



Airlines' business

Key challenges and opportunities

November 2018

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Objective

- To raise awareness of key economic, political, revenue and cost trends in today's industry environment
- To identify the key challenges and opportunities facing the industry





Industry characteristics

- There are a very large number of airlines, although about half of global activity is accounted for by the largest 12
- There is an overall lack of profitability combined with large capital requirements (airlines need \$50-70 billion each year to pay for new 100-plus seat passenger aircraft, not including regional jets, or a requirement of \$3-6bn per year for freighters)
- Cash generation does not meet capital needs, the industry has large debts and therefore faces currency and interest rate risks
- Demand is cyclical due to the cyclic nature of the world economy – and very vulnerable to special events and disruption
- Profits are highly geared to load factor and therefore are unstable





Industry economics

- Perishable
- Fixed costs high
- Barriers to entry low
- Competitive advantages hard to defend
- Aircraft are a platform to serve many markets
- Economies of scale in aircraft size but business travelers want frequency and flexibility
- Few scale economies in fleet size but economies of density in networks

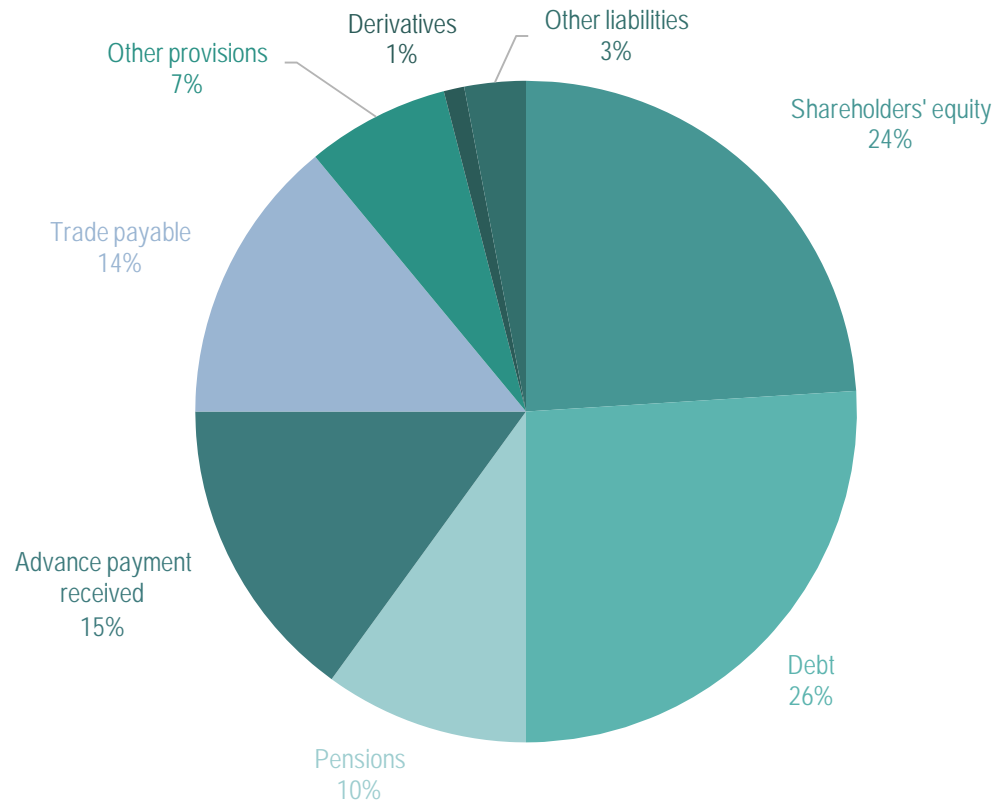
OUTCOME:

- Prices pushed down towards variable costs,
- But ways need to be found to cover fixed costs:
 - Differential pricing, sequential use of coupons, non-refundable tickets....and now ancillaries





