Competitive strategies

Competitive Strategies and Government PoliciesThe airline industry has been in constant turmoil in the past decade. Almost every carrier in the United States has seen their profits decline because of high gas prices and a sluggish economy.

Companies like Continental and American Airlines have filled bankruptcy in an effort to restructure the organization. Low cost airlines like Southwest have enjoyed growth as consumers have become more budget conscious. Furthermore, consolidation among the biggest carriers is constantly changing the market. Competitive EnvironmentAny new company entering a market or merging with another company will meet certainly meet new and existing challenges.

In the airline industry, new companies are testing the water, hoping to get a slice of the high-revenue industry. American Airlines has been considering a merger with US Airways, in hopes to combine resources, increase market share and company profits. According to Koudal and Engel (2006) ??? Today, the pace of change in most industries is significantly higher than it was 10 or 20 years ago. Faster product cycles, new and more diverse sources of supply, and ever-more-complex global networks increase the need for companies to continually optimize their value chain networks.??? (pp.

41-42). In the airline industry, globalization results in more people traveling from one point of the world to another point. This equates to a higher demand for flights provided by the commercial airline industry. More demand equals more competition, typically benefiting travelers with lower prices. As the baby-boomers start to retire, leisure travel by commercial airline firms will likely greatly increase. With high barriers to entry in the commercial airline industry, there is little threat of new entrants. The enormous capital required to enter this industry is a strong barrier, few companies fiscally capable of and is not easily accomplished because of the significant barriers to entry in an oligopoly market structure.

This is another reason American Airlines is considering the horizontal merger with US Airways. In the United States, some of the other major competitors in the commercial airline industry are; Alaska, Continental, Delta, Northwest, Southwest, and United. The 11 billion dollar merger between American Airlines and US Airways gives creditors of the bankrupt American Airlines parent control of the combined airline.

According to " American Airlines, Us Airways Unveil $11 Billion Merger" (2013), ??? The new, larger American Airlines would return to the leadership position among U. S. carriers that it ceded in recent years as high labor costs made it difficult to compete with restructured rivals. Passengers of U. S. Airways and American would gain access to new destinations.??? One of the major issues presented by this merger will be slots at major airports which competitors will have to give up. Reports state this merger would give the new American two-thirds of the slots at Reagan National Airport, and approximately one-third at LaGuardia.

Ongoing investigations by the Department of Justice will determine how much the airlines will have to give up in regard to routes and airport slots, especially at major hubs such as, LaGuardia and Reagan National Airport. Since the September 11, 2001 terrorist attacks, the Department of Justice has yet to block a merger but airline executives are saying they do not wish to give up slots which will pose a standoff and compromise avoid a duopoly. Government policies in the airline industryAmerican Airlines is a highly respected company across America. They are an airline company that flies over the United States. AMR take their company policies very serious. This policy was created by the board of directors from the AMR Corporation. The Director of AMR Corporation, ??? are to exercise the Director??™s business judgment to act in what the Director reasonably believes to be the best interests of the Company and its shareholders and to endeavor to provide effective governance over the Company??™s affairs for the benefit of the Company and its shareholders.

??? Not only are they supposed to abide by this but they also have several other responsibilities to abide by, which include the following: * to select a well-qualified and ethical chief executive officer (the ??? CEO???); * to review, in conjunction with the Audit Committee, the Company??™s Business Ethics and Compliance program; * to oversee the CEO and the other executive officers in the operation of the Company; * to review, in conjunction with the Compensation Committee, the compensation of the CEO and the other executive officers; * to review significant regulatory issues that affect the Company; They not only rely on the AMR Corporation to follow the regulations listed above, but they also rely on honesty and integrity. Those are just their basic policies but a few years back when America was under attack things begin to change. This was a negative externality that took place and changed the way people and companies operate today. After September 11, 2001, American Airlines began to charge extra government taxes domestic and international. According to American Airlines website, travel fees went up as follows: Domestic Travel * September 11th Security Fee of $2. 50 per U. S.

enplanementInternational Travel (including Puerto Rico and U. S. Virgin Islands) * September 11th Security Fee of $2. 50 per U. S. enplanement * Other government taxes and fees (including U. S.

government excise tax) of up to $190 based on destination; total may vary slightly based upon currency exchange rate at time of purchase. The United States government excise tax is a user tax to pay for airport construction and airway safety and operations. September 11, 2001 did not only bring taxes and extra fees but also regulations became tighter than what they were before this happened. They begin to restrict certain items people could carry in their bag, along with weight restrictions were added to limit the amount of items the public is taking on the plane. Because of the changes, security became tight, and there was a longer wait times to go through security. This externality was both positive and negative. Airlines companies soon realized that it was necessary to be more cautious of what people were taking on planes.

Security increased and each piece of luggage and people is scanned to detect possible dangerous items within luggage. Global Competition on decisionsThe recent merger in February 2012, ordered by the courts for American Airlines and U. S. Airways will change the airline business. The merger will increase the ability for American Airlines and U. S.

Airways to customize their business and continue to be competitive with other large airline companies. The merger will benefit the company??™s investors, commercial aviation industry, the employees, communities, and the flying public. The merger will increase the amount of daily flights, which includes global flights. Because the labor agreements were in place for both carriers, this difficult task is complete, and the unions are supporting the merger.

The unions have already combined pilot and flight attendant contracts. The contracts include a path for improved compensation and benefits for all employees. The agreed workforce will be a smaller workforce, and a cut in wages and benefits.

The two companies came together to revamp the two employee contracts into one. The benefit of the combined system is to cut costs, but to improve on the already existing work environments to create a better airline service to their customers. The merger has created a larger loyalty program for their customers.

Customers have more ways to earn miles and larger selection on how to redeem those miles. Additionally, the new airline will be part of an alliance program with OneWorld Alliance. The alliance program is a partnership with several firms that allows the new American Airlines to increase access of destinations globally. The new American Airlines will offer more than 6, 700 daily flights to 336 destinations and 56 countries. Almost all the planes will be increasing seating with a four to six inch additional to leg room in the main cabins, and inflight Wi-Fi connectivity throughout the world. The new

American Airlines is focusing the vision on business travelers by increasing the benefit programs to the customer. The new American Airlines ability to increase the demand for the service has the potential to grow with customers, employees, merging of ideas from both businesses to create a competitive service to the public.

The increase in global destinations will give the opportunity to employees to travel but could increase the regulations of foreign travel. The risk of the airline business is the economic changes and fluctuations with fuel costs. Increases in fuel costs could increase the cost of tickets, baggage charges, and so on. These items have been standardized by most airlines as a common procedure and rule. Competition with other airlines for global travel could force the airlines to lower ticket costs to increase the customer??™s experience. The bankruptcy was a wise choice because the company was millions of dollars in debt.

Bringing the two companies together can create a strong airline and increase a competitive world of the airline industry. The supply and demand for this airline will depend on the little incentives and improvements that the airline is promising. As long as the company keeps the tickets are a reasonable price, the demand will increase. Minimizing costs, such as revamping employee wages and benefits could have a negative effect initially, however the two companies have banded together to continue to offer highly competitive benefit packages to their employees. In conclusion, the airline industry where many barriers are involve therefore companies choose to horizontally merge to other companies that are already in the industry to keep growing and to stay in the market. ReferencesAhles, A.

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