



Airline Simulation Challenge

Workbook

Acknowledgements:

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Katsjiengville® is a popular seaside town which was founded by Penny Pincher I. The word “Katsjieng®” comes from the shout-out and fist pump that he gave when he first saw the business potential in these acres of land next to the ocean. With hard work and dedication, he built his business empire on these shores, becoming so successful that he even launched his own currency for Katsjiengville® which he called the Katsjiengville® Tokens (Kt).

We skip a few chapters and resume our story focusing on Penny Pincher the IV, the current owner of this business empire, and his extended family.

Katsjiengville® Times – Urgent Notice

We are reporting live from the Penny Pincher Mansion. We are sad to announce that our beloved mayor, philanthropist and the town’s most eligible bachelor, Penny Pincher IV, has passed away. Earlier today he was celebrating his 80th birthday when he choked on a piece of celebratory brown bread (without butter). The paramedics tried to assist him, but he refused to be transported to the Katsjiengville® Memorial due to the cost implications. He died peacefully surrounded by his only sister Shilling Pincher, her two children, twins Nickel Pincher and Rupee Pincher, and Katsjiengville’s mayoral committee.

Two weeks later

The big moment has arrived. No, it is not Uncle Penny’s funeral, which was a low-key affair, with his ashes collected in a used bottling jar and now displayed on top of his refrigerator.

It is the reading of his will. Shilling, the twins, and the mayoral committee members are waiting with bated breath in the small offices of Bulldog Attorneys. Senior counsel Bill Bulldog enters the room with a nervous looking young man.

“Hello everyone, it is my privilege to welcome you all here to the reading of the will of Uncle Penny Pincher IV.”

Shilling snaps: “Yes, yes get on with it, how much do I get and what is he doing here?” pointing to the nervous looking young man. Bill is not deterred. He clears his throat and continues.

“For my fellow mayoral committee members, I leave you each a signed copy of the municipal by-laws and regulations, and a black and white photograph of me. Better get studying if you want to become the next Katsjiengville® mayor. ” The members are visibly upset.

“For my favourite sister, the lovely Shilling, I leave you my favourite dog – Doberman Pincher.” (Shilling nearly faints.) “But wait there’s more, I’m also leaving you a feather duster and a colour photograph of me.”

At this point the mayoral committee storm out of the office, one of them restraining a kicking and screaming Shilling. Her voice echoes through the hallways. “I hate you, I hate dogs, I hattttteeee....!”

Nickel and Rupee stare at each other. The nervous young man says nothing. Bill continues: “Nickel and Rupee let me introduce you. Meet Franc – a young entrepreneur and the son of my favourite barber.” The young man shifts slightly in his chair but says nothing.

You can hear a pin drop. Bill starts again: “Well as Uncle Penny used to say, time is money, so let’s continue. ‘For the three of you I leave all my earthly possessions, but wait, don’t celebrate just yet – you must earn it.

You all know how much I loved my barber, my family and taking long family vacations.” Both Nickel and Rupee stare at each other with confused expressions. Are they at the wrong venue? The last time they were treated for a holiday by Uncle Penny was for their 10th birthday, when they were camping in a small tent, in uncle Penny’s back garden, whilst it was raining!

Bill continues: “Uncle Penny loved travelling so much that he bought his own airline. This airline was making losses and the management board from Katsjiengville® Air has decided, based on Uncle Penny last wishes, to split this airline into four equal airlines, each with the same number of planes, resources and a management team. They will also provide capital if you want to purchase additional planes. Each of you will manage one of these airlines. After three years we will value the airlines – the person who generates the most cumulative profit over the three-year period will inherit all uncle Penny’s wealth. For the rest of you, there is always a feather duster or a dog to choose from, and don’t forget about the complimentary photograph!! If none of you manage make a profit, uncle Penny will donate all his wealth to the local dog shelter.”

