
UNIT 29 AIRLINES MARKETING

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29.0 OBJECTIVES

After studying this Unit, you should be able to understand the:

- special characteristics of an airline's product,
- process of marketing planning and its effectiveness,
- importance of scheduling and pricing in airline's marketing, and
- various ways of promoting the product.

29.1 INTRODUCTION

In the context of contemporary competitive market knowing the details of marketing becomes more essential and airlines marketing is a fascinating subject. The market share which an airline holds depends largely on how effectively you can market your product. The aim of this Unit is to familiarise you with the unique characteristics of airline's product and the various constituents of airlines marketing. This Unit deals with marketing planning, scheduling, pricing, distribution and promotion of an airline's product.

29.2 UNDERSTANDING AIRLINES MARKET

There are certain common components in marketing services or product. However, in marketing it is essential to know the characteristics of your product before you go for determining your marketing strategy. Thus you have to first understand the special features of airlines marketing. Some of these are as follows:

i) **Highly Perishable Product**

The airlines product is extremely perishable as it cannot be stored for future sales. Once boarding is closed on a particular flight, all the unutilised seats on that flight go completely waste. Airlines profitability and success of marketing functions depends greatly on its ability to fill-up the available capacity with revenue generating traffic viz. passenger and cargo.

ii) **Need for Fine Market Segmentation**

An airline's market consists of various market segments with different service expectations, different price sensitivities, different travel motivations, etc. Examples of such market

segments are first class passengers, who do not care about the price of an air ticket but expect only the best and most luxurious service standards and need to be pampered by the airline's staff every inch of the way. Another example is business traveller, who mostly travels on an expense account and expects good schedules and connections, efficient ground service and comfortable on-board service. Family holiday traffic is more concerned with discounts in air fares than the schedules or service standards, etc. For labour traffic or shoppers' traffic, price is the most important factor. It is vital for an airlines to optimise its yields and revenue from various market segments by positioning itself correctly in the market place.

iii) Dynamic Market

Since airline's product is a service consisting basically of an experience for the passenger, it has to result in various degrees of satisfaction or dis-satisfaction from that experience. This in turn affects perception about the product. Besides, competition among airlines is hard and the market dynamics of pricing, promotion and distribution are liable to change very rapidly.

The challenge for an airline in marketing lies in manipulating its marketing mix viz. product, price, promotion and distribution. This is done to get a passenger in front of its checking-in counter ready and willing to fly that particular airlines after paying good money; and then sending him or her away happily to the destination so that the passenger is willing to come back another time and always to the same airline on any route. This is the essence of airline's marketing.

Whatever an airline's marketing manager does, he cannot afford to lose sight of the basic purpose of the marketing function, which is to optimise the yield and make an airline's operation profitable. Whatever you do for product improvement, for sales promotion, publicity and advertising, for distribution of your product in the market place, by giving discounts and incentives - ultimately it all has to result in generation of income for the airline in excess of its cost of operation of air services.

iv) Dependency

The airlines product is dependent on certain external factors like facilities, rules, regulations and security check ups etc. at the airports. Though these are same for the passengers of all the airlines but the customers often associate them with the airline they are flying with.

29.3 MARKETING PLANNING

Strategic planning is one of the most important stages in the application of the principles of marketing within the airline industry. It is:

"the analysis of alternative opportunities and risk to the firm, informed by environmental (for example, competitive, social) and internal (for example, production abilities) information, which leads management to choose a particular set of market, product and customer goals."

In other words, the main function of strategic planning is to highlight for the airline which of its marketing strengths can best be used to take advantage of opportunities which may arise in the environment. Essentially, strategic planning involves making advance decisions relating to courses of action which the airline's marketing department will take in the future. The strategic plan is long-range and comprehensive.

The main aim of strategic planning is now seen to be the identification of attractive areas, of new opportunities and the formulation of programmes for developing these areas and opportunities. The facilities, finances and resources required to carry out this development are now considered secondary to the basic identification of the opportunities.

Long range strategic planning should include the following elements:

- a definition of goals and objectives
- a determination of where the company stands that is, a position audit, including strengths and weaknesses, opportunities and threats
- an assessment of the resources available to put the strategic plan into action

- an assessment of alternative courses of action and the strategic options available
- decisions regarding avenues likely to be subsequently pursued
- a preparation of plans to be conducted that i.e. a strategic plan (including contingency plans).

Consideration must also be given to the number of subsequent years over which planning is to take place. There is a tendency in the airline industry to shorten planning horizons. This is because of both increased competition and the process of deregulation. These factors also require flexibility in order that plans can be rapidly adjusted to meet changes in the environment.

The factors involved in Marketing Planning are as follows:

- A basic strategy must be defined for the airline in terms of its goals/objectives. The best option for achieving these must be outlined.
- Management must take a number of inter-related decisions, concerning what to do, how to do it and who should do it, in order to achieve these objectives.

