

Year 12 Business Studies 2021

Qantas update as of October '21

Summary of news articles from 2021	2
Two 'priceless' Qantas seats sell for \$40,000 in frequent flyer auction	2
Perth SNUBBED as Qantas scraps direct flights to London due to border restrictions	2
QANTAS AND JETSTAR PREPARE TO RESUME INTERNATIONAL FLIGHTS FROM LATE OCTOBER	3
Watchdog says no to Qantas-Japan Airlines deal	4
QANTAS SET TO PHASE IN WOODEN CUTLERY ON BOARD	5
QANTAS UNVEILS VACCINE REWARD MEGA PRIZE CAMPAIGN	5
Impact of COVID-19 on Qantas' business	7
Summary of Qantas' FY21 Annual Report	7
Key financials	7
Cost savings/expense minimisation/debt reduction	7
Revenue measures (including growth)	8
*Discussion of RSF	8
Customers/frequent flyers	10
Environmental sustainability measures	11
Airline competition in Australia	11

Summary of news articles from 2021

[Two 'priceless' Qantas seats sell for \\$40,000 in frequent flyer auction](#)

Source: Yahoo! Finance

During a period when planes have been grounded, Qantas have been looking at ways to keep its frequent flyers engaged. Because: if frequent flyers are engaged, they're more likely to remain loyal.

Part of Qantas' strategy has been to offer promotions to its frequent flyer members to boost customer engagement and then loyalty.

One strategy has been to offer a "points auction" where frequent flyers use their points to bid for items, such as:

- two skybeds, as used in Qantas planes
- a Boeing 787 simulator experience
- a soccer clinic for 20 children with the Socceroos coach
- private flights to holiday destinations

Qantas Loyalty CEO Olivia Wirth said many frequent flyer members had amassed significant frequent flyer balances over the last 18 months, and described the auction as a way to provide them "more exciting" opportunities to spend them.

"This is a restless time for many Australians who can't wait for both international and domestic borders to fully open so they can take off to some of their favourite destinations," Wirth said.

Syllabus areas:

- Marketing: Strategies (Promotions -- sales promotions, and maybe even public relations? The auction of the skybeds got a lot of media coverage)
- Marketing: Strategies (People, processes and physical evidence -- use of points to boost customer engagement and positive experience with Qantas -- as a way of boosting loyalty)

Perth SNUBBED as Qantas scraps direct flights to London due to border restrictions

Source: 7News

One of Qantas' competitive advantages has been its direct flight from Australia to the UK.

The airline's popular flight flew directly from Perth to London.

However, because of Western Australia's very tight border restrictions, Qantas cannot have people from outside arriving in WA without the need to quarantine.

Instead, Qantas will fly to the UK from Melbourne and stop over in Darwin or Singapore.

Qantas CEO Alan Joyce said the airline had "no other choice" but to look elsewhere.

"We're seeing huge demand for people wanting to go to London, it's the most sought-after route on our network for Christmas and post-Christmas," Joyce said.

"At this stage, WA doesn't intend to open to international travel until sometime next year, so we'll unfortunately have to temporarily move our Perth-London service until at least April 2022.

Syllabus areas:

- Operations: Influences (government policies) -- restricting flights to WA, need to redirect flights to comply with government policies (state government policies)
- Operations: Processes (transformation processes) -- Qantas has had to rearrange its transformation processes to comply with government policies

QANTAS AND JETSTAR PREPARE TO RESUME INTERNATIONAL FLIGHTS FROM LATE OCTOBER

Source: Qantas

Details of Qantas' plans to resume flying as of 27 September 2021:

- Internationally, flights are still on track to gradually restart from 18 December 2021 onwards when Australia is expected to have reached National Cabinet's 'Phase C' vaccination threshold of 80 per cent. However, as previously flagged, Qantas will temporarily reroute its flagship Perth-London service until at least April 2022 due to the latest WA border settings and assumptions.
- Bringing forward the reopening date for travel between Victoria and New South Wales from 1 December to 5 November 2021, based on Victoria's reopening plan.

- Delaying the restart of domestic flying between Western Australia and Victoria / New South Wales by two months to 1 February 2022, based on border assumptions.

Qantas has also been very active in rewarding Australians who have been vaccinated.

