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Executive Summary

Airbus is the great ingenuity of the major European countries coming to gather to create one giant company to compete worldwide against the United States’ Boeing. Airbus is a formation of smaller companies all combine into one. The countries that are the major players in Airbus are France, Germany, United Kingdom, and Spain. Recently, Airbus has done very well in gaining global market share for airplanes. Airbus is continually trying to expand its market share by trying to reach out to new emerging markets. These new markets like China and India will play a big role in the future for Boeing and Airbus.

In this case study of Airbus, we discovered there are many things in which Airbus does exceptionally well. Airbus is very safe in that airplane manufacturing is such a large business that it limits other form entering their market. Airbus also has a large share of the market coming in second to rival Boeing. Airbus market share changes everyday, but has been as high as 50% and briefly surpassing it in 2005. Although Airbus has many strengths and opportunities ahead, it also has some major weaknesses and threats that face them in the future. Airbus will have to keep with the new technologies that come out every few months. These technologies are crucial to help cut the large costs of manufacturing each airplane. Airbus will also have to keep striving for environmentally clean factories/airplanes since the world becomes more polluted each year. Airbus will have to face many changes on some of its plane to meet the growing demand for them. Airbus is going to have to address the problems on meeting delivery time of its planes so that they do not lose any more customers to their rivals.
Introduction of the Case

Airbus is a well-known company throughout the world. Airbus happens to be a very large player in the commercial and military production of airplanes. Airbus prides itself on quality and safety. Listed is Airbus’ mission statement: “Airbus’ mission is to meet the needs of airlines and operators by producing the most modern and comprehensive aircraft family on the market, complemented by the highest standard of product support” (Airbus, 2006). Airbus believes in “delivering the aircraft on time, on cost and on quality – getting it right the first time – is the goal Airbus continually strives for” (Airbus, 2006). Airbus makes it apparent that it wants to provide the safest airplane that it can produce. On Airbus’ own website it states that, “Airbus’ customers expect quality in the aircraft they buy” (Airbus, 2006). Safety is a sufficient reason airplanes have a large price tag. Safety, reliability, and comfort are all vital areas where quality is crucial. Maintenance costs for an airplane manufacture can be very large if the plane has to come back and be repaired because of a recall. As the case study progresses it is easy to see that Airbus even though it strives to deliver on time and correct the first time, it is easy to see that Airbus is having a hard time meeting the high standards it has set for itself.

History

Airbus is a consortium of European aviation companies in an attempt to compete with their larger American counterparts. Airbus wanted to compete with the American companies such as Boeing, McDonnell Douglas, and Lockheed Martin. In the mid 1960’s, tentative discussions started about the possibility of forming a company for the
large European companies to control. Airbus was officially formed in 1970 after France’s Sud-Aviation agreed to combine with Germany’s Deutsche Airbus (which itself was already a consortium made up of several other Germany aviation companies). The United Kingdom, who was originally in the mix until they backed out in support of their own British Airline Company (BAC) but later rejoined Airbus in 1979. In 1974, CASA of Spain joined the new-formed consortium. The name “Airbus” was chosen because it was a term used by the airline industry in the 1960s to refer to commercial airplanes and because this term was acceptable for the French Linguistically (Wikipedia, 2006). In 1972, Airbus made its first maiden voyage with its first production model the A300. “Initially the success of the consortium was poor but by 1979 there were 81 aircraft in service” (Wikipedia, 2006). In 1981, Airbus was guaranteed a spot as a major factor in the aviation production market because of the mass orders Airbus was delivering. Airbus incorporated itself in 2001 under French law and in 2001 again became a fully integrated company through a merger of the companies from Spain, France, and Germany getting 80% and The United Kingdom’s BAE System getting 20%. The merger formed the European Aeronautic Defense and Space Company, or EADS (Airbus, 2006). Airbus is currently classified as a simplified joint stock company that is for the most part private, yet it does publish its financial statements even though it does not have to under French law (Hopkins, 2006). Right now, Airbus is owned jointly by EADS (owns 80%) and by BAE Systems (owns 20%). These two companies are Europe’s two biggest military defense contractors. Currently, BAE Systems is selling out and would like EADS to buy their shares (20%) in the company. The deal will be finalized after BAE Systems shares are valuated by an investment banker company known as Rothschild.
Airbus is a very large employer in Europe and internationally. Airbus represents over 85 nationalities and over 20 different languages are spoken with English being the chosen business language. “Airbus employs over 55,000 people at sixteen sites in four European countries: Germany, France, The United Kingdom, and Spain” (Airbus, 2006). With these four countries, Airbus has more than 1500 suppliers in over 30 different countries. In addition, Airbus has subsidiaries in Japan, The United States and in Russia. Final Assembly of Airbus’ planes is in Toulouse, France and Hamburg, Germany. The first airplane introduced by Airbus was the 300 seats A300. The A300 was the world’s first twin-aisle aircraft with two engines. Then in 1984, Airbus announced the production of the A320 series aircraft. The A320 is smaller than the A300 because it seats about half as many people. The A320 has the widest single-aisle fuselage on the market. It is also the most modern because of its fly-by-wire technology used in the cockpit. In 2004, Airbus for the first time had surpassed rival Boeing for delivering the most aircrafts in a single year. Airbus introduced in January 2005 the double-decker A380 in hopes of taken back the market once again. The A380 is the world’s largest passenger plane with two decks and seating for 555-840 people.

