

Economic aspect of commercial aviation

Economics



Commercial aviation is the branch of civil aviation. This branch operates aircraft for rent. As a requirement, a flight can only function commercially if it meets this prescribed criterion:

criterion:

- Have a pilot who is a holder of a valid commercial license.
- The aircraft is registered for commercial use.
- The flight operator must be registered for commercial undertakings.

As a matter of protocol, a commercial registration demands more standards than the latter. For instance, a commercial pilot may be required to show more drills to an advanced standard, and may require passing more regular medical tests. A commercial plane may need more frequent and extensive maintenance, (Nader and Smith, 1994).

This new millennium has put forward many opportunities for commercial aviation. However this highly depends on the capacity to conduct research and develop improved technology that will lower the operating cost and enhance performance, have a sustained growth economically, design a traffic organization that will contain the demand for all kinds of air travel. The commercial aviation industry is however challenged by the government policy on economic development and growth. The Commercial air line in the local routes is presently recording up to 70% load aspects. This is quite a high level. This can be attributed to the escalating fares, over the years.

The commercial Airlines have in the recent past faced numerous challenges that have reformed this industry and decreased the demand for air travel.

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The present growth of use of the internet in selling and distributing tickets as well as the establishment of low cost airlines in the market has had a significant effect on the price and operations of majority of commercial airlines. Other factors like the terrorist attack on September 11th, global economic recession and the Middle East war have reduced air travel in general and the demand for business travel in particular. Consequently, strategies like retrenchment, and cost cutting measures .

Hypothesis

- There has been declining profits the commercial aviation industry
- Business travel has reduced significantly lowering revenue and profitability
- Low cost Airlines are more profitable
- Both internal and external factors have generally lowered the demand for air travel.

Arguments

The revival of the commercial aviation industry in US is in due process. The commuter levels are anticipated to get back to the pre-11 September 2001 heights. It is expected that by 2015, this level will have exceeded by one billion. This prospect however is being curtailed by the ever rising fuel prices, flight delays, and the security at the airport. The US commercial airlines have seen a reduction in their losses from a staggering US\$11 billion in 2002, to US\$4 billion in 2003. This has increased the hopes for profitability in the later years.

It has been noted that there is a significant change in the nature of US air travel. Business travelers who have traditionally and over the years been the key source of revenue, have been overtaken by cost conscious commuters who keenly shop for fares via the internet. As a result, the low cost airlines have been expanding and increasing profitability while legacy airlines have fallen victim to competition. Further, the commercial aviation industry is forecasted to grow at a rate of 4.3% annually up to 2015 with the low cost airlines taking up to over half of the local passengers.

The US commercial aviation industry generally reduced their losses by half between 2002-2003. However, high prices of oil have made the forecasted trend in reduction of losses lose credibility, (Leary, 1992).

Financially, the performance of the two commercial airlines has been significantly different. The legacy airlines have been experiencing major losses while their counterpart the low cost airlines have been making incredible profits. The cost per seat in the legacy airlines has been on the increase since the year 2000, consequently, the airlines have yet to reclaim their profit margins. On the other hand, low cost commercial airlines have been expanding extensively, gained a larger share of the market and made incredible profits. The poor performance of the legacy commercial airlines has seen their fiscal position diminish. Some have been even deemed bankrupt.

The profitability of commercial aviation is determined by various factors. These mainly include;

The human factor: The loyalty, interest and attitude of the workforce are important for the profitability of this industry. This is mainly because it's a service industry and profitability depends on employee-client relations. At all cost, the employees being major determinants of profitability have to properly recruit. Recruitment must be consistent with the expected standards of the overall aviation industry. The workforce is able to enhance the profitability of the business or vice versa. The top management should be carefully selected. The team should consist of the eminent, honest, intelligent managers with leadership capacity, (Mander, and Goldsmith, 1996).

Environmental Factors; This refers to both the physical and business environment. Climatic conditions and Meteorological factors affect business both the destination areas and at the hub. The tourism industry highly affects business and profitability through scheduling of anticipated destinations and timetabling.

The quality of business assets ; the facilities that the company has to offer to the customers is very important. They have to be of high quality, safe, and comfortable. Travelers will prefer to use planes that have an excellent safety record, above everything else. The standards at the ground must be impeccable and efficient.

Findings

Since the beginning of the year 2001, the US commercial aviation industry has experienced major losses. Between 2001 and 2003, two large airlines were declared bankrupt. The legacy airlines have particularly faced both

internal and external challenges that have seen the demand for air travel decrease at large. In an attempt to overcome the numerous challenges, the commercialization industry consisting of both the legacy and low cost airlines designed different survival strategies. The low cost airlines took to expansion while the legacy airlines adopted cost cutting strategy, (Money, 1984).

It has been established that two basic cost elements have led to the substantial cost differences between the two groups of airlines. These are asset affiliated costs and the cost of labor. Legacy airlines as a whole have unsuccessfully lowered their costs to effectively compete with the low cost airlines. They have cut down their operating cost for the last three years. This has been achieved through reduction of the airline's capacity. Contrary to this, the low cost airlines have trimmed their operating cost by expansion, lowering the labor cost as well as reducing the cost of assets.

Both of these commercial airlines however have experienced poor revenues for the last couple of years. The revenue collected per mile has significantly dropped between the years 2000-2003. This has been experienced in both airlines. The number of passengers since 11th September is relatively the same but the air tickets cost far much less than before. More over, legacy airlines have been losing their market share to the low cost airlines. Estimated by the number of miles traveled has dropped by 10% for the legacy airlines while that of their competitors has sharply risen by 40% since the year 2000. The legacy airlines have transported fewer passengers at a lesser cost unlike the low cost airlines that have flown more commuters at lower prices.

The market for air transport started weakening in the year 2000 due to economic depression. It was made even worse by the outbreak of war in Iraq and the spread of Severe Acute Respiratory Syndrome (SARS). As a result the predictable future of revenues is not bright yet.(Upham, Maughan, et al., 2003).

Conclusion

The commercial aviation industry has over the years recovered from the effects of the September 11th catastrophe. However, the profitability of the legacy airlines is still lagging behind. Heavy losses incurred have seen the airlines take up to a weak financial stand. They have been left in heavy debts and pension commitment extending over to the next couple of years. The possibility of future profitability is still a distant dream. Instead, the commercial aviation industry has been differentiated into two entities; the legacy airlines that are recording hefty losses and the low cost profitable airlines.