Industry Analysis

January / February 2017

One of the most important actions of a leader is to create and communicate a vision and to then craft a strategy that transforms that vision into reality. Michael Porter introduced the Five Forces Industry Analysis as a tool to frame the main components of competitive analysis. The Five Forces are the **Threat of New Entrants, Power of Suppliers, Power of Buyers, Availability of Substitutes,** and **Competitive Rivalry**. A macro level analysis of the airline industry created by INVESTOPEDIA is shown in the next five paragraphs.

Threat of New Entrants. At first glance, you might think that the airline industry is pretty tough to break into, but don't be fooled. You'll need to look at whether there are substantial costs to access bank loans and credit. If borrowing is cheap, then the likelihood of more airliners entering the industry is higher. The more new airlines that enter the market, the more saturated it becomes for everyone. Brand name recognition and frequent fliers point also play a role in the airline industry. An airline with a strong brand name and incentives can often lure customers even if their prices are higher.

Power of Suppliers. The airline supply business is mainly dominated by Boeing and Airbus. For this reason, there isn't a lot of cutthroat competition among suppliers. Also, the likelihood of a supplier integrating vertically isn't very likely. In other words, you probably won't see suppliers starting to offer flight service on top of building airlines.

Power of Buyers. The bargaining power of buyers in the airline industry is quite low. Obviously, there are high costs involved with switching airplanes, but also take a look at the ability to compete on service. Is the seat in one airline more comfortable than another? It probably is not unless you are analyzing a luxury liner like the Concord Jet.

Availability of Substitutes. What is the likelihood that someone will drive or take a train to his or her destination? For regional airlines, the threat might be a little higher than for international carriers. When determining this you should consider time, money, personal preference and convenience in the air travel industry.

Competitive Rivalry. Highly competitive industries generally earn low returns because the cost of competition is high. This can spell disaster when times get tough in the economy.

I also utilize Porter's Five Forces Analysis during client engagements and when introducing competitive analysis to my doctoral students. This type of analysis will allow your team to frame complex issues and is complete when paired with demographic, operational, and financial data. Let me know if you are interested in more information concerning the use of competitive / industry analysis tools.

Questions?
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