

Economic Efficiency of Selected Air Traffic

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Summary

Successful businesses can only be the ones that are able to handle the flow of financial transactions within the company and beyond. The paper evaluates economic efficiency of the existing air traffic. It focuses on the structure of assets and cash flow of the company. The economic indicators tell us much about the company management for each accounting period. The results are compared over different time periods forming the basis for evaluating air traffic. In conclusion the profile of operation is portrayed providing important information as to how the company should be managed in the future. In the paper the methods such as analysis, synthesis and interpretation are used. After the synthesis of information from a conclusion on the economy of air traffic is deduced suggesting a sequence of steps that the company should take to achieve higher efficiency.

KEY WORDS

effectiveness
air traffic
economic returns

INTRODUCTION

Economic efficiency of the enterprise is a feature that discusses the company's ability not to waste their financial assets, but to make full-scale use of them so as to achieve profitability. At the present economic efficiency is an issue in every sphere of business. This is so because of the market, which is saturated by businesses offering the same or very similar products and services at the same price. Only businesses that are efficient in handling resources and managing operations can face the pressure of competition and do not take the risk of potential threats to their business. The global economic crisis has hit especially those companies whose management was ineffective.

Although since the beginning of the crisis several years have passed, its impact on the world economy is felt to these days. Enterprises lack funds and they must apply for loans from banks, which are granted at increasingly higher interest rates. The crisis also affected the inhabitants of countries who do not have enough finances in order to meet their basic human needs. This phenomenon is directly linked mainly with companies that were not managed effectively and were destroyed by the circumstances. The effect of failure resulted in rising unemployment and higher indebtedness of the population. The main objective of this paper is to analyze the economic efficiency of Czech Airlines.

The paper aims to help understand the economic efficiency of the selected air operator and to draw adequate conclusions. It is divided into four chapters, each dealing with the issue from a different perspective. Chapter one deals with general knowledge of economics, also defining the various economic indicators referred to throughout the paper. They help us define the economic situation in the company and conclude on the financial health of the company. The following chapter deals with the methodology and defining of main goals. Chapter three is divided into two parts. The first part is focused on analyzing the airline aimed to show its profile, history and economic indicators, balance sheet and the profit and loss account. The second section focuses on the calculation of various economic indicators. The achieved results of the calculations are discussed in the final chapter.

BASIC DEFINITIONS OF ECONOMIC EFFICIENCY

Economic efficiency is currently one of the key conditions of a company to be able to counter the attacks of the competition and to correct the weak-links in of their management. Efficient operation results in development, growth, higher market share, easier defence against the competitions introduction of standards into their field. Conversely, inefficient operation is considered an easy target

for competitors, bringing about a decline in traffic, negative values in business resulting in bankruptcy. The term is understood as competition warfare between businesses themselves, whether it is a price or non-price nature. When it comes to price competition, similar products / services are offered at a lower, more acceptable price for the customer. Non-price competition is mainly about promoting products or services through advertisements, commercials or offering a higher level of services and better approaches to customers. The aviation industry has even the slightest errors result in market failure. Competition is so strong that the aviation industry is a monopolistic competition model, consequently, start-up companies it is almost impossible to get into this market. The overall economic efficiency consists in the correct synchronization following economic indicators: liquidity, debt, activity and profitability.

Liquidity reflects the company's ability to pay its current obligations. The logical assumption is sufficient inflow of funds in the optimal time distribution. Liquidity refers to the ability of transforming assets into money. The order of the assets under the liquidity standards are as follows: short-term financial assets (referred to as the most liquid ones) - Short-term receivables - Inventory - Long term Financial assets such as Time deposits, Securities, Long-term

receivables up to intangible and tangible assets (those of minimum liquidity). The most commonly used liquidity ratios are immediate liquidity, quick ratio, current ratio and overall liquidity [1].

