

# Budget airlines essay

[Environment](#), [Air](#)



Task Three: Budget Airlines CONTENTS •Who and what are budget airlines

- Marketing environment – Micro environment – Macro environment
- Sources of information
- Segmentation
- Targeting
- Positioning
- Marketing mix – price

•Questions Budget Airline Definition ? Budget airlines don't have free meals and entertainment •Budget airlines don't issue tickets •Budget airlines have only one class – budget class •Budget airlines use secondary airports to cut the cost •Budget airlines sell directly to the public – no sale commissions

- Budget airlines promote journey ' legs' separately
- Budget airlines don't reward frequent travellers with air miles

The concept of budget airlines was developed in 1971 by Rollin King and Herb Keller. They set up a ticketless airline, the Southwest Airlines, which offered the lowest possible prices.

(1) Looking at the definition of budget airlines above it may not be clear why the low cost carriers (LCC) are such a great success. It is because they met customer's requirements by offering affordable fares and frequent flights from regional airports. Market leaders between budget airlines are: Other growing low cost carriers: In 1986 a little known airline started service between Ireland and the UK. By copying American Southwest Airlines, in 1995 the small airline –Ryanair – was carrying around 2.

4 million passengers per year. 1995 was also the first year for easyJet operating from Luton to Glasgow and Edinburgh with two leased Boeing 737s. In 2006 these two airlines, carried together over 30 million passengers on more than 200 routes from over 100 airports (Appendix 1). The revenue generated by UK airlines is estimated to have reached ? 16. 74bn in 2006, compared with ? 15, 36bn in 2005.

The number of passengers carried by the UK airlines increased by 2.5% to 127.4 million in 2006. 2) Marketing Environment consist all factors affecting the organisation and its market.

Microenvironment - influences organisations directly. Micro may suggest small, but this can be misleading. Micro describes the relationship between companies and driving forces that control this relationship.

Macroenvironment - includes all factors that can influence an organisation, but are out of their direct control.

The company does not influence any laws, although it is accepted that they could lobby. It is continuously changing and the company needs to be flexible to adapt to these changes. It is very important that an organisation considers its environment before beginning the marketing process. Key microenvironmental issues likely to occur in next 3 years: The organisation survives on the basis of meeting the needs, wants and providing benefits for their customers. Increase in raw material prices will have a knock on affect on the marketing mix strategy of an organisation. A strong supplier relationship is one way of ensuring competitive and quality products for the organisation.

Positive or negative media attention on an organisation can in some cases make or brake an organisation. Consumer programs on TV like BBC's Watchdog with a wide audience can have a very powerful and positive impact, forcing organisation to change its tactics. Customers are flying more than they ever have. LCCs are now the major operators on some routes offering affordable ticket prices. According to the Civil Aviation Authority

(CAA) survey in 2006 the number of travellers using the UK regional airports continued to grow and it is expected to increase even more in the coming years (Appendix 2). Stability of fuel prices and airport duties are crucial for budget airlines and their increase will have a negative impact on LCCs.

The airport charges are approximately ? 10-? 15 per passenger. However some operators have reversed this, and are paid by local governments to land at some airports, as they expect to gain economic benefits from this. Media has a great impact on customer's choices. Budget airlines have recently been mentioned by the Media as the least environmentally friendly way to travel. In society concern with ' green issues' budget airlines may need to switch in close future their marketing focus from rock bottom fares to environmental responsibility.

Key microenvironmental issues likely to occur in next 3 years: Continuation...

The success of budget airlines forced traditional operators to lower their prices by adapting internet sales and yield management techniques.

However they still struggle to compete with low prices offered by the LCCs.

Further reductions in traditional airline ticket prices are expected. The railways are likely to remain dominant for short journeys as most of the LCCs use small airports, which are often difficult to reach without a car.

