Review of Environment Influence on Virgin Australia’s Competitive Strategy
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Abstract. In order to analyze the environment influence on the business competitive strategies about the second largest airline in Australia, Virgin Australia, some basic information about Virgin Australia was retrieved and concluded in details from the scope of both the external and internal environment. It is obvious that the environment could affect the implementation of the competitive strategies. The paper also provides recommendations as to how Virgin Australia might maintain or improve its competitive strategies.

Introduction
In Australia, there are many aviation companies for customers to choose, so that they have to develop different competitive strategies to adapt to the current environment. Before making a strategy, an enterprise needs to understand its basic environment, which is conducive to generating more appropriate policies. Therefore, it is important for Virgin Australia to understand the external and internal environment. Virgin Australia started in 2000, and brought market competition in the leisure section of the aviation market. Until now, Virgin Australia has been connected Australia to more than 400 destinations in the world, and has become one of the most famous airlines in Australia. The purpose of the paper is to analyze the influence of environment on competitive strategy on Virgin Australia. It mainly investigates Virgin airline in Australian market and focus more influence of the internal environment and external environment on domestic routes, analyses the benefits and shortcomings about the competitive strategies.

Analysis of the Internal Environment

Resources of the Organization
The resources of an organization are defined as the advantages or properties that the organization possesses[1], so the resources of the organization could be the practical assets. According to Ceric[2], the resource-based theory (RBT) discusses that the resources of the organization can bring much better operations and competitive potentials. The resources of Virgin Australia are the foundation of all competitive strategies in the organization, and bring much confidence to every department. Virgin Australia has 101 types of aircrafts until October 2017, and it also plans to order Boeing 737 Max 8 in 2019[3]. In 2017, Virgin Australia created Economy X seats which have extra legroom, and more spaces for customers[4]. These are the tangible resources of Virgin Australia which represent the value that the organization can offer to target markets.

Intangible resources advantages can lead to growth outcomes[5]. The intangible resources of a business are highly related to the performance potential of the organization[6]. Virgin Australia has become the second largest airline in Australia, and it uses the famous airline brand ‘Virgin’[3]. Due to the high popularity of the brand name, customers are more willing to choose Virgin airline in Australia. Virgin Australia decided to establish new brand platform, so it launched with DDB Sydney; the chief creative officer of DDB Sydney indicated that Virgin use positive and optimistic approach through customers’ travel experiences, so Virgin as a brand is the embodiment of optimism[7]. Furthermore, Virgin Australia also has a strong reputation in customer service, it makes
Virgin Australia an excellent choice for domestic and international flights\cite{3}. These sources can enhance the competitiveness.

**Competences of the Organization**

Organization’s competences are defined as the processes, methods or systems that can effectively use of the organizational resources\cite{1}. It demonstrates that the core competence is the project that the company utilizes the resources to achieve the competitive advantages\cite{8}. For Virgin Australia, it is a low-cost airline and uses low price in every aspect. Compared to other air companies which are in the same level, Virgin Australia maintains the cheapest price. In addition, Virgin Australia also has a business model from a low-cost carrier to a full-service network carrier\cite{9}. When the customers look through all the resources, it is apparent that Virgin Australia is a cost-effective selection.

**Strategic Capabilities of the Organization**

From the dynamic capability perspective, strategic capabilities are defined as reconfiguring resources and competences to build the capacity that make the organization become more exclusive\cite{10}. It is important for organization to develop strategic capabilities with professional guidance and support\cite{11}. Firstly, lots of customers choose Virgin Australia because of not only the low price but also the service. In Australian domestic airlines, Virgin Australia has better service than other low-cost airlines. From TripAdvisor, the rating of Virgin Australia has more than four stars. According to the comments, most of the customers prefer the inflight service and the Virgin application for entertainment is excellent. They also highly recommend the comfortable seats and space.

**Competitive Advantages of the Organization**

If the organization wants to achieve sustainable competitive advantages, it should utilise the strategies that develop its internal strengths and environmental opportunities, also refrain disadvantages\cite{12}. By analysing whether the resources, competences and capabilities connect with the competitive advantages, VRIN framework is useful\cite{1}.

