



LEARNING OUTCOME 3

Evaluate the key issues and challenges of safety management that affect airline operations

P5:

CONDUCT A PESTLE ANALYSIS OF THE MACRO ENVIRONMENT TO ASSESS THE KEY ISSUES, THREATS AND CHALLENGES THAT FACE THE COMMERCIAL AVIATION INDUSTRY

LEARNING OUTCOME 3. COURSE CONTENT

Issues and challenges:

- ❑ The importance of awareness and continual monitoring of environmental, economic and political threats.
- ❑ The relevant international and national regulations for airline and passenger safety management
- ❑ Conflicts of interest between commercial business objectives and operational constraints

Crisis management:

- ❑ Contingency planning for aircraft emergency and emergency procedures
- ❑ Emergency plans and the co-ordination of emergency services

Air broker/Private Charter operations:

- ❑ The value of an air broker in securing an alternative supply of aircraft
- ❑ The importance of client relationship management and business development in securing a repeat customer base
- ❑ • B2B versus B2C operations

PESTLE ANALYSIS; WHAT IS

PESTLE analysis, which is sometimes referred as PEST analysis, is a concept in marketing principles.

Moreover, this concept is used as a tool by companies to track the environment they're operating in or are planning to launch a new project/product/service etc.

- **P**olitical
- **E**conomic
- **S**ocial
- **T**echnological
- **L**egal
- **E**nvironmental

(Pestanalysis.com, 2017)

PESTLE ANALYSIS; IMPORTANCE

What the PEST analysis is intended to do is give decision-makers an understanding of changes that may be occurring within a given market. These can influence marketing and relationships that a company has worked hard to develop. Knowing ahead of time that a change may be occurring will help in making better business decisions.

(Brighton, 2018)

PESTLE ANALYSIS; IMPORTANCE

The PEST analysis is concerned with the outside environment. Within each criterion are some elements such as the law, physical environment, and perhaps even the mores and ethics of the population.

It can also help make the decision whether a country or region holds any potential for profitable business. Any market has the potential for good or bad, and the analysis helps weigh things in a very objective balance.

(Brighton, 2018)

PESTLE ANALYSIS IN THE INDUSTRY

Comparable to other industries and sectors, the airline industry is impacted by changes in its external environment. The air transport sector is positively and negatively influenced by political, economic, social, technological, environmental, and legal factors.

The airline industry has contributed to the globalization of the world economy. It connects buyers and sellers. It also transports goods across nations. It breaks the barrier of distance and time.

(Brighton, 2018)

The company we will investigate is:
BRITISH AIRWAYS



Economy

- *Economic cycles*
- *Fuel price*
- *Interest rates*
- *Private saving*

Natural Environment

- *Morphology*
- *Climate*
- *Finite planetary resources*
- *Natural phenomena*

Technology

- *Aircrafts innovation*
- *Internet innovation*
- *New materials*
- *The role of universities*

THE INDUSTRY ENVIRONMENT

- *Suppliers*
- *Competitors*
- *Customers*

Social forces

- *Age class & salary*
- *Geographical distribution*
- *Different life styles*
- *Willingness to buy*

Political forces

- *Level of regulation*
- *Air pollution laws*
- *Antitrust laws*

Legal forces

- *Tax policies*
- *Labor unions*
- *Lawsuits*

POLITICAL

The airline industry operates in a highly regulated political environment where passengers are favored over the airlines.

This is due to the fact that passenger safety is paramount, and the political establishment have been made weary of the airlines and resorted towards strict regulations for their operations, due to their earlier inclinations towards monopolistic behavior.

(Pestanalysis.com, 2014)

POLITICAL

The government regulations address concerns like safety, passenger security, and several other issues. In US, the deregulation took place in 1978 which reduced the restrictions.

With it, the popularity of air travel rose, boosting revenue. Deregulation eliminated the regulations related to prices and entry into domestic markets.

