

Application 19.2

Embraer's Product Differentiation Strategy

Competition in the commercial aircraft market can be brutal. For years, Chicago-based Boeing Corporation and European-based Airbus have slugged it out, trying to win airlines' business through aggressive pricing. In the midst of the battle, the much smaller Brazilian aircraft manufacturer Embraer has prospered. How has it managed to rise above the fray?

Embraer has carefully avoided what CEO Maurico Botelho calls the "big dogs' yard."⁹ In 1999, when the firm began to design its new 170/190 series, executives decided to exploit the "70–110 seat gap" in commercial airplane sizes. Planes in Embraer's new series would be larger than the 50–70 seat regional jets produced by Embraer and arch-rival Bombardier of Canada, but smaller than the smallest Boeing and Airbus jets. Embraer foresaw a growing demand for such planes, but there was another big advantage to filling the gap: less intense price competition. The strategy



Embraer CEO Mauricio Botelho standing before the Embraer 170

paid off: in 2002, following the introduction of the 170/190 series, orders for the new planes climbed and Embraer's profits soared. In 2005, Embraer made a \$446 million profit on revenues of \$3.83 billion.

Bombardier took a different approach. At the same time that Embraer announced its 170/190 series, Bombardier announced its new C-series, which were to have between 110 and 130 seats—at the low end of the Boeing and Airbus range. (At the time, the Airbus 318 and the Boeing 717, the smallest of the two companies' planes, could each carry about 108 passengers.) Going head-to-head with these two large companies made it much tougher for Bombardier to win profitable new business. On January 31, 2006,

after two years of development efforts and an expenditure of hundreds of millions of dollars, Bombardier announced it was suspending its plans for the C-series.