Contributing factors of airline industry globalistion

Environment, Air

This report vividly covers the factors which drive airline industry to globalization. Critical analysis of external and internal environment using strategy tools has also been considered. For internal environment a particular firm, i. e., British airways has been taken into consideration on which the assignment task is based. Research for the report includes a review of academic books, journals, articles and websites. It also covers the critical account of globalization on British Airways stating its strengths and weaknesses . The concept of core competencies is also explained briefly and applied on the chosen firm.

Airline industry is a large and growing industry. It facilitates economic growth, international investment and world trade and is therefore central to other industries as well for globalisation. There are various forces which lead to globalisation in airline industry. Yip provided some major key drivers of change. Key drivers of change are forces likely to affect the structure of an industry; sector or market (Johnson, G et al 2005). Yip’s model provides a good example of the drivers that are increasing the globalisation of industries.

Market globalisation

Similar customer needs

Global customers

Transferable marketing

Cost globalisation

Scale economies

Sourcing efficiencies

High Product development costs

Country-specific costs

Globalisation of government policies

Trade policies

Technical standards

Host government policies

Global

Strategies

Globalisation of competition

Interdependence

Competitors global

High exports/imports

(Source: Johnson, G et al 2005)

Market globalisation in airline industry is a increasing trend because of various reasons of customer needs and preferences as globally they are becoming similar (Johnson et al 2005). For business or leisure customers do move outside their origin. In past decade, air travel has grown by 7% per year. Travel for both business and leisure purpose grew strongly worldwide. Scheduled airlines carried 1. 5 billion passengers last year. In the leisure market, the availability of large aircraft such as the Boeing 747 made it convenient and affordable for people to travel (adg. stanford. edu). As market globalise, those operating in such markets become global customers and may search for suppliers who operates on global basis (Johnson et al 2005). Business travel has grown as companies are becoming increasingly global in terms of their investments, their supply and production chains and their customers. The rapid growth of world trade in goods and services and international direct investment are also main drivers of globalisation in airline industry (www. scribd. com). The development of global communication and distribution channel may also drive globalisation-the obvious example being the impact of internet.(Johnson et al 2005). Online booking of tickets and advertising may all be developed globally. This further generates global demand and expectations from customers. Airline industries are subject to similar trends. Cost globalisation gives potential for competitive advantage through economies of scale. There might be cost advantages from the experience built through wider scale operations. It can be achieved by central sourcing efficiencies from lowest cost suppliers across the world (Johnson et al 2005). The activities and policies of government have also tended to drive the globalization of industry. Changes in macro environment due to government policies are increasing global competition which in turn encourages further globalization. Technology innovations in industry like the invention of ‘ Jumbo jet’ in 1950 for commercial use also gave a push to globalization.

Although there are various enabler of globalisation in airline industry, paradoxically the airline industry itself remains subject to highly restrictive national controls on cross border competition and investment. Government to government bilateral agreements often limit the routes that international air carriers can fly, the number of flights they can schedule and the fares they can charge.(Hamilton and Quinlan 2005). The global airline industry operates in an international regulatory environment that ranges from strict regulation and protectionism in some countries or region to almost complete deregulation in others. The long-term trend would seem to be in the direction of further deregulation and liberalization, with the unified market created by the EU and the proliferation of bilateral and multilateral “ open skies” agreements marking major advances in this direction since the early 1990s. National ownership requirements, even in the economically developed regions on the world, persist an important barrier to a full “ globalization” of the industry. There is also a strong trend toward privatizing the many Government-owned national carriers that had long dominated air travel outside the boundaries. There has also been concern expressed that the airline industry is moving from a being highly regulated one to one dominated by global alliances and co-operation amongst airlines, both of which are a priori anti-competitive structures.(Belobaba et al 2009)

Answer 2:

In today's contemporary organisational environment, the external marketplace is dynamic and rapidly evolving. PESTLE analysis, which provides a framework from which to consider the political, economic, social, technological, legal and environmental factors which influence an organisation (Worthington and Britton, 2006) has been undertaken. In addition, Porter's five forces model analyses the structure of the industry and the relative attractiveness of a particular industry in terms of its potential to generate superior economic returns and its framework considers the impact of the power of buyers and suppliers, the threat of substitutes, barriers to entry and the degree of competitive rivalry (Porter, 1980; 1995; Barney and Hesterly, 2008).