(Pestanalysis.com, 2014)

POLITICAL

Air transport provides several important benefits both socially and economically. As such, a large number of governments have focused on generating value by partnering with the airlines companies.

(Pestanalysis.com, 2017)

POLITICAL

In Europe, air transport is regulated thanks to a series of EC Regulations. With the creation of a single aviation market within the European Union a European Civil Aviation handbook has been developed.

It is composed by the EC 64 Regulations; thus it is divided into 3 parts:

- I) Regulations and Directives
- II) Decisions and Case Law
- III) International Agreements.

(Rizzetto, 2017)

POLITICAL

Apart from these purely legal specifications, after 9/11 the industry experienced a significant increase in security controls which led to new laws, new security measures at airports and on board the aircraft themselves.

The airlines, in addition to the laws for flight safety and aircraft, are also bound by strict laws on environmental pollution and noise pollution produced by aircraft engines

(Rizzetto, 2017)

ECONOMIC

Airlines have to cope with declining passengers, high fuel prices, competition from low-cost airliners, labor demands and soaring operating and maintenance costs.

In addition, events such as the recent Malaysian airline disappearance, the prolonged recession, fluctuations in oil prices and an imminent global slowdown are other debilitating factors which adversely affecting the global airline industry.

(Pestanalysis.com, 2017)

ECONOMIC

The economic recession left behind a few positive effects also. The crisis changed the companies' style of business. Prices were reduced and service standards raised. The boom in low cost carriers has made air travel cheaper for the masses.

Overall, the impact has been positive. Now that the economic recession is past, the industry must grow consistently.

(Pestanalysis.com, 2017)

ECONOMIC

A healthy economy acts as a catalyst for industrial growth. Economic health is also measured by various economic indicators.

Examples of economic indicators include growth in gross domestic product (or GDP), per capital income, disposable income, industrial production, level of business, and consumer confidence.

(CEDERHOLM, 2019)

SOCIAL

The demand for air travel has increased significantly over the years. This indicates changing travel preferences among the latest generation.

Demographic factors play an important role in forecasting demand and future travel preferences.

People are the main revenue driver for an airline. Capacity (ASK), load factor, and passenger yield, all of these major indexes require people to have positive results.

(CEDERHOLM, 2019)

SOCIAL

There are several industries that profit from the airlines industry. In particular, it is the hospitality industry globally which depends heavily on transports. The industry impacts and is impacted by social forces.

Airlines companies stimulated the demand for air travel by reducing prices. They created employment.

(CEDERHOLM, 2019)

SOCIAL

It should not be forgotten that the airline industry can be negatively affected by global socio-cultural factors such as diseases and terrorist attacks.

(CEDERHOLM, 2019)



SOCIAL

Aviation industry improves alleviates poverty through tourism, and serves as the only means of transportation to remote areas promoting social inclusion and facilitates the delivery of emergency and humanitarian aid relief.

(Rizzetto, 2017)



TECHNOLOGICAL

Technological factors' importance can be understood from the heavy use of technology in aviation. Both the travelers and the companies know how great a role it plays.

With intense competition in the airline industry, latest technology must be adapted by airliners in order to survive in the already tough environment.

(Pratap, 2018)

TECHNOLOGICAL

Technological innovations have boosted the growth of aviation to incessant rhythms, from the radar, to the internet, from the fly-by-wire technology, to the ability to make phone-calls and search the internet during the flight. To date, most bookings take place online on computers or smartphones, thanks to website and mobile apps.

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ENVIRONMENTAL

Climate change is an issue that is increasingly international relevant. Pollution undermines the Earth's ecosystem and passengers are increasingly more conscious of the natural environment health.

Because of the climate change warning, the finite nature of the resources and the raising consciousness, airlines have begun to see the low environmental impact they have as a competitive advantage to be exploited against competitors.

