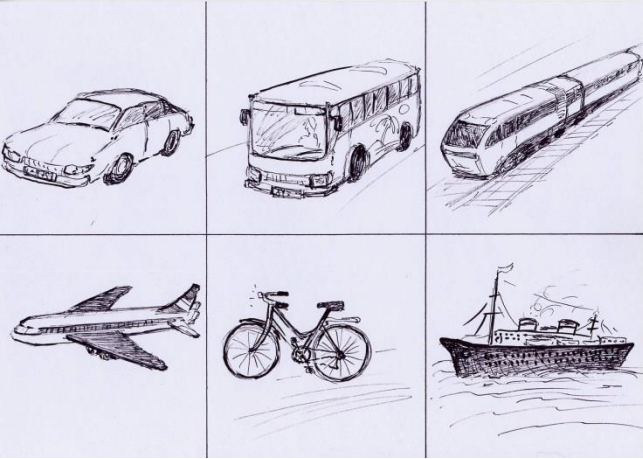




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Strategic Travel and Tourism Management



Air Travel Context

Air Transportation Briefing

- Key part of the tourist system
- 52% of inbound tourism is by air (UNWTO, 2013)

Define 'the aviation industry'

- Aerospace industry
 - Manufacture of aircraft & associated facilities
e.g. airports, air traffic control
- Aviation organisations
 - They make it happen
- Air transportation
 - persons/objects

Framework for air transportation

- Complicated national and international framework of laws, agreements, policies and by-laws
- International code of regulations developed as popularity grew
- International codification of commercial aviation law

Key points

- Each state has sovereign control over its own airspace (Paris agreement 1919)
- Chicago Convention 1944
- Scheduled/unscheduled traffic
- Article 6: scheduled flights may only take place over a country once it has granted a permit by that country
- Local rules/regulations also

- 9 freedoms of the air
- Other bilateral and multi-lateral agreements in place
- Open skies agreement between USA and EU (2008)
- European airlines can fly from any point within the EU to any point within the USA (same for US airlines to EU)

- More destinations for Europeans
- Plus security/safety/environmental issues
- But US domestic market is closed to non-US airlines (same in EU for US airlines)
- Airline ownership restrictions in place for overseas entities

Strategic questions

- Which airlines can fly between countries?
- Which airports can handle international flights?
- How often can they fly?
- Which tariffs are allowed?

European air law

- EU operates air travel rules binding on all member states
- Brexit debate is causing this to be reassessed

Key body

International Air Transport Association (IATA)

- Air transport industry's global trade association
- Founded in Cuba in 1945
- Today 240 members from 126 countries
- Sets clearly defined rules for travel

Plus many more

Demand for air travel

Long term increasing trend in passengers taking international flights

= 62% of all international transport by volume
(DLR, 2012)

Largest flows = US/European transatlantic routes

Then Europe to Far East

Then Middle to Far East

Europe (2011 data)

821.6 million passengers in the EU 27 states
(up 5.8% on 2010)

3 main elements:

- Domestic flights (20% of volume)
- Transnational intra-European (43%)
- Transnational extra-European (37%)

By country

UK (202 million)

Germany (177m)

Spain (166m)

France (133m)

Italy (118m)

Busiest route: UK to Spain (31m)

The US is different

- 90% of all air travel there is domestic
639.4 million passenger journeys

Forecast

- 6 billion passenger journeys per year by 2030

Supply

- The number of airlines operating worldwide?
- 1600 globally active
- 20,300 aircraft

(Harz University, Germany & Boeing)

Types of airline: Network Carrier

- Full service/flag carrier
- BA/Quantas/Air France-KLM etc
- Originally state owned (some still are)
- Global operator: short/medium/long haul
- Strategic alliances with others for coverage
- Hub and spoke (e.g. Heathrow, Amsterdam)
- Mixed fleet of aircraft (for range/flexibility)
- Differentiated product/service (levels of service)
- Direct and indirect sales distribution
- Frequent flyer programmes
- Sophisticated yield management systems

Activity: British Airways

- Identify BA's ownership structure
- Where are its main hubs?
- How does it differentiate itself?
- Number of destinations?
- Fleet consists of?

Types of airline: Leisure Carrier

- charter/tourist/holiday airline
- Were exclusively package holidays only
- Now more like scheduled carriers
- Tour operator dependent
- Mainly one class of cabin (some have two)
- Mainly same continent tourist destinations
- Fleet small/medium planes mainly
- High load factor (set durations)
- Tour operator and direct sales

Types of airline: **Low-Cost Carrier**

- discount/budget airlines
- Use cost-reduction strategies (such as?)
- Smaller airports, more seats, charge for extras
e.g. easyjet, flybe, ryanair
- Major expansion since 1990s driven increased demand for air travel
- Mainly direct distribution via internet
- Lean operations; basic employment T&Cs
- Competition with network carrier routes
- Cost advantage of 60% in comparison

Types of airline: **Regional Carrier**

- commuter/feeder airlines
- Connect hubs to outer locations
- 19-120 seat planes, often propellor
- Medium/small (and some large airports)
- Business traveller appeal
- Higher costs > higher prices

