

Introduction

- Once we understand the six competitive forces that shape industry profitability, we can then use the industry analysis framework to generate strategic insights.
- We shift from knowing something about the industry to knowing what to do about it.

The airline industry

- Buyers hire airlines to fly them from point A to B, quickly and safely.
- Rivalry among airlines is high, keeping profits low, because:
 - Many airlines compete for each route, giving customers multiple options.
 - There are few differentiators other than price.
 - High fixed costs/flight incentivize airlines to fill every seat at the cost of dropping prices.
- There is also a high threat of new entrants:
 - Easy for new airlines to get gate space in airports, acquire planes, financing, and capture market share. There have been new airlines in the last decades: JetBlue, Frontier, etc.
 - New entrants usually try to capture market share with lower prices. This keeps downward pressure on industry profits.
- Buyers have a great deal of power:
 - Low brand loyalty, many airlines to choose from, few switching costs among airlines.
 - Individuals cannot negotiate lower fares, but collectively they can vote with their dollars by going to the airline with the best fares. This keeps downward pressure in profits.
- Suppliers also have a great deal of power:
 - As of 2019, only 2 viable manufacturers for large commercial airlines and few engine suppliers. This makes switching costs quite high for airlines.
 - Airports have local monopolies in some geographic areas - they can control pricing.
 - As of 2019, there is a significant pilot shortage in the airline industry.
- Fortunately, the threat of substitutes is generally low:
 - There is no effective substitute for long distance air travel (alternatives are often slower and may be less cost effective).
 - For face-to-face interactions the availability of high-quality video conferencing may substitute travel, but this does not pose a great threat to the airline industry.
- Compliments for air travel (major sporting events, conferences, concerts, etc.) require physical presence to fully appreciate, forcing customers to purchase airfare.
 - It is not clear whether these complements overcome other threats to industry profits.
- Overall, airlines seem an unprofitable industry. What does this mean for strategic decisions?

Using industry analysis to make decisions

As a current competitor

- Think about what our analysis means for us if we are a *current competitor* in this industry.
 - We have a high fixed cost investment and it is very costly to exit.
 - Thus, we are likely to invest towards sticking it out and try to be successful.

- Our analysis reveals industry weaknesses, how can we counter some of them?
- Buyers tend to have a high power. Can we shift that dynamic? Can we make customers prefer us over our competitors?
 - If we simply add features (better Wi-Fi, screens or comfortable seats) our competitors can match those and negate the benefit.
 - But a frequent flier program may help. We could lock customers in by rewarding them for repeat purchases and cumulative travel with us.
- To summarize, if we found that buyers have more power, we record this as a key insight and then recommend how we can shift that power in our favor.

As a potential entrant

- If we are a potential *entrant* to the industry our approach may be different.
- Typically, a profitable industry means a VERY hard industry to enter.
- If we want to enter, we might look for back doors or secret passages:
 - Are there any customers that are under-served by the current industry?
 - Maybe we can enter and target them with a niche offering that gets us an initial foothold in an otherwise difficult industry to enter.
 - Alternatively, we may have a new technology that allows us to offer a superior product, or we may have a new business model that allows us to do a similar job in a different way.
- Key point: an entrant may do an industry analysis to understand the barriers to enter an attractive industry and then systematically search for weaknesses in those barriers.
- In contrast, low profit industries are often easier to enter, but a lot less attractive.
 - Why spend a lot of money to enter an unprofitable industry (e.g. the airline industry)?
 - We may use industry analysis to reveal opportunities to enter without the same pressures.
 - We may examine routes that are under-served by current players, which is how Southwest Airlines entered the market.
 - When major airlines used a hub-and-spoke model, Southwest did point-to-point routes for small airports to give a subset of passengers direct flights between these locations.
 - Thus, they entered an industry whitespace where they did not have direct competition.
- Or, we can identify a subset of customers willing to pay a premium for some unique service:
 - Airlines in 2018 started reducing passenger abilities to bring pets on planes, but growth in the pet industry before 2018 suggests people are less price sensitive on products and services for their pets.
 - Maybe there is a set of customers willing to pay premium for pet travel accommodation.
 - Entering in this way might bypass one of the key weaknesses of the existing industry.

Conclusion

- You can generate key insights that drive strategic decisions for existing competitors and potential entrants to an industry.
- There are other ways to use industry analysis to generate insights, this is only one example.