



Switching on to Business

EXTRA!

Chapter 5

CALCULATING COSTS AND SETTING PRICES HANDOUT 1

Cost-cutting puts SAS back into profit

But rising costs of oil may still mean future losses

Scandinavian airline group SAS made a **profit** over the last three months as a result of a combination of higher consumer **demand** and a programme of **cost** cutting.

Profits were €900,000, compared to a loss of €1,500,000 for the same period a year ago. However, the company said that profits would have been even higher except for increases in oil prices.

"Jet fuel prices were at a very high level" said SAS chief executive Jorgen Lindegaard. He added that "major **overcapacity** in many markets and strong price pressure" also dented profitability.

The oil needed to fuel aircraft is a major **expense** for airlines everywhere and rising oil prices affect the costs of all the players in the **industry**. Other airlines, including major international carriers such as British Airways, have had to increase their fares to help counter the recent surge in costs.

Aer Lingus, on the other hand, has managed to keep its costs low, despite rising fuel prices, through a major cost-cutting programme similar to that used by SAS. Aer Lingus is locked in a major market battle with **low-cost** rival RyanAir for Irish customers. Any rise in Aer Lingus prices would be seized on by RyanAir to attract over price-conscious customers.

Cost cuts are key to SAS turning around its business and returning to full-year profitability. The company estimates that it will need a 45% cut in total costs by early next year and has pushed through measures including pay cuts, longer hours and a reduction in worker benefits to achieve this.

1. Why are costs so important to businesses?
2. If you were an employee of SAS, how would you feel about the news in the article above?
3. If a major war erupted involving Saudi Arabia, how do you think SAS chief executive Jorgen Lindegaard would feel?
4. Why do you think it is important for business people to follow current affairs and news reports?

