

The nz aviation sector tourism essay



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The NZ aviation sector has grown from strength-to-strength in the recent years. New Zealand has a very high involvement with the aviation industry than many other countries. The aviation industry over here is world-class and the kiwis are air minded too. This made the aviation business a large one. Moreover, from the past few years, the innovation and technology has allowed the aviation industry to grow significantly.

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“ Air NewZealand” has a very special brand image among the New Zealanders and it is the sole largest airline in the country.

The report is presented by Narendra Inti, a PG Dip Business student at UNITEC, Auckland. The first part (Part A) of the report speaks about the history of Air NewZealand and provides an overview about the Managing Team, the organization’s mission-vision-values and the prime elements of the organization’s existence. By identifying the key values, the report also focuses on the key strategic-elements of the organizational strategy that helped to establish the firm.

Environmental scan, both at the micro and macro levels is included in the report. Environmental analysis would expose the issues that need to be addressed for a business to become successful. The report also emphasizes on those areas in business where commendable performance is required to forecast success.

2. INTRODUCTION

The “ Air NewZealand” originated as TEAL (Tasman Empire Airways Limited) in 1940. TEAL was a flying-boat organization operating between Australia and NZ. Later, in 1965 TEAL was completely owned by NZ government and took the new name as “ Air NewZealand”. Though it was privatized largely in 1989, the majority stake was taken over by the NZ government in 2001 after the tie up with Ansett (an Australian carrier company) failed miserably due to the financial issues that prompted to fold the operations of Ansett. The recent figures show that about 12.8 million passengers are carried annually by “ Air NewZealand”. Currently, it operates on a mighty fleet that comprise of the “ Boeing-747”, “ Boeing-767”, “ Boeing-777” and an “ Airbus-A320” on the international routes.

“ Air NewZealand” also operates domestically with its regional subsidiaries:

Air Nelson

Eagle Airways

Mount Cook-Airline

“ Air NewZealand” achieved the “ Airline of the Year” awards for the years of 2010 and 2012.

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2.1 COMPANY OVERVIEW

Company name: Air New Zealand Limited

Company Type: Public

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Company Size: 10, 001+employees

Industry: Air lines/ Aviation

Website: <http://www.airnewzealand.co.nz/>

Registered Office

Air New Zealand House185

Fanshawe Street, Auckland1010

NEW ZEALAND

Stock-Exchange Listing

NZX trading code: AIR

ASX trading code: AIZ

2. 2 Key People

CHIEF-EXECUTIVE OFFICER: Rob Fyfe

CEO DESIGNATE : Christopher Luxon

DEPUTY CEO : Norm Thompson

CHIEF FINANCIAL OFFICER : Rob McDonald

GROUP GENERAL MANAGERS:

Group General Manager Short-haul Airlines : Bruce Parton

Group General Manager People & Technical Operations: Vanessa Stoddart

General Manager Airline Operations and Safety : David Morgan

General Manager Marketing and Communications : Mike Tod

General Manager Strategy : Stephen Jones

2. 3 OBJECTIVES

The global economy has been facing a challenging environment due to the ongoing recession and this combined with a heavy competitive market has slowed down the economic activity. This has resulted in a great change in the people's attitude towards the mode of travelling. The highly competitive market has compelled the organizations to deal more strategically. Present global economic crisis has limited the people's ability to spend and so they look for something that is cost effective and at the same time very useful.

The report mainly focuses on the " strategic-foundations" of " Air NewZealand". Narendra Inti has conducted the PESTEL analysis as a part of the environmental scan while dealing with the " macro-level" analysis of the " Air NewZealand" followed by the Porter's five frame-work to analyze at the micro level. The findings from the environmental scan are used to address the key level strategic issues and thereby help the organization to grow and be successful consistently.

3. STRATEGIC FOUNDATIONS

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An organization comprises of the following " strategic-foundations"

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Mission

Vision

Strategy

Values

3. 1 THE MISSION

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The tag line “ Worlds warmest welcome” clearly suggests that “ Air NewZealand” is committed to provide the best service to the people and that is what they have been doing since their inception. About 13 million people all around fly on “ Air NewZealand” , annually. It could happen only because of the warmest service they have been providing and this is what is differentiating “ Air NewZealand” from the other airlines. The commitment towards their mission “ Worlds warmest welcome” has fetched them international acclaim. It is not just the kiwis who love to enjoy the service of this airlines, also people from many other countries do.

Apart from the best airlines award for the years of 2010 and 2012, it has been continually winning “ Best Passenger-Service Award” presented by ATWMA (Air-Transport World magazine-award).

3. 2 THE VISION

Vision of “ Air NewZealand”:

“ Air NewZealand will strive to be number one in every market we serve by creating a workplace where teams are committed to our customers in a distinctively New Zealand way, resulting in superior industry returns.”

