SWOT analysis for Air China

The airline industry has undergone significant restructuring in recent years. Airlines, formerly rivals in a highly regulated industry, have become opportunistic seekers of cooperation. In today's world, mega-carriers and small airlines are working together rather than competing with one another.

Forms of cooperation include sub-contracting, code sharing, franchising and the formation of global marketing networks. Such alliances allow firms to focus on their respective core competencies, while drawing the benefits of scale economies. In essence, cooperation among rivals has led to increased competitiveness. This has accelerated the trend of joint marketing, and the airline industry has become characterized by the desire to belong to a global network. The tendency has been to strive for a global presence.

Air China was founded on the 1st of July 1955. Its headquarters is based in Beijing. It engages in international and domestic passenger and cargo flight services. To unify its facility image and simplify its repairs and maintenances, its fleet of 118 aircraft exclusively consists of Boeing models. It has established hub-spoke style passenger and cargo transport network. The hub of this network is Beijing International Airport.

The company is operating 339 routes, which consists of 53 international and 286 domestic, operating more than 1,000 scheduled flights on weekly basis, serving 29 cities in 19 countries. About 66 per cent of its revenue was sourced from the domestic market. Since 2004, Air China has experienced dramatic changes in both the international and domestic market.

Growing domestic market

Fierce competition and sluggish market demand has forced the company to turn its business focus on the fast growing domestic market, where it enjoys the protections from the Civil Aviation Administration of China (CAAC). Chinese Government adopted an aggressive fiscal policy by lowering the interest rate to 2 per cent, aiming to boost Gross Domestic Product growth (GDP).

In 2001, China’s GDP reached 7.3 per cent, which is considered to be the fastest growing economy compared with both the main developed and developing economies worldwide. Other factors also contribute to the growing demand of the domestic market for air service in China, such as the opening up and reform of the country’s development strategy, boosting the tourism industry and attracting more people to invest or visit China.

In April 2001 and under the regulations of the CAAC, 56 national and local airlines were categorized into three groups; Air China, Eastern Airline and Western Airlines. Air China operated in developed areas such as America, Japan, Western Europe and Austria, and the other two groups aggressively expanded into international markets while mainly focused on domestic business.

While the factors like price and schedule arrangement are well below the average level and the choices based on brand image and service largely exceed the other two, Air China positions itself with quality service while the other two groups compete with lower prices and schedule arrangements. Recently, all three groups have experienced deteriorating performances due to other global factors, and under these pressures, revenue maximizing and cost efficiency are becoming the first considerations when stipulating business strategies.

International market

The demand for air travel has grown every year since the Second World War with the exceptions of the Gulf War in 1991 and 2001. Since 2001, emergent factors have curbed and added to the uncertainty of the airlines industry growth, such as the September 11 attacks being a heavy blow to the world economy and dragging down the...
international airline industry, and USA military actions against Iraq posing additional threats to the airline industry.

“Air China has tried to build a strategy on a genuine understanding of the customers’ true needs. It identified key customer satisfaction drivers, then turned them into a foundation to shape company development strategies and innovations.”

Though these events have hindered growth, the speedy pace of economic globalization and increasing demand of leisure travel by prosperous consumers has kept the air traffic growth at approximately 3.5 per cent per annum. But main players in the global market took pessimistic stances by cutting down the capacity, furiously seeking consolidation within the industry, and lobbying the regulatory authorities for opening up the skies.

Air China SWOT analysis

To identify best practice and critical success factors of total quality management implementation, SWOT analysis was selected to analyze the case of Air China. The SWOT analysis is the process of analyzing organizations and their environments based on their strengths, weaknesses, opportunities and threats.

Strengths

Air China is the largest air carrier in China in terms of traffic volume and company assets. Over 20,000 employees are working for Air China, including more than 2,300 pilots and 4,520 flight attendants. It enjoys well-trained flight crew who are experienced in international operations and services. It owns the most updated fleet and competent repairs and maintenance expertise.

Its information systems are the most advanced among Chinese airlines and compatible with its operation and service. It has a good reputation in both international and domestic markets, quality service and the number of loyal frequent flyers continues to increase rapidly.

Weaknesses

Air China is operating across broad international and domestic markets competing with world leading giant airlines as well as local small operators. This lack of clarity on the strategic direction largely dilutes its capabilities and confuses its brand within markets. This has been reflected on its low profitability and utilization of capacity. Many quality services initiatives and practices are easily copied by the competitors.

Opportunities

China airline industry is growing faster than GDP increases, and the trend is predicted to continue to at least 2010. Worldwide deregulations make the skies more accessible; the route agreement is easier to be achieved. The number of foreign visitors and investors to China is increasing rapidly. Complementary industry like tourism will increase demand for airline service. CAAC strong regulation and protection provides opportunities for consolidation and optimization. Customers are getting wealthier, tend to be less price conscious and prefer to choose quality service.

