

Environmental challenges of the airline industry

[Environment](#), [Air](#)



The airline industry has to face one of its biggest challenges yet, in a world today of global recession, global warming and increasing shortages of raw materials. These factors as well as other challenges included in the analysis of the marketing environment of Aer Arann will be explained, so that to analyse how it can succeed and survive among its competitors.

PESTEL:

Political

The EU Emissions Trading Scheme (EU ETS) is a step to face climate change and it aims to control industrial greenhouse gas emissions. It was launched in 2005 and it imposes a limit on the total amount of gas emissions that a factory or other systems are allowed to have. So companies can receive emission allowances which they may sell or buy when it is needed. The Airline industry will join the scheme in 2012 since it contributes increasingly to climate change. Emissions in this industry were increased by 100% from 1990 to 2006 (www. ec. europa. eu, 22/11/2010). This situation creates a long-term challenge for Aer Arann, because their costs will increase.

Fortunately in 2006 Aer Arann made a purchase of €180 million for ten new ATR 72-500 aircraft which are environmentally friendly since they have lower emissions of CO₂, because of reduced fuel burn. They use up to 70% less fuel than other jets travelling the same routes. However they will still have to comply to the new emissions regulation so their costs will increase (www. aerarann. com, 22/11/2010).

Garry Cullen, Managing Director stated: " Aer Arann is committed to the principles of energy efficiency. Whilst the contribution of the aviation

industry towards global warming is significantly less than other large polluters, our new ATR aircraft are recognised as the most fuel efficient aircraft in their category, emitting 20% less CO₂ per passenger-km than newer jets. The ATR operates more efficiently than jet aircraft on short-haul routes" (www. aerarann. com, 22/11/2010).

Economic

During the economic crisis customers do not travel so often whether it is for leisure or business so the demand falls. Aer Arann's passenger numbers went down by 20% in 2008 and that is why they announced 20% sale at that time even though a few months earlier they had carried a record number of passengers (www. aerarann. com, 23/11/2010).

The subject of the annual general meeting of the International Air Transport Association (IATA) in Berlin 2010 was that Airlines look to overcome industry turbulence and cope with an oil price spike, a big drop in passenger numbers due to the global downturn and the volcanic ash cloud recently in Europe. Despite all these negative factors, IATA's latest figures show that global air traffic is back at the levels it was before the recession started. However profit margins for airlines are still tight (www. bbc. co. uk, 23/11/2010).

Article reporter states: " Northern Ireland has become one of the fiercest battlegrounds in the cut-price flight business". Budget airlines argue that the recession could actually be helpful for them in the long term for the reason that business travellers would switch to low-fares carriers (www. bbc. co. uk. 23/11/2010).

Exchange rate variations can affect demand for air transport because customers will prefer to purchase a ticket when the rate will be better for them. Aer Arann operates a route from L'Orient to the UK so it is significantly affected as pound to euro currency can change.

Much of the initial growth and success of the company is due to the fact that Aer Arann has a competitive advantage among its competitors. Much of this development is due to the company being awarded "Public Service Obligation" (PSO) routes by the government (D. Jobber, 2007, p. 66). PSO routes are given by the government to the airline to create access to and from specific regions which were not supported by commercially operated services (D. Jobber, 2007, p. 66). The PSO routes are aiming to encourage tourism and business travellers to access these regions by air and not only with other means of transport. When an airline is awarded with a PSO route it has exclusivity on it for three years, so it is a good source of profit. Aer Arann gained almost €18.5 million from PSO routes in the past (D. Jobber, 2007, p. 66). Aer Arann was awarded by the Irish Government to operate in Ireland nationally, from Dublin to Galway, Sligo, Donegal and Kerry (D. Jobber, 2007, p. 66). Some of these locations are airports with shorter runways and this is an advantage for Aer Arann because of the small aircraft it operates.