At this point Bill closes the file and hands the three youngsters each an envelope and a briefcase. “In the briefcase is your instructions. I have spent the past two weeks preparing your information packs in anticipation of this event. In the envelope you will find your usernames and passwords. Good luck! I’ll see you in three years’ time.”

Nickel, Rupee and Franc stare at each other with a confused expression. There are 3 of them and Bill mentioned 4 airlines, who is going to manage the other airline? Bill gets up from behind his desk, walks past the youngsters and shout in the passage: “Shilling, Doberman come back here, how would you like to be the chief pilot of your own airline?”

Nickel, Rupee and Franc are not waiting for Shilling, they run over to the computers to start going through their material. After a while they see the following information on their screens:

Background Information

About the simulation game

The Katsjiengville® Airline Simulation Challenge is a live interactive business simulation game which incorporates business and financial realities within a simulation game environment. You will be confronted with various business scenarios, and you will need to navigate your business through all these challenges.

The teams will be exposed to various aspects of airline management, for example capital management, capacity management, pricing, marketing, the impact of the economy, people management, infrastructure management and strategic and financial planning.

There are no right or wrong answers – it is all about integrating the information and formulating your decisions accordingly.

The winning team is usually the team that executes a consistent strategy and interprets the information provided to amend their strategy according to the changing environment.

The role of the facilitator

The simulation game is a live interactive simulation and the facilitator will process the information from the various teams and provide them with their results.

You can ask the facilitator clarifying questions and he will use his discretion to determine whether this is a clarifying question, or whether you are trying to gain a competitive advantage. He will only answer clarifying questions.

Information received

Your team will receive the following information at the start of the game:

- Workbook with all the information relating to the game.
- Airline for dummies guidelines with information relating to the terminology utilised in the airline industry (Appendix A).

Your team will receive the following information at the start of each subsequent year:

- An Achievement Report indicating your achievements for the previous year.
- A Financial Results Report comparing your financial results to an industry benchmark result. The industry benchmark will be the average of the three teams participating in the simulation game.
- A Key Indicator Report indicating the key indicators that drive financial performance. Your performance relating to these drivers will be compared to the industry benchmarks.

- A link will be provided to navigate you to the next decision sheet, game tutorials and business lessons learnt videos.

Simulation-specific assumptions

The following simulation-specific assumptions will apply:

- The decisions will apply to the entire year and the resources (e.g. number of staff) will be available at the start of each year.
- For the purposes of the game only use the information and numbers provided and ignore seasonal fluctuations.
- You can assume that the management board of Katsjiengville® Air will provide you with sufficient capital to purchase aircraft according to the guidelines indicated in the workbook and decision sheets.

The use of indexes in the game

Indexes will be used to compare the performance of the four airlines relative to each other, for example:

<u>Index Example: Cabin Crew Happiness Index</u>						
Focus Area	Airline				Weighting	Average
	1	2	3	4		
Salary Increase	40,00	45,00	60,00	55,00	50,00%	50,00
Appointments - Other Airlines	35,00	55,00	55,00	55,00	50,00%	50,00
Total Score	75,00	100,00	115,00	110,00	100,00%	100,00

General principle: The higher your score is relative to the other teams, the better you are performing.

From the index example you can also assume that the cabin crew working for Airline 3 are the happiest, and Airline 1 is trailing in last place. The biggest contributor to Airline 3's performance is the higher salary increase. The biggest concern for Airline 1 is that they are appointing more crew from other airlines at higher salary levels.

All these indexes will be influenced by your decisions.

Strategic Information

Snippets from the Katsjiengville® Economic Report

The outlook for Katsjiengville® is stable and no major changes or fluctuations are expected in next few months. The Katsjiengville® economy has been in a steady growth trend the previous few years.

Snippets from the Strategic Report

Katsjiengville® Air is in operation for 365 days a year. The average flying time is two hours per flight and Katsjiengville® Air currently maintains an average of five flights per available aircraft per day.

Katsjiengville® Air dominates the local market and constitute roughly 90% of the total market share (before the split in 4 equal airlines). The rest of the market share is distributed between other minor independent airlines. There was an industry decision not to increase the number of flights during the past three years. This decision was recalled with immediate effect during an industry indaba four weeks ago.

