

## PESTE Analysis of the Romanian National Passenger Airline

Dan Păuna<sup>1</sup>

**Abstract:** A PESTE analysis is a view over the external environment of a company, business or an economical sector, and it plays an important part in the resource management and in a future decision making process. PESTE analysis places emphasis on the impact of each factor. At international level, different structures, from the governmental ones to well-known companies and not only, choose to analyze the important factors that disturb the good functioning of these entities. In the sector of passengers and freight air transport, the majority of airline operators have chosen to investigate the external environment in which they operate by using analytical methods. For instance, we can mention SWOT and PESTE analysis of the leading low-cost Air Asia, Malaysia's second carrier, that wishes to enter the Australian aviation market, PESTE analysis of Air Arabia - a new company in the Gulf that intends to corner the market of well-known companies such as Emirates Airlines, Gulf Air and Air China. Air Arabia, in order to implement TMQ (Total Management Qualities), has used a PESTE study. In this respect, the approach to monitor the external environment of Tarom national airline is essential in the world economic crisis and globalization activities in the passengers transport, under the conditions of deregulation of the airspace.

**Keywords:** PESTE analysis; Sky Team airline alliance; fear of terrorist attacks; Single European Sky; EU Emissions Trading Scheme

**JEL Classification:** L93; N74; O52

### 1. Assessment

Tarom is a well established airline in Romania, with a well set fleet, with a turnover of 191.4 million euro in 2009, it is Romania's national carrier, a member of the International Air Transport Association (IATA) since 1993 and of the Association of European Airlines (AEA) since 2000. Since the winter season 2010 - 2011, it operates in 49 destinations, covering countries in Europe, North Africa and the Middle East. Passengers have confidence in the services offered by the company and, despite higher rates, they prefer it to low-cost airlines. Tarom has managed to position itself in consumers' minds as the national airline offering flight conditions to European standards. The significant increase of its turnover in 2007 placed it, in terms of growth, in second place in Europe. Becoming a member,

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<sup>1</sup> Senior Lecturer, PhD, Faculty of Economic Sciences, Danubius University of Galati, Romania, Address: 3 Galati Blvd, Galati, Romania, tel: +40372 361 102, fax: +40372 361 290, Corresponding author: pauna\_dan@yahoo.com

in 2010, of the Sky Team airline alliance, the second largest airline alliance in the world, composed of 898 destinations in 169 countries, has meant an opening through the placing of other 12 new destinations and promotional packages (return flights at lower prices).

## **2. TAROM. PESTE Analysis**

### **2.1. PESTE analysis (Holloway, 2008) political factors**

#### **Community policies**

Romania, as a state of the European Union, has implemented the Community policy on air transport liberalization<sup>1</sup>, which covers four main areas:

- market access;
- capacity control;
- fares;
- issuing operating licenses to companies.

Tarom had to align to these areas, facilitating the company's access to the single European market in terms of granting exclusive air transport licensing recognized by states, the right of cabotage on the territory of the Member States, and in the case of unfair taxation, direct intervention of the European Commission. The alignment process had, in addition to positive effects, less desirable effects not only for Tarom but also for other Romanian airlines. The liberalization of air space has intensified competition among existing carriers in the EU states. Thus, low-cost competitors or classical companies in other countries already operate in Romania: the Austrian company Austrian Airlines and Malev Hungarian operate on Iasi airport, the German low cost airline Air Berlin operates on the airport Mihail Kogalniceanu - Constanta.

#### **Counter-terrorism Measures**

The fear of terrorist attacks does not elude Tarom. Before 1989, there was no ensuring of passengers and aircraft security during flight and brief stopovers, only two aviation companies in the world offering this service - the company EL - AL (Israel) and Tarom (Romania). In 2009, the Romanian State has signed an

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<sup>1</sup> "Initial training in European affairs for civil servants from the central government" implemented by the European Institute of Romania in collaboration with the EUROMED - Euro Mediterranean Networks / Belgium, 2005 and Sustainable transport strategy for 2007-2013 and 2020, 2030, the Romanian Government, Ministry of Transport, 2008.

agreement with Air Marshals (representing the main security force of the Transportation Security Administration in the U.S.) for the training of undercover agents that will travel on Tarom flights between Romania and the United States, in order to prevent terrorist attacks and to intervene during these kinds of attacks.