Rail operators are also improving offered services and cutting down their ticket prices by selling through the internet and allowing passengers to find lower fares when booking in advance. The LCCs are a serious threat to regular airlines. British Midlands responded to the competition by launching its own budget airline ' bmi baby'. Following its success more traditional

carriers may decide in future to launch their own ‘no frills’ airlines. New technologies, like e-mail or video-conference can reduce the number of business travellers. Macroenvironment is known as a PESTLE factors: political, economical, social, technological, legal and environmental.

Key macroenvironmental issues likely to occur in next three years: •Political Expansion of the EU •Economical increasing green taxes rising interest rates •Social society concern about environment changing life style •Technological use of new technologies improvement of railway transport Political:

Expansion of the EU opened the door to new markets for budget airlines. In May 2005 ten countries joined the EU followed by two new entries this year. Croatia, which is already a popular destination, is expected to join the EU in 2010 and open its sky to the LCCs. Economical: The government is looking to reduce carbon emissions and may impose further green taxes on aviation.

Another important factor is interest rates. During this year we have had several increases in interest rates and further increases are expected in the coming years. That will have a negative impact on LCCs future investment plans. Social: Our life style is changing as a result of growing prosperity and leisure time; an increase in the demand for more frequent air travel has occurred. However society is becoming more concerned about the environment and may prefer to pay more for an environmentally friendly plane ticket or prefer to choose a more ‘green’ method of transport. It is expected that by 2025 half of the UK’s population will be obese.

This may force the LCCs to increase the space for a single passenger.

Technological: Internet revolutionised the distribution channels for travel and

helped to reduce cost, and the LCC uses it as a main tool to communicate with its customers. It is expected that the development of electronic forms of communication may reduce the number of business travellers in the future.

Key macroenvironmental issues likely to occur in next 3 years:

Continuation... European Commission top targets: 1)reducing the congestion in the skies and airports; 2)protection of the environment 3)safety policy; 4)protection of passengers 5)air regulations 6)enhancement of international dimension Air travel has a reputation for contributing to environmental ruin.

It is predicted that ‘ green issues’ will have a significant impact on budget airlines in the coming years. The future evolution of the LCCs depends on the way regulators direct their policies. European Commission has set the following targets for the future: 1) A country aware of its congestion problem, can subsidise secondary airports in order to reduce the air traffic. 2) New planes will have to comply with lower noise level and emission. 3) Creating common policy by European Aviation Safety Agency (EASA).

4) Consumer organisations that are active in the EU describe the range of obligation that airlines have towards their customers. 5) Prevent monopolistic practises and anti-competitive behaviour. 6) Open skies agreements between EU and USA. In 2003 European Low Fare Airline Association (ELFAA) was established to represent and protect the needs of low fare airlines in the various European Institutions (Appendix 3).

Information source for the LCCs: Primary – Customer surveys – Brand awareness studies – Constant scanning of employees Secondary – Civil Aviation Authority (CAA) – International Air Transport Association (IATA) –

Mintel & Keynote reports – Competitors end of the year results and economic research – BAA – Airports Company – Government Blue Papers (for information on the next carbon offsetting) – Government polls Airline’s own database, information about frequent travellers – Media Segmentation is the process of segmenting the markets into groups of potential customers with similar needs and/or characteristics who are likely to exhibit purchase behaviour.

There are many ways that segmentation can be considered. The most general bases include:

- Geography – where in the world was product bought
- Psychographic – lifestyle and beliefs
- Socio-cultural factors – such as class
- Demography – such as age, sex and so on
- Behaviour – refers to why product was purchased

Context marketing is a new approach to segmentation strategy. It analyses what people are actually doing rather than trying to predict what they might do. (3) The UK is a leader in a number of international flight routes with a 22% share in the market; second place is Ireland (21%), followed by France and Switzerland (13%).