There are no expectations of new entrants entering the local market space the during the first year of the competition. It is expected that small independent competitors will continue to maintain their market share of 10% for year 1. Buoyant economic conditions prevail, and a very large middle class has emerged. The following table gives an indication of the total growth in the local airline travel market that Katsjiengville® Air services during the past 3 years:

Table1: Number of Passengers

	3 years ago	2 years ago	1 year ago
Number of passengers	8 million	9.6 million	11.520 million

It is expected that the local market growth trend in terms of number of passengers will continue in the near future. An early warning signal is that during year 2 of the simulation game a major sporting competition will happen in the Katsjiengville® and it is estimated that the local market will attract an additional 2 million passengers for that year.

The outlook for the economy is stable and it is expected that the currency will not deteriorate against the major currencies. The current inflation rate is 6% and the outlook is stable for the following year. The currency is currently trading at 6 Katsjiengville® Tokens (Kt) to the US dollar.

Katsjiengville® Air Income Statement (*)

Note: (*) "Know-it-All" consultants has subdivided the historical Income Statement of Katsjiengville® Air in **4 equal statements**. Below reflects the historical Income Statement **of each of the "new" airlines after the subdivision:**

Financial Category	Kt
Passenger Revenue	2,203,200,000
Other Income Generated:	
Competition Prize Money	0
Aircraft Fleet Salvage Value	0
Minus Sales Commissions	154,224,000
Net Revenue	2,048,976,000
Minus Direct Operating Cost	1,938,377,000
Flight Deck Crew Cost	410,080,000
Cabin Crew Cost	205,040,000
Passenger Handling (Check-in Staff) Cost	131,400,000
Aircraft Maintenance Cost	82,125,000
Apron Services Cost	82,125,000
Aircraft Capital Cost	82,125,000
In-flight Entertainment Cost	77,760,000
Fuel Cost	657,000,000
Landing Cost	82,125,000
Navigation Cost	82,125,000
Insurance Cost	15,552,000
Marketing and Advertising Cost	5,000,000
Frequent Flyer Cost	25,920,000
New Aircraft Order commission fee	0
Net Operating Profit/ (Loss) before Overhead Cost	110,599,000
Overhead Cost	140,000,000
Net Profit/ (Loss)	(29,401,000)

Operational Report

Fleet Report (*)

Note: (*) Know-it-All consultants has subdivided the historical fleet of Katsjiengville® Air in **4 equal parts**. Below reflects the current fleet **of each** of the “new” airlines after the subdivision:

Current Fleet Report

You are operating a fleet of Boeing 737. Based on your seat configuration you can accommodate between 100 and 140 passengers per flight. Currently your seat configuration allows for 120 passengers per flight.

The following table is an extract from your asset register:

Table 2: Asset Register

Aircraft Number	Purchase Date
00001	10 years ago.
00002	10 years ago.
00003	9 years ago.
00004	9 years ago.
00005	8 years ago.
00006	8 years ago.
00007	7 years ago.
00008	7 years ago.
00009	6 years ago.
00010	6 years ago.
00011	5 years ago.
00012	4 years ago.
00013	3 years ago.
00014	2 years ago.
00015	Last year.

Note: Purchase date is the date when the aircraft became operational.

Airline Regulation stipulates that you can only fly an aircraft a maximum of 14 Flight hours per day due to maintenance requirements. The average flying time is two hours per flight. You are currently flying aircraft for ten hours per day (5 flights).

You can add to current fleet by one of the following methods:

- You can order new aircraft from Boeing. Please note that new orders require a year waiting period and aircraft that you order now will only become available during the

next year. You are required to pay a non-refundable “New Aircraft Order Commission Fee” of Kt100 000 per aircraft order that must be paid immediately. This commission fee is not expected to increase. The Katsjiengville® board have indicated that you can’t order more than 10 aircraft per year due to capital constrains.

