Dart group plc swot and porter's 5 analysis

We chose our company from the aviation industry, because we think it can be interesting to analyze an airline in the current economic situation, how they can survive and actually realize profit and growth in this really strong competition. Furthermore our company, the Dart Group PLC is not just an airline but operates in three segments, it is a Leisure Airline, Package Holidays and Distribution and Logistics Company. So it can be interesting to see in the end of our semester that which is the part they can really grow and which segments need to be focused on and manage precisely.

The company is specializing in the operation of scheduled and charter flights by Jet2. com to leisure destinations throughout Europe; the provision of ATOL protected package holidays by its tour operator Jet2holidays, and the distribution of fresh produce, temperature-controlled, and ambient products to supermarkets and wholesale markets throughout the United Kingdom. Dart Group Plc is a successful British company established in 2003 and only came to Hungary in 2006. The CEO is Philip Meeson, the company is operating from 8 airports, with 42 aircrafts, with more than 1500 employees.

The leisure but also low cost airline division trades under the Jet2. com brand and operates scheduled flights to a range of destinations from its home base at Leeds Bradford International Airport, and Belfast, Blackpool, East Midlands, Edinburg, Glasgow, Manchester and Newcastle airports. Jet2holidays is the Group’s package holiday operator; it is an integral part of the leisure travel activities, working closely with Jet2. com to provide holidays to a wide range of destinations from their 8 Northern UK bases. The Fowler Welch is one of the UK’s leading logistics providers, serving UK retailers, importers and manufacturers. The business operates from 12 regional distribution centers and offers a range of logistics solutions, including storage, case pick-to-order and national distribution of both temperature-controlled and ambient products. They success is in always keeping the deadlines, working 24/7, providing integrated supply chain solutions to leading supermarkets including Tesco, Asda.

Porter’s five forces

This model analyzes the micro environment of the firm and gives a detailed understanding and evaluation of the forces that helps to measure the direct strategic competition. According to Porter the five forces are: the buyer and supplier bargaining power, threat of entry, industry competitiveness and threat of substitutes of products and services. The more unique the product, the smaller is the buyer power. The customers are sensitive for the price however if they make alliances for their best interest, they can get more information about the product and prices. The bargaining power of suppliers is influenced by their concentration and the number of unique product they offer. National and industry standards determine the entry to the market, and if these limits can be met easily then the sector becomes more and more attractive for other companies as well. If certain products or services are inflexible, so there is no substitute product, the company is able to determine very high prices because the customers do not have other choices just buy them. So the profit of the firm depends on the substitute products and the quality of those products. The most important force is the bargaining power, the competitiveness, the strategy of the prices, the quality and the marketing.

Buyer bargaining power

The strong bargaining power of the Dart Group Plc. can be seen from the ratios analysis that we will mention later in the paper. The customers are very sensitive for the prices, so that is why they sometimes choose another airline that offers the same quality for cheaper prices. The services are not really differentiated, only in some parts eg. Jet2. com flies with allocated seats while like Ryanair let you seat wherever it is not taken yet. Some people prefer one some prefer the other. The bargaining power is very important in case of the cost reduction.

If the company has lot of information of others and other opportunities they have the opportunity for change. They also need good and improved technology and their loyalty program to attract the customers with highly developed and fast services to be successful.

Supplier bargaining power

As we know the suppliers bargaining power is growing because the logistics and distribution industry is more strongly concentrated which can be seen in the prices and in the quality they offer. The change of the supplier can cause problems and has a high risk factor, it can result lower quality for the customers which decrease the whole value of the service. Also there is a threat that the supplier also can manufacture, produce the products. The bargaining power of suppliers depends on price of fuel, taxes and government policies which we are going to mention later as well.

Threat of entry

In the aviation industry the possibility of competitors to entry the market is small because large capital it is needed, which has a risk that it will not return. The congestion is high of the airports, even if these low cost airlines use the smaller airports. The industry has so many regulations, government policies, economic conditions, environmental and political risks which we are going to mention later in the paper. Finally we have to mention the brand loyalty because people prefer to use their well-know airlines, not just because the comfort but their loyalty program. So to conclude the barriers are very high to enter this industry. In the logistics and distribution the entry is easier, but to be successful they need to be good at several fields, transportation, inventory, packaging, integrating information and security also.

Competition, Competitors

The Group has active competitors in each business areas. The distribution market has consolidated; smaller companies exited the market or got taken over by bigger players. Risk appears in the sector by losing substantial customers, but the company could focus on services levels and cost control so the risk factor has been decreasing.

