

A five forces analysis of air arabia tourism essay

[Environment](#), [Air](#)



According to this model any business has 4 stages during its life cycle. These stages are: Introduction, Growth, Maturity, and Decline. In the introduction phase a company just starts offering its new product or services in the market. At this stage the company might be the only one in the market or its services or products might be completely new. In the stage of growth the company has to make huge investments for the marketing and research and development of the product so that the product can grow competitive in the market. In the stage of maturity the curve of the industry life cycle becomes flatter and the rate of growth slows down. There are very few firms in this stage where the business giant has a little competition from the new comers in the industry. At last the decline phase of the life cycle is nearly inevitable if there are no regular improvements are done in the product or service. In this phase the sales decline at a very pace. Every company, industry or business goes through all these stages in their life cycle but there are very few companies which have seen the maturity phase. Air Arabia is one of those companies of the UAE which is in the stage of maturity. The company is considered to be in the stage of maturity as it fulfils all the requirements to be in the stage. Air Arabia is the largest aviation company that offers the lowest flying cost. The strategy of cost minimizing and branding by increasing the number of flights is to gain sustainable competitive advantage in the industry and competitive edge over the new entrant competitors. Being in the phase of maturity of the industry life cycle the company Air Arabia must stick to its low cost carrier services and focused on the current business model. Air Arabia has captured most of the business hubs of the Middle East and North Africa region which has a potential developing market

and prospective growth for the aviation industry and LCCs. The business strategy of the company should not be only striving for cutting down the operational cost to provide low price carrier but to provide service which is more scheduled, convenient, more destinations it covers, and performs in time.

Analysis of the Air Arabia based on Michael Porter's five "Competitive Forces":

Threat of New Entrants

The entry of new company in the industry influences the competition scenario in the industry. The aviation industry has a high potential of profits so it may attract competitors in the market. These new entrants might be threat for the Air Arabia aviation company which is the leader in the LCCs. These threats might be in terms of better services, lower cost of product and services. Air Arabia is a well established, profitable and most successful company in the industry so it would be difficult for the new entry to sustain in the market. The barrier of entry in the industry is also very high because of the huge cost of establishing the business. The business needs millions of millions dollars to be invested to establish a company. The cost of an aircraft is around \$ 2 billions and to compete with the Air Arabia the competitors has to run the airline at low cost and offering better customer services. Air Arabia has a brand name and customer loyalty in the business which gives it competitive advantage over the new entrants in the industry.

Bargaining Power of Suppliers

Every industry and business needs raw material to manufacture their final product or service and this raw material is made available by the suppliers. These suppliers can influence the profit involved in the industry by varying the cost or quality of the raw material. Thus the relations with between the manufacturer and suppliers become important for the industry. The airline industry has very specific suppliers for the business. One is the aircraft manufacturing companies like Boeing and Airbus and fuel suppliers. Because of scarcity of the suppliers of aircrafts and limited production of units the suppliers can control the prices and bargaining power will be higher with them. The fuel suppliers also control the cost of the tickets of airlines. This force is a threat for the Air India as the suppliers has more power then the company.

Bargaining Power of Buyers

This force is stronger in the airline industry in the Middle East and North Africa region. The buyers have higher power of bargaining for low cost, and better services. The situation is because of the large number of options available to the passengers and the number of passengers travelling in the LCCs is very high which will affect the business on a very large scale. Because of the availability of several options of low cost airlines and the facility of internet booking of air tickets the customers have many flexible options available. So to weaken this force of buyers the company ha to maintain the quality of services and the cost of the services should be kept minimum in the industry. Otherwise this force will also act as a threat for the company.

Threat of a Substitute Products or Services

Substitutes for the airline industry are trains or driving cars but availability and feasibility of these substitutes varies from region to region. Cars and trains might be substitute for the regional and local flights but they cannot replace international low cost flights. So the power of this force also differs in regions like in Europe where travelling with trains is easier and cheaper the threat will be higher but in UAE where the train facility is not good and because of the hot and dry climate travelling with cars is also not possible flights are the best option as it is more convenient and time saving. So the power of force will be weak there and opportunities of business will be higher.

Rivalry among existing firms

In the aviation the competition level is very high between various airline companies. In the Middle East and North Africa region there are many international airlines in the industry. All these companies are attracting customers by providing best customer services, best aircrafts and lowest price in the industry. But the Air Arabia has been established in the region for the past many years and holding the position of leader in the LCC airlines.