- You can rent planes from “Easy Planes Industries” at Kt550 000 per plane per month. These planes will be returned to “Easy Planes Industries” at the end of the year and will not become part of your permanent fleet. You are required to perform maintenance activities on these planes, whilst they are part of your fleet. All these planes are less than 5 years old. You must rent the aircraft for the entire 12 months, but due to supply constrains you can only rent a maximum of 10 planes per year. The rental cost is expected to increase with normal inflation rates.
- From time to time, you can buy planes at a special auction. These planes were recovered from other airlines that are no longer in operation. You must buy these aircraft in batches of 5 planes at a time, and they will become part of your normal fleet. The minimum opening bid for these planes is Kt100 million and all these planes must be sold during the auction. These planes are on average three years old. The auction master will let you know when these planes become available. These planes are immediately available.

Airline Regulations specify that you must scrap aircraft that are 10 years in operation. You will receive a once off salvage fee of Kt1 000 000 per aircraft.

Maintenance Requirements

The following Regulations apply:

- For new aircraft (1 – 5 years of service) you are required to perform 1 hour of maintenance work for every 20 hours of aircraft flight hours that you undertake. You can assume that an aircraft will not be out of commission during the year due to maintenance work.
- For mature aircraft (6 – 10 years of service) you are required to perform 1 hour of maintenance work for every 10 hours of aircraft flight hours you undertake. You can assume that an aircraft will not be out of commission during the year due to maintenance work.

Resource Report

General Resource Report

You can assume 220 effective working days during the year and an 8-hour working day, unless specified differently. (This is after taking into account: Week-ends, Normal leave, Sick leave, and other factors). Salary increases are determined at the beginning of the year and will apply for the entire year. You can differentiate between the salary increases for the different types of staff, for example Flight Deck Crew and Cabin Crew.

Flight deck crew

Your flight deck crew consist of pilots and flight engineers. Due to Flight Regulations they are not allowed to work overtime. For every flight you require two pilots and one flight engineer.

After the equal distribution of the flight deck crew between the four “new” Katsjiengville® airlines your airline will have a total Flight deck crew staff compliment of 233 at the start of year 1. During the previous year there were no intakes in the trainee programme and you didn't need to recruit any flight deck crew from “Flight Deck Rental Services”. Your current Flight Deck Crew has an average cost of Kt1 760 000 per person per annum. This cost includes salary cost and salary related cost for example pension fund contribution, medical aid contribution, communication cost, subsidies, and other cost items. The average cost per person fluctuations will be influenced by the average salary increase.

The activities performed by the flight deck crew daily are indicated in table 3:

Table 3: Daily Flight Deck Crew activity report:

Activity	Time
Arrive for work	1 and a half hours before flight
Total Flight time	2 Hours
Debrief flight and related flight admin	1 Hour
Prepare for next flight	Half an hour
Return Flight	2 Hours
Debrief flight and related flight admin	1 Hour
Total Working Day	8 Hours

Note: Airline regulations prohibit flight deck crew to work more than 8 hours per day.

You can increase your staff numbers as follows:

- Recruit staff from the competitors: These recruits will have a 20% salary premium compared to your current staff. You can recruit a maximum of 46 Flight Deck crew from your competitors during the first year.
- Recruitments from the Flight Deck crew trainee programme. During the trainee year the trainee will cost you 10% of the total average cost of a normal flight deck crew member. They are not allowed to fly during their first year. After their trainee year the graduates are allowed to fly and become part of your permanent flight deck crew compliment. You can expect 60% of your trainee intake to graduate. After graduation they will receive 40% of the average salary of a normal flight deck crew member. You can recruit a maximum of 46 Flight Deck crew trainees during year 1.
- Recruit temporary staff from “Flight Deck Rental Services.” The current tariff is Kt1 200 per flight deck hour rented. This tariff will increase with the normal inflation rate. Please Note: The shortfall in your Flight Deck Crew staff compliment will automatically be calculated on your behalf and supplemented with resources from “Flight Deck Rental Services”.

