

Business essays - swot analysis



Pest, Porter's Five Forces, stakeholder and SWOT analysis of American Airline.

Abstract

The airline industry has always been and continues to be the most fiercely competitive business sector in all facets of its operations. Operating on paper thin margins the drop in passenger traffic brought on by the events of September 11th, 2001 have affected domestic United States airlines as well as all global carriers. The events of that day have caused governmental intervention in the form of loan guarantees, compensation for terrorist attack losses, as well as insurance related to war risk (Shane, 2003). The Associate deputy secretary of Transportation stated that the industry is in its "...worst financial crisis..."(Shane, 2003), since the industry was deregulated in 1978. It is important to understand that two differing types of airline carriers exist in the United States. The majors refer to airlines earning revenues in excess of \$1 billion USD annually and generally they provide national as well as international service. These airlines cater to the business class customer and passengers who either expect or desire full in flight services such as meals and related amenities. American Airlines, Delta Air Lines, United Air Lines, U. S. Airways, Continental Airlines and Northwest Airlines fit these designations (Mayer, 2002). The discount air carriers have changed the face of the airline industry with their no frills, low-cost airfares and have put pressure on the majors in terms of eroding their market share.

The preceding battle between discount carriers has further exacerbated the majors thin operating margins and has resulted in Delta, Continental, Northwest, United and US Airways (Beck, 2005) filing for protection under <https://assignbuster.com/business-essays-swot-analysis/>

Chapter 11 of the United States bankruptcy laws while they restructure and renegotiate union contracts and creditor agreements. United States Senate Commerce Committee Chairman John McCain has stated that the United States government should be "...reluctant to do anything that might keep inefficient businesses afloat" (Shane, 2003). This is the climate in which the subject airline, American Airlines operates.

Chapter 1 - American Airlines

- PEST Analysis

The utilization of a PEST analysis with regard to American Airlines takes into account the political, economic, social and technological (NetMBA, 2004) environment the industry is embroiled in and how this has, is and will threaten to impact its operations and profitability. It must be remembered that the number of possibilities concerning macro-environmental aspects is almost limitless, thus concentration will be paid to those areas perceived to have the highest impact.

- Political

The political stability of the United States was severely shaken by the terrorist events of September 11, 2001, and this directly resulted in a catastrophic drop in business as well as personal air travel (Ito *et al* , 2003). The preceding along with the following areas have impacted negatively on earnings as well as profitability among the majors:

- Pricing regulations
- Wage legislation and union requirements
- Deregulation policies of 1978

- Increased emphasis on national and airport security
- Economic

The overall economic climate in the United States prior to the events of September 11, 2001 called for a mild recession and the airline industry was wrestling with discount carriers. The pre 9-11 airline climate forecast a slight contraction as a result of the reversionary climate which was dramatically impacted by the events of 9-11 and the resulting economic aftermath (Ito *et al* , 2003):

- Dramatic slowdown of the economic growth rate
- Increase in fuel costs
- Balance of trade accounts
- Inflationary and fluctuations of the dollars against the Euro, and Yen
- Social

The emphasis on September 11th throughout these varied analysis is due to the sweeping impact that event had on global events in all theatres. The social implications thus shaped or amplified are as follows (Mayer, 2002):

- Increased layoffs impacting all income groups
- Sharp decrease in lower and middle class travel
- Decline in airline related vacations destinations
- Negative impact of air travel safety brought on by the events of 9-11
- Decrease in general airline related travel plans by consumers
- Low-fare travel stigma attitude shift to an acceptable alternative
- Technological

The Internet's impact on business and consumer purchasing habits heralded in a new age of information exchange which changed the manner in which airline tickets are sold.

- Airline SABRE system
 - Decrease in airline travel agencies
 - Introduction of Internet airline ticket reservations and ticketing
 - Entry of Travelocity, Orbitz, Cheaptickets, Expedia and other best price shopping services
 - The availability of the Internet as a consumer and business fare and flight shopping tool
- Porter's Five Forces

Michael Porter's 'Five Forces' model (QuickMBA, 2005) provides a framework to view the airline industry from the perspective of five forces that influence it:

- Rivalry

American ranks as the world's largest airline in terms of passengers carried, however is rated number 11th in terms of overall airline quality (Holderbach, 2004).

- Low-fare airlines garnered three of the top four spots in airline quality ratings, 1. Jet Blue, 2. Alaska, 3. Southwest, 4. America West. All but Alaska Airlines are low fare carriers. The remaining airlines are 5. US Airways, 6. Northwest, 7. Continental, 8. AirTran, 9. United, 10. ATA, 11. American, 12. Delta, 13. American Eagle and 14 Atlantic Southeast (Holderbach, 2004).

- Some of the more important facets within this category of the Five Forces model are:
 - slow market growth since 9-11
 - high fixed operating costs
 - low relative levels of product differentiation among the majors
 - inroads of the low-fare carriers in the changing perception of air travel
 - shake out of the industry since 9-11 in terms of bankruptcies and failures
- Threat of Substitutes

Within Porter's model substitute services come into play when demand exceeds supply, or vice versa. In the airline industry the excess supply has been attacked by low-fare carriers who have continually gained market share.

