

Porters 5 forces analysis on air asia management essay

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



Porters Five-Forces Model of competitive analysis is widely implemented by most of the company to progress their strategies in many industries. The composite of five forces below explaining the nature of competition facing by Airasia:

1. Threat of new Entrants

Loyalty of customer is weak. As increasing in the number of airline competitor such as Jet Star and Tiger Airways which are also promote low cost fare may decrease the shifting cost of the customer lead to decrease of Air Asia's customer loyalty.

Start-up Cost is high. This is act as a barrier of entry for the competitor as there are high in capital requirement such as set up of headquarters, purchasing or hiring aircraft, appointment pilots and other staffs like air supervisor.

Diversified in product offered. Air Asia has expanded their product line by not only sales ticket but also offering tourism package which is offering hotel booking while booking the ticket. It must have a good relation with hotels and tourism companies around Asia.

Switching Cost is low. As there are no significant differences in the price compare to Air Asia's competitor such as Tiger Airway and Jet Star as mentioned earlier, their customer do not need to spend more to shift to another airline. The competitions are depending on the services provided and the suitability of the flight time for the customer.

Government regulations are strict. Due to competitive in airline industry and protects on national airline, MAS which facing losses in these year, it is quite difficult to apply for licensing and permit for operating airline company.

2. Rivalry among existing firms

High numbers of Competitor. The competition will be fiercer if there is high number of competitor, this is a normal phenomenon. Airasia are now facing competition with approximately 59 low fares airline such as JAL Express, Tiger Airways, Air Arabia, JetStar Airways, and etc. They may compete in term of their route offering that Airasia does not fly.

Fixed Cost is high. Fixed cost incurred by an airline company may include the finance cost, hire purchase and staff cost while this fixed cost may be reduce through increase in market share. As the rivalry is strong, Airasia may constant in price reduction to compete with them.

Exit Cost is high. The cost may include staff retrenchment fee, paying off the loan or debts and refunds due to flight cancellation so it may expensive for an airline company to leaving the industry. They may force to continue their operation even they are facing losses in order to cope with fixed costs. This may makes the industry very competitive.

Similarity in product offering. Similar service provided among every airline company so the competitive may be fierce. Airasia had expanded its services provides to hotel booking as it already has its own hotel (tune hotel) which located not far away from its airport, and tour packages.

3. Threat of Substitute product

Ease to switching. As there are approximately 59 low cost airline operating in the industry, it is always easily for the customer to look for alternative. It is also because they are providing same service to the customer which is sent their customer to their destination by flight.

Performance of rivalry. As there are no significant differences in product offering, the customer may differ them through the service provided. Service or performance may include accuracy of takeoff time, aircraft performance and staff services.

Relative Price. The price offer by an airline company may not be fixed but it will depend on the time differences between the date of booking and flight. The price will be cheaper if you book earlier. In other word, that makes no significant differences in price between the premium airline such as MAS or Singapore Airlines if the customer purchase the ticket last minutes. Thus, the customer may choose to purchase premium airline which may offer them more comfortable facility in almost same price with Airasia.

4. Bargaining power of buyers

Similarity of product. There is no product differentiation while the only different is the airlines packages offered. Thus, small portion of customers who not interested with joining the travel agencies may look for AirAsia which providing the holiday packages which including flight ticket, accommodation and travel guides flight ticket, accommodation and travel

guides. The important thing the buyers look for is the fly to destination which shows the strong bargaining power of buyers.

Low switching costs. The bargaining power of buyers is strong when the switching cost of airlines is low. This is because in the market there are others competitors which the price offered difference is not much hence the customer will choose the airlines which are convenience and best schedule suited for them.

Moderate Portion of buyers expend on airline. The portions of income of an individual earns is the factors because when the portion is high, the more customers will look for cheaper price, hence the bargaining power of buyers will be strong.

Customers have access to market information. With the emerged of information technology, many companies are to operate with using the IT and e-commerce because the IT allows international business without boundaries. Hence, customer may access to the current airlines information which are available at all time, this has reduced the power of negotiation for airlines and producing a strong customers bargaining power.

Concentration of Buyer's power in many hands. The bargaining power of buyers is strong because most of the customers for Airlines Company are individual travellers instead of travel in group. Hence the airlines companies have more sales on individual's tickets rather than the groups of customers.

5. Bargaining Power of Suppliers

Supplier concentration in a few hands. Due to few suppliers in market, this has increasing the bargaining power of supplier. Aircraft supplier could be the one who gaining most bargaining power as there are only two in operation, Boeing or Airbus. The other supplier such as fuel supplier, merchandise supplier, or food supplier may be depend on market condition.

High Switching Cost. Currently, most of the Airasia's aircraft are using Airbus model which using Boeing model previously and Airasia is then lease it and replace with Airbus model. If in case Airasia may wish to switch to Boeing again, the cost of training employee in operating the aircraft feature is high. Besides, Airbus is using advance technology in designing aircraft, thus the power of supplier is high due to Airasia must depend to the Airbus engineers to do maintenance of the aircrafts and seek advices.

Relative insignificant influence of buyer to supplier. This is due to Airbus is a UK based aviation company and their customer may come from around the world. Airasia may be small portion of customer whom orders 200 aircraft from the total 9, 113 aircraft order from other customer of Airbus. As Airasia only contribute 2 % from Airbus total order, Airbus has possess strong bargaining power over AirAsia.