

**MARKET STRUCTURE, CONDUCT, AND PERFORMANCE
OF DOMESTIC AIRLINE INDUSTRY
IN THE PHILIPPINES**

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ABSTRACT

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The purpose of this study is to fully understand the market structure, conduct and performance of the domestic airline industry in the Philippines. The data for passenger traffic, market share, seating capacity and utilization, financial position and other macroeconomic factors such as FX rates, GNP, and transportation growth were all considered to determine the market structure of the industry. The use of 4Ps of marketing; its extended model, together with other possible behaviors, such as merger and acquisition, alliances building, and others were used to identify the market conduct of the industry. Financial statements were used to compute for the financial ratios and the significant change over the years on revenue, operating expenses, and profitability were made to identify the market performance in the industry. Pooled regression was used to identify the variables that affect market performance.

Strategies suggested in this study include merger and acquisition, product development, and market development. Benchmarking Southwest Airlines' strategies can also be applied. Aside from identifying each strategy, is to enumerate all the possible actions to be completed in order to maximize the strategy formed. Lastly, is to assess the possible impact on the operation of the company as a whole.

In general, PAL remains the dominant carrier in the domestic air transport industry for the past years. But, it suffered a significant decline in market share, and perhaps in overall patronage, as new airlines slowly inched their way to compete with PAL. But PAL's supremacy ended in 2007 when Cebu Pacific was able to carry more passengers than PAL by gaining 43 percent market share compared to 39 percent of PAL. However, looking closely on the financial performance and position of the companies in the domestic airline industry, PAL still manages to outshine every player in the industry.

Pooled regression was used to identify the most significant variable in running the airline business over the years. Revenue and net income were directly affected by the internal variables rather than by macroeconomic variables. Generally, after different combinations, tests, and models used, it was found that capital, seat capacity, passenger traffic, and market share are the most significant variables in running the airline business. However, having larger market share and passenger traffic will not always guarantee revenue and profitability of the company.

The relationship of market structure, conduct, and performance in the domestic airline industry was revealed. The results challenged the airlines to identify strategies on how to raise its revenue and income. This can be done by increasing seat capacity, and raising additional assets (i.e. aircrafts, buildings for lease, etc., budget for the research and development). It is recommended then to maximize these internal variables for the industry to continuously grow.

Cost reduction, focusing on the 10 key success factors, adopting Southwest Airlines strategy, merger and acquisition, market and product development, introducing new fares and flight routes, outsourcing, joint ventures, improvement of travel agencies contract, fare dispersion, price discrimination, and promotion are some of the aspects that an airline should look into to achieve survival and success in the domestic airline industry.



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