Types of airline: **Business/charters**

- Private planes/jets
- Time saving for customer

<https://www.netjets.com/en-gb/access>

Strategic Alliances

- Star Alliance / One World / Sky Team
- Co-operation to achieve competitive synergies
- Horizontal (same product/market)
- Vertical (link with other companies in L&T sector e.g. hotels, car hire, tour operators)
- Diagonal (link with companies in other industries e.g. credit card providers)

<https://youtu.be/p8fBgM-gl3g>

Code sharing

- Example of horizontal integration
- Two airlines market the same flights under their own codes to expand route network

Strategic alliance benefits

- Marketing benefits of large scale & scope
- Cost reductions and synergies
- Reduced competition
- Bypassing regulatory barriers

(Doganis, 2006)

Specialty air transportation

- Ballooning
- Airships
- Helicopters
- Gliding
- Space tourism

Activity: Strategic Planning

- Consider the strategic challenges of dealing with the expansion of air travel now and in the future
- What methods are available to planners/regulators to attempt to manage these?

The Airport/Airline Relationship

- Symbiotic relationship/mutual dependency
- Why do airports depend on airlines?
 - Without them, no passengers/freight
 - No means of realising their market potential
- Why do airlines need airports?
 - For safe and secure facilities for their passengers and planes
 - At a convenient location
 - At the required time
 - At the right price

A highly competitive relationship

- Both aim to enhance customer satisfaction & the passenger experience
- Different commercial objectives & priorities not always aligned
- Airports = optimise use of their assets and maximise revenues from airlines/passengers
- Airlines – highly mobile so can relocate elsewhere for better financial terms/charges (NB low cost carriers)

How does the relationship differ?

- Depends on the following contexts:
 - Geographic
 - Political
 - Commercial

Different ownership patterns/local competition can also skew this

Main factors

- The extent of privatisation & commercialisation of individual airports & airlines
- Relative strengths, scale and market power of individual airports/airlines
- The deregulation of airline routes, growing passenger demand and growth forecasts
- New airline business models with more focus on cost and service

Airport charges

- The fees levied on airline operators by the airport.
- They include landing fees and passenger handling charges

Privatisation

- The full or part change of ownership from the public to the private sector

Commercialisation

- The imposition of commercial objectives on an organisation.
- Can occur under public or private ownership

In the past.....

- The state owned airports and operated airlines so the relationship was close and worked in joint interests

e.g. BA and the BAA

- Meant policy developed to support the national airline
- However deregulation dissolved this in the 1990s creating a newly competitive environment for custom/new business

Traditional relationship



Today

Airport

- Property services
- Retail concessions
- Parking revenues

Airlines

Passengers

Airports are big business

- Commercialised themselves
- Developed their land
- Hotels/logistics/freight companies
- Retail
- Car parking
- Airlines

Management must manage these diverse income streams

Airport perspectives on relationship with airlines

- Balance between commercial revenue gain and keeping customers satisfied
- Does the airport view the airline as:
 - A resource (provides passengers & revenue)
 - An opportunity (to grow the business)
 - A consumer (of the airport product)
 - A service provider (to passengers)
 - A problem/liability (social/environmental impacts or market position/dominance)

Needs to be managed

How does the airport do this?

- By understanding its market, passenger catchment area and promotion of the facility to passengers
- By showing flexibility in meeting the needs of different airline users
- Joint working to develop new routes e.g. marketing
- Define transparent airline user charges
- Benefit all airline users equally
- Liaise/consult/inform of changes
- Invest in new facilities/infrastructure in line with passenger mix/growth forecasts
- Respond to changing market conditions/passenger needs
- Keep existing customers satisfied whilst seeking more
- Work with regulators/government agencies/partners/communities to promote inward investment, job creation and economic benefits

Challenges facing airports

- High fixed costs mean a lack of flexibility
- Tension between existing customers and new entrants
- Meeting diverse airline needs
- Supporting new route development
- Competition from neighbouring airports trying to poach business
- Vulnerable to economic shocks affecting demand
- Changing government policy re airport ownership/operations/route competition/security directives

- Slot congestion at major hubs (e.g. LHR)
- Barrier to entry to new carriers generally developed at secondary airports
- Dependent on small number of large carriers

Gatwick Airport

- <https://www.bbc.co.uk/news/uk-england-sussex-44468175>

Home base

- Different relationship
- Airline's HQ and centre of operations
- Major user of airport capacity
- BA – Heathrow
- Easyjet – Luton

Social/political impacts

- Will shape market access/volatility
- Subsidies to routes e.g. Cardiff – Anglesey
- Public Service Obligation routes providing community ‘lifelines’
- Externalities – effects created by airport/airline operations
- Noise pollution/wake vortices/jet fuel odour/surface access congestion
- Makes expansion problematic e.g. LHR – T5 took 15 years to open from planning approval

Airline perspectives re airports

- Do full service airlines and low cost carriers want the same things from airports?
- Full service – high level of passenger facilities
- Low cost – pay for what they use only – quick turnaround, short taxi times, low fees, basic facilities

Key points

- Airport-airline relationship is complex, dynamic, competitive and co-dependent
- Airlines were the airport's main customer, but now one of many diverse groups
- Deregulation has created a competitive business relationship
- Airports are now seeking wider commercial opportunities
- Each relationship is unique and depends on local context
- Wider factors such as market power, the regulatory environment, alliances, low cost airlines, etc
- Needs managing
- Not all relationships will survive longer term

