

# Deregulation of airline industry research paper sample

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Deregulation of airline industry was a good policy decision because it has brought about the establishment of new carriers. Deregulation has had a conclusive prompt in the major reshuffling for service throughout the existing carriers. It came in handy in opening the airline business to even more newcomers like Congress intended. An illustration for this is that in 1978, close to 43 carriers were certified into scheduled service using large aircrafts. Currently, the scope of carriers has increased by almost twice (Truxal, 2013). The number also keeps fluctuating over the years based on the changing market conditions. However, by 1998, the overall number rose as more airlines were opened to offer direct, no-frills and low-cost services that started emerging. These new airlines resulted from various factors which were based on lower prices used in the aircrafts as well as the availability of mechanics, pilots and subsequent airline professionals. The deregulation of the airline industry also brought about increased levels of competition. In this case, the appearance of new airlines together with rapid expansion of new markets through various established airlines, brought about unprecedented levels of competition across the airline industry. Currently, up to 85 % of the airline passengers have an option of two or more carrier forms in comparison to two-thirds back in 1978. The airlines intensely compete with each other in all major markets (Cento, 2008). The development of the hub-and-spoke systems has resulted in the increment of competition across the small markets which are not normally supported by the competitive services of linear route systems. Proportionately, the largest increase in competition levels occurred across the medium-and small- sized markets.

Even though there have been numerous economic liberalization gains, they have been accompanied by substantial and fundamental problems plaguing the entire industry. Part of these airline problems are transitional where the massive adjustments necessary are delayed due to strict regulations (Bilyk, 2009). This way, the regulated airline monopolies continue receiving returns on capital which are supposed to be 'reasonable' (in comparison to the aspects that which companies expect to receive within competitive markets), but the returns factor in high costs which is normally not existent in the competitive markets. For instance, the unionized workforce in most airlines strengthened and established under regulation gained inefficient work rules and generous salaries compared to what is expected in competitive markets. These problems persist even in the current markets especially based on the legacy airlines.

Deregulation also triggered various marketing innovations where the most noteworthy was the frequent flyer programs that rewarded the repeat customers with certain free tickets as well as other benefits (Sinha, 2001). Major airlines have embraced such programs while many smaller carriers have embraced their respective programs coupled with tie-ins for the larger programs. Even as the programs continue varying, the integral elements remain the same. Immediately a customer is enrolled, they are credited with points for each time and mile they fly with sponsoring carriers as well as with subsequent airlines allied into the initial sponsor's program. Such rewards (free upgrades and tickets which convert the coach tickets into business class or first class tickets) are attached to various point totals (Bier, 2003). The recent developments are integration of the frequent flyer programs with

various promotions across other industries and credit card industry. It makes it possible to accumulate frequent flyer points through purchasing things instead of the common airline tickets where in some cases are pertinent to the exchange miles of subsequent goods and services.

## References

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