Values

3. 2. 1 PROVIDING THE BEST SERVICE

Air NewZealand’s approach towards the customers begins by knowing the customers need. They enquire its customer where they are traveling and how many people, why & when, and what is that they value during the journey. This helps them to decide the network and their schedule; and the service and process is tailored to match needs of the customer during the journey. Every employee of Air NewZealand commits himself to make-a-difference to their customers and their business.

3. 2. 2 COMMUNITY SUPPORT

Air NewZealand is the top sponsor of most of the major events conducted in New Zealand. It holds a record for sponsoring a lot of groups and supporting many charities by donating huge amounts and providing travel assistance.

3. 2. 3 Environmental CARE

Air NewZealand is highly dedicated to minimize the aviation’s impact on the environment. ANZET (Air NewZealand Environment-Trust) has been making donations to support the development for conservation & the research projects in NZ.

3. 2. 4 Customers AIRLINE

They value their customers and that has made them the customer's choice. They constantly study about peoples changing tastes and give top priority to the customer's needs. That is the reason their quality in service has been always above the customer's expectations.

3. 3 KEY ELEMENTS OF PLANNED STRATEGIC DIRECTIONS

" Air NewZealand" want to build a competitive advantage in their businesses with the help of its employee's innovation and creativity.

" Air NewZealand" is highly committed to champion and also promote NZ and kiwis, business and the culture both at home and abroad.

They believe in teamwork and its great committed team aiming for the growth of its organization and vitality of New Zealand.

" Air NewZealand" wants to always be the customer's choice of airline, when people travel to/from or within NZ.

4. ENVIRONMENTAL SCAN

The Environmental scanning helps to find out current or forthcoming changes because it thoroughly focuses on those areas the organization might have neglected previously. So there are 6 elements/segments of the generic environment that has its effect on an organization. The impact caused due to these segments differs from organization to organization. The organization need to mainly concentrate on researching, monitoring, reporting and analyzing the data. The resultant findings of this analysis can

be used as the tools that convert uncertainty into strategy (Aaker, David, Michael and Mills, 2005).

4.1 MACRO ANALYSIS

Business environment surrounding an organization comprises of external influences which affects an organization's decisions and its performance. So the PESTEL analysis provides a methodological approach to find out and analyze those macro environmental segments that could affect the strategies involved in business, and also helps to forecast how these factors might influence the performance of the business in the current and future scenarios.

The environmental study starts with the study of six factors of the PESTEL analysis. The six factors are interrelated to each other and each factor cannot be viewed as a unique one. During the analysis one need to take in to consideration a lot of macro-environmental-factors so that the strategic process of policy formulation can be more useful to the current and future scenarios.

The factors discussed below gives an insight for the strategy makers as to what to incorporate in the organization strategy to make it efficient and those environmental factors that are very essence of a business strategy. According to their organization needs, the strategy makers need to assess other factors too that could have the potential to influence the organizations output, which is not mentioned below. Therefore the mantra is to concentrate on the key factors that need to be addressed in order to be successful.

(Grant, 2010)

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4. 1. 1 POLITICAL factors

Political factors can have either a positive or a negative impact on a business and that pure depends on the current scenario in a country . So, understanding and monitoring the political environment is very crucial for every business because this factor can significantly affect any business. Some key questions that are a part of the political environment which the strategy makers need to find the answers before proceeding further are: “ whether the government is stable?”, “ what type of a government is it?”, “ what type of economic policy do they have?”, “ What type of trade policies the government has?”, “ what are the Diplomatic proceedings in the neighboring countries?”. Once the strategy makers get the answers for the above questions, they need to incorporate the findings in the strategy making process and this helps them to forecast the future.

Almost 74% of the stake of “ Air NewZealand” being owned by the NZ government, there seems to be no trouble for “ Air NewZealand” from the political front as for as New Zealand is considered. Moreover policies were framed to benefit the organization since the NZ government strongly believed that it is something related to the integrity of the nation. But the organization needs to constantly monitor and adapt to the policies of the overseas governments as the policies, taxes and regulations change very frequently.

ECONOMIC factors

The economic factors which can affect a business and the factors that need to be considered are: demand for service or goods, regulation, interest and the inflation rates, access to the credit and un-employment proportion. The above mentioned factors can directly affect the market competition, demand and the supply.

Though the global economy is gloomy, the local economic conditions in New Zealand are far better than many other developed countries. The major areas like Australia, Singapore and Gulf countries where “ Air NewZealand” flies to and from are also in good shape economically. So there are no concerns as of now for “ Air NewZealand” in this segment.

4. 1. 3 SOCIAL factors

Social factors are very crucial and they can play a key role in influencing a business. Social factors include several components like lifestyle, trends, wealth distribution among the people and ethnicity. Human beings are social animals and so the social factors that influence are interrelated to people’s culture, opinions and changing tastes.