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ENVIRONMENTAL

The effect of ecological factors on the airlines industry might be higher than most industries. Fuel is a major expenditure for it. As a result, these companies invest more in fuel efficient and environment friendly carriers.

(Pratap, 2018)

ENVIRONMENTAL

According to the Air Transport Action Group (or ATAG), the airline industry's impact on the environment is as follows:

- The global aviation industry processes 2% of all human-induced carbon dioxide (or CO₂) emissions. Air travel is responsible for 12% of the total emissions from the transportation industry.
- Alternative fuels, like sustainable biofuels, are expected to reduce the aviation carbon footprint of fuel by 80%.

80% of the CO₂ emissions are from flights that are longer than 1,500 kilometers. There's no alternative mode of transport.

(CEDERHOLM, 2019)

LEGAL

Political and legal forces are somehow strictly related. Passengers safety, airline crashes, airport security, labor unions, and taxes. Moreover, law protect passengers' and airlines' rights.

Air transport is also regulated by several acts that are of importance. New laws have been enforced regarding how the airlines treat their passengers. Particularly, in US the laws related to the convenience of the travelers are quiet strict.

(CEDERHOLM, 2019)

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LEGAL

Air transport is regulated by several laws and regulations that are becoming stricter than before. Consequently, legal factors significantly impact on the performance of airlines.

(CEDERHOLM, 2019)

INTERNATIONAL AND NATIONAL REGULATIONS

National regulation of air transport is regulation undertaken by a State within its territory in its exercise of sovereignty over that territory and the airspace above it.

Thus national regulation extends to both domestic and international air services and to both national and foreign air carriers.

(ICAO, 2004)

INTERNATIONAL AND NATIONAL REGULATIONS

The process of national regulation of air transport services has three basic components:

- legislative (i.e. the making of laws, policies, rules and regulations);
- licensing (i.e. the granting, conditioning, denying or withholding of permission to conduct air transport services on a continuous or long-term basis); and
- ad hoc authorization (i.e. the granting, conditioning, denying or withholding of permission for individual tariffs, flights, etc.)

(ICAO, 2004)

INTERNATIONAL AND NATIONAL REGULATIONS

In the national regulatory process (i.e. legislating, policymaking, licensing and ad hoc authorization), international air transport regulators are likely to receive input from at least some members of the following three types of interested parties.

(ICAO, 2004)



INTERNATIONAL AND NATIONAL REGULATIONS

Bilateral regulation is regulation undertaken jointly by two parties, most typically by two States, although one or both parties might also be a group of States, a supra-State or even two airlines (for example, in the determination of capacity or prices).

(ICAO, 2004)

INTERNATIONAL AND NATIONAL REGULATIONS

The goal of bilateral regulation in the international air transport field is typically the conclusion, implementation or continuance of some kind of intergovernmental agreement or understanding concerning air services between the territories of the two parties.

(ICAO, 2004)

INTERNATIONAL AND NATIONAL REGULATIONS

Multilateral regulation is regulation undertaken jointly by three or more States, within the framework of an international organization and/or a multilateral treaty or agreement, and may be broadly construed to include relevant regulatory processes and structures, outcomes or output written as treaties or other agreements, resolutions, decisions, directives, or regulations, as well as the observations, conclusions, guidance and discussions of multinational bodies, both intergovernmental and non-governmental.

(ICAO, 2004)

