Porters five forces on aviation industry

The Indian aviation industry is one of the fastest growing aviation industries in the world with private airlines accounting for more than 75 per cent of the sector of the domestic aviation. It is stated that the Indian aviation sector will become one of the top five civil aviation markets in the world over the next five years. Currently, India ranks ninth in the global civil aviation market. The Hyderabad International Airport has been ranked amongst the world's top five in the annual Airport Service Quality (ASQ). With the growth in the industry, airport retailing has also gained pace in the recent times. Development of new terminals and airports such as the recently inaugurated T3 in New Delhi has provided added impetus to this segment. The highest margin earners in this segment are food and beverages, beauty product, electronic items, apparel etc. It has been predicted that airports would provide around 300, 000-400, 000 square feet retail space by 2015. Many companies are also planning to leverage on this growing segment by launching specific products for air travelers.

In addition, the emphasis on modernization of non-metro airports, fleet expansion by airlines, service expansion by state owned carriers, development of the maintenance, repair and overhaul (MRO) industry in India, opening up of new international routes by the Indian government, establishment of new airports and renovation and restructuring of the existing airports have added to the growth of the industry.

Present Indian Scenario

It is a phase of rapid growth in the industry due to huge build-up of capacity in the LCC space, with capacity growing at approximately 45% annually. This has induced a phase of intense price competition with the incumbent full service carriers (Jet, Indian, Air Sahara) this- counting up to 60-70% for certain routes to match the new entrants ticket prices. This, coupled with costs pressures (a key cost element, ATF price, went up approximately 35% in recent months, while staff costs are also rising on the back of shortage of trained personnel), is exerting bottom-line pressure.

The growth in supply is overshadowed by the extremely strong demand growth, led primarily by the conversion of train/bus passengers to air travel, as well as by the fact that low fares have allowed passengers to fly more frequently. There has, therefore, been an increase in both the width and depth of consumption. However, the regulatory environment, infrastructure and tax policy have not kept pace with the industry’s growth.

Enactment of the open sky policy between India and Saarc countries, increase in bilateral entitlements with the EU and the US, and aggressive promotion of India as an attractive tourism spot helped India attract 3. 2 million tourists in 2004-05. This market is growing at 15% per annum and India is expected to attract 6 million tourists by 2010. Also, increasing per capita income has led to an increase in disposable incomes, leading to greater spend on leisure and holidays and business travel has risen sharply with increasing MNC presence. Smaller cities are also well connected now. Passenger traffic has increased and over 21 million seats have been sold, resulting in a growth of over 50%. The Indian travel market is expected to triple to $51 billion by 2011 from $16. 3 billion in 2005-06.

Application of Porter's Five Forces strategy in the Aviation Industry

Threat of New Entrants

A lucrative industry is always a target for investors looking at investment. One of the foremost factors in consideration while looking at the attractiveness of an industry is the threat of new entrants. In the airlines industry, this was a major threat a few years ago. The airlines operating in the industry were limited and the industry had few players like Indian Airlines and Jet Airways. However, as the industry had scope for accommodating more players many players joined the fray. The airlines industry however comes with its fair share of barriers. The investment in the airlines is very huge and acts as a major barrier to entry. Bundled with it were different permits for running an airline company from the civil aviation company and FDI limits. Factors that can limit the threat of new entrants are known as barriers to entry. Some examples include:

Existing loyalty to major brands

Incentives for using a particular buyer (such as frequent shopper programs)

High fixed costs

Scarcity of resources

High costs of switching companies

Government restrictions or legislation

Power of Suppliers

This is how much pressure suppliers can place on a business. If one supplier has a large enough impact to affect a company's margins and volumes, then it holds substantial power. In the airlines company there is certain amount of bargaining power the suppliers have. Firstly, suppliers in the form of aircraft builders, who very often exceed the time limits. Adding to it are suppliers of oil who hold the key to running of the airlines. Here are a few other reasons that suppliers might have power.

