Commercial airline industry term paper

Business, Company

Airline firms that do business need to understand the forces that may impact on their survival. This will enable them understand these forces and how they may impact their performance. This will enable these firms to implement strategies to counter these effects in order to maximize profits. This can assist companies to carry out feasibility studies when planning to enter a new market. This will help it analyze different market segments and assist such companies implement business models that are profitable. Bargaining power of buyers This threat is high because most customers ever search for better deals. As such, commercial airlines in the United States suffer due to this threat with Jet blue airline, not an exception. Several airlines such as American airline compete with the airline for market share. This is evident in Jet blue airlines that use travel reward programs to attract regular travelers. Frequent programs tailored to travelers attract and maintain loyal customers hence reduce the number of buyers that would have otherwise bought tickets. On the other side, other independent sites and middlemen offer a variety of cheap fares from different companies. This negatively affects ticket sales since customers have alternative airline sites from which they can choose an option that suits their budget.

Other airlines are in a better position due to their economies of scale that helps them to achieve their business strategy. Apart from this, other key players in the airline industry play an important role in the growth of this industry. This is because they assist in ensuring the overall flow of airline operations. They help in aspects of online booking in the case of intermediaries, ticket sales and airport transfer services, which form vital components in the overall flight operations.

This affects the pricing model because corporate clients use travel agents who handle their travel schedules. This is because travel agents can influence decisions in contracting corporate clients.

This can affect the company performance in cases where travel agents choose different airlines, and in such cases other rival airlines that offer low prices can increase their market share by using such strategies. Threat of new entrants The threat is medium because new entrants lead to an increase in competition which undermines industry profitability for incumbents. Delta airline's growth has declined due to new players such as Jet blue airlines (Ireland et al, 50). This is because Jet blue airline is a relatively focused airline company. The airline managed to establish itself despite the ever large old-guards in the airline industry. This is because the airline has a slightly lower cost structure compared to delta airline. The deregulation act of 1978 influenced the pricing model (Doganis, 130) that initially was an advantage to legacy air carriers such as delta airlines.

While major airlines had an established transport network, other cargo freighters that offer cargo transportation offer stiff competition in the cargo business. Some major airlines affected include delta airlines. The act made major airlines reduce their cargo prices. Most legacy airlines such as delta airlines recorded reduced bookings due cuts in airfares.

This is because the act leveled the playing field in the aviation industry, previously under the civil aeronautics board (CAB). This brought about innovation in pricing that has infiltrated into today's competitive market where airlines adjust to gain market share. Airlines offer different prices, mostly influenced by the route structures. Other least carriers made entry and achieved much larger market share. The Air Transport Association reports that the aviation industry incurred net losses of up to 23. 3 billion US dollars, due to infiltration by low cost airlines as a result of the deregulation act that liberalized the aviation industry. This act brought changes in the aviation industry, in terms of changes in the airfare pricing. Small rival airlines used the opportunity to compete with bigger airlines by crafting a pricing model that attracts customers.

Small commercial airlines also face threats from large airlines due to the market share and large economies of scale that these airlines occupy. These airlines find it hard to penetrate markets dominated by well known brands of airlines. This is because new airlines have to market their services, and in other circumstances use a pricing model to attract travelers. Power of suppliers The threat is high due to the leveraged nature of strong unions, which undermine industry profitability. The airline industry has two major manufacturers and suppliers of aircrafts. The two are Boeing and Airbus. These two firms dominate the market from which these airlines acquire their aircrafts. The two firms do not experience competition due to the technology they employ in designing the aircrafts. Most of the world's airline such as delta airline purchases its aircraft from airbus.

These companies out weight each other yearly in the supply of aircrafts. This is because they use strategies that attract airlines to the designs that most airlines prefer, and as such they have stronger bargaining power since they remain the only players. This opportunity is because other aircraft manufacturers such as Embraer have no much foothold in the American market. The aviation industry relies heavily on some structures to facilitate transportation. One such structure is the union. Unions have strong bargaining power for better terms for their employees. This is because pilots, flight attendants, mechanics and other administrative staff work under unions. As such, this can disrupt the revenue stream of most airlines because these airlines incur higher costs as a result of hiring and maintaining staff who work in the airlines. Unions can also assist in collective bargains that can also positively affect the airline industry. This is because these organizations control the wages of most airline staff and as such, employees of major airlines cannot demand wages that do not correspond to the prevailing economic conditions.

