WHICH AIRLINE MANUFACTURER WILL BE THE INDUSTRY LEADER IN THE NEXT 5 YEARS – BOEING OR AIRBUS?

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Introduction

Boeing and Airbus are two of the most well known companies in the airline manufacturing industry. They contain many different products to the many different airline companies and hold a strong position with many major carriers. They also are known for introducing new aircraft such as the Boeing 787 Dreamliner and the Airbus A380. These two products/aircraft are in direct competition with one another and are continuously being bought by the major airlines around the world. This led us to want to find more information as to Which Airline Manufacturer Will Be The Industry Leader In The Next 5 Years – Boeing Or Airbus? A thorough look into many different aspects of each company will be looked at in order to make an accurate assumption. Some of the items we will look at is the Porter Five Competitive Forces, an in-depth SWOT analysis of each company as well as an overview of the financial statements of each company. By looking into these areas, we will be able to make a proper assumption and judgment as to which company we believe will be the Industry leader in the next five years.

Porter Five Competitive Forces

Before we can start comparing the two companies, we must first analyze the industry. Porter five forces analysis is a framework for industry analysis and business strategy development. The five forces include rivalry, buyer power, supplier power, threat of substitutes, and threat of new entrants. The rivalry is strong. Due to duopoly, Airbus and Boeing are sole rivals and they are quite evenly matched. Competition is intense in terms of winning defense contracts and companies use innovation and new technology to differentiate their service. The buyer power is moderate. Players are limited as Airbus and Boeing have a virtual duopoly. The
supplier power is moderate. Suppliers are small. However, the high quality inputs provided by suppliers dilute the bargaining power of players. The threat of substitutes is low. There are no real threat of substitutes in defense and aircrafts. However, air freight sections might be affected with increase in concerns of carbon emissions as companies are seeking eco-friendly reputations. The threat of new entrants is low. The arms industry has become highly concentrated, nationally and internationally. (Boeing Co, 2011)

**Boeing SWOT**

The first step in the Boeing SWOT analysis is analyzing Boeing’s strengths. One of Boeing’s many strengths is they have several business segments that have a strong market position. A few of Boeing’s strong business segments include the aerospace and defense market. They are one of the world's largest aerospace companies and are the leading manufacturer of commercial airplanes. In addition, Boeing is the leading US exporter. They support US airlines and allied government customers in more than 150 countries. (Marketline)

Another strength of Boeing is they have a strong focus on research and development. Its other business segment includes the engineering, operations and technology (EO&T) activities. These EO&T activities provide Boeing with technical and functional capabilities, including information technology, research and development, test and evaluation, technology strategy development, environmental remediation management and intellectual property management. (Marketline)

A third major strength of Boeing is that they are increasing their operational performance. Boeing has recorded increase in its profits and margins over the last two years. The operating profit grew to roughly $5.7 billion in 2011 from an operating profit of $2.0 billion in
2009. The increase in operating performance shows that Boeing is making efficient cost management and sound decisions. This could be leveraged to fund future growth plans. (Marketline)

The second step in the Boeing SWOT analysis is analyzing Boeing’s weaknesses. One of Boeing’s few weaknesses would be that a few of their business segments have sluggish performance. Boeing has seen a decrease in sales in some of their business segments in 2011. An example, in 2011, the company's network and space systems segment declined 8.3% compared to the previous year. Also, Boeing Capital Corporation segment’s revenues decreased 16.7% in 2011 compared to the previous year. This was mostly due to lower operating lease income from a smaller portfolio of equipment under operating leases. These sluggish performances add pressure to Boeing’s profit making decisions. (Marketline)

Another major weakness of Boeing is that they are highly dependent on US government contracts. For instance, in 2011, 38% of Boeing’s revenues were derived from US government contracts. Several US government programs in which Boeing is a part of might last for many years. (Marketline)

