for the same airline. Therefore Customer Relationship Management (CRM) aims on creating and/or increasing customer satisfaction and customer loyalty (Saber, 2009). As already mentioned the frequent flyer program, awarding customers for using a certain airlines and collecting their data, is a commonly used approach to gain customer information.