A Report on the feasibility of a new Australian airline, Jillaroo Airlines, successfully competing within Australia and in the Asia-Pacific region


Report researched and written by Patrick Hardy, Hardy Consultants, 1 Wrinkle St., Sydney NSW 2000

No page number
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Sydney NSW 2000
10 February 2012

Managing Director
Jillaroo Associates of Australia
37 On the Way Up Ave
Sydney NSW 2000

Dear Ms Ross

I am pleased to present the report you authorised on 10 January 2012 to evaluate the feasibility of introducing a new Australian based airline within the Australia and Asia-Pacific region.

An analysis of the airline industry found that although airline profits had risen during the 2005-2010 period, a new Australian based airline will encounter a saturated Australian market and increased competition in the Asia-Pacific region. It is therefore recommended that Jillaroo Associates does not enter the airline market at this time.

Thank you for giving Hardy Consultants the opportunity to investigate and evaluate this proposal. If you have any questions about any aspects of this report, I would be pleased to answer them.

Yours sincerely

Patrick Hardy
(Senior Consultant)
Executive Summary

This report examines the feasibility of a new Australian airline, Jillaroo Airlines (JA), successfully competing within Australia and in the Asia Pacific region. To understand the international context of airline competition, the report first examines airline revenues and competition at the global level. A discussion and analysis of revenues and competition at the Asia-Pacific and Australia levels is then presented. This report does not discuss the associated costs of setting up a new airline.

After a global decline early this century, most airline revenues have increased. In the future, the Asia-Pacific region is predicted to be the most lucrative market. Japan and China currently dominate this region; however, China is expected to dominate the future market. In addition, established international airlines are moving into the territory to take advantage of this opportunity. Thus, for JA competing within this market will be difficult.

Australian competition has increased with new low fare, low cost airlines (such as Tiger, Jetstar and Virgin) gaining operating rights in an increasing number of airports. As a newcomer, JA would face heavy competition for Australian routes.

In conclusion, the Asian Pacific and Australian regions are lucrative future markets, but heavy competition and the rising cost of fuel makes it difficult for a new Australian based airline to succeed.

It is therefore recommended that, at the present time, Jillaroo Associates of Australia does not establish a new Australian based airline to service Australia and the Asia-Pacific region.
# Table of Contents

Title Page
Letter of Transmittal .............................................. ii
Executive Summary ................................................. ii
Table of Contents .................................................. iii
Table of Tables ................................................................ iv
Table of Figures ................................................................ iv

1.0 Introduction .......................................................... 1
1.1. Background ........................................................ 1
1.2 Aims ..................................................................... 1
1.3 Scope ..................................................................... 1

2.0 The International Airline Industry ................................. 1

3.0 The Asia-Pacific (Australia, China, India, Japan, Singapore, South Korea, Taiwan) 2001-2010 ......................................................... 2
3.1 Growth, Compound Annual Growth Rates and Market Value 2001-2005 .............................................................. 2
3.2 Market Segmentation and Competition .............................. 2
3.3. Airlines in the Asia Pacific, Forecasts for 2015-2020 .............. 2
4.0 Airlines in Australia ................................................... 2
4.1 Airline growth, CAGR and Market Value 2005-2010 ............. 2
4.2 Market Competition .................................................. 3
4.3. Australia Forecasts for 2015-2020 .................................... 3

5.0 Main Competitor: Qantas Airways (QA) ............................ 3
5.1 Company overview .................................................. 3
5.2 Business Description ................................................ 3
5.3 2011 Market ............................................................ 4
5.4 Infrastructure ........................................................... 4
5.5 Revenues .................................................................. 4

6.0 Conclusion .................................................................. 5
7.0 Recommendation ...................................................... 5
Reference List .................................................................. 6

Appendix 1: Airlines servicing Australia internally and globally – in alphabetical order ...................................................... 7
**Table of Tables**

