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The United States Airline Industry

# Executive Summary

Majority of the countries pertains to have tight regulations for the aviation industry. The reason for that lies in the fact that the U.S. airline industry is faced with a number of different risks which may be resulting in deaths and accidents. There is a high need to understand the major obstacles to the U.S. airline industry because they lose customers in those countries where the security threats are high. The U.S. airline has had to make a number of changes for meeting the needs of such demanding clients. The matter of fact is that a majority of passengers tend to go to cheap airlines. The report put a focus on the strategies for the U.S. airline industry because before entering new markets, the U.S. airline industry must be carefully evaluating the environmental standards needed for operating such markets. One thing that must be taken into consideration is the fact that there are certain changing regulations that required the U.S. airline industry for offering quality services and protecting consumers. When it comes to the U.S. airline industry, it can simply be said that the industry is not at any threat from substitutes. . In the current scenario, there is a high need for the U.S. airline industry to manage such challenges and build effective barriers for safeguarding the competitive edge.

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# Introduction

The aim of this report is to provide the reader with an in-depth analysis of PESTEL and Porter's Five Forces for the U.S. airline industry. The report tends to provide a great search material based on which the market analysis of the U.S. airline industry has been done. In PESTEL analysis, all possible factors have been identified, and it has been provided with meaningful ways to address the factors. All five forces that tend to play an important part in the U.S. airline industry have been identified. At the end of the report, a set of different strategies have been suggested for the U.S. airline industry. The matter of fact is that such strategies will help the industry to sort out the issues, and make itself stable in the marketplace.

# History

It was the year 1918 when the Post Office started to administer airmail routes operation by the U.S. aircraft and Army Pilots. In the U.S. the aeroplanes were around for the initial years of the 20th century. However, it was considered quite risky to fly until 1925. The reason for that is quite simple as the Air Mail Act helped to develop the airline industry as it allowed the postmaster for contracting with private airlines to deliver mail (Araujo et al., 2016). The Ford Transport Service, Western Air Express, and Pan American were the first commercial airlines. Within a span of almost 10 years, a number of modern-day airlines emerged as major players such as United and American. In the beginning, the economic conditions were not so amazing of any airline, however, till the current date, it has been observed a great positive change to the economic condition of the U.S. airline industry (Borenstein, 2017).

# PESTEL Analysis

PESTEL analysis is considered to be a tool which the marketers tend to use for analyzing and monitoring the macro environmental factors. The matter of fact is that PESTEL analysis is a part of external analysis while conducting market research or analysis. A fine piece of PESTEL analysis tends to provide an overview of a number of macro-environmental factors that are necessary to consider. PESTEL analysis is considered to be a strategic tool to understand direction for operations, business position, and market growth. Most people consider the U.S. airline industry as a flourishing business that makes it easier for travelling inconvenience and comfort.

One thing that must be taken into consideration is that there are a number of challenges that the U.S. airline industry face. There is no doubt that PESTEL analysis is a reliable strategic method which allows the airlines to weigh external factors affecting their businesses. PESTEL tend to provide a great detail regarding the operating challenges U.S. airline industry may face.

## Political Factors

There is no doubt that political factors are seen playing a vital role to determine the factors impacting the long term profitability of the U.S. airline industry. U.S. airline industries operate in a number of different countries and the industry tend to expose itself to different types of political system and political environment risks. Majority of the countries pertains to have tight regulations for the aviation industry. The reason for that lies in the fact that the U.S. airline industry is faced with a number of different risks which may be resulting in deaths and accidents. There is no doubt that different policies are also aiming for the protection of passengers than the U.S. airline industry. Due to this, it has been observed that the U.S. airline industry is in a need to comply with such regulations. Apart from this, insecurity and war factors that can affect states each time trickle down to the U.S. airline industry. In simple words, it can be assumed that this is the major obstacle to the U.S. airline industry because they lose customers in those countries where the security threats are high.