- More than 400,000 fully vaccinated Australians have so far claimed their vaccination reward and gone into the draw for eight prizes of a year's worth of flights, accommodation and fuel. Almost three quarters have chosen 1000 Qantas Points as their reward, adding almost 300 million points to frequent flyers' accounts. The rewards are open to Australians who are fully vaccinated by the end of the year.

Syllabus areas:

- Operations: Influences (government policies) -- Government policies are dictating when Qantas can resume flying internationally and increase its domestic capacity. This is critical in allowing Qantas to operate closer to fully capacity and boost revenue.

[Watchdog says no to Qantas-Japan Airlines deal](#)

Source: The New Daily

The Australian Competition and Consumer Commission (ACCC) -- Australia's consumer watchdog/regulator -- has rejected a plan by Qantas and Japan Airlines to form a joint business and work together on pricing, code-sharing and scheduling.

The ACCC rejected this deal saying it would lead to poor outcomes for consumers. The ACCC said that the deal would reduce competition as Qantas and Japan Airlines would collaborate on elements such as marketing and sales, pricing, scheduling and distribution strategies.

Qantas believed the deal could have increased the offerings for consumers, such as more flights to more destinations.

Syllabus areas:

- Operations: Influences (government policies) -- rejecting a business deal that would have reduced costs and increased offerings from Qantas

QANTAS SET TO PHASE IN WOODEN CUTLERY ON BOARD

Source: Qantas

Qantas is phasing out single use plastic cutlery. This is a result of the airline's ongoing review into its sustainability practices.

The new wooden cutlery packs will initially be introduced for customers to use on Queensland flights. The packs will be rolled out across the entire domestic and regional network from October 2021.

The move is part of the airline's commitment to sustainability and waste reduction. In Q1 2020, Qantas introduced bamboo stirrers and compostable hot cups, eliminating over 5.5 million single-use plastic inflight items. This followed the removal of plastic straws across the network in 2019.

Qantas Group Chief Sustainability Officer, Andrew Parker:

"The combination of important new products like this and other critical steps like sustainable aviation fuel will help us meet our net zero carbon emissions by 2050 target and new aggressive waste reduction targets."

Syllabus areas:

- Operations: Influences (CSR) -- Qantas implementing measures to improve its environmental sustainability AND meet its social obligations
- Marketing: Strategies (People, processes and physical evidence) -- Qantas able to market the 'green' credentials of its service by eliminating the use of single-use plastic
- Operations: Role (Strategic role of ops management) -- good/service differentiation. Qantas is trying to set itself apart from the competition by pushing its environmentally sustainable practices. You could also discuss how this will increase Qantas' costs, as these cutlery items are likely more expensive than single use items.

QANTAS UNVEILS VACCINE REWARD MEGA PRIZE CAMPAIGN

Source: Qantas

In August, Qantas launched a campaign to encourage Australians to get vaccinated against COVID-19.

Fully vaccinated Australian-based Frequent Flyers who are 18 and over will be able to claim their reward through the Qantas App by choosing one of three options:

- 1000 Qantas points
- 15 status credits (which help Frequent Flyers move up between Silver, Gold and Platinum tiers)
- \$20 flight discount for Qantas or Jetstar

AND frequent flyers will then be automatically entered into a mega prize draw to win a year's worth of flights, accommodation and fuel.

Qantas has a large vested interest in Australians being vaccinated and allowed to resume flying -- domestically and internationally. Lockdowns have led to Qantas' substantial losses during COVID-19.

Qantas CEO Alan Joyce is very upfront about this campaign being in Qantas' self-interest.

"This is one of the biggest giveaways we've ever done. The impact of the pandemic on the travel industry and our own Qantas Group team members means we have a clear vested interest in the success of the vaccine rollout," Qantas CEO Alan Joyce said.

"Our crews can't wait to get back to reuniting family and friends, taking people on holiday and putting some energy back into the whole tourism industry. For us, getting the vaccine rate up to 70 and 80 per cent means thousands of people can go back to work."

Syllabus areas:

- Marketing: Strategies (Promotion) -- this is a sales promotion for Qantas frequent flyers. By getting vaccinated, they can then access discounts on flights and even one of ten "mega prizes".
- Operations: Influences (Government policies) -- the airline is running a promotion to try and help achieve government policies -- the vaccination rates -- to resume flying and bring its operations back to capacity.