Table 1: Asia Pacific Industry Segmentation: % Share, by Value, 2010 ........ 2  
Table 2: Qantas Revenues by Division, 2011 ........................................... 5

**Table of Figures**

Figure 1: Qantas Percentage of 2010 Revenue by Geographical Market  
(Adapted from Qantas Airways 2011, p. 3) .................................................... 4
1.0 Introduction

1.1 Background
In 2007 Jillaroo Associates of Australia (JAA) failed in its attempt to acquire 90% of the Qantas group (Time Magazine 2011). After the failed bid, Qantas reviewed its fiscal approach to create a 'poison pill' to deter any future buy out attempts (Knibb 2011). Given this, JAA is considering creating its own airline, Jillaroo Air, to compete with Qantas within Australia and internationally.

1.2 Aims
This report examines international and Australian aviation conditions and markets to consider the feasibility of a new Australian airline successfully competing within Australia and in the international market.

1.3 Scope
This report only examines international airline revenues and competition. It does not discuss the associated costs of setting up a new airline such as purchasing airplanes or training new staff. Unless otherwise stated, all dollar amounts are in American dollars.

2.0 The International Airline Industry

The largest share of the 2005 aviation market was in the Americas (45.7%), followed by Europe (33%), and the Asia-Pacific (21.3%) (Datamonitor 2011 p. 40). After a downturn in the 2002 global market, the industry recovered and grew at a Compound Annual Growth Rate (CAGR) of 2.6% for the years 2001-5 (Denton 2011 p. 15). It is predicted that by 2015 the industry will increase in value by 49.2% to US$475.3 billion and its number of passengers by 31.3% to a total of 43,270 million (Davis 2011, p.10).

The greatest threats are increased competition for Asian and Middle-East markets, rising costs; rising fuel costs and airline security. Established airlines are trying to overcome rising fuel costs by cutting back on less booked flights (Time Magazine 2011) and purchasing new, more energy efficient aircraft (Datamonitor 2011).
3.0 The Asia-Pacific (Australia, China, India, Japan, Singapore, South Korea, Taiwan) 2001-2010

3.1 Growth, Compound Annual Growth Rates and Market Value 2001-2005
In 2005 Asia-Pacific passenger airlines generated $68 billion, up 2.9% (CAGR) for the years 2001-5. The number of passengers increased 8.1% (CAGR) to 561.6 million and, after a 2003 decline; market value grew 7.7% to $68 billion (Datamonitor 2011, p. 38).

3.2 Market Segmentation and Competition
Airlines in Japan and China dominate the industry’s revenue (see Table 1). As the Asian market grows, it is predicted that competition will increase as more airlines launch new services into the region (Donnelly 2010).

<table>
<thead>
<tr>
<th>Geography</th>
<th>% Share</th>
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<tbody>
<tr>
<td>Japan</td>
<td>35.80</td>
</tr>
<tr>
<td>China</td>
<td>23.40</td>
</tr>
<tr>
<td>Rest of Asia-Pacific</td>
<td>17.90</td>
</tr>
<tr>
<td>South Korea</td>
<td>12.50</td>
</tr>
<tr>
<td>Australia</td>
<td>10.40</td>
</tr>
<tr>
<td>Total</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

(Source: Datamonitor 2011, p. 31)

3.3. Airlines in the Asia Pacific, Forecasts for 2015-2020
The predicted volume of passengers will rise 8.2% (CAGR) to 832.6 million by the end of 2015 (Datamonitor 2006a, p9). The market value of the industry is predicted to increase 55.7%, from $68 to $105.9 billion with a CAGR of 9.3% for 2015-2020 (Denton 2011, p. 16). However, the leading country in this region is expected to be China with a 15.9% CAGR valued at $33.2 billion (Davis 2011, p.10).