## Economic Factors

The matter of fact is that the macro environmental factors like the economic cycle, foreign exchange rate, interest rate, savings rate, and inflation rate plays an important role in determining the demand and aggregate investment in any particular economy. As the competition norms tend to impact the competitive advantage of the U.S. airline industry, the U.S. airline industry can be using the economic factor of the country such as growth rate. There is no doubt that the recent recession has proved to be a significant blow to the U.S. airline industry (Atkinson et al., 2016). There is a high need for the U.S. airline to cope with the increase in fuel prices. Due to this, it has become quite challenging for the U.S. airline industry in making profits. Apart from this, the U.S. airline industry has to struggle with more labour demands for the employees. The matter of fact is that such type of economic hurdles tends to result in an increase in the rates of bankruptcies in the U.S. airline industry.

## Social Factors

There is no doubt that passengers of current times are changed. The U.S. airline has had to make a number of changes for meeting the needs of such demanding clients. The matter of fact is that a majority of passengers tend to go to cheap airlines. One of the reasons why it has resulted in a less profit of the U.S. airline industry is the less business class travellers. Due to automation, a decrease in the people has observed to fly to business destinations. The culture of society and ways to do things tend to have a significant impact on the culture of the U.S. airline industry. There are certain social factors that the U.S. airline industry needs to analyze such as culture, class structure, demographics a skill level of population.

## Technological Factors

There is no doubt that technology is quite fast disrupting U.S. airline industry. There are certain impacts due to technical analysis such as on product offering, and culture in the U.S. airline industry. When it comes to the U.S. airline industry, it has embraced several technological changes in the services (Atkinson et al., 2016). Majority of the passengers in the current times tend to prefer to access ticket and check in service through smartphones. One thing that must be considered is that the U.S. airline industry also needs to carry out advertising campaigns for attracting clients.

## Environmental Factors

There is no doubt that a change in climate tends to affect the U.S. airline industry to a great extent. The reason for that is quite simple as the U.S. airline industry needs to make the "green flying" practice better to protect the environment. There is no doubt that all of this is quite expensive. Before entering new markets, the U.S. airline industry must be carefully evaluating the environmental standards needed for operating such markets. There are a set of environmental factors that must be considered such as laws relating to environmental pollution, climate change, and weather.

## Legal Factors

The matter of fact is that the U.S. airline industry is bombarded with lawsuits by either staff or displeased clients. The outcomes of this have resulted in making the U.S. airline industry more cautious in its approach towards strategic plans. One thing that must be taken into consideration is the fact that there are certain changing regulations that required the U.S. airline industry for offering quality services and protecting consumers. Other legal factors for the U.S. airline industry may include consumer protection and e-commerce, anti-trust law in industry, data protection, and health and safety.

# Porter’s Five Forces Analysis

The Porter Five Forces Analysis is considered to be a tool that is linked with strategic management. The aim of this tool is to analyze the given industry and provide a sense of understanding that underlies levers of profitability. When it comes to the U.S. airline industry, it allows the managers to understand the ways in which the five competitive forces tend to influence the profitability and plays a keen part in developing a starting to enhance the competitive advantage.

## Threats of New Entrants

The matter of fact is that the new entrants in the airlines are seen bringing innovation along with the new ways to do certain things. Apart from this, it tends to put pressure on the U.S. airline industry as well. All of this has been done with providing new value prepositions to clients, reducing costs, and lowering pricing strategy (Bachwich et al., 2017). In the current scenario, there is a high need for the U.S. airline industry to manage such challenges and build effective barriers for safeguarding the competitive edge. The matter of fact is that the U.S. airline industry is regulated on supplied side greater than demand dide. One thing that must be considered is that due to low cost and cheap services offered by other airlines can be resulting in making it a big threat for the U.S. airline industry.

## Supplier Power

There is no doubt that when it comes to the power of suppliers in the airline industry, it is simply immense. The reason for that lies in the fact that the three inputs that airlines have in terms of labour, aircraft, and fule are all seen to be affected by the external environment (Hannigan et al., 2015). A perfect example in such a scenario would be of the price of aviation which his subject to the fluctuation in the global marketplace for oil. Just like this, labour is also a subject to the powers of a union who are seen bargaining and getting costly concessions from the airline.

