

Think Ahead

ACCA

STRATEGIC BUSINESS LEADER

PRE-SEEN INFORMATION

Applicable for the September 2023 Exam

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1. Introduction

Corjetz is a low-cost regional airline business. It was established 20 years ago in Corland, a country located in the continent of Hundria. Over the years, it has positioned itself as one of the world's leading low-cost airlines and is currently the second largest low-cost airline business operating in Hundria (in terms of passenger numbers).

Corjetz currently operates nearly 1,000 routes (destinations) in over 30 countries across Hundria. Its head office is based at Near City airport, located in the south of Corland. Hundria is a politically stable and economically developed continent of the world. Most of the countries in Hundria form a trading bloc which facilitates free trade and free movement of people within it. Each country in Hundria uses its own currency. Corland's currency is the \$.

Corjetz operates a 'point-to-point' service, meaning that it operates its flights directly between destinations. This means that its passengers do not have to travel to or change flights at a 'hub' airport to reach their destination, which helps Corjetz to reduce its operating costs. It also keeps costs low through its 'no-frills' approach to flight delivery. This approach means that in-flight meals are not provided (unless paid for separately) and includes the automation of a wide range of its processes, including bookings, flight documentation, baggage drop and flight check-in. Additionally, it operates a profitable and popular portfolio of routes between over 130 airports across Hundria.

2. Airline industry information

Overview



The airline industry encompasses a wide range of businesses called airlines which offer an air transport service to customers. Normally referred to as commercial airlines, these businesses offer scheduled commercial flights which carry both human passengers and cargo, and in most cases are carried out using jet aircrafts. Commercial flights are those which transport passengers from one destination to another with a pre-booked ticket. Non-commercial flights are either operated privately or by the military.

The airline industry forms just one sector of the wider aviation industry, which also includes all other aviation-related businesses, such as jet engine suppliers, aircraft manufacturers and aerospace companies.

The airline industry directly and indirectly supports global trade, tourism, and economic growth. Therefore, it has had a major influence on globalisation in many other industries.

Passenger types

A leisure passenger is someone travelling on holiday to stay in a hotel or a holiday resort to relax and/or experience local tourist attractions. A business passenger is someone travelling for work purposes and will normally be attending a business meeting or conference. Both types of passengers may be offered the option to travel first class, business class or economy class by some airlines.

First class passengers pay significantly more for their ticket but in return receive a high-quality service, including dedicated airport lounges, large and comfortable in-flight seats and unlimited food and drink provided throughout the flight. Business class passengers pay less than first class passengers for their tickets and receive a slightly lower level of service. Economy class passengers pay even less for their flight ticket than business class passengers. An economy

price ticket normally includes a standard seat with limited leg room and standard and limited in-flight food options.

Airline types – by service

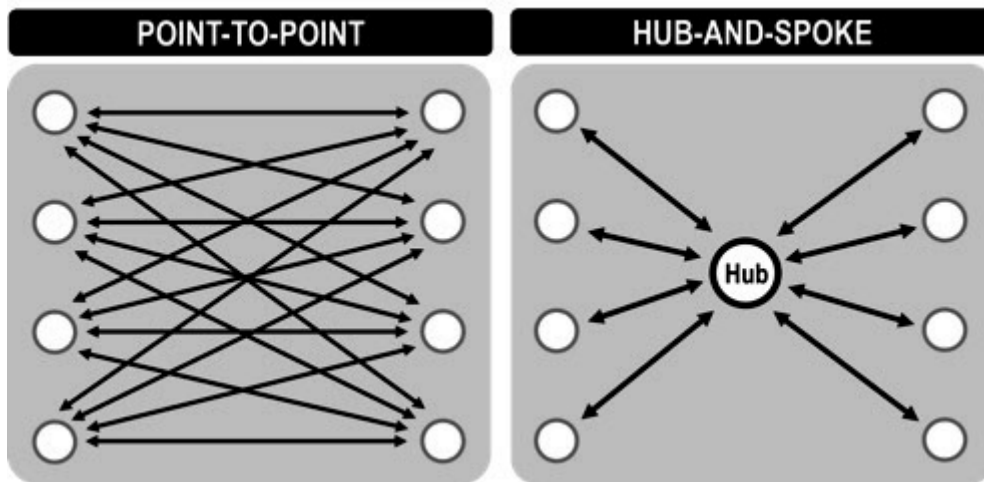
International airlines	International airlines are the largest and often the most well-known airlines. International airlines offer global services, carrying leisure and business passengers and cargo over long distances. International airlines usually have multiple airport hubs which provide customers with access to hundreds of global destinations.
National airlines	National airlines typically focus on offering services within their home country, but many also offer access to international destinations. A national airline is likely to have a smaller aircraft fleet than the international airlines and often also offer services to both leisure and business passengers.
Regional airlines	Regional airlines tend to focus on offering services within specific regions, for example, a continent. In some cases, they provide passenger services to locations not offered by either national or international airlines.

