

Original Paper

The Revenue and Cost of the Airline Company

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Abstract

The airline industry is characterized by a number of business models with the most prominent being the Full Service Network Carriers (FSNC) and Low Cost Carriers (LCC) models. The main difference between full service network carriers and low cost carriers is how the airline companies operation their revenue and cost.

The advanced developments in telecommunications, air pollutions and the competition of high rail are three new challenges for the airline industry globally while an increasing passengers and the government policies are two big issues for Asia/Pacific regional airline companies. The fuel price and human-related costs are two big issues affecting the company's cost. Code-sharing and advertising are two possibly ways in increasing company's revenue, cutting down the fuel cost, advertising costs, controlling the human cost and cooperating with airports are four possibly ways in reducing company's cost.

Keywords

FSNC, LCC, revenue, cost, Asia/Pacific

1. Introduction

In 2017 the world's airlines carried around 3.2 billion passengers. The industry is characterized by a number of business models with the most prominent being the full service network and low cost carriers models.

This paper reports on a study that investigate and identifies the revenue and cost structures of both full service network and low cost carriers, the challenges by the airline industry globally as well as specifically within the Asia/Pacific region, identifies some key factors affecting revenue and costs with the Asia/Pacific regional airline market, discusses some of the approaches taken to maximize revenues and reduce costs and selects Singapore airlines as an example in analyzing its revenues and cost structures.

2. The Revenue and Cost Structures of Full Service Network Carriers and Low Carriers

The revenue-generating ability of an airline depends on many factors (Radnoti, 2002, p. 11). Generally, the sources of revenue of both full service network and low cost carriers mainly includes passenger, freight, mail, excess baggage, charter, duty-free sales, services performed and leasing income (Radnoti, 2002, p. 11).

As Radnoti (2002) described in the book, the cost structures of both full service network and low cost carriers can be divided into two parts: Direct-Operating-Cost (DOC) and Indirect-Operating-Cost (IDC). The direct-operating-cost includes crew, fuel and oil, flying operations, maintenance burden, insurance and depreciation. The indirect-operating-cost includes landing fees, navigational fees, station costs, passenger service, aircraft servicing, traffic servicing, reservation and sales, advertising and publicity, ground property, general and administration.

For both full service network and low cost carriers, they have same revenue and cost structure, they have some different ways in operating them. Full service network provides almost all kinds of service while low cost carriers aim to provide consumers a simply transportation.

Full service network may spend a lot of money in providing a better customer services such as in-flight entertainment system and catering. Also, they might change fleet A330 to A380 as it has a much better environment and more seats which could meet the requirement. This may cost a large amount of the annual budgets and needs a new flight schedule which also cost a lot. As they change A330 into A380, the new fleet provides more business and first class seats. This makes the airline company have chance in gaining more profits.

For low cost carriers, they do not have to spend so much money as they do not care about on-board services. They have some different problems in running their revenue. One example is the high price of fuel, they could not buy as much fuel as big company, buying in bulk in order to save money (Trembath, 2005). Another example is as low cost carriers sales most of their tickets through the internet, they are more rely on computer technology than full service carrier.

3. The Financial Challenges by the Airline Industry

3.1 Global Market

“Air transport is still one of the world’s very important industries, driving economic and social progress, generating 32 million jobs globally. Aviation’s global economic impact is estimated to 7.5% of the world Gross Domestic Product” (Ivan et al., 2010). With the high speed of development worldwide and globalization, airline industry plays a more and more important role in world’s economic and social progress. “Some 2,000 airlines around the world operate a total fleet of 23,000 aircraft. They serve some 3,750 airports through a route network of several million kilometres managed by about 160 air navigation service providers” (ATAG, 2008). As airline industry have chance to develop and gain more profits, there are also some threaten.

The first challenge is the high technology of telecommunications. The advanced developments in

telecommunications reduce the need for face-to-face business meetings. Business co-operators could use telephone-meeting or even online video meeting instead of sending their managers meets each other with a tired body after a long distance flight.

