

Budget airlines

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In both Europe and North America, established airlines are desperately cutting costs in order to compete with the increasing number of budget airlines. However, it is highly unlikely that these airlines will ever match the cost efficiency of Southwest, Jetblue or Ryanair. What opportunities are there for established airlines to improve their competitive position through differentiation strategies? Make specific proposals for how established airlines can differentiate their customer offerings more effectively.

Few other industries generate the amount and intensity of attention given to airlines, not only among its participants but from government policy makers, the media, and almost anyone who has an anecdote about a particular air travel experience. Since the economic deregulation of airlines in the United States in 1978 the questions of cost efficiency, operating profitability and competitive behavior have become the dominant issues facing airline management.

In early 2001 the combination of reduced business travel budgets and substantial cutbacks in airline passenger service quality led more business travelers to look for alternatives to paying premium air fares – namely low-fare airlines for business travel. Southwest, Jetblue and Ryanair are very efficiently run airlines that offer customers consistently cheap airfares in the mature airline industry.

Over the past 10 years, the established airlines have attempted to differentiate their services to compete with these companies in numerous ways. However, while such differentiation has proved critical to competitive advantage in business class, for economy fliers, differentiation initiatives

have met limited market response. Attempts to increase legroom, offer “economy-plus” seats, superior in-flight entertainment and achieving superior punctuality have met little market response from customers.

The only differentiation strategy that has proved wildly successful is frequent flier programs and services offered to first- and business-class travelers (Grant text Ch. 13). A critical question for the established airlines is whether any differentiation characteristics are capable of creating more value for customers than their costs to the airline. I think it is important to examine the airline passengers’ value chain of activities to identify opportunities for creating customer value.

Creating opportunities are likely to be improvements in the form of time savings and increased convenience. Legacy carriers simply have to maximize efficiency, either by reducing frills or by providing a good value for premium product. They should keep costs at a minimum to reduce price, offer better schedules, service and faster, more reliable reservations and check-in systems.