Threats

Air China faces imminent aggressive competition from world leading airlines and price wars triggered by domestic players. Foreign airlines will access the Chinese computerized seat ordering system, providing Chinese passengers with more choices. Trains and buses will dramatically improve speed and services in their medium/long distant routes, attracting passengers away from air service.

The way forward to achieve excellence 2008

On/off flight service

Air China has classified customer satisfaction drivers according to the degree of tailoring services to individual passengers. The basic needs that the company has to deal with are safety, getting the luggage to the right place, and punctuality. The services must meet the basic requirement first before climbing into the higher satisfaction stages.

In order to become more competitive, the services must focus on qualifier drivers, i.e. providing more available choices on food menus, or enhance seating comfort. Just meeting customer requirements is not enough; delighting passengers is only the way to differentiate business from other competitors.
Air China insist that employees are more important than technical systems. The creed is “people serve people”. Applying this in a practical way, a new purpose was initiated to integrate the menu planning process with first/business ticket ordering and check-in system. The idea is that when passengers order the ticket, they can order lunch/dinner and chefs would be informed to prepare the food plan. When information is confirmed upon check in, meals are processed and lifted on board. In this way, passenger taste can be accurately matched.

**People management**

When dealing with people, the main principles of Air China can be described as:

- **Excellence relies on people**. Programme strategies would not be improved and fulfilled without people participation, enthusiasm and contribution.

- **Managerial effectiveness**. Its role can be defined as facilitator to build up partnerships between individuals and the organization, and between the organization and its customers.

- **Organizational productivity**. Quality should be seen to start from the top. Leaders must be intimately involved to see that the quality paradigm is planted into the minds and hearts of all staff.

- **The non-human side of the organization**. Such equipment, facilities, processes and systems can only live in the hands of people with enthusiasm. So-called advancements are meaningless for the company unless they can contribute to both employee and customer satisfaction.

Among the change initiatives, leadership, teamwork, and training were top priorities in the initial stages of the programme.

**Supplier network with partnership**

Under the new quality strategy, the company decided to eliminate the short-term suppliers where possible; the reconfiguration of supplier network aimed to build up long-term partnership, which contribute to quality enhancement. The rationale of supplier partnerships is demonstrated in the Boeing Commercial Aircraft Company, selected by Air China as the partner for supplying the most critical purchased item-aircraft as part of the new quality strategy.

The company resold the other models to simplify repairs and maintenance, and to unify facilities image. Now its fleet exclusively consists of a series of Boeing models. The company assigns its employees to work with Boeing on various aspects of the aircraft related to modification of cabin classes such as seating redeploying, in-flight entertainment and communication facilities to serve passengers.

**Information technology adoption and integration**

Technology is classified as a non-human side of the organization, and management was very wary of the risk of dehumanization. The adoption of information technology (IT) connects the different phases of the passenger travel process. It should enable both passenger and employee control over travel/service process to facilitate friendly interactions.

“Air China is operating across broad international and domestic markets competing with world leading giant airlines as well as local small operators. This lack of clarity on the strategic direction largely dilutes its capabilities and confuses its brand within markets.”

IT is now being used substantially in areas like passenger enquiry, ticket ordering, luggage tracing, check-in, frequent flyer programme (FFP) and on board services. Through a choice of technology, Air China can develop processes and procedures as simple and understandable as possible. The belief is if the service activities are made easier for passengers to understand, learn, and complete, passengers would feel more confident to control his/her own travel.

**Quality integration**

Air China has tried to build a strategy on a genuine understanding of the customers' true needs. It identified key customer satisfaction drivers, then turned them into a foundation to shape company development strategies and innovations. The objective is to realize the quality-strategy integration.

This integration is seen throughout the process of strategy management. Based on preliminary
market research and customer analysis, multi-teams generated strategic ideas, e.g. defining customer satisfaction drivers and specifying criteria in the main service areas, and formulating strategy choices for management to make strategic decisions.

The next phase in the process began with defining the key business activities around passengers travel process, developing new services, and deploying policy to allocate objectives and resources to processes. With the progress of Excellence 2008, Air China is endeavouring to integrate quality into business, and consistently integrate strategy business functionalities with TQM discipline, aiming to transform the company into customer service organization.

March 2007

This is a shortened version of “SWOT analysis for Air China performance and its experience with quality”, which originally appeared in Benchmarking: An International Journal, Volume 13 Number 1/2.

The authors are A.M. Ahmed and K.S. Almarri.