Airline types – by business model

Full-service carriers	Full-service carriers offer a range of pre-flight and on-board services within the price of the ticket. This may include checked-in baggage, in-flight meals, airport lounges and multiple service classes, such as first class, business class and economy class. They usually fly national, international, long-haul, and short-haul flights.
Low-cost carriers	<p>Low-cost carriers aim to gain a competitive advantage over full-service carriers by reducing costs. This is done in several ways, including having smaller fleets and smaller aircraft, by offering a more limited service and by flying to smaller and less popular airports, where landing and ground handling fees are cheaper.</p> <p>For customers, flights from low-cost carriers are often significantly cheaper. Services such as in-flight meals and baggage allowances will normally not be included in the price of the ticket. Instead, where these facilities are available, customers pay extra for them. Some low-cost carriers offer both economy and business class services.</p>
Charter airlines	Charter airlines focus on providing passenger services to tourists to a specific destination. In most cases, they do not sell airline tickets directly but instead enter into agreements with tour operators who then take responsibility for finding passengers for them.
Cargo airlines	The main focus of cargo airlines is the transportation of cargo or freight. Some cargo airlines are subsidiaries or sub-divisions of airlines which also offer passenger services.

Hub and spoke versus point-to-point travel

Airlines which operate a hub and spoke model fly from one airport into a hub airport, with passengers then connecting from the hub onto a flight to their final destination. Airlines operate this model because it allows them to offer more flights to passengers and is designed to optimise an airline's network coverage. The alternative to this is the point-to-point model, where the airline focuses on providing passengers with a route from origin to final destination. In this model, there is no need to connect passengers through a hub airport, as flights operate directly between cities. This model has proved popular with airline customers in recent years and most of the low-cost airlines operate this model.



Key air transport statistics 20X2

Key statistics

People transported (passengers per year)
 Average number of commercial flights per day
 Passenger revenues

	20X2 Global	20X2 Hundria
People transported (passengers per year)	3 billion	600 million
Average number of commercial flights per day	73,000	15,000
Passenger revenues	\$390 billion	\$79.2 billion

Flight management activities

Flight management activities are provided by airports. Airlines pay for these services via airport fees.

Air traffic control (ATC)

Air traffic control (ATC) is a vital aspect of air transportation. It is carried out by ground-based personnel specially trained in monitoring air traffic in a specific location. ATC is responsible for moving aircraft safely and efficiently through the airspace system. Air traffic controllers ensure that aircraft remain at set distances apart whilst moving them between airports along set flight paths.

Aircraft ground handling

Ground handling refers to the wide range of services provided to facilitate passengers within an airport and to facilitate an aircraft's ground positioning both before and after a flight. Ground handling services include:

- Baggage management – including sorting passenger baggage and loading and unloading baggage onto and off aircraft.
- Customer service management – including gate assignment, and pre-flight facilities management (such as operating shops and waiting areas in airports).

