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Industry and Competitive Analysis: American Airlines

First, we will discuss a quick overview of our industry. In the commercial airline industry, one of the major players in the market is American Airlines. In a 2017 analysis of public airlines by revenue, American Airlines Group was ranked number one with a revenue of $43 billion and 122,300 employees. They also lead the list of the most passengers carried with 198 million passengers in 2016, beating out Delta and Southwest Airlines. The commercial airline business has taken off throughout the years, even with setbacks, the industry as a whole has pushed through past tragedies. Flying is the most practical form of transportation, so the demand and availability are expected to increase in the coming years. With the number of airlines ranging from all different price points, the accessibility for a larger amount of the population has never been greater. Even with airlines like Spirit Air offering flights at one of the cheapest price points, American Airlines has been able to keep its part of the market share. We have used our knowledge from this course to apply it to a real-world analysis and incorporate several strategies that can be used to analyze and evaluate not only American Airlines, but the whole industry to which can be applied and used in our futures.

Starting off with “Blue Ocean Strategy”, we learned the difference between red ocean and blue ocean strategies, why blue oceans are important, and how to apply them. These factors can be applied to American Airlines. Since the commercial airline industry has been established and thriving for decades, it would be considered a red ocean industry. On the other hand, blue ocean industries rely heavily on innovation and taking on new markets. American Airlines is taking advantage of the red ocean strategy because it is achieving the goals red ocean businesses strive for. Red ocean businesses set out to compete in the existing market space, which American Airlines does by matching with competitors. These businesses also aim to beat out their contenders. American Airlines has achieved this as they are the most profitable airline globally, overcoming all the other domestic airline companies. American Airlines continues to build and expand off the demand of their customers by adjusting prices and working with the Oneworld Alliance to provide the greatest reach when it comes to traveling. Since they have more connections globally than other domestic airlines, people will be more likely to fly American when it comes to international trips. There can be both positives and negatives to a red ocean business, but some such as American Airlines, can be successful in it when applying the correct techniques, strategies, and solely being aware of the many factors that play a role in the industry.

Next, we will switch over to, “Foundations of Strategy”, to which, first, discuss the concept of strategy and can be applied to American Airlines as well. This chapter emphasizes points on the importance of strategy to not only the organization, but to individuals as well, how views on strategy have changed over time, key questions, the debates on corporate values, becoming familiar with the challenges of non-profit organizations, and understanding the basic approach to strategy. A strategy is defined as “the means by which individuals or organizations achieve their objectives.” American Airlines uses many forms of competitive strategy ranging from an incredible rewards program, AAdvantage, to price matching with Low-Cost Carrier competition. AAdvantage allows customers to earn miles in a few ways. First, is by simply enrolling in AAdvantage to keep track of the miles one has flown. Second, is a Citi / AAdvantage Platinum Select card that earns members miles when used along with preferred boarding on American Airlines flights and many more discounts and rewards. Customers can use miles towards plane tickets, upgrades, improving status, hotel stays, rental cars, vacation packages, and other retail products. One of American Airlines biggest business strategies is their ability to price match with any competing airline. Low-Cost Carrier (LCC) airlines have been one of American Airlines biggest competitors. American Airlines began to see a decrease in revenues with more LCC competition entering the market. To answer this problem, Chief Executive Officer Doug Parker stated, “We price our product to match the competition. We always have, we always will.” This has helped increase revenues and increased the company’s competitive advantage over competing airlines. Evaluating American Airline’s basic strategy is an important start in completing a well-rounded industry and competitive analysis.