Due to a skills shortage your Flight Deck Crew staff numbers can decrease between 5% and 20% due to resignations. The decrease will depend on the morale of the Flight Deck Crew. Their morale is influenced by the following factors:

- Average salary increase versus the industry average (Lower than industry will have a negative impact)
- Number of new appointments from competitors at higher salaries. (The higher the appointment rate, the more negative the impact)
- Number of recruitments from Flight Deck Rental Services. (The higher the recruitment rate the more negative the impact)
- The number of retrenchments. (The higher the retrenchment rate, the more negative the impact)

Note: The salary increase will have a 50% weighting and the other factors will have a combined 50% weighting in determining the resignation rate. The team with the highest score on the morale index will have a 5% resignation rate and the lowest score on the morale index will have a 20% resignation rate.

The resignation rate will have a 1-year lag factor. For year 1 you can assume that you will have a 10% resignation rate.

You can also decrease the Flight Deck Crew by offering them retrenchment packages. These packages will cost you the average annual cost per person (excluding the salary increase) plus a 20% premium. (Retrenchments will only take place at the beginning of each year). For the first year you can retrench a maximum of 105 Flight Deck Crew.

Cabin Crew

Every flight requires one Cabin Crew Supervisor and four Cabin Crew Flight Attendants. After the equal distribution of the total Cabin Crew between the four “new” Katsjiengville® airlines your airline will have a total Cabin Crew staff compliment of 466 at the start of year 1. During the previous year there were no intakes in the trainee programme and you didn’t utilise the “Cabin Crew Rental Services”. Your current Cabin Crew has an average annual cost of Kt440 000 per person. This cost includes salary cost and salary related cost for example pension fund contribution, medical aid contribution, communication cost, subsidies and other cost. The average cost per person fluctuation will be influenced by the average salary increase.

The activities performed by the cabin crew on a daily basis are indicated in table 4:

Table 4: Daily Cabin Crew activity report:

Activity	Time
Arrive for work	1 and a half hours before flight
Total Flight time	2 Hours
Debrief flight and related flight admin	1 Hour
Prepare for next flight	Half an hour
Return Flight	2 Hours
Debrief flight and related flight admin	1 hour
Total Work Day	8 Hours

Note: Airline regulations prohibit domestic cabin crew to work more than 8 hours per day

You can increase your staff numbers as follows:

- Recruit staff from the competitors: These recruits will be at a 10% salary premium to your current staff. You can recruit a maximum of 138 Cabin Crew from your competitors during the first year.
- Recruitments from the cabin crew trainee programme. During the trainee year they are costing you 20% of the total cost of a normal cabin crew member. They are not allowed to fly during their first year. After their trainee year the graduate are allowed to fly and become part of your permanent Cabin Crew staff compliment. You can expect 80% of your trainee intake to graduate. After graduation they will receive 60% of the average salary of the normal Cabin Crew member. You can recruit a maximum of 92 Cabin Crew trainees during year 1.
- Recruit temporary staff from “Cabin Crew Rental Services” The current tariff is Kt200 per cabin crew hour. This cost will increase with normal inflation over time.
Please Note: The shortfall in your Cabin Crew compliment will automatically be calculated on your behalf and supplemented with resources from “Cabin Crew Rental Services”

The Cabin Crew numbers will decrease as follows:

- Normal staff attrition rates apply, and historical statistics indicate that you can assume on average a 20% resignation rate during the year.
- You can also decrease the Cabin Crew by offering them retrenchment packages. These packages will cost you the average annual cost per person (excluding the salary increase) plus a 10% premium. (Retrenchments will only take place at the beginning of each year). For the first year you can retrench a maximum of 186 Cabin Crew.

