

CHAPTER II

COMPARATIVE ADVANTAGE

Airbus brands are well known in the airline industry, they brand themselves as a company that delivers quality to the customer while staying true to their core values, such as customer focus, integrity, respect, creativity, reliability, and teamwork (airbus.com, n.d.). The organisation made a devotion to create top notch products and constantly ignites innovation to continuously improve their quality. It is crucial to know the competitiveness of Airbus in the aerospace industry market.

2.1 Airbus in the Aerospace Industry

The competition in the aerospace industry is fierce between Airbus and Boeing, as they are fighting for power. Despite the ongoing competition, both Airbus and Boeing in terms of sales are already at their maximum request order. Airbus recorded 6700 orders which is the same as 9 years of production, and Boeing recently closed their order of the 737 MAX aircraft with the total value of 27 billion euros, however, Airbus's order reached above Boeing's purchase order (Aerospace Technologies, 2020).

The two competitors, Airbus and Boeing, now are seeking to focus on **Aerospace maintenance industry** (services market) which is estimated at 2,600 billion USD in value in over the next twenty years, Airbus offers FHS program package to their customers for their A350 aircraft (Flight Hour Services, n.d) , meanwhile Boeing offered a similar approach with its "GoldCare" program for their 787 aircraft (Boeing 2011).

One of the strengths that an aerospace company has is in the simplicity of the supply chain, due to its relevance to the maintenance cost that the customers need to spend after purchasing the aircraft (Sia-Partner.com, 2018). Currently Airbus is offshoring 50% of its aircraft components, meanwhile Boeing at 70%. The lower the number of offshore products

means a better and simpler supply chain, this would add more benefit in the maintenance of the aircraft, and could lead to a lower cost of production (Sia-Partner.com, 2018).

Airbus currently aims to reintegrate certain in-house activities to eliminate excessive margins and to maintain their technological leadership (Airbus, n.d.).

2.2 External Point of View in the Aerospace Industry

To gain a better understanding of Airbus's position in the aerospace industry from an external point of view, Porter's five forces could be implemented. It is a good tool to be used to identify the company strategy's potential profitability (Mind Tools, n.d.)

- **Bargaining Power of Suppliers:** Airbus relies on a large global supply chain to support their production lines. 7700 suppliers are utilised as a part of the supply chain with most of them being major companies with financial clout and heavy influence such as Siemens, Honeywell, Rolls Royce, and other industrial partners (Airbus n.d). On the overall, the bargaining powers that these companies have is **low** since Airbus is a major buyer (Notes Matic, n.d.).
- **Bargaining Power of the Customers:** In the aerospace industry, the demands that the customers have are various and they often demand aircraft that have many technological advances, such as great fuel efficiency, and safety rating (AerospaceTechnology.com, 2020). Since in the industry there are only 6 companies that can be called a major player, and Airbus is on top of the list, it can be said that airbus has no major obstacle in delivering the customer's demands (Sia-Partner.com, 2018). However, due to the high demand and the constant updates of requirements by the customer's, it can be said that the threat is **moderate** for Airbus.

- **Threat of Substitutes:** The threat of substitutes is relatively **low**, even though the demand for excellent quality aircraft has kept growing, the companies that can deliver such products and can compete with Airbus are only a handful (Sia Partner 2018).
- **Threat of New Entrants:** The standards or barriers of entering the aerospace industry are high. For any companies that are trying to enter the competition needs to possess a large financial power and skilled human resources (Porter, 2008). Even if there are new companies that can accommodate all the requirements to enter the aerospace industry, the trust that customers must major brands such as Airbus, Boeing, and Bombardier, etc, is hard to compete (Schonland, 2020). Therefore, the threat of new entrants for Airbus is **low**.
- **Level of Competitive Rivalry in the Industry:** The competition in the aerospace industry has grown fiercely. The major players in the industry are fighting over technological leadership (Notes Matic n.d.). Therefore, the level of competitiveness in the industry is **high**.