A third weakness of Boeing is that they rely heavily on other companies including subcontractors and suppliers to provide and produce raw materials, integrated components and sub-assemblies, and production commodities and to perform some of the services that they provides to their customers. If any of the company’s suppliers or subcontractors experiences delivery delays or other performance problems, Boeing might not meet their commitments to their customers. In some instances, Boeing depends upon a single source of supply. Any service disruption from one of these suppliers could have a material adverse impact on the company’s ability to meet commitments to its customers. (Marketline)
A fourth weakness of Boeing is the company has faced delays in a few of their commercial aircraft development programs. For example, during 2011, the company delayed the first delivery of the 747-8 Intercontinental from the fourth quarter of 2011 to the first quarter of 2012 due to a delay in flight testing and the time required to incorporate all flight test driven engineering and design changes. Also, the company delayed the first delivery of its 787 Dreamliner to third quarter of 2011 due to supplier workmanship issues related to the horizontal stabilizer and instrumentation delays. If there are any more delays in these programs, the reputation of Boeing could be potentially damaged. (Marketline)

The third step in the Boeing SWOT analysis is analyzing Boeing’s opportunities. One major opportunity for Boeing is increasing the demand for commercial airplanes. Air transport throughout the world is constantly changing in response to market opportunities and challenges. The rise of new airline business models and rapid growth of air travel in the world's emerging economies are stabilizing worldwide demand for airplanes. According to Boeing's commercial market outlook for the period 2012-2031, the world's fleet, which includes both passenger (from 100 seats to very large aircraft) and freighter aircraft, will grow from 19,890 in 2011 to more than 39,780 by 2031. (Marketline)

A second opportunity is to capitalize on the surge in defense spending in China and India. India and China are emerging economies which are expected to increase military spending to continue with their military modernization programs. Both China and India announced their defense budgets for the coming year in March 2012. Each of their budgets reflected a double-digit growth. China raised its defense budget by 11.2% to CNY670.2 billion ($106.4 billion) in 2012, an increase of CNY67 billion ($10.4 billion). India is currently finalizing a deal with France’s Dassault Aviation to buy 126 Rafale fighter jets in a contract
worth an estimated $12 billion. Boeing has a significant presence in China and India. The increasing defense spending in both China and India could provide Boeing with large growth in the short to medium term. (Marketline)

A third opportunity for Boeing is to expand the business through acquisitions. For instance, in August 2011, Boeing acquired Solutions Made Simple (SMSi), an information services provider for the US government and the Intelligence Community. SMSi's technology allows users to easily extract, share and query information stored in an unlimited number of data sources and applications. Strategic acquisitions such as this would help it to penetrate into many untapped markets and help the company to diversify its product portfolio. (Marketline)

The fourth and final step in the Boeing SWOT analysis is analyzing Boeing’s threats. The biggest threat to Boeing is the intense competition in the jet aircraft market and the airline industry. The commercial jet aircraft market and the airline industry remain extremely competitive. Boeing is competing against aggressive international competitors from the likes of Airbus, Embraer and Bombardier. Boeing Defense, Space and Security (BDS) business faces strong competition in all market segments, primarily from Lockheed Martin, Northrop Grumman, Raytheon Company and General Dynamics. (Marketline)

Another threat is Boeing faces risk concerning labor issues at its plants. Boeing has roughly 63,000 employees which were union represented as of December 31, 2011. Boeing, every now and then, experiences work stoppages due to worker strikes. The company had a work stoppage in 2008 when a labor strike delayed commercial aircraft and certain BMA program production. Also, in May 2010, 1700 workers who assembled giant C-17 cargo jets in California were on strike for a month over pension and medical benefits. This resulted in the C-17
production line being shut down indefinitely. Boeing might have work stoppages in the future, which could negatively impact its business. (Marketline)