Your Cabin Crew plays an important role in offering a quality service to your customers. There is a direct correlation between the staff morale and the quality of the service that they provide to the customers. To monitor the morale of the Cabin Crew a “Cabin Crew Smiley Face” index has been developed. Research has indicated that the index is influenced by the following factors:

- Average salary increase versus the industry average (Lower than industry will have a negative impact).
- Number of new appointments from competitors at higher salaries. (The higher the appointment the more negative the impact).
- Number of recruitments from Cabin Crew Rental Services. (The higher the recruitment the more negative the impact).
- The number of retrenchments. (The higher the retrenchment rate, the more negative the impact).

Note: The salary increase will have a 50% weighting and the other factors will have a combined 50% weighting when calculating the Smiley Face Index.

Check-in staff

You have outsourced your check in facilities to “Friendly Check-in Staff.com”. Their fee structure is a fixed fee per check-in agent per shift worked. For the previous year it was K€1 600 per shift. The annual fee will increase with the normal inflation rate. Airport company regulations specify that you need at least three check-in service agents per flight (each working one shift). The number of shifts will be calculated on your behalf.

The Check-in staff plays an important role in offering a quality customer service experience. There is a direct correlation between their efficiency of the check-in process and the quality of customer service. The actual number of passengers flown during the year divided by the number of Check-in Service agent shifts is an indication of the efficiency of the process (the lower the ratio the more efficient is the process). You can decide to purchase additional shifts at the above-mentioned rate to increase the efficiency of your check-in process. For year 1 you can purchase a maximum of 5 additional check-in shifts per flight.

Apron Services (Baggage handling)

You contract baggage handlers in per shift. Their current fee structure is a fixed fee of Kt500 per shift. This fee will increase with normal inflation over time. Airport regulations specify that you need a minimum requirement of three baggage handlers each working one shift per departure and three baggage handlers each working one shift per landing. These minimum requirements will be calculated on your behalf based on your number of landings and departures.

Apron Services perform an important role in offering a quality customer service experience. There is a direct correlation between the efficiency of the baggage handling process and the on-time departure and arrival of flights. The Airline industry calculates the number of passengers per baggage handling shift as an indication of the efficiency of the process (the lower the ratio the more efficient is the process). You can decide to contract in additional baggage handling shifts at the above-mentioned rate to increase efficiencies. For year 1 you can purchase a maximum of 5 additional baggage handling shifts per flight.

Cost Report

Aircraft Capital Cost

Accounting policy states that you must depreciate aircraft capital cost in equal amounts over a 10-year period. Aircraft bought during the auction must still be depreciated over a 10-year period.

New aircraft can be ordered from the Boeing Factory at a fixed fee of US\$10 million. This price is not expected to increase over time. The Katsjiengville® Token value of the order will be influenced by the average Kt/\$ exchange rate for the year in which you take ownership of the plane. These aircraft will be depreciated over a 10-year period.

The original purchase price of the aircraft currently in operation is on average Kt54 750 000 per aircraft.

Fuel Cost

The following factors will have a significant influence on the total fuel cost:

- The number of flights
- The distance and duration of the flight
- The average fuel price per litre
- The Kt/\$ exchange rate
- The age of the aircraft

It is estimated that an average two-hour flight will consume 3 800 litre of fuel for the “new” aircraft category and 4 100 litre of fuel for the “mature” aircraft category. The expected fuel cost for this year is \$1 per litre. It is expected that the average fuel price will increase by 2 percentage points above the inflation rate for the next years.

Maintenance Cost

Maintenance work has been outsourced to “Fix-a-plane.co.za”

The following factors will have a significant influence on the total maintenance cost:

- The age of the aircraft
- The number of flights and related flight hours
- The average maintenance cost tariff
- Inflation Rate

The current maintenance cost tariff for this year is Kt18 000 per maintenance hour for aircraft that can be classified as “new” or “old”. “Fix-a-plane” is contractually obliged to keep their fee increases in line with the inflation rate.

Navigation fees

Navigation fees are paid to the Civil Aviation Authority.

