CASE STUDY

The airline industry is characterized by low returns and stiff competition. In the early years after deregulation, discount carriers like PeopleExpress Airlines sprang up. Years later the discounters have gone out of business. In a price competitive industry, why is it that the higher cost carriers PeopleExpress Airlines were able to survive and the low cost ones like PeopleExpress Airlines were not?

SOLUTION

REVENUE

Analyze -

- Ticket Sales
- Ancillary Services (Baggage fees, seat selection, etc.)
- Frequent Flyer Programs
- Cargo Services
- In-flight Sales (Food, beverages, duty-free items)
- Charter Services
- Interline and Codeshare Agreements
- Maintenance, Repair, and Overhaul (MRO) Services
- Aircraft Leasing and Financing
- Airport Lounge Memberships
- Travel Insurance
- Airline Credit Cards and Loyalty Programs
- Advertising and Sponsorships
- Airline Training and Simulator Services
- Aircraft Sales and Leasing (Aircraft sales to other airlines or leasing to third parties)
- Ground Handling Services
- Airline Alliances and Joint Ventures
- In-flight Entertainment (Paid movies, Wi-Fi access, etc.)
- Airline Catering Services
- Aircraft Overflight and Landing Fees (Paid to foreign governments for using their airspace and airports)

COST

Analyze -

Operating Costs:
- Fuel Costs
- Labor Costs
- Maintenance Costs
- Ground Handling Costs

- Catering Costs

Aircraft Related Costs:
- Aircraft Acquisition Costs
- Leasing Costs
- Depreciation Costs
- Insurance Costs

Infrastructure Costs:
- Airport Fees
- Hangar Costs
- Air Traffic Control Charges

Marketing and Sales Costs:
- Advertising Costs
- Sales Commissions
- Promotional Costs

Administrative Costs:
- Management Salaries
- Office Rent and Utilities
- IT Infrastructure Costs

Regulatory Compliance Costs:
- Security Compliance Costs
- Safety Compliance Costs
- Regulatory Fees and Fines

Customer Service Costs:
- Call Center Costs
- Customer Compensation Costs
- Loyalty Program Costs

Training Costs:
- Pilot Training Costs
- Cabin Crew Training Costs
- Maintenance Staff Training Costs

Debt Servicing Costs:
- Interest Payments
- Loan Repayments

Miscellaneous Costs:
- In-flight Entertainment Costs
- In-flight Meal Costs
- Unforeseen Costs (Contingency)

HYPOTHESES

Growth of revenue was at a slower pace as compared to the cost and hence, the profit margins shrank.

Sources of revenue in low cost airlines might have been very limited.

Low cost airlines attract people who are willing to spend less and hence, their overall revenue is less. On the other hand, the high cost carriers will attract people who **spend well on their comfort** and hence, their revenue kept surging and their profits helped them survive.

High cost carriers managed to **reduce the cost** by optimizing its count of flights and routes. On the other hand, low cost carriers had high demand and failed to optimize their operations w.r.t. Count of flights and route.

Higher-cost carriers may have **differentiated themselves** by offering premium services, more comfortable amenities, and superior customer experiences, attracting passengers willing to pay higher prices.

Higher-cost carriers might have established a **broader and more extensive route network, connecting major cities and international destinations**, which allowed them to capture a larger customer base and maintain profitability.

Higher-cost carriers may have **targeted business travelers or premium market segments**, who are less price-sensitive and value other aspects such as schedule flexibility and frequent flyer benefits.

Higher-cost carriers might have **achieved economies of scale by operating larger fleets**, which could result in lower per-unit costs, making them more resilient to price pressures.

Higher-cost carriers may have **had more significant financial reserves, better access to capital, or stronger financial backing**, allowing them to weather downturns and economic challenges better.

Higher-cost carriers may have **already established a significant market share** and built brand loyalty over the years, making it challenging for low-cost carriers to compete and gain a foothold in the industry.

Higher-cost carriers may have **implemented effective cost management strategies**, such as optimizing operational efficiency and negotiating favorable contracts, to offset their higher costs.

Low-cost carriers might have **engaged in aggressive pricing strategies, leading to fare wars and unsustainable pricing**, while higher-cost carriers strategically adjusted their pricing to remain competitive yet profitable.

External factors such as changes in fuel prices, economic conditions, and regulatory constraints might have disproportionately affected low-cost carriers, leading to their exit from the market.

Differences in management practices, leadership decisions, and long-term planning could have played a role in the divergent outcomes of high-cost and low-cost carriers.