

Air Canada Memo

ADM 1100 – Dr. Patrick Woodcock

Due: Thursday, October 22nd

**Paridhi Rukhaiyar, Jennifer (Zhi Ge) Liu, Davina Tian, Kathleen
Connolly, Alexander Normand, Em Ryan E, Alexa Dahan**

prukh028@uOttawa.ca

Conclusion:

Air Canada, an airline industry, is believed to have an oligopolistic economic structure.

Discussion:**Environmental Factors that Influence Air Canada**

There are many environmental factors that can negatively as well as positively influence Air Canada. The airline industry can be affected by various uncontrollable conditions. The most important factors include weather conditions and natural disasters such as snowstorms, thunderstorms, volcanic ash, etc, which may delay/lead to flight cancellations. Flights depend entirely on the weather conditions because flights will not run which ultimately triggers a crisis for the airline company.

Multiplayer Planning Timeframe Regarding Purchasing of Aircraft Impact Management Decisions

Management must be efficient and effective in order to maximize the use of their planes and resources. It is important that airlines plan their capacity accurately so they meet their profits. For example, fewer passengers equate to lower profits since the amount invested into a plane is constant no matter the amount of passengers on the flight. Also, Air Canada must keep up with the rules and regulations of domestic and international competitors. Air Canada's main domestic competitors are WestJet and Porter and the international competitors are Air France and British Airways.

Unpredictable Event's Impact on Air Canada

In addition to environmental factors like weather, airlines are also influenced by unpredictable events in its surroundings. They include war threats, terrorist attacks, political problems, consumer preferences, demographic trends, interruptions in the air traffic control system and rising prices in security measures. These surrounding factors are just as important to the airline company since they can affect whether or not flights run.

How Air Canada Reduces the Negative Impact of Environmental Factors

Air Canada is reducing its negative impact on the environment through the act of partnering up with Zero Footprint, an organization that uses high standards in carbon offsetting, to reduce the amount of carbon emissions in the environment. Also, Air Canada's goal is to maximize the passengers in every flight to lower the fuel costs and usage.

How the Government Regulation of the Commercial Airline Business Effects Air Canada

The success or failure of Canadian airlines is associated with governments regulations in multiple ways. One of the ways the government can affect the airlines is by negotiating new opportunities with different airlines. An example of this would be when the government, not long ago, created an agreement that reduced the restrictions between Air Canada and European airlines. This opened five new direct services that never existed between the two airlines. However, a negative way the government affects Canadian airlines is with the intensely high taxes to the point where it can no longer be a profitable business. For example, Air Canada says that it is unrealistic for them to be able to make a profit with higher security charges, Airport improvement fees and federal and provincial fuel excise taxes. They have to pay the government airport rents and fees for landing as well.

Appendices:

The airline industry has always been complicated since stakeholders greatly impact the industry as a whole. The main stakeholders include consumers, resource suppliers, the environment, other airline competitors and the government.

Figure 1: Stakeholders and their Effect on the Airline’s Economic Structure

Stakeholders	Examples	Positive Impact	Negative Impact
Consumers	<ul style="list-style-type: none">• The public:• Businesspeople• Travellers• Politicians• Celebrities	<ul style="list-style-type: none">• More consumers = more exposure for the airline• Consumers continuously choose airline travel over trains• The entire airline industry depends on their consumers	<ul style="list-style-type: none">• The entire airline industry depends on their consumers• Reputation depends on their consumers entirely (ex. Word of mouth)
Suppliers	<ul style="list-style-type: none">• Fuel suppliers• Aircraft manufactures• Air navigation service providers• Ground/maintenance/repair services• Computer reservation systems• Catering services	<ul style="list-style-type: none">• Suppliers provide products such as airplane parts, fuel, electricity and other services that allow the company to run	<ul style="list-style-type: none">• The basis of an airline company comes from their suppliers – if no goods/services are provided, the company cannot function• If suppliers don’t meet standards and follow proper procedures, serious accidents can happen• Suppliers may run into limited resources (ex. Fuel)

<p>Environment</p>	<ul style="list-style-type: none"> • Natural weather conditions: • Snowstorms • Volcanic ash • Hurricanes/ tornadoes 	<ul style="list-style-type: none"> • Good weather allows for normal flying • High peak in tourism 	<ul style="list-style-type: none"> • Airline delays from extreme weather conditions • “Snowstorms, severe thundershowers, icy weather, and severe winds can disrupt travel” • Bad flying conditions “results in frustrated passengers and forces employees to scramble” • Causes airline industry huge sums of money •
<p>Competitors</p>	<ul style="list-style-type: none"> • WestJet • Porter • Domestic airlines • International routes (Air France, British Airways, JAL) • 	<ul style="list-style-type: none"> • Rivalry: “[WestJet] has pushed [Air Canada] to launch its lower-priced Tango fares to compete in the low frills budget travel segment” 	<ul style="list-style-type: none"> • More competitors shifts the demand curve to the left • Higher competition makes it more difficult for airlines to consistently be profitable on top of other challenges • More competitors = less focus on the airline • Domestic airlines: the bigger airlines overshadow smaller airlines

