Strategy for Tourism

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5 The External Environment: Competition

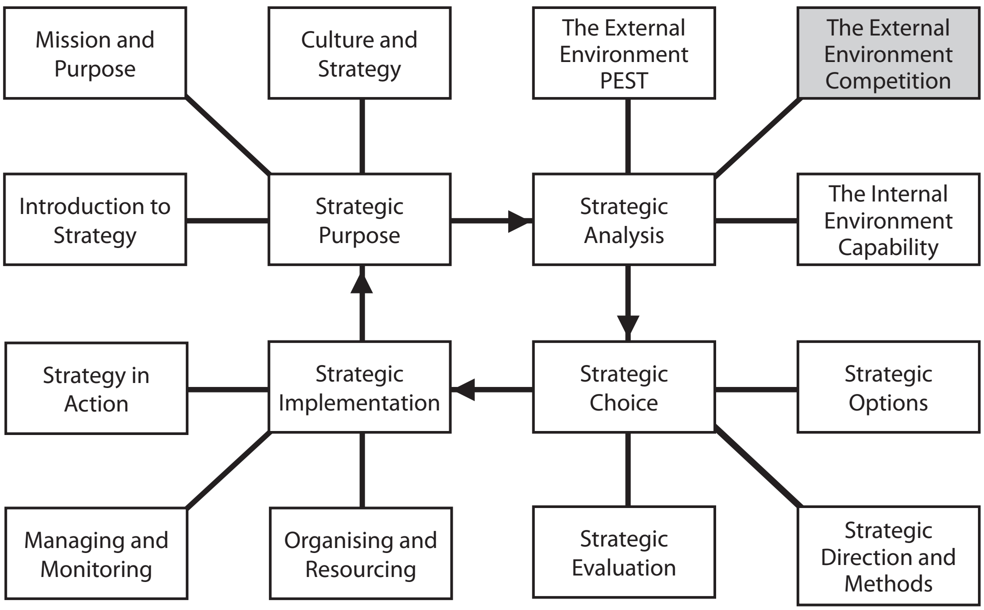

Figure 5.1

Learning outcomes

After studying this chapter and related materials you should be able to understand:

- Industries, markets and strategic groups
- Porter's five forces
- Competitor analysis
- Destination competitiveness

and critically evaluate, explain and apply the above concepts.

Introduction

Competition analysis is used to reveal the opportunities and threats that exist in the competitive environment within the tourism industry. It may be conceived of as the extent of influence of tourism organisations or destinations upon one another as well as the effects of their suppliers and buyers.

The analysis of the competitive environment which follows is divided into a number of sections. First the idea of an industry or market is examined in order to identify the competitive boundaries within which any tourism entity operates. As part of this, the concept of strategic group analysis is introduced to enable a tourism entity to identify its key competitors in specific markets. Next, techniques of competitor analysis are introduced so that profiles of key competitors can be constructed. Following this Porter's five forces framework is used to analyse the competitive forces that act upon tourism entities. This allows a framework for competitor analysis to be introduced and finally the specifics of destination competitiveness are examined. Case study 5 illustrates these points through an analysis of the global airline business where deregulation and the arrival of low-cost carriers led to intensified competition.

Case Study 5: Global Airlines

Competition in the airline industry is intense. But it hasn't always been so. For a long while the 'legacy carriers' (carriers such as British Airways, American Airlines and Lufthansa), which were founded before the deregulation of the airline markets, were protected from competition by regulation that included protective entry barriers and price agreements brokered through the International Air Transport Association (IATA). Consumer choice was limited, markets were stable and prices were relatively high.

But the 1978 Airline Deregulation Act liberalised national aviation markets in the USA opening them up to competition. Subsequently the EU aviation markets were deregulated in the 1980s and 1990s and the USA and EU agreed on the Open Aviation Area in 2008. Other international markets however are still regulated to different degrees.

Deregulation ushered in wave after wave of 'low-cost carriers', notably South West Airlines in the USA and Ryanair in the UK and the airline industry was rocked by the low-cost revolution. Low-cost carriers offer no-frills services and hence not only low costs but also low prices. In fact so low that Ryanair frequently offers free flights from the UK to Europe. The low-cost revolution has meant that whilst many 'low-cost' carriers have reported increased passenger numbers, load factors and profits, several legacy carriers exist precariously on the edge of bankruptcy, and others have been forced into alliances and mergers to survive. KLM was taken over by Air France, and BA has merged with Iberia. Several legacy carriers set up in-house low-cost airlines to compete with the upstart airlines. For example in 1995 Air New Zealand set up a subsidiary, Freedom, which operated between New Zealand and Australia. Freedom was successful in putting out of business, Kiwi Airlines, its new independent low-cost competitor. But Freedom Air was eventually discontinued with