Such tactical planning is contained in the short-range Marketing Plan, which covers any period upto to one year. As has been seen, the Marketing Plan is used to implement parts of the airline's marketing strategy. This implementation contributes to the achievement of the organisation's overall goals.

The purpose of the marketing plan is to:

- set out marketing objectives, strategies, and resources in such a way that they can be easily and quickly understood,
- eliminate confusion and misunderstanding among groups involved in the marketing function - for example, Product Development, Field Sales, Publicity, Standards, Research, Public Relations, Distribution and so on,
- establish who will carry out what task, when why and where,
- ensure as far as possible that all phases of the overall marketing operation are working towards achieving common goals,
- provide a permanent record of the marketing planning and the rationale behind it,
- develop a continuity of thought and effort from one year to the next,
- check that the annual marketing activity is in line with long term planning,
- provide a better basis for monitoring performance and analysing variations on target.

Airlines business involves heavy investments and appropriate marketing planning can bring certain benefits like:

- the marketing plan provides through analysis of situations, opportunities, options, and so on as a result of disciplined thinking and commitment of ideas to paper,
- it results in clearly stated objectives and well thought-out strategies in advance of the time period covered,
- it demands consideration of all problems and opportunities and by anticipating events reduces the risk of having to suddenly deal with random problems,
- marketing goals contained within the plan give guidelines for profitable development and provide a better basis for measuring performance than simply revenue alone, and
- the marketing plan results in activities being geared towards important issues and plans are always established well in advance.

The airline's overall strategic plan studies the total market and then segments it into those sections which it has highlighted as being potentially the most profitable to enter. Once it has done this, it must decide what positions it wants to occupy in these segments. This process is known as marketing positioning. It is not enough for an airline to have an outstanding or an excellent airline product, if it is incorrectly positioned in its target market segments. Market positioning, at its most basic level, involves the effective communication of the airline's corporate image to the

customers identified as key contributors to market development. It must ensure that customers appreciate the advantages of the airline's service over that of its competitors. Market positioning, like every other marketing activity, should contribute to the airline's achievement of the overall objectives. It does this by highlighting the most appropriate areas of investment and identifying those market segments which will yield the highest return on investment.

29.4 MARKETING EFFECTIVENESS

It is extremely important for any business to analyse its marketing effectiveness. Without some system for analysing and interpreting the effects of the company's marketing efforts, it might continue to use strategies which are out-dated, which do not help the company to obtain its corporate and marketing objectives and so on. The marketing manager is normally responsible for the day-to-day marketing activities. He is also responsible for planning and control functions, and rarely has the leisure to casually contemplate the effectiveness of the firm's marketing efforts.

Marketing effectiveness is not necessarily revealed by current marketing performance. Economic conditions or chance factors for example, being in the right place at the right time may influence results. Of course, analysis of marketing performance should also be carried out. Targets should be established and performance against these measured on a regular basis. With regard to an airline or an area within an airline, its marketing effectiveness is reflected in the degree to which it exhibits five major characteristics of marketing orientation. These characteristics are as follows:

- a) Customer Philosophy
- b) Integrated and Effective Organisation
- c) Adequate Information
- d) Strategic Orientation
- e) Efficient Operation

a) Customer Philosophy

This refers to the ability of staff and management to recognise the primacy of studying the market place i.e. are management and staff able to distinguish the different segments ?, the different opportunities which exist ? the ones to grasp ? and so on. An airline which groups together customers whose needs are broadly similar is carrying out the process of Market Segmentation. A number of variables are used for segmenting the market (See Unit 2 Block-2).

However, some managers tend to over-concentrate on certain factors and areas, disregarding others. For example:

- Some managers are technology-oriented, but may not take into account the airline's ability to manage this technology or the customer's requirements
- Certain managers may be sales-oriented, believing that it is possible to sell anything
- Some managers may be driven by cost efficiency. That means they may place undue emphasis on price as the determinant of demand.

b) Integrated and Effective Organisation

Total quantity can be achieved if each operating division has a clear view of customer needs and knows that the customer is paramount. This view must be internalised by the staff in these divisions and must be reflected in the service which they provide. It is necessary for flexibility of information to exist within the airline. That is, information must flow freely between the different operating divisions. Information communicated by one division may be critical to the operation of another and may affect the action which will be taken by that division. Effective channels of communication must be in place to allow the free movement of such information. Communication must exist all the way up from the booking clerk to top management. This sort of flexibility will allow the airline to serve individual customer needs who will perceive the company to be a caring organisation.

