

FINANCIAL, OPERATIONAL AND ECONOMIC INDICATOR OF AIRLINE OPERATORS

Lenka Labantová – Vladimír Begera

The text contains issue of financial, operational and economic indicators. The subject of the text are the results of the analysis of those indicators at low cost airline EasyJet. Part of the results of analysis those indicators is the assessment of the impact of input and output indicators on the profitability of airline operator and elucidate budget items on side income and expense of an airline operator.

K e y w o r d s : Airline operator, financial indicator, operational indicator, economic indicator, expenses, revenues

1 INTRODUCTION

Article focuses on the describe of financial, operational and economic indicators of the airline operator. Part of the article is focus on the input and output indicators and their impact on the profitability of airline operator and elucidate budget items on side income and expense. Part of the article are set aim, used methods for their preparation and achieved results and benefits.

2 THEORETICAL BACKGROUND

In recent years the air transport developed rapidly. Created many airline operator which competing with each other. Because airline operators are in a highly competitive and turbulent growing market, they must devote great attention to their indicators. Watching their own indicators contributes to profitability, better control over the operation of the airline operator and the possibility of improving their market position.

For an objective comparison of the development of several of airline operators because that air transport currently has a high international character was introduced relatively high standardization of indicators.

2.1 Financial indicators

Between financial indicators are classified following indicators:

- *Traffic revenues* this is indicator, which calculated by summing the revenues from transport, which are expressed in monetary units.
- *Operating costs* are costs of airline operator, which are are linked to transport services. These are a are available by the airline operator for each flight (flight segment) with the distance of the flight (flight segment) in kilometers.
- *Revenue tonne kilometre* is operating indicator, which combines the capacity to transport people, goods and mail.
- *Average stage length* is operational indicator which is calculated by dividing the total number of miles

costs which are not counted in interest payments, taxes and other extraordinary expenses.

- *Other costs* these are the costs that are associated with the payment of loans, leases and taxes. Sometimes they include the cost of overhead (administration).
- *Yield per passenger/ton of cargo* this is indicator which is calculated by the proportion of total transport revenues per passenger/goods and the aggregate number of used passenger kilometres or tonne kilometres.
- *Cost per ATK* this indicator is calculated as the ratio between total operating costs and the total offered tonne kilometres.

2.2 Operational indicators

Between operational indicators are classified following indicators of airline operators:

- *Break-even load factor* this operating indicator also involves the utilization of aircraft capacity (load factor), some air line or the entire airline network where are identical transport revenues and operating expenses.
- *Block hours* it is operating indicator which deals with the definition of time of each flight segment, which is measured from the moment of leaving the stands after arrival at the destination airport.
- *Distance flown* is operating indicator whose values are expressed in units of kilometer flown or flown mile.
- *Available seat kilometres* regard to operational indicator of capacity available, which is calculated by multiplying the number of seats, which

flown with the number of flight segments flown for a certain period of time.

- *Passenger seat load factor* is expressed as a percentage. It is calculated as a ratio between the actual use of passenger-kilometers and total passenger-kilometers offered.

2.3 Economic indicators

Between financial indicators are classified liquidity indicators, debt ratios, indicators of activity and indicators of profitability.

Indicators of liquidity - liquidity is the ability of the company to convert its assets into cash and through them in a timely manner, in the required form and the desired location cover its short-term liabilities.

The immediate liquidity points to the company's ability to pay short-term liabilities by cash.

The available liquidity given partial idea of payments situation in the future.

The current liquidity shows how many times current assets cover short-term liabilities.

Indicators of debt comparing balance sheet items and on this basis is found in the extent to which assets company financed by foreign sources.

The total debt the higher the value of this indicator, the higher is the risk of creditors.

The degree of self-financing shows the extent to which the company is able to cover property by own resources.

Financial lever speaks about the structure of the financial resources of the company.

Indicators of activity based on these indicators is to determine how efficiently the company manages its assets.

Period of turnover of the resources refers to the average number of days during which resources are bound in the company until such time as they are consumed or until when they are sold.

Period of turnover of the receivables indicates how long is the property bound in the company in the form of receivables respectively for as long are the receivables paid.