In the news recently Airbus and Boeing have been feuding with each other over subsidies. These subsidies make it possible for the two companies to make a new plane that will not be released for up to five years. It take almost five years from the time it is approve to be in production until its delivered to its customers (testing and research and
development are added into the five years). During this stage in the process from designing to delivery, Airbus and Boeing compile very large debt until the planes are sold and they make the money back. In 2002, the European Union (EU) and the United States agreed to keep subsidies fair between the two companies. Although Boeing consistently argues that Airbus has received too much government aid, while Airbus complains that Boeing receives bogus research and development subsidies from NASA and the military. The World Trade Organization (WTO) is consistently mediating Boeing and Airbus to settle these claims against one another. However, these two companies try not to let it affect their relationship as stated in Wikipedia (2006), Rob Portman (from the USA) and Peter Mandelson (from the EU) issued a statement jointly, “We remain united in our determination that this dispute shall not affect our cooperation on a wider bilateral and multilateral trade issues. We have worked together well so far, and intend to continue to do so.” As you can see, Airbus and Boeing rely on each other to make the best product they can and to make the largest profits possible. Airbus and Boeing both cooperate in reverse engineering with each other (Rothman, 2004).

**Industry Analysis**

The airline industry worldwide is one of the largest industries in existence today. Although, air travel has been around for many decades, just recently it has become the large part of vacations and business travel. The airline industry, like Airbus, is constantly adding new planes and creating updated designs for older planes still in commission. Airbus along with others in the airline industry are committed to the safety of its passengers and to its workers while In an effort to keep up with the changing times
Airbus has come up with a solution help make airplanes lighter and to make the weight restrictions. Airbus’ new A380 will be fitted with carbon-fiber composites to make the jet slimmer (Rothman, 2004). These composites are made from a petroleum-based epoxy resin that weighs about 40% less than aluminum and is four times as strong (Rothman, 2004). Airbus plans to use these composites for about 15% of the A380. Also being used by Airbus is an aluminum–alloy-and-glass fiber sandwich, which will save the A380 a metric ton on final weight (Rothman, 2004).

**Global Issues**

The aviation sector accounts for only two percent of manmade CO₂ emissions, which many believe are responsible for climate change. This is surprising when considering that it carries a $2.9 trillion impact on the global economy, which is the equivalent of 80% of the world GDP (Final, 2006). However, damage to the environment as a result of the aviation industry is still taken very seriously. New ideas and plans are created and carried out continuously to aid in the reduction of environmental damage, with a large emphasis on research and development of new aircrafts. In response to the importance of awareness and change in the environment in April of this year, the Aviation & Environment Summit 2006 was held in Geneva, Switzerland. This was the second part of the annual summit; which is devoted to including all areas of the aeronautical industry to tackle environmental challenges that the industry faces everyday. Guests included major aviation related organizations, airlines, airports, aircraft manufacturers, aviation authorities, tourism companies, ground surface and transportation authorities, fuel suppliers and chambers of commerce.
The issues and recommendations that were discussed at the summit were the aviation industry faces in its effort to be “green,” has a direct impact on the aircraft manufacturing industry. First, the desire for a noise reduction in airport locations throughout the world needs to be considered when producing aircrafts. Recently, The Airbus A380 took a test flight to London and some of the residents living close to the airport we not so happy with the enormous noise levels the jumbo jet makes. Some have even brought up questions about potential problems of the possibility of the airplane ripping off roof tiles of their houses, throwing other aircraft off course and causing delays to other planes landing and taking off (Land, 2006). This requires further research and development from not only the manufacturers of the complete product, like Airbus, but also, the engine manufacturers such as Roles Royce and General Electric. Second, the demand for higher quality air around airports places a significant portion of the weight on the aircraft manufacturers’ shoulders. However, on a positive note, the industry has already worked intensively with this, receiving encouraging results. At this point, hydrocarbons and visible smoke for the most part have been eliminated, and the release of nitrogen oxides (NOx) from aircraft engines has dropped by 50% over the past 15 years. A decrease is scheduled to continue through 2020, allowing and additional 80% decrease in NOx (Final, 2006).