In the competition points, both tangible and intangible resources impact the competitive advantages of Virgin Australia. The tangible resources can be powerful assets that remain the competitiveness of Virgin Australia. The intangible resources provide the impression of Virgin Australia to potential customers. In the rarity and non-substitutability aspects, Virgin Australia has special service style, because the staff often make customers feel relaxed by making jokes or creating some interesting activities. It is different from other inflight service and break through the traditional approach of service. However, Virgin Australia is not the cheapest airline and the unique service style has become a learning resource to other airline companies. In the United States, the low-cost airlines are promoting the service funding strategies such as JetBlue and Skybus\cite{13}. Therefore, these characteristics can be imitated.

**Analysis of the External Environment**

**Analysis of the Macro-environment**

The PESTEL framework is a qualitative approach that can analyze the macro-environment about an organization to increase the efficiency in the markets\cite{14}. Political and economic environment are the components of the PESTEL framework.

If the organization wants to survive in the huge markets, it is important to adapt the political environment firstly\cite{15}. According to Kivits and Charles\cite{16}, Australian government plans to develop federally-leased airports that leave local and state governments without any direct influence on aviation organizations. It gives more freedom between the airlines and airports. In order to achieving the goal, Australian government released the National Aviation Policy White Paper in December 2009\cite{17}. In this political context, Virgin Australia has more opportunities to strengthen
contact with airports, especially domestic airports. Virgin Australia can add more routes in a more liberal political environment.

However, the political environment in Australia also provides challenges to Virgin, because on the basis of the free policies, the largest airline Qantas has much deeper pockets and a track record of aggressively defending its market share that lead to Virgin is in a more vulnerable financial position. These conflicts have shown that Virgin Australia have some strong competitors among the aviation markets.

The economy is very important to an organization because there are many occupational organizations across the country that have been hit hard by the recession. According to Australia Airport Association, Australia is more dependent on efficient and reliable aviation sectors than other countries. Because the airport is a capital-intensive company, it is closely related to most economic activities. For example, the growth of leisure tourism, the expansion of site strategic resources and agricultural activities will all contribute to the development of the aviation industry. According to Australian Airport Association, the total economic contribution of Australian airports was around $17.3 billion in 2011. On the economic front, the development of the aviation industry has promoted the economic development of Virgin Australia.

However, there are some disadvantages for Virgin, Chi and Baek state that changes in economic activities will affect the demand of the aviation industry, decisions made in the long-term strategic plan and expansion of the service industry. For example, the development of the economy has led to the development of the aviation industry, leading to greater competitive pressure for Virgin.

Analysis of the Industry Environment

Porter demonstrated Five-Forces models to understand the organization’s competition and profitability.

In Australia, Virgin has many competitors. Competing on the low-cost, Tiger airline and Jetstar have much cheaper price than Virgin. In the safety section, Tourism Australia worked together with Qantas to make the video of Qantas’ safety to enhance the marketing power. Obviously, Qantas has more popular safety reputation than Virgin. Porter suggests that organizations should satisfy guests’ requirements in the complex environment. In that conditions, Virgin Australia lack of more competitive facilities, so it has intense competitive rivalry.

To enter aviation industry, the most critical barrier is the source of the investment. The airlines also have the responsibility to handle the losses and troubles. It also needs strong capacity to promote the technology and service. Moreover, there is a limited space of landing slots in Australian airports. It will become a barrier without enough slots are available for routes. However, Virgin Australia plan to add more services to destinations such as Tamworth and open new routes to places like Dubbo and Wagga Wagga. Therefore, Virgin Australia has little threat of new entrants.

The complexity of markets has been divided in terms of variables such as the power of buyers. In Australian airlines, Virgin Australia is a low-cost carrier in recent years, but many airlines have successfully imitated this business model. This means people have more chances to choose the flights according to the price. Due to the wide accesses, customers can compare the services and prices about various airlines to making decision. Apart from this, if Virgin Australia wants to change the business model, it will expend the time to adapting the markets. These issues represent the power of buyers is high.