However PSO routes are awarded for three years only so Aer Arann should not be based on them on the longer term. There is not so much competition in PSO routes from other airlines when they do not have permission from the government except Loganair which operates some of the PSO routes in Ireland.

Socio-cultural

The airline industry as we know from the past can be affected negatively by global socio-cultural factors such as diseases and terrorism attacks. Some of them are the SARS, swine flu, terrorism attacks in London and September 11th in New York (D. Jobber, 2007, p. 66). For these reasons Airline companies and airports worldwide were challenged to evolve their policies and procedures and spent further costs and time in the safety of the customers (www. ehow. com, 24/11/2010). The other aspect of socio-cultural factors affecting the airline industry has to do with trends, social structure, income and the culture in general of the customers. For example each individual will act in accordance with his/her social and geographical space and travel where friends will travel or where it is the best option for that season. So as the society changes, so must the airline industry if it intends to succeed.

Technological

Technology had a huge impact on consumer's lives and companies' profits. Technological evolution can offer opportunities for new product development and threats to existing markets. So marketing now is conducted differently because internet technology has allowed companies to communicate with the customers and distribute their product differently and more efficiently. This is called digital marketing (D. Jobber, 2007, p. 67). In the case of Aer Arann the new product development is the online booking system they had launched successfully in 2006 and the threatened existing market are the travel agents. Online bookings are currently 80% of all Aer Arann sales (www. aerarann. com, 24/11/2010). Micheal O'Callarain, Marketing Manager,

<https://assignbuster.com/environmental-challenges-of-the-airline-industry/>

Aer Arann said: " We are continually looking at ways to enhance our service and believe that this new online functionality will prove invaluable to many of our passengers" (www. aerarann. com, 24/11/2010). On the other hand it is not always a positive aspect because now consumers are more informed and have more access to information with a wider choice of airlines to choose from, so the airlines should lower their prices in order to compete with each other.

Environmental

One of the most important environmental factors concerning the world nowadays is global warming and climate change caused by greenhouse gases and this is why EU ETS exists. As every form of industry in the world has to consider this and comply with the emissions regulations so as the airline industry has to do it, at extra costs because it contributes to the air pollution (www. ec. europa. eu, 24/11/2010).

Other physical environmental factors have affected the UK, the worldwide economy and especially airlines. The eruption of the Icelandic volcano a few months ago with the biggest ash cloud over Europe caused disruption for thousands of travellers in Europe and rest of the world (www. bbc. co. uk, 24/11/2010). At that time most of the EU countries were not allowed to operate any flights, so the effect on costs of the airlines was huge (www. bbc. co. uk, 24/11/2010). Met Office issued severe weather warnings for icy roads and snow for central and eastern Scotland and eastern parts of Northern Ireland these days. Several flights have been cancelled in the north

of England after more heavy snowfall and Durham Tees Valley Airport and Newcastle Airport were closed (www. bbc. co. uk, 29/11/2010).

The increasing shortages of raw material, specifically oil is another environmental factor which is not in favour of Aer Arann. Oil is a non-renewable source and it is impossible for most industries to exist without it. Fluctuations in oil prices happen all the time depending on different factors, therefore an increase in price will mean that Aer Arann should be prepared for it in the long run, unless a contract with its supplier is signed which will state a standard price for a long time. However a positive aspect to this factor is that Aer Arann is operating the ten new ATR 72-500 aircraft which are much more economical and need less fuel than other jets. So an increase in prices will affect more other airlines and less Aer Arann. It is worth mentioning here the economic situation in Ireland since Aer Arann is an Irish Carrier and it is affected. Reuters states that oil increased to a two-week high after the European Union approved a rescue plan for Ireland. Oil lost its upward change after rising for two weeks as the rescue plan for Ireland failed to calm the concerns about the health of other EU members (www. reuters. com, 29/11/2010).

