

A Case Study on Analysis of Revenue and Fuel Prices of Scandinavian Airlines

Abstract

Airline industry and the analysis of the finances of airline companies is the major focus of the project. This case study is regarding a popular airline company Scandinavian Airlines (SAS) which is running successfully from 1946. The company has had its ups and downs, which was reflected in the revenues earned. A detailed analysis of the company revenues especially the relationship between the jet fuel prices and the revenues forms the core agenda of the case study. The analysis of the last 12-year period of the airline industry along with the overall market in terms of passengers, revenues, jet fuel prices, and the profits of SAS were analyzed and findings were discussed. The case study also includes the details of different social, political, and economic conditions which impact the revenues of the company in different ways. The case study has several original findings based on the analysis of the data. The case study recommends an in-depth analysis using the standard parameters to study the airline industry and the revenue models of various airline companies, and how they handle the fluctuations in the market and withstand the same.

Introduction

Scandinavian Airlines is an airline company founded in 1946, also popularly known as SAS. The airline company is the official carrier of the three countries, Norway, Sweden, and Denmark. The company has grown big to have a fleet size of 169 which has official operations and flights to more than 120 destinations around the world. The history of the company has been impressive. SAS acquired the domestic and local airlines in the neighboring countries to dominate the market and establish the presence. Texas Air corporation, British Midland, and Spanair are the companies that were partially acquired by SAS to expand in the airline market.

The recent history of the company is relatable to the revenue analysis and the current state of the company. The increasing cost of the fuel, entry of the low-cost airlines, and other market issues, the business of the company was struggling during mid-2000s. It was the market conditions worldwide which also affected the company during that time. Similar to the other airline companies, SAS had to go for cost cutting. The constant pressure from the investors, banks, and other stakeholders forced the company to reduce costs in operations, pay cut, and cutting the retirement plans. The dilemma in the case is the conflict between two or more factors that influence the revenues of the company along with the jet fuel prices in the international market.

Problem Statement - The performance analysis of the company with respect to fuel prices, in comparison to competition is the problem statement. The market issues, rising fuel prices, and the countermeasures taken by the company to handle the situation is the problem analyzed in this case study.

Background of the case

Airline industry has several parameters including the world market, fuel, passengers, government policies, incidents, cheaper options, etc. which will affect the performance of the airline companies. SAS is also a major player in the airline industry in the European countries. The analysis of the performance of the company with respect to the fuel price is the problem that has affected many airline companies. The performance of the company when facing the issues with jet fuel price fluctuations and other issues is the highlight of this case study. It is the management of the company and the different steps taken that will ensure the company can withstand the fluctuations and any other market conditions.

Steps taken to resolve the dilemma

There are different factors that affect the aviation industry. Each of these factors are interlinked to each other. The analysis of the same is listed below.

- Analysis of the Industry and steps to solve the dilemma – The airline industry is heavily influenced by the political, social and economic factors. The same concept is true with respect to SAS airlines. The external factors responsible for the changes in the industry are required to analyze the revenues and the profits. The political factors play a major role because the industry is not a government by any single country. The airline industry is being gradually deregulated. USA deregulated the industry in 1978 which was followed by EU and several other countries. The industry witnessed open competition and all the restrictions related to the routes, prices, and other operations were removed. This is a major factor in terms of political situations because the open market will not only help the companies but will also affect some companies. The governments and politicians take care of the companies and help them grow because they need to improve the infrastructure of the country. This was the case with SAS because in Norway air way is an important mode of transport that cannot be replaced by other modes.

Economic conditions – SAS is Scandinavian, the economic conditions of the countries involved will obviously affect the growth of the company, which may be influenced by the conditions of the global economy. The smaller markets in the Nordic countries are highly sensitive to the global markets. Any simple change in the global market and economic countries is reflected a major change in this region. SAS also faced the same kind of economic issues in different stages of its journey. The giant economies of the US and China largely affect the world GDP, which is a direct impact on the smaller markets and the airline industry. The

GDP of the countries involved in Scandinavian Airlines is a direct impact on the revenue of the company. The country's economic condition is usually reflected in the form of GDP, which is calculated in this case too.

Social Factors – It is evident that the industry is trying to earn more revenues than the other features such as comfort. The same has been demanded by the customers because they prefer lowest fares compared to comfort especially for short flight durations. The financial crisis in the year 2008 added to this pattern of cheaper prices. The worldwide trend of the economic issue created this pattern of customer behavior. The use of internet and other technologies to compare the prices from different service providers and offering cheap tickets has also influenced the industry in terms of revenue.

Specific to the customers of SAS airlines, among the two types of travelers, business and leisure, it is predicted that a large number of travelers will be from the leisure segment in the Nordic countries because a majority of the population is retiring in the next decade.

