Five forces model of the airline industry tourism essay

[Environment](), [Air]()

The bargaining power of buyers is another force that can affect the competitive position of a company (Porter, 1998, p. 48). This refers to the amount of pressure customers can place on a business, thus, affecting its prices, volume and profit potential (Porter, 1998, p. 45). The various airlines flying from the Gold Coast airport are competing for the same customer, which also results in strengthening the buyer power. Individuals wishing to travel to and from the Coolangatta airport are presented with various choices when selecting an airline but price is usually the most important factor, especially for students and families. Hence, the bargaining power of customers in the airline industry is very high since they are price sensitive and search for the best deals available. Virgin Blue attracts travellers that are price sensitive by offering them low fares and those that are convenience oriented by providing them with frequent flights. Qantas on the other hand has created a frequent flyer program to create switching costs which may be a significant factor to a traveller when choosing which airline to fly with.

In addition to buyers, suppliers can also exercise considerable pressure on a company by increasing prices or lowering the quality of products offered. The bargaining power of suppliers depends on supplier concentration, substitute supplies, switching costs, threat of forward integration and buyer information (http://www. unisanet. unisa. edu. au, 14 April 2008) Suppliers within the airline industry are concentrated since Boeing and Airbus are the main suppliers (http://www. unisanet. unisa. edu. au, 14 April 2008) As the supplier industry is dominated by Boeing and Airbus the concentration undermines the ability of airlines such as Virgin Blue to exercise control over suppliers and earn higher profits. Since Virgin Blue has a fleet of 53 Boeing 737 aircraft its supplier has a high bargaining power over Virgin Blue (http://www. virginblue. com. au/AboutUs/index. htm, April 12, 2008). However, other suppliers who work with the airline such as the providers of on board snacks do not have the same bargaining power as they are a larger industry which allows for Virgin Blue to have a choice over who they are purchasing from. Virgin Blue will purchase their on board snacks from the supplier which is the most economic so Virgin Blue can make a higher profit margin from the goods when they are sold.

The availability and threat of substitutes is another factor that can affect competition within the airline industry. It refers to the likelihood that customers may switch to another product or service that performs similar functions (Stahl, M, Grigsby D 1997, pg 145). Substitutes for air travel include travelling by train, bus or car to the desired destination. The degree of this threat depends on various factors such as money, convenience, time and personal preference of travellers. The competition from substitutes is affected by the ease of with which buyers can change over to a substitute. A key consideration is usually the buyers switching costs, however due to their low fare non-stop flights, Virgin Blue, Jetstar and Tiger airways can lure both price sensitive and convenience oriented travellers away from these substitutes. Virgin Blue has actually joined forces with its substitutes, such as car rentals and hotel and tour packages as they believe that these complement the Airline Industry by helping its growth and popularity. No other travel industry has such incentives and these really help the airline industry to a large extent.

The final force in Porter's model is competitive rivalry that describes the intensity of competition between established firms in an industry (Stahl, M, Grigsby D 1997, pg 148). Industries that are very competitive generally earn low profits and returns since the cost of competition is high (Stahl, M, Grigsby D 1997, pg 148). The airline industry is usually characterized by the cut-throat competition that exists among the rival airlines due to its low cost nature. Since the carriers are involved in a constant struggle to take away the market share from each other, industry growth is average and as it is easy for buyers to switch between the airline companies, depending on price, the rivalry is increased. Rivalry is also high in the airline industry due to high fixed costs, as much of the cost of a flight is fixed, there is a great opportunity for airlines to sell unsold seats cheaply, which resolve in pricing wars between the airlines (Hubbard, 2004, pg 38). The airlines are continually competing against each other in terms of prices, technology, in-flight entertainment, customer services and many more areas. The net result of this competition between companies is an overall slow market growth rate.

In conclusion we can understand that the airline industry is very competitive and Michael Porters five-forces model can be used to explain why the potential for returns is so low in this industry. Firstly, the threat of new companies entering the industry is high and the entry barriers are low. Secondly, the bargaining power of customers is high since they are price sensitive and search for the best deals. The third force, bargaining position of suppliers, is strong since they are concentrated and this limits the control airlines have over suppliers to reduce prices and earn higher profits. The availability and threat of substitutes is another factor that can affect a company's competitive position. However, the degree of this threat depends on various factors such as time, money, convenience and personal preferences of travellers. The final force in Porters model is competitive rivalry between the companies within an industry. Cut-throat competition exists among the airlines and since there is a constant struggle for market share, the over all profit potential of this industry is low.