Period of turnover of the total assets this indicator is referred as committed of total invested capital.

Indicators of profitability are a measure of the company's ability to generate new resources and make a profit using the invested capital.

Profitability of sales reflecting the gains bound to sales.

Profitability of total invested capital is capital appreciation, which has been bound in company.

Profitability of long-term resources expresses the spatial comparison of companies, mainly evaluates monopoly public beneficial companies.

Profitability of the assets this indicator is important, whether the company can effectively use its equity basis.

Profitability of own capital on the basis of this indicator the company owners are finding if their capital gives a sufficient revenue.

Individual operational, financial and economic indicators of airline operators are used to compare the results of airline operators.

In the case of evaluation, comparison and analysis of individual described indicators is necessary to take into account some different matters, which are between airline operators and they are for example:

- character of airline operator,
- character of product of the airline operator,
- composition aircraft fleet,
- method of transport,
- range of activities and
- other issues.

3 OBJECTIVES AND METHODOLOGY OF WORK

Based on the assignment for to elaborate the thesis I set out two main objectives.

The first aim are the theoretical backgrounds of solved issue of operational, financial and economic indicators.

The second aim is based on the theoretical background to analyze the individual financial, operational and economic indicators. Part of the second aim is analysis of input and output indicators and their impact on the profitability of airline operator and elucidate budget items on side income and expense of an airline operator.

Within the methodology of work I used the theoretical background processing studies available expert book publication from foreign and domestic authors and study of research articles obtained via the Internet. Subsequently on the basis of theoretical knowledge I could focus on the analysis of basic indicators of airline operators.

The analysis was focused on the evaluation indicators of a particular airline operator for which was selected low-cost airline operator EasyJet. Materials for analysis of indicators of the airline operator are drawn from the annual reports for the years 2008 to 2013, which are also available on the Internet. For clarity, were created individual tables for these indicators, results from the tables are eventually converted into graphs.

4 ANALYSIS OF FINANCIAL, OPERATING AND ECONOMIC INDICATORS

Based on the analysis of financial indicators of low-cost airline operator EasyJet were found following results.

Figure 1 Development of total revenue of the airline operator EasyJet

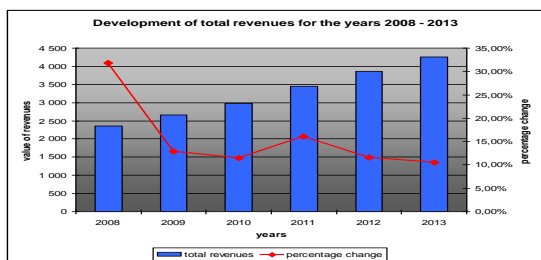
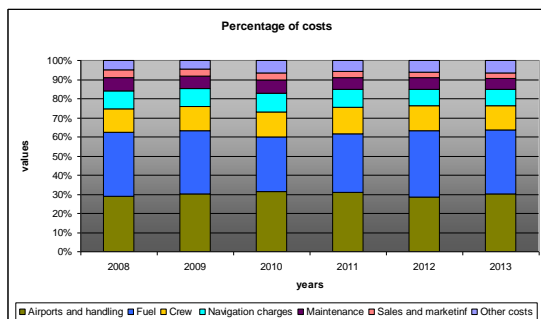


Figure 1 presents an analysis of the development of total revenues. Since the analysis on traffic revenues was found, that during the reporting period the structure of total revenues changed (increased the share of traffic revenues). Thus, analysis of the development was focused on total revenue of the airline operator.

The analysis also focused on operating costs through them was observed structure but also shares of the individual operating costs.

Figure 2 Percentage of the cost of the airline operator EasyJet



As an example may be mentioned the cost of personnel. In this airline operator for the period achieve a range of 12-14% compared to referred 25-35%. This confirms, that low-cost airline operator make do with fewer employees and thus has a lower cost. When reduced the structure of cost, so the largest share of the cost for low-cost airline operator are the cost of fuel and the cost of airports and handling together. These costs represent more than half of total operating costs. Since the low-cost airline operators able to cope with fewer staff crew costs were for the period value within the range of 12-14%.