- Aircraft boarding management – including operating shuttle bus services between the airport and the aircraft, ramp facilities and passenger travel documentation management.
- Aircraft towing and re-fuelling services – including movement of an aircraft to or from a parking stand or from one gate to another and the re-fuelling of aircrafts using fuel purchased by the airline.
- Airport security – including pre-flight passenger screening and security checks, baggage scanning, passport control and all on-site security management activities carried out to protect airport buildings, runways, and machinery.

Industry challenges

Demand is cyclical, with demand for flights driven by economic growth. In the last ten years, low-cost carriers have increasingly taken market share from full-service carriers by offering passengers affordable and low-cost air travel. This has made air travel more accessible to a much wider customer base globally. It has also introduced a high level of competition to the industry.

The airline industry has been impacted by several geopolitical events in recent years, such as terror attacks, cyber-attacks and extreme weather events caused by climate change. These have led to both short and long-term consequences for demand. Terror and cyber-attacks have impacted on customer confidence in the industry and climate change is increasingly prominent on the global political agenda.

Fuel is one of the biggest costs for airlines, and one of the most volatile. Fuel represents over 20% of most airlines' cost base annually. The price of jet fuel is strongly correlated to the international price of crude oil which has been highly volatile in the last five years. Fuel costs are particularly prone to foreign exchange movements, which can also have a significant impact on this major cost.

The airline industry is still some way away from operating aircraft with alternative fuels such as biofuels, and most airlines are still fully reliant on crude oil. Governments and customers are becoming increasingly environmentally sensitive and the expectation for airlines to operate in a 'greener' way is increasing. If the airline industry is to survive in the long term, it will need to invest significantly in alternative fuel sources.

Environmental factors are a major and increasingly significant issue for the airline industry, affecting both passenger demand and operating parameters. Customers are increasingly aware that their carbon footprint from airline travel is contributing around 3% of global carbon emissions. Therefore, many are actively considering alternatives to air travel.

Despite environmental concerns, commercial international air traffic (aircraft operating in the skies) increased by 5% in 20X2. According to the latest industry data, the international air traffic control environment is struggling to cope with increasing flight numbers, evidenced by the number of delayed flights rising by nearly 20% in 20X2. Similarly, airports around the world are struggling to cope with demand from airlines for flight slots¹. This is leading to increased congestion at airports, resulting in more delays for passengers. This is also driving up aircraft ground handling service charges for all airlines.

¹ A flight slot is the authorisation to either land or take off at a particular airport on a particular day during a specified time period. Flight slots are paid for by the airlines.

Industry key performance indicators (KPIs)

Airlines use multiple performance metrics to measure and monitor their performance.

Some examples are provided in the table below:

KPI	Definition
1. Available seat kilometres (ASK)	ASK is calculated by taking the number of seats available and multiplying by the distance flown. It is a measure of airline capacity.
2. Revenue per available seat kilometre (RASK)	RASK is calculated by dividing the airline's total revenue by its total ASK. It is a measure of potential revenue generation.
3. Load factor	Calculated as the percentage of checked-in passengers in relation to an aircraft's available seats. It is a measure of utilisation.
4. Revenue passenger kilometres (RPK)	RPK is calculated as the number of passengers multiplied by the total distance travelled. It shows the number of kilometres travelled by paying passengers who are referred to as 'revenue passengers'.
5. CO₂ per passenger (grams)	Calculated as total CO ₂ produced by the airline divided by the number of passengers.
6. Punctuality	The percentage of flights which land on time at the destination airport. Typically, this means landing within 15 minutes of the scheduled arrival time.

Industry body

The airline industry has a global trade association. Its role is to help formulate industry policy and support airline activity. It promotes awareness of the benefits which the airline industry brings to national and global economies. Its role is also to develop global standards for the air transport industry, and it provides advice on airline safety and security by setting clearly defined rules.