### **Foreign Policy**

Romania's foreign policy before and after 1989 to maintain good relations with Arab states, also exists in the air links of Tarom, that , in the 2010 summer season, operated towards destinations covering countries in North Africa and the Middle East, where, because of terrorist threats, leading companies did not operate.

As of June 25, 2010 Tarom is a full member of the SkyTeam alliance, which represents an important step in the further development of the company due to the benefits that such an alliance offers. Tarom, by joining SkyTeam alliance, strengthens its position in Central and Eastern Europe.

### **Government Policies to Support Airlines**

The Romanian government supports the improvement of air services such as traffic control and airspace management (European Commission adopted a set of air traffic management measures aimed at creating "Single European Sky" - deadline December 31, 2004). One of the goals of EU integration aimed at this set of measures, which established objectives and operating principles, namely (Fistung, 2007):

1. establishing the joint management of airspace;
2. setting a single regulatory body of air traffic in Romania (Romatsa), integrated at European level (Eurocontrol);
3. gradual integration of civilian and military management;
4. better coordinating the human resources policy in the sector of air traffic control.

Other air services that are supported by the Romanian State are: aeronautical information, communications, the means of navigation, the integrated center to alert rescue missions, rescue missions on the airport and fire fighting services. In addition, the government supports programs for staff development and training, for aviation security and safety and provides access to rules and regulations.

## **2.2. PESTE Analysis, Economical Factors**

Because of the acute financial crisis and plummeting consumer purchasing power, the European aviation industry has experienced the biggest loss in its financial history in 2009. In 2009, TAROM had a turnover of 191.4 million euros, and by 2011 it promised to present a strategic plan since in the first year mentioned, in the

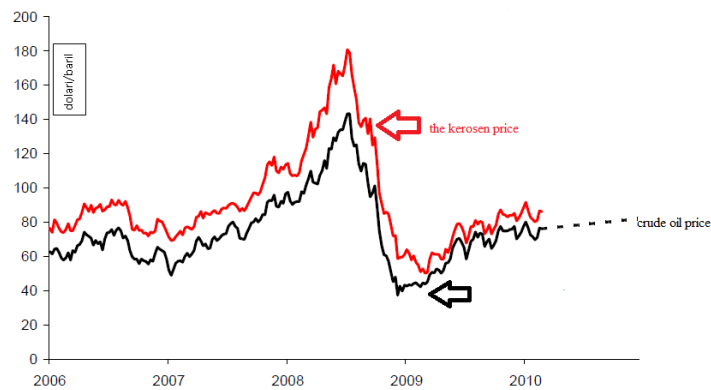
absence of an actual trade policy and performance management, it has lost tens of millions of dollars, reaching the brink of bankruptcy and risking removal from Skyteam alliance. In this context, company management has adopted an action plan to increase revenue and reduce costs during the period 2010 - 2011, namely:

- reducing raw materials costs by 42%;
- reducing total expenses by 17%;
- reducing the company's debt by 19%;
- paying obligations to the state budget.

At the end of 2010 the measures implemented have increased the company's financial strength, characterized by the following indicators:

- overall liquidity of 4.34, compared to an average level of industrial companies in Romania of 1.2 - 1.8;
- financial security of 4.19, well above the average of firms in the Romanian industry that is about 1.

2010 was a difficult start because of unstable economic situation, consisting of rising oil prices compared to 2009, exchange rate fluctuations, the increase in VAT. Nevertheless, TAROM managed in the last months of 2010 to regain market share, which currently (2011) exceeds 20%, which is reflected in the growth in passenger number and revenue over the same period of 2009, while many of the operating expenses continued to decline (an important exception is the fuel cost, which showed fluctuations due to the changing world market price of a barrel of oil and kerosene, as shown in Figure 1.)



**Figure 1. Fluctuations of oil and kerosene barrel cost in period 2006 - 2010**

Source: *www.iata.org/economics*, Brian Pearce, *Outlook for airline markets and financial performance*, March 2010

The company's management team decided to design the budget in 2010 based on increasing the number of passengers, the aircraft freight over 56 percent, on the visible increase of market share by the end of the year.