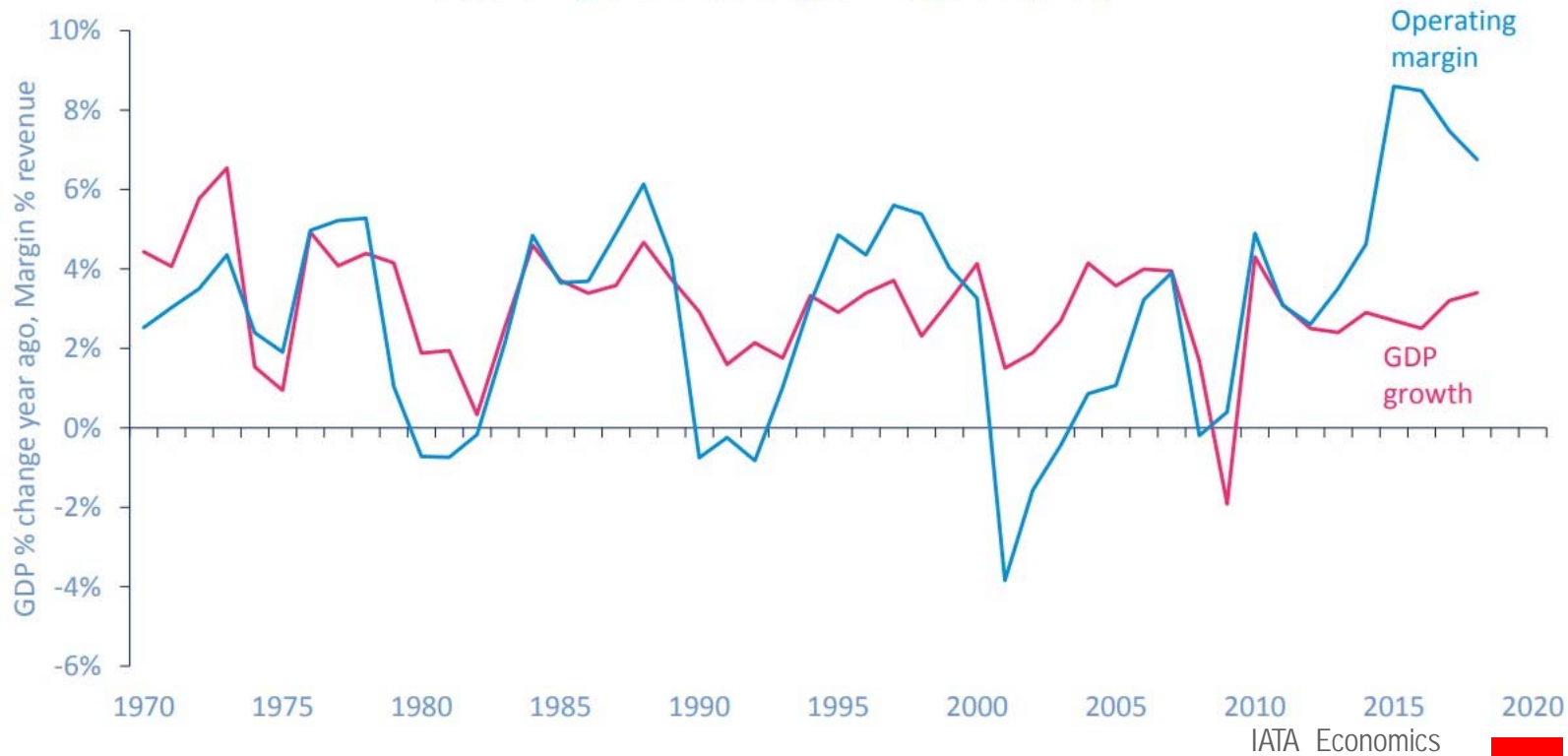
Airlines' financial obligations (example)