Comparing the market share from previous years, the highest growth was noticed in the new EU countries like Czech Republic, Poland, Hungary and Slovakia. (4) Budget airlines may be perceived as a way of transport for those who travel on a budget; however, CAA survey shows that its customers are as wealthy as those using British Airways despite paying lower prices for their tickets. According to the survey, LCCs are attracting huge numbers of business travellers, especially from small and medium businesses, who are increasingly price sensitive. Leisure remains to be the main reason for travel

with low fare airlines (Appendix 4). By focusing on the context of passenger flights, LCCs are able to segment those who want to travel quickly without paying for extras. This approach to segmentation was in previous years successfully implemented by easyJet.

Targeting After the market has been separated into its segments, the segment or series of segments are targeted. Supplier SEG 3 SEG 1 Supplier SEG 2 SEG 3 Brand A SEG1 Supplier Brand B SEG2 Brand C SEG3 LCCs offer economy class flights to most tourist destinations targeting the leisure market. By offering frequent connections with other European cities LCCs are also targeting price-conscious business passengers, who help to fill the planes all year round, not only during weekends and holiday periods.

Positioning is one of the simplest and most successful tools to marketers. After segmenting a market and targeting customers, the product needs to be positioned within a market.

The term ‘ positioning’ refers to consumer’s perception of the product in relation to its competitors. For successful positioning following questions should be asked: . What position you currently own? 2. What position do you want to own? 3.

Whom you have to defeat to own the position you want? 4. Do you have the resources to do it? 5. Can you persist until you get there? 6. Are your tactics supporting the position objective you set? Most budget airlines are targeting the leisure market, where the price will be a prime factor in making a decision. LCCs have to position themselves as the value for money choice, offering the cheapest fares possible.



Positioning becomes difficult when LCCs want to represent both, business travel and leisure. These two positions represent contradiction and LCCs may have to differentiate offered services to be successful in both segments.

Positioning “ The proper positioning of an airline brand is a complex and demanding process, and should be based on proper research and analysis, rather than hunch and guesswork” (5) DIFFERENCES IN POSITIONING

RYANAIR & EASYJET Low price low, low quality: - aims to expand its network - uses secondary airports - add extra charges to final ticket price - many of its aircraft are quite old - hand luggage free of charge - poor customer service - average fare ? 0 plus taxes Medium low price, med-low quality: - aims to build frequency - uses mot of the time major airports - first price is the final price, no extras - mainly uses new planes - 20kg luggage + hand luggage free - better customer service - average fare ? 45 plus taxes Pricing - Part of Marketing Mix “ Of all the different facets of the airline marketing, none has changed further of faster in recent years than the question of appropriate pricing strategies. Today’s airline managers have to learn and apply skills which were either unknown or not needed by their processors. It is also a high profile area where mistake can result in large losses in a very short time” (6) Market leader, Ryanair, believes “ cheap always wins”.

Price Continuation.... Price is a part of the mix that generates turnover for the organisation. There are many ways to price the product. Most of the LCCs will use the following: •OPTIONAL PRODUCT PRICING Increasing the amount customers spend once they start to buy a seat by adding ‘ extras’. •DYNAMIC PRICING is the most profitable pricing strategy. LCCs will use the

Yield management (revenue management) to discern people's willingness to pay and price tickets accordingly.

Optional pricing: For example many airlines will charge for optional extras such as a handling fee for using credit card, luggage, guarantee of a window seat or reserving a row of seats next to each other. Dynamic Pricing: Yield management has a great impact on pricing and is a main tool that helps LCCs to sell the right seat to the right type of customer, at the right time and at the right price. In peak season, the airlines can increase the ticket fare and in low season will offer lower prices. Past year data will offer the manager a way to forecast when these peak and low seasons occur. Any Questions? Potential questions: Can we expect successful new entries to the market of budget flights? ? Yes, as the sector is still seen as an attractive investment ? Smaller low cost airlines are likely to fail or be merged into the larger carriers What is the future for Ryanair and easyJet? ? The market leaders and expected to grow and at least double their fleets in size over the next four years What does the future hold from a customer point of view? ? LCCs in order to compete with each other will have to offer genuinely low prices and improve quality service. ? Full service airlines and rail companies will have to cut cost even more in order to compete with the LCCs

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