Joining SkyTeam was an important step in the further development of the company, because passengers will benefit from the advantages offered by such an alliance, namely:

- access to a global network made up of more than 898 destinations in 169 countries;
- convenient connections to international airports where the foundations of the alliance lie;
- the opportunity to gain and use Flying Blue miles<sup>1</sup>, by flying any airline which is a SkyTeam member.

### **2.3. PESTE Analysis, Social Factors**

Social factors relate to cultural issues, public health, birth and mortality rates, age distribution, changes in buyer preferences, purchasing patterns and attitudes of employees towards work.

#### **Population Migration, Birth and Mortality Rates.**

According to the 2002 census, Romania has a population of 21,680,974 inhabitants; it is expected that in the coming years the population number will slowly decline due to negative natural growth. Access to the free movement of people after the entry into the European Union has allowed the latent emigration to manifest itself. As a result, external migration balance increased immediately after 2007 and, due to a negative natural increase, Romania's population gradually decreases.

The size of external migration is perhaps the most expressive manifestation of the stressing daily life which manifests itself by: lack of jobs, violence and deprivations of all sorts that have burdened the lives of people in these early years of crisis. Whether it is final migration or migration for work abroad, it became a widespread phenomenon in recent years also due to the feature of age and sex selectivity, which has negative influences on the demographic phenomenon on

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<sup>1</sup> Flying Blue loyalty program belongs to Air France and KLM. It offers the advantage of accumulating and using miles on any SkyTeam flights and other partners (more than 30 airlines), and by using the services of over 100 partners from other areas. Miles obtained by members of Flying Blue Award are valid for lifetime, provided that the person uses a SkyTeam flight at least once every 20 months. Flying Blue loyalty program rewards its members with a variety of prizes: tickets, promotion in a higher class of travel, free excess baggage, services provided by partners or award tickets for trips around the world.

medium and long term. From this point of view, air travel is a necessity, the flow of Romanian citizens who choose this way of transport increases around the holidays, or holiday season, Tarom and other companies supplementing especially airline flights that make the connection with Italy and Spain.

### **Customers' Attitude and Opinions**

Romanians support local air transport services and they have optimistic views on their quality in the future. Tarom brand is trusted by consumers; in 2009 it was voted "the most trusted brand" in the airline category, according to the hierarchy conducted by Reader's Digest Romania and image studies conducted by IMRCG Consulting. However, there is a low level of cynicism, especially among younger consumers. The behavior of air transport services consumer fits within the western culture model, people being focused on the quality and attributes of products and services. Still, air transport market is not homogeneous in terms of attitudes and preferences.

### **The Impact of Advertising**

Airline passengers only have a ticket and the promise that they and their luggage will arrive at the destination safely and at the set time. To reduce uncertainty, buyers look for "signals" on the quality of these services, drawing conclusions in this direction from the tangible elements. (O'Connell, Williams, 2005) Therefore, the task of the service provider is to ensure the tangibility of the service and to promote the company image on the market.

Backed by tradition and characterized by professionalism, Tarom brand, like any other that has experience and history, is likely to fall under the conservatism of perception, thus defending the need to contradict the perception and to prove that things are different than they appear. The validity of this requirement revealed the need for transparency, communication, and why not, of something "new". The radio and TV campaign was based on qualitative and quantitative research studies on Tarom brand image among consumers in Romania; these studies have revealed the following strengths, weaknesses and opportunities:

- Tarom brand already has a foundation, being a leader in the minds of Romanians in important attributes such as tradition, trust, flights at convenient times, familiar image;
- Tarom is part of the values Romanians are proud of, but it is perceived as an old brand

The ad campaign was based on these perceptions and it aimed to refresh an outdated image and to build on authentic values, aligning Tarom to the attributes of modernity.

Tarom slogan in this communication campaign has been "The flight shapes us, but the destination defines us," which was a plea for real life experiences as the sum of all destinations and having as objective to give value to consumers' lives by offering new experiences.

### **Employees' Attitude to Work**

The economic crisis may lead Romanians to reassess the perception on their jobs and to better understand the terms "efficiency" and "competition".

Romania's difficult economic situation has demonstrated that ordinary people know how to keep their job in times of trouble, even those who used to guide themselves by the "principle" of the communist era "time passes, salary is received" are striving to be useful so as not to be affected by the cut of staff costs.

