

5.4E: Location Activity



IB Business Management: www.BusinessManagementIB.com

5.4 LOCATION: ACTIVITY E

Read the case study information below and answer the questions that follow.

WORLD'S AIRLINES INCREASE OUTSOURCING



Major national airlines and their cut-price competitors agree on one thing – aircraft maintenance is a lot cheaper when it's performed by low-paid mechanics working for outsourcing companies. JetBlue, Southwest, Qantas, America West and United are among the big airlines which outsource all major maintenance of their aircraft to contractors in other countries. JetBlue's A320 Airbus planes are sent to El Salvador for maintenance,

for example. US Airways recently cut 2000 skilled mechanics' jobs as it outsourced most of its maintenance and repair work.

It wasn't long ago that all global airlines employed their own teams of highly qualified and highly paid aircraft engineers. They were all licensed by their own country's civil aviation authority and could earn at least \$60 an hour. Mechanics working for outsourcers do not have to be licensed – only their supervisors must be fully qualified. In El Salvador the mechanics earn between \$10 and \$20 an hour.

5.4E: Location Activity

Most airlines have also outsourced customer enquiry call centres, baggage handling, in-flight catering and merchandising. Malaysia Airlines recently denied rumours that it was about to outsource its in-flight retail operation called Golden Boutique. The airline has made clear its desire to 'mutually separate' non-core operations. The company described its in-flight business as 'non-core but good value', so it may want to remain in complete control of this with its own employees.

Source: www.BusinessManagementIB.com

QUESTIONS: 30 MARKS, 55 MINUTES

1. Define the term 'outsourcing'. **[3 marks]**
2. Analyse **two** potential benefits to a major airline from outsourcing the maintenance of its aircraft. **[9 marks]**
3. Explain **two** reasons why Malaysia Airlines may not want to outsource in-flight retailing. **[8 marks]**
4. Recommend whether major airlines should outsource all non-core business activities. **[10 marks]**