- **Growing industry** – The aviation industry is growing in a linear way with positive growth. The number of passengers in the year 2005 was 1.97 billion worldwide. This number has increased to reach 3.979 billion in the year 2017 as shown in figure 1. The short downfall in the year 2008-2009 in the graph is related to the rise in fuel prices and the recession in the market. Approximately 100% increase in the number of passengers over 12-year period is considered to be an excellent industry in terms of the number of passengers. These factors will be related to fuel prices and then the SAS airlines revenue. The introduction of the low-cost carriers, decrease (although fluctuating for short terms) in the jet fuel cost, government policies to improve the industry, low operational costs, etc. are the major factors for the growth of the industry.

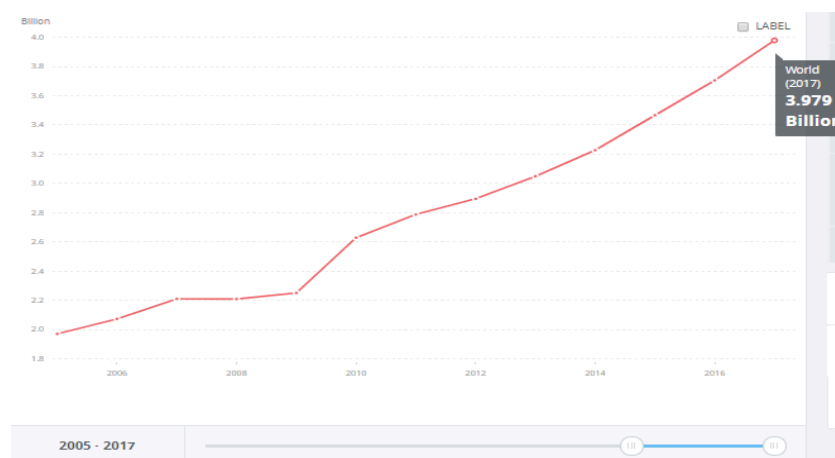


Figure 1. Number of air passengers from 2005 to 2017

- Jet fuel price

The revenue is significantly influenced by the crude oil prices, which is the basis of the jet fuel price. The One of the major costs involved to run an airline company is in the jet fuel prices. A small fluctuation in the price of the jet fuel will have a large impact on the revenue of the company for that year. The data shows that the cost of the jet fuel added up to 25% of the overall costs of an airline company. A small change (~2%) in the oil prices will be multiplied in the revenue charts. The oil prices are related to the economic and the political situations around the world. The change in the fuel supply (Arabic Spring) that happened in the year 2010 impacted the entire world and also the airline industry. The increase in the fuel price from \$90 to \$110 per gallon was a big change which shook the airline company including SAS. The first step towards renewable and sustainable energy sources will also increase the gap in the relationship between the fuel prices and the revenues of airline companies.



Figure 2. Jet Fuel Prices from 2009 to 2019

The graph of the jet fuel price for the period 2009-2019 is shown in figure 2. The political and economic conditions of the oil selling countries result in the fluctuation of the prices. A deep analysis of the fuel prices from 2009 to 2019 reveals various facts. The jet fuel price starting skyrocketing in the year 2010. The prices remained high in the range of \$2.67 to \$3.2per gallon until the year 2014. However, the sharp decrease in the prices directly impacted the revenues of the company. The same result can be seen in the drop of the revenues of SAS as shown in figure 3. Although there are many other factors, this case study analysis related the fuel price with the revenues. On the other hand, the reverse effect of the same can also be

seen when the oil prices started slashing during the year 2014. The revenue started improving in the same year, especially towards the end of 2013.

SAS Revenue – The graph of the revenue reveals strong connection between profits, fuel prices and revenues. The same can be related to the short increase in the jet fuel price in the year 2014-15. The effect of this could be witnessed in the fall of revenue (as shown in the graph). The same was directly connected to the profits. The profits of the company dropped to negative values in the same year because of the fuel prices and drop in the revenues. However, it should be seen that the fuel price has shown increase but not as sharply as in 2010. The revenues are showing slight but positive growth. In-turn, the profits have also started to stabilize in the last 4 years.