In the context of crisis and rising unemployment, more and more employees are forced to work overtime without getting paid for it, the motivation being to keep their jobs.

Tightening conditions on the labor market and mass layoffs have generated strong competition among employees. On the other hand, employers can afford a more careful selection of staff, reducing staff salary and increasing requirements.

In Romania, there is no coherent model of the worker with whom we can identify ourselves and be proud of, and which could be perceived as an ideal (such as the perception on the German work model or on the accuracy of Swiss watches), we don't have a clear identity ... we do not know exactly what we want, we do not know what we will be like in 30 years, we do not know what we want to be in 30 years. It would be better for the Romanians to begin to think more rigorously to their identity because, ultimately, you are what you want to become. This enables us to manage during short periods of time and not have some form of continuity. We do not have continuity, but small adjusting jumps.<sup>1</sup>

### **Business Culture, Practices And Relationships**

Tarom has an organizational culture based on equality, an important aspect of which being the direct and open way to address problems. In this context, a defining feature of this culture is respecting new ideas, encouraging discussion and debate. The business culture of the company addresses collaboration and, therefore, managers and subordinates express their views and choices before the final decision is reached. They negotiate major issues in an open and direct manner. Punctuality is the main strength of the company.

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<sup>1</sup> Pleșu A., Extracted from the dialogue "La masa Adevărului/At the table of truth", published in August 2009, in Adevarul newspaper.

### **Management Style, Organizational and Hierarchical Structure**

Mutual trust between management and staff team is important. The company management has the following attributes: open mind, clear goals, reasonable expectations, appropriate payment for work, appreciating knowledge and skills. The responsibility to make decisions is not always the job of senior managers, employees at an intermediate level often having considerable authority in the company.

### **2.4. PESTE Analysis, Technological Factors**

#### **Information and Communication Technology**

Since February 2006 the national Romanian air transport company TAROM SA, uses a computerized sales and revenue accounting system (Revenue Passenger System), implemented by IBM.

The system is based on an application developed by the company Mercator (an Emirates Group division specialized in information technology applications specific to airlines, with projects implemented in more than 30 airlines in the world). Using this system, Tarom processes data regarding the revenues obtained from passenger transport.

IBM has integrated RAPID application in a project that contains records of supplies of IBM pSeries hardware, basic software and support services for implementing the application in accordance with Tarom distinctive features.

The project lasted a year and the cost reached \$2.000.000, this application allowing Tarom to join the club of modern airlines, by simplifying the revenue and sales accounting. This application proves the willingness of the company to use the newest technology in the passenger transport.

#### **Internet Users**

Company customers can make reservations for Tarom flights, 24 hours a day, using any Internet connection. The reservation must be made at least 24 hours before the flight and no sooner than 10 months. Reservations with offline payments are made at least 72 hours before the flight and no sooner than 10 months before the flight. For all bookings, the service price is 8 euros, regardless of route, type of passenger, booking class or method of payment (there is no service charge for children). If payment is made on-line, the information (price + taxes) is transmitted via the Amadeus application by an external secure processor, which performs the authentication / authorization of transactions (including through 3D Secure for VISA and Mastercard) and processes payment.



### **Using New Innovations in Aeronautics**

The main priority in the last 55 years has been the developing and the equipping of the fleet with the most advanced and modern types of available aircraft.

In November 2008, Tarom acquired the newest type of commercial aircraft in Romania - Boeing B737- 800 series, the first of the three new aircraft of this type that will be part of the Tarom fleet.

Series 800 is the most popular Boeing 737 Next-Generation - NG. Planes belonging to this series are the best-selling jet aircraft of all time, everywhere in the world, recording over 8,000 orders since the beginning of production.

Tarom operates New Generation series since 2001, when the first Boeing B737 700 series was introduced and now the Tarom fleet has four Boeing B737 700 series.

The 800 series is a longer version of the Boeing B737 700 series with more powerful engines, with a six-meter longer fuselage, which increases the capacity of the plane from 123 seats to 186 seats, depending on cabin configuration.

