Us airline industry term paper samples

Business, Company

Major:

Porter’s 6 Forces Analysis of the US Airline Industry

- Bargaining Power of the Buyer is High

In the study conducted by International Air Transport Association (IATA) of airlines worldwide, it is projected that the growing middle class in various parts of the world, particularly Asia, Middle East and South America, will spur travel and air cargo (Pearce, 2013). This expected increase in global demand is forcing the airline industry to expand and invest in modern aircrafts.

With growth coming from the sophisticated segment of the market, ‘ buyers’ in the airline industry are able to influence governments and policy makers to improve regulations on consumer rights protection. Examples of these changes are the requirement to advertise the full fare (including taxes) for transparency, and the right to claim for compensation on delayed flights or loss baggage if the airline is at fault.

The strong voice of the buyers in the airline industry is considered the main driver in the improvement of quality of air services. It is one of the reasons for the proliferation of customer loyalty/privilege clubs among airlines

Through the available information from online travel websites, such as Expedia and Priceline, the buyers are enabled to have the leverage to influence the airline industry to expand options for airlines and routes, and reduce airfares. At the same time, they demand better travelling experience because they can easily switch to other foreign airlines or modes of transportation like buses or trains on short distance travel.

While the bargaining power of the buyers helped improved travelling conditions for air line passengers, it also helped intensify competition within the industry and squeezed profits of airline operations. For many airline companies, it contributed to losses and in extreme cases, bankruptcies and shutdown (Airline Pilots Association, International-ALPA, 2013).

- Bargaining Power of the Supplier is High

According to ALPA's white paper (2013), " fuel is the largest and most volatile expense item for the airline industry". Currently, there are no strong substitutes to fuel or its source of supply. The heavy reliance on oil-producing countries for fuel supply puts the airline industry at constant profitability risk given that they have no bargaining power on its supply and price stabilization.

Local and international airports are also considered as a significant supplier to the airline industry. They provide the entry point to the travelers and monopolize ground operation that impacts airline industry. It would be difficult for airlines to switch airports. The cost would be high to change their routes and source of air traffic. Meanwhile, any regulation or policy imposed at the airport such as passenger-security related processes, if viewed negatively by passengers can dampen demand for air travel and limit growth of the airline industry (Wiltshire, 2013).

Airplane manufacturer in the US are oligopolies. This market condition reduces the bargaining power of airlines on their purchase of new aircraft. The situation is further aggravated given that, these days, American manufactured-planes can be bought by foreign carriers sponsored by their government at lower financing rate (ALPA, 2013). This further diminishes the influence of the airline industry to reduce price of airplanes since the suppliers now can switch customers to foreign buyers.

Another aspect of suppliers in the airline industry is the service provided by professional pilots and flight attendants. Nearly all of them are members of unions such as the Association of Flight Attendants-CWA (AFA-CWA) and the US Airline Pilots Association. These unions serve to reinforce the collective bargaining rights of its members, thereby, lobbying for a better employer-employee relationship in the airline industry (afacwa. org, nd).

- Threat of New Entrants is High

Despite being a capital-intensive and a highly-regulated industry, US airline industry is threatened by new entrants from foreign airlines. These airlines are able to gain access to the US markets through more than 100 Open Skies agreements entered into by US government with other countries. The most recent threat is coming from the bilateral free trade agreements with EU called Transatlantic Trade Investment Partnership (TTIP), which allows " cabotage" operations of EU airlines in US routes.

On international routes, US airline industry is also at a disadvantage since many of its competitors are sponsored by their states and do not encounter heavy tax, aviation and safety standards and regulations that US carriers need to comply with (ALPA, 2013).

Smaller and start up airlines, with available capital, are also able join the US airline industry easily to encourage competition and fill in the gap on routes less travelled by bigger airlines. As an entry strategy, they offer cutthroat prices that intimidate existing players. This leads to altering the industry pricing structure, mainly driving down prices, as existing players attempt to drive out small players/new entrants in the industry.

- Threat of Substitute Products is Low to Medium

Bullet trains are becoming a strong substitute for air travel on short distances. It cannot compete, however, on the long haul as air travel is still considered the most economical mode of transportation.

For business travelers, companies can now opt to delay or do away with air travel with the development of web-conferencing (IATA. org, 2014).

- Intensity of Competitive Rivalry is High

With each US airline driven to attract a major share of the market and tackle new and existing competitor in the industry in order to attain/sustain profitability, the competitive situation in the airline industry is very intense.

Airline industry rivals combat competition using strategies such as:

- Substantial investment on advertising
- Offering air miles or loyalty rewards programs
- Employing the best pilots and attendants
- Service innovations
- Improving quality of service
- Heavy price reduction.

Overall, the tight competition in the industry improved air service, safety standards, and working conditions for its employees. However, most of the strategies they employ entail cost and have a direct impact on their bottom line.

- Relative Power of Other Stakeholders is Medium to High

Airline industry is known to be heavily regulated to ensure public safety. One of the international agencies that shapes the airline industry is the International Civil Aviation Organization (ICAO). ICAO sets the international standards for safety and security in aviation (Icao. int, nd).

Industry trade organizations like the Airline for America (A4A) can also weigh in on petitioning against legislation that may adversely impact the airline industry. One of their recent lobbying is about opposing the increase in the passenger security tax (A4A, 2014).

Airline employee associations can likewise, be influential. Recently, the Air Line Pilots Association, Internal or ALPA released a white paper to propose recommendations on US aviation policy to ensure the airline industry’s viability (ALPA, 2014).

Federal and local government regulating bodies are by far, the biggest game-changer in the airline industry. The government can finance alternative mode of transportations such as fast trains. It can open up the US market to foreign competitors, or impose passenger taxation that can negatively affect demand for air travel. It can also affect buyer preference by imposing local passenger-protection regulation to ensure security among travelers or conversely, considered as restrictive that will discourage passengers from choosing air travel. Introduction of environmental standard can increase cost of operation or an increase in travel tax can put an extra weight on air travelers’ cost consideration. On the other hand, it can also promote tourism and ease of granting tourist visa for foreign travelers to USA that can help enhance the airline business (Pearce, 2013).

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