3. Corjetz overview

Background

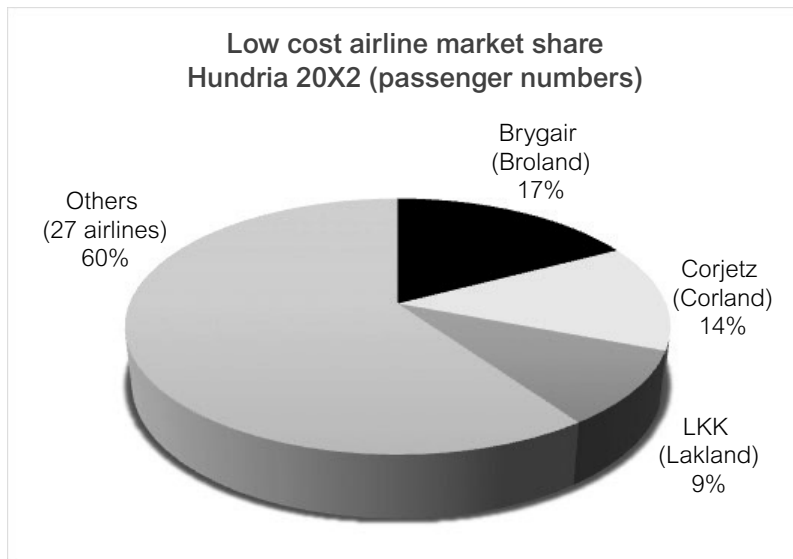
Corjetz was established in Corland 20 years ago by entrepreneurial brothers Eric and Axel Madson. They both had worked for many years in the airline industry and had a keen interest in travelling. With money inherited from their parents, they acquired two second-hand aircraft. They started by operating flights from Near City airport, located 40 miles from Corland's capital city in the south of the country, to airports located close to two cities in the north of the country.

Using their knowledge and experience of the airline industry, Eric and Axel spotted a gap in the market in Corland for more convenient and affordable low-cost air travel. Up to that point, Corland's airline industry was dominated by full-service carriers.

The low-cost business model in the Corland airline industry proved extremely popular with air passengers, who liked the convenience of Corjetz's point-to-point service and the significantly cheaper ticket prices than those offered by existing full-service carriers.

Over the years, Corjetz has focused on operating flights to and from airports across Hundria with the highest customer demand and continually looks for opportunities to extend its network. Cost

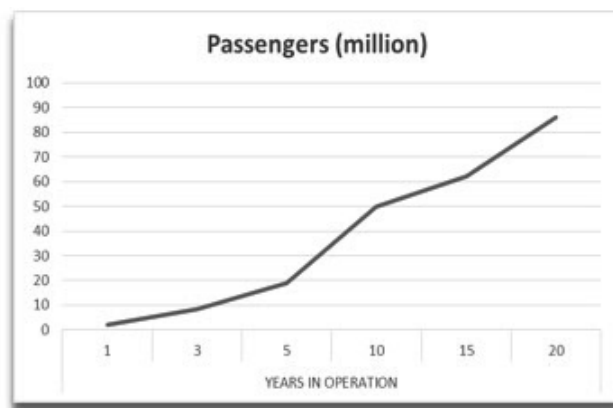
efficiency has been its overriding strategic focus. This has been delivered through developing and maintaining long-term strategic partnerships with aircraft manufacturers, key airports, ground handling operators and maintenance contractors who maintain Corjetz's owned aircrafts, and by operating the latest and most efficient aircraft.



Over the last 20 years the low-cost model of air travel has continued to be very popular with customers across Hundria, and there are now 30 low-cost airlines operating across the continent.

Eric and Axel both retired from the business 10 years ago but since their departure, Corjetz has remained focused on maintaining and strengthening its low-cost strategic position.

Corjetz growth



Ownership

Corjetz was listed on the Corland stock market nine years ago, one year after Eric and Axel retired. The brothers originally retained a 35% share in the business when it was first listed but since then, they have sold most of their shareholdings in Corjetz and they no longer play any role in running the business. Currently, 80% of Corjetz's shares are held by large institutional investors, 10% of shares are held by Corjetz employees and the remaining shares are held by small private investors. Magda Fisk is the current CEO of Corjetz and has been in place for 10 years. She was instrumental in achieving Corjetz's listing.