INTERNATIONAL AND NATIONAL REGULATIONS

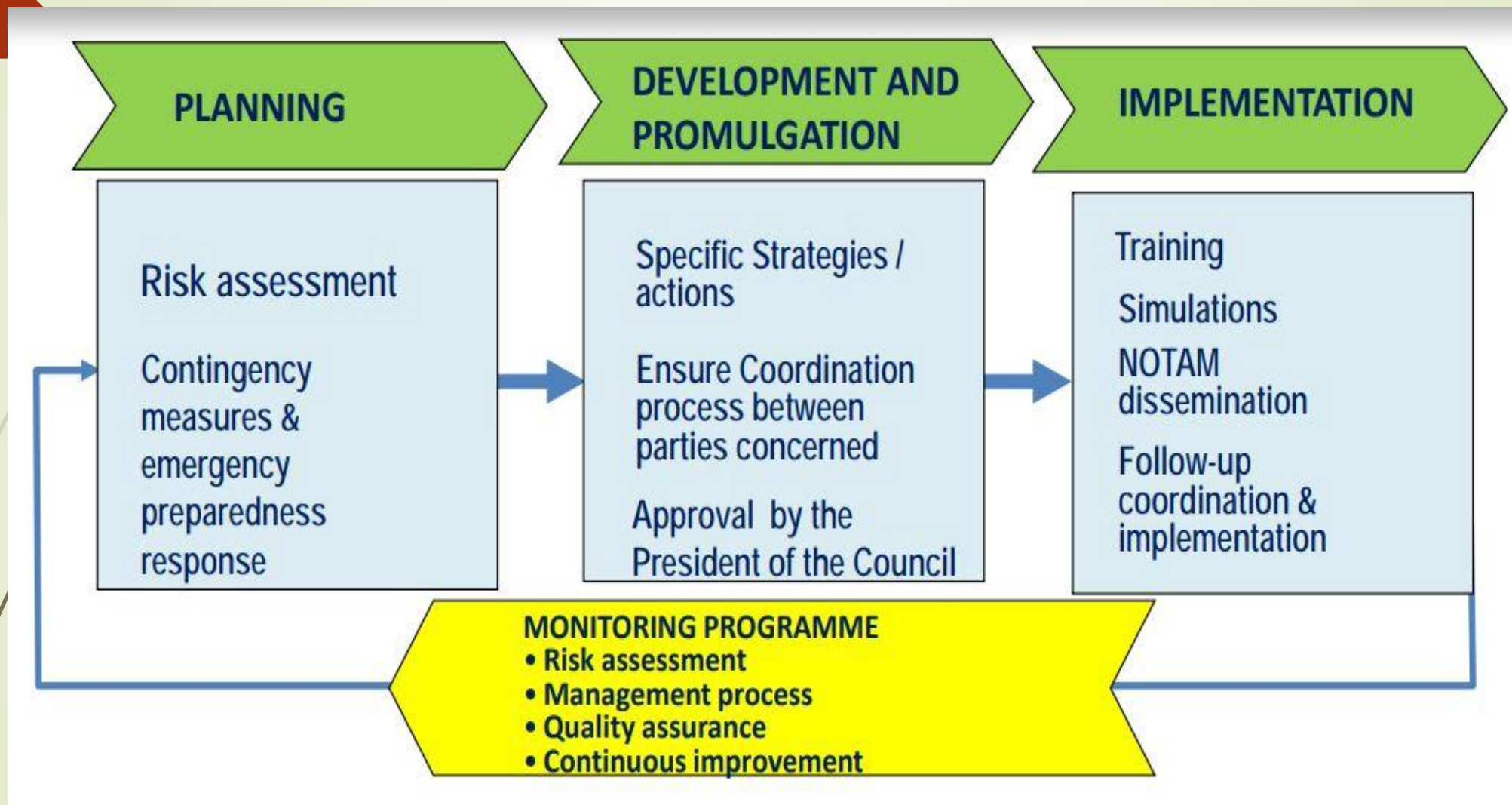
The goal of multilateral regulation in the air transport field is, for the most part, the conclusion, implementation, or continuance of common arrangements, policies, agreements or regulations on matters of interest to the various parties.

(ICAO, 2004)

CONTINGENCY PLANNING

Contingency planning demonstrates how the aims from the set of requirements that have evolved from the Policy and Operational Concept will be achieved. It also outlines the strategies/actions and resources required. The product(s) of this step is (are) the contingency plan(s).