There are very few suppliers of a particular product

There are no substitutes

Switching to another (competitive) product is very costly

The product is extremely important to buyers – can't do without it

The supplying industry has a higher profitability than the buying industry

Power of Buyers

This is how much pressure customers can place on a business. If one customer has a large enough impact to affect a company's margins and volumes, then the customer hold substantial power. Predominantly, in the airlines industry, it has been seen that the civil aviation ministry has been in favour of the customer and buyers thus have reasonable power. While most airlines companies are running with wafer thin margins, it is pretty difficult for companies to increase prices as the capacity utilization will be seriously affected. Here are a few reasons that customers might have power:

Small number of buyers

Purchases large volumes

Switching to another (competitive) airline is simple

The airline is not extremely important to buyers; they can do without the same brand for a period of time

Customers are price sensitive

Availability of Substitutes

What is the likelihood that someone will switch to a competitive product or service? If the cost of switching is low, then this poses a serious threat. Most airline companies have similar facilities and are listed on website such as makemytrip. com, yatra. com where customers choose from the cheapest available tickets. This shows that the customer has a lot of options and would

Not mind shifting to a new service. Here are a few factors that can affect the threat of substitutes:

The main issue is the similarity of substitutes. All low cost airlines have similar facilities.

If substitutes are similar, it can be viewed in the same light as a new entrant.

Competitive Rivalry

This describes the intensity of competition between existing firms in an industry. Highly competitive industries generally earn low returns because the cost of competition is high. The competition in the airline industry is cutthroat and each player is trying to gain an upper-hand based on non price factors. A highly competitive market might result from:

Many players of about the same size; there is no dominant firm

Little differentiation between competitors' products and services

A mature industry with very little growth; companies can only grow by stealing customers away from competitors

SWOT ANALYSIS OF THE AVIATION INDUSTRY

Strengths:

Growing tourism: Due to growth in tourism, there has been an increase in number of the international and domestic passengers.

The estimated growth of domestic passenger segment is at 50% per annum and growth for international passenger segment is 25%

Rising income levels: Due to the rise in income levels, the disposable income is also higher which are expected to enhance the number of flyers.

Growth potential Liberalization of sector.

Modernization of non metro airports.

Rising share of low cost carriers.

Fleet expansion by state owned carriers.

The opening up of new international routes by Indian government.

Establishment of new airports and restructuring of old airports.

Weaknesses:

Under penetrated Market : The total passenger traffic was only 50 million as on 31st Dec 2005 amounting to only 0. 05 trips per annum as compared to developed nations like United States have 2. 02 trips per annum.

Untapped Air Cargo Market: Air cargo market has not yet been fully taped in the Indian markets and is expected that in the coming year's large number of players will have dedicated fleets.

Infrastructural constraints: The infrastructure development has not kept pace with the growth in aviation services sector leading to a bottleneck.

Huge investment requirement for physical infrastructure for airports.

Shortage of qualified instructors due migration to schedule operation.

Pressure on quality standard of inducted pilots.

Infrastructural constraints.

Opportunities:

Expecting investments: investment of about US $30 billion will be made.

Expected Market Size: Average growth of aviation sector is about 25%-30% and the expected market size is projected to grow up to 100 million by 2010.

Economic Growth

Vibrant middle class: Increasing Consumerism and Affordability “ common man”

Under-penetrated markets

Growth in Tourism

Currently domestic passenger market is growing at 50%

Threats:

Shortage of trained Pilots: There is a shortage of trained pilots, co-pilots and ground staff which is severely limiting growth prospects.

Shortage of Airports: There is a shortage of airport facilities, parking bays, air traffic control facilities and takeoff and landing slots.

High prices: Though enough number of low cost carriers already exists in the industry, majority of the population is still not able to fly to other destinations.

Security and safety.

Low profit margins and high operating costs.