The following factors will have a significant influence on the total navigation fees:

- The number of flights
- The average navigation cost tariff
- Inflation Rate
- The Kt/\$ exchange rate

The navigation cost tariff for this year is \$500 per flight. The Civil Aviation Authority is contractually obliged to keep their fee increases in line with the inflation rate.

Landing and Departure fees

Landing and Departure fees are paid to the Airports Company.

The following factors will have a significant influence on the total Landing and Departure Fees:

- The number of landings and departures
- The average cost tariff
- Inflation Rate
- The Kt/ US\$ exchange rate

The average cost tariff for this year is \$250 per landing and \$250 per departure. The Airports Company is contractually obliged to keep their fee increases in line with the inflation rate.

Marketing cost

Marketing and advertising cost is a management decision. Currently the industry norm is to spend Kt5 million per year on marketing. You can spend a maximum of Kt20 million per year on marketing.

Overheads

Overhead cost was Kt140 million for the previous year. Due to regulatory demands and a bigger management team the cost is expected to increase at a rate of 4% above inflation.

Meals & In-flight entertainment

In-flight entertainment consists of passenger meals, movies, refreshments and inflight data. The average cost per passenger will be determined by a management decision at the beginning of the year.

Currently the industry norm is to invest Kt30 per passenger in in-flight entertainment and meals.

Needless to say that the quality of the meals and in-flight entertainment will have a direct correlation with the amount of money spend per passenger. For year 1 you can spend a maximum of Kt75 per passenger.

Sales Commissions

Industry agreements dictate that travel agent commissions, sales discounts (specials) or internet search engine referrals are not allowed to be less than five percent of the ticket price. The average percentage commission per ticket will be determined by a management decision at the beginning of the year.

Needless to say, that agents or search engines will be more inclined to direct customers to a specific airline based on the percentage commission that they can earn, and bigger sales specials will attract more customers.

Insurance Cost

A fixed insurance premium of US\$1 per passenger must be paid by airline. This cost is not expected to increase.

Frequent Flyer Programme Cost

A management decision is required regarding the investment in the Frequent Flyer Programme. The management decision will be based on an average cost per passenger. Currently the industry norm is to invest Kt10 per passenger in a Frequent Flyer programme. (The more you spend on the programme the better the quality of the programme will be). For year 1 you can spend a maximum of Kt30 per passenger.

Marketing related information

Katsjiengville® Air Pricing Report

Market research has indicated that a pricing policy of more than Kt1 000 per ticket will attract additional competition to the domestic market, with serious consequences for all the operators (this maximum tariff will increase by the normal inflation rate every year). The industry norm is Kt850 per ticket. Pricing policy decisions are management decisions at the beginning of each year and these tariffs will apply for the entire year.

Katsjiengville® Air Market Share Report

The Know-it-All consultants has compiled a “Customer Care Index”. The following aspects play an important role in determining the overall customer satisfaction:

- The “Smiley Face Index” from the cabin crew
- On time arrivals and departures
- The efficiency of the Check-in process
- The spaciousness of your seat configuration
- The quality of your Meals and in-flight entertainment

All these factors have an equal weighting.

The overall score for your “Customer Care Index” compared against that of your competitors will determine your **maximum load capacity** for the **following year**.

For the first year you can assume that the customer satisfaction index from all four the Katsjiengville® Airlines are equal and a potential load factor of 100% per airline is possible, if the number of potential passengers allows it (will depend on the size of the market). Katsjiengville® Air’s load factor for the previous year was 78.9%.

The following table gives an indication of the effect of the Customer Satisfaction Index on your potential maximum Load Factor for year 2 and 3.