Last, and most focused on, is the contribution of aviation to climate change. As mentioned before, the entire aviation industry accounts for two percent of the global CO2 emissions, but this is forecasted to grow to three percent by 2050. With continuous scrutiny of aviation pollution, it is in the best interest of the aircraft industry to further focus on research and development to make aircrafts more efficient. Progress has already
been implemented in the production of new aircrafts. At the Summit, Director General and CEO of the International Air Transport Association, Giovanni Bisignani mentioned, “Airline fuel efficiency improved 20% in the last decade, nearly 5% over the past 2 years alone. Today’s modern aircraft consume, on average 3.5 liters per 100 passenger kilometers. This is similar to a small compact car but with 6 times the speed. Next generation aircraft- the Boeing 787 and Airbus A380 are targeting fuel efficiencies below 3.0 liters per 100 passenger kilometers” (IATA, 2006). In addition to accomplishments, the implementation of alternative fuels, are also in future plans to create more environmentally friendly aircrafts. Two alternatives are biomass to liquid (DTL), which would reduce CO₂ emissions further, and the use of hydrogen to power the engines (Final, 2006).

As fuel, CO₂ and costs will always be issues, the important factor is that the aviation industry is aware of these issues, and is continuously working to improve upon them. The Senior Vice President of the Product Policy of Airbus, Philippe Jarry, spoke at the 2006 Summit, “Flying the shortest distances possible between destinations, reducing congestion around airports and increasing efficient use of aircraft are areas that the industry is working on jointly. The contribution of the A380 to airport congestion and noise and emission reductions is an example widely recognized by airlines and airports around the world. The modern Airbus fleet benefits from the application of new and proven technology on next generation aircraft, leading to overall reduced fuel burn per seat” (Aviation, 2006).

As the issue of the aviation industry and being green can be burdensome, there is also an upside for aircraft manufacturers. Even though they are required to continue
costly research and development of new, friendlier aircrafts, the airlines are also expected to dump old aircrafts that are economically unfriendly. In turn, they purchase new ones, generating sales for manufacturers such as Airbus.

**Risks**

Aside from the environment, there are other issues or business-related risks that the aircraft industry faces on a day-to-day basis. A significant one is the occurrence of cyclicality in the aircraft market, a correlation between the increase in the commercial aircraft market and GDP. Other factors that can cause fluctuations in the market include, “(i) the average age and technical obsolescence of the fleet relative to new aircraft, (ii) the number and characteristics of aircraft taken out of service and parked pending potential return into service, (iii) passenger load factors, (iv) airline pricing policies, (v) airline financial health and (vi) deregulation” (Annual, 2006). Even with a growing number of passengers who are now flying more often and further distances, there is expected to be another decrease in the cycle. Manufacturers are pushed to make foresight decisions regarding this issue. For instance, Airbus strives towards a flexible manufacturing organization in order to accommodate such trends.

Another risk, one for the entire aviation industry, and one that can also be correlated to a downward spin in the aircraft industry, is terrorism. Unfortunately, at this point in time, every person is far too aware of the impact when combining terrorism and airplanes. The morning of September 11 gave birth to the largest terrorist act known today. The psychological impact that 9/11 had on flight passengers everywhere was devastating to the aviation industry. It has taken years for the industry to recover and earn back most of the passengers. The airline industry has been slowly gaining ground
once again, but another serious attack could be equally harmful, directly for the airline industry, and indirectly to the aircraft industry. Somewhat inspiring, was the crippled attempt of the liquid bomb terrorists, who planned to depart on a flight from London to the United States in August of this year. A foiled plot adds faith in the industry; however, tightened security can once again deter customers. Due to hyped security as a response to the London terrorists, Terry Trippler, member of a travel club out of Minneapolis stated, “Nobody’s going to scare me to stay home, but you might hassle me to stay home” (Hopkins, 2006). There tends to be a no win situation for the aviation industry when terrorists are involved.

