

## Case Study on Qantas of ITS Strategic Management: The High Flyer of the Airline Industry

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**Keywords:** Qantas of ITS; strategy; strategic management

**Abstract:** This paper sets out to apply a series of strategic frameworks or models to analyze the oldest airline in the English-speaking World-Qantas and the whole airline industry in Australia. Through the case study of the Qantas, the necessity and importance of properly implementing strategy according to constantly changing environment. The information and statistics of this paper cited from related books and websites are listed in the references.

### 1. Introduction

Qantas, which is Australia's largest airline, are Queensland and Northern Territory Aerial Services acronym. Qantas Group comprised the aviation business including Qantas Airways (Stock limited liability company, operating international and Australia routes), QantasLink, Jetstar Airlines (low-cost carriers), Jetconnect and Jetstar Asia and other aviation-related business. Qantas identified kangaroo as its logo which stands for reliability, security, advanced technology and Excellent Service.

Qantas Airways, together with its subsidiaries QantasLink and Jetstar, own their route work covering Oceania and extending to Southeast Asia, East Asia and India, the United Kingdom, Germany, the United States, Canada, South Africa and other places. According to the author (Tywoniak & Galvin), in 2003, Qantas ranked as the world's tenth largest airline. Qantas as on of the represent of Australia airline industry has won much success.

This report will illustrate how Qantas could achieve success by timely and appropriately practicing strategies to cope opportunities and challenges to win the game.

Analytical framework being used mainly involves SWOT analysis by Heinz Wehrich (1980s), PEST framework and Porter's five forces, which will be elaborated by some actual cases.

### 2. Environmental Analysis – SWOT Analysis by Heinz Wehrich (1980s)

To analyze the overall environment of Qantas, both its external opportunities and threats and internal strengths and weaknesses should be recognized. The 4 aspects (S, W, O, and T) had separately brought positive or negative effects to the company.

As Kotter and Schlesinger (1991) said, to identify the external environment in which organization operates, it is pivotal to be conscious of the elements that might have a direct impact the organization's supply and demand indicators and its cost. These 4 main factors of political, economic, sociocultural and technological are normally refers to PEST framework.

From 1990 to 1995, the Australian government took two-stages of deregulation successively liberalizing the domestic air services and international markets for competition, which had given Qantas a good opportunity approaching the domestic market, in spite of the threats from the new entrances.

In the end of 1992, Qantas was sold to British Airways by a 24.9% per cent stake for \$665 million. Later, the government recapitalized Qantas by \$1.35 billion to decrease liabilities, which improved Qantas' financial conditions substantially so that Qantas had enough competitive advantage against Ansett that once had been Qantas' arch rival in the Australian market.

The 2000 Sydney Olympics brought both chances and risks for Qantas. The peak demand for travel either benefits these exist participants or was coveted by new entrants such as Virgin Blue

who had been the primary threat for Qantas later especially on international services.

From the Qantas 2003-04 summary profit and loss account (Qantas 2003-04 Annual report), we can see the oil expense was recorded of \$1355.60 million occupying 13.22% of the total expenditure. Economic factors such as influence the fluctuation of oil price, thereby, it could indirectly influence the cost control of Qantas and all the other airlines.

Global financial crisis from 2007 had shocked the airline industry tremendously and had aggravated the industry's falter, which is basically manifested in three aspects - transportation demand's slump, limit of financing capacity, and loss on hedge of aviation fuel. Currently at the advent of the gradual economic recover, airline industry became getting better. However, the international oil price is skyrocketing giving rise to high cost, which brings the airline industry new challenge. "The Soaring fuel price and dropping demand influenced by the swine Influenza land us in a jam." Giovanni Bisignani, the CEO of Air Transport Association (IATA), said in June, 2009. At the same time, Qantas CEO Alan Joyce expressed, "Because of the crisis, the international passenger carrying capacity of May decreased by 9.3%, we will cancel the first class of partial international airlines in reducing the cost."

Australian continent has a vast territory but a small population. People mainly concentrate around several core cities. This makes the Australian domestic market targeted to these densely populated areas.

The popularity of computer in the end of the twentieth century affected almost every industry. It provides a short-term competitive advantage for companies. Qantas had applied information technology to day-to-day operation managing pricing, booking as well as traditional business items like accounts and pay.

