



EconoMag

The Show that demystifies Economics

Airline Industry - Part 2

The Global Airline Industry: the revenue pillars of aviation ©

by Pierre Vercueil

Welcome back to another edition of Economag on EnglishWaves. As you'll recall our theme at the moment is the airline industry. Last time we looked at a brief history of the industry, including the evolution of long-haul flights and the birth of the jet age. Today we'll consider the different divisions of the industry. Globally, there are hundreds of flights per day – but where is each one going, and why?

Generally speaking, the commercial airline industry can be divided into four different categories. First, the industry is in large comprised of international activity. Planes with typically more than 130 seats have the ability to take passengers just about anywhere in the world. Companies in this category usually have annual revenues in excess of a billion US dollars. Emirates and Singapore Airlines are good examples of such companies. Second, domestic flights, meaning journeys within the geographic borders of a given country, make use of planes that seat around 100-150 people. Many smaller carriers exist that exclusively offer domestic services, however most international carriers also have a large domestic network of destinations. Air France, for example, offers services to many destinations, both international and within France.

Companies that focus on servicing regional destinations form a third category. For example, Ryan Air or EasyJet don't offer long haul or intercontinental services, but offer a regional network of destinations for travellers who prefer the speed of air travel to the longer durations of journeys by rail or car. Last, a significant number of daily flights transport cargo only. This not only provides a significant source of revenue to many carriers that otherwise profit from passenger flights, but also an important means of transporting essential goods in a short space of time. For example, cargo flights can rapidly deliver medicine and food almost anywhere on the planet.

Although airlines earn revenue from transporting cargo, the most significant portion of revenues come from frequent-flyer passengers, usually being business travellers. These travellers are important as they usually travel several times throughout the year, and are more likely to pay for premium services, such as Business Class, on which airlines place a higher profit margin. Holidaymakers seldom pay for premium air travel, and are extremely price sensitive. For example, a businessperson is likely to pay an extra 100 dollars to get to his meeting on time if the price of airline tickets increases. Holidaymakers on the other hand might choose another destination, or decide to travel by train, ship or car if it's cheaper. Similarly, in times of economic uncertainty or turmoil, fewer people choose to spend money

on faraway holidays, whilst the decrease in the number of business travellers will be less pronounced.

In our next episode we'll look at the other side of the coin and consider the cost equation in aviation. These are more variable than the factors influencing revenue, and if not properly observed, can bankrupt even the mightiest airlines overnight. More next time. Stay tuned to Economag on EnglishWaves.