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The airline industry is a global business, with its primary focus in transportation of customers and cargo. Currently the industry worldwide has over “2000 airlines operating more than 23,000 aircraft, growing at a rate of about 5% per year, and is expected to double over the next 10 – 15 years” (Henckels, 2014). Annual revenue in the United States alone is the highest in the world, reaching an outstanding $161,758,510,000, more than triple of the second runner up, which was China. The airline industry is a clearly profitable business, but there are key survival factors and drivers of change that determine the survivability of the industry. The data that I collected was from reputable websites, where the articles contained useful information and statistics about the industry that I could take and perform an analysis on. Using tools and methods such as P.E.S.T. and the 5 Forces Analysis, I was able to analyze the underlying factors behind the airline industry.

To accurately explain the drivers of change and the key-survival factors we must first identify the forces behind the P.E.S.T. Analysis. First, I identified the current legislation on fuel emissions as the political factor. “Commercial aviation is increasingly being targeted by legislators for mandatory carbon-trading schemes and limits on aircraft emissions” (Lee & Mo, 2011). The burning of aviation fuel is being held accountable for 2 - 3 percent of CO_2 emissions, while the industry is rapidly growing. The economic force is associated with the cost of fuel. “Fuel cost has been the main driver for improvements in aircraft fuel efficiency” (Lee & Mo, 2011). When the cost of fuel makes up a majority of the operating costs, companies need to think of being efficient to drive variable costs down. For the social factor, this is the social pressure on human health and the environment. There is a current need for a cut back in emissions from jet engines with concern on the environment, but currently there is not a strong social pressure on the industry. This category also falls into the need to reduce noise levels and road congestion around the airport. The last factor, technological, is finding alternative technology choices for reduced energy use and environmental impact. Alternative fuel has been considered, but the main driver is to reduce costs. The top P.E.S.T forces from strongest to weakest are economic, technological, political, and social.

Next, we need to understand the competitive environment by applying the 5 Forces Analysis. The first force is the bargaining power of buyers, which has steadily increased over the years as “air travel increased quite linearly with respect to gross domestic product” (Lee & Mo, 2011). Customers have more money, and are willing to spend that money on travel to reduce their overall time spent traveling. With more buyers, the price of tickets is being driven down and customers mainly buy whichever ticket is the cheapest. The second factor, is the bargaining power of suppliers. There are very few airplane manufacturers because the startup cost is high, and the differences between the planes are minimal. Airplane industries enter long term contracts with manufacturers, so bargaining power of suppliers is high and therefore a concern to the industry. The next factor is the threat of new entrants. This is not a high threat, as capital needed to start such a firm is extremely high. Customers have a strong loyalty to a certain company, and are eerie of other firms they don’t feel safe flying with. The next threat, is the threat of substitute products. Customers can easily switch to other forms of transportation such as train, taxi, or boat. However, as mentioned with the bargaining power of buyers, customers are willing to pay more to reduce time traveled. The last factor is the competitive rivalry within the industry, which is very intense. With high costs to entry, and the industry facing the maturity stage of their life cycle, the few firms within this industry are having to differentiate themselves from one another and create a loyal customer base. This can be seen as the service promotions and in-flight services. The top forces from strongest to weak are the competitive rivalries within the industry, and the bargaining power of suppliers and buyers, threat of new entrants and substitute products.

Key-survival factors are something every airline company in the industry needs to pay special attention to in order to survive. The three most important key-survival factors in order of most important to least important is strong management, IT, and cheap suppliers. For such a large and complex industry, to effectively stay operational is going to need strong management across every department and communication in between. Strong management can lead the company in the right direction, and accomplish company goals. IT is important because it plays a "substantial role in improving the affordability, safety, capability and efficiency of the air transportation system and influencing the consumer demand for air transportation" (Hansman). Airlines need a cheap supplier, and since bargaining power suppliers is so high, firms in this industry need to secure a contract with a manufacturer in order for business just to start.

Airlines are currently having to evolve due to drivers of environmental changes to remain profitable. These drivers of change from most important to least important are changes in cost and efficiency, service innovation, and regulatory policies. As fuel being the main topic behind my P.E.S.T. analysis, driving down this variable cost by being more efficient is a main concern. Lower variable price can lower prices of the tickets, and attract more customers. For service innovation, Companies within this industry need a way to differentiate themselves from one another, which they can with service promotions such as price reductions, and in-flight services such as in-plane Wi-Fi, food, beverages, and atmosphere or service given by the flight attendants. Legislation brought on by social pressures have targeted the airline industry to reduce carbon emissions, and reduce noise and traffic around airports.

Overall, the airline industry is an attractive industry to be a part if you're already a participating competitor due to the high cost of entry. The overall net income was $29.3 billion. Thanks to the rise in GDP, "human mobility rises as income level rises while the constant travel time budget pushes people towards faster transport modes as their demand for mobility increases" (Lee & Mo, 2011). This will lead to an increase in air travel over substitutes, "air traffic volume may increase up to five- to twenty-fold by 2050" (Lee & Mo, 2011). The airline industry is expecting huge growth over the next 5 years, and the years following after. Since the industry is in the maturity stage of their cycle, we should see less competitors and higher profits for the remaining firms.

References:
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