Every person and every process in the airline either immediately or ultimately affects the customer and the product, hence, customer satisfaction is everybody's responsibility. It requires pro-active rather than reactive management to apply the total quality concept and the staff should be involved from 'top to bottom'. Increasingly, it is becoming clear that airlines who do not put the total quality concept into practice are in danger of falling behind in the market.

c) Adequate Information

Marketing managers must assess whether they have relevant, upto date information on targeted markets. It must also be ensured that information relating to the quality of customer service is received from all functional divisions which affect the service.

d) Strategic Orientation

The airline must assess whether it has a well-defined core strategy towards its marketing. It must investigate whether there is a formal system of annual and long-range planning together with contingency planning if necessary.

Business, in fact, demands that the future plans be under constant review and that they always contain a certain contingency element. A contingency plan will make preparation to deal with problems.

e) Efficient Operation

The airline must ensure that sufficient importance is attached to its marketing department and that appropriate resources (human and other resources like financial and technical) are made available to carry out the various marketing activities. There should be clarity about the use of resources to achieve efficient operations. For example, from the point of view of human resources, the company personnel must be carefully recruited, assigned, trained and developed. Different marketing strategies will require managers with different personalities and skills. The total Quality Concept comes into play here. An analysis is required of how personnel see themselves, the company, the service which the company provides and the overall importance of the customer. The airline must also recognise that the various marketing activities carried out by its marketing department must be allocated appropriate finances if they are to achieve optimum efficiency. Technical areas, such as reservations, within the airline also require adequate funding.

Checking performance against set targets can also involve qualitative assessment and check lists can be used to examine such things as sales shop appearance, customer contact, staff attitudes etc.

MARKETING EFFECTIVENESS AUDIT

A marketing effectiveness audit is a systematic examination of the marketing unit's objectives, strategies, organisation and performance. It has three functions:

- i) It identifies what the marketing unit is doing
- ii) It examines how it is performing these activities and evaluates the effectiveness of these activities in terms of the organisation's objectives and resources
- iii) It recommends future marketing activities.

It is important for any well-run organisation to carry out such periodic reviews of operations. This is particularly true in the field of marketing, where objectives and strategies can become quickly out-dated, as a result of changes in the environment and within the marketing organisation itself. Audits highlight trends, rather than presenting concrete facts. They help the marketing manager to sample the effectiveness of marketing activities. As such, they will not tell how to improve or change these activities but highlight the strengths and weaknesses, showing where decisions have been more or less appropriate.

Check Your Progress-1

1) What do you understand by strategic planning?

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2) How you can assess the marketing effectiveness of an airlines?

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29.5 SCHEDULING

From a marketing perspective, the major factors which affect the airline product are: pricing policy, inflight service, seating density and the airline schedule. The airline's schedule is constructed by the schedules planner. His functions is to plan the flights and operating patterns of the company's aircraft so that:

- The demands of the customer are satisfied,
- The airlines makes a profit,
- The airline gains competitive advantages (slots/preventing competitors etc.), and
- Aircraft and crew are used to optimum efficiency.

Scheduling Objectives

- Satisfy the customer
- Productivity of human resources
- High aircraft utilisation
- High load factors
- High frequency
- Maximisation of connections
- Consistent timing.

i) **Satisfy the Customer**

It is of great importance that the schedules plan satisfies the requirements of the various market segments which the airline targets. This in fact is a primary schedules planning function. In order to do this, the schedules planner obtains information about the customers from a number of sources like historic data, Sales and Reservations agents and from the airline's Market Research Department. The schedules planner uses such information to accommodate passenger preferences, needs and wants. The schedules plan must attempt to

satisfy passengers with regard to time of day, the day of the week, the frequency with which flights operate and so on.

ii) Productivity of Human Resources

The schedules planner must try to ensure that staff numbers are set at the optimum level for each shift. He must aim at reducing the occurrence of 'peaks' and 'valleys' (highs and lows) in the staffing levels so that they remain more or less constant. The more success the schedules planner has in achieving this objective, the lower the staffing costs incurred by the airline. It must be remembered that staff who are on duty during a given shift will get paid even if there is little or no work for them to do. Operational and technical areas in particular require maximum staffing levels for every shift. For instance, if a shift calls for ten loaders between 3 and 4 a.m., but only needs four loaders after this time, it is usual for ten loaders to work the whole shift. Obviously, this does not satisfy the scheduling objective which is to achieve maximum productivity from the available human resources. The schedules planner must work towards the levelling out of manpower numbers so that staff are not underutilised. This applies to many areas within the airline - cabin crew, cockpit crew, maintenance and engineering and so on.

iii) High Aircraft Utilisation

With regard to aircraft utilisation, one of the most important things to remember is that **aircraft can only make a profit while they are flying. Aircraft on the ground make no money for the company.**