Corjetz key resources

Routes

Corjetz has a profitable and extensive portfolio of routes which it operates to and from over 130 airports across Hundria. This makes it very popular with customers, who find the range

of destinations and frequency of flights offered by Corjetz very convenient and attractive. It regularly reviews its route network to exploit the latest demand opportunities.

Fleet

Corjetz operates a modern fleet of 300 aircraft, of which 75% are owned outright and the remaining 25% are leased (leasing is a common form of financing in the airline industry). Corjetz has invested significantly in the latest aircraft which are more fuel efficient and environmentally friendly. This has contributed significantly to its low-cost strategic position and has also positively impacted on reducing carbon emissions. Corjetz's average aircraft is 4.5 years old, which is low compared to the industry standard.

Corjetz focuses on leisure passengers rather than on business passengers, therefore its aircraft cabins consist of economy class seats only with a high-density layout (this gives Corjetz 150 seats per aircraft compared to 140 seats on similar sized aircraft operated by its competitors). This higher seat density allows Corjetz to offer lower ticket prices per flight which is attractive to customers.

Technology

Corjetz applies data analytics extensively throughout its business and considers data to be a key business resource. It has always been an early adopter of the latest technologies in the airline industry. It currently makes extensive use of technology throughout its business operations, including:

- A mobile app which allows passengers to book flights, check in for flights, download boarding passes (to either print off or store as a mobile boarding pass on the passenger's smartphone) and receive real-time flight status information. The app significantly reduces the cost of issuing, distributing and processing physical tickets. An enhanced feature of the mobile app is the integration of live data from the airport's information systems with the passenger's booking and flight details, allowing personalised instructions and updates to be sent to passengers before their journey.
- In most airports Corjetz operates fully automated baggage check-in machines to help reduce check-in queues.
- All aircraft are fitted with electronic touchpads for the crew, to replace laptops and printed navigational charts for pilots. This has replaced the need for each flight to carry heavy printed flight logbooks which has helped to reduce CO₂ emissions per flight.
- All Corjetz's aircraft are fitted with big data servers to collect continuous in-flight data about flight and engine performance.

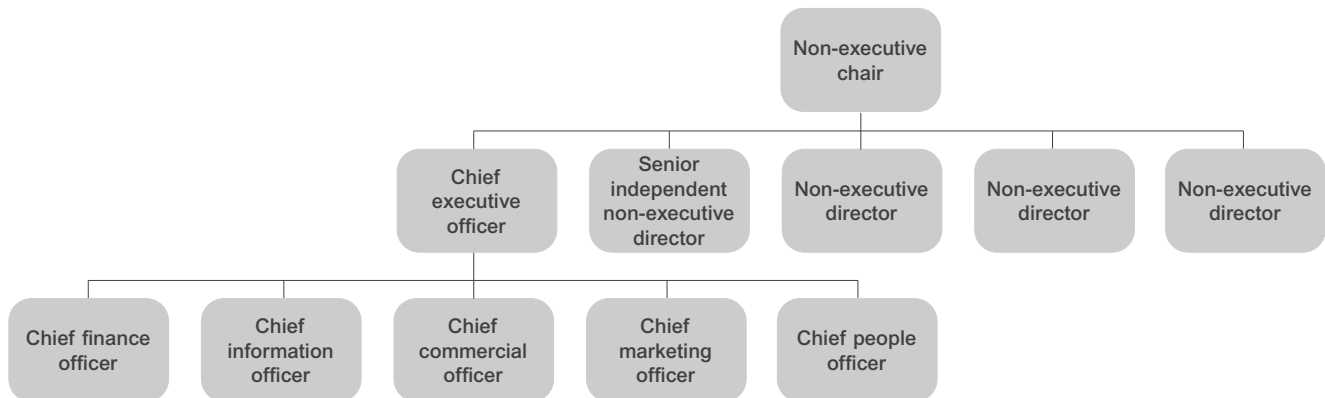
Corjetz continually searches for new technologies to enhance and support its business operations, to improve efficiency and reduce costs.