A further issue that the industry faces is a limited amount of subsidies through the government. In the aircraft industry, it is no wonder that goods they produce are very large and very technical. They require an extensive and tedious amount of research and development over lengthy periods. It is hard for manufacturers such as Airbus to sustain the costs involved through the course of development and production. Therefore, funding from the government, often times favorable interest loans, is not only helpful but practically a necessity when looking to the future in the aircraft industry. The down side is the fact that subsidies are not guaranteed, and may be illegal in the short future. Right now consultations are being held through the World Trade Organization to mediate a government aid debate between the top dogs of commercial aircrafts, Boeing and Airbus. If the end of the litigations sees strict limits on government funding to these and other companies, it will have a crippling effect on future development of technology in the aircraft industry.
Just as any other business, competition is a great risk within the industry. As mentioned before, the goods that are composed in this industry are created over lengthy periods of time and with very large amounts of money. Manufacturers cannot afford to make mistakes. A single, negative event can shift most of the support to the competition, meaning the loss of millions, and in some cases billions of dollars.

**Future Trends**

As mentioned previously, the impact that the aviation industry has on the economy will be worked with continuously in the future. The rise of the Aviation and Environmental Summit is proof of the trend for industries to become more “green.” A great deal of technology will focus on these aspects alone.

In addition, a number of other trends deal with technology. As the entire economy is becoming further technologically advanced every day, the aircraft industry is also implementing these advances in every aspect of their business. Technology and software are being used in development, maintenance and training of new aircrafts. Companies such as Airbus are straying from the use of paper to the use of software instead. Aside from technology, many people are traveling more often and further distances. Passengers are now able to travel to the other side of the world, no problem. In response to this, the developments of larger airplanes are in progress to accommodate such journeys.

Conversely, the demand for personal air travel is on the rise as well. 2005 had a record number of sales according to the General Aviation Manufacturers Association. The year featured a 27.2 percent increase in personal aircrafts from the previous year (Snyder, 2006). Much of this is due to the increasing costs of commercial air travel and
the inconvenience of long waits after check-in and between connecting flights. Corporate Jets and Very Light Jets (VJL), three to six seat owner-operated plains, are increasingly popular. Corporations and individuals are reaching a wealthier standing, thus being able to purchase such aircrafts.

**Company Analysis**

Airbus falls under the umbrella of its parent company EADS. Their source of revenue is derived from two sectors of operations. Civilian aircraft manufacturing, lead by Airbus, accounted for 78% of its sales in 2005, and its military division the other 22%. Sales by countries and regions break down as follows: France 10%, Germany 9%, United Kingdom 8%, Europe 12%, North America 26%, Asia/Pacific 22%, Middle East 6%, Latin America 3%, and others 4% (Euronext, 2006).

In 2005, Airbus experienced their best year in company history, acquiring 1,055 firm new orders for aircraft valued at around $95 billion. That gave Airbus a bigger market share in terms of aircraft units at 52% and 45% in terms of value (Airbus Annual Review, 2006). The addition of these firm orders enabled Airbus to maintain a strong backlog of 2,177 aircraft valued at $220 billion, the highest it has ever been, continuing to be ahead of the competition for the sixth consecutive year (Airbus Annual Review, 2006). A majority of the orders came from Asia and the Middle East, in addition to many in Latin America and several low cost carriers in Europe. The largest orders came from China, with a boost from the orders for the A380, bringing the total to 219 aircraft. Leasing companies accounted for another 195 aircraft (Airbus Annual Review, 2006).
Airbus’ largest customer is ILFC, or International Lease Finance Corporation. They are the world’s largest aircraft leasers headquartered in Los Angeles, California (Wikipedia, 2006). They lease Boeing and Airbus aircraft to airlines worldwide. These include American Airlines, Continental Airlines, Emirates, Air France-KLM, Lufthansa and most recently, Delta Air Lines, amongst many others (Wikipedia, 2006). At the beginning of 2005, ILFC had an inventory of 824 aircraft. They have already ordered five passenger Airbus A380 aircraft and five freighter versions and will receive the first aircraft in the summer of 2007 (Wikipedia, 2006).

Strengths

Diversity is a key factor for the success of Airbus. With its global presence growing, Airbus is now bigger internationally than it ever has been. 85 different nationalities are represented among its 55,000 employees (Airbus, 2006). Airbus takes pride in the diversity of its employees. They value the experience and expertise people from different backgrounds bring to the industry. A company cannot help but thrive when it considers the mix of ideas, vision, and knowledge such a combination of cultures creates. This ingenuity has helped Airbus thrive over the last three decades. Since 1970, they have risen to become a global competitor, surpassing Boeing in 2005, a company that has been in business since 1916 (Travel Insider, 2006).

