Case Study: Australia’s Airline Industry
Executive Summary

This research is an analysis of the aviation industry of Australia. The researcher has analysed the situation with respect to the renowned aviation company Virgin Australia. The research has started with a background of the Australian aviation industry, which continues to include the history of Virgin and its competitors and then provide in details the statistics related to its operations. A PESTEL analysis and a SWOT revealing the plus and the minus points of the company have been included. The last part deals with the strategies that need to be taken in the next 3 to 5 years.
## Contents

Executive Summary .................................................................................................................. 2  
1.0 Introduction: ...................................................................................................................... 4  
Part A ...................................................................................................................................... 4  
2.0 Competitive Analysis of the market .................................................................................... 4  
2.1 Brief History of Virgin Blues: ............................................................................................. 4  
2.2 History of the main competitors: ......................................................................................... 5  
2.3 Comparative analysis of the operation of Virgin and the competitors. ............................... 6  
3.1 PESTEL analysis: ................................................................................................................ 9  
3.0 SWOT analysis: ................................................................................................................... 11  
Part B ..................................................................................................................................... 12  
4.0 Mission Statement: .............................................................................................................. 12  
4.1 Vision Statement: ............................................................................................................... 13  
4.2 Strategic objectives: ........................................................................................................... 13  
References: ............................................................................................................................... 14
1.0 Introduction:

A long history decorates the background of the Australian Airlines industry, and in the recent times it has quite a number of airlines operating on the domestic and international front. The Australian Civil Aviation industry comprises of the main sectors like the international airlines sector, general aviations sector and the safety and the domestic airlines sector (Amason, 2010). This sector also comprises of the small segments which includes gliding, hand gliding, ultra-light aircraft and autogyros.

Recently, the Australian aviation industry is experiencing steep volatility. Competition in the airline market has increased steadily in spite of the barriers to entry. Presently, the airlines which are in operation are Qantas, West Australian Airways, Eastern Australia Airlines, Australian Air Express, Maroomba Airlines, Skytrans Airlines, Virgin Blue and Air Link (Davenport and Leibold, 2007).

This report will consist of the analysis of the strategies adopted by Virgin Australia, with respect to the modern situations and competitiveness in the aviation industry.

Part A

2.0 Competitive Analysis of the market

Here, a brief history of the company and the competition analysis with other competitors are dealt.

2.1 Brief History of Virgin Blues:

Virgin Australia is the part of the big family of Virgin Group, which started its journey in 1970 by Sir Richard Branson and has become one of the most respected brands all over the world (Enz, 2009). They started off as a records company and
slowly expanded all over the world employing more than 50,000 people in around 29 countries.

In Australia, the first flight of Virgin Blue was DJ214 from Brisbane to Sydney on the 31st of August during the year 2000. This operation was initiated with only a single route, two aircraft (Garfield, 2011) and a faithful team of 200 members. In the next year, new routes amounting to 14 were launched, with the simultaneous expansion of the domestic network, and by June 2001, the number of customers crossed a million. During the year 2003-2004, Virgin blue launched its holiday package named Blue Holidays. It also enlisted its name in the Australian Stock Exchange and Patrick Corporation invested around $135 million on the basis of initial Public Offerings (Harrison and John, 2009). Flights to the new destinations in New Zealand, Australia, Fiji islands, Tonga and Vanuatu were introduced. During the year 2009, Virgin lodged application with the US Dot and the Australian Competition and Consumer Commission to initiate a joint venture with Delta Airlines, which will operate in more than one country over the Pacific. As per Hitt and Jones (2009), during the year 2010, it launched the technology so that the passengers may check in with the help of their mobile, and was awarded the Best Low-Cost Airlines for the fourth time. The new business strategy, Game Change programme was announced.