4.1 Analysis of operational indicators

Based on the analysis of operational indicators can be assessed that the development of the airline operator

is positive and relatively stable, because the monitored operation parameters were no major fluctuations. It can be said that the analysis of these indicators with low-cost airline operator EasyJet has brought results and confirmed that this is an airline operator that although there is in the market with high competition is advancing development although still can find ways to improve. This is reflected in the indicator, load factor, which continues to grow and held in high values above 80% in 2013 reaching almost 90% threshold. These values affect the transport revenues while the positive development of earnings in this airline operator. Based on the analyzed results, I would suggest maintaining a specified level thus far and possibly extending array of destinations.

4.2 Analysis of economic indicators

Based on the analysis of economic indicators has been identified as the image airline operator manages its property.

Results of the analysis of indicators of solvency airline operator yielded positive results. For immediate liquidity should the airline operator to continue in the trend of development values of this indicator, which speaks volumes about the ability of repayment of short-term commitments through its financial assets. The same is true at the ready liquidity, which shows positive results in the paying carrier situation. During normal liquidity should the airline operator focus on increasing current assets. Indicator of turnover of receivables is declining, which is a good sign but the airline operator you should be wary of paying capacity of customers.

At the time of turnover of assets should the airline operator focus on increasing the use of its assets, which would bring positive developing this indicator and would avoid unnecessary costs.

When developing indicators of indebtedness were found in the total debt decreasing values indicate a decrease dependence on foreign capital the carrier, while the degree of self-financing each year increased suggesting strengthening equity.

When indicators of profitability for the entire period reached relationship $ROE > ROA$ representing the carrier effective use of foreign resources.

5 INPUT AND OUTPUT INDICATORS AND THEIR IMPACT ON THE ECONOMY AND PROFITABILITY OF AIRLINE OPERATOR

Among the parameters that affect the economy and the profitability of airline operators are classified fleet composition, number of passengers, number of employees and their productivity and development of the indicator load factor.

Based on the analysis of characteristics performed in low-cost airline operator EasyJet, can assess their impact on the development of profitability and the overall economy. Big impact on profitability is the

economic situation in which the airline operator is. This negative factor can be prevented by proper management decisions and long-term plans, which have an impact on increasing the competitiveness of the carrier. These administrative decisions have an impact on the growth of certain costs such as the cost of ownership low-cost airline operator EasyJet has slowed through its focus on one type of aircraft in its fleet. This decision allowed reducing maintenance costs, training and staff training. Proper management decisions is also reflected in the development gains of the airline operator EasyJet, when in 2009 recorded a drop in earnings despite expanding its fleet and recruit new staff. This step meant in future years administrative decision. Increased intake of new staff and financial productivity attributable to one employee, in relation to total income. This productivity could continue to increase motivation adequate wage workers. Earnings growth is supported by the growth of the airline operator and therefore the growth of individual indicators.

6 BUDGET OF THE OTHER INCOME AND EXPENSE AND MOTION FOR THEIR OPTIMIZATION

Appropriations on the cost side are divided into direct and indirect operating costs operating costs.

Direct operating costs include:

- the cost of salaries, pilots and cabin crew;
- the cost of aviation fuel;
- the cost of airport charges;
- Cost of navigation and route charges;
- maintenance costs of aircraft;
- the cost of depreciation of aircraft;
- Cost of hire of aircraft and
- insurance costs of aircraft.

Indirect operating costs are divided into:

- Cost stations;
- the cost of ground operations;
- costs related to passenger services;
- Cost of sales / reservation;
- the cost of commissions;
- the cost of advertising and promoting the air carrier and
- overhead costs.

Appropriations on the revenue side are divided into transport revenues, income and other non-traffic revenues.

Transportation revenues are broken down from the following aspects:

- scheduled and non-scheduled air transport;
- International and domestic air transport;
- passengers, goods, mail and baggage supernumerary and

- own, agency and interline sales.

Non-traffic revenues are in a second income, undertaking other not related to air transport of passengers, cargo and mail room, but represent revenues from ancillary activities of airline operator

Other revenues representing types of income that may be related, for example, interest that are stored free funds

Based on the analysis of each of these indicators was designed following optimization of certain items.

