

AIRLINE COMPETITION AND IMPLICATIONS FOR STRATEGY

Air travel has changed the way people live and experience the world today. The airline industry is a strategic sector that plays a fundamental role in the globalization of other industries as it promotes tourism, world trade, and foreign investment and, therefore leads to economic growth. However all airlines within the industry operate in a highly dynamic environment where various legal, social, technological and economic forces interact with each other, thus influencing their decisions and actions. The ingredients come from the worlds of competition policy and international trade policy. Competition is a condition that every business must continuously recognize as it is a major factor in determining success or failure of the business. Competition creates an interesting tension, the intensity of which have major, often surprising, implications for strategy. The environment in which airlines compete does influence what the airlines can and cannot do.

The international airline industry provides service to virtually every corner of the globe. It has been the integral part of the global economy. The airline industry is a major economic force, by both its own operations and impact on related industries, such as aircraft manufacturers and tourism to name a few. Few other industries generate the amount and intensity of attention given to airlines, not among its participants but from government policy makers, the media and almost anyone who has an anecdote about a particular air travel experience. The air transport industry has experienced the broader consequences of the economic recession that became more acute towards the end of 2008. Beyond the projection of USD 5 billion losses IATA made for global airlines for 2008, the airlines lost about USD 8 billion going by IATA figures. The trend appears not to have bottomed out yet, in which case the industry must continue to embrace cost readjustments and revenue enhancements. The contributions of the aviation industry to economic recovery and growth have become clearer to governments who should be encouraged to increase support to the air transport industry. Liberalization is good and protectionism is bad. It is too late to go back to the days of heavy protectionism. Protectionism creates high fare levels, leading to low loads and ultimately poor performance of an airline compared to its competitors.

The general trend I have noticed is that airlines think the aspect of pricing plays a significant role in creating competition and adding value to the customers. While the pros and cons of alternative product, place and promotion strategies have been discussed at length in innumerable academic and trade journals, and clearly prevailed in the practice of marketing management, most airlines have so far ignored the crucial importance of innovative pricing strategies as a tool to create a sustainable competitive advantage over rivals. As a result traditional approaches to pricing such as cost plus pricing or simply following the prices of the competition prevail. Relative importance of price and non-price product characteristics in influencing potential passengers' choice of products offered by airlines clearly shows that on average prices may not be as important as we think in explaining passengers' choice behaviors among alternative products. I argue that changes in demand and cost conditions may influence the competitive intensity, thereby

causing an indirect effect on prices. It is however astounding that pricing is the only tool in the marketing mix which generates revenues directly, whereas, all others factors cause costs to rise. While cost reduction potentials have been largely exploited by most airlines and an increase in volumes is hard to realize on saturated markets, the optimization of pricing processes remains at least a promising strategy. However complex pricing strategies are no guarantee for success in a very competitive airline environment.

While collaboration has always been an integral part of airline business, the issue of alliances and partnerships has minimal effect on competitive intensity and strategy formulation as I have observed. The conventional wisdom of the airlines was and is still is to some extent, that globalization demands concentration into a small number of global operators, a conventional wisdom which perhaps could be false. The important changes in airline industry structure have come not from mergers but from the ability of new entrants to grab market share in more competitive markets. Of course national protectionism prevented full consolidation and alliance projects often fail because of tactical errors made by management. The airlines are continually competing against each other in terms of prices, technology, in-flight entertainment, customer service and many more areas. In the past monopolization of major routes, emergence of limited brand loyalty and tacit price agreements helped reduce the intensity of competition. Slumping demand beginning early 1990s plunged the industry into a severe price war. Overall competition suggests that the intensity of competition in the airline industry will continue to be severe. The net result of this competition between the airlines is an overall slow market growth rate. We can understand why the potential for returns is so low in the airline industry.

Branding is to make sure that, at each stage, the passenger has the best possible experience and he will attribute that great experience to the airline he is flying with. Brand identity from my perspective has very little or minimal influence in terms of strategy formulation and competitive intensity. This shows that airlines are failing to grasp the concept that a brand is a bundle of perceptions and feelings that customers hold for a product or service or the airline company. It becomes harder to stay apart or ahead, and this explains why some airlines find branding not a big deal.

New entrants are supposed to bring in new and extra capacity. They fight for market share and bid down prices. This ultimately inflates the costs of doing business. Entry is mainly deterred by the cost of entry into the airline industry and is largely determined by the existing competitors.

The essence of formulating strategies is choosing whether the airline will perform different activities than the competitor or pursue similar activities but in a more effective way. Once the airlines control their service delivery process, they are able to meet appropriate customer expectations and are able to survive competition.

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