

Outline of optimal pricing-boeing vs. airbus essay sample

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WSJ-Airbus and Boeing Duke It Out to Win Lucrative Iberia Deal-2003 Key take away: Threaten to lease planes from Singapore Airline to bring prices down by Boeing and Airbus. No counter offers were entertained. Also the key was getting two bidders: Boeing as a stalking horse into the situation.

Summary:

April 2002-Iberia starts to shop for new jetliners. Boeing and Airbus send a model airplane each as a calling card. The jetliner market is projected to have sales of more than \$1 trillion in the next 20 years. The crisis in the air travel industry has produced excess capacity, making the 2 manufacturers desperate to nail down orders. Enrique Dupuy de Lome, Iberia's CFO, led the search for widebody jets, He described his procurement strategy as: "

Everything has been structured to maintain tension up to the last 15 minutes." The Spanish carrier was looking looking to replace 6 Boeing 747-200 jumbo jets that were more than 20 years old. It wanted as many as 12 new planes to complete a 10-year modernization program for Iberia's long-haul fleet. Based on list prices, the 12-plane order was valued at more than \$2 Billion. Airbus had sold Iberia more than 100 planes since 1997. In June 2002 Iberia had closed a separate deal with Airbus for 3 new Airbus A340 widebodies. Dupuy first needed to induce Boeing to bid since Boeing viewed Iberia as locked into Airbus.

The last time Boeing had sold to Iberian was in 1995. July 2002, Dupuy meets Toby Bright, Boeing's top salesman for jets. Dupuy tells Bright that Iberia wants 2 suppliers. Replacing Iberia's old 747s with the new 777s would be Boeing's last chance for years to win back Iberia November 2002, Airbus

and Boeing presented initial bids on their latest planes. The 4 engine Airbus A340-600 is the longest plane ever built. Boeing's 777-300ER is the biggest twin-engine plane. The new A340 can fly a bit farther and has more lifting power than the 777. The new Boeing plane is lighter, holds more seats and burns less fuel. The Boeing plane, with a catalog price around \$215 million, lists for some \$25 million more than the A340. Dupuy set his own tough terms on price and performance issues including fuel consumption, reliability and resale value. Rumors say he demanded discounts exceeding 40%. Dupuy tells both companies "Whoever hits its target, wins the order." Dupuy announces he will go shopping for second-hand airplanes. There are spilling onto the market at cut-rate prices as the airline industry's problems force carriers to ground older jets with their higher operating costs. January 2003- The 777 was now less than 3% above Mr. Dupuy's target. The rival offers were so close that on the final day of haggling, Iberia stood ready with multiple press releases and extracted last-minute concessions in a phone call between the airline's chairman and Winner, Airbus.