We then moved into the industry analysis which covered the characteristics of industry analysis, analysis types, the factors that affect a firm’s environment, industry attractiveness, Porter’s Five Forces, and how to evaluate those characteristics in an industry. Basically, this means identifying the factors of a firm and being aware of how they affect profitability and success. For American Airlines, the SWOT Analysis allows investors and business partners to analyze the fundamental pillars of a company. It allows the firm to identify the strengths and weaknesses a company faces, as well as possible opportunities and threats they could encounter in the future. One of American Airline’s top strengths is their loyalty flyer program which was previously discussed. Customers are more likely continue to fly with a company they have good experiences with, and with American Airlines having a mileage program to help their customers save money, they are set to maintain their market share of 15.66% domestically in 2017 (Statista). This establishes a strong sense of brand loyalty and keeps them thriving. A weakness of American Airlines is having a limited number of aircraft suppliers. The main supplier American Airlines has for aircrafts and aircraft servicing is The Boeing Company. Because they are limited in suppliers, this could cause delays in maintenance and acquiring aircrafts. American Airlines has room to grow in this aspect by branching out or improving the contract they have with Boeing. An opportunity American Airlines can grow from is the growth in the United States’ Airline Industry. Since 2015, the industry has increased in revenue but 4.2% and is expected to grow by 5% in the next 5 years. While American Airlines is the most profitable airline, the threats that they must overcome are also expanding. Growing security concerns have been existing since the terrorist attacks in 2001, and other instances like the Malaysian Air flight in 2014. Environmental laws are also going to have an impact on the airline industry as a whole. Because of this, airlines must be constantly aware and following any regulations given to them. Performing a SWOT analysis provides wholesome information in an industry analysis because it identifies the strengths and weaknesses, helps provide an overview of the environment in the industry itself, and with that, can guide the company in the direction of choosing the best strategies.

Resources and capabilities were the next information to be applied. In this chapter, we went over the roles of resources and capabilities in a firm’s strategy, how to identify and appraise them, formulating strategies with the results of resource and capability analysis and how to tie that back to competitive advantage. There is an important difference between resources and capabilities. Resources are the productive assets owned by the firm while capabilities are what the firm can do with the resources. There are a few types of resources: tangible, intangible, and human. The biggest and most recognizable tangible resource for American Airlines is their fleet of airplanes. Another major tangible resource is the financial resources given to American Airlines by shareholders and investors for marketing, maintenance, salaries, etc. Intangible resources are more in-depth than tangible resources. The biggest intangible resources American Airlines has is its brand name and relationships with partners and customers. American Airlines prides itself on customer relationships and providing the best possible service for a competitive price. The human resource aspect includes every skilled employee that works for the company, their communication process, and the motivation of the company. American Airlines has skilled workers in every department of their business. From maintenance on an aircraft to working in HR, each employee is trained and specializes in their field to ensure the most possible capabilities for the company. Each type of resource in a company creates capabilities that help American Airlines create and maintain a competitive advantage over competing airlines. Now, we will go into more detail about competitive advantage.

Our next topic covers the nature and sources of competitive advantage. This has to do with how competitive advantage emerges and sustains, types of competitive advantage, and Porter’s generic strategies. American Airlines enhances its competitive advantage and keeps its customers happy by providing different kinds of rewards programs as well as an abundance of amenities to offer passengers. One of their strongest competitive advantages is their strong domestic presence in the United States as stated earlier. Another advantage comes from their Oneworld Alliance which connects them with numerous destinations around the world, allowing their customers to make connecting flights while keeping the benefits American Airlines can provide. Cost is one of the types of competitive advantage to elevate companies from the rest. American Airlines capitalizes on using cost to their advantage by beating out the “no-frills” or low-cost carriers by matching their airfares while still providing better quality service. With the high volume of flyers, American Airlines has per year, cutting back their airfare will allow them to keep customers while not drastically affecting their overall revenue. The other aspect of competitive advantage is differentiation, which is providing a product that is unique compared to the competition. American Airlines has lounges that they provide for their customers as well as frequent upgrades to business and first class available to their revenue flyers and standby flyers. Innovation is a key component to differentiating from the competition, American Airlines uses this by providing luxury care for its customers at all price points. From coach to business class, American airlines can tend to their customers with more amenities than other airlines, such as providing access to Wi-Fi and connections to free quality entertainment at even the most basic of seating. They also differ from other domestic airlines, as stated previously, with the Oneworld Alliance. The alliance itself allows customers to gain points through American Airline’s reward program internationally from airlines such as British Airway, Japan Airlines, LATAM, and many more. Customers who are flying internationally are going to feel more comfortable buying tickets through companies they are familiar with, and with the alliance, American Airlines provides a trustworthy connection to multiple regions around the world. Maintaining at least one competitive advantage is detrimental in a thriving business and American Airlines has incorporated many to ensure that they stand out from the competition.