The indebtedness of the company is a condition in which the company must draw funds from foreign funds. In such case, a company fails to cover the costs of the costs from their own resources and thus are inclined to finance these expenditures through borrowed funds. These sources include various forms of credit provided by banks. In the case of foreign sources, consideration might also include loans between businesses. The use of such resources is a natural part of company economics. External sources help us develop more rapidly in any area. It is important for the company to won only so much foreign resources for which they can pay by their own economic activity. Debt ratios include: self-financing ratio, an indicator of undercapitalization and cash flow – based indebtedness.

Indebtedness:

- Up to 30% indicates low debt,
- 31 – 50% mean debt,
- 51 – 70% high indebtedness,
- Over 70% maximum debt risk.

Indicator Activity - this is the assessment of the effective use of corporate assets. The company has assets deposited their funds, often not only own, but also borrowed (made more expensive by interests). Administering and care of assets requires considerable funds. Consequently, it is in place to be interested in managing purchases and subsequently using them so as not to cause redundant outflow of funds or increased costs of administration. By analogy, undersized net assets could generate obstacles to the smooth provision of the main activity of the company. The most commonly used indicators of activity are time asset turnover, inventory turnover, receivables turnover time and turnover of assets.

Profitability indicators comprehensively inform about the success of the business. The numerator is always a net profit or its modification. If the sales are in the numerator, they show how much profit the company made per of one currency unit of sales. The ratio of net income and capital can determine the effectiveness

of its use. According to the capital used, the indicators are divided as follows:

- return on capital employed (ROA),
- on equity (ROE),
- long-term capital employed (ROCE).

Results of ratios may differ suggesting that the company is doing better in one area than in others. The conclusion of the analysis consists in the verdict whether we can count on a long lasting going concern of the business. The verdict is supported by numerical results. The most important indicators using a rapid test point method. The final grade is calculated as the simple average of the marks for the individual variables. This method is called the synthetic - Králíčková rapid test, reflecting the financial health of the company.

ANALYSIS OF THE CSA

The CSA was founded 6 October 1923 by the Czechoslovak government as Czechoslovak State Airlines. About twenty days later he made the first flight from Prague to Bratislava. The distance was covered by chief-pilot Karel Brabenec on Aero A 14 aircraft. In 1929 the company became a member of the International Air Transport Association (IATA) Initially, CSA flew only on national lines and the first line abroad was in 1930 to Zagreb. Later, flights were also extended to Rijeka and Dubrovnik. 11th September 1933 was opened regular line in the direction of Prague - Bucharest, 2 September 1936 CSA linked Prague international airport and the Moscow airport Sheremetyevo airport.

In August 1992, CSA has been transformed into a joint stock company with registered capital of 2.7 billion crowns. Although dividends were never paid dividends, the share capital of the company calculated according to Czech accounting standards gradually declined and in 2009 reached negative values.

In 2005, the fleet included the first two Airbus A320 - 200 for regular services and two Airbus A321 – 200s on charter flights. In 2006, the airline transported for the first time in history, a record 5.5 million passengers. In the spring of 2007, CSA received the first two brand new Airbus A319 - 100th. This year, CSA introduced new product - Internet clearance (Internet check-in). In 2008, CSA gradually

got four brand new Airbus A319 – 100s. Financial situation sharply deteriorated, despite an accounting profit of 1.1 billion crowns from the sale of real estate in the area south to equity fell by 1.1 billion to only 102 million crowns. There was a call for tenders for selling the CSA, but in 2009 the Government in agreement with the trade unions withdrew from the sale. In 2010 the company has terminated fights to the UK after 75 years of regular service as well as domestic routes to Brno. [2]

SUBSIDIARIES

Since 2005, the company provides CSA Services Ltd., through its own agency labour recruitment services, temporary work assignment, so-called: Temporary help or consultation in the field of human resources. Since 2006, it has been offering services and call centre desk round the clock. CSA Services further develop their activities in the organization of training courses and other educational activities. Czech Airlines Handling Ltd., provides clearance of passengers, aircraft , cargo and mail, not only for flights with Czech Airlines, as well as the lines of other companies.

