



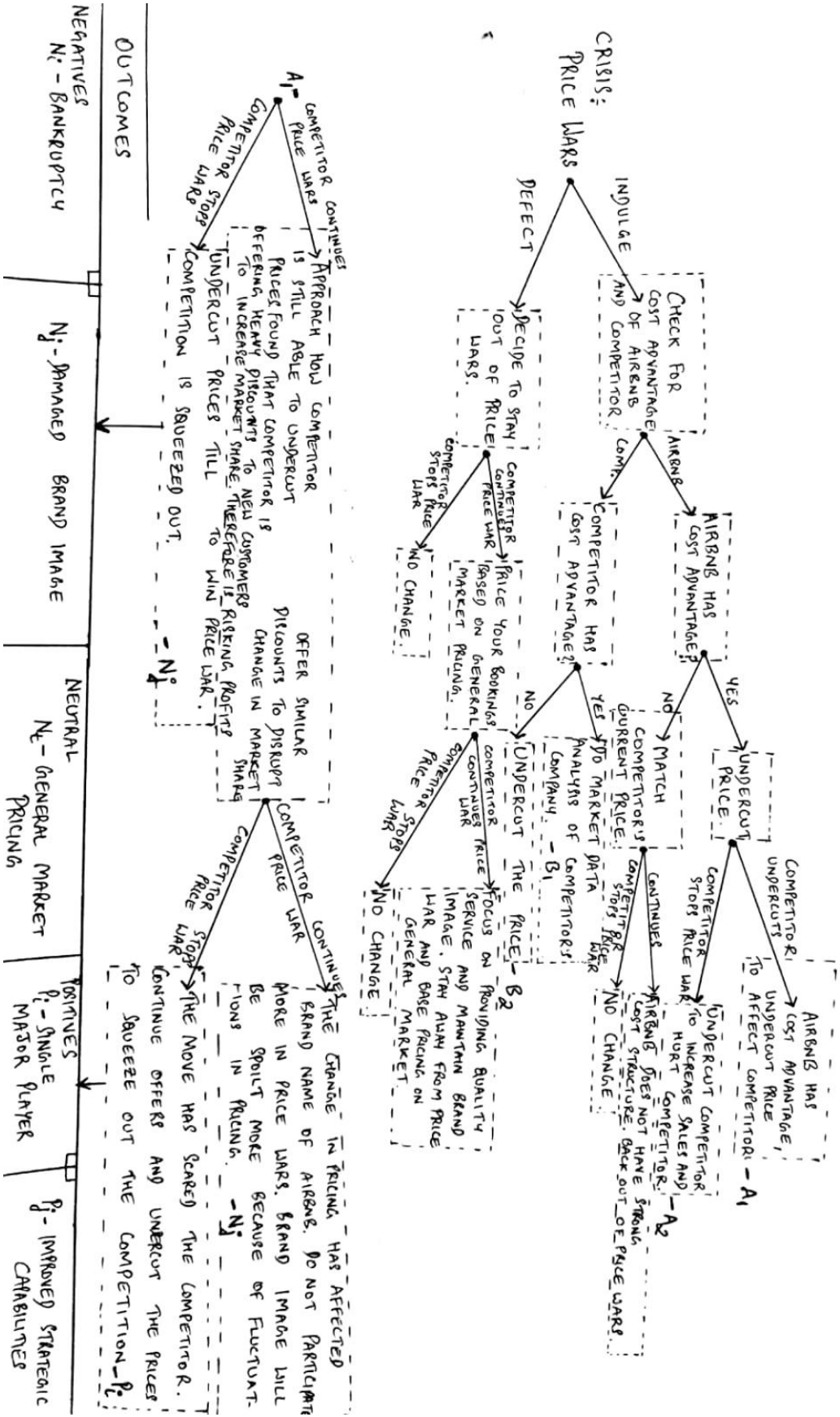
Managing the Organisation

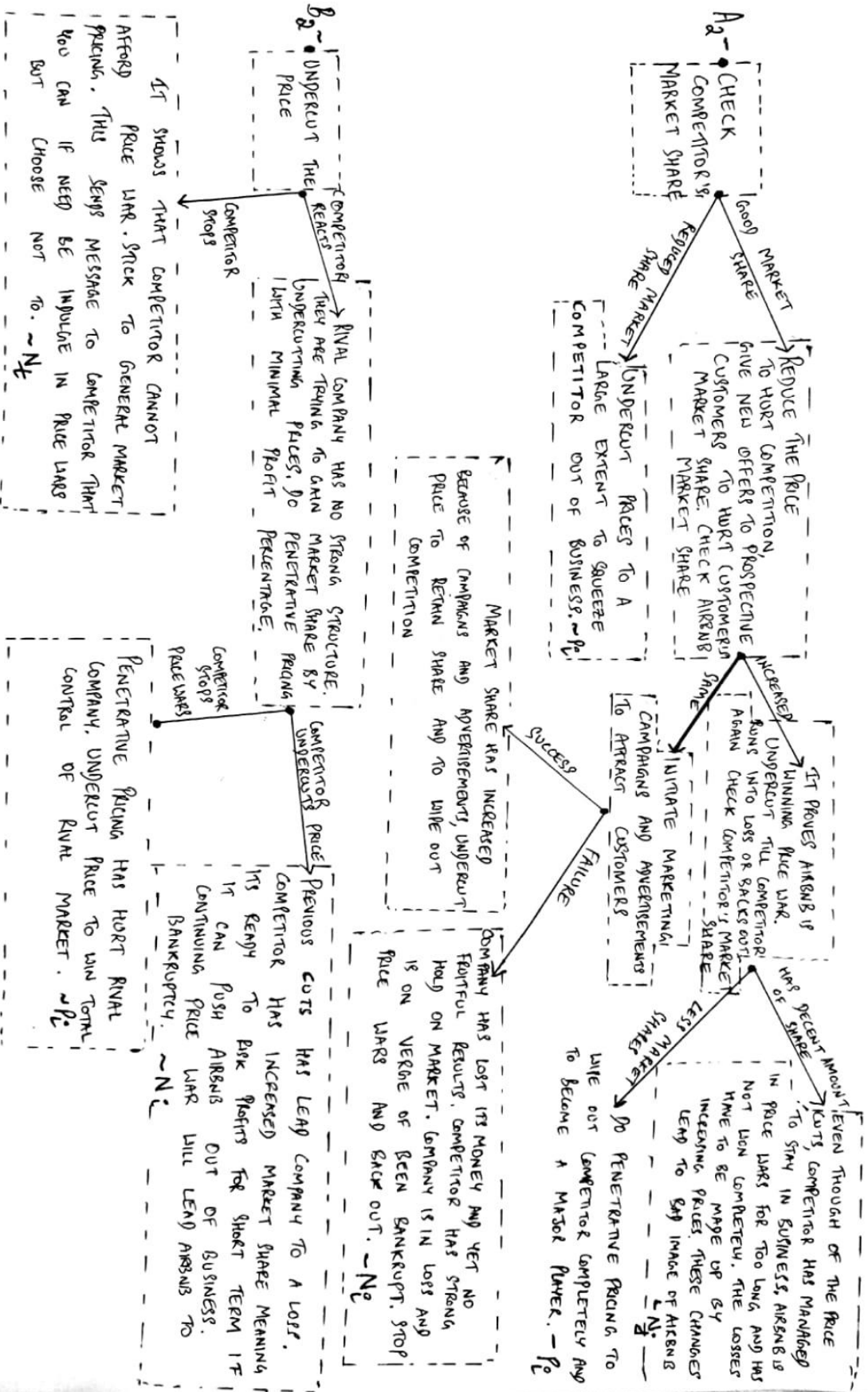