People

Corjetz employs nearly 11,800 staff, including over 2,000 pilots and 6,500 cabin crew. The remaining staff fulfil a number of roles, including staff operating at airports and head office staff operating in IT, finance, customer services and human resource management. Regular updates are provided to employees on key business issues which include a regularly updated intranet, a monthly 'meet the board' online chat, and a weekly staff newsletter. All Corjetz employees undergo a full induction programme and have access to online learning resources, as well as career development opportunities. All employees receive regular and scheduled managerial appraisal of their performance.

Board structure

Corjetz has six executive directors and five NEDs (including the chair). The board structure is as follows:



There are four sub-committees:

- Audit committee
- Nomination committee
- Remuneration committee
- Safety committee

Risk management and key risks

Corjetz has a detailed risk register, and a robust enterprise risk management (ERM) framework is in place. The board takes responsibility for determining the nature and extent of the risks it is willing to take to achieve its strategic objectives. It is also responsible for maintaining and monitoring the systems of internal control and risk management. Risk management activities are co-ordinated by the risk and assurance team, led by a risk manager who reports to both the chief financial officer, and to the chair of the audit committee. Corjetz's key risks include:

- Safety and security of customers and staff. Delivering safe and secure operations which meet the needs and expectations of customers and staff is critical to the business.
- The growing impact of climate change and increasing expectations from customers, governments, regulators, and wider society for a greater focus on the environment and sustainability activities.
- Macro-economic and geopolitical events such as general economic trends, foreign exchange rates and volatile fuel prices which all impact financial performance.
- The availability, security and performance of its website and its critical business operating systems.

4. Corjetz website extracts

What we do



We consistently deliver low fares to our customers and operate flights to the places our customers most want to travel to, using our cost advantage and leading position at airports across Hundria.

Mission statement

To connect the people of Hundria, through affordable and sustainable air travel.