## **2.5. PESTE Analysis, Environmental Factors**

### **Environment, Atmosphere, Air Quality, Greenhouse Gases**

The phrase used by the company "We think green to keep the sky blue! ~ aims to demonstrate that air traffic growth is possible within the limits imposed by the environmental protection measures, that is all emissions produced by TAROM flights should be counterbalanced by various measures including the offset ones.<sup>1</sup> To reach these goals, TAROM implements a responsible policy on burnt fuel efficiency by trying to meet the requirements for managing carbon emissions under the EU Emissions Trading Scheme, EU ETS (in aviation, a tonne less of used fuel leads to a reduction in carbon dioxide emissions equivalent to 3.5 tonnes; a reduction in the duration of a flight by 29 minutes can lead, in only one year, to savings of over 25 million kg of fuel and to the decrease by more than 81 million kg of carbon dioxide emissions).

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<sup>1</sup> Offset operations. Carbon offset is a reduction in carbon dioxide gas emissions or greenhouse gas emissions in order to counterbalance other emissions. Compensation is usually achieved through financial support, through projects that reduce emissions of greenhouse gases in the short or long term. The most popular type for this type of project is renewable energy such as wind farms, biomass energy, hydroelectric dams or other projects including energy efficiency, destruction of industrial pollutants and agricultural products, the destruction of landfills that emit methane.

### **"Continuous Descent Approach" Procedure**

The company is among the first airlines worldwide to have implemented the pilot-project **"Continuous Descent Approach "(CDA)**: a completely new landing procedure, aimed at reducing the amount of burnt fuel. CDA replaces the traditional landing gears, reducing both the glide path emissions and the noise (aircraft noise). The pilot-phase of this project involved the Airbus A318 aircraft of the company.

The analysis of the results of the project being conducted in collaboration with AIRBUS and Research Center for Aviation and Environment (CATE), based in Manchester (UK) shows a reduction of emissions of up to 350 kg of CO<sub>2</sub> per flight. Currently, the Tarom team works to optimize landing trajectory in CDA and to achieve a higher reduction in oil consumption and CO<sub>2</sub> emissions.

### **"Single Engine Taxi" Procedure**

The company is also about to finalize the implementation of the **'Single Engine Taxi "**, through which, after landing, a plane can use one engine to park, in order to reduce the fuel consumption during this procedure.

This procedure is already used by Airbus A318 and ATR aircraft, and for the BOEING aircraft the implementation is still in process.

This procedure reduces harmful aircraft emissions by 0,4% during one hour of flying.

### **The Winglet System**

Since September 2009 Tarom equipped the Boeing 737 700 series with the Winglet system<sup>1</sup> thus reducing the aircraft fuel consumption and harmful emissions by up to 3%, and reducing noise by up to 6.5%.

The advantages of the Winglet system are the following:

- it increases cruising speed while reducing, at the same time, fuel consumption;
- it increases the maximum flight distance of the aircraft, enabling the operation to new destinations in more distant places;
- it reduces operating costs on existing routes by 3-4% depending on the destination;
- it reduces the intensity of swirls created at the end of the aircraft wings during the flight, optimizing them in terms of aerodynamics;

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<sup>1</sup> The Winglet system is a device that is attached at the end of the wing, reducing drag and improving the performance of the aircraft. The Winglet-type devices have been a huge success, due to the unprecedented benefits they have brought to the airlines at a scale never met before in the history of aviation industry.

- it improves takeoff and landing, which allows pilots to use take-off procedures which reduce engine wear and thus their maintenance costs;
- it reduces the negative impact of the aircraft on the environment.

### 3. Conclusion

Tarom benefits by important opportunities on the passenger air transport market in Romania and not only, because it has important political, economical, technological and environmental features. The existing technological opportunities will allow Tarom to carry out profitable business, to extend control and to direct flight control systems, to decrease the likelihood of technical problems. However, there are social factors which could represent a problem for the company. The analysis shows that Tarom has more strengths than weaknesses. According to PESTE analysis one can say that there are more opportunities than threats. Taking into account these aspects, the company can review its economical and marketing policy regarding access on new markets. It should reconsider the access on the USA and the Far East markets by introducing long haul flights. There is no place in the world without business risks and the company can take these risks. On the whole, the expansion on other markets is a good idea, and the company needs to reconsider the access on the USA and the Far East markets by introducing long haul flights.

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