Impact of COVID-19 on Qantas' business

[Summary of Qantas' FY21 Annual Report](#)

Source: Qantas

[This interview](#) with CEO Alan Joyce is also worth watching.

You can also access the [full annual report here](#).

Key points:

Key financials

- Qantas recorded an underlying loss after tax of \$1.73 billion for FY21
- COVID reduced revenue by \$12 billion in FY21
- The total revenue loss from COVID (not just FY21) for Qantas is \$16 billion (putting pressure on the ability to find cost savings as revenue is going to be slow in moving towards its previous levels)
- Qantas has NOT paid a dividend in FY20 or FY21. In contrast, Qantas paid shareholders a dividend of 25 cents/share in FY19.

Cost savings/expense minimisation/debt reduction

Qantas' cost savings plan -- its restructuring plan -- is ahead of schedule in its first year. The plan has already saved the airline \$650 million in year one.

Details of this cost savings plan:

RECOVERY PROGRAM

The Group's COVID recovery plan targets at least \$1 billion in permanent annual savings from FY23 onwards. Progress is ahead of schedule, with \$650 million in benefits delivered in FY21; this is targeted to increase to \$850 million by the end of FY22.

A total of 9,400 people have now left the Qantas Group – an increase on the prior estimate of 8,500 largely due to offshore job losses at airports and sales offices, some automation and an increase in voluntary redundancies.

Approximately 6,000 employees associated with international flying remain stood down due to the closure of Australia's external border, while an additional 2,500 employees are stood down as a result of domestic restrictions. Federal Government income support is available to Australian-based employees during this acutely challenging time.

In addition: an Expression of Interest process was launched in July 2021 to sell up to 14 hectares of under-developed industrial land in Mascot, which, if sold, could unlock several hundred million dollars to further assist with debt reduction.

Revenue measures (including growth)

Qantas has seen record growth in the performance of the Qantas Freight division. This has helped to reduce the cost of keeping its international operations idle -- such as having its planes in storage in the desert and furloughing (standing down) workers.

From Qantas:

“Demand for air cargo capacity remained extremely strong through FY21 due to a surge in online shopping in the Australian market and the belly space lost due to the cancellation of most international passenger flights. Qantas Freight was able to capitalise on this demand, delivering a record profit that significantly offset the costs of the Group’s grounded international operations.”

In FY20, net freight revenue was \$1.045 billion. In FY21, net freight revenue rose to \$1.316 billion.

*Discussion of RSF

Revenue Seat Factor (RSF) is an important financial measure for Qantas (and all airlines). To understand RSF, first we need to know two other terms.

1. Revenue Passenger Kilometers (RPK)

RPK is an airline industry metric that shows the number of kilometers ACTUALLY travelled by paying passengers. This is the number of paying passengers multiplied by the distance travelled (in KMs).

This is Qantas’ revenue from the KMs travelled by passengers.

2. Available Seat Kilometers (ASK)

ASK shows the total number of passenger kilometers that could be used by paying customers.

If an airline sold every seat on every flight for the full distances then $RPK=ASK$.

In reality, some seats are unsold. So for airlines, $RPK<ASK$. That is, the number of KMs travelled by paying customers is less than the total amount of KMs that passengers could pay to travel.

Now we can get to RSF.

Revenue seat factor (RSF)

RSF is a measure used to assess the efficiency of an airline provider in filling the available seats and generating revenues. A relatively low RSF represents inefficiency as the airline is wasting its efforts by sending off flights that are only partially full.

RSF is calculated by taking the capacity that is paid for and dividing that by the total capacity of the airline.

So, RSF is measuring: of the available seats that could be used to generate revenue, what proportion are actually filled by paying customers and actually generating revenue?

$RSF = RPKs/APKs$

(RSF is also known as seat factor, load factor or load.)

Why is RSF so important?

By carrying more passengers, airlines grow their revenue and eventually reach a breakeven, beyond which they can turn a profit.

Let's now look at Qantas' RSF for the last few years.

