

Operations Analysis (M6x01290)

Assignment 1:

Critically assess the development and strategic importance of operations management.

Norwegian airline company



I declare that this assignment is all my own work and that I have acknowledged all materials used from the published or unpublished works of other people. All references have been duly cited

Abstract:

In this writing we will study the five objectives performance (Slack). To illustrate these objectives, we have the low-cost airline company: Norwegian. To understand the function of these objectives, we will seek to understand how the business works with examples.

Summary

Summary	1
Introduction:.....	3
Nature of Norwegian products and services.....	4
For whom?.....	4
Customers' expectations.....	4
The Five performances objectives.....	5
Objectives and definitions of the five performances objectives.....	5
Quality	5
Speed	5
Dependability	6
Cost.....	6
Flexibility.....	7
Scheme about the external and internal general effects of the five performance objectives:	7
Real example: Norwegian company airline.....	8
Quality	8
Speed	9
Dependability	9
Cost.....	9
Flexibility.....	10
Star representation of the fives objectives performances:.....	11
Potential Issues recommendations	12
Conclusion	13
Bibliography.....	14

Introduction:

The only things that could hinder our competitiveness would be if we were getting worse or if one of our competitors was better than us. But if we look at the market to find out what's missing, as long as we listen to consumers and offer them more service, we'll make progress [Alain Afflelou, Businessman in France].

What is the **competitiveness**? The competitive adjectives qualify what relates to the **competition**. If the company can **support the competition**. It is the aptitude of a company to be in competition with other companies and be the best. To help this companies to improve their competitiveness and to satisfy the customer, five performances objectives are created: **Quality** [being right], **Speed** [being fast], **dependability** [being on time], **flexibility** [being able to change] and **cost** [being productive].

To illustrate these five objectives performances, I choose an example which try to work on these five performances: Norwegian **low-cost** airline company. With 37 million of passengers in 2018, Norwegian occupies the third place in Europe and the fifth in the world. It is a company with a young fleet (3,8 years old), with a lot of choice of destinations (500 roads in destination of 150 different places: Europe, North of Africa, Thailand, West Indies, North of America and Middle East]. In more, Norwegian airline company employed 11 000 persons in total.

In first place, we will study about the nature of services offer by Norwegian and what the customers want. Secondly, we will work about the five objectives performances with examples and we will ask ourselves the question if it is a good think to balance these five objectives performances. To finish, we will search eventual solutions about issues.

Nature of Norwegian products and services

The principal service of an airline company is to transport passengers and/or freight. The companies rent or buy (sometimes both) planes to offer services of customers.

During the fly, the company can offer food or drink, in certain case movies or/and private service (first class). However, Norwegian is low-cost company (it is economic model, the principle is to break the price, reduce the cost to offer a product or service at the lowest price possible to customers). For all option you need to pay, like the supplement baggage.

To buy a ticket or more options (after-sales baggage service), you must go on the Internet. Indeed, to win on the staff, Internet is the only way to buy a ticket. The most important point for the company Norwegian is to transport from A point to B point without problem, with comfortability and with reduce price.

For whom?

It is a service for everyone who bought ticket: children, teenagers, adults, holds persons, peoples with or without handicap, professional or travellers.

Customers' expectations

Without customers, all companies cannot work. But without airlines companies, customers cannot travel. Our generation is known for its demand. The world's population has become demanding. It is more in more difficult to satisfy everyone.

Comparative sites have begun to help customers compare **prices**, **destinations** and **services**. Customers can **choose** according to their preferences and see promotions and offers offered by companies (often well appreciated and good publicity).

Some travel can last several hours, it is indispensable that the seat will be **comfortable**. The quality of planes it is very important to ensure the pleasure of the customers. In more, the **punctuality** of the plane it is important for the company (she can lose money with damages/indemnities) and for the customer because the delay can cause stress and discontent.