4.0 Airlines in Australia

4.1 Airline growth, CAGR and Market Value 2005-2010
After a 6.4% industry decline in 2005, by 2010 passenger revenue had increased to $7.1 billion at 2.9% (CAGR). The number of passengers carried during this time period increased to 88 million in 2005, with a 2002-5 CAGR of 3.6% (Datamonitor 2011, p.32).
4.2 Market Competition
According to Datamonitor (2011, p.39), twelve airlines service Australia internally and globally (see Appendix 1), but the three main competitors for the Australian market are Qantas Airways (QA), the Virgin Group (VG) and Cathay Pacific Airways (CPA). QA, the only one headquartered in Australia, is the leader in Australian domestic and international travel. For the year ending June 2006, QA recorded total revenues of $10.4 billion, an increase of 8.3% on the previous year (Datamonitor 2011, p. 40); and VG $1,392.5 million, an increase of 8.5% (Business News 2011, p. 21); and CPA approximately $8,104.4 million, up 9.9% from the previous year (CPA 2011, p. 25).

4.3. Australia Forecasts for 2015-2020
The predicted volume of passengers will rise 38.7% to 122.1 million by the end of 2010, up 6.8% (CAGR) for 2005-2010. The market value of the industry is predicted to increase 46.8%, from $6.8 billion to $13.6 billion, up 8% (CAGR) (Donnelly 2010, p. 23).

5.0 Main Competitor: Qantas Airways (QA)

5.1 Company overview
QA is the second oldest airline in the world and ranks 13th in the world in total revenue. It dominates Australian air services with a 65% market share (Brand 2011). The majority of Qantas’ 38,000 employees are based in Australia, but it has additional offices in Singapore, New Zealand, the United States, and India (Qantas Airways 2011).

5.2 Business Description
According to the overview in its Annual Report (Qantas Airways 2011), QA provides international and domestic air transportation, time definite freight services, catering, ground handling, and engineering and maintenance services. Qantas Link services 51 Australian sites and is the ‘feeder’ network for the international arm of Qantas. It has two passenger subsidiaries: Jetstar, the cheaper alternative for customers within Australia, and Jet Connect, servicing the Trans-Tasman area. Domestic and international holidays are provided by Qantas and Viva Holidays. Qantas Holidays has a 75% interest share in Singapore based Holiday Tours and Travel and 45% ownership in the Singapore based Orange Star; which operates the intra-Asia airlines Jetstar Asia and Valuair.
5.3 2011 Market
Qantas Airways (2011, p.3) states that its largest market is Australia (69.1%), followed by the Americas and Pacific (8.6%), United Kingdom and Europe (8.5%), Japan (3.8%), New Zealand (3.6%), South-East and North-East Asia (3.6%), and Other (2.7%) (see Table 3). While most markets grew in 2006: Australia (+8.8%), the Americas and the Pacific (+8.4%), South-East and North-East Asia (+5.3%), Other (+4.8%), United Kingdom and Europe (+2.9%), and New Zealand (+2.9%), they decreased for Japan (-5.3%).

5.4 Infrastructure
To combat rising fuel prices and an aging fleet, in 2010 Qantas Airways (2011, pp.3-4) announced its intention to purchase 115 B787s and placed orders for 45 B787s with options for 20 and rights for a further 50. A further 10 Airbus A380s will be delivered in 2015.

5.5 Revenues
Qantas Airways (2011, p. 5) announced that revenues of US$9,963.6 million were recorded for the 2011 fiscal year, an increase of 8.6% over 2010. For the same year, the operating profit was A$725.8 million, compared to A$1,014 million in 2010. Net profit was A$479.5 million in 2006, down A$109 million. 2011 Revenues increased 8.6% to A$13,646.7 million. Three of the four divisions reported increases, and one a decrease (see Table 2).
Table 2: Qantas Revenues by Division, 2011