Table 5: The maximum load factor based on the service ranking of airlines

Airline Customer Service Ranking	Potential <u>Maximum</u> Load Factor for the next year
1 st	100%
2 nd	85%
3 rd	75%
4 th	60%

Another piece of research is called: “The Customer Choice: Perceived Value for Money Index”

– The following aspects play an important role in determining their airline of choice:

- 30% of the customers will base their choice on the available capacity of the airline (The bigger the capacity the more passengers will be attracted)
- 30% of the customers will base their choice on the pricing policy of the airline (The cheaper the ticket the more passengers will be attracted)
- 20% of the customers will base their decision on the quality of the Frequent Flyer Programme (The more spend on the programme the more passengers will be attracted)
- 10% of the customer will base their choice on the marketing cost spent (The more spend on the marketing cost the more passengers will be attracted)
- 10% of the customers will be influenced by a travel agent commission or size of the special offers that are available. The travel agent will re-direct passenger to the airline with the highest agent commission or higher special offers will entice more customers.

The market share of your airline will thus be determined by a combination of:

- The size and growth of the overall market
- The performance of your airline relative to the other airlines in terms of “The value for money index”

but limited to:

- The available seats of your airline
- The maximum average load factor of your airline as calculated by the performance of your airline in the Customer Satisfaction Index (a 1-year delay will apply in incorporating this ratio in the calculations)

Note: Any potential overflow of passengers will be handled by other minor airlines and will not be distributed back to the original Katsjiengville® airlines.

Conclusion

After paging through the initial reports my initial euphoria and dreams of inheriting uncle Penny's wealth is starting to disappear.

I don't want to show my nerves and I call an urgent meeting with my management team. I look them in the eye and ask them full of bravery: "Who can tell me what the major decisions are that is expected from me today"?

Reluctantly my operational director starts the conversation:

"I believe we need your insight on the following matters:

- The average number of flights per day
- The average number of seats per aircraft
- The number of new aircraft ordered from Boeing
- The number of Aircraft rented from "Easy Plane Industries"
- The number of Aircraft bought on auction and price we are willing to pay (when they become available)
- A decision on whether to buy additional check-in shifts and additional baggage handling shifts and how many"

With that marketing director has found her voice:

"If I may: We need the following decisions:

- The Airline Name
- The Airline Slogan
- The average price per airline ticket
- The Marketing and advertising cost spent for the year
- The agent commission percentage
- Investment in the frequent flyer programme
- The investment in in-flight entertainment cost"

The HR director (not to be outdone) clears his voice.

"The following needs your considerable wisdom:

- The number of recruits: Flight Deck Crew trainee programme
- The number of recruits: Flight Deck Crew from other airlines
- The number of retrenchments: Flight Deck Crew
- The number of recruits: Cabin Crew trainee programme
- The number of recruits: Cabin Crew from other airlines
- The number of retrenchments: Cabin Crew
- Salary increases for Flight Deck and Cabin Crew"

Even the Financial manages to whisper:

- “We need to finalise all these decision today, our budget is due for review by the board”

Now it is time to stamp my authority:

“See that was not so difficult – Give me an hour and a half to study these reports in detail and we will reconvene to finalise our decisions for the year.

With that I grab my computer and rush back to my office.

Appendix A: Extracts from “Airlines for dummies” handbook

Airline Terminology

- *Flight Deck Crew:* These are the people that fly the plane. They sit in front of the plane. You are not allowed to disturb them during the flight. They earn the big bucks.
- *Cabin Crew:* They push the trolleys. If you smile nicely at them, they will bring you an extra cold drink.
- *Check-in Staff:* Sometimes you must stand in long queues to meet them. They check your ticket and passport. Always be friendly with them or else they will allocate you a seat next to the toilet. If you are very friendly with them, they can upgrade you to business class.
- *Apron Service:* They carry your bags. You will never see them, but they must be very strong to carry all those bags. They must be able to read very well, or your bags will go to the wrong place. Sometimes your bags are too heavy, and they will kindly remove stuff from your bag to help you out 😊.
- *Maintenance cost:* This is the fee that you pay to people to make sure that the engine doesn't fall off while you are flying.
- *Market share:* There are 100 people that want to fly, of the 100, 20 choose on your airline, your market share = 20%.
- *Load factor:* You have 100 seats available on your plane. You have 79 passengers on your plane. One passenger pays for 2 seats. In total 80 seats are taken – Your load factor is thus 80%.