One way of looking at this is to assume that the indirect costs of aircraft ownership (depreciation, interest) are relatively fixed. Consequently, as aircraft utilisation increases, the total hourly indirect costs decrease. This leads to a decrease in total hourly overall costs, and as a result, the overall financial situation of the airline improves. The nature of an airline's route network has a major influence on its aircraft utilisation. This is the reason why aircraft utilisation varies from airline to airline. This stands to reason. If an airline's route network is dominated by long-haul routes, it will have very high utilisation per aircraft unit. This is due to the fact that short sector lengths result in a high proportion of ground time to air time (turnaround, transits, etc.). This means that the overall availability of the aircraft is reduced, and fleet utilisation decreases significantly. Another reason why long-haul routes increase aircraft utilisation is that long-haul carriers can fly through the night, while short-haul aircraft fly primarily during daylight hours. The following example illustrates this point: It is common for long-haul carriers to achieve average daily utilisations of 12-13 hours per aircraft or 4250 hours per annum, while their short-haul equivalent may only achieve 7.5 hours per day or 2750 hours per annum.

iv) High Load Factors

Another objective of the schedules plan is to achieve a good match between (a) the level of traffic available and (b) the level of capacity offered. Excessive frequency can cost an airline a lot of money. If the schedule is misjudged and the airline operates too many flights a route, some of them will take off with empty seats and the airline will lose money. Planning the load factor is a complex procedure. The load factors which the airline wants to target must be high. They must be realistic at the same time. Load factors which have been set at too high a level will result in a situation where passengers find that they are unable to get a seat on the flight they want. Reducing frequency in order to increase load factors may not be a solution on its own. In fact, to do so may be counterproductive. Airline experience has shown that achieved load factors may actually fall when, in certain circumstances, traffic falls off more than proportionately because passengers select more flexible/conveniently timed means of transport.

v) High Frequency

Industry experience suggests that an airline can obtain a significant share of the market (perhaps even market domination) because of high frequency rather than the level of capacity offered on a given route. This might seem to contradict what was said in point (iv) with regard to high frequency and load factors. But it is part of the schedules planner's job to reconcile one requirement with another. It must be noted also, that in certain circumstances, minimum frequency considerations must be catered for (on routes heavily travelled by business passengers, for instance). At all times, especially when trying to create and maintain a balance

between high load factors and high frequency, the schedules planner must remember that he is working within the limits of the aircraft capacities within the airline's fleet.

vi) **Maximisation of Connections**

Another very important objective which the schedules plan must try to achieve is to optimise passenger connections at both ends of a given route. Elaborate 'connecting hubs' have been developed by many carriers with this objective in mind. Such hubs are a very cost-effective method of increasing the range of markets which the airlines serves. Other developments have also taken place which can boost traffic flow for the airlines involved in them - for example, marketing arrangements between carriers, use of joint flight numbers and so on.

vii) **Consistent Timing**

The final objective is that of consistent timing. In other words, the schedules planner must attempt to maintain a consistent 'shape' in the schedules from season to season, using the same departure time of day for a particular service. For example, the service to Bombay from Delhi departs at 0910 hours everyday. This is known as 'clockface timing'. As an airline builds up a back-catalogue of schedules, consistency will help to create familiarity and loyalty to the airline. This is true, not only of travel agents, but also of the general public. Unfortunately, because of certain scheduling constraints, an airline may find it impossible to maintain such a consistency.

THE SCHEDULES PLANNING PROCESS

The first step in the schedules planning process for a given season involves the fleet size which has been outlined in the corporate plan. It is then up to the schedules planners to design a plan which ensures that this prescribed number of aircraft is scheduled on the airline's network in a way which helps the airline to achieve its overall corporate objectives. What happens when the schedules planning process has been completed and the schedules plan drawn up? As the actual flight dates approach, the plan is given to the airline's Operational Departments. It is their job to put the schedule into action. Viewed from a broader perspective the schedules planning process runs all the way from the corporate plan to the flight departures themselves.

The importance of the schedules plan cannot be over-emphasised. It must be as accurate as possible so that the airline does not under or over estimate its fleet requirements. If it under-estimates, it will not schedule enough flights and will find itself unable to operate the flights which its target markets require. Alternatively, if it over-estimates, it will schedule too many flights which results in under-utilisation of its fleet and causes financial loss. Essentially, the airline's schedules are of great significance as they form the foundations on which its short-term activities are based. Because of this significance, it is not wise for the schedules planning department to work in isolation. On the contrary, almost every department within the airline should be involved in the schedules planning process, by way of discussion and exchange of information. This involvement should ensure that the schedules plan will be the best one for each department in the airline - a plan which will help to satisfy, not only overall corporate objectives, but also individual departmental ones -- although it has to be recognised that some compromise may be required to obtain the best possible schedule for the airline as a whole. Airline departments which should be involved in the schedules planning process are as follows - Corporate Planning, Fleet Planning, Sales Marketing, Product Development, Maintenance and Engineering, Cabin Crew and Pilot Scheduling, Operations Control, Catering, Cargo, Ground Operations. It should be noted that the Marketing Department will be concerned with ensuring that the schedule helps it to achieve its objectives, for example, customer satisfaction.