The “ Air NewZealand” is very good at marketing themselves in a way that appeals to the people. They focus on diverse cultures and that can be seen in their service, which address and values the culture. To give an example, during the recent rugby world cup few planes were painted in black to support the “ All Blacks” rugby team of NZ. This clearly shows that they give a lot of importance to incorporate the social factors in the strategy

making process. Also the way “ Air NewZealand” staff address the people of different cultures is another classic example too.

4. 1. 4 TECHNOLOGICAL factors

Businesses should continually implement new technologies to give the best service in the market. Companies with good vision look out for the best technologies that are apt for their business and implement those technologies to take an advantage in the market.

“ Air NewZealand” is very good in terms of implementing new technology. As their company vision states, they always strive to provide competitive advantage blended with creativity and innovation. When few airlines are still with old technology in the seating facilities...etc, “ Air NewZealand” constantly monitors the technology advancements and updates them regularly to their services.

4. 1. 5 DEMOGRAPHIC factors

New Zealand is a place of great ethnic mix. People from all over the world have come and settled here. Every year there is a great increase in young generation pouring from all the over the world for good study and job opportunities over here. This is a great advantage for the “ Air NewZealand” as the immigrants fly to home countries very frequently. This is also a reason that boosted up the “ Air New Zealand” business.

4. 1. 6 Legal factors

The legal factors include the regulations of employment, health, safety and service. “ Air NewZealand” has to abide by the “ New Zealand Civil Aviation Act 1990”.

4. 2 MICRO ANALYSIS

The micro-environment involves organizations/individuals that are dealt by the firms regularly. Stakeholders groups in business viz. suppliers, competitors, distributors, employees and customers come under the micro-environment. All the stakeholder groups can show their impact on a firm directly. Managers need to often interact with the stakeholders since their decisions have direct impact on the business. Therefore the micro-environmental factors play a critical role in organization's behavior and success.

Many frameworks and models are recommended to analyze an organization's micro-environment where it operates.

Porter's Five Forces Of Competition Framework

In 1979, Michael. E. Porter, a professor from Harvard Business School proposed a frame-work known as " Porter Five Frame-Work". This framework was very useful for business strategy-development and for the ongoing industrial-analysis. These five forces are useful to analyze the competition in a given environment of the market and help to improve the strategy (Michael, Duane, and Robert, 2005).

The forces of " Porter's five" framework are based on the " S-C-P paradigm" (structure and conduct & performance)" in organizational-economics. This can be applied to diverse scenarios and different range of problems and thereby help the businesses to be more profitable (Porter, 1979).

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The five forces were referred as micro-environment by Michael E. Porter. The micro-environment consists of the forces that are close to the organization which can affect the ability of an organization to serve the customers and its profitability. Firms would be able to apply its core competencies, network or the business model to gain profits over industry average.

4. 2. 1. Bargaining power of suppliers

The term “suppliers” can be referred to all the sources of input required to provide the goods or the services. A service industry needs infrastructure, labor and the other supplies. This requirement has led to supplier-buyer relationship between the firm that provides material and the industry that provides goods or services. If the suppliers are powerful, they could exert influence on the industry that provides goods or services, by selling the material at very high prices with an intention to capture the industry’s profit.

Supplier bargaining-power could be high in the following scenarios:

If the market is completely dominated by very few giant suppliers.

If there are no substitutes for those products.

If the buyers are fragmented, the bargaining power would be low.

Sometimes switching to a different supplier could cost more.

In the case of airlines, are there several-buyers and few principal-suppliers?

Yes, in the case of airline industry there are many buyers like “Air NewZealand” and only two suppliers viz Boeing and Airbus. So the power is in the hands of those two suppliers.

Is the supplier's brand image strong?

Yes, Boeing and Airbus have a very strong brand image and they are the only suppliers of aircrafts for many airline service providers like " Air NewZealand".

Can the suppliers raise prices?

Suppliers have all the power to increase their prices, but currently they might not do so as the airline industry is struggling with low profits due to heavy competition.

Can the suppliers find new customers?

Yes, it is easy to find new customers but not many are jumping into this sector so easily.

4. 2. 2 Bargaining power of buyers

The buyer bargaining power of Porter's five forces refers to the consumer's pressure in-order to get the better quality service and lower prices.

According to the Porter's framework of industry analysis, " buyer bargaining power" is one among the five forces that shape the structure of a completion in an industry. The main idea here is " buyer bargaining-power" in any given industry affects the competitive-environment for the seller and thus influencing the seller's profitability. If the buyers are strong, they could pressure the sellers to improve quality of the product, provide more services and to reduce the prices. Buyers play a key role in creating demand in an industry.