	FY19	FY20	FY21
Available Seat KMs (ASKs)	151,430	111,870	29,374
Revenue Passenger KMs (RPKs)	127,492	92,027	18,557
Revenue Seat Factor (RPKs/ASKs)	84.2%	82.3%	63.2%

Source: Qantas FY21 Annual Report, p. 18

There are few things we can notice from this:

- COVID led to an 81% decrease in Qantas' capacity -- comparing FY19 to FY21 -- mainly due to the grounding of the international fleet.
- COVID also led to an 85% fall in the KMs travelled by paying passengers -- over the same time period.
- The overall result is a substantial decline in Qantas' RSF -- a major measure of its revenue.

Syllabus areas:

Finance strategies: RSF shows a large decline in Qantas' revenue and therefore its profitability. To maintain its profitability, Qantas has focused on the other side of profitability: minimising expenses. Take a look at the measures Qantas is doing to reduce its cost base. Discuss this in conjunction with the declining RSF.

Customers/frequent flyers

Qantas has also tried to maintain customer satisfaction and customer loyalty by increasing the flexibility for customers.

In fact, Qantas loyalty generated earnings of \$272 million DESPITE a full year of COVID-related travel restrictions.

And in a year with only domestic travel, the total number of Frequent Flyer members grew by almost 200,000 to reach 13.6 million.

It's also important to note that Qantas' efforts to engage its customers/frequent flyers have been relatively effective. Here is the evidence from Qantas:

"Members remained highly engaged, earning and redeeming large volumes of points on the ground. Spending on credit cards linked to Qantas Points returned to pre-COVID levels in the fourth quarter and over 500,000 members have now earned points through the partnership with bp Australia. There were record levels of points redeemed via Qantas Wine and the Qantas Store, in line with broader consumer trends."

What specific measures has Qantas taken during FY21 to help its customers?

Let Qantas tell you directly:

A number of initiatives have been introduced to make travel easier and safer for customers in the midst of the COVID crisis, including:

- Extending Frequent Flyers status and offering status match to high-tier members of other airline programs.
- Offering unlimited date changes on all Qantas domestic and international fares through to at least February 2022.
- Increasing the number of reward seats available on domestic, Trans-Tasman and international flights by up to 50 per cent, providing members with more opportunities to use their points to travel when borders are open.
- Practical support of the national COVID-19 vaccine rollout to help create a safer travel experience, including plans to make vaccination a requirement for all Qantas Group employees and offering rewards to Frequent Flyers who are fully vaccinated. The COVID-safe Fly Well and Work Well programs remain in place.

Environmental sustainability measures

Qantas states that the pandemic has slowed the progress of its environmental sustainability goals. But it is still focused on improving its performance in this area, along the lines of its existing goals:

- capping its total emissions at 2019 levels
- investing in a local Sustainable Aviation Fuel industry
- reaching zero net emissions by 2050.

In the annual report, Qantas announced a new Group Management Committee (GMC) position to drive this. Current Group Executive, Andrew Parker, will become the Chief Sustainability Officer for the Qantas Group, having led these efforts since 2017 through his existing portfolio of Government, Industry, International and Sustainability.

[Airline competition in Australia](#)

Source: Australian Competition and Consumer Commission

The ACCC released a report looking at the state of airline competition in the Australian market.

The ACCC found that the Delta strain of COVID-19 forced Australia's airlines to cancel 1 in 3 flights in July 2021. During this period, capacity dropped to 23% of pre-pandemic levels.

And, for the first time ever in the Australian market, the top 10 busiest routes did not include routes in and out of Sydney.

The ACCC also found that Australia's airlines are optimistic demand will bounce back quickly once border restrictions can be eased.

From the report: "The Qantas Group has forecast that it will be flying at 110% of pre-pandemic levels in the first half of 2022. Also expecting a peak season of holiday travel, Virgin announced it has leased additional aircraft which are expected to be in the air by February 2022."

The ACCC also found that Qantas has increased its dominance of Australia's regional flying market. From the report:

"[Qantas] has grown its already expansive regional network reach since COVID-19 struck, launching 13 new regional routes in the June 2021 quarter alone. In contrast, Virgin and Rex have both reduced their post-pandemic regional networks. In June 2021, the Qantas Group carried 70% of passengers flying between a larger city and a regional area, and 87% of passengers flying between two regional locations."