

Analysing Virgin Atlantic's Competitive Environment Using Porter's Five Forces

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Virgin Atlantic is a British airline that operates internationally as part of the Virgin Group (Virgin, 2018a). This paper will look at Virgin Atlantic as an airline using Porters Five Forces (2008) to analyse the effect of the competitive environment and its intensity. Porter's (2008) model states there are five forces that impact upon the intensity of an organisations competitive rivalry: supplier power, Substitution, threat of new entry, buyer power, and existing competitive rivalry.

The aviation industry is dependent on a variety of suppliers: fuel, engines and on 'board entertainment systems' cannot all be sourced from the same supplier - sometimes even using a variety of suppliers for the same product. Virgin Atlantic has used Rolls Royce engines in the most recent years. Suppliers such as Rolls Royce not only supply the initial product, an engine, to the airline but can sometimes continue to supply services such as engine maintenance for the airlines (Rolls-Royce, 2016). Virgin Atlantic's fuel supplier was not identified, however Virgin (2018b) have revealed connections with Lanzatech for the future. While the ability to find all the suppliers for an organisation such as virgin atlantics is limited Airline Suppliers, (2018) states that virgin Atlantic use suppliers such as Clip LTD., Beadlight Aerospace and Visasat for their entertainment services, inflight comfort items and cabin lighting. Virgin Atlantic source their inflight food and beverages from a variety of different sources including but not limited to, Gasnomia Frost and MV Food and Services.

Both the fuel industry, and engine manufacturers, for airlines are dominated few large organisations, meaning it is difficult for an airline to 'shop around' and their suppliers are not likely to be easily negotiated on price. Hamilton and Webster (2015, pg.89) state that this gives these major suppliers a large amount of power over Virgin Atlantic but also their competitors.

Gayle and Wu (2013) argue that the threat of new entry within the airline industry is limited to pre-existing airlines. There would be a threat of an existing airline creating a new route, for example London to Paris, however this would only be possible if the airline already had a 'Hub' at least one of the destinations. The threat would increase if the competitor had a Hub at both destinations. This type of threat is more significant to Virgin Atlantic than an entirely new airline, when considering the threat of new entry into any industry the effectiveness of the various barriers that exist to a new company's entry. Sloman, Hinde and Garratt (2013 pg.204) state that these barriers include but are not limited to: the economic scale and scope, capital requirements and legal protections, the costs associated with creating a new airline could be considered enormous, along with the difficulty associated with the legality of running an airline. However, both the costs and difficulties can be reduced if an existing airline branches out to create another airline targeted at a different demographic. An example of this would how Thai-Airways branched out to create Tiger Airways. Asia News Monitor (2018)

Harvard Business Review (2014) state that due to the buyer wanting to pay less and get more the competition within the airline industry is fierce. Buyers are just out to get the cheapest deal; Consumers are not loyal to an airline as a flight isn't something most people purchase on a regular basis. Hamilton and Webster (2015, pg.88) argue that the slight variation in product an airline can offer, such as different weights of baggage, and better quality inflight entertainment puts them at a disadvantage when trying to keep their prices similar. However, Hamilton and Webster (2015, pg.89) state that organisations that don't depend heavily on individual customers will have reduced buyer power, this is due to the volume of customers seeking their services. Virgin Atlantic as a passenger airline won't have many big contracts with other companies reducing the buyers power.

Johnson, Scholes and Whittington (2011 pg.82) argue that substitution can affect the demand of a product or a service in a negative way, this can sometimes happen to the extent that the product or service initially being offered can become obsolete. While this is not currently applicable for the aviation industry due to the distance travelled and the convenience especially related to time convenience that air travel offers. Virgin Atlantic are an airline that offers mostly long-haul flights (Virgin Atlantic, 2018) so the threat of substitution with either train or boat is insignificant unlike short haul airlines where the threat of being substituted by both high-speed trains (HST) and boats is significant. HST such as the Eurostar that travel between London and Paris already exist and this is competition for the short-haul flights on these routes (Givoni and Banister, 2006)

Virgin Atlantics has an extensive number of competitors. Due to this papers limitation, not all of the competitors can be considered, however, some of their main competitors are; Qantas, Etihad Airways, British Airways, and Emirates. These airlines offer the same services and target the same demographic as Virgin Atlantic. Harvard Business Review (2014) state that the pressure put on airlines like Virgin Atlantic by the large amount of competition could be crippling and make it continuously hard to keep up with one another and the deals being offered.

Sloman, Hinde and Garratt (2013 pg.204) argue that the intensity of competitive rivalry is increased when, firms are of equal size. Most of Virgin Atlantics competitors are of equal size. There are high costs associated with aviation these are mostly evident in the extensive taxes that must be applied to every ticket. Product differentiation is harder to achieve for long hauled flights. This can make it very easy for consumers to switch between airlines, to find the best deal. Harvard Business Review (2014) indicates that everyone's profitability will be reduced by intense competition. This competition causes airlines to have to defend their small profit margins. They do this by adding fees for extras such as; excess baggage, extra legroom, and in-flight meal. This a causes a high competitive rivalry amongst Virgin Atlantic and their existing competitors.

This paper has highlighted that both suppliers and existing competitive rivalry have a large impact on Virgin Atlantics and companies of their type. Also Indicating that the threat of new entry and substitution to Virgin Atlantic are low. While buyer power to Virgin Atlantic remains moderate in comparison.

It's important to take into consideration the Limitations of the Five Forces Model one of the limitations is highlighted by Sloman, Hinde, and Garratt (2013) that a business's environment is constantly changing, and this model only allows a very static view.

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