Airlines financial performance

Global GDP growth and average airline operating margin



IATA Economics



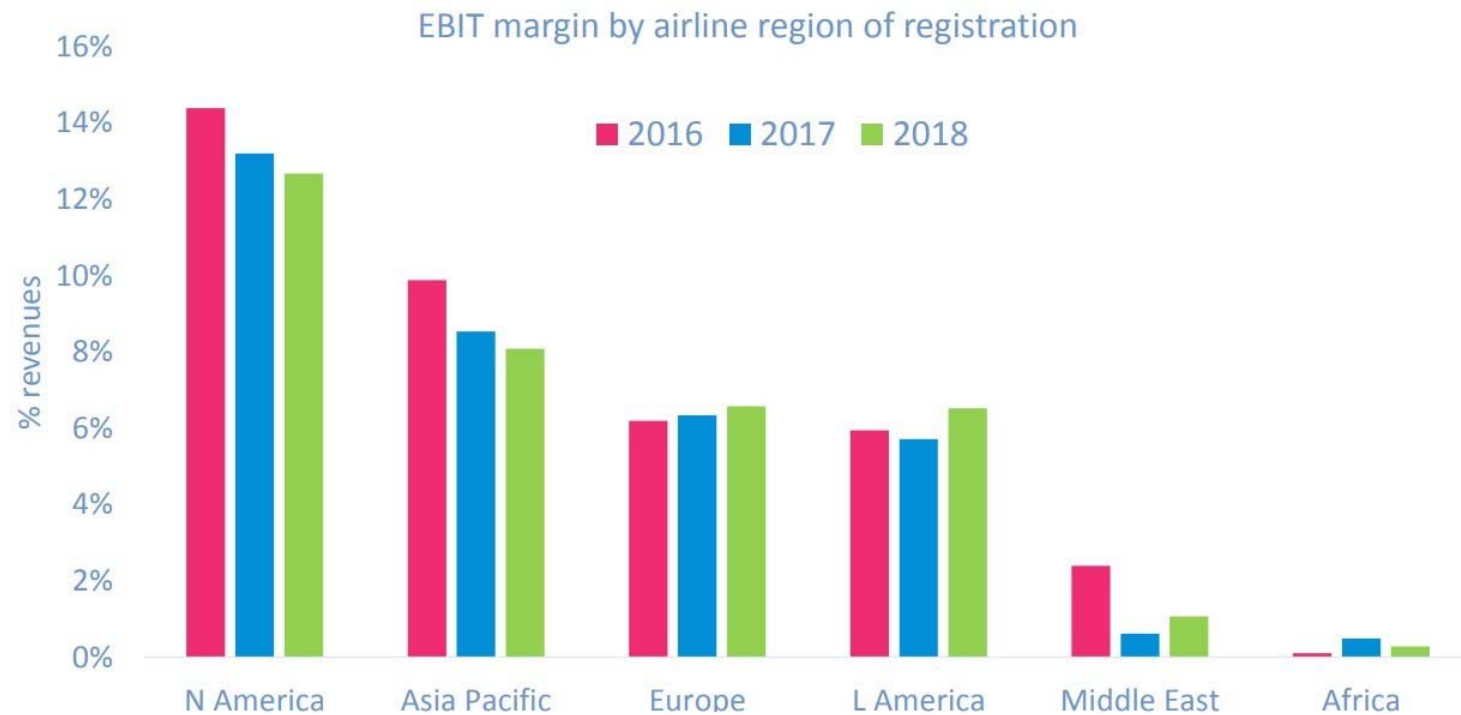


Airline results per departing passenger (example)





EBIT margin by airline region of registration



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Factors affecting aviation sustainability (in your hands)





How can we be sustainable?





Improvements...



Costs and reporting improvements...

...by Hendrik Stansch in few minutes

Operational improvements...

- A change to the way aircraft operate
 - On the airport surface
 - In the air
- That improves
 - Flight efficiency
 - On time performance
 - Etc.





