Costs

Costs by Time Horizons

- Costs are commonly used on a fully allocated basis
- Costs can also be created and analyzed to reflect different time horizons
- Let's say you have a situation in which service needs to be reduced temporarily due to delayed aircraft delivery.
  - For example, if you are measuring profit change for a schedule that will go in effect in three months, burdening it with cost that cannot be removed in that time is misleading
- The shorter the planning horizon, the less likely that costs are variable. They become fixed and as a result, are not included in the forecast

Costs by Time Horizons

- In the example below, using a 3-month cost reduces costs by 46% of fully allocated

CATEGORY	Full Allocated	9-month horizon	3 months horizon
Percent Variability	100%	63%	46%
Passenger Variable Costs	100%	100%	100%
Labor Costs	100%	50%	0%

Costs by Removing Fixed Overhead

- Costs can also be adjusted by removing fixed overhead
  - Fixed overhead are costs that remain constant
    - Maintenance hangers, corporate offices, rent, administrative salaries
  - Units Cost are based on drivers, like available seat miles(ASMs)
  - Flights with more ASMs will have more fixed cost
  - For example, a widebody flight's fixed costs will be higher than a narrowbody flight's fixed cost, making a comparison difficult