Strategic analysis of airline simulation

Business

As a next step, external and internal business environment should be carefully scrutinized and strategic choices be made.

Unfortunately, during the simulation we haven't followed the right pattern, but rather took up a trial and error approach. The main goal that has been set in the beginning was to expand, however no environmental analysis has been made in order to facilitate the right expansion pattern. Before expansion it is crucial to have a strong market position and demand for a service and most importantly be a profitable business. That wasn't the case for our company.

We haven't had a satisfactory market demand and haven't managed to make profits from the beginning of the simulation. Our aim was to build up a market power by taking up a growth approach, where the size of our firm was to be our competitive advantage.

According to a definition, " a firm has a competitive advantage when it is able to create more economic value than rival firms" 3. Therefore in order to achieve it, we have hoped to scoop of the benefits of economies of scale and therefore reduce our costs to become cost leaders. However our fleet was too large and demand wasn't high enough in order to break even and cover all the costs.

We have failed the basic law of diminishing marginal returns as instead of benefiting from economies of scale we have faced diseconomies of scale (Fig. 1), with increasing costs, which in turn instead of giving us a competitive advantage led to a sustained competitive disadvantage. Fig.

1 – Diseconomies of Scale4 Fleet expansion would have been a good strategic step if it was sufficiently planned and wasn't so rapid. As mentioned before being focused is crucial – " as a firm becomes more focused the profitability increases" 5. However by entering so quickly too many markets we have rather became a " jack of all trades and masters of none".

Instead of leasing 10 planes and entering markets we didn't have an established position in, we should have slowly built up demand in just few markets and then if making substantial profits, decide for an expansion, which as well shouldn't have been so rapid. The analysis we have made after the simulation proved that, and by buying planes on credit instead of leasing them we could have made substantial cost savings. Therefore our initially intended strategy didn't have a chance to be successfully implemented as we didn't consider this point before in the process of strategic planning.

The next step in the strategic analysis of our company is to use Michael E. Porter's second generic value chain (Fig. 2) as a tool to scrutinize each of our company's activities in details and evaluate which of them were creating value and which failed to do so. Generic value chain divides activities into two categories: primary and support; where primary activities include inbound logistics, production, outbound logistics, sales, marketing and service; while support activities include infrastructure, technology development and human resource management. 6 In terms of primary activities, we have divided our company into functional areas i. .

sales, marketing and service, where each of them had a manager responsible for it. Sales manager was deciding upon a fare structure, service to be provided on the planes and markets' to be entered. However driven by our growth strategy he has failed in terms of market management, and although the sales grew, the revenues were still not sufficient to cover our costs as the demand wasn't high enough. Fig. 2 – Porter's generic value chain7 The cooperation with financial department, which is a part of support activities, wasn't adequate as well, therefore the expansion led to cash flow problems.

As liquidity is seen to be a blood of each business, the insufficient cash flow management may lead to a bankruptcy. For that reasons cash flow forecasts should have been made on regular basis to be available to all of the managers that would use them in their cost planning. Furthermore, the financial officer should have paid more attention to profitability ratios, which were persistently negative. That should have been the main concern for the company, which by failing to retain profits didn't fulfill its ethical responsibility to the shareholders.

Although the poor financial performance, the company managed not to go bankrupt by keeping the leverage ratios low.

The second important primary activity is marketing. Our marketing manager was responsible for the promotion budget and advertising, which has been used in order to convey our brand image to the customers and gain their loyalty. The approach our company took up was creating a simple, eye-catching and cost effective advertising. Unfortunately we were unable to measure its impact. In reality measuring brand awareness with the use of tracking studies and profitability with econometric analysis could have been applied.

Simulation didn't allow us to do so, however still some conclusion about our advertising strategy can be made. First of all, while crafting our advertising plan, we didn't take into consideration the market structure of our industry. Our market share was higher than competitors', however our advertising expenditure didn't exceed the average quarterly expenditure of the whole industry. That means advertising was " unable to create entry barriers and effectively insulate the firm from competition, leading to increased profitability" 8. As we have spent the same amount as our competitors we didn't manage to differentiate ourselves.

Furthermore the quality of our advertising was much lower. In reality that could have brought some cost savings, however in the simulation that wasn't the case. Therefore more attention should have been paid to create more sophisticated advertising. The value chain analysis shows that the sufficient linkage between each of the activity areas wasn't created in order to realize profit margin and being able to deliver a service for which customers would be willing to pay more than the sum of the costs of each activities in the value chain.

The only valuable activity turned out to be a human resource management, where adequate amount of money was invested into training and quality improvement. That enabled to pursue our mission of providing a quality travel at reasonable costs to our customers.

However that on its own wasn't enough to become a profitable business, but just provided a company with one capability while more of them, such as marketing skills, cooperation among managers and teamwork should have been developed in a strategic management process.

Besides the blunders we have made while managing our company, we have also achieved some success i. e. acquisition of car rental business that enabled the corporate diversification of our company. This reduced the riskiness of our cash flows as it turned out to be a profitable business delivering profits each quarter.

However still not adequate to cover the extensive costs of our main business area. Strategic management analysis therefore reveals that there were mistakes made in our teamwork process.

Although the team roles were determined accordingly with each team member's capabilities, the team norm's were not established. These are the informal rules and expectations that groups establish in order to regulate the behavior of their members. 9 As the airline simulation experience was treated more as fun rather than as an university project, there was not enough discipline among the members that would enable to analyze each of our decisions more carefully and spend more time on planning.

Team cohesiveness was high, as all of the group members got along with each other and were motivated to remain within the team.

Usually high-cohesion teams perform better, however this relationship is more complicated than that, since the team performance depends on the extent that the team norms are consistent with organizational goals. 10 As our team norms didn't fully support company goals our performance wasn't satisfactory. The next problem that was encountered in the group work process was social loafing. As most of the decisions were made during the group meetings, the group mostly depended on the leader's perspective instead of contributing and enforcing their own point of view.

That as well could have been a problem of avery strong and dominant leader, who effectively convinced the group to his own point of view not taking into account the fact that each of the members may have different ideas that might work better in order to achieve an organizational goal. All things considered, it can be stated that the airline simulation was a good learning experience, which enabled us to understand business theories and put them into practice. Unfortunately, the better understanding was achieved after the simulation rather than during it.