Thanks to superior facilities, and skilled personnel, every year more than half of all aircraft and passengers are handled at the airport Prague – Ruzyně, now Vaclav Havel Airport. The company also focuses on the non-contractual handling, aircraft cleaning and objects, operates passenger and freight traffic and maintaining vehicles and mechanization not only for the companies within the Group Czech Airlines, as well as for external customers. In addition to Prague, starting with 2010 the Czech Airlines Handling provides new ticketing and ticketing service at airports in Ostrava and Karlovy Vary. In the modern facilities the airport Prague - Ruzyne, Czech Airlines Technics offers its clients highly professional and certified services in the field of technical maintenance of transport aircraft, based on a long tradition and experiences.

Czech Airlines Technics specializes in the periodic review of aircraft, carrying out repairs of damages, year-round provision of support mainly for types such as Airbus, Boeing and ATR. It maintains daily contact with aircraft manufacturers, thus, inter alia, gaining valuable information on recommended adjustments to the aircraft of their

Tab. 1. Abridged Balance Sheet (in thousand EUR)

	Year 2010		Year 2009		Year 2008	
	Account	%	Account	%	Account	%
total assets	258 322	100	309 560	100	405 767	100
fixed assets	113 444	43,92	153 049	49,44	177 389	43,72
current assets	112 354	43,49	125 488	40,54	197 887	48,77
accruals	32 524	12,59	31 023	10,02	30491	7,51
total liabilities	258 322	100	309 560	100	405 767	100
own resources	14 658	5,67	-91 601	-29,59	3 960	0,89
external resources	179 006	69,3	337 106	108,9	330 042	81,34
accruals	64 658	25,03	64 055	20,69	71 765	17,69

Tab. 2. The summarized profit and loss account (in thousand EUR)

	Revenues			Costs			Together		
	2010	2009	2008	2010	2009	2008	2010	2009	2008
operating	777 218	835 087	984 925	790 915	791 928	957 799	-13 697	115 159	27 126
financial result	31 447	82 338	94 402	42 404	88 124	102 076	-10 957	-5 786	-7 674
special	29 898	0	0	2 306	2 646	1134	27 592	-2 646	-1 134
result							2 938	106 727	18 318

customers. Developmental Centre of creating designs for non-standard repairs, approved by aircraft manufacturers themselves to be then applied in practice. The objects of the company's business include the testing of aircraft parts. Czech Airlines Technics, among other, mediates borrowing tools and equipment and ensures the operational deployment of a new technique outside the company headquarters for repairs, testing and release of certified aircraft in service.

For travel agents and other contractors, the HOLIDAYS Czech Airlines, a.s. charter flights to attractive tourist destinations. They fly to places most preferred by clients. Holidays Czech Airlines transported thousands of tourists throughout the year leisure and entertainment, sports teams, musical ensembles, pilgrims and many other special and esteemed clients. Among the main partners HOLIDAYS Czech Airlines include major travel agencies in the Czech Republic but also from abroad. Among other, the airline also operates flights for clients of health insurance in the healing and stays for children with special health problems. Activities of travel agencies form integral part of the company business.[6]

ECONOMIC REPORTS

Analysis of airline would not do without specific data on the distribution of funds in the company. To view this structure we used economic record known as the balance sheet. Another important document is the income statement, which shows the flow of funds in various levels of business.

The short form of Profit and loss statements show how the company in operational management came from positive to negative values, indicating problems in the enterprise, related to the low occupancy of flights as well as a fall in profits from non-aeronautical activities.

CALCULATIONS

In these calculations the values for each variable were involved. The results the individual variables are shown three times so as to compare the airline management in different accounting periods. Liquidity ratios show us a recovery of the airline. Values of the current value of immediate liquidity in 2010 were closest to the recommended values of the industry. Total liquidity continues to hold out below the recommended value. Debt ratios are divided into eight items. We were interested primarily in indicators of cash flow, gross debt, long-term debt and short-term debt.