<table>
<thead>
<tr>
<th>Division</th>
<th>Total Revenue (in millions)</th>
<th>% rise/decrease since 2005</th>
<th>% of Total Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qantas</td>
<td>A$12,107.8</td>
<td>+7.7%</td>
<td>88.7%</td>
</tr>
<tr>
<td>Qantas Holidays</td>
<td>A$719.4</td>
<td>+1.6%</td>
<td>5.3%</td>
</tr>
<tr>
<td>Jetstar</td>
<td>A$649.9</td>
<td>+47.6%</td>
<td>4.8%</td>
</tr>
<tr>
<td>Qantas flight catering</td>
<td>A$169.6</td>
<td>-3%</td>
<td>1.2%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>A$13,646.7</strong></td>
<td></td>
<td><strong>100%</strong></td>
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</table>

(Source: adapted from Qantas Airways 2011, p. 5)

6.0 Conclusion

In conclusion, a new Australian airline competing in the Asia Pacific Region will be faced with increased competition in the Asia-Pacific region and a saturated Australian market.

As the profit margin in developed markets declines, more airlines from North America and Europe are entering the increasingly lucrative Asia-Pacific market. Presently Japan and China dominate the Asia-Pacific; however, China’s market share is expected to rise dramatically over the next five years. Jillaroo Airlines will find the market very competitive with established North American and European airlines, as well as developing Chinese airlines, competing for the same markets.

In Australia, airline competition has increased with new low fare, low cost airlines (such as Tiger, Jetstar and Virgin) gaining operating rights in an increasing number of airports. As a newcomer Jillaroo Airlines would find any routes it wants to service highly competitive.

7.0 Recommendation

Due to increasing competition in Australia and the Asia-Pacific region it is recommended that Jillaroo Airlines does not enter the airline market at this time.
Reference List


Knibb, D 2011, ‘Qantas tweaks its plan’, *Time Magazine*, vol. 23, no. 7, p. 22 (online ProQuest).


Appendix 1: Airlines servicing Australia internally and globally – in alphabetical order
(Datamonitor 2011, p. 43)