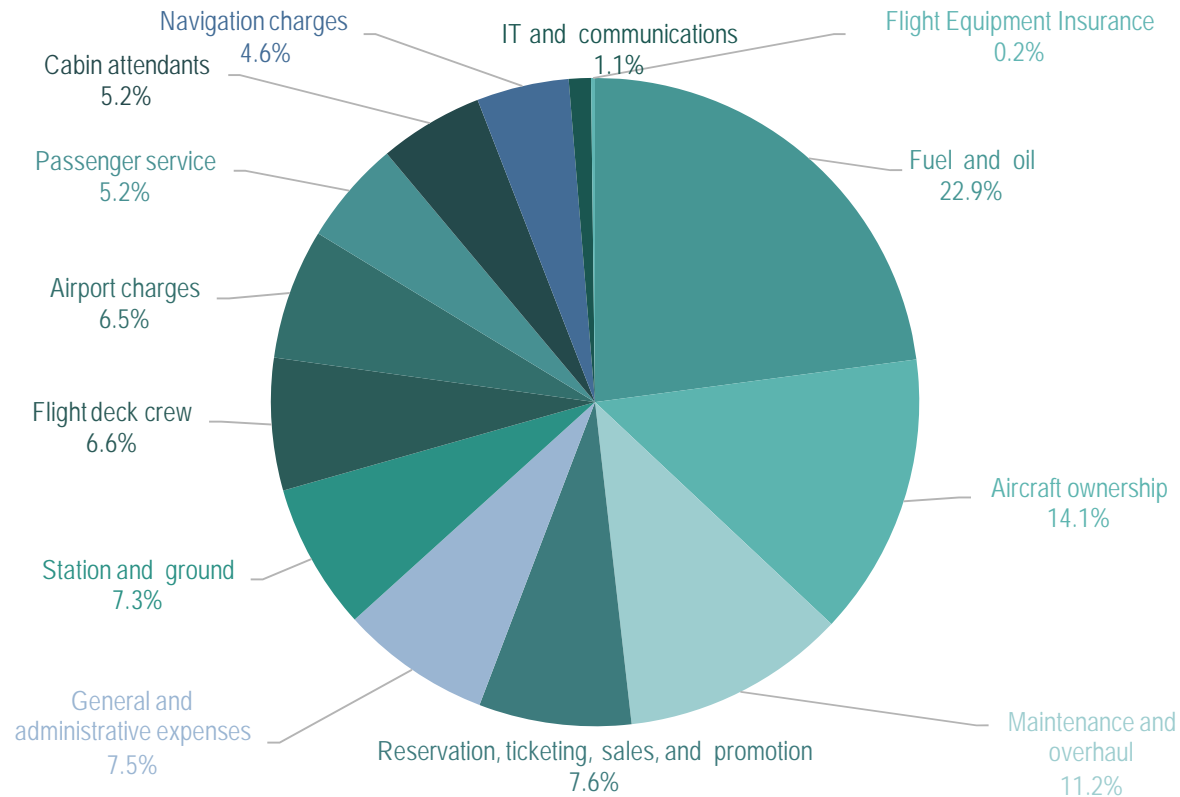
Operational improvements: airlines' needs

- Minimum Cost
- Predictability for Network Operation:
 - aircraft
 - cabin crew
 - air crew
 - passengers
 - cargo
- System level Efficiency