PREPARED BY- VARUN GOWDA

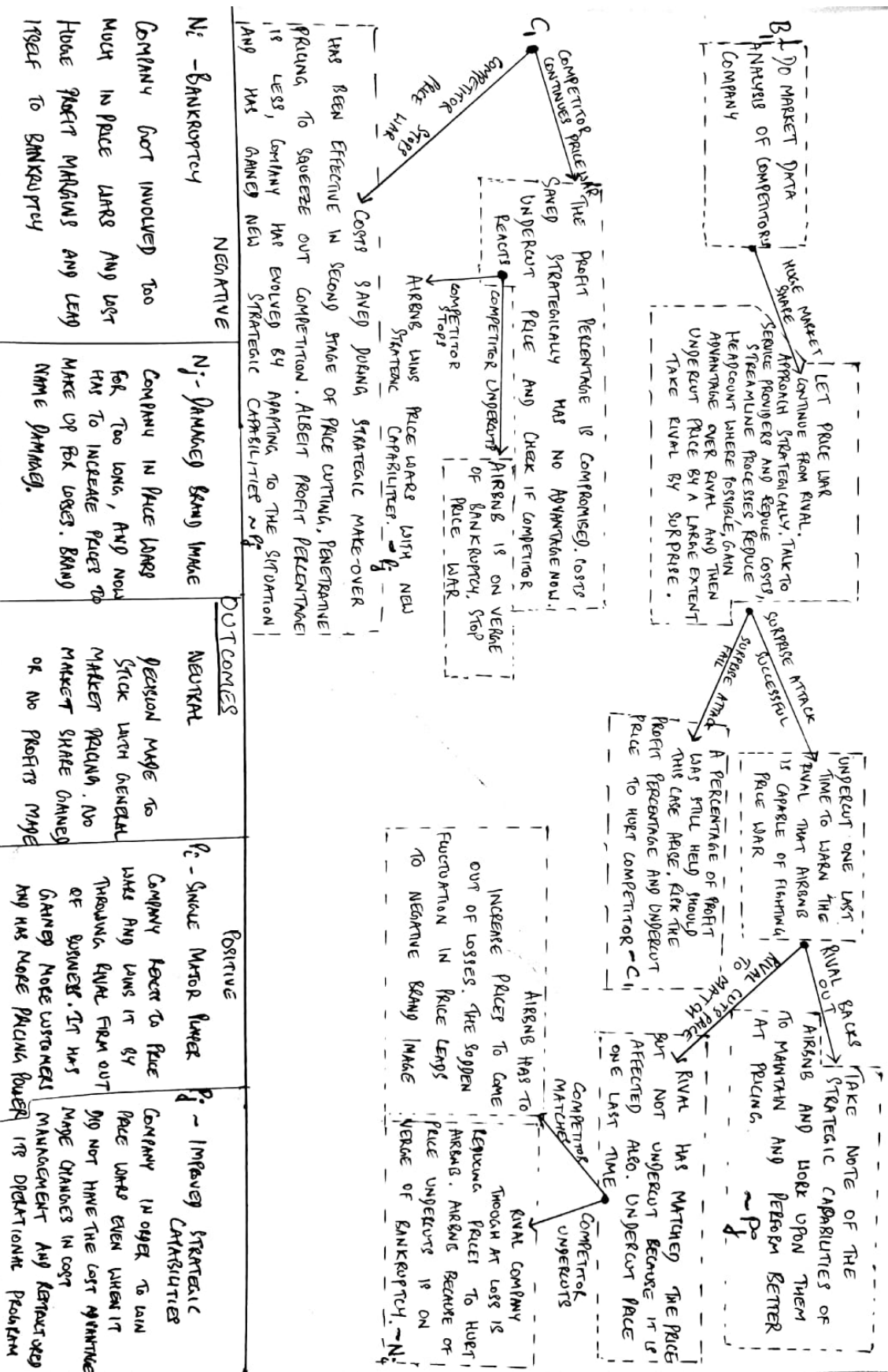
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COMPANY - AIRBUS CEO - TREVOR PHILLIPS CRISIS MANAGEMENT EXERCISE - PRICE WARS