2.2 History of the main competitors:

The main competitors of the Virgin Blues in Australia are Jetstar, Tiger Airways, Qantas, Air New Zealand, etc. Qantas airline started operation in 1920 and was registered in Queensland. The name Qantas is an abbreviation for Queensland and Northern Territory Aerial Services Limited. The company has now grown to be the leading brand in Australia. The company Qantas started with a fleet of personal
carriers with the capacity of carrying one or two passengers. And currently has a fleet consisting of 20 A380s. Air New Zealand started operations in 1940 from Auckland as Tasman Empire Airways Limited. After the end of World War II the airline started operations to Australia and soon in 1965 the New Zealand government purchased 65% shares in the company and it was renamed Air New Zealand (Khosrowpour, 2006)

2.3 Comparative analysis of the operation of Virgin and the competitors.

a) Recent Passenger Routes: Very recently Virgin Australia has launched new routes with their new ATR 72-500s. The operation of virgin will now include a range of other regional or short haul primary routes like:

i) Brisbane---Port Macquarie  ii) Sydney---- Port Macquarie  iii) Sydney---- Canberra and iv) Brisbane----Emerald.

The route covered by Qantas Airline is almost ever expanding. The airline covers all of Australia, major destinations in Europe and America and most of the Asian Continent. It has 20 domestic and 21 international destinations. Air New Zealand has 53 destinations which includes its subsidiaries as well.

b) Market Size: Presently Virgin Australia serves around 29 cities in Australia from various hubs. The new turbo props will replace the number of passengers in the two Sydney routes approximately by 200. Around 23% of the 926000 passengers flew during the Canberra route during the last year and this year 33% of the 174000 passengers travelled on the Sydney-Port Macquarie route. But overall business for the Virgin has declined in the last 12 months since Qantas has developed its position in the domestic markets through their subsidiary Qantas Link (Shaw, 2011)
New Zealand airline had a market size of NZ$ 4046 million as of 2010. The market size of Qantas in 2010 was estimated at around 13.772 billion AUD.

c) Hubs: The main hubs for the Virgin Australia are:

i) Brisbane Airport

ii) Auckland Airport

iii) Melbourne Airport

iv) Sydney Airport

v) Christchurch Airport

The primary hub for Qantas Airline are Sydney and Melbourne where as the secondary hub include Brisbane, Adelaide, Perth and Singapore. In case of Air New Zealand the hub is Auckland.

d) Number of Planes: There are more than 80 aircrafts in operation. They are attractive and powerful. Each aircraft contains some of the advanced avionics in the industry and is designed to serve the requirements of the market (Shaw, 2011). The fleet size of Air New Zealand is 51 which exclude its subsidiaries. The fleet size of Qantas is 143.

e) Passenger Routes: A possible passenger route is shown as below:
Fig 1: A possible route map for Virgin Australia Idea from: Shaw, 2011

The following figure illustrates the Qantas routes and destinations

Fig:2 Qantas Destinations. Source: http://flightroute.blogspot.in/2011/07/qantas-routes-map.html

The following figure illustrates the Air New Zealand routes and destinations
3.1 PESTEL analysis:

PEST describes all factors which affects the company under the areas of:

a) Political: The Political environment in Australia has become competition friendly and has been liberal in its policy makings allowing new entrants to the market. This has resulted in huge competition in the market. Huge competition gives rise to competitive pricing and report shows that if the company fails to hike its air fare it would lead towards bankruptcy (Smith, 2010).

b) Economic: The recent stress on security due to the September 11 attacks have raised the spending of the airline companies. The unstable fuel market adds to the woes of the airlines. The economic downturn in the West which had its ripple effects on Australia and New Zealand as well add up to the economic challenges that pose serious threats to the company (Stroy, 2007).
c) Socio-cultural impacts: The society has become more aware and is interested in the community services that are undertaken by any organisation. Qantas airline has a serious advantage as it does give back to the society. Hence Virgin needs to look at its CSR charter and ensure that community services and other environmental concerns are addressed which will revamp its image and position.

d) Technological impacts: With changing technology the costs are ever increasing. The design of aircrafts is consistently being perfected and these are in great demand. To sustain in the competition the company needs to ensure that it constantly upgrades its fleet. This again means requisition of funds for a already cash strapped company (Thompson and Martin, 2010).

e) Environment: The Global concern of Carbon Emission and green house gases has been a major challenge for organisations around the world. The governments have been pressurising the organisations to reduce their carbon foot prints. This acts as an added pressure for the organisation to maintain the norms.