One of Airbus’ greatest successes in terms of customer support is the continual announcement to freeze the prices of spare parts. This has been in practice for three years running. This means that for 2006, spare parts were priced at 2003 prices (Airbus Annual Review, 2006).
Weakness

One of the biggest weaknesses currently facing Airbus is the delay of the A380. In fact, it has caused such a stir, that it lead parent company EADS, the European Aeronautic Defense and Space Company, to change its management in October 2006 (Airwise News, 2006). Fabrice Breigier, formally the head of another EADS unit Eurocopter, was named chief operating officer and the current EADS chief financial officer, Hans Peter Ring, will also become Airbus’ CFO (Airwise News, 2006). In addition, EADS CEO’s Tom Enders and Louis Gallois will regularly report on all major projects, programs and matters of importance regarding Airbus, to better prepare board discussions and decisions and point the company in the right direction (Airwise News, 2006).

In addition to the change in upper management, Airbus also plans to reduce the number of suppliers it uses. Airbus estimates that the plan, which would chop the company’s supplier rolls from a current 3000 to just 500, would reduce material costs by $2 billion over the next three years (Minihan, 2006). The aerospace giant says the supplier consolidation will also cut administrative costs by an additional $446.5 million (Minihan, 2006). At the time of this report, there was no information on which suppliers would be cut and how the cuts will be made. CEO Louise Gallois said, “Airbus needs to cut costs to become more competitive … and the cuts are urgently needed to allow for the launch of another new plane, the long-range A350” (Airwise News, 2006).

Airbus first shocked investors and customers in June by doubling the 555-seater A380's production delay to one year, blaming problems with wiring. Nevertheless, in early October, it doubled the holdup again to a total of two years and said the delay
would wipe $6 billion off the profit of parent company EADS over four years. This stock chart shows the dramatic decline of EADS’ value when the delay was first announced in June.

Further ramifications from the delay of the A380 hurt Airbus in early late 2006 when FedEx, the world’s largest express transportation company, became the first of Airbus’ customers to cancel 10 orders for the double-decker. FedEx has instead ordered fifteen Boeing 777 freighters (USA Today, 2006).

**Opportunities**

A continuing success for Airbus is their commitment to going green. This is a win/win situation for any company who wants to be at the forefront of the next revolution of clean technology, and derive the benefits from it. Developing new technologies that lower an aircraft's lifetime carbon footprint is a desirable attribute that any airline would want to get behind. The public’s perception about the Earth and the effect of global warming is finally starting to change, and the summit Airbus and other companies attended in 2006 is proof that they are ready for change. It makes smart business sense and helps keep the Earth clean. Airbus is content on being one of the industries leaders on being environmentally green. In today’s future it is very important for a large corporation to be environmentally clean because the customers like to see that the company there are doing business with is preserving resources for the future. As stated
on Airbus’ own 2005 Annual review on their website “As an industry leader Airbus is committed to moving towards environmental excellence, both with regards to its manufacturing sites and for its products. In this context, it is also dedicating a lot of efforts to continuously improving its environmental friendliness and being a good neighbor. To this effect, it is ensuring that all its manufacturing sites be compliant with the latest standards for environmental friendliness (Airbus, 2006). “In 2005, nine more Airbus manufacturing sites received the ISO 14001 certification as part of a company-wide policy to implement an Environmental Management System (EMS) to further improve its environmental performance, bringing the total of compliant sites to 14 out of 16” (Airbus, 2006). “The ISO 14001 is an internationally-recognized standard given to companies with procedures in place to continually reduce their impact on the environment. The ISO 14001 applies to all types of business and is entirely voluntary. As an industry leader however, Airbus is committed to moving towards environmental excellence and the Environmental Management System will be the key support to demonstrate how it systematically integrating improved environmental practices into all areas of its business. With the ISO 14001 certification of Toulouse and Hamburg sites targeted for mid 2006, Airbus will then turn all these individual sites certification into an overall corporate certification, including sites and products, by the end of 2006” (Airbus, 2006).

Airbus has also setup a company to recycle planes that will be decommissioned in the future. Airbus estimates that more than 4,000 airplanes will be retired in the next twenty years (roughly 200 airplanes a year) (Burchell, 2006). EADS is working with partners like SITA (a waste management company) to help with the recycling of the
decommissioning of the airplanes. Airbus’ Julien Dezombre (projects technical manager) had this to say about working with SITA, “They specialize in processes to recycle and recover used materials like plastics, tires, and batteries” (Burchell, 2006). However, Airbus attempts to please the customers with being environmentally green there are others that think they could do a better job. It is very easy to see that Airbus takes pride in being very safe and clean to the environment.