The airline and the package holiday sectors are very intensely competitive, and the fare price competition is still intense at every base where they fly from. There are a huge number of airlines who try to be successful in different areas, in different comfort and price levels. They have to face slow growth rates because of the high competition and high fixed costs. As we already mentioned the low service differentiation does not help customers to choose, so it is only about small differences in schedules, prices on a given day and also the frequent flier program can be a reason for our decision. They try to focus on the customer needs, and reschedule in order to maximize the load factor, yield and revenue. For example in the winter they fly from Manchester to Budapest in the morning at 8am, while in the spring at 1pm and in the summer at 3pm. To operate efficiently after arriving to Budapest they depart back to Manchester in half hour. Jet2holidays operates competitively from all 8 UK base to the European destinations, mainly to the Mediterranean Sea in the summer, and to the ski resort in the winter time.

Threat of substitutes of products and services

The substitute of the aviation is road by car and bus, rail by train and the marine by ferry and ship. These are sometimes cheaper solutions, but definitely take longer time to get to a further destination; however sometimes the low cost airlines can offer very cheap tickets that can be cheaper even in shorter way however we have to add longer waiting time (get to the airport 1-3 hours before takeoff). So we can say that the threat of substitute of service is moderate. In case of the distribution the substitutes can be other transportation opportunities for cheaper.

SWOT analysis

Table: SWOT analysis

Strengths

- 3 operating sections
- Growth and expansions
- Strong bargaining power

- Friendly low fares
- Safety
- Good technology
- Best scheduled British Airline in 2005
- Group Leisure Award in 2012

Weaknesses

- Weather conditions
- High Competition
- Non-differentiated services

Opportunities

- Exposure the high fuel price differences
- Expand the Jet2holidays program
- Expand the destinations of the airline
- Expand the companies who they deliver for

Threats

- Fuel pricing
- Economic conditions
- Environmental risk
- Government policy

Own Source

In the next part we would like to mention further characteristics of the company that they have to face. The Group’s strategy is to grow a combination of organic expansion and carefully planned acquisitions in the existing businesses and markets. The group has many uncertainty factors through its competitors, fuel prices, economic conditions, environmental risks and government policy.

The cost of fuel it very important risk factor and the company aims a fuel price risk management strategy that enables to exposure the high price differences. In this case the Distribution sector is not very affected by the price fluctuation because due to their contracts they can increase prices to their customers.

Due to economic uncertainty there was a discretionary reduction in travel in case of the UK consumers, even if they regard their pleasure time as a very important element of their budget. The company will plan its flying program carefully and use new strategies to forecast the demand more precisely to decrease the uncertainty risk. They also plan to expand the Jet2holiday program with new locations and new offerings that can increase the revenue as well.

The political uncertainty also has an impact on the demand, and also on the prices of fuel and exchange rates. They can decrease this risk with a good management of the routes and through hedging fuel and foreign exchange risk. The aviation is always at a risk from the extreme weather conditions, and also we could see in the last years that volcanic activities can have a serious impact. They need a very precise respond to uncertainty events, and also they have a high level of liquid funds to get through an unsuccessful period.

The tax burden increase in the aviation industry and the increase in Airline Passenger Duty caused the suspension of two flights to Egypt in 2011. These cost are always increasing and there is a chance that these economic cost of emissions will also decrease the demand of passengers.

Strategy versus Ratios

In the business life we use financial ratios to figure out what is the real standing of a certain firm. Through the usage of financial ratios we are able to understand better how the operations of the firm run, how utilized the all-day processes are, and how well does the company prevail in the competitive environment of its industry. The strategy of a firm bright out clearly from these easily-estimated ratios; in the following of our paper we will describe the relationship between the strategy of the Dart Group Plc., and the ratios that came from its annual reports starting from 2007. Of course the frame of this paper does not enable a wide and deep analysis; we would rather concentrate on those ratios that could show us how the strategy is supported by the financial policy of the group.

First of all in the previous section of our paper we found that the group must operate in a very competitive environment together with several other jet companies that provide similar services. In our opinion a strong competitive environment generates price war, and harsh cost reduction. Price war brings the revenue down, that doesn’t mean too much trouble on its own, but if it comes along with almost strict cost, then the profit margin will be quite small. In the case of an airline company this is the reality if we look at the structure of the costs. The main types of costs are fixed; these costs must be paid to anyway, so their reduction is not a real option. In addition one main element of the operating costs, namely the fuel cost is very sensitive to the changes of the global economy. Because of the fixed operating costs and through the price war generated almost strict costs, the only real option to maintain the profit level is to expand, to diversify the services of the group, and to “ build an empire”. As we have already described in the previous sections of our paper, the strategy of the firm is to be bigger and bigger, because in the current economic situation this is the only reasonable strategy to generate enough profit, and to be successful in the aviation industry.

