

KATHMANDU UNIVERSITY
SCHOOL OF MANAGEMENT

Balkumari, Lalitpur



“Airbus 350 vs Boeing 787 - Battle for the Skies”

Case Review

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Group C

Abhishek Bikram Thapa

Binay Lama Pakhrin

Kushal Shrestha

Roshan Lama

Simrika Sharma

Synopsis

The case provides details into the functioning of a duopoly market by illustrating the intense rivalry between two big aircraft manufacturing firms, who seek to achieve dominating market shares, and also the problems and new threats that these big firms face because of the competition between them.

Core Issue

- What can Airbus and Boeing focus on to remain competitive in their current duopoly market environment?
 - How can they maintain it with the threats of new competitors emerging?

Facts on Core Issues

The European Union backed Airbus and the US government backed Boeing dominated the civil aviation and aircraft manufacturing industry. Airbus was established in 1970 to challenge the market supremacy of Boeing (who had enjoyed monopoly from the time of its inception in 1916). With its headquarters in France, Airbus had its dominance in European countries like Germany, France, UK & Spain.

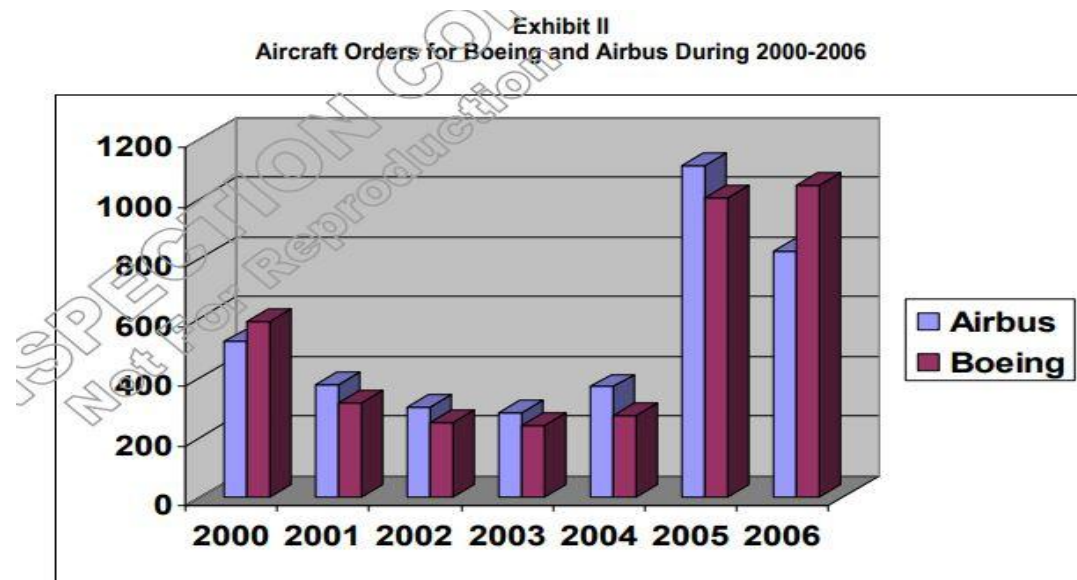
Both Airbus and Boeing were equipped in manufacturing similar aircrafts where each responded to the demand of the market with models either smaller or bigger than the other, in order to gain a competitive advantage. To cater to the 200-300 seat aircraft segment, Boeing introduced the 787, which was a long-range, mid-sized, wide-body, twin-engine passenger airline. Assembling of the 787 began in June 2006. Boeing's strategy had been to design and build an airplane that would take passengers where they wanted to go, when they wanted to go, without intermediate stops; doing it efficiently while providing the utmost comfort to passengers and making it simple and cost-effective for airlines to operate.

Boeing's 787 hampered the sale of Airbus' A330, and so to compete with 787, Airbus planned to launch the new A350 XWB in 2007 which was a wide body aircraft derived from the existing design of A330. The initial design of A350 received negative reception, but was then remodeled to accommodate wider economy seats than Boeing.

Both the companies targeted the growing Asia-Pacific region which resulted in the following:

- By April 2007, the companies in the Asia-Pacific region placed more than 500 orders for Boeing 787
- In November 2007, post Dubai Airshow, Airbus won a \$31 billion contract from Emirates, the biggest Arabian carrier and a \$13.5 billion order from a leasing unit of the Dubai Aerospace Enterprise
- Boeing also won a \$13.7 billion order from DAE and an order worth \$6.1 billion from Qatar Airways
- Airbus claimed to have secured 1,021 contracts by the end of October 2007 as compared to 956 contracts of Boeing.

Airbus dominated the market for aircraft orders from 2001 to 2005 while Boeing regained the position in 2006.



Compiled by the author from:

1. "Orders and Deliveries: Time Period Reports", <http://active.boeing.com/commercial/orders/index.cfm?content=timeperiodselection.cfm&pageid=m15523>
2. "Historical Orders and Deliveries", http://www.airbus.com/store/mm_repository/pdf/att00009024/media_object-file_OD_1974-2006.xls

This fierce competition led to the government bodies backing the two firms come into dispute and lodged complaints against each other.

- In 2007, the US government accused Airbus of getting illegal aid for \$100 billion from the European Union which the EU denied.
 - The US government's reasoning was that the subsidies enabled Airbus to develop a full family of airliners and that for one producer to be so strongly backed with billions of dollars was not healthy to the competition and tolerable.
- The EU also had similar accusations towards the US government for aiding Boeign's 787 with \$5 billion and that it had ignored relevant international agreements.