Legal

The government has increased taxation of the airline industry. The Independent states that the increase in 2010 of Air Passenger Duty (APD) will make family holidays unaffordable for many (www. independent. co. uk, 27/11/2010). It certainly has to be the last time that the travelling public faces APD rises. Some also suggest replacing APD with a per-plane tax, so

customers could choose between airlines but not all the travel industry will agree on this. From the 1st of November 2010 passengers will have to pay for APD a percentage increase from 9% up to 55% depending on how many miles they are travelling in contrast with last year (www. independent. co. uk, 27/11/2010). This is why in such economic situations people prefer to travel by car, bus or train to closer locations for holidays rather than by plane so airline industries are concerned (www. bbc. co. uk, 29/11/2010). Aer Arann's customers will have to face these new taxes but these shouldn't cause high price rise because Aer Arann is a regional airline which operates in the UK, Ireland and some routes from L'Orient. So its customers will not have to worry for APD up to 55% since they do not travel so many miles.

PORTER'S FIVE FORCES

Threat of Entry

Existing airlines such as Aer Arann are not concerned so much about new entries in the airline industry but are more concerned with the existing competition they have from similar types of airlines operating the same routes and have similar prices. In the airline industry there is not so much threat of new airlines since the costs for new entries are huge. The required initial capital is massive, professional experience in this field is required, operation costs are huge and the assets and financing will cost a lot as well. Furthermore airline companies need to comply with EU and International regulations and they need approval for flight operations.

Threat of substitutes

The more actual or potential substitutes exist for the product, the more unattractive the segment is (Kotler, 2009, p. 305). Aer Arann does not only compete with other airlines but also with other modes of transport since it is a regional airline. These substitutes for air transport are road, rail, bus and ferry (D. Jobber, 2007, p. 69). These substitutes affect the prices that Aer Arann offers and its profits. The advantage of air travelling is that it is much faster, although increased delays at airports due to safety precautions and air traffic control delays have lengthened the time needed. These substitutes may need more time to arrive to each destination but they cost much less and this is why Aer Arann has so low prices and makes offers and discounts. Business travellers are more likely to choose the airline transportation since they have to get to their destination quickly and they do not always worry about the extra cost because their companies may pay for it. Leisure travellers are more likely to choose the other modes of transport since they are cheaper or they might want to enjoy the journey.

Bargaining power of buyers

A product or service becomes unattractive when buyers have strong bargaining power. This power becomes stronger when buyers are better informed so they are more selective, when switching costs are low, or when buyers are price sensitive because of the recession. The way they become more organised is the internet, so the best option for AerArann is to make superior offers (Kotler, 2009, p. 305). Buyer power in PSO routes is not so strong because Aer Arann was awarded four out of six PSO routes in Ireland. However there is competition in commercial routes by Ryanair and Loganair.

This is where buyer power is high because switching costs are not much or even in some cases Ryanair's prices are lower. For example the ticket price from Aer Arann for the 1st of December 2010 to travel from Dublin to Edinburgh costs £139.99 but from Ryanair costs only £44.99 same day, same route (www.ryanair.com, www.aerarann.com, 29/11/2010).

Bargaining power of suppliers

The threat from bargaining power of suppliers is high for Aer Arann.

Suppliers are becoming more powerful since there are few or no substitutes at all and the product is an important input. The product in the case of Aer Arann is fuel which is an absolute necessity for airlines. Aer Arann has to deal with unstable prices because of the limited amount of oil reserves. The best way to face this problem is to have good relationships with the suppliers and sign a contract with them for a certain period of time at a reasonable price so that Aer Arann will not be affected when oil prices are increased again.