Meso level (Industry Analysis-Porter's five forces)

Porter argues that the performances of companies depend on the degree of competition in an industry, with an inverse relationship existing between the degree of competition and the amount of profit that companies in the industry make. A company can identify the opportunity and threat by analyzing the industry structure through Porter's five forces.

## **2.1 Threat of New Entrants**

Within the case, there were two-time waves of entries. Both had piled threats to the Australian airline industry. The first time, because of the government deregulation on domestic and international services markets, Compass Airlines tried to seize the chance wading into, offering a "no frill" and used focused strategy. In this way, the competition coming from the new companies had increased customer's choice and lowered air fares on average to some extent. However, the barriers of entry are significant; Qantas and Ansett had been branded well and owned obvious absolute cost advantage, Compass fell flat finally.

Then the 2000 Sydney Olympic Games created the second wave of entry. Virgin Blue started running from its base in Brisbane, like the former one, it also offered a "no frill" and single-class service and quickly gained 12 per cent of the domestic market. Its lower fares action reduced the whole industry's margin profit and intensified the competition. As a result, Qantas and Ansett had lost some market to varying degrees. To reduce the power threats, Qantas later took the Frequent Flyer campaign increasing the swift cost to maintain its competitive advantage.

## **2.2 Rivalry among Existing Competitors**

Stepping into 21st century, the Australian airline industry became consolidated and appeared two participants, Qantas and Virgin Blue; The Australian domestic market for air travel had reverted to a duopoly. Currently the airline industry has been in the state of transition from maturity and period of decline. As a result of fierce competition, the profitability of airline companies is limited by the low margins can be earned on sales.

Rivals will start competition focus on the low-cost and the scramble for the market started. From the case we it can be certified that Qantas launched its low-cost operation, JetStar in May 2004 to counter the threat of Virgin Blue which had established Pacific Blue, an international low-cost airline.

### **2.3 Bargaining Power of Suppliers**

The degree of this power depends on several variables. Among all of suppliers of airline industry, oil suppliers can be viewed as a primary one. Taking oil suppliers for example, the intensity of oil industry is very high, so airline companies have few suppliers to opt for. Moreover, oil is one of the most essential materials for airline companies and it is difficult to change other types of fuel to substitute. Accordingly, the oil supplier has strong bargaining power for airline companies. Currently because Qantas faces severe competition, oil supplier or other suppliers with strong power are big challenge for airline industry.

### **2.4 Bargaining Power of Buyers**

At the advent of fierce competition of the airline industry, the profit margins is increasing thin. Thus, buyers who are in a position to require lower prices and better services have a strong power of bargaining, and that means buyers now could be regarded as a powerful competitive threat for the airline industry.

In order to weaken this power, Qantas measured the Frequent Flyer program to differentiate its services, by which way Qantas can raise its premium price such as the membership fee gain more profit. Additionally, the method of members accumulating points can increase customers' swift cost to choose other companies effectively.

### **2.5 Threat of Substitute Products or Services**

Airline transportation has distinctive advantage of security, fast speed and high service quality, which other types of traditional transportation such as train and bus can never compare to. In addition, the geographic position Australia located determines that there is no any other transportation can substitute plane meeting customer's needs especially for international travelers. So for airline industry, threat from substitute services could be ignored.

## **3. Internal Environment of Qantas (S & W)**

Qantas' strengths can be identified from two complementary sources, its resources and its capabilities.

### **3.1 Resources**

Qantas is a very profitable corporation, according to the case, during the year of 1995 to 2004, Qantas' annual net profits had increased from \$180 million to \$684.4 million, generating revenue of over \$10,000 million in 2004, nearly 60% higher than that of 10 years ago.

As a member of the one world alliance, Qantas has a good relationship with many strong airlines in the world such as BA, American Airlines. Besides, through the Frequent Flyer programs, a sustainable relationship with customer has also been built.

Qantas, established in 1920, is the world's third-oldest airline company after KLM Royal Dutch Airlines and Avianca Colombia Airlines. The long history, operational excellence and safety have made Qantas well branded and gifted the company a high international reputation.