In 2010 total indebtedness of the company managed to achieve the recommended limit of 60/40, which means that the company was 40% self-financed and 60% was made up of foreign liabilities. Long-term debt is in the range of 1.61% to 0.84%. Compared with 2009, long-term debt recorded a slight increase but it is probably related to restoring the financial health of the airline associated with different investment business, possibly with taking a new loan to resume operation. Indicator of short-term debt in 2010 recorded the lowest value (40.65%) suggesting restoring of airline by other company by way of repaying short-term liabilities. Values of indicators show the shortening of periods of turnover of individual parameters. Shortening turnaround means increasing the frequency of turnover for a period of time. Consequently, the company reduced the status of the individual parameters that resulted in company recovery.

THE DRAFT AMENDMENTS TO INCREASE THE EFFICIENCY

In order for the airline operated efficiently, it is necessary to generate profits from his business. Gain can be achieved by increasing sales of its economic activities which must exceed

the cost of that activity or reducing the cost of their economic activities while maintaining the same level income. The chosen solution is a combination of both models, i.e. reducing costs and increasing profits. Reduction in the consumption of aviation fuel can be achieved by improving planning of routes from point to point preferring the most direct course. Reduction in premiums and allowances flying personnel falls under the category of structural changes in personnel, which allows for a reduction in staff and the accumulation of work activities.

Another option is a preference for employment of workers under 29 and use of subsidies provided by the state for employment of these workers. The state in this case subsidizes half the funds needed to cover the cost of such an employee. Reducing the cost of taxes relevant to the flight is the solution similar to cutting fuel costs, streamlining choice of destinations with the lowest possible taxes as possible, while maintaining destinations with sufficient demand, and reducing those of declining interest.

Another point is the review of loans for their benefit. If the credit extended from the current bank appears to be disadvantageous, i.e. for example charging high interest from banks, transfer of the loan to the bank with lower interest is suggested. It ultimately leads significant savings in finance. This proposal relates to long-term loans as well as short-term ones. The increase in sales can be achieved by increasing prices for transport for the line.

It should, however, decrease the number of customers requiring the same standard of service for their money or a higher standard of service is offered at the lowest possible costs. Offering higher level of services on board can be achieved by professionally better trained staff as well as offering daily regional

and foreign newspapers for passenger boarding the aircraft. These changes relate to international as well as domestic passenger air transport. For air cargo, it proposes an increase in freight rates, for weights exceeding 200 kg by 1% and weights exceeding 250 kg by 1.5%. In the case of handling services to other airlines, proposals involve adjustments to the price of performance so as to cover the costs of these services and ensure the profitable growth of the business. To have these costs covered, raising the margin for each output by 1% appears to be sufficient. Such price increase should not result in a significant change by customers of these services and should not jeopardize the demand for these services.

CONCLUSION

Nowadays, when almost no business is guaranteed a foothold in the market (with the exception of monopolies), economic efficiency of businesses should definitely deserve our attention. This issue is justified mainly because of competition among companies and in view of the consequences for the world economy in the wake of the global economic crisis. We meet with a large number of enterprises whose managers believe they are managing effectively, but the opposite is true. From the second quarter of 2008, the number of jobs terminated rose sharply, reaching the peak in early 2009. The trend in cutting jobs continues even today. The rate of job creation is still lower than that of their losses. The cuts in jobs are closely related to the disappearance of companies being run inefficiently. In order to effectively manage the company, restructuring, technical oversight of finance and real business valuation is needed. Only after having made these changes the company efficiency is ensured, otherwise it would lead to

demise. The effectiveness of management lies in minimizing the excessive costs and maximizing the revenues needed. Various economic indicators help determine the effective management of a company. The ability to correctly interpret the results of each calculation is the most important prerequisite for achieving economic efficiency.

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