The airline industry has been subject to a number of changes and dynamic forces in the external environment. In recent times, the airline industry has undergone a turbulent history which has led to bankruptcies, mergers and acquisitions and an increase in costs and therefore a reduction in the profit margins (Berry and Jia, 2008). Over the past five years, the rising cost of fuel, which saw oil prices reach around $100 a barrel is one of the major reasons why airlines are filing for bankruptcy. In 2005, Delta Airlines and North West Airlines, the third and fourth largest US carriers filed for bankruptcy (CNN, 2005). The US Airport Transport Association estimated that between 2001 and 2004, the US airline industry faced losses of over $30 billion. In addition, in 2008, the UK airline carrier, XL collapsed leaving 85, 000 holiday makers stranded (BBC News, 2008). This occurred because the rising costs make it unviable for smaller carriers to operate efficiently. As a result, industry analysts predict a period of consolidation will occur within the industry (BBC News, 2008).

Social factors include changes in consumer behaviour. This is largely attributable to technological changes, which includes the emergence of airline websites and multiple price comparison websites, which provides consumers with increased availability of prices and therefore reduces information asymmetry. This therefore, increases the power of buyers (Porter, 1985; Barney and Hesterly, 2008). In addition, the global downturn in the economy has placed an increased financial strain on the industry. This is especially the case amongst business travellers who are less willing to pay premium prices for business and first class travel. This has placed a strain on the financial viability of airline operators within the industry. An additional change amongst consumer behaviour is the decline in customer loyalty. This is partly due to the spread of information and the increased price sensitivity of consumers, which means that the most important factor when making a purchasing decision is price and has little to do with the differentiation strategies implemented by any given airline (Porter, 1980; 1986; Barney and Hesterly, 2008). In terms of political factors, post 9/11 a number of security measures and regulations has been implemented in an attempt to avert any future threats from terrorism. This has added increased the costs of airline operators in terms of training and providing the necessary training and personnel to deal with these rules and regulations. In addition, the initial period following 9/11 saw a decrease in passenger and consumer demand which had a negative effect on the profitability of the airline industry.

The degree of rivalry within the airline industry is high. Since the 1980’s the industry has undergone a period of deregulation and privatisation which has increased competition within the industry and reduced the barriers to entry. Privatisation is essentially involves changing the structure of the industry from public to private ownership. This has had a negative effect on market incumbents, such as British Airways, which has undergone periods of financial turmoil as a result of deregulation, privatisation, reduced barriers to entry and increased competition (Barney and Hesterly, 2008).). Deregulation is the removal of government rules and regulations, which are said to constrain an industry.

In the past decade, the industry has seen the emergence of low cost airline carriers (Cho et al., 2007; Centro, 2008). These include companies such as easyJet and Ryanair, which operate low-cost flights to a wide variety of European destinations. Low cost airline carriers have had a significant impact on changing the structure of the industry, which has meant that consumers are increasingly price sensitive when it comes to airline travel (Cho et al., 2007; Centro, 2008).). The low cost sector appears to bucking industry trends and is expanding at a rapid rate. Low cost airlines focus on short-haul flights and try and pack in as many passengers as possible to increase turnover. These companies also generate savings, which are passed on to the consumer by providing customers the ability to book their flights directly over the Internet. As a result, the degree of rivalry within the industry is high (Porter, 1980′ 1985; Barney and Hesterly, 2008).