### **3.2 Capabilities**

Qantas has achieved a high market share. According to the case, in 2004, Qantas domestic group had experienced a 66.7 per cent share, and a 31 per cent share for international group. Qantas uses of information technology to approach day-to-day operation and manage reservation system, and it can avoid errors and build customer loyalty.

Qantas operated its own airport terminals, 3 catering businesses, and several associated airline-related business such as Qantas Freight and Qantas Holidays. Customers can enjoy their journey sufficiently.

### **3.3 Weaknesses**

Qantas accounted for relatively large share of both domestic market and international market, it

is difficult to avoid that some areas will lose control in spite of its strong information technology system.

#### **4. Critical Success Factors of Qantas (CSF)**

Main environmental factors and Qantas' distinctive competencies have been identified above. Basing on those overall analyses, the key success factors of Qantas would be recognized as follow.

- Sensitivity to constantly changing market demand
- Understanding of rivals' competitive advantage and strategies.
- Ability to deliver high value proposition to customers
- Capacity of innovation development
- Human resources development and management

#### **5. Qantas' Strategies in Place**

Qantas has always been in consideration of customer needs and product differentiation, market segmentation, and its distinctive competencies. Each subsidiary of Qantas group has its own target market and implements different strategies. Qantas met with success depend on multipurpose use of the cost leadership strategy, differentiation strategy and focus strategy.

Qantas launched its own low-cost rival to counter Virgin Blue in May, 2004. JetStar targeted leisure travelers by offering 'no frills' services, a single class, and every day low fares. By the end of 2004, it certainly took away from Virgin Blue on certain routes.

Unlike other common cost leadership strategy, Qantas launched 'Sustainable Future' aiming to decrease its cost which can be more stainable than only lowering price. The program includes reduction of IT cost through corporation with IBM, delocalization of staff, decrease of overseas accommodation cost and away-from-home allowances which helped Qantas yield \$512 million of savings in 2004-06.

Qantas use 'Frequent Flyer programs' to make its service differentiated, and members can accumulate points through flying with Qantas and OneWorld alliance. The more points they get, the more extra benefits services they could receive. By this way, company can either command a premium price to be profitable or establish a stainable customer loyalty.

Qantas has capability to productively deploy resources to improve overall efficiency and strengthen its competitive advantage.

In 2004, Qantas launched a follow-on TV advertisement, 'I still call Australia home'. Through the spread of spirit, Qantas could be more branded well and be able to attract more customers.

Information Technology played a key role in Qantas day-to-day operation, reservation, frequent flyer accounts and some other functions. Also, it had relationship with IBM and Telsa, and it is good to Qantas access to the latest technology with low cost.

Qantas ran a 1300 telephone sales operation 24 hours a day to get through customers, and it also use website to access. These diversity channels can minimizing the response time and satisfy customer needs well.

Additionally, Qantas uses strategic alliances to strengthen the total competitive power; Qantas has a good relationship with many strong airlines in the world such as BA, American Airlines. This can be identified the corporate-level strategy.

#### **6. Recommendations and Justification for Qantas**

The company should be aware of the importance of individual ability to the whole organization. employees directly access to the customers and their performance directly present the service quality. Regulated training is necessary and are beneficial to the improvement of service quality and strengthens its competitive advantage.

In addition, establish correct relationship with employees is also very important because it involves the staff loyalty. This can be achieved by some reward system to motivate employees

devoted themselves to work.

With the increasingly severe competition, company should constantly meet the clients requirement. The best way is develop new service. For example, the company can develop a new business accommodation class especially for some businessman who do not like noisy surroundings of common business class but can not afford the first class.

Sufficiently take advantage of mass media to communicate with the passengers. It can be internet, TV set, promotion brochure, advertising leaflet and so on. In a word, deeply impress the strategy to your customer by using of all the approaches.

Global financial crisis had shocked the airline industry significantly, and high level of strategic corporation could effectively avoid price war and improve industry competitive level. Correspondingly the industry can develop stably and healthily.

## 7. Conclusion

In conclusion, Qantas, as the strongest company of Australia airline industry now, had owned many favorable competitive advantages, now, considering both the external environment and internal environment. Qantas should tailor its strategies to meet constantly changing market to positively meet more new challenges.

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