29.6 PRICING

The key to profit maximisation is not loads alone but a good mix of loads and yields. In marketing new, relatively unknown routes, the tendency is to flood the market with low fares with the hope of encouraging passengers to try the new routes. While this could be a strategy to adopt for a market with potential to draw group traffic, it may not work for destinations which appeal only to small specific markets. For the latter, it would be more prudent to keep up the yields and consequently keep down the breakeven load factors.

The effectiveness of differential pricing as a way to maximising yields cannot be overemphasized. It is common practice for airlines to have different fares for peak and off-peak seasons. Very

often, on further scrutiny, one can identify sub-peak periods within the off-peak season and peak within the peak season. We can then price accordingly to maximise the yields.

Pricing is the most crucial function of the marketing. The commercial viability of an airline's operations, its financial soundness and in fact its survival depends on its ability to operate profitably. Profitability in turn depends on pricing on the one hand and cost control on the other. Success of a marketing man depends entirely on his ability to generate profits by optimum exploitation of revenue generating opportunities in the market place. It is essential for a successful marketing manager to understand the airlines' cost structure and ensure that total airlines' costs are covered by the revenues generated through the marketing efforts.

Airline Cost Structure is divided into three parts:

- 1) Direct Operating Costs
- 2) Indirect Operating Costs
- 3) Overheads

1) DIRECT OPERATING COSTS

Direct Operating Costs (also known as DOCs) occur if and only if a given flight is actually operated. There are two types of Direct Operating Costs :

- a) Aircraft Related DOCs
- b) Traffic Related DOCs

a) Aircraft Related DOCs include :

- i) Fuel and Oil
- ii) Maintenance(excluding in-house labour)
- iii) Landing Fees
- iv) En route/Navigation Fees
- v) Handling Fees
- vi) Crew Expenses

b) Traffic Related DOCs include :

- i) Passenger and Cargo Commission
- ii) Airport Load Fees
- iii) In-flight Catering
- iv) General Passenger Related Costs

What is the main difference between the two sub- sections of Direct Operating Costs ? Basically, the main difference is that Aircraft Related DOCs are relevant to the type of aircraft being operated, whereas Traffic Related DOCs are independent of the aircraft type (given a certain traffic level).

2) INDIRECT OPERATING COSTS

These costs generally come under the category of fixed assets and include :

- i) Aircraft Standing Charges
- ii) Flight Crew Pay
- iii) Cabin Crew Pay
- iv) Maintenance Labour(in-house labour)
- v) Handling Costs at Base Stations

These costs remain the same once a certain level of flying programme has been chosen. In other words, if the flight programme is changed (due to a flight cancellation, for example), none of the costs in any of the above categories will be reduced. All of the costs (i) to (v) are directly affected by aircraft type.

3) OVERHEADS

These include the following:

- i) Sales costs
- ii) Administration (areas of the various line departments)
- iii) Accounts
- iv) General Management
- v) Employment/personnel departments

Many of these are relatively unaffected by both the type of aircraft used and the level of flying operations undertaken.

The second of the three major sections under the heading of Aircraft Operating Costs is the effect of the airline environment on aircraft operating costs. This includes:

- Sector Length,
- Utilisation,
- Fleet size, and
- Labour Costs.

The third and final category which comes under the heading of Aircraft Operating Costs is the effect of aircraft design characteristics on operating costs. This includes :

- Vehicle Efficiency,
- Crew Complement,
- Engine Number,
- Aircraft size,
- Aircraft speed, and
- Age of aircraft.

An understanding of aircraft costs, how they are allocated and a clear understanding of cost comparison parameters and profitability analysis is essential to an airline marketing manager.

The cost comparison parameters and profitability analysis takes into account :

i) Cost per aircraft Km, seat Km and tonne Km

It is necessary to compare the operating cost characteristics of different types of aircraft. However, because aircraft can vary so much in size and capacity, the only way to do this is to express costs in terms of various units of production. This is known as unit cost comparisons. Unit cost can be defined as the average operating cost incurred per available tone kilometre.

ii) Profitability and break-even load factor

Profitability control is an essential tool used to measure the profitability of a company's different products, customer groups, territories and channels.

As with most aspects of business, there are many theories about the nature of profits. One such theory is **Return on capital employed theory**. Basically, this theory states that all of a company's resources have a certain value. The profit which the company achieves during a specific period should be related to this value. The implication is, therefore, that every expenditure made by the

company is, in the long- term actually an investment. It is useful for an airline marketing manager to be familiar with this theory.