The other challenge is the air pollutions. The governments and the public are very sensitive about the environment. In order to control the air pollutions and making a better environment, the governments publish lots of polices. One of the most important ones is the carbon tax. Under the certain circumstances, the tax cost becomes a big cost in their indirect operation cost.

The competition of high rail is the third challenge. Some regional airline may find that some of their passengers are now travelling by high rail. The high rail provides a similar service with a lower price. And, for some passenger, to travel by high rail is also a new experience.

3.2 Asia/Pacific Region

With the high speed development in some developing countries such as China and India, there becomes more and more business people choose to travel by air. The Asia and Pacific airline are now facing with an increasing in their passengers. "There are more than 30 budget airlines flying in the Asia-Pacific region..." (Trembath, 2005). The competitions between airline companies become even intense. Providing better services or low price, serving regional routes or international flights, airline companies have to facing lots of problem like this. Each of them may lead the company become succeed or failure in the competitions.

The government policy is also very important in affecting the airline industry. Some countries, such as China, do not have an open sky policy, Chinese airline companies may have many problems between the increasing passengers and flights and the limitation of sky routes. Carbon tax, moreover, is also a big problem for many airline companies.

4. Key Factors Affecting Revenue and Costs within the Asia/Pacific Regional Airline Market

There are some key factors affecting revenue and costs within the Asia and Pacific airline market. The first factor is the fuel price. The price of fuel and oil is going up in recent years, airline companies need to spend more budgets on the fuel cost. Also, more heavy the airplane is, the more fuel it costs. Asia and Pacific airline companies book more A380 or B787 in order to meet the requirement of growing number of passengers, the bigger airplane costs more fuel comparing with A320 and B737 fleets.

The other key factor is the human-related cost such as maintenance cost and administration. Employee ant an increasing in their salaries every year and airline companies did this. The increasing in both umbers of employee and salaries becomes a big part of the whole cost.

5. Some Ways in Maximizing Revenues and Reducing Costs by both Full Service Network Carries and Low Cost Carries

There are two ways could be done in maximizing revenues and four ways in reducing costs by both full service network carries and low cost carries.

5.1 Two Ways in Maximizing Revenues

The first way in maximizing revenues is code-sharing. Code-sharing do not cost extra money in investing new routes or maintaining current routes. Airline companies could gain more profits by code-sharing and provide more choices to their customers. The second way is advertising. To raising people's interest in travelling by air is a quick way to increase revenue. An attracting advertisement about either the good service or the amazing destination may let the potential customers decide to book the ticket immediately.

5.2 Four Ways in Reducing Costs

The first way in reducing costs is to cut down the fuel cost. As the fuel price is not stable, big airline companies could buy more fuel when the price is low storing in storage and use it when the fuel price increasing. For small companies, they can buy fuel in bulk so that they could spend less money. Making a better flight plan may also help in saving fuel. The second way is to cut down the advertising costs. By using company's own employee instead of hiring professional actors in TV advertisements and posters will reduce the cost as well as cutting down the TV advertisements from 2 minutes to 1.5 minutes. The third way is to control the human cost. As a company grows up, there are might be more and more staff in different positions. To control the key employee numbers and salaries is a quick and important way in controlling human cost. The fourth way is cooperating with airports. If the airline company have a good relationship with the airport, a discount in landing fee or navigation fee may save lots of money.

6. Conclusion

To sum up, the main difference between full service network and low cost carriers are depend on how the airline company operation their revenue. With the high speed of development and globalization, both of them may have chance to become stronger and gain more profits. There are some challenges coming with the big chance, the airline company have to make a better plan in facing with the competition of high rail or the limitation by the policy. Fuel, taxes and human-related cost are three key factors in affecting the revenue and costs. The study of Singapore airline shows an example of an airline company runs its revenues, profits and costs and how the fuel cost and human-related cost effect on its profit.

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