## Buyer Power

Due to the technological advancement which has made it quite easy for ticketing and distribution systems, it has been observed that the fliers no longer needs to be at the mercy of agents. There is no doubt that fliers have been benefitted by a number of factors such as resultant price, and the entry of low-cost carriers as well. Apart from this, the tight regulation on the demanded side of U.S. airline industry indicated that the balance power is tipped in favour of the U.S. airline industry. One thing that must be taken into consideration is the fact that such factors tend to make the U.S. airline industry cede power to consumers. In a nutshell, it can be said that when it comes to the U.S. airline industry, the power of buyers is quite moderate to high.

## Threat of Substitutes

When it comes to the U.S. airline industry, it can simply be said that the industry is not at any threat from substitutes.Flying is considered to be a natural phenomenon for clients, therefore, when it comes to the substitutes in terms of bus and train, there is a minimal impact only. However, if there is ever a threat of substitute to the U.S. airline industry, there are certain possible ways in which the industry can sort this issue out. The industry can increase the switching cost for the customers. Apart from this, there is a high need to be service orients instead of being product oriented only.

## Entry and Exit Barriers

The matter of fact is that there is a high need for the U.S. airline industry to have huge capital investment for entering. On the other hand, when it comes to exit the sector of airlines, there are a number of losses as well. In simple words, it can be said that the exit and entry barriers are quite high for the airline industry (Bachwich et al., 2017). There is no doubt that the entry to the airline industry demands a high infusion of capital which is simply not afforded by everyone. When it comes to the exit barriers, they are also subject to regulation. The reason for that is quite simple as the regulators in the U.S. do not allow the airlines to exit the industry without any genuine reason. Apart from this, the airline industry tends to leverage the efficiencies along with synergies from the economies of scale.

# Business Strategies and Models

Although a business strategy and business models look different from each other, one thing that must be considered is the fact that both of them tend to answer key questions in operating an organization. When it comes to a business model, it is simply the systematic method which is utilized in generating revenue in a profitable organization. On the other hand, when it comes to the business strategy, it is considered to be a method for achieving a core organization objective.

# Strategies for the Airline Industry

## Corporate Strategy and Diversification

The matter of fact is that the airline industry is considered to be a diverse factor. There is no doubt that the U.S. airline industry tends to require the support of a varied range of ancillary busiesness like travel agencies and catering for carrying out the activities. A large number of such supporting businesses tends to demonstrate the potential for driving wider profit margins. One thing that must be taken into consideration is the fact that such demonstrations are done regardless of generating lower revenues than the airlines themselves. The outcomes of this result in making them some sort of attractive investment opportunities in a sector prone to violating. The matter of fact is that diversification tends to mean breaching out into new business opportunities. It is not just limited to the expansion of existing business.

In the current scenario of the U.S. airline industry, there is a high need to adopt diversification. However, in order to that so, the U.S. airline industry should keep in notice their current customer base for determining whether they can be successful. The current services must be reviewed in order to have a better understanding of the diversification and taking better decisions. However, there are certain risks that are associated with diversification as well. Diversification tends to entail embracing unfamiliarity and uncertainty (Rothaermel, 2015).

## Internationalization Strategy

As per the current demands, and past experiences, there is a high need for the U.S. airline industry to expand itself in the global market. Although the airline industry is widely spread, in some Asian counties, there is no sign of the U.S. airline industry (Graham, 2016). The matter of fact is that by expanding the business in such counties, it will result in attracting more customers, and the brand-name of airline industries will be developed in those counties as well. There is no doubt that majority of the labours come from under-developed counties, therefore, if the business in those counties will be expanded, there is a high chance that people of those counties may turn their face to utilize U.S. airline industry.

## Entrepreneurship and Innovation

Studies and research show that there is a great influence on innovation, entrepreneurship, and management in the airline industry. There is a high need to understand that competitiveness and ticket price is a management issue. However, it must be considered that it is also in relation to innovation (Rothaermel, 2015). The reason for that is quite simple as innovation tend to improve the competitive advantage while the entrepreneurial activity plays an important role in influencing the relationship between demand and supply. In a nutshell, it can be assumed that innovation along with entrepreneurship must be considered as a great strategy for the airline industry.

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