    A third threat of Boeing is a significant portion of Boeing’s customer financing portfolio is concentrated among certain customers and in distinct geographic regions, mostly in the US. The company’s portfolio is also concentrated by varying degrees across Boeing aircraft product types, most notably 717 aircraft. If any customers holding a significant portion of Boeing’s portfolio assets have any financial difficulties or don’t renew their leases with the Boeing at their expiration, Boeing’s could be adversely impacted. (Marketline)

**Airbus SWOT**

    In recent years, Airbus has emerged as one of the leaders in the Airplane manufacturing industry. They have begun to introduce several different planes with many company’s purchases a large numbers of their planes. They continue to chase Boeing as the leader in the manufacturing industry, and they realize they need to continue to grow and expand in order to compete effectively. Airbus has recently introduced the new A380, which is the largest commercial plane in their fleet. With a higher volume of passengers and distance the plane can travel, they have expanded the opportunity for longer and higher volume flights. The A380 has attracted many airline customers to purchases several A380 aircraft. (Airbus)

    As we have discussed, Boeing has since introduced the new 787 Dreamliner, which is made out of composite materials that reduce fuel consumptions and drag on the airplane. The new eco-friendly jumbo jet will be in direct competition with the A380 and possibly propel Boeing into continued success over Airbus for an extended period of time.
In order to accurately make an educated finding as to who will be the leader in the airline manufacturing industry in five years, we need to conduct a thorough examination of Airbus by looking at their strengths, weaknesses, opportunities, and threats.

Airbus has seen much strength in their company through their internal support system throughout the company. By having a strong internal support system, it makes for easier communication amongst the offices within Airbus. It also supplies the company with a strong sense of efficiency throughout all the different business processes within the company. Another strength for Airbus is their diversified customer base with planes being used by many different Airlines around the world. (Marketline)

A major weakness however was found on the problems associated with the new A380 engines. The problems were manufacturing defects associated with the construction of the engines, which set back the company from where they would have liked to be. (Marketline)

Airbus does have several significant opportunities for the future. They have a large, increasing demand for their Aircraft from companies around the world. With prices being reasonable and a strong brand loyalty, companies continue to buy Aircraft from the Airbus Company. Another opportunity is that there has been a surge in defense spending in China and India that will lead to growth in their different market segments. The growth in these areas will allow Airbus to search for new opportunities in the commercial airline segment. With more sales and a higher cash flow, it will lead to growth through acquisition possibilities. As Airbus grows, the potential for them to acquire smaller companies will grow. (Marketline)

The major threats to Airbus lie in the competition with other companies who have a larger value of finances and other business segments. Boeing is the major competitor because they are in every market area and have been around since the early 1900s. The pressure of
competitions has subsequently required Airbus to drop their prices. By doing this, it has impacted how well they are able to grow and the possible profits they could make compared to the other major competitors. (Marketline)

The weak economic outlook for the US and European markets will also impact the outlook for Airbus. Even though the economy has seen improvements, there are still areas of concern as we are not fully out of the recession currently. (Marketline)

Conclusion

After a thorough analysis of the many different factors of Boeing and Airbus, we have come to the Conclusion that five years from now, Boeing will still be the leader in the Industry. Boeing has been around in the industry for a very long time and has been established as one of the leaders. By having a lot of time and experience on their hands, they are able to look at many years of previous data and adapt to changing situations. Also, they are a much larger company and have their foot in many different markets around the world and the sheer size of the company makes it very attractive for expected success. It seems very unlikely that a company whom is publically traded such as Boeing can be overtaken by Airbus whom is a subsidiary of a larger company. Having a huge customer base is very beneficial and it will continue to add to the attractiveness and success of Boeing. Furthermore, there are many different financial statistics and ratios that support or conclusion that Boeing will continue to be the leader. With a larger amount of revenue streams and income, they have more capital to do as they please such as improve operations and extend into new markets around the globe. Boeing is a very successful and well-known company. At this rate, they will be for a very long time and continue to set the standard in the airline manufacturing industry.
References

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