- Buyer Power

The airline industry suffers from oversupply as well as fixed costs which served as the foundation for low fare carriers who offer no frill flights in return for discounted fares. This approach effectively pulled the casual traveler and spread to frequent travelers and some classes of business travel for companies seeking to cut costs. Buyer demand is re-shaping the airline industry as a result of these options.

- Supplier Power

In terms of this category, fuel is the single largest airline cost expenditure item which affects all firms equally. Low Fare carriers by eliminating frills lower their per flight operating costs which have and is attracting scores of travelers to their fold.

- Barriers to Entry / Threat of Entry

Traditionally, the high cost of entry in the airline industry reduced the threat of entry by competitive companies. However the business model offered by low fare carriers exploited the lower end segment of the market via price and provided a foundation for the entry of Southwest, Jet Blue, America West and others (Ito *et al* , 2003).

- Stakeholders Analysis

By definition stakeholders are "...individuals or organizations who stand to gain or lose from the..." (Nuseibeh *et al* , 2000) success as well as failure of an enterprise, system or industry. A stakeholder analysis identifies the key stakeholders and how their interests affect the industry as well as specified firms within said industry in terms of their interests and how such impact viability as well as risk. In terms of American Airlines as well as the industry, the key stakeholders in today's terms are:

- The varied unions that comprise the industry
- Ticketing systems, which include those representing the airlines in code sharing agreements as well as internet ticketing operations such as Expedia, Orbitz and others.
- Oil industry, as fuel suppliers
- America's business community

- Consumers

All of the preceding groups and institutions have an interest in seeing the American Airlines succeed as competition is the driving force behind innovation, pricing controls, convenience and choice.

- SWOT Analysis

The strengths, weaknesses, opportunities or threats internal to a company represent the strategic environment known as a SWOT analysis (QuickMBA, 2004).

- Strengths

Some of the advantages that American Airlines has in comparison to its competitors are (American Airlines, 2005):

- Recognizable brand name
- Largest global airline in terms of passenger traffic
- National and International routes serving all corners of the globe
- Perception as a major carrier with the commensurate levels of service
- Weaknesses
 - internal flight amenities draining profits
 - inability to compete with low fare carriers on price
 - lack of competitive pricing to attract casual traveler base
 - vulnerability to pricing
- Opportunities (American Airlines, 2005).
 - code sharing agreements with domestic and international airlines
 - SABRE ticketing system

- Presence at most airports
- American Eagle regional routes
- Lucrative route structure
- Threats
 - thin operating margins favoring low fare carriers
 - public acceptance of low fare carrier concept
 - customer quality perception of low fare carriers that exceeds the majors
 - prolonged slow economy favors low fare carrier pricing structure
 - segmentation of the industry into business and discount carrier classifications
 - high fuel prices
 - government intervention

Chapter 2 - Conclusion

The intense competition in the airline industry along with thin operating margins and fuel costs along with other expenditures existed before the dramatic events of September 11th. The strengths of American Airlines in being the world's largest airline provides it with a huge customer base that is familiar with the airline. This represents the core of all marketing, customer retention as well as the foundation to attract new customer trial. Customer retention and utilization represent the primary advantage that American Airlines enjoys and needs to utilize to protect its position as well as build upon. The American Eagle division provides the company with an additional customer convenience marketing tool via intra city (regional) destination traffic. In order to accomplish the preceding objective the company must

increase its quality of service from its current 11th position to increase customer satisfaction. The 50/50 mix of business and leisure travelers that comprise its customer base has remained relatively constant and business class travelers contribute heavily to profits as a result of the higher fares paid for first class and business class seating (American Airlines, 2005).

Utilization of target marketing with concentration on the frequent flier base represents American's primary advantage to capitalize upon since it does not compete in a low fare platform. Tightened restrictions on fares has closed a lot of the gap, thus consumer perceptions in the higher income categories represent a huge customer base for American to capitalize on in stealing customers from the other majors as a primary strategy and eroding the fringe low fare customer base as a secondary target market. Technology in terms of software advances along with code sharing, peaking and American's route and connection structures offer convenience. Increased international travel also helps the company as a result of its global routes and destinations. American's size, reach, reputation, fleet and presence at over 154 airports reinforces the preceding (American Airlines, 2005). The company's corporate vision states its objectives are to:

1. set industry standard for safety and security,
2. provide superior customer service,
3. produce returns for stakeholders and shareholders by increasing business and thus revenue opportunities for vendors and allied firms
4. further solidify the brand name and image as a premier carrier

5. increase creative ticketing, promotions, vacation packages and associated areas to distance the company from low fare carriers and thus minimize their effects,
6. capitalize upon inherent advantages

As the world's largest carrier American Airline's business and leisure base provides the customer foundation to enable it to compete successfully against other majors as well as differentiate itself from low fare carriers. This ability to be the choice in the full flight service category along with the number of airports, seamless domestic and international route structure that enable it to offer direct service to the most destinations via its own branded airline represents a key convenience and thus marketing factor to garner success in this highly competitive environment.

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