ESSAY

Price war can be defined as a duration of fierce competition in which businesses cut prices to increase sales. There are many reasons a price war can be started for, but price wars continue so just for one reason- to not lose sales. Reasons a company starts a price war can range from it been almost out of business, to avoid which it drastically reduces its prices, or it can be to gain a competitor's market share. The short-term goal to start a price war is to increase revenue, if it continues for a longer time then it is done so to gain market share. Price wars are very common when two companies are providing the same product or service, to increase sales or be the upper hand in terms of market share can only happen when they reduce their prices. Sometimes the competition reaches such an extent that companies do not mind sacrificing their profits in order to win a price war. Generally, companies with a cost advantage can last longer in the price wars because of their strong financial structure. Though there have been few circumstances where smaller companies have managed to come out successful.

Airbnb is an online marketplace which lets owners rent out their properties. I preferred Airbnb as my choice for a traveltech company as it has a worldwide presence, 192 countries to be precise, and liked their business idea which is very basic, they bridge a gap between the travellers and owners who want to rent their property to make an income. Airbnb now not only rents houses, but has spread out to rent villas, boats, castles and even private islands! All these facts about the company helped me in deciding that it is apt for the project. A company like Airbnb has to face price wars, because nowadays the services it offers are offered by other companies like booking.com. The service is homogenous, so there will be times price wars will be started or Airbnb must start to keep its market share growing. The name of the CEO (fictional character) is Trevor Phillips.

I have made a decision tree on the crisis price wars, Trevor has two options when a price war is started, one is to indulge in it, and other is defect and face the crisis using other methods. If he decides to defect, he can base the pricing on the general market, not on what the competitor sets. By doing this, he can keep his company out of price wars and stay neutral. But if the rival company is offering better prices, he may be at a chance to lose sales or market share. If he decides to indulge, he can start by analysing the cost structure of the rival company and Airbnb. If Airbnb has a strong financial structure, it can go forward and participate in price wars and try to undercut the competitor to win the price war. If the competitor has a cost advantage, then Trevor can get a market analysis done to check how much market share the rival company has, and how long they can survive in the price war. If they can survive for a long time, then it is best to approach the problem in a strategic way rather than competing head on, as seen and explained in the decision tree, headcounts can be reduced, processes streamlined, IT costs reduced where necessary so that the costs saved can make up for the profit percentage that is lost during price wars. Airbnb is also seen going on the verge of bankruptcy because it got over involved and did not realise when to back out. Also as seen in decision tree when there are fluctuations in price, the image of the company will be in bad ruins, even after winning a price war, Airbnb will have to increase its prices to make up for the losses which would not look good in the eyes of the customer. And reducing the prices drastically can also send a bad message to the customer that the quality and service provided by the company is not par. It leads to a permanent negative image if price war is always indulged in. The chances of positive outcomes though present takes a very long time and drains the company of its resources. This must be kept in mind before taking part in a price war.

After researching about the topic, Trevor found out that if price wars take on for a long time, the losers usually go out of business because their profits are completely drained and are verge on bankruptcy, the companies which survived also suffer a long-term squeeze on their profits. The winners usually are the ones with a superior cost structure. Before getting into a price war, the reason to get involved, the companies involved must be thoroughly studied. There will always be a company which can offer a cheaper price just to increase its sales, setting Airbnb apart and creating a brand out of itself will retain the market share.

Reference:

SAGE Journals. (2019). *Winners and Losers in a Major Price War*. [online] Available at: <https://journals.sagepub.com/doi/abs/10.1509/jmkr.45.5.499?journalCode=mrja> [Accessed 6 Apr. 2019].

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