Are there very few leading-buyers and many sellers in airline industry?

The entire population of New Zealand and other users from many different countries form the customer base and this is too high when compared to airlines operating.

Are the services standardized?

Yes. The customers demand a wide range of high quality services at low prices.

Are the buyers forced to be tough?

No.

Is it easy for the buyers to switch their suppliers?

Yes. There are many airlines operating currently and so the customer can easily switch if they find that they are not getting what they prefer from the current airlines.

4. 2. 3 Threat of NEW ENTRANTS

The new entrants can be referred to the new firms that pop in and emerge in any given industry and thereby giving a tough competition to the existing already established firm. New entrants cannot actually compete on equivalent terms on the already established and recognized firms. There are many risk factors involved that need to be considered by the new entrants. There is minimum scope for the new entrants to come up on a large scale.

The three main barriers for a new entrant are brand loyalty, economies-of-scale and absolute-cost-advantages (Hill and et al, 2007). Going by the current scenario, it is not so easy for the new entrants to survive in an airline industry, because this particular industry is very congested and has very high entry barriers. Moreover airline industry is less attractive due to high initial investment required and very less profits to gain. So there is no threat of new entrants to “ Air NewZealand”.

4. 2. 4 Threat of substituteS

The substitute refers to the alternatives that are available in the market to the buyers.

The alternatives that are available for the customers are referred to as substitutes. Speaking in context to airlines, alternative transport methods like roadways, railways and waterways can be a threat to domestic airlines as a train or ship can be used for leisurely travel purpose. But still airlines secure the position of fastest mode of transport and it would continue its dominance in the international market of transport.

4. 2. 5 RIVALRY BETWEEN ESTABLISHED COMPETITORS

The business that is providing similar services or goods is referred to as rival. It exists if there are more many firms in a market. These firms constantly try to capture the markets of the other firms to better their position and get an edge over the others. Normally the competition is on the product basis, cost, customer service and promotional campaigning to achieve a better place in the market. This force gives a clear idea about the competition intensity

between the current players in the market. High competition results in lowering the prices & margins and this affects the profitability of every single firm in the industry.

Though “ Trans Tasman” market zone in airlines is completely dominated by “ Air NewZealand” and “ Qantas”, other competitors like “ Virgin Blue” and “ Emirates” play a vital role in determining the prices in the market.

Competition and intensity of rivalry in airline industry is likely to be high when the following happens:

Competition Structure

The rivalry would be more when it has small sized competitors’ vice versa when there is single largest market leader.

Strategic objectives

The competition increases if the competitors take up fierce growth plans. It would be a different scenario if they only aim for the profits. In the airline industry, the competition is more focused on advertising, pricing structure and customer satisfaction.

The main competitors of “ Air NewZealand” are listed below:

Qantas Airways & its subsidiary Jetstar Airlines

Virgin Australia Airlines

Emirates Airlines

5. KEY STRATEGIC ISSUES

The aviation industry has seen drastic changes from the recent past. Airlines have become very competitive as the airlines are more focused on capturing the market share of the others. As far as the “ Trans Tasman” zone is considered, the environment for aviation is in good shape.

Understanding The Markets and Customers

To survive and effectively compete in the aviation sector it is essential for the airlines to understand the market and the changing tastes of the customers. Airlines can retain a customer only if they provide the best in their service. So retaining has become one of the key issues for airlines. Therefore, “ Air NewZealand” should constantly check their SL’s, frequentness and connectivity. They should constantly survey and update accordingly to meet the customer taste and expectations.

Increasing use of loyalty marketing

A concept that aims to encourage the customers to use a product or service frequently by instilling a loyalty sense in them is called “ loyalty marketing”. There are various loyalty program adapted by the airlines. “ Air NewZealand” provides a “ frequent-flyer” loyalty program that gives a chance for the customers to win points during their trips. Once the customer has sufficient points, he could redeem them in order to avail some free benefits.

re-align procurement strategies

Recession has taught many good lessons. It has clearly shown how trends could become volatile. The current global economic crisis has urged the aviation industry to realign the procurement-strategy. Therefore it is very

necessary for “ Air NewZealaand” to establish an efficient strategy and procurement system in order to succeed in any uncertain conditions and be successful.

6. CONCLUSION

Aviation industry is a very hi-fi industry. “ Air NewZealand” has to make sure that their staff is providing the “ WOW” factor in their service that a customer would always expect. They need to strategically plan all their moves and should always strive to provide the best market rates and the best service in the market.

“ Air NewZealand” has been constantly receiving aviation industry awards for its operations and it has got excellent honor of services. It enjoys a giant 52 % of total market share in the “ Trans Tasman” aviation zone. Therefore “ Air NewZealand” should always strive to be the best by providing the best.