To finish, the company can create **other services** to help the customer like the bus between airport and city or parking, service after sales, service to help persons with handicap or for

elderly peoples (access to the plane or place in the plane). Every extra service can make the difference.

The Five performances objectives

To reach its goals and optimize decision-making, companies can use these objectives: quality, speed, dependability, cost and flexibility. All these objectives have a different impact and permit to get strategic and/or competitive advantages.

Objectives and definitions of the five performances objectives

Quality

“A product or service of quality is a product whose characteristics allow it to meet the expressed or implicit needs of consumers” [AFNOR definition].

“The airline companies which supply more quality services have more satisfy customers and, per consequences more passengers than the companies with not satisfy customers.” [Kham and Kham, 2013 – Article: An investigation of customer satisfaction with low-cost and full-service airline companies]. The customer satisfaction is an **indicator** of repeat purchases and word-and-mouth recommendations. A low-cost quality company depend about different things: the **employees** services (smile, politeness), **comfortable** plane (chair, space, appearance of the plane...), **website** (quality of the website, easy) and the **options** offer in the plane during the fly and also for the travel (baggage, parking, food, beverage, magazine, television, light...). It is important to know that the expectations for the low-cost airline company are **less strict**. Indeed, the rapport **quality-price** is **different**. If you pay more, mistakes are less well accepting than if you pay less. The principal goal for low cost-cost company is to offer a minimum service with **reasonable price** for the satisfaction of the customer.

Speed

“Character of what is accomplished in a very short time: speed of a decision. Character of someone who acts with promptness: speed.” [Larousse dictionary]

Airline transport is the faster transport for a long distance. The speed doesn't change between the different companies, but it is the types of planes which do the difference. For example, the Boeing 747 flies at 915 kilometres per hours and the Boeing 737 flies at 840 kilometres

per hours. We can talk about the speed of the services; indeed, customers don't like the long wait line. Employees must be fast to reduce the time (for example the wait line for the baggage check-in, identity check-in...).

Dependability

"Dependability that a primary part, device or complete equipment will be used without failure for a specified period, under specified operational conditions. (The reliability is expressed by a duration which corresponds to the average time between two successive failures, or T.M.B.F. [average time of good functioning].)" [Larousse dictionary].

But we could define reliable low-cost company like a company that does not arrive late or has no travel cancellations. Low-cost airlines are compared with a compensation rate. This compensation rate makes it possible to know if the company is often late or cancels the flights. Higher the rate is more reliable the company is. However, if the rate is low, the company is reliable.

Cost

"Exchange value, in money, of a good, a service" [Larousse dictionary].

A low-cost airline is known for offering low cost journeys. More accessible prices. We can have a price difference between low-cost companies and others can go up to 50% difference. Several methods are used to reduce costs. In fact, low-cost companies reduce the salaries of employees (15% less on average), reduction of time, all options are paid (food, luggage ...), use more recent aircraft to have fewer repairs and less fuel and employee training for only one type of aircraft (this allows you to concentrate training on a single type of aircraft, have a shorter training time and therefore cheaper).

The principal goal for a low-cost company is to offer "low-cost", accessible cost for everyone. The price is compared to the quality. The higher the price, the better the services. But in the case of low-cost airlines, competition is by having the lowest prices with the same service. The lower the price, more it attracts.

Flexibility

“The ability of an economy, a company, etc., to adapt quickly and efficiently to changing market conditions (lower demand, changing customer tastes, etc.)” [Larousse dictionary]

For a low-cost company, we could define flexibility like a company which offer many different destinations with different prices and different dates. Thanks to these different choices, the customer can choose according to his needs. In more, all customers are different, and do not need the same services. It is up to the business to find flexible options to offer a serene journey to the customer.