Once the costs which will be incurred if a particular operation goes ahead have been established, the next step is to determine the likely profitability of the operation. A parameter often mentioned here is the break-even load factor. This is the percentage of an aircraft's total capacity which must be filled in order to at least cover the costs of the operation. An alternative way of saying that is, the load of factor at which operating revenues will equal operating costs.

In the airline industry, three basic parameters are relevant when assessing profitability:

- the revenue per RTK (or revenue tonne kilometre),
- the cost CTK (or capacity tonne kilometre), and
- the load factor

If fares began to fall at the same time as costs began to rise, two things would happen. Firstly, the revenue per RTK would decrease. And secondly, there would be a substantial change in the break-even loads factor.

Profitability can be examined on different levels depending on the timescale involved and the level of costs actually incurred. An airline's profitability target **must** include provision for full overhead recovery.

Check Your Progress-2

1) Why is scheduling important?

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2) What is direct operating cost?

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29.7 DISTRIBUTING THE PRODUCT

Distribution could be defined, in fact, as all the means by which we can enable customers to buy or gain access to our products (See Unit 16). This is one of the most controversial and difficult areas in airline marketing today.

We shall divide our examination of this area into different categories :

1) **Traditional Intermediary links between the Airline and the Customer**

Airlines widely employ the services of travel agents to deal with the passenger side of their business. In fact, around 80 per cent of airline tickets are sold by travel agents on a worldwide basis, although this differs a little from country to country.

There are two types of travel agent:

The Retail Travel Agent - sells directly to the public. The Wholesale or Travel Organiser functions mainly as a wholesaler by buying large blocks of airline seats in advance and then selling them as packages to other travel agents.

The use of travel agents can be advantageous to the airline for the following reasons:

- Travels agents facilitate the exchange process between the airline and the customer. The total cost of marketing should be lowered as a result of the combined efforts of all distribution channel members
- It helps avoid heavy expenditure on retail marketing, as it allows the airline a presence even in relatively small markets
- The travel agent can provide many supplementary services for the airline customer (for example, arranging visas and foreign currency, hotel, car rental, etc.) which the airline may be unwilling to provide.

The airlines pay the travel agents a commission in return for the above services. The amount of 'promotional support' and commission paid to agents has risen dramatically in recent years and is now a major cost factor for airlines. Sometimes, as part of an incentive scheme, for instance, travel agents may receive 'additional' commission. An IATA approval system attempts to regulate the operations of travel agents. That is, travel agents may be approved by IATA if the working of their business conforms to certain standards with regard to turnover, staff, financial stability, premises and so on.

2) **Alternative links between the Airline and the Customer**

Most airlines have sales/ticketing offices in major cities throughout the world. These offices provide a significant volume of sales. However, all airlines do not regard these offices in the same way. Some regard them mainly as a means of promotion, while other airlines regard them as a type of travel shop for selling the airline's tickets, package tours or even supplementary travel items. In terms of cost, the maintenance of such offices is justified by the fact that the airline saves expenditure on commission. The airline will not have to engage and pay for the services of an agent as it is achieving 'direct sales'.

In the past, the question of airline 'own' offices has been surrounded by controversy, with the travel trade claiming that airlines are taking business from them. From the airlines' point of view, however, it is a means of exercising at least some control over the distributive chain. In addition, some airlines maintain small offices or position staff (often referred to as 'implants') in larger corporate accounts. Their task is to 'assist' the corporate account in making bookings on their particular airline.

3) **Correspondence or Ticket-through-the-Mail Services**

The correspondence or ticket-through-the-mail service is another way in which the airline makes use of its own resources to deal directly with the customer. Such bookings are normally made through the reservations department. This process has been greatly facilitated by the wide ranging use of credit cards by customers and the development of ticket printers and word-processing facilities.

4) **General Sales Agent(GSA)**

A General Sales Agent or GSA is normally appointed to markets not served directly by an airline or where volume is insufficient to merit the opening of a ticket issued in the territory concerned. A GSA can provide different levels of service at varying levels of payment. IATA provides guidelines in relation to standard forms of general sales agents' agreements.

5) **Other Airlines(OALs)**

It may also be possible for the customer to make bookings on a particular airline sector through another airline. Computerisation has clearly assisted the making of inter-airline bookings and although other airlines are not strictly speaking intermediaries (since they are not paid a commission), they still provide an important source of inter-line business.

6) Computer Reservation Systems (CRSs)

It was during the 1970s that airlines changed the manual system of reservations and record keeping to computerised systems. Up to the mid-70s most transactions between the public or travel agents and the airline were made by telephone, even though the airlines were computerised. This meant that communication was slow, resources were wasted answering the telephone and verbal communication left room for error and misunderstanding.