This is because staff maintenance costs have effects on the operating costs of most airlines. Moderately compensated airline staffs have low effects on a firm's balance sheet compared to other employees. In other instances, unions use courts to prevent staff layouts. However, recently union powers have diminished which now allow them to obtain union concessions. This makes unions have great power that can strain an airline profitability level. Threat of substitute productThis threat is low. This is because airline travel will continue to be an important industry in any growing economy. There are companies that will always want to venture into a given market, and consumers of products have free will to choose from alternatives. However, companies should develop ways of responding to such potential substitute threats in order to continue with their operations.

A number of products in the airline industry suffer from the threat of substitute. This is common in the aviation industry where low cost airlines offer cheap airfare to attract customers. An example in this case is delta airline. This is because customers fly an airline due to attraction from other airlines. Customers get attracted by lower airfares that rival airlines offer. In this case, Jet blue managed to infiltrate as a substitute by offering a low cost product, which is much lower that what standard carriers charge.

This is because customers get attracted to these substitutes due to the pricing model that they offer, which enables low cost airlines to gain market share by having a bigger number of loyal customers. Rivalry This threat is high because firms will always venture into markets that have other competitors. Competition tends to be normal in a free market. This is common in the commercial aviation because companies will always strive to adopt policies, be innovative to remain competitive in a market.

This can be due to a firm's ability to develop strategies aimed at sustaining the business. Rivalry enables commercial airlines to form strategies that enable them to compete (Ireland et al, 55). This remains an important element because competition is healthy when there are normal trade practices. In the Northeast market, there is stiff competition between Jet blue airways and delta airlines. The market initially dominated by delta airlines in the shuttle service, has attracted stiff completion from Jet blue airways. Jet blue airways uses a cost strategy that offers lower prices for business travelers starting from $55. This has negatively affected the airline that previously dominated the market.

This made delta airline file bankruptcy protection due to stiff competition from low cost rivals such as Jet blue airline. This is because the pricing strategy used on some routes affected the airline's performance. On the manufacturing sector, Boeing and airbus compete fiercely to win aircraft orders. This is because major airlines prefer the design specifications that affect an aircraft performance. This is because they invent products yearly that have direct influences on operating costs of an airline. Relative power of other stakeholders Stakeholders can influence the activities in the airline industry. In the manufacture of large aircrafts, certain requirements in trade can affect trade in the manufacture of aircraft. Legal requirements and government policies affect the competitiveness in the aviation industry. These policies include direct and indirect support, tax, trade, environmental protection, labor policies and aircraft certification programs. The airline stakeholders can influence airline practices, and as such can be detrimental to an airline if not observed. After the 9/11 attack, the government imposed strict security requirements on major airlines. This reduced business travel since customers shopped for other airlines that offered low airfare. As a result, air fares and passenger revenues of major airlines dropped by almost 20%, significantly affecting the airlines.

Stakeholders form a critical part in the aviation industry. One important stakeholder is the jet fuel supplier. Jet fuel suppliers control the price per gallon of the most fuel that airlines consume. The suppliers have the power to control the pricing of fuel in the aviation industry since most handle the trade aspects of fuel. In large airlines, there are agreements that airlines to contract jet fuel suppliers to provide fuel to their airline. This agreement occurs when a commercial airline such as delta airline, contracts a fuel supplier to supply fuel across all its connecting airports. This ensures that fuel hedge practice does not interfere with the flight schedules, through legal agreements between an airline and the jet fuel supplier.

The airline sector experiences strong supplier power, very high buyer power, considerable threat of new entrants and high rivalry. This can assist an airline company to classify a given market in order to determine industry attractiveness. This will help the company develop a strategy that will help it occupy a favorable market position.

Works Cited

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