Business-Level Strategy

The differentiation strategy requires the development and improvement in the quality of product or services. These products are offered to customers with better and unique characteristics which are completely different and advanced from the competitors. The uniqueness in the services will add a value to them and this value may be charged as a premium price of the

service by the company. Air Arabia has been the leader of the LCCs for the past three years. Now the company can use its brand value to cover up the extra cost of the exclusive services by the customers. The unique attributes of the services provided by Air Arabia will be able to charge some extra dollars from the customers if the suppliers increase the cost of their products. The current business strategy of Air Arabia is cost focused; it provides services at the minimum cost possible in the industry and is leading the LCC industry for the past 3 years. The company should now add some value to its services. These value added services may be better customer service, rapid innovation and advanced technology. But if the company will practice this new business strategy along with its brand image then the threats and weaknesses can be overcome.

To be successful with the differentiation strategy of business an organization might have certain strengths:

Use of best and advanced scientific and technological concepts.

Expert and competent work force for developing value added products or services.

Sales team should be skilled enough to spread the advanced features and usability of the product.

Brand image and reputation to improve quality and advancements.

Value in the service and product can be created by implementing following steps in the business:

Lowering Buyers' Costs - Improved quality will minimize the chances of problems in the services and thus the cost of buyer will also get reduced.

Raising Buyers' Performance - The main objective of increasing the quality of services is to entertain the customers with better services and let them enjoy the service.

Sustainability - The uniqueness and reputation of the products will create barriers and high switching cost.

Risks of Using a Differentiation Strategy - Risks involved in using differentiation strategy in the airline industry are high. Competitors of Air Arabia can start imitating its business model or tastes and requirements of customers might change very frequently which might loose the value the service so the service will need changes accordingly.

Functional-Level Strategies

Internal analysis

Business Model

Mission, Vision, Values, and Goal

Air Arabia is the leading firm in the field of low cost carriers with the mission of revolutionizing the air travel in the Middle East and North African region.

The approach of the company will be novel and innovative which will offer services satisfying to the full value of money of customers.

To achieve the mission of the company it will use low fare operations to grow the profitability of the organization. The teams of the Air Arabia will be highly

motivated for customer satisfaction which will showcase the highest standards of operations and will manage the operational cost of the company.

The vision of Air Arabia is “ To be one of the world’s leading Budget Airlines” with respect to:

Profitability and Margin

Innovation

Reputation

Operational Excellence

Air Arabia shows its loyalty to its passengers by offering them the minimum rates and best combination of rates and services which will attract them to travel with Air Arabia more frequently. The organization commits to its shareholders the highest and most secure return on their money. The company with its value “ Pay Less, Fly More” offers safe, reliable and comfortable air travel throughout its network more often. The company always looks forward to meet the requirements and expectations of its valued customers by offering various value added services and offers. The company always invites the suggestions and feedbacks from the customers in order to improve its services and offerings. The journey with Air Arabia should be a wonderful experience is the main point of dedication of the company.

Conclusion

The Air Arabia must adopt generic business strategy of differentiation in addition to its current cost focused strategy. This mix of business strategies will gain competitive advantage over its competitors to the company. The better quality of services will make it the best company in the airline business. Air Arabia's AcelAero was the multifunctional reservation system. It has offered and software solution enterprise: airline for better operational services. The company offers flights to more than 65 destinations around the world. Air Arabia understands the value of money of the customers and provides services that are compatible to the price customers have paid. All these are the uniqueness and advantages of the company in comparison to other airlines. Air Arabia will gain competitive advantages by focusing on other market segments. Like providing cargo services to Aramex, partnering with Dubai bank and Dubai Islamic Bank for the online payment facility, offering various gifts and vouchers on the annual celebrations of the company. All these steps of the company are aimed to improve the brand name and corporate image of the company, regionally or internationally. These value added services of the company will help in increasing the number of customers and number of repeat customers who were once satisfied with the services of Air Arabia.

The Air Arabia airlines company is in the maturity stage of the business life cycle so it will have to face strong competition with the competing airlines companies. To gain competitive edge over its competitors each company will be using offensive business strategies rather than defensive one to remain competitive in the market. The research and analysis of internal and external

factors affecting the position of company in the airlines industry proposes following recommendations:

The cost of operations of Air Arabia is increasing because of increasing fuel prices and giant investments in aircrafts and its services. The company must minimize the operational costs by improving operations in the business, particularly improvement in maintenance process, aircraft utilization, and effective scheduling of flights. Labor cost can also be reduced by using technology in various distribution processes. Although Air Arabia has threats of the high class airlines which provides high level of services to the passengers, the company is a leader in the low cost airlines. So cost of tickets can be increased up to a certain extent in order to improve the quality of services and add some value to those services. Air Arabia can remain competitive in the market because it is the leader of the LCCs and charges of other high class airlines are too much for a normal non business class customer. By extending the roots of the business in such a manner the company can grow its market share in the business class customers too. Air Arabia has routes in more than 65 destination all over the world but as the UAE is a main attraction of global tourism so the routes of the airlines should be increased. The company should join some global alliances in order to widen the range of price and service offered by the airlines.