Scheme about the external and internal general effects of the five performance objectives:

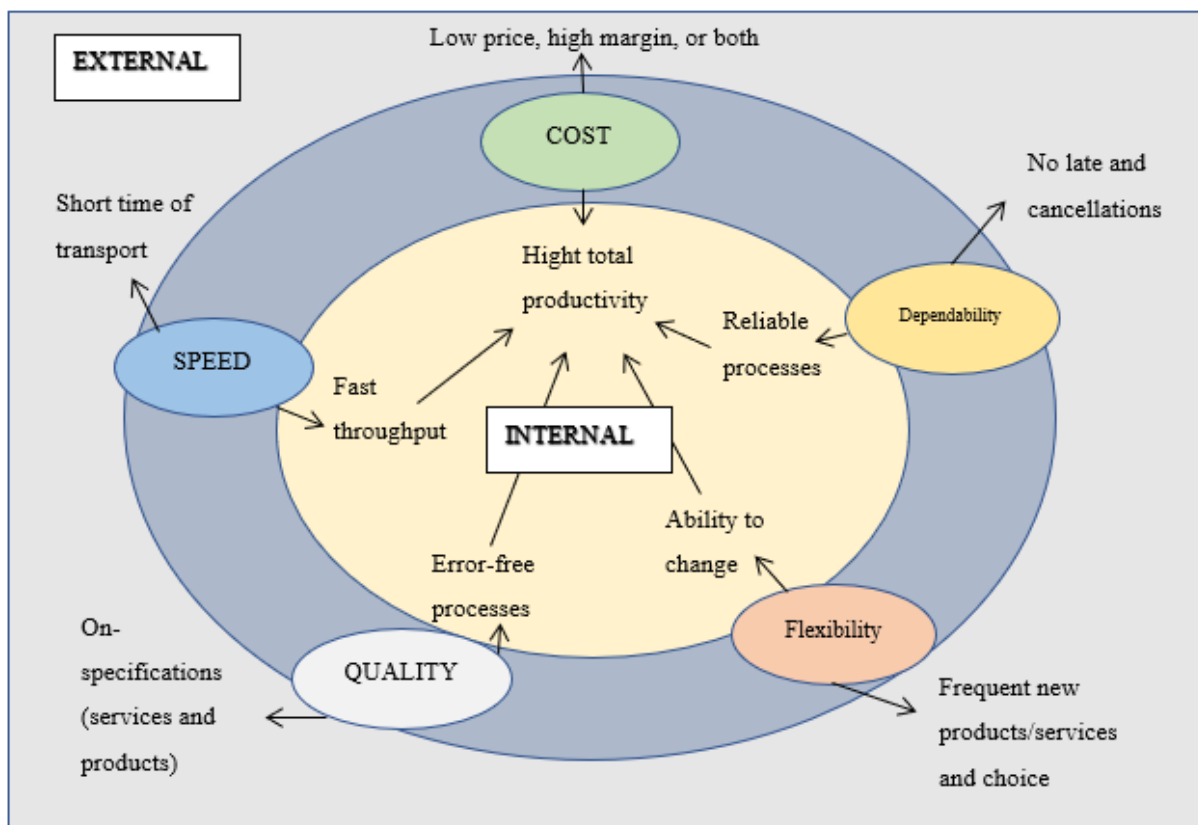


Table 1: effects of the five performances objectives (Operation management-sixth edition-Nigel Slack, Stuart Chambers, Robert Johnston)

Real example: Norwegian company airline

Quality

Norwegian airlines company would become the best low-cost airline company. Followed by EasyJet airline company, Norwegian place itself in second place after AirAsia in the ranking of the 10 best low-cost companies in the world. Ranked first low-cost airline company in Europe in 2018 since six years and first low-cost airline company in long haul in the world since four years, Norwegian was able to show a good quality to customers. Thanks the customers services, Norwegian win the price “Passenger choice Awards” in 2018. This price means the best global experience of transport of passengers with low-cost in Europe. The customers service doesn’t do everything; indeed, the customer comfort is very important during the fly. Norwegian includes 171 planes in this fleet: thirty-five 787 dreamliner, one hundred eighteen Boeing 737-800 and eighteen Boeing 737 Max 8 (with silent motor, reducing aircraft noises by 40%). The Low-cost defect is the space between the chairs. Indeed, the space is quite limited because the objective for low-cost company like Norwegian is to win money. More the aircraft is full, less money is lost. But “the chairs stay comfortable” [tripadvisor opinion].