The suppliers for Virgin Australia are the aircraft makers like Boeing and Airbus and aviation fuel. Virgin Australia has 82 Boeing 737 and 6 Airbus A330, and it plans to order more than 40 Boeing Max 8 aircrafts in the future. There are many types of facilities that the suppliers will provide. As the supply of jet fuel, it is extremely expensive. Virgin Australia has an advantage, because of the high price and the premium product, there are not too many buyers, so it has less possibility to become a favored customer for the airline fuel firms. The power of the suppliers is weak.
There are many alternative options in terms of long distance travel such as trains, cars and cruise. However, air travel has a special advantage that it can save time. At the same distance, airplane is the fastest choice. There are many business and leisure travelers prefer air travel because the in-flight service is more comfortable than other substitutes. As a large airline organization, Virgin Australia has more complete operation system. Furthermore, the unique service style could be an attraction to travellers. Accordingly, there are less threats from substitutes.

**Recommendation**

According to Porter\(^{[22]}\), cost-leadership, differentiation and focus are the three main types of the strategies to develop competitive strategies. The organization will utilize Porter’s generic strategy matrix to find an appropriate level for itself. The previous study analyses that Virgin Australia has famous brand and exclusive in-flight service style. It also creates low-cost position and business corporation travel. The differentiation strategy based on various aspects, establishing a closer, richer, and more complex connection with customers\(^{[25]}\). Therefore, Virgin Australia’s current business-level strategy is differentiation.

Differentiation strategy is eligible for Virgin Australia. Firstly, Virgin Australia is not the cheapest airline in Australia. It faces the competition about many cheap airlines. Marsh\(^{[26]}\) reported that Jetstar had launched a price war with Virgin Australia by reducing the price of many domestic routes. In recent years, Tiger and Jetstar maintain low-cost strategy. Virgin Australia has higher costs than these two airlines, so it does not have much low-price competition conditions. Secondly, Virgin Australia is related to Virgin company, the discount market of Virgin Australia will be restricted. Therefore, low-cost leadership strategy is not suitable for Virgin Australia.

Implementing differentiation strategy should start with the form of new products, new service, better quality, technology and other dimensions\(^{[27]}\). Firstly, it is useful for Virgin to produce new products such as new in-flight meal. For instance, ANA is a Japanese airline to have a maximum 5-Star SKYTRAX rating, and it update the in-flight meal general selection many times. Updating in-flight meal will enhance customer’s expectations. Secondly, although Virgin has special service style, it can add more details to give comprehensive customer service, for example taking more cares about the customers’ health conditions. According to the free political environment, it is convenient for Virgin to establish a link between domestic airports. For example, setting up the service system in the airports only for Virgin Australia. In the technical aspect, more customers focus on the in-flight WiFi. Thus, if Virgin wants to construct a comfortable environment, it is helpful to use technology to make internet cover the aircrafts.

A business differentiation strategy results in a manufacturing strategy based on cost, quality, delivery, and flexibility. In service organizations, differentiation means to provide a unique issues and experiences to consumers. For Virgin Australia, differentiation strategy is beneficial to produce better impression to customers. It will lead to more repeat customers choose Virgin Australia airline. The special in-flight meal will make Virgin Australia more competitive than the list competitive rivalry. If the brand Virgin being more well-known in Australia, it will have more financial and political support. Furthermore, the comprehensive customer service will exceed standards and expectations, and the customers will advertise it to other potential guests.

However, there are also some defects about differentiation strategy. Although the self-service machine is more convenient, lots of front-desk employees will lose their jobs. If airline companies order more aircrafts, the waste will cause air pollution. In addition, after making the focused-differentiation strategy, it should advertise it intensely, so that more competitors will copy the model.

To maintain and increase the competitive strategy, the focused-differentiation strategy has to develop more innovative ideas and undertake the risks. Thus, the differentiation strategy should strongly focus on the innovative part and ready to face challenges.
Summary

The aim of the report is to analyze the environment and combine the business competitive strategies about the second largest airline in Australia, Virgin Australia. It investigates the internal environment about the resources, competences, strategy capabilities and these competitive advantages. Then, it concentrates on the external environment. The PESTEL framework is used to analyze the macro-environment, and Porter’s Five-Forces models is used to understand the industry environment. The recommendation part concludes Virgin Australia is in differentiation business-level. Additionally, it gives many suggestions to remain focused-differentiation strategy by creating unique ideas to customers.

References


[21] Information on https://doi.org/10.1016/.


