

# [Air france case](https://assignbuster.com/air-france-case/)

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What is your assessment of today’s airline industry? Answer 2. Given your results, what are the main factors enhancing globalization in that industry and why? Answer Porter’s 5 Force Analysis – Airline Industry Bargaining power of Suppliers Bargaining power of Buyers Potential Entrants Threat of substitute services Competitive rivalry among airlines Easy access to finance has made it very easy for potential entrants to entre the airline market. In addition, airline industry still enjoys high class status in society, therefore entrance of big corporate houses in this domain is very much probable. Airline industry is mostly dominated by two suppliersBoeingand Airbus.

Therefore, airline industry need to rely on these two suppliers for necessary supply. At the same time, on a positive note, there isn’t cutthroat competition among suppliers. The bargaining power of the customers in airline industry is not very high since willingness to purchase the airline ticket does not vary much with reasonably increased priced ticket. Therefore buyer does not put pressure on the airline or the prices of tickets. Airline industry is very competitive industry. This competitiveness in combination with rising fuel costs substantially affects profit margin for the airlines.

Threat of substitution by other transportation services (such as Train, Road services etc. ) sector is very high in domestic region than international. In addition, consideration of time, cost, availability of medium also plays a very important role and creates threat to the domestic carriers. PEST analysis – Airline Industry International strategic  alliances  • Bigger markets, reach to  larger  population • Demographics, population  growth rate • Higher purchasing power of  consumer • Higher living standard • Increased aviation based   consumers  and their flying  frequencies Economic Political • Improving internal  political positions  • Steps towards making  aviation  sector  competitive and better • Steps towards creating  easy access to high  class aviation facilities • Visibility on international  platform Technological • Government policies  to  raise employment level • Initiation of privatization • Marketing opening for  international investmentSocial • Steps towards creating  good International  political relationships • New inventions and  development in technology • Reduction in Energy costs What were the changing roles of the state during the evolution of the  worldwide aviation industry? 1909 1945 1960s 1970s 1980s Founder  Shareholder Air Boundary Remover Strategy Setter Nation Pride  Guarder Funding Provider Technical  Innovation  Supporter Conservative  Protector Policy and Regulation Maker Conclusion: State has played a dominant role in establishing, boosting and  controlling the evolution of the worldwide aviation industryQuestion 5 Before searching a buyer for Alitalia, the Italian government engaged itself  to  neutrality in the Alitalia case and not to hinder or perturb any negotiation. Please comment on this promise. privatization or not keep the government operation Political •Need more state aid or loan ? Couldn’t additional offers ? Economic stagnation of the nation •No profit Social •Strong Labor Union •Still domestic •Keep the pride of national aviation •Labor flexibility •Cross? border  market expansion •(Risk of National Flag Carrier loss) Privatization •No Need to aid  •Could sell stocks •Become a taxpayer Conclusion Given the success of the Air? France and KLM case, the government considered that to obey  the market principle would bring more benefit than to keep the government operation.

Why can it somehow be considered as paradox from today’s point of view? Traditional State Roles Major Shareholder Today’s Point of Views Diminish state shares to make  the airline companies more  commercialized Airline company should be  self? responsible for its profit  and loss Shift the emotion connection  to business? oriented decision More  opening to other  markets and competitors Cut down restrictions Today’s Practice of State Dilution of state’s shares (e. g. French government share in  Air? France KLM merger) Continuous financial aid from  government (e. g. Italy) Continue to play as nation  pride saver (e. g.

Italy) Trend of globalization with  more and more mergers and  acquisitions Regulations remain in favor of  the country’s own airline  company Funding Provider Nation Pride Guarder Conservative Protector Policy and Regulation Maker Conclusion: State continues to play an influential role in monitoring aviation industry  with less interventions to some extent. Is Alitalia a competitive advantage of Italy? SUSTAINED COMPETITIVE ADVANTAGE (Isolated from) VALUABLE inority portion of company is  profitable cannot sustain itself, relies on  government intervention post? EU regulations decrease  chance of survival significantly largest carrier in Italy for  domestic and international travel RARE other carriers operate in Italy  and do not incur such continued  heavy losses IMITATION OR SUBSITITUTION cannot replicate historical value  or symbolism member of StarAlliance holds landing rights at  various hubs Alitalia is not a competitive advantage of Italy. The operation costs exceeded profits  98% of the time. The company had a negative level of productivity in amounts xceeding €9 billion between 1999 and 2008. The company was a drain on the  economy and contributed to the national debt with government expenditures  equally almost 50% of the GDP in 2006. How would you judge the effect of the Italian government’s interventions over the  last years on its national competitiveness? POLITICAL ? tax revenues 40% of GDP  (2006) ? Unions hold 5% share of  airline but exert major power ? Discouraged foreign  investment ? Alitalia was political pawn ECONOMIC ? Encouraged no economic  growth ? Invested billions of dollars  into a failing business + maintained labor forceItalian Government’s Interventions on Alitalia SOCIAL + Fostered national  pride ? Fear of backlash in  the press TECHNOLOGICAL ? Fleet needs updating to latest  standards ? R; D stagnant, no new advances The interventions of the government were overall detrimental to the success of Alitalia.

The  government continually poured funds into a failing business at the expense of the national economy. The government did not enable or encourage any national competitiveness by continuing to support  an unsustainable business model. The government also ceded too much control to the labor unions.