Naturally, the logical progression was for airlines to automate their main travel agents by installing their own computer terminals in the agencies. CRS development took place rapidly as improved technology and new ideas changed the whole approach to reservations. It has become clear that CRSs are a potent market force with advantages to the airline. They allow immediate direct bookings to be made and allow for the provision of supplementary services to the customer. They enable travel agents and airlines across the world to book instantaneously on big and small airlines.

7) More recent developments

In the mid 1980s the American carriers, American Airlines, began to market their systems internationally. Such a development inevitably raised the questions of Control and High Costs for airlines throughout the world. To counteract this, various consortia of airlines came together to develop their own CRS systems. It became obvious that the development costs of these CRS systems would be huge. It was also clear that American systems were already well ahead in the field. As a result, various alliances formed between existing and developing CRS systems, a process which is still continuing today. Consortia, like Galileo (a joint venture between United Airlines and a number of European carriers) have made rapid progress with regard to system development and the installation to work stations in travel agencies.

With regard to the European CRS industry, just like its US counterpart it has come under the scrutiny of regulatory authorities. Both the European Civil Aviation Council and the European Community have developed codes of conduct for the operation of CRSs.

The development of new technology is set to make fundamental changes to the distribution of airline products and to the structure of the travel industry. The most significant development is in global distribution systems installed in travel agencies worldwide. Efforts are also being made to offer the individual customer (via his home computer) and corporate accounts the benefits of these new technologies.

The most up to date CRS systems offer a user-friendly variant of their CRS systems (such as a EASYSABRE). Aimed at the corporate market, the system permits bookings to be made, but the ticketing is still done through travel agents.

Today, the development of Automated Ticket Machines (ATMs) has opened further distribution possibilities. These allow passengers to make a booking themselves and pay for it by credit card. They also issue the ticket and boarding pass. Such ticket machines are not yet widespread, but they do offer the potential of dealing with bookings and ticketing for relatively straightforward transactions (for example, short-haul, high density routes).

In assessing their distribution strategies airlines should accept that the travel agent offers a valuable service. This is particularly true of the markets which an airline would otherwise find too expensive to service. However, the airline must be concerned with the question of control. The business in the hands of a small number of agents. This gives use to the issue of increasing cost of commission and other payments to travels. So, airline marketing management must examine the issues of:

- control
- value for money

Commission costs today are rising rapidly because of growth in traffic, but also because of the use of additional incentive payments. Airlines must question whether they are receiving value for money from their investment on commissions. Most airlines probably believe that, unless they have the support of agents, their market share will fall. Consequently, commission payments increase. It would be foolish, of course, for airline to consider excluding agents and other intermediaries from distribution, particularly in view of the valuable service they provide in smaller markets. However, airlines must manage this distribution channel efficiently as it is the

airlines and not the intermediaries who invest huge sums of money in aviation. So, the airlines should control this distribution channel.

In the field of airline marketing today, decisions relating to distribution channels are among the most vital. In all businesses, careful market management has to be a prime concern. The development of new technologies offers a wide range of possibilities to the airline industry. Ultimately, managing the market is a matter for individual airlines. In order to exert a certain amount of influence and control, the airline must project the following:

- a strong brand image
- a promotional strategy aimed directly at the customer

Strong Brand Image

Airlines should try to ensure that they observe the principles of branding, which is currently developing as the most potent way of ensuring effective market control in the airline industry. Today, markets are dominated by retailing giants who bargain with producers. Because of the size of these retailers and the strength of their brand name, they are in a strong position to bargain with these producers.

Similarly, airlines should attempt to establish and defend a strong brand image. By so doing, they can keep the power of the marketing intermediary under control.

A Promotional Strategy aimed directly at the customer is known as direct marketing, of which there are many different forms. Effective direct marketing can be instrumental in ensuring that control of the market is maintained. It can ensure that the customer is familiar with the airline's reputation before approaching the travel agent. So, he will already have made his choice-of-airline decision and it will be more difficult for the travel agent to dissuade him or push him in any other direction.

29.8 THE PROMOTIONAL MIX

Promotion (See Unit 15) is an integral element of the airline's overall marketing strategy. Although the various promotional tools are separate from each other, they should work together to form an effective promotional strategy in helping the airline to reach the target markets at which its strategies are aimed and be successful in selling its product to these market segments.

29.8.1 Advertising

Advertising has a very 'high profile' and is the most conspicuous of all the promotional tools. In order to be effective, it must reach the airline's target markets and focus on their needs and wants. It creates awareness of the airline and draws the customer's attention to it.