(Skybrary, 2019)





**AIRPLANE
EMERGENCY
SITUATIONS**

CONTINGENCY PLANNING

Resources are essential components of an AEP and people are the most important and critical resource.

However, financial and material resources and data are also essential to a sound AEP. Some resources will come from within the organization and others will be made available by external providers.

(ACI, 2014)

RESOURCES IN AN AEP

- Potential critical resource shortages (such as power, potable water, firefighting agents, etc.);
- b. Possible effects on the transportation infrastructure, such as bridge collapses;
- c. Listings/checklists/databases of:
 - i. equipment;
 - ii. resources; and
 - iii. skills of personnel;
- d. Communication equipment;
- e. Vehicles to transport survivors (injured or not);
- f. Heavy equipment (such as cranes, loaders, road graders, etc.)

AIR BROKER

A charter broker is a specialist agent who acts as a representative for the leasing of an aircraft. The charter broker is paid an agreed commission for finding aircraft available for charter/lease and act as a middleman in negotiations between a charterer and an aircraft operator.

(PBJ, 2019)

AIR BROKER

The term 'charter broker' can sometimes be confused with the term 'aircraft broker'. A charter broker acts as an agent in the sale of charter time on aircraft rather than someone who sells aircraft and/or looks for buyers for aircraft.

Occasionally an individual or organization will carry out both roles but each role is specialized and should not be confused with one another.

(PBJ, 2019)

OPERATIONAL CONSTRAINTS

A business constraint is anything that interferes with the profitability of a company or business endeavor. Improving profitability requires the removal or reduction of business constraints.

Common business constraints include time, financial concerns, management and regulations.

(Glass, 2017)

OPERATIONAL CONSTRAINTS

Time constraints include not only the amount of time required to complete a task, but also the amount of time needed to obtain supplies, hire employees and drive to meetings.

Once identified as a primary constraint, management can take steps to address time factors and improve business performance.

(Glass, 2017)

OPERATIONAL CONSTRAINTS

Financial factors are often limiting constraints for businesses. They can range from inadequate budget allocations to excessive salaries or overhead expenditures.

Corrections for financial constraints are often complicated; however, shifts within the existing budget are often possible in the absence of increased overall allowance.

(Glass, 2017)

OPERATIONAL CONSTRAINTS

Regulations sometimes constrain profitability. These can range from governmental restrictions to import and exports to environmental restrictions regulating the materials used. While regulations must be followed, their impact on growth can often be mitigated.

(Glass, 2017)

THEORY OF CONSTRAINTS

The Theory of Constraints is based upon the assertion that: “Every real system, such as a business, must have within it at least one constraint (limiting factor). If this were not the case then the system could produce unlimited amounts of whatever it was striving for, profit in the case of a business.”

(Caroroll, 2014)

THEORY OF CONSTRAINTS

1. A Logical Constraint
2. A Process Constraint
3. A Physical Constraint
4. A Self-inflicted Constraint
5. A Personal Constraint
6. An External/Market Constraint

(Carroll, 2014)

COMMERCIAL BUSINESS OBJECTIVES

The commercial objective is an explanation for why your company exists and what customers can expect from your organization. In many ways, the objective is a compass that helps you make business decisions that align with your brand, goals, and consumer interests.

(Maessen , 2019)

COMMERCIAL BUSINESS OBJECTIVES

- Why you exist
- What makes you unique
- What your overarching message is
- Who you're targeting.

(Maessen , 2019)

EXAMPLE

“The Home Depot is in the home improvement business and our goal is to provide the highest level of service, the broadest selection of products and the most competitive prices.”

COMMERCIAL BUSINESS OBJECTIVES

There are two major steps in the process of determining your commercial objective: market research followed by business introspection.

(Maessen , 2019)



ADDITIONAL READING

- https://www.icao.int/Meetings/atconf6/Documents/Doc%209626_en.pdf

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