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AIR TRANSPORT

Domestic fares - British Airways thinks again O

N July 1 British Airways applied for a 25 per cent
fare increase on the domestic trunk routes from
London to Glasgow, Belfast and Edinburgh. At the
beginning of October it asked the British Civil Aviation
Authority for permission to reduce this increase to 12 per cent. It had found that the rules and assumptions of its original application were no longer valid.
Roy Watts, the European Division's chief executive, sums up the airlines thinking: ""Our first, almost in-stinctive reaction when we were confronted earlier this year with the need to recalculate the cost of operating our domestic trunk services in this coming winter was to raise fares to keep up with the general inflationary trend."

This had been done earlier in the year when the domestic carriers had applied for and obtained a 20 per cent fare increase which took effect at the beginning of March. On the face of it, such a move was sound business practice. Costs increase so it becomes necessary to increase revenue to match them. Traffic may be driven away in the short term but it picks up as the general background inflation continues to bite. This philosophy had worked in the past and there was no reason, it seemed, why it should not work again.

Traffic lost

But it did not. British Airways had calculated that the 20 per cent mark-up introduced in March would result in a traffic drop of the order of 3-4 per cent. By the time it came to preparing figures to support the 25 per cent ap-plication, traffic and revenue figures for the summer had started to reveal a disturbing trend. It was becoming evident that for every one per cent fares were increased over the general rate of inflation (calculated by the airline at around 11-12 per cent between March and November, when the second round of increases was due to take effect), British Airways was losing around 1-5 per cent of its traffic. The total shortfall was there-fore, of the order of 12 per cent. If this formula was applied to the 25 per cent increase proposal it indicated that traffic would decline by a further 17 per cent and that revenue would increase by only some four per cent.

British Airways does not think that it has under-estimated the elasticity of demand for domestic air transport, but maintains that until the effect of the March rises was felt it did not have sufficient data to calculate such an elasticity. Says Charles Stuart, Euro-pean Division marketing director: " Past experience had suggested that price increases, which were usually less than the rate of inflation, had an effect on traffic propor-tionately less than the increase itself and that any effect was short term." Recent studies have suggested to British Airways that large fare increases have a similar relative effect as large fare reductions (an area which has been reasonably well explored for some time). Elasticities are therefore much the same. These calculations take account of the proportion of leisure travellers who use the dom-estic trunks. They have, thinks British Airways, a demand elasticity of minus two: this means that a one per cent increase in ticket price costs the airline two per cent of its traffic.

If the time-honoured solution of increasing fares to cover costs no longer works, what courses are available to British Airways if the domestics are not to wither and die? One is to throw the existing economic and marketing rules out of the window. This has been decided upon for the London-Glasgow route, with the result that on January 12 a Trident 1 shuttle service between the two cities is due to start. Much has been made in the press of Eastern Airlines' shuttle operations and British Air-ways is the first to admit the debt it owes to the American

carrier. But there are important differences between the two operations. The Eastern shuttle charges prices which are higher than the normal economy fare while the British Airways service will operate at the normal fare. The Eastern shuttle was inaugurated at a time when the American economy was expanding, but the British econ-omy is currently stagnant. The Eastern shuttle does meet competition from other modes of transport, but nothing like so fierce as the rivalry British Airways' operation will face. Most important, perhaps, the United States is a country which believes in air travel; it is accepted as part of life and as a perfectly normal way to get from A to B by all sections of the community. In Britain this is not yet so.

In going for shuttle services on London-Glasgow British Airways has had to recast the entire route-cost structure. It can do away with some ticketing costs, all reservation costs and a proportion of passenger-handling costs. It allows more intensive use to be made of the partially amortised Trident 1 fleet. It should also generate higher load factors and there is unlikely to be such a high proportion of passengers travelling at concessionary rates. The proportion of costs which will be allocated to flight-deck and cabin-crew salaries will be higher than on "normal" routes and the service will have to carry a higher proportion of the airline's aircraft depreciation burden. These extra costs will accrue directly from the need to have back-up aircraft positioned at both ends of the route. While it might be possible to use smaller aircraft as back-ups there appear to be none which are available within British Airways. In any event, Charles Stuart told Flight last week, "most back-up air-craft will tend to carry at least 30 passengers." HS.125s carrying the occasional stray passengers are, it would seem, out. One of the most expensive aspects of pro-viding back-up aircraft is that even if there is a need for a second section only at one end of the route, the back-up aeroplane at the other end will have to "cross over" in order to enable the second- or third-section capacity to be kept in balance.

Cutting classical overheads
London-Belfast and London-Edinburgh are already ear-marked for shuttle services "as soon as it proves itself on London-Glasgow," but for the present the only measures that can be taken to improve results on the two routes are with-in the traditional cost structure. Fixed costs cannot be reduced in the short term. The standard of cabin service, says Stuart, will not be reduced. "We regard cabin ser-vice costs as fixed; they're schedule-related and we won't trim them." Talks are under way between British Air-ways management and staff in order to determine in which "classical" overhead and indirect-cost areas pro-ductivity can be improved. "If we can't increase our revenues as a means of solving our problems," says Stuart, "we're going to have to increase our productivity —to become more efficient." The suspension by British Caledonian of services on London-Belfast will enable British Airways to boost its load factors by a few critical points but "that's not the real answer. It doesn't solve our basic problems."
At the beginning of the decade BEA was adding staff
at the rate of around 1,000 a year. For the last two or three years numbers have remained more-or-less constant and are now beginning to decline. It may be possible for an airline's management to trim costs in some areas and save money in others but it is difficult for it to increase its efficiency markedly if its market is static or declining. Now that the European Division is becoming a little leaner it may find its ability to deal with new problems will increase out of all proportion. C.H-S.