**Threats**

Litigation is inherent industry threat Airbus is not immune from happening. Just recently, Airbus was found guilty, along with Air France, for damages that resulted in the 1992 plane crash near the city of Strasbourg, Germany were 87 people died. Although the evidence failed to point to one particular reason that caused the plane to crash in to the mountains, it does seem that a multitude of factors ranging from an inexperienced crew to a possible faulty guidance system may have been at fault (Airwise News, 2006). To date, Air France has already paid $27 million to most of the victims’ families. It may demand Airbus to pay their share of the damages (Airwise News, 2006).

Since Airbus is a global company that has customers and suppliers from all over the world, a major financial risk they face is how currency exchange rates affect profits. Parent company EADS’ main revenues are in U.S. dollars, while a large chunk of its incurred costs are in the form of Euro, the currency of the European Union, and Pounds Sterling, the currency of the United Kingdom (EADS, 2006). The mismatching of exchange rates can have an adverse affect on Airbus’ and subsequently EADS profits (EADS, 2006). In order to combat this problem, EADS manages a long-term hedging
portfolio that tries to protect itself from significant changes in the exchange rate, as well as unpredictable losses of revenue due to order cancellations, as in the case of FedEx, or postponements, as in the case of the A380 (EADS, 2006).

Airbus has many external risks out of their control as the terrorist attacks in New York and Madrid, and the spread of the SARS (Severe Acute Respiratory Syndrome) virus have demonstrated. Terrorism and epidemics can negatively affect public perception of air travel safety and comfort, which can affect the demand for air travel and production of new commercial aircraft (EADS, 2006). Furthermore, major airplane crashes may have a negative effect on the public’s perceptions of the safety of a given class of aircraft. Because of terrorism, epidemics and other catastrophic events, an airline may be confronted with sudden reduced demand for air travel and be compelled to take costly security and safety measures (EADS, 2006).

**Threats from Competition & Government Financing**

Another threat inherent in the airline industry is competition. Most of EADS’ businesses are subject to significant competition. Airbus, in particular, has been affected by downward price pressure resulting from the competition. EADS believes that some of the underlying causes of such price competition have been caused by the recent weakening of demand which has led to greater leverage for certain customers to encourage competition in respect of a variety of issues, most importantly price and payment terms (EADS, 2006). Airbus and its most direct competitor Boeing have both accused each other of illegal government financing. In prior years, Airbus and its main competitors have benefited from government financing for product research and development. However, no assurances can be given that financing will continue to be
made available for future projects. In 1992, the European Union and the United States entered into a bilateral “Agreement on Trade in Large Civil Aircraft”, whose main objective was to regulate the level of both direct and indirect government support to both aircraft industries (EU Commission, 2005). The unilateral withdrawal from the 1992 agreement by the US government in late 2004 eventually led to accusations back and forth by the US and the EU with the World Trade Organization (EADS, 2006). The EU and the US have also entered into negotiations to seek a resolution to the issues being disputed in the formal WTO process, with the goal of agreeing on a new system that provides for a level playing field when funding future aircraft developments.

In 2005, the EU and the US agreed on terms for negotiations on subsidies affecting the civil aircraft sector. The objective of these negotiations was to eliminate different types of subsidies and to establish fair market-based competition between Boeing and Airbus (Europa, 2005). Peter Mandelson, the present Trade Commissioner for the European Union, said, "I am glad that (former US Deputy Secretary of State) Bob Zoellick and I have been able to agree on a way forward. I hope our negotiations in the next three months will lead to an agreement ending subsidies to development and production of large civil aircraft. When disputes arise in transatlantic trade relations, we should try to solve them by dialogue and co-operation. Today’s agreement creates a positive atmosphere for more work to strengthen the economic partnership between the EU and the US, which is vital for both of us. Airbus can justifiably be proud of the excellent range of aircraft it is producing, and is clearly capable of competing in the global market place" (Europa, 2005). In the year and a half since negotiations first began, the two are no closer to resolving the disputes. In mid-November 2006, the US took the
steps of making the first submissions to a WTO panel regarding government supports for Airbus (EU Commission, 2006). EU Trade spokesman Peter Power said, “The EU has always sought to resolve the aircraft dispute through negotiation rather than litigation, but regrettably, we have been frustrated in this by the US and Boeing. The EU will strongly defend this case and pursue its own case against the WTO illegal subsidies granted by the US government to Boeing. We are confident of success” (EU Commission, 2006).

