EDITORIAL

What will 2009 be like?

Journal of Revenue and Pricing Management (2008) 7, 313–314. doi:10.1057/rpm.2008.42

The year 2008 was not such a good year for international aviation some would say! Wherever you go or whoever you talk to, it seems the world is about to end, consumer confidence is at its lowest point, the US government has had to bail out the banking and financial services industry, oil prices are at a record high, house prices are falling and the world is in a recession (or depression according to some doomsters). Oil prices now account for 40 per cent of all airline costs and with prices peaking at \$140 a barrel, it is uneconomic for airlines to be in the air. According to the latest IATA forecasts, passenger revenues for 2008 are forecasted to be \$520bn compared to \$485bn in 2007; however, the global airline industry will lose \$5bn in 2008 with yields adjusted for inflation falling by 3.2 per cent. Much of this loss is attributed to United States, with the country accounting for 80 per cent world's losses.

Many of the uncontrollable forces shaping the airline industry at present include the weak US\$, capital costs of buying new aircraft and fuel prices. Whereas the decisions Revenue Managers focus on are internal costs, yield, market size, market profile, route length and competition. Traditionally, Revenue Management models have worked when variable costs were 'known', 'predictable' and 'manageable'. In such a scenario, the relationship between variable and fixed costs was usually 50:50. With oil prices reaching \$140 and now accounting for 40 per cent of all costs, the relationship between variable and fixed costs has shifted to 60:40 therefore, making it cost

effective for airlines to ground aircraft rather than seeking extra revenue from increasing load factors through reducing prices. This is more 'true' when flying older aircraft, as these aircraft are not as fuel efficient as more modern ones. The present credit crunch makes this situation even more difficult for airlines to operate and purchase new planes. All of the US carriers are now caught in a spiral of rising costs and falling yields.

SO, WHAT ARE THE PREDICTIONS FOR 2009?

- The situation for 2009 is predicted not to be much better. Globally, optimistic forecasts suggest revenues of \$557bn and losses of \$4bn. Pessimistically, forecasts suggest revenues of \$415bn and losses of \$49bn; therefore, as the economic downturn continues it can only get worse for the aviation industry.
- We will see capacity reduced further where routes are based upon leisure rather than business traffic, as lower yielding routes are withdrawn.
- Countries or regions with small population centres or at the end of route will see further capacity reductions based upon the high costs per passenger and higher prices.
- The low cost carrier will be no more as consolidation and merger between airlines increases.
- Aircraft manufacturers will focus more on larger fuel-efficient aircraft rather than smaller jets.

- European and Middle Eastern Airlines will drive growth and profitability across the world. As a result of airlines losses in the United States and the federal government being unable to offer further financial support, foreign ownership of US carriers will occur.
- Revenue Management models will adjust to account for load and cost factors as a new order emerges in the aviation industry.

Ian Yeoman
Editor