f) Legal: Australia’s international aviation policy has been subject to multiple designations. Also the liberal policy of the government allowed the new entrants. This made a smooth entry possible for Virgin. This also allows other companies to enter the market freely. Thus the legal system provides the threat of new entrants for the organisation (Stroy, 2007).
3.0 SWOT analysis:

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<tr>
<th>STRENGTHS:</th>
<th>WEAKNESSES</th>
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<tr>
<td>• costs</td>
<td>• Not diversified</td>
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<td>• Strong financial position</td>
<td>• Weak management team</td>
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<tr>
<td>• Brand Reputation</td>
<td>• Lack of commitment towards safety</td>
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<td>• Lack of environmental concerns</td>
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<th>OPPORTUNITIES</th>
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<tr>
<td>• Innovation</td>
<td>• Competition</td>
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<tr>
<td>• Expansion of products and</td>
<td>• Slowdown of global economy</td>
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<td>services</td>
<td>• Competitors having lower cost or imports</td>
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<td>• The launch of programmes</td>
<td>• Wars of prices</td>
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<td>like regular flier schemes</td>
<td>• The instability of the oil prices</td>
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<tr>
<td>• Air Miles and other policies</td>
<td>• Continuous upgrade of the fleet</td>
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<td>to indulge business</td>
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<td>customers</td>
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a) Strengths: The main strength of Virgin Airlines is the lower costs that it offers to the customers. It initiated its operation maintaining a very low profile, with very little amenities being provided to the customers. This had attracted the customers and improved its business in a very short period of time. As Virgin Blues is a part of the famous Virgin group, the financial strength of the organisation has helped a lot in its financing and other aspects (Thompson and Martin, 2010). The company has a superior brand value and brand perception.
b) Weaknesses: Team management is weaker in compared to the other organisations in case of Virgin. Also the services that they provide are not very much diversified (Hierling, 2007). The Qantas airline provides commitment towards the customer safety and security through its customer charter but in case of Virgin Blue there are no such policies. Qantas also has a strong environmental focus which needs to be adopted by Virgin.

c) Opportunities: The main opportunities are innovation. Virgin airlines use innovative methods to create ultimate satisfaction for the customers. It has the opportunities to expand their products and eservices (Khosrowpour, 2006). Qantas and Air New Zealand have been majorly benefitting through the usage of the discount policies and air miles schemes. These schemes ensure customer loyalty and hence ensure the growth of the company.

d) Threats: The main threats are competition from the companies who want to be the number one. The downward trend of the operation of the global economy is also an important threat which reduces the number of passengers. The lower costs or the price wars by the competitors are also an important threat (Garfield, 2011). The International crude oil market is extremely instable and hence affects the operations of the airline. The continuous upgrade of the fleet that is required is also a threat for the company.

Part B

4.0 Mission Statement:

Target to be recognised as the paramount service provider for Business Aviation in Australia and all over the world
4.1 Vision Statement:

To reach the highest position in the Australian Aviation industry

4.2 Strategic objectives:

The following are the objectives of Virgin Blue

i. To become the leading low cost airline of Australia. 75% of the seats on a regular flight are sold at the cheapest possible rates and only the rest 25% are sold at a premium

ii. Providing frequent point to point flights over shorter routes rather than providing hub-spoke flights which are preferred by other airlines. Virgin operates around 75% flights on point to point basis and just 25% are on a hub-spoke basis.

iii. Lowering the operating costs to ensure the low fares. The company has the lowest operating costs in terms of both equipments and personnel. The company keeps a minimal fleet and also keeps the hiring of the staff at minimal. The existing staffs are over productive and ensure cost cutting. Virgin Blue has achieved 15% cost reduction in equipments and maintenance and 20% in personnel which has helped them lower fares by around 5-7%.

With respect to the SWOT and the PESTEL, the strategic objectives target to come out of the bankruptcy position created due to the worldwide recession. They also try to reduce the average costs so that a fair mode of competition is established. The management and the employee unions need to work in co-operation in order to provide better customer service.
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