**Competitor Analysis**

Indirect competitors to the Airbus Corporation would include automobiles, trains and ships. For distances over 1,500 miles, there is not a practical alternative to flying, however shorter distances increase competition. To add to this, plane crashes give the leading edge to competition. Even though a person is for more likely to die in a car accident, catastrophic events in the airline industry are highlighted and broadcasted on a higher level. In 2001, Airbus Flight 587 which left John F. Kennedy Airport crashed to the ground shortly after. It killed the 260 on board and an addition 6 people on the ground (Philips, 2006). The accident was caused by plane malfunctions. Disasters such as this give a bad image to flying, and are the source of untrusting travelers who then choose to travel by other means.

Airbus also faces much competition directly within the aircraft manufacturing industry. The “backbone” of Airbus is their A320 family, which includes the A318, A319, A320 and the A321. Direct competitors to these aircrafts are a series of Boeing aircrafts, Bombardier CSeries, and the Embraer E-Jets. Embraer, located in Brazil, is in fourth place in the world production of civil aircrafts, and second in regional aircrafts.
Their main focus is on jets and turboprops with room for 21-116 passengers. They also produce transport, light attack, and surveillance aircraft in which the Brazilian Air Force is their main customer. (Embraer, 2005)

Bombardier, located in Quebec, is the number three producer of civilian aircrafts. It leads Embraer in production of regional aircrafts and the number one maker (Bombardier, 2005). Bombardier’s transportation division includes Daimler Chrysler’s Adtranz rail system, which is the largest railway equipment maker in the world. They also owned a recreation vehicle business at one time, which they sold.

Embraer and Bombardier are minor competition to Airbus when compared to Boeing. Boeing is the world’s largest aerospace company in the world and Airbus’s toughest competitor in the commercial aircraft industry. The rival companies are far from a friendly relationship. In 1992, an agreement between the companies stated the limit of subsidies allowed from their governments, but the agreement has been useless. Each company has blamed the other for not following the rules in the agreement, and Boeing filed a formal complaint in October of 2004 (WTO, 2006). In response, Airbus also filed a complaint based on unfair launch aid by the US government. The litigation is in process right now, and the outcome will have a large impact on the future of the aircraft industry. Future projects, such as Airbus’s A350 will depend on funding through the government to help with research and development costs.

As for current projects, the A380 aircraft is intended to go head on with the Boeing 747. 2005 was the fifth year in a row that Airbus swept over fifty percent of the market share in order intake. However, problems with the A380 are likely to bring this streak to a halt this year. The delays in the manufacturing and delivering of the A380 are
proving to be very damaging. In June of this year, Airbus had mentioned a second delay in the delivery of expected aircrafts, which is leading to a decrease in orders and shares. FedEx reversed its order for ten A380’s listed at $300 million dollars each. Instead, the company will purchase fifteen of Boeing’s 777 freighters listed at $235 million each (Wilber, 2006). Airbus still has 166 orders listed, but further delays and frustration can easily cause Airbus to loose more sales to Boeing. The year 2006 is the biggest year yet in the battle between Airbus and Boeing for market share.

**Recommendations**

The recommendations we as a group decided are broken down into two separate parts. One being the short-term and the other being the long-term. The short term consists of maintaining what they have done so far to be number two behind Boeing. Airbus however, does need to improve something on its new aircraft the A380. Airbus needs to address the public protest of the great deal of noise the A380 creates close to the airports. Also, Airbus should consider changing/reevaluating its goals under its mission statement about delivering on time, with high quality, done right the first time, if in fact it can not meet these standard it has set for itself.

In the long-term, we feel that Airbus can make some adjustments and improvements to better reach its customers and even bring in new ones. For the long-term, we feel that Airbus needs to try to conquer the foreign emerging markets. These markets would include countries like India and China, which is currently being dominated by Boeing. Airbus also needs to ensure that there is a great deal of diversity within the company. We feel that people do notice when an international company such
as Airbus is willing to hire workers of different nationalities. We feel that diversity is
great for a global company because they hear different aspects from all over the world.
In the long-term Airbus should continue to make safety number one. Airbus spends a lot
of money on training and safety and they should continue to do so for everyone who flies
on a plane will benefit. The last thing we would recommend for Airbus is to maintain its
efforts to stay green. Airbus also, needs to work with airports and airport designers of
new airports since there is a limited amount of airports that the new A380 can use. Most
airport runways are either to short, not wide enough, or they cannot handle the massive
weight of the A380. Airbus has already done a great job at being environmentally clean
and they should continue to improve these efforts as new technologies allows them to do
so.