The quality of options is also important. With Norwegian airline company, all of the options (food, beverage, choose your seat, excess weight of a suitcase, headphones, blanket, television, film, ticket cancellation...) are paying. It is normal to receive a minimum service after paying. The most of the Dreamliner aircraft is television during the long haul (highly appreciated) and the physical appearance of the aircraft that attracts the customer.

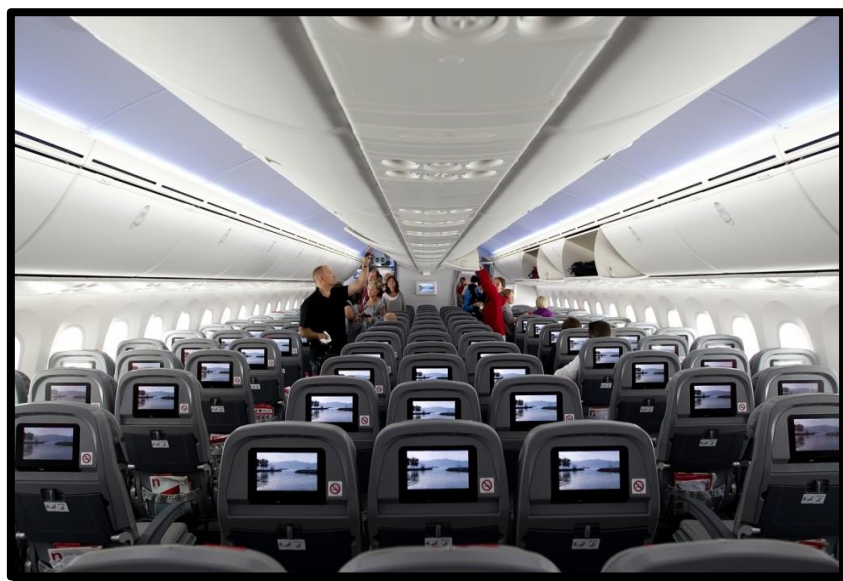


Figure 1: 787 Dreamliner with Norwegian company airline (inside)

Speed

The airline company customers would go far and fast. Norwegian can offer this with reduce prices. Thanks to these three different types of aircraft, the company can offer three different cruising speeds:

- Boeing 737 Max 8: the maximum speed is 935 kilometres per hour.
- 787 Dreamliner: the maximum speed is 945 kilometres per hour, but the average speed is 913 kilometres per hour.
- Boeing 737-800: the maximum speed is 858 kilometres per hour.

The 15th of January 2018, one of the thirty-five 787 Dreamliner realize the record of speed between New-York and London (article: A Norwegian Airline Claims to Have Set a New Record for New York to London Flights). The passengers won 53 minutes during this fly. But despite the speed of the travers, all customers are wasting time before and after the travers. Indeed, Norwegian company request to be minimum one hour before the travers for the check-in. Unlike the train, for example, which require to be ten minutes before the arrival of the train.

Dependability

With 87.7% filling rate between January and July 2017, Norwegian company airline occupies the 8th place in the ranking of low-cost airline fill rates. The first place is dedicated by Ryanair with 96%. Dependability could prove itself with the 37 million of passengers in 2018, an average of 101 370 customers per days. In more, we can add the performance of Norwegian in the dependability ranking, indeed, Norwegian place itself at the 12th place with compensation rate of 0.91% and cancellation rate of 0.53% in summer 2018. The first place is dedicated by Transavia with compensation rate of 0.13% and cancellation rate of 0.02%.

