The airline industry in the us

The market share concentration in the airline industry is medium. In the top four airline companies held a market share of more than 68. 8%. In comparison with 2010 the market share of the top for airlines increased by 5. 5%. One of the primary reasons for the increase is consolidation. A good example for consolidation is the merger between US airways and American Airlines. The consolidation maximizes profits of the merged companies. Synergies helped the company achieve economies of scale under the name of an American brand. It also can be more profitable than operate it separately.

Coach customers, first and business class customers, business, and freight are the four types of customers that make up the major markets. The private customers dominate the major market. The large demand from individuals and households counts for the revenue of 72% in the major markets. The airline industry uses discrimination among the private customers, thus they can charge different price to different customers such as first-class seats and coach seats. Businesses make up about 25% of the revenues of the company. Some consulting companies always appoint their staff to have conference or meet with their clients. The last type is freight. Households are more willing to shop online and so the demand for cargo transportation is increasing which makes up the 3% of industry revenue.

The airline industry is highly competitive due to the high fixed costs and high barriers of entry. When the existing companies increase their quality of service or new airlines enter the industry competition among airline industry also increases. Furthermore, high competition in the airline industry is also due to fact they cannot lower more operating costs. The switching costs are

very low for customers due to the rewards program. The best examples are frequent flier program and customers brand loyalty. When customers cumulate their miles in the same airlines they can redeem their points to get some rewards.

The industry has low-cost competitors and legacy carriers. Low-cost competitors like jet-blue, focus on the low cost routes and point-to-point service. They have diversity of routes in short distance which can increase their demand and increase their revenue. For legacy carriers, like Delta, they offer some international routes which cover large geographic areas and they also offer better experience for customers. There are some ways to become more competitive. The companies in the airline industry need to provide better quality of service (update new technology). E-tickets are a good example since customers can check in online; it may be more convenience for them to take airplane. Also existing companies in the airline industry should lower their cost to gain more profits. The cost includes rent fee for airport and the labor fee. Location is also a good way for them to become more competitive by offering flights for popular routes.

Companies in airline industry should also attract customers from substitutes because customers are very price sensitive, thus the option for them to differentiate products is very limited. For example, if in short distance, customers would like to take cars and trains for traveling. Also for business customers that always go to other cities to meet with their clients or have conference. With the technology developed business customers can have conference through Skype or Facetime. Companies in airline industry will face many challenges. Airlines operate in the economic market known as an

oligopoly. An attribute of an oligopoly is that there are few participants in the market. Competition in an oligopoly marketplace is fierce. Often price wars occurred which depletes the profits of all market participants. Technology is a key factor that affects the operations of an airline. Airlines must invest heavily in airplanes to increase the reach and scope of the business. Capital is a barrier of entry that dissuades many investors from entering in this industry.