The design of the advertising campaign is a complex procedure and some of the steps which need to be followed are:

- i) Set the advertising objectives,
- ii) Determine the advertising budget,
- iii) Choose suitable media
- iv) Select an advertising agency, and
- v) Make timely decisions. For instance, when is the best time to place the campaign ?; Will it be an all year round campaign or a seasonal campaign ? etc.

It is important to note that the decisions outlined above must be linked directly with the airline's overall marketing strategy plans and tactics. It must:

- be successful in reaching the airline's target markets,
- inform the customer about new or improved product features, new routes being served and so on, and
- remind the customer of existing product features, routes served and so on.

29.8.2 Personal Selling (

This is still an important method used to promote airline services. Most airlines employ people as sales representatives. It is their job to sell their airline's products to travel agents, corporate accounts and leisure groups (clubs and so on). The primary role of the sale representative is to 'service' travel agents by visiting them to provide material and information, answering their questions and helping them to answer their customers' questions and complaints. In a sense, the main function of personal selling is to fill in the gaps where advertising and other methods of non-personal selling fall short. Unlike them, personal selling can function at an individual level. Good, well planned personal selling can be relatively successful as the customer receives an individualised sales message. It is more direct than advertising, which is a mass communicator. Personal selling is an interactive, 'conversational' method of promotion through which the sales representative presents the airline and its services to one or more potential customers. Essentially, the biggest advantage of personal selling is that it is possible to use it to target the precise market segments(s) to which advertising has been directed. The sales representative can adapt to the person to whom a sale is being made. Depending on the client, he or she can highlight selected information regarding, for example, schedule and frequency of service for a business person, family facilities for a leisure travellers and so on. All other forms of selling and advertising are rather more general, apart from advertising which appears in business magazines.

29.8.3 Sales Promotion /

Sales promotion consists of those promotional activities which do not fit into the categories of advertising, personal selling or public relations and publicity. Rather, it supplements the other promotional tools, especially advertising and personal selling. Within the airline industry, sales promotions are used to provide support during the launching period of a new service or route. Sales promotion activities are usually short-term. They are designed to both stimulate and induce the customer into buying from the airline.

Sales promotion includes a number of direct marketing activities such as direct mail promotions. It also includes such activities as participation in travel marts and exhibitions, competitions, special offers, 'freebies' {give-away items}, point of sale advertising displays and sponsorship of sports and cultural events. With regard to the last item mentioned, due to the increasingly large television audiences attracted by coverage of major sporting events, it is now common for airlines to sponsor, not just the event, but individual sports people and teams also.

It should be noted, however, that although sales promotion is used in the airline industry, it is not of great significance in terms of effectiveness or sales generated. Sales promotions represent the airline in the public arena. As such, they must present an image which is acceptable, for example, by highlighting; technical excellence, customer care and so on.

29.8.4 Public Relations/Publicity

Public Relations (PR), if used effectively, can help to promote the airline's corporate image, boost its reputation and/or stimulate demand for its services. Public Relations (as distinct from publicity) is usually the responsibility of staff within the airline. Alternatively, the airline may pay a retainer to a PR agency, something which is common in the airline industry. Public Relations creates opportunities for publicity, while publicity makes use of any opportunities which arise. Unlike publicity, there is a cost attached, arising from the use of professionally prepared materials, planning a PR campaigns, strategies, events and so on. PR and publicity aim to present a favourable image of the airline - usually via newspapers, television and radio. They differ from the other forms of promotion in two respects:

- i) The airline does not pay for publicity.
- ii) The airline does not have total control over these forms of promotion in the same way as it does over the others. Certainly, it can attempt to ensure that it has good public relations and that it receives good publicity. However, if for some reason, the airline receives bad publicity, its role in this area moves to that of damage limitation. Many airlines have a section in the PR Department to handle questions raised by the news media.

Check Your Progress-3

- 1) What are the different channels used by the airlines to reach the customers?

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- 2) Explain the importance of advertisement as an important promotional tool in the airlines.

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29.9 LET US SUM UP

We have discussed in this Unit various facets of airlines marketing. Marketing itself is a challenging assignment and it is more so in the case of airlines. Keeping in mind the nature of airlines product you have to plan your marketing strategy. In dealing with airlines marketing we have explained the importance of scheduling, pricing, distribution channels and the appropriate promotional strategy to be an effective marketing professional. At the same time, it is necessary that you have a proper understanding of the market by taking into account the services offered by your competitors and accordingly

**29.10 ANSWERS TO CHECK YOUR PROGRESS
EXERCISES**

Check Your Progress-1

- 1) See Sec.29.3.
2) See Sec. 29.4.

Check Your Progress-2

- 1) See Sec. 29.5.
2) See Sec. 29.6.

Check Your Progress-3

- 1) Read Sec.29.7 and suggest the different channels used by the airlines to reach the customers.
2) See Sub-sec. 29.8.1.