Norwegian airline place itself in the good rank, but the difference with the results of Transavia is important.

Cost

The price for one reducing ticket depend of lot of restrictions. Customer who want a low price will choose airline company like Norwegian for the price. He will choose the cheaper price. With 7000 employees paid 15% cheaper than the big companies, the beginning of the restrictions begin. However, the other restrictions will be to the benefit for the company. Everything pays off. With the meal at 35 euros (mini entrance, hot dish, no pain, dessert and

beverage) to reserve 72 hours before the fly. Apart from movies, you need to pay blankets, earplugs, headphones, excess luggage... With these options, revenues increase by 15%.

Norwegian plays also on the planes. There are young. With an average age of 3.8 years old, Norwegian wins on aircraft reparations, the maintenance, fuel, energy... Indeed, they are new aircraft, with technological advances that allow to consume less. In more, aircraft are smaller (Boeing 737 for example), this allows to land at secondary airports where airport taxes are cheaper: “lower halves” (article Challenges – website).

Norwegian despite additional costs for all options for travellers, saves money with restrictions.

Flexibility

Norwegian airline offers 400 routes in 130 countries: Europe, Asia, North of America. Rates vary according to need, by country and the season. Indeed, the prices increase in winter for sun or snow travel, and summer for near sea travel.

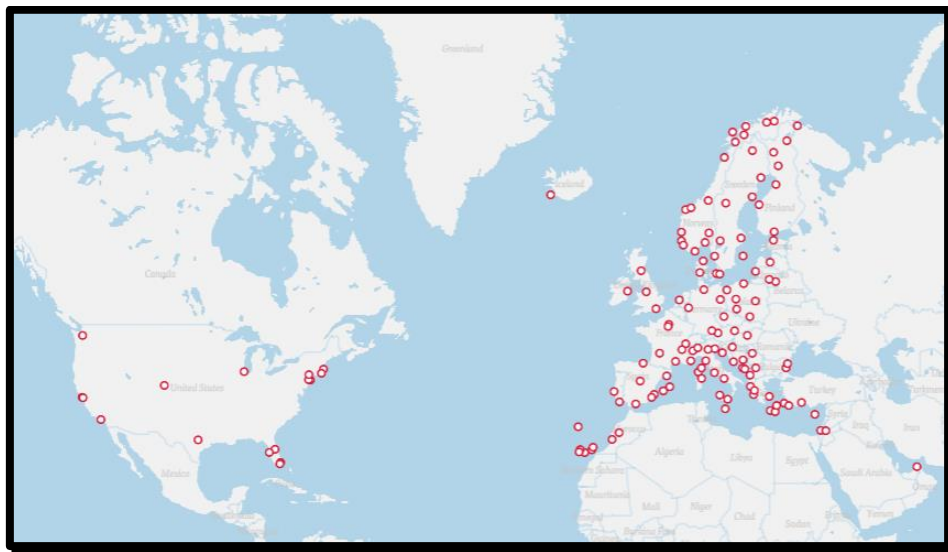


Figure 2: destinations map with Norwegian (Norwegian website)

In the website of Norwegian airline, you have the choice between the price (minimum 20£), the temperature (between -15°C and 30°C). Depending on your choices, the company offers you destinations.