**Methodology**

The methodology we used for Airbus goes from very broad to very detailed.
When we first started this case study, we got together, sat down, and started
brainstorming some ideas on what we thought was most important to research. Most of
our sources are form the Internet yet all of these sources are creditable. We use Google
search engine to type in what we wanted to find and went to the sites with the highest
hits. One of the first sites we researched was the companies own website at
www.airbus.com/en/. On Airbus’ website we found out the history of the company, their
mission statement, goals that the company has set for itself, and some financial
statements. With the information found on Airbus’ own website we felt we had a
substantial amount of information on the company to start looking elsewhere to find out
about competitor, how they fared as an environmentally clean company, and risks that face them. Some of the other sources we have are from published newspapers that are well known. Along with the newspapers, we used major television networks own websites to find information that was very helpful in find out information on controversial topics about Airbus. These T.V. networks post vast amount of information on statistics about the company and the industry.
Exhibits

Workforce by countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Airbus direct employees</th>
<th>Employed by suppliers</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>19,358</td>
<td>to be added</td>
</tr>
<tr>
<td>Germany</td>
<td>18,423</td>
<td>to be added</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>8,688</td>
<td>to be added</td>
</tr>
<tr>
<td>Spain</td>
<td>2,726</td>
<td>to be added</td>
</tr>
<tr>
<td>United States</td>
<td>405+</td>
<td>120,000</td>
</tr>
<tr>
<td>People's Republic of China</td>
<td>100+</td>
<td>to be added</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>54,700+</strong></td>
<td></td>
</tr>
</tbody>
</table>

(Data as of December 31, 2005)

Workforce by sites

<table>
<thead>
<tr>
<th>Airbus site ¹</th>
<th>Country</th>
<th>Workforce</th>
</tr>
</thead>
<tbody>
<tr>
<td>Toulouse (Saint-Martin-du-Touch, Colomiers, Blagnac)</td>
<td>(F)</td>
<td>14,133</td>
</tr>
<tr>
<td>Hamburg (Finkenwerder, Stade, Buxtehude)</td>
<td>(G)</td>
<td>11,185</td>
</tr>
<tr>
<td>Bristol (Filton), England</td>
<td>(UK)</td>
<td>4,379</td>
</tr>
<tr>
<td>Broughton, Flintshire, Wales</td>
<td>(UK)</td>
<td>4,309</td>
</tr>
<tr>
<td>Bremen</td>
<td>(G)</td>
<td>3,051</td>
</tr>
<tr>
<td>Madrid (Getafe, Illescas)</td>
<td>(S)</td>
<td>2,243</td>
</tr>
<tr>
<td>Saint-Nazaire</td>
<td>(F)</td>
<td>2,227</td>
</tr>
<tr>
<td>Nordenham</td>
<td>(G)</td>
<td>2,106</td>
</tr>
<tr>
<td>Nantes</td>
<td>(F)</td>
<td>1,869</td>
</tr>
<tr>
<td>Varel</td>
<td>(G)</td>
<td>1,172</td>
</tr>
<tr>
<td>Albert (Méaulte)</td>
<td>(F)</td>
<td>1,129</td>
</tr>
<tr>
<td>Laupheim</td>
<td>(G)</td>
<td>909</td>
</tr>
<tr>
<td>Cadiz (Puerto Real)</td>
<td>(S)</td>
<td>483</td>
</tr>
<tr>
<td>Washington, D.C. (Herndon, Ashburn)</td>
<td>(US)</td>
<td>165+</td>
</tr>
<tr>
<td>Wichita</td>
<td>(US)</td>
<td>200+</td>
</tr>
<tr>
<td>Beijing</td>
<td>(PRC)</td>
<td>100+</td>
</tr>
<tr>
<td>Miami (Miami Springs)</td>
<td>(US)</td>
<td>100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>49,700+</strong></td>
</tr>
</tbody>
</table>

(Data as of December 31, 2005)
### Financial Highlights

- **Revenue (2004):** 27.28B
- **Revenue Growth (2004):** 12.6%
- **Employees (2004):** 53,000
- **Employee Growth (2004):** 6%
- **Industry:** Aerospace/Defense - Major Diversified

### Key People

- President and CEO; Co-CEO; European Aeronautic Defence and S
  - Louis Gallois
- COO
  - Fabrice Brégier
- CFO
  - Andreas Sperl

### Industry Market Summary

**Aerospace/Defense - Major Diversified**

- **Composite Value:** 1180.7
- **Today's Change:** -0.95%
- **S&P 500:** +0.09%

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![Stock Chart](http://finance.yahoo.com/)
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