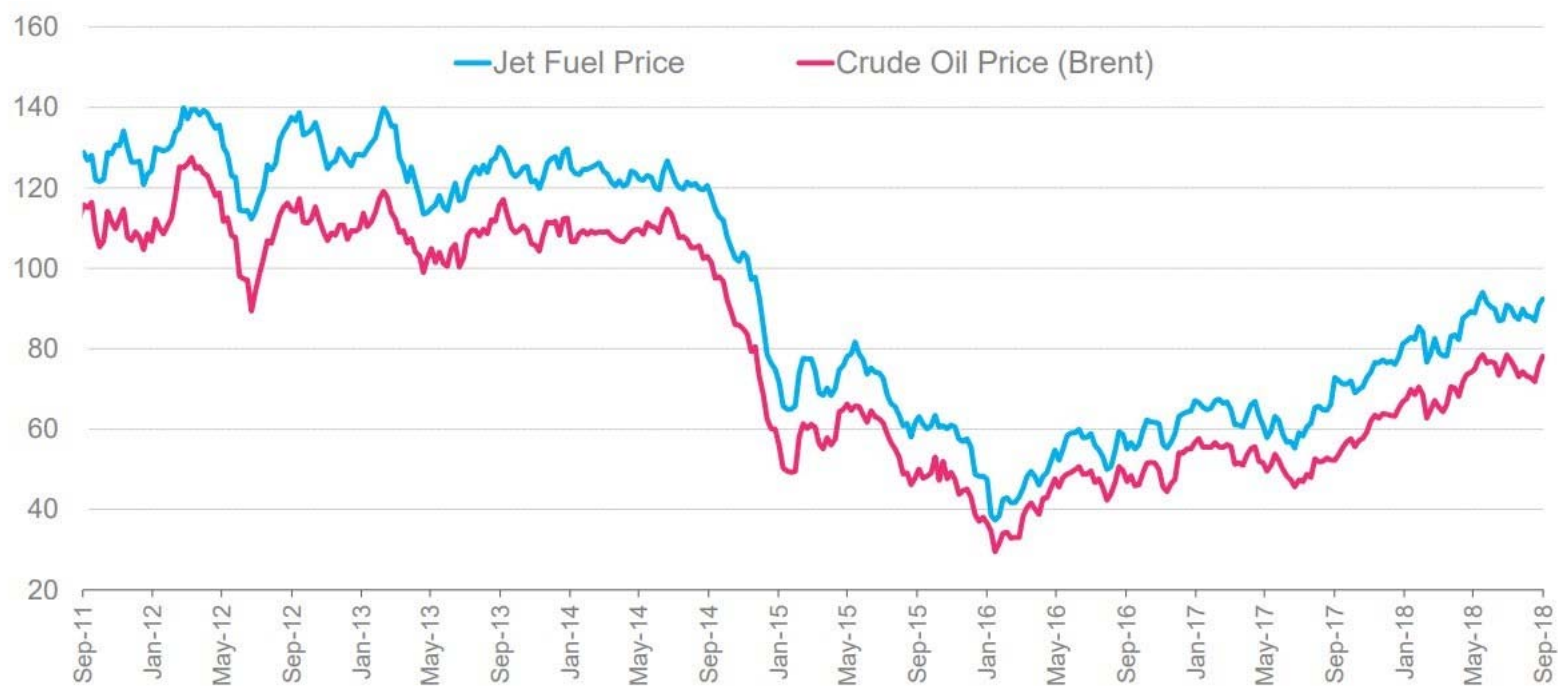


Airlines' costs structure (example)





Jet fuel and crude oil price (\$/barrel)



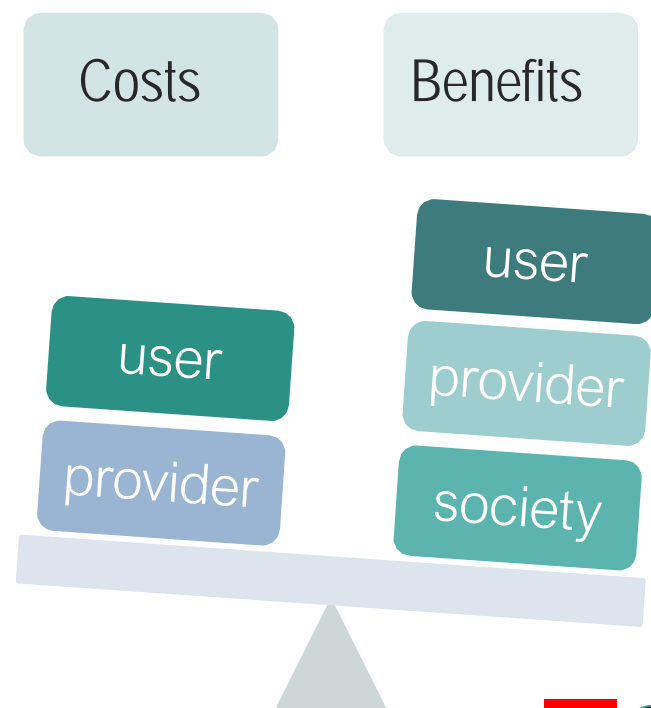
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Operational improvements...

- Your benefits must equal or outweigh their costs
- If not, the solution should not be implemented



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ASBUs – Enablers to Operational Improvement

- ASBUs are the menu of enablers for operational improvements
- Modern ATM Concepts are focused on Performance
 - Surveillance
 - Communications
 - NAVIGATION (PBN)
- The PBN Manual (9613) contains excellent methodology that can be applied in several situations

- Airlines do not need or want you to implement ASBUs unless the results
 - have achievable operational benefits
 - that deliver tangible cost offsets





Enablers to Operational Improvement - examples

- Collaborative Decision Making (CDM)
 - There is a direct operational need to ensure all stakeholders are involved early and often
 - Those that need to be involved is not limited to the airport , or the local tower, but the scope needs to include the responsible ACC, as well as downrange ACCs, weather personnel, and of course, the airlines.
 - The ideal situation involves ATC, the airport, and the airlines receiving updated information on the conditions at the airport and the surrounding airspace.
 - In this way, there is an agreed plan of action!
- Performance-based Navigation (PBN)
- Air Traffic Flow Management (ATFM)
- Airport CDM (A-CDM)





The Ideal World:

ALL stakeholders working together

- Governments
- ICAO
- Airports
- IATA Airlines
- Trade Unions





CURIOSITY

DRIVES EVERYTHING WE DO

Joint ACAO/IATA/ICAO Airports and Air Navigation Charges Workshop (Rabat, Morocco, 27/28 November 2018)





Thank you

It was great talking to you



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