2.3 Strategic Competitive Advantage Through Inside-Out Strategy

Airbus is using an **inside-out strategy**, due its emphasis on product quality, determined by its safety rating, meticulous supply chain, and their own technological innovation.

Airbus also has an advantage of having the **MRO (Maintenance Repair Operation)** networks across the globe and partnered with many airlines to operate the maintenance facilities.

By looking at Airbus's aim to simplify their supply chain to provide more value to the customers, it is crucial for airbus to focus more on their internal values. The tools that could be used by this company to analyse their internal capabilities is the VRIO analysis.

Resource within a company could be regarded as a strategic advantage if it provides the company with a long-lasting competitive advantage. To achieve the strategic competitive advantage, some conditions must be met (Barney, 2006).

Initially the method was developed by Barney, J. B. (1991) in his work 'Firm Resources and Sustained Competitive Advantage', where the author stated that a company should possess four attributes in their resources to become the source of sustained competitive advantages. He stated that a company's resources must be valuable, rare, imperfectly imitable, and non-substitutable.

- **Value:** The conditions that could give the company the greatest value is the one that have access to reach a wider range of markets and could provide the company's product value to the customer's perspective. Currently, one of the greatest values that Airbus has is the brand image (Beaugency, 2015). Recently, in the last few years, Airbus largest competitor, Boeing, are facing a major shake on their brand image, due to Boeing "737max" accidents that occur in a short span of time, this tragedy causes Boeing to lose their customer's confidence in the brand (Derrick, 2019).

Moreover, Airbus has one of the largest chain of **MRO** facilities all over the world, currently, the largest MRO facilities was built in Thailand in cooperation with Thai Airways to serve the large airlines market in South-east Asia (Sia Partner 2018) . Another value that Airbus has is their financial power that is allocated to the innovation R&D, to ensure Airbus's leading

position in the market, currently, Airbus allocated funds more aggressively compared to Boeing in the R & D sector (Duddu, 2020)

- **Rarity :** To achieve a strategic upper hand from other competitors, the resources and capabilities that are possessed by the company should not be held by other competitors (Beaugency, 2015). Boeing is the only major competitor that could threaten Airbus in the airline market, however, as an aeroplane manufacture company, there are a lot of similarities that the two companies have in their product. First, the engine that they use came from external manufacturers, and it is not uncommon that both Airbus and Boeing share the same engine brand (Rolls Royce, General Electric, etc), even though different models are used (Duddu, 2020.). However, what is inherently different in terms of products that came from the two companies are the patents that they filed (Beaugency, 2015). As previously mentioned, Airbus has allocated more financial resources than Boeing to the company's R & D department. This resulted in the higher numbers of patents that Airbus has, compared to Boeing, giving the possibilities of Airbus's technological upper hand.
- **Inimitability:** A competitive advantage would be lost if the valuable resources are easily reproduced and imitated by other competitors. The resources could be hard to be imitated if they are complex to be replicated (Barney, 1991), In the protection of legal property rights, such as patents (Wills, 2008), and lengthy imitation processes (Wills, 2008). As

previously mentioned, patents that Airbus has, currently one of the key factors that makes Airbus's products hard to be exactly imitated, due to patents that are embedded within the aircraft that Airbus produces (Beaugency, 2015).

- **Organization** : The way firms operate their business and connect their strategic and non-strategic resources could generate a competitive advantage to the company (Pan et al., 2007), and exploit the process of the organisation to create intermediate products between primary resources and the final product of the firm (Amit, 1993). Airbus has been regarded as one of the companies in the world that has an excellent supply chain. The production of one airplane, scattered around the globe, and yet Airbus managed to connect each of the factories into one system, and be able to manufacture and finalize the product in their assembly line, Airbus also managed to produce infrastructures for the purpose of delivering the components of an aircraft, such as the Airbus Beluga airplane (Moncenco, 2015).