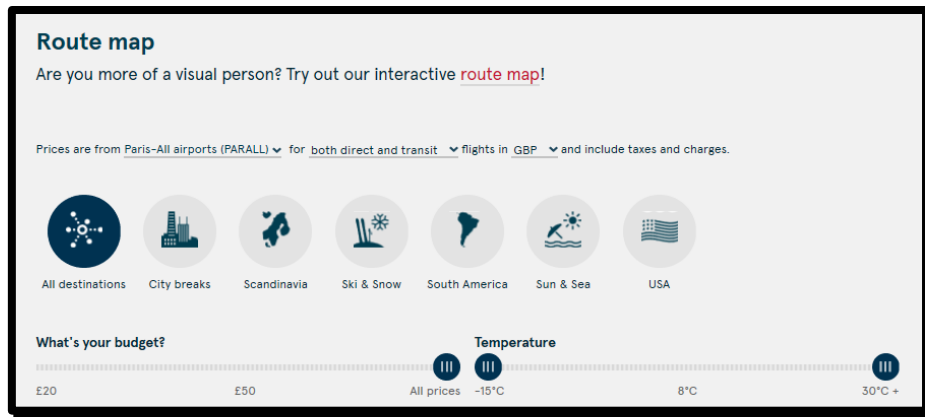


Figure 3: Destinations offer by Norwegian (Norwegian Website)

Star representation of the fives objectives performances:

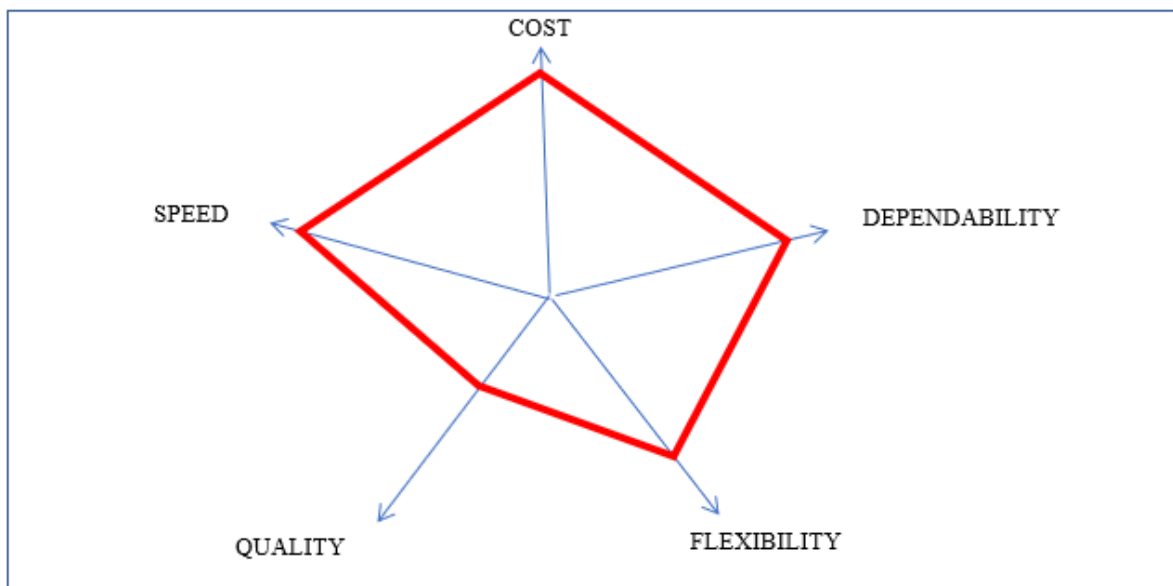


Table 2: importance of the 5 performances objectives – handmade (Marine RIO)

The expectations of a Norwegian customer are less important than that for Air France for example. The customer seeks to travel in good conditions (comfortable seat, smiling stewards, and when the customer pays an additional option, receive good quality).

About speed, customers choose aircraft because they can go far and fast. Unlike a waste of time before and after the fly, aircraft is faster. For example, from Bristol to Edinburgh, the time of fly is one hour and ten minutes. When you take the bus is 9 hours 38 minutes, with the car 6 hours and 40 minutes and with the train is 5 hours and 51 minutes. So, if you add the hour before the fly and thirty minutes after the fly, the trip lasted only 2 hours and 40 minutes.

