Aer Lingus' alternative view

Some radical thinking on fares and charter competition was aired by Michael Dargan, general manager of Aer Lingus-Irish, at the recent Iata annual general meeting. A second report on the meeting by DAVID WOOLLEY, who was present in Honolulu

WHAT DOES IT PROFIT a scheduled airline to go broke trying to beat the charter operators at their own game? Is it not better to concentrate on doing the thing which a scheduled carrier is best at doing, namely offering regular and reliable service to the public with a flexible pricing system suited to the market? This was the talking point thrown to the floor of the Iata annual general meeting in Honolulu on November 18 by Michael Dargan, Aer Lingus-Irish general manager, during a symposium on "the scheduled airlines and the changing market."

Mr Dargan had some radical ideas for discussion, including a pricing system based on a "floor" fare, with freedom for carriers to adjust their fares above the floor to meet the needs of particular markets.

"We must reach some conclusions in the next few months which will improve our performance in this industry," said Mr Dargan. "If we don't—and it's a rather shattering thought—there may be many new faces over the next couple of years at our meetings."

The public symposium which Iata holds during its annual general meetings—which otherwise take place behind closed doors—is usually good value, and this was no exception. Mr Dargan caused some argument, as no doubt he intended, and some pretty deep differences were apparent within the ranks. But there are signs that his talking points will be receiving rather more than cursory examination in coming months.

Scheduled airlines, originally geared to business travel in particular, had responded too slowly to the changing markets, said Mr Dargan, and as a result an opening had been left for the specialist charter operators. The charter, moreover, whether operated by a scheduled or a non-scheduled airline, was a product which in many areas met a market need for the lowest-cost bulk travel. "I think we have to face up fully to the implications of the changing markets and frame our policies on the facts as they are rather than on what we might prefer the facts to be.

"I feel that so far in our reaction to non-scheduled competition we, the scheduled airlines, in some cases urged on by governments, are making some serious errors and that if we persist in them many of us will go bankrupt, or at any rate broke (there is a difference).

"An indication of the wrong approach is the oft-repeated: 'We have to fill those empty 50 per cent of seats in the scheduled aircraft.' Another is: 'We must reduce fares on the scheduled services to match the price of the charters.' "

It was not practicable as a rule to fill more than 75 per cent of scheduled capacity, said Mr Dargan, but the charter operator could rely on selling the whole aircraft. Scheduled costs moreover were higher than charter costs, "and we claim to operate to different standards of reliability, reserve aircraft in the fleet and punctuality.

"The logical outcome is that if the scheduled carrier continues to attempt, as we are at present unwisely doing, to price his product to compete directly with the charter, he is heading for financial trouble. The scheduled carrier's costs are necessarily higher, and his load factor is necessarily lower.

"I put it to you that we should concentrate on marketing our own good product at an economic price and not be drawn into total price competition with the charters on grounds of their own choosing. Where competition with charters would lure us to cut our prices below our cost of production plus sufficient profit to enable us to grow, we should resist the temptation. What good is a higher, loss-making share of the market?"

Low price, said Mr Dargan, was a very significant factor indeed—the charters proved this point. Yet in present conditions of over-capacity the product was being upgraded—"wider seats, more lounges, more giveaways—thus upping our costs of production. . . . Is it wise to offer a more luxurious product now and expect to be able, without the greatest difficulty, to downgrade it again when the passenger numbers grow, as they will do, to the number of seats?"

It was time to offer a product at lowest prices to meet tourist market requirements. "Let us take out the lounges; some may say take out the galleys too. Let us put as many seats in as will be reasonably comfortable and supply cabin staff to meet the safety standards only. Let the passenger who wishes to have food buy as much or as little as he wants, and if need be take it on as a lunch or dinner box. . . . With lower fares established to meet our costs on some such basis, and allowing the efficient carrier a profit, we can reach with scheduled services the biggest share of market that wisdom will allow us to chase.

"To any who shout 'cattle truck,' I say that it is thinking of that kind which has handed over to the charters much of their footing in the market.

"I am not suggesting that we eliminate today's first- or economy-class standards. The wide-bodied aircraft are, it seems to me, large enough to allow us to experiment with another class, giving the passenger a choice of three classes of service—but do let us have realistic and not exorbitant price differentials between them."

Below the basic economic fare, said Mr Dargan, which could be quite close to the affinity-charter fare, it would be sensible to meet charter competition only with charters. This should be done making best use of scheduling—through light legs on long-haul flights and night flying on short-haul, for example—and could be profitable on marginal costing.

Beyond this it followed that to compete in charters an airline would have to do it "through a separate operation—a subsidiary if you will—properly costed and organised to match the bone-pared practices of the charter companies. And allow me to doubt that all scheduled airlines will have the self-discipline to see this through."

Turning to Iata itself, Mr Dargan said that a new framework for fares negotiations was urgently needed. "The traffic-conference machinery creaks and groans under the strain of closing agreements to cover every market for every variation of demand and product and price. . . . In all this preoccupation with detail the flexibility and breadth of mind necessary to solve the real pricing problems seem to have disappeared." With new machinery the association could restore its reputation with governments and with the public.

"I fear however that we are in immediate danger of offering ourselves a palliative instead of a cure. The word is out that we should simplify the fares, but I submit to you that what we really need to do is to simplify the framework under which the fares are agreed, not the fares themselves. . . . We are seeing, it seems to me, seeing the dying kicks of the comprehensive Iata rating agreements."

Mr Dargan's plan for a revision of the system involves, as he explained, the establishment of a basic rating structure. Beyond this, variations to suit particular markets could be agreed among the airlines concerned. There would