

Porters five forces analysis of aviation sector engineering essay



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Barriers to Entry The aviation sector is one of the most expensive and extremely risky sectors due to high capital costs. These costs include buying and leasing aircrafts, fuel, safety and security measures, labor, customer service, etc. The increasing fuel costs have affected the airline industry adversely as it has a direct impact on the operating costs. A weakening economy also affects the airline revenues as the demand for air travel and air freight reduces and business and leisure travelers become highly price sensitive. UAE restricts complete foreign ownership of a company. All the companies are supposed to have at least one or more national partners who account for at least 51% of their capital. Therefore, the existence of high start-up costs and other barriers discourages new competitors from easily entering this industry.

http://www.mlive.com/business/west-michigan/index.ssf/2011/02/rising_jet_fuel_costs_affectin.html

<http://www.investopedia.com/features/industryhandbook/airline.asp>

Competitive Rivalry

The rivalry existing in the UAE aviation industry is intense since there are over 110 airlines currently flying to more than 160 destinations from Dubai International Airport itself. Since Dubai is located in a very strategic location and it is the business capital of the Middle East, the aviation industry showed a very strong growth in the last decade. All the carriers are constantly struggling to steal the market share from each other. Each airline is trying to have competitive prices and is working on lowering its operational costs to

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increase efficiency and profitability. This has led to saturation in the market and airlines have to compete to survive in the UAE airline industry.

http://www.dubai.ae/en.portal?vstrs_arrv_dxb,vstrs_arive_air,1,
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<http://www.zawya.com/story.cfm/sidZAWYA20101229042209/ae/%20carriers%20see%20brighter%20sky%20ahead>

Supplier power

Irrespective of UAE aviation industry or the world aviation industry there are only 2 main suppliers, Boeing and Airbus. Fly Europe has a fleet of Boeing aircrafts and their supplier, Boeing, has a high bargaining power as there is no cut throat competition in the supplier industry. The switching costs from Boeing to Airbus is also extremely high because all the pilots and mechanics have to be trained to learn to operate the different kind of aircrafts.

However, other suppliers of Fly Europe like the providers of on-board snacks for the travelers (who are willing to purchase them) don't have high bargaining power since there are many other options available in the market. Fly Europe can purchase their snacks from some other cost-effective

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supplier as this would enable the customers to buy the snacks at reasonable prices.

<http://www.investopedia.com/features/industryhandbook/airline.asp>

Customer power

Air travel is expensive, so most of the leisure travelers have highly elastic demand. They can compare prices of different airlines easily over the internet as they have many different options while choosing an airline carrier. Business travelers pay a much higher average ticket price, approximately five times more than the average leisure ticket cost. Hence, the bargaining power of business travelers in the aviation sector is quite high since as they generate most of the revenues of the airline while the bargaining power of leisure passengers is low.

www.csus.edu/indiv/h/hany/Teaching/.../Lecture2_han.ppt

http://www.wikinvest.com/concept/Airline_Travel

Availability of substitutes

Airline is the fastest way to travel from one destination to another so there is no perfect substitute available. The other transportation options available to the customers are trains, cars, etc. The choice of the mode of transportation depends on the length of the route, consumer preferences, etc. For example - air travel isn't practical and economical for short distances. High-speed video conferencing is emerging as an important substitute to air travel for business travelers as it provides a convenient, safer, time-saving and cost-effective to conduct important meetings. Reducing travel time results in

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employee productivity, effectiveness, decrease in stress and hassle, etc. The 'emergency' air freight market is also getting affected as these days, urgent documents are sent through the e-mail which is a cheap and faster alternative. While, Sea freight is considered an economical and practical way to send bulky items which is affecting the 'routine' air freight market. Therefore, many companies are using these technologies to replace airline travel and freight.

<http://www.businesseconomics.in/?p=638>

<http://www.investopedia.com/features/industryhandbook/airline.asp>

Industry description

The aviation industry in the United Arab Emirates plays an essential part in its economy. It is one of the fastest growing aviation industries in the world. The General Civil Aviation Authority (GCAA), headquartered in Abu Dhabi, regulates civil aviation in the UAE. Foreign ownership and control of airlines in the UAE is restricted to a 49% equity stake. But in 2009, UAE signed an air liberalization policy statement with six other countries and the European Commission. The policy principles focus on three main issues: freedom to access capital markets, freedom to do business, and freedom to price services. UAE's aviation industry earned a profit of \$15 billion in 2010. The air traffic movements grew at the rate of 13.8% in November 2010 compared to November 2009. This sector is expected to be the 2nd largest aviation market with the growth rate of 10.2% in 2013. According to the forecasts, the UAE will have 82.3 million air travelers and will be handling 2.7 million tons by 2014. Dubai has become a major hub of aerospace both in

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the middle east as well as on a global level as traditional players like the USA and Europe continue to slump.

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<http://www.dancewithshadows.com/flights/dubai-aviation.asp>

<http://www.scoop.co.nz/stories/BU1012/S00286/10-more-liberalised-aviation-agreements-for-emirates-in-2010.htm>

http://www.emirates.com/mv/English/about/public_affairs/liberalisation.aspx

<http://www.zawya.com/story.cfm/sidZAWYA20101229042209/ae/%20carriers%20see%20brighter%20sky%20ahead>

<http://www.gcaa.gov.ae/en/pages/welcomegcaa.aspx>

<http://english.alroya.com/content/uae-signs-air-liberalisation-policy-statement-iata>

Economic conditions

The United Arab Emirates (UAE) is one of the fastest growing economies in the world. It is the 2nd largest economy in the Middle East after Saudi Arabia. It is also a major player in the world energy markets as it has the 6th largest crude oil reserves and natural gas reserves. UAE is taking extensive

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measures to reduce its reliance on these natural resources as an income source and is diversifying its economy by investing in growing sectors like trade, finance, aerospace, tourism, etc. The global financial crisis slowed down the GDP growth in 2010. UAE authorities responded to this crisis by injecting \$33 billion into the local financial sector and guaranteeing all deposits in international and local banks. Dubai was hit very badly by the recession as its real estate sector experienced a major downturn and it couldn't meet its debt obligations. The central bank of UAE then provided support to the local banks while Dubai received a loan of \$ 10 billion from Abu Dhabi to ease the debt crisis. However, the economy is expected to rebound in 2011. The non-hydrocarbons economy is expected to grow 2. 2% in the year 2011. The oil prices averaged \$79. 6/barrel in 2010 are forecasted to rise to \$90 billion in 2011. The GDP growth rate is expected to increase from 2. 2% in 2010 to 3. 3% in 2011. The government also plans to carry out large infrastructure projects which is supposed to result in a gradual recovery of the real estate sector.

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<http://www.davisiaj.org/?p=210>

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http://www.dfat.gov.au/geo/uae/uae_country_brief.html

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