However, if the low-cost company cancel or is late, the times of the travel is longer. Even though the customer pays less for the ticket, the late and the cancellations are not appreciating. Customers buy ticket cheaper because there are ready to have the travel less comfortable, and not for to lose times. The price is very important for the customer. It was from this point on that price comparison websites existed. The customer chooses low-cost company airline for the price and not for the services during the fly. Low-cost company airline with a lot of choices will be appreciate. Indeed, offer a large choice of destinations with low-cost is an asset.

This scheme represents these five performances objectives with their importance. The customer will choose Norwegian because he would like to travel fast and far, and he will find the destination that he wanted with low-cost. He will agree to withdraw comfort during his trip but hope not to have any delay or cancellation

Potential Issues recommendations

Low-cost tends to be confused with poor quality. The companies were trying to link quality/price to satisfy the customer as best as possible. Low-cost is not always with the cheaper price possible, but with a lower price than competitors with the same service (or almost). However, options offered by Norwegian, prices could exceed a limit. Indeed, with the meal at 35 euros by Norwegian (mini entrance, hot dish, dessert, beverage but no pain), the price is to much expensive. For example, Air France, despite her fames, the meals are between 12 and 28 euros. Meal at 12 euros offer entrance, hot dish, dessert and pain (Italian menu) and the meal at 28 euros offer entrance, hot dish, dessert, cheese and pain (Fauchon menu – prestigious restaurant in France). The beverage is offer. Paid 35 euros for meal while there is a meal between 12 and 28 euros better does not do good publicity.

The other options like the headphones, blankets... are offer in traditional airline companies. It is understandable that low-cost airlines do not offer the options because they lose money when selling tickets. But wouldn't it be better to offer options at more affordable prices?

Conclusion

Suhartano and Noor (2012) show that the customers travel with traditional companies are more satisfied than the customers who travel with low-cost companies. They receive more services because they paid more. Customers who choose Norwegian airline know that there are less comfort and services than a bigger company. In return, he will have cheaper ticket. The low-cost model can degrade the image of the company despite the quality of the services. So far, there are only two objectives performances which is reversed between these two types of airline companies: the price and the quality. In the low-cost model, customers will favour the price (low) compared to the quality and in the traditional company, customers will favour the quality compared to the price. Concerning the three other performances objectives, in the types of companies the customer wants to travel fast, with choices but without late or cancellations.

Bibliography

Website

<https://fr.wikipedia.org/wiki/Norwegian>

<https://larousse.fr/>

https://www.voyagespirates.fr/revue-voyage/nouveau-classement-mondial-des-compagnies-aeriennes-1_19255

<https://media.fr.norwegian.com/pressreleases/norwegian-affiche-un-resultat-d1-milliard-de-nok-ainsi-quune-augmentation-du-nombre-de-passagers-au-3eme-trimestre-2017-2233779>

<https://www.norwegian.com/fr/a-propos-de-nous/notre-histoire/notre-flotte/>

<https://www.vol-retarde.fr/blog/2018/03/01/quel-est-le-taux-de-remplissage-des-compagnies-aeriennes>

<https://www.linternaute.com/voyage/transports/1400846-top-30-des-compagnies-aeriennes-les-plus-fiabiles-de-l-ete-2018/1401598-n-12>

https://www.challenges.fr/entreprise/transports/comment-norwegian-veut-secouer-le-marche-des-long-courriers_479064

https://www.airfrance.fr/FR/fr/common/resainfovol/achat/menu_a_la_carte.htm

Article: An investigation of customer satisfaction with low-cost and full-service airline companiesKos Koklic, Mateja ; Kukar-Kinney, Monika ; Vegelj, Spela / Journal of Business Research, November 2017, Vol.80, pp.188-196

Book: Operation management-sixth edition (Nigel Slack, Stuart Chambers, Robert Johnston)

Article: A Norwegian Airline Claims to Have Set a New Record for New York to London Flights.Barron, Laignee ; TIME USA, LLC; Time.com, 2018, p.12-13