The group level revenue is continuously increasing, from the 2007 amount of 349 M pounds to the amount of 683 M pounds in 2012, which is an almost 200% increase. This trend could be observed in the case of the costs, from the 2007 starting 348 M pounds they increased almost to the double, to 654. 5 M pounds in 2012. This is a significant growth level, however in the case of the Gross Profit Margin a little fluctuation could be observed. The value of the ratio is the less in 2007 (0. 3%) and the most in 2009 (9%), but mostly it is in the interval of 3-5%.

Another issue is the liquidity risk at the company that we would like to cite from the Annual Report 2012 “ At the end of the year the Group had significant cash balances, together with a range of unutilized banking facilities, and had met all banking covenants. The Group’s strategy for managing liquidity risk is to maintain cash balances in appropriately liquid form and in accordance with approved counterparty limits, whilst securing the continuity and flexibility of funding through the use of committed bank facilities. Additionally, short term cash flow volatility risk in relation to margin calls in respect of fuel and foreign exchange hedge positions is minimized through diversification of counterparties and appropriate credit thresholds.

The Group seeks to match long term assets with long term liabilities wherever possible.” (Annual Report 2012 p. 15.)

“ The company also uses foreign exchange and fuel forward contracts to hedge its exposure to movements in US dollar and euro exchange rates and to jet fuel prices.” (Annual Report 2012 p. 15.) The Group’s policy is to forward cover future fuel requirement up to 100% and up to three years in advance. (Annual Report 2012 p. 15.) They have a remarkable foreign currency exposure; the most notable are the US dollar and the euro.

We also know from the Annual Report that the company have a conservative dividend policy, they rather retain the profit to support further growth in the sector.

Another important phenomenon, the increasing bargaining power of the firms can be identified from the financial ratios of the Dart Group Plc. The stronger bargaining position comes eventually with the large size of the company, and it is also supported by the ratios. Let us see how the turnover times of the group change in time! As we could easily observe from these ratios the companies of the group seem to be in a position where they are able to hold back payments to finance their current assets in the best way. From these ratios we are able to read out the strategy of the group: their goal is to build up a dominant position in their supply chain in order to be more flexible, and less reliant on maintaining good liquidity. The average turnover period of the Payables is very high and it goes up year by year; so is the situation with the average turnover period of the Receivables, however the increasing rate is not as high as in the case of the Payables, and it is much more controllable in our opinion.

When we examine the relationship between the current assets and current liabilities we can observe some other strategically important issues. It comes logically from the large difference between the accounts payables and account receivables that the difference between the current assets and current liabilities will be also large; plus the fact that the amount of current liabilities is more than the amount of current assets will generate a negative net working capital ratio. This ratio show us that not only short term assets are financed with short term liabilities, some of the non-current assets are also financed with such sources, what could generate a problematic situation, if the bargaining power is low. But in the case of Dart Group Plc we found that their bargaining position is strong, so they are able to perform such a financial strategy. We can also observe from this ratio, that its value decreases year by year, that points towards a more stable and sustainable future. This can also mean that the company will reach the mature position in the life cycle of corporations, its size will be even more controllable, and the possible problems from the empire building strategy will be easier to manage.

The empire building and growing strategy of the firm could be also observed in the usage of their Free Cash Flow. The group uses a large amount of their free cash flow on capital expenditures; however the negative working capital change does influence the reinvestment rate, which will be also negative because of it. From these ratios we are able to see, that in the current state of the Group the growth is slightly unstable, some of the free cash flow needs to be hold back to ensure the controlling of the net working capital changes, plus the high amount of capital expenditures and depreciation also reduces largely the free cash flow. The growth is financed from inside.

Conclusion

So as a conclusion we can state that strategy of the company is to continue to grow in all three business section organically. They aim is to ensure the high quality service by meeting and transcending the needs and expectations of customers in all three section. They also try to improve their website with more convenient access to their services. The holiday program is carefully tailored to different leisure destinations according to the season and also provides carefully chosen accommodations from all-inclusive to self catering with leisure airline scheduled flights. Their strategy is to maximize revenue through fully loaded aircrafts and utilize the cabin crew. In case of the logistics, provide the best distribution service of both ambient and temperature-controlled products.