

Airbus a3xx- developing the world's largest commercial jet (a)

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Topic: Airbus A3XX- Developing the World's Largest Commercial Jet (A)

Problem Statement:

Air Bus planned to launch its A3XX, super jumbo jets and the authorization offer for the same was approved on June 23, 2000. The super jumbo jet was the first of its kind, and could seat 550 to 900 passengers. Airbus soon started courting in potential customers for the super jumbo jets, the delivery for which was stipulated to begin in 2006. As the planning, preparations and evaluation for the orders started pouring in; Airbus management was confronted with a multitude of critical decision. Some of them being, Should they commit to launch the A3XX, given the high costs associated with the launch and the threat of Boeing 747 on the other end. The risks were on many fronts. There was a risk in terms of the upfront investment required for the project and also the uncertainty of demand, made this decision a critical and daunting one. The response on the earlier orders had been a positive one but the hitch being the fact that initial orders do not imply long term demand. As it is launch customers are offered hefty initial discounts. The delivery was not to take place before 2006 and there were very air lines that were willing to order more planes 5-6 years in advance. This made it even more difficult for Airbus to decide on the launch if it could not reach its pre-launch target of 50-100 orders.

Analysis:

The aviation industry is a very risky one. There is no grey in this industry; it's either black or white. Every 3-4 years, one has to put the business at a stake and if a launch failed then the consequences can be as drastic as

culminating into an exit demand from the industry. In recent years, companies like Glen Martin, General Dynamics and Lockheed have met the same fate. Irrespective of the risks lying ahead of it, Airbus went ahead with the launch. Now the deal would be to rectify and work upon the issues on the way and ensure that the launch is successful.

Boeing which would be one of its biggest competitors would also have something ready up its sleeves to counter the launch. This threat can also be not denied. They would bring down the prices of their 747s or come up with a new version of 747. Given, their status in the industry, Airbus will have to counter the threat received from their end.

Even the projected costs of the venture have been stipulated to be 13 billion dollars; some critics believe that it would shoot up to 15 billion dollars. The financial success of Airbus thus, depends on their ability to drive enough early sales home through the learning curve effect.

Recommendations:

What Airbus has to sustain is a long term demand and counter the threat from Boeing 747. Given the circumstances, it would be wiser, to continue attracting more pre-launch customers at lesser discounts, or to promise them delivery in 2-3 years instead of 5-6 years. This would increase the reliability of the offer and make it more lucrative for them. Most customers are unwilling to wait for 5-6 years, so the wisest way out would be to bring down the production and delivery time by investing more in labor.

Bibliography:

Chocks Away, (2000)" The Economist, pp. 58-59.