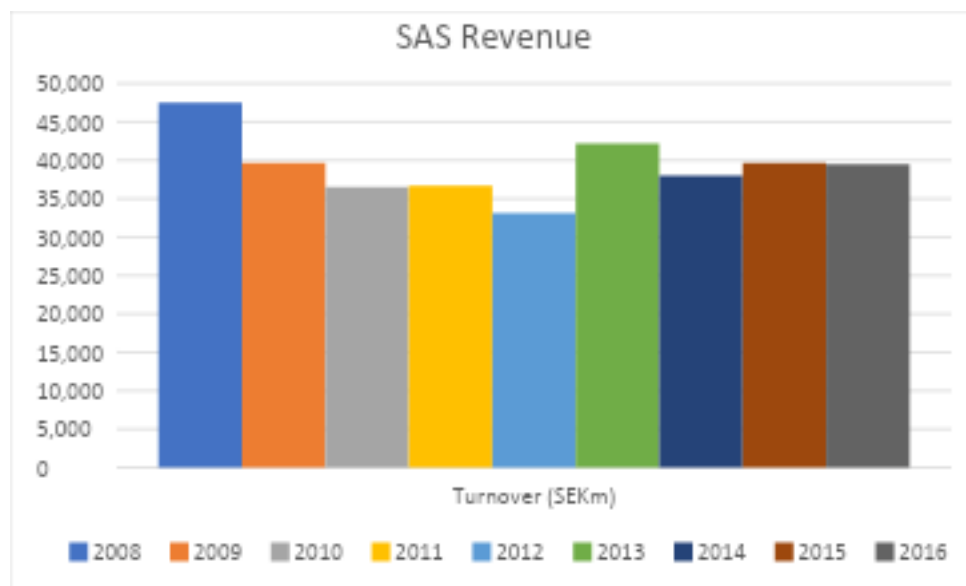


Figure 3. Revenue of SAS from 2008 to 2016

Profits – The graph of the profits of SAS from 2008 to 2016 is shown in figure 4. It is not essential that the profits should improve every time there is an increase in the revenues. However, that was the case of SAS. The profits in the year 2013 increased steeply like never before. The increase in the revenues in the same year was directly related to the profits assuming other parameters had negligible effect.

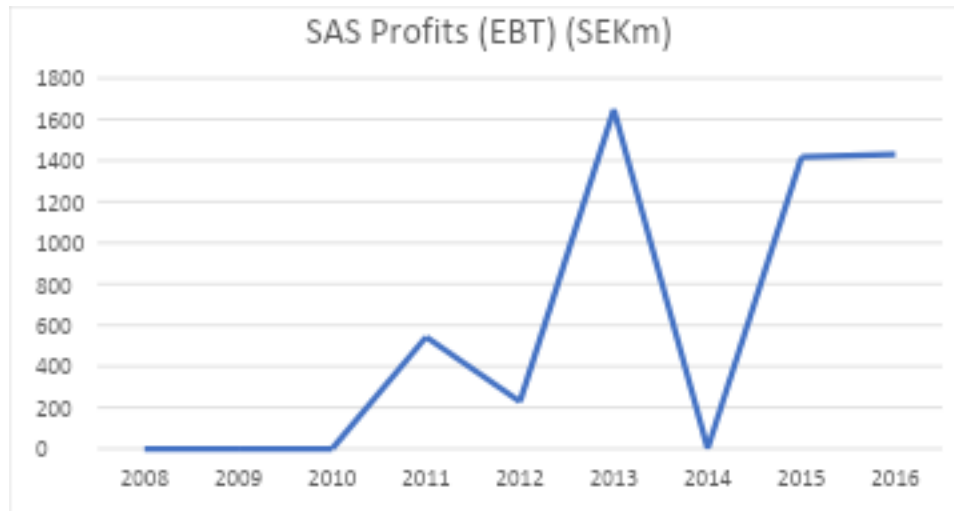


Figure 4. Profits of SAS from 2008 to 2016

Conclusion

This case study extensively detailed the analysis of the SAS revenues and different factors that affect the revenues of the company. The revenue of an airline cannot be analyzed before understanding the different parameters that affect the same. Therefore, several factors were analyzed with special focus to the Jet fuel prices. The fluctuations in the jet fuel prices and the impact on the revenue of SAS was analyzed using other factors as supplements. The analysis focused for a period of 10-12 years from 2005 to 2017. Data has been collected from various sources to analyze the pattern and come up with original findings. The case study highlights the factors and how fuel prices, revenue, and profits are related to each other. Any simple fluctuation in fuel prices impacts the industry and the revenue of SAS in a large scale. The other reasons for the changes in the revenues were also discussed and analyzed.

Suggestions

SAS airlines should focus on the following points to keep up the revenues and to turn profitable in the aggressive market.

- Cut the costs that are taking a toll on the expenses without much return on the investment
- Train the employees and the other employees on improving the efficiency at workplace using technology and other creative methods.
- Investment in different options and bonds that will help stabilize the expenses on jet fuel purchase in case of price fluctuations.
- More destinations to the domestic markets and short routes.
- Design a low-cost carrier wing of the company to focus only on the cheap prices and target the leisure travelers.

- Move some of the operations to different locations with lower expenses to cut costs.
- Initiate creative marketing campaigns and show the aggressive stance to the competition.

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