The highest value of the direct operating costs, the cost of fuel. Their amount could be optimized through the unification of the fleet. This fact was able to achieve in 2012 a low-cost airline operator EasyJet, when it was owned by only Airbus, which for him meant a lower cost of ownership. The amount of fuel costs could also be optimized by deploying so. Hedge accounting for reinsurance prices of aviation fuel. The airline operator EasyJet used this strategy throughout the period and save them as its operating performance against adverse fluctuations in the prices of aviation fuel.

The next highest second direct operating costs are an airline operator EasyJet crew costs and staff. This kind of costs can be optimized by improving logistics labor utilization. Staff costs could be optimized by reducing the number of employees. Such a reduction would, however, be carried out either by retirement, or let the senior staff, without prejudice to the airline operator.

To reduce maintenance costs, I would propose reducing the average age of the fleet. With this optimization would also reduce fuel costs, whereas the newer types of aircraft are produced by manufacturers to lesser fuel consumption. In this air carrier was in 2013, the average fleet age of 5.1 years. The airline operator expects its fleet age will increase as a result of the decision reducing the cost of current generation aircraft, whereas in 2017 it plans to replace the new generation. Also, this management decision has the effect of increasing direct operating expenses. These costs could be reduced by selling the aircraft, which do not fully exploit.

The cost of handling could be reduced by reducing fees for handling, or greater use of its own employees handling.

In today's Internet age, the cost of marketing gave optimized through greater sharing of advertising and sales promotion via the Internet.

To the airline operator got more into awareness should be given to introduce advertising through social networks, and this would also increase demand.

Revenues could be increased through extension services for passengers, which would build to meet their needs and would also increase the attractiveness of the air carrier.

AUTHOR'S ADDRESSES

7 CONCLUSION

This article presents a short summary of the theoretical issues of financial, operational and economic indicators. It also contains the objectives and methodologies that have been used to solve the issue. Also presents the achieved results of analyzes of individual indicators that have been made on the basis of low-cost airline operator EasyJet.

Own contribution in resolving the issue is a summary of the theoretical issues through a detailed study of the available literature and the analysis separately for each characteristic, their comparison, approach the structure of characteristics for a particular airline operator and the assessment of the impact of input and output parameters on the profitability of a particular air carrier and performed analysis of budgetary items on hand income and expenses of the proposed optimization with the aim of improving individual budget items. Contribution of the thesis for those interested in civil aviation or candidates cost carriers is to provide a basis for training in financial, operational and economic indicators.

Also, a sample outline for the development of individual indicators for low-cost airline operators and their influence on its development.

Bc. Lenka Labantová, LF TUKE, Rampová 7, 04021 Košice,
email: lenka.labantova@gmail.com
Ing. Vladimír BEGERA, PhD., LF TUKE, Rampová 7, 04021
Košice, email: vladimir.begera@tuke.sk

BIBLIOGRAPHY

- [1] Pruša, J. a kolektív: Svet leteckej dopravy. Praha: GALILEO CEE Service ČR s.r.o., 2008. ISBN 978-80-8073-938-6
- [2] Režňáková, M. a kolektív: Řízení platební schopnosti podniku. Praha: Grada Publishing, a.s., 2010. ISBN 978-80-247-3441-5
- [3] Pomerové ukazovatele finančnej analýzy. [on-line] Dostupné na internete: <<http://www.podnikajte.sk/Data/881/UserFiles/p rilohy/pomerove-ukazovatele-financnej-analyzy.pdf>>
- [4] Ručková, P.: Finanční analýza metody, ukazatelé, využití v praxi. 2. aktualizované vydanie. Praha: Grada Publishing, a.s., 2008. ISBN 978-80-247-2481-2
- [5] Majková, M.: Možnosti financovania malých a stredných podnikov v SR. Bratislava: Tribun, 2008. ISBN 978-80-7399-590-4
- [6] Sedláček, J.: Finanční analýza podniku. Brno: Computer Press, a.s., 2009. ISBN 978-80-251-1830-6
- [7] Rentabilita aktiv. [on-line] Dostupné na internete: <<https://managementmania.com/sk/rentabilita-aktiv-roa-return-on-assets>>