While it was forecasted that the aircraft manufacturing industry would continue to have a duopoly structure (with Boeing predicted to produce 56% and Airbus to produce 43% of the total aircrafts between 2007 and 2016), it also led to growing international competition from emerging markets like Brazil, Russia & China. The Canadian and UK governments invested \$700 million in Bombardier - third largest manufacturer after Boeing and Airbus. The Russian aerospace industry run by the government planned to combine all its aircraft companies and China, after years of being a supplier, had gained adequate experience and competence to develop its own 60-105 seater ARJ-21 aircraft

Analysis

When you think of flagship aircraft, you think of none-other than the Boeing 787 Dreamliner or the Airbus A350 XWB. Both represent the very best in ideas, cutting edge technology and commercial know-how from their respective companies, and one could even say represent the best of Boeing or Airbus.

Boeing had been in monopoly until the 1970s when Airbus entered the market. Boeing held the sole manufacturing trophy over the head for so long, they set their own prices and had firm control over the market themselves. When Airbus entered the show with a bang, Boeing had nothing to do but be threatened by the competition received from Airbus.

In this case, both Airbus and Boeing are in the oligopoly market. With each firm fixing its own price and output of the firm is dependent on another firm's policy which indicates that the firm is in non - collusive oligopoly. With Two huge corporations in one market, it became difficult for smaller firms to gain recognition or enter the market.

Duopoly Market

A duopoly is the most basic form of oligopoly. A duopoly market is a market condition in which only two firms have dominant control over a market, they own all or nearly all of the market for a given product or service. The Civil aviation and aircraft manufacturing industry is mainly concentrated in the United States and Europe. It is dominated by Airbus backed by the EU and Boeing backed by the US government, hence called the duopoly market.

Detailing the intensity of the competition between the two dominant companies in the Civil aviation and aircraft manufacturing industry (Boeing and Airbus), this case study shows a perfect example of a duopoly market . The paper also presents facts, figures and comparisons of sales and orders for both companies for the period between 1996 and 2006. As in monopoly, duopolies in aircraft manufacturing normally follow a non-price competition pattern and rather differentiate its products using intense size-led competition besides other alterations expressed in the alternating launch of new models and designs. The competitive relationship is dependent on the instances of strategic interaction. Each firm would normally consider the actions of others when making decisions.

Advantages and Disadvantages of a Duopoly

Duopolies can have both positive and negative effects on the companies and the consumer. First, the two companies can cooperate with each other and maximize their profits as there are no other competitors. In other words, there is a collusive cooperative equilibrium. The companies in a monopoly can concentrate on improving their existing products rather than feeling pressure to create new products for the market. Because the two companies compete with

each other, the consumer benefits because prices are controlled to some extent and do not become monopoly prices.

The disadvantages of duopolies are that they limit free trade. With a duopoly, the supply of goods and services lacks diversity, and there are limited options for consumers. Also, it is difficult for other competitors to enter the industry and gain market share. The absence of competitors in a duopoly stifles innovation. With a duopoly, prices may be higher for consumers when the competition is not driving prices down. Price fixing and collusion can occur in duopolies, which means consumers pay more and have fewer alternatives.

Will other companies take advantage of this competitive nature

China might benefit from the dispute between the two companies, as it has already announced its proposal to set up a company to build large passenger airplanes to compete with Airbus and Boeing. China wants to emerge in the aviation market as the biggest competitor to both Boeing and Airbus.

There are signs of possible threats from various new entrants to the current duopoly. Growing international competition is emerging from markets in China, Brazil and Russia, also from Bombardier Aerospace which is competing for a market share from Airbus and Boeing. According to economist experts, China has gained adequate experience and competence to challenge the duopoly and is planning to build a wide body aircraft along with Russia.

Market share impact due to government intervention

Boeing alleged that Airbus was being paid subsidies by the EU and the EU in turn alleged Boeing is getting subsidies from the US government. Regardless of the accuracy of the large sums filed in these allegations by the two opponents, these sums have to be huge to allow such domination to take place in the market and by huge, we are talking \$billions here. In fact both argue that their opponent would not have achieved such growth and dominance without the help of their prospective governments.

By looking at our case study and some similar cases we can conclude, only those companies who got help from the government can excel well in the international market. Hence, the answer is yes. Sure these governments have played a big part in driving Boeing and Airbus to their current market status.

Solution

1. Boeing and Airbus should stop accusing each other of getting aid from their respective governments and focus on improving their aircraft features on the basis of safety and economy.
2. As Aircrafts are very expensive and require high maintenance, both Boeing and Airbus should focus on bringing up more advanced aircrafts.
3. Airbus and Boeing have different customer bases, where Boeing is more preferred in American, African, Australian, Middle-east and South Asian market whereas Airbus is more preferred in European, Middle east, and North-Asian market. Both of the companies should focus on expanding their market area.
4. With the growing international competition from emerging markets like Brazil, Russia and China the duopoly of Airbus and Boeing is hampered. Thus, Airbus and Boeing should go in a cooperative module in order to create barriers for new entrants.

Managerial Implication

Competition brings out the best in us. The domination of Airbus and Boeing for so many years was the result of the fierce competition between the two. On the other hand, too much competition to the point of wasting energy and sources to drag the other competitor down often causes self-harm.

In the perspective of both the company of Airbus and Boeing, mutual coordination is required. Blame game and leg pulling is not helping either of the parties and is only creating opportunities for other competitors such as the Bombardier Aerospace, United Aircraft Building Corporation (UABC) to strike. While the fight for supremacy is necessary, the competition should always be constructive.

As a manager of either of the companies of Airbus and Boeing, a full dedication towards their very own products is the way to go rather than wasting valuable resources on challenging the authenticity of each other. Though the success of Airbus and Boeing is a commendable achievement, it is not going to last forever if attention towards the core issues is not addressed.