1. Air New Zealand Limited
2. Cathay Pacific Airways Limited
3. Delta Air Lines, Inc.
4. DHL
5. FedEx Corporation
6. Lufthansa
7. Northwest Airlines Corporation
8. Singapore Airlines Limited
9. South African Airways
10. Thai Airways International Public Company Ltd.
11. UAL Corporation
12. Virgin Atlantic Airways
<table>
<thead>
<tr>
<th><strong>Sections of a report: A general outline</strong></th>
<th><strong>Answer</strong></th>
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<tbody>
<tr>
<td><strong>Title Page</strong></td>
<td>Use a separate page - no page number.</td>
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<tr>
<td>The <em>Title Page</em> is the front page of your report. Note: you will add a <em>Cover Sheet</em> to the front of your report when submitting it as an assignment.</td>
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<td>Use a title that describes the major topic of your report.</td>
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<td>Give the <em>presentation details</em> of your report, stating:</td>
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<tr>
<td>1) Name of person for whom the report is intended</td>
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<td>2) Job title (Manager, Director, Chief Executive Officer)</td>
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<td>5) Date of submission.</td>
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<td>1) Name of writer (and student number, if applicable)</td>
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<td>It is a brief letter to the person who requested the report and follows normal letter format. In addition, it should include:</td>
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<td>1) The report aim and topic</td>
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<td>2) The conclusion and recommendations</td>
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<td>3) A concluding statement that includes an offer to address any question the person/organisation might have.</td>
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<td><strong>Executive Summary:</strong></td>
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<td>Label this section <em>Executive Summary</em>.</td>
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<td>The <em>Executive Summary</em> provides a brief outline of your entire report for the person or organisation requesting the report.</td>
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<td>In your <em>Executive Summary</em>:</td>
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<td>3) Give an overview of the major points/issues considered in your <em>Discussion</em> section</td>
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<td>5) State your recommendation/s.</td>
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<td><strong>Table of Contents</strong> and/or <strong>Table of Tables, Table of Figures:</strong></td>
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<td>Label this section <em>Table of Contents</em>.</td>
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<td>The <em>Table of Contents</em> section provides an index of the sections in your report.</td>
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<td>If you have Tables or Figures these must be listed in separate tables.</td>
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| Introduction: | Label this section **Introduction** and include section numbers (1.0). The *Introduction* briefly describes the main topic and discussion points of your report. It is (usually) divided into 3 sections: 
(1.1)Background: A **brief** background section giving the context of the report. 
(1.2)Aims: State the purpose of your report; **Why** are you writing it? 
(1.3)Scope: What is the focus/limitation(s) of the report? **What** are you looking at in order to achieve the aims? |
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| Methodology: *(Optional)* | The methodology section is only required for reports containing original research. Include enough detail so another researcher can reconstruct and repeat your procedures. Include information on: 
1) Instruments (for example, a questionnaire or focused interviews) 
2) How you analysed the data (for example, you added the responses or applied a particular statistical test) |
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| Discussion: | The *Discussion* is the main body of your report and where you make your arguments. Do not label this section *Discussion*, it is **better** to use descriptive headings for each main point/issue and sub-heading. Each sub-section should express *one idea only*. Include section and sub-section numbers. 
In your *Discussion*: 
1) **Present** the main points/issues or evidence; 
2) **Discuss/analyse** the main points/issues or evidence; 
3) Include the research from your chosen articles. Each main point/issue should draw on research from at least two sources; 
4) Acknowledge all your sources using the referencing system required (Harvard or footnote). |
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| Conclusion: | Label this section **Conclusion** and include section number. The *Conclusion* summarises the discussion and reminds the reader of the main points. 
In your *Conclusion*: 
1) Restate all the major points/issues considered in your *Discussion* section. Do not introduce any new information; 
2) State what appears to be true as a logical outcome of your discussion of the issues/points. |
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| **Recommendations:**  
| No new page - follows on from previous section – include page and section numbers.  
| (Length - about 5-10% of the word limit)  
| Label this section **Recommendations** and include section number. The *Recommendations* section tells the reader exactly what action should or should not be done as a result of the ideas in the report.  
| In your *Recommendations:*  
| 1) List proposals for action (perhaps using numbers or bullet points) that should or should not be taken in response to the points/issues outlined in your paper;  
| 2) State your preferred recommendation/s. Give reasons to support your preferences.  
|  
| **Reference List:**  
| Use a separate page – include page number  
| Label this section **Reference List**.  
| The *Reference List* is a list of sources referred to in the report.  
| In your *Reference List:*  
| 1. List all the sources that you have acknowledged in your report. They should be listed in alphabetical order;  
| 2. Unless otherwise instructed, use the Harvard (Author-Date) referencing system.  
|  
| **Appendix/Appendices:**  
| Use a separate page – include page number.  
| This section is *optional.*  
| Label this section **Appendix**. Information that is too long, detailed or technical to be included in the main body of your report should each be placed in an *Appendix or Appendices* (more than one *Appendix*).  
| In your *Appendix:*  
| 1) Give each Appendix a number (Appendix 1) and title;  
| 2) Add your data, which may be in the form of a table, graph or diagram. Have a separate Appendix for each piece of data.  
| 3) Reference the source of the data, table or illustration.
**Grammar for reports**

**Introductions:**

The introduction section of a report generally uses passives to maintain formality and avoid personal pronouns. For example:

I will discuss/analyse management strategies in this report.

Becomes:

Management strategies will be discussed/analysed to determine the most suitable for the company.

**Referring to data/Graphs:**

Present simple is generally used when referring to graphs or data. For example:

The graph below shows the impact of different managerial styles on employees. The following chart reveals employees’ preferred managerial styles.

**Recommendations:**

The recommendations section generally uses modal forms to give specific advice detailing who should do things and how. For example:

A ‘top-down’ approach could be implemented by the company’s CEO. If the company implemented a more ‘hands-on’ approach it would benefit staff relations.