Jumping into corporate strategy, we discussed the scope of the firm, trends in diversification and integration, the techniques of portfolio analysis, and how to apply corporate strategies. The product scope of American Airlines is predominantly narrow because they are in a specialized industry. The focus mainly on commercial flying with a small amount of cargo transportation, but they stay within the aviation industry. As for their geographical scope of American Airlines is global because they offer an abundance of flights to cities throughout the world. Even though not all their flights are direct, they provide options for connecting flights, so their flyers can get where they need to go. The purpose of the corporate strategy is to reduce cost while increasing revenue. To meet these goals companies will take advantage of diversification, or the expansion of a company into other fields. American Airlines itself has exclusively remained in the airline industry with limited exposure to other fields. They diversified slightly by transitioning from transporting U.S. mail to passengers near the beginning of the company’s life. However, they do offer credit cards that can be used for more than just air travel while still receiving benefits. American Airlines utilizes vertical integration by selling their tickets directly to their customers on their private website rather than through third-party sellers. When analyzing American Airline’s corporate portfolio, we found that within the BCG matrix, Mainline passenger business “contributes more than 69% of the operating revenue and therefore it is Stars... and the other segments [Regional Passenger and Cargo] are Question Marks” (Bhasin). This shows that their commercial flight revenue is achieving its goals while the other segments have room to improve. Business strategy and corporate strategy are both key factors in an industry, but the corporate strategy is used to determine where a firm competes and is critical in determining location and placement in an organization. Sometimes, these factors all come together and make a company realize it is time for a change, which we will discuss in the next paragraph.

Transitioning into industry evolution and strategic change, it is important to be able to know when the right time is to make changes for the benefit of a company and the reasoning behind it. This chapter is all about how to improvise, adapt, and overcome. It is important to understand the process of innovation, the industry life cycle, barriers to organizational change, tools that should be used, dynamic capabilities, scenario planning to determine the future, integrating these resources to create a capability, and the 5 most common competitive strategies. These factors can be analyzed and applied to any industry, and we have applied our knowledge to the commercial airline industry over this course. Evolution can potentially result in failure, but with failure, a more precise paved road can be provided. With the commercial airline industry, the world is expecting many changes to come. In the article, “A New Disruptive Economic Model is Emerging in the Airline Industry”, the name basically speaks for itself. Realistically, this industry has been stable, but several companies in it are about to undergo big changes. They are developing new and improved aircrafts that provide faster travel and more benefits. Michael Boyd states, “Fleets will be different. Air access patterns will be different. How consumers make travel decisions will not be the same”. These changes are shifting from traditional to modern; preparing for these changes will determine which companies will maintain customer loyalty or potentially bring in new customers. These companies will have to adapt and evolve or else they will not be able to keep up with their competition. Industry evolution and strategic change are always going to play a role in industries as time goes on and the world progresses. American Airlines will have to get on board completely, as well as other companies in this industry, to remain successful. Being aware of where they are at in the industry life cycle and using the right strategies at the right time are key factors in not going under, moving with the competition, and staying ahead. More often now than ever, with industry evolution, there is a shift in focus on technology which we will touch on next.

