Air india 5

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2012 Flying Too Low: Air India 2009 & Beyond ExternalEnvironmentAnalysis Group 10 Strategy analysis begins with an analysis of the forces that shape the competition in the industry in which a company is based. An important factor of the analysis is External environment analysis. The essential purpose of this analysis is to identify the opportunities and threats in the organization operating environment that will affect how it pursues its mission.

Analysis the industry environment requires an assessment of the competitive structure of the company’s industry. It also requires analysis of the nature, stage, dynamics and history of the industry. Here, while analyzing the external environment of Air India according to the information presented in the case, we will concentrate on Porter Five Forces Model, PEST Analysis of the Air India, opportunity and threats to Air India. Finally, we will quantify all our analysis factors to come to a conclusion. Porter’s 5 forces model:

Porter's five forces analysis is a framework for industry analysis and business strategy development formed by Michael E. Porter ofHarvardBusiness School in 1979. It draws upon industrial organization (IO) economics to derive five forces that determine the competitive intensity and therefore attractiveness of a market. Attractiveness in this context refers to the overall industry profitability. An " unattractive" industry is one in which the combination of these five forces acts to drive down overall profitability.

Three of Porter's five forces refer to competition from external sources. The remainders are internal threats. Porter referred to these forces as the micro environment, to contrast it with the more general term macro environment. They consist of those forces close to a company that affect its ability to serve its customers and make a profit. A clear example of this is the airline industry. As an industry, profitability is low and yet individual companies, by applying unique business models, have been able to make a return in excess of the industry average.

We will see how these five factors are working for Air India. I. Rivalry among existing competitors: 1. Competition in domestic and international routes * On domestic front, private airlines like Jet Airways, Kingfisher Airlines * On international front, major competition was from companies like Singapore Airlines, Etihad Airlines, Qatar Airlines and new entrants like JA 2. Better performance by competitors 3. Rapid increase in market share of competitors 4. Poaching of employees by competitors II.

Threat of new entrants: 1. Possibility of liberalization of Aviation Industry will weaken the entry barriers and thereby will lead to increase in number of new entrants 2. Business was very lucrative to attract new entrants 3. Consistent and rapid growth of demand for airlines offering scope for profitable business and low cost carriers 4. Examples GoAIR, IndigoAir, Paramount Airways, SpiceJet III. Threat from substitution: Road and rail services posing a major threat by offering cheaper, reliable, convenient services. Travel.

In case of higher Air ticket fares, Air India could lose potential customers to Rival airlines and Indian Railways. The possibility of loss of market share to Indian railways further increases by the fact that over a period of time the rail ticket fares have marginally varied compared to significant variation in air ticket fares. IV. Bargaining power of suppliers: 1. Slow nature of aircraft sales, because the high value order placed by the industry can take several years to be delivered. 2. Labour unions are suppliers who have significant power.

The performance and flexibility of the entire industry depends heavily on labour unions. 3. Aviation fuel is a commodity and its prices are decided by market forces and existing geopolitical factors such as OPEC. At times, oil producing nations at the behest of OPEC manipulate oil production target in order to keep the prices of crude to suit their profit intentions. High cost of fuel accounts for about 35% of the total cost and increasing cost is a threat to the company’s profits. 4. Aviation Turbine Fuel (ATF) is a major cost component for the Airlines in India.

It is about 40% of the operating cost of the domestic carriers V. Bargaining power of buyers: The bargaining power of buyers refers to the amount of pressure customers can place on a business, thus, affecting its prices, volume and profit potential. Various airlines are competing for the same customer, which also results in strengthening the buyer power. 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. Customers are price sensitive.

Many new players who are Low Cost Carriers attract these travelers by offering them low fares and those that are convenience oriented by providing them with frequent flights. While choosing which airline to fly with, customers enjoy switching costs through frequent flyer programs created by some airlines. PEST Analysis: PEST analysis stands for " Political, Economic, Social, and Technological analysis" and describes a framework of macro-environmental factors used in the environmental scanning component of strategic management. Some analysts added Legal and Environmental and rearranged the mnemonic to PESTLE.

It is a part of the external analysis when conducting a strategic analysis and gives an overview of the different macro environmental factors that the company has to take into consideration. It is a useful strategic tool for understanding market growth or decline, business position, potential and direction for operations. * Political factors are how and to what degree a government intervenes in the industry or firm. Specifically, political factors include areas such as tax policy, labour law, environmental law, trade restrictions, tariffs, government policies and political stability. Economic factors include economic growth, interest rates, exchange rates and the inflation rate. These factors have major impacts on how businesses operate and make decisions. * Social factors include the cultural aspects and includehealthconsciousness, population growth rate, age distribution, careerattitudes and emphasis on safety. Trends in social factors affect the demand for a company's products and how that company operates. * Technological factors include technological aspects such as R; D activity, automation, technologyincentives and the rate of technological change.

They can determine barriers to entry, minimum efficient production level and influence outsourcing decisions. Furthermore, technological shifts can affect costs, quality, and lead to innovation. In case of Air India, the analysis of external environment is as follows: Having done the required analysis, now let us quantify the opportunity and threats. 1| Poor control over decision making| T| 2| Drop in oil prices*| O| 3| heavy control and interference of government| O| 4| worsening service image| T| 5| Labour union| T| 6| inclination of society towards low cost travel| T| | global recession| T| 8| significant air traffic growth over a period of time| O| 9| restriction on FDI in Indian aviation industry| O| 10| Mergers among competitors| T| 11| possibility of opening of aviation market and privatization| T| 12| interest burden of new aircraft orders| T| 13| company's image perceived as public carrier| T| 14| near monopoly among Indian players in international routes| O| 15| over capacity of industry| T| 16| poaching of pilots from competitors| T| 17| declining debt equity ratio| T| 18| changes in ground handling policy| T| 19| agency problem| T|

Here ‘ T’ indicates Threat and ‘ O’ indicates Opportunity Assigning the weightage to the important factors, in the sense of their importance in analyzing external environment and using rating scale of 1 to 5 where 3 indicates average favorableness of the external environment, we get- As the quantified average of all the external environment factors is coming slightly below average, we conclude that, the current external environment is not favorable to Air India but, it can work on its decision making process and improvement of service image as an immediate measure.