

Air france case

Business



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 enter 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 suppliers Boeing and 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 investment Social • 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 industry Question 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?

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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

minority 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

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and do not incur such continued heavy losses IMITATION OR SUBSTITUTION 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 exceeding €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 force Italian 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.