As part of a well-rounded industry and competitive analysis, it is critical to understand technology-based industries and the management of innovation. Technology is evolving and has become a prime factor in our world today. This chapter discussed how technology affects industry structure and competition, how to identify what is necessary for innovation and relating it back to competitive advantage, how to formulate strategies for exploiting and managing technology, and precisely creating the correct organizational conditions to implement strategies successfully. American Airlines relies on technology to run efficiently as a corporation. Technology is used to get people through airports, provide flight information, guide the planes, and provide entertainment and accessibility to customers. Innovation in American Airline’s use of technology provides customers a better experience inside and out of the plane. Throughout the years, American Airlines has added kiosks to help flyers check their bags rather than using the ticket counter. They also have these kiosks at the gates to request seat upgrades. Simple advancements like these, along with major cabin upgrades within larger, newer aircrafts, keeps American Airlines’ competitive advantage because it gives customers a more pleasurable experience for reasonable prices. When formulating strategies, one of the ways to exploit technologies is through strategic alliances, which American Airlines has achieved with the Oneworld Alliance. This aids in the development of corporate strategy because it expands the reach and is leading innovation for alliances in the industry. Because the airline industry is finite, the room for innovation is not unlimited like in other industries. American Airlines provides enough technological advancements to match its main competitors and limit the exposure to risk by keeping a relatively homogenous structure with the upgrades they allow.

Up to this point, our last topic discussed is global strategies and the multinational corporation. This covers patterns of internationalization, analyzing competitive advantage in the international context, formulating strategies for overseas business opportunities, the influence of global integration and national differentiation, and taught us how to design organizational structures and management system at appropriate timing to be able to apply the best international strategies. This abundant information can be applied to analyze the commercial airline industry. It is important to step back a take a scan globally at the industry and discover how to widen horizons. Internationalization is the idea that more competition means lower profitability. This is true in the sense that more spread in the commercial airline market share typically means less profit to be split amongst the airlines, however, even though American Airlines is 3rd leading in the market share of domestic airlines, it remains the most profitable globally (Statista). With competitive advantage, we have discussed the Oneworld Alliance which keeps American Airlines globally competitive. They can continue to expand their business opportunities by increasing the reach of the Oneworld Alliance program. With the partnerships they already have in over 150 countries, they maintain worldwide influence as well as offering services domestic airlines cannot match. Analyzing our industry, and when evaluating others, from a global perspective keeps the firm prospering and open to expanding into new business opportunities internationally, ultimately, increasing profit and therefore, remaining affluent and successful.

A complete industry and competitive analysis are formulated with many factors. There is a consistent pattern of relaying the importance of knowing the ‘ins and outs’ of a particular industry: identifying characteristics that affect the industry, understanding the factors of the environment and competition, creating a competitive advantage, looking to demand and customer satisfaction, and applying several different strategies in order to promote success in an industry. A firm should involve intense planning and evaluation in order to create profitability, sustainability, and maintain customer loyalty. Thus far, we have been able to implement the knowledge we have acquired and apply it to our industry, American Airlines, for this class. We have discovered that without many guidelines, it has provided a platform of growth and autonomy. Although this is for a class, we are certain that this knowledge can be obtained and used in our future careers in order to fulfill our ‘business minds’ to their greatest potential.

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Synopsis of Articles

**1. AAdvantage Program**

The page provided information on the differ ways to earn rewards through American Airlines. It details the way customers can receive as well use their miles earned on future trips and possible expenses, such as car rentals and hotels. It allows people to read on how to become a member and more advanced programs they can join to use outside of travelling.

**2. Maketing91 Marketing Strategy of American Airlines**

This article details the segmentation, targeting, positioning in the American Airline’s strategy for marketing. Is details the company’s mission and dives into the strengths and weaknesses of the corporation. It expands on possible competitive advantage points it believes the company is thriving on. The article also discusses the distribution strategy internationally and domestically.

**3. Statista US Domestic Market Share**

This graph provided the leading airlines in the United States by their percentage of market shares for the years 2010 to 2017. Southwest has consistently had the greatest, followed by Delta, then proceeded by American Airlines.

**4. Forbes “A New Disruptive Economic Model...”**

The article compared the economic climate of the airline industry to the coming extinction of the dinosaurs, stating that the “meteors” aren’t yet obvious but already coming. It states that the Low-Cost Carriers are going to force larger airlines like American, Delta, and United to adapt to low prices which can have an effect in growth. This problem expands with International LCCs, which will take a portion of the market away from big airline companies. Technological advancements also seem to be problematic because faster transportation with less comfort can seem ideal to some of the market. The article ultimately states that the way air transportation is run will be different in the coming years, so airlines need to learn how to innovate and adapt to remain relevant in the market.