Despite the deregulation which has occurred and the ‘ opening’ up of the market, barriers to entry are still relatively high. This is because the capital, skills and expertise required to set up an airline company are relatively high (Porter, 1980; 1985; Berry and Jia, 2008; Barney and Hesterly, 2008). As such, airline operators need to be able to compete both in terms of cost leadership and differentiation in order to incentivise consumer purchasing behaviour (Cho et al., 2007; Centro, 2008). Airline operators also need to operate a delicate balance between maintaining a tight control over costs and implementing cost saving measures whilst maintaining high standards of customer service and safety (Cho et al., 2007; Berry and Jia, 2008). Overall, there exists opportunities and threats in the external market environment, which affects the overall profitability and industry attractiveness of firms operating within the airline industry. Therefore, the level of profits that firms can earn are based on these factors, nonetheless, the internal management of a firm is also critical to organisational performance, which will be discussed in further depth in the next section.

Answer 3:

The airline which has been chosen in order to address the key themes and issues highlighted in this section is British Airways (BA). BA is the largest airline operator in the UK, flying to over 150 destinations across the globe. BA started out life in 1975 and was the national airline for the UK, as such, the company operated a monopolistic structure before it was privatised in the 1980’s. The purpose of the privatisation was to make the industry more competitive by exposing the company to completion and external industry forces to improve the operational efficiency of the company as well as improving the overall customer experience. However, since changes such as privatisation and industry deregulation, BA has had undergone periods of turbulence, which has been characterised by major successes and major weaknesses. During the 1990's, BA was hailed as one of the most admired and most profitable airlines in the world. However, by the late 1990's BA experienced a massive reduction in profits as a result of decreased demand, increased economic pressures and employee disputes and poor relations. In the period between 2008 and 2008, BA's turnover was £9 billion. However, overall, the company made losses of £401 million. This is the greatest loss ever reported by the company and represented a massive loss compared to the previous year when the company made a profit of £922 million.

The airlines major hub is situated at London, Heathrow, the busiest airport in the world in terms of the number of passengers, which pass through daily. BA operates around 220 aircraft. Within the last few months, BA made a preliminary announcement that it was to merge with Spain's largest airline, Iberia (Rothwell, 2009). The purpose of this merger is to mitigate weaknesses within the internal operations at BA and develop its strengths through capitalising on synergies which can be obtained through the merger with Iberia airlines (Barney and Hesterly, 2008; Rothwell, 2009).

In order to address the current issues facing BA, including the highest ever reported losses, the company has been forced to undertake significant cost cutting measures, which includes reducing the salaries of existing employees as well as reducing the overall firm headcount. However, this has resulted in a number of problems for the company. One of the major weaknesses of BA is its history of industrial disputes and tentative history in terms of employee relations. In December, 2009 cabin crew announced a 12 day strike over the Christmas and New Year period, however, this was postponed as it was found to be an illegal strike as the ballot system implemented by the trade union was not considered to be fair. At the time of writing, the industrial dispute is still an ongoing issue which represents a major weakness to the airline (Milmo and Webb, 2009). The cost of such a strike would run into hundreds of millions, as well as the impact on the damage on customer and employee relations. This represents a critical weakness for the company. Nonetheless, BA has a strong brand and is renowned for safety and customer service. The brand is also trusted across the globe and is a popular choice with business travellers. The heritage of the brand has a strong resonance in the mindset of the British and indeed global consumer. This represents a unique strength, which is difficult for competitors to imitate. Therefore, this represents a source of sustainable competitive advantage for the company (Barney and Hesterly, 2008). This is based on the notion of core competences and how an organisation is able to deploy its resources to develop a distinct set of core competences and strategic capabilities (Barney and Hesterly, 2008). If these resources are distinct, rare and difficult to imitate then this will lead to a source of sustainable competitive advantage (Barney and Hesterly, 2008). As a result, these core competences will translate into superior economic performance when compared with rivals. In the case of BA, external market conditions, as well as internal weaknesses have contributed to recent poor financial performance. However, in the long run, the company will be able to leverage its strengths and core competences to remain competitive within the industry and obtain a source of sustainable competitive advantage.