<p>The Government</p>	<ul style="list-style-type: none"> • Tax laws • Flight restrictions • International agreements and regulations • 	<ul style="list-style-type: none"> • “negotiated an agreement between Canada and the EU that creates new opportunities by reducing restrictions for Air Canada and EU airlines.” • The restrictions and international regulations that the government issues provides safety for passengers 	<ul style="list-style-type: none"> • “government is making it impossible for the airline to be profitable with higher security charges, Airport improvement fees, and federal and provincial fuel excise taxes” • “collects over \$300 million in rent from airports each year” which makes it more expensive to land a plane in Canada • Tax laws: “Total federal tax collected in Halifax alone amounted to \$3.2 million in rent charges in one year”
------------------------------	--	---	---

<p>Economy</p>	<ul style="list-style-type: none"> • Recessions • Fuel prices • Wages • Union • Significant events 	<ul style="list-style-type: none"> • A good economic system allows for more consumer travelling 	<ul style="list-style-type: none"> • Significant event - 9/11 impacted the financial aspect of the airline industry: “dark period on general turmoil in the travel industry following the 9/11 terrorist attacks” • Recession: “global recession, which started in 2008, decreased tourism, and business travel” • More uncontrollable economic events: “massive new security challenges, flu pandemics and political conflicts that can erupt anywhere in the world”
<p>Employees</p>	<ul style="list-style-type: none"> • CEOs/directors • Managers • Flight attendants • Pilots 	<ul style="list-style-type: none"> • Good customer service builds a positive reputation • If customers are satisfied they are more likely to return • Customer satisfaction = long-term relationships with customers (good relationship marketing strategy) 	<ul style="list-style-type: none"> • Poor customer service/employee reviews can diminish airline’s image • If employees/unions are not satisfied, can cause strikes which leads to employees quitting • Insufficient employee training

<p>Partners</p>	<ul style="list-style-type: none"> • Jazz • Continental • United • Lufthansa flights • Networks (Star alliance) 	<ul style="list-style-type: none"> • Partnership: “[Air Canada] created a regional partner called Jazz, mainly for short-haul flights” • In order to compete on the global stage, “[Air Canada] has forged alliances to cut costs” • “extended its partnerships to Continental, United, and Lufthansa flights” which allows the company to compete overseas • Networks: “28 members permit passengers on partner airlines to connect with over 1160 airports in 181 countries” • “The airlines share flights [and] airline lounges in airports around the world” which provides efficiency for travellers 	<ul style="list-style-type: none"> • Partner disagreements and breaches in contracts can lead to failed business operations • The more prominent partner can decrease the other’s airlines business • The airline’s excessive dependence on a partner can lead to a weakened business
------------------------	--	--	--

The airline company, Air Canada, is the 15th largest the world. In addition, the business manages to have control over the majority of the domestic market in Canada. Air Canada’s employees are a part of the largest union in Canada. Currently, Air Canada’s biggest competitor is WestJet, who have a disadvantage since the company’s employees are not part of a union.

Figure 2: Economic Changes and Their Effect on the Competition in the Airline Industry

Economic Changes	Analysis	Positive Effect	Negative Effect
Trans-Pacific Partnership trade agreement	<ul style="list-style-type: none"> - This will let international airlines fly 10% of their flights from one destination in Canada to another - At the moment, they can only fly in and out of Canada from an international destination 	<ul style="list-style-type: none"> - Canadian airline industry is not as restricted by international regulations and procedures. 	<ul style="list-style-type: none"> - This increases the competition for domestic airlines - Less focus on Air Canada - Decreases the focus on Air Canada airline
Train Travel	<ul style="list-style-type: none"> - Traveling by train is unpopular due to possible delays, expensive cost, lack of customers and high investment - Even though the train is efficient, better towards the environment and saves energy 	<ul style="list-style-type: none"> - Train travel decreases the competition for transportation - The airline industry receives higher consumer demand 	<ul style="list-style-type: none"> - the government has vowed to change this trend which will mean more competition for flying - Passenger Train Investment (PTI) grant program which will lower the cost of investment and prices for everyone involved
Overall Average Income in Canada	<ul style="list-style-type: none"> - The Canadian average incomes have not kept up with inflation recently 		<ul style="list-style-type: none"> - Consumers cannot afford more expensive long haul flying - This economic trend is expected to continue into the next decade which could cause possible financial problems for the airline industry
Air Canada Employee Union			