Airports are also considered as a high power supplier. Aer Arann has to face increasing charges from the airports it operates. These charges include runway movement charge, aircraft parking, air bridge use and passenger charge. Dublin Airport and Shannon Airport are considering increases in charges (www.dublinairport.com, www.airportcharges.com, 29/11/2010). Aer Arann should create trustworthy relationships together with the airports and this is why a five-year deal was announced with Southend Airport (www.news.bbc.co.uk, 29/11/2010)

Competitive Rivalry

Competitive rivalry is a challenge that Aer Arann has to consider in order to succeed. There is not much competition on PSO routes except from Loganair which operates two PSO routes. On the commercially operated routes there is a lot of competition mainly from Ryanair, Aer Lingus and British Airways. However Aer Arann and Aer Lingus have announced a franchise agreement between them for specific routes (www. aerarann. com, 28/11/2010). Aer Arann is known as one of the fastest-growing regional airlines in Europe because of the strategy it follows and the competitive advantage it has (D. Jobber, 2007, p. 66). The strategy of the company includes no check-in fees, lowest check-in time in Ireland, allocated seating and direct flight to where customers want (www. aerarann. com, 28/11/2010). A disadvantage emerging from the competition is that Ryanair is considered a leading low cost operator and this is justified by some lower cost offers than Aer Arann so it is a big challenge. However Ryanair operates larger types of aircraft so they are not able to use shorter runways as Aer Arann and Ryanair will have to spend much more for emission allowances.

(2) What marketing recommendations would you make to Aer Arann in order for it to enjoy sustained and ongoing commercial success?

One of the most important aspects and key factors for the success of Aer Arann is the leadership and governance structure. Through the development of an excellent leadership the company is guaranteed to go the right way in the future. The experience and capabilities of employees are ingredients to the successful running of the business. Quality in the management of the

company is crucial in order to face the challenges of the future, to make the right decisions when required and most importantly to push the business forward rather than let it fall down to the bottom when harsh situations arise.

Another suggestion which also has to do with the company's actors, concerns the right selection of employees. The company's employees can be described as valuable 'assets' because they affect directly the good will and reputation of the company. The relationship between customers and employees is very important in order to achieve long-term and repetitive sales and therefore profit maximization. Therefore, careful selection of the staff is required and qualifications such as professionalism, willingness, friendliness and courteousness, should be fundamental criteria.

The promotion of Aer Arann through the various travelling and business magazines is another suggestion to boost the performance of the business. A range of marketing strategies such as special offers, discounts and awards can be promoted on the website of the company, in order to attract the attention of the customers. For example, to make the company well-known through internet advertisements, online social networks and Google.

Aer Araan should seek for the best supplier option and build good relationships with them. If the company enters into a contract with its fuel supplier for supplying them with fuel for an agreed price over a certain period, then the company will be able to save costs from the rising prices for fuel.

Also, another important idea for Aer Arann, will be to watch carefully the activities of their competitors in order to be prepared for their strategies. By keeping an eye on the progression of other companies, will help them not only to predict but also to compete with their activities. For example, Ryanair's low-cost fares offers during selected days of the week will be a good starting point to be replicated.

Furthermore, the creation of a 'loyal customer award scheme' is another strategic proposal for the company. It will work on the basis of collecting points when buying a ticket and after a completion of a certain amount of points the customer will be able to exchange those points with a free ticket or a discount on a ticket. By applying this scheme, the company will attract more customers and also will secure returning customers.

In the field of the corporate social responsibility of the company, there is a proposal to associate itself with 'green activities'. The awareness of our society for the environment has increased significantly over the past decades and any kind of help from the company would be appreciated by the customers and the society as a whole. For example, short-term campaigns that will donate a small amount from the price of the ticket for environmental purposes can be organised periodically. This will significantly help to improve company's reputation.

Another idea that the company can adopt, is the involvement with the sports teams of the country. Aer Arann can attempt a partnership with sports teams in Ireland or the UK and be the exclusive airline for these teams. Also they

can be sponsors of important sports events and teams in order to promote the company and strengthen their reputation.

Finally, the company is suggested to assess which routes are more profitable and minimize the number of flights which are less profitable and even suspend those which are non-profitable. Moreover, the company in order to be able to develop and produce what customers demand, is suggested to carry out some customer-satisfaction and evaluation researches which will be focusing on aspects such as customer satisfaction, services assessment, opinion about the prices. Then the company will be able to improve any weaknesses.