Our values

- Managing emissions
- Investing in efficient aircraft
- Minimising waste



- Staff health and safety
- Customer security
- Emergency preparedness

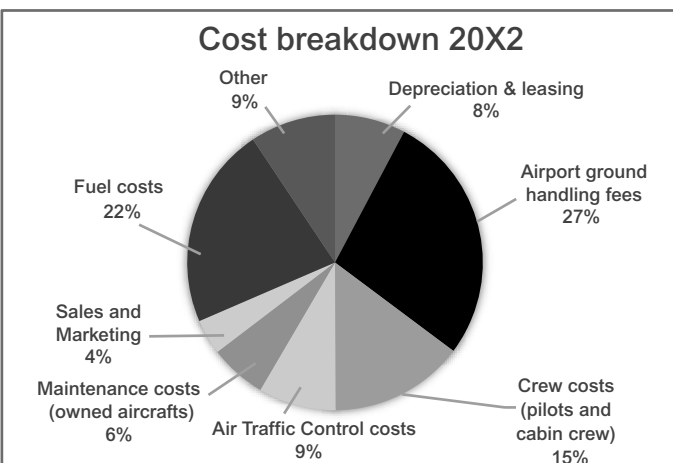
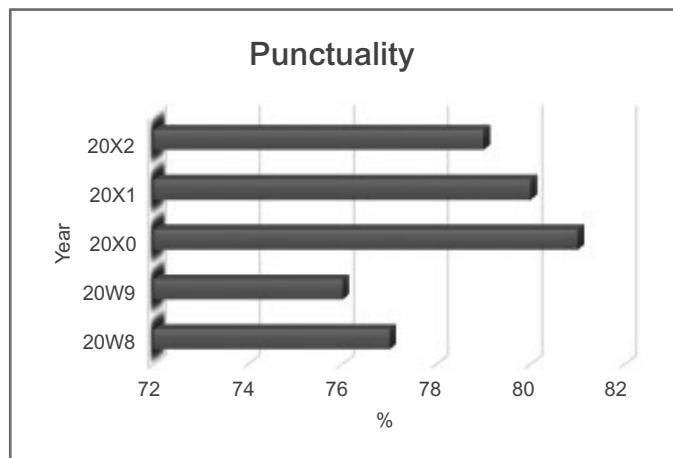
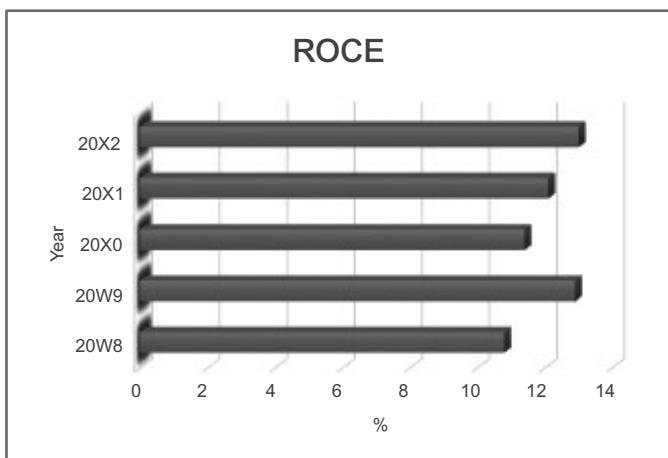
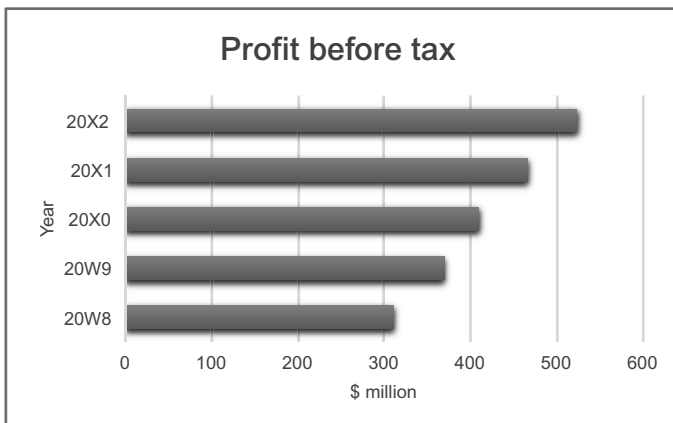
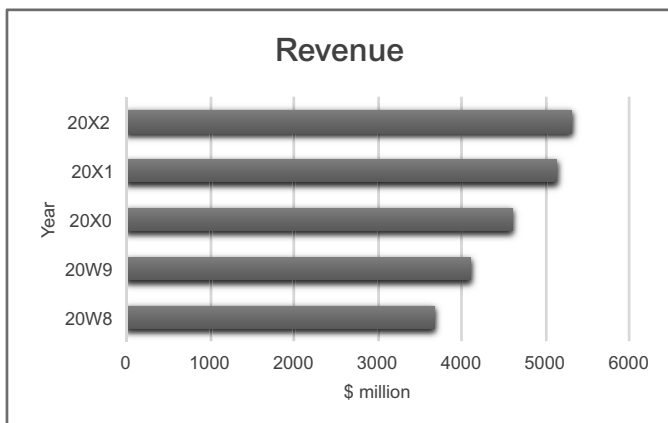
- Engaging with employees
- Offering fair reward
- Providing development opportunities

- Customer satisfaction
- Data protection
- Preventing bribery and corruption

- Investing in latest technologies
- Innovation to improve customer experience and affordability

5. Corjetz headline results and cost breakdown

Headline results and cost breakdown (20X2)



Notes to cost breakdown 20X2:

1. 'Crew costs' include salary and training costs for pilots and cabin crew.
2. 'Other' includes IT and head office administrative function costs such as finance, customer services and HR management.