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B y STEPHE N WHEATCROF T

"There are very good economic arguments for pricing policies based on promotional fares below average costs. But when a very large percentage of total traffic moves at such fares we obviously face serious financial trouble. The other part of our pricing problem is that the competitive charter price levels that we are struggling to match are uneconomical^ low. The essential problem of the industry is quite bizarre. The scheduled airlines are unable to

increase fares to an economic level because of the prices charged by their charter competitors, but the charter operators are themselves complaining that they will be unable to survive at the present price levels." This is Mr Wheatcroft's analysis of the North Atlantic situation. Here the group planning director of British Airways outlines the current economic problems in airline operations, leaving aside the critical oil situation.

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F THE FOUR MAJOR OBJECTIVES which British Airways
has set itself, the financial objective is the most important and the most difficult. Its difficulty is well illustrated by the extent to which the airline industry in recent years has fallen short of British Airways' target rate of return of 10 per cent in real terms on net assets employed. The average rate of return for international airlines over the past ten years has been only 5 per cent and this, particularly when translated into real terms, obviously falls far short of our target.

For an airline planner the economic results and pros-pects of the industry can be encapsulated in seven indicators:
1) Unit operating costs per available tonne-km
2) Revenue yields per revenue tonne-km
3) Load factor
4) Revenue yield per available tonne-km
5) Unit surplus per available tonne-km (or revenue/ expenditure ratio
6) Revenue/capital ratio
7) Return on capital employed
The trends of the first five of these indicators over the past ten years present a sad picture. The first six years of the past decade show a marked reduction in operating costs and an increase in the operating margin. By 1966 the revenue/expenditure ratio had risen to its peak level of 110, but from that year onwards the financial results of the industry deteriorated to produce barely a break-even position in 1971.
Between 1962 and 1967 the airlines benefited greatly from the lower operating costs of the newly-introduced big jets. The direct operating costs of airline operations fell by 30 per cent from 1962 to 1967, and this was almost entirely due to the lower per-seat costs of Boeing 707s and DC-8s. Indirect operating costs—the costs of ground activities, sales and administration—remained fairly con-stant. It was the big jets which produced the lower costs. And so, although average fare levels were substantially reduced, airline operating profits improved markedly up to 1967. By this time the cost-reducing effects of jet opera-tions had begun to wear off and, under the pressure of rising wages and other "input" prices, operating costs

began to take an upward swing. But fares and rates could not be increased to keep pace with the upward trend of operating costs. A major reason for this was the emer-gence of formidable competition to scheduled-airline operations from charter operators. The low prices charged by these competitive airlines made it impossible for the scheduled carriers to increase their fares; on the con-trary, they felt obliged to offer a large variety of low fares designed to compete with charter prices. This, com-bined with the inability of the scheduled airlines to in-crease their load factors, led to the deterioration of finan-cial results.

The most extraordinary thing about the airline business is that we seem to experience our financial crises in growth circumstances which most other industries would regard as a gigantic boom. The average rate of growth of international passenger traffic has been 15 per cent a year over the past decade.
Two other important features of traffic development in the past ten years are the increasing average size of air-

Heading, large aircraft reduce operating costs but there is less to be squeezed out of possible larger airliners in the future than has been the
case in the last ten years. Below, between 1962 and 1967 the airlines benefited greatly from the lower operating costs of the newly introduced
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